EXHIBIT 19

(Part 6 of 8)

Capital contrib. from Tenneco Inc. of invest. in Petro-Tex Chemical Corp.	......	35.4
Invest. in assets of subs. tfd. to Tenneco Inc.	31.0	......
Lg.-tm. debt inc.	31.0	6.2
Disp. of prop.	6.0	8.9
Other (net)	26.0	54.0
Total	747.0	695.1
Disposition of Funds:		
Capital expen.—		
Integrated oil	502.0	315.3
Const. and farm equip.	45.0	47.1
Shipbuilding	26.0	33.7
Packaging	75.0	56.5
Chemicals	45.0	30.6
Natural gas pipelines	1.0	3.7
Automotive	3.0	1.4
Agriculture, land mgt.	16.0	11.0
Total	713.0	499.3
Net assets purch. in acq.	54.0	20.0
Reduction of lg.-tm. debt	78.0	134.0
Retire. of prod. pay.	32.0	68.1
Divs. on com. & pref. stk.	355.0	297.0
Adv. from Tenneco Inc. to be repaid from fut. nat. gas prod. or cash (net)	22.0	18.8
Investments (net)—		
Affil. cos., excl. undist. earn. of cos. carried on an equity basis	(2.7)	(10.2)
Other	46.0	3.6
Invest. in Petro-Tex Chemical Corp. contr. from Tenneco Inc.	......	35.4
Total	1,288.0	1,066.0
Decr. in working capital	541.0	370.9

BALANCE SHEETS

COMPARATIVE CONSOLIDATED BALANCE SHEET, AS OF DEC. 31:
(Taken from reports filed with Securities & Exchange Commission)
(in millions of dollars)

	1978	1977	1976
ASSETS:			
Cash	21.0	31.8	42.2
Temporary investments, cost	2.0	1.9	14.4
[1]Receivables	867.0	789.3	637.8
[2]Inventories	857.0	714.8	606.9
Prepayments, etc.	31.0	32.2	26.0
Total current assets	1,778.0	1,570.0	1,327.3
Producing & undeveloped oil & gas / Ref. & market property	3,075.0	2,456.8	2,101.8
Packaging property	546.0	443.5	399.8
Chemical property	299.0	476.8	283.8
Machinery, equipment and shipbuild.	941.0	860.0	788.9
Land use, etc.	132.0	116.1	93.0
Transmission property	38.0	37.3	33.8
[4]Depreciation, depletion & amort.	1,560.0	1,396.7	1,124.6
Net property	3,471.0	2,993.8	2,576.5
Invest. unconsol. subsidiaries	124.0	144.1	162.3
Parent company stk., cost	30.0	32.4	32.4
Affiliated companies, cost	......	......	14.0
Long term receivables	103.0	56.0	52.2
Other investments	19.0	19.9	45.6
Deferred charges	12.0	13.8	14.3
Excess cost of inv. in subs.	33.0	31.9	30.9
Other assets	3.0	2.8	7.2
Total	5,573.0	4,864.7	4,262.7
LIABILITIES:			
Debt due	63.0	124.6	350.1
Notes payable	1,854.0	1,292.7	875.7
Accounts payable	583.0	563.7	437.6
Accrued taxes	195.0	134.4	155.1
Accrued interest	13.0	12.6	12.6
Other accruals	281.0	111.9	95.2
Total current liabilities	2,989.0	2,239.9	1,626.3
Long term debt	421.0	462.8	590.6
Noninterest adv. from parent	10.0	32.2	51.0
Deferred prod. pay. proceeds	31.0	63.0	131.1
Other deferred credits	171.0	154.0	74.1
Deferred income tax	362.0	256.6	182.4
Minority interest	2.0	1.8	1.6
[3]$1.60 preferred stock	56.0	55.5	55.5
Common stock ($5 par)	60.0	60.0	60.0
Capital surplus	815.0	815.5	780.1
Retained earnings	656.0	723.4	710.0
Total	5,573.0	4,864.7	4,262.7
Net current assets	d1,211.0	d669.9	d299.0

[1]Includes 1978, $178,000,000; 1977, $219,500,000 and 1976, $192,200,000 as cost incurred and estimated profits recorded on shipbuilding contracts in progress, less billings.

[2]1978: comprised of: Raw materials, work in progress and finished products, at lower of cost or market, $757,000,000; materials and supplies, at average cost, $100,000,000.

[3]No par shares: 1978-76, 2,000,000.

[4]1978: Producing and undeveloped oil and gas & refining and marketing, $912,000,000; packaging, $201,000,000; chemical, $87,000,000; machinery, equipment and shipbuilding, $306,000,000; land use and other, $30,000,000; gas transmission, $24,000,000; total, $1,360,000,000.

General Notes

(a) Consolidated financial statements include all majority-owned subsidiaries other than finance and inactive subsidiaries.

Unconsolidated majority-owned subsidiaries and companies in which at least a 20% voting interest is owned are carried at cost plus equity in undistributed earnings since date of acquisition. Such equity in undistributed earnings amounted to $82,000,000 and $92,700,000 at Dec. 31, 1978 and 1977 respectively.

(b) Summarized financial information of JI Case Credit Corp., (see Moody's Bank and Finance Manual) an unconsolidated wholly-owned finance subsidiary, at Dec. 31, 1978 and 1977 is as follows (in $000):

	1978	1977
	—(in 000)—	
Assets	746,000	690,000
Liabilities	643,000	599,200
Equity in net assets	103,000	90,800
Net income	12,000	9,300

(c) In Oct. 1975, Financial Accounting Standards Board (FASB) issued a statement which requires that gains or losses which result from the translation of foreign currency transactions and foreign currency financial statements be included in the determination of net income for the period in which an exchange rate changes. Pursuant to the provisions of this statement, the financial statements of prior years have been restated. Such restatement decreased 1974 net income approx. $4,000,000. The restatement of all years prior to 1974 has been effected by a reduction of approx. $12,000,000 in retained earnings at beginning of 1974. Translation gains (losses) of approx. ($8,000,000), ($13,000,000) and ($3,000,000) were included in the determination of net income for 1978, 1977 and 1976, respectively.

(d) Tenneco Corp. and its subsidiaries capitalize all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of oil and gas reserves and amortize such costs associated with each cost center, exclusive of certain undeveloped offshore leases, over the life of the estimated oil and gas reserves using the unit-of-production method. When a lease is abandoned, all costs incurred in connection with its acquisition, exploration and development are charged to the reserve for depreciation, depletion and amortization. The properties are accounted for as a single cost center.

In Dec. 1977, Financial Accounting Standards Board (FASB) issued a statement that will require oil and gas producing companies to follow the "successful efforts" method of accounting for costs incurred in exploration and development of oil and gas reserves and to record deferred taxes which have not been previously provided. Generally the "successful efforts" method requires that non-productive exploration costs be written-off in the period incurred whereas "full cost" requires the capitalization and amortization of such costs over the estimated life of producing properties.

The statement will be effective for fiscal years beginning after Dec. 15, 1978, and will be applied retroactively by restating previously issued financial statements.

Depreciation of the other properties is provided on a straight-line basis in amounts which, in the opinion of management, are adequate to allocate the cost of properties over their estimated useful lives.

FINANCIAL & OPERATING DATA

Statistical Data

	1978	1977	1976	1975	[5]1974	1973
Earned per share:						
—$1.60 conv. pfd.	$144.00	$155.20	$137.65	$112.40	$128.40	$65.72
[2]—common	$23.75	$25.60	$22.68	$18.47	[3]$21.13	[3]$10.63
Dividends per share—5¾% pfd.	......	......	......	......	......	$4.31
—6% pfd.	......	......	......	......	......	$4.50
—$1.60 conv. pfd.	$1.60	$1.60	$1.60	$1.60	$1.60	$1.60
—common	[1]......	[1]......	$25.65	$13.88	$7.97	$5.70

FINANCIAL & OPERATING DATA (Cont'd):	1978	1977	1976	1975	[5]1974	1973
Price range—$1.60 conv. pfd.	......	......	37½-26⅝	27½-21¾	24¼-17¼	31½-20½
Times charges earned:						
Before income tax	8.98	9.17	6.94	5.01	5.77	3.16
After income tax	5.80	5.80	4.72	3.46	3.88	2.77
Times charges & pref. divs. earned	5.52	5.52	4.52	3.34	3.75	2.65
Net tangible assets $1,000 l.t. debt	$4,770	$4,505	$3,666	$3,335	$3,305	$2,952
Net curr. assets $1,000 l.t. debt	......	......	......	$185	$192	$457
Price range—deb. 5⅛s, 1990	71¼-66½	79⅝-70	74½-61	66½-61	72½-58¾	77-71
—deb. 6¼s, 1992	120-97½	129¼-101¼	128-94	96⅞-78⅛	94-64⅞	110½-82½
—deb. 7s, 1993	99⅛-79	91-86¾	90½-75¾	79⅝-66	86½-65	94½-80¾
—J.I. Case Co. deb. 5½s, 1990	82-77	81⅛-74½	78⅜-60	62-51	66-50	72-62
—Pkg. Corp. deb. 4⅝s, 1987	69¾-67½	73⅛-64⅞	65-56¾	56¼-51	68½-52	73-67½
—Pkg. Corp. deb. 6.85s, 1993	83⅝-81¼	83⅛-79⅞	90⅛-74½	76-73⅜	83½-68½	92-83
Net tangible assets per sh.—common	$127.96	$133.24	$126.60	$129.45	$124.68	$112.45
Number of shares—$1.60 conv. pfd.	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
—common	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000

[1]All owned by Teneco, Inc. (see preceding statement). [2]Before extraordinary items (as reported by company); after: 1973, $11.55. [3]As reported by company. [5]Restated for accounting change. See General Notes, (c & d) below balance sheet.

