

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-12B/A

Initial general form for registration of a class of securities pursuant to Section 12(b) [amend]

Filing Date: **1999-09-10**  
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### FILER

#### TENNECO PACKAGING INC

CIK: **1089976** | IRS No.: **362552989** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-12B/A** | Act: **34** | File No.: **001-15157** | Film No.: **99709902**  
SIC: **3086** Plastics foam products

Mailing Address  
1900 WEST FIELD CT  
LAKE FOREST IL 60045

Business Address  
1900 WEST FIELD CT  
LAKE FOREST IL 60045  
8474822000

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO  
FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

PURSUANT TO SECTION 12(b) or 12(g) of  
the Securities Exchange Act of 1934

TENNECO PACKAGING INC.  
(Exact name of registrant as specified in its charter)

<TABLE>	
<S>	<C>
DELAWARE	36-2552989
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
1900 WEST FIELD COURT	60045
LAKE FOREST, ILLINOIS	(ZIP CODE)
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	
</TABLE>	
(847) 482-2000	
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)	

SECURITIES TO BE REGISTERED PURSUANT TO SECTION 12(b) of the Act:

<TABLE>	
<CAPTION>	
TITLE OF CLASS TO BE SO REGISTERED	NAMES OF EACH EXCHANGE ON WHICH CLASS IS TO BE REGISTERED
-----	-----
<S>	<C>
Common Stock (\$.01 Par Value) and associated Preferred Stock Purchase Rights	New York Stock Exchange
</TABLE>	

SECURITIES TO BE REGISTERED PURSUANT TO SECTION 12(g) of the Act:

None

TENNECO PACKAGING INC.

I. INFORMATION INCLUDED IN INFORMATION STATEMENT AND INCORPORATED IN  
REGISTRATION STATEMENT ON FORM 10 BY REFERENCE

Cross-reference sheet between Information Statement attached hereto as  
Annex A and items of Form 10

<TABLE>	
<CAPTION>	
ITEM NO.	LOCATION IN INFORMATION STATEMENT
-----	-----
<C>	<C>
1.	Business..... Summary; Management's Discussion and Analysis of Financial Condition and Results of Operations; and Business.

2.	Financial Information.....	Summary; Unaudited Pro Forma Combined Financial Statements; Management's Discussion and Analysis of Financial Condition and Results of Operations; and Combined Selected Financial Data.
3.	Properties.....	Business.
4.	Security Ownership of Certain Beneficial Owners and Management...	Management.
5.	Directors and Executive Officers.....	Management.
6.	Executive Compensation.....	Management.
7.	Certain Relationships and Related Transactions.....	Summary; The Spin-off; and Management.
8.	Legal Proceedings.....	Business.
9.	Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters.....	Summary; The Spin-off; and Description of Capital Stock.
11.	Description of Registrant's Securities to be Registered.....	Description of Capital Stock.
12.	Indemnification of Directors and Officers.....	Management.
13.	Financial Statements and Supplementary Data.....	Summary; Unaudited Pro Forma Combined Financial Statements; and Combined Financial Statements of The Businesses of Tenneco Packaging.

</TABLE>

II. INFORMATION NOT INCLUDED IN INFORMATION STATEMENT

ITEM 10. RECENT SALES OF UNREGISTERED SECURITIES

None

ITEM 14. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 15. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements and Schedule.

The following is a list of financial information included in the Information Statement and filed as a part of this Registration Statement on Form 10:

- (1) Unaudited Pro Forma Combined Financial Statements of Packaging as of June 30, 1999, and for the six months ended June 30, 1999 and for the year ended December 31, 1998;

2

3

- (2) Combined Financial Statements of the Businesses of Tenneco Packaging as of June 30, 1999 (unaudited), December 31, 1998 and 1997, and for the six months ended June 30, 1999 and 1998 (unaudited) and the years ended December 31, 1998, 1997 and 1996; and

- (3) Schedule II -- Valuation and Qualifying Accounts.

(b) Exhibits.

<TABLE>

<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----
<C> 2	<S> -- Form of Distribution Agreement by and between Tenneco Inc. and Tenneco Packaging Inc.*
3.1	-- Certificate of Incorporation of Tenneco Packaging Inc., as amended, as currently in effect.**
3.2	-- Form of Restated Certificate of Incorporation of Tenneco Packaging Inc., to be adopted prior to the spin-off.**
3.3	-- Amended By-laws of Tenneco Packaging Inc., as currently

- in effect.\*\*
- 3.4 -- Form of Amended and Restated By-laws of Tenneco Packaging Inc., to be adopted prior to the spin-off.\*\*
- 4.1 -- Form of Specimen Stock Certificate of Tenneco Packaging Inc. Common Stock.\*
- 4.2 -- Form of Qualified Offer Plan Rights Agreement by and between Tenneco Packaging Inc. and First Chicago Trust Company of New York, as Rights Agent.\*\*
- 4.3 -- Form of Indenture by and between Tenneco Packaging Inc. and The Chase Manhattan Bank, as Trustee (incorporated herein by reference to Exhibit 4.1 to Tenneco Packaging Inc.'s Registration Statement on Form S-4, File No. 333-82923).
- 4.4 -- Form of Registration Rights Agreement between Tenneco Packaging Inc. and the trustees under the Tenneco Packaging Inc. Rabbi Trust, to be adopted in connection with the spin-off.
- 9 -- None.
- 10.1 -- Form of Human Resources Agreement by and between Tenneco Inc. and Tenneco Packaging Inc.
- 10.2 -- Form of Tax Sharing Agreement by and between Tenneco Inc. and Tenneco Packaging Inc.
- 10.3 -- Form of Transition Services Agreement by and between Tenneco Inc. and Tenneco Packaging Inc.\*
- 10.4 -- Form of Trademark Transition License Agreement by and between Tenneco Inc. and Tenneco Packaging Inc.
- 10.5 -- Form of Insurance Agreement by and between Tenneco Inc. and Tenneco Packaging Inc.\*
- 10.6 -- Form of Tenneco Packaging Inc. Executive Incentive Compensation Plan, to be adopted in connection with the spin-off.
- 10.7 -- Form of Tenneco Packaging Inc. Supplemental Executive Retirement Plan, to be adopted in connection with the spin-off.
- 10.8 -- Form of Tenneco Packaging Inc. Change in Control Severance Benefit Plan for Key Executives, to be adopted in connection with the spin-off.
- 10.9 -- Form of Tenneco Packaging Inc. Deferred Compensation Plan, to be adopted in connection with the spin-off.
- 10.10 -- Form of Tenneco Packaging Inc. Stock Ownership Plan, to be adopted in connection with the spin-off.

</TABLE>

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<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----
<C>	<S>
10.11	-- Professional Services Agreement, dated August 22, 1996, by and between Tenneco Business Services Inc. and Newport News Shipbuilding Inc. (incorporated herein by reference from Exhibit 10.28 of Tenneco Inc.'s Form 10, File No. 1-12387).
10.12	-- Form of Tenneco Packaging Inc. Rabbi Trust, to be adopted in connection with the spin-off.
10.13	-- Form of Tenneco Packaging Inc. Rabbi Trust II, to be adopted in connection with the spin-off.*
10.14(a)	-- Contribution Agreement, dated as of January 25, 1999, by and among Tenneco Packaging Inc., PCA Holdings LLC and Packaging Corporation of America (the "Contribution Agreement") (incorporated herein by reference from Exhibit 10.30 of Tenneco Inc.'s Current Report on Form 8-K dated April 12, 1999, File No. 1-12387).
10.14(b)	-- Letter Agreement, dated as of April 12, 1999, by and among Tenneco Packaging Inc., PCA Holdings LLC and Packaging Corporation of America, amending the Contribution Agreement (incorporated herein by reference from Exhibit 10.31 of Tenneco Inc.'s Current Report on Form 8-K dated April 12, 1999, File No. 1-12387).
10.15	-- Stockholders Agreement, as amended, dated as of April 12, 1999, by and among Tenneco Packaging Inc., PCA Holdings LLC and Packaging Corporation of America (incorporated herein by reference from Exhibit 10.32 of Tenneco Inc.'s Current Report on Form 8-K dated April 12, 1999, File No. 1-12387).
10.16	-- Registration Rights Agreement, as amended, dated as of

April 12, 1999, by and among Tenneco Packaging Inc., PCA Holdings LLC and Packaging Corporation of America (incorporated herein by reference from Exhibit 10.33 of Tenneco Inc.'s Current Report on Form 8-K dated April 12, 1999, File No. 1-12387).

11 -- None.  
12 -- Computation of Ratio of Earnings to Fixed Charges.  
16 -- None.  
21 -- Subsidiaries of Tenneco Packaging Inc.\*\*  
24 -- None.  
27.1 -- Financial Data Schedule, December 31, 1998.\*\*  
27.2 -- Financial Data Schedule, June 30, 1999.  
99.1 -- Information Statement dated as of October , 1999 attached to this Registration Statement as Annex A.  
99.2 -- Consents to be named as directors of Tenneco Packaging Inc. for: Mark Andrews, Larry D. Brady, Roger B. Porter and Paul T. Stecko (incorporated herein by reference to Exhibit 99.5 to Tenneco Packaging Inc.'s Registration Statement on Form S-4, File No. 333-82923).

</TABLE>

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\* To be filed by amendment.

\*\* Previously filed.

4

5

### III. SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Tenneco Packaging Inc.

By: /s/ DANA G. MEAD

-----  
Dana G. Mead  
Chairman and Chief Executive  
Officer

Date: September 10, 1999

5

6

### ANNEX A

#### INFORMATION STATEMENT

TENNECO INC.  
1275 KING STREET  
GREENWICH, CONNECTICUT 06831-2946  
(203) 863-1000

TENNECO

October , 1999

To All Tenneco Inc. Shareowners:

On October , 1999, the Board of Directors of Tenneco declared a dividend of shares of Tenneco Packaging Inc. ("Packaging") to Tenneco shareowners. This spin-off will separate Tenneco's packaging business from its automotive business and represents the final step in the transformation of Tenneco from a highly diversified industrial corporation to independent companies focused on their core businesses. The spin-off will provide each company with independent access to markets for equity and debt financing and will permit investors to make separate investment decisions about each company.

Following the spin-off, Packaging, as a new independent public company, will own and operate the packaging business that has been owned by Tenneco. Packaging expects, however, to sell its 43% interest in Tenneco's former paperboard business before the spin-off. Tenneco will continue to operate its automotive business.

We expect that the spin-off will be effective on or about November , 1999. If you are a shareowner of Tenneco at the close of business on October , 1999, you will receive one share of Packaging common stock for each share of Tenneco common stock held as of that time. You do not need to take any action as a Tenneco shareowner. You should receive your Packaging shares shortly after November , 1999. We will apply to the New York Stock Exchange to list the Packaging shares, which we expect will trade under the symbol " ." We expect that regular trading in Packaging stock will begin the first business day after the spin-off. Tenneco has received a ruling from the IRS that the spin-off will be tax-free to Tenneco and its shareowners for federal income tax purposes.

In connection with the spin-off, Tenneco Inc. will change its name to Tenneco Automotive Inc. ("Automotive") and Tenneco Packaging Inc. will change its name to . The spin-off will not change the number of Tenneco shares that you own, and after the spin-off, the Tenneco stock certificates you currently hold will represent your investment in Automotive. Tenneco shareowners should not send in their Tenneco stock certificates.

This Information Statement contains detailed information about Packaging and the spin-off, which we encourage you to read carefully. After you read this Information Statement, you may have questions. Please feel free to contact the additional sources of information that you will find on pages 3, 17 and 87.

Yours sincerely,

/s/ DANA G. MEAD  
Chairman and Chief Executive Officer

7

INFORMATION STATEMENT

SPIN-OFF OF

TENNECO PACKAGING INC.

(TO BE RENAMED)

THROUGH A DISTRIBUTION OF ALL OF ITS COMMON STOCK

<TABLE>

<S>  
Tenneco Packaging Inc.  
(to be renamed)  
1900 West Field Court  
Lake Forest, Illinois 60045  
(847) 482-2000  
</TABLE>

<C>  
- On the spin-off date, Tenneco Inc. will distribute all of the common stock of Tenneco Packaging Inc. (to be renamed) to owners of Tenneco common stock as of the close of business on October, 1999.

Proposed Trading Symbol:  
New York Stock Exchange --

THE SPIN-OFF AND THE OWNERSHIP OF THE STOCK OF TENNECO PACKAGING INC. (TO BE RENAMED) INVOLVE RISKS. YOU SHOULD READ "RISK FACTORS" BEGINNING ON PAGE 12.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

THE MATERIAL IN THIS INFORMATION STATEMENT MAY BE REVISED OR COMPLETED. WE HAVE FILED A REGISTRATION STATEMENT RELATING TO THE COMMON STOCK OF TENNECO PACKAGING INC. (TO BE RENAMED) WITH THE SECURITIES AND EXCHANGE COMMISSION. WE WILL NOT ISSUE THESE SECURITIES BEFORE THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS INFORMATION STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THESE SECURITIES.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS INFORMATION STATEMENT IS TRUTHFUL OR ACCURATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

October , 1999

8

TABLE OF CONTENTS

<TABLE>	
<S>	<C>
SUMMARY.....	-1-
Questions and Answers about Packaging, the Spin-off, and Tenneco.....	-1-
Packaging.....	-4-
The Spin-off.....	-5-
Summary Historical and Pro Forma Combined Financial Data.....	-7-
Recent Developments.....	-11-
RISK FACTORS.....	-12-
Risks Relating to Our Business.....	-12-
Risks Relating to Our Stock.....	-14-
Risks Relating to the Transaction.....	-15-
THE SPIN-OFF.....	-17-
Introduction.....	-17-
Reasons for the Spin-off.....	-17-
Manner of Spin-off.....	-18-
Corporate Restructuring Transactions.....	-18-
Debt Realignment.....	-19-
Conditions to the Spin-off.....	-20-
Relationship Between Automotive and Packaging After the Spin-off.....	-21-
Trading of Packaging Common Stock.....	-24-
U.S. Federal Income Tax Aspects of the Spin-off.....	-25-
Reasons for Furnishing the Information Statement.....	-28-
CAPITALIZATION AND FINANCING.....	-29-
Capitalization.....	-29-
Financing.....	-29-
UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS OF PACKAGING.....	-32-
SUPPLEMENTAL FINANCIAL INFORMATION.....	-38-
COMBINED SELECTED FINANCIAL DATA.....	-39-
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	-42-
BUSINESS.....	-59-
Industry Overview and Key Terms.....	-59-
Our Products and Markets.....	-60-
Growth Strategy.....	-61-
Marketing, Distribution and Customers.....	-64-
Analysis of Revenues.....	-64-
Competition.....	-65-
International.....	-65-
Properties.....	-65-
Raw Materials.....	-66-
Environmental Regulation.....	-66-
Other.....	-66-
Legal Proceedings.....	-67-
Containerboard Packaging Interest.....	-67-
</TABLE>	

i

9

<TABLE>	
<S>	<C>
MANAGEMENT.....	-68-
Board of Directors.....	-68-
Executive Officers.....	-69-
Stock Ownership of Management.....	-69-
Committees of the Board of Directors.....	-70-
Executive Compensation.....	-71-
Liability and Indemnification of Directors and Officers.....	-75-
PRINCIPAL SHAREOWNERS.....	-77-
DESCRIPTION OF CAPITAL STOCK.....	-78-
Authorized Capital Stock.....	-78-

Packaging Common Stock.....	-78-
Packaging Preferred Stock.....	-78-
Anti-takeover Effects of Certain Provisions.....	-79-
ADDITIONAL INFORMATION.....	-87-
INDEX TO COMBINED FINANCIAL STATEMENTS AND SCHEDULE OF THE BUSINESSES OF TENNECO PACKAGING.....	F-1

</TABLE>

SUMMARY

This summary highlights selected information from this document, but does not contain all the details concerning the spin-off and Packaging, including information that may be important to you. To better understand the spin-off and Packaging, you should carefully review this entire document.

Unless the context otherwise requires, in this document:

- "Packaging," "we," "us," and "our" refer to the packaging business of Tenneco, including Tenneco Packaging Inc., for periods before the spin-off. For periods after the spin-off, those terms refer to , formerly known as Tenneco Packaging Inc. and its subsidiaries.
- "Tenneco" refers to Tenneco Inc. and its subsidiaries. Before the spin-off, this term includes Tenneco's automotive and packaging businesses. After the spin-off it will not include Tenneco's packaging business.
- We also use the term "Automotive" to refer to Tenneco Inc. and its subsidiaries after the spin-off, which will own and operate its automotive business and which will be renamed Tenneco Automotive Inc.

QUESTIONS AND ANSWERS ABOUT PACKAGING, THE SPIN-OFF AND TENNECO

Q: What is Packaging?

A: We are a global supplier of specialty packaging and consumer products. Specialty packaging is an industry term that refers to packaging that is used by commercial customers and designed for a specific application or product. We are currently owned by Tenneco. We will become an independent, publicly traded company upon completion of the spin-off. Also, we own a 43% common equity interest in a joint venture that manufactures containerboard and related packaging products. Containerboard is made primarily from wood pulp and recycled paper and is used to make cartons, boxes and containers. We plan to sell our interest in the containerboard joint venture, and we expect the sale to be completed before the spin-off. See "Business" and "Business -- Containerboard Packaging Interest."

Q: What is the spin-off?

A: The spin-off is the final step in the transformation of Tenneco from a diversified industrial company to independent companies focused on their core businesses. The spin-off will separate Tenneco's remaining businesses and create two publicly traded companies:

- Packaging -- a global manufacturer and marketer of specialty packaging and consumer products; and
- Automotive -- a global designer, manufacturer and distributor of a variety of automotive emissions control and ride control systems.

In connection with the spin-off, Tenneco will declare and pay to each of its shareowners a dividend of one share of Packaging common stock for each share of Tenneco common stock held as of the close of business on October , 1999. Immediately after the spin-off, Tenneco's shareowners will continue to own all of Tenneco's current businesses, but they will own them through their investments in Automotive and Packaging.

Q: Why is this transaction structured as a spin-off?

A: The spin-off is the most tax-efficient means of separating Tenneco's



businesses. Tenneco has received from the IRS a letter ruling that the spin-off is tax-free to Tenneco and its shareowners for federal income tax purposes.

Q: What steps must Tenneco take to accomplish the spin-off?

A: We will not do the spin-off unless Tenneco has completed its corporate restructuring transactions and it has realigned substantially all of its debt.

1

11

Q: What are the corporate restructuring transactions?

A: As Tenneco is currently organized, ownership of its subsidiaries is based on geographic location and tax considerations rather than on the businesses in which the subsidiaries are involved. Therefore, Tenneco will need to restructure its existing businesses so that:

- the assets, liabilities and operations of its packaging business and administrative services operations will be owned directly and indirectly by Packaging; and
- the assets, liabilities and operations of its automotive business will be owned directly and indirectly by Tenneco and its non-packaging subsidiaries.

Q: What is the debt realignment?

A: Tenneco's historical practice has been to incur debt for its consolidated group at the parent-company level or at a limited number of its subsidiaries, rather than at the operating-company level, and to manage centrally various cash functions. Therefore, before the spin-off, Tenneco will realign substantially all of its existing debt. The purpose of the debt realignment is to allocate the debt between Automotive and us before the companies are separated. Tenneco expects to accomplish the debt realignment through some combination of tender offers, exchange offers, prepayments and other refinancings.

As part of the debt realignment, Tenneco expects to make a public offer to exchange some of our debt for some of its outstanding public debt. Tenneco also expects to offer to purchase its remaining public debt for cash, repay its other non-public debt and repurchase subsidiary preferred stock. To finance these cash payments, we and Automotive will each make borrowings under new credit facilities and Automotive will issue new subordinated debt.

If the debt realignment and spin-off had occurred on June 30, 1999, we would have been allocated debt for money borrowed of about \$2.2 billion on a pro forma basis. This does not give effect to the application of any proceeds from our planned sale of our remaining interest in the containerboard joint venture. See "The Spin-off -- Debt Realignment."

Q: Why is Tenneco separating its businesses?

A: Tenneco's board of directors determined that the spin-off is in the best interests of Tenneco's shareowners because divergent industry trends increasingly require Tenneco's packaging and automotive businesses to pursue different strategies. Each business has distinct financial, investment and operating characteristics. Separating the businesses will:

- enable each company to concentrate its attention and financial resources on its own core business and provide each company with independent access to markets for equity and debt financing;
- permit investors to make separate investment decisions about the two companies, based on their performance and other characteristics, and enhance the likelihood that each company will achieve appropriate market valuation of each of the two businesses; and
- allow each company to create employee compensation programs custom-tailored to the operations of their business, including an employee stock ownership plan for Automotive and stock-based and other incentive programs, which will more directly reward employees of each business based on the success of that business. See "The Spin-off -- Reasons for the Spin-off."

Q: What do Tenneco shareowners have to do to participate in the spin-off?

A: Nothing. Because the spin-off of our shares is a dividend, no proxy or vote is necessary. We expect the spin-off will occur on or about November , 1999. If you owned Tenneco common stock as of close of business (5:00 p.m. New York City time) on October , 1999, your brokerage account will be credited with shares of Packaging common stock, or you will be mailed certificates representing shares of Packaging common stock. You do not need to mail in your certificates of Tenneco common stock to receive your Packaging common stock certificates. The spin-off will not change the number of shares of Tenneco common stock that you own. After the spin-off, your Tenneco common stock certificates will represent your investment in Automotive. See "The Spin-off -- Manner of Spin-off."

2

12

Q: Are there risks to owning Packaging common stock?

A: Yes. Our specialty packaging and consumer products business is subject to general business risks relating to our operation of the business. In addition, our separation from Tenneco presents other risks relating to the listing of our stock for the first time and the nature of the spin-off transaction. These risks are described in the "Risk Factors" section beginning on page 12. We encourage you to read this section.

Q: Will Automotive and Packaging be related after the spin-off?

A: Automotive will not own any of our common stock after the spin-off, and we will not own any Automotive common stock after the spin-off. However, each company's benefit plans and trusts will own a limited amount of the other company's common stock. See "The Spin-off -- Relationship Between Automotive and Packaging After the Spin-off -- Benefit Plan Ownership of Stock." We will also enter into agreements with Tenneco that provide for the separation of our business from the automotive business. Additionally, four experienced members of Tenneco's board of directors will serve on our board of directors as well as Automotive's. See "The Spin-off -- Relationship Between Automotive and Packaging After the Spin-off."

Q: Where can Tenneco shareowners get more information?

A: You may contact First Chicago Trust Company of New York, the agent for the spin-off, at First Chicago Trust Company of New York, Attn: General Correspondence, P.O. Box 2500, Jersey City, NJ 07303-2500, telephone number: (800) 519-3111. You may also direct questions to Tenneco Investor Relations at Tenneco Inc., 1275 King Street, Greenwich, Connecticut 06831, Attention: Stan March, telephone number: 203/863-1170.

3

13

## PACKAGING

Packaging, a Delaware corporation, is a global supplier of specialty packaging and consumer products with 1998 revenues of approximately \$2.8 billion. We operate 89 manufacturing facilities throughout the world and employ over 15,000 people. We are currently owned by Tenneco. We will be an independent, publicly traded company after the spin-off (NYSE: ).

### OUR BUSINESS

We operate two units: (a) consumer products and food/foodservice packaging; and (b) protective and flexible packaging. Our industry uses many terms that refer to technical processes and products which we explain in more detail under the section titled "Business -- Industry Overview and Key Terms" beginning on page 59.

Consumer Products and Food/Foodservice Packaging. We manufacture, market and sell consumer products such as plastic storage bags for food and household items, plastic waste bags, foam and molded fiber disposable tableware, and disposable aluminum cookware. We sell many of these products under such recognized brand names as Hefty(R), Baggies(R), Hefty One-Zip(R), Kordite(TM) and E-Z Foil(R).

We manufacture food packaging products for the food processing industry, such as molded fiber egg cartons, foam meat trays, aluminum containers and

modified atmosphere packaging, which extends the shelf life of meat products. In addition, we provide plastic zipper closures for a variety of flexible packaging applications. We also provide food packaging products for supermarket in-store use. These products include clear rigid display packaging, microwaveable containers, plastic foam trays, and bags. For our foodservice customers, we offer products that help merchandize and serve both on-premises and takeout meals.

Protective and Flexible Packaging. We manufacture, market and sell packaging used for cushioning, bracing, surface protection and insulation in the automotive, computer, electronic, furniture, durable goods and building and construction products industries. These products include our sheet foams and air encapsulated bubble products, padded mailers and customized packaging systems.

Our flexible packaging products provide a variety of efficient and attractive solutions for consumer, medical, pharmaceutical, chemical, hygiene and industrial applications. These products include liners for disposable diapers, wrap-around sleeves for glass and plastic bottles, polypropylene medical bags used for sterile intravenous fluid delivery, modified atmosphere films, stand-up pouches, food and hygiene packaging, and disposable surgical kits custom designed for specific procedures.

#### GROWTH STRATEGY

We are pursuing a growth strategy driven by highly focused internal programs which are complemented by strategic acquisitions. By effectively implementing this growth strategy, we increased the total revenues of our specialty packaging and consumer products business from \$845 million in 1995 to approximately \$2.8 billion in 1998. During this same period, our income from continuing operations from this business increased from \$39 million to \$328 million, representing a compound annualized growth rate of 103%. See "Combined Selected Financial Data" and "Business -- Growth Strategy."

#### OUR CONTAINERBOARD PACKAGING INTEREST

In April 1999, we contributed our containerboard packaging business to a new joint venture with an affiliate of Madison Dearborn Partners, Inc. We received cash and debt assumption totaling approximately \$2 billion and retained a 45% common equity interest in the joint venture. The joint venture manufactures containerboard, as well as corrugated containers and lumber and related wood products. The 1998 pro forma revenues of the joint venture was \$1.57 billion. We plan to sell our interest in the venture, now at 43% due to subsequent equity issuances to management. We expect the sale to be completed before the spin-off, with the net proceeds used to retire that portion of Tenneco's debt that would otherwise be allocated to us in Tenneco's debt realignment. See "Business -- Containerboard Packaging Interest" and note (f) to "Unaudited Pro Forma Combined Financial Statements of Packaging."

4

14

#### THE SPIN-OFF

The spin-off will complete the separation of Tenneco's businesses and create two independent companies -- Packaging and Automotive.

SHARES TO BE DISTRIBUTED... 171,356,195 shares of Packaging common stock (based on Tenneco shares outstanding as of June 30, 1999).

DISTRIBUTION RATIO..... One share of Packaging common stock for each share of Tenneco common stock held as of the close of business on the Record Date.

RECORD DATE..... October , 1999.

SPIN-OFF DATE..... On or about November , 1999.

TAX TREATMENT..... Tax-free to Tenneco and Tenneco shareowners.

#### CORPORATE RESTRUCTURING

TRANSACTIONS..... Before the spin-off, Tenneco and its subsidiaries will restructure Tenneco's existing businesses, assets and liabilities so that:

- the assets, liabilities and operations of Tenneco's packaging business and certain corporate assets and services will be owned directly and indirectly by Packaging; and

- the assets, liabilities and operations of Tenneco's automotive business will be owned directly and indirectly by Tenneco and its non-packaging subsidiaries. See "The Spin-off -- Corporate Restructuring Transactions."

DEBT REALIGNMENT..... Before the spin-off, Tenneco will realign substantially all of its existing debt. Tenneco expects to realign its debt through some combination of tender offers, exchange offers, prepayments and other refinancings. To finance this debt realignment, Packaging and Automotive each expect to make borrowings under a new credit facility, and Automotive expects to issue new subordinated debt. See "The Spin-off -- Debt Realignment."

DISTRIBUTION AND ANCILLARY AGREEMENTS..... The distribution agreement to be entered into between Tenneco and Packaging will establish the terms of the spin-off. Packaging and Automotive also will enter into four ancillary agreements, which will facilitate the separation of Tenneco's packaging business from its automotive business and facilitate the operation of Automotive and Packaging as separate companies. The four ancillary agreements cover human resources, tax sharing, transition services and trademark licensing. See "The Spin-off -- Relationship Between Automotive and Packaging After the Spin-off."

LISTING AND TRADING..... Packaging will apply for listing of its common stock on the New York Stock Exchange under the symbol " ". We expect that "when-issued" trading for Packaging common stock will develop on or about October , 1999 and continue through the spin-off date. "When-issued" trades are completed only if the stock is issued. We expect that normal NYSE trading in Packaging common stock will begin the first business day after the spin-off. Tenneco expects that its common stock will continue to trade on a regular basis before and after the spin-off. See "The Spin-off -- Trading of Packaging Common Stock."

The combined trading prices of Packaging common stock and Automotive common stock after the spin-off may or may not equal

5

15

the trading price of Tenneco common stock before the spin-off. In addition, the trading price of each company's common stock may fluctuate significantly. See "Risk Factors" and "The Spin-off -- Trading of Packaging Common Stock."

DIVIDEND POLICY..... Packaging's dividend policy will be established by its board of directors from time to time based on the results of Packaging's operations, financial condition and other business considerations that the board of directors considers relevant. Packaging expects that its annual dividend for the foreseeable future will be set to approximate the Standard & Poor's 500 average dividend yield.

Automotive's dividend policy will be established by its board of directors from time to time based on the results of Automotive's operations, financial condition and other business considerations that its board of directors deems relevant. Also, because Automotive will be highly leveraged and restricted with respect to the payment of dividends, its annual dividend is expected to be nominal.

The combined annual dividends of Packaging and Automotive after the spin-off will be less than Tenneco's annual dividend before the spin-off. See "Risk Factors" and "Description of Capital Stock -- Packaging Common Stock."

CONDITIONS TO THE

SPIN-OFF..... Tenneco received a ruling from the Internal Revenue Service on August 20, 1999 that the spin-off will be tax-free to Tenneco and its stockholders for federal income tax purposes. The spin-off is subject to, among other things, receipt and continued effectiveness of a determination that the spin-off will be tax-free for federal income tax purposes. The spin-off is also conditioned upon the successful completion of the corporate restructuring transactions and the debt realignment. See "The Spin-off -- Conditions to the Spin-off."

6

16

SUMMARY HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA

The following summary combined financial data as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997, and 1996, were derived from the audited Combined Financial Statements of The Businesses of Tenneco Packaging. The following summary combined financial data as of December 31, 1996, 1995, and 1994, and for the years ended December 31, 1995 and 1994, are unaudited and were derived from Tenneco's accounting records. The following summary combined financial data as of and for each of the six months ended June 30, 1999 and 1998 were derived from the unaudited Combined Financial Statements of The Businesses of Tenneco Packaging. In our opinion, the summary combined financial data of Packaging as of December 31, 1996, 1995, and 1994, and for the years ended December 31, 1995 and 1994, and as of and for the six months ended June 30, 1999 and 1998, include all adjusting entries, consisting only of normal recurring adjustments, necessary to present fairly the information set forth. You should not regard the results of operations for the six months ended June 30, 1999 as indicative of the results that may be expected for the full year.

The following summary unaudited pro forma combined financial data as of and for the six months ended June 30, 1999, and for the year ended December 31, 1998, reflect the effects of:

- the debt realignment; and
  
- the spin-off and related transactions.

The unaudited pro forma combined statement of income data have been prepared as if these transactions occurred on January 1, 1998; the unaudited pro forma combined balance sheet data have been prepared as if these transactions occurred on June 30, 1999. The summary unaudited pro forma combined financial data are not necessarily indicative of what our results of operations would have been had the transactions described above actually been consummated on the dates assumed and are not necessarily indicative of the results of operations for any future period.

Our debt balances in the summary unaudited pro forma combined financial data do not reflect the application of any proceeds from the planned sale of our remaining interest in the containerboard joint venture. We expect the sale to be completed before the spin-off, with the net proceeds used to retire the Tenneco debt that would otherwise be allocated to us in the debt realignment. If the sale occurs after the spin-off, the net proceeds will be used to retire our debt.

There is other information we believe is relevant to understanding our results of operations following the spin-off. These items relate to corporate overhead costs incurred by Tenneco and its administrative services operations that we expect will differ following the spin-off. For further information you should see "Supplemental Financial Information" beginning on page 38 of this document.

You should read all of this information in conjunction with the following, each of which is included elsewhere in this document:

- Unaudited Pro Forma Combined Financial Statements of Packaging (page 32);

- Combined Selected Financial Data (page 39);

- Management's Discussion and Analysis of Financial Condition and Results of Operations (page 42); and

- Combined Financial Statements of the Businesses of Tenneco Packaging (page F-1).

7

17

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,			
	PRO FORMA	1998 (a)	1997 (a)	1996 (a)
	1998			
	-----			
	(DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME				
DATA(b):				
Net sales and operating revenues --				
Specialty.....	\$ 2,785	\$ 2,785	\$ 2,553	\$ 1,987
Other.....	6	6	10	--
Total.....	\$ 2,791	\$ 2,791	\$ 2,563	\$ 1,987
	=====	=====	=====	=====
Income from continuing operations before interest expense, income taxes, and minority interest --				
Specialty.....	\$ 328	\$ 328	\$ 308	\$ 249
Other(c).....	(40)	(45)	(2)	(15)
Total.....	288	283	306	234
Interest expense(d).....	160	133	124	102
Income tax expense (benefit).....	58	67	75	67
Minority interest.....	1	1	1	--
	-----	-----	-----	-----
Income (loss) from continuing operations...	69	82	106	65
Income (loss) from discontinued operations, net of income tax(e)...	NA	57	21	71
Extraordinary loss, net of income tax(f).....	NA	--	--	(2)
Cumulative effect of changes in accounting principles, net of income tax(g).....	NA	--	(38)	--
	-----	-----	-----	-----
Net income (loss).....	NA	\$ 139	\$ 89	\$ 134
	=====	=====	=====	=====
Average number of shares of common stock outstanding(h) --				
Basic.....	168,505,573	168,505,573	170,264,731	169,609,373
Diluted.....	168,834,531	168,834,531	170,801,636	170,526,112
Earnings (loss) per average share of common stock(h)--				
Basic:				
Continuing operations... \$	.41	\$ .49	\$ .63	\$ .38
Discontinued operations(e).....	NA	.34	.12	.42
Extraordinary loss(f)...	NA	--	--	(.01)
Cumulative effect of changes in accounting principles(g).....	NA	--	(.23)	--
	-----	-----	-----	-----
	\$ .83	\$ .52	\$ .79	

	=====	=====	=====
Diluted:			
Continuing operations... \$	.41	\$ .49	\$ .63
Discontinued operations(e).....	NA	.34	.12
Extraordinary loss(f)...	NA	--	--
Cumulative effect of changes in accounting principles(g).....	NA	--	(.23)
	-----	-----	-----
	\$ .83	\$ .52	\$ .79
	=====	=====	=====

BALANCE SHEET DATA(b):

Net assets of discontinued operations(e).....	NA	\$ 366	\$ 423	\$ 459
Total assets.....	NA	4,798	4,618	4,028
Short-term debt(d).....	NA	595	158	123
Long-term debt(d).....	NA	1,312	1,492	1,073
Debt allocated to discontinued operations(d).....	NA	548	473	394
Minority interest.....	NA	14	15	--
Combined equity.....	NA	1,776	1,839	1,843

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	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,		
	1995	1994	PRO FORMA 1999	1999 (a)	1998 (a)
	----	----	-----	-----	-----
	(DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME					
DATA(b):					
Net sales and operating revenues --					
Specialty.....	\$ 845	\$ 636	\$ 1,404	\$ 1,404	\$ 1,361
Other.....	--	--	--	--	10
Total.....	-----	-----	-----	-----	-----
	\$ 845	\$ 636	\$ 1,404	\$ 1,404	\$ 1,371
	=====	=====	=====	=====	=====
Income from continuing operations before interest expense, income taxes, and minority interest --					
Specialty.....	\$ 39	\$ 68	\$ 190	\$ 190	\$ 175
Other(c).....	(6)	17	(43)	(46)	(2)
Total.....	-----	-----	-----	-----	-----
	33	85	147	144	173
Interest expense(d).....	91	48	80	68	67
Income tax expense (benefit).....	(3)	19	20	24	37
Minority interest.....	--	--	--	--	--
	-----	-----	-----	-----	-----
Income (loss) from continuing operations...	(55)	18	47	52	69
Income (loss) from discontinued operations, net of income tax(e)....	224	75	NA	(163)	37
Extraordinary loss, net of income tax(f).....	--	--	NA	(7)	--
Cumulative effect of changes in accounting principles, net of income tax(g).....	--	--	NA	(32)	--
	-----	-----	-----	-----	-----
Net income (loss).....	\$ 169	\$ 93	NA	\$ (150)	\$ 106
	=====	=====	=====	=====	=====
Average number of shares of common stock outstanding(h) --					
Basic.....	172,764,198	162,307,189	166,937,362	166,937,362	169,341,555
Diluted.....	173,511,654	162,912,425	167,319,412	167,319,412	169,936,676
Earnings (loss) per average share of common stock(h)--					
Basic:					
Continuing operations...	\$ (.32)	\$ .11	\$ .28	\$ .31	\$ .41
Discontinued operations(e).....	1.30	.46	NA	(.98)	.22
Extraordinary loss(f)...	--	--	NA	(.04)	--
Cumulative effect of					

changes in accounting principles(g).....	--	--	NA	(.19)	--
	-----	-----		-----	-----
	\$ .98	\$ .57		\$ (.90)	\$ .63
	=====	=====		=====	=====
Diluted:					
Continuing operations...	\$ (.32)	\$ .11	\$ .28	\$ .31	\$ .41
Discontinued operations(e).....	1.29	.46	NA	(.98)	.22
Extraordinary loss(f)...	--	--	NA	(.04)	--
Cumulative effect of changes in accounting principles(g).....	--	--	NA	(.19)	--
	-----	-----		-----	-----
	\$ .97	\$ .57		\$ (.90)	\$ .63
	=====	=====		=====	=====
BALANCE SHEET DATA(b):					
Net assets of discontinued operations(e).....	\$ 393	\$ 236	\$ 133	\$ 133	\$ 382
Total assets.....	3,358	1,630	4,749	4,486	4,788
Short-term debt(d).....	205	49	1,196(i)	367	335
Long-term debt(d).....	880	478	1,000(i)	1,494	1,488
Debt allocated to discontinued operations(d).....	369	285	--	--	479
Minority interest.....	--	--	14	14	15
Combined equity.....	1,531	703	1,286	1,340	1,829

</TABLE>

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8

18

<TABLE>  
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	Years Ended December 31,			
	Pro Forma			
	1998	1998(a)	1997(a)	1996(a)
	-----	-----	-----	-----
	(Dollars in millions except per share amounts)			
	<C>	<C>	<C>	<C>
<S>				
STATEMENT OF CASH FLOWS				
DATA(b):				
Net cash provided (used) by operating activities.....	NA \$	577 \$	405 \$	263 \$
Net cash provided (used) by investing activities.....	NA	(514)	(654)	(669)
Net cash provided (used) by financing activities.....	NA	(67)	239	399
Capital expenditures for continuing operations.....	NA	(194)	(229)	(216)
OTHER DATA:				
EBITDA(j)..... \$	463 \$	458 \$	469 \$	365 \$
Ratio of earnings to fixed charges(k).....	1.71	1.99	2.31	2.15

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	Years Ended December 31,		Six Months Ended June 30,		
	1995	1994	Pro Forma		
	1995	1994	1999	1999(a)	1998(a)
	-----	-----	-----	-----	-----
	(Dollars in millions except per share amounts)				
	<C>	<C>	<C>	<C>	<C>
<S>					
STATEMENT OF CASH FLOWS					
DATA(b):					
Net cash provided (used) by operating activities.....	\$ 479	\$ 283	NA	\$ (45)	\$ 288
Net cash provided (used) by investing activities.....	(1,791)	(146)	NA	(866)	(221)
Net cash provided (used) by financing					



activities.....	1,327	(142)	NA	920	(66)
Capital expenditures for continuing operations.....	(265)	(134)	NA	(75)	(101)
OTHER DATA:					
EBITDA(j).....	\$ 78	\$ 121	\$ 241	\$ 238	\$ 261
Ratio of earnings to fixed charges(k).....	NM	1.72	1.76	2.00	2.45

</TABLE>

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- (a) For a discussion of the significant items affecting comparability of the financial information for the years ended December 31, 1998, 1997, and 1996, and for the six months ended June 30, 1999 and 1998, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this document.
  - (b) During the periods presented, we completed numerous acquisitions, the most significant of which were the acquisitions of Mobil Plastics for \$1.3 billion in late 1995, Amoco Foam Products for \$310 million in August 1996, and the protective and flexible packaging business of N.V. Koninklijke KNP BT for \$380 million in April 1997. See Note 6 to the Combined Financial Statements of The Businesses of Tenneco Packaging. See also "Business -- Growth Strategy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."
  - (c) Historical and pro forma income from continuing operations before interest expense, income taxes and minority interest for "Other" includes costs which were incurred by Tenneco's corporate and administrative services operations which were not allocated to Tenneco's operating segments. Because these functions will be a part of Packaging upon the spin-off, they are included in our historical combined financial statements. We expect our costs for these functions will differ following the spin-off. See "Supplemental Financial Information" included elsewhere in this document for further information.
  - (d) Tenneco's historical practice has been to incur indebtedness for its consolidated group at the parent company level or at a limited number of subsidiaries, rather than at the operating company level, and to centrally manage various cash functions. Accordingly, historical amounts include debt and related interest expense allocated to Packaging from Tenneco based on the portion of Tenneco's investment in Packaging which Tenneco deemed to be debt. This allocation is generally based upon the ratio of Packaging's net assets to Tenneco's consolidated net assets plus debt. An allocation of debt and its related interest expense has also been made to Packaging's discontinued operations based on the ratio of the discontinued operations' net assets to Packaging's combined net assets plus debt. Management believes that the allocation of corporate debt and related interest expense for the historical periods is reasonable. This historical allocation, however, is not indicative of the total amount of debt that Packaging will have upon completion of the debt realignment or of the debt and interest that may be incurred by Packaging as a separate public entity. See "Combined Financial Statements of The Businesses of Tenneco Packaging" included elsewhere in this document.
  - (e) Discontinued operations for the periods presented consist of our paperboard packaging segment, which was discontinued in June 1999 following the decision to sell Packaging's remaining common equity interest in its containerboard joint venture. Loss from discontinued operations for the six months ended June 30, 1999 includes an after-tax loss of \$178 million, or \$1.07 per diluted common share, resulting from the contribution of our containerboard assets to the containerboard joint venture. See Note 7 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document.
  - (f) Represents our costs related to prepayment of debt. See Note 7 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document.
  - (g) In 1999, we implemented the American Institute of Certified Public Accountants Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities." In 1997, we implemented the Financial Accounting Standards Board's Emerging Issues Task Force Issue 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract that Combines Business

Process Reengineering and Information Technology Transformation." See Note 3 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document for additional information regarding changes in accounting principles.

- (h) In the spin-off, Tenneco shareowners will receive one share of our common stock for each share of Tenneco common stock outstanding. Accordingly, basic and diluted earnings per share for Packaging were calculated using Tenneco's historical weighted average shares outstanding and weighted average shares outstanding adjusted to include estimates of additional shares that would be issued if potentially dilutive common shares had been issued, respectively.

(continued on next page)

9

19

- (i) Our pro forma debt balances reflect debt allocated to us in the debt realignment before application of any proceeds from the planned sale of our remaining interest in the containerboard joint venture. We expect the sale to be completed before the spin-off, with the net proceeds used to retire the Tenneco debt that would otherwise be allocated to us in the debt realignment. If the sale occurs after the spin-off, the net proceeds will be used to retire our debt. See "Unaudited Pro Forma Combined Financial Statements."

- (j) EBITDA represents income from continuing operations before interest expense, income taxes, minority interest and depreciation and amortization. EBITDA is not a calculation based upon generally accepted accounting principles. We derived the amounts included in the EBITDA calculation, however, from amounts included in the Combined Statements of Income of The Businesses of Tenneco Packaging or Unaudited Pro Forma Combined Statements of Income of Packaging included elsewhere in this document. EBITDA should not be considered as an alternative to net income or operating income as an indicator of our operating 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 ability to incur and service debt. 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 accounting methods (particularly when acquisitions are involved) or nonoperating 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.

- (k) For purposes of computing this ratio, earnings generally consist of income from continuing operations before income taxes and fixed charges, excluding capitalized interest. Fixed charges consist of interest expense, the portion of rental expense considered representative of the interest factor and capitalized interest. The historical ratios are based upon the amount of interest expense on corporate debt allocated to us by Tenneco as discussed in (d) above. We derived the pro forma ratios from the Unaudited Pro Forma Combined Financial Statements included elsewhere in this document. For the year ended December 31, 1995, earnings were inadequate to cover fixed charges by \$59 million.

10

20

#### RECENT DEVELOPMENTS

Tenneco currently expects that operating income from its Packaging business for the third quarter of 1999 will be \$10 to \$15 million below operating income from this business for the third quarter of 1998. Based on Packaging's forecast of resin costs, and pricing actions taken, Packaging's management expects the negative impact on margin from increased resin costs to begin to be offset sometime in the fourth quarter of 1999. During the third quarter of 1999, Packaging also incurred increased advertising and promotional expenditures to meet competitive market initiatives in its consumer business.

Packaging's management is evaluating Packaging's strategy in light of its competitive position as a new stand-alone public company and, as part of this evaluation, is analyzing its business operations and assets. This evaluation and

analysis is ongoing and subject to final review and approval. Packaging currently believes that its evaluation could result in an aggregate pre-tax charge of up to approximately \$220 million, of which approximately 10% could be cash. Completion of this analysis and final approval of the ultimate plan could result in some or all of the charge being taken as early as the third quarter of 1999.

11

21

#### RISK FACTORS

In addition to the other information included in this Information Statement, you should be aware of the following risk factors in connection with the spin-off and ownership of our shares.

We also caution you that this Information Statement contains forward-looking statements. The words "believes," "should be," "anticipates," "plans," "expects," "intends" and "estimates," and similar expressions, identify these forward-looking statements. These forward-looking statements are contained principally under the headings "Summary," "Risk Factors," "Unaudited Pro Forma Combined Financial Statements of Packaging," "Supplemental Financial Information," "Management's Discussion and Analysis and Results of Operations," and "Business." Although we believe that our expectations reflected in these forward-looking statements are based on reasonable assumptions, our expectations may not prove to be correct. Because these forward-looking statements are also subject to risks and uncertainties, actual results may differ materially from the expectations expressed by such forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in our forward-looking statements include those set forth below, as well as:

- general economic, business and market conditions;
- operating hazards associated with our business;
- labor disruptions at our plants or with any of our significant customers or suppliers;
- customer acceptance of new products;
- availability or costs of operating funds, including changes in interest rates or market perceptions of us;
- changes by the Financial Accounting Standards Board or the Securities and Exchange Commission of authoritative generally accepted accounting principles or policies;
- the impact of laws and regulations, including environmental laws and regulations; and
- the occurrence or non-occurrence of circumstances beyond our control.

#### RISKS RELATING TO OUR BUSINESS

CYCLICAL DEMAND -- THE CYCLICAL DEMAND FOR OUR PRODUCTS COULD ADVERSELY AFFECT OUR OPERATING RESULTS BECAUSE LESS DEMAND FOR OUR PRODUCTS COULD REDUCE OUR PROFITABILITY.

Demand for our products is cyclical in nature because it follows the demand for the goods that are packaged with our products or the demand for services such as construction. Accordingly, our demand is subject to general economic conditions that affect demand in the durable goods, consumer, building, construction and automotive markets. Growth in the economy generally stimulates demand for these products or services, while a weakening economy tends to decrease demand. Consequently, adverse economic conditions could have a material adverse effect on our operating results because less demand for our products would reduce our profitability.

COST OF RAW MATERIALS -- VOLATILE RAW MATERIAL PRICES COULD ADVERSELY AFFECT OUR OPERATING RESULTS BECAUSE HIGHER COSTS TO MANUFACTURE ITS PRODUCTS WOULD LIKELY REDUCE PACKAGING'S PROFITABILITY.

Plastic resins, aluminum rollstock, linerboard and recycled fiber are the basic raw materials used in the manufacture of most of our products. The costs of these materials may be volatile and are a function of, among other things, the manufacturing capacity for those materials and the costs of their components. If we fail to obtain price increases for our products in a timely manner following a raw material cost increase, if we reduce our product prices without a corresponding reduction in raw material costs or if we are unable to renegotiate favorable raw material supply contracts, our operating results could be adversely affected because higher costs to manufacture our products would likely reduce our profitability. See "Business -- Raw Materials."

12

22

GROWTH STRATEGY -- WE CANNOT ASSURE YOU THAT WE WILL SUCCESSFULLY INTEGRATE ACQUIRED BUSINESSES OR THAT FUTURE ACQUISITIONS WILL NOT ADVERSELY AFFECT OUR OPERATING RESULTS AND FINANCIAL CONDITION.

Our growth strategy contemplates further acquisitions of specialty packaging and consumer products businesses, as well as related businesses. Pursuing an acquisition strategy could affect our operating results and financial condition because of:

- unanticipated liabilities;
- the diversion of management attention;
- increased goodwill amortization;
- higher interest costs; and
- our dependence on retaining or hiring and training key personnel and integrating the acquired business.

See "Business -- Growth Strategy."

ADVANCED TECHNOLOGY -- IF WE DO NOT ADAPT TO TECHNOLOGICAL ADVANCES IN OUR INDUSTRY AS QUICKLY AS OUR COMPETITORS, OUR OPERATING RESULTS AND FINANCIAL CONDITION COULD BE ADVERSELY AFFECTED BECAUSE OUR HIGHER OVERHEAD AND MANUFACTURING COSTS WOULD EITHER LIMIT OUR ABILITY TO REDUCE PRICES OR REDUCE OUR PROFIT MARGIN.

We compete in markets and industries that require sophisticated manufacturing systems and other advanced technology to deliver state-of-the-art specialty packaging solutions. These systems and technologies generally have to be refined and updated as the underlying technologies advance. We cannot assure you that, as various systems and technologies become outdated, we will be able to replace them, to replace them as quickly as our competitors or to develop and market new and better products in the future. As a result, higher overhead and manufacturing costs would either limit our ability to reduce prices or reduce our profit margin, as compared with our competitors.

YEAR 2000 ISSUE -- IF NOT FULLY RESOLVED, THE YEAR 2000 ISSUE COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND OUR RESULTS OF OPERATIONS.

Many of our computer software systems, as well as some hardware and equipment utilizing date-sensitive data, were designed to use two-digit date fields. Consequently, these systems and equipment will not be able to recognize dates properly beyond the year 1999. If we are unable to complete on a timely and cost-efficient basis the remediation or replacement of critical systems or equipment not yet in compliance, or develop alternative procedures, or if our major suppliers, financial institutions or others with whom we conduct business are unsuccessful in implementing timely solutions, Year 2000 issues could have a material adverse effect on our financial condition and our results of operations. This adverse effect could result from interruptions in our ability to manufacture our products, process and ship orders, and bill and collect accounts receivable.

For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000" beginning on page 51.

INDEPENDENT PUBLIC COMPANY -- WE CANNOT ASSURE YOU THAT WE WILL BE ABLE TO SUCCESSFULLY TRANSITION TO AN INDEPENDENT PUBLIC COMPANY.

After the spin-off, our major operations will consist of Tenneco's packaging business. We have never operated as a stand-alone company and historically have been able to rely, to some degree, on the earnings, assets and cash flow of Tenneco's other businesses for capital requirements and certain administrative services. Accordingly, our pro forma combined financial statements included in this document may not necessarily reflect the results of operations and financial condition that would have been achieved if we had operated independently during the periods presented.

13

23

INTERNATIONAL OPERATIONS -- WE ARE SUBJECT TO RISKS RELATED TO OUR INTERNATIONAL OPERATIONS.

We have manufacturing and distribution facilities in many countries, principally in North America and Europe. For 1998, about 21% of our revenues were derived from our international operations. International operations are subject to various risks which could have a material adverse effect on those operations or on our business as a whole including:

- exposure to local economic conditions;
- exposure to local political conditions, including the risk of seizure of assets by a foreign government;
- currency exchange rate fluctuations;
- controls on the repatriation of cash; and
- export and import restrictions.

Our success will be dependent, in part, on our ability to anticipate and effectively manage these and other risks.

RISKS RELATING TO OUR STOCK

MARKET VALUE -- THE COMBINED POST-SPIN-OFF VALUE OF PACKAGING AND TENNECO STOCK MAY NOT EQUAL

OR EXCEED THE PRE-SPIN-OFF VALUE OF TENNECO STOCK.

We cannot assure you that the combined market value or trading prices of Automotive common stock and Packaging common stock after the spin-off, including the planned one-for- reverse stock split of Automotive, will be equal to or greater than the market value or trading price of Tenneco common stock before the spin-off. After completing the spin-off, you will own shares of Automotive common stock and shares of Packaging common stock. After the spin-off, Packaging common stock will be listed and traded on the New York Stock Exchange. Tenneco common stock is now listed and traded on the New York, Chicago, Pacific and London Stock Exchanges. We expect Tenneco will continue to trade on those exchanges after the spin-off, when it will represent your investment in Automotive. After the spin-off, Automotive will be highly leveraged and initially restricted with respect to the payment of dividends. See "The Spin-off -- Trading of Packaging Common Stock."

DIVIDENDS -- THE COMBINED PACKAGING AND AUTOMOTIVE DIVIDENDS AFTER THE SPIN-OFF WILL BE SIGNIFICANTLY LESS THAN TENNECO DIVIDENDS BEFORE THE SPIN-OFF.

Our dividend policy will be established by our board of directors from time to time based on our results of operations and our financial condition, as well as other business considerations. We expect that our annual dividend for the foreseeable future will be set to approximate the Standard & Poor's 500 average dividend yield.

Automotive's dividend policy will also be established by its board of directors from time to time based on its results of operations and financial

condition, as well as other business considerations. Also, because Automotive will be highly leveraged and restricted under its loan agreements with respect to the payment of dividends, its annual dividend is expected to be nominal.

The combined annual dividends of Packaging and Automotive after the spin-off will be less than Tenneco's annual dividend before the spin-off. See "Description of Capital Stock -- Packaging Common Stock."

ANTI-TAKEOVER PROVISIONS -- YOUR OPPORTUNITIES TO SELL YOUR STOCK AT PRICES ABOVE MARKET VALUE MAY BE REDUCED BECAUSE OF FEATURES OF OUR CERTIFICATE OF INCORPORATION, BYLAWS AND QUALIFIED OFFER RIGHTS PLAN, AND RESTRICTIONS RELATING TO THE IRS RULING THAT COULD DISCOURAGE ACQUISITION PROPOSALS.

Provisions of our Restated Certificate of Incorporation and our Amended and Restated Bylaws, along with our Qualified Offer Rights Plan and Delaware statutory law, could discourage potential acquisition

14

24

proposals and could delay or prevent a change in control of Packaging. In addition, provisions in the tax sharing agreement that we will enter into with Automotive in connection with the spin-off and restrictions relating to the IRS letter ruling could discourage acquisition proposals. These provisions and restrictions could diminish your opportunities to participate in tender offers, including tender offers at a price above the then-current market value of our common stock. These provisions and restrictions may also inhibit fluctuations in the market price of our common stock that could result from takeover attempts. They could also make it more difficult for third parties to cause the immediate removal and replacement of the members of our board of directors and management without the concurrence of our board of directors. See "Description of Capital Stock -- Anti-takeover Effects of Certain Provisions." For more information regarding the IRS letter ruling, see "The Spin-off -- U.S. Federal Income Tax Aspects of the Spin-off -- Tax Ruling beginning on page 25."

#### RISKS RELATING TO THE TRANSACTION

U.S. FEDERAL INCOME TAX CONSIDERATIONS -- IF THE SPIN-OFF IS TAXABLE, WE COULD BE ADVERSELY AFFECTED BY THE RESULTING CORPORATE TAX LIABILITY, AND YOU COULD BE REQUIRED TO PAY TAX ON YOUR PACKAGING SHARES.

If the spin-off were not to qualify as a tax-free distribution for U.S. federal income tax purposes, then, in general, a very substantial corporate tax would be payable by the consolidated tax group of which Tenneco is the common parent. Each member of that consolidated group, which includes Packaging, would be severally liable for that tax. Packaging and Automotive will enter into a tax sharing agreement in connection with the spin-off regarding the allocation and, in some circumstances sharing, of that potential tax liability between them. See "The Spin-off -- Relationship Between Automotive and Packaging After the Spin-off" and "The Spin-off -- U.S. Federal Income Tax Aspects of the Spin-off." If the spin-off occurred and it were not to qualify as a tax-free distribution, the resulting tax liability would have a material adverse effect on the financial condition and, as such, business of Packaging and/or Automotive, as applicable.

Tenneco has received a letter ruling from the IRS to the effect that, among other things, the spin-off will qualify as a tax-free distribution. The ruling is based upon various factual representations and assumptions. We are not aware of any facts or circumstances that would cause the representations and assumptions to be untrue or incomplete in any material respect. If, however, any of those factual representations and assumptions were untrue or incomplete in a material respect, or the facts upon which that ruling is based are materially different from the facts at the time of the spin-off, the spin-off could become taxable to Tenneco and Tenneco shareowners who receive Packaging common stock. In addition, the IRS letter ruling does not address the applicability or effect of any state, local or foreign tax laws.

If the spin-off were not to qualify as a tax-free distribution, Tenneco shareowners who receive shares of Packaging common stock in the spin-off would be treated as if they had received a taxable distribution in an amount equal to the fair market value of Packaging common stock received, except as described in the next paragraph. See "The Spin-off -- U.S. Federal Income Tax Aspects of the Spin-off."

Furthermore, if the spin-off otherwise qualifies as a tax-free distribution but there is a change in control of Packaging or Automotive after the spin-off

that is considered part of a plan or a series of transactions related to the spin-off, Tenneco -- which after the spin-off will be Automotive -- would incur a very substantial tax liability on the distribution of our common stock to its shareowners. Packaging would be responsible for this resulting tax liability in the case of a Packaging change in control, and Automotive would be responsible for this resulting tax liability in the case of an Automotive change in control. In these circumstances, however, Tenneco shareowners who received common stock would not recognize gain or loss as a result of the spin-off. See "The Spin-off -- U.S. Federal Income Tax Aspects of the Spin-off" and "The Spin-off -- Relationship Between Automotive and Packaging After the Spin-off."

15

25

FRAUDULENT CONVEYANCE MATTERS -- POTENTIAL LIABILITIES MAY ARISE DUE TO FRAUDULENT TRANSFER CONSIDERATIONS, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND OUR RESULTS OF OPERATIONS.

In connection with the spin-off, Tenneco will undertake numerous corporate restructuring transactions and realign its debt, which, along with the spin-off, are subject to federal and state fraudulent conveyance laws. Under these laws, if a court were to determine that one of the parties did not receive fair consideration and, at the time, was insolvent, had unreasonably small capital or was unable to pay its debts as they came due, the court could reverse the transactions or the spin-off or impose a liability on one of the parties, including Packaging. Before the spin-off, we expect to obtain an opinion from a third-party financial advisor that will confirm that Packaging and Automotive will be solvent after giving effect to the spin-off. We cannot assure you, however, that a court would agree with the financial advisor or find the financial advisor's opinion to be binding on any of our creditors.

LEGAL DIVIDEND -- IF THE SPIN-OFF IS NOT A LEGAL DIVIDEND, IT COULD BE HELD INVALID BY A COURT AND ADVERSELY AFFECT OUR FINANCIAL CONDITION AND OUR RESULTS OF OPERATIONS.

The corporate restructuring transactions, the debt realignment and the spin-off are subject to state corporate distribution statutes. We cannot assure you that a court will not later determine that the spin-off, one or more of the corporate restructuring transactions or the debt realignment was invalid under state corporate law and reverse the transactions. The resulting complications and cost could have a material adverse effect on our financial condition and our results of operations. For example, under Delaware law, a corporation may only pay dividends to its stockholders either: (a) out of its surplus, which is net assets minus capital; or (b) if there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year, subject to some restrictions. Before the spin-off, we expect to obtain an opinion from a third-party financial advisor that will confirm the permissibility of the spin-off under Delaware corporate law. We cannot assure you, however, that a court would agree with the financial advisor or find the financial advisor's opinion to be binding on our creditors.

16

26

## THE SPIN-OFF

### INTRODUCTION

The spin-off is the final step in the transformation of Tenneco from a highly diversified industrial corporation to independent companies focused on their core businesses. In July 1998, Tenneco's board of directors authorized its management to develop a broad range of strategic alternatives which could result in the separation of its then-remaining businesses: automotive, specialty packaging and paperboard packaging. Earlier this year, we separated our paperboard packaging business from the rest of Tenneco's operations. First, we contributed our containerboard packaging business, which constituted the majority of our paperboard packaging business, to a new joint venture for cash and debt assumption of approximately \$2 billion plus a 45% common equity interest. We currently plan to sell our remaining 43% interest in this joint venture. Second, we sold the balance of our paperboard packaging business, the folding carton operation, for \$72.5 million. The cash proceeds from these transactions were used to repay some of Tenneco's consolidated lease and debt obligations.

The spin-off will complete the separation of Tenneco's businesses and create two independent companies -- Packaging and Automotive. We, Packaging, will own and operate Tenneco's remaining packaging business, and Automotive will own and operate Tenneco's automotive business.

Tenneco and we will enter into a distribution agreement which establishes the terms of the spin-off and governs various aspects of our post-spin-off relationship with Tenneco (Automotive, after the spin-off). Until the spin-off, Tenneco may terminate the distribution agreement without our approval. In addition, Tenneco and we will enter into ancillary agreements to facilitate further the separation of Tenneco's automotive and packaging businesses and to govern additional aspects of our ongoing relationship with Automotive.

In this document, descriptions of provisions of the distribution agreement and the ancillary agreements are only summaries and may not contain information about provisions that you think are important. These descriptions are qualified in their entirety by references to the complete text of the agreements, which we encourage you to read. The form of the distribution agreement and the form of each of the ancillary agreements are included as an exhibit to our Registration Statement on Form 10 under the Securities Exchange Act of 1934, as amended, relating to our common stock.

Tenneco shareowners with inquiries relating to the spin-off should contact First Chicago Trust Company of New York at First Chicago Trust Company of New York, Attn: General Correspondence, P.O. Box 2500, Jersey City, NJ 07303-2500, telephone number: (800) 519-3111, or Tenneco Investor Relations, 1275 King Street, Greenwich, Connecticut 06831, Attention: Stan March, telephone number: 203/863-1170.

#### REASONS FOR THE SPIN-OFF

The spin-off is designed to separate Tenneco's packaging business from its automotive business, each of which have distinct financial, investment and operating characteristics, so that each can adopt strategies and pursue objectives appropriate to its specific needs.

##### Business Focus and Access to Capital Markets

As a result of the spin-off, each of Packaging and Automotive will be able to focus all of its attention and financial resources on its own core business and on exploring and implementing the most appropriate growth opportunities. Through independent access to equity and debt financing markets, the companies expect to have greater financial flexibility to pursue acquisitions, joint ventures, alliances and internal growth.

17

27

##### Investor Understanding; Public Relations

After the spin-off, investors should be able to better evaluate the financial performance, strategies and other characteristics of each of the companies. This will permit investors to make investment decisions based on each company's performance and potential, and enhance the likelihood that each company will achieve appropriate market valuation. In addition, each company will be able to focus its public relations efforts on cultivating a separate identity.

##### Employee Incentives

The spin-off will allow each company's executive management team to develop compensation systems for employees that are custom-tailored to the different businesses, including an employee stock ownership plan for Automotive and stock-based and other incentive programs. These programs will more directly reward employees based on each company's individual success.

#### MANNER OF SPIN-OFF

Tenneco will accomplish the spin-off by distributing the common stock of Packaging to Tenneco shareowners as a dividend. On October , 1999, the Tenneco board of directors formally declared the dividend necessary to effect the spin-off. Each Tenneco shareowner of record as of the close of business on October , 1999, which is the "record date," will be entitled to participate in the spin-off. On the spin-off date, those same Tenneco shareowners will each receive one share of Packaging common stock for each share of Tenneco common stock that they hold as of the record date. Although the spin-off will not occur unless certain conditions are satisfied, we expect that the spin-off will take place on or about November , 1999. See "-- Conditions to the Spin-off."

Before the spin-off date, Tenneco will deliver all of the outstanding shares of Packaging common stock to the spin-off agent for transfer and distribution to Tenneco common stock shareowners as of the close of business on



the record date. As soon as possible on or after the spin-off date, Tenneco will deliver to the spin-off agent, as agent for those Tenneco shareowners, certificates representing shares of Packaging common stock. The spin-off agent will then mail, on or about the spin-off date, certificates representing the shares of Packaging common stock to Tenneco common stock shareowners as of the close of business on the record date.

No Tenneco shareowner will be required to pay cash or other consideration for the shares of Packaging common stock to be received in the spin-off, or to surrender or exchange shares of Tenneco common stock in order to receive Packaging common stock.

Our board of directors will adopt a Qualified Offer Rights Plan before the spin-off, which will entitle each Tenneco shareowner, as of the close of business on October , 1999, to one preferred share purchase right for every share of Packaging common stock he or she receives in the spin-off. Certificates evidencing the number of shares of Packaging common stock issued also will represent the same number of rights issued under the Qualified Offer Rights Plan. See "Description of Capital Stock -- Anti-takeover Effects of Certain Provisions -- Qualified Offer Rights Plan." Unless the context otherwise requires, references in this Information Statement to Packaging's common stock include the related rights issued under our Qualified Offer Rights Plan.

#### CORPORATE RESTRUCTURING TRANSACTIONS

Before the spin-off, Tenneco will effect various corporate restructuring transactions designed to restructure its existing businesses so that, in general, the assets, liabilities and operations of (a) its packaging business and administrative services operations will be owned and operated, directly or indirectly, by us and (b) its automotive business will be owned and operated, directly and indirectly, by Tenneco and its non-packaging subsidiaries.

18

28

Packaging's assets upon completion of these corporate restructuring transactions generally will be:

- those related to the conduct of Tenneco's past and current packaging business and administrative services operations, as reflected on the unaudited pro forma combined balance sheet of Packaging as of June 30, 1999, see "Unaudited Pro Forma Combined Financial Statements of Packaging;"
- those assets that were acquired after June 30, 1999 and are of a nature or type that would have been included on our June 30, 1999 pro forma balance sheet had they been acquired earlier; and
- all rights expressly allocated to Packaging and its subsidiaries under the distribution agreement or any of the ancillary agreements.

Automotive's assets upon completion of the corporate restructuring transactions generally will be:

- all of Tenneco's assets not expressly allocated to us or our subsidiaries as described above.

Packaging's liabilities generally will include:

- those liabilities related to the packaging assets described above and the current and past conduct of Tenneco's packaging and administrative services operations;
- liabilities for possible violations of securities laws in connection with the spin-off related to disclosures or omissions regarding Packaging's business, results of operations, prospects or management; and
- those liabilities expressly allocated to Packaging or its subsidiaries under the distribution agreement or any ancillary agreement.

Automotive's liabilities generally will include:

- those liabilities related to the automotive assets described above and

the current and past conduct of Tenneco's automotive business;

- liabilities for possible violations of securities laws in connection with the spin-off related to disclosures or omissions regarding Automotive's business, results of operations, prospects or management;
- those liabilities expressly allocated to Automotive or its subsidiaries under the distribution agreement or any ancillary agreement; and
- all other liabilities of Tenneco or any of its subsidiaries which do not constitute Packaging liabilities.

In addition, Packaging and Automotive will each be responsible for one-half of any third-party liability imposed on either party that is both (1) related to the transactions undertaken as part of the spin-off, such as the debt realignment, and (2) based on a claim (a) under Delaware corporate law, such as a claim for a breach of fiduciary duties, or (b) under applicable securities laws, but only to the extent the alleged violation is not specifically related to disclosures or omissions about either party's business operations as provided by such party.

#### DEBT REALIGNMENT

After the spin-off, Automotive and Packaging each will, in general, be responsible for the debts, liabilities and obligations related to the business or businesses that it owns and operates following completion of the corporate restructuring transactions. See "-- Corporate Restructuring Transactions." Tenneco's historical practice, however, has been to incur debt for its consolidated group at the parent-company level or at a limited number of its subsidiaries, rather than at the operating-company level, and to manage centrally various cash functions. Accordingly, the distribution agreement will provide for the realignment of Tenneco's debt pursuant to a debt realignment plan.

The specific goal of the debt realignment will be to reach approximately the relative allocation between Packaging and Automotive of Tenneco's debt at the time of the spin-off (after giving effect to the repurchase of subsidiary preferred stock and payment of transaction fees and expenses) that is reflected in the June 30, 1999 pro forma balance sheets of Packaging and Tenneco that are included elsewhere in this document. See "Unaudited Pro Forma Combined Financial Statements of Packaging" and "-- Corporate

Restructuring Transactions." These pro forma balance sheets will also be attached to the distribution agreement as exhibits. Packaging and Automotive will agree in the distribution agreement to use their respective reasonable commercial efforts to achieve this relative allocation.

