

TENNECO INC  
Form 10-Q  
November 04, 2016  
Table of Contents

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

FORM 10-Q  
(Mark One)

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

For the Quarterly Period Ended September 30, 2016  
OR

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

Commission file number 1-12387

TENNECO INC.

(Exact name of registrant as specified in its charter)

Delaware 76-0515284  
(State or other jurisdiction of (I.R.S.  
incorporation or organization) Employer  
Identification  
No.)

500 North Field Drive, Lake Forest, Illinois 60045  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (847) 482-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common Stock, par value \$0.01 per share: 55,040,608 shares outstanding as of October 28, 2016.

Table of Contents

## TABLE OF CONTENTS

	Page
Part I — Financial Information	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>5</u>
Tenneco Inc. and Consolidated Subsidiaries —	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>5</u>
<u>Condensed Consolidated Statements of Income</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>7</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>11</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>12</u>
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	<u>13</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>14</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>62</u>
Item 4. <u>Controls and Procedures</u>	<u>62</u>
Part II — Other Information	
Item 1. Legal Proceedings	*
Item 1A. <u>Risk Factors</u>	<u>63</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>63</u>
Item 3. Defaults Upon Senior Securities	*
Item 4. Mine Safety Disclosures	*
Item 5. Other Information	*
Item 6. <u>Exhibits</u>	<u>65</u>

\*No response to this item is included herein for the reason that it is inapplicable or the answer to such item is negative.

Table of Contents

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, our prospects and business strategies. These forward-looking statements are included in various sections of this report, including the section entitled “Outlook” appearing in Item 2 of this report. The words “may,” “will,” “believe,” “should,” “could,” “plan,” “expect,” “anticipate,” “estimate,” and similar expressions (and variations thereof), identify these forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, these 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 in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

- general economic, business and market conditions;
  - our ability to source and procure needed materials, components and other products and services in accordance with customer demand and at competitive prices;
- the cost and outcome of existing and any future claims, legal proceedings or investigations, including, but not limited to, any of the foregoing arising in connection with the ongoing global antitrust investigation, product performance, product safety or intellectual property rights;
- changes in capital availability or costs, including increases in our cost of borrowing (i.e., interest rate increases), the amount of our debt, our ability to access capital markets at favorable rates, and the credit ratings of our debt;
- changes in consumer demand, prices and our ability to have our products included on top selling vehicles, including any shifts in consumer preferences away from light trucks, which tend to be higher margin products for our customers and us, to other lower margin vehicles, for which we may or may not have supply arrangements;
- changes in consumer demand for our automotive, commercial or aftermarket products, or changes in automotive and commercial vehicle manufacturers’ production rates and their actual and forecasted requirements for our products due to difficult economic conditions;
- the overall highly competitive nature of the automobile and commercial vehicle parts industries, and any resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing and volumes over the life of the applicable program);
  - the loss of any of our large original equipment manufacturer (“OEM”) customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs or any change in customer demand due to delays in the adoption or enforcement of worldwide emissions regulations;
- our ability to successfully execute cash management and other cost reduction plans, and to realize the anticipated benefits from these plans;
- economic, exchange rate and political conditions in the countries where we operate or sell our products;
- industrywide strikes, labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers’ other suppliers;
- increases in the costs of raw materials, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, customer recovery and other methods;
- the negative impact of fuel price volatility on transportation and logistics costs, raw material costs, discretionary purchases of vehicles or aftermarket products and demand for off-highway equipment;
- the cyclical nature of the global vehicle industry, including the performance of the global aftermarket sector and the impact of vehicle parts’ longer product lives;
- costs related to product warranties and other customer satisfaction actions;
- the failure or breach of our information technology systems, including the consequences of any misappropriation, exposure or corruption of sensitive information stored on such systems and the interruption to our business that such failure or breach may cause;
- the impact of consolidation among vehicle parts suppliers and customers on our ability to compete;

changes in distribution channels or competitive conditions in the markets and countries where we operate, including the impact of increasing competition from lower cost, private-label products on our aftermarket business;  
• customer acceptance of new products;  
• new technologies that reduce the demand for certain of our products or otherwise render them obsolete;  
• our ability to introduce new products and technologies that satisfy customers' needs in a timely fashion;

3

---

Table of Contents

our ability to realize our business strategy of improving operating performance;

our ability to successfully integrate any acquisitions that we complete and effectively manage our joint ventures and other third-party relationships;

changes by the Financial Accounting Standards Board or the Securities and Exchange Commission of authoritative generally accepted accounting principles or policies;

changes in accounting estimates and assumptions, including changes based on additional information;

any changes by the International Organization for Standardization (ISO) or other such committees in their certification protocols for processes and products, which may have the effect of delaying or hindering our ability to bring new products to market;

the impact of the extensive, increasing and changing laws and regulations to which we are subject, including environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved;

the potential impairment in the carrying value of our long-lived assets and goodwill or our deferred tax assets;

potential volatility in our effective tax rate;

natural disasters, such as earthquakes and flooding, and any resultant disruptions in the supply or production of goods or services to us or by us or in demand by our customers;

- acts of war and/or terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the impact of these acts on economic, financial and social conditions in the countries where we operate; and

the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control.

The risks included here are not exhaustive. Refer to "Part I, Item 1A — Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2015 and "Part II, Item 1A — Risk Factors" of this Form 10-Q for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Table of Contents

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tenneco Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and its subsidiaries as of September 30, 2016, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three and nine month periods ended September 30, 2016 and 2015 and changes in shareholders' equity for the nine months ended September 30, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for the year then ended (not presented herein), and in our report dated February 24, 2016 (which included an explanatory paragraph with respect to the Company's change in the manner of accounting in which it classifies deferred taxes in 2015), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015, is fairly stated in all material respects in relation to the condensed consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Milwaukee, Wisconsin  
November 4, 2016

The "Report of Independent Registered Public Accounting Firm" included above is not a "report" or "part of a Registration Statement" prepared or certified by an independent accountant within the meaning of Sections 7 and 11 of the Securities Act of 1933, and the accountants' Section 11 liability does not extend to such report.

Table of Contents

TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(Millions Except Share and Per Share Amounts)			
Revenues				
Net sales and operating revenues	\$2,096	\$ 2,025	\$ 6,444	\$ 6,178
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,741	1,707	5,321	5,157
Engineering, research, and development	41	35	117	114
Selling, general, and administrative	109	113	390	359
Depreciation and amortization of other intangibles	53	53	159	154
	1,944	1,908	5,987	5,784
Other income (expense)				
Loss on sale of receivables	(2)	(1)	(4)	(3)
Other income	2	—	—	—
	—	(1)	(4)	(3)
Earnings before interest expense, income taxes, and noncontrolling interests	152	116	453	391
Interest expense	24	16	76	49
Earnings before income taxes and noncontrolling interests	128	100	377	342
Income tax expense (benefit)	(69)	34	5	122
Net income	197	66	372	220
Less: Net income attributable to noncontrolling interests	17	14	49	41
Net income attributable to Tenneco Inc.	\$180	\$ 52	\$ 323	\$ 179
Earnings per share				
Weighted average shares of common stock outstanding —				
Basic	55,679,969	59,587,628	56,511,838	60,428,806
Diluted	56,165,700	60,020,995	56,958,447	60,946,772
Basic earnings per share of common stock	\$3.24	\$ 0.89	5.72	2.97
Diluted earnings per share of common stock	\$3.21	\$ 0.88	5.67	2.94

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of income.