Financial & Operating Ratios:	1978	1977	1976	1975	1974	1973
Current assets÷current liabilities	0.59	0.70	0.82	......	......	......
% cash & securities to current assets	1.18	2.04	3.18	......	......	......
% inventories to current assets	48.20	45.52	45.72	......	......	......
% property depreciated	31.01	31.81	30.39	......	......	......
% annual depr., etc. to gross property	5.37	5.17	5.27	......	......	......
Capitalization:						
% long term debt	20.96	21.85	26.87	......	......	......
% preferred stock	2.79	2.62	2.53	......	......	......
% common stock & surplus	76.25	75.53	70.60	......	......	......
Sales÷inventories	6.36	6.89	7.47	......	......	......
Sales÷receivables	6.28	6.24	7.11	......	......	......
% sales to net property	156.96	164.61	176.02	......	......	......
% sales to total assets	97.75	101.30	106.39	......	......	......
% net income to total assets	5.17	6.38	6.46	......	......	......
% net income to net worth	18.15	18.76	17.15	......	......	......
Analysis of Operations:	%	%	%	%	%	%
Gross sales, less returns, allow., etc.	100.00	100.00	100.00	100.00	100.00	100.00
Cost of sales	68.12	66.72	67.51	69.07	70.39	72.66
Selling, general, etc., expenses	17.84	17.51	18.09	16.68	13.72	15.16
Depreciation	4.86	4.56	4.30	4.31	3.49	4.25
Balance	9.18	11.21	10.10	4.94	12.40	7.93
Interest paid	1.10	1.10	1.17	1.86	2.07	2.65
Other income	0.46	0.37	0.54	0.71	0.62	1.05
Balance	8.54	10.48	9.47	8.79	10.95	6.33
Prov. Fed. inc. tax & min. int.	3.51	4.43	3.64	3.53	4.54	1.05
Equity in net inc. of affil. cos.	0.25	0.25	0.28	0.34	0.50	0.64
Net income	5.28	6.30	6.41	5.59	6.91	4.86

LONG TERM DEBT

1. Tenneco Corp. debenture 5⅛s, due 1990:

Rating—Baa

OUTSTANDING—Dec. 31, 1978, $30,501,000.
DATED—Apr. 1, 1965. DUE—Apr. 1, 1990.
INTEREST—A&O1 at trustee's office.
TRUSTEE—Chemical Bank, New York.
DENOMINATION—Fully registered, $1,000 or authorized multiples thereof; transferable without any service or other charge.
CALLABLE—As a whole or in part at any time on at least 30 days' notice to each Mar. 31 incl. as follows:

1978	103.24	1979	102.97	1980	102.70
1981	102.43	1982	102.16	1983	101.89
1984	101.62	1985	101.35	1986	101.08
1987	100.81	1988	100.54	1989	100.27
1990	100.00				

Also callable for sinking fund (which see) on any interest date beginning Apr. 1, 1966 at prices to each Oct. 1 incl. as follows:

1978	100.85	1979	100.80	1980	100.74
1981	100.69	1982	100.62	1983	100.56
1984	100.49	1985	100.42	1986	100.35
1987	100.27	1988	100.18	1989	100.00

SINKING FUND—Cash to retire at sinking fund redemption prices on each Apr. 1 and Oct. 1, debentures as follows: $500,000, Apr. 1, 1966 to Oct. 1, 1974; $750,000, Apr. 1, 1975 to Oct. 1, 1976; $1,000,000, Apr. 1, 1977 to Oct. 1, 1977; $1,250,000, Apr. 1, 1978 to Oct. 1, 1983; $1,500,000, Apr. 1, 1984 to Apr. 1, 1987; $1,750,000, Oct. 1, 1987 to Oct. 1, 1989. Payments will retire 96½% of issue before maturity.
SECURITY—Not secured. Co. may not mortgage property without securing debentures equally and ratably therewith; excepted are (1) purchase money mortgages or liens existing on property at time of acquisition or incurred simultaneously therewith if the obligations secured thereby are not assumed by Co. and if such mortgages or liens are limited to such property and any improvements at the time or thereafter erected thereon; (2) refundings of mortgages or liens referred to in (1) for not exceeding amount of obligations secured thereby at time of such refunding; (3) liens incurred in ordinary course of business and not in connection with the borrowing of money which do not in the aggregate materially detract from value of property subject thereto; (4) mortgages or other liens given to secure purchase price of property subject thereto when such purchase price is payable only out of production or proceeds of production therefrom; (5) purchase money mortgages or liens existing at time of purchase on towboats, barges, tank vessels or tank cars.
CREATION OF ADDITIONAL DEBT—Co. or any restricted subsidiary may not incur any debt (except to Co. or a restricted subsidiary) unless thereafter (1) consolidated net earnings of Co. and restricted subsidiaries available for int. and prop. retirement appropriations for 12 consec. mos. out of 15 mos. preceding have been not less than (a) 3½ times sum of total annual interest charges on consolidated debt of Co. and restricted subsidiaries plus total annual dividend requirements on subsidiary preferred and (b) 1¼ times maximum annual service charge on consolidated debt and subsidiary preferred of Co. and restricted subsidiaries to be outstanding; and (2) consolidated net earnings of Co. and restricted subsidiaries available for interest and dividends on subsidiary preferred for said 12 months' period have been equal to not less than 2¼ times sum of total annual interest charges on consolidated debt of Co. and restricted subsidiaries plus total annual dividend requirements on subsidiary preferred. Co. or any restricted subsidiary may not incur funded debt (other than to Co. or a restricted subsidiary) if thereafter consolidated funded debt of Co. and restricted subsidiaries plus value of any minority interests in restricted subsidiaries would exceed amount obtained by multiplying consolidated capitalization by the property ratio, as defined.
DIVIDEND RESTRICTION—See sub. deb. 6¼s, due 1992.
RIGHTS ON DEFAULT—Trustee or 25% of debs. may declare principal due and payable (30 days' grace for payment of interest or sinking fund payment).
INDENTURE MODIFICATION—Indenture may be modified, except as provided, with consent of 66⅔% of debs.
PURPOSE—Proceeds to repay short-term notes and to make advances to subsidiaries for expansion of the domestic and foreign oil and gas development, exploratory drilling, acquisition, marketing, chemical and other activities.
OFFERED—($50,000,000) at 101.34 (proceeds to Co., 100.14) on Apr. 21, 1965 by Stone & Webster Securities Corp. and White, Weld & Co., NYC; Halsey, Stuart & Co. Inc., Chicago, and associates.

2. Tenneco Corp. debenture 7s, due 1993:

Rating—Baa

OUTSTANDING—Dec. 31, 1978, $83,930,000.
DATED—Aug. 15, 1968. DUE—Oct. 1, 1993.
INTEREST—A&O1 to holders registered on 15th day prior to interest date.
TRUSTEE—Chemical Bank, New York.
DENOMINATION—Fully registered, $100, $500 and $1,000 and authorized multiples of $1,000.
CALLABLE—As a whole or in part beginning Oct. 1, 1973 on at least 30 days' notice to each Sept. 30, incl., as follows:

1977	104.21	1978	103.95	1979	103.68
1980	103.42	1981	103.16	1982	102.89
1983	102.63	1984	102.37	1985	102.11
1986	101.84	1987	101.58	1988	101.32
1989	101.05	1990	100.79	1991	100.53
1992	100.26	1993	100.00		

Also callable for sinking fund (which see) at par.
SINKING FUND—Semi-annually, each A&O1 beginning Oct. 1, 1973, to retire debs., cash (or debs.) as follows: Oct. 1, 1973-Apr. 1, 1976, $1,000,000; Oct. 1, 1976-Oct. 1, 1980, $1,500,000; Apr. 1, 1981-Apr. 1, 1985, $2,000,000; Oct. 1, 1985-Oct. 1, 1990, $2,500,000; Apr. 1, 1991-Apr. 1, 1993, $3,000,000.
SECURITY—OTHER PROVISIONS—Same as deb. 5⅛s, due 1990.
LISTED—On New York Stock Exchange.
PURPOSE—Issued in connection with merger of Co. and Newport News Shipbuilding & Dry Dock Co.

3. Tenneco Corp. conv. subord. debenture 6¼s, due 1992:

Rating—Ba

OUTSTANDING — Dec. 31, 1978, $95,500,000.
DATED—Oct. 1, 1967. DUE—Oct. 1, 1992.
INTEREST—A&O1 at office of trustee to holders registered on 10th day prior to interest date.
TRUSTEE—Citibank, N.A., NYC.
DENOMINATION—Fully registered, $100, $500, $1,000 and authorized multiples of $1,000.
CALLABLE—As a whole or in part on at least 30 days' notice to each Sept. 30, incl., as follows:

1977	105.00	1978	104.50	1979	104.00
1980	103.50	1981	103.00	1982	102.50
1983	102.00	1984	101.50	1985	101.00
1986	100.50	1992	100.00		

Also callable for sinking fund (which see) at par.
SINKING FUND—Annually, each Oct. 1, 1978-91, to retire debs., cash (or debs.) equal to $9,000,000; plus similar optional payments.
SECURITY—Not secured; subordinated to all senior debt.
DIVIDEND RESTRICTION—Co. may not pay cash divs. on or acquire capital stock (except for pfd. sinking fund) in excess of net income after Oct. 1, 1967 plus net proceeds from sale of stock after Sept. 30, 1967 plus $86,000,000.
CONVERTIBLE—Into Tenneco, Inc. com. at any time (if called, on or before 2nd day prior to redemption date) at $28.49 a share (adjusted to reflect offering of 6,000,000 Tenneco, Inc. common shares in Nov. 1970). No adjustment for interest or divs. Cash paid in lieu of fractional shs. Conversion privilege protected against dilution.
RIGHTS ON DEFAULT—INDENTURE MODIFICATION—Same as deb. 5⅛s, due 1990.
LISTED—On New York Stock Exchange.
PURPOSE—Proceeds to repay debt; balance for advances to subsidiaries.
OFFERED—($100,000,000) at 100 (proceeds to Co. 98.50) on Nov. 13, 1967 thru Stone & Webster Securities Corp., White, Weld & Co., Halsey, Stuart & Co., Inc. and Paine, Webber, Jackson & Curtis and associates.

4. Packaging Corp. of America debenture 4⅝s, due 1987:

Rating—A

AUTHORIZED—$25,000,000; outstanding, Dec. 31, 1978, $11,415,000.
DATED—Oct. 1, 1962.
MATURITY—Oct. 1, 1987.
INTEREST—A&O1 at office of trustee.
TRUSTEE—Bankers Trust Co., New York.
DENOMINATION—Coupon, $1,000; registerable as to principal; fully registered, $1,000 and multiples. C&R interchangeable.
CALLABLE—As a whole or in part, on at least 30 days' notice at any time to each Sept. 30 incl., as follows:

1978 .....101.22 1979 .....101.09 1980 .....100.95
1981 .....100.82 1982 .....100.68 1983 .....100.55
1984 .....100.41 1985 .....100.28 1986 .....100.14
1987 .....100.00

Also callable at 100 for sinking fund (which see).

SINKING FUND—Cash (or debentures) to retire debentures at par each Oct. 1, as follows: 1968-73, $625,000; 1974-80, $1,000,000; 1981-86, $1,500,000; plus similar optional amounts. Debentures redeemed pursuant to optional sinking fund payments and debentures redeemed otherwise than through sinking fund may be credited against future mandatory sinking fund payments in inverse order of their due date. Mandatory payments are sufficient to retire 79% of debentures before maturity.

ASSUMED—By Packaging Corp. of America (new co.).

SECURITY—Not secured.

RIGHTS ON DEFAULT—Trustee or 25% of debentures may declare principal due and payable (30 days' grace for payment of interest or sinking fund installment).

PURPOSE—Proceeds to pay 4⅝% and 6% notes due 1977 and retire entire 6% preferred; balance for general funds.

OFFERED—($25,000,000) at 98⅞ (proceeds to company, 97¾) on Oct. 24, 1962 by Blyth & Co., Inc., New York, and associates.

5. Packaging Corp. of America debenture 6.85s, due 1993:

Rating—A

AUTH.—$25,000,000; outstanding, Dec. 31, 1978, $17,034,000.

DATED—Aug. 1, 1968. DUE—Aug. 1, 1993.

INTEREST—F&A1 by mail to holders registered on 15th day prior to interest date.

TRUSTEE—Bankers Trust Co., NYC.

DENOMINATION—Fully registered, $1,000 and authorized multiples thereof.

CALLABLE—As a whole or in part on at least 30 days' notice to each July 31, incl., as follows:

1978 .....103.77 1979 .....103.43 1980 .....103.09
1981 .....102.74 1982 .....102.40 1983 .....102.06
1984 .....101.72 1985 .....101.37 1986 .....101.03
1987 .....100.69 1988 .....100.35 1989 .....100.00
1990 .....100.00 1991 .....100.00 1992 .....100.00
1993 .....100.00

Also callable for sinking fund (which see) at par. Not callable however, from funds borrowed at an interest cost less than 6.85%, before Aug. 1, 1978.