If the debt realignment and spin-off had occurred on June 30, 1999, we would have had pro forma indebtedness for money borrowed of \$2.2 billion. We intend to use the net proceeds of our planned sale of our containerboard joint venture interest to retire our debt, although this sale is not part of the debt realignment. If this sale is completed before the spin-off, the net proceeds will be used to retire Tenneco debt that otherwise would be allocated to us in the debt realignment. See "Unaudited Pro Forma Combined Financial Statements of Packaging."

The debt realignment is expected to be accomplished through some combination of tender offers, exchange offers, prepayments and other refinancings. As part of the debt realignment, the following is expected to occur before the spin-off: (1) Tenneco will offer to purchase for cash approximately \$ million of its public debt (the "Tenneco Debt Tender Offer"); and (2) Tenneco and its subsidiaries will repay in cash other existing non-public debt; and (3) Tenneco will repurchase outstanding subsidiary preferred stock. These payments are expected to be financed by (a) internally generated cash, (b) borrowings by Automotive under a new credit facility and new subordinated debt financing to be entered into by Automotive in connection with the spin-off, and (c) borrowings by Packaging under one or more new credit

facilities to be entered into by Packaging in connection with the spin-off. See "Capitalization and Financing."

Also before the spin-off, Tenneco expects to make a public offer to exchange up to \$ million of aggregate principal amount of new Packaging debt for an equal amount of certain Tenneco public debt pursuant to a debt exchange offer (the "Debt Exchange Offer"). Our debt is expected to have similar maturities to the Tenneco public debt for which it is being exchanged. Assuming all of the Tenneco public debt subject to the Debt Exchange Offer is tendered and accepted for exchange, upon completion of the Debt Exchange Offer we expect to have approximately \$ million aggregate principal amount of public debt outstanding, bearing interest at a weighted average of approximately % and with a weighted average maturity of approximately years. The public offering of our debt in the Debt Exchange Offer is expected to be made by means of a separate prospectus that constitutes a part of our Registration Statement on Form S-4 (File No. 333-82923) which has been filed with the SEC.

As part of the Tenneco Debt Tender Offer and Debt Exchange Offer, Tenneco expects to solicit consents from the holders of the Tenneco public debt to amendments to the indenture under which Tenneco issued its public debt. These amendments would, among other things, specifically permit Tenneco to consummate the spin-off without compliance with any covenants contained in the indenture.

Consummation of the Tenneco Debt Tender Offer and Debt Exchange Offer is conditioned on, among other things, acceptance of the Debt Exchange Offer and the Tenneco Debt Tender Offer by holders of at least a majority of the aggregate principal amount of the Tenneco public debt of all series taken together so that the requested amendments to the indenture are approved.

Accordingly, after giving effect to the debt realignment and the spin-off, Tenneco (in other words, Automotive) will be responsible for all of Tenneco's public debt that remains outstanding and any borrowings under the new Automotive credit facility and subordinated debt financing described above. We will be responsible for our public debt and any borrowings under our new credit facilities. Completion of the debt realignment is a condition to the obligation of Tenneco to complete the spin-off, although Tenneco may substitute one or more different financing transactions for any of the components of the debt realignment described above.

#### CONDITIONS TO THE SPIN-OFF

The spin-off is conditioned on, among other things, formal declaration of the spin-off by the Tenneco board of directors. Other conditions to the spin-off will include:

- execution and delivery of the ancillary agreements and completion of various pre-spin-off transactions, such as the corporate restructuring transactions and the debt realignment;

20

30

- a determination to the effect that for federal income tax purposes, (1) the spin-off will be tax-free to Tenneco and its shareowners under Section 355(a) and Section 361(c)(1) of the Internal Revenue Code, and (2) specified internal restructuring transactions involving Tenneco or its subsidiaries to be effected pursuant to the corporate restructuring transactions will also be tax-free;
- approval for listing on the NYSE of our common stock;
- registration of our common stock under the Exchange Act;
- receipt of all material consents to the corporate restructuring transactions, the spin-off and transactions contemplated in the distribution agreement; and
- the absence of any prohibition of the spin-off by any law or governmental authority.

On August 20, 1999, we received an IRS letter ruling that satisfies the federal income tax condition referred to above provided the ruling remains in effect at the time of the spin-off. Even if all the conditions to the spin-off are satisfied, Tenneco has reserved the right to amend or terminate the

distribution agreement and the related transactions before the spin-off. The Tenneco board of directors has not attempted to identify or establish objective criteria for evaluating the particular types of events or conditions that would cause the Tenneco board of directors to consider amending or terminating the spin-off. See "-- Relationship Between Automotive and Packaging After the Spin-off -- Distribution Agreement." Although the conditions described above may be waived by Tenneco to the extent permitted by law, the Tenneco board of directors presently has no intention to proceed with the spin-off unless each of these conditions is satisfied.

#### RELATIONSHIP BETWEEN AUTOMOTIVE AND PACKAGING AFTER THE SPIN-OFF

Below are summary descriptions of the distribution agreement and principal ancillary agreements that Tenneco and Packaging will enter into in connection with the spin-off as well as a description of the stock arrangements that will exist between Automotive and Packaging after the spin-off. These agreements are intended to facilitate the separation of Tenneco's packaging business from its automotive business and to facilitate the operation of each of Automotive and Packaging as separate companies.

##### Distribution Agreement

In addition to providing for the terms of the spin-off and the various actions to be taken before the spin-off, the distribution agreement will contain other provisions governing the relationship between Automotive and Packaging before and after the spin-off.

**Responsibility for Liabilities.** The distribution agreement will provide that after the spin-off date: (a) Automotive will assume, pay, perform and discharge all its allocated liabilities according to their terms, and (b) Packaging will assume, pay, perform and discharge its allocated liabilities according to their terms. See "--Corporate Restructuring Transactions." The distribution agreement will provide for cross-indemnities so that: (a) Automotive must indemnify Packaging (and its respective subsidiaries, directors, officers, employees and agents, and other related parties) against all losses arising out of or in connection with Automotive's allocated liabilities or the breach of the distribution agreement or any ancillary agreement by Automotive; and (b) Packaging must indemnify Automotive (and its respective subsidiaries, directors, officers, employees and agents, and other related parties) against all losses arising out of or in connection with Packaging's liabilities or the breach of the distribution agreement or any ancillary agreement by Packaging.

**Further Assurances.** Automotive and Packaging have each agreed to use all reasonable efforts to take or cause to be taken all action reasonably necessary or advisable to consummate the transactions contemplated by and carry out the purposes of the distribution agreement.

**Information Sharing.** The distribution agreement will provide for the transfer and sharing of books and records between Automotive and Packaging and grants to each party access to specified information in the other's possession, subject to confidentiality requirements and legal privilege issues.

**Amendment and Termination.** Before the spin-off, the distribution agreement may be amended or terminated by Tenneco in its discretion. After completion of the spin-off, the distribution agreement may

21

31

be amended or terminated only by a written agreement signed by Automotive and Packaging. Some amendments or terminations after the spin-off also will require the consent of third-party beneficiaries to the extent that the distribution agreement has expressly guaranteed them rights.

**Intercompany Accounts.** According to the distribution agreement, in general all intercompany receivables, payables and loans between Tenneco's automotive business, on the one hand, and its packaging business and administration services operations, on the other hand, that did not arise from ordinary trading transactions will be settled, capitalized or converted into ordinary trade obligations as of the close of business on the spin-off date. Further, all intercompany agreements between these businesses, other than those contemplated in connection with the spin-off and specified trade supply agreements will be terminated.

Expenses. Each of Tenneco (that is, Automotive) and Packaging has agreed to pay the fees, costs and expenses associated with the spin-off that are incurred by it before the spin-off. Because a majority of these expenses will be incurred directly by Tenneco, Tenneco will use a portion of the funds borrowed by Tenneco and Packaging as part of the debt realignment to fund the payments. Accordingly, the allocation of debt described above under "-- Debt Realignment" includes additional debt incurred to fund these fees, costs and expenses.

#### Benefit Plan Ownership of Stock

After the spin-off, a number of benefit plans or trusts maintained by us will own stock in Automotive. The General Employee Benefit Trust ("GEBT"), which will fund all U.S. defined benefit pension plans maintained by us will own at the time of the spin-off approximately 4,100,000 shares of Automotive common stock. The Packaging thrift plans will own at the time of the spin-off approximately 3,000,000 shares of Automotive common stock. Also, the Automotive thrift plan will own some Packaging stock at the time of the spin-off.

#### Human Resources Agreement

The human resources agreement to be entered into between Tenneco and Packaging will govern labor, employment, compensation and benefit matters in connection with the spin-off. Under the human resources agreement, after the spin-off date, each of Automotive and Packaging will:

- continue employment of each of their respective retained employees (subject to their rights to terminate employees) with the same compensation as before the spin-off date;
- continue to honor all related existing collective bargaining agreements in accordance with their terms;
- recognize related incumbent labor organizations, subject to their rights to seek changes in their relationships with the organizations; and
- continue sponsorship of hourly employee benefit plans in accordance with their terms.

We will become the sponsor of the Tenneco Retirement Plan (the "TRP") and of the Tenneco Thrift Plan and Tenneco Thrift Plan for Hourly Employees (collectively the "Tenneco Thrift Plan") on the spin-off date. Automotive will establish one or more thrift plans similar to the Tenneco thrift plan to which the account balances of retained and former employees of Automotive in the Tenneco Thrift Plan will be transferred. The benefits accrued by Automotive employees in the Tenneco Retirement Plan will be frozen as of the last day of the calendar month including the spin-off date, and we will amend the Tenneco Retirement Plan to provide that all benefits accrued through that day by Automotive employees are fully vested and non-forfeitable. Generally, each of Automotive and Packaging will retain liabilities with respect to benefits accrued by its current and former employees under the Tenneco Inc. Supplemental Executive Retirement Plan and with respect to the welfare benefits of its current and former employees and their dependents. In addition, as the spin-off date, participation by retained and former employees of

Automotive in the Tenneco Inc. Deferred Compensation Plan will be discontinued, and Automotive will succeed to those liabilities. See "Management -- Executive Compensation."

Under the human resources agreement, before the spin-off, Tenneco will, generally, cause outstanding restricted stock and performance share equivalent unit awards to become fully earned and vested. Tenneco common stock options held by Packaging employees will be replaced by options to purchase shares of our common stock on terms economically equivalent to the old Tenneco options. Tenneco common stock options held by Automotive employees will be adjusted to maintain equivalent economic terms to the options outstanding immediately prior to the spin-off.

## Tax Sharing Agreement

The tax sharing agreement to be entered into between Automotive and Packaging will provide for the allocation of tax liabilities between the parties arising before, as a result of and after the spin-off. As a general rule, Automotive will be liable for all taxes not specifically allocated to us under the terms of the tax sharing agreement. Generally, we will be liable for taxes imposed exclusively on us and our affiliates engaged in the packaging and administrative services business (the "Packaging Group"). In the case of U.S. federal income taxes imposed on the combined activities of Automotive and the Packaging Group, we will generally be liable to Automotive for federal income taxes attributable to the activities of the Packaging Group. Liability for foreign income taxes and non-income taxes will generally be allocated to the legal entity on which the taxes are imposed. In the case of state income taxes imposed on the combined activities of the business groups, we will generally be liable for the tax that would be imposed if the Packaging Group had filed combined returns for its group.

In general, and except as provided below, any taxes imposed on or resulting from any or all of the spin-off, the corporate restructuring transactions and the debt realignment ("transaction taxes") shall be the responsibility of the legal entity on which the taxes are imposed. However, if any transaction taxes arise due to any action taken or permitted by Automotive or Packaging that is inconsistent with any representations or warranties made in connection with the IRS letter ruling requested and received by Tenneco in connection with the spin-off, that entity (Automotive or Packaging) will be responsible for the resulting tax liability. Additionally, if any transaction taxes arise under Section 355(e) of the Internal Revenue Code of 1986, as amended (the "Code"), as a result of a 50% Ownership Shift (as defined in the section below titled "-- U.S. Federal Income Tax Aspects of the Spin-off"), then the resulting corporate tax burden will be borne by the entity (Automotive or Packaging) that experienced the 50% Ownership Shift. Any income tax liability that results from the spin-off, corporate restructuring transactions or debt realignment, but which is not due to either a 50% Ownership Shift or an action that is inconsistent with the tax treatment contemplated in the IRS letter ruling received, will be shared equally by Automotive and Packaging.

Each of Automotive and Packaging will covenant and agree not to take or permit certain actions inconsistent or partially inconsistent with the IRS letter ruling received on or before the period ending two calendar years from the date of the spin-off, unless the action has been consented to by the other. These agreements could restrict the ability of Automotive or Packaging to engage in certain corporate transactions, redeem stock, dispose of assets except in the ordinary course of business, or be the target of an acquisition transaction during that period.

## Transition Services Agreement

Tenneco's administrative services operations currently provide a number of services to Tenneco's operating units. These services include (a) financial accounting services; (b) employee benefits administration for all major salaried and hourly benefit plans; (c) human resources and payroll services; (d) mainframes and distributed systems operations; (e) telecommunications and network operations and management; (f) help desk support; and (g) disaster recovery support. When the spin-off is complete, Tenneco's administrative services operations will be a part of Packaging. Accordingly, Automotive and Packaging will enter into a transition services agreement under which Packaging will continue to provide Automotive with specified administrative services for an initial period of \_\_\_\_\_ years beginning on the date of the spin-off. After the initial \_\_\_\_\_ year period, Automotive may elect to have Packaging continue to

provide specified services for up to \_\_\_\_\_ additional \_\_\_\_\_-year periods at a price to be negotiated by the parties. During any extension, Automotive may discontinue using and paying for any or all of the services on 120 days notice to Packaging. Because Automotive will retain a portion of the administrative support for Tenneco's European operations, however, Automotive will also agree to provide Packaging with specified administrative services for its European operations for an initial period of six months beginning on the date of the spin-off. After the initial six-month period, Packaging may elect to have Automotive continue to provide specified services for up to six additional months on a month to month basis. The price for all services will be negotiated between the parties and be based on the full cost for the services.

After the spin-off, Automotive, or one of its subsidiaries, will hold the rights to various trademarks, servicemarks, tradenames and similar intellectual property, including rights in the marks "Tenneco," "Ten" and "Tenn" alone and in combination with other terms and/or symbols (collectively, the "Trademarks"), in the United States and throughout the world. In connection with the spin-off, we will enter into a trademark transition license agreement with Automotive. Under this agreement, Automotive, or one of its subsidiaries, will grant to us a limited, royalty-free license to use the Trademarks with respect to packaging businesses for a limited period of time, subject to quality standards and other conditions. The license will expire (1) 60 days after the spin-off, with respect to the use of Trademarks in corporate names, (2) 9 months after the spin-off, with respect to stationery and similar supplies in inventory and (3) 18 months after the spin-off, with respect to signage.

#### Insurance Agreement

The insurance agreement to be entered into between Automotive and Packaging will provide for the separation and administration of existing insurance programs and the purchase of "run-off " policies for fiduciaries and directors and officers. In general, the insurance agreement will provide that Packaging and Automotive will obtain coverage for the period ending in December 1996 through Tenneco's pre-existing policies. For the period between December 1996 and the spin-off, Automotive and Packaging will obtain coverage through Tenneco's existing policies plus supplemental coverage to be purchased by Tenneco. Tenneco also will purchase "run-off" insurance policies that remain in effect for seven years and provide coverage for acts prior to the spin-off by directors, officers and fiduciaries of benefit and pension plans. Packaging and Automotive will each be responsible for administering their respective insurance programs after the spin-off and for purchasing insurance as necessary to cover their respective losses arising after the spin-off. The insurance agreement also allocates responsibility for the payment of premiums and deductibles, and the distribution of insurance proceeds.

#### Directors

When the spin-off is completed, Packaging and Automotive will share four common directors, Dana G. Mead, Paul T. Stecko, Mark Andrews and Roger B. Porter. Each company will adopt policies and procedures for its board of directors to limit the involvement of Messrs. Mead, Stecko, Andrews and Porter in situations that could give rise to potential conflicts of interest, including requesting them to abstain from voting as a director of either Packaging or Automotive on matters which present a conflict of interest between the companies. We believe that the number of these conflict situations will be minimal.

#### TRADING OF PACKAGING COMMON STOCK

See "Risk Factors" for a discussion of certain considerations relating to the market for and trading prices of our common stock following the spin-off.

A regular public market for our common stock has not existed prior to the date of this Information Statement. Shares of our common stock have been approved for listing on the NYSE under the symbol " " , " and "regular" trading will begin on the first business day after the spin-off date. In addition, we expect that "when-issued" trading for our common stock will develop on or about the record date and

continue through the spin-off date. "When-issued" trading means that shares are traded prior to the time stock certificates are actually available or issued. None of these trades, however, will settle until after the spin-off date, when regular trading in our common stock has begun. If the spin-off does not occur, all when-issued trading will be null and void.

Tenneco expects that its common stock will continue to trade on a regular basis through and after the spin-off date. Any shares of common stock of Tenneco sold between the record date and the spin-off date will be accompanied by a due bill attached representing our common stock to be distributed in the spin-off. In addition, between the record date and the spin-off date, the common stock of

Tenneco may also trade on a when-issued basis, reflecting an assumed post-distribution value for Tenneco common stock.

Shares of our common stock received by Tenneco shareowners in connection with the spin-off will be freely transferable, except for shares received by persons who may be deemed to be "affiliates" of Packaging under the Securities Act of 1933, as amended. Persons who are affiliates of Packaging will be permitted to sell their shares of our common stock only pursuant to an effective registration statement under the Securities Act or an exemption from the registration requirements of the Securities Act. There would not, however, be any 90-day waiting period before sales could be made by affiliates under Rule 144 of the Securities Act, as long as the other provisions of Rule 144 are met.

#### U.S. FEDERAL INCOME TAX ASPECTS OF THE SPIN-OFF

##### General

The following is a summary description of the material federal income tax aspects of the spin-off. This summary is not intended as a complete description of all of the tax consequences of the spin-off or the other transactions contemplated in connection with the spin-off and does not discuss tax consequences under the laws of state, local or foreign governments or any other jurisdiction. Moreover, the tax treatment of a shareowner may vary, depending upon his, her or its particular situation. In this regard, certain shareowners (including insurance companies, tax-exempt organizations, financial institutions or broker-dealers, persons who are not citizens or residents of the United States or who are foreign corporations, foreign partnerships or foreign trusts or estates, as defined for United States federal income tax purposes, shareowners that hold shares as part of a position in a "straddle" or as part of a "hedging" or "conversion" transaction for United States federal income tax purposes and shareowners with a "functional currency" other than the United States dollar) may be subject to special rules not discussed below. In addition, this summary applies only to shares which are held as capital assets. The following discussion may not be applicable to a shareowner who acquired his, her or its shares pursuant to the exercise of stock options or otherwise as compensation.

The following discussion is based on currently existing provisions of the Code, existing, proposed and temporary treasury regulations thereunder and current administrative rulings and court decisions. All of the foregoing are subject to change, which may or may not be retroactive, and any such changes could affect the validity of the following discussion.

Each shareowner is urged to consult his, her or its own tax advisor as to the particular tax consequences to him, her or it of the spin-off described herein, including the applicability and effect of any state, local or foreign tax laws, and the possible effects of changes of applicable tax laws.

##### Tax Ruling

Tenneco has received an IRS letter ruling to the effect, among other things, that:

- no gain or loss will be recognized by (and no amount will otherwise be included in the income of) any holder of Tenneco common stock as a result of the spin-off;
- the aggregate basis of the Automotive common stock (after giving effect to the spin-off) and the Packaging common stock in the hands of each holder of Automotive common stock will be the same as the basis of the Tenneco common stock held by such holder immediately before the spin-off, allocated in proportion to the fair market value of the Tenneco common stock (after giving effect to the spin-off) and the Packaging common stock on the spin-off date;

25

35

- the holding period of the Packaging common stock received in the spin-off by each holder of Tenneco's common stock will include the period during which such holder held Tenneco common stock with respect to which the distribution of Packaging common stock is made, provided that the Tenneco common stock is held as a capital asset by such holder on the spin-off date; and
- no gain or loss will be recognized by Tenneco on its distribution of Packaging common stock to its shareowners.



A letter ruling from the IRS, while generally binding on the IRS, may under certain circumstances be retroactively revoked or modified by the IRS. The rulings obtained from the IRS are based on certain facts, representations and assumptions. Generally, an IRS letter ruling would not be revoked or modified retroactively provided that there has been no misstatement or omission of material facts, the facts at the time of the transaction are not materially different from the facts upon which the IRS letter ruling was based and there has been no change in the applicable law. We are not aware of any facts or circumstances that would cause the representations and assumptions to be untrue or incomplete in any material respect. Automotive and Packaging will agree to certain restrictions on their further actions to help preserve the tax-free nature of the spin-off. See "-- Relationship Between Automotive and Packaging After the Spin-off."

#### The Spin-off

We have received an IRS letter ruling to the effect that the spin-off will qualify as a tax-free distribution under Section 355 of the Code. Assuming that the spin-off so qualifies:

- the holders of Tenneco common stock will not recognize gain or loss upon receipt of shares of Packaging common stock;
- each holder of Tenneco common stock will allocate his, her or its aggregate tax basis in the Tenneco common stock immediately before the spin-off among Tenneco common stock (after giving effect to the spin-off) and Packaging common stock in proportion to their respective fair market values on the spin-off date;
- the holding period of each holder of Tenneco common stock for Packaging common stock will include the holding period for his, her or its Tenneco common stock, provided that Tenneco common stock is held as a capital asset at the time of the spin-off; and
- Tenneco will not recognize any gain or loss on its distribution of Packaging common stock to its shareowners.

If the spin-off were not to qualify as a tax-free distribution under Section 355 of the Code, then in general a corporate level federal income tax would be payable by the consolidated group of which Tenneco is the common parent, which tax would be based upon the gain (computed as the difference between the fair market value of the Packaging common stock and Tenneco's adjusted basis in such stock) realized by Tenneco upon its distribution of the Packaging common stock to its shareowners in the spin-off. If Tenneco were to recognize gain on the spin-off, such gain and the resulting tax liability likely would be very substantial.

Furthermore, if the spin-off were not to qualify as a tax-free distribution under Section 355 of the Code, then each holder of Tenneco common stock who receives shares of Packaging common stock in the spin-off would be treated as if such shareowner received a taxable distribution in an amount equal to the fair market value of Packaging common stock received, which would result in: (a) a dividend to the extent paid out of Tenneco's current and accumulated earnings and profits; then (b) a reduction in such shareowner's basis in Tenneco's common stock to the extent the amount received exceeds the amount referenced in clause (a); and then (c) gain from the sale or exchange of Tenneco common stock to the extent the amount received exceeds the sum of the amounts referenced in clauses (a) and (b). Each shareowner's basis in his, her or its Packaging common stock would be equal to the fair market value of such stock at the time of the spin-off.

Section 355(e) of the Code, which was enacted in 1997, generally provides that a company that distributes shares of a subsidiary in a spin-off that is otherwise tax-free will incur federal income tax

liability if 50% or more, by vote or value, of the capital stock of either the company making the distribution or the spun-off subsidiary is acquired (a "50% Ownership Shift") by one person or more than one person acting together pursuant to a plan or series of related transactions that includes the spin-off. This provision can be triggered by certain reorganizations involving the acquisition of the assets of the company making the distribution or the spun-off subsidiary. There is a presumption that any 50% ownership shift that occurs within two years before or after the spin-off is pursuant to a plan that includes the spin-off. However, the presumption may be rebutted by establishing that the spin-off and the acquisitions are not part of a plan or series of related transactions. Among the representations made by Tenneco and Packaging to the IRS in connection with

the request for the IRS letter ruling is the representation that the spin-off is not part of such a plan or series of related transactions. If Automotive or Packaging were to undergo a 50% Ownership Shift, particularly if it occurred within two years after the spin-off date, there can be no assurance that the IRS would not assert that the ownership shift occurred pursuant to a plan or series of related transactions and therefore that the spin-off is taxable under Code Section 355(e).

If the spin-off is taxable solely under Code Section 355(e), Tenneco will recognize gain equal to the difference between the fair market value of Packaging's common stock and Tenneco's adjusted tax basis in that stock. However, holders of Tenneco common stock would not recognize gain or loss as a result of the spin-off. If Tenneco were to recognize gain in the spin-off, that gain and the resulting tax liability likely would be very substantial.

The tax sharing agreement to be entered into between Packaging and Automotive will allocate responsibility for the possible corporate tax burden resulting from the spin-off. In the event the spin-off is taxable under Code Section 355(e) as a result of a 50% Ownership Shift, then the resulting corporate tax burden will be borne by that entity (Automotive or Packaging) with respect to which the 50% Ownership Shift has occurred. Similarly, if the spin-off is taxable due to any other action taken or permitted by Tenneco or Packaging that is inconsistent with the factual representations or assumptions on which the IRS letter ruling is based, that entity (Automotive or Packaging) will be responsible for the resulting tax liability. Any income tax liability that results from the spin-off, but which is not due to either a 50% Ownership Shift or any action taken or permitted by either company that is inconsistent with the IRS letter ruling, will be shared equally by Automotive and Packaging.

Current Treasury regulations require each holder of Tenneco common stock who receives Packaging common stock pursuant to the spin-off to attach to his, her or its federal income tax return for the year in which the spin-off occurs a detailed statement setting forth such information as may be appropriate in order to show the applicability of Code Section 355(a) to the spin-off. Automotive will convey the appropriate information to each holder of record of Tenneco common stock as of the record date.

#### Back-up Withholding Requirements

United States information reporting requirements and backup withholding at the rate of 31% may apply with respect to dividends paid on, and proceeds from the taxable sale, exchange or other disposition of, Packaging common stock unless the shareowner: (a) is a corporation or comes within certain other exempt categories, and, when required, demonstrates these facts; or (b) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A shareowner who does not supply Packaging with his, her or its correct taxpayer identification number may be subject to penalties imposed by the IRS. Any amount withheld under these rules will be creditable against the shareowner's federal income tax liability. Shareowners should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption. If information reporting requirements apply to a shareowner, the amount of dividends paid with respect to such shares will be reported annually to the IRS and to such shareowner.

27

37

#### REASONS FOR FURNISHING THE INFORMATION STATEMENT

This Information Statement is being furnished by Tenneco and Packaging solely to provide information to Tenneco shareowners who will receive Packaging common stock in the spin-off. It is not, and is not to be construed as, an inducement or encouragement to buy or sell any securities of Tenneco or Packaging. The information contained in this Information Statement is believed by Tenneco and Packaging to be accurate as of the date set forth on its cover. Changes may occur after that date, and neither Packaging nor Tenneco will update the information except in the normal course of their respective public disclosure practices.

28

38

#### CAPITALIZATION AND FINANCING

##### CAPITALIZATION

The following table sets forth the unaudited historical capitalization of Packaging as of June 30, 1999, and unaudited pro forma capitalization of

Packaging as of June 30, 1999, after giving effect to the debt realignment and the spin-off and related transactions, each as if they occurred on that date. The pro forma capitalization reflects debt allocated to Packaging in the debt realignment before application of any proceeds from Packaging's planned sale of its remaining interest in its containerboard joint venture. You should read this table in conjunction with the "Combined Financial Statements of The Businesses of Tenneco Packaging" and related notes, the "Unaudited Pro Forma Combined Financial Statements of Packaging" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Packaging, each contained elsewhere in this document.

<TABLE>  
<CAPTION>

		PACKAGING	
		JUNE 30, 1999	
		HISTORICAL	PRO FORMA
		(IN MILLIONS)	
<S>	<C>	<C>	<C>
Short-term debt:			
Allocated from Tenneco.....	\$ 358 (a)	\$ --	
Borrowings under new Packaging credit facilities.....	--	1,187	
Other.....	9	9	
	-----	-----	
	367	1,196 (b)	
	-----	-----	
Long-term debt:			
Allocated from Tenneco.....	1,474 (a)	--	
New securities.....	--	980 (c)	
Other.....	20	20	
	-----	-----	
	1,494	1,000 (b)	
	-----	-----	
Total debt.....	1,861	2,196 (b)	
	-----	-----	
Minority interest.....	14	14	
	-----	-----	
Common stock.....	--	2	
Paid-in capital.....	--	1,284	
Retained earnings.....	--	--	
Combined equity.....	1,340	--	
	-----	-----	
Total equity.....	1,340	1,286	
	-----	-----	
Total capitalization.....	\$3,215	\$3,496	
	=====	=====	

</TABLE>

(a) Represents debt allocated to Packaging from Tenneco based on the portion of Tenneco's investment in Packaging which Tenneco deemed to be debt. This allocation is generally based on the ratio of Packaging's net assets to Tenneco's consolidated net assets plus debt. Tenneco's historical practice has been to incur debt for its consolidated group at the parent company level or at a limited number of subsidiaries, rather than at the operating company level, and to centrally manage various cash functions. Management believes that the historical allocation of corporate debt is reasonable. This historical allocation, however, is not indicative of the total amount of debt that Packaging will have upon completion of the debt realignment or of the debt that may be incurred by Packaging as a separate public entity.

(b) Represents debt allocated to Packaging in the debt realignment before application of any proceeds from Packaging's planned sale of its remaining interest in its containerboard joint venture. Packaging expects the sale to be completed before the spin-off, with the net proceeds used to retire the Tenneco debt that would otherwise be allocated to Packaging in the debt realignment. If the sale occurs after the spin-off, the net proceeds will be used to retire Packaging debt.

(c) Represents the \$ million aggregate principal amount of new securities assumed to be exchanged pursuant to the exchange offers, which will be recorded based on the net carrying amount of the original securities upon consummation of the exchange offers. At this time, Packaging and Tenneco cannot determine the ultimate amount of original securities that will be exchanged, and that amount could vary significantly. The pro forma capitalization assumes that 100% of the original securities are exchanged for new securities in the exchange offers.

In connection with the spin-off, Packaging intends to enter into the following credit facilities: (1) a \$750 million long-term revolving senior credit facility; (2) a \$250 million 364-day revolving senior credit facility, and (3) possibly, a \$1.5 billion term loan facility. Definitive agreements for these facilities are being negotiated and have not completed. Accordingly, the terms of such arrangements are preliminary and may change as a result of the negotiation of definitive agreements.

29

39

Initial borrowings under one or more of these facilities are expected to occur on or shortly before the spin-off. See "The Spin-off -- Debt Realignment" for a description of how Packaging intends to use the proceeds of the initial borrowings.

#### \$750 MILLION LONG-TERM SENIOR REVOLVING CREDIT FACILITY

Packaging expects to enter into a senior credit facility with a syndicate, or group, of banks and financial institutions. This facility is expected to be a revolving credit facility of up to \$750 million, which will terminate in September 2004. Part of the total facility will be a swingline facility of up to \$50 million, from only one lender in the group, which will provide for borrowings to be made on shorter notice than for the other loans.

The proceeds of the loans made under this facility will be used by Packaging for refinancing existing indebtedness of Tenneco or its subsidiaries, including Packaging, as part of the debt realignment, for working capital and for other general corporate purposes.

**Maturity.** Packaging expects this senior credit facility to provide that all amounts outstanding at the termination of the facility, which will be five years after its signing date, will become due then. Prior to that date, funds may be borrowed, repaid, and reborrowed, without premium or penalty.

**Covenants.** Packaging expects this facility will require it to maintain compliance with the following financial tests:

- minimum interest coverage ratio, which is the ratio of consolidated earnings before interest expense, income taxes, minority interest, depreciation and amortization ("EBITDA") to consolidated cash interest expense, for a given four-quarter period; and
  
- maximum total debt to EBITDA ratio, which is the ratio of Packaging's indebtedness, less certain exclusions, to EBITDA, for a given four-quarter period.

Packaging also expects that the senior credit facility will impose prohibitions or limitations that are customary for similar facilities and transactions, including, among other things, on Packaging's ability to incur specified liens, incur subsidiary indebtedness and guarantee obligations, dispose of all or substantially all of its assets, and discontinue its primary businesses.

**Interest.** At Packaging's option, borrowings under this facility, except for competitive bid loans and swingline facility loans, are expected to bear interest at a floating rate based on LIBOR, adjusted for reserve requirements,

plus a specified margin or based on a specified prime or reference rate plus a specified margin.

Each competitive bid loan is expected to bear interest at the rate quoted in the respective bid. Each swingline loan is expected to bear interest at a rate based on the higher of a specified prime or reference rate and the federal funds rate plus an applicable margin.

#### \$250 MILLION 364 DAY SENIOR REVOLVING CREDIT FACILITY

Packaging expects to enter into an additional revolving credit facility of up to \$250 million.

Packaging expects this senior credit facility to terminate in September 2000, 364 days after its signing date, and all amounts outstanding at termination to become due then.

Packaging expects that initial borrowings will occur under this facility at the same time as under Packaging's \$750 million Long Term Senior Revolving Facility described above (the "Long-Term Facility") or thereafter during its term, and that proceeds of the loans will be used for the same purposes as the Long-Term Facility.

Packaging also expects that the financial tests, prohibitions and limitations, interest rates and other material terms of this facility will be the same as for the Long-Term Facility.

30

40

#### \$1.5 BILLION TERM LOAN FACILITY

A lender has committed to provide Packaging up to \$1.5 billion of term loan financing which Packaging intends to use in the event it does not sell its containerboard joint venture interest before the spin-off for general corporate and other purposes. Although the terms of this financing have not been finalized, Packaging expects that borrowings under this facility would be due 18 months after funding and bear interest at a floating rate based on LIBOR, adjusted for reserve requirements, plus a specified margin or based on a specified prime or reference rate plus a specific margin, at Packaging's option. Packaging expects this financing would include covenants similar to those described above for the revolving credit facilities.

31

41

#### UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS OF PACKAGING

The following Unaudited Pro Forma Combined Balance Sheet of Packaging as of June 30, 1999, and the Unaudited Pro Forma Combined Statements of Income for the six months ended June 30, 1999 and the year ended December 31, 1998, reflect the effects of:

- the debt realignment; and
- the spin-off of Packaging and related transactions.

The Unaudited Pro Forma Combined Balance Sheet has been prepared as if these transactions occurred on June 30, 1999; the Unaudited Pro Forma Combined

Statements of Income have been prepared as if these transactions occurred as of January 1, 1998. The Unaudited Pro Forma Combined Financial Statements are not necessarily indicative of the results that would have actually occurred if these transactions had been consummated as of June 30, 1999 or January 1, 1998, or results which may be attained in the future.

The Unaudited Pro Forma Combined Financial Statements were derived from the historical Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document. Net assets included in these historical financial statements that are not already owned directly or indirectly by us will be transferred to us before the spin-off as part of the corporate restructuring transactions. The accounting for the transfer of assets and liabilities pursuant to the corporate restructuring transactions represents a reorganization of companies under common control and, accordingly, all assets and liabilities are reflected at their historical cost in our historical combined financial statements.

The pro forma adjustments, as described in the Notes to the Unaudited Pro Forma Combined Financial Statements, are based upon available information and upon certain assumptions that management believes are reasonable. Our pro forma debt and interest expense balances do not give effect to the application of any proceeds from the planned sale of our remaining interest in our containerboard joint venture. We expect the sale to be completed before the spin-off, with the net proceeds used to retire the Tenneco debt that would otherwise be allocated to us in the debt realignment. If the sale occurs after the spin-off, the net proceeds will be used to retire our debt. You should also read the Combined Financial Statements of The Businesses of Tenneco Packaging, and related notes, included elsewhere in this document.

32

42

PACKAGING  
UNAUDITED PRO FORMA COMBINED BALANCE SHEET

JUNE 30, 1999  
(IN MILLIONS)

<S>	PACKAGING HISTORICAL ----- <C>	DEBT REALIGNMENT ----- <C>	SPIN-OFF AND RELATED TRANSACTIONS ----- <C>	PACKAGING PRO FORMA COMBINED ----- <C>
ASSETS	PRO FORMA ADJUSTMENTS -----			PACKAGING PRO FORMA COMBINED ----- <C>
Current assets:				
Cash and temporary cash investments.....	\$ 18	\$ --	\$ --	\$ 18
Receivables.....	375	--	119 (b)	494
Inventories.....	447	--	--	447
Prepayments and other.....	72	--	--	72
	-----	-----	-----	-----
Total current assets.....	912	--	119	1,031
Plant, property, and equipment, net.....	1,495	--	--	1,495
Goodwill and intangibles, net.....	1,028	--	--	1,028
Other assets and deferred charges.....	918	59 (a)	85 (c)	1,062
Net assets of discontinued operations.....	133	--	--	133
	-----	-----	-----	-----
Total assets.....	\$4,486	\$ 59	\$ 204	\$4,749
	=====	=====	=====	=====
	LIABILITIES AND EQUITY			
Current liabilities:				
Short-term debt.....	\$ 367	\$ 829 (a)	\$ --	\$1,196 (e)
Trade payables.....	357	--	--	357
Other current liabilities.....	336	--	--	336
	-----	-----	-----	-----
Total current liabilities.....	1,060	829	--	1,889
Long-term debt.....	1,494	(494) (a)	--	1,000 (e)
Deferred income taxes.....	380	(52) (a)	34 (c)	362
Other liabilities and deferred credits.....	198	--	--	198
Minority interest.....	14	--	--	14
Equity:				
Combined equity.....	1,340	(224) (a)	119 (b) 51 (c) (1,286) (d)	--
Common stock.....	--	--	2 (d)	2

Paid-in capital.....	--	--	1,284 (d)	1,284
Retained earnings.....	--	--	-- (d)	--
	-----	-----	-----	-----
Total liabilities and equity.....	\$4,486	\$ 59	\$ 204	\$4,749
	=====	=====	=====	=====

</TABLE>

See the accompanying Notes to Unaudited Pro Forma Combined Financial Statements.

33

43

PACKAGING  
UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME

SIX MONTHS ENDED JUNE 30, 1999

(MILLIONS EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	PRO FORMA ADJUSTMENTS			
	PACKAGING HISTORICAL	DEBT REALIGNMENT	SPIN-OFF AND RELATED TRANSACTIONS	PACKAGING PRO FORMA COMBINED
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
REVENUES				
Net sales and operating revenues.....	\$ 1,404	\$--	\$--	\$ 1,404
Other income, net.....	(18)	--	--	(18)
	-----	---	---	-----
	1,386	--	--	1,386
	-----	---	---	-----
COSTS AND EXPENSES				
Cost of sales (exclusive of depreciation shown below).....	924	--	--	924
Engineering, research, and development....	18	--	--	18
Selling, general, and administrative.....	206	--	(3) (c)	203
Depreciation and amortization.....	94	--	--	94
	-----	---	---	-----
	1,242	--	(3)	1,239
	-----	---	---	-----
INCOME BEFORE INTEREST EXPENSE, INCOME				
TAXES, AND MINORITY INTEREST.....	144	--	3	147
Interest expense.....	68	12 (f)	--	80 (e) (f)
Income tax expense.....	24	(5) (g)	1 (g)	20
Minority interest.....	--	--	--	--
	-----	---	---	-----
INCOME FROM CONTINUING OPERATIONS.....	\$ 52	\$ (7)	\$ 2	\$ 47 (e)
	=====	===	===	=====
EARNINGS PER SHARE				
Average shares of common stock --				
Basic.....	166,937,362			166,937,362
Diluted.....	167,319,412			167,319,412
Income from continuing operations				
Basic.....	\$ .31			\$ .28
Diluted.....	\$ .31			\$ .28

</TABLE>

See the accompanying Notes to Unaudited Pro Forma Combined Financial Statements.

34

44

PACKAGING  
UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1998

(MILLIONS EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

PACKAGING	PRO FORMA ADJUSTMENTS			PACKAGING PRO FORMA
	DEBT	SPIN-OFF AND RELATED		
	-----	-----	-----	-----

	HISTORICAL	REALIGNMENT	TRANSACTIONS	COMBINED
<S>	<C>	<C>	<C>	<C>
REVENUES				
Net sales and operating revenues.....	\$ 2,791	\$ --	\$ --	\$ 2,791
Other income, net.....	(3)	--	--	(3)
	2,788	--	--	2,788
COSTS AND EXPENSES				
Cost of sales (exclusive of depreciation shown below).....	1,870	--	--	1,870
Engineering, research, and development.....	33	--	--	33
Selling, general, and administrative.....	427	--	(5) (c)	422
Depreciation and amortization.....	175	--	--	175
	2,505	--	(5)	2,500
INCOME BEFORE INTEREST EXPENSE, INCOME TAXES, AND MINORITY INTEREST.....	283	--	5	288
Interest expense.....	133	27 (f)	--	160 (e) (f)
Income tax expense.....	67	(11) (g)	2 (g)	58
Minority interest.....	1	--	--	1
INCOME FROM CONTINUING OPERATIONS.....	\$ 82	\$ (16)	\$ 3	\$ 69 (e)
EARNINGS PER SHARE				
Average shares of common stock --				
Basic.....	168,505,573			168,505,573
Diluted.....	168,834,531			168,834,531
Income from continuing operations --				
Basic.....	\$ .49			\$ .41
Diluted.....	\$ .49			\$ .41

See the accompanying Notes to Unaudited Pro Forma Combined Financial Statements.

PACKAGING  
NOTES TO UNAUDITED PRO FORMA  
COMBINED FINANCIAL STATEMENTS

(a) To reflect debt allocated to Packaging in the debt realignment. The adjustment to equity reflects the net impact of the debt realignment, the recording of debt issue costs and deferred income taxes related to the exchange offers and other transaction costs. Pro forma long-term debt includes \$980 million of new securities (\$ million aggregate principal amount) assumed to be exchanged in the exchange offers, and \$20 million of long-term debt of Packaging subsidiaries. Pro forma short-term debt includes \$1,187 million borrowed under Packaging's new credit facilities to be entered into as part of this debt realignment and \$9 million of short-term debt of Packaging subsidiaries. At this time, Packaging and Tenneco cannot determine the ultimate amount of the original securities which will be exchanged into new securities, and this amount could vary significantly. These pro forma adjustments assume that 100% of the original securities subject to the exchange offers will be exchanged for new securities and the new securities will be recorded at the net carrying amount of the original securities. The results of the exchange offers could vary based on a number of factors, including the level of acceptance of the exchange offers, the interest rate of the exchanged securities and whether the exchanges will be considered extinguishments for accounting purposes. Based on current interest rate markets, Packaging expects that the exchange offers will not be extinguishments for accounting purposes. Therefore, Packaging does not expect to recognize an extraordinary loss attributable to the debt exchange. Other costs, including transaction costs related to the spin-off and contractual employment obligations, are expected to be incurred by Packaging in connection with the corporate restructuring transactions and the spin-off which Packaging estimates will be approximately \$70 million after-tax. The effects on Packaging's debt of these costs has been reflected in this pro forma adjustment. However, these charges have not been included in the unaudited pro forma combined statement of income.

(b) To reflect the purchase of Packaging accounts receivable at fair value which had previously been sold to a third party.



- (c) To reflect the transfer to Packaging of prepaid pension costs attributable to Automotive employees and the corresponding reduction in net periodic pension costs and the increase in prepaid pension cost attributable to the curtailment of the pension benefits related to Automotive employees. Automotive employees will no longer participate in the Tenneco Retirement Plan following the spin-off and Packaging will become the sponsor of this plan. These prepaid pension costs will be transferred to Packaging in connection with the corporate restructuring transactions. Packaging estimates that a curtailment gain of approximately \$30 million will be recognized relating to the freezing of Automotive employees' pension benefits in connection with the spin-off. This gain has not been included in the unaudited pro forma combined statements of income.
- (d) To reflect the spin-off of Packaging common stock to holders of Tenneco common stock at an exchange ratio of one share of Packaging common stock for each share of Tenneco common stock.
- (e) The Packaging pro forma debt balances do not give effect to the application of any proceeds from the planned sale of Packaging's remaining interest in Packaging's containerboard joint venture. Packaging expects the sale to be completed before the spin-off, with the proceeds used to repay the Tenneco debt that would otherwise be allocated to Packaging in the debt realignment. If the sale occurs after the spin-off, the net proceeds will be used to retire Packaging debt. Estimated proceeds ranging from \$ to \$ are anticipated to be received from the sale of Packaging's remaining interest in its containerboard joint venture. For each \$50 million of after-tax proceeds received from the sale, pro forma interest expense would be reduced by approximately \$3 million on an annual basis and pro forma income from continuing operations would be increased by approximately \$2 million on an annual basis, or \$0.01 per diluted common share.

36

46

PACKAGING  
NOTES TO UNAUDITED PRO FORMA  
COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

- (f) To reflect the adjustment to interest expense from the allocation of Tenneco debt to Packaging in the debt realignment as follows:

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 1999	YEAR ENDED DECEMBER 31, 1998
	-----	-----
	(IN MILLIONS)	
<S>	<C>	<C>
Interest expense on historical debt(1).....	\$ (68)	\$ (133)
Interest expense on the new securities(2)....	39	78
Interest expense on Packaging's new credit facilities(3).....	37	75
Amortization of debt financing costs(4).....	4	7
	----	----
Adjustment to interest expense.....	\$ 12	\$ 27
	=====	=====

</TABLE>

-----

(1) Weighted average outstanding debt and average annual effective interest rates were \$1,836 million and 7.3% for the six months ended June 30, 1999, and \$1,900 million and 7.0% for the year ended December 31, 1998.

(2) Weighted average outstanding debt and average annual effective interest rate for the new securities were assumed to be

approximately \$980 million and 7 3/4% for the six months ended June 30, 1999 and the year ended December 31, 1998.

(3) Weighted average outstanding debt and average annual effective rate for Packaging's new credit facilities were assumed to be \$1,187 million and 6 1/4% for the six months ended June 30, 1999 and the year ended December 31, 1998.

(4) Represents the amortization of deferred debt financing costs.

A 1/8% change in the assumed interest rates would change annual pro forma interest expense by approximately \$3 million, before the effect of income taxes.

(g) To reflect the income tax expense effects of pro forma adjustments at an assumed statutory tax rate of 40%.

SUPPLEMENTAL FINANCIAL INFORMATION

RESULTS OF OPERATIONS

Packaging's historical and pro forma earnings before interest expense, income taxes, and minority interest ("EBIT") are shown in the following table:

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
	(MILLIONS)	
<S>	<C>	<C>
Historical EBIT.....	\$283	\$144
Pro forma EBIT.....	\$288	\$147

</TABLE>

These historical and pro forma results include certain items that Packaging believes require additional explanation. These items include costs which Tenneco incurred at the corporate level but did not fully allocate to its operating divisions, such as administrative services, corporate overhead, and costs related to Tenneco's operation as a public company. Because these functions will become part of Packaging following the spin-off, these costs have been included in Packaging's historical and pro forma EBIT. These items also included a restructuring charge recorded in the fourth quarter of 1998. The following information discusses these items in detail and their financial impact on Packaging's EBIT.

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31, 1998	SIX MONTHS ENDED JUNE 30, 1999
	(MILLIONS)	
<S>	<C>	<C>
- Restructuring charge -- Packaging recorded a restructuring charge in the fourth quarter of 1998 designed to reduce administrative and operational costs. Refer to Note 4, "Restructuring and Other Charges," on page F-14 of The Combined Financial Statements of the Businesses of Tenneco Packaging for further information.....	\$32	\$29
- Restructuring savings -- The portion of the		

restructuring plan designed to reduce operational costs is expected to result in lower costs of sales. See "Restructuring and Other Charges" in Packaging's Management's Discussion and Analysis for a discussion of expected savings from restructuring.....	\$13	\$ 6
- Corporate overhead reductions -- Packaging's smaller, less complex corporate structure is expected to result in corporate overhead costs that are lower by approximately \$12 million than Tenneco incurred historically. Also, Packaging's EBIT includes costs associated with Tenneco's administrative services operations. Although the administrative services operations provide a number of services to Tenneco's operating units, some of these corporate level costs were not previously allocated to Tenneco's operating segments. Had all the administrative services operations costs been allocated based on a usage charge, Packaging estimates that approximately \$28 million would have been billed to Automotive. See page F-11, "General and Administrative Expenses" in Note 3 to the Combined Financial Statements of the Businesses of Tenneco Packaging.....	\$40	\$20

</TABLE>

COMBINED SELECTED FINANCIAL DATA

The following combined selected financial data as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997, and 1996, were derived from the audited Combined Financial Statements of The Businesses of Tenneco Packaging. The following combined selected financial data as of December 31, 1996, 1995, and 1994, and for the years ended December 31, 1995 and 1994, are unaudited and were derived from Tenneco's accounting records. The following combined selected financial data as of and for each of the six months ended June 30, 1999 and 1998 were derived from the unaudited Combined Financial Statements of The Businesses of Tenneco Packaging.

In the opinion of Packaging's management, the combined selected financial data of Packaging as of December 31, 1996, 1995, and 1994, and for the years ended December 31, 1995 and 1994, and as of and for the six months ended June 30, 1999 and 1998, include all adjusting entries, consisting only of normal recurring adjustments, necessary to present fairly the information set forth. You should not regard the results of operations for the six months ended June 30, 1999 as indicative of the results that may be expected for the full year.

There is other information Packaging believes is relevant to understanding its results of operations following the spin-off. These items relate to corporate overhead incurred by Tenneco and its administrative services operations that Packaging expects will differ following the spin-off. For further information you should see "Supplemental Financial Information" included elsewhere in this document. You should read all of this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Combined Financial Statements of the Businesses of Tenneco Packaging, and related notes, included elsewhere in this document.

<TABLE>  
<CAPTION>

	Years Ended December 31,				
	1998 (a)	1997 (a)	1996 (a)	1995	1994
	-----	-----	-----	----	----
	(Dollars in millions except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENTS OF INCOME					
DATA (b):					
Net sales and operating revenues --					
Specialty.....	\$ 2,785	\$ 2,553	\$ 1,987	\$ 845	\$ 636
Other.....	6	10	--	--	--
	-----	-----	-----	-----	-----
Total.....	\$ 2,791	\$ 2,563	\$ 1,987	\$ 845	\$ 636

Income from continuing operations before interest expense, income taxes, and minority interest --					
Specialty.....	\$ 328	\$ 308	\$ 249	\$ 39	\$ 68
Other(c).....	(45)	(2)	(15)	(6)	17
Total.....	283	306	234	33	85
Interest expense(d).....	133	124	102	91	48
Income tax expense (benefit).....	67	75	67	(3)	19
Minority interest.....	1	1	--	--	--
Income (loss) from continuing operations...	82	106	65	(55)	18
Income (loss) from discontinued operations, net of income tax(e)....	57	21	71	224	75
Extraordinary loss, net of income tax(f).....	--	--	(2)	--	--
Cumulative effect of changes in accounting principles, net of income tax(g).....	--	(38)	--	--	--
Net income (loss).....	\$ 139	\$ 89	\$ 134	\$ 169	\$ 93

(continued on next page)

<CAPTION>

Six Months  
Ended  
June 30,

1999(a)      1998(a)

(Dollars in millions except per share amounts)

<S>

STATEMENTS OF INCOME

DATA(b):

Net sales and operating revenues --

Specialty.....	\$ 1,404	\$ 1,361
Other.....	--	10
Total.....	\$ 1,404	\$ 1,371

Income from continuing operations before interest expense, income taxes, and minority interest --

Specialty.....	\$ 190	\$ 175
Other(c).....	(46)	(2)

Total.....	144	173
Interest expense(d).....	68	67
Income tax expense (benefit).....	24	37
Minority interest.....	--	--

Income (loss) from continuing operations... 52      69

Income (loss) from discontinued operations, net of income tax(e).... (163)      37

Extraordinary loss, net of income tax(f)..... (7)      --

Cumulative effect of changes in accounting principles, net of income tax(g)..... (32)      --

Net income (loss)..... \$ (150)      \$ 106

</TABLE>

<TABLE>  
<CAPTION>

	Years Ended December 31,				
	1998 (a)	1997 (a)	1996 (a)	1995	1994
	(Dollars in millions except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Average number of shares of common stock outstanding (h) --					
Basic.....	168,505,573	170,264,731	169,609,373	172,764,198	162,307,189
Diluted.....	168,834,531	170,801,636	170,526,112	173,511,654	162,912,425
Earnings (loss) per average share of common stock (h) --					
Basic:					
Continuing operations... Discontinued operations (e).....	\$ .49	\$ .63	\$ .38	\$ (.32)	\$ .11
Extraordinary loss (f)...	--	--	(.01)	--	--
Cumulative effect of changes in accounting principles (g).....	--	(.23)	--	--	--
	=====	=====	=====	=====	=====
	\$ .83	\$ .52	\$ .79	\$ .98	\$ .57
Diluted:					
Continuing operations... Discontinued operations (e).....	\$ .49	\$ .63	\$ .38	\$ (.32)	\$ .11
Extraordinary loss (f)...	--	--	(.01)	--	--
Cumulative effect of changes in accounting principles (g).....	--	(.23)	--	--	--
	=====	=====	=====	=====	=====
	\$ .83	\$ .52	\$ .79	\$ .97	\$ .57
BALANCE SHEET DATA (b):					
Net assets of discontinued operations (e).....	\$ 366	\$ 423	\$ 459	\$ 393	\$ 236
Total assets.....	4,798	4,618	4,028	3,358	1,630
Short-term debt (d).....	595	158	123	205	49
Long-term debt (d).....	1,312	1,492	1,073	880	478
Debt allocated to discontinued operations (d).....	548	473	394	369	285
Minority interest.....	14	15	--	--	--
Combined equity.....	1,776	1,839	1,843	1,531	703
STATEMENT OF CASH FLOWS DATA (b):					
Net cash provided (used) by operating activities.....	\$ 577	\$ 405	\$ 263	\$ 479	\$ 283
Net cash provided (used) by investing activities.....	(514)	(654)	(669)	(1,791)	(146)
Net cash provided (used) by financing activities.....	(67)	239	399	1,327	(142)
Capital expenditures for continuing operations...	(194)	(229)	(216)	(265)	(134)
OTHER DATA:					
EBITDA (i).....	\$ 458	\$ 469	\$ 365	\$ 78	\$ 121
Ratio of earnings to fixed charges (j).....	1.99	2.31	2.15	NM	1.72

<CAPTION>

	Six Months Ended June 30,	
	1999 (a)	1998 (a)
	(Dollars in millions except per share amounts)	
<S>	<C>	<C>
Average number of shares of common stock outstanding (h) --		
Basic.....	166,937,362	169,341,555

Diluted.....	167,319,412	169,936,676
Earnings (loss) per average share of common stock(h) --		
Basic:		
Continuing operations...	\$ .31	\$ .41
Discontinued operations(e).....	(.98)	.22
Extraordinary loss(f)...	(.04)	--
Cumulative effect of changes in accounting principles(g).....	(.19)	--
	-----	-----
	\$ (.90)	\$ .63
	=====	=====
Diluted:		
Continuing operations...	\$ .31	\$ .41
Discontinued operations(e).....	(.98)	.22
Extraordinary loss(f)...	(.04)	--
Cumulative effect of changes in accounting principles(g).....	(.19)	--
	-----	-----
	\$ (.90)	\$ .63
	=====	=====

BALANCE SHEET DATA (b):

Net assets of discontinued operations(e).....	\$ 133	\$ 382
Total assets.....	4,486	4,788
Short-term debt(d).....	367	335
Long-term debt(d).....	1,494	1,488
Debt allocated to discontinued operations(d).....	--	479
Minority interest.....	14	15
Combined equity.....	1,340	1,829

STATEMENT OF CASH FLOWS

DATA (b):

Net cash provided (used) by operating activities.....	\$ (45)	\$ 288
Net cash provided (used) by investing activities.....	(866)	(221)
Net cash provided (used) by financing activities.....	920	(66)
Capital expenditures for continuing operations...	(75)	(101)

OTHER DATA:

EBITDA(i).....	\$ 238	\$ 261
Ratio of earnings to fixed charges(j).....	2.00	2.45

</TABLE>

-----

- (a) For a discussion of the significant items affecting comparability of the financial information for the years ended December 31, 1998, 1997, and 1996, and for the six months ended June 30, 1999 and 1998, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this document.
- (b) During the periods presented, Packaging completed numerous acquisitions, the most significant of which were the acquisitions of Mobil Plastics for \$1.3 billion in late 1995, Amoco Foam Products for \$310 million in August 1996, and the protective and flexible packaging business of N.V. Koninklijke KNP BT for \$380 million in April 1997. See Note 6 to the Combined Financial Statements of The Businesses of Tenneco Packaging. See also, "Business -- Growth Strategy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (c) Income from continuing operations before interest expenses, income taxes and minority interest for "Other" includes costs which were incurred by Tenneco's corporate and administrative services operations which were not allocated to Tenneco's operating segments. Because those functions will be a part of Packaging upon the spin-off, they are included in Packaging's historical

(continued on next page)

combined financial statements. Packaging expects its costs will differ following the spin-off. See "Supplemental Financial Information" included elsewhere in this document for further information.

- (d) Tenneco's historical practice has been to incur indebtedness for its consolidated group at the parent company level or at a limited number of subsidiaries, rather than at the operating company level, and to centrally manage various cash functions. Accordingly, historical amounts include debt and related interest expense allocated to Packaging from Tenneco based on the portion of Tenneco's investment in Packaging which Tenneco deemed to be debt. This allocation is generally based upon the ratio of Packaging's net assets to Tenneco's consolidated net assets plus debt. An allocation of debt and its related interest expense has also been made to Packaging's discontinued operations based on the ratio of the discontinued operations' net assets to Packaging's combined net assets plus debt. Management believes that the historical allocation of corporate debt and interest expense is reasonable. This historical allocation is not, however, indicative of the total amount of debt that Packaging will have upon completion of the debt realignment or of the debt and interest that may be incurred by Packaging as a separate public entity. See the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document.
- (e) Discontinued operations for the periods presented consist of Packaging's paperboard packaging segment, which was discontinued in June 1999 following the decision to sell Packaging's remaining interest in Packaging's containerboard joint venture. Loss from discontinued operations for the six months ended June 30, 1999 included an after-tax loss of \$178 million, or \$1.07 per diluted common share, resulting from the contribution of Packaging's containerboard assets to the joint venture. See Note 7 to the Combined Financial Statements of the Businesses of Tenneco Packaging included elsewhere in this document.
- (f) Represents Packaging's costs related to prepayment of debt. See Note 7 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document.
- (g) In 1999, Packaging implemented the American Institute of Certified Public Accountants Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities." In 1997, Packaging implemented the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract that Combines Business Process Reengineering and Information Technology Transformation." See Note 3 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document for additional information regarding changes in accounting principles.
- (h) In the spin-off, Tenneco stockholders will receive one share of Packaging common stock for each share of Tenneco common stock outstanding. Accordingly, basic and diluted earnings per share for Packaging were calculated using Tenneco's historical weighted average shares outstanding and weighted average shares outstanding adjusted to include estimates of additional shares that would be issued if potentially dilutive common shares had been issued, respectively.
- (i) EBITDA represents income from continuing operations before 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 Combined Statements of Income of The Businesses of Tenneco Packaging included elsewhere in this document. EBITDA should not be considered as an alternative to net income or operating income as an indicator of the operating performance of Packaging, or as an alternative to operating cash flows as a measure of liquidity. Packaging has reported EBITDA because it believes EBITDA is a measure commonly reported and widely used by investors and other interested parties as an indicator of a company's ability to incur and service debt. Packaging believes 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 accounting methods (particularly when acquisitions are involved) or nonoperating 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.

(j) For purposes of computing this ratio, earnings generally consist of income from continuing operations before income taxes and fixed charges, excluding capitalized interest. Fixed charges consist of interest expense, the portion of rental expense considered representative of the interest factor and capitalized interest. The historical ratios are based upon the amount of interest expense on corporate debt allocated to Packaging by Tenneco as discussed in (d) above. For the year ended December 31, 1995, earnings were inadequate to cover fixed charges by \$59 million.

41

51

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review of Packaging's financial condition and results of operations should be read in conjunction with the Combined Financial Statements of The Businesses of Tenneco Packaging, and the related notes, presented on pages F-1 through F-31. Packaging includes the assets, liabilities and operations of Tenneco's specialty packaging and paperboard packaging businesses as well as Tenneco's corporate and administrative service operations.

#### STRATEGIC ALTERNATIVES ANALYSIS

In July 1998, Tenneco's Board of Directors authorized management to develop a broad range of strategic alternatives which could result in the separation of the automotive, paperboard packaging, and specialty packaging businesses. As part of that strategic alternatives analysis, Tenneco has taken the following actions:

- In January 1999, Packaging reached an agreement to contribute the containerboard assets of its paperboard packaging segment to a new joint venture with an affiliate of Madison Dearborn Partners, Inc. The contribution to the joint venture was completed in April 1999. Packaging received consideration of cash and debt assumption totaling approximately \$2 billion and a 45 percent common equity interest in the joint venture valued at approximately \$200 million. Packaging now owns a 43 percent common equity interest due to subsequent management equity issuances.
- In April 1999, Packaging reached an agreement to sell the paperboard packaging segment's other assets, its folding carton operation, to Carastar Industries. This transaction closed in June 1999.
- Also in April 1999, Tenneco announced that its Board of Directors had approved the separation of its automotive and packaging businesses into two separate, independent companies.
- In June 1999, Tenneco's Board of Directors approved a plan to sell Packaging's remaining interest in its containerboard joint venture. Packaging expects the sale to be completed before the spin-off discussed below.

The containerboard assets contributed to the new joint venture represented substantially all of the assets of Packaging's paperboard packaging segment and included four mills, 67 corrugated products plants, and an ownership or leasehold interest in approximately 950,000 acres of timberland. Before to the transaction, Packaging borrowed approximately \$1.8 billion and used approximately \$1.2 billion of those borrowings to acquire assets used by the containerboard business under operating leases and timber cutting rights and to purchase containerboard business accounts receivable that had previously been sold to a third party. The remainder of the borrowings was remitted to Tenneco and used to repay a portion of short-term debt. Packaging then contributed the containerboard business assets, subject to the new indebtedness and the containerboard business liabilities, to the joint venture in exchange for \$247 million in cash and the 45 percent interest in the joint venture. As a result of the sale transaction, Packaging recognized a pre-tax loss of \$293 million (\$178 million after-tax, or \$1.07 per diluted common share). This loss was included in discontinued operations in the first quarter of 1999.

As a result of the decision to sell Packaging's remaining interest in the containerboard joint venture, Packaging's paperboard packaging segment is presented as a discontinued operation in the Combined Financial Statements of



The Businesses of Tenneco Packaging contained elsewhere in this document. Refer to Note 7 for further information.

The separation of Tenneco's automotive and packaging businesses will be accomplished by the spin-off of the common stock of Packaging to Tenneco shareholders. At the time of the spin-off, Packaging will include Tenneco's specialty packaging business ("Specialty"), Tenneco's administrative services operations, and the remaining interest in the containerboard joint venture if the sale has not been completed. Tenneco and Packaging are, however, currently analyzing the alternatives with respect to the administrative services operations.

42

52

Before the spin-off, Tenneco will realign substantially all of its existing debt through some combination of tender offers, exchange offers, prepayments and other refinancings. See "The Spin-off -- Debt Realignment." Tenneco currently expects that, subject to discussions with debt rating agencies, Packaging's debt will be rated investment grade and Automotive's debt will be rated non-investment grade.

The spin-off is subject to various conditions, as described under "The Spin-off -- Conditions to the Spin-off."

#### RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of 1998, Tenneco's Board of Directors approved an extensive restructuring plan designed to reduce administrative and operational overhead costs in every part of Tenneco's business. As a result, Packaging recorded a pre-tax charge to income from continuing operations of \$32 million (\$20 million after-tax or \$.12 per diluted common share). Of the pre-tax charge, \$10 million relates to operational restructuring plans and \$22 million relates to a staff and cost reduction plan.

The operational restructuring plans provide for Packaging to eliminate production lines at two plants, exit four joint ventures, and eliminate 104 positions. The staff and cost reduction plan for Packaging involves the elimination of 184 administrative positions in Packaging's business operations and in Packaging's corporate operations including Tenneco's corporate operations that will become a part of Packaging in connection with the spin-off.

The fixed assets for the production lines to be eliminated, as well as the joint venture investments, were written down to their fair value, less costs to sell, in the fourth quarter of 1998. Fair value for the production lines was estimated at scrap value less removal costs. Fair value for the joint ventures was determined to be zero as Packaging is relinquishing its interests in the ventures. No significant net cash proceeds are expected to be received from the ultimate disposal of these assets, which should be complete by the fourth quarter of 1999. The effect of suspending depreciation for the production lines is approximately \$1 million on an annual basis.

As of December 31, 1998 and June 30, 1999, approximately 158 and 233 employees, respectively, had been terminated. This restructuring is being executed according to Packaging's initial plan and Packaging expects to complete all restructuring actions by the fourth quarter of 1999.

In the first quarter of 1999, in connection with Packaging's contribution of its containerboard assets to a new joint venture, Tenneco adopted a plan to realign its headquarters functions that will become a part of Packaging in connection with the spin-off. This plan involves the severance of approximately 40 employees, and the closing of the Greenwich, Connecticut headquarters facility. Tenneco reached an agreement to sell its headquarters facility in Greenwich, and recorded an impairment charge in the first quarter of 1999, based on the selling price less costs to sell. The carrying value of the facility before the impairment was \$43 million. Annual depreciation will be reduced by \$3 million as a result of the sale. The charge for this plan was recorded in Packaging's corporate operations in the amount of \$29 million pre-tax, \$17 million after-tax, or \$.10 per diluted common share. Packaging collected approximately \$30 million in the second quarter of 1999 related to the sale of these assets.

Amounts related to the restructuring plans described above are shown in the following table:

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 1999							
	1998 RESTRUCTURING CHARGE	CASH PAYMENTS	CHARGED TO ASSET ACCOUNTS	BALANCE AT DECEMBER 31, 1998	RESTRUCTURING CHARGE	CASH PAYMENTS	CHARGED TO ASSET ACCOUNTS	BALANCE AT JUNE 30, 1999
	(MILLIONS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Severance.....	\$20	\$5	\$--	\$15	\$16	\$12	\$--	\$19
Asset impairments.....	12	--	12	--	13	--	13	--
	---	--	---	---	---	--	---	---
	\$32	\$5	\$12	\$15	\$29	\$12	\$13	\$19
	===	==	===	===	===	==	===	===

</TABLE>

43

53

Packaging expects to realize annual savings of \$13 million related to the operational restructuring plans and \$40 million related to the fourth quarter 1998 staff and cost reduction plan. In addition, Packaging expects to realize annual savings of \$11 million related to its plan to realign its headquarters functions. These annual savings will be fully realized upon completion of the restructuring actions in the fourth quarter of 1999.

SIX MONTHS ENDED JUNE 30, 1999 AND 1998

RESULTS OF CONTINUING OPERATIONS

Net Sales and Operating Revenues

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		
	1999	1998	% CHANGE
	(MILLIONS)		
<S>	<C>	<C>	<C>
Specialty.....	\$1,404	\$1,361	3%
Intergroup sales and other.....	--	10	NM
	-----	-----	
	\$1,404	\$1,371	2%
	=====	=====	

</TABLE>

Packaging's revenue in its specialty segment increased by 3 percent over the first half of 1998. The second half 1998 acquisitions of Sentinel and Champion International's Belvidere, Illinois dual-ovenable paperboard tray manufacturing facility generated \$21 million of the revenue increase. Lower prices due to lower raw material costs were offset by overall unit volume growth of 8 percent. The largest increases were in North American protective packaging, Hefty OneZip(R) bags, foodservice containers, disposable tableware and industrial products.

Income Before Interest Expense, Income Taxes and Minority Interest  
("Operating Income")

<TABLE>  
<CAPTION>

SIX MONTHS ENDED JUNE 30,

	1999	1998	% CHANGE
(MILLIONS)			
<S>	<C>	<C>	<C>
Specialty.....	\$ 190	\$ 175	9%
Other.....	(46)	(2)	NM
	\$ 144	\$ 173	(17%)

</TABLE>

Packaging's operating income in its specialty segment increased by \$15 million over the comparable period of 1998. The second half 1998 acquisitions of Sentinel and Champion International's Belvidere, Illinois dual-ovenable paperboard tray manufacturing facility produced \$4 million of operating income during the first half of 1999. First half operating income also reflected \$5 million of non-recurring Year 2000 and systems implementation costs, and \$3 million of overhead costs related to the separation of the paperboard segment. Adjusting for these two items, Specialty Packaging's operating income improved by 13 percent. This improvement was driven by lower manufacturing costs and strong unit volumes, partially offset by lags in passing through rising raw material costs.