Table of Contents

TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three Months Ended September 30, 2016		
	Tenneco Inc.	Noncontrolling Interests	Total
	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)
Net Income	\$ 180	\$ 17	\$ 197
Accumulated Other Comprehensive Income (Loss)			
Cumulative Translation Adjustment			
Balance July 1	\$(294)	\$ (2 )	\$(296 )
Translation of foreign currency statements	1 1	— —	1 1
Balance September 30	(293 )	(2 )	(295 )
Additional Liability for Pension and Postretirement Benefits			
Balance July 1	(361 )	—	(361 )
Additional Liability for Pension and Postretirement Benefits, net of tax	4 4	— —	4 4
Balance September 30	(357 )	—	(357 )
Balance September 30	\$(650)	\$ (2 )	\$(652 )
Other Comprehensive Income	5	—	5
Comprehensive Income	\$ 185	\$ 17	\$ 202

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents

TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three Months Ended September 30, 2015		
	Tenneco Inc.	Noncontrolling Interests	Total
	Accumulated Other Comprehensive Income (Loss) (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Loss)	Accumulated Other Comprehensive Income (Loss) (Loss)
Net Income	\$ 52	\$ 14	\$ 66
Accumulated Other Comprehensive Income (Loss)			
Cumulative Translation Adjustment			
Balance July 1	\$(216)	\$ 3	\$(213 )
Translation of foreign currency statements	(45 ) (45 )	(2 ) (2 )	(47 ) (47 )
Balance September 30	(261 )	1	(260 )
Additional Liability for Pension and Postretirement Benefits			
Balance July 1	(374 )	—	(374 )
Additional Liability for Pension and Postretirement Benefits, net of tax	4 4	— —	4 4
Balance September 30	(370 )	—	(370 )
Balance September 30	\$(631)	\$ 1	\$(630 )
Other Comprehensive Loss	(41 )	(2 )	(43 )
Comprehensive Income	\$ 11	\$ 12	\$ 23

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents

TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Nine Months Ended September 30, 2016		
	Tenneco Inc.	Noncontrolling Interests	Total
	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)
Net Income	\$ 323	\$ 49	\$ 372
Accumulated Other Comprehensive Income (Loss)			
Cumulative Translation Adjustment			
Balance January 1	\$(297)	\$(1)	\$(298)
Translation of foreign currency statements	4	(1)	3
Balance September 30	(293)	(2)	(295)
Additional Liability for Pension and Postretirement Benefits			
Balance January 1	(368)	—	(368)
Additional Liability for Pension and Postretirement Benefits, net of tax	11	—	11
Balance September 30	(357)	—	(357)
Balance September 30	\$(650)	\$(2)	\$(652)
Other Comprehensive Income (Loss)	15	(1)	14
Comprehensive Income	\$ 338	\$ 48	\$ 386

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents

TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Nine Months Ended September 30, 2015		
	Tenneco Inc.	Noncontrolling Interests	Total
	Accumulated Other Comprehensive Income (Loss) (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Loss)	Accumulated Other Comprehensive Income (Loss) (Loss)
Net Income	\$ 179	\$ 41	\$ 220
Accumulated Other Comprehensive Income (Loss)			
Cumulative Translation Adjustment			
Balance January 1	\$(166)	\$ 3	\$(163)
Translation of foreign currency statements	(95 ) (95 )	(2 ) (2 )	(97 ) (97 )
Balance September 30	(261 )	1	(260 )
Additional Liability for Pension and Postretirement Benefits			
Balance January 1	(379 )	—	(379 )
Additional Liability for Pension and Postretirement Benefits, net of tax	9 9	— —	9 9
Balance September 30	(370 )	—	(370 )
Balance September 30	\$(631)	\$ 1	\$(630)
Other Comprehensive Loss	(86 )	(2 )	(88 )
Comprehensive Income	\$ 93	\$ 39	\$ 132

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents

TENNECO INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	September 30, 2016	December 31, 2015
	(Millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$324	\$ 287
Restricted cash	2	1
Receivables —		
Customer notes and accounts, net	1,276	1,102
Other	22	10
Inventories —		
Finished goods	275	257
Work in process	270	233
Raw materials	145	135
Materials and supplies	63	57
Prepayments and other	300	229
Total current assets	2,677	2,311
Other assets:		
Long-term receivables, net	10	13
Goodwill	58	60
Intangibles, net	20	22
Deferred income taxes	218	218
Other	101	100
	407	413
Plant, property, and equipment, at cost	3,584	3,418
Less — Accumulated depreciation and amortization	(2,262 )	(2,175 )
	1,322	1,243
Total Assets	\$4,406	\$ 3,967
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$124	\$ 86
Accounts payable	1,457	1,376
Accrued taxes	47	37
Accrued interest	13	4
Accrued liabilities	263	250
Other	41	41
Total current liabilities	1,945	1,794
Long-term debt	1,310	1,124
Deferred income taxes	8	7
Postretirement benefits	300	318
Deferred credits and other liabilities	133	206
Commitments and contingencies		
Total liabilities	3,696	3,449
Redeemable noncontrolling interests	35	43
Tenneco Inc. Shareholders' equity:		

Edgar Filing: TENNECO INC - Form 10-Q

Common stock	1	1
Premium on common stock and other capital surplus	3,091	3,081
Accumulated other comprehensive loss	(650 )	(665 )
Retained earnings (accumulated deficit)	(1,125 )	(1,448 )
	1,317	969
Less — Shares held as treasury stock, at cost	682	536
Total Tenneco Inc. shareholders' equity	635	433
Noncontrolling interests	40	42
Total equity	675	475
Total liabilities, redeemable noncontrolling interests and equity	\$4,406	\$ 3,967

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated balance sheets.

Table of Contents

TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(Millions)			
Operating Activities				
Net income	\$ 197	\$ 66	\$ 372	\$ 220
Adjustments to reconcile net income to cash provided by operating activities	—			
Depreciation and amortization of other intangibles	53	53	159	154
Deferred income taxes	(86 )	12	(73 )	(1 )
Stock-based compensation	3	4	13	13
Loss on sale of assets	1	1	2	2
Changes in components of working capital —				
(Increase) decrease in receivables	(10 )	(17 )	(189 )	(237 )
(Increase) decrease in inventories	(12 )	(19 )	(61 )	(65 )
(Increase) decrease in prepayments and other current assets	(34 )	(1 )	(69 )	(4 )
Increase (decrease) in payables	(7 )	7	55	70
Increase (decrease) in accrued taxes	1	(29 )	10	(7 )
Increase (decrease) in accrued interest	9	12	9	13
Increase (decrease) in other current liabilities	10	13	(7 )	31
Changes in long-term assets	1	—	5	1
Changes in long-term liabilities	11	2	9	—
Other	2	2	4	(2 )
Net cash provided by operating activities	139	106	239	188
Investing Activities				
Proceeds from sale of assets	1	1	4	3
Cash payments for plant, property, and equipment	(74 )	(71 )	(213 )	(221 )
Cash payments for software related intangible assets	(6 )	(5 )	(15 )	(13 )
Changes in restricted cash	1	—	(1 )	1
Net cash used by investing activities	(78 )	(75 )	(225 )	(230 )
Financing Activities				
Issuance of common shares	7	—	11	5
Tax impact from stock-based compensation	(11 )	(5 )	(10 )	1
Retirement of long-term debt	(179 )	(4 )	(527 )	(25 )
Issuance of long-term debt	2	1	508	1
Debt issuance cost of long-term debt	—	—	(8 )	(1 )
Purchase of common stock under the share repurchase program	(89 )	(114 )	(146 )	(158 )
Net increase (decrease) in bank overdrafts	(1 )	(10 )	4	(21 )
Net increase in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable	198	138	223	223
	50	(20 )	20	30

Edgar Filing: TENNECO INC - Form 10-Q

Net increase (decrease) in short-term borrowings secured by accounts receivable				
Distributions to noncontrolling interest partners	(28 )	(22 )	(55 )	(44 )
Net cash provided (used) by financing activities	(51 )	(36 )	20	11
Effect of foreign exchange rate changes on cash and cash equivalents	3	(25 )	3	(31 )
Increase (decrease) in cash and cash equivalents	13	(30 )	37	(62 )
Cash and cash equivalents, July 1 and January 1, respectively	311	250	287	282
Cash and cash equivalents, September 30 (Note)	\$324	\$ 220	\$ 324	\$ 220
Supplemental Cash Flow Information				
Cash paid during the period for interest (net of interest capitalized)	\$14	\$ 5	\$ 62	\$ 38
Cash paid during the period for income taxes (net of refunds)	30	44	88	79
Non-cash Investing and Financing Activities				
Period end balance of trade payables for plant, property, and equipment	\$51	\$ 37	\$ 51	\$ 37

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

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of cash flows.