SINKING FUND—Annually, each Aug. 1, beginning 1974, to retire debs., cash (or debs.), equal to $1,250,000; plus similar optional payments. Payments calculated to retire 95% of debs. outstg.

SECURITY—Not secured. Co. or any restricted subsidiary may not create, any mortgage on property without securing debs. equally, except for purchase money mortgages up to 75% of cost of property and certain other permitted liens. If on consolidation or sale of substantially all property, any assets would become subject to mortgage, debs. will be equally secured.

DIVIDEND RESTRICTION—Co. may not pay cash divs. on or acquire capital stock or make, or permit any subsidiary to make, any advance to or investment in an affiliate, if thereafter, consolidated net tangible assets plus capitalized rent less aggregate amount of such advances or investments would be less than 250% of consolidated funded debt and capitalized rent, or if consolidated net worth would be less than $102,000,000.

OTHER DETAILS—Same as deb. 4⅜s, due 1987.

PURPOSE—Proceeds to repay advances from Tenneco Corp., parent; balance for working capital.

OFFERED—($25,000,000) at 100 (proceeds to Co. 98.875) on July 30, 1968 thru Blyth & Co., Inc. and associates.

6. J.I. Case Co. subordinated debenture 5½s, due 1990:

Rating—Ba

AUTH.—$20,000,000; outstanding, Dec. 31, 1978, $13,183,675.

DATED—Feb. 18, 1965. DUE—Feb. 1, 1990.

INTEREST—F&A 1 by mail to registered holders.

TRUSTEE—Citibank, N.A., NYC.

DENOMINATION—Fully registered, $25, $100, $500, $1,000 and such multiples of $1,000 as may be determined. Debs. in denominations of less than $1,000 to be issued only on original issue and on transfers or consolidations of such debs.

CALLABLE—As a whole or in part at any time on at least 30 days' notice to each Jan. 31 incl. as follows:

1978 ......103 1979 ......102¾ 1980 ......102½
1981 ......102¼ 1982 ......102 1983 ......101¾
1984 ......101½ 1985 ......101¼ 1986 101
1987 ......100¾ 1988 ......100½ 1989 ......100¼
1990 100

Not callable, however, before Feb. 1, 1975 from moneys borrowed by Co. or any subsidiary at interest cost to Co. or such subsidiary of less than 5½%.

Also callable at 100 for sinking fund (which see).

SINKING FUND—Annually, cash (or debs.) prior to each Feb. 1, 1971-89 to redeem at par following percentages of total debs. delivered: 3%, 1971-74; 4%, 1975-78; 5%, 1979-82; 6%, 1983-86; 7%, 1987-89; plus similar optional payments. Optional payments do not reduce mandatory payments.

SECURITY—Not secured; subordinated to senior debt.

CREATION OF ADDITIONAL DEBT—Co. or any subsidiary (other than a finance subsidiary) may not create indebtedness for borrowed money maturing more than one year from its date of issuance if, after giving effect thereto and to any concurrent retirements, consolidated funded debt shall exceed stockholders' equity; except that Co. may issue additional subordinated funded debt to Tenneco Corp. for cash or in exchange for subordinated funded debt then outstanding, as long as Tenneco Corp. owns more than 50% of voting stock of the Co. then outstanding.

DIVIDEND RESTRICTION—Co. may not pay cash dividends on, or make any distributions (except in shares of capital stock) in respect of, or acquire for a consideration (other than in shares of capital stock) or permit any subsidiary to acquire for a consideration (other than in shares of capital stock of Co.) any shares of capital stock of Co. if thereafter aggregate payments and distributions after Apr. 1, 1965 shall exceed sum of (1) $5,000,000 plus (2) consolidated net income (including equity in income of J.I. Case Credit Corp. and any other finance subsidiary earned after Oct. 31, 1964 plus (3) net consideration received by Co. after Apr. 1, 1965 from stock sold.

RIGHTS ON DEFAULT—Trustee or 25% of debs. may declare principal due and payable (30 days' grace for interest payment; 60 days' grace for payment of sinking fund installment).

INDENTURE MODIFICATION—Indenture may be modified, except as provided, with consent of 66⅔% of debs.

LISTED—On New York Stock Exchange.

PURPOSE—Issued $19,990,138 under 1965 recapitalization.

7. Other Subsidiary Debt: Outstanding, Dec. 31, 1978:

(a) Chemical subsidiaries: $52,200,000 due 1980 through 1994, at average interest rate of 6.16%.

(b) Packaging subsidiaries: $60,551,000 (excluding Packaging Corp. of America debentures shown above) due through 1997 at average interest rate of 7.86%.

(c) Land use subsidiaries: $29,900,000 due 1979 through 1991, at average interest rate of 5.03%.

(d) Machinery, equipment and shipbuilding subsidiaries: $58,741,426 (excluding J.I. Case debentures shown above) due through 1990 at average interest rate of 9.33%.

(e) Various other subsidiary debt: $62,923,274. No details reported.

At Dec. 31, 1978, after giving effect to restrictions approximately $610,603,000 of consolidated retained earnings was not restricted as to payments of dividends on common.

CAPITAL STOCK

1. Tenneco Corp. $1.60 cum. conv. second pfd.; no par:

AUTH.—All series, 2,000,000 shs.; outstg., this series, 2,000,000 shs.; no par.

At Mar. 16, 1979, Teneco, Inc. owned 1,731,889 shares of preferred approximating 99.78% of the voting power.

PREFERENCES—Has preference after 1st pfd. for assets and divs.

DIVIDEND RIGHTS—Entitled to cum. cash divs. of $1.60 a sh. annually, payable quarterly, Jan. 1, etc.

DIVIDEND RECORD—Initial dividend of 35.12 cents paid July 1, 1967; regular dividends paid quarterly thereafter.

DIVIDEND RESTRICTION—Co. may not pay cash divs. on or acquire stock junior to second pfd. in excess of net income after Dec. 31, 1966 plus proceeds from sale of stock after such date, plus $80,000,000; also no divs. may be paid, or any purchase or redemption made of, such junior stock, unless net assets of Co., less par value of 1st pfd. and any other stock ranking prior to 2nd pfd. is less than 200% of the par value of 2nd pfd. and any other stock ranking on a par with 2nd pfd.

LIQUIDATION RIGHTS—In liquidation, entitled to $27.75 plus divs., if involuntary; if voluntary, redemption price, plus divs.

VOTING RIGHTS—Has 1/10 vote per share and on default of 6 quarterly divs., voting separately as a class, is entitled to elect 2 directors, such right to continue until all divs. are paid in full.

Consent of 66⅔% of 2nd pfd. outstg. necessary to (1) create or authorize any stock ranking prior to 2nd pfd., or increase authorized 1st pfd. or any stock ranking prior to 2nd pfd. or any debt convertible into 1st pfd. shs. or any stock ranking prior to 2nd pfd.; (2) transfer substantially all properties, or merge or consolidate into another company; (3) change terms adversely.

Consent of majority of 2nd pfd. needed to (1) create or authorize any stock ranking on a par with 2nd pfd.; (2) increase authorized 2nd pfd. or parity stock; and (3) create or increase any debt convertible into 2nd pfd. shs. or any parity stock.

CALLABLE—As a whole or in part on at least 30 days' notice to each Dec. 31 incl., as follows (per sh. plus divs.):

1972 .....$29.35 1977 .....$28.95 1982 .....$28.55
1987 .....$28.15

Thereafter at $27.75 a sh.

CONVERTIBLE—Into com. shs. of Tenneco, Inc., parent, on or after May 1, 1968 and prior to May 1, 1983 (if called, on or before 5th business day prior to redemption but not later than Apr. 30, 1983) at rate of 1 pfd. sh. for 1.03 Tenneco Inc. com. sh. No adjustment for interest or divs. Cash paid in lieu of fractional shs. Conversion privilege protected against dilution.

Co. and Tenneco, Inc., parent have entered into an exchange agreement providing for parent co. to redeem 2nd pfd. shs. if subsidiary is unable to do so, or to exchange such shs. for parent Co. com. stock at current ratio in effect. If pursuant to such agreement, shs. of 2nd pfd. are delivered to Tenneco, Inc., in exchange for com. stock, such shs. will, at parent Co.'s option, be purchased by Tenneco Corp., at $27.75 per share. Any such shs. received by parent will be subordinate, with respect to dividends and liquidation, to other 2nd pfd. shs.

ADDITIONAL PREFERRED—Co. may not issue additional 2nd pfd. shs. or any prior or parity stock, if (1) net earnings available for interest and divs. for 12 out of 15 months preceding such issuance is less than 1½ times the annual interest requirements on all debt to be immediately outstg., and all divs. on 2nd pfd. and all prior or parity stock, or (2) net earnings available for interest and divs. referred to in (1) above, after deducting interest requirements on all debt to be immediately outstg., is less than 2 times the annual div. requirements on 2nd pfd. and all parity or prior stock, or; (3) after giving effect to such issue, net assets of Co., after deducting par or stated value of 1st pfd. stock and all stock ranking prior to 2nd pfd., shall amount to less than 200% of the total par or stated value of 2nd pfd. and any parity stock.

TRANSFER AGENTS—Houston National Bank, Houston, Tex.; Chemical Bank, NYC.

PURPOSE—Proceeds to repay debt.

OFFERED—(2,000,000 shs.) at $27.75 a sh. (proceeds to Co., $26.50 a sh.) on Apr. 4, 1967 thru Stone & Webster Securities Corp., White, Weld & Co., and Paine, Webber, Jackson & Curtis and associates.

LISTED—On Philadelphia Stock Exchange.

2. Tenneco Corp. common; par $5:

Auth. 12,000,000 shs.; outstg., 12,000,000 shs.; par $5. All owned by Tenneco, Inc.

TESORO PETROLEUM CORPORATION

CAPITAL STRUCTURE

LONG TERM DEBT Issue	Rating	Amount Outstanding	Times Charges Earned 1978	1977	Interest Dates	Call Price	[9]Price Range 1978	1977
1. Conv. subord. deb. 5¼s, 1989	Ba	$18,762,000	3.04	......	F & A 1	[1]102.55	84⅞- 65	103½- 67¾
2. Other debt	....	207,867,000			....	.....	....	....

CAPITAL STOCK Issue	Par Value	Amount Outstanding	[2]Earned per Sh. 1978	1977	[6]Divs. per Sh. 1978	1977	Call Price	[9]Price Range 1978	1977
1. 8% cum. Conv. preferred	No par	18,350 shs.	$7.11	......	$8.00	$8.00	[3].....	[4].....	[4].....
2. $2.16 cum. Conv. preferred	No par	4,364,964 shs.			$2.16	$2.16	[3].....	25⅝- 19⅛	31¾- 19
3. Common	$0.16⅔	[2]12,331,717 shs.	1.75	d$0.68	....	1.00	.....	12⅜- 6¾	17⅜- 7½

[1]Subject to change. See text. [2]Based on weighted average common and common equivalent shs. as reported by Company, 1977 based on continuing oper. For other per share earnings, see Financial & Operating Data, below. [3]See text. [4]Privately held. [6]Fiscal years, as reported by Company. [9]Calendar years.