Packaging's "Other" operating loss for both periods reflects unallocated corporate overhead and costs at Packaging's data center and administrative services operations. In addition, the first half of 1999 includes a \$29 million charge recorded in the first quarter to realign Tenneco's headquarters functions as discussed above in the " Restructuring and Other Charges" section.

Operating Income as a Percentage of Revenue

Operating income as a percentage of revenue for the first six months of 1999 and 1998 were as follows:

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		
	1999	1998	% CHANGE
<S>	<C>	<C>	<C>
Specialty.....	13.5%	12.9%	5%
Total.....	10.3%	12.6%	(18%)

</TABLE>

Specialty's operating income as a percentage of revenue increased as the operating income of the segment grew at three times the rate of revenue growth. On a consolidated basis, total operating income as a percentage of revenue declined as the operating income decreased 17 percent while revenue grew 2 percent.

Excluding the first quarter 1999 restructuring charge, operating income as a percentage of revenue was as follows:

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		
	1999	1998	% CHANGE
<S>	<C>	<C>	<C>
Specialty.....	13.5%	12.9%	5%

Total..... 12.3% 12.6% (2%)  
</TABLE>

#### Interest Expense (net of interest capitalized)

Interest expense for the first half of 1999 was even with the first half of 1998. Tenneco's historical practice has been to incur indebtedness for its consolidated group at the parent company level or at a limited number of subsidiaries. Accordingly, interest expense in each period includes an allocation of interest on Tenneco corporate debt. This allocation was based, in general, on the ratio of Packaging's net assets to Tenneco's consolidated net assets plus debt. See Note 5 to the Combined Financial Statements of The Businesses of Tenneco Packaging for a further discussion of the allocation of Tenneco consolidated debt and interest expense to Packaging.

#### Income Taxes

Packaging's effective tax rate for the first half of 1999 was 31 percent, compared to 35 percent in last year's period.

#### DISCONTINUED OPERATIONS AND EXTRAORDINARY CHARGE

Loss from discontinued operations in the first half of 1999 was \$163 million, net of an income tax benefit of \$102 million, or \$.98 per diluted common share. This included a loss on the contribution of the containerboard assets of \$178 million, net of an income tax benefit of \$115 million, or \$1.07 per diluted common share.

Discontinued operations generated income of \$37 million, net of income tax expense of \$25 million, or \$.22 per diluted common share, during the first half of 1998.

The current year's first six months also includes an extraordinary charge to cover the cost of early retirement of debt in connection with the contribution of the containerboard assets of \$7 million, net of income tax expense of \$4 million, or \$.04 per diluted common share.

See Note 7 to the Combined Financial Statements of The Businesses of Tenneco Packaging for a further discussion of discontinued operations.

#### OUTLOOK

See "Summary -- Recent Developments" for information concerning Packaging's expectations for third quarter 1999 results of operations.

#### CHANGES IN ACCOUNTING PRINCIPLES

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which establishes new accounting and reporting standards for the costs of computer software developed or obtained for internal use. This statement requires prospective application, for fiscal years beginning after December 15, 1998. Packaging adopted SOP 98-1 on January 1, 1999. The impact of this new standard did not have a significant effect on Packaging's financial position or results of operations.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities," which requires costs of start-up activities to be expensed as incurred. This statement was effective for fiscal years beginning after December 15, 1998. This statement requires previously capitalized costs related to start-up activities to be expensed as a cumulative effect of a change in accounting principle when the statement is adopted. Packaging previously

capitalized costs related to the start-up of new foreign operations and its administrative service operations. Packaging adopted SOP 98-5 on January 1, 1999, and recorded an after-tax charge for the cumulative effect of this change in accounting principle upon adoption of \$32 million, net of a \$9 million tax benefit, or \$.19 per diluted common share. The change in accounting principle decreased the loss before cumulative effect of change in accounting principle by \$4 million, net of \$2 million in income tax expense, or \$.02 per diluted common share, for the six months ended June 30, 1999. If the new accounting method had been applied retroactively, net income for the six months ended June 30, 1998, and the years ended December 31, 1998, 1997, and 1996, would have been lower by \$7 million, net of a \$5 million income tax benefit, or \$.04 per diluted common share, \$14 million, net of an \$8 million tax benefit, or \$.08 per diluted common share, \$7 million, net of a \$3 million tax benefit, or \$.04 per diluted common share, and \$7 million, net of a \$4 million tax benefit, or \$.04 per diluted share, respectively.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes new accounting and reporting standards requiring that all derivative instruments, including derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. This statement cannot be applied retroactively and is effective for all fiscal years beginning after June 15, 2000. Packaging is currently evaluating the new standard but has not yet determined the impact it will have on its financial position or results of operations.

#### EARNINGS PER SHARE

Packaging's income from continuing operations was \$.31 per diluted common share for the first half of 1999, compared to \$.41 per diluted common share for last year's first half. All references to earnings per share in this Management's Discussion and Analysis of Financial Condition and Results of Operations are on a diluted basis unless otherwise noted. The current year's period also included a loss from discontinued operations of \$.98 per diluted common share, a \$.04 per share extraordinary loss on early retirement of debt in connection with the contribution of the containerboard assets, and \$.19 per diluted common share of charges related to the cumulative effect of changes in accounting principles noted above. First half 1998 included \$.22 per diluted common share of income from discontinued operations. Net income per diluted common share was \$.63 in the first half of 1998, as compared to a loss of \$.90 per diluted common share in this year's period.

46

56

#### LIQUIDITY AND CAPITAL RESOURCES

##### Capitalization

<TABLE>

<CAPTION>

	JUNE 30, 1999	DECEMBER 31, 1998	% CHANGE
	-----	-----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Short-term debt and current maturities.....	\$ 367	\$ 595	
Long-term debt.....	1,494	1,312	
Debt allocated to discontinued operations.....	--	548	
	-----	-----	---
Total debt.....	1,861	2,455	(24%)
Minority interest.....	14	14	--%
Combined equity.....	1,340	1,776	(25%)
	-----	-----	
Total capitalization.....	\$3,215	\$4,245	(24%)
	=====	=====	

</TABLE>

Packaging's debt to total capitalization ratio was 57.8 percent at both June 30, 1999, and December 31, 1998. Debt allocated from Tenneco to Packaging declined due to the contribution by Packaging of its containerboard assets to the joint venture.

Equity declined primarily as a result of the net loss for the first six months, which included the loss on the containerboard assets as well as the charge associated with the plan to realign the Greenwich, Connecticut headquarters facility. See the Statements of Changes in Combined Equity in the Combined Financial Statements of The Businesses of Tenneco Packaging contained elsewhere in this document for a description of factors affecting equity.

In June 1999, Tenneco's Board of Directors approved a plan to sell Packaging's remaining interest in its containerboard joint venture. Packaging expects the sale to be completed before the spin-off, with the net proceeds used to retire Tenneco debt that would otherwise be allocated to Packaging in the debt realignment. If the sale occurs after the spin-off, the net proceeds will be used to retire Packaging debt.

#### Cash Flows

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
	----	----
	(MILLIONS)	
<S>	<C>	<C>
Cash provided (used) by:		
Operating activities.....	\$ (45)	\$ 288
Investing activities.....	(866)	(221)
Financing activities.....	920	(66)

</TABLE>

Cash flow provided by continuing operating activities declined by \$163 million for the first six months of 1999 compared to the same period in 1998, primarily due to higher working capital levels. This was mainly attributable to higher receivables, lower payables and a seasonal build in inventories during the 1999 period.

Cash flow from Tenneco's discontinued paperboard operations declined by \$170 million in the first six months of 1999 compared to the 1998 period. This is primarily attributable to the purchase of containerboard business accounts receivable in contemplation of the contribution of the containerboard business to the joint venture in April 1999. Additionally, lower linerboard and medium prices resulted in lower operating cash flow for the containerboard business.

Excluding the effects of the discontinued paperboard operations, cash used by investing activities was lower during the first six months of 1999 by \$127 million compared to the first six months of 1998. Reduced capital spending, lower systems related expenditures and lower acquisition activity contributed to the decline.

As described above, Packaging borrowed approximately \$1.8 billion in the second quarter in connection with the formation of the containerboard joint venture and used approximately \$1.2 billion of

that amount to purchase leased assets and timber cutting rights of that business. The remaining proceeds of these borrowings, plus additional cash proceeds of approximately \$306 million from the containerboard and folding carton transactions, were used to retire Tenneco's short-term debt in the second quarter. Accordingly, absent the borrowings described above, cash used by

financing activities was \$840 million for the first six months of 1999.

Packaging contributed the containerboard business to the new joint venture subject to the approximately \$2.2 billion in new debt. The debt reduction which resulted from this contribution is shown on the statements of cash flows as a non-cash financing activity.

#### Capital Commitments

Packaging estimates that expenditures aggregating approximately \$110 million will be required after December 31, 1998, to complete facilities and projects authorized at that date, and substantial commitments have been made in connection with those projects.

#### Liquidity

Historically, Packaging's excess net cash flows from operating and investing activities have been used by its parent, Tenneco, to meet consolidated debt and other obligations. Conversely, when Packaging's cash requirements have been in excess of cash flows from operations, Tenneco has utilized its consolidated credit facilities to fund Packaging's obligations. Also, depending on market and other conditions, Packaging has utilized external sources of capital to meet specific funding requirements. Packaging's management believes that, after the spin-off, Packaging's cash flows from operations combined with available borrowing capacity under the new credit facilities described below, will generally be sufficient to meet its future capital requirements for the following year.

As described under "The Spin-Off-Debt Realignment," Tenneco intends to realign its debt before the spin-off. As part of this debt realignment, Packaging will (1) issue new public debt securities in exchange for certain outstanding series of Tenneco's public debt and (2) make new borrowings under new credit facilities to be entered into in connection with the spin-off. Cash proceeds will be remitted to Tenneco to fund the debt realignment.

Definitive agreements for these financings are being negotiated and have not been completed. Accordingly, the terms of such arrangements described below are preliminary and may change as a result of the negotiation of definitive agreements. In addition, funding under the financings described below will be subject to the satisfaction of numerous conditions.

The terms of the new public debt securities will be substantially identical to the terms of the corresponding series of Tenneco's original securities for which they are exchanged, except that (1) Packaging will be the issuer and (2) the interest rates will be different. The terms of the new securities will not restrict Packaging's ability to make dividends or capital expenditures or incur additional unsecured debt.

In addition, Packaging intends to enter into a five year \$750 million long-term revolving credit facility and a \$250 million 364-day revolving credit facility in connection with the spin-off. Initial borrowings under these facilities will be used to fund a portion of the debt realignment. After the spin-off, additional borrowings may be used for general corporate purposes. Although the terms of these facilities have not been finalized, Packaging does not expect these facilities to include any general restrictions on its ability to pay dividends or make capital expenditures, although they may include limitations on incurring liens, or incurring debt and guarantee obligations at the subsidiary level. Packaging does expect, however, that these facilities will require it to comply with specified financial ratios, as well as other customary covenants and agreements. Borrowings under these facilities are expected to bear interest at a floating rate based on LIBOR, adjusted for reserve requirements, plus a specified margin or based on a specified prime or reference rate plus a specified margin, at Packaging's option. Borrowings under these facilities may also bear interest based on competitive bids.

A lender has committed to provide Packaging up to \$1.5 billion of term loan financing, which Packaging intends to use in the event it does not sell its containerboard joint venture interest before the spin-off, for general corporate and other purposes. Although the terms of this financing have not been finalized, Packaging expects that borrowings under this facility would be due 18 months after funding and bear interest at a floating rate based on LIBOR, adjusted for reserve requirements, plus a specified margin or based on a specified prime or reference rate plus a specified margin, at Packaging's option. Packaging expects this financing would include covenants similar to those described above for the revolving credit facilities. See "Capitalization and Financing -- Financing" for further information.

Before the spin-off Packaging expects to enter into a \$175 million syndicated lease facility with a third party lessor and various lenders, the proceeds of which will be used to restructure or replace certain existing operating leases and public warehouse arrangements and to facilitate additional leasing arrangements for other operating facilities. Packaging expects that the syndicated lease facility will contain customary terms and conditions, including a residual value guarantee, default provisions and financial covenants.

#### ENVIRONMENTAL MATTERS

Packaging and a number of its subsidiaries and affiliates are parties to environmental proceedings. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. All available evidence is considered including prior experience in remediation of contaminated sites, other companies' clean-up experience and data released by the United States Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new information. These liabilities are included in the combined balance sheet at their undiscounted amounts. Recoveries are evaluated separately from the liability and, when assured, are recorded and reported separately from the associated liability in the combined financial statements.

As of July 1, 1999, Packaging has been designated as a potentially responsible party at three Superfund sites and it has estimated its share of the liability at these sites to be approximately \$2 million in the aggregate. In addition, Packaging also may have liability to remediate several current or former facilities and it has estimated its share of the remediation costs at these facilities to be approximately \$4 million in the aggregate. For both the Superfund sites and its current and former facilities, Packaging has established reserves that it believes are adequate for these costs. Although Packaging believes its estimates of remediation costs are reasonable and based on the latest information, the clean-up costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At certain sites, Packaging expects that other parties will contribute to the remediation costs. In addition, at the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that Packaging's liability could be joint and several meaning that Packaging could be required to pay in excess of its share of remediation costs. Packaging's understanding of the financial strength of other potentially responsible parties at both the Superfund sites and at its current and former facilities has been considered, where appropriate, in Packaging's determination of its estimated liability. Packaging believes that any adjustment to the costs associated with its current status as a potentially responsible party at the Superfund sites or as a liable party at its current or former facilities will not be material to its consolidated financial position or results of operations.

Packaging estimates that its capital expenditures for environmental matters for 1999 and 2000 will not be material.



## Foreign Currency Exchange Rate Risk

Packaging currently manages its exposure to changes in foreign currency rates by making loans with a Tenneco affiliate in the functional currency of the operating company concerned. The Tenneco affiliate then integrates all of Tenneco's foreign currency denominated intercompany loans and enters into foreign currency forward purchase and sale contracts to mitigate its net exposure to changes in foreign exchange rates. This reduces Packaging's need to enter into forward contracts with third parties. Packaging expects that, following the spin-off, its use of foreign currency forward purchase and sale contracts will increase.

Additionally, Packaging from time to time enters into foreign currency forward purchase and sale contracts to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. Packaging does not currently enter into derivative financial instruments for speculative purposes.

The administration of these activities is concentrated at a London-based Tenneco affiliate. This affiliate enters into forward purchase and sell contracts with Tenneco's operating divisions to hedge the divisions' exposure to changes in foreign currency exchange rates. The affiliate then enters into contracts with third parties to hedge Tenneco's consolidated exposure. At December 31, 1998, Packaging had purchase contracts with this affiliate of approximately one million dollars, primarily in U.S. dollars, and sell contracts of approximately one million dollars, primarily in British pounds. At December 31, 1997, Packaging had purchase contracts of approximately two million dollars, primarily in Belgian francs and German marks, and sell contracts of approximately two million dollars, primarily in British pounds and French francs. Packaging's purchase and sell contracts as of June 30, 1999 and December 31, 1998 were not materially different.

## Interest Rate Risk

Tenneco's historical practice has been to incur indebtedness for its consolidated group at the parent company level or at a limited number of subsidiaries. Tenneco's financial instruments that are sensitive to market risk for changes in interest rates are its debt securities. Tenneco primarily uses commercial paper to finance its short-term capital requirements. Since commercial paper generally matures in three months or less, Tenneco pays a current market rate of interest on these borrowings. Tenneco finances its long-term capital requirements with long-term debt with original maturity dates ranging up to 30 years. All of Tenneco's existing long-term debt obligations have fixed interest rates. Consequently, Tenneco is not exposed to cash flow or fair value risk from market interest rate changes on its long-term debt portfolio.

Packaging's interest expense in each period includes an allocation of interest on Tenneco corporate debt. The allocated interest expense carries with it exposure to Tenneco's interest rate risk. The table below provides information about Tenneco's financial instruments that are sensitive to interest rate risk as of December 31, 1998.

	Estimated Maturity Dates						Total (b)	Fair Value at December 31, 1998 (a)
	1999	2000	2001	2002	2003	THEREAFTER		
	(Millions Except Effective Interest Rates)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Short-term (excluding current maturities).....	\$821	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 821	\$ 821
Average effective interest rate.....	5.9%	--%	--%	--%	--%	--%		
Long-term debt (including current maturities).....	\$250	\$ 10	\$187	\$498	\$ 7	\$1,583	\$2,535	\$2,606
Average effective interest rate.....	6.4%	12.0%	6.8%	6.8%	11.2%	7.6%		

&lt;/TABLE&gt;

(a) Fair value of short-term debt was considered to be the same as or was not determined to be materially different from the carrying amount. The fair value of fixed-rate long term debt was generally based on the market value of Tenneco debt offered in open market exchanges at December 31, 1998.

(b) At December 31, 1998, short-term and long-term Tenneco debt allocated to Packaging was \$583 million and \$1,291 million, respectively. Corporate debt allocated to Packaging's discontinued operations was \$548 million at December 31, 1998.

Tenneco's financial instruments that are sensitive to interest rate risk as of June 30, 1999 are not materially different from the table presented above. In connection with the debt realignment, Packaging will enter into a new credit facility which will be subject to interest rate risks.

In connection with the spin-off, the above described instruments, which are sensitive to interest rate risk, are expected to be refinanced.

The statements and other information, including the tables, in this "Derivative Financial Instruments" section constitute "forward-looking statements."

#### YEAR 2000

Many computer software systems, as well as some hardware and equipment utilizing date-sensitive data, were designed to use a two-digit date field. Consequently, these systems, hardware and equipment will not be able to properly recognize dates beyond the year 1999 (the "Year 2000 issue"). Packaging's significant technology transformation projects have addressed the Year 2000 issue in those areas where replacement systems are being installed for other business reasons. Where existing systems and equipment are expected to remain in place beyond 1999, Packaging has a detailed process in place to identify and assess Year 2000 issues and to remediate, replace or establish alternative procedures addressing non-Year 2000 compliant systems, hardware and equipment.

Packaging has substantially completed inventorying its systems and equipment, including computer systems and business applications, as well as date-sensitive technology embedded in its equipment and facilities. Packaging continues to plan for and undertake remediation, replacement or establishment of alternative procedures for non-compliant Year 2000 systems and equipment; and test remediated, replaced or alternative procedures for systems and equipment.

Packaging believes that approximately 70 percent of its major business applications systems and approximately 90 percent of its manufacturing equipment had achieved Year 2000 compliance as of June 30, 1999. Packaging has confirmed that none of its products are date-sensitive. Remediation, replacement or establishment of alternative procedures for systems and equipment have been and are being undertaken on a business priority basis. This is ongoing and was completed at some locations in 1998 with the remainder expected to be completed through the third quarter of 1999. Testing will occur in the same time frame.

Based upon current estimates, Packaging believes that costs to address Year 2000 issues and implement the necessary changes to its existing systems and equipment, including costs incurred to date, will range from \$25 to \$30 million. As of June 30, 1999, approximately \$17 million of the costs had been incurred. These costs are being expensed as they are incurred, except that in some instances Packaging may determine that replacing existing computer systems or equipment may be more effective and efficient, particularly where additional functionality is available. These replacements would be capitalized and would reduce the estimated expense associated with Year 2000 issues.

Packaging has also contacted its major suppliers, financial institutions, and others with whom it conducts business to determine whether they will be able to resolve in a timely manner Year 2000 problems possibly affecting Packaging. A majority of these entities, including critical suppliers, have responded by advising as to the status of their efforts and by stating that they expect to become Year 2000 compliant in a timely manner. Based on these responses, critical suppliers have been assigned a risk rating. This process is ongoing. Packaging intends to continue corresponding with critical high risk third parties to obtain information and updates on their Year 2000 efforts, and to assess new suppliers, financial institutions and others with whom it begins to conduct business.

If Packaging is unable to complete on a timely and cost-effective basis the remediation or replacement of critical systems or equipment not yet in compliance, or develop alternative procedures, or if those with whom Packaging conducts business are unsuccessful in implementing timely solutions, Year 2000 issues could have a material adverse effect on Packaging's financial condition or results of operations. Possible worst case scenarios include interruptions in Packaging's ability to manufacture its products, process and ship orders, and bill and collect accounts receivable due to internal system failures or the system failures of its suppliers or customers. Packaging believes it will be able to timely resolve its own Year 2000 issues.

As part of its planning and readiness activities, Packaging is developing Year 2000 contingency plans for critical business processes such as banking, data center operations and just-in-time manufacturing operations. Contingency plans are being developed on a business unit basis, where needed, to respond to previously undetected Year 2000 problems and business interruption from suppliers. Contingency plans will include alternative suppliers, as necessary, as well as assuring the availability of key personnel at year end to address unforeseen Year 2000 problems.

Prior to the spin-off, Tenneco's administrative services operation has been assisting both Packaging and Automotive with their Year 2000 remediation, replacement and testing activities. Except for mainframe testing, substantially all of these Year 2000 assistance activities have been completed for Automotive. Shortly after the spin-off, Packaging is scheduled to assist Automotive with the completion of the mainframe testing.

#### EURO CONVERSION

The European Monetary Union resulted in the adoption of a common currency, the "Euro," among eleven European nations. The Euro is being adopted over a three-year transition period beginning January 1, 1999. In October 1997, Tenneco established a cross-functional Euro Committee, comprised of representatives of Tenneco's operational divisions, including Packaging, as well as its corporate offices. That Committee had two principal objectives: (1) to determine the impact of the Euro on Tenneco's business operations; and (2) to recommend and facilitate implementation of those steps necessary to ensure that Tenneco would be fully prepared for the Euro's introduction. As of January 1, 1999, Packaging had implemented those Euro conversion procedures that it had determined to be necessary and prudent to adopt by that date, and is on track to becoming fully "Euro ready" on or before the conclusion of the three-year Euro transition period. Packaging believes that the costs associated with transitioning to the Euro will not be material to its combined financial position or the results of its operations.

#### YEARS 1998 AND 1997

##### RESULTS OF CONTINUING OPERATIONS

Packaging reported income from continuing operations of \$82 million for the year ended December 31, 1998, compared to \$106 million for the same period in 1997. The 1998 figure includes a \$20 million after-tax charge to reduce overhead and manufacturing costs throughout every part of Packaging's business. Excluding the restructuring charge, Packaging's income from continuing operations for the 1998 period was \$102 million. The decline resulted from costs related to Packaging's data center consolidation effort, offset by record results in the Specialty segment. Higher interest expense and a higher tax rate also contributed to the earnings decline.

##### Net Sales and Operating Revenues

<TABLE>

<CAPTION>

	1998	1997	% CHANGE
	-----	-----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Specialty.....	\$2,785	\$2,553	9%
Intergroup sales and other.....	6	10	(40%)
	-----	-----	
	\$2,791	\$2,563	9%
	=====	=====	

</TABLE>

Packaging's revenue increase in its Specialty segment of \$232 million resulted primarily from full-year inclusion of the protective and flexible packaging businesses acquired from N.V. Koninklijke KNP BT ("KNP") in 1997 and from the May 1998 acquisition of Richter Manufacturing. The KNP businesses contributed \$160 million of incremental revenue in 1998 measured through the first anniversary of their acquisition in late April 1997. Richter Manufacturing revenue during 1998 was \$39 million. The remaining revenue increase reflects higher unit volumes in numerous product lines which more than offset lower pricing.

#### Operating Income

The following table presents operating income by segment for the years 1998 and 1997:

<TABLE>  
<CAPTION>

	1998	1997	% CHANGE
	----	----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Specialty.....	\$328	\$308	6%
Other.....	(45)	(2)	NM
	----	----	
	\$283	\$306	(8%)
	====	====	

</TABLE>

As described earlier in this Management's Discussion and Analysis of Financial Condition and Results of Operations, Packaging recorded a pre-tax restructuring charge to income from continuing operations of \$32 million (\$20 million after-tax) in the fourth quarter of 1998. The restructuring charge affected Packaging's segments as follows: Specialty -- \$18 million and Other -- \$14 million.

Excluding these restructuring charges, a comparison of Packaging's 1998 and 1997 operating income is as follows:

<TABLE>  
<CAPTION>

	1998	1997	% CHANGE
	----	----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Specialty.....	\$346	\$308	12%
Other.....	(31)	(2)	NM
	----	----	
	\$315	\$306	3%
	====	====	

</TABLE>

Packaging's operating income increase in its Specialty segment reflected \$24 million from acquired businesses measured through the one-year anniversary of their acquisitions, as well as higher unit volumes, primarily in Hefty One-Zip(R), food service foam, and consumer tableware products. Lower raw material costs approximately offset price reductions to customers. In addition, Specialty incurred approximately \$7 million in one-time costs related to an information systems project in North America.

Packaging's operating loss in its "Other" segment increased in 1998 over 1997 levels primarily as a result of higher costs related to Packaging's data center consolidation effort, which more than offset lower unabsorbed costs at Packaging's administrative services operation.

#### Operating Income as a Percentage of Revenue

Operating income as a percentage of revenue for 1998 and 1997, including the fourth quarter 1998 restructuring charge, were as follows:

<TABLE>  
<CAPTION>

	1998	1997	% CHANGE
	----	----	-----
<S>	<C>	<C>	<C>
Specialty.....	11.8%	12.1%	(2%)
Total.....	10.1%	11.9%	(15%)

</TABLE>

The Specialty segment's operating income as a percentage of revenue contracted as the growth rate of operating income, including the restructuring charge, was 6 percent compared with the 9 percent growth rate of revenues. On a consolidated basis, total operating income as a percentage of revenue contracted

53

63

even further, as the operating income, including both the restructuring charge and the increased costs in the other segment, decreased 8 percent while revenue grew 9 percent.

Excluding the fourth quarter 1998 restructuring charge, operating income as a percentage of revenue for the same periods were as follows:

<TABLE>  
<CAPTION>

	1998	1997	% CHANGE
	----	----	-----
<S>	<C>	<C>	<C>
Specialty.....	12.4%	12.1%	2%
Total.....	11.3%	11.9%	(5%)

</TABLE>

#### Interest Expense (net of interest capitalized)

Interest expense for 1998 was \$9 million, or 7 percent, higher than for 1997. As described above, interest expense in each period includes an allocation of interest on Tenneco corporate debt. This allocation was based, in general, on the ratio of Packaging's net assets to Tenneco consolidated net assets plus debt. See Note 5 to the Combined Financial Statements of The Business of Tenneco Packaging contained elsewhere in this document for a further discussion of the allocation of Tenneco consolidated debt and interest expense to Packaging.

#### Income Taxes

Packaging's effective tax rate for 1998 was 45 percent, compared to 41 percent for 1997. The effective tax rate was higher than the statutory rate in both periods primarily as a result of state and local income taxes.

#### DISCONTINUED OPERATIONS

Discontinued operations generated income of \$57 million, net of income tax expense of \$38 million, or \$.34 per diluted common share for 1998.

Discontinued operations generated income of \$21 million, net of income tax expense of \$14 million, or \$.12 per diluted common share during 1997.

Fourth quarter 1998 results from discontinued operations for the paperboard packaging business includes a pre-tax charge of \$14 million related to Packaging's restructuring plan to reduce administrative and operational overhead costs. The paperboard packaging restructuring plan involves closing four box plants and the elimination of 78 positions at those plants.

Income from the discontinued paperboard packaging business in 1998 also included a \$15 million pre-tax gain on the sale of its remaining 20 percent interest in a recycled paperboard joint venture with Caraustar Industries and a

\$17 million pre-tax gain on the sale of non-strategic timberland assets. In 1997, income from discontinued operations included a \$38 million pre-tax gain on refinancing of two containerboard mill leases and a \$5 million pre-tax gain from a timberland management transaction.

See Note 7 to the Combined Financial Statements of The Businesses of Tenneco Packaging contained elsewhere in this document for a further discussion of discontinued operations.

#### CHANGES IN ACCOUNTING PRINCIPLES

As required by the FASB's Emerging Issues Task Force ("EITF") Issue 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract that Combines Business Process Reengineering and Information Technology Transformation," Packaging recorded an after-tax charge of \$38 million, net of a tax benefit of \$24 million, or \$.23 per diluted common share, in the fourth quarter of 1997. EITF Issue 97-13 establishes the accounting treatment and an allocation methodology for consulting and other costs incurred in connection with information technology transformation efforts. This charge was reported as a cumulative effect of change in accounting principle.

54

64

#### EARNINGS PER SHARE

Income from continuing operations was \$.49 per diluted common share for 1998, compared to \$.63 per diluted common share in 1997. Discontinued operations provided income of \$.34 and \$.12 per diluted common share, for 1998 and 1997, respectively. In 1997, Packaging also recorded a charge for the cumulative effect of a change in accounting principle noted above of \$.23 per diluted common share, resulting in net income of \$.52 per diluted common share, compared to \$.83 per diluted common share in 1998.

#### LIQUIDITY AND CAPITAL RESOURCES

##### Capitalization

<TABLE>  
<CAPTION>

	1998	1997	% CHANGE
	----	----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Short-term debt and current maturities.....	\$ 595	\$ 158	
Long-term debt.....	1,312	1,492	
Debt allocated to discontinued operations.....	548	473	
	-----	-----	
Total debt.....	2,455	2,123	16%
Minority interest.....	14	15	(7%)
Combined equity.....	1,776	1,839	(3%)
	-----	-----	
Total capitalization.....	\$4,245	\$3,977	7%
	=====	=====	

</TABLE>

Packaging's debt to capitalization ratio was 57.8 percent at December 31, 1998, compared to 53.4 percent at December 31, 1997. The increase in the ratio is attributable to additional corporate debt allocated to Packaging from Tenneco during 1998, as well as a decline in equity. See Note 5 to the Combined Financial Statements of The Businesses of Tenneco Packaging for a further discussion of the allocation of Tenneco consolidated debt and interest expense to Packaging. See the Statements of Changes in Combined Equity of The Businesses of Tenneco Packaging for a description of factors affecting equity.

##### Cash Flows

<TABLE>  
<CAPTION>

	1998	1997
	----	----
	(MILLIONS)	
<S>	<C>	<C>
Cash provided (used) by:		
Operating activities.....	\$ 577	\$ 405

Investing activities.....	(514)	(654)
Financing activities.....	(67)	239

</TABLE>

Cash flow from operating activities increased by \$172 million from 1997 to 1998. Of this amount, \$74 million was produced by continuing operations and \$98 million was produced by discontinued operations. The increase from continuing operations was primarily attributable to working capital, which increased significantly during 1997 to support the growth in revenues over 1996 levels. Working capital decreased slightly during 1998 as revenue growth moderated. Cash flow from discontinued operations improved due to higher earnings in 1998 resulting from improved containerboard pricing.

Investing activities used \$140 million less cash during 1998 than in 1997. A significantly reduced level of acquisitions was partially offset by a higher level of capital spending for discontinued operations. This increased spending was primarily to acquire some leased timberlands in contemplation of the separation of the containerboard assets from Packaging's other businesses. Acquisitions in 1998 included: Champion International's dual-ovenable paperboard tray manufacturing facility in Belvidere, Illinois; Richter Manufacturing and Sentinel Products. In 1997, acquisitions related primarily to the protective and flexible packaging businesses of KNP.

Financing activities used \$67 million in 1998, compared to providing \$239 million in 1997, a change of \$306 million. Packaging retired \$82 million less debt during 1998. During 1998, Packaging remitted \$56 million to Tenneco. During 1997, Tenneco contributed \$331 million to Packaging.

YEARS 1997 AND 1996

RESULTS OF CONTINUING OPERATIONS

Net Sales and Operating Revenues

<TABLE>  
<CAPTION>

	1997	1996	% CHANGE
	----	----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Specialty.....	\$2,553	\$1,987	28%
Intergroup sales and other.....	10	--	NM
	-----	-----	
	\$2,563	\$1,987	29%
	=====	=====	

</TABLE>

Packaging experienced increases in revenues from its Specialty segment of \$566 million during 1997 over 1996. This growth was primarily generated by unit volume sales growth and revenues earned by companies acquired in 1996 and 1997. The protective and flexible packaging businesses acquired from KNP in late April 1997, along with revenues from the Amoco Foam products business calculated through the first anniversary of its August 1996 acquisition, contributed \$491 million to this revenue growth during 1997. Unit volume sales increases, primarily in the consumer markets and clear plastic containers, accounted for significant revenue increases as well. Partially offsetting revenue growth from acquisitions and volumes was lower product pricing, reflecting lower raw material prices, which negatively impacted revenues by \$53 million.

Operating Income

<TABLE>  
<CAPTION>

	1997	1996	% CHANGE
	----	----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Specialty.....	\$308	\$249	24%
Other.....	(2)	(15)	NM
	-----	-----	
	\$306	\$234	31%

</TABLE>

Packaging's higher operating income from its Specialty segment in 1997 resulted primarily from \$76 million in operating income generated by the protective and flexible packaging businesses acquired from KNP in late April 1997 and the Amoco Foam products acquisition calculated through the first anniversary of its August 1996 acquisition. A portion of the 1997 earnings increase from the foam products acquisition resulted from cost savings realized by the integration of the acquired company into the Specialty segment's existing business.

Packaging's operating loss in its "Other" segment increased in 1997 compared to 1996 before a charge of \$17 million related to the acceleration of employee benefits in connection with Tenneco's December 1996 corporate reorganization. The increase resulted from a higher level of unallocated administrative costs related to Packaging's administrative services operation, which began operation in late 1996.

Operating Income as a Percentage of Revenue

Operating income as a percentage of revenue for 1997 and 1996 were as follows:

<TABLE>  
<CAPTION>

	1997	1996	% CHANGE
	----	----	-----
<S>	<C>	<C>	<C>
Specialty.....	12.1%	12.5%	(3%)
Total.....	11.9%	11.8%	1%

</TABLE>

Specialty segment's operating income as a percentage of revenue contracted from 1996 to 1997 as the growth rate of operating income was 24 percent compared with the 28 percent growth rate of revenues. On a consolidated basis, total operating income as a percentage of revenue expanded slightly, as the operating income grew 31 percent while revenue grew 29 percent.

Interest Expense (net of interest capitalized)

Interest expense for 1997 was \$22 million or 22 percent higher than for 1996. As described above, interest expense in each period includes an allocation of interest on Tenneco corporate debt. This allocation was based, in general, on the ratio of Packaging's net assets to Tenneco consolidated net assets plus debt. See Note 5 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document for a further discussion of the allocation of Tenneco consolidated debt and interest to Packaging.

Income Taxes

Packaging's effective tax rate for 1997 was 41 percent, compared to 51 percent for 1996. The 1997 and 1996 effective tax rate was higher than the statutory rate as a result of state and local income taxes.

DISCONTINUED OPERATIONS AND EXTRAORDINARY LOSS

Discontinued operations generated income of \$21 million, net of income tax expense of \$14 million, or \$.12 per diluted common share, during 1997.

Discontinued operations generated income of \$71 million, net of income tax expense of \$47 million, or \$.42 per diluted common share, for 1996.

Income from discontinued operations in 1997 included a \$38 million pre-tax gain which resulted from the refinancing of two containerboard mill leases.



Income from the discontinued paperboard packaging business in 1996 included a \$50 million pre-tax gain on the sale of certain recycled paperboard assets to a joint venture with Caraustar Industries and a pre-tax charge of \$6 million to reorganize Packaging's folding carton operations.

The extraordinary loss reported in 1996 of \$2 million, net of an income tax benefit of \$1 million, or \$.01 per diluted common share, relates to premium paid on early retirement of debt in anticipation of the corporate reorganization effected in the fourth quarter of 1996.

See Note 7 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document for a further discussion of discontinued operations.

#### EARNINGS PER SHARE

Income from continuing operations was \$.63 per diluted common share in 1997, up from \$.38 per diluted common share in 1996. Discontinued operations produced income of \$.12 and \$.42 per diluted common share, for 1997 and 1996, respectively. Packaging recorded the cumulative effect of a change in accounting principle discussed above of \$.23 per diluted common share, resulting in net income of \$.52 per diluted common share for 1997. Packaging also recorded an extraordinary loss of \$.01 per diluted common share in 1996, related to early retirement of debt, resulting in net income per diluted common share of \$.79. Average shares of common stock outstanding increased slightly during 1997. For further information regarding the calculation of earnings per share, see Note 3 to the Combined Financial Statements of The Businesses of Tenneco Packaging.

57

67

#### LIQUIDITY AND CAPITAL RESOURCES

##### Capitalization

<TABLE>  
<CAPTION>

	1997	1996	% CHANGE
	----	----	-----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Short-term debt and current maturities.....	\$ 158	\$ 123	
Long-term debt.....	1,492	1,073	
Debt allocated to discontinued operations.....	473	394	
	-----	-----	
Total debt.....	2,123	1,590	34%
Minority interest.....	15	--	NM
Combined equity.....	1,839	1,843	--
	-----	-----	
Total capitalization.....	\$3,977	\$3,433	16%
	=====	=====	

</TABLE>

Packaging's debt to capitalization ratio was 53.4 percent at December 31, 1997, compared to 46.3 percent at December 31, 1996. The increase in the ratio is attributable to additional corporate debt allocated to Packaging from Tenneco during 1997. See Note 5 to the Combined Financial Statements of The Businesses of Tenneco Packaging for a further discussion of the allocation of Tenneco consolidated debt and interest expense to Packaging.

##### Cash Flows

<TABLE>  
<CAPTION>

	1997	1996
	----	----
	(MILLIONS)	
<S>	<C>	<C>
Cash provided (used) by:		
Operating activities.....	\$ 405	\$ 263
Investing activities.....	(654)	(669)
Financing activities.....	239	399

</TABLE>

Operating activities provided \$405 million in 1997 and \$263 million in

1996. Discontinued operations provided \$110 million of the increase. Continuing operations benefited from higher income and cash flow benefits from tax refunds during 1997, resulting primarily from tax benefits derived from the December 1996 reorganization and debt realignment, and a 1996 tax net operating loss, which was carried back to earlier years. These positive benefits were largely offset by increased working capital associated with higher revenue levels and increased cash outflows associated with the fourth quarter 1996 restructuring initiatives.

Investing activities used \$15 million less cash in 1997 than in 1996. Lower capital expenditures for discontinued operations and lower acquisitions for both continuing and discontinued operations were largely offset by lower proceeds from the sale of discontinued operations.

Financing activities generated \$160 million less cash in 1997 than in 1996. Packaging retired \$69 million more debt and Tenneco contributed \$91 million less cash to Packaging in 1997 than in 1996.

58

68

## BUSINESS

We are a global supplier of specialty packaging and consumer products with 1998 revenues of approximately \$2.8 billion. We operate 89 manufacturing facilities throughout the world and employ over 15,000 people. We manufacture and sell plastic, aluminum and paper-based consumer products, such as disposable tableware, plastic food storage and waste bags. Our food packaging products include molded fiber cartons, and foam, clear plastic, aluminum and pressed paperboard containers as well as zipper closures and modified atmosphere packaging. We also offer: (a) protective packaging designed to protect and cushion products made and shipped by various manufacturers; and (b) flexible packaging, such as polypropylene medical bags, surgical drapes and printed barrier films used for disposable diaper liners and other products. We pursue a growth strategy driven by highly focused internal programs which are complemented by strategic acquisitions.

### INDUSTRY OVERVIEW AND KEY TERMS

Many of the markets we serve are growing faster than the overall growth of the United States gross domestic product. Most of our revenue comes from products made from different types of plastics, with the balance coming from paper and aluminum products. According to A.C. Nielsen, the unit volume growth trend as of June 12, 1999 for the zippered food storage bag market is 6.0% per year. Additionally, unit volume in the market for foam disposable foodservice packaging is projected to grow 6-7% annually for the next five years, according to a study prepared by a market research group. Several markets within the protective packaging industry are growing 6-8% per year in sales according to U.S. Industry and Trade Outlook '99.

Specialty packaging is an industry term which generally refers to packaging used by commercial customers that is designed and manufactured for a specific application or product. Examples include:

- rigid, clear plastic containers used in supermarkets to display bakery goods;
- sponge-like foam plastic packaging used to cushion and protect computers, TVs and stereos; and
- flexible plastic bags used for sterile intravenous fluid delivery.

The specialty packaging industry may be divided into sub-categories based on the characteristics of the packaging, the industry in which the packaging is used, or the primary function of the packaging. Examples include flexible packaging, foodservice packaging and protective packaging. Individual packaging products may fall into more than one sub-category of specialty packaging.

Protective packaging is the industry term used to describe specialty packaging that satisfies the protection and transportation needs of commercial customers. Protective packaging is designed and manufactured to ensure the integrity and safety of the customer's product from the point it leaves the manufacturing floor until it reaches its final destination. Flexible packaging is an industry term used to describe the sub-category of specialty packaging for customers whose products or distribution channels require a custom-designed flexible plastic package. Food/foodservice packaging describes specialty packaging designed and manufactured for customers in the food industry. This includes customers who process and prepare food for consumption, known as food packers and processors. It also includes other customers in the food distribution channel such as wholesalers and supermarkets.

Specialty packaging generally is constructed from plastic or paper which is engineered, designed and manufactured to meet the customer's specific need in a particular product or application. The basic raw materials used to make plastic specialty packaging are different types of plastics obtained from chemical companies, often in pelletized form, known as plastic resins. Plastic resins come in three general forms based on their chemical composition: polyolefins, polystyrenes and polyvinyl chloride. Polyolefins include polyethylene and polypropylene.

The plastic resins are subjected to various manufacturing processes that result in intermediate forms of the plastic. It may be solid or a sponge-like material called foam. Depending on its thickness, the material may be called film, sheet or plank.

59

69

The plastic films, sheets and planks are then combined, shaped and cut to produce different specialty packaging:

- polypropylene medical bags -- layered plastic films combined to produce plastic bags that hold fluid for intravenous delivery;
- printed barrier films -- flexible printed packaging designed to protect a wide range of products from chemicals to foods;
- modified atmosphere packaging -- packaging that is principally used with foods to preserve freshness and designed to protect the contents from penetration by oxygen;
- foam containers -- lightweight containers designed to package individual servings of food, often in the fast-food, take-out food, or other foodservice context;
- engineered foam plank and foam sheet -- packaging material of different shapes and thicknesses designed to protect and cushion goods, primarily while in transit;
- polyethylene stretch film -- strong, puncture-resistant packaging used to contain and protect goods for transportation, often used to secure individual goods on pallets;
- polyolefin foam -- foam packaging that is stronger and more resilient than conventional plastic foam and which may be formed into a soft, rubber-like material that is flexible, elastic and resilient; and
- converted protective packaging -- packaging designed and configured for a specific product application, such as the plastic foam used to secure home electronics inside the boxes in which they are shipped and foam pipe insulation.

Many of our packaging products are manufactured using paperboard or other materials created from wood pulp or recycled paper:

- paperboard honeycomb -- paperboard box material designed and engineered using geometrically shaped paperboard between flat layers of linerboard to enhance the cushioning characteristics of the container;
- customized packaging systems -- refers to paper or plastic packaging combined with a unique machine or device to package a specific product or type of products;
- linerboard -- paperboard used for the flat outer face of containerboard packaging;
- molded fiber -- a material created from recycled paper that may be formed into various shapes, such as egg cartons;
- pressed paperboard -- plastic coated paperboard used to make food containers; and
- dual-ovenable paperboard -- plastic coated paperboard that may be heated in either a microwave or a conventional oven.

We manufacture, market and sell plastic and paper-based consumer products and food/foodservice packaging as well as protective and flexible packaging. Approximately 80% of our revenue comes from products made from different types of plastics, with the balance from paper and aluminum products.

#### Consumer Products and Food/Foodservice Packaging

We manufacture, market and sell consumer products, such as plastic storage bags for food and household items, plastic waste bags, foam and molded fiber disposable tableware and disposable aluminum cookware. We sell many of these products under such recognized brand names as Hefty(R), Baggies(R), Hefty One-Zip(R), Kordite(TM) and E-Z Foil(R). These products are typically used by consumers in their homes, and we market and sell them through a variety of retailers, including supermarkets, mass merchandisers and other stores where consumers purchase household goods.

Our food packaging products protect food during distribution, assist retailers in merchandising food and help customers prepare and serve meals in their homes. For food processors, we offer dual-ovenable

60

70

paperboard products, molded fiber egg cartons, foam meat trays, aluminum containers and modified atmosphere packaging, which extends the shelf life of meat products.

In addition, we provide plastic zipper closures for a variety of flexible packaging applications. Our food packaging products for supermarket in-store use include clear rigid display packaging used in produce, deli and bakery applications, microwaveable containers used for prepared, ready-to-eat meals, plastic foam trays for meat and produce, and bags for produce and bakery applications.

For our foodservice customers, we offer products that help merchandize and serve both on-premises and takeout meals. These products include tableware products, such as plates, bowls and cups, and a broad line of takeout service containers made from clear plastic, microwaveable plastic, molded fiber, paperboard, foam and aluminum.

#### Protective and Flexible Packaging

We manufacture, market and sell protective packaging for use in the automotive, computer, electronic, furniture, durable goods, building and construction products industries. Our sheet foams and air encapsulated bubble products, for example, are used for cushioning and surface protection. Our paperboard honeycomb and engineered foam plank products protect against shock, vibration and thermal damage. We also offer other converted protective packaging products, including padded mailers, a variety of laminated protective coverings and customized packaging systems.

Our flexible packaging products provide a variety of cost-effective, efficient and attractive solutions for consumer, medical, pharmaceutical, chemical, hygiene and industrial applications. These products include liners for disposable diapers, wrap-around sleeves for glass and plastic bottles, polypropylene medical bags used for sterile intravenous fluid delivery, modified atmosphere films, stand-up pouches, food and hygiene packaging, and disposable surgical kits custom designed for specific procedures.

We also offer polyethylene stretch film, specialty aluminum materials and film and foam products for use in the construction industry.

#### GROWTH STRATEGY

We have grown, and plan to continue to grow, by pursuing internal growth and strategic acquisitions. By pursuing this growth strategy, we increased the total revenues of our specialty packaging and consumer products business from \$845 million in 1995 to approximately \$2.8 billion in 1998. During this same period, our income from continuing operations from this business, before interest, income taxes and minority interest, increased from \$39 million to \$328 million, representing a compound annualized growth rate of 103%. See "Combined Selected Financial Data."

As a separate, publicly traded company, we expect to have greater flexibility to pursue our growth strategy. The increased flexibility will come from greater focus on a single enterprise and the enhanced access to capital markets that comes from the ability of investors and lenders to analyze and understand a single business platform. We expect growth opportunities will come from additional product development and expansion initiatives, additional strategic acquisitions, joint ventures and strategic alliances.

## Internal Growth

Since 1995, we have executed a strategy that focuses our business on markets that have strong underlying growth characteristics and attractive margins. We offer our customers "material neutral" solutions. In other words, our goal is not to sell customers a particular product line. Rather, through our custom design centers and broad product line, we strive to create the best packaging solutions for our customers, tailored precisely to their needs. With this approach and our worldwide geographical coverage, we have become a primary supplier to national and international manufacturers and distributors and have developed long-term relationships with key players in the consolidating packaging and food service distribution sector. We intend to use these relationships to quickly identify and capture new growth

61

71

markets with attractive margins as they develop, which should expand our customer base and our market share.

We seek to add to our base business by developing new packaging solutions for markets where we believe our experience and familiarity give us a competitive advantage. In addition, we grow market share for our existing products by taking advantage of (a) our broad product line of superior quality products and our long-term relationships with key manufacturers and distributors, (b) our product development and design services, (c) our investment in developing state-of-the-art service capabilities, and (d) our ongoing effort focused on reducing costs and improving the productivity of our operations. Both of our businesses have shown significant recent internal growth.

### Product Breadth/Relationships With Key Manufacturers and Distributors

Our ability to provide "one-stop shopping" through our broad product line is an important selling point with customers. In addition, we have cultivated long-term relationships with key manufacturers and distributors who recognize our strong positions in multiple product categories. These relationships, coupled with our complete product line, are allowing us to grow our market share for existing products. For example, in foodservice packaging, we hold the number one market share position in the United States and Canada with respect to four of our five main product categories based on unit volume. Management estimates that products representing 80% of sales in our protective packaging business hold the number one or number two market share position in North America, based on sales revenue.

### New Products/Design Services

We further fuel our internal growth by developing and commercializing proprietary new products and by designing value-added product-line extensions. In 1998, our consumer products and food/foodservice packaging business introduced over 80 new products and product-line extensions. In our protective and flexible packaging business, where custom design services drive revenues, we developed over 500 custom product application in 1998. We believe our new product innovation and design services will remain a key factor in driving future internal growth.

- Consumer Products and Food/Foodservice Packaging. During the last twelve months, in our consumer products and food/foodservice packaging business, we added jumbo two-gallon bags and sandwich bags to our existing Hefty One-Zip(R) quart and half-gallon food storage and freezer bag offerings. We are also leveraging our patented One-Zip(R) closure system by expanding into other zipper closure applications, such as SlideRite(TM) retail packaging for baby wipes, fresh produce, supermarket deli bags and other recloseable flexible packaging. In the United States we have the leading market share with Hefty(R) disposable tableware, and our E-Z Foil(R) brand disposable aluminum cookware line leads its competition by a wide margin in both sales and market share.

Our new product innovations include ActiveTech(TM) packaging, a proprietary modified atmospheric package used by food processors for case-ready meat. ActiveTech(TM) packaging extends the shelf life of fresh, unfrozen red meat in a package that maintains the appearance of freshly packaged meat.

- Protective and Flexible Packaging. In our protective and flexible packaging business, new protective packaging products include engineered

foams, and Profiles(R), a foam-based material used in various markets, such as building products and furniture, and custom designed to provide many benefits, including insulation, cushioning and surface protection. Recent flexible packaging innovations include high-end graphic stand-up pouches for soups and detergents and Propyflex(R) medical bags for fluids. Propyflex(R), a non-polyvinyl chloride barrier film, satisfies the requirements for flexibility and transparency even after sterilization and provides a cost-effective packaging by eliminating the need for secondary wrap.

62

72

#### State-of-the-Art Service Capabilities

To further take advantage of our broad product line offering and strong alignment with national distributors, we have developed and implemented our Customer Linked Manufacturing system ("CLM"). CLM is a state-of-the-art production planning and order fulfillment system which enables our customers to do business with us easily and efficiently. CLM eliminates costs from the entire supply chain and provides both our customers and us with a competitive advantage.

#### Productivity/Cost Reduction

Our strong focus on improving productivity and reducing costs in our manufacturing and logistics operations is key to supporting the growth of our base business. For example, the manufacturing costs have continuously declined net of inflation for some of our products, such as our foam products, rigid display packaging and performance films. This has allowed us to maintain or improve our profit margins.

#### Strategic Acquisitions

Strategic acquisitions have been, and will continue to be, an important element of Packaging's overall growth strategy. Our management has a proven record of identifying and acquiring businesses and rapidly integrating them into one of our business groups. We pursue acquisitions that offer synergies through, among other things, rationalizing product lines, reconfiguring and upgrading manufacturing capabilities and reducing operating, selling, distribution, purchasing and administrative costs. We also pursue acquisitions that strengthen our brand presence and expand our product offerings and markets.

Consumer Products and Food/Foodservice Packaging. We plan to grow our consumer products and food/foodservice packaging business by acquiring similar businesses whose products and markets will complement our own. We will focus on acquiring specialized engineering and manufacturing capabilities that augment and enhance our existing processes and allow us to produce top-quality products efficiently. Since the beginning of 1995, our consumer products and food/foodservice packaging business has grown through the following acquisitions:

- In 1995, we more than doubled our sales with the acquisition of Mobil Plastics. This acquisition expanded our product offerings to include foam containers, meat and poultry trays, disposable plates and bowls, polyethylene film products, produce bags and stretch film, as well as the well-known consumer products Baggies(R) food bags and Hefty(R) waste bags and tableware. This acquisition also added state-of-the-art manufacturing capabilities and new product technologies, including the One-Zip(R) closure system.
- In August 1996, we acquired Amoco Foam Products Company, which enhanced our distribution capabilities and market coverage, especially among food processors. Amoco Foam's product portfolio included foam tableware, hinged lid containers, food trays and residential and commercial insulation products.
- In September 1998, we augmented our dual-ovenable paperboard manufacturing capacity by acquiring a Champion International facility in Belvidere, Illinois. As a result, we have the capability to manufacture this product, which may be heated in a conventional or a microwave oven, for a broad spectrum of uses in various products.

Protective and Flexible Packaging. We intend to continue our global growth strategy of acquiring custom engineering and design capabilities that will provide multi-material packaging solutions to markets with strong underlying growth characteristics. Management estimates that this strategy has made us one of the largest producers of protective packaging in the United States. Since the

beginning of 1995, our protective and flexible packaging business has grown through the following acquisitions:

- In 1995, continuing our growth strategy of acquiring specialty packaging applications, we entered the protective packaging sector by buying Hexacomb, a manufacturer of paperboard honeycomb products.

63

73

- In 1997, we acquired the protective and flexible packaging businesses of KNP BT, which operated in Europe and North America. With this acquisition, we entered the European protective and flexible packaging markets and enhanced our global specialty packaging position. This acquisition also broadened the scope of our protective packaging business to include sheet foam, engineered foam and air encapsulated bubble and mailer applications. We also acquired two honeycomb plants in 1997.
- In April 1998, we acquired Richter Manufacturing, a West Coast manufacturer and distributor of protective packaging products. This acquisition expanded the geographical coverage of our North American protective packaging operation.
- In December 1998, we acquired the foam packaging assets of Sentinel Products, a North American producer of specialty polyolefin foams. This acquisition further diversified our protective packaging product offering and increased our manufacturing capacity. We also formed a global joint venture, Sentinel Polyolefin LLC, with Sentinel to produce and market chemically blown polyolefin foam applications in a wide variety of non-packaging markets, including the automotive, sports and leisure, medical and adhesive tape markets.

#### MARKETING, DISTRIBUTION AND CUSTOMERS

Our sales and marketing staff of 500 people is organized along three main product groups: consumer products, foodservice and supermarket products, and protective and flexible packaging products.

The consumer product group sells waste bags, food storage bags, disposable plates and bowls and disposable aluminum cookware primarily to grocery stores and mass merchandisers. These products are sold through a direct sales force and a national network of brokers' and manufacturers' representatives.

The foodservice, supermarket and food packer and processor sales organizations sell a broad array of disposable, rigid and flexible packaging made from plastic, aluminum, molded fiber and pressed paperboard materials. The products include disposable plates and bowls, carry out containers, rigid display containers, microwavable and dual-ovenable food containers, food and specialty retail bags and foil wrap. Our foodservice and supermarket sales are made primarily through a network of independent distributors. Food packer and processor sales are made primarily direct to large processors, with some sales through distributors.

The protective and flexible packaging group sells to distributors, fabricators and directly to end-users worldwide.

No material portion of our business is dependent upon a single customer or even a few customers and no one customer accounted for more than 10% of our aggregate net sales for the fiscal year ended December 31, 1998. In general, the backlog of orders is not significant or material to an understanding of our business.

#### ANALYSIS OF REVENUES

The following tables set forth for each of the years 1996 through 1998, and for the six months ended June 30, 1999, information relating to our sales from continuing operations:

<TABLE>  
<CAPTION>

NET SALES (MILLIONS)			
SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,		
JUNE 30, 1999	1998	1997	1996

	<C>	<C>	<C>	<C>
<S>				
Disposable plastic, fiber, and aluminum packaging products.....	\$1,038	\$2,126	\$2,105	\$1,862
Plastic and fiber protective/flexible packaging products.....	311	607	399	78
Other.....	55	52	49	47
	-----	-----	-----	-----
Total.....	\$1,404	\$2,785	\$2,553	\$1,987
	=====	=====	=====	=====

</TABLE>

64

74

<TABLE>  
<CAPTION>

	PERCENTAGE OF NET SALES			
	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,		
	JUNE 30, 1999	1998	1997	1996
<S>	<C>	<C>	<C>	<C>
TOTAL SALES				
Disposable plastic, fiber, and aluminum packaging products.....	74%	76%	83%	94%
Plastic and fiber protective/flexible packaging products.....	22	22	15	4
Other.....	4	2	2	2
	---	---	---	---
Total.....	100%	100%	100%	100%
	===	===	===	===
SALES BY GEOGRAPHIC AREA(a)				
United States.....	78%	80%	83%	89%
European Union.....	18	17	15	8
Canada.....	2	1	1	2
Other areas.....	2	2	1	1
	---	---	---	---
Total.....	100%	100%	100%	100%
	===	===	===	===

</TABLE>

(a) See Note 14 to the Combined Financial Statements of The Businesses of Tenneco Packaging included elsewhere in this document for information about foreign and domestic operations.

#### COMPETITION

We operate in markets that are highly competitive and face substantial competition throughout all of our product lines from numerous global, national and regional companies, ranging from the largest packaging companies to small, emerging companies. Companies that compete with us may have greater financial and other resources than we do, while others are significantly smaller with lower fixed costs and possibly greater operating flexibility. In addition to price, competition with respect to many of our products is based on quality, service supplier response time and timely and complete order fulfillment. In addition, other packaging producers supply alternative materials and structures and serve different geographic regions through various distribution channels.

#### INTERNATIONAL

Packaging operates facilities and sells products in countries throughout the world. As a result, Packaging is subject to risks associated with selling and operating in foreign countries, including devaluations and fluctuations in currency exchange rates, imposition of limitations on conversion of foreign currencies into U.S. dollars or remittance of dividends and other payments by foreign subsidiaries, impositions or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries, hyperinflation in foreign countries where Packaging does business, and imposition or increase of investment and other restrictions by foreign governments.



## PROPERTIES

### Headquarters Locations

We lease our executive offices at 1900 West Field Court, Lake Forest, Illinois 60045, and our telephone number at that address is (847) 482-2000.

### Manufacturing and Engineering Facilities

In North America, we operate 65 facilities in 18 states, Canada and Mexico. Plastic and aluminum disposable foodservice and consumer products, stretch films and building products are manufactured at 25 plants. The protective packaging operations convert paperboard into honeycomb products at 12 plants. An additional 13 plants apply extrusion, foaming and converting technologies to produce clear, foamed, flexible or rigid plastic protective packaging from polystyrene, polyolefins, such as polyethylene and

65

75

polypropylene, and kraft papers. Molded fiber packaging is produced at seven locations, and an eighth location manufactures tooling for the molded fiber plants. Finally, ovenable paperboard products are manufactured at two facilities. A research and development center for food packaging and process development is located in a new facility in Canandaigua, New York. Design centers for protective and flexible packaging and process development are located in Buffalo Grove, Illinois, Grand Rapids and Troy, Michigan and Santa Fe Springs, California. In addition, we participate in two North American joint ventures, Sentinel Polyolefin LLC and Tenneco Packaging de Mexico.

We own 24 international manufacturing operations. Eleven protective packaging plants in Belgium, England, France, Germany, Italy, The Netherlands, Poland, Spain and Hungary make plastic air encapsulated bubble and foam sheet products, including mailers. Five flexible products plants in Egypt and Germany make high quality flexible films, bags, labels and pouches, printed and converted paper bags and disposable medical packaging. Omni-Pac is a European subsidiary operation that manufactures molded fiber and cushion packaging with manufacturing facilities in Elsfleth, Germany and Great Yarmouth, England. Our Alupak subsidiary operation in Belp, Switzerland produces smoothwall aluminum portion packs and specialty food packaging applications. Single-use thermoformed plastic food containers and films are manufactured at four facilities in England, Scotland and Wales. We also have a wood products operation in Romania. In addition, we operate or participate in several international joint ventures, including a folding carton plant in Dongguan, China, a recycling venture in Budapest, Hungary and a corrugated converting facility in Shaoxing, China.

We believe that substantially all of our plants and equipment are, in general, well maintained and in good operating condition. They are considered adequate for present needs, and as supplemented by planned construction, are expected to remain adequate for the near future.

We are of the opinion that we, or our subsidiaries, have generally satisfactory title to the properties owned and used in our businesses, subject to liens for current taxes and easements, restrictions and other liens which do not materially detract from the value of the properties or our interest in the properties or the use of those properties in our businesses.

## RAW MATERIALS

Plastic resins, such as polystyrene, polyethylene, polypropylene and polyvinyl chloride, aluminum rollstock, linerboard and recycled fiber constitute the principal raw materials used in the manufacture of most of our products. Generally, these raw materials are readily available from a wide variety of suppliers. The costs of these materials may be volatile, and are a function of, among other things, the manufacturing capacity for those materials and the costs of their components, which may also vary. Costs for our plastic resin and recycled fiber tend to fluctuate with economic factors which generally affect us and our competitors. The availability of raw materials was adequate in 1998 and the first three months of 1999 and is expected to remain adequate throughout the remainder of 1999.

## ENVIRONMENTAL REGULATION

The packaging industry, in general, and we are subject to existing and

potential federal, state, local and foreign legislation designed to reduce air emissions. In addition, various consumer and special interest groups have lobbied from time to time for the implementation of these and other similar measures. Although we believe that the legislation and regulations promulgated to date and the initiatives to date have not had a material adverse effect on us, we cannot assure you that any such future legislative or regulatory efforts or future initiatives would not have a material adverse effect on us.

#### OTHER

As of July 1, 1999, we employed approximately 15,000 people, 14% of whom were covered by collective bargaining agreements. Four of those agreements, covering a total of 247 employees, are scheduled for renegotiation before December 31, 1999. In Europe, approximately 2,240 employees are governed by works councils. We regard our employee relations as generally satisfactory. We own a number

66

76

of domestic and foreign patents and trademarks and other intellectual property relating to our products which are important to the manufacture, marketing and distribution of our products. In addition, our administrative services operations hold numerous software licenses and own computer equipment.

Our administrative services operations design, implement and administer administrative service programs and data processing, providing the following services: (a) financial accounting services; (b) employee benefits administration for all major salaried and hourly benefit plans; (c) human resources and payroll services; (d) mainframes and distributed systems operations; (e) telecommunications and network operations and management; (f) help desk support; and (g) disaster recovery support. After the spin-off, Packaging will continue to provide some of these services to Automotive. See "The Spin-off -- Relationship Between Automotive and Packaging After the Spin-off." We are currently analyzing our alternatives with respect to this operation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### LEGAL PROCEEDINGS

##### Potential Environmental Liability

See "-- Management's Discussion and Analysis of Financial Condition and Results of Operations" for information about Packaging's potential environmental liability.

Packaging and its subsidiaries are parties to various other legal proceedings arising from their operations. We believe that the outcome of these other proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position or results of operations.

#### CONTAINERBOARD PACKAGING INTEREST

On April 12, 1999, we contributed all of our containerboard packaging business to a new joint venture, in which it now owns a 43 percent common equity interest. For a description of the contribution and Packaging's plans to sell its remaining joint venture interest, see "Unaudited Pro Forma Combined Financial Statements of Packaging" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

67

77

#### MANAGEMENT

##### BOARD OF DIRECTORS

Upon completion of the spin-off, our Board of Directors will consist of six members. Each director will serve an annual term that will expire at our annual shareowners' meeting in each year and until his or her successor has been elected and qualified. Information concerning the individuals who will serve as our directors as of the date of the spin-off is provided below.

DANA G. MEAD, CHAIRMAN OF THE BOARD -- Mr. Mead is currently the Chairman and Chief Executive Officer of Tenneco and has served as an executive officer of Tenneco since April 1992, when he joined Tenneco as Chief Operating Officer. Prior to joining Tenneco, Mr. Mead served as an Executive Vice President of

International Paper Company, a manufacturer of paper, pulp, and wood products, from 1988, and served as Senior Vice President of that company from 1981. He is also a director of Packaging Corporation of America, Textron Inc., Zurich Allied AG, Pfizer Inc. and Newport News Shipbuilding Inc. Mr. Mead is 63 years old and has been a director of Tenneco since 1992. Upon completion of the spin-off, he will resign as Chief Executive Officer of Tenneco, but will continue, on a non-executive basis, as the Chairman of the Board of Automotive and Packaging through March 2000.

MARK ANDREWS -- Mr. Andrews has been Chairman of Andrews Associates, Inc., a government consulting firm, since February 1987. From 1963 to 1980, he served in the U.S. House of Representatives, and from 1980 to 1986 he served in the U.S. Senate. He is also a director of Union Storage Co. Mr. Andrews is 73 and has been a director of Tenneco since 1987. Mr. Andrews will continue as a director of Automotive upon the spin-off.

LARRY D. BRADY -- Mr. Brady was President of FMC Corporation, a producer of chemicals and machinery for industry, agriculture, and government, from 1993 to June 1999. In August 1999, he became the President and Chief Operating Officer of UNOVA, Inc., an industrial technologies company. Before 1993, Mr. Brady served in various executive capacities with FMC Corporation for more than five years. Mr. Brady is 56 years old and has been a director of Tenneco since January 1998. Mr. Brady will not be continuing as a director of Automotive after the spin-off.

ROGER B. PORTER -- Mr. Porter is Director of the Center for Business and Government at Harvard University and is the IBM Professor of Business and Government. Mr. Porter has served on the faculty at Harvard University since 1977. Mr. Porter also held senior economic policy positions in the Ford, Reagan and Bush White Houses, serving as special assistant to the President and executive secretary of the Economic Policy Board from 1974 to 1977, as deputy assistant to the President and director of the White House Office of Policy Development from 1981 to 1985, and as assistant to the President for economic and domestic policy from 1989 to 1993. He is also a director of RightCHOICE Managed Care, Inc., National Life Insurance Company, and Zions Bancorporation. Mr. Porter is 53 years old and has been a director of the Tenneco since January 1998. He will continue as a director of Automotive upon the spin-off.

PAUL T. STECKO -- Mr. Stecko became the Chief Executive Officer of Packaging Corporation of America, Packaging's containerboard joint venture, in connection with the April 1999 formation of that venture. From November 1998 to April 1999, Mr. Stecko served as President and Chief Operating Officer of Tenneco. From January 1997 to that time, Mr. Stecko served as President and Chief Executive Officer of Packaging. Prior to joining Tenneco, Mr. Stecko spent 16 years with International Paper Company. He is also a director of State Farm Mutual Insurance Company and the Chairman of the Board of Packaging Corporation of America. Mr. Stecko is 54 years old and has been a director of Tenneco since November 1998. He will continue as a director of Automotive upon the spin-off.

RICHARD L. WAMBOLD -- Mr. Wambold will be the Chief Executive Officer of Packaging upon the spin-off and has been serving as its President since June 1999. From June 1997 to May 1999, he was Executive Vice President and General Manager of Packaging's specialty packaging and consumer products units. Prior to joining Packaging in 1994, Mr. Wambold was Executive Vice President of Case Corporation's construction equipment and worldwide parts business.

EXECUTIVE OFFICERS

The following table provides information concerning the persons who will serve as our executive officers upon completion of the spin-off. Each of the named persons has been, or before the spin-off will be, elected to the office indicated opposite his name. The executive officers will serve at the discretion of our Board. Officers are elected at the annual meeting of directors held immediately following the annual meeting of shareowners.

<TABLE>  
<CAPTION>

NAME	AGE AT JUNE 30, 1999	POSITION
----	-----	-----
<S>	<C>	<C>
Richard L. Wambold.....	47	Chief Executive Officer

Paul J. Griswold.....	47	Senior Vice President -- Protective and Flexible Packaging
James V. Faulkner, Jr. ....	55	Vice President and General Counsel
James D. Morris.....	45	Vice President and GM Operations
Peter Lazaredes.....	48	Vice President -- Supermarket and Foodservice Packaging
[To be provided by amendment].....		Chief Financial Officer

RICHARD L. WAMBOLD -- See "-- Board of Directors," above, for information concerning Mr. Wambold.

PAUL J. GRISWOLD -- Mr. Griswold was named Senior Vice President -- Protective and Flexible Packaging in May 1997. Since joining Packaging in 1994, he has held various senior management positions in Packaging's protective and flexible packaging units. With over 20 years of packaging-related experience, Mr. Griswold began his career at International Paper Company, holding positions in sales, marketing and operations, and was later Vice President, Packaging for Pepsi Cola International.

JAMES V. FAULKNER, JR. -- Mr. Faulkner joined Packaging in 1995 as its Vice President and General Counsel. Prior to that he was Vice President -- Law for Tenneco. Mr. Faulkner began his legal career with Lord, Day & Lord and was later Associate General Counsel of Union Pacific Corporation and Senior Vice President of USPCI, a wholly owned subsidiary of Union Pacific. He has 25 years experience in staff and operational legal positions.

JAMES D. MORRIS -- Mr. Morris will be Vice President and GM Operations upon the spin-off. Since 1995 he has held various senior management positions in Packaging's specialty packaging unit, including oversight of manufacturing, engineering and product development. He also has responsibility for the sales, marketing and business planning of the processor packer operations of the specialty packaging unit. Mr. Morris joined Packaging in connection with its 1995 acquisition of Mobil Plastics. He spent 20 years with Mobil in assignments which included manager of polyethylene manufacturing, regional manufacturing manager and plant manager.