Table of Contents

TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

	Nine Months Ended September 30,			
	2016		2015	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	65,067,132	\$ 1	64,454,248	\$ 1
Issued pursuant to benefit plans	313,332	—	—	—
Stock options exercised	383,981	—	239,490	—
Balance September 30	65,764,445	1	64,693,738	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,081		3,059
Premium on common stock issued pursuant to benefit plans		10		15
Balance September 30		3,091		3,074
Accumulated Other Comprehensive Loss				
Balance January 1		(665 )		(545 )
Other comprehensive income (loss)		15		(86 )
Balance September 30		(650 )		(631 )
Retained Earnings (Accumulated Deficit)				
Balance January 1		(1,448 )		(1,695 )
Net income attributable to Tenneco Inc.		323		179
Balance September 30		(1,125 )		(1,516 )
Less — Common Stock Held as Treasury Stock, at Cost				
Balance January 1	7,473,325	536	3,244,692	323
Purchase of common stock through stock repurchase program	2,783,064	146	3,104,763	158
Balance September 30	10,256,389	682	6,349,455	481
Total Tenneco Inc. shareholders' equity		\$ 635		\$ 447
Noncontrolling Interests:				
Balance January 1		\$ 42		\$ 41
Net income		21		16
Other comprehensive loss		(1 )		(1 )
Dividends declared		(22 )		(20 )
Balance September 30		\$ 40		\$ 36
Total equity		\$ 675		\$ 483

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of changes in shareholders' equity.

TENNECO INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

(1) Consolidation and Presentation

As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2015.

In our opinion, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly Tenneco Inc.'s results of operations, comprehensive income, financial position, cash flows, and changes in shareholders' equity for the periods indicated. We have prepared the unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for annual financial statements.

Our condensed consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies in which the Company does not have a controlling interest, as equity method investments, at cost plus equity in undistributed earnings since the date of acquisition and cumulative translation adjustments. We have eliminated all intercompany transactions.

Prepayments and Other

Prepayments and other included \$134 million and \$107 million at September 30, 2016 and December 31, 2015, respectively, for in-process tools and dies that we are building for our original equipment customers.

Accounts Payable

Accounts payable included \$108 million and \$93 million at September 30, 2016 and December 31, 2015, respectively, for accrued compensation and \$20 million and \$17 million at September 30, 2016 and December 31, 2015, respectively, for bank overdrafts at our European subsidiaries.

(2) Financial Instruments

The net carrying and estimated fair values of our financial instruments by class at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016		December 31, 2015	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value

Long-term debt (including current maturities) \$1,311 \$1,344 \$1,125 \$1,160

Instruments with off-balance sheet risk:

Foreign exchange forward contracts:

Asset derivative contracts	1	1	1	1
----------------------------	---	---	---	---

Asset and Liability Instruments — The fair value of cash and cash equivalents, short and long-term receivables, accounts payable, and short-term debt was considered to be the same as or was not determined to be materially different from the carrying amount.

Long-term Debt — The fair value of our public fixed rate senior notes is based on quoted market prices (level 1). The fair value of our private borrowings under our senior credit facility and other long-term debt instruments is based on the market value of debt with similar maturities, interest rates and risk characteristics (level 2). The fair value of our level 1 debt, as classified in the fair value hierarchy, was \$744 million and \$748 million at September 30, 2016 and December 31, 2015, respectively. We have classified \$584 million and \$390 million as level 2 in the fair value hierarchy at September 30, 2016 and December 31, 2015, respectively, since we utilize valuation inputs that are observable both directly and indirectly. We classified the remaining \$16 million and \$22 million, consisting of foreign subsidiary debt, as level 3 in the fair value hierarchy at September 30, 2016 and December 31, 2015, respectively.



Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

The fair value hierarchy definition prioritizes the inputs used in measuring fair value into the following levels:  
Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3—Unobservable inputs based on our own assumptions.

Foreign Exchange Forward Contracts — When foreign currency exchange rate risk cannot be managed by operational strategies, we use derivative financial instruments, principally foreign currency forward purchase and sales contracts with terms of less than one year, to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans and accounts receivable and payable in nonfunctional currencies made between affiliates to minimize the need for borrowings from third parties.

Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We manage counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. We do not enter into derivative financial instruments for speculative purposes. The fair value of our foreign currency forward contracts is based on an internally developed model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. We record the change in fair value of these foreign exchange forward contracts as part of currency gains (losses) within cost of sales in the condensed consolidated statements of income. The fair value of foreign exchange forward contracts are recorded in prepayments and other current assets or other current liabilities in the condensed consolidated balance sheet. The fair value of our foreign exchange forward contracts was a net asset position of \$1 million at both September 30, 2016 and December 31, 2015.

The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of September 30, 2016 (all of which mature in 2016):

	Notional Amount in Foreign Currency (Millions)	
Australian dollars	—Purchase	36
British pounds	—Purchase	47
	—Sell	(45)
Canadian dollars	—Sell	(2)
European euro	—Purchase	57
	—Sell	(121)
Japanese yen	—Purchase	677
	—Sell	(240)
Mexican peso	—Purchase	280
South African rand	—Purchase	37
	—Sell	(184)
U.S. dollars	—Purchase	103
	—Sell	(138)

Guarantees — We have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee our senior credit facility and our senior notes on a joint

and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries. No assets or capital stock secure our senior notes. For additional information, refer to Note 13 of the consolidated financial statements of Tenneco Inc., where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have two performance guarantee agreements in the U.K. between Tenneco Management (Europe) Limited (“TMEL”) and the two Walker Group Retirement Plans, the Walker Group Employee Benefit Plan and the Walker Group Executive Retirement Benefit Plan (the “Walker Plans”), whereby TMEL will guarantee the payment of all current and future pension contributions in the event of a payment default by the sponsoring or participating employers of the Walker Plans. The Walker Plans are comprised of employees from Tenneco Walker (U.K.) Limited and our Futaba-Tenneco U.K. joint venture. Employer

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

contributions are funded by both Tenneco Walker (U.K.) Limited, as the sponsoring employer and Futaba-Tenneco U.K., as a participating employer. The performance guarantee agreements are expected to remain in effect until all pension obligations for the Walker Plans' sponsoring and participating employers have been satisfied. The maximum amount payable for these pension performance guarantees that is not attributable to Tenneco is approximately \$10 million as of September 30, 2016 which is determined by taking 105 percent of the liability of the Walker Plans calculated under section 179 of the U.K. Pension Act of 2004 offset by plan assets multiplied by the ownership percent attributable to Futaba-Tenneco U.K. We did not record an additional liability for this performance guarantee since Tenneco Walker (U.K.) Limited, as the sponsoring employer of the Walker Plans, already recognizes 100 percent of the pension obligation calculated based on U.S. GAAP, for all of the Walker Plans' participating employers on its balance sheet, which was \$7 million and \$11 million at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016, all pension contributions under the Walker Plans were current for all of the Walker Plans' sponsoring and participating employers.

In June 2011, we entered into an indemnity agreement between TMEL and Futaba Industrial Co. Ltd. which requires Futaba to indemnify TMEL for any cost, loss or liability which TMEL may incur under the performance guarantee agreements relating to the Futaba-Tenneco U.K. joint venture. The maximum amount reimbursable by Futaba to TMEL under this indemnity agreement is equal to the amount incurred by TMEL under the performance guarantee agreements multiplied by Futaba's shareholder ownership percentage of the Futaba-Tenneco U.K. joint venture. At September 30, 2016, the maximum amount reimbursable by Futaba to TMEL is approximately \$10 million.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of September 30, 2016, we have guaranteed \$32 million in letters of credit to support some of our subsidiaries' insurance arrangements, foreign employee benefit programs, environmental remediation activities and cash management and capital requirements.