HISTORY

Incorporated in Delaware Dec. 26, 1968 to succeed corporation of same name incorporated California Dec. 14, 1939 as Exploration & Development Co. On Oct. 10, 1940 changed name to Independent Exploration Co.; name changed to Intex Oil Co. June 1, 1952 upon acquisition of all assets of a subsidiary of same name; present name adopted Feb. 1, 1968 upon merger of Tesoro Petroleum Corp. (incorporated in Del., Oct. 2, 1964) and Sioux Oil Co.

In 1968 acquired assets of Clymore Petroleum Corp.

In late 1968 acquired 55% interest in Trident Offshore Co., Ltd. and an additional 10% in 1971.

In early 1969 acquired Cardinal Transports, Inc. for 130,000 com. shs.

In May 1969, acquired approx. a 50% interest in Trinidad-Tesoro Petroleum Co. Ltd., a newly formed Trinidad corp. which on July 1, 1969 purchased 100% of outstanding stock of BP (Trinidad) Ltd. whose name was subsequently changed to Carib Oil Ltd. and petroleum related properties of three British Petroleum Co. Ltd. affiliates operating in Trinidad. Government of Trinidad and Tobago acquired balance of interest in this joint company.

On July 16, 1969 acquired Alaskan Oil Refining Co., Midland, Texas for 300,000 com. shares.

In Mar. 1970, acquired assets of De Arman Corp., Houston holding Co. for Petroleum Distributing Co., Land & Marine Rental Co. and Louisiana Barrelling Co. for 140,000 com. shs.

In 1970, acquired Arnold Pipe Rental Co., Inc. and D.&W. Investments, Inc., Texas, and certain assets of Spira Chek, Inc. for 104,530 com. shs. and $212,000 payable in stock and cash.

In Feb., 1971, acquired service station businesses of S&N Investment Co. and Digas Co., Los Angeles for 508,500 com. shs. 27,350 shs. of conv. pfd. stock, $570,000 in promissory notes and $540,000 cash.

In Feb. 1972 acquired Charles Wheatley Co., privately held Tulsa, Okla. producer of valves for petroleum industry for 220,000 company com. shs. (sold in late 1978 to Geosource, Inc.).

In Sept. 1972 formed wholly-owned European marketing subsidiary named Tesoro-Europe Petroleum B.V.

Also in Sept. 1972 acquired DeHumber Handelmaatschappij B.V. and four related Dutch companies for about $4,000,000 cash.

In May 1973 acquired FWI Inc., from Falcon Seaboard Inc., Houston.

In Sept. 1974, Co. formed Tesoro Coal Co. to acquire and develop coal properties.

Also in 1974 formed Tesoro Inter-American Production Co., which will be responsible for Co.'s interest in Trinidad-Tesoro Petroleum Co. Ltd. It also will coordinate future oil and gas production which Co. may develop in other Caribbean and Latin American areas.

In June, 1974 acquired Eagle Transport Co., Tex., for 40,000 com. shs.

In Aug., 1974 acquired Turner Drill Pipe, Tex. for cash and promissory note approximating $700,000.

In Jan., 1975 acquired assets of Buckhorn Harzard Coal Corp. in exchange for 142,661 common shares.

In Jan. 1975 company acquired the assets and liabilities of GO Drilling Co., McAllen, Tex., in exchange for Co. com. shs. Assets included primarily 3 land-drilling rigs, each with a rated depth capacity of 20,000 ft. and support equipment.

On June 6, 1975 acquired 36.7% of Commonwealth Oil Refining Co., Inc. thru a tender offer that expired May 16, 1975 at a price of $14.25 per common share.

In June 1976, acquired Nikiski Alaska Pipeline Co.

In Apr. 1977, Co. formed Tesoro Natural Gas Co. to purchase and transport natural gas.

SUBSIDIARIES

Following subsidiaries wholly owned as of Sept. 30, 1978:

Name	Jurisdiction Organized
Digas Company (Del.)	
Hondo Pipe Line Co. (Tex.)	
Land & Marine Rental Co. (Del.)	
Louisiana Barrelling Co., Inc. (La.)	
Nikiski Alaska Pipeline Co. (Del.)	
Petroleum Distributing Co., Inc. (La.)	
Sioux Oil Co. (Del.)	
Tesoro-Alaskan Petroleum Co. (Del.)	
Tesoro Asia, Inc. (Del.)	
Tesoro-Bolivia Petroleum Co. (Tex.)	
Tesoro Coal Co. (Del.)	
Tesoro Crude Oil Co. (Del.)	
Tesoro Drilling Co. (Tex.)	
Tesoro Natural Gas Co. (Tex.)	
Tesoro-Indonesia Petroleum Co. (Del.)	
Tesoro Overseas Finance Company N.V. (Neth. Antilles)	
Tesoro Petroleum U.K. Co. (Del.)	
Tesoro Tank Lines Co. (Tex.)	
Tesoro Trading Co. (Del.)	
Tesoro Transportation Company (Tex.)	

AFFILIATES

Trinidad-Tesoro Petroleum Co. Ltd. (49.9%).
[1]Commonwealth Oil Refining Co., Inc. (Corco) (36.7%)

[1]Since June 1975, Co. has owned approximately 36.7% (5,503,740 shs.) of the outstanding common stock of Corco, which Co. acquired pursuant to a cash tender offer at an aggregate cost (including expenses) of approximately $83,000,000. During fiscal 1977, Co. discontinued its investment in Corco and, as a result of Corco's continuing financial difficulties, wrote down the carrying value of its common stock investment in Corco to $2.50 a share, or $13,760,000 in the aggregate, an amount which management estimates to be the net realizable value of those shares. During fiscal 1975 and 1976, Co. also made substantial debt investments in Corco which, at Sept. 30, 1978, consisted of $50,000,000 in secured subordinated loans and $14,000,000 in secured senior loans. The senior loans, the subordinated loans and the accrued interest on both at Sept. 30, 1977, have been classified as noncurrent receivables reflecting Corco's inability to repay such loans presently. During fiscal 1978, Co. ceased recognizing earnings from interest due on its loans to Corco and charged $4,165,000 of previously accrued interest to other expense.

On Mar. 2, 1978, after attempts to find a suitable alternative to Corco's financial problems had failed, Corco filed a petition under Chap. XI of Federal Bankruptcy Act in United States District Court for the Western District of Texas, San Antonio Division. Similar petitions were filed on or about same time by 11 wholly-owned subsidiaries of Corco, two of which subsequently withdrew their petitions. Since then, Bankruptcy Court has permitted Corco and its subsidiaries to continue their operations as debtors-in-possession and has authorized incurrence of expenses and obligations necessary to continue operations. No plans of arrangement have yet been filed with Court. Continuation of Corco's operations and realization of its assets and liquidation of its liabilities in ordinary course of business will depend upon (1) development and approval by Court and Corco's creditors of plans of arrangement, and (2) Corco's ability to achieve profitable operations.

Securities and Exchange Commission has filed a motion with Bankruptcy Court seeking to transfer proceedings from Chap. XI to Chap. X of Federal Bankruptcy Act. A similar motion was filed by one of Corco's principal trade creditors. Court has not yet ruled on these motions.

Several companies have expressed an interest in acquiring a significant equity interest in Corco since bankruptcy proceedings were instituted. Two formal proposals have been presented to Corco's Board of Directors and are presently under consideration. Under either offer, Tesoro would exchange its Corco common stock and notes for securities having a value at least equal to the present carrying value of such stock and notes. Acceptance of either offer by Corco's directors would be subject to approval by Corco's stockholders, major creditors and Bankruptcy Court.

BUSINESS

Tesoro Petroleum Corporation is engaged in various segments of energy industry including exploration and production of crude oil and natural gas; petroleum services including leasing of oil field equipment; contract drilling of oil and gas wells; crude oil operations including trading and gathering of crude oil; refining, marketing and transportation of crude oil and petroleum products; and mining of coal. Operations are conducted in 34 states, including Alaska, and 5 foreign countries.

OPERATING STATISTICS

Exploration and Production:

United States: Tesoro explores for oil and natural gas in California, Alaska, and the Gulf Coast, Southwest, Mid-Continent and Rocky Mountain areas of the United States. Its exploratory projects in these areas are onshore, except for some offshore lease blocks in the Gulf of Mexico and the Cook Inlet area of Alaska.

In fiscal 1978, Co. thru its newly formed subsidiary, Tesoro Natural Gas Co., purchased and transported natural gas in South Texas for resale to an intrastate pipeline company.

United States	1978	1977
Net explor. wells drld.	......	5.2
Net devel. wells drld.	1.58	21.7
Oil prod. (b/d)	3,591	4,117
Nat. gas prod. (mmcf/d)	17.2	18.4
Crude oil reserves, net proved (million bbls.)	6.6	7.7
Nat. gas reserves, net proved (billion cu. ft.)	36.4	40.0

Indonesia: The Company's Indonesian activities are conducted in the Tarakan Island and Sanga-Sanga areas of Kalimantan in conjunction with Pertamina, the state-owned oil company of Indonesia.

Indonesia	1978	1977
Net explor. wells drld.	......	6.0
Net devel. wells drld.	......	11.0
Crude oil prod. (b/d)	5,378	6,804
Crude oil reserves, net proved (mmbbls.)	10.9	13.8

Trinidad: In Trinidad, operations are carried on both onshore and offshore in Gulf of Paria and offshore Trinidad's southeast coast thru Trinidad-Tesoro Petroleum Co. Ltd., 49.9% owned by Co. and 50.1% owned by government of Trinidad and Tobago.

Trinidad-Tesoro Petroleum Co. Ltd.

	1978	1977
Revenues (mm)	$156.1	$151.3
Net income (mm)	$37.8	$40.3
Shrhldrs' eq. (mm)	$147.9	$132.8
Tot. assets (mm)	$229.4	$190.8
Crude oil prod. (b/d)	17,399	34,530
Nat. gas prod. (mmcf/d)	7.7	17.0
Crude oil reserves, net proved (mmbbls.)	78.13	141.7
Nat. gas reserves, net proved (billion cu. ft.)	139.94	256.1

Other Activities: Other Company exploration, development and production activities include operations in Canada, Bolivia, and the Netherlands Sector of the North Sea. Although these activities may be important to the Company in the future, the Company does not consider these activities to be material, individually or in the aggregate, in relation to its present business.

Refining, Marketing & Transportation:

Refining: Co. has refining facilities at Kenai, Alaska; Carrizo Springs, Tex.; Newcastle, Wyo., and Wolf Point, Mont.

Refining:	1978	1977
Yr. end capacity (b/d)	74,600	80,600
Throughput (b/d)	66,237	91,171
Shipments (b/d)	......	90,303

Marketing: Co. sells refined products (gasoline, fuel oil, jet fuel and other distillates) at retail and wholesale, in Alaska and Rocky Mountain, Southwest and Eastern U.S. areas and also in Europe.

Marketing:	1978	1977
Ref. prod. sales (b/d)	103,646	115,641
No. retail outlets	103	211

Transportation:

Co.'s subsidiary, Tesoro Tank Lines Co., transports petroleum, petroleum products and petrochemicals by truck with intrastate authority in Texas. Co. and Tesoro Tank Lines now own or lease a fleet of 108 petroleum transport trucks.

Co.'s subsidiary, Nikiski Alaska Pipeline Co., operates a common carrier petroleum products pipeline from Co.'s Kenai, Alaska refinery to terminal facilities in Anchorage. The pipeline transports a volume of approximately 17,000 barrels per day, and has a capacity of approximately 40,000 barrels per day. If needed, minor modifications could increase the pipeline capacity to more than 50,000 barrels per day.