PETER J. LAZAREDES -- Mr. Lazaredes will be Vice President -- Supermarket and Foodservice Packaging upon the spin-off. Since 1996 he has held various senior management positions in Packaging's speciality packaging unit, including responsibility for the marketing and sales of rigid and flexible containers to the foodservice and institutional markets. Mr. Lazaredes joined Packaging in 1996 from Amoco Foam Products where he was General Manager of the tableware business unit from 1992. He spent 15 years with Amoco in sales and marketing positions for packaging, fabrics and fibers divisions.

STOCK OWNERSHIP OF MANAGEMENT

The following table shows, as of June 30, 1999, the number of shares of Tenneco common stock beneficially owned by: (1) each person who will be a director of Packaging upon the spin-off; (2) each person who is named in the Summary Compensation Table below; and (3) all persons who will be directors or executive officers of Packaging upon the spin-off, as a group. The table also shows: (a) Tenneco common stock equivalents held by these directors and executive officers under benefit plans; and (2) the total number of shares of Tenneco common stock and common stock equivalents held. Upon

the spin-off, holders of Tenneco common stock will receive one share of Packaging common stock for each share of Tenneco common stock held.

<TABLE>  
<CAPTION>

	SHARES OF TENNECO COMMON STOCK OWNED (1) (2) (3)	TENNECO COMMON STOCK EQUIVALENTS (4)	TOTAL TENNECO SHARES AND EQUIVALENTS
DIRECTORS			

<S>	<C>	<C>	<C>
Mark Andrews.....	14,155	1,600	15,755
Larry D. Brady.....	2,000	3,381	5,381
Dana G. Mead.....	765,821	44,737	810,558
Roger B. Porter.....	2,000	3,420	5,420
Paul T. Stecko.....	314,362	--	314,362
Richard L. Wambold.....	90,872	--	90,872
EXECUTIVE OFFICERS			
Paul J. Griswold.....	31,460	--	31,460
James V. Faulkner, Jr.....	22,086	--	22,086
James D. Morris.....	27,827	--	27,827
Peter J. Lazaredes.....	17,147	--	17,147
All executive officers and directors as a group.....	1,287,730 (5)	53,138	1,340,868 (5)

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- (1) Each director and executive officer has sole voting and investment power over the shares beneficially owned (or has the right to acquire shares as described in note (2) below) as set forth in this column, except for: (a) restricted shares; and (b) shares that executive officers and directors have the right to acquire pursuant to stock options. Generally, Tenneco restricted shares will be vested prior to the spin-off. In connection with the spin-off the Tenneco stock options held by the executive officers listed above will be replaced with Packaging stock options which have equivalent economic terms. Tenneco stock options held by directors will be replaced in the same manner, except that one-half of the options held by Messrs. Mead, Andrews and Porter will continue as Tenneco options, adjusted to maintain equivalent economic terms upon the spin-off, and options held by Mr. Stecko will terminate unless exercised prior to the spin-off.
- (2) Includes restricted shares. At June 30, 1999, Messrs. Andrews, Mead, Wambold, Griswold, Morris and Lazaredes held 6,547; 66,025; 15,000; 10,000; 5,000; and 5,000 restricted shares, respectively. Also includes shares that are subject to options which are exercisable within 60 days of June 30, 1999 for Messrs. Andrews, Brady, Mead, Porter, Stecko, Wambold, Griswold, Faulkner, Morris and Lazaredes to purchase 2,000; 2,000; 616,176; 2,000; 288,814; 49,077; 19,357; 19,312; 14,993; and 8,603 shares, respectively.
- (3) Less than one percent of the outstanding shares of Tenneco common stock.
- (4) Common stock equivalents are distributed in shares of Tenneco common stock or, in some circumstances cash after the individual ceases to serve as a director or officer. Common stock equivalents held by directors who are not employees of Tenneco will be vested and distributed prior to the spin-off.
- (5) Includes 1,022,332 shares that are subject to options that are exercisable within 60 days of June 30, 1999, by all executive officers and directors as a group, and includes 107,572 restricted shares for all executive officers and directors as a group.

COMMITTEES OF THE BOARD OF DIRECTORS

Our Board will establish three standing committees as permitted by our Bylaws, which will have the following described responsibilities and authority:

The Audit Committee, comprised solely of outside directors, will have the responsibility, among other things, to: (1) recommend the selection of our independent public accountants; (2) review and approve the scope of the independent public accountants' audit activity and extent of non-audit services; (3) review with management and such independent public accountants the adequacy of our basic accounting system and the effectiveness of our internal audit plan and activities; (4) review with management and the independent public accountants our certified financial statements and exercise general oversight of our financial reporting process; and (5) review with us litigation and other legal matters that may affect our financial condition and monitor compliance with our business ethics and other policies.

The Compensation/Nominating/Governance Committee, comprised solely of outside directors, will have the responsibility, among other things, to: (1) establish the salary rate of officers and employees of Packaging and its subsidiaries; (2) examine periodically our compensation structure; and (3) supervise our welfare and pension plans and compensation plans. It will also have significant corporate governance

responsibilities, among other things, to: (a) review and determine the desirable balance of experience, qualifications and expertise among members of the our Board; (b) review possible candidates for membership on our Board and recommend a slate of nominees for election as directors at our annual shareholders' meeting; (c) review the function and composition of the other committees of our Board and recommend membership on these committees; and (d) review the qualifications and recommend candidates for election as our officers.

The Three-year Independent Director Evaluation Committee, comprised solely of outside directors, will have the responsibility, among other things, to review our Qualified Offer Rights Plan, which will be adopted prior to the spin-off, at least every three years and, if it deems it appropriate, recommend that the full Board modify or terminate that plan.

EXECUTIVE COMPENSATION

The following table shows the compensation paid by Tenneco and/or its direct and indirect subsidiaries, including Packaging, for 1998, to: (a) the person who will become our Chief Executive Officer upon the spin-off; and (b) each of the persons who will be included among the four most highly compensated executive officers of Packaging upon the spin-off, based on 1998 compensation, other than our Chief Executive Officer. The table shows the amounts paid to these persons for all services provided to Tenneco and its subsidiaries, including Packaging.

SUMMARY COMPENSATION TABLE

<TABLE>  
<CAPTION>

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG-TERM COMPENSATION		ALL OTHER COMPENSATION (5)
	SALARY (1)	BONUS	OTHER ANNUAL COMPENSATION (2)	RESTRICTED STOCK AWARDS (3)	OPTIONS (4)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Richard L. Wambold..... Chief Executive Officer	\$355,472	\$220,000	\$152,685	\$187,800	45,000	\$11,643
Paul J. Griswold..... Senior Vice President -- Protective and Flexible Packaging	\$275,500	\$125,000	\$ 31,165	\$187,800	20,000	\$ 9,812
James V. Faulkner, Jr. .... Vice President and General Counsel	\$266,568	\$ 82,000	\$ 25,760	--	10,000	\$17,674
James D. Morris..... Vice President and GM Operations	\$206,004	\$115,000	\$ 29,405	\$187,800	20,000	\$14,139
Peter J. Lazaredes..... Vice President -- Supermarket and Protective Packaging	\$182,773	\$ 73,000	\$ 30,730	\$177,800	20,000	\$12,704

</TABLE>

(1) Includes base salary plus amounts paid in lieu of matching contributions to the Tenneco Thrift Plan.

(2) Includes amounts attributable to: (a) the value of personal benefits provided by Tenneco to executive officers, such as the personal use of Tenneco-owned property and relocation expenses; (b) reimbursement for taxes; and (c) amounts paid as dividend equivalents on performance share equivalent units ("Dividend Equivalents"). The amount of each personal benefit that exceeds 25% of the estimated value of the total personal benefits provided by Tenneco, reimbursement for taxes, and amounts paid as Dividend Equivalents to the individuals named in the table for 1998 was as follows: \$58,908 for relocation expenses, \$47,171 for reimbursement of taxes, \$15,600 in Dividend Equivalents and \$30,000 perquisite allowance for Mr. Wambold; \$342 for reimbursement of taxes, \$10,320 in Dividend Equivalents and \$20,000 perquisite allowance for Mr. Griswold; \$5,760 in Dividend Equivalents and \$20,000 perquisite allowance for Mr. Faulkner; \$6,600 in Dividend Equivalents and \$20,000 perquisite allowance for Mr. Morris, and \$17,530 in relocation expenses, \$1,200 in Dividend Equivalents and \$12,000 perquisite allowance for Mr. Lazaredes.

(3) Includes the dollar value of grants of restricted shares based on the price of Tenneco common stock on the date of grant. At December 31, 1998, Messrs. Wambold, Griswold, Faulkner, Morris and Lazaredes held 28,000 18,600 4,800 10,500 and 6,000 restricted shares and/or performance share equivalent units, respectively. The value at December 31, 1998 (based on a per share/equivalent unit price of \$34.063 on that date) of all restricted shares/performance units held was \$953,764 for

71

81

Mr. Wambold, \$633,572 for Mr. Griswold, \$163,502 for Mr. Faulkner, \$357,662 for Mr. Morris and \$204,378 for Mr. Lazaredes. Generally, restricted shares and performance share equivalent units will be vested prior to the spin-off. Dividends/Dividend Equivalents will be paid on the restricted shares/performance share equivalent units held by each individual.

(4) In connection with the spin-off, the Tenneco stock options held by the persons listed above will be replaced with options to purchase Packaging common stock, the number and exercise price of which will be adjusted so that the new Packaging options have equivalent economic terms as the old Tenneco options.

(5) Includes amounts attributable during 1998 to benefit plans of Tenneco as follows:

(a) The amounts contributed pursuant to Tenneco's Thrift Plan for the accounts of Messrs. Wambold, Griswold, Faulkner, Morris and Lazaredes were \$10,000; \$6,650; \$8,000; \$10,000 and \$10,000, respectively.

(b) The dollar values paid by Tenneco for insurance premiums under the Tenneco group life insurance plan (including dependent life) for Messrs. Wambold, Griswold, Faulkner, Morris and Lazaredes were \$1,643; \$3,162; \$9,674; \$4,139 and \$2,704, respectively.

OPTIONS GRANTED IN 1998

The following table shows the number of options to purchase Tenneco common stock that were granted by Tenneco during 1998 to the persons named in the Summary Compensation Table above.

<TABLE>  
<CAPTION>

SHARES OF COMMON STOCK	PERCENT OF TOTAL
------------------------------	---------------------

NAME	UNDERLYING OPTIONS GRANTED (#) (1)	OPTIONS GRANTED TO TENNECO EMPLOYEES IN 1998 (%)	EXERCISE PRICE (\$) (2)	EXPIRATION DATE	GRANT DATE PRESENT VALUE (3)
<S>	<C>	<C>	<C>	<C>	<C>
Mr. Wambold.....	45,000	2.6%	\$36.63	2008	\$463,050
Mr. Griswold.....	20,000	1.1%	\$36.63	2008	\$205,800
Mr. Faulkner.....	10,000	.5%	\$36.63	2008	\$102,900
Mr. Morris.....	20,000	1.1%	\$36.63	2008	\$205,800
Mr. Lazaredes.....	10,000	.5%	\$36.63	2008	\$102,900
	10,000	.5%	\$37.31	2018	\$104,500

</TABLE>

(1) In connection with the spin-off, the Tenneco stock options held by the persons listed above will be replaced with options to purchase Packaging common stock, the number and exercise price of the options will be adjusted so that the new Packaging options have equivalent economic terms as the old Tenneco options.

(2) All options were granted with exercise prices equal to 100% of the fair market value on the date of grant.

(3) The Black-Scholes valuation was performed using the following assumptions: 25.6% volatility, 5.7% risk free interest rate, 3.2% expected dividend rate and 10 year option life. Mr. Lazaredes's option grant that expires in 2018 is valued assuming that such options are exercised by the 10th year.

OPTIONS AT 1998 YEAR-END

The following table shows the number of options to purchase Tenneco common stock held as of December 31, 1998 by the persons named in the Summary Compensation Table above. No Tenneco options were exercised in 1998, and there were no in-the-money options as of December 31, 1998.

<TABLE>  
<CAPTION>

NAME	TOTAL NUMBER OF UNEXERCISED OPTIONS HELD AT DECEMBER 31, 1998 (1)	
	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>
Mr. Wambold.....	29,820	107,023
Mr. Griswold.....	10,949	58,109
Mr. Faulkner.....	14,043	31,501
Mr. Morris.....	6,662	48,330
Mr. Lazaredes.....	5,269	19,634

</TABLE>

(1) In connection with the spin-off, the Tenneco stock options held by the persons listed above will be replaced with options to purchase Packaging common stock, the number and exercise price of which will be adjusted so that the new Packaging options have equivalent economic terms to the old Tenneco options.

LONG-TERM INCENTIVE PLAN

PERFORMANCE SHARE EQUIVALENT UNIT AWARDS IN 1998



The following table shows information concerning performance-based awards made to the persons named in the Summary Compensation Table above, during 1998 by Tenneco.

<TABLE>  
<CAPTION>

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS (1) (2)	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT (3)	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE BASED PLANS (1)		
			THRESHOLD (4)	TARGET (4)	MAXIMUM (4)
<S>	<C>	<C>	<C>	<C>	<C>
Mr. Wambold.....	6,500	4 years	25%	100%	150%
Mr. Griswold.....	5,000	4 years	25%	100%	150%
Mr. Faulkner.....	2,400	4 years	25%	100%	150%
Mr. Morris.....	3,000	4 years	25%	100%	150%
Mr. Lazaredes.....	1,000	4 years	25%	100%	150%

</TABLE>

(1) Estimated future payouts are based on earnings per share ("EPS") from continuing operations; however, generally, performance share equivalent units will be deemed to be earned at the target level and vested prior to the spin-off.

(2) Each performance share equivalent unit represents one share of Tenneco's common stock that may be earned and the number of performance share equivalent units listed in this column represents the maximum number of performance share equivalent units that may be earned under this award.

(3) Performance share equivalent units are earned at the rate of 25% per year based on achievement of annual EPS goals; however, generally performance share equivalent units will be deemed to be earned at the target level and vested prior to the spin-off.

(4) Represents maximum performance share equivalent units earned where the goals were consistently within the indicated performance range on an individual year and accumulated four-year basis; however, generally performance share equivalent units will be deemed to be earned at the target level and vested prior to the spin-off.

PENSION PLAN TABLE

The following table shows the aggregate estimated annual benefits payable upon normal retirement pursuant to the Tenneco Retirement Plan and the Tenneco Inc. Supplemental Executive Retirement Plan to persons in specified remuneration and years of credited participation classifications. The Tenneco Retirement Plan will be assumed by Packaging in connection with the spin-off, and Packaging will adopt a supplemental executive retirement plan that is substantially identical to Tenneco's current plan.

<TABLE>  
<CAPTION>

ANNUAL REMUNERATION	YEARS OF CREDITED PARTICIPATION				
	15	20	25	30	35
<S>	<C>	<C>	<C>	<C>	<C>
\$250,000.....	\$ 58,928	\$ 78,571	\$ 98,214	\$117,857	\$137,500
300,000.....	70,714	94,285	117,857	141,428	165,000
350,000.....	82,500	110,000	137,500	165,000	192,500
400,000.....	94,285	125,714	157,142	188,571	220,000
450,000.....	106,071	141,428	176,785	212,142	247,500
500,000.....	117,857	157,142	196,428	235,714	275,000

550,000.....	129,642	172,857	216,071	259,285	302,500
600,000.....	141,428	188,571	235,714	282,857	330,000
650,000.....	153,214	204,285	255,357	306,428	357,500
700,000.....	165,000	220,000	275,000	330,000	385,000

</TABLE>

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(1) The benefits shown above are computed as a straight life annuity and are based on years of credited participation and the employee's average compensation (salary and bonus). These benefits are not subject to any deduction for Social Security or other offset amounts. The years of credited participation for Messrs. Wambold, Griswold, Faulkner, Morris and Lazaredes are 21, 4, 5, 24 and 18, respectively. See the Summary Compensation Table on page 71 for salary and bonus information for these individuals.

(2) If Mr. Wambold completes 5 years of service commencing January 1, 1997 he will be entitled to benefits commencing at age 55 determined by multiplying his average salary plus bonus, determined over a three-year period, by 25% plus 2.5% for each year of service in the period commencing January 1, 1997, up to a maximum of 50%. Mr. Faulkner is entitled to special early retirement benefits and if he remains with Packaging through December 31, 2002 his benefit will be determined by adding three years of participation and age to his actual participation and age.

Compensation of Directors

Fee Structure. Following the spin-off, each director who is not also an employee of Packaging or its subsidiaries, an "outside director," will be paid a yearly retainer fee of \$35,000 for service on our Board of Directors. In general, 100% of that fee will be paid in the form of stock-settled common stock equivalents (the "directors' stock equivalents"), as described below. A director may elect, however, to have up to 40% or \$14,000, of the fee paid in cash. These outside directors will also receive cash attendance fees and committee chair and membership fees, and reimbursement of their expenses for attending meetings of the Board of Directors. Outside directors will receive \$1,000 for each meeting of the Board of Directors attended, and each one who serves as a Chairman of the Audit Committee or the Compensation/ Nominating/Governance Committee will be paid a fee of \$7,000 per chairmanship. Outside directors who serve as members of these committees will be paid \$4,000 per committee membership. Members of the Three-year Independent Director Evaluation Committee will receive \$1,000 plus expenses for each meeting of that committee attended.

Common Stock Equivalents/Options. As described above, all or a portion of an outside director's retainer fee will be paid in common stock equivalent units. These directors' stock equivalents will be payable in shares of our common stock after an outside director ceases to serve as a director. Final distribution of these shares may be made either in a lump sum or in installments over a period of years. The directors' stock equivalents are issued at 100% of the fair market value on the date of the grant. Each outside director will also receive an annual grant of an option to purchase up to 3,000 shares of our common stock as additional incentive compensation. Directors options: (a) will be granted with per share exercise prices equal to 100% of the fair market value of a share of our common stock on the day the option is granted; (b) will have terms of ten years; and (c) will fully vest six months from the grant date. Once vested, the directors options will be exercisable at any time during the option term.

We expect that restricted shares of Tenneco common stock and director's stock equivalents held by directors will be vested prior to the completion of the spin-off, and these directors will be paid an amount in cash to defray taxes incurred on that vesting.

Deferred Compensation Plan. We will have a voluntary deferred compensation plan for outside directors. Under this plan, an outside director may elect, prior to the commencement of the next calendar year, to have some or all of the cash portion, that is up to 40% or \$14,000, of his or her retainer fee and some or all of his or her meeting fees credited to a deferred compensation account.

The plan will provide these directors with various investment options. The investment options will include stock equivalent units of the our common stock, which may be paid out in either cash or shares of our common stock.

#### Employment Contracts and Termination of Employment and Change-in-Control Arrangements

We will maintain a key executive change-in-control severance benefit plan similar to the existing Tenneco plan and incorporating some provisions of the Tenneco benefits protection trust. The purpose of the plan is to enable us to continue to attract, retain and motivate highly qualified employees by eliminating, to the maximum practicable extent, any concern on the part of those employees that their job security or benefit entitlements will be jeopardized by a "change-in-control" of Packaging, as that term will be defined in the plan. The plan will be designed to achieve this purpose through the provision of severance benefits for key employees and officers whose positions are terminated following a change-in-control, as provided in the plan. Under the plan, we expect that Messrs. Wambold, Griswold, Faulkner, Morris and Lazaredes would have become entitled to receive payments from us in the amount of \$1,705,200; \$1,215,000; \$1,076,199; \$935,001; and \$774,000, respectively, had their positions been terminated on December 31, 1998 following a change-in-control. In addition, restricted shares held in the name of those individuals under the restricted stock plans we will adopt would have automatically reverted to us, and we would have been obliged to pay those individuals the fair market value of the shares. Their performance share equivalent units would also have been fully vested and paid. The spin-off does not constitute a "change-in-control" of Tenneco or Packaging for purposes of the Tenneco or Packaging change-in-control severance benefit plans. The Tenneco benefits protection trust will be terminated prior to the spin-off.

74

84

#### Benefit Plans Following the Spin-off

We will succeed to sponsorship of the Tenneco Retirement Plan and the Tenneco Thrift Plan. The plans are qualified under Section 401(a) of the Code. The Tenneco Retirement Plan is a defined benefit pension plan. The Thrift Plan is comprised of 401(k) plans with employer matching contributions as specified in the plans. Packaging will also continue its sponsorship of a defined benefit pension plan covering hourly employees.

We will also succeed to sponsorship of two non-qualified deferred compensation plans as to our employees or directors (1) the 1997 Tenneco Inc. Board of Directors Deferred Compensation Plan; and (2) the Tenneco Inc. Deferred Compensation Plan. Packaging will succeed to liabilities for benefits under the Tenneco Inc. Supplemental Retirement Plan as to all participants other than those who are employees or former employers of Automotive. The 1997 Tenneco Inc. Board of Directors Deferred Compensation Plan and the Tenneco Inc. Deferred Compensation Plan will be merged as of the spin-off. All of these plans are unfunded; however, we will adopt one or more rabbi trusts, from which assets may be available to pay benefits in specified circumstances.

We will adopt an executive incentive compensation plan similar to Tenneco's plan to provide annual cash bonuses to eligible employees.

We will adopt an employee stock purchase plan similar to the one maintained by Tenneco, under which approximately 4,000,000 shares of our common stock will be available for purchase. Tenneco will approve this plan as our sole shareowner prior to the spin-off.

We will adopt a plan calling for the grant of stock options, restricted stock, performance share equivalent units and other stock rights patterned after the 1996 Tenneco Inc. Stock Ownership Plan. Approximately 20,000,000 shares of our common stock will be available for grant under this plan. This plan will be approved by Tenneco as our sole shareowner prior to the spin-off.

Elimination of Liability of Directors

The Certificate provides that a director of Packaging will not be liable to us or our shareowners for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware ("DGCL") as the same exists or may thereafter be amended. Based on the DGCL, as presently in effect, a director of Packaging will not be personally liable to us or our shareowners for monetary damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to Packaging or our shareowners;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the DGCL, which concerns unlawful payments of dividends, stock purchases or redemptions; or
- for any transactions from which the director derived an improper personal benefit.

While the Certificate provides directors with protection from awards for monetary damages for breaches of their duty of care, it does not eliminate such duty. Accordingly, the Certificate will have no effect on the availability of equitable remedies such as an injunction or rescission based on a director's breach of his or her duty of care. The provisions of the Certificate described above apply to an officer of Packaging only if he or she is a director of Packaging and is acting in his or her capacity as director and do not apply to officers of Packaging who are not directors.

75

85

Indemnification of Directors and Officers

The Bylaws provide that we will indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may thereafter be amended, any person (a "Covered Person") who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of Packaging or, while a director or officer of Packaging, is or was serving at the request of Packaging as a director, officer, employee or agent of another company or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by that Covered Person. The Bylaws also provide that, notwithstanding the foregoing, but except as described in the second following paragraph, we will be required to indemnify a Covered Person in connection with a proceeding (or part thereof) commenced by that Covered Person only if the commencement of the proceeding (or part thereof) by the Covered Person was authorized by our Board.

The Bylaws further provide that we will pay the expenses (including attorneys' fees) incurred by a Covered Person in defending any proceeding in advance of its final disposition; provided, however, that, to the extent required by law, the payment of expenses in advance of the final disposition of the proceeding will be made only upon receipt of an undertaking by that Covered Person to repay all amounts advanced if it should be ultimately determined that the Covered Person is not entitled to be indemnified under the relevant section of the Bylaws or otherwise.

Pursuant to the Bylaws, if a claim for indemnification or payment of expenses thereunder is not paid in full within 30 days after a written claim therefor by the Covered Person has been received by Packaging, the Covered Person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, will be entitled to be paid the expense of prosecuting such claim. The Bylaws provide that, in any such action, we will have the burden of proving that the Covered Person is not entitled to the requested indemnification or payment of expenses under applicable law.

The Bylaws also provide:

- that the rights conferred on any Covered Person thereby are not exclusive of any other rights which that Covered Person may have or thereafter acquire under any statute, provision of the Certificate, the Bylaws,

agreement, vote of shareowners or disinterested directors or otherwise;

- that our obligation, if any, to indemnify or to advance expenses to any Covered Person who was or is serving at its request as a director, officer, employee or agent of another company, partnership, joint venture, trust, enterprise or nonprofit entity will be reduced by any amount that Covered Person may collect as indemnification or advancement of expenses from such other company, partnership, joint venture, trust, enterprise or nonprofit enterprise; and
- that any repeal or modification of the relevant provisions of the Bylaws will not adversely affect any right or protection thereunder of any Covered Person in respect of any act or omission occurring prior to the time of such repeal or modification.

The Bylaws also expressly state that the provisions thereof will not limit our right, to the extent and in the manner permitted by law, to indemnify and to advance expenses to persons other than Covered Persons when and as authorized by appropriate corporate action.

PRINCIPAL SHAREOWNERS

All of our capital stock is currently owned by Tenneco. In the spin-off, Tenneco shareowners will receive one share of our common stock per share of Tenneco common stock. The following table sets forth information about those persons that we expect to hold more than 5% of our common stock upon completion of the spin-off. It is based on our knowledge of those persons who owned more than 5% of Tenneco's common stock on June 30, 1999. Before giving effect to the spin-off, the following table sets forth, as of June 30, 1999, the name, address, and Tenneco common stock ownership for each person known by Tenneco to be the beneficial owner of more than five percent of Tenneco's outstanding common stock (the only class of voting securities outstanding).

<TABLE>  
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER(1)	SHARES OF COMMON STOCK OWNED(1)	PERCENT OF COMMON STOCK OUTSTANDING(1)
<S>	<C>	<C>
Barrow, Hanley, Mewhinney & Strauss, Inc..... One McKinney Plaza 3232 McKinney Avenue 15th Floor Dallas, Texas 75204-2429	20,761,040(2)	12.18%(2)
Morgan Stanley Dean Witter & Co. .... 1585 Broadway New York, New York 10036	10,662,171(3)	6.26%(3)

</TABLE>

(1) The foregoing information is based on information contained in filings made with the Securities and Exchange Commission.

(2) Barrow, Hanley, Mewhinney & Strauss, Inc. has indicated that it has sole voting power over 5,104,460 shares, shared voting power over 16,227,200 shares, and sole dispositive power over 20,761,040 shares. Barrow, Hanley also advised Tenneco that it is a registered investment advisor and these shares are held on behalf of various clients.

(3) Morgan Stanley Dean Witter & Co. has indicated that it has sole voting power over 10,504,928 shares.

DESCRIPTION OF CAPITAL STOCK

AUTHORIZED CAPITAL STOCK

Under our Restricted Certificate of Incorporation (the "Certificate"), our

authorized capital stock will consist of 350,000,000 shares of common stock and 50,000,000 shares of preferred stock. We will not issue any preferred stock in the spin-off. Based on the number of shares of Tenneco outstanding on June 30, 1999, Tenneco will distribute up to approximately 171,356,195 shares of Packaging common stock in the spin-off. The Certificate provides that Packaging shareholders do not have any preemptive right to subscribe to an additional issue of Packaging stock or to any securities of Packaging convertible into Packaging stock.

#### PACKAGING COMMON STOCK

Packaging common shareholders will be entitled to one vote for each share on all matters on which shareholders generally are entitled to vote, and except as otherwise required by law or provided with respect to any series of preferred stock, Packaging common shareholders will possess 100% of the voting power. The Certificate does not provide for cumulative voting.

Subject to the preferential rights of any outstanding preferred stock, Packaging common shareholders will be entitled to such dividends as may be declared from time to time by the Packaging Board and paid from funds legally available therefor, and Packaging common shareholders will be entitled to receive pro rata all assets of Packaging available for distribution upon liquidation. All shares of Packaging common stock received in the spin-off will be fully paid and nonassessable.

There is no established public trading market for Packaging common stock, although a "when issued" market is expected to develop prior to the spin-off date. We have applied to the New York Stock Exchange for the listing of Packaging common stock upon official notice of issuance and we expect to receive approval of such listing prior to the spin-off.

Our dividend policy will be established by our board of directors from time to time. Subject to legal and contractual restrictions, its decisions regarding dividends will be based on all considerations that in its business judgment are relevant at the time, including past and projected earnings, cash flows, economic, business and securities market conditions and anticipated developments concerning our business and operations. We expect that our dividend policy for the foreseeable will be set to approximate the Standard & Poor's 500 average dividend yield. For additional information concerning the payment of dividends by us, see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our cash flow and our consequent ability to pay any dividends on Packaging common stock will be substantially dependent upon our earnings and cash flow available after debt service and the availability of such earnings by way of dividends, distributions, loans and other advances.

Under the DGCL, we may pay dividends out of "surplus" (as determined in accordance with the DGCL) or, if there is no surplus, out of net profits for the fiscal year in which the dividends are declared and/or the preceding fiscal year (subject to certain restrictions).

The Certificate provides that the business and affairs of Packaging will be managed by or under the direction of a Board of Directors, consisting of not less than five nor more than sixteen directors, the exact number to be determined from time to time by the Board of Directors.

#### PACKAGING PREFERRED STOCK

Under the Certificate, the Packaging Board of Directors is authorized to issue preferred stock, in one or more series, and to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating,

78

88

optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. See "-- Anti-takeover Effects of Certain Provisions."

#### ANTI-TAKEOVER EFFECTS OF CERTAIN PROVISIONS

The Certificate, the Bylaws, the rights to be issued in accordance with the Qualified Offer Rights Plan and Delaware statutory law contain provisions that could make the acquisition of control of Packaging by means of a tender offer, a proxy contest or otherwise more difficult. The description set forth below is intended as a summary only and is qualified in its entirety by reference to the Certificate, the Bylaws and the Qualified Offer Rights Plan Agreement which are attached as exhibits to our Registration Statement on Form 10 under the Exchange Act relating to our common stock.

## Special Meetings

The Bylaws provide that, subject to the rights of the holders of any series of preferred stock of Packaging to elect additional directors under specified situations, special meetings of shareowners will be called by the Packaging Board. The business permitted to be conducted at any special meeting of shareowners is limited to the purposes specified in our notice of meeting.

### Advance Notice Provisions for Shareowner Nominations and Shareowner Proposals

The Bylaws establish an advance notice procedure for shareowners to make nominations of candidates for election of directors before an annual meeting or special meeting of shareowners or to bring other business before an annual meeting or special meeting of shareowners (the "Shareowner Notice Procedure").

The Shareowner Notice Procedure provides that nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareowners may be made at an annual meeting of shareowners only:

- pursuant to Packaging's notice of meeting;
- by or at the direction of the Board of Directors; or
- by any shareowner who was a shareowner of record at the time the requisite notice is delivered, who is entitled to vote at the meeting and who complies with the notice procedures set forth in the Shareowner Notice Procedure.

Under the Shareowner Notice Procedure, the shareowner must have given timely notice of any nomination or proposal in writing to the Secretary of Packaging. For shareowner notice in respect of the annual meeting of Packaging's shareowners to be timely, the notice must generally be delivered to the Secretary of Packaging not less than 90 days nor more than 120 days prior to the first anniversary of the previous year's annual meeting. The Shareowner Notice Procedure also provides that for the purpose of our first annual meeting of shareowners held after 1999, the anniversary date shall be deemed to be May 11, 1999.

Under the Shareowner Notice Procedure, a shareowner's notice to Packaging in respect of an annual meeting, must contain the following information:

- as to each person whom the shareowner proposes to nominate for election as a director all information relating to the person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to the Exchange Act (and the person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected);
- as to any other business that the shareowner proposes to bring before the meeting:
  - a brief description of the business desired to be brought before the meeting;

79

89

- the text of the proposal (including the text of any resolutions proposed for consideration and in the event that the business includes a proposal to amend the Bylaws, the language of the proposed amendment);
- the reasons for conducting the business at the meeting; and
- any material interest in the business of the shareowner and the beneficial owner, if any, on whose behalf the proposal is made; and
- as to the shareowner giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made:
  - the name and address of the shareowner and of the beneficial owner;
  - the class and number of shares of capital stock which are owned beneficially and of record by the shareowner and the beneficial owner;
  - a representation that the shareowner is a holder of record of Packaging stock entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose the business or nomination; and
  - a representation whether the shareowner or the beneficial owner, if any, intends or is part of a group which intends:

- to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Packaging's capital stock required to approve the proposal or elect the nominee and/or
- otherwise to solicit proxies from shareowners in support of the proposal or nomination.

The Shareowner Notice Procedure provides that Packaging may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director.

The Shareowner Notice Procedure provides that nominations of persons for election to the Board of Directors may be made at a special meeting of shareowners at which directors are to be elected pursuant to Packaging's notice of meeting

- by or at the direction of the Board of Directors; or
- provided that the Board of Directors has determined that directors shall be elected at such meeting, by any shareowner who is a shareowner of record at the time the requisite notice is delivered, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in the Shareowner Notice Procedure.

Under the Shareowner Notice Procedure, the shareowner must have given timely notice thereof in writing to the Secretary of Packaging. For shareowner notice in respect of a special meeting of shareowners at which directors are to be elected to be timely, the notice must be delivered to the Secretary of Packaging not earlier than 120 days prior to such special meeting and not later than the later of 90 days prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The shareowner notice must contain the information required under the Shareowner Notice Procedure in respect of an annual meeting of shareowners.

The Shareowner Notice Procedure provides that:

- only the persons who are nominated in accordance with these procedures are eligible to be elected at an annual or special meeting of shareowners to serve as directors and only that business shall be conducted at a meeting of shareowners as shall have been brought before the meeting in accordance with these procedures; and

80

90

- the chairman of the meeting shall have the power and duty:
  - to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed in accordance with these procedures; and
  - if any proposed nomination or business was not made or proposed in compliance with such procedures, to declare that the nomination shall be disregarded or that the proposed business shall not be transacted.

By requiring advance notice of nominations by shareowners, the Shareowner Notice Procedure will afford the Packaging Board an opportunity to consider the qualifications of the proposed nominees and, to the extent deemed necessary or desirable by the Packaging Board, to inform shareowners about such qualifications. By requiring advance notice of other proposed business, the Shareowner Notice Procedure will also provide a more orderly procedure for conducting annual meetings of shareowners and, to the extent deemed necessary or desirable by the Packaging Board, will provide the Packaging Board with an opportunity to inform shareowners, prior to such meetings, of any business proposed to be conducted at such meetings, together with any recommendations as to the Packaging Board's position regarding action to be taken with respect to such business, so that shareowners can better decide whether to attend such a meeting or to grant a proxy regarding the disposition of any such business.

Although the Bylaws do not give the Packaging Board any power to approve or disapprove shareowner nominations for the election of directors or proper shareowner proposals for action, they may have the effect of precluding a contest for the election of directors or the consideration of shareowner proposals if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal, without regard to whether consideration of such nominees or proposals might be harmful or beneficial to Packaging and its shareowners.



The Bylaws establish a procedure for the fixing of a record date in respect of action proposed to be taken by Packaging's shareowners by written consent in lieu of a meeting. The Bylaws provide that any person seeking to have the shareowners authorize or take corporate action by written consent without a meeting shall, by written notice, request that a record date be fixed for such purpose. The Packaging Board may fix a record date for such purpose which shall be no more than 10 days after the date upon which the resolution fixing the record date is adopted by the Packaging Board. If the Packaging Board fails within 10 days after Packaging receives such notice to fix a record date for such purpose, the Bylaws provide that the record date shall be the day on which the first written consent is delivered to Packaging unless prior action by the Packaging Board is required under the DGCL, in which event the record date shall be at the close of business on the day on which the Packaging Board adopts the resolution taking such prior action. The Bylaws also provide that the Secretary of Packaging or, under certain circumstances, two inspectors designated by the Secretary shall promptly conduct such ministerial review of the sufficiency of any written consents of shareowners duly delivered to Packaging and of the validity of the action to be taken by shareowner consent as he deems necessary or appropriate.

#### Shareowner Meetings

The Bylaws provide that the Packaging Board and the chairman of a meeting may adopt rules for the conduct of stockholder meetings and specify the types of rules that may be adopted such as:

- the establishment of an agenda;
- rules relating to presence at the meeting of persons other than shareowners;
- restrictions on entry at the meeting after commencement thereof; and
- the imposition of time limitations for questions by participants at the meeting.

81

91

#### Preferred Stock

The Certificate authorizes the Packaging Board to provide for series of preferred stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series.

We believe that the ability of the Packaging Board to issue one or more series of preferred stock will provide Packaging with flexibility in structuring possible future financings and acquisitions and in meeting other corporate needs which might arise. The authorized shares of preferred stock, as well as shares of common stock, will be available for issuance without further action by Packaging's shareowners, unless such action is required by the rules of any stock exchange or automated quotation system on which Packaging's securities may be listed or traded. The NYSE currently requires shareowner approval as a prerequisite to listing shares in several instances, including where the present or potential issuance of shares could result in a 20% increase in the number of shares of common stock outstanding or in the amount of voting securities outstanding. If the approval of Packaging's shareowners is not required for the issuance of shares of preferred stock or Packaging common stock, the Packaging Board may determine not to seek shareowner approval.

Although the Packaging Board has no intention at the present time of doing so, it could issue a series of preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. The Packaging Board will make any determination to issue such shares based on its judgment as to the best interests of Packaging and its shareowners. The Packaging Board, in so acting, could issue preferred stock having terms that could discourage an acquisition attempt through which an acquiror may be able to change the composition of the Packaging Board, including a tender offer or other transaction that some, or a majority, of Packaging's shareowners might believe to be in their best interests or in which shareowners might receive a premium for their stock over the then current market price of such stock.

#### Business Combinations

The Certificate prohibits "Business Combinations" (as defined in the Certificate) with "Interested Stockholders" (as defined in the Certificate)

without the approval of the holders of at least 66 2/3% in voting power of the outstanding shares of stock entitled to vote in the election of directors ("Voting Stock") not owned by an Interested Stockholder unless:

- approved by a majority of the "Continuing Directors" (as defined in the Certificate); or
- certain detailed requirements have been satisfied as to:
  - the value and type of consideration to be paid to Packaging's shareowners;
  - the maintenance of Packaging's dividend policy;
  - the public disclosure of the Business Combination; and
  - the absence of any major change in Packaging's business or equity capital structure without the approval of a majority of the Continuing Directors.

The Certificate generally defines an "Interested Stockholder" as any person who:

- is or has announced or publicly disclosed a plan or intention to become the beneficial owner of Voting Stock representing five percent or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock; or
- is an affiliate or associate of Packaging and at any time within the two-year period immediately prior to the date in question was the beneficial owner of Voting Stock representing five percent or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock.

The Certificate defines a "Continuing Director" as any member of the Packaging Board who is not an affiliate or associate or representative of the Interested Stockholder and was a member of Packaging Board

82

92

prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor thereto who is not an affiliate or associate or representative of the Interested Stockholder and is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors.

#### Amendment of Certain Provisions of the Certificate and By-laws

Under the DGCL and the Certificate, the Packaging Board or shareowners may amend the Bylaws. The Certificate also provides that any proposal to amend the provisions of the Certificate regarding Business Combinations proposed by or on behalf of an Interested Stockholder requires the affirmative vote of the holders of 66 2/3% in voting power of the outstanding shares of Voting Stock, excluding Voting Stock beneficially owned by any Interested Stockholder, unless the amendment is unanimously recommended by the members of the Packaging Board and each of the members of the Packaging Board qualifies as a Continuing Director. Approval by the Packaging Board, together with the affirmative vote of the holders of a majority in voting power of the outstanding shares of Voting Stock, is required to amend all other provisions of the Certificate. The Business Combination supermajority voting requirement could have the effect of making more difficult any amendment by shareowners of the Business Combination provisions of the Certificate described above, even if a majority of Packaging's shareowners believe that such amendment would be in their best interest.

#### Qualified Offer Rights Plan

Prior to the spin-off, the Packaging Board will adopt a Qualified Offer Rights Plan and cause to be issued, with each share of Packaging common stock to be distributed in the spin-off, one preferred share purchase right (a "Right"). Each Right will entitle the registered holder to purchase from Packaging one one-thousandth of a share of Series A Junior Participating Preferred Stock of Packaging (the "Series A Junior Preferred Stock") at a price of \$ \_\_\_\_\_ per one one-thousandth of a share of Series A Junior Preferred Stock (the "Purchase Price"), subject to adjustment. The description and terms of the Rights will be set forth in a Qualified Offer Plan Rights Agreement between Packaging and First Chicago Trust Company of New York, as Rights Agent (the "Rights Agent"). The Rights will expire on \_\_\_\_\_ (the "Final Expiration Date"), unless the Final Expiration Date is advanced or extended or unless the Rights are earlier redeemed or exchanged by Packaging, in either case as described below.

In connection with the adoption of the Qualified Offer Rights Plan, the

Packaging Board will also adopt a "TIDE" (Three-year Independent Director Evaluation) mechanism. Under the TIDE mechanism, an independent Packaging Board committee will review, on an ongoing basis, the Qualified Offer Rights Plan and developments in rights plans generally, and, if it deems appropriate, recommend modification or termination of the Qualified Offer Rights Plan. This independent committee will report to the Packaging Board at least every three years as to whether the Qualified Offer Rights Plan continues to be in the best interests of the Packaging shareowners.

Holders of the Rights cannot exercise the Rights until the "Distribution Date." Under the Qualified Offer Rights Plan, a "Distribution Date" occurs upon the earlier of:

- 10 days following a public announcement that a person or group of affiliated or associated persons has become an "Acquiring Person"; or
- 10 business days (or such later date as may be determined by action of the Packaging Board prior to such time as any person or group of affiliated persons becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 20% or more of the outstanding shares of Packaging common stock.

Except in certain situations, a person or group of affiliated or associated persons becomes an "Acquiring Person" upon acquiring beneficial ownership of 20% or more of the outstanding shares of Packaging common stock. Until the Distribution Date, the Rights will be evidenced by Packaging common stock certificates.

83

93

Holders of the Rights cannot exercise the Rights in connection with a "Qualified Offer," which:

- is an all-cash tender offer for all outstanding Packaging common stock that is fully financed and that remains open for a period of at least 60 business days;
- results in the offeror owning at least 85% of the outstanding shares of Packaging common stock after consummation of the offer (excluding certain shares);
- assures a prompt second-step acquisition of shares not purchased in the initial offer at the same price as the initial offer; and
- meets certain other requirements.

The Qualified Offer Rights Plan provides that, until the Distribution Date (or earlier expiration of the Rights), the Rights will be transferred with and only with Packaging common stock. Until the Distribution Date (or earlier expiration of the Rights), new Packaging common stock certificates issued after the Record Date upon transfer or new issuances of Packaging common stock will contain a notation incorporating the Qualified Offer Rights Plan by reference. Until the Distribution Date (or earlier expiration of the Rights), the surrender for transfer of any certificates for shares of Packaging common stock outstanding as of the Record Date, even without such notation, will also constitute the transfer of the Rights associated with the shares of Packaging common stock represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of Packaging common stock as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

The Qualified Offer Rights Plan provides that the Purchase Price payable, and the number of shares of Series A Junior Preferred Stock or other securities or property issuable, upon exercise of the Rights shall adjust from time to time to prevent dilution:

- in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A Junior Preferred Stock;
- upon the grant to holders of the Series A Junior Preferred Stock of

certain rights or warrants to subscribe for or purchase Series A Junior Preferred Stock at a price, or securities convertible into Series A Junior Preferred Stock with a conversion price, less than the then-current market price of the Series A Junior Preferred Stock; or

- upon the distribution to holders of the Series A Junior Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends or dividends payable in Series A Junior Preferred Stock) or of subscription rights or warrants (other than those referred to above).

The Qualified Offer Rights Plan provides that the number of outstanding Rights shall adjust in the event of a stock dividend on Packaging's common stock payable in shares of Packaging common stock or subdivisions, consolidations or combinations of Packaging's common stock occurring, in any such case, prior to the Distribution Date.

The terms of the shares of Series A Junior Preferred Stock do not vest Packaging with the authority to redeem such shares. Each share of Series A Junior Preferred Stock will be entitled, when, as and if declared, to a minimum preferential quarterly dividend payment of the greater of:

- \$            per share; and
- 1000 times the dividend declared per share of Packaging common stock.

In the event of liquidation, dissolution or winding up of Packaging, the holders of the Series A Junior Preferred Stock will be entitled to a minimum preferential payment of the greater of:

- \$            per share (plus any accrued but unpaid dividends); and
- 1000 times the payment made per share of Packaging common stock.

84

94

Each share of Series A Junior Preferred Stock will have 1000 votes, voting together with the Packaging common stock. Finally, in the event of any merger, consolidation or other transaction in which outstanding shares of Packaging common stock are converted or exchanged, each share of Series A Junior Preferred Stock will be entitled to receive 1000 times the amount received per share of Packaging common stock. These rights are protected by customary antidilution provisions.

Because of the nature of the Series A Junior Preferred Stock's dividend, liquidation and voting rights, the value of the one one-thousandth interest in a share of Series A Junior Preferred Stock purchasable upon exercise of each Right should approximate the value of one share of Packaging common stock.

In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, each holder of a Right, other than Rights the Acquiring Person may beneficially own (which will thereupon become void), will thereafter have the right to receive upon exercise of a Right that number of shares of Packaging common stock having a market value of two times the exercise price of the Right.

In the event that, after a person or group has become an Acquiring Person, a person acquires Packaging in a merger or other business combination transaction or Packaging sells 50% or more of its consolidated assets or earning power, proper provisions will be made so that each holder of a Right (other than Rights beneficially owned by an Acquiring Person, which will have become void) will thereafter have the right to receive upon the exercise of a Right that number of shares of common stock of the person with whom Packaging has engaged in the foregoing transaction (or its parent) that at the time of such transaction have a market value of two times the exercise price of the Right.

At any time after any person or group becomes an Acquiring Person and prior to the earlier of one of the events described in the previous paragraph or the acquisition by such Acquiring Person of 50% or more of the outstanding shares of Packaging common stock, the Packaging Board may exchange the Rights (other than Rights owned by such Acquiring Person which will have become void), in whole or in part, for shares of Packaging common stock or Series A Junior Preferred Stock (or a series of Packaging's preferred stock having equivalent rights, preferences and privileges), at an exchange ratio of one share of Packaging common stock, or a fractional share of Series A Junior Preferred Stock (or other preferred stock) equivalent in value thereto, per Right.

With certain exceptions, no adjustment in the Purchase Price will be

required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional shares of Series A Junior Preferred Stock or Packaging common stock will be issued (other than fractions of Series A Junior Preferred Stock which are integral multiples of one one-thousandth of a share of Series A Junior Preferred Stock, which may, at Packaging's election be evidenced by depositary receipts), and in lieu thereof an adjustment in cash will be made based on the current market price of the Series A Junior Preferred Stock or Packaging common stock.

At any time prior to the time an Acquiring Person becomes such, the Packaging Board may redeem the Rights in whole, but not in part, at a price of \$.01 per Right (the "Redemption Price") payable, at Packaging's option in cash, shares of Packaging common stock or such other form of consideration as the Packaging Board shall determine. The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Packaging Board in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

For so long as the Rights are then redeemable, Packaging may, except with respect to the Redemption Price, amend the Qualified Offer Rights Plan in any manner. After the Rights are no longer redeemable, Packaging may, except with respect to the Redemption Price, amend the Qualified Offer Rights Plan in any manner that does not adversely affect the interests of holders of the Rights.

Until a Right is exercised or exchanged, the holder thereof, as such, will have no rights as a Packaging shareowner, including, without limitation, the right to vote or to receive dividends.

85

95

A copy of the Qualified Offer Rights Plan Agreement is being filed with the Securities and Exchange Commission as an Exhibit to Packaging's Registration Statement on Form 10. A copy of the Qualified Offer Rights Plan Agreement is available free of charge from Packaging. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Qualified Offer Rights Plan, as the same may be amended from time to time, which is hereby incorporated herein by reference. The Rights are being registered under the Exchange Act, together with Packaging common stock, pursuant to such Registration Statement. In the event that the Rights become exercisable, Packaging will register the shares of Packaging Junior Preferred Stock for which the Rights may be exercised, in accordance with applicable law.

#### Anti-takeover Legislation

Section 203 of the DGCL provides that, subject to certain exceptions specified therein, a corporation shall not engage in any "business combination" with any "interested stockholder" for a three-year period following the time that such stockholder becomes an interested stockholder unless:

- prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding certain shares); or
- on or subsequent to such time, the business combination is approved by the board of directors of the corporation and by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 of the DGCL generally defines an "interested stockholder" to include:

- any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant date; and
- the affiliates and associates of any such person.

Section 203 of the DGCL generally defines a "business combination" to include:

- mergers and sales or other dispositions of 10% or more of the assets of the corporation with or to an interested stockholder;

- certain transactions resulting in the issuance or transfer to the interested stockholder of any stock of the corporation or its subsidiaries;
- certain transactions which would result in increasing the proportionate share of the stock of the corporation or its subsidiaries owned by the interested stockholder; and
- receipt by the interested stockholder of the benefit (except proportionately as a stockholder) of any loans, advances, guarantees, pledges, or other financial benefits.

Under certain circumstances, Section 203 of the DGCL makes it more difficult for a person who would be an "interested stockholder" to effect various business combinations with a corporation for a three-year period, although the certificate of incorporation or shareowner-adopted by-laws may exclude a corporation from the restrictions imposed thereunder. Neither the Certificate nor the Bylaws exclude Packaging from the restrictions imposed under Section 203 of the DGCL. It is anticipated that the provisions of Section 203 of the DGCL may encourage companies interested in acquiring Packaging to negotiate in advance with the Packaging Board since the stockholder approval requirement would be avoided if the Packaging Board approves, prior to the time the shareowner becomes an interested stockholder, either the business combination or the transaction which results in the shareowner becoming an interested stockholder.

86

96

#### ADDITIONAL INFORMATION

Tenneco is (and, following the spin-off, Automotive and Packaging will be) subject to the informational requirements of the Exchange Act. Under the Exchange Act, Tenneco files (and Automotive and Packaging will file) reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission" or "SEC"). You may inspect and copy the reports, proxy statements and other information filed by Tenneco (and to be filed by Automotive and Packaging) with the SEC at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as at the Commission's Regional Offices, including the following: Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, New York 10048. You may obtain copies of such information by mail at prescribed rates from the Public Reference Section of the SEC at 450 Fifth Street, N.W. Street, N.W., Washington, D.C. 20549 or accessed electronically on the SEC's Web site at (<http://www.sec.gov>). Packaging common stock is expected to approved for listing on the New York Stock Exchange and reports and other information concerning Packaging may then be inspected at the New York Stock Exchange offices, 20 Broad Street, New York, New York, 10005.

We intend to furnish holders of Packaging common stock with annual reports containing consolidated financial statements prepared in accordance with United States generally accepted accounting principles and audited and reported on, with an opinion expressed, by an independent public accounting firm, as well as quarterly reports for the first three quarters of each fiscal year containing unaudited financial information.

We have filed with the SEC a Registration Statement on Form 10 under the Exchange Act covering Packaging common stock and the associated Rights.

THIS INFORMATION STATEMENT DOES NOT CONTAIN ALL OF THE INFORMATION IN THE REGISTRATION STATEMENT AND THE RELATED EXHIBITS AND SCHEDULES. THIS INFORMATION STATEMENT SUMMARIZES THE PROVISIONS OF THE CONTRACTS, AGREEMENTS OR OTHER DOCUMENTS THAT IT REFERS YOU TO. FOR MORE INFORMATION AS TO THESE MATTERS, YOU SHOULD READ THE APPLICABLE EXHIBIT OR SCHEDULE TO THE REGISTRATION STATEMENT. YOU MAY INSPECT THE REGISTRATION STATEMENT AND THE RELATED EXHIBITS FILED BY PACKAGING WITH THE SEC AT THE PUBLIC REFERENCE FACILITIES OF THE SEC LISTED ABOVE.

No person is authorized to give any information or to make any representations with respect to the matters described in this Information Statement other than those contained herein or in the documents incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been authorized by Packaging or Tenneco. Neither the delivery of this Information Statement nor consummation of the spin-off contemplated hereby shall, under any circumstances, create any implication that

there has been no change in the affairs of Packaging or Tenneco since the date hereof, or that the information herein is correct as of any time subsequent to its date.

INDEX TO COMBINED FINANCIAL STATEMENTS AND SCHEDULE OF  
THE BUSINESSES OF TENNECO PACKAGING

<TABLE>  
<CAPTION>

	PAGE
	----
<S>	<C>
Report of independent public accountants.....	F-2
Combined statements of income for each of the three years in the period ended December 31, 1998, and the six months ended June 30, 1999 (unaudited) and 1998 (unaudited).....	F-3
Combined balance sheets -- December 31, 1998 and 1997, and June 30, 1999 (unaudited).....	F-4
Combined statements of cash flows for each of the three years in the period ended December 31, 1998, and the six months ended June 30, 1999 (unaudited) and 1998 (unaudited).....	F-5
Statements of changes in combined equity for each of the three years in the period ended December 31, 1998, and six months ended June 30, 1999 (unaudited).....	F-6
Statements of comprehensive income for each of the three years in the period ended December 31, 1998, and the six months ended June 30, 1999 (unaudited) and 1998 (unaudited).....	F-7
Notes to combined financial statements.....	F-8
Financial statement schedule -- Valuation and Qualifying Accounts.....	S-1

</TABLE>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Tenneco Inc.:

We have audited the accompanying combined balance sheets of the Businesses of Tenneco Packaging (see Note 1) as of December 31, 1998 and 1997, and the related combined statements of income, cash flows, changes in combined equity and comprehensive income for each of the three years in the period ended December 31, 1998. These combined financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Businesses of Tenneco Packaging as of December 31, 1998 and 1997, and the results of their combined operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the combined financial statements, in the fourth quarter of 1997, the Businesses of Tenneco Packaging changed their method of accounting for certain costs incurred in connection with information technology transformation projects.

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental schedule listed in the index to the combined financial statements and schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and is

not part of the basic combined financial statements. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic combined financial statements of the Businesses of Tenneco Packaging taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas  
July 2, 1999

F-2

99

THE BUSINESSES OF TENNECO PACKAGING

COMBINED STATEMENTS OF INCOME  
(MILLIONS EXCEPT PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1998	1997	1996	1999	1998
	----	----	----	----	----
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
<b>REVENUES</b>					
Net sales and operating revenues --					
Specialty.....	\$2,785	\$2,553	\$1,987	\$1,404	\$1,361
Other.....	6	10	--	--	10
	-----	-----	-----	-----	-----
	2,791	2,563	1,987	1,404	1,371
Gain (loss) on sale of businesses and assets, net.....	(9)	--	15	(21)	(1)
Other income, net.....	6	6	34	3	9
	-----	-----	-----	-----	-----
	2,788	2,569	2,036	1,386	1,379
	-----	-----	-----	-----	-----
<b>COSTS AND EXPENSES</b>					
Cost of sales (exclusive of depreciation shown below).....	1,870	1,796	1,417	924	931
Engineering, research, and development.....	33	34	22	18	13
Selling, general, and administrative.....	427	270	232	206	174
Depreciation and amortization.....	175	163	131	94	88
	-----	-----	-----	-----	-----
	2,505	2,263	1,802	1,242	1,206
	-----	-----	-----	-----	-----
<b>INCOME BEFORE INTEREST EXPENSE, INCOME TAXES, AND MINORITY INTEREST.....</b>					
	283	306	234	144	173
Interest expense (net of interest capitalized).....	133	124	102	68	67
Income tax expense.....	67	75	67	24	37
Minority interest.....	1	1	--	--	--
	-----	-----	-----	-----	-----
<b>INCOME FROM CONTINUING OPERATIONS.....</b>	82	106	65	52	69
Income (loss) from discontinued operations, net of income tax.....	57	21	71	(163)	37
	-----	-----	-----	-----	-----
Income (loss) before extraordinary loss.....	139	127	136	(111)	106
Extraordinary loss, net of income tax.....	--	--	(2)	(7)	--
	-----	-----	-----	-----	-----
Income (loss) before cumulative effect of change in accounting principle.....	139	127	134	(118)	106
Cumulative effect of change in accounting principle, net of income tax.....	--	(38)	--	(32)	--
	-----	-----	-----	-----	-----
<b>NET INCOME (LOSS).....</b>	\$ 139	\$ 89	\$ 134	\$ (150)	\$ 106
	=====	=====	=====	=====	=====
<b>EARNINGS (LOSS) PER SHARE</b>					
Basic earnings per share of common stock --					
Continuing operations.....	\$ .49	\$ .63	\$ .38	\$ .31	\$ .41
Discontinued operations.....	.34	.12	.42	(.98)	.22
Extraordinary loss.....	--	--	(.01)	(.04)	--
Cumulative effect of change in accounting principle.....	--	(.23)	--	(.19)	--
	-----	-----	-----	-----	-----
	\$ .83	\$ .52	\$ .79	\$ (.90)	\$ .63
	=====	=====	=====	=====	=====



Diluted earnings per share of common stock --					
Continuing operations.....	\$ .49	\$ .63	\$ .38	\$ .31	\$ .41
Discontinued operations.....	.34	.12	.42	(.98)	.22
Extraordinary loss.....	--	--	(.01)	(.04)	--
Cumulative effect of change in accounting principle.....	--	(.23)	--	(.19)	--
	-----	-----	-----	-----	-----
	\$ .83	\$ .52	\$ .79	\$ (.90)	\$ .63
	=====	=====	=====	=====	=====

</TABLE>

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

F-3

100

THE BUSINESSES OF TENNECO PACKAGING

COMBINED BALANCE SHEETS  
(MILLIONS)

<TABLE>  
<CAPTION>

	DECEMBER 31,		JUNE 30,
	1998	1997	1999
	----	----	-----
			(UNAUDITED)
<S>	<C>	<C>	<C>
ASSETS			
Current assets:			
Cash and temporary cash investments.....	\$ 7	\$ 11	\$ 18
Receivables --			
Customer notes and accounts, net.....	336	301	320
Affiliated companies.....	44	74	20
Income taxes.....	15	36	7
Other.....	52	10	28
Inventories.....	412	404	447
Deferred income taxes.....	6	41	46
Prepayments and other.....	45	47	26
	-----	-----	-----
	917	924	912
	-----	-----	-----
Other assets:			
Long-term notes receivable, net.....	22	21	16
Goodwill and intangibles, net.....	1,052	1,009	1,028
Pension assets.....	742	654	795
Other.....	143	129	107
	-----	-----	-----
	1,959	1,813	1,946
	-----	-----	-----
Plant, property, and equipment, at cost.....	2,057	1,856	2,025
Less -- Reserves for depreciation and amortization.....	501	398	530
	-----	-----	-----
	1,556	1,458	1,495
	-----	-----	-----
Net assets of discontinued operations.....	366	423	133
	-----	-----	-----
	\$4,798	\$4,618	\$4,486
	=====	=====	=====
LIABILITIES AND COMBINED EQUITY			
Current liabilities:			
Short-term debt (including current maturities on long-term debt).....	\$ 595	\$ 158	\$ 367
Payables --			
Trade.....	255	252	257
Affiliated companies.....	6	6	100
Taxes accrued.....	13	12	14
Accrued liabilities.....	188	192	215
Other.....	85	124	107
	-----	-----	-----
	1,142	744	1,060
	-----	-----	-----
Long-term debt.....	1,312	1,492	1,494
	-----	-----	-----
Deferred income taxes.....	291	270	380
	-----	-----	-----
Postretirement benefits.....	163	114	149
	-----	-----	-----

Deferred credits and other liabilities.....	100	144	49
	-----	-----	-----
Commitments and contingencies			
Minority interest.....	14	15	14
	-----	-----	-----
Combined equity.....	1,776	1,839	1,340
	-----	-----	-----
	\$4,798	\$4,618	\$4,486
	=====	=====	=====

</TABLE>

The accompanying notes to combined financial statements are an integral part of these combined balance sheets.

F-4

101

THE BUSINESSES OF TENNECO PACKAGING  
 COMBINED STATEMENTS OF CASH FLOWS  
 (MILLIONS)

<TABLE>  
 <CAPTION>

	YEARS ENDED			SIX MONTHS	
	DECEMBER 31,			ENDED JUNE 30,	
	1998	1997	1996	1999	1998
	----	----	----	----	----
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
<b>OPERATING ACTIVITIES</b>					
Income from continuing operations.....	\$ 82	\$ 106	\$ 65	\$ 52	\$ 69
Adjustments to reconcile income from continuing operations to cash provided (used) by continuing operations --					
Depreciation and amortization.....	175	163	131	94	88
Deferred income taxes.....	77	118	4	89	27
(Gain) loss on sale of businesses and assets, net.....	9	--	(15)	21	1
Allocated interest, net of tax.....	85	78	63	44	44
Changes in components of working capital --					
(Increase) decrease in receivables.....	28	(1)	(59)	(103)	37
(Increase) decrease in inventories.....	8	(12)	(5)	(45)	(5)
(Increase) decrease in prepayments and other current assets.....	(1)	(30)	8	1	(5)
Increase (decrease) in payables.....	(13)	(44)	13	(44)	(21)
Increase (decrease) in taxes accrued.....	(23)	(36)	40	1	(6)
Increase (decrease) in interest accrued.....	--	(1)	(1)	(1)	--
Increase (decrease) in other current liabilities.....	35	(5)	(8)	(2)	9
Other.....	(90)	(38)	30	(90)	(58)
	-----	-----	-----	-----	-----
Cash provided (used) by continuing operations.....	372	298	266	17	180
Cash provided (used) by discontinued operations.....	205	107	(3)	(62)	108
	-----	-----	-----	-----	-----
Net cash provided (used) by operating activities.....	577	405	263	(45)	288
	-----	-----	-----	-----	-----
<b>INVESTING ACTIVITIES</b>					
Net proceeds related to the sale of discontinued operations.....	--	10	123	306	--
Net proceeds from sale of businesses and assets.....	22	14	23	28	12
Expenditures for plant, property, and equipment.....	(194)	(229)	(216)	(75)	(101)
Acquisitions of businesses and assets.....	(101)	(285)	(323)	(2)	(58)
Expenditures for plant, property, and equipment and business acquisitions -- discontinued operations.....	(203)	(108)	(169)	(1,129)	(51)
Investments and other.....	(38)	(56)	(107)	6	(23)
	-----	-----	-----	-----	-----
Net cash provided (used) by investing activities.....	(514)	(654)	(669)	(866)	(221)
	-----	-----	-----	-----	-----
<b>FINANCING ACTIVITIES</b>					
Issuance of long-term debt.....	3	4	--	1,760	2
Retirement of long-term debt.....	(18)	(18)	(7)	(29)	(14)
Net increase (decrease) in short-term debt excluding current maturities on long-term debt.....	4	(78)	(16)	(1)	5
Cash contributions from (distributions to) Tenneco.....	(56)	331	422	(810)	(59)
	-----	-----	-----	-----	-----
Net cash provided (used) by financing activities.....	(67)	239	399	920	(66)
	-----	-----	-----	-----	-----
Effect of foreign exchange rate changes on cash and temporary cash investments.....	--	(1)	(1)	2	--
	-----	-----	-----	-----	-----
Increase (decrease) in cash and temporary cash					

investments.....	(4)	(11)	(8)	11	1
Cash and temporary cash investments, beginning of period....	11	22	30	7	11
-----					
Cash and temporary cash investments, end of period.....	\$ 7	\$ 11	\$ 22	\$ 18	\$ 12
=====					
Cash paid during the period for interest.....	\$ 6	\$ 9	\$ 8	\$ 2	\$ 4
Cash paid during the period for income taxes (net of refunds).....	\$ 21	\$ (68)	\$ 60	\$ 17	\$ 10
NON-CASH INVESTING AND FINANCING ACTIVITIES					
Common equity interest received related to the sale of containerboard operations.....	\$ --	\$ --	\$ --	\$ 194	\$ --
Principal amount of long-term debt assumed by buyers of containerboard operations.....	\$ --	\$ --	\$ --	\$ (1,760)	\$ --

-----  
Note: Cash and temporary cash investments include highly liquid investments with a maturity of three months or less at the date of purchase.

The accompanying notes to combined financial statements are an integral part of these combined statements of cash flows.

F-5

102

THE BUSINESSES OF TENNECO PACKAGING  
STATEMENTS OF CHANGES IN COMBINED EQUITY  
(MILLIONS)

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30, 1999
	1998	1997	1996	
	-----			-----
				(UNAUDITED)
<S>	<C>	<C>	<C>	<C>
Balance, January 1.....	\$1,839	\$1,843	\$1,531	\$1,776
Net income (loss).....	139	89	134	(150)
Accumulated other comprehensive income (loss)....	22	(24)	(7)	(29)
Allocated interest, net of tax.....	111	102	86	49
Change in allocated corporate debt.....	(333)	(549)	(137)	573
Cash contributions from (distributions to)				
Tenneco.....	(56)	331	422	(810)
Noncash contributions from (distributions to)				
Tenneco.....	54	47	(186)	(69)
-----				
Balance, end of period.....	\$1,776	\$1,839	\$1,843	\$1,340
=====				

The accompanying notes to combined financial statements are an integral part of these statements of changes in combined equity.

F-6

103

THE BUSINESSES OF TENNECO PACKAGING  
COMBINED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(MILLIONS)

	YEARS ENDED DECEMBER 31,					
	1998		1997		1996	
	-----		-----		-----	
	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMPREHENSIVE INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMPREHENSIVE INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMPREHENSIVE INCOME
-----						

<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET INCOME (LOSS).....		\$139		\$ 89		\$134
ACCUMULATED OTHER COMPREHENSIVE INCOME:						
CUMULATIVE TRANSLATION ADJUSTMENT						
Balance, January 1.....	\$ (21)		\$ 3		\$10	
Translation of foreign currency statements.....	24	24	(25)	(25)	(6)	(6)
Hedges of net investment in foreign subsidiaries.....	--	--	2	2	(2)	(2)
Income tax benefit (expense).....	--	--	(1)	(1)	1	1
Balance, end of period.....	3		(21)		3	
ADDITIONAL MINIMUM PENSION LIABILITY ADJUSTMENT						
Balance, January 1.....	--		--		--	
Additional minimum pension liability adjustment.....	(4)	(4)	--	--	--	--
Income tax benefit (expense).....	2	2	--	--	--	--
Balance, end of period.....	(2)		--		--	
Balance, end of period.....	\$ 1		\$ (21)		\$ 3	
Other comprehensive income (loss).....		22		(24)		(7)
COMPREHENSIVE INCOME (LOSS).....		\$161		\$ 65		\$127

</TABLE>

<TABLE>  
<CAPTION>

<S>	SIX MONTHS ENDED JUNE 30,			
	1999		1998	
	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMPREHENSIVE INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMPREHENSIVE INCOME
NET INCOME (LOSS).....		\$ (150)		\$106
ACCUMULATED OTHER COMPREHENSIVE INCOME:				
CUMULATIVE TRANSLATION ADJUSTMENT				
Balance, January 1.....	\$ 3		\$ (21)	
Translation of foreign currency statements.....	(29)	(29)	(5)	(5)
Hedges of net investment in foreign subsidiaries.....	--	--	--	--
Income tax benefit (expense).....	--	--	--	--
Balance, end of period.....	(26)		(26)	
ADDITIONAL MINIMUM PENSION LIABILITY ADJUSTMENT				
Balance, January 1.....	(2)		--	
Additional minimum pension liability adjustment.....	--	--	--	--
Income tax benefit (expense).....	--	--	--	--
Balance, end of period.....	(2)		--	
Balance, end of period.....	\$ (28)		\$ (26)	
Other comprehensive income (loss).....		(29)		(5)
COMPREHENSIVE INCOME (LOSS).....		\$ (179)		\$101

</TABLE>

The accompanying notes to combined financial statements are an integral part of these combined statements of comprehensive income (loss).

## THE BUSINESSES OF TENNECO PACKAGING

## NOTES TO COMBINED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION

The accompanying combined financial statements represent the financial position, results of operations, and cash flows for all of the Businesses of Tenneco Packaging ("Packaging") owned directly or indirectly by Tenneco Inc. ("Tenneco") and its subsidiaries (see "Control" below). Packaging includes the assets, liabilities, and operations of Tenneco's specialty packaging and paperboard packaging businesses as well as Tenneco's corporate and administrative service operations.

Unless the context otherwise requires, the term "Tenneco" refers to: (i) for periods prior to the spin-off, as defined below, Tenneco's automotive and packaging businesses, and administrative service operations and (ii) for periods after the spin-off, Tenneco's automotive business.