**Financial Instruments** — One of our European subsidiaries receives payment from one of its customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets. Such financial instruments held by our European subsidiary totaled zero and less than \$1 million at September 30, 2016 and December 31, 2015, respectively.

In certain instances, several of our Chinese subsidiaries receive payments from customers through the receipt of financial instruments on the date the customer payments are due. Several of our Chinese subsidiaries also satisfy vendor payments through the delivery of financial instruments on the date the payments are due. Financial instruments issued to satisfy vendor payables and not redeemed totaled \$22 million and \$15 million at September 30, 2016 and December 31, 2015, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$14 million and \$8 million at September 30, 2016 and December 31, 2015, respectively. We classify financial instruments received from our customers as other current assets if issued by a financial institution of our customers or as customer notes and accounts, net if issued by our customer. We classified \$14 million and \$8 million in other current assets at September 30, 2016 and December 31, 2015, respectively.

The financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are drafts drawn that are payable at a future date and, in some cases, are negotiable and/or are guaranteed by the banks of the customers. The use of these instruments for payment follows local commercial practice. Because certain of such financial instruments are guaranteed by our customers' banks, we believe they represent a lower financial risk than the outstanding accounts receivable that they satisfy which are not guaranteed by a bank.

**Supply Chain Financing** — Certain of our suppliers in the U.S. participate in a supply chain financing program under which they securitize their accounts receivables from Tenneco. The financial institution that participates in the supply

chain financing program does so on an uncommitted basis and can cease purchasing receivables from Tenneco's suppliers at any time. If the financial institution did not continue to purchase receivables from Tenneco's suppliers under this program, the participating vendors may have a need to renegotiate their payment terms with Tenneco which in turn would cause our borrowings under our revolving credit facility to increase.

Restricted Cash - Some of our Chinese subsidiaries that issue their own financial instruments to pay vendors are required to maintain a cash balance if they exceed credit limits with the financial institution that guarantees the financial instruments. A restricted cash balance was required at those Chinese subsidiaries for \$2 million and \$1 million at September 30, 2016 and December 31, 2015, respectively.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## (3) Long-Term Debt and Financing Arrangements

Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries.

As of September 30, 2016, the senior credit facility provides us with a total revolving credit facility size of \$1,200 million and had a \$274 million balance outstanding under the Tranche A Term Facility, both of which will mature on December 8, 2019. Net carrying amount for the balance outstanding under the Tranche A Term Facility including a \$2 million debt issuance cost was \$272 million as of September 30, 2016. Funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty (subject to any customary LIBOR breakage fees). The revolving credit facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. Outstanding letters of credit reduce our availability to borrow revolving loans under the facility. We are required to make quarterly principal payments under the Tranche A Term Facility of \$3.75 million through December 31, 2016, \$5.625 million beginning March 31, 2017 through December 31, 2017, \$7.5 million beginning March 31, 2018 through September 30, 2019 and a final payment of \$195 million is due on December 8, 2019. We have excluded the required payments, within the next twelve months, under the Tranche A Term Facility totaling \$21 million from current liabilities as of September 30, 2016, because we have the intent and ability to refinance the obligations on a long-term basis by using our revolving credit facility.

The financial ratios required under the amended and restated senior credit facility, and the actual ratios we achieved for the three quarters of 2016, are as follows:

	Quarter Ended		
	September 30, 2016	June 30, 2016	March 31, 2016
	Required	Actual	Required
Leverage Ratio (maximum)	3.50	1.52	3.50
Interest Coverage Ratio (minimum)	2.75	14.26	2.75

The senior credit facility includes a maximum leverage ratio covenant of 3.50 and a minimum interest coverage ratio of 2.75, in each case through December 8, 2019.

At September 30, 2016, of the \$1,200 million available under the revolving credit facility, we had unused borrowing capacity of \$891 million with \$309 million in outstanding borrowings and no outstanding letters of credit. As of September 30, 2016, our outstanding debt also included (i) \$274 million of a term loan which consisted of a \$272 million net carrying amount including a \$2 million debt issuance cost related to our Tranche A Term Facility which is subject to quarterly principal payments as described above through December 8, 2019, (ii) \$225 million of notes which consisted of a \$221 million net carrying amount including a \$4 million debt issuance cost related to our 5<sup>3</sup>/<sub>8</sub> percent senior notes due December 15, 2024, (iii) \$500 million of notes which consisted of a \$492 million net carrying amount including a \$8 million debt issuance cost related to our 5 percent senior notes due July 15, 2026 (which were issued on June 13, 2016), and (iv) \$140 million of other debt.

On June 6, 2016, we announced a cash tender offer to purchase our outstanding \$500 million 6<sup>7</sup>/<sub>8</sub> percent senior notes due in 2020. We received tenders representing \$325 million aggregate principal amount of the notes and, on June 13, 2016, we purchased the tendered notes at a price of 103.81 percent of the principal amount, plus accrued and unpaid interest. On July 13, 2016, we redeemed the remaining outstanding \$175 million aggregate principal amount of the notes that were not purchased pursuant to the tender offer at a price of 103.438 percent of the principal amount, plus accrued and unpaid interest. We used the proceeds of the issuance of our 5 percent senior notes due 2026 to fund the

purchase and redemption. The senior credit facility was used to fund the fees and expenses of the tender offer and redemption.

We recorded \$16 million and \$8 million of pre-tax interest charges in June and July of 2016, respectively, related to the repurchase and redemption of our 6<sup>7</sup>/<sub>8</sub> percent senior notes due in 2020 and the write-off of deferred debt issuance costs relating to those notes.

(4) Income Taxes

For interim tax reporting we estimate our annual effective tax rate and apply it to our year to date ordinary income. Jurisdictions where no tax benefit can be recognized due to a valuation allowance are excluded from the estimated annual effective tax rate. The impact of including these jurisdictions on the quarterly effective rate calculation could result in a higher or lower effective tax rate during a particular quarter due to the mix and timing of actual earnings versus annual projections. The tax effects of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

and effects of changes in tax laws or rates, are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

We reported income tax benefit of \$69 million and tax expense of \$34 million in the three month periods ended September 30, 2016 and 2015, respectively. The tax benefit recorded in the third quarter of 2016 included a net tax benefit of \$105 million primarily relating to recognizing a U.S. tax benefit for foreign taxes. During the third quarter, we completed our detailed analysis of our ability to recognize and utilize foreign tax credits within the carryforward period. As a result, we amended our U.S. federal tax returns for the years 2006 to 2012 to claim foreign tax credits in lieu of deducting foreign taxes paid. The U.S. foreign tax credit law provides for a credit against U.S. taxes otherwise payable for foreign taxes paid with regard to dividends, interest and royalties paid to us in the U.S. The tax expense recorded in the third quarter of 2015 included a net tax benefit of \$12 million primarily relating to tax adjustments to prior year U.S. research and development tax credits.

We reported income tax expense of \$5 million and \$122 million in the nine month periods ended September 30, 2016 and 2015, respectively. The tax expense recorded in the first nine months of 2016 included a net tax benefit of \$106 million primarily relating to recognizing a U.S. tax benefit for foreign taxes as described above. The tax expense recorded in the first nine months of 2015 included a net tax benefit of \$9 million primarily relating to prior year U.S. research and development tax credits, prior year intercompany transactions and tax adjustments to prior year income tax estimates.

We believe it is reasonably possible that up to \$22 million in unrecognized tax benefits related to the expiration of foreign statute of limitations and the conclusion of income tax examinations may be recognized within the next twelve months.