Crude Oil Operations:

Company, principally through its subsidiary Tesoro Crude Oil Co., is an independent purchaser and gatherer of crude oil condensate and natural gas liquids from leases, resellers and certain processing plants in the United States, principally in the states of Alaska, Cal., La., Mont., N.M., Okla., Tex., and Wyo.

1979

MOODY'S®

PUBLIC UTILITY MANUAL

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SEE FOLLOWING PAGE FOR COMPLETE LIST OF OFFICES

TEXAS GAS TRANSMISSION CORPORATION

CAPITAL STRUCTURE

LONG TERM DEBT

Issue	Rating	Amount Outstanding	Times Charges Earned 1978	Times Charges Earned 1977	Interest Dates	Call Price	Price Range 1978	Price Range 1977
1. First mtge. pipeline 5⅝s, 1979	[1]..	$2,070,000	3.88	3.65	M&N1	[1].....	[1].....	[1].....
2. Deb. 5s, 1982	A	7,787,000			F&A1	[1]100.75	88⅛- 84⅝	88⅛- 83¼
3. Deb. 4⅞s, 1984	A	10,770,000			M&S1	[1]101.125	82⅞- 77⅝	82⅞- 79
4. Deb. 6⅛s, 1987	A	23,297,000			A&O1	[1]102.42	85⅞- 80⅞	88⅞- 84
5. Deb. 9⅛s, 1990	A	27,786,000			J&D1	[1]104.77	104⅞- 97½	106⅛-101½
6. Deb. 9⅝s, 1990	A	32,356,000			F&A1	[1]105.36	94⅞- 88	107⅞-103
7. Deb. 8⅛s, 1991	A	27,858,000			J&J1	[1]104.41	102⅞- 98	98⅛- 93
8. Deb. 8⅝s, 1984	A	40,000,000			A&O1	[1]103.55	97½- 93	103⅞-101⅝
9. Deb. 7⅞s, 1986	A	50,000,000			A&O1	[1]105.16	....	102⅞- 98⅝
10. Loan agreement	....	11,092,000			....	.....	....	....
11. Other debt	....	39,865			....	.....	....	....
12. Subsidiary debt	....	198,584,660			....	.....	....	....

CAPITAL STOCK

Issue	Par Value	Rating	Amount Outstanding	Earned per Sh. 1978	Earned per Sh. 1977	Divs. per Sh. 1978	Divs. per Sh. 1977	Call Price	Price Range 1978	Price Range 1977
1. 4.96% cum. pfd.	$100	....	12,181 shs.	$651.63	$535.01	$4.96	$4.96	$100	80 - 80	80 - 58
2. 9.375% cum. pfd.	100	....	80,500 shs.			9.375	9.375	[2]106.70	....	100 - 99
3. 8.25% cum. pfd.	100	....	[4]200,000 shs.			[4]....	[4]....	Text	[1]....	[1]....
4. $1.50 cum. conv. pref.	$	....	396,308 shs.	150.26	122.13	1.50	1.50	30.00	47⅞- 34⅝	49 - 42
5. Common	$	....	[3]10,287,000 shs.	[3]5.79	[3]5.37	2.58	2.30	.....	48⅞- 34⅞	49 - 41⅝

[1]Held privately. [2]Subject to change; see text. [3]Based on average common & equivalent shares as reported by Company. [4]Sold privately on Mar. 15, 1979.

HISTORY

Incorporated in Delaware, Dec. 7, 1945. Effective Mar. 31, 1948, Kentucky Natural Gas Corp. (Kentucky), a wholly-owned subsidiary, and Memphis Natural Gas Co. (Memphis), 49.79% owned by the corporation and Kentucky, were merged into the corporation. Minority common stock of Memphis was exchanged for company stock on basis of 1⅛ shares for each share of Memphis common.

In 1950, company formed Texas Northern Gas Corp. a wholly-owned subsidiary, which acquired all outstanding stock of Louisiana Natural Gas Corp.

For acquisitions prior to 1973 see Moody's 1974 Public Utility Manual.

In Apr. 1973, Company sold its 96% interest in Kentucky Electronics Inc.

In Oct. 1973, Company sold its 100% interest in Crestwave Offshore Services, Inc.

In Sept. 1975 acquired Ferma-Gro Corp., subsequently renamed TransAgra Corp., in exchange for 150,000 shs. of com. stock.

On Oct. 6, 1976 acquired, thru subsidiary, All-American Transport, Inc., present name American Freight System, Inc., in exchange for 650,000 common shares.

MANAGEMENT

Officers-Corporate

W.M. Elmer, Chmn.
F.K. Rader, Vice-Chmn.
D.R. Hendrix, Pres., Chief Exec. Off.
R.O. Koch, Exec. Vice-Pres. & Gen. Counsel
V.W. Meythaler, Exec. Vice-Pres. & Chief Fin. Off.
J.R. Blewer, Vice President
R.W. Brandon, Vice-Pres. & Contr.
J.W. Carneal, Senior Vice-President
T.M. Davidson, Senior Vice-President
Jared Elliot, Vice-President & Treas.
R.L. Leutherwood, Vice-President
H.E. Petrie, Vice-President
L.H. Robertson, Vice-President
G.T. Smith, Vice-President
E.P. Malone, Vice-Pres.
W.B. Threlkeld, Vice-Pres. & Secretary
A.E. Little, Asst. Secretary
J.R. Greenwell, Asst. Treasurer
L.G. Ayer, Asst. Contr.

Directors

(Showing Principal Corporate Affiliations)

A.E. Alexander, Retired.

August Belmont, Dir., Cameron Iron Works Inc., The Rouse Co., Ryland Group Inc., U.S. & Foreign Securities Corp.

Edward J. Boling, Pres. of the University of Tennessee; Dir. of North American Philips Corp. and the Signal Companies.

E.D. Butcher, Pres. & Dir. of Butcher Fund.

Charles K. Cross, Dir., Pres., and Chief Exec. Off. of Barnett Bank of Orlando/Winter Park, N.A.; Dir. of American Century Mortgage Investors; Holder Construction Co.

Charles F. Detmar, Jr., Member of Cahill Gordon & Reindel; Dir. of The Great Atlantic & Pacific Tea Co., Inc.

W.M. Elmer, Chairman of Corp.; Dir. of Holiday Inns, Inc.

Dennis R. Hendrix, Pres. and Chief Exec. Off. of the Corp.

J.W. Hershey, Pres., Hershey Foundation.

Richard A. Jay, Vice Chairman of the Board and Dir. of The Goodyear Tire & Rubber Company; Dir. of Holiday Inns, Inc.

Robert O. Koch, Exec. Vice Pres. and General Counsel of the Corp.

V.W. Meythaler, Exec. Vice Pres. of the Corp.

Frank M. Norfleet, Pres., Chief Exec. Off. and Dir. of Parts Industries Corporation; Dir. of First Tennessee National Corp.; The Federal Company; Malone & Hyde, Inc.; and Ozburn-Abston Realty Co.; Paris, Inc.

F.K. Rader, Vice Chairman of the Board of the Corp.

K.C. Vaughan, Petroleum Consultant to the Corp.; Dir. of Petrolane, Inc. and Cordon International, Inc.

W.J. Wooten, President Texas Gas Exploration Corp.

Officers—Gas Transmission Services Division

R.O. Koch, Chairman
C.P. Moreton, President & Chief Exec. Off.
D.L. Newberry, Group Vice-Pres.
R.C. Young, Group Vice-Pres.
J.R. Blewer, Vice-President
P.A. Fedde, Vice-President
J.R. Gregory, Vice-President
G.W. Peters, Vice-Pres. & Treas.
M.H. Rattray, Jr., Vice-President
G.T. Smith, Vice-President
G.A. Suddoth, Vice-President
W.T. Turner, Jr., Vice-President
J.H. Welsh, Jr., Vice-President
R.T. Robinson, Contr.
H.E. Melton, Asst. Treas.
T.E. Hagan, Asst. Contr.
J.W. MacKenzie, Gen. Couns.

Chief Engineer: H.L. Gibson.

Purchasing Agent: E.J. Funk.

Auditors: Arthur Andersen & Co.

Annual Meeting: 2nd Wednesday in May.

No. of Stockholders: Dec. 31, 1978, 4.96% preferred, 64; 9.375% preferred, 252; preference 2,379; common, 16,142.

No. of Employees: Dec. 31, 1978, 12,100.

Offices: Home Office, 3800 Frederica St., Owensboro, KY 42301. Tel.: (502)926-8686.

Gas Supply Dept., 1100 Milam Bldg., Suite 1533, Houston, TX 77002.

Texas Gas Exploration Corp., 1,100 First City National Bank Bldg., Houston, TX 77002.

American Commercial Lines, Inc., 3401 Allen Parkway, Houston, TX 77019.

American Commercial Barge Line Co., 1701 E. Market St., Jeffersonville, IN 47130.

Jeffboat, Inc., 1030 E. Market St., Jeffersonville, IN 47130.

Commercial Carriers Inc., 20300 Civic Center Dr., Southfield, MI 48076.

American Freight System, Inc. 9393 West 110th St., Overland Park, KS 66210.

BUSINESS

The Corporation is engaged directly in the interstate transmission and sale of natural gas, and through subsidiaries in the exploration and production of oil and gas, the general barge transportation business and the motor carrier transportation of general commodities and automobiles and trucks.

Gas Transmission Services

The Corporation owns and operates an interestate gas pipeline system for the transportation and sale of natural gas. One segment of the system originates in the gas-producing region in the Louisiana Coast area and the other in the gas-producing region of eastern Texas. The segments join in northeast Louisiana and extend northward and eastward through Arkansas, Mississippi, Tennessee, Kentucky, and Indiana into Ohio, with smaller diameter lines extending into Illinois.

Gas Sales and Transportation: Gas sales and transportation volumes by the pipeline system in the years 1974 through 1978 were 752, 672, 626, 590 and 607 billion cubic feet, respectively. Gas sales subject to Federal Energy Regulatory Commission (FERC) jurisdiction were in excess of 98% of total sales during each of the last five years.

Approximately 49% of total gas deliveries during 1978 represented sales made to 90 public utility distributors for resale in some 554 communities in the states which the system traverses, and 46% represented sales made to Texas Eastern Transmission Corp., Columbia Gas Transmission Corp., and Consolidated Gas Supply Corp. for resale in the Applachian and Eastern areas and to Michigan Wisconsin Pipe Line Co. for resale in the Detroit and Milwaukee areas. The balance represented transportation for, and sales to, other customers.

A large percentage of the natural gas sold by the Corporation is used for space heating. This results in substantially higher daily sales requirements during the winter months than during the summer. The Corporation has developed and operates 10 underground storage reservoirs, in or near its market area, into which gas is injected during summer months and withdrawn during the winter. These 10 reservoirs have a maximum storage capacity of approximately 169 billion cubic feet of gas.

Current Gas Supply: Approximately 67% of the total volume of natural gas supplied to the Corporation in 1978 was purchased from nonaffiliated field producers in gas fields in eastern Texas, northern Louisiana, the offshore and onshore Louisiana Gulf Coast area, and Kentucky and 5% was either produced by the Corporation or purchased from its exploration subsidiary. The remaining 28% was purchased from pipeline companies.