## 2. STRATEGIC ALTERNATIVES ANALYSIS

In July 1998, Tenneco's Board of Directors authorized management to develop a broad range of strategic alternatives which could result in the separation of the automotive, paperboard packaging, and specialty packaging businesses. As part of that strategic alternatives analysis, Tenneco has taken the following actions:

- In January 1999, Tenneco reached an agreement to contribute the containerboard assets of its paperboard packaging segment to a new joint venture with an affiliate of Madison Dearborn Partners, Inc. The contribution to the joint venture was completed in April 1999. Tenneco received consideration of cash and debt assumption totaling approximately \$2 billion and a 45 percent common equity interest in the joint venture (now 43 percent due to subsequent management equity issuances) valued at approximately \$200 million.
- In April 1999, Tenneco reached an agreement to sell the paperboard packaging segment's other assets, its folding carton operation, to Caraustar Industries. This transaction closed in June 1999.
- Also in April 1999, Tenneco announced that its Board of Directors had approved the separation of its automotive and packaging businesses into two separate, independent companies.
- In June 1999, Tenneco's Board of Directors approved a plan to sell Packaging's remaining interest in its containerboard joint venture. Packaging expects the sale to be completed before the spin-off discussed below.

As a result of the decision to sell Packaging's remaining interest in the containerboard joint venture, Packaging's paperboard packaging segment is presented as a discontinued operation in the accompanying combined financial statements. Reference is made to Note 7 for information related to discontinued operations.

The separation of Tenneco's automotive and packaging businesses will be accomplished by the spin-off of the common stock of Packaging to Tenneco shareowners (the "Spin-off"). At the time of the Spin-off, Packaging will include Tenneco's specialty packaging business, Tenneco's administrative services operations, and the remaining interest in the containerboard joint venture if the sale has not been completed. Tenneco and Packaging are, however, currently analyzing the alternatives with regard to the administrative services operations.

Before the Spin-off, Tenneco will realign substantially all of its existing debt through some combination of tender offers, exchange offers, prepayments and other refinancings. The debt realignment will be financed by internally generated cash, borrowings by Tenneco under a new credit facility, the issuance by Tenneco of subordinated debt, and borrowings by Packaging under new credit facilities.

The Spin-off is subject to conditions, including formal declaration of the Spin-off by the Tenneco Board of Directors, Tenneco's receipt, and the continued effectiveness of a determination that the Spin-off

## THE BUSINESSES OF TENNECO PACKAGING

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

will be tax-free for U.S. federal income tax purposes and the successful completion of the debt realignment and corporate restructuring transactions. In August 1999, Tenneco received a letter ruling from the Internal Revenue Service that the Spin-off will be tax-free for U.S. federal income tax purposes to Tenneco and its shareowners (unaudited).

Packaging will modify or enter into certain contractual agreements with Tenneco related to becoming a separate publicly held company. These agreements include a distribution agreement, a tax sharing agreement, a human resources agreement, an insurance agreement, and a transition services agreement.

These agreements will provide, among other things, that (i) Packaging will become the sponsor of the Tenneco Retirement Plan, the Tenneco Supplemental Executive Retirement Plan, and the Tenneco Thrift Plan; and (ii) Packaging will provide certain administrative services, including payroll, accounts payable, benefits administration, accounting, and travel-related services to Tenneco for a specified period of time.

## 3. SUMMARY OF ACCOUNTING POLICIES

## Control

All of the outstanding common stock of Packaging is owned directly or indirectly by Tenneco. Thus, Packaging is under the control of Tenneco.

## Unaudited Interim Information

The unaudited interim combined financial statements as of June 30, 1999, and for the six month periods ended June 30, 1999 and 1998, included herein, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Packaging's management, the unaudited interim combined financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The interim financial results are not necessarily indicative of operating results for an entire year.

## Income Taxes

Packaging utilizes the liability method of accounting for income taxes whereby it recognizes deferred tax assets and liabilities for the future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the combined financial statements. Deferred tax assets are reduced by a valuation allowance when, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period. The estimates utilized in the recognition of deferred tax assets are subject to revision in future periods based on new facts or circumstances.

Packaging and Tenneco, together with certain of their respective subsidiaries which are owned 80% or more, have entered into an agreement to file a consolidated U.S. federal income tax return. This agreement provides, among other things, that (1) each company in a taxable income position will be currently charged with an amount equivalent to its U.S. federal income tax computed on a separate return basis and (2) each company in a tax loss position will be reimbursed currently. The income tax amounts reflected in the combined financial statements of Packaging under the provisions of the tax sharing arrangement are not materially different from the income taxes which would have been provided had Packaging filed a separate tax return. Under the tax sharing agreement, Tenneco pays all U.S. federal taxes directly and bills or refunds, as applicable, its subsidiaries for the applicable portion of the total tax payments. Cash taxes paid in the combined statements of cash flows include payments to Tenneco for U.S. federal income taxes.

F-9

## THE BUSINESSES OF TENNECO PACKAGING

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Packaging does not provide for U.S. federal income taxes on unremitted earnings of foreign subsidiaries as it is the present intention of management to reinvest the unremitted earnings in its foreign operations. Unremitted earnings of foreign subsidiaries are approximately \$95 million at December 31, 1998. It is not practicable to determine the amount of U.S. federal income taxes that would be payable upon remittance of the assets that represent those earnings.

In connection with the Spin-off, the current tax sharing agreement will be cancelled, and Packaging will enter into a new tax sharing agreement with Tenneco. The tax sharing agreement will provide, among other things, for the allocation of taxes among the parties of tax liabilities arising prior to, as a result of, and subsequent to the Spin-off. Generally, Packaging will be liable for taxes imposed on it and its affiliates engaged in the packaging business. In the case of U.S. federal income taxes imposed on the combined activities of the consolidated group, Packaging will generally be liable to Tenneco for U.S. federal income taxes attributable to its activities.

#### Changes in Accounting Principles

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes new accounting and reporting standards requiring that all derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting treatment. This statement cannot be applied retroactively and is effective for all fiscal years beginning after June 15, 2000. Packaging is currently evaluating the new standard but has not yet determined the impact it will have on its financial position or results of operations.

In April 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," which requires costs of start-up activities to be expensed as incurred. This statement is effective for fiscal years beginning after December 15, 1998. The statement requires previously capitalized costs related to start-up activities to be expensed as a cumulative effect of a change in accounting principle when the statement is adopted. Packaging previously capitalized certain costs in connection with the start-up of certain new foreign operations and its shared administrative service operations. Packaging adopted SOP 98-5 on January 1, 1999, and recorded an after-tax charge for the cumulative effect of this change in accounting principle upon adoption of \$32 million (net of a \$9 million tax benefit), or \$.19 per diluted common share. The change in accounting principle decreased the loss before cumulative effect of change in accounting principle by \$4 million (net of \$2 million in income tax expense), or \$.02 per diluted common share for the six months ended June 30, 1999. If the new accounting method had been applied retroactively, net income for the six months ended June 30, 1998, and the years ended December 31, 1998, 1997, and 1996, would have been lower by \$7 million (net of a \$5 million tax benefit), or \$.04 per diluted common share, \$14 million (net of a \$8 million tax benefit), or \$.08 per diluted common share, \$7 million (net of a \$3 million tax benefit), or \$.04 per diluted common share, and \$7 million (net of a \$4 million tax benefit), or \$.04 per diluted common share.

In March 1998, the AICPA issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which establishes new accounting and reporting standards for the costs of computer software developed or obtained for internal use. This statement requires prospective application for fiscal years beginning after December 15, 1998. Packaging adopted SOP 98-1 on January 1,

F-10

107

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

1999. The impact of this new standard did not have a significant effect on Packaging's financial position or results of operations.

As required by the FASB's Emerging Issues Task Force ("EITF") Issue 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract that Combines Business Process Reengineering and Information Technology Transformation," Packaging recorded an after-tax charge of \$38 million (net of a tax benefit of \$24 million), or \$.23 per diluted common share in the fourth

quarter of 1997. EITF Issue 97-13 establishes the accounting treatment and an allocation methodology for certain consulting and other costs incurred in connection with information technology transformation efforts. This charge was reported as a cumulative effect of change in accounting principle.

#### General and Administrative Expenses

Included in the "Selling, general and administrative" caption in the Combined Statements of Income for 1998, 1997, and 1996, is \$70 million, \$49 million, and \$51 million, respectively, which represents Packaging's share of Tenneco's corporate general and administrative costs for legal, financial, communication, and other administrative services. The allocation of Tenneco's corporate general and administrative expenses is based on estimated levels of effort devoted to Tenneco's various operations and the relative size of these operations based on revenues, gross property, and payroll. Packaging's management believes the method for allocating corporate general and administrative expenses is reasonable. Also included in the "Selling, general and administrative" caption is \$55 million, \$22 million, and \$7 million, for 1998, 1997, and 1996, respectively, related to administrative service operations which has not been allocated among Tenneco's various operations. Packaging estimates that, had it operated as a separate, stand-alone entity and had the administrative service operations costs been allocated based on a usage charge, its annual costs for these services would have been lower by approximately \$40 million (unaudited) for the year ended December 31, 1998, \$27 million (unaudited) for the year ended December 31, 1997, and \$18 million (unaudited) for the year ended December 31, 1996.

#### Sales of Receivables

Packaging sells trade receivables to a third party in the ordinary course of business. At December 31, 1998 and 1997, \$140 million and \$130 million, respectively, and \$119 million at June 30, 1999, of its outstanding trade receivables had been sold. Sales of trade receivables are reflected as a reduction of customer notes and accounts receivable in the accompanying combined balance sheets and the proceeds received are included in cash flows from operating activities in the accompanying combined statements of cash flows.

#### Inventories

At December 31, 1998 and 1997, inventory by major classification was as follows:

<TABLE>  
<CAPTION>

	1998	1997
	----	----
	(MILLIONS)	
	<C>	<C>
Finished goods.....	\$246	\$265
Work in process.....	51	22
Raw materials.....	63	85
Materials and supplies.....	52	32
	----	----
	\$412	\$404
	====	====

</TABLE>

Inventories are stated at the lower of cost or market. A portion of total inventories (61% and 43% at December 31, 1998 and 1997, respectively) is valued using the "last-in, first-out" method. All other

F-11

108

#### THE BUSINESSES OF TENNECO PACKAGING

#### NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

inventories are valued on the "first-in, first-out" ("FIFO") or "average" methods. If the FIFO or average method of inventory accounting had been used by Packaging for all inventories, inventories would have been approximately \$30 million lower and \$2 million higher at December 31, 1998 and 1997, respectively.

#### Goodwill and Intangibles, Net

At December 31, 1998 and 1997, goodwill and intangibles, net of amortization, by major category were as follows:

<TABLE>



<CAPTION>

	1998	1997
	----	----
	(MILLIONS)	
<S>	<C>	<C>
Goodwill.....	\$ 695	\$ 662
Trademarks.....	177	182
Patents.....	149	157
Other.....	31	8
	-----	-----
	\$1,052	\$1,009
	=====	=====

</TABLE>

Goodwill is being amortized on a straight-line basis over 40 years. Such amortization amounted to \$17 million, \$21 million, and \$12 million for 1998, 1997, and 1996, respectively, and is included in the combined statements of income caption, "Depreciation and amortization."

Packaging has capitalized certain intangible assets, primarily trademarks and patents, based on their estimated fair value at date of acquisition. Amortization is provided on these intangible assets on a straight-line basis over periods ranging from 5 to 40 years. Such amortization amounted to \$18 million, \$17 million, and \$17 million in 1998, 1997, and 1996, respectively, and is included in the combined statements of income caption, "Depreciation and amortization."

Plant, Property, and Equipment, at Cost

At December 31, 1998 and 1997, plant, property, and equipment, at cost, by major category was as follows:

<TABLE>  
<CAPTION>

	1998	1997
	----	----
	(MILLIONS)	
<S>	<C>	<C>
Land, buildings, and improvements.....	\$ 446	\$ 389
Machinery and equipment.....	1,481	1,339
Other, including construction in progress.....	130	128
	-----	-----
	\$2,057	\$1,856
	=====	=====

</TABLE>

Depreciation of Packaging's properties is provided on a straight-line basis over the estimated useful lives of the assets. Useful lives range from 10 to 40 years for buildings and improvements and from 3 to 25 years for machinery and equipment.

Other Long-Term Assets

Packaging previously capitalized certain costs in connection with the start-up of certain new foreign operations and its shared administrative service operations. The start-up costs are amortized over the periods benefited, generally three to five years. Start-up costs capitalized, net of amortization, at December 31, 1998 and 1997, were \$41 million and \$20 million, respectively. Packaging adopted a new accounting standard in the first quarter of 1999, which requires these costs to be expensed. Refer to "Changes in Accounting Principles" discussed previously in this footnote.

Packaging capitalizes certain costs related to the purchase and development of software which is used in its business operations. The costs attributable to these software systems are amortized over their estimated useful lives, ranging from 3 to 12 years, based on various factors such as the effects of obsolescence, technology, and other economic factors. Capitalized software development costs, net of amortization, were \$140 million and \$104 million at December 31, 1998 and 1997, respectively. As described previously in this footnote, Packaging adopted a new accounting standard related to accounting for the costs of computer software developed for internal use. The impact of this new standard did not have a significant effect on Packaging's financial position or results of operations.

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. All available evidence is considered including prior experience in remediation of contaminated sites, other companies' clean-up experience, and data released by the United States Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new information. These liabilities are included in the balance sheet at their undiscounted amounts. Recoveries are evaluated separately from the liability and, when assured, are recorded and reported separately from the associated liability in the combined financial statements. For further information on this subject, refer to Note 15, "Commitments and Contingencies."

Earnings Per Share

In connection with the Spin-off, Tenneco shareowners will receive one share of Packaging common stock for each share of Tenneco common stock outstanding. Accordingly, basic and diluted earnings per share for Packaging have been calculated using Tenneco's historical weighted average shares outstanding and weighted average shares outstanding adjusted to include estimates of additional shares that would be issued if potentially dilutive common shares had been issued, respectively. Potentially dilutive securities include stock options, restricted stock and performance shares.

Tenneco's basic and diluted average common shares outstanding are as follows:

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1998	1997	1996	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>
Basic.....	168,505,573	170,264,731	169,609,373	166,937,362	169,341,555
Diluted.....	168,834,531	170,801,636	170,526,112	167,319,412	169,936,676

</TABLE>

Research and Development

Research and development costs are expensed as incurred. Research and development expenses were \$25 million, \$29 million, and \$19 million for 1998, 1997, and 1996, respectively, and are included in the combined statements of income caption "Engineering, research, and development."

Foreign Currency Translation

Financial statements of international operations are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the weighted average exchange rate for each applicable period for revenues, expenses, and gains and losses. Translation adjustments are reflected in the combined balance sheet caption "Combined equity."

Risk Management Activities

Packaging from time to time uses derivative financial instruments, principally foreign currency forward purchase and sale contracts with terms of less than one year, to hedge its exposure to changes in foreign currency exchange rates. Net gains or losses on these foreign currency exchange contracts that are designated as hedges are recognized in the combined statements of income to offset the foreign currency gain or loss on the underlying transaction. Packaging has from time to time also entered into forward contracts to hedge its net investment in foreign subsidiaries. The after-tax net gains or losses on these contracts are recognized on the accrual basis in the combined balance sheet caption "Combined equity." In the statement of cash flows, cash

receipts or payments related to these exchange contracts are classified consistent with the cash flows from the transaction being hedged.

Packaging does not currently enter into derivative financial instruments for speculative purposes.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in determining the reported amounts of Packaging's assets, liabilities, revenues, and expenses. Reference is made to the "Income Taxes" and "Environmental Liabilities" sections of this footnote and Notes 13 and 15 for additional information on significant estimates included in Packaging's combined financial statements.

#### 4. RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of 1998, Tenneco's Board of Directors approved an extensive restructuring plan designed to reduce administrative and operational overhead costs in every part of Tenneco's business. As a result, Packaging recorded a pre-tax charge to income from continuing operations of \$32 million, \$20 million after-tax or \$.12 per diluted common share. Of the pre-tax charge, \$10 million relates to operational restructuring actions and \$22 million relates to a staff and cost reduction plan, which covers employees in both the operating unit and corporate operations.

The operational restructuring plans for Packaging involve the elimination of production lines at two plants resulting in the elimination of 104 positions. Additionally, Packaging intends to exit four joint ventures. The staff and cost reduction plan involves the elimination of 184 administrative positions in Packaging's business unit and in Packaging's corporate operations.

The fixed assets for the production lines to be eliminated, as well as the joint venture investments, were written down to their fair value, less costs to sell, in the fourth quarter of 1998. Fair value for the production lines was estimated at scrap value less removal costs. Fair value for the joint ventures were determined to be zero as Packaging is relinquishing their interest. No significant net cash proceeds are expected to be received from the ultimate disposal of these assets which should be complete by the fourth quarter of 1999. The effect of suspending depreciation for the production lines is approximately \$1 million on an annual basis.

F-14

111

#### THE BUSINESSES OF TENNECO PACKAGING

#### NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

As of December 31, 1998, and June 30, 1999, approximately 158 and 233 employees, respectively, have been terminated. This restructuring is being executed according to Packaging's initial plan and Packaging expects to complete all restructuring actions by the fourth quarter of 1999.

In the first quarter of 1999, in connection with Packaging's contribution of its containerboard assets to a new joint venture, Tenneco adopted a plan to realign its headquarters functions. This plan involves the severance of approximately 40 employees, and the closing of the Greenwich, Connecticut headquarters facility. Tenneco reached an agreement to sell its headquarters facility in Greenwich and recorded an impairment charge based on the selling price, less costs to sell. The carrying value of the facility before the impairment was \$43 million. Annual depreciation expense was reduced by approximately \$3 million as a result of the sale. The charge for this plan was recorded in Packaging's corporate operations in the amount of \$29 million pre-tax, \$17 million after-tax, or \$.10 per diluted common share. Packaging collected approximately \$30 million in the second quarter of 1999 related to the sale of these assets.

Amounts related to the restructuring plans described above are shown in the following table:

<TABLE>  
<CAPTION>

SIX MONTHS ENDED  
JUNE 30, 1999

	1998 RESTRUCTURING CHARGE	CASH PAYMENTS	CHARGED TO ASSET ACCOUNTS	BALANCE AT DECEMBER 31, 1998	RESTRUCTURING CHARGE	CASH PAYMENTS	CHARGED TO ASSET ACCOUNTS	BALANCE AT JUNE 30, 1999
	-----	-----	-----	-----	-----	-----	-----	-----
	(MILLIONS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Severance.....	\$20	\$ 5	\$--	\$15	\$16	\$12	\$--	\$19
Asset impairments.....	12	--	12	--	13	--	13	--
	---	---	---	---	---	---	---	---
	\$32	\$ 5	\$12	\$15	\$29	\$12	\$13	\$19
	===	===	===	===	===	===	===	===

</TABLE>

5. TRANSACTIONS WITH TENNECO

Combined Equity

The "Combined equity" caption in the accompanying combined financial statements represents Tenneco's cumulative net investment in the combined businesses of Packaging. Changes in the "Combined equity" caption represent the net income (loss) of Packaging, net cash and noncash contributions from (distributions to) Tenneco, accumulated other comprehensive income, changes in allocated corporate debt, and allocated corporate interest, net of tax. Reference is made to the statements of changes in combined equity for an analysis of the activity in the "Combined equity" caption for the three years ended December 31, 1998, and six months ended June 30, 1999.

Corporate Debt and Interest Allocation

Tenneco's historical practice has been to incur indebtedness for its consolidated group at the parent company level or at a limited number of subsidiaries, rather than at the operating company level, and to centrally manage various cash functions. Consequently, corporate debt of Tenneco and its related interest expense have been allocated to Packaging based on the portion of Tenneco's investment in Packaging which is deemed to be debt, generally based upon the ratio of Packaging's net assets to Tenneco consolidated net assets plus debt. Interest expense was allocated at a rate equivalent to the weighted-average cost of all corporate debt, which was 7.0%, 7.4%, and 8.3% for 1998, 1997, and 1996, respectively. Total pre-tax interest expense allocated to Packaging in 1998, 1997, and 1996 was \$130 million, \$120 million, and \$99 million, respectively. Packaging has also been allocated tax benefits approximating 35% of the allocated pre-tax interest expense. Although interest expense, and the related tax effects, have been allocated to Packaging for financial reporting on a historical basis, Packaging has not been billed for these amounts. The changes in allocated corporate debt and the after-tax allocated interest have been included as a component of Packaging's combined equity. Although management believes that the

F-15

112

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

historical allocation of corporate debt and interest is reasonable, it is not necessarily indicative of Packaging's debt upon completion of the realignment of Tenneco's debt nor debt and interest that will be incurred by Packaging as a separate public entity.

A portion of the corporate debt of Tenneco and its related interest expense allocated to Packaging has also been allocated to discontinued operations based on the ratio of the discontinued operations' net assets to Packaging's combined net assets plus debt.

Notes and Advances Receivable from Tenneco

"Cash contributions from (distributions to) Tenneco" in the Statements of Changes in Combined Equity consist of net cash changes in notes and advances receivable with Tenneco which have been included in combined equity. Historically, Tenneco has utilized notes and advances to centrally manage cash funding requirements for its consolidated group.

Noncash contributions from (distributions to) Tenneco result primarily from

transfers of assets and liabilities to or from Tenneco, such as transfers of acquired net assets and tax assets and liabilities.

At December 31, 1998 and 1997, Packaging had a note receivable from Tenneco totaling \$476 million and \$496 million, respectively, which is payable on demand and is included as a component of Packaging's combined equity.

#### Accounts Receivable and Accounts Payable -- Affiliated Companies

Receivables -- Affiliated companies relates to general and administrative costs incurred by Packaging and allocated to affiliates. Payables -- Affiliated companies relates to billings for costs incurred by affiliates and allocated to Packaging. Reference is made to Note 3 for a discussion of the types of such costs allocated to Packaging.

#### Employee Benefits

Certain employees of Packaging participate in the Tenneco employee stock option and employee stock purchase plans. The Tenneco employee stock option plan provides for the grant of Tenneco common stock options and other stock awards at a price not less than market value at the date of grant. The Tenneco employee stock purchase plan allows employees to purchase Tenneco common stock at a 15% discount subject to certain thresholds. Packaging expects to establish similar plans for its employees after the Spin-off. In connection with the Spin-off, outstanding options to Tenneco common stock held by Packaging employees will be replaced by options of Packaging so as to preserve the aggregate value of the options held prior to the Spin-off. Employees of Packaging also participate in certain Tenneco postretirement and pension plans. Reference is made to Notes 11 and 13 for a further discussion of these plans.

## 6. ACQUISITIONS

During 1998, Packaging made three acquisitions for approximately \$101 million.

In March 1997, Packaging entered into an agreement to acquire the protective and flexible packaging division of N.V. Koninklijke KNP BT ("KNP"), a Dutch distribution, paper, and packaging firm, for approximately \$380 million including debt assumed and preferred stock of a subsidiary issued to the seller. The KNP acquisition was completed in late April 1997.

In June 1996, Packaging entered into an agreement to acquire Amoco Foam Products for \$310 million. Amoco Foam Products manufactures expanded polystyrene tableware, hinged-lid food containers, packaging trays, and industrial products for residential and commercial construction applications. Packaging closed the acquisition of Amoco Foam Products in August 1996.

F-16

113

### THE BUSINESSES OF TENNECO PACKAGING

#### NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

All of the acquisitions discussed above have been accounted for as purchases; accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based on their fair values. The excess of the purchase price over the fair value of the net assets acquired is included in the combined balance sheet caption "Goodwill and intangibles, net."

## 7. DISCONTINUED OPERATIONS AND EXTRAORDINARY LOSS

### Discontinued Operations

In January 1999, Tenneco reached an agreement to contribute the containerboard assets of its paperboard packaging segment to a new joint venture with an affiliate of Madison Dearborn Partners, Inc. The contribution to the joint venture was completed in April 1999. Tenneco received consideration of cash and debt assumption totaling approximately \$2 billion plus a 45 percent common equity interest in the joint venture (now 43 percent due to subsequent management equity issuances) valued at approximately \$200 million. The containerboard assets contributed to the joint venture represented substantially all of the assets of Packaging's paperboard packaging segment and included four mills, 67 corrugated products plants, and an ownership or leasehold interest in approximately 950,000 acres of timberland. Prior to the transaction, Packaging borrowed approximately \$1.8 billion and used approximately \$1.2 billion of those borrowings to acquire assets used by the containerboard business under operating leases and timber cutting rights and to purchase containerboard business accounts receivable that had previously been sold to a third party. The remainder of the borrowings was remitted to Tenneco and used to repay a portion of Tenneco's short-term debt. Packaging then contributed the containerboard business assets (subject to the new indebtedness and the containerboard business liabilities) to the joint venture in exchange for \$247 million in cash and the

45 percent interest in the joint venture. As a result of the transaction, Packaging recognized a pre-tax loss of \$293 million, \$178 million after-tax or \$1.07 per diluted common share, in the first quarter of 1999, based on the amount by which the carrying amount of the containerboard assets exceeded the fair value of those assets, less cost to sell. The estimate of fair value of the containerboard assets was based on the fair value of the consideration received by Tenneco from the joint venture.

In June 1999, Tenneco's Board of Directors approved a plan to sell Packaging's remaining interest in its containerboard joint venture. Packaging expects the sale to be completed before the Spin-off. As a result of the decision to sell the remaining interest in the containerboard joint venture, Packaging's paperboard packaging segment is presented as a discontinued operation in the accompanying combined financial statements.

In April 1999, Tenneco reached an agreement to sell the paperboard packaging segment's other assets, its folding carton operations, to Caraustar Industries. Packaging received cash proceeds of \$73 million from this transaction which closed in June 1999. As a result of the sale transaction, Packaging recognized a pre-tax gain of \$14 million, \$9 million after-tax or \$.05 per diluted share and is included in discontinued operations in the second quarter of 1999.

F-17

114

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Net assets as of December 31, 1998, 1997, and 1996, and results of operations for the years then ended for the paperboard packaging segment were as follows:

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(MILLIONS)		
<S>	<C>	<C>	<C>
Net assets at the end of the period (Note).....	\$ 366	\$ 423	\$ 459
Net sales and operating revenues.....	\$1,570	\$1,431	\$1,605
Income before income taxes and interest allocation.....	\$ 131	\$ 63	\$ 152
Income tax (expense) benefit.....	(48)	(19)	(60)
Income before interest allocation.....	83	44	92
Allocated interest expense, net of income tax (Note).....	(26)	(23)	(21)
Income from discontinued operations.....	\$ 57	\$ 21	\$ 71

</TABLE>

Note: Net assets of discontinued operations includes allocated corporate debt of \$548 million, \$473 million and \$394 million as of December 31, 1998, 1997 and 1996, respectively. Reference is made to Note 5, "Transactions with Tenneco -- Corporate Debt and Interest Allocation," for a discussion of the allocation of corporate debt and interest expense to discontinued operations.

Extraordinary Loss

In the first quarter of 1999, Packaging recorded an extraordinary loss for extinguishment of debt of \$7 million (net of a \$3 million income tax benefit) or \$.04 per diluted common share. The loss related to early retirement of debt in connection with the sale of the containerboard assets.

8. LONG-TERM DEBT, SHORT-TERM DEBT, AND FINANCING ARRANGEMENTS

Long-Term Debt

A summary of long-term debt outstanding and allocated long-term corporate debt obligations at December 31, 1998 and 1997, is set forth in the following table:

<TABLE>

<CAPTION>

	1998 ----	1997 ----
	(MILLIONS)	
<S>	<C>	<C>
Notes due 1999 through 2016, average effective interest rate 9.5% in 1998 and 10% in 1997.....	\$ 22	\$ 20
Less -- current maturities.....	1	1
	-----	-----
	21	19
Allocated corporate debt obligations, average effective interest rate 7.0% in 1998 and 7.4% in 1997.....	1,291	1,473
	-----	-----
Total long-term debt.....	\$1,312	\$1,492
	=====	=====

</TABLE>

The aggregate maturities and sinking fund requirements applicable to the issues outstanding at December 31, 1998, are \$1 million, \$3 million, \$4 million, \$5 million, and \$2 million for 1999, 2000, 2001, 2002, and 2003, respectively.

Reference is made to Note 5 for a discussion of allocated corporate debt obligations.

F-18

115

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Short-Term Debt

Packaging uses lines of credit and overnight borrowings to finance certain of its short-term capital requirements. Information regarding short-term debt as of and for the years ended December 31, 1998 and 1997, are as follows:

<TABLE>

<CAPTION>

	1998 -----	1997 -----
	CREDIT	CREDIT
	AGREEMENTS*	AGREEMENTS*
	-----	-----
	(DOLLARS IN MILLIONS)	
<S>	<C>	<C>
Outstanding borrowings at end of year.....	\$11	\$ 1
Weighted average interest rate on outstanding borrowings at end of year.....	18.7%	7.1%
Approximate maximum month-end outstanding borrowings during year.....	\$37	\$26
Approximate average month-end outstanding borrowings during year.....	\$18	\$9
Weighted average interest rate on approximate average month-end outstanding borrowings during year.....	18.4%	17.5%

</TABLE>

\* Includes borrowings under both committed credit facilities and uncommitted lines of credit and similar arrangements.

Packaging was allocated short-term corporate debt obligations of \$583 million at December 31, 1998, and \$156 million at December 31, 1997. Reference is made to Note 5 for a discussion of allocated corporate debt obligations.

9. FINANCIAL INSTRUMENTS

Asset and Liability Instruments

The fair value of cash and temporary cash investments, short and long-term receivables, and accounts payable, and short-term debt (before allocation of corporate debt to Packaging from Tenneco) was considered to be the same as or was not determined to be materially different from the carrying amount.

The long-term debt reflected in the Combined Balance Sheets primarily represents corporate debt allocated to Packaging from Tenneco. As such, an estimate of fair value has not been provided. The fair value of other long-term debt is not materially different from the carrying amount.

Instruments With Off-Balance-Sheet Risk

Foreign Currency Contracts -- Note 3, "Summary of Accounting Policies -- Risk Management Activities" describes Tenneco's use of and

accounting for foreign currency exchange contracts. Packaging currently manages its exposure to changes in foreign currency rates by making loans with a Tenneco affiliate in the functional currency of the operating company concerned. The Tenneco affiliate then integrates all of Tenneco's foreign currency denominated loans and enters into foreign currency forward purchase and sale contracts to mitigate its net exposure to changes in foreign exchange rates. For most operating companies third party trade receivables and payables are maintained in the functional currency. From time to time Packaging may enter into foreign currency forward purchase and sale contracts with terms of less than one year to mitigate its exposure to changes in exchange rates on foreign currency third party trade receivables and payables. At December 31, 1998, Packaging had purchase contracts of approximately \$1 million, primarily in U.S. dollars, and sell contracts of approximately \$1 million, primarily in British pounds. At December 31, 1997, Packaging had purchase contracts of approximately \$2 million, primarily in Belgian francs and German marks, and sell contracts of approximately \$2 million, primarily in British pounds and French francs. At June 30, 1999, Packaging's purchase and sell contracts were not significant.

F-19

116

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

10. INCOME TAXES

The domestic and foreign components of income from continuing operations before income taxes are as follows:

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	----	----	----
	(MILLIONS)		
<S>	<C>	<C>	<C>
U.S. income before income taxes.....	\$108	\$139	\$108
Foreign income before income taxes.....	42	43	24
	----	----	----
Income before income taxes.....	\$150	\$182	\$132
	=====	=====	=====

</TABLE>

Following is a comparative analysis of the components of income tax expense applicable to continuing operations:

<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	----	----	----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Current --			
U.S.....	\$ (11)	\$ (57)	\$ 45
State and local.....	(2)	9	15
Foreign.....	3	5	3
	----	----	----
	(10)	(43)	63
	----	----	----
Deferred --			
U.S.....	59	101	3
Foreign, state and other.....	18	17	1
	----	----	----
	77	118	4
	----	----	----
Income tax expense.....	\$ 67	\$ 75	\$ 67
	=====	=====	=====

</TABLE>

Current income tax expense for the years ended December 31, 1998, 1997, and 1996, include tax benefits of \$45 million, \$41 million, and \$34 million, respectively, related to the allocation of corporate interest expense to Packaging from Tenneco. See Note 5.

Following is a reconciliation of income taxes computed at the statutory U.S. federal income tax rate (35% for all years presented) to the income tax expense reflected in the combined statements of income:



<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(MILLIONS)		
<S>	<C>	<C>	<C>
Tax expense computed at the statutory U.S. federal income tax rate.....	\$ 53	\$ 64	\$ 46
Increases (reductions) in income tax expense resulting from:			
Foreign income taxed at different rates and foreign losses with no tax benefit.....	1	(8)	(1)
State and local taxes on income, net of U.S. federal income tax benefit.....	3	18	10
Amortization of nondeductible goodwill.....	5	4	4
Other.....	5	(3)	8
	----	----	----
Income tax expense.....	\$ 67	\$ 75	\$ 67
	=====	=====	=====

</TABLE>

F-20

117

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The components of Packaging's net deferred tax liability were as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	1998	1997
	(MILLIONS)	
<S>	<C>	<C>
Deferred tax assets --		
Tax loss carryforwards:		
U.S. ....	\$ 95	\$ 46
State and local.....	7	--
Foreign.....	13	4
Postretirement benefits other than pensions.....	13	23
Other.....	26	24
Valuation allowance.....	(8)	(4)
	----	----
Net deferred tax asset.....	146	93
	----	----
Deferred tax liabilities --		
Tax over book depreciation.....	95	61
Pensions.....	213	206
Other.....	123	55
	----	----
Total deferred tax liability.....	431	322
	----	----
Net deferred tax liability.....	\$285	\$229
	=====	=====

</TABLE>

As reflected by the valuation allowance in the table above, Packaging had potential tax benefits of \$8 million and \$4 million at December 31, 1998 and 1997, respectively, which were not recognized in the combined statements of income when generated. These unrecognized tax benefits resulted primarily from foreign tax loss carryforwards which are available to reduce future foreign tax liabilities.

Of the \$270 million of U.S. tax loss carryforwards which exist at December 31, 1998, \$215 million expire in 2012 and \$55 million expire in 2018. The \$110 million of state tax loss carryforwards which exist at December 31, 1998, will expire in varying amounts over the period from 2000 to 2012. Of the \$43 million of foreign tax loss carryforwards which exist at December 31, 1998, \$18 million do not expire and the remainder expires in varying amounts over the period from 1999 to 2005.

Packaging and Tenneco, together with certain of their respective subsidiaries which are owned 80% or more, have entered into an agreement to file a consolidated U.S. federal income tax return. This agreement provides, among other things, that (1) each company in a taxable income position will be currently charged with an amount equivalent to its U.S. federal income tax

computed on a separate return basis and (2) each company in a tax loss position will be reimbursed currently. The income tax amounts reflected in the combined financial statements of Packaging under the provisions of the tax sharing arrangement are not materially different from the income taxes which would have been provided had Packaging filed a separate tax return. Under the tax sharing agreement, Tenneco pays all federal taxes directly and bills or refunds, as applicable, its subsidiaries for the applicable portion of the total tax payments. Cash taxes paid in the combined statements of cash flows include payments to Tenneco for income taxes.

Liability for foreign income taxes is generally allocated to the legal entity on which such taxes are imposed. In the case of state income taxes, Packaging is liable for its tax in states where returns are filed for separate entities. In states where returns are filed in a combined basis, liability is allocated in a manner similar to federal income tax.

F-21

118

#### THE BUSINESSES OF TENNECO PACKAGING

#### NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

#### 11. EMPLOYEE STOCK PLANS

In June 1992, Tenneco initiated an Employee Stock Purchase Plan ("ESPP"). The ESPP was terminated in 1996. Tenneco adopted a new employee stock purchase plan effective April 1, 1997 with provisions similar to the 1992 ESPP. Under the new ESPP, Tenneco sold 311,586 shares, 216,665 shares, and 185,179 shares to Packaging employees in 1998, 1997, and 1996, respectively. The plan allows U.S. and Canadian employees of Packaging to purchase Tenneco Inc. common stock through payroll deductions at a 15% discount. Each year, an employee in the plan may purchase shares with a discounted value not to exceed \$21,250. The weighted average fair value of the employee purchase right, which was estimated using the Black-Scholes option pricing model and the assumptions described below except that the average life of each purchase right was assumed to be 90 days, was \$6.31, \$11.14, and \$10.77 in 1998, 1997, and 1996, respectively. After the Spin-off, Packaging employees will no longer participate in the Tenneco ESPP.

In December 1996, Tenneco adopted the 1996 Stock Ownership Plan which permits the granting of a variety of awards, including common stock, restricted stock, performance units, stock appreciation rights, and stock options, to officers and employees of Tenneco. Tenneco can issue up to 17 million shares of common stock under this plan, which will terminate December 31, 2001. Certain key Packaging employees have been granted restricted stock and restricted units under the 1996 Stock Ownership Plan. These awards generally require, among other things, that the employee remain an employee of Tenneco during the restriction period. Certain key Packaging employees have also been granted performance shares which will vest based upon the attainment of specified performance goals within four years from the date of grant. In connection with the Spin-off, outstanding restricted stock, restricted units and performance shares will generally become fully vested. After the Spin-off, Packaging employees will no longer participate in Tenneco's 1996 Stock Ownership Plan.

The fair value of each stock option issued by Tenneco to Packaging employees during 1998, 1997, and 1996 is estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions for grants in 1998, 1997, and 1996, respectively: (a) risk-free interest rate of 5.7%, 6.5%, and 6.0%; (b) expected lives of 10 years, 6 years, and 5 years; (c) expected volatility of 25.6%, 24.1%, and 24.9%; and (d) dividend yield of 3.2%, 2.8%, and 3.3%. The weighted average fair value of options granted during the year is \$10.83, \$12.03, and \$11.42 for 1998, 1997, and 1996, respectively.

Packaging applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to its stock-based compensation plans. Packaging recognized after-tax stock-based compensation expense of \$3 million, \$4 million, and \$15 million in 1998, 1997, and 1996, respectively. Had compensation costs for Packaging's stock-based compensation plans been determined in accordance with FAS No. 123, "Accounting for Stock-Based Compensation," based on the fair value at the grant dates for awards under those plans, Packaging's pro forma net income for the years ended December 31, 1998, 1997, and 1996, would have been lower by \$14 million or \$.08 per both basic and diluted common share, \$13 million or \$.08 per both basic and diluted common share, and \$5 million or \$.03 per both basic and diluted common share, respectively.

#### 12. MINORITY INTEREST

At December 31, 1998 and 1997, Packaging reported minority interest in the combined balance sheet of \$14 million and \$15 million, respectively. This primarily relates to preferred stock of a subsidiary issued in connection with

the KNP acquisition.

13. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Packaging has pension plans that cover substantially all of its employees. Benefits are based on years of service and, for most salaried employees, on final average compensation. Packaging's funding policies

F-22

119

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

are to contribute to the plans amounts necessary to satisfy the funding requirement of federal laws and regulations. Plan assets consist principally of listed equity and fixed income securities. After the Spin-off, Packaging will become the sponsor of the Tenneco Retirement Plan (the "TRP"). Benefits accrued under the TRP by employees of Tenneco's automotive business will be frozen as of the last day of the calendar month in which the Spin-off occurs, and all related pension obligations and assets will be retained by Packaging. In addition, all TRP pension obligations and assets associated with participating employees from former subsidiaries and affiliates of Tenneco will be retained by Packaging and have been reflected in the historical combined financial statements. These pension obligations and assets that Packaging will retain under all of these arrangements are included in the table below.

Packaging has postretirement health care and life insurance plans that cover all of its salaried and certain of its hourly domestic employees. For salaried employees, the plans cover employees retiring from Packaging on or after attaining age 55 who have had a least 10 years service with Packaging after attaining age 45. For hourly employees, the postretirement benefit plans generally cover employees who retire according to one of Packaging's hourly employee retirement plans. All of these benefits may be subject to deductibles, copayment provisions, and other limitations, and Packaging has reserved the right to change these benefits. Packaging's postretirement benefit plans are not funded.

F-23

120

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

A summary of the change in benefit obligation, the change in plan assets, the development of net amount recognized, and the amounts recognized in the combined statement of financial position for the pension plans and postretirement benefit plans follows:

<TABLE>

<CAPTION>

	PENSION		POSTRETIREMENT	
	1998	1997	1998	1997
	----	----	----	----
	(MILLIONS)			
<S>	<C>	<C>	<C>	<C>
Change in benefit obligations:				
Benefit obligation at September 30 of the previous year...	\$2,654	\$2,361	\$ 70	\$ 64
Currency rate conversion.....	1	--	--	--
Service cost.....	28	23	1	1
Interest cost.....	199	178	5	5
Plan amendments.....	44	8	--	--
Actuarial loss (gain).....	293	254	1	5
Acquisitions.....	--	13	--	--
Benefits paid.....	(194)	(183)	(8)	(6)
Participants' contributions.....	--	--	1	1
	-----	-----	-----	-----
Benefit obligation at September 30.....	\$3,025	\$2,654	\$ 70	\$ 70
	=====	=====	=====	=====
Change in plan assets:				
Fair value at September 30 of the previous year.....	\$3,516	\$2,966	\$ --	\$ --
Currency rate conversion.....	--	4	--	--
Actual return on plan assets.....	102	714	--	--
Employer contributions.....	5	3	7	5
Participants' contributions.....	1	--	1	1
Acquisitions.....	--	12	--	--
Benefits paid.....	(194)	(183)	(8)	(6)
	-----	-----	-----	-----

Fair value at September 30.....	\$3,430	\$3,516	\$ --	\$ --
	=====	=====	=====	=====
Development of net amount recognized:				
Funded status at September 30.....	\$ 405	\$ 862	\$ (70)	\$ (70)
Contributions during the fourth quarter.....	1	1	2	1
Unrecognized cost:				
Actuarial loss (gain).....	200	(273)	11	11
Prior service cost.....	71	57	(4)	(5)
Transition liability (asset).....	(43)	(62)	--	--
	-----	-----	-----	-----
Net amount recognized at December 31.....	\$ 634	\$ 585	\$ (61)	\$ (63)
	=====	=====	=====	=====
Amounts recognized in the combined balance sheet:				
Prepaid benefit cost.....	\$ 664	\$ 594	\$ --	\$ --
Accrued benefit cost.....	(56)	(9)	(61)	(63)
Intangible asset.....	22	--	--	--
Accumulated other comprehensive income.....	4	--	--	--
	-----	-----	-----	-----
Net amount recognized.....	\$ 634	\$ 585	\$ (61)	\$ (63)
	=====	=====	=====	=====

</TABLE>

-----  
Note: Assets of one plan may not be utilized to pay benefits of other plans. Additionally, the prepaid (accrued) benefit cost has been recorded based upon certain actuarial estimates as described below. Those estimates are subject to revision in future periods given new facts or circumstances.

F-24

121

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Net periodic pension costs (income) from continuing operations for the years 1998, 1997, and 1996, consist of the following components:

<TABLE> <CAPTION>			
	1998	1997	1996
	----	----	----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Service cost -- benefits earned during the year.....	\$ 28	\$ 23	\$ 20
Interest on prior year's projected benefit obligation.....	199	178	126
Expected return on plan assets.....	(285)	(265)	(178)
Net amortization:			
Actuarial loss (gain).....	1	--	3
Prior service cost.....	11	11	11
Transition liability (asset).....	(19)	(19)	(13)
	-----	-----	-----
Net pension costs (income).....	\$ (65)	\$ (72)	\$ (31)
	=====	=====	=====

</TABLE>

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for all pension plans with accumulated benefit obligations in excess of plan assets were \$89 million, \$83 million, and \$27 million, respectively, as of September 30, 1998, 1997, and \$12 million, \$11 million, and \$1 million, respectively, as of September 30, 1996.

The weighted average discount rates (which are based on long-term market rates) used in determining the 1998, 1997, and 1996 actuarial present value of the benefit obligations were 7.0%, 7.75%, and 7.75%, respectively. The rate of increase in future compensation was 4.8%, 4.9%, and 4.8%, for 1998, 1997, and 1996, respectively. The weighted average expected long-term rate of return on plan assets for 1998, 1997, and 1996 was 10.0% for each year.

Net periodic postretirement benefit cost from continuing operations for the years 1998, 1997, and 1996 consist of the following components:

<TABLE> <CAPTION>			
	1998	1997	1996
	----	----	----
	(MILLIONS)		
<S>	<C>	<C>	<C>
Service cost -- benefits earned during the year.....	\$ 2	\$ 1	\$ 1
Interest on accumulated postretirement benefit obligation...	5	5	5
Net amortization:			
Prior service cost.....	(2)	(2)	(2)

Actuarial loss (gain).....	1	1	--
	---	---	--
Net periodic postretirement benefit cost.....	\$ 6	\$ 5	\$4
	===	===	==

</TABLE>

The initial weighted average assumed health care cost trend rate used in determining the 1998, 1997, and 1996 accumulated postretirement benefit obligation was 5%, 5%, and 6%, respectively, declining to 5% in 1997 and remaining at that level thereafter.

Increasing the assumed health care cost trend rate by one percentage point in each year would increase the 1998, 1997, and 1996 accumulated postretirement benefit obligations by approximately \$2 million for each year. There would be no change in the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for any of these years.

Decreasing the assumed health care cost trend rate by one percentage point in each year would decrease the 1998 accumulated postretirement benefit obligation by approximately \$2 million and would not change the aggregate of service cost and interest cost components of the net periodic postretirement benefit cost.

F-25

122

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The discount rates (which are based on long-term market rates) used in determining the 1998, 1997, and 1996 accumulated postretirement benefit obligations were 7.00%, 7.75%, and 7.75%, respectively.

14. SEGMENT AND GEOGRAPHIC AREA INFORMATION

Packaging is a global manufacturer with a single operating segment:

Specialty Packaging -- Manufacture and sale of specialty packaging and consumer products for foodservice, consumer, protective, flexible and institutional/industrial markets.

The accounting policies of the segment are the same as those described in Note 3, "Summary of Accounting Policies." Packaging evaluates operating performance based primarily on income before interest expense, income taxes, and minority interest. Individual operating segments have not been aggregated within this reportable segment.

Products are transferred between geographic areas on a basis intended to reflect as nearly as possible the "market value" of the products.

The following table sets forth information relating to Packaging's external customer revenues for each product or each group of similar products:

<TABLE>

<CAPTION>

	NET SALES AND OPERATING REVENUES YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	----	----	----
	(MILLIONS)		
<S>	<C>	<C>	<C>
SPECIALTY			
Disposable plastic, fiber, and aluminum packaging products.....	\$2,126	\$2,105	\$1,862
Plastic and fiber protective and flexible packaging products.....	607	399	78
Other.....	52	49	47
	-----	-----	-----
Total Specialty Packaging.....	2,785	2,553	1,987
	-----	-----	-----
OTHER.....	6	10	--
	-----	-----	-----
COMBINED.....	\$2,791	\$2,563	\$1,987
	=====	=====	=====

</TABLE>

F-26

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The following tables summarize certain segment and geographic information of Packaging:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	SEGMENT		RECLASS	COMBINED
	SPECIALTY	OTHER	& ELIMS	
	(MILLIONS)			
<S>	<C>	<C>	<C>	<C>
AT JUNE 30, 1999, AND FOR THE SIX MONTHS THEN ENDED				
Revenues from external customers.....	\$1,404	\$ --	\$ --	\$1,404
Depreciation and amortization.....	84	10	--	94
Income before interest, income taxes, and minority interest.....	190	(46) (b)	--	144
Extraordinary loss.....	--	(7)	--	(7)
Cumulative effect of change in accounting principle.....	(17)	(15)	--	(32)
Total assets.....	3,296	1,309 (a)	(119)	4,486
Net assets of discontinued operations.....	--	133	--	133
AT DECEMBER 31, 1998, AND FOR THE YEAR THEN ENDED				
Revenues from external customers.....	\$2,785	\$ 6	\$ --	\$2,791
Depreciation and amortization.....	152	23	--	175
Income before interest, income taxes, and minority interest.....	328	(45) (c)	--	283
Total assets.....	3,260	1,580 (a)	(42)	4,798
Net assets of discontinued operations.....	--	366	--	366
Investment in affiliated companies.....	17	--	--	17
Capital expenditures.....	190	4	--	194
Noncash items other than depreciation and amortization.....	22	(84)	--	(62)
AT JUNE 30, 1998, AND FOR THE SIX MONTHS THEN ENDED				
Revenues from external customers.....	\$1,361	\$ 10	\$ --	\$1,371
Depreciation and amortization.....	77	11	--	88
Income before interest, income taxes, and minority interest.....	175	(2)	--	173
Total assets.....	3,373	1,468 (a)	(53)	4,788
Net assets of discontinued operations.....	--	382	--	382
AT DECEMBER 31, 1997, AND FOR THE YEAR THEN ENDED				
Revenues from external customers.....	\$2,553	\$ 10	\$ --	\$2,563
Depreciation and amortization.....	143	20	--	163
Income before interest, income taxes, and minority interest.....	308	(2)	--	306
Cumulative effect of change in accounting principle.....	(11)	(27)	--	(38)
Total assets.....	3,244	1,412 (a)	(38)	4,618
Net assets of discontinued operations.....	--	423	--	423
Investment in affiliated companies.....	9	--	--	9
Capital expenditures.....	227	2	--	229
Noncash items other than depreciation and amortization.....	10	(86)	--	(76)
AT DECEMBER 31, 1996, AND FOR THE YEAR THEN ENDED				
Revenues from external customers.....	\$1,987	\$ --	\$ --	\$1,987
Depreciation and amortization.....	123	8	--	131
Income before interest, income taxes, and minority interest.....	249	(15)	--	234
Extraordinary loss.....	--	(2)	--	(2)
Total assets.....	2,655	1,421 (a)	(48)	4,028
Net assets of discontinued operations.....	--	459	--	459
Investment in affiliated companies.....	9	1	--	10
Capital expenditures.....	172	44	--	216
Noncash items other than depreciation and amortization.....	(2)	(44)	--	(46)

&lt;/TABLE&gt;

F-27

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Notes: (a) The Other segment's total assets includes pension assets retained by Packaging related to certain employees of Tenneco's and Packaging's discontinued operations, Packaging's administrative service

operations assets and net assets of the discontinued paperboard packaging segment.

(b) The Other segment's income before interest expense, income taxes and minority interest for the six months ended June 30, 1999 includes a \$29 million charge relating to the severance of corporate employees and the closing of the Greenwich, Connecticut headquarters facility (see Note 4).

(c) The Other segment's income before interest expense, income taxes and minority interest for the year ended December 31, 1998 includes restructuring charges of \$10 million relating to severance of corporate employees (see Note 4) and approximately \$50 million of operating costs relating to Packaging's information technology service center that began operation in 1998.

<TABLE>  
<CAPTION>

	GEOGRAPHIC AREA			COMBINED
	UNITED STATES	FOREIGN (A)	RECLASS & ELIMS	
	(MILLIONS)			
<S>	<C>	<C>	<C>	<C>
AT DECEMBER 31, 1998, AND FOR THE YEAR THEN ENDED				
Revenues from external customers(b).....	\$2,212	\$579	\$ --	\$2,791
Long-lived assets(c).....	2,168	295	--	2,463
Total assets.....	4,131	691	(24)	4,798
AT DECEMBER 31, 1997, AND FOR THE YEAR THEN ENDED				
Revenues from external customers(b).....	\$2,116	\$447	\$ --	\$2,563
Long-lived assets(c).....	2,026	236	--	2,262
Total assets.....	4,036	596	(14)	4,618
AT DECEMBER 31, 1996, AND FOR THE YEAR THEN ENDED				
Revenues from external customers(b).....	\$1,759	\$228	\$ --	\$1,987
Long-lived assets(c).....	1,957	94	--	2,051
Total assets.....	3,755	281	(8)	4,028

Notes: (a) Revenues from external customers and long-lived assets for individual foreign countries are not material.

(b) Revenues are attributed to countries based on location of the seller.

(c) Long-lived assets include all long-term assets except net assets from discontinued operations, goodwill, intangibles, and deferred tax assets.

#### 15. COMMITMENTS AND CONTINGENCIES

##### Capital Commitments

Packaging estimates that expenditures aggregating approximately \$110 million will be required after December 31, 1998, to complete facilities and projects authorized at such date, and substantial commitments have been made in connection therewith.

F-28

125

#### THE BUSINESSES OF TENNECO PACKAGING

##### NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

##### Lease Commitments

Packaging holds certain of its facilities, equipment, and other assets under long-term leases. The minimum lease payments under non-cancelable operating leases with lease terms in excess of one year are \$44 million, \$31 million, \$22 million, \$15 million, and \$56 million for the years 1999, 2000, 2001, 2002, and 2003, respectively, and \$53 million for subsequent years.

Commitments under capital leases were not significant to the accompanying

combined financial statements. Total rental expense for continuing operations for the years 1998, 1997, and 1996, was \$35 million, \$37 million, and \$24 million, respectively, including minimum rentals under non-cancelable operating leases of \$45 million, \$42 million, and \$18 million for the corresponding periods.

Litigation

Packaging and its combined subsidiaries are parties to various legal proceedings arising from their operations. Packaging believes that the outcome of these proceedings, individually and in the aggregate, will have no material effect on the financial position or results of operations of Packaging and its combined subsidiaries.

Environmental Matters

Packaging and its combined subsidiaries are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which they operate. Packaging has provided reserves for compliance with these laws and regulations where it is probable that a liability exists and where Packaging can make a reasonable estimate of the liability. The estimated liabilities recorded are subject to change as more information becomes available regarding the magnitude of possible clean-up costs and the timing, varying costs, and effectiveness of alternative clean-up technologies. However, Packaging believes that any additional costs which arise as more information becomes available will not have a material effect on the combined financial condition or results of operations of Packaging.

F-29

126

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

16. QUARTERLY FINANCIAL DATA (UNAUDITED) (IN MILLIONS EXCEPT PER SHARE)

<TABLE>

<CAPTION>

QUARTER	NET SALES AND OPERATING REVENUES	INCOME BEFORE INTEREST EXPENSE, INCOME TAXES, AND MINORITY INTEREST	INCOME (LOSS) FROM CONTINUING OPERATIONS	INCOME (LOSS) FROM DISCONTINUED OPERATIONS	INCOME (LOSS) BEFORE EXTRAORDINARY LOSS	EXTRAORDINARY LOSS	INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1999							
1st.....	\$ 666	\$ 45	\$ 6	\$ (172)	\$ (166)	\$ (7)	\$ (173)
2nd.....	738	99	46	9	55	--	55
	-----	-----	-----	-----	-----	-----	-----
	\$1,404	\$144	\$ 52	\$ (163)	\$ (111)	\$ (7)	\$ (118)
	=====	=====	=====	=====	=====	=====	=====
1998							
1st.....	\$ 633	\$ 69	\$ 18	\$ 14	\$ 32	\$ --	\$ 32
2nd.....	738	104	51	23	74	--	74
3rd.....	696	74	15	25	40	--	40
4th.....	724	36	(2)	(5)	(7)	--	(7)
	-----	-----	-----	-----	-----	-----	-----
	\$2,791	\$283	\$ 82	\$ 57	\$ 139	\$ --	\$ 139
	=====	=====	=====	=====	=====	=====	=====
1997							
1st.....	\$ 510	\$ 48	\$ 9	\$ 13	\$ 22	\$ --	\$ 22
2nd.....	675	87	31	(11)	20	--	20
3rd.....	682	89	32	11	43	--	43
4th.....	696	82	34	8	42	--	42
	-----	-----	-----	-----	-----	-----	-----
	\$2,563	\$306	\$106	\$ 21	\$ 127	\$ --	\$ 127
	=====	=====	=====	=====	=====	=====	=====

<CAPTION>

QUARTER	CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	NET INCOME (LOSS)
<S>	<C>	<C>
1999		
1st.....	\$ (32)	\$ (205)
2nd.....	--	55



	----	-----
	\$ (32)	\$ (150)
	=====	=====
1998		
1st.....	\$ --	\$ 32
2nd.....	--	74
3rd.....	--	40
4th.....	--	(7)
	----	-----
	\$ --	\$ 139
	=====	=====
1997		
1st.....	\$ --	\$ 22
2nd.....	--	20
3rd.....	--	43
4th.....	(38)	4
	----	-----
	\$ (38)	\$ 89
	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

BASIC EARNINGS (LOSS) PER SHARE OF COMMON STOCK							
QUARTER	FROM CONTINUING OPERATIONS	FROM DISCONTINUED OPERATIONS	BEFORE EXTRAORDINARY LOSS	EXTRAORDINARY LOSS	BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	NET INCOME (LOSS)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1999							
1st.....	\$ .03	\$ (1.03)	\$ (1.00)	\$ (.04)	\$ (1.04)	\$ (.19)	\$ (1.23)
2nd.....	.28	.05	.33	--	.33	--	.33
	----	-----	-----	-----	-----	-----	-----
	\$ .31	\$ (.98)	\$ (.67)	\$ (.04)	\$ (.71)	\$ (.19)	\$ (.90)
	=====	=====	=====	=====	=====	=====	=====
1998							
1st.....	\$ .11	\$ .08	\$ .19	\$ --	\$ .19	\$ --	\$ .19
2nd.....	.30	.14	.44	--	.44	--	.44
3rd.....	.09	.15	.24	--	.24	--	.24
4th.....	(.01)	(.04)	(.05)	--	(.05)	--	(.05)
	----	-----	-----	-----	-----	-----	-----
	\$ .49	\$ .34	\$ .83	\$ --	\$ .83	\$ --	\$ .83
	=====	=====	=====	=====	=====	=====	=====
1997							
1st.....	\$ .06	\$ .07	\$ .13	\$ --	\$ .13	\$ --	\$ .13
2nd.....	.19	(.07)	.12	--	.12	--	.12
3rd.....	.18	.07	.25	--	.25	--	.25
4th.....	.20	.05	.25	--	.25	(.23)	.02
	----	-----	-----	-----	-----	-----	-----
	\$ .63	\$ .12	\$ .75	\$ --	\$ .75	\$ (.23)	\$ .52
	=====	=====	=====	=====	=====	=====	=====

</TABLE>

F-30

127

THE BUSINESSES OF TENNECO PACKAGING

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

<TABLE>  
<CAPTION>

DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK							
QUARTER	FROM CONTINUING OPERATIONS	FROM DISCONTINUED OPERATIONS	BEFORE EXTRAORDINARY LOSS	EXTRAORDINARY LOSS	BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	NET INCOME (LOSS)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1999							
1st.....	\$ .03	\$ (1.03)	\$ (1.00)	\$ (.04)	\$ (1.04)	\$ (.19)	\$ (1.23)
2nd.....	.28	.05	.33	--	.33	--	.33
	----	-----	-----	-----	-----	-----	-----
	\$ .31	\$ (.98)	\$ (.67)	\$ (.04)	\$ (.71)	\$ (.19)	\$ (.90)

	=====	=====	=====	=====	=====	=====	=====
1998							
1st.....	\$ .11	\$ .08	\$ .19	\$ --	\$ .19	\$ --	\$ .19
2nd.....	.30	.14	.44	--	.44	--	.44
3rd.....	.09	.15	.24	--	.24	--	.24
4th.....	(.01)	(.04)	(.05)	--	(.05)	--	(.05)
	-----	-----	-----	-----	-----	-----	-----
	\$ .49	\$ .34	\$ .83	\$ --	\$ .83	\$ --	\$ .83
	=====	=====	=====	=====	=====	=====	=====
1997							
1st.....	\$ .06	\$ .07	\$ .13	\$ --	\$ .13	\$ --	\$ .13
2nd.....	.19	(.07)	.12	--	.12	--	.12
3rd.....	.18	.07	.25	--	.25	--	.25
4th.....	.20	.05	.25	--	.25	(.23)	.02
	-----	-----	-----	-----	-----	-----	-----
	\$ .63	\$ .12	\$ .75	\$ --	\$ .75	\$ (.23)	\$ .52
	=====	=====	=====	=====	=====	=====	=====

</TABLE>

Notes: Reference is made to Notes 3, 4, 6, and 7 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for items affecting quarterly results. The sum of the quarters may not equal the total of the respective year's earnings per share on either a basic or diluted basis due to changes in the weighted average shares outstanding throughout the year.

(The preceding notes are an integral part of the foregoing combined financial statements.)

F-31

128

SCHEDULE II

THE BUSINESSES OF TENNECO PACKAGING  
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS  
(MILLIONS)

<TABLE> <CAPTION>	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS		DEDUCTIONS	BALANCE AT END OF YEAR
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
Allowance for Doubtful Accounts Deducted from Assets to Which it Applies:					
Year Ended December 31, 1998.....	\$11	\$ 5	\$--	\$ 5	\$11
	===	===	===	===	===
Year Ended December 31, 1997.....	\$18	\$ 2	\$ 2	\$11	\$11
	===	===	===	===	===
Year Ended December 31, 1996.....	\$ 9	\$11	\$--	\$ 2	\$18
	===	===	===	===	===

</TABLE>

S-1

FORM OF  
REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "Agreement") is dated as of \_\_\_\_\_, 1999, by and between Tenneco Packaging Inc., a Delaware corporation (the "Company"), and \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, not individually but solely as trustees (collectively, the "Trustee") under that certain Tenneco Packaging Inc. Rabbi Trust, dated as of \_\_\_\_\_, 1999 (the "Trust").

WHEREAS, the Company and the Trustee have established the Trust to hold assets until certain amounts are paid to participants under certain designated nonqualified deferred compensation plan(s) and supplemental pension arrangements; and

WHEREAS, in connection with entering into the Trust, the Company has agreed to provide the registration rights set forth in this Agreement for the benefit of the Trust; and

WHEREAS, the parties desire to enter into this Agreement to set forth their agreement regarding certain registration rights with respect to the Common Stock of the Company (and any other securities issued in respect thereof or in exchange therefor) held by the Trust.

NOW, THEREFORE, the parties hereto agree as follows:

1. Demand Registrations.

(a) Upon written notice by the Trustee to the Company at any time and from time to time after the date hereof requesting that the Company effect the registration under the Securities Act of 1933 (the "Securities Act") of any or all of the securities of the Company now or hereafter held by the Trust (or such shares or other securities into which or for which such securities are changed, converted or exchanged upon any reclassification, share combination, share subdivision, share dividend, share exchange, merger, consolidation or similar transaction or event, together with such shares or other securities received through dividends, reinvestment of dividends or otherwise) (the "Registrable Securities"), which notice shall specify the intended method(s) of disposition of such Registrable Securities, the Company shall use its best efforts to effect the registration under the Securities Act and applicable state securities laws of such Registrable Securities for disposition in accordance with such intended method(s) of disposition.

(b) Notwithstanding any other provision of this Agreement to the contrary, a registration requested by the Trustee shall not be deemed to have been effected: (i) unless it has become effective, (ii) if after it has

become effective such registration is interfered with by any

2

stop order, injunction or other order or requirement of the Securities and Exchange Commission ("SEC") or other governmental agency or court for any reason other than a misrepresentation or an omission by the Trustee and, as a result thereof, the Registrable Securities requested to be registered cannot be completely distributed in accordance with the plan of distribution set forth in the registration statement or (iii) if the conditions to closing specified in any purchase agreement or underwriting agreement entered into in connection with any such registration are not satisfied or waived other than by reason of some act or omission by the Trustee.

(c) In the event that any registration pursuant to this Section shall involve, in whole or in part, an underwritten offering, the Trustee shall have the right to designate an underwriter or underwriters as the lead or managing underwriters of such underwritten offering and, in connection with each registration, the Trustee may select counsel to represent the Trustee.

(d) As to any particular Registrable Securities, such Registrable Securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale by the Trust shall have been declared effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (ii) such securities shall have been distributed to the public in accordance with Rule 144 promulgated under the Securities Act ("Rule 144"), or (iii) such securities shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent disposition of them shall not require registration or qualification of them under the Securities Act or any state securities or blue sky law then in effect.

2. Expenses. The Company shall pay any and all expenses incident to performance of or compliance with each registration of securities pursuant to this Agreement, including, without limitation, (i) the fees, disbursements and expenses of the Company's counsel and accountants and the fees, disbursements and expenses of counsel selected by the Trust in accordance with this Agreement in connection with the registration of the securities to be disposed of; (ii) all expenses, including filing fees, in connection with the preparation, printing and filing of the registration statement, any preliminary prospectus or final prospectus, any other offering document and amendments and supplements thereto and the mailing and delivering of copies thereof to any underwriters and dealers; (iii) the cost of printing or producing any underwriting agreements and blue sky or legal investment memoranda and any other documents in connection with the offering, sale or delivery of the securities to be disposed of; (iv) all expenses in connection with the qualification of the securities to be disposed of for offering and sale under state securities laws, including the fees, disbursements and expenses of counsel for the underwriters

or the Trustee in connection with such qualification and in connection with any blue sky and legal investment surveys; (v) the filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the securities to be disposed of; (vi) transfer agents' and registrars' fees and expenses and the fees and expenses of any other agent or trustee appointed in connection with such offering; (vii) all security engraving and security printing expenses; (viii) all fees, disbursements and expenses payable in connection with the listing of the securities on any securities exchange or automated interdealer quotation

-2-

3

system or the rating of such securities, (ix) any other fees, disbursements and expenses of underwriters customarily paid by the sellers of securities, and underwriting discounts and commissions and transfer taxes, if any, and (x) other out-of-pocket expenses of the Trust. Notwithstanding the foregoing, each of the Trust and the Company shall be responsible for its own internal administrative and similar costs.

3. Registration and Qualification. If and whenever the Company is required to effect the registration of any Registrable Securities under the Securities Act as provided in Section 1, the Company shall as promptly as practicable:

(a) prepare, file and use its reasonable best efforts to cause to become effective a registration statement under the Securities Act relating to the Registrable Securities to be offered;

(b) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities until the earlier of (A) such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition set forth in such registration statement and (B) the expiration of six months after such registration statement becomes effective; provided, that such six-month period shall be extended for such number of days that equals the number of days elapsing from (x) the date the written notice contemplated by paragraph (f) below is given by the Company to (y) the date on which the Company delivers to the Trustee the supplement or amendment contemplated by paragraph (f) below;

(c) furnish to the Trustee and to any underwriter of such Registrable Securities such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act,

such documents incorporated by reference in such registration statement or prospectus, and such other documents, as the Trustee or such underwriter may reasonably request, and upon request a copy of any and all transmittal letters or other correspondence to or received from, the SEC or any other governmental agency or self-regulatory body or other body having jurisdiction (including any domestic or foreign securities exchange) relating to such offering;

(d) use its reasonable best efforts to register or qualify all Registrable Securities covered by such registration statement under the securities or blue sky laws of such U.S. jurisdictions as the Trustee or any underwriter to such Registrable Securities shall request, and use its reasonable best efforts to obtain all appropriate registrations, permits and consents in connection therewith, and do any and all other acts and things which may be necessary or advisable to enable the Trustee or any such underwriter to consummate the disposition in such

-3-

4

jurisdictions of its Registrable Securities covered by such registration statement;

(e) (i) furnish to the Trustee and to any underwriter of such Registrable Securities an opinion of counsel for the Company addressed to the Trustee and dated the date of the closing under the underwriting agreement (if any) (or if such offering is not underwritten, dated the effective date of the registration statement) and (ii) furnish to the Trustee and to any underwriter of such Registrable Securities a "cold comfort" letter addressed to the Trustee and signed by the independent public accountants who have audited the financial statements of the Company included in such registration statement, in each such case covering substantially the same matters with respect to such registration statement (and the prospectus included therein) as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities and such other matters as the Trustee may reasonably request and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements;

(f) as promptly as practicable, notify the Trustee in writing (i) at any time when a prospectus relating to a registration pursuant to Section 1 is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and (ii) of any request by the SEC or any other regulatory body or other body having jurisdiction for any amendment of or supplement to any registration statement or other document relating to such offering, and in either such case, at the request of the Trustee, prepare and furnish to the

Trustee a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading;

(g) if requested by the Trustee or the lead or managing underwriters, use its best efforts to list all such Registrable Securities covered by such registration on each securities exchange and automated inter-dealer quotation system on which a class of common equity securities of the Company is then listed; and

(h) furnish for delivery in connection with the closing of any offering of Registrable Securities pursuant to a registration effected pursuant to Sections 1 or 2 unlegended certificates representing ownership of the Registrable Securities being sold in such denominations as shall be requested by the Trustee or the underwriters.

#### 4. Underwriting; Due Diligence.

(a) If requested by the underwriters for any underwritten offering of

-4-

5

Registrable Securities pursuant to a registration requested under this Agreement, the Company shall enter into an underwriting agreement with such underwriters for such offering, which agreement will contain such representations and warranties by the Company and such other terms and provisions as are customarily contained in underwriting agreements of the Company to the extent relevant and as are customarily contained in underwriting agreements generally with respect to secondary distributions to the extent relevant, including, without limitation, indemnification and contribution provisions substantially to the effect and to the extent provided in Section 5(a), and agreements as to the provision of opinions of counsel and accountants' letters to the effect and to the extent provided in Section 3(e). The Trust shall be a party to any such underwriting agreement and the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters, shall also be made to and for the benefit of the Trust. Such underwriting agreement shall also contain such representations and warranties by the Trust and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, when relevant, including, without limitation, indemnification and contribution provisions substantially to the effect and to the extent provided in Section 5(b).