(5)Accounts Receivable Securitization

We securitize some of our accounts receivable on a limited recourse basis in the U.S. and Europe. As servicer under these accounts receivable securitization programs, we are responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In the U.S., we have an accounts receivable securitization program with three commercial banks comprised of a first priority facility and a second priority facility. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. In March 2015, the U.S. program was amended and extended to April 30, 2017. The first priority facility provides financing of up to \$130 million and the second priority facility, which is subordinated to the first priority facility, provides up to an additional \$50 million of financing. Both facilities monetize accounts receivable generated in the U.S. that meet certain eligibility requirements, and the second priority facility also monetizes certain accounts receivable generated in the U.S. that would otherwise be ineligible under the first priority securitization facility. The amount of outstanding third-party investments in our securitized accounts receivable under the U.S. program was \$50 million and \$30 million at September 30, 2016 and December 31, 2015, respectively.

Each facility contains customary covenants for financings of this type, including restrictions related to liens, payments, mergers or consolidations and amendments to the agreements underlying the receivables pool. Further, each facility may be terminated upon the occurrence of customary events (with customary grace periods, if applicable), including breaches of covenants, failure to maintain certain financial ratios, inaccuracies of representations and warranties, bankruptcy and insolvency events, certain changes in the rate of default or delinquency of the receivables, a change of control and the entry or other enforcement of material judgments. In addition, each facility contains cross-default provisions, where the facility could be terminated in the event of non-payment of other material indebtedness when due and any other event which permits the acceleration of the maturity of material indebtedness.

We also securitize receivables in our European operations with regional banks in Europe. The arrangements to securitize receivables in Europe are provided under six separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year, but some may be canceled with notice 90 days prior to renewal. In some instances, the arrangement provides for cancellation by the applicable financial institution at any time upon notification. The amount of outstanding third-party investments in our securitized accounts receivable in Europe was \$206 million and \$174 million at September 30, 2016 and December 31, 2015, respectively.

If we were not able to securitize receivables under either the U.S. or European securitization programs, our borrowings under our revolving credit agreement might increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit agreement.

In our U.S. accounts receivable securitization programs, we transfer a partial interest in a pool of receivables and the interest that we retain is subordinate to the transferred interest. Accordingly, we account for our U.S. securitization program as a secured borrowing. In our European programs, we transfer accounts receivables in their entirety to the acquiring entities and satisfy all of the conditions established under ASC Topic 860, "Transfers and Servicing," to report the transfer of financial

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

assets in their entirety as a sale. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized \$1 million interest expense in each of the three month periods ended September 30, 2016 and 2015, and \$2 million in each of the nine month periods ended September 30, 2016 and 2015, relating to our U.S. securitization program. In addition, we recognized a loss of \$1 million in each of the three month periods ended September 30, 2016 and 2015, and \$4 million and \$3 million in the nine month periods ended September 30, 2016 and 2015, respectively, on the sale of trade accounts receivable in our European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately two percent during the first nine months of both 2016 and 2015.

**(6) Restructuring and Other Charges**

Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. For the full year 2015, we incurred \$63 million in restructuring and related costs including asset write-downs of \$10 million, primarily related to European cost reduction efforts, exiting the Marzocchi suspension business, headcount reductions in Australia and South America, and the closure of a JIT plant in Australia, of which \$46 million was recorded in cost of sales, \$11 million in SG&A, \$1 million in engineering expense, \$1 million in other expense and \$4 million in depreciation and amortization expense. In the third quarter of 2016, we incurred \$7 million in restructuring and related costs, primarily related to manufacturing footprint improvements in North America Ride Performance as well as headcount reduction and cost improvement initiatives in Europe and China Clean Air, of which \$3 million was recorded in cost of sales and \$4 million in SG&A. In the third quarter of 2015, we incurred \$35 million in restructuring and related costs including asset write-downs of \$9 million, primarily related to European cost reduction efforts, exiting the Marzocchi suspension business, and headcount reductions in Australia and South America, of which \$27 million was recorded in cost of sales, \$3 million in SG&A, \$1 million in engineering expense and \$4 million in depreciation and amortization expense. In the first nine months of 2016, we incurred \$26 million in restructuring and related costs including asset write-downs of \$5 million, primarily related to manufacturing footprint improvements in North America Ride Performance as well as headcount reduction and cost improvement initiatives in Europe and China Clean Air and South America, of which \$9 million was recorded in cost of sales, \$12 million in SG&A, \$2 million in other expense and \$3 million in depreciation and amortization expense. In the first nine months of 2015, we incurred \$47 million in restructuring and related costs including asset write-downs of \$9 million, primarily related to European cost reduction efforts, exiting the Marzocchi suspension business, headcount reductions in Australia and South America and the closure of a JIT plant in Australia, of which \$37 million was recorded in cost of sales, \$5 million in SG&A, \$1 million in engineering expense and \$4 million in depreciation and amortization expense.

Amounts related to activities that are part of our restructuring reserves are as follows:

	December 31, 2015	2016 Cash Payments	Impact of Exchange Rates	September 30, 2016 Restructuring Reserve	
Employee Severance, Termination Benefits and Other Related Costs	\$30	21	(35 )	1	\$17

On January 31, 2013, we announced our intent to reduce structural costs in Europe by approximately \$60 million annually. During the first quarter of 2016, we reached an annualized run rate on this cost reduction initiative of \$49

million. With the disposition of the Gijon plant, which was completed at the end of the first quarter, the annualized rate essentially reached our target of \$55 million, at the current exchange rates. In the third quarter of 2016, we incurred \$7 million in restructuring and related costs, of which \$1 million was related to this initiative. In the first nine months of 2016, we incurred \$26 million in restructuring and related costs, of which \$16 million was related to this initiative. While we are nearing the completion of this initiative, we expect to incur additional restructuring and related costs in 2016 due to certain ongoing matters. For example, we closed the Gijon plant in 2013, but subsequently re-opened it in July 2014 with about half of its prior workforce after the employees' works council successfully filed suit challenging the closure decision. Pursuant to an agreement we entered into with employee representatives, we engaged in a sales process for the facility. In March of 2016, we signed an agreement to transfer ownership of the manufacturing facility in Gijon, Spain to German private equity fund Quantum Capital Partners A.G. (QCP). The transfer to QCP was effective March 31, 2016 and under a three year manufacturing agreement, QCP will also continue as a supplier to Tenneco.

On July 22, 2015, we announced our intention to discontinue our Marzocchi motorcycle fork suspension product line and our mountain bike suspension product line, and liquidate our Marzocchi operations. These actions were subject to a

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

consultation process with the employee representatives and in total eliminated approximately 138 jobs. We employed 127 people at the Marzocchi plant in Bologna, Italy and an additional 11 people in our operations in North America and Taiwan. In November 2015, we closed on the sale of certain assets related to our Marzocchi mountain bike suspension product line to the affiliates of Fox Factory Holding Corp.; and in December 2015, we closed on the sale of the Marzocchi motorcycle fork product line to an Italian company, VRM S.p.A. These actions were a part of our ongoing efforts to optimize our Ride Performance product line globally while continuously improving our operations and increasing profitability. We recorded charges of \$29 million in 2015 related to severance and other employee related costs, asset write-downs and other expenses related to these sales.

Under the terms of our amended and restated senior credit agreement that took effect on December 8, 2014, we are allowed to exclude up to \$150 million in the aggregate of all costs, expenses, fees, fines, penalties, judgments, legal settlements and other amounts associated with any restructuring, litigation, claim, proceeding or investigation related to or undertaken by us or any of our subsidiaries, together with any related provision for taxes, incurred after December 8, 2014 in the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2016, we had excluded \$74 million of allowable charges relating to restructuring initiatives against the \$150 million available under the terms of the senior credit facility.