Curtailments: As a result of the decrease in available gas supply, the Corporation has not expanded the delivery capability of its main pipeline facilities since 1970, and beginning in 1974 has had to curtail deliveries to its customers. Curtailment of gas sales volumes began April 1, 1974 and have been increased annually through 1976, with some improvement in 1977 and 1978, with further improvement expected in 1979. The current curtailment of gas sales volumes is 20.8% on an annual basis.

Reserves: Independent engineers estimate that as of Dec. 31, 1978, the Corporation has available a total of 5,126 Bcf of natural gas reserves in field sources, gas in storage, and under contract with producers and pipeline suppliers, which reserves include 254 Bcf committed by Texaco Inc. from future discoveries.

Oil & Gas Exploration & Production

The Exploration and Production division's operations are principally those of Texas Gas Exploration Corp., a subsidiary of the Corporation. In 1978 the Exploration and Production division's oil and gas production (including gas sold for the account of royalty and overriding interests) amounted to 41.1 billion cubic feet of gas, of which 30.5 billion cubic feet were delivered to the Corporation's pipeline, 1.1 million barrels of oil, 0.3 million barrels of condensate, and 6.6 million barrels of plant liquid products.

Inland Waterways Services

General Barge Transportation: The Corporation's barging operations constitute one of the principal integrated water transportation businesses on the Mississippi River and its tributaries. These operations are conducted through several subsidiaries, principally American Commerical Barge Line Co. (ACBL) and Commercial Transport Corp., which carry on an integrated water transportation business on the inland waterways.

The general barge transportation business is of two types: (i) "common carrier" transportation of nonbulk commodities, which is subject to regulation by the Interstate Commerce Commission (ICC) and which is performed under published tariffs filed with the ICC; and (ii) "exempt" transportation, which is generally the transportation of liquid and dry bulk commodities under conditions making such transportation exempt from regulation by the ICC and which is performed under arrangements negotiated with shippers. In 1978, the common carrier transportation revenues were 11% of the total barging revenues.

Common Carrier Transportation: The common carrier transportation business is conducted by ACBL. Operating rights of ACBL as a water common carrier extend generally from Chicago, Pittsburgh and Minneapolis-St. Paul, along the Illinois Waterway and Ohio and Mississippi Rivers to New Orleans, embracing certain tributaries of the Ohio and Mississippi Rivers, and include authority, in some cases limited as to rights to serve between intermediate points, permitting operations on the Cumberland, Green and Tennessee Rivers in Kentucky, on the White River in Arkansas and on the Arkansas River in Arkansas and Oklahoma. The division has operating rights for the Gulf Intracoastal Waterway extending from the Mexican border to west Florida, across the Gulf of Mexico and in numerous rivers emptying into the Gulf of Mexico. The principal commodities presently carried under regulated transportation are iron and steel, scrap iron, newsprint, paper and pipe.

Exempt Transportation: Certain subsidiaries perform exempt transportation throughout the Mississippi-Ohio River system and on the Gulf Intracoastal Waterway. The principal commodities moving in exempt transportation are coal, grain, chemicals, oil, salt, ores, rock and soda ash.

The negotiated arrangements covering exempt transportation may apply to one or more shipments or may provide term contracts for barge capacity requirements of the shipper for a period of one year or more. Currently such term contracts account for approximately 75% of gross barging revenues annually under agreements of from one to twenty years duration.

Shipbuilding & Repairs: A subsidiary, Jeffboat, Inc. (Jeffboat), operates a shipyard and drydock in Jeffersonville, Indiana, where it constructs and repairs towboats, river and sea-going barges and other vessels. In 1978, Jeffboat's operating revenues from outside customers amounted to approximately $43.0 million and from affiliates $27.7 million.

Western Coal Transportation Project: Inland Waterways Services has an agreement with the Burlington Northern Railroad to cooperate in the development of rail-barge transportation systems for the movement of low-sulfur Western coal. This system contemplates the division constructing and operating coal terminals on the Mississippi River for receiving and storing coal delivered by rail and transferring it to barges for delivery by the division to utilities and other customers.

American Commercial Terminals, Inc. (formerly ACBL Western, Inc.) completed construction in 1978 on such a terminal in St. Louis which will have a coal transfer capacity of 10 million tons a year. As of Jan. 1, 1978, the division had one long-term contract for the use of this terminal and the transportation by barge of 4 million tons per year to the customer's facilities on the lower Mississippi River.

Other: Through subsidiaries, various river terminals, warehouses, tipples and repair facilities are operated along the rivers in West Virginia, Kentucky, Alabama, Tennessee and Louisiana. These operations are, for the most part, integral parts of the barging business although several perform services for other customers. American Commercial Terminals, Inc. operates a 13-mile cable belt conveyor system under a long-term coal transportation contract with the Tennessee Valley Authority, which provides total transportation service from a mine to a barge terminal on the Ohio River and thence by barge transportation to an electric generating plant.

Trucking Services

The Trucking Services division consists of two major units, one engaged in transportation of general commodities, the other in the transportation of automobiles and trucks.

General Commodities Transportation: The general commodities motor carrier transportation business is conducted primarily by American Freight System, Inc., and its subsidiaries (AFS). In 1978, the combined revenues of these companies and their subsidiaries aggregated $262 million.

AFS is a common carrier of general commodities operating regular routes in the central, southern and eastern U.S. and irregular routes in 40 states.

Automotive Transportation: The automotive transportation business is conducted primarily by Commercial Carriers, Inc. (CCI). CCI is one of the nation's largest highway transporters of vehicles for manufacturers of automobiles and trucks. CCI takes delivery of manufactured vehicles at the plant and moves them to marshaling yards where they are loaded for delivery to dealers, sent to railheads for shipment to other parts of the country, or tendered to other carriers. It also receives and unloads automobiles and trucks at railheads in major cities throughout the south, midwest and west coast areas for delivery to dealers, and receives foreign-made automobiles and trucks at points of importation for transshipment to dealers. CCI's principal customers are General Motors and Chrysler, which together accounted for 67% of its 1978 revenues. The remainder of its 1978 revenues were primarily from other domestic vehicle manufacturers and a number of manufacturers and importers of foreign-made vehicles.

TransAgra Corporation

TransAgra Corp., acquired in 1975, manufactures animal feed supplements and crop growth enhancers for the agricultural industry marketed under the trademark CULBAC®. CULBAC has been "field-proven" over the past decade and it is among the emerging group of cultured bacterial products for the agricultural industry.

SUBSIDIARIES

All of the following are wholly-owned:

American Commercial Lines, Inc.
- ACT Companies, Inc.
  - American Freight System, Inc.
    - All-American Redevelopment Corporation
    - Computer Services, Inc.
    - Tropical Transportation Services, Inc.
  - Midwest Coast Transport, Inc.
    - Transport Brokerage, Inc.
- Amcom, Inc.
- American Barge Line Company
- American Commercial Barge Line Company
- American Commercial Terminals, Inc.
- Bauer Dredging Co., Inc.
- Commercial Barge Line Company
- Commercial Carriers, Inc. (Mich.)
  - Commercial Carriers, Inc. (Ill.)
  - National Trucking Company
- Commercial Transport Corporation
- I: l..nd Tugs Co.
- J..ffboat, Incorporated
- Louisiana Dock Company, Inc.
- Northern Towing Company, Inc.
- Southern Ohio Towing Company, Inc.
- The Southland Towing Company, Incorporated

All-American Transport, Inc.
Culbac Corporation
Ferma-Gro Corporation
Indiana Gas Utility Corporation
Ken-Tex Energy Corporation
Texam Gas Transmission Limited
Texam Offshore Gas Transmission, Inc.
Texas American Corporation
Texas Gas Exploration Arctic, Limited
Texas Gas Exploration Corporation
- Texas Gas Exploration (U.K.) orporation
  - Texas Gas Exploration (U.K.) Limited

TransAgra Corporation

Joint Venture Pipeline: In 1976, Co's. subsidiary and 4 other major pipeline cos. began constructing a $353,000,000 undersea pipeline system to transport large new supplies of natural gas from offshore Texas. Partnership, known as High Island Off.hore System, (HIOS), constructed a 42-in.-diameter main trunk pipeline connecting with Michigan Wisconsin's existing western large-diameter offshore pipeline and extending additional 67 mi. into the Gulf of Mexico. Some 137 mi. of header system lines ranging from 30 in. to 36 in. in diameter were constructed to collect the gas from reserves acquired by Co. and others in the High Island offshore area. A 37,050-horsepower compressor station was installed about 84 mi. out in the Gulf to pump the gas ashore the companies said. The new facilities have an initial delivery capacity of 988,000,000 cubic ft. a day and were placed in service in mid 1978. Deliveries to Co. from this source are at an annual rate of about 34 billion cubic feet, expected to reach 62 billion cubic feet by early 1980.

PROPERTIES

Corporation's principal offices are located in its general office building at 3800 Frederica Street, Owensboro, Kentucky. Building houses executive and administrative staffs of Corp.

Principal gas transmission properties of Co. at Dec. 31, 1978, consisted of compressor stations having aggregate rated horsepower of 479,882 and 2,947 miles of large diameter pipe varying from 26-inch to 42-inch and 2,905 miles of 24-inch and less diameter pipe.

The depreciated value of the Co.'s gas transmission plant at Dec. 31, 1978 was $315,270,000.

Principal gas transmission properties of Co. are subject to lien of mortgage securing the bonds of Co.

Depreciated value of property, plant and equipment of Oil and Gas Exploration and Production Division, as of December 31, 1978, was $172,405,000. At that date, the Division owned 104 net oil wells and 87 net gas wells.

Inland Waterways Services Division owned a fleet of 56 towboats and 1,367 barges, which, together with other physical assets and real estate, had total depreciated value of approx. $235,448,000.

Depreciated value of physical assets of Trucking Services Division, including real property and automotive equipment, was approx. $102,470,000 at Dec. 31, 1978.

Corporation owns and operates an interstate gas pipeline system for transportation and sale of natural gas. One segment of system originates in the gas-producing region in Louisiana Coast area and other in gas-producing region of eastern Texas. Segments join in northeast Louisiana and extend northward and eastward through Arkansas, Mississippi, Tennessee, Kentucky, and Indiana into Ohio, with smaller diameter lines extending into Illinois.

REGULATION

The Corporation, Texas Gas Exploration Corp. and HIOS, a partnership in which Texam Offshore Gas Transmission, Inc., a subsidiary of the Corporation, owns a 20% interest, are "natural gas companies" as defined in the Natural Gas Act of 1938, as amended, and as such are subject to the jurisdiction of the FERC under said Act with respect to rates, accounts and records, the extension of facilities or services and, under certain circumstances, the abandonment of services or facilities and other matters. In addition, state commissions or regulatory bodies have or may have jurisdiction over such matters as intrastate and industrial sales.

The Corporation and HIOS are subject to regulation by the Department of Transportation under the Natural Gas Pipeline Safety Act of 1968 with respect to safety requirements in the design, construction, operation and maintenance of their interstate gas transmission facilities.

Certain subsidiaries in the Inland Waterways Services and Trucking Services divisions are subject to regulation by the ICC under the Interstate Commerce Act.

Certain of the transportation subsidiaries are also subject to regulation by various state commissions and several states maintain regulations restricting the gross weight and axle weight of interstate motor carriers as well as the size of the combined trailer and tractor units.