(b) In connection with the preparation and filing of each

registration statement registering Registrable Securities under the Securities Act pursuant to this Agreement, the Company shall give the Trustee and the underwriters, if any, and their respective counsel and accountants, such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified the financial statements of the Company as shall be necessary, in the opinion of the Trustee and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the Securities Act.

#### 5. Indemnification and Contribution.

(a) In the case of each offering of Registrable Securities made pursuant to this Agreement, the Company agrees to indemnify and hold harmless, to the extent permitted by law, the Trustee, the Trust, each underwriter of Registrable Securities so offered and each individual or entity (each a "Person"), if any, who controls any of the foregoing Persons within the meaning of the Securities Act and the officers, directors, affiliates, employees and agents of each of the foregoing, against any and all losses, liabilities, costs (including reasonable attorney's fees and disbursements), claims and damages, joint or several, to which they or any of them may become subject, under the Securities Act or otherwise, including any amount paid in settlement of any litigation commenced or threatened, insofar as such losses, liabilities, costs, claims and damages (or actions or proceedings in respect thereof, whether or not such indemnified Person is a party thereto) arise out of or are based upon any untrue statement by the Company or alleged untrue statement by the Company of a material fact contained in the registration statement (or in any preliminary or final prospectus included therein) or in any offering memorandum or other offering document relating to the offering and sale of such Registrable Securities prepared by the Company or at its direction, or any amendment thereof or supplement thereto, or in any

-5-

6

document incorporated by reference therein, or any omission by the Company or alleged omission by the Company to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided that the Company shall not be liable to any Person in any such case to the extent that any such loss, liability, cost, claim or damage arises out of or relates to any untrue statement or alleged untrue statement, or any omission or alleged omission, if such statement or omission shall have been made in reliance upon and in conformity with information relating to the Trust or an underwriter furnished in writing to the Company by or on behalf of the Trust or such underwriter specifically for use in the registration statement (or in any preliminary or final prospectus included therein), offering memorandum or other offering document, or any amendment thereof or supplement thereto. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Trust or any underwriter and shall survive the transfer of such securities. The foregoing indemnity agreement is in addition to



any liability that the Company may otherwise have to the Trust or any underwriter of the Registrable Securities or any controlling Person of the foregoing and the officers, directors, affiliates, employees and agents of each of the foregoing; provided, further, that, in the case of an offering with respect to which the Trust has designated the lead or managing underwriters (or the Trust is offering Registrable Securities directly, without an underwriter), this indemnity does not apply to any loss, liability, cost, claim or damage arising out of or relating to any untrue statement or alleged untrue statement or omission or alleged omission in any preliminary prospectus or offering memorandum if a copy of a final prospectus or offering memorandum was not sent or given by or on behalf of any underwriter (or the Trust) to such Person asserting such loss, liability, cost, claim or damage at or prior to the written confirmation of the sale of the Registrable Securities as required by the Securities Act and such untrue statement or omission had been corrected in such final prospectus or offering memorandum.

(b) In the case of each offering made pursuant to this Agreement, the Trust, by exercising its registration rights hereunder, agrees to indemnify and hold harmless, and to cause each underwriter of Registrable Securities included in such offering (in the same manner and to the same extent as set forth in Section 5(a)) to agree to indemnify and hold harmless, the Company, each other underwriter who participates in such offering, each other holder with securities included in such offering, each Person, if any, who controls any of the foregoing within the meaning of the Securities Act and the officers, directors, affiliates, employees and agents of each of the foregoing, against any and all losses, liabilities, costs (including reasonable attorney's fees and disbursements), claims and damages to which they or any of them may become subject, under the Securities Act or otherwise, including any amount paid in settlement of any litigation commenced or threatened, insofar as such losses, liabilities, costs, claims and damages (or actions or proceedings in respect thereof, whether or not such indemnified Person is a party thereto) arise out of or are based upon any untrue statement or alleged untrue statement by the Trustee or underwriter, as the case may be, of a material fact contained in the registration statement (or in any preliminary or final prospectus included therein) or in any offering memorandum or other offering document relating to the offering and sale of such Registrable Securities prepared by the Company or at its direction, or any amendment thereof or supplement

-6-

7

thereto, or any omission by the Trust or underwriter, as the case may be, or alleged omission by the Trustee or underwriter, as the case may be, of a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that such untrue statement of a material fact is contained in, or such material fact is omitted from, information relating to the Trust or underwriter, as the case may be, furnished in writing to the Company by or on behalf of the Trust or underwriter, as the case may be, specifically for use in such registration statement (or in

any preliminary or final prospectus included therein), offering memorandum or other offering document, or any amendment thereof or supplement thereto. The foregoing indemnity is in addition to any liability which the Trust or underwriter, as the case may be, may otherwise have to the Company, or controlling persons and the officers, directors, affiliates, employees, and agents of each of the foregoing; provided that, in the case of an offering made pursuant to this Agreement with respect to which the Company has designated the lead or managing underwriters (or the Company is offering securities directly, without an underwriter), this indemnity does not apply to any loss, liability, cost, claim, or damage arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission in any preliminary prospectus or offering memorandum if a copy of a final prospectus or offering memorandum was not sent or given by or on behalf of any underwriter (or the Company, as the case may be) to such Person asserting such loss, liability, cost, claim or damage at or prior to the written confirmation of the sale of the Registrable Securities as required by the Securities Act and such untrue statement or omission had been corrected in such final prospectus or offering memorandum.

(c) Each party indemnified under paragraph (a) or (b) above shall, promptly after receipt of notice of a claim or action against such indemnified party in respect of which indemnity may be sought hereunder, notify the indemnifying party in writing of the claim or action; provided, that the failure to notify the indemnifying party shall not relieve it from any liability that it may have to an indemnified party on account of the indemnity agreement contained in paragraph (a) or (b) above otherwise than under such subsection. If any such claim or action shall be brought against an indemnified party, and it shall have notified the indemnifying party thereof, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified party and indemnifying parties may exist in respect of such claim, the indemnifying party shall be entitled to participate therein, and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party). After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 5 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation. If the indemnifying party does not assume the defense of such claim or action, it is understood that the indemnifying party shall not, in connection with any one such claim or action or separate but substantially similar or related claims or actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (in

addition to one separate firm of local attorneys in each such jurisdiction) at any time for all such indemnified parties. Any indemnifying party against whom indemnity may be sought under this Section 5 shall not be liable to indemnify an indemnified party if such indemnified party settles such claim or action without the consent of the indemnifying party, which consent shall not be unreasonably withheld.

(d) If the indemnification provided for in this Section 5 shall for any reason be unavailable (other than in accordance with its terms) to an indemnified party in respect of any loss, liability, cost, claim or damage referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, cost, claim or damage in such proportion as shall be appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other with respect to the statements or omissions which resulted in such loss, liability, cost, claim or damage as well as any other relevant equitable considerations. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the indemnifying party on the one hand or the indemnified party on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission, but not by reference to any indemnified party's stock ownership in the Company. The amount paid or payable by an indemnified party as a result of the loss, cost, claim, damage or liability, or action in respect thereof, referred to above in this paragraph (d) shall be deemed to include, for purposes of this paragraph (d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) Indemnification and contribution similar to that specified in the preceding paragraphs of this Section 5 (with appropriate modifications) shall be given by the Company, the Trust and underwriters with respect to any required registration or other qualification of securities under any state law or regulation or governmental authority.

(f) The obligations of the parties under this Section 5 shall be in addition to any liability which any party may otherwise have to any other party.

6. Black-Out Period. The Company agrees not to effect, for itself or on behalf of any other person or entity, any public sale or distribution of any Common Stock or other equity security of the Company, or any securities convertible into or exchangeable or exercisable for such securities, during the period beginning 7 days before, and ending 180 days (or such lesser period as may be permitted by the Trustee) after, the effective date of a

registration statement filed in connection with the registration of the Registrable Securities hereunder. Such black-out period shall not apply to public sales or distributions that: (a) have been consented to in writing by the Trustee, or (b) in the opinion of the lead or managing

-8-

9

underwriter designated by the Trustee can be effected without an adverse effect on the price, timing or distribution of the Registrable Securities offered pursuant to a registration statement hereunder. In the event the black-out period does not apply pursuant to clauses (a) or (b) hereof, the Company may effect such public sale or distribution only on the terms and conditions (including, without limitation, the amount and timing of the public sale or distribution) established by the Trustee or the underwriter, as the case may be.

7. Rule 144 and Form S-3.

(a) The Company shall use its best efforts to ensure that the conditions to the availability of Rule 144 set forth in paragraph (c) thereof shall be satisfied. Upon the request of the Trustee, the Company will deliver to the Trustee a written statement as to whether it has complied with such requirements.

(b) The Company shall to use its reasonable efforts to cause all conditions to the availability of Form S-3 (or any successor form) under the Securities Act for the filing of registration statements under this Agreement to be met.

8. Miscellaneous.

(a) Entire Agreement. This Agreement constitutes the entire agreement between the Company and the Trustee with respect to the transactions contemplated hereby and supersedes all prior agreements or understandings among the parties with respect thereto.

(b) Headings. Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

(c) Notices. All notices or other communications provided for in this Agreement shall be in writing and shall be sent by confirmed telecopy (with an undertaking to provide a hard copy) or delivered by hand or sent by overnight courier service prepaid to the address specified below.

If to the Company:

Tenneco Packaging Inc.

If to the Trust or Trustee:

Tenneco Packaging Rabbi Trust

1900 West Field Court  
Lake Forest, Illinois 60045  
Attention: General Counsel

c/o Tenneco Packaging Inc.  
1900 West Field Court  
Lake Forest, Illinois 60045  
Attention: General Counsel

or to such other address as the party to whom notice is to be given may have furnished to the other party in writing in accordance herewith.

-9-

10

(d) Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

(e) Successor Trustee and Successor Trust. The Trust and Trustee may assign this Agreement. As used herein, the "Trustee" shall include any and all successor trustees of the Trust, and the "Trust" shall include any and all successor trusts. Each successor trustee and successor trust shall be entitled to the benefits and may enforce this Agreement as if an original party hereto.

(f) Amendments. This Agreement shall not be altered or otherwise amended except pursuant to an instrument in writing signed by the Company and the Trustee.

(g) Transferability. The registration and other rights granted to the Trust hereunder may be transferred or assigned by the Trust to a third party in connection with a sale or other transfer of all shares of Common Stock then owned by the Trust to such third party.

(h) Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed and delivered as of the date first above written.

TENNECO PACKAGING INC.

\_\_\_\_\_  
By:  
Its:

TENNECO PACKAGING INC. RABBI TRUST  
dated \_\_\_\_\_, 1999

By: \_\_\_\_\_

\_\_\_\_\_, not  
individually but solely as trustee

By: \_\_\_\_\_

\_\_\_\_\_, not  
individually but solely as trustee

By: \_\_\_\_\_

\_\_\_\_\_, not  
individually but solely as trustee

-10-

FORM OF  
HUMAN RESOURCES AGREEMENT

THIS HUMAN RESOURCES AGREEMENT is made and entered into as of this day of \_\_\_\_\_, 19\_\_\_\_, by, between and among TENNECO INC., a Delaware corporation to be renamed Tenneco Automotive Inc. ("Tenneco" or "Automotive Company"), and Tenneco Packaging Inc. (to be renamed), a Delaware corporation ("Packaging Company").

WHEREAS, pursuant to the terms of that certain Distribution Agreement by and between Tenneco and Packaging Company and dated as of \_\_\_\_\_ (the "Distribution Agreement"), the parties have entered into this Agreement regarding certain labor, employment, compensation and benefit matters occasioned by the Distribution.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement and the Distribution Agreement, each of the parties hereto, on behalf of itself and each other entity over which it has direct or indirect legal or effective control, hereby agrees as follows:

SECTION 1. DEFINITIONS. The following terms, when capitalized herein, shall

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have the meanings set forth below in this Section 1. All other capitalized terms which are used but are not otherwise defined herein shall have the meanings ascribed to them in the Distribution Agreement.

"ACTIVE EMPLOYEES" means, with respect to each Group, all employees  
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regularly engaged in the performance of services to, for or on behalf of any member of such Group as of the close of business on the Distribution Date; provided, that all such employees of Tenneco Management Company ("TMC") who are employed by a member of the Automotive Group immediately after the Distribution shall, for all purposes hereunder, be treated as Active Employees of the Automotive Group.

"COMMON STOCK" means Tenneco Common Stock or Packaging Common Stock,  
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as applicable.

"FORMER EMPLOYEES" means, with respect to each Group, all former  
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employees of Tenneco and/or its Subsidiaries (including, but not limited to, such employees who, as of the close of business on the Distribution Date, are on leave of absence, long-term disability or layoff with recall rights) who, if they were regularly engaged in the performance of services to, for or on behalf of Tenneco or any of its Subsidiaries at the close of business on the Distribution Date, would be an Active Employee of such Group, determined on a basis consistent with the determination of the Active Employees of such Group.

"Tenneco Salaried Welfare Plans" means, collectively, the Tenneco Inc.  
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Health Care Plan, the Tenneco Inc. Group Life Insurance Plan, the Tenneco Inc. Long Term Disability Plan, the Tenneco Inc. Travel Accident Insurance

SECTION 2. General Employment Matters.  
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2.01 General Obligations. From and after the Distribution Date, each of  
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Automotive Company and Packaging Company shall (and shall, as applicable, cause each of the other members of its respective Group over which it has direct or indirect legal or effective control to) (a) continue the employment of all of the Active Employees of its respective Group, subject, however to the terms of Section 2.03 below and (b) except as otherwise specifically provided herein, pay, perform and discharge any and all labor, employment, compensation and benefit liabilities, whether arising prior to, on or after the Distribution Date, with respect to all such Active Employees and all Former Employees of its respective Group. Notwithstanding the foregoing, all payments to be made to Active Employees and Former Employees of TMC who are not employed by the Automotive Group or the Packaging Group (excluding TMC) immediately after the Distribution out of general corporate assets shall be made, processed and administered by Tenneco Business Services Inc. ("TBS") (rather than by Packaging Company or another member of the Packaging Group). Packaging Group shall maintain one or more rabbi trusts to facilitate such payments.

2.02 Initial Compensation of Active Employees. The initial compensation  
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(base salary or wage level) of each Active Employee of each such Group as of the Distribution Date shall be the same as the compensation (base salary or wage level) of such Active Employee immediately prior to the Distribution Date.

2.03 No Additional Employment Rights Created. Nothing in this Agreement  
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shall give any Active Employee of any Group any right to continued employment by any member of that Group or the other Group beyond the Distribution Date, which is in addition to or supplemental to any such right he or she may have arising under contract or otherwise.

SECTION 3. Collective Bargaining.  
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3.01 Continuation of Existing Collective Bargaining Agreements. Each of  
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Automotive Company and Packaging Company shall (and shall cause, as applicable, each other member of its Group over which it has direct or indirect legal or effective control to) continue to honor all collective bargaining agreements covering the Active Employees of its respective Group which are in effect as of the close of business on the Distribution Date, in accordance with and subject to the terms of each such collective bargaining agreement.

3.02 Recognition of Incumbent Labor Organizations. Each of Automotive  
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Company and Packaging Company shall (and shall cause, as applicable, each other member of its Group over which it has direct or indirect legal or effective control to) continue to recognize all

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incumbent labor organizations which, as of the close of business on the Distribution Date, have established collective bargaining relationships in respect of the Active Employees of its respective Group.

3.03 Continued Sponsorship of Hourly Employee Benefit Plans. Except as  
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otherwise specifically provided herein, each of Automotive Company and Packaging Company shall continue (and shall, as applicable, cause each other member of its respective Group over which it has direct or indirect legal or effective control to continue) to sponsor all employee benefit plans for hourly employees which, as of the close of business on the Distribution Date, are in existence and relate to the Active Employees and/or Former Employees of its respective Group, subject to its rights under such plans to amend or terminate such plans.

3.04 Provisions of Wages, Rights and Other Employment Benefits Required  
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Under Existing Collective Bargaining Agreements. Without limiting the generality  
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of the foregoing, each of Automotive Company and Packaging Company shall (and shall cause each other member of its respective Group over which it has direct or indirect legal or effective control to) provide those of its Active Employees whose employment is subject to collective bargaining agreements and/or established collective bargaining relationships as of the close of business on the Distribution Date with the wages, benefits, and terms and conditions of employment required by such agreements or relationships, except that (i) participation in the Tenneco Inc. Employee Stock Purchase Plan will be suspended as provided in Section 4.06 hereof, and (ii) the provisions of any defined contribution plan calling for contributions or investment in the common stock of Tenneco Inc. shall be amended in accordance with Section 4.05 hereof.

3.05 Limitation on Obligations. Each of the parties hereto hereby agrees  
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and acknowledges that nothing contained in this Agreement, including its obligation to continue its applicable collective bargaining agreements or relationships, shall be construed to restrict any right it, or any other member of its respective Group, may have to terminate, renegotiate, reopen or otherwise seek changes in any of its collective bargaining agreements or relationships.

SECTION 4. United States Salaried Pension and Thrift Benefits and Stock  
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Purchase Plan.  
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4.01 Tenneco Retirement Plan. Effective as of the Impact Date (as defined  
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below), Automotive Company and all other members of that Group shall cease to be sponsors of the Tenneco Retirement Plan (the "TRP"), and Packaging Company shall become the sponsor of the TRP; provided that Packaging's sponsorship shall be subject to the terms and conditions of the TRP. The TRP shall retain liability for all pension benefits accrued by the Active Employees and Former Employees of the Automotive Group who are or were formerly participants in the TRP through the last day of the calendar month in which the Distribution Date occurs (the "Impact Date"). Following the Distribution Date, Automotive Group will have no liability, contingent or otherwise, with respect to the TRP, including without limitation any liability for benefits accrued through the Impact Date (including early retirement benefits and related subsidies, as to which all age, service and participation requirements were satisfied on or before

the Impact Date) for Active Employees or Former Employees of the Automotive Group, and Packaging Company shall assume or retain, as the case may be, all such liabilities.

Packaging Company shall succeed Tenneco Inc. under and with respect to the Tenneco General Employee Benefit Trust (the "GEBT"). As soon as practicable

after the Distribution Date, Packaging Company shall cause the GEBT to transfer to a trustee designated by Automotive Company the assets of the GEBT attributable to the Automotive Group's hourly defined benefit pension plans. Such transfer shall be in cash, except that Tenneco Common Stock may be transferred, subject to the limitations of applicable law, and the assets managed by one of more managers may be transferred.

Packaging Company shall create an investment committee (the "New Committee") to manage the assets of the GEBT, equivalent to the committee which performed those functions as of the Distribution Date (the "Old Committee"), and the New Committee shall have as members, the members of the Old Committee as of the Distribution Date until the earlier of March 31, 2000 or the date such persons die, resign or are removed in accordance with rules equivalent to the rules applicable to the Old Committee.

4.02 Amendment of TRP. The sponsor of the TRP shall amend the TRP to (a)

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"freeze" the benefit accruals of the Active Employees of the Automotive Group as of the Impact Date, and (b) provide that all benefits accrued as of the Impact Date by the Active Employees of the Automotive Group shall be fully vested and non-forfeitable (as will the benefits to Former Employees of the Automotive Group to the extent required by applicable laws) and the sponsor shall inform, in writing, as soon as practicable following the Impact Date, each such Employee of his or her accrued benefits under the TRP as of the Impact Date.

4.03 No Credit for Post-Impact Date Service. Except as may be required by

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law, the TRP shall not be required to count service with any entity other than a member of the Packaging Group after the Impact Date for any purpose, nor shall there be any requirement that Active Employees of the Automotive Group be permitted to "grow into" normal or early retirement benefits under the TRP based upon events occurring after the Impact Date.

4.04 Tenneco Thrift Plan. The active participation in the Tenneco Thrift

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Plan and the Tenneco Thrift Plan for Hourly Employees (collectively the "Tenneco DC Plan") by persons other than the Active Employees of the Packaging Group shall cease effective as of January 31, 2000 (the "Transition Date"). In addition, Automotive Company and all other members of that Group shall cease to be sponsors of the Tenneco DC Plan as of the Transition Date, and Packaging Company shall become the sponsor of the Tenneco DC Plan from and after the Transition Date. Automotive Group shall bear the costs of employer matching contributions attributable to the participation of its employees in the Tenneco DC Plan for the period commencing with the Distribution Date.

4.05 Establishment of DC Plans.

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(a) Automotive Thrift Plan. Automotive Company shall (and/or cause its

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respective Group members to) establish or make available on or with effect from the Transition Date, one or more defined contribution plans for the benefit of its Active Employees (collectively, the "Automotive Thrift Plan") which may, subject to Section 4.05(d) hereof, be subject to amendment or termination by Automotive Company or the applicable member of the Automotive Group.

(b) Transfer of Account Balances to Automotive Thrift Plan. As soon as

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practicable following the Transition Date, Packaging Company shall cause the

Tenneco DC Plan to transfer to the Automotive Thrift Plan, the account balances of each Active Employee of the Automotive Group and each Former Employee of the Automotive Group with respect to whom the Tenneco DC Plan maintains an account as of the close of business on the Transition Date. Such transfers shall be in cash, except that the Automotive Thrift Plan will accept the following: (i) Tenneco Common Stock, Packaging Common Stock received in the Distribution, stock of Newport News Shipbuilding Inc. (if any remains in such account balances) and stock of El Paso Energy Corporation (if any remains in such account balances) for the Tenneco Common Stock fund portion of such account balances; (ii) amounts credited to the Tenneco DC Plan which are held in mutual funds which are also investment media in the Automotive Thrift Plan; and (iii) participant loans.

(c) Investment Options. Tenneco Common Stock shall not be offered as

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an investment option with respect to contributions made after the Distribution Date by the Packaging Group employees to the thrift plans of the Packaging Group. The sponsor of each of the Tenneco DC Plan and the Automotive Thrift Plan shall cause the plan to afford each participant therein, for a period of at least 90 days following the Distribution Date, an election to sell the Common Stock of the entities held in the plan's stock fund which does not directly or indirectly employ him or her immediately following the Distribution Date. From and after the Distribution Date employer stock contributions with respect to Packaging Group employees shall be in Packaging Common Stock and employer stock contributions with respect to the Automotive Group employees shall be in Tenneco Common Stock.

-5-

6

(d) Certain Automotive Obligations. The Automotive Company shall (and

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shall cause each member of its Group over which it has legal or effective direct or indirect control to) sponsor, establish, administer, maintain, amend and otherwise deal with one or more defined contribution pension plans (including the Automotive Thrift Plan) in a manner consistent with any and all representations which Tenneco or its affiliates at the time makes or has made to the Internal Revenue Service, including without limitation, any actions that may be required to increase and/or maintain the amount of Tenneco Common Stock held by such plans.

4.06 Tenneco Stock Purchase Plan. Participation in the Tenneco Inc.

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Employee Stock Purchase Plan will be suspended effective June 30, 1999 and will not resume prior to the Distribution Date.

SECTION 5. Pension Matters Outside the United States. With respect to the

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business and operations of each Group in jurisdictions outside the United States, each of the parties hereto shall (and, as applicable, shall cause each other member of its Group over which it has direct or indirect legal or effective control to) assume and retain any and all pension liabilities and attendant plans and their assets related to its Active Employees and Former Employees.

SECTION 6. Executive and Directors' Compensation.

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6.01 Tenneco Supplemental Executive Retirement Plan. Effective upon the

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Distribution Date, Tenneco and Packaging Company shall cause the Tenneco Inc. Supplemental Executive Retirement Plan and the Tenneco Inc. Pilots' Supplemental Retirement Plan (collectively, the "SERP") to be amended to cause the separation

of participation in, and liabilities under, the SERP as follows: (1) Packaging Company shall (a) become the sponsor of the SERP with respect to all Active Employees and Former Employees of its respective Group and, subject to the terms of the 1996 Benefits Agreement (as defined below), all active and former employees of the Shipbuilding Group and Energy Group (each as defined below), and all other participants in the SERP not specifically allocated to Automotive Company below and (b) assume and agree to pay, perform and discharge all liabilities under the SERP with respect to such employees, whether accrued before, on or after the Distribution Date; and (2) Automotive Company shall continue sponsorship of the SERP with respect to all Active Employees and Former Employees of its respective Group and shall assume and agree to pay, perform and discharge all liabilities under the SERP with respect to such employees, whether accrued before, on or after the Distribution Date. All accrued benefits under the SERP as of the close of business on the Distribution Date shall be fully vested and nonforfeitable; provided, that this rule shall not be applied to grant an employee an amount equal to the benefit he or she has accrued under the Tenneco Retirement Plan but only the amount provided by the SERP, nor shall it be applied to alter or diminish any service requirement contained in any special appendix or other document providing benefits in addition to those called for by the SERP generally.

6.01A Pullman Supplemental Pension Benefits. Notwithstanding any other  
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provision hereof, the Automotive Company shall retain and succeed to any and all liabilities for non-qualified defined benefit pension benefits for Active Employees and Former Employees of its

-6-

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respective Group who were formerly employed by The Pullman Company, Peabody International Corporation or any predecessor of either, including without limitation, benefits under the Peabody Special Benefits Plan, the Peabody Supplemental Plan and the Pullman Supplemental Plan (the "Pullman Plans"). Automotive Company shall retain sponsorship of the rabbi trust created in connection with the Pullman Plans.

6.02 Tenneco Inc. Deferred Compensation Plan. The participation of the  
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Active Employees and Former Employees of the Automotive Group in the Tenneco Inc. Deferred Compensation Plan (the "DC Plan") shall cease as of the Distribution Date. As of the Distribution Date, (i) Automotive Company shall assume the liability for the accounts of its Active Employees and Former Employees in the DC Plan, (ii) Packaging Company shall assume the liability for the accounts of the Active Employees and Former Employees of the Packaging Group in the DC Plan, and (iii) Packaging Company shall succeed to sponsorship of the DC Plan. The Automotive Group Active Employee's or Former Employee's account in the DC Plan as of the Distribution Date shall become the opening balance of such Active Employee's or Former Employee's account in a nonqualified deferred compensation plan created, as of the Distribution Date by the Automotive Group. Such opening balances shall become fully vested as of the close of business on the Distribution Date.

6.03 Tenneco Benefits Protection Program and Rabbi Trust. The Tenneco Inc.  
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Benefits Protection Trust (the "BPT") and the Tenneco Inc. Rabbi Trust (collectively the "Trusts") shall be terminated prior to the Distribution, and neither Packaging Company nor Automotive Company shall have any liability with respect to either of the Trusts or any of the terms of either.

6.04 Tenneco Restricted Stock. [TO COME]  
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6.05 Stock Options. Effective as of the Distribution Date, Tenneco shall

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cause all outstanding options to purchase Tenneco Common Stock held by employees other than (i) Active Employees and Former Employees of Automotive Group, (ii) employees of Packaging Corporation of America and (iii) employees of the folding carton division (or persons who have succeeded to the rights of any persons described in (i), (ii) or (iii) with respect to options to purchase Tenneco Common Stock) to be replaced by options to purchase Packaging Common Stock. Subject to the requirements of applicable law and generally accepted accounting principles, the number, exercise price and other terms of such replacement options shall be determined in a manner consistent with that described in Exhibit A attached hereto. Options held by persons described in clause (ii) or (iii) above, not exercised prior to the Distribution Date shall be canceled effective as of the Distribution Date.

Options held by Active Employees and Former Employees of Automotive Group (or persons who have succeeded to the rights of such persons) shall, unless exercised prior to the Distribution Date, remain outstanding as adjusted as provided herein after the Distribution Date, subject to the requirements of applicable law and generally accepted accounting principles. The parties recognize that in some jurisdictions, Automotive employees were granted rights other than stock options in lieu of the Special Stock Option Award of 100 options per grantee, and in

those jurisdictions, the outstanding rights will be adjusted comparably. The Automotive Company options and rights shall have the same terms and conditions as prior to the Distribution Date except that the number of options and the option exercise price shall be adjusted as described in Exhibit A attached hereto.

To the extent that the exercisability of options to purchase Tenneco Common Stock currently is subject to the attainment of share price hurdles, those hurdles will also be adjusted with respect to both options to purchase Packaging Common Stock and Tenneco Common Stock.

Tenneco may grant special pre-Distribution Date exercisability with respect to some or all options which are not otherwise exercisable.

6.06 Directors. Stock options held by directors of Tenneco and/or Packaging

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Company shall be treated as provided in Section 6.05 hereof as if the director in question were an employee. Notwithstanding the foregoing, stock options held by directors who do not continue on the board of Packaging Company or Automotive Company will be replaced by Packaging Company options in accordance with Section 6.05 hereof. Except as provided in Section 6.04 hereof, the 1997 Tenneco Inc. Board of Directors Deferred Compensation Plan shall be treated as provided in Section 6.02 hereof, and the directors' accounts shall be treated as if the directors were employees. If an individual becomes a director of both Packaging Company and Automotive Company immediately after the Distribution Date, his or her options and deferred compensation account shall be split and maintained one-half by Packaging Company and one-half by Automotive Company.

Any continuing liabilities under the terminated Outside Directors' Retirement Plan including the obligation to grant restricted stock in lieu of such plan shall be retained and performed by Automotive Company.

SECTION 7. Welfare Plans.

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7.01 Tenneco Salaried Welfare Plans. Effective on December 31, 1999, each member of the Automotive Group shall cease to be a sponsor of the Tenneco

Salaried Welfare Plans, Active Employees and Former Employees of the Automotive Group shall cease to participate in the Tenneco Salaried Welfare Plans as of that date, and Packaging Company shall serve as the sponsor of the Tenneco Salaried Welfare Plans from and after that date. Automotive Company shall reimburse Packaging Company for all claims paid with respect to the participation of its employees in such plans.

SECTION 8. General.

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8.01 Post-Distribution Administration of Plans. The parties hereto agree to  
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administer all plans consistently herewith, and to the extent necessary to amend plans accordingly.

-8-

9

8.02 Cost and Expenses. Except as otherwise expressly provided herein, each  
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party shall bear all costs and expenses, including but not limited to legal, administrative and actuarial fees, incurred in the design, drafting, administration and implementation of any and all plans and compensation structures which it enables or creates and the amendment of its existing plans or compensation structures.

8.03 RESERVED

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8.04 Human Resources Support Services. Subject to the rules set forth  
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below, Packaging Company shall provide (or have provided by TBS or otherwise to) Automotive Company or its Affiliates the following corporate-wide human resource support services that are currently being provided to the Automotive Company and/or members of the Automotive Group:

- a. Benefits administration by Hewitt & Associates LLC and other outside administrators. Packaging Company will provide management of the services that are outsourced and continue benefits administration services currently being provided by TBS.
- b. Assistance in executive compensation plans, including stock options, restricted stock, performance shares, deferred compensation, director's stock options, and director's restricted stock.
- c. Generation of EEO reports.
- d. Packaging Company will prepare, process and disburse invoices and check requests for Prudential relocations or cause such services to be provided.

Packaging Company shall provide the services described in this Section 8.04 for the period from the Distribution Date through the earlier of (i) December 31, 2000 and (ii) the date as of which Automotive Company no longer desires such services, provided that Automotive Company shall have given Packaging Company at least 60 days' advance written notice of such date.

In consideration for such services, other than third party fees as described in the next sentence, Automotive Company shall pay Packaging Company per . Any third party fees for such services for outsourced providers utilized with respect to the Automotive Group as of the date hereof, or for new outsourced providers selected with prior consent of Automotive Company (which consent shall not be unreasonably withheld or delayed), will be billed directly by the third party to Automotive Company; provided, that if the third party refuses to bill Automotive Company directly, Automotive Company

shall reimburse Packaging Group for all amounts which it pays such third party on behalf of Automotive Company. Reference is made to the Transition Services Agreement between Tenneco and Packaging Company of even date herewith (the "Transition Services Agreement"). The services described in this Section 8.04 shall be considered Packaging Services (as such term is defined in the Transition Services Agreement) for purposes of Sections 2.3, 3, 4, 5 and 7 of the Transition

-9-

10

Services Agreement and shall be provided in accordance with and subject to the terms and conditions thereof. The provisions of Sections 4.2, 4.3, 4.4 and 7 of the Transition Services Agreement shall survive termination of the provision of services hereunder.

SECTION 9. Miscellaneous.  
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9.01 1996 Benefits Agreement. Effective on the Distribution Date, Tenneco  
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shall assign to Packaging Company all of its rights under, and Packaging Company shall assume and agree to pay, perform and discharge when due (and will thereafter indemnify each member of the Automotive Group against) all obligations, liabilities and responsibilities of Industrial Company under, the certain Benefits Agreement (the "1996 Benefits Agreement"), dated as of December 11, 1996, by and among New Tenneco Inc., Newport News Shipbuilding Inc. and the company then known as Tenneco Inc. The rights Tenneco shall assign to Packaging Company under the 1996 Benefits Agreement shall include, without limitation, the right to receive and retain all reimbursements for the payment of SERP benefits to employees and former employees of the Shipbuilding Group and Energy Group (capitalized terms used in this Section 9.01 and in Section 6.01 and not otherwise defined in this Agreement shall have the meanings ascribed to such terms in the 1996 Benefits Agreement).

9.02 Complete Agreement; Construction. This Agreement and the Distribution  
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Agreement shall constitute the entire agreement between the parties with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter. Notwithstanding any other provisions in this Agreement or the Distribution Agreement to the contrary, in the event and to the extent that there shall be a conflict between the provisions of this Agreement and the provisions of the Distribution Agreement or any other Ancillary Agreement, this Agreement shall control.

9.03 Other Ancillary Agreements. This Agreement is not intended to address,  
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and should not be interpreted to address, the matters specifically and expressly covered by any of the other Ancillary Agreements.

9.04 Counterparts. This Agreement may be executed in one or more  
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counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other parties.

9.05 Survival of Agreements. Except as otherwise expressly provided herein,  
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all covenants and agreements of the parties contained in this Agreement shall survive the Distribution Date.

9.06 Notices. All notices and other communications to a party hereunder

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shall be in writing and hand delivered or mailed by registered or certified mail (return receipt requested) or sent by any means of electronic message transmission with delivery confirmed (by voice or otherwise) to such party (and will be deemed given on the date on which the notice is received by such party) at the address for such party set forth in the Distribution Agreement (or at such other

-10-

11

address for the party as the party shall, from time to time, specify by like notice to the other parties).

9.07 Waivers. The failure of any party hereto to require strict performance

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by any other party of any provision in this Agreement will not waive or diminish the party's right to demand strict performance thereafter of that or any other provision hereof.

9.08 Amendments. This Agreement may not be modified or amended except by an

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agreement in writing signed by the parties hereto.

9.09 Assignment. This Agreement shall be assignable in whole in connection

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with a merger or consolidation or the sale of all or substantially all the assets of a party hereto so long as the resulting, surviving or transferee entity assumes all the obligations of the relevant party hereto by operation of law or pursuant to an agreement in form and substance reasonably satisfactory to the other parties to this Agreement. Otherwise this Agreement shall not be assignable, in whole or in part, directly or indirectly, by any party hereto without the prior written consent of the other (which consent shall not be unreasonably withheld or delayed), and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void.

9.10 Successors and Assigns. The provisions of this Agreement shall be

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binding upon, inure to the benefit of and be enforceable by the parties and their respective permitted successors and permitted assigns.

9.11 No Third Party Beneficiaries. This Agreement is solely for the benefit

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of the parties hereto and the members of their respective Groups, after giving effect to the Distribution, and should not be deemed to confer upon other third parties any remedy, claim, liability, right of reimbursement, claim of action or other right in excess of those existing without reference to this Agreement.

9.12 Attorney Fees. A party determined to be in breach of this Agreement

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shall, on demand, indemnify and hold harmless the other party hereto for and against all out-of-pocket expenses, including, without limitation, reasonable legal fees, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement; provided, that such determination shall be effective only when made by the court having final jurisdiction of the matter and the period for appeal from that court, if any, shall have expired. The payment of such expenses is in addition to any other relief to which such other party may be entitled hereunder or otherwise.

9.13 Title and Headings. Titles and headings to sections herein are

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inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.



12

9.14 Governing Law. ALL QUESTIONS AND/OR DISPUTES CONCERNING THE

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CONSTRUCTION, VALIDITY AND INTERPRETATION OF THIS AGREEMENT AND THE EXHIBITS HERETO SHALL BE GOVERNED BY THE INTERNAL LAWS, AND NOT THE LAW OF CONFLICTS, OF THE STATE OF DELAWARE. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY AND UNCONDITIONALLY (i) AGREES TO BE SUBJECT TO, AND HEREBY CONSENTS AND SUBMITS TO, THE JURISDICTION OF THE COURTS OF THE STATE OF DELAWARE AND THE FEDERAL COURTS SITTING IN THE STATE OF DELAWARE, (ii) TO THE EXTENT SUCH PARTY IS NOT OTHERWISE SUBJECT TO SERVICE OF PROCESS IN THE STATE OF DELAWARE, HEREBY APPOINTS THE CORPORATION TRUST COMPANY, AS SUCH PARTY'S AGENT IN THE STATE OF DELAWARE FOR ACCEPTANCE OF LEGAL PROCESS AND (iii) AGREES THAT SERVICE MADE ON ANY SUCH AGENT SET FORTH IN (ii) ABOVE SHALL HAVE THE SAME LEGAL FORCE AND EFFECT AS IF SERVED UPON SUCH PARTY PERSONALLY WITHIN THE STATE OF DELAWARE.

9.15 Severability. In the event any one or more of the provisions contained

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in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

9.16 Subsidiaries. Each of the parties hereto shall cause to be performed,

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and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Subsidiary of such party which is contemplated to be a Subsidiary of such party on and after the Distribution Date.

13

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

TENNECO INC.

By:

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Name:

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Title:

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TENNECO PACKAGING INC. (to be renamed)

By:

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Name: \_\_\_\_\_  
 Title: \_\_\_\_\_

EXHIBIT A  
 OPTION CONVERSION FORMULA\*/

<TABLE>			
<CAPTION>			
Formula			
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<S>		<C>	
Original option exercise price	x	New	= New
-----			
Original market price of Tenneco Common Stock**/		market price of Tenneco Common Stock or Packaging Common Stock, as applicable***/	option exercise price ("New Option Price")
No. of shares underlying original option x original option exercise price			= Number of shares
-----			
New Option Price			underlying new option

</TABLE>

Assume

-----	
1,000	No. of shares Tenneco Common Stock underlying original option
\$ 45.31	Original option exercise price
\$ 25.00	Original market price of Tenneco Common Stock
\$ 7.00	New market price for Tenneco Common Stock
\$ 18.00	New market price for Packaging Common Stock

Adjusted Tenneco Options (for Automotive Group employees)

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\$45.31	x \$7.00 = \$12.69 New Option Price
-----	
\$25.00	
1,000 x \$45.31	= 3,571 shares Tenneco Common Stock
-----	underlying new option
\$12.69	

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 \*/ May be adjusted, as necessary, to reflect a reverse stock split by Tenneco which becomes effective after the Distribution.

\*\*/ Based on the closing sale price of the "full value" Tenneco Common Stock (i.e. not giving effect to the declaration of any dividend) on the New York Stock Exchange ("NYSE") on the day immediately prior to the Distribution Date.

\*\*\*/ For the new market price of Tenneco Common Stock: Based on the closing sale price of Tenneco Common Stock "without due bills" on the day immediately prior to the Distribution Date, unless "when issued" trading for Tenneco Automotive



## TAX SHARING AGREEMENT

This Tax Sharing Agreement is entered into as of \_\_\_\_\_, 1999 by and between Tenneco Inc., a Delaware corporation, to be renamed Tenneco Automotive Inc. ("Tenneco"), and \_\_\_\_\_, a Delaware corporation, formerly known as Tenneco Packaging Inc. ("Packaging Company"). Tenneco and Packaging Company are sometimes collectively referred to herein as the "Companies." Capitalized terms used in this Agreement are defined in Section 1 below. Unless otherwise indicated, all "Section" references in this Agreement are to sections of this Agreement.

## RECITALS

WHEREAS, as of the date hereof, Tenneco is the common parent of an affiliated group of corporations, including Packaging Company, which has elected to file consolidated Federal income tax returns; and

WHEREAS, the Companies have entered into a Distribution Agreement setting forth the corporate transactions pursuant to which Tenneco will distribute all of the outstanding shares of common stock of Packaging Company to Tenneco shareholders in a transaction intended to qualify as a tax-free distribution under Section 355 of the Code; and

WHEREAS, as a result of the Distribution, Packaging Company and its subsidiaries will cease to be members of the affiliated group of which Tenneco is the common parent, effective as of the Distribution Date; and

WHEREAS, the Companies desire to provide for and agree upon the allocation between the parties of liabilities for Taxes arising prior to, as a result of, and subsequent to the transactions contemplated by the Distribution Agreement, and to provide for and agree upon other matters relating to Taxes;

NOW THEREFORE, in consideration of the mutual agreements contained herein, the Companies hereby agree as follows:

SECTION 1. DEFINITION OF TERMS. For purposes of this Agreement (including the recitals hereof), the following terms have the following meanings:

"ACCOUNTING CUTOFF DATE" means, with respect to Packaging Company, any date as of the end of which there is a closing of the financial accounting records for such entity.

"ACCOUNTING FIRM" shall have the meaning provided in Section 15.

"ADJUSTMENT REQUEST" means any formal or informal claim or request filed with any Tax Authority, or with any administrative agency or court, for the adjustment, refund, or credit of Taxes, including (a) any amended Tax Return claiming adjustment to the Taxes as reported on the Tax Return or, if applicable, as previously adjusted, or (b) any claim for refund or credit of Taxes previously paid.

"AFFILIATE" means any entity that directly or indirectly is "controlled" by the person or entity in question. For purposes of this Agreement, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract or otherwise. Except as otherwise provided herein, the term Affiliate shall refer to Affiliates of a person as determined immediately after the Distribution.

"AGREEMENT" shall mean this Tax Sharing Agreement.

"AVAILABLE OTHER GROUP CARRYBACK" shall have the meaning provided in Section 4.07(c)(ii).

"BENCHMARK INCOME (OR LOSS) ALLOCATION" shall have the meaning provided in Section 2.02(a)(ii).

"BENCHMARK 1997 LOSS CARRYFORWARD ALLOCATION" shall have the meaning provided in Section 2.02(a)(iii).

"BENCHMARK 1998 LOSS CARRYFORWARD ALLOCATION" shall have the meaning provided in Section 2.02(a)(iii).

"BENCHMARK PERIOD" shall have the meaning provided in Section 2.02(a)(ii).

"CARRYBACK" means any net operating loss, net capital loss, excess tax credit, or other similar Tax item which may or must be carried from one Tax Period to another Tax Period under the Code or other applicable Tax Law.

"CARRYBACK GROUP" shall have the meaning provided in Section 4.07(c)(ii).

"CODE" means the U.S. Internal Revenue Code of 1986, as amended, or any successor law.

"COMPANIES" means Tenneco and Packaging Company collectively, and "COMPANY" means any one of Tenneco or Packaging Company.

"CONSOLIDATED OR COMBINED INCOME TAX" means any Income Tax computed by reference to the assets and activities of members of more than one Group.

-2-

3

"CONSOLIDATED OR COMBINED STATE INCOME TAX" means any State Income Tax computed by reference to the assets and activities of members of more than one Group.

"CONSOLIDATED TAX LIABILITY" means, with respect to any Tenneco Federal Consolidated Return, the "tax liability of the group" as that term is used in Treasury Regulation Section 1.1552-1(a)(1) (including applicable interest, additions to tax, additional amounts and penalties as provided in the Code), provided, that such tax liability shall be treated as including any alternative minimum tax liability under Code Section 55.

"CORPORATE RESTRUCTURING TRANSACTIONS" shall have the meaning provided in the Distribution Agreement.

"DEBT REALIGNMENT" shall have the meaning provided in the Distribution Agreement.

"DISTRIBUTION AGREEMENT" means the Distribution Agreement, dated as of \_\_\_\_\_, 1999, between Tenneco and Packaging Company, as amended from time to time, setting forth the corporate transactions required to effect the distribution to Tenneco shareholders of all of the outstanding stock of Packaging Company owned by Tenneco, and to which this Tax Sharing Agreement is attached as an exhibit.

"DISTRIBUTION DATE" means the Distribution Date as that term is defined in the Distribution Agreement.

"DISTRIBUTION" shall have the meaning provided in the Distribution Agreement.

"ESTIMATED TAX PAYMENTS" shall have the meaning provided in Section 2.03(a)(ii)(B).

"FEDERAL INCOME TAX" means any Tax imposed by Subtitle A (Income Taxes) or F (Procedure and Administration) of the Code.

"FINAL INCOME OR LOSS ALLOCATION" shall have the meaning provided in Section 2.02(a)(iv).

"FINAL 1997 LOSS CARRYFORWARD ALLOCATION" shall have the meaning provided

in Section 2.02(a) (v) .

"FINAL 1998 LOSS CARRYFORWARD ALLOCATION" shall have the meaning provided in Section 2.02(a) (v) .

"FOREIGN INCOME TAX" means any Tax imposed by any foreign country or any possession of the United States, or by any political subdivision of any foreign country or United States possession, which is an income tax as defined in Treasury Regulation Section 1.901-2.

-3-

4

"GERMAN RESTRUCTURING TRANSACTIONS" shall have the meaning provided in Section 2.04(b) .

"GROUP" means the Tenneco Group and the Packaging Group, as the context requires.

"HYPOTHETICAL STATE TAX LIABILITY" shall have the meaning provided in Section 2.03(a) (ii) (A) .

"INCOME TAX" means any Federal Income Tax, State Income Tax, or Foreign Income Tax.

"IRS RULING LETTER" shall have the meaning provided in the Distribution Agreement.

"JOINT ADJUSTMENT" means any proposed adjustment by a Tax Authority or claim for refund asserted in a Tax Contest which is neither a Tenneco Adjustment nor a Packaging Adjustment.

"OLD TENNECO" shall have the meaning provided in Section 2.06(a)

"OTHER GROUP" shall have the meaning provided in Section 4.07(c) (ii) .

"PACKAGING ADJUSTMENT" means any proposed adjustment by a Tax Authority or claim for refund asserted in a Tax Contest to the extent Packaging Company would be exclusively liable for any resulting Tax under this Agreement and exclusively entitled to receive any resulting Tax Benefit under this Agreement.

"PACKAGING COMPANY" means \_\_\_\_\_, a Delaware corporation, formerly known as Tenneco Packaging Inc., and any successor.

"PACKAGING GROUP" means Packaging Company and its Affiliates as determined immediately after the Distribution, modified as provided in Section 18.

"PACKAGING GROUP PRIOR STATE TAX LIABILITY" shall have the meaning provided in Section 2.03(b)(i)(B).

"PACKAGING GROUP RECOMPUTED STATE TAX LIABILITY" shall have the meaning provided in Section 2.03(b)(i)(A).

"PAYMENT DATE" means (i) with respect to any Tenneco Federal Consolidated Return, the due date for any required installment of estimated taxes determined under Code Section 6655, the due date (determined without regard to extensions) for filing the return determined under Code Section 6072, and the date the return is filed, and (ii) with respect to any Tax Return for any Consolidated or Combined State Income Tax, the corresponding dates determined under the applicable Tax Law.

-4-

5

"POST-DISTRIBUTION PERIOD" means any Tax Period beginning after the Distribution Date, and, in the case of any Straddle Period, the portion of such Straddle Period beginning the day after the Distribution Date.

"POST-DISTRIBUTION STATE INCOME TAX RETURN" means any State Income Tax Return for the Tax Period ended December 31, 1999.

"PRE-DISTRIBUTION PERIOD" means any Tax Period ending on or before the Distribution Date, and, in the case of any Straddle Period, the portion of such Straddle Period ending on the Distribution Date.

"PRIME RATE" means the base rate on corporate loans charged by Citibank, N.A., New York, New York from time to time, compounded daily on the basis of a year of 365 or 366 (as applicable) days and actual days elapsed.

"PRIOR INTERCOMPANY TAX ALLOCATION AGREEMENTS" means any written or oral agreement or any other arrangements relating to allocation of Taxes existing between or among the Tenneco Group and the Packaging Group as of the Distribution Date (other than this Agreement and other than any such agreement or arrangement between or among persons who are members of a single Group).

"PROHIBITED ACTION" shall have the meaning provided in Section 11.

"RESPONSIBLE COMPANY" means, with respect to any Tax Return, the Company having responsibility for preparing and filing such Tax Return under this Agreement.

"RESTRUCTURING TAX" means the Taxes described in Sections 2.05(a)(i) or 2.05(a)(ii) (relating to Tax resulting from any income or gain recognized as a



result of the Transactions but excluding any Transfer Taxes described in Section 2.05).

"RULING REQUEST" means the letter filed by Tenneco with the Internal Revenue Service dated April 30, 1999 requesting a ruling from the Internal Revenue Service regarding certain Federal Income Tax consequences of the Transactions (including all attachments, exhibits, and other materials submitted with such ruling request letter) and any amendment or supplement to such ruling request letter.

"SEPARATE COMPANY TAX" means any Tax computed by reference to the assets and activities of a member or members of a single Group.

"SEPARATE COMPANY STATE INCOME TAX" means any State Income Tax that is a Separate Company Tax.

-5-

6

"STRADDLE PERIOD" means any Tax Period that begins on or before and ends after the Distribution Date.

"STATE INCOME TAX" means any Tax imposed by any State of the United States or by any political subdivision of any such State which is imposed on or measured by net income, including state and local franchise or similar Taxes measured by net income (including, without limitation, any Tax which is measured by the higher of capital or net income (e.g., Ohio Rev. Code Ann. Title 57, Section 5733, Corporate Franchise Tax)).

"TAX" or "TAXES" means any income, gross income, gross receipts, profits, capital stock, franchise, withholding, payroll, social security, workers compensation, unemployment, disability, property, ad valorem, stamp, excise, severance, occupation, service, sales, use, license, lease, transfer, import, export, value added, alternative minimum, estimated or other similar tax (including any fee, assessment, or other charge in the nature of or in lieu of any tax) imposed by any governmental entity or political subdivision thereof, and any interest, penalties, additions to tax, or additional amounts in respect of the foregoing.

"TAX AUTHORITY" means, with respect to any Tax, the governmental entity or political subdivision thereof that imposes such Tax, and the agency (if any) charged with the collection of such Tax for such entity or subdivision.

"TAX BENEFIT" means any refund, credit, or other reduction in otherwise required Tax payments (including any reduction in estimated Tax payments).

"TAX CONTEST" means an audit, review, examination, or any other administrative or judicial proceeding with the purpose or effect of redetermining Taxes of any of the Companies or their Affiliates (including any administrative or judicial review of any claim for refund) for any Tax Period ending on or before the Distribution Date or for any Straddle Period.

"TAX CONTEST COMMITTEE" shall have the meaning provided in Section 9.02 (b).

"TAX ITEM" means, with respect to any Income Tax, any item of income, gain, loss, deduction, and credit.

"TAX LAW" means the law of any governmental entity or political subdivision thereof relating to any Tax.

"TAX PERIOD" means, with respect to any Tax, the period for which the Tax is reported as provided under the Code or other applicable Tax Law.

"TAX RECORDS" means Tax Returns, Tax Return work papers, documentation relating to any Tax Contests, and any other books of account or records required to be maintained under the

-6-

7

Code or other applicable Tax Laws or under any record retention agreement with any Tax Authority.

"TAX RETURN" means any report of Taxes due, any claims for refund of Taxes paid, any information return with respect to Taxes, or any other similar report, statement, declaration, or document required to be filed under the Code or other Tax Law, including any attachments, exhibits, or other materials submitted with any of the foregoing, and including any amendments or supplements to any of the foregoing.

"TENNECO" means Tenneco Inc., a Delaware corporation, and any successor.

"TENNECO ADJUSTMENT" means any proposed adjustment by a Tax Authority or claim for refund asserted in a Tax Contest to the extent Tenneco would be exclusively liable for any resulting Tax under this Agreement and exclusively entitled to receive any resulting Tax Benefit under this Agreement.

"TENNECO AFFILIATED GROUP" means the affiliated group (as that term is defined in Code Section 1504) that includes Tenneco as the common parent and includes any member of the Packaging Group.

"TENNECO FEDERAL CONSOLIDATED RETURN" means any United States federal Tax

Return for the Tenneco Affiliated Group.

"TENNECO GROUP" means Tenneco and its Affiliates excluding any entity that is a member of the Packaging Group.

"TRANSACTIONS" means the transactions contemplated by the Distribution Agreement (including the Corporate Restructuring Transactions, Debt Realignment and Distribution, as defined in such agreement).

"TRANSFER TAXES" means all Taxes (other than Taxes imposed on income or gains) incurred or imposed by reason of the sale, assignment or transfer of title of the applicable property, regardless of upon whom such Taxes are levied or imposed by the applicable Tax Law, including sales, use, value-added, excise, stock transfer, real estate transfer, lease assignment, transfer gains tax, stamp, documentary, filing, recording, permit, license, authorization, intangible and similar Taxes.

"TRUE-UP AMOUNT" shall have the meaning provided in Section 2.02(a)(vi).

"TREASURY REGULATIONS" means the regulations promulgated from time to time under the Code as in effect for the relevant Tax Period.

"UK RESTRUCTURING TRANSACTIONS" shall have the meaning provided in Section 2.04(c).

-7-

8

"1996 SPIN-OFF TAX SHARING AGREEMENT" shall have the meaning provided in Section 2.06(a).

"1997 LOSS CARRYFORWARD" shall have the meaning provided in Section 2.02(a)(i).

"1998 LOSS CARRYFORWARD" shall have the meaning provided in Section 2.02(a)(i).

"1999 TAX PERIOD" shall have the meaning provided in Section 2.02(a).

For purposes of this Agreement, any reference to "including" shall be deemed to mean "including, without limitation."

SECTION 2. ALLOCATION OF TAX LIABILITIES. The provisions of this Section 2 are intended to determine each Company's liability for Taxes with respect to Pre-Distribution Periods. Once the liability has been determined under this Section 2, Section 5 determines the time when payment of the liability is to be made, and whether the payment is to be made to the Tax Authority directly or to

another Company.

## 2.01 General Rule.

(a) Tenneco Liability. Tenneco shall be liable for all Taxes not specifically allocated to Packaging Company under this Section 2. Tenneco shall indemnify and hold harmless the Packaging Group from and against any liability for Taxes for which Tenneco is liable under this Section 2.01(a).

(b) Packaging Company Liability. Packaging Company shall be liable for, and shall indemnify and hold harmless the Tenneco Group from and against any liability for, Taxes which are allocated to Packaging Company under this Section 2.

2.02 Allocation of United States Federal Income Tax. Except as provided in Sections 2.05 and 2.06:

(a) Allocation of Tax and Tax Attributes Relating to the 1999 Tax Period. With respect to the Tenneco Federal Consolidated Return for the tax period ending December 31, 1999 (the "1999 Tax Period"), the allocation and use of net operating loss carryforwards and current year losses, and the allocation of Consolidated Tax Liability, if any, shall be made as follows:

(i) STEP ONE. The net operating losses attributable to the tax period ended December 31, 1997 (the "1997 Loss Carryforward") and the net operating losses attributable to the tax period ended December 31, 1998 (the "1998 Loss Carryforward") shall be allocated between the Tenneco Group and Packaging Group based upon the legal entities that incurred such losses (treating the income of any member of the Tenneco Affiliated Group for the relevant tax period

-8-

9

as reducing the losses of each legal entity included in the Tenneco Affiliated Group on a pro rata basis in accordance with Treasury Regulation Section 1.1502-21(b)(2).

(ii) STEP TWO. The taxable income (or loss) of each of the Tenneco Group and Packaging Group for the portion of the 1999 Tax Period ending on September 30, 1999 (the "Benchmark Period") shall be computed (the "Benchmark Income (or Loss) Allocation ") subject to adjustment for material divestments, the costs of the Debt Realignment, and similar items.

(iii) STEP THREE. The taxable losses, if any, incurred by any member of the Tenneco Affiliated Group for the Benchmark Period shall be deemed to be utilized first to offset the taxable income, if any, of each other member

of the Tenneco Affiliated Group for such tax period (which losses shall be deemed to be utilized by such members on a pro rata basis). Next, the 1997 Loss Carryforward shall be deemed to be utilized, on a pro rata basis, to offset the taxable income of each member of the Tenneco Affiliated Group. Finally, to the extent the taxable income for such period exceeds the losses for such period and the 1997 Loss Carryforward, the 1998 Loss Carryforward shall be deemed to be utilized, on a pro rata basis, to offset the remaining taxable income of each member of the Tenneco Affiliated Group. Neither Tenneco nor Packaging Company shall have any obligation to pay or reimburse the other party for utilization of such party's net operating losses under this Step Three. Each Group's allocable share of the 1997 Loss Carryforward and 1998 Loss Carryforward following the utilization of losses described in this Step Three shall be referred to as such Group's "Benchmark 1997 Loss Carryforward Allocation" and "Benchmark 1998 Loss Carryforward Allocation," respectively. In the event the 1997 Loss Carryforward and 1998 Loss Carryforward are fully utilized, the Benchmark 1997 Loss Carryforward Allocation and the Benchmark 1998 Loss Carryforward Allocation shall be deemed to equal zero.

In the event the Tax Return for the tax period ended December 31, 1998 has not been filed at the time the Benchmark 1997 and Benchmark 1998 Loss Carryforward Allocations are made pursuant to Step Three, the parties shall use an agreed upon estimate of the net operating losses for the tax period ended December 31, 1998, and within 30 days of the filing the Tax Return for such tax period, the Benchmark 1997 Loss Carryforward Allocation and Benchmark 1998 Loss Carryforward Allocation shall be redetermined. In the case of such redetermination if Packaging Company's Benchmark 1997 Loss Carryforward Allocation or Benchmark 1998 Loss Carryforward Allocation, as redetermined, exceeds the amount of such allocation as initially determined under Step Three, Packaging Company shall pay to Tenneco an amount equal to such excess multiplied by 35%, and if Packaging Company's Benchmark 1997 Loss Carryforward Allocation or Benchmark 1998 Loss Carryforward Allocation, as redetermined, is less than Packaging Company's Benchmark 1997 Loss Carryforward Allocation or Benchmark 1998 Loss Carryforward Allocation, Tenneco shall pay to Packaging Company an amount equal to such difference multiplied by 35%.

(iv) STEP FOUR. The taxable income (or loss) of each of the Tenneco Group and the Packaging Group for the 1999 Tax Period shall be computed (in the same manner as described in

-9-

10

Step Two) based on the Tax Return as filed for such tax period (the "Final Income or Loss Allocation").

(v) STEP FIVE. Based on the Tax Return as filed for the 1999 Tax Period, the taxable losses, if any incurred by any member of the Tenneco Group

or Packaging Group for such period shall be deemed to be utilized first to offset the taxable income, if any, of each other member of the Tenneco Affiliated Group for such period (which losses shall be deemed to be utilized by such members on a pro rata basis). Next, the 1997 Loss Carryforward shall be deemed to be utilized, on a pro rata basis, to offset the taxable income of each member of the Tenneco Affiliated Group. Finally, to the extent the taxable income for such period exceeds the losses for the current period and the 1997 Loss Carryforward, the 1998 Loss Carryforward shall be deemed to be utilized, on a pro rata basis, to offset the remaining taxable income of each member of the Tenneco Affiliated Group. Each Group's allocable share of the 1997 Loss Carryforward and 1998 Loss Carryforward following the utilization of losses described in this Step Five shall be referred to as the "Final 1997 Loss Carryforward Allocation" and "Final 1998 Loss Carryforward Allocation," respectively.

(vi) STEP SIX. Within sixty (60) days of filing the Tenneco Federal Consolidated Tax Return for the 1999 Tax Period, the Packaging Group shall compute the "True-Up Amount," which amount shall equal (I) the sum of (A) the Packaging Group's Final Income (or Loss) Allocation less the Packaging Group's Benchmark Income or (Loss) Allocation (any loss allocation shall be treated as a negative number for purposes of this computation) plus (B) the Packaging Group's Final 1997 Loss Carryforward less the Packaging Group's Benchmark 1997 Loss Carryforward (as redetermined under Step Three, if applicable), plus (C) the Packaging Group's Final 1998 Loss Carryforward less the Packaging Group's Benchmark 1998 Carryforward (as redetermined under Step Three, if applicable), multiplied by (II) 35%.

(vii) STEP SEVEN. In the event the Packaging Group's True-Up Amount is positive, Packaging Company shall pay such amount to Tenneco, and in the event the Packaging Group's True-Up Amount is negative, Tenneco shall pay such amount to Packaging Company.

Schedule A attached hereto sets forth the parties' agreement as to the determinations required under Steps One, Two and Three of this Section 2.02(a). Schedule B attached hereto provides an example of the manner in which Steps Four, Five and Six are to be computed. The actual determination required to be made under Steps Four, Five and Six will be based on the information contained on the Tax Return as filed for the 1999 Tax Period.

(b) Allocation of Tenneco Federal Consolidated Return Tax Adjustments. If there is any adjustment to the reported Tax liability with respect to any Tenneco Federal Consolidated Return, or to such Tax liability as previously adjusted, Packaging Company shall be liable to Tenneco for the excess (if any) of--

(i) the Consolidated Tax Liability of the Packaging Group computed as if all members of the Packaging Group included in the Tax Return had filed a consolidated Tax Return for such members based on the Tax Items of such members as so adjusted (the "Packaging Group Recomputed Federal Tax Liability"); over

(ii) the Consolidated Tax Liability of the Packaging Group computed as if such members of the Packaging Group had filed a consolidated Tax Return for such members based on the Tax Items of such members as reported (or, if applicable, as previously adjusted) (the "Packaging Group Prior Federal Tax Liability"). Solely with respect to the Tenneco Federal Consolidated Return for the 1999 Tax Period, the Packaging Group Prior Federal Tax Liability with respect to such Tax Return shall equal the Consolidated Tax Liability allocable to the Packaging Group with respect to such Tax Return under Section 2.02(a) hereof.

If the Packaging Group Prior Federal Tax Liability exceeds the Packaging Group Recomputed Federal Tax Liability, Tenneco shall be liable to Packaging Company for such excess. For purposes of this Section 2.02(b), if the Packaging Group has a net operating loss after taking into account the adjustments allocable to such Group, the Recomputed Federal Tax Liability of the Group shall be less than zero to the extent such net operating loss produces a Tax Benefit in consolidation for the applicable taxable year (which shall be determined applying the principles of Section 4.07(c)(ii)). For example, if the Packaging Group's Prior Federal Tax Liability for Year X was \$50 and taking into account all adjustments for Year X, Packaging Group has a net operating loss of \$40 resulting in a Tax Benefit of \$14 (determined by computing the Consolidated Tax Liability for such Tax Period with and without the net operating loss), then the Packaging Group's Recomputed Federal Tax Liability for Year X would be negative \$14, and Tenneco would be liable to Packaging Company in the amount of \$64, i.e. (\$50 - (-\$14)).

2.03 Allocation of State Income Taxes. Except as provided in Sections 2.04, 2.05 and 6.03, State Income Taxes shall be allocated as follows:

(a) Allocation of State Income Tax Liabilities for Post-Distribution State Income Tax Returns.

(i) Separate Company Taxes. In the case of any Separate Company State Income Tax with respect to a Post-Distribution State Income Tax Return, Packaging Company shall be liable for such Tax imposed on any members of the Packaging Group.

(ii) Consolidated or Combined State Income Taxes. In the case of any Consolidated or Combined State Income Tax with respect to a Post-Distribution State Income Tax Return, the Consolidated or Combined State Income Tax liability shall be allocated between the Tenneco Group and the Packaging Group as follows:

(A) Each Group shall compute its "Hypothetical State Tax Liability," which shall equal the State Income Tax liability of such Group (which number shall be deemed to be zero if such Group has net operating losses for such Tax Period), computed as if all members of such Group included in the computation of such Tax had filed a consolidated or combined Tax Return for such Group's members based on the income, apportionment factors, and other items of such members.

(B) In the event the Estimated Tax Payments (as defined below) exceed, or are less than, the actual State Income Tax liability shown on the Consolidated and Combined State Income Tax Return such excess or deficit, as the case may be, shall be shared by the Tenneco Group and the Packaging Group. Each Group's share shall be determined by multiplying such excess or deficit by a fraction, (a) the numerator of which is the Hypothetical State Tax Liability of such Group, and (b) the denominator of which is the sum of the Hypothetical State Tax Liability of the Tenneco Group and the Packaging Group, with appropriate payments being made by Packaging Company to Tenneco, or by Tenneco to Packaging Company, to achieve the appropriate sharing of such excess or deficit. The term "Estimated Tax Payments" shall mean any and all estimated payments made in connection with the Combined or Consolidated State Income Tax Return filed for such Tax Period; provided, however, such amount shall (i) exclude any estimated Tax payments made after the Distribution Date and (ii) include any overpayments of Combined or Consolidated State Income Tax for any prior Tax Periods which are carried forward and applied as payments on the Combined or Consolidated State Income Tax Returns for the applicable Tax Period.

(iii) Post-Distribution Estimated Payments. Notwithstanding anything to the contrary in the foregoing, in the case of both Separate Company Taxes and Consolidated or Combined Income Taxes, Packaging Company shall pay to the appropriate State Tax Authority any estimated Taxes with respect to the Tax Period ended December 31, 1999 due after the Distribution Date. Tenneco shall reimburse Packaging Company for (i) any estimated Tax payments made by Packaging Company after the Distribution Date with respect to Separate Company Taxes imposed on members of the Tenneco Group and (ii) any and all estimated Tax payments made by Packaging Company after the Distribution Date with respect to any Consolidated or Combined State Income Tax.

(b) Allocation of State Income Tax Adjustments.

(i) Combined or Consolidated State Income Tax Adjustments. If there is any adjustment to the amount of Consolidated or Combined State Income Tax



reported on any Tax Return (or as previously adjusted), the liability of the Packaging Group shall be recomputed as provided in this subparagraph. Packaging Company shall be liable to Tenneco for the excess (if any) of--

(A) the State Income Tax liability computed as if all members of the Packaging Group included in the Tax Return had filed a consolidated or combined

-12-

13

Tax Return for such members based on the income, apportionment factors, and other items of such members as so adjusted (the "Packaging Group Recomputed State Tax Liability"); over

(B) the State Income Tax liability computed as if such members of the Packaging Group had filed a consolidated or combined Tax Return for such members based on the income, apportionment factors, and other items of such members as reported (or, if applicable, as previously adjusted) (the "Packaging Group Prior State Tax Liability").

If the Packaging Group Prior State Tax Liability exceeds the Packaging Group Recomputed State Tax Liability, Tenneco shall be liable to Packaging Company for such excess. For purposes of this paragraph, (i) if the Packaging Group has a net operating loss after taking into account the adjustments allowable to such Group, the Packaging Group Recomputed State Tax Liability shall be less than zero to the extent such net operating loss produces a Tax Benefit for purposes of the applicable Consolidated or Combined State Income Tax and (ii) the determination and payment of estimated Taxes (including the determination and payment of any Tax required to be paid with a request for an extension of time to file a Tax Return) shall not be treated as an adjustment to the related Consolidated or Combined State Income Tax.

(ii) Separate Company Taxes. In the case of any adjustment to the amount of a Separate Company Tax Liability, Packaging Company shall be liable for such Tax imposed on members of the Packaging Group, and Tenneco shall be liable for such Tax imposed on members of the Tenneco Group.

#### 2.04 Allocation of Other Taxes.

(a) General. Except as provided in Section 2.04 (b) and (c) and Section 2.05, all Taxes other than those specifically allocated pursuant to Sections 2.02 and 2.03 shall be allocated based on the legal entity on which the legal incidence of the Tax is imposed (provided, however, that in the event the

legal entity on which the legal incidence of the tax is imposed is a member of a group including members of both the Packaging Group and Tenneco Group, the tax shall be allocated between the Tenneco Group and Packaging Group based on each Group's respective share of the taxable income giving rise to such Tax. As between the parties to this Agreement, Packaging Company shall be liable for all Taxes imposed on any member of the Packaging Group. The Companies believe that there is no Tax not specifically allocated pursuant to Sections 2.02 and 2.03 which is legally imposed on more than one legal entity (e.g., joint and several liability); however, if there is any such Tax, it shall be allocated in accordance with past practices as reasonably determined by the affected Companies, or in the absence of such practices, in accordance with any allocation method agreed upon by the affected Companies.

-13-

14

(b) German Restructuring. Notwithstanding anything to the contrary in this Agreement, with respect to the Corporate Restructuring Transactions involving the restructuring of the German entities (i.e., the members of the Tenneco Affiliated Group organized under the laws of Germany) (the "German Restructuring Transactions"), the parties agree as follows:

(i) Packaging Company shall be liable for any and all Transfer Taxes incurred as a result of the German Restructuring Transactions.