## (7) Environmental Matters, Legal Proceedings and Product Warranties

We are involved in environmental remediation matters, legal proceedings, claims, investigations and warranty obligations. These matters are typically incidental to the conduct of our business and create the potential for contingent losses. We accrue for potential contingent losses when our review of available facts indicates that it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Each quarter we assess our loss contingencies based upon currently available facts, existing technology, presently enacted laws and regulations and taking into consideration the likely effects of inflation and other societal and economic factors and record adjustments to these reserves as required. As an example, we consider all available evidence, including prior experience in remediation of contaminated sites, other companies' cleanup experiences and data released by the United States Environmental Protection Agency or other organizations when we evaluate our environmental remediation contingencies. All of our loss contingency estimates are subject to revision in future periods based on actual costs or new information. With respect to our environmental liabilities, where future cash flows are fixed or reliably determinable, we have discounted those liabilities. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our consolidated financial statements.

## Environmental Matters

We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. As of September 30, 2016, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At September 30, 2016, our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately \$16 million, of which \$2 million is recorded in other current liabilities and \$14 million is recorded in deferred credits and other liabilities in our condensed consolidated balance sheet. For those locations where the liability was discounted, the weighted average discount rate used was 1.7 percent. The undiscounted value of the estimated remediation costs was \$19 million. Our expected payments of environmental remediation costs are estimated to be approximately \$1 million in 2016, \$2 million in 2017, \$1 million in each year beginning 2018 through 2020 and \$13 million in aggregate thereafter.

Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute to the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination of our estimated liability. We do not believe that any potential costs associated with our current status as a potentially responsible party in the Federal Superfund site, or as a liable party at the other locations referenced herein, will be material to our consolidated financial position, results of operations, or liquidity.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

Antitrust Investigations and Litigation

On March 25, 2014, representatives of the European Commission were at Tenneco GmbH's Edenkoben, Germany administrative facility to gather information in connection with an ongoing global antitrust investigation concerning multiple automotive suppliers. On March 25, 2014, we also received a related subpoena from the U.S. Department of Justice ("DOJ").

On November 5, 2014, the DOJ granted us conditional leniency pursuant to an agreement we entered into under the Antitrust Division's Corporate Leniency Policy. This agreement provides us with important benefits in exchange for our self-reporting of matters to the DOJ and our continuing full cooperation with the DOJ's resulting investigation. For example, the DOJ will not bring any criminal antitrust prosecution against us, nor seek any criminal fines or penalties, in connection with the matters we reported to the DOJ. Additionally, there are limits on our liability related to any follow on civil antitrust litigation in the U.S. The limits include single rather than treble damages, as well as relief from joint and several antitrust liability with other relevant civil antitrust action defendants. These limits are subject to our satisfying the DOJ and any court presiding over such follow on civil litigation.

Certain other competition agencies are also investigating possible violations of antitrust laws relating to products supplied by our company. We have cooperated and continue to cooperate fully with all of these antitrust investigations, and take other actions to minimize our potential exposure.

Tenneco and certain of its competitors are also currently defendants in civil putative class action litigation in the United States. More related lawsuits may be filed, including in other jurisdictions. Plaintiffs in these cases generally allege that defendants have engaged in anticompetitive conduct, in violation of federal and state laws, relating to the sale of automotive exhaust systems or components thereof. Plaintiffs seek to recover, on behalf of themselves and various purported classes of purchasers, injunctive relief, damages and attorneys' fees. However, as explained above, because we received conditional leniency from the DOJ, our civil liability in these follow on actions is limited to single damages and we will not be jointly and severally liable with the other defendants, provided that we have satisfied our obligations under the DOJ leniency agreement and approval is granted by the presiding court.

Antitrust law investigations, civil litigation, and related matters often continue for several years and can result in significant penalties and liability. We intend to vigorously defend the company and/or take other actions to minimize our potential exposure. In light of the many uncertainties and variables involved, we cannot estimate the ultimate impact that these matters may have on our company. Further, there can be no assurance that the ultimate resolution of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Other Legal Proceedings, Claims and Investigations

We are also from time to time involved in other legal proceedings, claims or investigations. Some of these matters involve allegations of damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. Additionally, some of these matters involve allegations relating to legal compliance. For example, in the U.S. we are subject to an audit in 11 states with respect to the payment of unclaimed property to those states, spanning a period as far back as over 30 years. While we vigorously defend ourselves against all of these legal proceedings, claims and investigations and take other actions to minimize our potential exposure, in future periods, we could be subject to cash costs or charges to earnings if any of these matters are resolved on unfavorable terms.

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, except as described above under "Antitrust Investigations," we do not expect the legal proceedings, claims or investigations currently pending against us will

have any material adverse impact on our consolidated financial position, results of operations or liquidity. In addition, for many years we have been and continue to be subject to lawsuits initiated by claimants alleging health problems as a result of exposure to asbestos. Our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted against one of our subsidiaries by railroad workers alleging exposure to asbestos products in railroad cars. The substantial majority of the remaining claims are related to alleged exposure to asbestos in our automotive products although a significant number of those claims appear also to involve occupational exposures sustained in industries other than automotive. We believe, based on scientific and other evidence, it is unlikely that claimants were exposed to asbestos by our former products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number in some cases exceeding 100 defendants from a variety of industries. Additionally, in many cases the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers and/or users continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

against these claims as part of our ordinary course of business. In future periods, we could be subject to cash costs or charges to earnings if any of these matters are resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolutions. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial position, results of operations or liquidity.

**Warranty Matters**

We provide warranties on some of our products. The warranty terms vary but range from one year up to limited lifetime warranties on some of our premium aftermarket products. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified with our products. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. We actively study trends of our warranty claims and take action to improve product quality and minimize warranty claims. We believe that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. The reserve is included in both current and long-term liabilities on the balance sheet.

Below is a table that shows the activity in the warranty accrual accounts:

	Nine Months Ended September 30, 2016 2015 (Millions)	
Beginning Balance January 1,	\$23	\$26
Accruals related to product warranties	6	11
Reductions for payments made	(10 )	(13 )
Ending Balance September 30,	\$19	\$24

**(8)Earnings Per Share**

Earnings per share of common stock outstanding were computed as follows:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(Millions Except Share and Per Share Amounts)			
Basic earnings per share —				
Net income attributable to Tenneco Inc.	\$180	\$ 52	\$ 323	\$ 179
Weighted Average shares of common stock outstanding	55,679,969	55,679,969	56,511,838	60,428,806
Earnings per share of common stock	\$3.24	\$ 0.89	\$ 5.72	\$ 2.97
Diluted earnings per share —				
Net income attributable to Tenneco Inc.	\$180	\$ 52	\$ 323	\$ 179
Weighted Average shares of common stock outstanding	55,679,969	55,679,969	56,511,838	60,428,806
Effect of dilutive securities:				

Edgar Filing: TENNECO INC - Form 10-Q

Restricted stock	207,707,203	144,145	91,615
Stock options	278,033,164	302,464	426,351
Weighted Average shares of common stock outstanding including dilutive securities	56,165,600	20,995	56,958,447
Earnings per share of common stock	\$3.21	\$ 0.88	\$ 5.67
			\$ 2.94

Options to purchase 171,580 and 175,343 shares of common stock were outstanding as of September 30, 2016 and 2015, respectively, but not included in the computation of diluted earnings per share respectively, because the options were anti-dilutive.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## (9) Common Stock

Equity Plans — We have granted a variety of awards, including common stock, restricted stock, restricted stock units, performance units, stock appreciation rights (“SARs”), and stock options to our directors, officers, and employees.

Accounting Methods — We recorded compensation expense (net of taxes) of less than \$1 million in the three month period ended September 30, 2016 and \$1 million in the three month period ended September 30, 2015 and \$1 million and \$3 million in compensation expense for the nine month periods ended September 30, 2016 and 2015, respectively, related to nonqualified stock options as part of our selling, general and administrative expense. This had no impact on basic or diluted earnings per share for each of the three month periods ended September 30, 2016 and resulted in a decrease of \$0.01 in both basic and diluted earnings per share for the nine month periods ended September 30, 2016 and 2015.