Pursuant to the Emergency Petroleum Allocation Act of 1973, as amended by the Energy Policy and Conservation Act and the Energy Conservation and Production Act, the Federal Energy Administration (FEA) regulates the prices of crude oil and refined petroleum products, including all natural gas liquid products. The regulations promulgated by the FEA determine the maximum ceiling prices for crude oil, propane, butane and natural gasoline produced and marketed by the Exploration and Production division.

Pursuant to Stipulations and Agreements approved by Federal Power Commission (since replaced by the FERC) in Dec. 1974, Oct. 1975, Nov. 1976, and Sept. 1977, Corporation placed into effect general rate increases effective April 1, 1974, 1975, 1976 and 1978. In Sept. 1978 an application was filed with FERC to increase rates. The proposed rates provided for an overall rate of return of 10.97% and a return on equity of 13.50%. The increase went into effect April 1, 1979, subject to refund of any amount not ultimately allowed.

During 1974 through Feb. 1, 1979, Corp. placed into effect several tracking increases to recover in its rates higher cost of gas purchased from suppliers, including costs previously deferred, recoverable through rates.

In July 1977, FERC issued an Order approving a composite depreciation rate of 4.6% on Corp.'s gas plant and disallowing return and taxes on a coal gasification investment from April 1, 1974. Corporation had been using a 5.25% composite deprec. rate since that date. This Order resolved the two rate-making issues which have been pending since that time. As a result of FERC Order, Corp. reduced its rates effective August 1, 1977, and made customer refunds aggregating approx. $17,600,000, including interest. Final resolution of these matters had no significant effect on net income since Corp. had been providing a reserve for refund obligation, including interest, relating to coal gasification investment issue and depreciation expense was reduced accordingly. Revenues and depreciation expense were reduced $9,648,000 and $10,947,000, respectively, and current Federal income taxes decreased and deferred income taxes increased approx. $6,683,000 in 1977 relating to periods prior to 1977 applicable to settlement of depreciation issue.

Rates in effect as of Feb. 1, 1979, are as follows (14.73 psia):

Sales:

Rate schedules G, CD and CDL—	Zone SL	Zone 1	Zone 2	Zone 3	Zone 4
Dem. .	....	$1.70	$1.97	$2.28	$2.45
Commod.	....	135.98¢	139.48¢	[1]142.59¢	[1]144.92¢
Allow. Var.	....	5.59	6.48	7.50	8.06
SG	138.14	149.96	155.68	161.34	165.07
Rate schedule I, EM, XS	....	141.57	145.96	150.09	152.98
Rate schedules Transportation:				X-32	X-29
Demand	....	....	....	$1.72	....
Commod.	....	....	....	24.09¢	24.34¢
Commod.- So. La.	....	....	....	....	27.58
Interruptible	....	....	....	29.74	....

[1] To obtain CD-3 and CDL-4 commodity rates, subtract $0.35.

Monthly bill under G rate schedules consists of billing demand multiplied by demand rate per Mcf, plus Mcf of natural gas delivered during month multiplied by commodity rate per Mcf. Minimum monthly bill is billing demand charge. Billing demand for month is higher of (a) maximum daily delivery of natural gas on any day during 12-month period ending with close of billing month or (b) 95 per cent of contract demand; provided, however, that in no event shall billing demand exceed contract demand. Contract demand is defined as specific daily volume of gas set forth in service agreement between Corporation and its customer which represents maximum daily delivery obligation of Corporation to such customer.

Monthly bill under CD and CDL rate schedules consists of contract demand multiplied by demand rate per Mcf, plus Mcf delivered during month multiplied by commodity rate per Mcf. Rate schedule provides for minimum annual bill consisting of demand charge, plus minimum commodity charge consisting of commodity rate per Mcf multiplied by number of days in year multiplied by 75 per cent of contract demand.

OPERATING STATISTICS

CONSOLIDATED OPERATING STATISTICS, YEARS ENDED DEC. 31

[1]GAS	1978	1977	1976	1975	1974	1973	1972
Pipeline sales & transport. volumes (Bcf)	607	590	626	672	752	785	797
Gas supply (billion cubic feet):							
Field producers:							
Onshore	152	200	234	283	339	376	417
Offshore	235	170	186	190	190	185	175
Pipeline suppliers	160	166	156	161	170	189	198
Produced or purchased from subsidiary	30	31	36	36	39	40	25
Total	577	567	612	670	738	790	815
Average cost per Mcf gas purchased	84.75¢	72.71¢	49.94¢	38.83¢	31.02¢	26.16¢	24.98¢
OIL & GAS EXPLORATION & PRODUCTION							
Net production:							
Gas (million cubic feet)	34,377	33,740	36,787	36,818	39,358	41,488	27,915
Oil (thousand barrels)	1,155	1,130	950	930	806	749	590
Condensate (thousand barrels)	159	202	195	198	251	267	169
Plant liquids (thousand barrels)	6,551	3,706	4,007	4,148	4,339	4,482	4,483
INLAND WATERWAYS SERVICES							
Tons of freight handled (millions)	24.4	24.2	23.9	21.7	22.1	21.6	21.4
Ton miles transported (billions)	20.2	18.5	18.2	15.8	17.1	16.1	16.6
TRUCKING SERVICES							
General commodities:							
Cargo moved, tons (thousands)	3,049	3,222	3,149	3,004	3,204	3,126	2,598
Revenue miles operated (millions)	176.2	176.6	166.2	158.2	168.1	163.6	141.9
Automotive transportation:							
Autos & trucks transported (thousands)	1,787	1,427	1,226	1,030	1,178	1,436	1,198

[1]Gas volumes are stated at a pressure base of 14.73 pounds per square inch, absolute, and at a temperature of 60° Fahrenheit.

INCOME ACCOUNTS

CONSOLIDATED INCOME ACCOUNT, YEARS ENDED DEC. 31
(in thousands of dollars)

Operating Revenues & Sales:	1978	1977	1976	[2]1975	[2]1974	[3]1973	[2]1972
Gas transmission services	624,319	535,606	435,566	386,575	345,965	312,590	302,459
Trucking services	356,749	314,093	269,633	231,545	233,078	212,293	172,325
Inland waterways services	172,686	127,658	147,773	141,630	124,274	96,675	79,061
Oil and gas exploration and production	106,644	94,626	79,953	66,370	98,714	58,599	30,404
Other	991	1,445	1,261	1,098	......	......	......
Interdivision sales	(41,617)	(36,565)	(31,541)	(22,798)	(22,062)	(15,867)	(6,261)
Total	1,219,772	1,036,863	900,645	804,420	779,969	664,290	577,988
Costs, Expenses & Other Income:							
Operating expenses & cost of sales	979,293	[5]836,633	678,648	612,691	607,158	522,719	448,524
Depreciation, depletion & amortization	72,521	52,800	63,664	59,916	61,968	41,566	35,898
Taxes, other than income taxes	33,367	28,708	26,445	23,909	......	......	......
Interest & debt expense	36,547	34,949	29,001	28,965	32,534	28,253	25,959
Allow. for funds used during construct.	cr2,566	cr1,076	cr224	cr450			
Equity in earnings of offshore pipeline partnership	cr2,194	cr2,400	cr2,400	cr27	cr7,895	cr6,325	cr3,864
Other income	cr4,774	cr5,840	cr3,600	cr5,600			
Other income deductions	2,172	498	585	755			
[1]Federal income taxes	40,771	32,307	44,200	35,099	36,870	34,509	31,467
State income taxes	4,241	4,136	3,907	2,604	2,231	2,339	2,218
Income from continuing oper.	60,394	56,148	59,785	46,556	47,103	41,229	37,786
Discontinued operations	......	......	......	......	......	1,213	d14,707
[3]Extraordinary items	......	......	......	......	......	......	cr10,707
Net income	60,394	56,148	59,785	46,556	47,103	42,442	33,786
Retained earnings, Jan. 1	301,371	269,427	229,675	201,406	171,826	145,828	127,962
Pooling of TransAgra	......	......	......	386	......	......	......
5.40% preferred dividends	......	......	......	19	30	51	85
4.96% preferred dividends	75	89	104	119	136	148	165
9.375% preferred dividends	770	831	875	906	938	938	938
$1.50 conv. pref. dividends	634	718	887	1,074	1,741	1,505	2,049
Common dividends	25,449	22,555	18,144	16,294	14,980	13,776	12,700
Divs. of acquired co. prior to merger	......	......	......	263	176	......	......
Other	dr85	dr11	dr22	cr2	22	26	dr17
[4]Retained earnings, Dec. 31	334,752	301,371	269,427	229,675	201,406	171,826	145,828

[1]1977-78 comprised ($000):

	1978	1977
Current	6,164	17,155
Deferred, net	27,879	10,359
Def. invest. tax credit, net	6,728	4,793
Total	40,771	32,307

[2]Restated to include All-American Transport, Inc. acquired on a pooling-of-interests basis.

[3]In May 1972, the Corporation received approval from the Federal Energy Regulatory Commission (FERC) to transfer the deferred investment tax credits, as of Dec. 31, 1971, to earnings retained in the business by a credit to extraordinary income. The deferred investment tax credits at that date represented investment tax credits generated by the Corporation prior to repeal of the investment tax credit provisions of the Revenue Act of 1962 and were being amortized on a straight-line basis.

[4]At Dec. 31, 1978, $227,870,000 of consolidated retained earnings were available for payment of cash dividends on common stock under provisions of debentures and loan agreements.

[5]Includes $8,738,000 prov. for loss on Arctic Islands advance to obtain gas supply.

Consolidated Source & Use of Funds, years ended Dec. 31 (in thousands of dollars):

Source of Funds:	1978	1977
Net income	60,394	56,148
Cash divs. paid	26,928	24,193
Deprec., deplet. & amort.	72,521	52,801
Def. invest. tax credit, net	6,728	4,793
Def. inc. tax, net	16,468	11,407
Oth. noncash items	2,076	[2]10,303
Other l.-t. debt iss.	52,500	37,242
Note payable to bank	......	20,000
Disp. of prop., etc.	6,777	4,465
Total	190,536	172,966
Use of Funds:		
Add. to prop., etc.	135,105	154,629
Recoverable costs	23,812	cr3,706
Invest. & ad.	......	4,903
Intangibles, net	536	4,072
Retire. pfd. stk.	1,227	642
Retire. bds. & debs.	20,853	18,415
Repay note to bank	20,000	......
Ret. oth. l.-t. debt	4,043	25,040
Other, net	cr2,945	382
[1]Incr. work. cap.	cr12,093	cr29,411
Total	190,536	172,966

[1]Exclusive of current debt and sinking fund requirements.

[2]Includes $8,738,000 prov. for loss on Arctic Islands advance to obtain gas supply.