(ii) Tenneco Deutschland Holdinggesellschaft mBH's ("Tenneco Deutschland") German Tax losses shall be utilized to the fullest extent permitted under German Tax Law to offset income realized in connection with the German Restructuring Transactions and Packaging Company shall have no obligation to reimburse or otherwise compensate Tenneco for the use of such Tax losses; provided, however, that (X) in the event the German Tax Authority makes a final determination that the income realized in connection with the German Restructuring Transactions is greater than the amount reported on the Tax Return as originally filed, Packaging Company shall pay to Tenneco Deutschland an amount equal to the additional German Tax loss used to offset Tenneco Deutschland's increased income multiplied by the applicable German Tax rate, and (Y) in the event the German Tax Authority makes a final determination that the income realized in connection with the German Restructuring Transactions is less than the amount reported on the Tax Return as originally filed, Tenneco Deutschland shall pay to Packaging Company an amount equal to the German Tax loss

restored as a result of such determination multiplied by the applicable German Tax rate.

(iii) In the event any member of the Packaging Group is required to make profit and absorption payments to Tenneco Deutschland after the Distribution Date, such payments shall be promptly repaid to Tenneco Packaging Deutschland Holding Gesellschaft mBH as an adjustment to purchase price with respect to Tenneco Deutschland's sale of such member to Tenneco Packaging Deutschland Holding Gesellschaft mBH pursuant to the German Restructuring Transactions.

(iv) In the event the German Tax Authority disallows Tenneco Deutschland's Organschaft status for any reason whatsoever, Tenneco Deutschland shall pay to Packaging Company the Tax Benefit realized by Tenneco Deutschland by reason of claiming input credits arising out of deemed dividend payments made by members of the Packaging Group.

(c) United Kingdom Restructuring. Notwithstanding anything to the contrary in this Agreement, with respect to the Corporate Restructuring Transactions involving the restructuring of the United Kingdom entities (i.e., the members of the Tenneco Affiliated Group organized

-14-

15

under the laws of United Kingdom) (the "UK Restructuring Transactions"), the Companies agree as follows:

- (i) Packaging Company shall be liable for any and all Transfer Taxes (including, without limitation, any stamp duty) incurred as a result of the UK Restructuring Transactions.
- (ii) Each Group shall be entitled to cause any of its members to surrender such member's Tax losses for group relief or consortium relief (or other amounts eligible for group or consortium relief) to another member of such Group; provided, however, that if the Tax losses of a Group cannot be utilized by the members of such Group, the Tax losses shall be surrendered for group relief or consortium relief to the members of the other Group, as designated in writing by the parent company of such other Group (and such other Group shall have no obligation to reimburse or otherwise compensate the surrendering

## 2.05 Transaction and Other Taxes.

(a) General. Except as otherwise provided in this Section 2.05, any and all liability for Taxes resulting from the Transactions shall be allocated as follows:

(i) Any sales and use, gross receipts or other Transfer Taxes imposed on the transfers occurring pursuant to the Transactions (together with any Tax resulting from any income or gain recognized under Treasury Regulation Sections 1.1502-13 or 1.1502-19 (or any other corresponding provisions of other applicable Tax Laws) as a result of the Transactions) shall be allocated to the legal entity on which the legal incidence of the Tax is imposed. As between the parties to this Agreement, Packaging Company shall be liable for all Taxes imposed on any member of the Packaging Group and Tenneco shall be liable for all Taxes imposed on any member of the Tenneco Group.

(ii) Any Tax liability resulting from any income or gain recognized as a result of any of the transactions contemplated by the Distribution Agreement failing to qualify for tax-free treatment under Code Sections 332, 351, 355, 361 or other provisions of the Code (as contemplated by the Ruling Request) or corresponding provisions of other applicable Tax Laws, shall be allocated fifty percent (50%) to Tenneco and fifty percent (50%) to Packaging Company.

(b) Indemnity for Inconsistent Acts. Tenneco or Packaging Company, as the case may be, shall be liable for, and shall indemnify and hold harmless the members of the other Group from and against any liability for, any Restructuring Tax to the extent arising from any breach by such party of its representations or covenants under Section 11.

-15-

16

(c) Indemnity for Liability Under Code Section 355(e). Notwithstanding anything to the contrary in this Section 2.05, any Tax liability incurred by Tenneco under Code Section 355(e) (or any corresponding provision of other applicable Tax Laws) by reason of the acquisition by one or more persons of a "50-percent or greater interest" (as such term is defined in Code Section 355(d)(4)) in Tenneco or Packaging Company (a "50% Ownership Shift") shall be allocated to that entity (i.e., Tenneco or Packaging Company) with respect to which such Ownership Shift has occurred.

## 2.06 Liability Under 1996 Spin-Off Tax Sharing Agreement.

(a) With respect to any Tax liability imposed on or incurred by Tenneco (or any Tax Benefit owing to Tenneco) under the Tax Sharing Agreement dated as of December 11, 1996, as amended, by and among Tenneco, Newport News Shipbuilding Inc., El Paso Natural Gas Company, and El Paso Tennessee Pipeline Co. ("Old Tenneco") (the "1996 Spin-Off Tax Sharing Agreement"), Packaging Company shall be liable for, and shall indemnify and hold the Tenneco Group harmless from, any and all such Tax liabilities (and Packaging Company shall be entitled to any and all such Tax Benefits) except to the extent such Tax liability (or such Tax Benefit) would be treated as allocable to the Tenneco Group under the terms of Sections 2.01 through 2.04 hereof, in which case the Tenneco Group shall be liable for such Tax liability and shall be entitled to such Tax Benefit. Any amount owed by Packaging Company under this Section 2.06 shall be paid by Packaging Company to Tenneco within 30 days from the date of written notice and demand from Tenneco evidencing the payment of such amount by Tenneco in accordance with the terms of the 1996 Spin-Off Tax Sharing Agreement. Any amount due to Packaging Company under this Section 2.06 shall be paid to Packaging Company by Tenneco within 30 days from the date of receipt of such amount by Tenneco in accordance with the terms of the 1996 Spin-Off Tax Sharing Agreement.

(b) The Companies agree that in the case of any dispute or controversy under the 1996 Spin-Off Tax Sharing Agreement, (i) each Company shall control the portion of such dispute or controversy that directly and exclusively relates to a Tax liability or Tax Benefit borne by such Company under the terms hereof, and (ii) to the extent any issue involved in, or aspect of, such dispute or controversy does not directly and exclusively relate to the Tax liability or Tax Benefits of one Company under the terms hereof, the Companies shall jointly control and otherwise handle such issue or matter in accordance with the rules for defense or prosecution of Joint Adjustments in Section 9.02(b) hereof. In furtherance of the foregoing, Tenneco shall, upon Packaging Company's request, execute such powers of attorney or other documentation as reasonably determined by Packaging Company to be necessary or appropriate to permit Packaging Company to fully exercise its rights under this Section 2.06(b). Each of Tenneco and Packaging Company agree that, with respect to any issue which involves or could involve the other Company's liability (or entitlement to payment) under the 1996 Spin-Off Tax Sharing Agreement pursuant to this Section 2.06, it shall not have the right to settle such issue without the prior written consent of such other Company.

### SECTION 3. PRORATION OF TAXES FOR STRADDLE PERIODS.

3.01 General Method of Proration. In the case of any Straddle Period, Tax Items shall be apportioned between Pre-Distribution Periods and

Post-Distribution Periods in accordance with the principles of Treasury Regulation Section 1.1502-76(b) as reasonably interpreted and applied by the Companies. No election shall be made under Treasury Regulation Section 1.1502-76(b) (2) (ii) (relating to ratable allocation of a year's items). If the Distribution Date is not an Accounting Cutoff Date, the principles of Treasury Regulation Section 1.1502-76 (b) (2) (iii) will be applied to ratably allocate the items (other than extraordinary items described in Treasury Regulation Section 1.1502-76(b) (2) (ii) (C)) for the month which includes the Distribution Date.

3.02 Transaction Treated as Extraordinary Item. In determining the apportionment of Tax Items between Pre-Distribution Periods and Post-Distribution Periods, any Tax Items relating to the Transactions shall be treated as an extraordinary item described in Treasury Regulation Section 1.1502-76(b) (2) (ii) (C) and shall be allocated to Pre-Distribution Periods, and any Taxes related to such items shall be treated under Treasury Regulation Section 1.1502-76(b) (2) (iv) as relating to such extraordinary item and shall be allocated to Pre-Distribution Periods.

#### SECTION 4. PREPARATION AND FILING OF TAX RETURNS.

4.01 General. Except as otherwise provided in this Section 4, Tax Returns shall be prepared and filed when due (including extensions) by the person obligated to file such Tax Returns under the Code or applicable Tax Law. The Companies shall provide, and shall cause their Affiliates to provide, assistance and cooperate with one another in accordance with Section 7 with respect to the preparation and filing of Tax Returns, including providing information required to be provided in Section 7.

4.02 Packaging Company's Responsibility. Packaging Company has the exclusive obligation and right to prepare and file, or to cause to be prepared and filed:

(a) Tenneco Federal Consolidated Returns for Tax Periods ending on or before December 31, 1999.

(b) The U.S. federal Income Tax return for the affiliated group (as that term is defined in Code Section 1504) of which Tenneco International Holding Corp. is the common parent for Tax Periods ending on or before December 31, 1999.

(c) Tax Returns for Separate Company State Income Taxes or Consolidated or Combined State Income Taxes which the Companies reasonably determine, in accordance with Tenneco's past practices, are required to be filed by the Companies or any of their Affiliates for

Tax Periods ending on or before December 31, 1999 (including without limitation, the filing of amended Tax Returns to take into account Federal Income Tax adjustments or Carryback Items).

(d) Tax Returns that are required to be filed by the members of the Packaging Group.

Nothing in this Section 4.02 shall impose on Packaging Company any liability for any failure to file any Tax Return, or for failure to file any Tax Return when due, with respect to any Pre-Distribution Period if the due date for such return (including extensions) was prior to the Distribution Date.

4.03 Tenneco Responsibility. Tenneco shall prepare and file, or shall cause to be prepared and filed, Tax Returns required to be filed by or with respect to members of the Tenneco Group other than those Tax Returns which Packaging Company is required to prepare and file under Section 4.02. The Tax Returns required to be prepared and filed by Tenneco under this Section 4.03 shall include (a) the Tenneco Federal Consolidated Return for Tax Periods ending after December 31, 1999, (b) the U.S. Federal Income Tax return for the affiliated group (as that term is defined in Code Section 1504) of which Tenneco International Holding Corp. is the common parent for Tax Periods ending after December 31, 1999, and (c) Tax Returns for Consolidated or Combined State Income Taxes which the Companies reasonably determine, in accordance with Tenneco's past practices, are required to be filed by the Companies or any of their Affiliates for Tax Periods ending after December 31, 1999.

#### 4.04 Tax Accounting Practices.

(a) General Rule. Except as otherwise provided in this Section 4.04, any Tax Return for any Pre-Distribution Period or any Straddle Period, and any Tax Return for any Post-Distribution Period to the extent items reported on such Tax Return might reasonably affect items reported on any Tax Return for any Pre-Distribution Period or any Straddle Period, shall be prepared in accordance with past Tax accounting practices used with respect to the Tax Returns in question (unless such past practices are no longer permissible under the Code or other applicable Tax Law), and to the extent any items are not covered by past practices (or in the event such past practices are no longer permissible under the Code or other applicable Tax Law), in accordance with reasonable Tax accounting practices selected by the Responsible Company.

(b) Reporting of Transaction Tax Items. The tax treatment reported on any Tax Return of Tax Items relating to the Transactions shall be consistent with the treatment of such item in the IRS Ruling Letter. To the extent there is a Tax Item relating to the Transactions which is not covered by the IRS Ruling Letter, the Companies shall agree on the tax treatment of any such Tax Item reported on any Tax Return. For this purpose, the tax treatment of such Tax Items on a Tax Return by the Responsible Company with respect to such Tax Return shall be agreed to by the other Company unless either (i) there is no reasonable basis for such tax treatment, or (ii) such tax treatment is inconsistent with

Ruling Request. Such Tax Return shall be submitted for review pursuant to Section 4.06(a), and any dispute regarding such proper tax treatment shall be referred for resolution pursuant to Section 15, sufficiently in advance of the filing date of such Tax Return (including extensions) to permit timely filing of the return.

4.05 Consolidated or Combined Returns. The Companies will elect and join, and will cause their respective Affiliates to elect and join, in filing consolidated, unitary, combined, or other similar joint Tax Returns, to the extent each entity is eligible to join in such Tax Returns, if the Companies reasonably determine that the filing of such Tax Returns is consistent with past reporting practices, or in the absence of applicable past practices, will result in the minimization of the net present value of the aggregate Tax to the entities eligible to join in such Tax Returns.

#### 4.06 Right to Review Tax Returns.

(a) General. The Responsible Company with respect to any Tax Return shall make such Tax Return and related workpapers available for review by the other Company, if requested, to the extent (i) such Tax Return relates to Taxes for which the requesting party may be liable, (ii) such Tax Return relates to Taxes for which the requesting party may be liable in whole or in part for any additional Taxes owing as a result of adjustments to the amount of Taxes reported on such Tax Return, (iii) such Tax Return relates to Taxes for which the requesting party may have a claim for Tax Benefits under this Agreement, or (iv) the requesting party reasonably determines that it must inspect such Tax Return to confirm compliance with the terms of this Agreement. The Responsible Company shall use its reasonable best efforts to make such Tax Return available for review as required under this paragraph sufficiently in advance of the due date for filing such Tax Returns to provide the requesting party with a meaningful opportunity to analyze and comment on such Tax Returns and have such Tax Returns modified before filing, taking into account the party responsible for payment of the tax (if any) reported on such Tax Return and the materiality of the amount of Tax liability with respect to such Tax Return. The Companies shall attempt in good faith to resolve any issues arising out of the review of such Tax Returns.

(b) Execution of Returns Prepared by Other Party. In the case of any Tax Return which is required to be prepared and filed by one Company under this Agreement and which is required by law to be signed by the other Company (or by its authorized representative), the Company which is legally required to sign such Tax Return shall not be required to sign such Tax Return under this Agreement if there is no reasonable basis for the tax treatment of any material



items reported on the Tax Return.

4.07 Claims for Refund, Carrybacks, and Self-Audit Adjustments ("Adjustment Requests").

(a) Consent Required for Adjustment Requests Related to Consolidated or Combined Income Taxes. Neither Company shall be entitled to file an Adjustment Request with respect to any Consolidated or Combined Income Tax for a Pre-Distribution Period without the

-19-

20

consent in writing of the other Company (which consent shall not be unreasonably withheld or delayed). Any Adjustment Request which the Companies consent to make under this Section 4.07 shall be prepared and filed by the Responsible Company under Section 4.02 for the Tax Return to be adjusted. The Company requesting the Adjustment Request (if not the Responsible Company) shall provide to the Responsible Company all information required for the preparation and filing of such Adjustment Request in such form and detail as reasonably requested by the Responsible Filing Company.

(b) Other Adjustment Requests Permitted. Nothing in this Section 4.07 shall prevent any Company or its Affiliates from filing any Adjustment Request with respect to Income Taxes which are not Consolidated or Combined Income Taxes or with respect to any Taxes other than Income Taxes. Any refund or credit obtained as a result of any such Adjustment Request (or otherwise) shall be for the account of the person liable for the Tax under this Agreement.

(c) Ordering of and Payment for Carrybacks.

(i) In the event that a member of the Packaging Group, on the one hand, and a member of the Tenneco Group, on the other hand, are each entitled to carryback a Tax Item to a Pre-Distribution Period, the respective Tax Items shall be utilized under the rules of applicable Tax Law (which shall be, in the case of Carrybacks to such Tax Periods of the affiliated group of which Tenneco is the common parent, the rules contained in Treasury Regulation Section 1.1502-21T).

(ii) Any Tax refund or other Tax Benefit resulting from the Carryback of any member of one Group (the "Carryback Group") of any Tax Item arising after the Distribution Date to a Pre-Distribution Period shall be for the account of the Carryback Group (and in the event the Packaging Group is the Carryback Group, Tenneco shall promptly pay to Packaging Company the amount of such Tax refund or other Tax Benefit); provided, however, that if at the time of the utilization of the Carryback Items of a member of the Carryback Group, a member of the other Group (the "Other Group") possesses Carryback Tax Items

which, but for the ordering rule set forth in Section 4.07(c)(i), would have been available to be utilized (the "Available Other Group Carryback") in lieu of the Carryback Group's Tax Items, then (but only to the extent of the Available Other Group Carryback) the Carryback Group shall not be entitled to payment of the amount of such Tax refund or Tax Benefit until the earlier of (X) the date on which a member of the Other Group claims the Available Other Group Carryback on a Tax Return or (Y) the date on which a member of the Carryback Group would have been able to utilize the Carryback had it not been claimed with respect to the Pre-Distribution Period Tax Return.

(iii) In the event the Carryback of Tax Items of a member of the Packaging Group, or the Tenneco Group, as the case may be, does not result in a Tax refund, due to an offsetting Tax adjustment to a member of the Other Group, then the Other Group shall promptly pay the amount of any decrease in Tax liability resulting from the Carryback claim, provided,

-20-

21

however, that in the event the Other Group possesses Carryback Items which, but for the ordering rules of Section 4.07(c)(i) would have been available to be utilized in lieu of the Carryback Group's Tax Items, then (but only to the extent of the Available Other Group Carryback), the Other Group shall not be required to pay the amount of such decrease in Tax liability to the Carryback Group until the earlier of (X) the date on which a member of the Other Group claims the Available Other Group Carryback on a Tax Return or (Y) the date on which a member of the Carryback Group would have been able to utilize the Carryback had it not been claimed with respect to the Pre-Distribution Period Tax Return.

(d) Payment of Refunds. Except as otherwise provided in Section 4.07(c), any refunds or other Tax Benefits received by any Company (or any of its Affiliates) as a result of any Adjustment Request which are for the account of another Company (or member of such other Company's Group) shall be paid by the Company receiving (or whose Affiliate received) such refund or Tax Benefit to such other Company in accordance with Section 6.

## SECTION 5. TAX PAYMENTS AND INTERCOMPANY BILLINGS.

5.01 Payment of Taxes With Respect to Post-Distribution Tenneco Federal Consolidated Returns. In the case of the Tenneco Federal Consolidated Tax Return for the 1999 Tax Period:

(a) Computation and Payment of Tax Due. At least three business days prior to the Payment Date with respect to the Tenneco Federal Consolidated Tax Return for the 1999 Tax Period, Packaging Company shall compute

the amount of Tax required to be paid to the Internal Revenue Service (taking into account the requirements of Section 4.04 relating to consistent accounting practices) with respect to such Tax Return, and Packaging Company shall notify Tenneco in writing of the amount of Tax required to be paid on such Payment Date. Tenneco will pay such amount to the Internal Revenue Service on or before such Payment Date.

(b) Computation and Payment of Packaging Company Liability With Respect to Tax Due.

(i) Within 30 days of the determination date under Section 2.01(a)(vi) with respect to the Tenneco Federal Consolidated Tax Return for the 1999 Tax Period, Packaging Company shall pay to Tenneco an amount equal to the True-Up Amount, if positive, as determined under Section 2.02(a)(vii). In the event the Packaging Group's True-Up Amount, as determined under Section 2.02(a)(vii) is negative, Tenneco shall pay such amount to Packaging Company within 30 days of the Payment Date with respect to the Tenneco Federal Consolidated Return for the 1999 Tax Period.

(ii) In the event of a redetermination of the Benchmark 1997 Loss Allocation Carryforward or Benchmark 1998 Loss Allocation Carryforward pursuant to Section 2.02(a)(iii), Packaging Company shall pay to Tenneco, or Tenneco shall pay to Packaging

-21-

22

Company, the amount, if any, required to be paid pursuant to the last sentence of Section 2.02(a)(iii), which payment shall be due within 30 days of such redetermination.

(b) Interest on Intergroup Tax Allocation Payments. In the case of any payments to Tenneco required under paragraph (b) of this subsection 5.01, Packaging Company shall also pay to Tenneco an amount of interest computed at the Prime Rate on the amount of the payment required based on the number of days from the applicable Payment Date to the date of payment. In the case of any payments by Tenneco required under paragraph (b) of this subsection 5.01, Tenneco shall also pay to Packaging Company an amount of interest computed at the Prime Rate on the amount of the payment required based on the number of days from the date of receipt of the Tax Benefit to the date of payment of such amount to Packaging Company.

5.02 Payment of Federal Income Tax Related to Adjustments.

(a) Adjustments Resulting in Underpayments. Tenneco shall pay to the Internal Revenue Service when due any additional Federal Income Tax required

to be paid as a result of any adjustment to the Tax liability with respect to any Tenneco Federal Consolidated Return for any Pre-Distribution Period. The Responsible Company shall compute the amount attributable to the Packaging Group in accordance with Section 2.02(b) and Packaging Company shall pay to Tenneco any amount due Tenneco under Section 2.02(b) within 30 days from the later of (i) the date the additional Tax was paid by Tenneco or (ii) the date of receipt by Packaging Company of a written notice and demand from Tenneco for payment of the amount due, accompanied by evidence of payment and a statement detailing the Taxes paid and describing in reasonable detail the particulars relating thereto. Any amount due to Packaging Company under Section 2.02(b) shall be paid by Tenneco to Packaging Company within 30 days from the date the additional Tax was paid by Tenneco to the Internal Revenue Service. Any payments required under this Section 5.02(a) shall include interest computed at the Prime Rate based on the number of days from the date the additional Tax was paid by Tenneco to the date of the payment under this Section 5.02(a).

(b) Adjustments Resulting in Overpayments. Within 30 days of receipt by Tenneco of any Tax Benefit resulting from any adjustment to the Consolidated Tax Liability with respect to any Tenneco Federal Consolidated Return for any Pre-Distribution Period, Tenneco shall pay to Packaging Company or Packaging Company shall pay to Tenneco (as the case may be), respective amounts due from or to Tenneco as determined by the Responsible Company in accordance with Section 2.02(b). Any payments required under this Section 5.02(b) shall include interest computed at the Prime Rate based on the number of days from the date the Tax Benefit was received by Tenneco to the date of payment to under this Section 5.02(b).

-22-

23

5.03 Payment of State Income Tax With Respect to Post-Distribution State Income Tax Returns.

(a) Computation and Payment of Tax Due. At least three business days prior to any Payment Date for any Tax Return with respect to any State Income Tax (except for post-Distribution estimated Tax payments which shall be governed by Section 2.03(a)(iii)), the Responsible Company shall compute the amount of Tax required to be paid to the applicable Tax Authority (taking into account the requirements of Section 4.04 relating to consistent accounting practices) with respect to such Tax Return on such Payment Date and--

(i) If such Tax Return is with respect to a Consolidated or Combined State Income Tax, the Responsible Company shall, if Tenneco is not the Responsible Company with respect to such Tax Return, notify Tenneco in writing of the amount of Tax required to be paid on such Payment Date. Tenneco will pay such amount to such Tax Authority on or

before such Payment Date.

(ii) If such Tax Return is with respect to a Separate Company Tax, the Responsible Company shall, if it is not the Company liable for the Tax reported on such Tax Return, notify the Company liable for such Tax in writing of the amount of Tax required to be paid on such Payment Date. The Company liable for such Tax will pay such amount to such Tax Authority on or before such Payment Date.

(b) Computation and Payment of Packaging Company Liability. With respect to the Consolidated or Combined State Income Tax Returns (excluding any Tax Return with respect to payment of estimated Taxes or Taxes due with a request for extension of time to file), within 120 days of the due date (including extensions) for filing of the Consolidated or Combined Tax Return with the latest due date for filing of all such Consolidated or Combined Tax Returns, Packaging Company shall pay to Tenneco the Tax liability allocable to the Packaging Group, or Tenneco shall pay to Packaging Company amounts owing to Packaging Company, as the case may be, as determined by the Responsible Company under the provisions of Section 2.03(a), plus interest computed at the Prime Rate on the amount of the payment based on the number of days from such latest due date (including extensions) to the date of payment.

5.04 Payment of State Income Taxes Related to Consolidated or Combined State Income Tax Adjustments.

(a) Adjustments Resulting in Underpayments. Tenneco shall pay to the applicable Tax Authority when due any additional State Income Tax required to be paid as a result of any adjustment to the Tax liability with respect to any Tax Return for any Consolidated or Combined State Income Tax for any Pre-Distribution Period. Packaging Company shall pay to Tenneco its share of any such additional Tax payment determined by the Responsible Company in accordance with Section 2.03(b) within 120 days from the later of (i) the date the additional Tax was paid by Tenneco or (ii) the date of receipt by Packaging Company of a written notice and demand from Tenneco for payment of the amount due, accompanied by evidence of payment and a statement detailing the Taxes paid and describing in reasonable detail the particulars relating thereto. Packaging Company shall also pay to Tenneco interest on its share of such additional

-23-

24

Tax computed at the Prime Rate based on the number of days from the date the additional Tax was paid by Tenneco to the date of payment to Tenneco under this Section 5.04(a). Any amount due to Packaging Company under Section 2.03(b) shall be paid within 30 days from the date the additional Tax was paid by Tenneco to the applicable Tax Authority (including interest computed at the Prime Rate

based on the number of days from the date the additional Tax was paid by Tenneco to the date of payment to Packaging Company).

(b) Adjustments Resulting in Overpayments. In the case of any Tax Benefits resulting from any adjustment to any Tax Return for any Consolidated or Combined State Income Tax for any Pre-Distribution Period, Tenneco shall pay to Packaging Company or Packaging Company shall pay to Tenneco (as the case may be) respective amounts due from or to Tenneco as determined in accordance with Section 2.03(b). Any payments owing to Packaging Company under this Section 5.04(b) shall be made within 60 days of the earlier of (i) the date of receipt of the Tax Benefit by Tenneco or (ii) receipt by Tenneco of a written notice and demand from Packaging Company evidencing the filing of the applicable Consolidated or Combined Income Tax Return containing the relevant adjustments and detailing the extent to which the resulting Tax Benefit is attributable to Packaging Company. Any payments owing to Tenneco under this Section 5.04(b) shall be made within 30 days of Tenneco's receipt of any Tax Benefit resulting from the adjustment to the applicable Consolidated or Combined State Income Tax Return. Any payments required under this Section 5.04(b) shall include interest computed at the Prime Rate based on the number of days from the date the Tax Benefit was received by Tenneco to the date of payment to Packaging Company under this Section 5.04(b).

5.05 Payment of Separate Company Taxes. Each Company shall pay, or shall cause to be paid, to the applicable Tax Authority when due all Separate Company Taxes owed by such Company or a member of such Company's Group.

5.06 Indemnification Payments. If any Company (the "payor") is required to pay to a Tax Authority a Tax that another Company (the "responsible party") is liable for under this Agreement, the responsible party shall reimburse the payor within 30 days of delivery by the payor to the responsible party of an invoice for the amount due, accompanied by evidence of payment and a statement detailing the Taxes paid and describing in reasonable detail the particulars relating thereto. The reimbursement shall include interest on the Tax payment computed at the Prime Rate based on the number of days from the date of the payment to the Tax Authority to the date of reimbursement under this Section 5.06.

## SECTION 6. TAX BENEFITS.

### 6.01 General Rule.

(a) If a member of one Group receives a Tax refund with respect to Taxes for which a member of the other Group is liable hereunder, the Company receiving such Tax refund shall make a payment to the Company who is liable for such Taxes hereunder within 30 days

following receipt of the Tax refund in an amount equal to such Tax refund, plus interest on such amount computed at the Prime Rate based on the number of days from the date of receipt of the Tax refund to the date of payment under this Section 6.01.

(b) In the event one Group is reimbursed for its payment of a Tax liability of the other Group, the amount of such reimbursement shall be computed net of any Tax Benefit realized by the reimbursed Group as the result of payment of the other Group's Tax liability.

6.02 Adjustment of Tax Attributes. In the event that the Carryback of Tax Items of one Group, or a Tax adjustment attributable to such Group under the terms of this Agreement, results in the disallowance or limitation of Tax attributes (including Tax credits, deductions and similar items) claimed on the Tax Return as filed, the Carryback Group shall be responsible for any increase in Tax liability resulting from the disallowance or limitation of such Tax attributes; provided, however, that in the event the disallowance or limitation of Tax attributes results in a Tax Benefit resulting from the use of such Tax attributes in another Tax Period, such Tax Benefit shall be deemed to be for the account of the Carryback Group for purposes of this Agreement.

6.03 Correlative Adjustments. If, upon examination by any Tax Authority of any Tax Return including a member of the Tenneco Group or Packaging Group for any Tax Period, an item of deduction, credit or expense is disallowed for which Tenneco is or may be liable for Taxes hereunder (or an item of income is required to be recognized on a Tax Return which was not reported on such Tax Return), in either such case resulting in a tax detriment suffered by the Tenneco Group, and such disallowance (or recognition) results in a Tax Benefit to the Packaging Group (with respect to that Tax Period or another Tax Period), then Packaging shall pay to Tenneco the amount of such Tax Benefit (but in no case to exceed the corresponding tax detriment). Any payment required to be made hereunder shall be made when such Tax Benefit is realized in the form of an actual reduction in Tax (which shall be computed by comparing the Tax which would have been owed by Packaging but for the item giving rise to the Tax Benefit with the Tax owed by Packaging taking such item into account). The provisions of this Section 6.03 shall apply mutatis mutandis where an item of deduction, credit or expense is disallowed for which Packaging is or may be liable for Taxes hereunder (or an item of income is required to be recognized on a Tax Return which was not reported on such Tax Return), as they apply where the Tenneco Group suffers such a tax detriment. For avoidance of doubt, any payment required to be made by Tenneco to the Packaging Group under this Section 6.03 shall, to the extent applicable, be deemed as an offset to amounts owing by Packaging to Tenneco under Section 2.02 hereof.

## SECTION 7. ASSISTANCE AND COOPERATION.

7.01 General. After the Distribution Date, each of the Companies shall cooperate (and cause their respective Affiliates to cooperate) with each

other and with each other's agents, including accounting firms and legal counsel, in connection with Tax matters relating to the Companies and their Affiliates including (i) preparation and filing of Tax Returns, (ii) determining the liability for and amount of any Taxes due (including estimated Taxes) or the right to and

-25-

26

amount of any refund of Taxes, (iii) examinations of Tax Returns, and (iv) any administrative or judicial proceeding in respect of Taxes assessed or proposed to be assessed. Such cooperation shall include making all information and documents in their possession relating to the other Companies and their Affiliates available to such other Companies as provided in Section 8. Each of the Companies shall also make available to each other, as reasonably requested and available, personnel (including officers, directors, employees and agents of the Companies or their respective Affiliates) responsible for preparing, maintaining, and interpreting information and documents relevant to Taxes, and personnel reasonably required as witnesses or for purposes of providing information or documents in connection with any administrative or judicial proceedings relating to Taxes. Any information or documents provided under this Section 7 shall be kept confidential by the Company receiving the information or documents, except as may otherwise be necessary in connection with the filing of Tax Returns or in connection with any administrative or judicial proceedings relating to Taxes.

7.02 Income Tax Return Information. Each Company will provide to the other Company information and documents relating to their respective Groups required by the other Company to prepare Tax Returns. The Responsible Company shall determine a reasonable compliance schedule for such purpose in accordance with Tenneco's past practices. Any additional information or documents the Responsible Company requires to prepare such Tax Returns will be provided in accordance with past practices, if any, or as the Responsible Company reasonably requests and in sufficient time for the Responsible Company to file such Tax Returns timely.

## SECTION 8. TAX RECORDS.

8.01 Retention of Tax Records. Except as provided in Section 8.02, each Company shall preserve and keep all Tax Records exclusively relating to the assets and activities of its Group for Pre-Distribution Tax Periods, and Tenneco shall preserve and keep all other Tax Records relating to Taxes of the Groups for Pre-Distribution Tax Periods, for so long as the contents thereof may become material in the administration of any matter under the Code or other applicable Tax Law, but in any event until the later of (i) the expiration of any applicable statutes of limitation, and (ii) seven years after the Distribution Date. If, prior to the expiration of the applicable statute of limitation and such seven-year period, a Company reasonably determines that any Tax Records



which it is required to preserve and keep under this Section 8 are no longer material in the administration of any matter under the Code or other applicable Tax Law, such Company may dispose of such records upon 90 days prior notice to the other Company. Such notice shall include a list of the records to be disposed of describing in reasonable detail each file, book, or other record accumulation being disposed. The notified Company shall have the opportunity, at its cost and expense, to copy or remove, within such 90-day period, all or any part of such Tax Records.

8.02 State Income Tax Returns. Tax Returns with respect to State Income Taxes and workpapers prepared in connection with preparing such Tax Returns shall be preserved and kept,

-26-

27

in accordance with the guidelines of Section 8.01, by the Company responsible for preparing and filing the applicable Tax Return.

8.03 Access to Tax Records. The Companies and their respective Affiliates shall make available to each other for inspection and copying during normal business hours upon reasonable notice all Tax Records in their possession to the extent reasonably required by the other Company in connection with the preparation of Tax Returns, audits, litigation, or the resolution of items under this Agreement.

## SECTION 9. TAX CONTESTS.

9.01 Notice. Each of the parties shall provide prompt notice to the other party of any pending or threatened Tax audit, assessment or proceeding or other Tax Contest of which it becomes aware related to Taxes for Tax Periods for which it is indemnified by the other party hereunder. Such notice shall contain factual information (to the extent known) describing any asserted Tax liability in reasonable detail and shall be accompanied by copies of any notice and other documents received from any Tax Authority in respect of any such matters. If an indemnified party has knowledge of an asserted Tax liability with respect to a matter for which it is to be indemnified hereunder and such party fails to give the indemnifying party prompt notice of such asserted Tax liability, then (i) if the indemnifying party is precluded from contesting the asserted Tax liability in any forum as a result of the failure to give prompt notice, the indemnifying party shall have no obligation to indemnify the indemnified party for any Taxes arising out of such asserted Tax liability, and (ii) if the indemnifying party is not precluded from contesting the asserted Tax liability in any forum, but such failure to give prompt notice results in a monetary detriment to the indemnifying party, then any amount which the indemnifying party is otherwise required to pay the indemnified party pursuant to this Agreement shall be reduced by the amount of such detriment.

## 9.02 Control of Tax Contests.

(a) Separate Company Taxes. In the case of any Tax Contest with respect to any Separate Company Tax, the Company having liability for the Tax shall have exclusive control over the Tax Contest, including exclusive authority with respect to any settlement of such Tax liability.

(b) Consolidated or Combined Income Taxes. In the case of any Tax Contest with respect to any Consolidated or Combined Income Tax, (i) Tenneco shall control the defense or prosecution of the portion of the Tax Contest directly and exclusively related to any Tenneco Adjustment, including settlement of any such Tenneco Adjustment, and (ii) Packaging Company shall control the defense or prosecution of the portion of the Tax Contest directly and exclusively related to any Packaging Adjustment, including any settlement of any Packaging Adjustment, and (iii) the two-person committee (the "Tax Contest Committee"), comprised of one person selected by Packaging Company (as designated in writing to Tenneco) and one person selected by

-27-

28

Tenneco (as designated in writing to Packaging Company) shall control the defense or prosecution of Joint Adjustments and any and all administrative matters not directly and exclusively related to any Tenneco Adjustment. Each person serving on the Tax Contest Committee shall continue to serve unless and until he or she is replaced by the party designating such person. Any and all matters to be decided by the Tax Contest Committee shall require the unanimous approval of both persons serving on the committee. In the event the Tax Contest Committee shall be deadlocked on any matter, the provisions of Section 15 of this Agreement shall apply. A Company shall not agree to any Tax liability for which another Company may be liable under this Agreement, or compromise any claim for any Tax Benefit which another Company may be entitled under this Agreement, without such other Company's written consent (which consent may be given or withheld at the sole discretion of the Company from which the consent would be required).

SECTION 10. EFFECTIVE DATE; TERMINATION OF PRIOR INTERCOMPANY TAX ALLOCATION AGREEMENTS. This Agreement shall be effective on the Distribution Date. Immediately prior to the close of business on the Distribution Date Tenneco shall cause all Prior Intercompany Tax Allocation Agreements to be terminated with respect to Packaging Company and its Affiliates. Upon such termination, no further payments by or to Tenneco or by or to Packaging Company, with respect to such agreements shall be made, and all other rights and obligations resulting from such agreements between the Companies and their Affiliates shall cease at such time.

SECTION 11. NO INCONSISTENT ACTIONS. Each of the Companies covenants and

agrees that it will not take any action, and it will cause its Affiliates to refrain from taking any action, which is inconsistent with the Tax treatment of the Transactions as contemplated in the Ruling Request (any such action is referred to in this Section 11 as a "Prohibited Action"), unless such Prohibited Action is required by law, or the person acting has obtained the prior written consent of each of the other parties (which consent shall not be unreasonably withheld). With respect to any Prohibited Action proposed by a Company (the "Requesting Party"), the other party (the "Requested Party") shall grant its consent to such Prohibited Action if the Requesting Party obtains a ruling with respect to the Prohibited Action from the Internal Revenue Service or other applicable Tax Authority that is reasonably satisfactory to each of the Requested Party (except that the Requesting Party shall not submit any such ruling request if a Requested Party determines in good faith that filing such request might have a materially adverse effect upon such Requested Party). Without limiting the foregoing:

(a) No Inconsistent Plan or Intent. Packaging Company and Tenneco each represent and warrant that neither it nor any of its Affiliates has any plan or intent to take any action which is inconsistent with any factual statements or representations in the Ruling Request. Regardless of any change in circumstances, Packaging Company and Tenneco each covenant and agree that it will not take, and it will cause its Affiliates to refrain from taking, any such inconsistent action on or before the last day of the calendar year ending after the second anniversary of the Distribution Date, other than as permitted in this Section 11.

-28-

29

(b) 355(e) Covenant. Without in any manner limiting paragraph (a) above, each of Packaging Company and Tenneco covenants and agrees that it will not enter into any negotiations, agreement or arrangements with respect to transactions or events (including stock issuances, option grants, capital contributions or acquisitions, but not including the Transactions), which may cause the Distribution to be treated as part of a plan pursuant to which one or more persons acquire directly or indirectly Packaging Company or Tenneco stock, as the case may be, representing a "50-percent or greater interest" within the meaning of Section 355(d) (4) of the Code.

(c) Amended or Supplemental Rulings. Each of the Companies covenants and agrees that it will not file, and it will cause its Affiliates to refrain from filing, any amendment or supplement to the Ruling Request subsequent to the Distribution Date without the consent of the other Company, which consent shall not be unreasonably withheld or delayed.

SECTION 12. SURVIVAL OF OBLIGATIONS. The representations, warranties, covenants and agreements set forth in this Agreement shall be unconditional and absolute and shall remain in effect without limitation as to time.

SECTION 13. EMPLOYEE MATTERS. Each of the Companies agrees to utilize, or cause its Affiliates to utilize, the alternative procedure set forth in respect to wage reporting set forth in Revenue Procedure 96-60, 1996-2 C.B. 399, with respect to wage reporting.

SECTION 14. TREATMENT OF PAYMENTS; TAX GROSS UP.

14.01 Treatment of Tax Indemnity and Tax Benefit Payments. In the absence of any change in tax treatment under the Code or other applicable Tax Law,

(a) any Tax indemnity payments made by a Company under Section 5 shall be reported for Tax purposes by the payor and the recipient as distributions or capital contributions, as appropriate, occurring immediately before the distribution of all of the outstanding stock of Packaging Company to Tenneco shareholders on the Distribution Date, and

(b) any Tax Benefit payments made by a Company under Section 6, shall be reported for Tax purposes by the payor and the recipient as distributions or capital contributions, as appropriate, occurring immediately before the distribution of all of the outstanding stock of Packaging Company to Tenneco shareholders on the Distribution Date.

14.02 Tax Gross Up. If notwithstanding the manner in which Tax indemnity payments and Tax Benefit payments were reported, there is an adjustment to the Tax liability of a Company as a result of its receipt of a payment pursuant to this Agreement, such payment shall be appropriately adjusted so that the amount of such payment, reduced by the amount of all Income Taxes payable with respect to the receipt thereof (but taking into account all correlative Tax Benefits resulting from the payment of such Income Taxes), shall equal the amount of the

-29-

30

payment which the Company receiving such payment would otherwise be entitled to receive pursuant to this Agreement.

14.03 Interest Under This Agreement. Anything herein to the contrary notwithstanding, to the extent one Company ("indemnitor") makes a payment of interest to another Company ("indemnitee") under this Agreement with respect to the period from the date that the indemnitee made a payment of Tax to a Tax Authority to the date that the indemnitor reimbursed the indemnitee for

such Tax payment, or with respect to the period from the date that the indemnitor received a Tax Benefit to the date indemnitor paid the Tax Benefit to the indemnitee, the interest payment shall be treated as interest expense to the indemnitor (deductible to the extent provided by law) and as interest income by the indemnitee (includible in income to the extent provided by law). The amount of the payment shall not be adjusted under Section 14.02 to take into account any associated Tax Benefit to the indemnitor or increase in Tax to the indemnitee.

SECTION 15. DISAGREEMENTS. If after good faith negotiations the parties cannot agree on the application of this Agreement to any matter, then the matter will be referred to a nationally recognized accounting firm acceptable to each of the parties (the "Accounting Firm"). The Accounting Firm shall furnish written notice to the parties of its resolution of any such disagreement as soon as practical, but in any event no later than 45 days after its acceptance of the matter for resolution. Any such resolution by the Accounting Firm will be conclusive and binding on all parties to this Agreement. In accordance with Section 17, each party shall pay its own fees and expenses (including the fees and expenses of its representatives) incurred in connection with the referral of the matter to the Accounting Firm. All fees and expenses of the Accounting Firm in connection with such referral shall be shared equally by the parties affected by the matter.

SECTION 16. LATE PAYMENTS. Any amount owed by one party to another party under this Agreement which is not paid when due shall bear interest at the Prime Rate plus two percent, compounded semiannually, from the due date of the payment to the date paid. To the extent interest required to be paid under this Section 16 duplicates interest required to be paid under any other provision of this Agreement, interest shall be computed at the higher of the interest rate provided under this Section 16 or the interest rate provided under such other provision.

SECTION 17. EXPENSES. Except as provided in Section 15, each party and its Affiliates shall bear their own expenses incurred in connection with preparation of Tax Returns, Tax Contests, and other matters related to Taxes under the provisions of this Agreement.

SECTION 18. SPECIAL RULES FOR DETERMINING MEMBERS OF GROUPS. For purposes of this Agreement, the following special rules shall apply for determining the members of the Packaging Group:

(a) Former Affiliates of Packaging Group. The Packaging Group shall be deemed to include any corporation which (1) was a member of the affiliated group (as defined in Code Section 1504(a), but treating all corporations as "includable corporations" for purposes of

such Code Section) of which Tenneco is (or Old Tenneco was) the common parent, (2) was included in the "packaging," "specialty packaging" or "paperboard packaging" segments for purposes of segment reporting in Tenneco's (or Old Tenneco's) Annual Reports on Form 10-K and (3) was sold, transferred, otherwise disposed of, or discontinued prior to the date hereof. Any entity substantially all of the assets and liabilities of which have been transferred to a member of the Packaging Group (e.g., by a statutory merger) shall be treated as a member of the Packaging Group. For example, Tenneco Packaging Specialty and Consumer Products Inc., a Delaware corporation, shall, by virtue of its liquidation into Tenneco Packaging Inc., be treated as a member of the Packaging Group. Similarly, Tenneco United Kingdom Holdings Limited shall be treated as a member of the Packaging Group.

SECTION 19. GENERAL PROVISIONS

19.01 Addresses and Notices. Any notice, demand, request or report required or permitted to be given or made to any party under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class mail or by other commercially reasonable means of written communication (including delivery by an internationally recognized courier service or by facsimile transmission) to the party at the party's address as follows:

If to Tenneco:

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With a copy to:

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If to Packaging Company

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With a copy to:

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A party may change the address for receiving notices under this Agreement by providing written notice of the change of address to the other parties.

19.02 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

19.03 Waiver. No failure by any party to insist upon the strict performance of any obligation under this Agreement or to exercise any right or remedy under this Agreement shall constitute waiver of any such obligation, right, or remedy or any other obligation, rights, or remedies under this Agreement.

19.04 Invalidity of Provisions. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not be affected thereby.

19.05 Further Action. The parties shall execute and deliver all documents, provide all information, and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement, including the execution and delivery to the other parties and their Affiliates and representatives of such powers of attorney or other authorizing documentation as is reasonably necessary or appropriate in connection with Tax Contests (or portions thereof) under the control of such other parties in accordance with Section 9.

19.06 Integration. This Agreement constitutes the entire agreement among the parties pertaining to the subject matter of this Agreement and supersedes all prior agreements and understandings pertaining thereto. In the event of any inconsistency between this Agreement and the Distribution Agreement or any other agreements relating to the transactions contemplated by the Distribution Agreement, the provisions of this Agreement shall control.

19.07 Construction. The language in all parts of this Agreement shall in all cases be construed according to its fair meaning and shall not be strictly construed for or against any party.

19.08 No Double Recovery; Subrogation. No provision of this Agreement shall be construed to provide an indemnity or other recovery for any Taxes costs, damages, or other amounts (including Tax Benefits) for which the damaged party has been fully compensated under any other provision of this

Agreement or under any other agreement or action at law or equity. Unless expressly required in this Agreement, a party shall not be required to exhaust all remedies available under other agreements or at law or equity before recovering under the remedies provided in this Agreement. Subject to any limitations provided in this Agreement (for example, the limitation on filing claims for refund in Section 4.07), the indemnifying party shall be subrogated to all rights of the indemnified party for recovery from any third party.

-32-

33

19.09 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

19.10 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts executed in and to be performed in that State.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by the respective officers as of the date set forth above.

TENNECO INC.

By:

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Its:

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By:

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Its:

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Document Number : 276833  
Document Name : Tax Sharing Agreement  
Version : 17





FORM OF  
TRADEMARK TRANSITION LICENSE AGREEMENT

THIS TRADEMARK TRANSITION LICENSE AGREEMENT (this "Trademark Transition License Agreement") is made and entered into as of \_\_\_\_\_, 1999, (the "Effective Date") by and between Tenneco Inc., a Delaware company to be renamed Tenneco Automotive Inc., a corporation organized and existing under the laws of the State of Delaware, whose principal place of business is located at 500 North Field Drive, Lake Forest, IL 60045 ("Licensor"), and Tenneco Packaging Inc. (to be renamed), a corporation organized under the laws of the State of Delaware, whose principal place of business is located at 1900 West Field Court, Lake Forest, IL 60045 ("Licensee").

WHEREAS, Pursuant to the terms of that certain Distribution Agreement dated \_\_\_\_\_, 1999, (the "DISTRIBUTION AGREEMENT"), Licensee and Licensor have agreed to cause this Trademark Transition License Agreement to be entered into regarding the use of certain trademarks by Licensee.

WHEREAS, Licensor has adopted and is using the name and mark "Tenneco", alone and in combination with other terms and/or symbols and variations thereof, in the United States and elsewhere throughout the world and is the owner of the U.S. Trademark Applications and the U.S. Trademark Registrations, listed on Exhibit A of this Agreement, from the United States Patent and Trademark Office, as well as their foreign counterparts, and other foreign trademarks listed on Exhibit A (hereinafter individually and collectively referred to as the "Trademark"); and

WHEREAS, Licensee previously has used the Trademark and is desirous of continuing to use said Trademark with respect to the goods and services listed on Exhibit B, to assist Licensee during its transition to a new identity and for the limited purposes more fully described below;

NOW, THEREFORE, in consideration of the foregoing Recitals which are hereby incorporated into the operative terms hereof, the mutual promises contained in this Agreement and good and valuable consideration from the Licensee to the Licensor, the receipt and sufficiency of which is hereby acknowledged by said Licensor, the parties hereby agree as follows:

1. LICENSE. Licensor grants to Licensee and its Subsidiaries (as such term is defined in the Distribution Agreement), the limited, non-exclusive right to use the Trademark under the common law and under the auspices and privileges provided by any of the registrations covering the same during the term of this Agreement, and Licensee hereby undertakes to use the Trademark as follows:

a. For a period of sixty (60) days following the Effective Date of this Agreement, Licensee and its Subsidiaries may continue to use the Trademark in their corporate names. After sixty (60) days following the Effective Date of this Agreement, or as soon thereafter as reasonably practical in non-U.S. jurisdictions, Licensee shall change or cause to be changed, if necessary, such corporate names to delete the Trademark or any other word that is confusingly similar to the Trademark.

b. For a period of nine (9) months following the Effective Date of this Agreement, Licensee and its Subsidiaries shall be entitled to use their supplies and documents which have imprinted thereon the Trademark to the extent that such supplies and documents were existing inventory prior to the Effective Date of this Agreement. Licensee shall not print or permit to be printed any new supplies or documents bearing the Trademark from and after the Effective Date of this Agreement.

c. For a period of eighteen (18) months from the Effective Date of this Agreement, Licensee and its Subsidiaries may use the Trademark on signs, displays or other identifications or advertising material (other than supplies or documents, which shall be governed by paragraph b above), in each case to the extent existing as of the date hereof. Licensee shall not, and shall not permit its Subsidiaries to, prepare or install any new signs, displays or other identifications or advertising material bearing the Trademark. Licensee shall remove or cause to be removed any and all references to the Trademark from any and all signs, displays or other identifications or advertising material by the end of the eighteen (18) month period.

2. QUALITY OF SERVICES. Licensee agrees to maintain and cause its Subsidiaries to maintain such quality standards as shall be prescribed by Licensor in the conduct of the business operations with which the Trademark is used. Licensee shall, and shall cause its Subsidiaries to, use the Trademark only with goods and services listed in Exhibit B rendered by Licensee and/or its Subsidiaries in accordance with the terms of this Agreement and with the guidance and directions furnished to the Licensee by the Licensor, or its authorized representatives or agents, from time to time, if any; but always the quality of the goods and services shall be satisfactory to the Licensor or as specified by it.

3. INSPECTION. Licensee will permit duly authorized representatives of the Licensor to inspect the premises of Licensee and/or its Subsidiaries using the Trademarks at all reasonable times, for the purpose of ascertaining or determining compliance with Paragraphs 1 and 2 hereof.

4. USE OF TRADEMARK. When using the Trademark under this Agreement, Licensee undertakes to, and shall cause its Subsidiaries to, comply with all laws pertaining to the Trademark. This provision includes compliance with

marking requirements. Licensee represents and warrants that all goods and services to be sold under the Trademark and the marketing, sales, and distribution of them shall meet or exceed all federal, state, local and foreign laws, ordinances, standards, regulations, and guidelines pertaining to such products or activities, including, but not limited to those pertaining to product safety, quality, labeling and propriety. Licensee agrees that it will not package, market, sell, or distribute any goods or services or cause or permit any goods or services to be

-2-

3

packaged, marketed, sold or distributed in violation of any such federal, state, local or foreign law, ordinance, standard, regulation or guideline.

5. EXTENT OF LICENSE. The license granted herein is for the sole purpose of assisting Licensee in its transition to a new identity and is not assignable or transferable in any manner whatsoever. Licensee has no right to grant any sublicenses or to use the Trademark for any other purpose.

6. INDEMNITY. Licensee acknowledges that neither it nor its Subsidiaries will have any claims against Licensor hereunder for any damage to property or injury to persons arising out of the operation of their business. Licensee agrees to indemnify, hold harmless, and defend Licensor and its Subsidiaries, affiliates and authorized representatives with legal counsel acceptable to Licensor from and against any and all demands, claims, injuries, losses, damages, actions, suits, causes of action, proceedings, judgments, liabilities and expenses, including attorneys' fees, court costs and other legal expenses, arising out of or connected with:

a. the use of the Trademark by Licensee or any of its Subsidiaries or affiliates; or

b. any breach by Licensee or any of its Subsidiaries of any provision of this Agreement or of any warranty made by Licensee in this Agreement.

No approval by Licensor of any action by Licensee or any of its Subsidiaries or affiliates shall affect any right of Licensor to indemnification hereunder.

7. TERMINATION. Except as otherwise provided herein, this Agreement shall remain in full force and effect for the periods stated in Paragraph 1 above. However, Licensor retains the right to immediately terminate this Agreement in the event of a material breach of any term of this Agreement by Licensee or any of its Subsidiaries, upon written notice to the Licensee.

8. OWNERSHIP OF TRADEMARK. The Licensee acknowledges Licensor's exclusive right, title and interest in and to the Trademark and will not at any time do or cause or permit to be done any act or thing contesting or in any way impairing or tending to impair any part or all of such right, title and

interest. In connection with the use of the Trademark, Licensee and each of its Subsidiaries shall not in any manner represent that it has any ownership in the Trademark or registrations thereof, and acknowledges that use of the Trademark shall inure to the benefit of the Licensor. On termination of this Agreement or any portion hereof in any manner provided herein, the Licensee will destroy or cause to be destroyed all signs, displays or other identifications or advertising material, supplies and documents, and any other materials bearing the Trademark and will certify to Licensor in writing that it has done so. Furthermore, Licensee and each of its Subsidiaries will not at any time adopt or use without the Licensor's prior written consent, any word or mark which is likely to be similar to or confusing with the Trademark.

-3-

4

9. INFRINGEMENT OF TRADEMARK. If Licensee or any of its Subsidiaries learns of any actual or threatened infringement of the Trademark or of the existence, use, or promotion of any mark or design similar to the Trademark, Licensee shall promptly notify Licensor. Licensor has the right to decide at its sole discretion what legal proceedings or other action, if any, shall be taken, by who, how such proceedings or other action shall be conducted, and in whose name such proceedings or other action shall be performed. Any legal proceedings instituted pursuant to this Section shall be for the sole benefit of Licensor and all sums recovered in such proceedings whether by judgment, settlement, or otherwise, shall be retained solely and exclusively by Licensor.

10. INJUNCTIVE RELIEF. Licensee acknowledges that any breach or threatened breach of any of Licensee's covenants in this Agreement relating to the Trademark, including, without limitation, Licensee's and/or any of its Subsidiaries' failure to cease the manufacture, sale, marketing, or distribution of the goods bearing the Trademark at the termination or expiration of this Agreement will result in immediate and irreparable damage to Licensor and to the rights of any subsequent licensee of them. Licensee acknowledges and admits that there is no adequate remedy at law for failure to cease such activities, and Licensee agrees that in the event of such breach or threatened breach, Licensor shall be entitled to temporary and permanent injunctive relief and such other relief as any court with jurisdiction may deem just and proper.

11. SEVERABILITY. If any provision of this Agreement shall be determined to be illegal and unenforceable by any court of law or any competent government or other authority, the remaining provisions shall be severable and enforceable in accordance with their terms so as this Agreement without such terms or provisions does not fail of its essential purpose or purposes. The parties will negotiate in good faith to replace any such illegal or unenforceable provision or provisions with suitable substitute provisions which maintain the economic purposes and intentions of this Agreement.

12. NOTICE. Any notices required or permitted to be given under this Agreement shall be deemed sufficiently given if mailed by registered mail,

postage prepaid, addressed to the party to be notified at its address shown above (followed by facsimile) or at such other address as may be furnished in writing to the notifying party.

13. MISCELLANEOUS.

a. CAPTIONS. The captions for each Section have been inserted for the sake of convenience and shall not be deemed to be binding upon the parties for the purpose of interpretation of this Agreement.

b. INTERPRETATION. The parties agree that each party and its counsel has reviewed this Agreement and the normal rule of construction that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

-4-

5

c. WAIVER. The failure of Licensor to insist in any one or more instance upon the performance of any term, obligation, or condition of this Agreement by Licensee or any of its Subsidiaries or to exercise any right or privilege herein conferred upon Licensor shall not be construed as thereafter waiving such term, obligation, or condition, or relinquishing such right or privilege, and the acknowledged waiver or relinquishment by Licensor of any default or right shall not constitute waiver of any other default or right. No waiver shall be deemed to have been made unless expressed in writing.

d. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Agreement, and Licensee shall use its best efforts to cause the transition of all existing materials, including signs and displays, bearing the Trademark to a new name and mark.

e. RIGHTS CUMULATIVE. Except as expressly provided in this Agreement, and to the extent permitted by law, any remedies described in this Agreement are cumulative and not alternative to any other remedies available at law or in equity.

f. GOVERNING LAW. ALL QUESTIONS OR DISPUTES CONCERNING THE CONSTRUCTION, VALIDITY AND INTERPRETATION OF THIS AGREEMENT AND THE SCHEDULES AND EXHIBITS HERETO SHALL BE GOVERNED BY THE INTERNAL LAWS, AND NOT THE LAW OF CONFLICTS, OF THE STATE OF DELAWARE. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY AND UNCONDITIONALLY (i) AGREES TO BE SUBJECT TO, AND HEREBY CONSENTS AND SUBMITS TO, THE JURISDICTION OF THE COURTS OF THE STATE OF DELAWARE AND OF THE FEDERAL COURTS SITTING IN THE STATE OF DELAWARE, (ii) TO THE EXTENT SUCH PARTY IS NOT OTHERWISE SUBJECT TO SERVICE OF PROCESS IN THE STATE OF DELAWARE, HEREBY APPOINTS THE CORPORATION TRUST COMPANY, AS SUCH PARTY'S AGENT IN THE STATE OF DELAWARE FOR ACCEPTANCE OF LEGAL PROCESS AND (iii) AGREES THAT SERVICE MADE ON ANY SUCH AGENT SET FORTH IN (ii) ABOVE SHALL HAVE THE SAME LEGAL

FORCE AND EFFECT AS IF SERVED UPON SUCH PARTY PERSONALLY WITHIN THE STATE OF DELAWARE.

Attest:

LICENSOR

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By:

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Attest:

LICENSEE

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By:

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-5-

6

EXHIBIT "A"

TRADEMARK

REGISTRATION  
NO.

EXPIRATION  
DATE

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TRADEMARK

APPLICATION  
NO.

APPLICATION  
NO.

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-6-

7

EXHIBIT "B"





FORM OF  
TENNECO PACKAGING INC.  
EXECUTIVE INCENTIVE COMPENSATION PLAN  
(the "Plan")

Section 1. Establishment and Purpose

1.1 Establishment of the Plan. Tenneco Packaging Inc. (the "Company") hereby establishes the Plan effective upon the distribution of the Company's stock to the shareholders of Tenneco Inc.

1.2 Purpose. The objectives of the Plan are to:

(a) Reinforce a results-oriented management culture with executive pay that varies according to overall Corporate and individual performance against aggressive business goals and core behavioral standards.

(b) Provide incentives, in the form of substantial reward potential, for Executives to remain employees of the Company.

(c) Focus on business results that include financial measures such as return on capital employed, net income, cash flow, working capital, and earnings per share, with improvement in customer satisfaction, quality, safety, environmental, effective leadership and workforce diversity.

(d) Place greater emphasis on variable performance-based (versus fixed) compensation.

(e) Provide key Executives with competitive levels of total current compensation and incentive earning opportunities commensurate with the business results achieved and individual performance.

(f) Provide a plan that is easy to describe and understand.

Section 2. Plan Definitions

(a) "Company" includes any successor employer which adopts the Plan and any subsidiary corporation designated by the Compensation / Nominating / Governance Committee of the Board of Directors of the Company (the "Committee") as eligible to participate in the Plan; except that when used with reference to authority under the Plan, Company shall mean Company as defined in Section 1.1 hereof.

(b) "Corporate" means the entity which is responsible for the

overall management and staff support functions of the Company.

(c) "Division" means each operating organizational entity which, through the conduct of its business, produces revenues for the Company.

-1-

2

(d) "Executive" means a regular, full-time salaried employee of the Company who is in a position meeting the defined eligibility criteria for participation in the Plan.

(e) "Participant" means an Executive who has been approved for participation in the Plan.

(f) "Plan Year" means the calendar year.

(g) "Salary Grade" means the position classification assigned to the Participant in accordance with the position evaluation system adopted by Company Management for Plan purposes.

(h) "EICP Objectives" means the "Target" (Budget) level of financial objectives (e.g., net income, cash flow, and earnings per share) or other operating measurements for the Plan Year, assigned annually by the Company to each Division. This represents the expected level of achievement for the Plan Year. The target goal (budget) for Corporate will be the Company's consolidated operating measurements.

(i) "Individual Incentive Target Award" means the anticipated individual incentive award to be allocated to a Participant in the event EICP Objectives are met and his/her individual performance is fully satisfactory. The schedule of individual incentive target awards applicable to the various Salary Grades shall be determined by the Company.

### Section 3. Eligibility and Participation

3.1 Eligibility and Participation. Eligibility for participation in the Plan will be limited to those key Executives who, by the nature and scope of their positions, regularly and directly make or influence policy decisions which significantly impact the overall results and success of the Company. The Company will receive recommendations for participation from Division Heads and appropriate Corporate Staff Officers. Each such nominated Executive shall become a Participant upon being approved by the Company. All such Executives approved for participation shall be notified of their selection as soon as practical following approval.

3.2 Cessation of Participation. The Company may withdraw its approval of an existing position at any time during the Plan Year. Participants whose employment is terminated during the Plan Year for reasons other than disability, death, or normal retirement under a Company retirement plan shall forfeit participation in the Plan unless otherwise authorized by the Company. At the sole discretion of the Company, participation may be prorated for Participants who become disabled, die, normal retire or are assigned to non-eligible position during the Plan Year.

-2-

3

#### Section 4. Fund Generation

4.1 Incentive Amounts. Annually, the Company shall establish EICP Objectives (Target/Budget). In addition, the Company shall determine for a target incentive amount equal to the sum of individual incentive targets. The Company may adjust the target incentive amount during the Plan Year to accommodate the admission or elimination of Participants to the Plan and to incorporate adjustments to individual incentive targets of Participants whose Salary Grade changes during the Plan Year. Incentive funds will be determined based on the budgeted financial objectives (e.g., net income, cash flow, and earnings per share) with each weighted to reflect appropriate emphasis.

The size of the incentive fund will be determined as follows:

##### FINANCIAL OBJECTIVES

A preliminary fund will be established based on performance against financial objectives from the Annual Operating Plan ("AOP") which will be approved annually by the Company's Board of Directors. The preliminary fund can range from 0% to 200% of the sum of the individual target awards based on the Company's performance against its AOP.

- Performance on AOP will generate a fund equal to the sum of individual target awards.
- Performance below AOP will result in a lower incentive fund as determined by Company Management and approved by the Board of Directors taking into consideration the reasons that AOP was not attained.
- Performance above AOP may result in a higher than target level fund as determined by Company Management and approved by the Board of Directors taking into consideration the reasons that AOP was exceeded.

The preliminary fund can be adjusted, upward or downward, based on the

recommendation of Company Management and approved by the Board of Directors taking into account unusual events.

#### NON-FINANCIAL OBJECTIVES

##### Quantitative Adjustments

Once the preliminary fund is established, the following quantitative adjustment factors will be applied to determine a final incentive fund:

	Factor -----	Maximum -----
-	Return on Capital Employed	10%
-	Working Capital Measures	5%
-	Environmental Measures	5%
-	Safety & Health Measures	5%

Each of these quantitative adjustment factors will be applied for a total increase (decrease) to the fund of as much as 25%.

-3-

4

##### Qualitative Adjustments

The following qualitative adjustment factors for overall leadership will also be applied.

- Innovation
- Customer Satisfaction / Quality
- Leadership of Change
- Workforce Diversity
- Operational Considerations (Quality of Earnings)

These qualitative factors will be applied to a maximum of 2%, for a total increase/decrease to the fund as much as 10%.

4.2 Committee Authority. The Committee shall have the right at any time in its sole discretion to modify, eliminate or withdraw for such period or periods as it may determine, the incentive amounts, in part or in whole, to be made available under this Section 4 for payment of awards to any or all participating Corporate or Division entities or any Participant or Participants hereunder.

#### Section 5. Determination of Individual Awards

5.1 Determination of Individual Incentive Target Awards. Annually, the Committee shall determine the Salary Grade applicable to the Chief Executive Officer of the Company, and the Company shall determine the Salary Grade applicable to all other Participants. Each Participant's Individual Incentive Target Award will be determined by the Company.

5.2 Determination of Individual Incentive Awards. Actual individual awards to be paid to Participants will vary above or below the assigned Individual Incentive Target Awards dependent upon each individual's performance in accordance with guidelines prescribed by the Company. The actual award to a Participant must be approved by both the Company and the Committee (or only the Committee for awards applicable to the Chief Executive Officer of the Company) and shall not exceed 100% of the Participant's annual base salary without approval of the Committee.

Section 6. Form of Timing of Awards

Payment of Individual Awards. The actual awards to be paid to Participants in accordance with Section 5.2 shall be paid in cash as soon as practical once final operating performance is available.

-4-

5

Section 7. Administration

This Plan shall administered by the Company in accordance with rules that may be established from time to time by the Committee. The determination of the Company as to any disputed question arising under this Plan, including any question of construction or interpretation, shall be final, binding, and conclusive upon all persons.

Section 8. Amendment and Termination

The Committee, in its absolute discretion and without notice, may at any time and from time to time modify or amend, in whole or in part, any or all of the provisions of this Plan, or suspend or terminate it entirely.

Section 9. Applicable Laws

This Plan shall be construed, administered and governed in all respects under the laws of the State of Illinois.



FORM OF  
TENNECO PACKAGING INC.  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
(The "Plan")

PURPOSE

The Plan is maintained by Tenneco Packaging Inc. (the "Company") as an unfunded plan for the purpose of providing retirement benefits with respect to certain employees that are equal to retirement benefits lost under its qualified defined benefit pension plan for salaried employees (the "Retirement Plan") as a result of the imposition of the limitations contained in the Internal Revenue Code of 1986, as amended (the "Code"). The portion of the Plan that provides for benefits limited by Code Section 415 is maintained as an "excess benefit plan" as described in Section 3(36) of the Employee Retirement Income Security Act of 1974 as amended ("ERISA"). The other benefits provided for under the Plan are only available to a "select group of management or highly compensated employees" as determined by the Compensation / Nominating / Governance Committee of the Board of Directors of the Company (the "Committee"), and the portion of the Plan providing such benefits is intended to satisfy the ERISA exemption requirements for a plan limited to such a group. Capitalized terms not defined herein shall have the meaning ascribed to such terms in the Retirement Plan.

THE PLAN

1. Effective Date

The Plan as set forth herein is an amendment and restatement of the Tenneco Inc. Supplemental Executive Retirement Plan (the "Former Plan") as provided in the Human Resources Agreement (the "HR Agreement") between the Company and Tenneco Inc. and is effective on the date on which the Company's stock is distributed to the shareholders of Tenneco Inc. (the "Distribution Date"). The benefit entitlement, if any, under the Former Plan of any person who separated from service prior to that date shall be governed by the provisions of the Former Plan as it was in effect from time to time prior to that date, and liability for such benefit has been allocated under the HR Agreement.

2. Eligibility

An employee shall be a "Participant" in this Plan if the employee is a participant in the Retirement Plan or is provided a benefit under Section 11 hereof.

Participation by active and former employees of the Automotive Group

(as that term is defined in the Distribution Agreement between and among Tenneco Inc. and the Company) shall cease as of the close of business on the Distribution Date and all liability for benefits accrued under the Plan by such employees shall be retained and assumed by Tenneco Inc.

2

3. Amount of Benefit

The benefit payable under this Plan to a Participant, or to the Participant's Eligible Spouse, Eligible Child(ren), joint annuitant or other beneficiary(ies), all as determined under the provisions of the Retirement Plan, shall equal the excess, if any, of (a) over (b) where:

(a) is the benefit that would be paid under the Retirement Plan if the provisions of the Retirement Plan were administered without regard to the limitations imposed by the Code and, only with respect to Participants who, at any time, were participants in the Company's Executive Incentive Compensation Plan or the Tenneco Inc. Executive Incentive Compensation Plan (collectively, the "EICP"), if Final Average Compensation, as computed under the Retirement Plan, were determined on the basis of compensation paid during the three calendar years (of the five calendar year period ending no later than the calendar year immediately preceding his or her termination or retirement) for which such compensation is the highest, and increased by the quotient of (i) the total of the cash bonuses, as defined below, paid to the Participant in the three calendar years (during the same five calendar year period ending no later than the calendar year immediately preceding his or her termination or retirement) for which such total is the highest, divided by (ii) three or such lesser number of calendar years (included in such period) in which such bonuses were paid to the Participant; provided, that the calendar year including his or her termination or retirement shall be included if such event follows the payment of regular bonuses for that year; and provided, that bonuses and salary, respectively, deferred at the election of the Participant shall be counted only in the year that they would have been paid absent such election, and provided further, that the foregoing language shall be applied to count bonuses which relate to a calendar year as paid in that year, for example, 2000 bonuses will be counted in 2000 notwithstanding the fact that they are actually paid in 2001; and

(b) is the benefit that is payable under the Retirement Plan.