For employees eligible to retire at the grant date, we immediately expense stock options and restricted stock. If employees become eligible to retire during the vesting period, we immediately recognize any remaining expense associated with their stock options and restricted stock.

As of September 30, 2016, there was less than \$1 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 0.3 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs (net of taxes) was \$5 million and \$1 million for the three month periods ended September 30, 2016 and 2015, respectively, and \$14 million and \$10 million for the nine month periods ended September 30, 2016 and 2015, respectively, and was recorded in selling, general, and administrative expense in our condensed consolidated statements of income.

Cash received from stock option exercises for the nine month periods ended September 30, 2016 and 2015 was \$4 million and \$1 million, respectively.

Stock options exercised in the first nine months of 2016 and 2015 generated a tax benefit of \$1 million and \$6 million, respectively. We started to record this tax effect in the third quarter of 2013 when we began utilizing our federal and state NOLs.

Stock Options — The following table reflects the status and activity for all options to purchase common stock for the period indicated:

	Nine Months Ended September 30, 2016			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2016	1,144,719	\$ 34.69	3.7	\$ 19
Exercised	(19,192 )	9.31		1
Outstanding, March 31, 2016	1,125,527	\$ 35.12	3.5	\$ 12
Forfeited	(788 )	51.88		
Exercised	(183,774 )	23.07		5
Outstanding, June 30, 2016	940,965	\$ 37.46	3.1	\$ 14
Forfeited	(3,183 )	56.23		
Exercised	(178,455 )	30.17		4
Outstanding, September 30, 2016	759,327	\$ 39.13	2.8	\$ 12

There were no stock options granted in 2015 or 2016. The total fair value of shares vested from options that were granted prior to 2015 was \$4 million for both periods ended September 30, 2016 and 2015, respectively.



Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

Restricted Stock — The following table reflects the status for all nonvested restricted shares for the period indicated:

	Nine Months Ended	
	September 30, 2016	
	Shares	Weighted Avg. Grant Date Fair Value
Nonvested Restricted Shares		
Nonvested balance at January 1, 2016	496,842	\$ 51.65
Granted	347,398	35.98
Vested	(156,109)	46.50
Nonvested balance at March 31, 2016	688,131	\$ 44.90
Vested	(20,221 )	42.32
Forfeited	(32,192 )	53.91
Nonvested balance at June 30, 2016	635,718	\$ 44.42
Granted	3,368	55.02
Vested	(23,705 )	37.37
Forfeited	(3,485 )	53.34
Nonvested balance at September 30, 2016	611,896	\$ 44.70

The fair value of restricted stock grants is usually equal to the average of the high and low trading price of our stock on the date of grant. As of September 30, 2016, approximately \$15 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 2.0 years. The total fair value of restricted shares vested was \$9 million and \$6 million at September 30, 2016 and 2015, respectively.

In January 2015, our Board of Directors approved a share repurchase program, authorizing our company to repurchase up to \$350 million of our outstanding common stock over a three year period. This repurchase program does not obligate Tenneco to make repurchases at any specific time or situation and is part of our overall capital allocation strategy. In October 2015, our Board of Directors expanded our company's share repurchase plan, authorizing the repurchase of an additional \$200 million of our company's outstanding common stock. This authorization is in addition to the \$350 million share repurchase program our company announced in January 2015. We repurchased 2.8 million shares for \$146 million through this program in the nine months ended September 30, 2016. Since we announced the current share repurchase program in January 2015, we have repurchased 7.0 million shares for \$359 million through September 30, 2016.

Treasury stock shares including repurchased shares were 10,256,389 and 7,473,325 shares at September 30, 2016 and December 31, 2015, respectively.

Long-Term Performance Units, Restricted Stock Units and SARs — Long-term performance units, restricted stock units and SARs are paid in cash and recognized as a liability based upon their fair value. As of September 30, 2016, \$21 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 1.0 years.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## (10) Pension Plans, Postretirement and Other Employee Benefits

Net periodic pension costs and postretirement benefit costs consist of the following components:

	Three Months Ended September 30,					
	Pension			Postretirement		
	2016	2015		2016	2015	
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost — benefits earned during the period	\$ 1	\$ 2	\$ —	\$ 3	\$ —	\$ —
Interest cost	4	4	4	2	1	
Expected return on plan assets	(6)	(5)	(5)	(6)	—	—
Net amortization:						
Actuarial loss	2	1	1	3	2	2
Prior service cost (credit)	—	1	—	1	(1)	(1)
Net pension and postretirement costs	\$ 1	\$ 3	\$ —	\$ 3	\$ 2	\$ 1

	Nine Months Ended September 30,					
	Pension			Postretirement		
	2016	2015		2016	2015	
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost — benefits earned during the period	\$ 1	\$ 6	\$ 1	\$ 7	\$ —	\$ —
Interest cost	13	11	13	11	4	4
Expected return on plan assets	(18)	(15)	(17)	(16)	—	—
Net amortization:						
Actuarial loss	6	5	5	6	4	4
Prior service cost (credit)	—	1	—	1	(1)	(3)
Net pension and postretirement costs	\$ 2	\$ 8	\$ 2	\$ 9	\$ 7	\$ 5

For the nine months ended September 30, 2016, we made pension contributions of \$2 million and \$10 million for our domestic and foreign pension plans, respectively. Based on current actuarial estimates, we believe we will be required to contribute approximately \$32 million for the remainder of 2016, which includes estimated contributions for the pension buyout referenced below. Pension contributions beyond 2016 will be required, but those amounts will vary based upon many factors including, for example, the performance of our pension fund investments during 2016. In February 2016, the Company launched a voluntary program to buy out active employees and retirees who have earned benefits in the U.S. pension plans and announced that the program is expected to be completed by the end of 2016. We will record a non-cash charge at that time. Cash payments to those who elect to take the buyout will be made from pension plan assets.

We made postretirement contributions of approximately \$6 million during the first nine months of 2016. Based on current actuarial estimates, we believe we will be required to contribute approximately \$3 million for the remainder of 2016.

The assets of some of our pension plans are invested in trusts that permit commingling of the assets of more than one employee benefit plan for investment and administrative purposes. Each of the plans participating in the trust has interests in the net assets of the underlying investment pools of the trusts. The investments for all our pension plans

are recorded at estimated fair value, in compliance with the accounting guidance on fair value measurement.

25

---

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

Amounts recognized for pension and postretirement benefits in other comprehensive income for the three and nine months ended September 30, 2016 and 2015 include the following components:

	Three Months Ended September 30, 2016			September 30, 2015		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
	(Millions)					
Defined benefit pension and postretirement plans:						
Amortization of actuarial loss included in net periodic pension and postretirement cost	5	(1)	4	6	(2)	4
Other comprehensive income – pension benefits	\$5	\$(1)	\$4	\$6	\$(2)	\$4
	Nine Months Ended September 30, 2016			September 30, 2015		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
	(Millions)					
Defined benefit pension and postretirement plans:						
Amortization of prior service cost included in net periodic pension and postretirement cost	\$—	\$—	\$—	\$(2)	\$—	\$(2)
Amortization of actuarial loss included in net periodic pension and postretirement cost	15	(4)	11	15	(4)	11
Other comprehensive income – pension benefits	\$15	\$(4)	\$11	\$13	\$(4)	\$9

## (11) New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this update involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standard Update 2016-02, Leases (Topic 842). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flow arising from a lease. For public business entities, the standard is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. We will adopt this amendment on January 1, 2019. We are currently evaluating the potential impact of this new guidance on our consolidated financial statements.