BALANCE SHEETS

CONSOLIDATED BALANCE SHEET, AS OF DEC. 31
(in thousands of dollars)

ASSETS	1978	1977	1976	[2]1975	1974	1973	1972
Cash	8,065	11,782	69,190	46,888	61,681	38,185	26,113
Temporary cash investments, at cost	......	360	4,610	14,835	12,438	6,250	......
[1]Accounts receivable	141,190	111,689	98,826	80,273	67,702	67,686	59,724
Inventories, at average cost	55,667	53,049	44,611	43,956	41,272	22,673	17,817
Gas stored underground, at average cost	50,175	41,968	27,287	20,278	12,496	11,616	8,316
Prepayments, etc.	10,131	9,568	7,252	6,497	5,188	4,290	4,329
Costs recov. thru rate adj.	39,819	......	......	......	......	......	......
Total current assets	305,047	228,416	251,776	212,728	200,778	150,699	116,299
Advances to obtain future natural gas supply	22,134	22,212	30,948	9,110	7,782	5,014	2,377

BALANCE SHEETS (Cont'd):	1978	1977	1976	[2]1975	1974	1973	1972
Inv. in offshore pipeline partnership	22,367	20,173	17,773	2,827	......	......	......
Coal prop. & other invest., at cost	16,081	19,508	17,008	15,747	13,761	14,631	10,645
[3]Property, plant & equip., at cost	1,435,809	1,325,125	1,184,724	1,103,037	1,015,886	954,402	901,292
Less accum. deprec., deplet. & amort.	609,331	552,572	511,715	456,388	395,011	350,741	320,863
Net prop., plant & equip.	826,478	772,553	673,009	646,648	620,875	603,661	580,428
Debt expense, being amortized	2,542	2,862	2,730	1,719	2,009	1,767	3,383
Pfd. stk. expense, being amortized	181	213	224	246	287	313	
Costs recoverable thru rate adj.	......	16,007	19,713	7,477	8,088	1,790	3,281
Other deferred charges	2,751	2,930	2,376	2,260	1,675	3,261	
Operating rights & other intangibles	16,095	15,813	11,940	11,980	8,637	8,733	7,286
Total	1,213,676	1,100,687	1,027,497	910,742	863,891	789,869	722,899
LIABILITIES							
Current debt & sinking fund require.	64,649	21,937	15,874	22,410	24,278	26,000	24,309
Note payable to bank	......	20,000	......	......			
Accounts payable	93,960	70,930	56,773	43,785	42,501	35,079	30,668
Accrued taxes	24,830	10,123	20,118	16,208	6,999	11,092	8,725
Accrued payroll & fringe benefits	19,902	15,379	13,037	10,415	7,452	7,270	6,735
Accrued interest	8,662	8,129	7,222	5,576	6,192	5,412	5,054
Reserve for customer refund	10,478	......	3,901	......	5,024	......	......
Customer deposits	4,457	4,168	7,139	6,341	......	......	......
Other current liabilities	22,488	18,807	13,294	10,156	10,809	11,338	7,001
Total current liabilities	249,426	169,473	137,359	114,891	103,255	96,242	82,492
Long term debt	367,507	382,771	388,508	347,958	366,885	338,116	324,350
Deferred invest. tax credits	23,764	17,036	12,243	8,430	6,114	4,333	3,490
Other deferred liabilities	6,329	5,946	6,346	5,559	6,067	12,862	9,133
Deferred income taxes	117,279	108,746	97,321	87,179	69,456	52,670	40,300
[4]Preferred stock (par $100)	8,600	9,550	10,500	11,437	12,400	13,200	14,000
[5]Preference stock (par $5)	1,982	2,261	2,622	3,397	3,828	4,500	6,213
Common stock (par $5)	49,463	49,159	48,798	48,028	43,597	42,924	41,213
Paid-in capital	54,574	54,374	54,373	54,188	56,787	56,744	56,708
Retained earnings	334,752	301,371	269,427	229,675	195,503	168,278	145,001
Total stockholders' equity	449,371	416,715	385,720	346,724	312,114	285,646	263,134
Total	1,213,676	1,100,687	1,027,497	910,742	863,891	789,869	722,899
Net current assets	55,621	58,943	114,417	97,837	97,523	54,457	33,807

[1]Less reserves (1978, $2,220,330).

[2]Restated to include All-American Transport, Inc. acquired on a pooling-of-interests basis.

[3]1978 includes gas transmission, $699,052,719; trucking, $176,920,508; inland waterways, $319,158,613; oil and gas exploration and production, $239,381,267; other, $1,295,400; total, $1,435,808,507.

[4]1976-78 less current sinking fund requirements. Number of shares: 4.96% series, 1978, 12,181; 1977, 17,948; 1976, 17,998; 1975, 23,953; 1974, 26,653; 1973, 29,652; 9.375% series, 1978, 80,500; 1977, 87,000; 1976-75, 93,372; 1974-72, 100,000; 5.40% series, 1974, 4,716; 1973, 8,442; 1972, 14,521.

[5]Number of shares: $1.50 convertible series, 1978, 396,308; 1977, 452,217; 1976, 524,355; 1975, 679,353; 1974, 765,563; 1973, 900,024; 1972, 1,242,544.

General Notes

Principles of Consolidation—The consolidated financial statements include Texas Gas Transmission Corporation (the Corporation) and all subsidiary companies. All significant intercompany transactions have been eliminated in consolidation.

Investments in Subsidiaries—The Corporation utilizes the equity method of accounting for investments in subsidiaries.

Cash dividends received from subsidiaries accounted for on the equity method amounted to $9,990,000 and $4,835,000 for the years 1978 and 1977, respectively. Equity in undistributed earnings of subsidiaries at Dec. 31, 1978, was $209,406,622. Interest income from subsidiaries accounted for on the equity method amounted to $4,261,456 and $3,649,421 for the years 1978 and 1977, respectively.

Depreciation, Depletion and Amortization—Provisions for depreciation, depletion and amortization of property, plant and equipment are based on the estimated useful service lives computed on the straight-line method, except for certain Trucking and Oil and Gas properties which are depreciated on a use or unit-of-production method. In July 1977, the Federal Energy Regulatory Commission (FERC), formerly the Federal Power Commission, issued its order approving a composite depreciation rate of 4.6% on the Corporation's gas plant (See foregoing text heading "REGULATION").

Operating rights and other intangibles include primarily the purchase of operating rights and the cost of assets purchased in excess of underlying book values applicable to operating rights. Additions since October 1970, are being amortized over periods of not more than 40 years.

Accounting for Exploration and Production Costs—Exploration and production activities conducted by the Corporation's subsidiaries are accounted for in substantial agreement with Statement No. 19 issued by the Financial Accounting Standards Board in December 1977, requiring adherence to the traditional historical cost basis or successful efforts method of accounting. Unsuccessful drilling and exploration activities expensed during 1978 and 1977 were $9,060,000 and $8,002,000, respectively.

Income Taxes—The Corporation and its subsidiaries use various accelerated depreciation provisions of the tax laws (accelerated depreciation, Class Life System (CLS) and Asset Depreciation Range (ADR) for income tax purposes. Provisions have been made for the deferred income taxes applicable to the difference between tax depreciation computed under these methods and depreciation on tax depreciable plant at straight-line book rates. The applicable accumulated deferred income taxes are credited to income when depreciation on tax depreciable plant at straight-line book rates exceeds tax depreciation.

The reduction in current Federal income taxes resulting from currently deducting intangible drilling costs for tax purposes, which are capitalized for financial accounting purposes, is recorded as deferred income taxes and will be credited to income over the productive life of the related oil and gas properties.

Investment Tax Credits—Investment tax credits provided by the Revenue Act of 1971 are recorded by the Corporation and a subsidiary on the flow-through method. All other subsidiaries are deferring and amortizing the investment tax credits over the useful lives of the properties which gave rise to the credits.

An Employee Stock Ownership Plan (ESOP) was established pursuant to Federal tax law. Under such law, an additional one percent investment tax credit is available to the Corporation provided that an equivalent amount is contributed to the ESOP. In 1978, $1,252,000 of additional investment tax credit resulting from the ESOP was recorded and an equivalent amount was charged to employee fringe benefit expense.

Deferred Costs Recoverable through Rate Adjustments—These costs, consisting of demand charge adjustments and deferred purchased gas costs, are recoverable from the customers in the future through operation of a gas rate adjustment clause included in the Corporation's FERC gas tariff.

Allowance for Funds Used During Construction—The allowance for funds used during construction for the Corporation and High Island Offshore System, a partnership constructing offshore pipeline facilities is in accordance with the accounting requirements prescribed by the FERC. For other subsidiaries, the allowance represents the net cost of funds borrowed for major construction projects.

FINANCIAL & OPERATING RATIOS	1978	1977	1976	1975	1974	1973	1972
INCOME ACCOUNT							
% deprec. of gross oper. revenues	5.9	5.1	7.1	7.5	7.9	6.3	6.2
% deprec. of plant	5.1	4.0	5.4	5.4	6.1	4.4	4.0
Operating ratio %	89.0	88.6	85.4	86.6	85.8	85.0	83.8
Times chgs. earned bef. inc. taxes	3.88	3.65	4.72	3.91	3.65	3.76	3.75
Times chgs. earned aft. inc. taxes	2.65	2.61	3.06	2.61	2.45	2.46	2.46
Times chgs. & pfd. & pref. divs. earned	2.55	$2.49	2.87	2.43	2.26	2.21	2.13
Earned per share—preferred	$651.63	$535.01	$536.81	$396.81	$358.55	$307.34	$230.01
Earned per share—preference	$150.26	$122.13	$112.15	$66.99	$60.88	$45.89	$26.24
Earned per share—common (yr. end shs.):	$5.96	$5.54	$5.93	$4.63	$5.13	$4.64	$3.71
[1]Earned per sh.—common (average shs.):							
From continuing operations	$5.79	$5.37	$5.72	$4.43	$4.47	$3.90	$3.56
Discontinued operations	......	......	......	......	......	0.12	d1.43
Extraordinary item	......	......	......	......	......	......	cr1.04
Net income	$5.79	$5.37	$5.72	$4.43	$4.47	$4.02	$3.17
Net tang. assets per sh.—common	$44.36	$41.18	$38.18	$34.55	$33.93	$31.21	$29.47
Number of shares—preferred	92,681	104,948	111,370	117,325	131,369	138,094	146,890
Number of shares—preference	396,308	452,217	524,355	679,353	765,563	900,024	1,242,544
Number of shares—common:							
At year end	9,892,596	9,831,687	9,759,569	9,605,551	8,719,341	8,584,880	8,242,638
[1]Average	10,287,000	10,286,000	10,287,000	10,285,000	10,285,000	10,285,000	10,281,000
BALANCE SHEET							
% of total capitalization represented by:							
Long term debt	45.0	47.9	50.2	50.1	54.0	54.2	55.2
Preferred stock	1.1	1.2	1.4	1.7	1.8	2.1	2.4
Preference stock	0.2	0.3	0.3	0.5	0.6	0.7	1.1
Common stock & surplus	53.7	50.6	48.1	47.7	43.6	43.0	41.3
Ratio gross plant to gross revenue	1.2-1	1.3-1	1.3-1	1.4-1	1.3-1	1.4-1	1.6-1
% deprec. reserve to gross plant	42.4	41.7	43.2	41.4	38.9	36.4	35.6
PRICE RANGES							
Debenture 5s, 1982	88⅝-84¾	88⅝-83¼	84-70⅞	74¾-69⅝	79½-66	83⅛-77⅝	83⅝-78¼
Debenture 4⅞s, 1984	82⅝-77⅞	82⅞-79	80-66⅞	70-65½	74⅝-59⅞	79⅝-73⅛	79⅝-76⅛
Debenture 6⅞s, 1987	85¾-80¾	88⅞-84	85⅝-72	75-60¼	83⅞-62⅞	88⅝-83	88⅛-86⅝
Debenture 9⅞s, 1990	104¾-97½	106½-101½	102½-93⅞	94-90¾	103⅝-81	109½-103⅝	110-108