Notwithstanding the foregoing, if, except as otherwise provided in writing, an employee is granted credit for purposes of benefit accrual under the



Retirement Plan for service rendered prior to the time that the employee became a participant in the Retirement Plan, such employee shall be credited with such service under this Plan only if and to the extent determined by the Committee. Unless otherwise provided in writing, no benefit shall be payable under the Plan unless a benefit also is payable under the Retirement Plan, except that benefits accrued hereunder as of the effective date are treated as fully vested and nonforfeitable to the extent provided in the HR Agreement.

Cash bonus means only cash bonuses paid under the EICP and other cash bonuses as the Committee determines.

#### 4. Form of Benefit

Any benefit under this Plan shall be paid in the same form and manner as the benefit payments made to, or with respect to, the Participant under the TRP. Notwithstanding the preceding sentence, no benefit is payable hereunder prior to 60 days after the Participant has

-2-

3

separated from service, unless the Committee so determines. Prior to the commencement of benefits but, in no event later than 24 months after the Participant has separated from service, and only with respect to a Participant who at any time was a participant in the EICP (or a beneficiary of such a Participant), such Participant or beneficiary may elect, but only with the approval of the Committee, to receive payment of such benefit in the form of a lump sum or annuity, provided that in cases where a Participant has chosen a lump sum and the exact amount of a Participant's benefit cannot be determined by the date elected for payment, a preliminary lump sum shall be paid with respect to amounts that can be clearly ascertained then, with the remainder to be issued in a subsequent lump sum when that amount is exactly determined by the Committee or its delegee. In addition, with respect to all Plan Participants, if the benefit payable from this Plan (expressed as an age 65 life annuity) would be less than \$50 per month, the benefit payable from this Plan automatically shall be paid as a lump sum.

The actuarial factors set forth in the Retirement Plan shall be used to compute benefits hereunder, provided that, for purposes of any lump sum payment that may be payable under the Plan, the interest rate used shall be the annual rate of interest on 30-year Treasury securities as specified by the IRS for the second calendar month preceding the first day of the Plan Year during which the annuity starting date occurs, and the applicable mortality table described in Rev. Rul. 95-6, 1995-1 C.B. (page 80), or in such other formal guidance as may be issued from time to time by the IRS.

5. Unfunded Plan

This Plan shall be maintained as an unfunded non-qualified deferred compensation plan. All benefits under this Plan shall be payable from the general assets of the Company. No person shall be entitled to receive any benefits under this Plan from the funds of the Retirement Plan.

6. No Assignment

No benefit under this Plan shall be assignable or alienable or subjected, by attachment or otherwise, to the claims of creditors of any person.

7. No Guarantee of Employment

This Plan shall not be construed to give any Participant the right to be retained in the employment of the Company or any of its affiliates.

8. Operation and Administration

This Plan shall be operated under the direction of and administered by the Committee.

The Committee's decision in all matters involving the interpretation and application of this Plan shall be final and binding. The Committee shall establish a claims procedure which is consistent with the claims procedure employed under the Retirement Plan.

-3-

4

9. Governing Law

To the extent not preempted by federal law, this Plan shall be construed, administered and enforced in accordance with the laws of the State of Illinois.

10. Amendment and Discontinuance

The Company reserves the right, by action of the Committee, to amend or discontinue the Plan. However, no such amendment or discontinuance shall impair or adversely affect any benefits accrued under this Plan as of the date of such action.

11. Special Appendix

The Company may from time to time determine to provide certain persons additional supplemental pension benefits, which may be reflected in a Special Appendix hereto or in such other document as the Company shall determine. References in a Special Appendix or such other document to the "Plan" are to this Plan.

12. Employees Transferred to Newco

This Section effects the terms of the Human Resources Agreement between and among Tenneco Inc., Tenneco Packaging Inc. ("TPI") and Packaging Corporation of America ("Newco"). Active employees of Tenneco Packaging Inc. ("TPI") who become employees of Newco or one of its subsidiaries and other persons who have vested benefits in the Retirement Plan and become employees of Newco or one of its subsidiaries ("Newco Employees") prior to the earliest of: (i) five years from April 12, 1999; or (ii) the date specified in the notice provided to Tenneco by Newco that such arrangement will terminate (the "Salaried Plan Transition Date") will continue to be covered under the Plan until the earliest of: (i) the Salaried Plan Transition Date; (ii) his or her separation from service with Newco; or (iii) payment of his or her benefits under the Plan pursuant to mutual agreement. Newco Employees will cease participation in future benefit accruals under the Plan as of the date specified in the preceding sentence. Until that date, any service or compensation, if applicable, will be used to determine whether Newco Employees attain eligibility for benefits under the Plan, including eligibility for subsidized early retirement benefits. All benefits accrued by Newco Employees will be fully vested and nonforfeitable on April 12, 1999, and all subsequent benefits accrued until the Salaried Plan Transition Date will be fully vested and nonforfeitable upon accrual. In addition, service with Newco after the Salaried Plan Transition Date will be recognized as service under the Plan for purposes of determining additional retirement benefit accruals beyond those accrued as of the Salaried Plan Transition Date.

Subject to (iii) above, Newco Employees will not be treated as persons who separated from service, unless they actually do separate from service with Newco or an affiliate of Newco, for purposes of entitling them to commence receiving benefits under the Plan.

Any and all enhancements to which a Newco Employee is entitled under Section 11 hereof shall be preserved through the Salaried Plan Transition Date.

5

R. WAMBOLD BENEFITS  
UNDER THE  
COMPANY'S SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("PLAN")

The benefits of Richard L. Wambold ("Wambold") under the Plan will be adjusted as follows:

The annual pension benefits to which Wambold shall be entitled under all the Company's defined benefit plans (qualified and non-qualified) commencing at age 55 or his separation from service, if later, will, at a minimum, be equal to the product of (x) and (y), where (x) is the average of his total base compensation plus bonus for the three calendar years immediately preceding his separation from service and (y) is the total of 25% plus 2.5% for each full year of service with Tenneco Inc. and the Company earned in the period commencing January 1, 1997, for a maximum total of 50%. Notwithstanding the foregoing, the provisions set forth herein shall be applicable only if Wambold completes five years of service with Tenneco Inc. and the Company during the period commencing January 1, 1997.

6

J. FAULKNER BENEFITS  
UNDER THE  
COMPANY'S SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("PLAN")

The benefits of James V. Faulkner, Jr. ("Faulkner") under the Plan will be adjusted as follows:

The monthly pension benefits to which Faulkner shall be entitled under the Plan and herein shall be equal to the normal retirement pension benefits to which Faulkner would be entitled under the Plan if Faulkner had commenced participation in the Tenneco Inc. Retirement Plan ("TRP") on his employment commencement date. If Faulkner reaches age 55 while performing services for Tenneco Inc. or the Company as an officer, he will be eligible for an early retirement benefit under the Plan as though he then met the participation and service requirements of the TRP, with subsidized reduction factors no less favorable than those in effect under the TRP on January 1, 1997. If Faulkner dies before commencing to receive the benefits described

hereunder, his beneficiary will receive a death benefit which is the present value of the benefits he has accrued hereunder as of the date of his death.

If Faulkner remains employed by the Company through December 31, 2002 his benefit hereunder will be determined by counting an additional three years of service and participation and an additional three years of age beyond actual service, participation and age at the time of separation from service. If he resigns or is discharged for cause prior to December 31, 2002, he will be ineligible for the supplemental pension plan enhancement described in this paragraph. In all other circumstances, including without limitation his death, disability or discharge without cause, Faulkner or his beneficiary in the case of death will be eligible for this supplemental pension plan enhancement.

FORM OF  
TENNECO PACKAGING INC. CHANGE IN CONTROL  
SEVERANCE BENEFIT PLAN FOR KEY EXECUTIVES  
(the "Plan")

This Plan is established by Tenneco Packaging Inc. (the "Company") effective on the date on which the stock of the Company is distributed to the shareholders of Tenneco Inc. (the "Effective Date"). The purpose of the Plan is to induce key employees to enter into, or continue their services or employment with, and to steadfastly serve the Company if and when a Change in Control (as defined below) is threatened, despite attendant career uncertainties, by committing the Company to provide severance benefits in the event their employment terminates as a result of a Change in Control.

1. Definitions

- A. "Change in Control" shall mean the first to occur of the following events (but no event other than the following events), except as otherwise provided below:
- (1) any person and any of their affiliates or associates becomes the beneficial owner, directly or indirectly, of securities of the Company representing (a) fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities having general voting rights, and a majority of the Incumbent Board does not approve the acquisition before the acquisition occurs, or (b) forty percent (40%) or more of the combined voting power of the Company's then outstanding securities having general voting rights. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur pursuant to this paragraph (1) solely because the requisite percentage of the combined voting power of the Company's then outstanding securities having general voting rights is acquired by one or more employee benefit plans maintained by one or more Packaging Companies; or
  - (2) members of the Incumbent Board cease to constitute a majority of the Company Board; or
  - (3) the consummation of any plan of merger,

consolidation, share exchange or combination between the Company and any person including becoming a subsidiary of any other person without members of the Incumbent Board, as constituted immediately prior to the merger, consolidation, share exchange or combination constituting a majority of the board of directors of (a) the surviving or successor corporation, or, (b) if the surviving or successor corporation is a majority-owned subsidiary of another corporation or corporations, the ultimate parent company of the surviving or successor corporation; or

- (4) the consummation of any sale, exchange or other disposition of all or substantially all of the Company's assets without members of the

-1-

2

Incumbent Board immediately prior to any sale, exchange or disposition of all or substantially all of the Company's assets constituting a majority of the board of directors of (a) the corporation which holds such assets after such disposition, or, (b) if such corporation is a majority-owned subsidiary of another corporation or corporations, the ultimate parent company of the successor corporation provided, that the Company Board may determine conclusively that any transaction does not constitute a sale, exchange or other disposition of substantially all of the Company's assets; or

- (5) if any person and any of their affiliates and associates, shall elect or have elected, during any period not exceeding 24 months, at least 25% of the members of the Company Board, without the approval of the Incumbent Board and such members are comprised of persons not serving as members of the Company Board immediately prior to the formation of such group or the first solicitation of proxies by such shareholder.

- B. "Company Board" means the Board of Directors of the Company.
- C. "Constructive Termination" will be deemed to have occurred if, following the Change in Control, a Key Executive separates from service with all Packaging Companies after the Packaging

Companies, by action or inaction, and without the Key Executive's express prior written consent:

- (1) diminish in any manner the Key Executive's status, position, duties or responsibilities with Packaging Companies from those in effect immediately prior to the Change in Control; without limiting the foregoing, for purposes of this clause (1) a diminution will be deemed to have occurred if the Key Executive does not maintain the same or greater status, position, duties and responsibilities with the ultimate parent corporation of a controlled group of corporations of which the Company is a member upon consummation of the transaction or transactions constituting the Change in Control;
- (2) reduce the Key Executive's current annual cash compensation from Packaging Companies below the sum of (a) the Key Executive's annual base salary or annual base compensation from the Packaging Companies in effect immediately prior to the Change in Control and (b) the Key Executive's average annual award under the Company's Executive Incentive Compensation Plan (or any successor plan) for the three calendar year periods (or for such shorter period as the Key Executive has been employed by the Company) completed immediately prior to the Change in Control;
- (3) cause a material reduction in (a) the level of aggregate Packaging Companies-paid medical benefit, life insurance and disability plan

-2-

3

coverages; or (b) the aggregate rate of Packaging Companies-paid thrift/savings plan contributions and of Packaging Companies-paid defined benefit retirement plan benefit accrual, from those coverages and rates in effect immediately prior to the Change in Control; or

- (4) effectively require the Key Executive to relocate because of transfer of the Key Executive's place of employment with Packaging Companies; for purposes of the foregoing, a transfer of place of employment shall be deemed to require a Key Executive to



relocate if such transfer (i) is greater than 25 miles and (ii) increases the normal commuting time of such Key Executive by more than 50%.

A Constructive Termination will be deemed to have occurred for all Key Executives if any successor to the Company in a merger, consolidation, purchase or other combination constituting a Change in Control fails to assume, in writing, all of the Company's obligations under the Plan promptly upon consummation of such Change in Control.

In addition, a determination that a Key Executive has been Constructively Terminated for purposes of eligibility for benefits under this Plan shall be based solely on the criteria set forth in this paragraph C and the Key Executive's eligibility or application for, or receipt of, any retirement benefits from any Packaging Company following separation from service shall have no bearing on such determination.

D. "Discharge for Cause" shall be deemed to have occurred only if, following the Change in Control, a Key Executive is discharged by Packaging Companies from employment because:

- (1) the Key Executive has engaged in dishonesty or other serious misconduct in his or her capacity as an employee of Packaging Companies having the effect of materially injuring the reputation or business of Packaging Companies, monetarily or otherwise; or
- (2) the Key Executive has wilfully and continually failed (unless due to incapacity resulting from physical or mental illness) to perform the duties of his or her employment by Packaging Companies after written demand for substantial performance is delivered to the Key Executive by Packaging Companies specifically identifying the manner in which the Key Executive has not substantially performed such duties.

Notwithstanding the foregoing, a Key Executive who, immediately prior to the Change in Control, is a member of Executive Group I shall not be deemed to have been Discharged for Cause under paragraph 1 or 2 above unless a written notice has been delivered to the Key Executive stating that the Packaging Companies

have terminated the Key Executive's employment, which notice shall include a resolution, adopted by at least a three-quarter's vote of the Incumbent Board (after the Key Executive has been provided with reasonable notice and an opportunity, together with counsel, for a hearing before the entire Incumbent Board), finding that the Key Executive has engaged in the conduct set forth in paragraphs (1) or (2) of the preceding sentence.

- E. "Executive Group I" shall consist of each individual who, immediately prior to a Change in Control,
- (1) is an executive officer of the Company listed in the Company's proxy statement most recently filed with the Securities and Exchange Commission and any other officer of the Company of the rank of Vice President or above designated by the Chief Executive Officer of the Company; or
  - (2) is the President (or other principal officer) of any other Packaging Company, if designated by the Chief Executive Officer of the Company, in writing on or before the Change in Control, as a member of Executive Group I.
- F. "Executive Group II" shall consist of each individual
- (1) who is not a member of Executive Group I; and
  - (2) (a) who, immediately prior to the Change in Control, is an active participant in the Company's Executive Incentive Compensation Plan, or (b) who, immediately prior to the Change in Control, is an employee of a Packaging Company who has been designated by the Chief Executive Officer of the Company, in writing on or before the Change in Control, as a member of Executive Group II.
- G. "Incumbent Board" means
- (1) the members of the Company Board on the Effective Date, to the extent that they continue to serve as members of the Company Board; and
  - (2) any individual who becomes a member of the Company Board after the Effective Date, if his or her election or nomination for election as a director is approved by a vote of at least three-quarters of the Incumbent Board.

- H. "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended.
- I. "Key Executive" means an individual who, immediately prior to the Change in Control, is a member of Executive Group I or Executive Group II.

-4-

5

- J. "Packaging Company" or "Packaging Companies" mean the Company and any stock corporation of which a majority of the voting common or capital stock is owned directly or indirectly by the Company.
- K. "Threatened Change in Control" shall mean (i) any publicly disclosed proposal, offer, actual or proposed purchase of stock or other action which, if consummated, would, in the opinion of the Incumbent Board constitute a Change in Control, including the Company entering into an agreement, the consummation of which would result in a Change in Control or (ii) the adoption of a resolution by the Incumbent Board that a Threatened Change in Control has occurred.
- L. "Threatened Change in Control Period" shall mean the period beginning on the date a Threatened Change in Control occurs and ending on the earlier of (1) the date the proposal, offer, actual or proposed purchase of stock or other action is formally withdrawn or the Incumbent Board has determined that the circumstances which constituted the Threatened Change in Control no longer exist; or (2) the date a Change in Control occurs.

For purposes of the foregoing definitions, the terms "associate", "affiliate", "person", and "beneficial owner" shall have the respective meanings set forth in Sections 3(a) and 13(d) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

- 2. Eligibility for Benefits. Any Key Executive who meets the criteria set forth in paragraphs (A) or (B) below shall be entitled to receive the benefits described therein.
  - A. (i) If within two years after a Change in Control, a Key Executive is separated from service as an employee with Packaging Companies because (a) the Key Executive is discharged by the Packaging Companies, provided, such discharge is not Discharge for Cause, or (b) because of

Constructive Termination, and (ii) throughout the period beginning with the Change in Control and ending with such separation from service with Packaging Companies, the Key Executive remains an employee of Packaging Companies, he or she shall be entitled to receive the benefits described in Sections 3 and 6 below; or

- B. If, during the first thirty days following the first anniversary of a Change in Control, a member of Executive Group I on the date of the Change in Control, voluntarily elects to separate from service, he or she shall be entitled to receive the benefits described in Section 3 (A) below.

3. Severance Benefits.

- A. If the Key Executive is a member of Executive Group I immediately prior to the Change in Control -- an amount equal to three times the sum of (a) the Key Executive's annual base salary or other annual base compensation in effect immediately prior to the Change in Control, plus (b) the greater of (i) the average

-5-

6

of the Key Executive's annual awards under the Company's Executive Incentive Compensation Plan, together with any special awards from Packaging Companies, for the last three years of the Key Executive's employment with Packaging Companies or (ii) the Key Executive's targeted annual award under such Plans in effect immediately prior to the Change in Control.

- B. If the Key Executive is a member of Executive Group II immediately prior to the Change in Control -- an amount equal to two times the sum of (a) the Key Executive's annual base salary in effect immediately prior to the Change in Control, plus (b) the greater of (i) the average of the Key Executive's annual awards under the Company's Executive Incentive Compensation Plan, together with any special awards from Packaging Companies, for the last three years of the Key Executive's employment with Packaging Companies or (ii) the Key Executive's targeted annual award under such Plans in effect immediately prior to the Change in Control.
- C. All deferred compensation (and earnings accrued thereon) credited to the account of a Key Executive under any deferred

compensation plan, program or arrangement of Packaging Companies shall be paid to such Key Executive immediately following termination of employment, notwithstanding any provisions of such plan, program or arrangement to the contrary.

- D. An amount, paid in a single lump sum, equal to the sum of (i) any incentive compensation which has been allocated or awarded to such Key Executive for a completed calendar year or other measuring period preceding the Change in Control but has not yet been paid and (ii) a pro rata portion to the date of the Change in Control of the aggregate value of all contingent incentive compensation awards to such Key Executive for the current calendar year or other measuring period under any compensation or incentive plans of the Company, calculated as if 100% of any performance target or goal was achieved and on a basis which would provide such Key Executive with a pro rata portion (based on elapsed time) of the amounts he or she would have been entitled to receive if he or she had continued to be employed by the Company throughout the period contemplated with respect to such calendar year award and if all other conditions for receiving such awards had been met, notwithstanding any provision of any such plan to the contrary.
- E. The Key Executive shall be entitled to be paid in cash the total of the fair market value, determined as of the date of his or her separation from service, of any Restricted Stock, Stock Appreciation Rights, Performance Units, Stock Equivalent Units and Dividend Equivalents which he or she held immediately prior to such separation from service to the extent that he or she would not otherwise receive the value thereof. The terms "Restricted Stock", "Stock Appreciation Rights", "Performance Units", "Stock Equivalent Units" and

-6-

7

"Dividend Equivalents" shall have the meaning ascribed to those terms in the Company's Stock Ownership Plan.

- F. The Key Executive and his or her eligible dependents, if any, shall continue to be covered by the health, life and disability plans applicable to comparably situated active employees as in effect from time to time and subject to the rules thereof for the period described below. For persons entitled to Executive Group I benefits, and their eligible

dependents, the period is three (3) years from his or her separation from service. For persons entitled to Executive Group II benefits, and their eligible dependents, the period is two (2) years from his or her separation from service. This period of coverage will not count against the minimum period of health coverage required by the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), and persons covered by this provision will be afforded their applicable COBRA rights at the end of the health coverage provided herein.

- G. The Company shall provide each Key Executive with reasonable out placement services consistent with past practices of the Company with respect to officers at such level prior to the Change in Control.
- H. If a Key Executive receives other cash severance benefits from Packaging Companies, the amount of severance benefit to which the Key Executive is entitled under Section 3(A) or (B) above shall be considered to be satisfied to the extent of such other cash severance payment.

- 4. Other Benefits. Upon a Change in Control, and without regard to the Key Executive's employment status following such Change in Control, all Stock Options granted under the Company's Stock Ownership Plan or any other similar plan maintained by the Company shall become immediately vested and exercisable for the lesser of 36 months or the remaining life of the option. The term "Stock Options" shall have the meaning ascribed thereto in the Company's Stock Ownership Plan.
- 5. Method of Payment. The Company shall pay, or cause to be paid, the severance benefits under the Plan to the Key Executive in a single cash sum within 30 days following the later of the Key Executive's separation from service as an employee with Packaging Companies and submission of a claim as required by Section 12 of the Plan. Except for withholdings required by law to satisfy local, state, and federal tax withholding requirements, no offset nor any other reduction shall be taken in paying such benefit.
- 6. Gross-Up Payment. If any portion of the payments described herein, and/or any other payments no matter the source of such payments, shall be subject to the tax imposed by Section 4999 of the Internal Revenue Code (the portion of such payments which are subject to the Excise Tax being referred to herein as the "Payments") the Company shall pay to the affected Key Executive, not later than the 30th day following the date the Key Executive becomes subject to the Excise Tax an additional amount (the "Gross-Up Payment"), such that the net amount retained by the Key Executive after deduction of the Excise Tax on such Payments, and all

federal, state and local income and employment tax (assuming the Key Executive is in the highest marginal tax bracket), interest and penalties and Excise Tax on the Gross-Up Payment, shall be equal to the amount which would have been retained by the Key Executive had the payments not been subject to the Excise Tax.

7. Assignment. No Key Executive may assign, transfer, convey, mortgage, hypothecate, or in any way encumber any severance benefit payable under the Plan, nor shall the Key Executive have any right to receive any severance benefit under the Plan except at the time, in the amount and in the manner provided in the Plan, provided that the rights of a Key Executive under the Plan may be enforced by the Key Executive's heirs and legal representatives.

This Plan may and shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes of "the Company" under the provisions of the Plan. As used in the preceding sentence, the term "successor" shall mean any person, firm, corporation, or business entity which at any time, whether by merger, purchase or otherwise, acquires all, or essentially all, of the assets or business of the Company. Notwithstanding such assignments, the Company shall remain, with such successor, jointly and severally liable for all obligations under the Plan, which, except as herein provided, may not be assigned by the Company.

8. Plan Amendment and Termination. The Plan may be terminated or amended at any time by the Board of Directors provided that during a Threatened Change in Control Period, the Plan may not be terminated or amended in any manner that reduces the benefits to a Key Executive or adversely affects the rights of a Key Executive under the Plan. In the event of a Change in Control, no amendment, or termination, made on or after the date of the Change in Control shall apply to any Key Executive until the expiration of two years and thirty-one days from the date of the Change in Control.

9. Funding. The Company shall pay, or cause to be paid, any severance benefit under the Plan out of general assets of Packaging Companies. Nothing contained herein shall preclude the Company from establishing a grantor trust through which assets to satisfy obligations under the Plan may be set aside to provide for benefit payments to Participants. Any assets or property held by the Trust shall be subject to the claims of general creditors of the Company, but only upon the insolvency or bankruptcy of the Company and only to the extent that the assets or property held by the Trust are attributable to contributions made by the Company. No person other than the Company shall, by virtue of the provisions of the Plan, have any interest in such funds.

10. Controlling Law. The Plan shall be interpreted under the laws of the State of Illinois, except to the extent that federal law preempts.

-8-

9

11. Plan Administrator. The Company is the Plan Administrator, and it shall have the authority to control and manage the operation of this Plan with the authority to interpret the Plan.

12. Making a Claim

A. Submission of a Claim. In order to claim a severance benefit under this Plan, a Key Executive need only advise the Plan Administrator in writing that the Key Executive's employment with Packaging Companies has terminated, that the Key Executive claims a severance benefit under the Plan and of the mailing address to which the severance benefit or related correspondence is to be sent.

B. Denial of a Claim. If a Key Executive has made a claim for benefits under this Plan and any portion of the claim is denied, the Plan Administrator will furnish the Key Executive with a written notice stating the specific reasons for the denial, specific reference to pertinent Plan provisions upon which the denial was based, a description of any additional information or material necessary to perfect the claim and an explanation of why such information or material is necessary, and appropriate information concerning steps to take if the Key Executive wishes to submit the claim for review.

The claim will be deemed accepted if the Plan Administrator does not approve the claim and fails to notify the Key Executive within 90 days after receipt of the claim, plus any extension of time for processing the claim, not to exceed 90 additional days, as special circumstances require. To obtain an extension, the Plan Administrator must advise the Key Executive in writing during the initial 90 days if an extension is necessary, stating the special circumstances requiring the extension and the date by which the Key Executive can expect the Plan Administrator's decision regarding the claim.

C. Review Procedure. Within 60 days after the date of written notice denying any benefits, the Key Executive or the Key



Executive's authorized representative may write to the Plan Administrator requesting a review of that decision by the Company Board or the Compensation / Nominating / Governance Committee thereof (the "Committee").

The request for review may contain such issues and comments as the Key Executive wishes to have considered in the review. The Key Executive may also review pertinent documents in the Plan Administrator's possession. The Company Board or the Committee will make a final determination with respect to the claim as soon as practicable. The Plan Administrator will advise the Key Executive of the determination in writing and will set forth the specific reasons for the determination and the specific references to any pertinent Plan provisions upon which the determination is based.

-9-

10

The claim will be deemed accepted on review if the Plan Administrator fails to give the Key Executive written notice of final determination within 60 days after receipt of the request for review, plus any extension of time for completing the review, not to exceed 60 additional days, as special circumstances require. To obtain an extension, the Plan Administrator must advise the Key Executive in writing during the initial 60 days if any extension is necessary, stating the special circumstances requiring the extension and the date by which the Key Executive can expect the Company's decision regarding the review of the claim.

13. Legal Fees and Costs. In the event a Key Executive initiates legal action to enforce his or her right to any benefit under this Plan, the Company shall pay all reasonable legal fees and costs incurred by the Key Executive in connection with such legal action, provided that the Key Executive prevails on any material issue that is a subject of the legal action.
14. Severability. If for any reason any provision or provisions of the Plan are determined invalid or unenforceable, the validity and effect of the other provisions of the Plan shall not be affected thereby.



FORM OF  
TENNECO PACKAGING INC.  
DEFERRED COMPENSATION PLAN  
(the "Plan")

1. PURPOSE

The purpose of the Plan is to provide to directors and a select group of management or highly compensated employees of Tenneco Packaging Inc. and its subsidiaries and affiliates (hereinafter collectively referred to as the "Company") an opportunity to defer compensation received by them from the Company in accordance with the terms and conditions set forth herein. This document amends and restates the Tenneco Inc. Deferred Compensation Plan made as of January 1, 1997 and amends, restates and incorporates the Deferred Compensation Plan for Directors of Tenneco Inc., both as to persons whose deferred compensation accounts are allocated to the Company under the Human Resources Agreement between the Company and Tenneco Inc. (the "Agreement").

2. ADOPTION AND ADMINISTRATION

The Plan shall be administered by the Compensation / Nominating / Governance Committee of the Board of Directors of the Company (the "Committee"). The Committee shall have sole and complete authority and discretion to interpret the terms and provisions of the Plan and to adopt, alter and repeal such administrative rules, regulations and practices governing the operation of the Plan, and to determine facts under the Plan as it shall from time to time deem advisable.

3. ELIGIBILITY

Directors and U.S. paid participants in the Company's Executive Incentive Compensation Plan shall be eligible to participate in the Plan.

Any person who had an account balance in the Tenneco Inc. Deferred Compensation Plan (or the Deferred Compensation Plan for Directors of Tenneco Inc.) as of the date on which the stock of the Company was distributed to the shareholders of Tenneco Inc. and whose account balance was allocated to the Company under the Agreement shall continue to participate in this Plan. Participation by Active and Former Employees of the Automotive Group shall cease as of the close of business on the Distribution Date and all interests in the Plan of (and Plan liabilities with respect to) such employees shall be transferred to the Tenneco Automotive Inc. Deferred Compensation Plan.

Persons eligible to participate in the Plan shall be referred to as

"Participant" or "Participants" as the case may be.

4. ELECTION TO DEFER

- (a) A Participant may elect in writing to defer receipt of all or a specified portion of his or her bonuses or incentive compensation to be received during a calendar year

2

("Deferral Election"); provided, however, that any election by a Participant who is subject to the reporting and short swing profits liability provisions of Section 16 of the Securities and Exchange Act of 1934, as amended, including an election relating to the form of distribution or to defer income into a "Packaging stock index account" pursuant to Section 6 of the Plan, shall not be effective until such election and the transactions contemplated thereby shall have been specifically approved by the Committee to the extent such approval is required to avoid liability under Section 16 of the Securities and Exchange Act of 1934 and the regulations thereunder. Amounts deferred under the Plan shall be referred to as the "Deferred Amounts." Once received by the Committee, a Deferral Election cannot be revoked.

- (b) Except as provided in this Section 4(b), a Deferral Election must be made prior to September 30 of the calendar year in which the bonus or incentive compensation will be awarded. A Participant must make a separate Deferral Election with respect to each calendar year of participation in the Plan. A new Participant in the Plan shall have 30 days following his or her notification by the Committee of his or her eligibility to participate in the Plan to make a Deferral Election with respect to bonus or incentive compensation to be awarded within that calendar year.
- (c) As specified by the Participant in a Deferral Election, the period of deferral shall be until the Participant dies, terminates employment with Packaging, or until a specific date selected by the Participant in the Deferral Election.

5. ESTABLISHMENT OF DEFERRED COMPENSATION ACCOUNT

At the time of a Participant's initial Deferral Election, the Company shall establish a memorandum account (a "Deferred Compensation Account") for such Participant on its books. The Deferred Amount shall be credited to the Participant's Deferred Compensation Account as of the day on which the Participant would otherwise be entitled to receive the bonus or incentive

compensation. Any required withholding for taxes (e.g. Social Security taxes) on the Deferred Amount shall be made from other compensation of the Participant. Adjustments as provided below, shall be made to the Participant's Deferred Compensation Account.

6. ADJUSTMENTS TO DEFERRED AMOUNTS

The Committee shall credit the balance of the Participant's Deferred Compensation Account with an earnings factor. The earnings factor will equal the amount the Participant's Deferred Compensation Account would have earned if it had been invested in the investment options listed below. The Participant is permitted to select the investment option used to determine the earnings factor and may change the selection at any time. The Participant may choose more than one investment option in increments of at least one (1) percent. The Company reserves the right to change or amend any of the investment options at any time.

-2-

3

The investment options used to determine the earnings factor are:

- (a) The prime rate of interest as reported by The Chase Manhattan Bank at the first day of each calendar month.
- (b) Packaging stock index account -- amount of deferral will be invested in Packaging stock equivalent unit account. Any investment in this account will be measured solely by the performance of the Company's common stock (including dividends that will be reinvested).
- (c) The return for selected Mutual Funds currently offered in the Company's qualified thrift plan for salaried employees:
  - (1) Fidelity Growth Company Fund
  - (2) Barclays U.S. Debt Index Fund (Bond)
  - (3) Barclays Daily Equity Index Fund

The Company is under no obligation to acquire or provide any of the investments designated by a Participant, and any investments actually made by the Company will be made solely in its name and will remain its property.

The crediting of an earnings factor shall occur so long as there is a balance in the Participant's Deferred Compensation Account regardless of whether the Participant has terminated employment.

7. PAYMENT OF DEFERRED AMOUNTS

- (a) Except as otherwise provided in subsection (b) or (c) below, a

Participant's Deferred Amount shall be paid, or commence to be paid, to the Participant, or the Participant's beneficiary, as soon as practicable after:

- (i) the Participant's death,
- (ii) the termination of the Participant's employment or service as a director, or
- (iii) the date specified in the applicable Deferral Election made by the Participant.

In the event of the Participant's death, payment of the balance in the Participant's Deferred Compensation Account shall be made, either (i) in a lump sum or (ii) in a number of annual installments, not to exceed five, as soon as administratively feasible to the Participant's designated beneficiary, or if none, to the Participant's estate.

- (b) The Participant may elect to receive payment of the balance of his or her Deferred Compensation Account either (i) in a lump sum upon termination or (ii) in a single payment at a specified date prior to termination or (iii) in a number of post

-3-

4

termination annual installments, not to exceed five, as the Participant shall elect. The distribution election must be made at least one year before the Deferred Amount is payable and must be approved by the Committee. If no election is made, a lump sum payment will be made upon the Participant's termination.

- (c) Anything contained in this Section 7 to the contrary notwithstanding, in the event a Participant incurs a severe financial hardship, the Committee, in its sole discretion and upon written application of such Participant, may direct immediate payment of all or a portion of the then current value of such Participant's Deferred Compensation Account; provided that such payment shall in no event exceed the amount necessary to alleviate such financial hardship; and provided further that in the case of such payment, the Participant's Deferred Compensation Account shall be reduced by 110% of the amount of such payment.

## 8. PARTICIPANT REPORTS

The Committee shall provide a statement to the Participant quarterly concerning the status of his or her Deferred Compensation Account.

9. TRANSFERABILITY OF INTERESTS

During the period of deferral, all Deferred Amounts shall be considered as general assets of the Company for use as it deems necessary and shall be subject to the claims of its creditors.

The rights and interests of a Participant during the period of deferral shall be those of a general unsecured creditor except that such Participant's rights and interests may not be reached by the creditors of the Participant or the Participant's beneficiary, or anticipated, assigned, pledged, transferred or otherwise encumbered except in the event of the death of the Participant, and then only by will or the laws of descent and distribution.

10. AMENDMENT, SUSPENSION AND TERMINATION

The Company at any time may amend, suspend or terminate the Plan or any portion thereof in such manner and to such extent as it may deem advisable and in its best interests. No amendment, suspension and termination shall reduce the amount then credited to a Participant's Deferred Compensation Account.

11. UNFUNDED OBLIGATION

The Plan shall not be funded; no trust, escrow or other provisions shall be established to secure payments due under the Plan; and the Plan shall be regarded as unfunded for purposes of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code. A Participant shall be treated as a general, unsecured creditor at all times under the Plan, and shall have no rights to any specific assets of the Company. All amounts credited to the

-4-

5

memorandum accounts of the Participants will remain general assets of the Company and shall be payable solely from the general assets of the Company.

12. NO RIGHT TO EMPLOYMENT OR OTHER BENEFITS

Nothing contained herein shall be construed as conferring upon any Participant the right to continue in the employ of the Company. Any compensation deferred and any payments made under this Plan shall not be included in creditable compensation in computing benefits under any employee benefit plan of the Company except to the extent expressly provided therein.

13. DISPUTE RESOLUTION

By participating in the Plan, the Participant agrees that any dispute arising under the Plan shall be resolved by binding arbitration in Lake Forest, Illinois under the rules of the American Arbitration Association and that there will be

no remedy besides the disputed deferred compensation amount in issue.

14. EFFECTIVE DATE

The effective date of this Plan is the date on which the stock of the Company is distributed to the shareholders of Tenneco Inc.



FORM OF  
TENNECO PACKAGING INC.  
STOCK OWNERSHIP PLAN  
(the "Plan")

1. Purpose

The purpose of the Plan is to promote the long-term success of Tenneco Packaging Inc. (the "Company") for the benefit of shareholders by encouraging its directors, officers and key employees to have meaningful investments in the Company so that, as stockholders themselves, those individuals will be more likely to represent the views and interest of other stockholders and by providing incentives to such directors, officers and key employees for continued service. The Company believes that the possibility of participation under the Plan will provide this group of directors, officers and employees an incentive to perform more effectively and will assist the Company in attracting and retaining people of outstanding training, experience and ability.

2. Definitions

"Award" means an award or grant made to a Participant under Section 8.

"Award Agreement" means the agreement provided in connection with an Award under Section 12.

"Award Date" means the date that an Award is made, as specified in an Award Agreement.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor legislation.

"Committee" means the Compensation / Nominating / Governance Committee of the Board of Directors of the Company, or any successor committee thereto.

"Common Stock" means the Company's common stock.

"Covered Employees" shall have the meaning specified in Section 162(m) (3) of the Code.

"Dividend Equivalent" means an amount equal to the amount of the cash dividends that are declared and become payable after the Award Date for the Award to which it relates and on or before the Settlement Date for such Award.

"Fair Market Value" on any date means the average of the highest and

the lowest sales prices of a share of Common Stock on the Composite Tape for such date, as reported by the National Quotation Bureau Incorporated, provided that if (i) no sales of Common Stock are included on the Composite Tape for such date, or (ii) in the opinion of the Committee, the sales of Common Stock on such date are insufficient to constitute a representative market, then the Fair Market Value of a share of Common Stock on such date shall be deemed to be the average of the highest and lowest prices of a share of Common Stock as reported on said Composite Tape

-1-

2

for the next preceding day on which (x) sales of Common Stock are included and (y) the circumstances described in this clause (ii) do not exist.

"ISO" means any Stock Option designated in an Award Agreement as an "Incentive Stock Option" within the meaning of Section 422 of the Code.

"Non-Qualified Stock Option" means any Stock Option that is not an ISO.

"Option Price" means the purchase price of one share of Common Stock under a Stock Option.

"Packaging Company" means the Company and any stock corporation of which a majority of the voting common or capital stock is owned directly or indirectly by the Company and any other company designated as such by the Committee, but only during the period of such ownership or designation.

"Participant" means a director, employee or officer of a Packaging Company who has been selected by the Committee to receive an Award under the Plan.

"Performance Unit" means an Award denominated in cash, the amount of which may be based on the performance of the Participant, of a Packaging Company or of any subsidiary or division thereof.

"Reload Stock Option" means a Stock Option (i) that is awarded, either automatically in accordance with the terms of an Award Agreement in which one or more other Awards are made or by separate Award, upon the exercise of a Stock Option granted under this Plan or otherwise where the Option Price is paid by the option holder by delivery of shares of Common Stock on the Settlement Date for such exercise and (ii) that entitles such holder to purchase the number of shares so delivered for an Option Price equal to the Fair Market Value of a share of Common Stock on such Settlement Date.

"Restricted Stock" means shares of Common Stock subject to restrictions and conditions pursuant to Section 8(c).

"Settlement Date" means, (i) with respect to any Stock Option that has been exercised in whole or in part, the date or dates upon which shares of Common Stock are to be delivered to the Participant and the Option Price therefor paid, (ii) with respect to any SARs that have been exercised, the date or dates upon which a cash payment is to be made to the Participant, or in the case of SARs that are to be settled in shares of Common Stock, the date or dates upon which such shares are to be delivered to the Participant, (iii) with respect to Performance Units, the date or dates upon which cash or shares of Common Stock are to be delivered to the Participant, (iv) with respect to Dividend Equivalents, the date upon which payment thereof is to be made, and (v) with respect to Stock Equivalent Units, the date upon which payment thereof is to be made, in each case, determined in accordance with the terms of the Award Agreement under which any Award was made.

-2-

3

"Stock Appreciation Right" or "SAR" means an Award that entitles the Participant to receive on the Settlement Date an amount equal to the excess of

(i) the Fair Market Value of one share of Common Stock on the date of exercise of the SAR over

(ii) the Fair Market Value of one share of Common Stock on the Award Date or any other higher amount specified in the Award Agreement.

"Stock Equivalent Unit" means an Award that entitles the Participant to receive on the Settlement Date an amount equal to the Fair Market Value of one share of Common Stock on such date.

"Stock Option" or "Option" means any right to purchase shares of Common Stock (including a Reload Stock Option) awarded pursuant to Section 8(a).

### 3. Term

The Plan shall be effective as of the date on which the stock of the Company is distributed to the shareholders of Tenneco Inc., and shall remain in effect through the fifth anniversary of that date. After termination of the Plan, no further Awards may be granted other than Reload Stock Options granted in accordance with Award Agreements existing as of the termination of the Plan, but outstanding Awards shall remain effective in accordance with their terms and the terms of the Plan.

### 4. Plan Administration

(a) The Committee shall be responsible for administering the Plan.

(i) Composition of the Committee. The Committee shall be comprised of two or more members of the Board of Directors, all of whom shall be "non-employee directors" as defined in Rule 16b-3 and "outside directors" as that term is used in Section 162 of the Code and the regulations promulgated thereunder.

(ii) Powers. The Committee shall have full and exclusive discretionary power to interpret the Plan and to determine eligibility for benefits and to adopt such rules, regulations and guidelines for administering the Plan as the Committee may deem necessary or proper. Such power shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions and, subject to Section 13, adopting modifications and amendments to the Plan or any Award Agreement, including without limitation, any that are necessary to comply with the laws of the countries in which the Company or its affiliates operate.

(iii) Delegation. The Committee may delegate to one or more of its members or to one or more agents or advisors such non-discretionary administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as

-3-

4

aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such persons may have under the Plan.

(b) The Committee may employ attorneys, consultants, accountants and other persons, and the Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Participants, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or Awards, and all members of the Committee shall be fully protected by the Company, to the fullest extent permitted by applicable law, in respect to any such action, determination and interpretation.

## 5. Eligibility

Awards will be limited to persons who are directors, officers, or key employees of the Packaging Companies. In determining the persons to whom Awards shall be made, the Committee shall, in its discretion, take into account the

nature of the person's duties, past and potential contributions to the success of the Packaging Companies and such other factors as the Committee shall deem relevant in connection with accomplishing the purposes of the Plan. A person who has received an Award or Awards may receive an additional Award or Awards. For purposes of this Section 5, the terms "director," "key employee" and "officer" shall also include any former director, former key employee or former officer of a Packaging Company or Tenneco Inc. eligible to receive a replacement Award as contemplated in the third sentence of Section 8.

6. Authorized Awards; Limitations

(a) Except for adjustments pursuant to Section 7, the maximum number of shares of Common Stock that shall be available for issuance under the Plan (the "Authorized Plan Shares") shall be 20,000,000.

(b) If an Award expires unexercised or is forfeited, surrendered, canceled, terminated or settled in cash in lieu of Common Stock, the shares of Common Stock that were theretofore subject (or potentially subject) to such Award may again be made subject to an Award Agreement.

(c) Common Stock that may be issued under the Plan may be either authorized and unissued shares, or issued shares that have been reacquired by the Company and that are being held as treasury shares. No fractional shares of Common Stock shall be issued under the Plan; provided, however, that cash, in an amount equal to the Fair Market Value of a fractional share of Common Stock as of the Settlement Date of the Award, shall be paid in lieu of any fractional shares in the settlement of Awards payable in shares of Common Stock.

(d) In no event shall the number of shares of Common Stock subject to Stock Options plus the number of shares underlying SARs awarded to any one Participant during the term set forth in Section 3 hereof, exceed 10% of the Authorized Plan Shares. In all events,

-4-

5

determinations under the preceding sentence shall be made in a manner that is consistent with Code Section 162 and the regulations promulgated thereunder.

7. Adjustments and Reorganizations

The Committee may make such adjustments to Awards granted under the Plan (including the terms, exercise price and otherwise) as it deems appropriate in the event of changes that impact the Company, the Company's share price, or share status, provided, that, notwithstanding any other provision hereof, insofar as any Award is subject to performance goals established to qualify payments thereunder as "performance-based compensation" as described in Section

162(m) of the Code, the Committee shall have no power to adjust such Awards other than (i) negative discretion and (ii) the power to adjust Awards for corporate transactions, in either case to the extent permissible under regulations interpreting Code Section 162(m).

In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, extraordinary dividend, spin-off, split-off, rights offering, share combination, or other change in the corporate structure of the Company affecting the Common Stock, the number and kind of shares that may be delivered under the Plan shall be subject to such adjustment as the Committee, in its sole discretion, may deem appropriate, and the number and kind and price of shares subject to outstanding Awards and any other terms of outstanding Awards shall be subject to such adjustment as the Committee, in its sole discretion, may deem appropriate.

## 8. Awards

The Committee shall determine the type and amount of any Award to be made to any Participant; provided however, that, except as provided in paragraph (g), no Awards granted pursuant to this Plan shall vest in less than six months after the date the Award is granted. Awards may be granted singly, in combination, or in tandem. Awards may also be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for, grants or rights under any other employee benefit or compensation plan of the Packaging Companies or Tenneco Inc., including any such employee benefit or compensation plan of any acquired entity.

### (a) Stock Options

(i) Awards. Stock Options (including Reload Stock Options) granted under this Plan may be either of the following:

- (1) an ISO or
- (2) a Non-Qualified Stock Option.

The Committee may grant any Participant one or more ISOs, Non-Qualified Stock Options, or both types of Stock Options, in each case with or without SARs or Reload Stock Options or any other form of Award. Stock Options granted pursuant to this Plan shall be subject to such additional terms, conditions, or restrictions as may be provided in the Award Agreement relating to such Stock Option.

-5-

6

(ii) Option Price. The Option Price of a Stock Option shall not be less than 100% of the Fair Market Value of a share of Common

Stock on the Award Date.

(iii) ISOs. Anything in this Plan to the contrary notwithstanding, no term of this Plan relating to ISOs shall be interpreted, amended or altered, nor shall any discretion or authority awarded under the Plan be exercised, so as to disqualify this Plan under Section 422 of the Code, or, without the consent of the Participants affected, to disqualify any ISO under Section 422 of the Code.

An ISO shall not be granted to an individual who, on the date of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the employing Company or of its parent or any subsidiary corporation.

The aggregate Fair Market Value, determined on the Award Date, of the shares of Common Stock with respect to which one or more ISOs that are exercisable for the first time by the Participant during any calendar year shall not exceed the \$100,000 limitation imposed by Section 422(d) of the Code.

(iv) Manner of Payment of Option Price. The Option Price shall be paid in full at the time of the exercise of the Stock Option and may be paid in any of the following methods or combinations thereof;

(A) In United States dollars in cash, check, bank draft or money order payable to the order of the Company;

(B) By the delivery of shares of Common Stock having an aggregate Fair Market Value on the date of such exercise to the Option Price;

(C) Participants may simultaneously exercise the Stock Option and sell their shares of Common Stock acquired thereby and apply the proceeds to the payment of the Option Price pursuant to the procedures established by the Committee; and

(D) In any other manner that the Committee shall approve.

Any shares of Common Stock required or permitted to be sold by an executive officer of the Company in connection with the payment of the Option Price shall be transferred to the Company.

(v) Reload Stock Options. The Committee may award Reload Stock Options to any Participant either in combination with other Awards or in separate Award Agreements that grant Reload Stock Options upon exercise of outstanding stock options granted under this Plan or otherwise.

(b) Stock Appreciation Rights.

(i) Awards. The Committee may award any Participant SARs, which shall be subject to such additional terms, conditions, or restrictions as may be provided in the Award Agreement relating to such SAR Award, including any limits on aggregate appreciation. SARs may be settled in Common Stock or cash or both.

(ii) Award Price. The award price per share of Common Stock of an SAR shall be fixed in the Award Agreement and shall be not less than 100% of the Fair Market Value of a share of Common Stock on the date of the Award.

(iii) Distribution of SARs. SARs shall be exercisable in accordance with the conditions and procedures set out in the Award Agreement relating to such SAR Award.

(c) Restricted Stock. The Committee may award Restricted Stock to any Participant. Awards of Restricted Stock shall be subject to such conditions and restrictions as are established by the Committee and set forth in the Award Agreement, which may include, but are not limited to, continued service with the Company, achievement of specific business objectives, and other measurements of individual or business unit or Company performance.

(d) Stock Equivalent Units. The Committee may award Stock Equivalent Units to any Participant. All or part of any Stock Equivalent Units Award may be subject to conditions and restrictions established by the Committee, and set forth in the Award Agreement, which may include some or all of the following: continued service with the Company, achievement of specific business objectives, and other measurements of individual or business unit or Company performance that may include but shall not be limited to, earnings per share, net profits, total shareholder return, cash flow, return on shareholders' equity, EVA, and cumulative return on net assets employed. Without limiting the generality of the foregoing, it is intended that the Committee shall establish performance goals applicable to Stock Equivalent Units granted to Participants who, in the judgment of the Committee, may be Covered Employees, in such manner as shall permit payments with respect thereto to qualify as "performance-based compensation" as described in Section 162(m)(4)(C) of the Code. The maximum number of Stock Equivalent Units that may be awarded to any Participant in any one calendar year shall not exceed 100,000.

(e) Dividend Equivalents. The Committee may provide in any Award



Agreement in which Stock Equivalent Units are awarded that such Stock Equivalent Units may accrue Dividend Equivalents. In lieu of awarding Dividend Equivalents, the Committee may provide for automatic Awards of additional Stock Equivalent Units on each date that cash dividends are paid on the Common Stock in an amount equal to (i) the product of the dividend per share on the Common Stock times the total number of Stock Equivalent Units then held by the Participant, divided by (ii) the Fair Market Value of the Common Stock on the dividend payment date.

(f) Performance Units. Performance Units shall be based on the attainment, over a specified period, of individual performance targets or, on other parameters that may include but shall not be limited to, earnings per share, net profits, total shareholder return, cash flow, return on shareholders' equity, EVA, and cumulative return on net assets employed. Performance Units

-7-

8

may be settled in Common Stock or cash or both. Without limiting the generality of the foregoing, it is intended that the Committee shall establish performance goals applicable to Performance Units granted to Participants who, in the judgment of the Committee, may be Covered Employees, in such a manner as shall permit payments with respect thereto to qualify as "performance-based compensation" as described in Section 162(m)(4)(C) of the Code. The maximum amount of compensation that may be paid to any one Participant by means of Performance Units with respect to any one year shall be \$2,000,000.

(g) The Committee may also, in its sole discretion, shorten or terminate the restricted period or waive any other conditions for the lapse of restrictions with respect to all or any portion of any Award. Notwithstanding the foregoing, all restricted periods shall terminate and the Awards shall be fully vested with respect to any Participant upon the Participant's Retirement, death or Total Disability, coincident with termination of employment with Packaging Companies. For purposes of this Section 8:

"Retirement" means the Participant's termination of employment with all Packaging Companies at a time when, under the Company's qualified defined benefit pension plan for salaried employees the Participant is eligible to receive an immediately payable normal retirement benefit, or, if approved by the Committee, the Participant is eligible to receive an immediately payable early retirement benefit under such plan; and

"Total Disability" means the permanent inability of the Participant, which is a result of accident or sickness, to perform such Participant's occupation or employment for which the Participant is suited by reason of the Participant's previous training, education and experience and which results in the termination of the Participant's employment with all Packaging Companies.

9. Dividends

The Committee may provide in the appropriate Award Agreement that dividends on Restricted Stock may be paid currently in cash or credited to a Participant's account for subsequent distribution as determined by the Committee. The Award Agreement may provide for the reinvestment of dividends paid on Restricted Stock in shares of Common Stock.

10. Deferrals and Settlements

Settlement of Awards may be in the form of cash, Common Stock, other Awards, or in combinations thereof as the Committee shall determine, and which such other restrictions as it may impose. The Committee may also require or permit Participants to defer the issuance or vesting of shares or the settlement of Awards under such rules and procedures as it may establish under the Plan. The Committee may also provide that deferred settlements include the payment or crediting of interest on, the deferral amounts or the payment or crediting of Dividend Equivalents on deferred settlements denominated in shares.

-8-

9

11. Transferability and Beneficiaries

No Awards under the Plan shall be assignable, alienable, saleable or otherwise transferable other than by will or the laws of descent and distribution, or pursuant to a qualified domestic relations order (as defined by the Code) or Title I of the Employee Retirement Income Security Act, or the rules thereunder unless otherwise determined by the Committee under the following paragraph.

The Committee may determine that options granted to a Participant who is a director or an employee with a grade level of 5 or above may be transferred to his or her descendants or trusts for the benefit of such descendants.

12. Award Agreements

Awards under the Plan shall be evidenced by Award Agreements that set forth the details, conditions and limitations for each Award, which may include the term of an Award (except that (i) except as provided in Section 8(g), no Award shall vest in less than six months after the date the Award is granted and (ii) in no event shall the term of any ISO exceed a period of ten years from the date of its grant), the provisions applicable in the event the Participant's employment terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind any Award.

13. Amendments; Compliance with Applicable Laws

The Committee may suspend, terminate, or amend the Plan as it deems necessary or appropriate to better achieve the purposes of the Plan, except that, if shareholder approval is necessary in order for any such amendment to comply with any applicable tax or regulatory requirements, including for these purposes, any approval requirement which is a prerequisite for exemptive relief under Section 16b of the Securities Exchange Act of 1934 (the "Exchange Act"), no such amendment shall be made without the approval of the Company's shareholders.

14. Tax Withholding

The Company shall have the right to (i) make deductions from any settlement of an Award made under the Plan, including the delivery of vesting of shares, or require shares or cash or both be withheld from any Award, in each case in an amount sufficient to satisfy withholding of any federal, state or local taxes required by law, or (ii) take such other action as may be necessary or appropriate to satisfy any such withholding obligations. The Committee may determine the manner in which such tax withholding may be satisfied, and may permit shares of Common Stock (rounded up to the next whole number) to be used to satisfy required tax withholding based on the Fair Market Value of any such shares of Common Stock, as of the Settlement Date of the applicable Award.

15. Other Company Benefit and Compensation Programs

Unless otherwise specifically determined by the Committee, settlements of Awards received by a Participant under the Plan shall not be deemed a part of the Participant's regular,

-9-

10

recurring compensation for purposes of calculating payments or benefits from any Company benefit plan, severance program or severance pay law of any country. Further, the Company may adopt other compensation programs, plans or arrangements as it deems appropriate or necessary.

16. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Participant or other person. To the extent any person holds any rights by virtue of an Award granted under the Plan, such right (unless otherwise determined by the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

17. Future Rights

No person shall have any claim or right to be granted an Award under the Plan, and no Participant shall have any right under the Plan to be retained in the employment of the Company or its affiliates.

18. Governing Law

The validity, construction and effect of the Plan, and any actions taken or relating to the Plan, shall be determined in accordance with the laws of the State of Illinois and applicable federal law.

19. Successors and Assigns

The Plan shall be binding on all successors and assigns of a Participant, including, without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

20. Rights as a Shareholder

Except as otherwise provided in any Award Agreement, a Participant shall have no rights as a shareholder of the Company until he or she becomes the holder of record of Common Stock.

21. Section 16b

No Award or other transaction shall be permitted under this Plan which would have the effect of imposing liability on a Participant under Section 16 of the Exchange Act. Irrespective of any other provision of this Plan or an Award Agreement, any such Award or other transaction purportedly made under or pursuant to this Plan shall be void, ab initio.

FORM OF  
TENNECO PACKAGING INC. RABBI TRUST

The Tenneco Packaging Inc. Rabbi Trust (the "Trust") is hereby adopted by Tenneco Packaging Inc., (the "Company") and shall be maintained by and between the Company and certain individuals as trustee (collectively the "Trustee").

Effective on the date on which the stock of the Company is distributed to the shareholders of Tenneco Inc. (the "Effective Date"), the following rules shall govern:

WHEREAS, the Company has adopted the nonqualified compensation plan(s) and supplemental pension arrangements as listed in Appendix A (collectively the "Plans" and each a "Plan.") covering the benefit obligations allocated to it under the Human Resources Agreement between and among Tenneco Inc. and the Company (the "HR Agreement"), and

WHEREAS, the Company wishes to maintain the Trust and to contribute to the Trust assets that shall be held therein, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries in such manner and at such times as specified in the Plan(s); and

WHEREAS, it is the intention of the parties that this Trust shall not affect the status of the Plan(s) as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974; and

WHEREAS, it is the intention of the Company to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plan(s).

NOW, THEREFORE, the parties do hereby adopt the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

1. Establishment of Trust.

(a) Subject to the rules explicitly set forth herein, the Trust hereby established is irrevocable.

(b) The Trust is intended to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter

1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(c) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of Plan participants and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan(s) and this Trust Agreement shall be mere

-1-

2

unsecured contractual rights of Plan participants and their beneficiaries against the Company. Any assets held by the Trust will be subject to the claims of the general creditors of the Company and any of the Company's domestic subsidiaries.

(d) The Company, in its sole discretion, may at any time, or from time to time, make deposits of common stock of the Company or other property in trust with the Trustee to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. Except as provided herein, neither the Trustee nor any Plan participant or beneficiary shall have any right to compel additional deposits.

## 2. Payments to Plan Participants and their Beneficiaries.

(a) At least annually, the Company shall deliver to the Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan(s)), and the time of commencement for payment of such amounts. To the extent that any amounts are due to an employee (or beneficiary of an employee) of a subsidiary of the Company, and the subsidiary fails to make such payment, the Company shall do so. Except as otherwise provided herein, if the Company has failed to make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule the Trustee shall do so. The Company shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan(s) and shall pay amounts withheld to the appropriate taxing authorities.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plan(s) shall be determined by the Company or such party as it shall designate under the Plan(s), and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan(s).

Notwithstanding the foregoing, the Trustee may, without direction from the Company, make payments to participants and beneficiaries in such manner and in such amounts as the Trustee shall determine they are entitled to be paid under the Plans (to the extent funded through the Trust) based on the most recent information furnished to the Trustee by the Company and any supplemental information furnished to the Trustee by a participant or beneficiary upon which the Trustee may reasonably rely in making such determination. Notwithstanding any other provision hereof, persons (other than persons covered by the Tenneco Inc. Pilots' Supplemental Retirement Plan) who were employees of Tenneco Management Company immediately prior to the Effective Date or who are treated as such under the HR Agreement, though they may be participants in the plans listed in Appendix A, shall not be entitled to payments under the Trust, and payments shall be available for their benefit obligations through a separate rabbi trust.

(c) The Company may make payment of benefits directly to Plan participants or their beneficiaries as they become due under the terms of the Plan(s). The Company shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable

-2-

3

to participants or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payment of benefits in accordance with the terms of the Plan(s), the Company shall make the balance of each such payment as it falls due. The Trustee shall notify the Company where principal and earnings are not sufficient.

(d) The Company shall cause its actuary to determine the projected benefit obligation ("PBO") under all of the Plans as of each January 1, commencing with January 1, 2000. To the extent that the value of the assets of the Trust as of the January 1 in question is less than the total PBO under all of the Plans as so determined, the Company shall contribute additional assets to the Trust with a value equal to the difference. To the extent that the assets of the Trust exceed 110% of the PBO, the Company may withdraw assets with a value equal to the excess of the value of the Trust's assets over 110% of such PBO.

(e) Notwithstanding any other provision hereof, the Trustee may sell Company common stock or other assets in order to provide cash to pay benefits hereunder.

3. Trustee Responsibility Regarding Payments to Trust Beneficiary when the Company is Insolvent.

(a) The Trustee shall cease payment of benefits to Plan participants and their beneficiaries if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Company

is unable to pay its debts as they become due, or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) In the event of Insolvency of the Company the following rules shall apply.

(1) The Company shall inform the Trustee in writing of the Company's Insolvency. If a person claiming to be a creditor of the Company alleges in writing to the Trustee that the Company has become Insolvent, the Trustee shall determine whether the Company is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless the Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, the Trustee shall have no duty to inquire whether the Company is Insolvent. The Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(3) If at any time the Trustee has determined that the Company is Insolvent, the Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of the Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to

-3-

4

pursue their rights as general creditors of the Company with respect to benefits due under the Plan(s) or otherwise.

(4) The Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if the Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan(s) for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.



4. Payments to the Company.

Except as provided in Section 1(d), 2 or 3 hereof, the Company shall have no right or power to direct the Trustee to return to the Company or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan(s).

5. The Trustee's Powers of Investment and Management.

The Trustee shall have the following powers with respect to any and all assets at any time held by it and constituting part of the Trust Fund:

(a) The Trust shall hold the assets of the Trust exclusively in shares of the common stock of the Company, and any assets distributed with respect thereto.

(b) All rights associated with any stock held in the Trust, including voting rights, shall be exercised by the Trustee or the person designated by the Trustee, and shall in no event be exercisable by or rest with Plan participants. Voting rights are exercisable by the Trustee in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity.

6. Disposition of Income.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested in Company common stock.

7. Accounting by the Trustee.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between the Company and the Trustee. Within 60 days following

-4-

5

the close of each calendar year and within 60 days after the removal or resignation of the Trustee, the Trustee shall deliver to the Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash and securities held in the Trust at the end of such year or as

of the date of such removal or resignation as the case may be.

8. Responsibility of the Trustee.

(a) The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that the Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company which is contemplated by, and in conformity with, the terms of this Trust and is given in writing by the Company. In the event of a dispute between the Company and a party, the Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) If the Trustee undertakes or defends any litigation arising in connection with this Trust, the Company agrees to indemnify the Trustee against the Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust.

(c) The Trustee may consult with legal counsel (who may also be counsel for the Company generally) with respect to any of its duties or obligations hereunder.

(d) The Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) The Trustee shall have, without exclusion, all powers conferred on the Trustees by applicable law, unless expressly provided otherwise herein.

(f) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or to applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

(g) Any action required to be taken by the Company, or direction given by the Company, shall be by resolution of the Compensation / Nominating / Governance Committee of its board of directors or by written direction of one or more of its president, any vice president or

treasurer. The Trustee may rely upon a resolution or direction filed with the

Trustee and shall have no responsibility for any action taken by the Trustee in accordance with any such resolution or direction.

9. Compensation and Expenses of the Trustee.

The Company shall pay all reasonable administrative and the Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust. Notwithstanding the foregoing, individuals shall serve without fee but shall be entitled to reimbursement of expenses.

10. Trustee Resignation or Removal.

(a) The Trustee or any individual who is one of a group of individuals serving as Trustee may resign at any time by written notice to the Company, which shall be effective 30 days after receipt of such notice unless the Company and the Trustee (or individual as the case may be) agree otherwise.

(b) The Trustee or any individual who is one of a group of individuals serving as Trustee may be removed by the Company on 30 days notice or upon shorter notice acceptable by the Trustee (or individual as the case may be).

(c) Upon a Change in Control, as defined herein, the Trustee may not be removed by the Company for two years.

(d) If the Trustee or any individual who is one of a group of individuals serving as Trustee resigns within two years of a Change in Control, as defined herein, the Trustee shall select a successor Trustee in accordance with the provisions of Section 11 hereof prior to the effective date of the Trustee's resignation; provided that if an individual who is one of a group of individuals serving as Trustee resigns in such circumstances, the remaining individuals serving as Trustee may but are not required to name a successor to replace him.

(e) Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee.

(f) For purposes hereof, death or incapacity shall be deemed an immediately effective resignation.

11. Appointment of Successor.

(a) If the Trustee (or individual) resigns or is removed in accordance with Section 10 hereof, the Trustee may appoint any third party as a successor to replace the Trustee (or individual) upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee (or individual) shall execute

any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to the rules hereof. The successor Trustee shall not be responsible for and the Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event or any condition existing at the time it becomes successor Trustee.

12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by the Trustee and the Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan(s) or shall make the Trust revocable.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan(s). Upon termination of the Trust any assets remaining in the Trust shall be returned to the Company.

(c) Upon written approval of Participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plan(s), the Company may terminate this Trust prior to the time all benefit payments under the Plan(s) have been made. All assets in the Trust at termination shall be returned to the Company.

(d) This Trust Agreement may not be amended by the Company for two years following a Change in Control, as defined herein.

13. Miscellaneous.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of Illinois.

(d) "Change in Control" shall mean the first to occur of the following events (but no event other than the following events), except as otherwise provided below:

(i) any person and any of their affiliates or associates becomes the beneficial owner, directly or indirectly, of securities of the Company representing twenty-five percent

-7-

8

(25%) or more of the combined voting power of the Company's then outstanding securities having general voting rights, and a majority of the Incumbent Board (as hereinafter defined) does not approve the acquisition before the acquisition occurs. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur under this section (i) solely because twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities having general voting rights is acquired by one or more employee benefit plans maintained by the Company; or

(ii) members of the Incumbent Board cease to constitute a majority of the board of Tenneco Packaging Inc. (as hereinafter defined); or

(iii) the consummation of any plan of merger, consolidation or combination between the Company and any person including becoming a subsidiary of any other person without members of the incumbent Board, as constituted immediately prior to the merger, consolidation or combination constituting a majority of the board of directors of (A) the successor corporation, or (B) if the surviving or successor corporation is a majority-owned subsidiary of another corporation or corporations, the ultimate parent company of the surviving or successor corporation; or

(iv) the consummation of any sale, exchange or other disposition of all or substantially all of the Company's assets without members of the Incumbent Board immediately prior to any sale, exchange or disposition of all or substantially all of the Company's assets constituting a majority of the board of directors of (A) the corporation which holds such assets after such disposition, or, (B) if such corporation is a majority-owned subsidiary of another corporation or corporations, the ultimate parent company of the successor corporation provided, that the Company Board may determine conclusively that any transaction does not constitute a sale, exchange or other disposition of substantially all of the Company's assets; or

(v) if any person and any of their affiliates and associates, shall elect or have elected, during any period not exceeding 24 months, at least 25% of the members of the Tenneco Packaging Inc. board of

directors, without the approval of the Incumbent Board and such members are comprised of persons not serving as members of the Tenneco Inc. board of directors immediately prior to the formation of such group or the first solicitation of proxies by such shareholder.

For purposes of this definition, the terms "person" and "beneficial owner" shall have the meaning set forth in Sections 3(a) and 13(d) of the Securities Exchange Act of 1934, as amended, in the regulations promulgated thereunder. If the Trustee requests in writing that the Company determine or furnish evidence to enable the Trustee to determine whether a Change in Control has occurred, the Company shall do so in writing as soon as practicable following receipt of such request.

(e) "Incumbent Board" shall mean (i) the members of the Company's board of directors on Effective Date, to the extent that they continue to serve, and (ii) any individual who becomes a member of the Company's board of directors after Effective Date, if his election or

-8-

9

nomination for election as a director is approved by a vote of at least three-quarters of the then Incumbent Board.

14. Corporate Restructuring.

In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, extraordinary dividend, spin-off, rights offering, share combination, or other change in the corporate structure of the Company affecting its common stock, the Trustee may, in its sole discretion, cause the transfer of all or a portion of the Trust's assets to a comparable trust maintained by one or more of the resulting corporate entities or otherwise cause such changes in the Trust or its assets as it shall deem appropriate.

IN WITNESS WHEREOF, the Company and the Trustee have caused this Agreement to be executed on their behalf by their respective officers thereunto duly authorized, on the day and year set forth below.

TENNECO PACKAGING INC.

APPENDIX A

Tenneco Packaging Inc. Deferred Compensation Plan  
Tenneco Inc. Pilots' Supplemental Retirement Plan  
Tenneco Packaging Inc. Supplemental Executive Retirement Plan

## THE BUSINESSES OF TENNECO PACKAGING

COMBINED WITH 50% OWNED UNCONSOLIDATED SUBSIDIARIES  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES<TABLE>  
<CAPTION>

	YEARS ENDED DECEMBER 31,						SIX MONTHS ENDED JUNE 30,		
	PRO FORMA 1998	1998	1997	1996	1995	1994	PRO FORMA 1999	1999	1998
	(DOLLARS IN MILLIONS)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Income (loss) from continuing operations.....	\$ 69	\$ 82	\$ 106	\$ 65	\$ (55)	\$ 18	\$ 47	\$ 52	\$ 69
Add:									
Interest.....	160	133	124	102	91	48	80	68	67
Portion of rentals representative of interest factor.....	12	12	12	8	2	1	8	8	5
Preferred stock dividend requirements of majority-owned subsidiaries.....	1	1	--	--	--	--	--	--	1
Income tax expense (benefit) and other taxes on income.....	58	67	75	67	(3)	19	20	24	37
Amortization of interest capitalized.....	--	--	--	1	1	--	--	--	--
Undistributed (earnings) losses of affiliated companies in which less than a 50% voting interest is owned.....	--	--	--	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Earnings as defined.....	\$ 300	\$ 295	\$ 317	\$ 243	\$ 36	\$ 86	\$ 155	\$ 152	\$ 179
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Interest.....	\$ 160	\$ 133	\$ 124	\$ 102	\$ 91	\$ 48	\$ 80	\$ 68	\$ 67
Interest capitalized.....	1	1	1	3	2	1	--	--	--
Portion of rentals representative of interest factor.....	12	12	12	8	2	1	8	8	5
Preferred stock dividend requirements of majority-owned subsidiaries on a pre-tax basis.....	2	2	--	--	--	--	--	--	1
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Fixed charges as defined...	\$ 175	\$ 148	\$ 137	\$ 113	\$ 95	\$ 50	\$ 88	\$ 76	\$ 73
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges...	1.71	1.99	2.31	2.15	NM	1.72	1.76	2.00	2.45
	=====	=====	=====	=====	=====	=====	=====	=====	=====

&lt;/TABLE&gt;

In 1995 earnings were inadequate to cover fixed charges by \$59 million.



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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE  
BUSINESSES TENNECO PACKAGING COMBINED. FINANCIAL STATEMENTS AND IS QUALIFIED IN  
ITE ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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