In May 2015, the FASB issued Accounting Standard Update (ASU) No. 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). ASU No. 2015-07 removes the

requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Such investments should be disclosed separate from the fair value hierarchy. For public business entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this guidance did not have an impact on the Company's consolidated financial statements but will impact pension asset disclosure in our annual report on Form 10-K going forward.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

In May 2014, the FASB issued an amendment on revenue recognition. The amendment in this update creates Topic 606, Revenue from Contracts with Customers, and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendment supersedes the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and creates new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has voted to approve a one-year deferral of the effective date from January 1, 2017 to January 1, 2018, while allowing for early adoption as of January 1, 2017 for public entities. We will adopt this amendment on January 1, 2018. We are currently evaluating the potential impact of this new guidance on our consolidated financial statements.

(12) Segment Information

We are organized and manage our business along our two major product lines (clean air and ride performance) and three geographic areas (North America; Europe, South America and India; and Asia Pacific), resulting in six operating segments (North America Clean Air, North America Ride Performance, Europe, South America and India Clean Air, Europe, South America and India Ride Performance, Asia Pacific Clean Air and Asia Pacific Ride Performance).

Within each geographical area, each operating segment manufactures and distributes either clean air or ride performance products primarily for the original equipment and aftermarket industries. Each of the six operating segments constitutes a reportable segment. Costs related to other business activities, primarily corporate headquarter functions, are disclosed separately from the six operating segments as "Other." We evaluate segment performance based primarily on earnings before interest expense, income taxes, and noncontrolling interests. Products are transferred between segments and geographic areas on a basis intended to reflect as nearly as possible the "market value" of the products.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

The following table summarizes certain Tenneco Inc. segment information:

	Clean Air Division			Ride Performance Division			Other	Reclass & Elims	Total
	North America	South America & India	Asia Pacific	North America	South America & India	Asia Pacific			
(Millions)									
At September 30, 2016 and for the Three Months Ended September 30, 2016									
Revenues from external customers	\$ 716	\$ 487	\$ 257	\$ 306	\$ 258	\$ 72	\$ —	\$ —	\$ 2,096
Intersegment revenues	4	24	1	2	6	12	—	(49)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	44	30	37	37	11	15	(22)	—	152
Total assets	1,390	842	593	727	564	243	—	47	4,406
At September 30, 2015 and for the Three Months Ended September 30, 2015									
Revenues from external customers	720	453	235	330	236	51	—	—	2,025
Intersegment revenues	4	27	—	3	7	12	—	(53)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	58	14	31	39	(21)	9	(14)	—	116
Total assets	1,292	775	532	768	557	200	—	33	4,157
At September 30, 2016 and for the Nine Months Ended September 30, 2016									
Revenues from external customers	\$ 2,252	\$ 1,498	\$ 777	\$ 952	\$ 771	\$ 194	\$ —	\$ —	\$ 6,444
Intersegment revenues	9	70	2	6	21	35	—	(14)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	172	75	109	127	19	38	(87)	—	453
Total assets	1,390	842	593	727	564	243	—	47	4,406
At September 30, 2015 and for the Nine Months Ended September 30, 2015									
Revenues from external customers	2,150	1,381	743	1,021	718	165	—	—	6,178
Intersegment revenues	11	79	—	8	22	37	—	(15)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	179	36	86	125	(1)	27	(61)	—	391
Total assets	1,292	775	532	768	557	200	—	33	4,157

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

(13)Supplemental Guarantor Condensed Consolidating Financial Statements

Basis of Presentation

Substantially all of our existing and future material domestic 100% owned subsidiaries (which are referred to as the Guarantor Subsidiaries) fully and unconditionally guarantee our senior notes due in 2020, 2024 and 2026 on a joint and several basis. However, a subsidiary's guarantee may be released in certain customary circumstances such as a sale of the subsidiary or all or substantially all of its assets in accordance with the indenture applicable to the notes. The Guarantor Subsidiaries are combined in the presentation below.

These consolidating financial statements are presented on the equity method. Under this method, our investments are recorded at cost and adjusted for our ownership share of a subsidiary's cumulative results of operations, capital contributions and distributions, and other equity changes. You should read the condensed consolidating financial information of the Guarantor Subsidiaries in connection with our condensed consolidated financial statements and related notes of which this note is an integral part.

Distributions

There are no significant restrictions on the ability of the Guarantor Subsidiaries to make distributions to us.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30, 2016				
	Guaranteed	Non-guaranteed	Tenneco Inc.	Reclass &	Consolidated
	Subsidiaries	Subsidiaries	(Parent Company)	Elims	
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	\$928	\$ 1,168	\$ —	\$ —	\$ 2,096
Affiliated companies	134	183	—	(317 )	—
	1,062	1,351	—	(317 )	2,096
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	903	1,155	—	(317 )	1,741
Engineering, research, and development	20	21	—	—	41
Selling, general, and administrative	48	61	—	—	109
Depreciation and amortization of other intangibles	23	30	—	—	53
	994	1,267	—	(317 )	1,944
Other income (expense)					
Loss on sale of receivables	(1 )	(1 )	) —	—	(2 )
Other income (expense)	(7 )	9	—	—	2
	(8 )	8	—	—	—
Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies					
	60	92	—	—	152
Interest expense —					
External (net of interest capitalized)	(1 )	1	24	—	24
Affiliated companies (net of interest income)	(3 )	2	1	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies					
	64	89	(25 )	) —	128
Income tax expense (benefit)	(107 )	38	—	—	(69 )
Equity in net income (loss) from affiliated companies	34	—	205	(239 )	—
Net income (loss)	205	51	180	(239 )	197
Less: Net income attributable to noncontrolling interests					
	—	17	—	—	17
Net income (loss) attributable to Tenneco Inc.					
	\$205	\$ 34	\$ 180	\$ (239 )	\$ 180
Comprehensive income (loss) attributable to Tenneco Inc.					
	\$205	\$ 34	\$ 185	\$ (239 )	\$ 185

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended September 30, 2015

	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
--	---------------------------	-------------------------------	-------------------------------------	--------------------	--------------

(Millions)

## Revenues

Net sales and operating revenues —

External	\$936	\$ 1,089	\$ —	\$ —	\$ 2,025
Affiliated companies	102	135	—	(237 )	—
	1,038	1,224	—	(237 )	2,025

## Costs and expenses

Cost of sales (exclusive of depreciation and amortization shown below)

Engineering, research, and development	18	17	—	—	35
Selling, general, and administrative	41	71	1	—	113
Depreciation and amortization of other intangibles	22	31	—	—	53
	947	1,197	1	(237 )	1,908

## Other income (expense)

Loss on sale of receivables	—	(1 )	—	—	(1 )
Other income (expense)	10	8	—	(18 )	—
	10	7	—	(18 )	(1 )

Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies

	101	34	(1 )	(18 )	116
--	-----	----	------	-------	-----

## Interest expense —

External (net of interest capitalized)	(1 )	—	17	—	16
Affiliated companies (net of interest income)	19	(19 )	—	—	—

Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies

	83	53	(18 )	(18 )	100
--	----	----	-------	-------	-----

Income tax expense

	22	12	—	—	34
--	----	----	---	---	----

Equity in net income (loss) from affiliated companies

	26	—	70	(96 )	—
--	----	---	----	-------	---

Net income (loss)

	87	41	52	(114 )	66
--	----	----	----	--------	----

Less: Net income attributable to noncontrolling interests

	—	14	—	—	14
--	---	----	---	---	----

Net income (loss) attributable to Tenneco Inc.

	\$87	\$ 27	\$ 52	\$ (114 )	\$ 52
--	------	-------	-------	-----------	-------

Comprehensive income (loss) attributable to Tenneco Inc.

	\$87	\$ 27	\$ 11	\$ (114 )	\$ 11
--	------	-------	-------	-----------	-------

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Nine Months Ended September 30, 2016

	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	\$2,929	\$ 3,515	\$ —	\$ —	\$ 6,444
Affiliated companies	389	569	—	(958)	—
	3,318	4,084	—	(958)	6,444
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	2,797	3,482	—	(958)	5,321
Engineering, research, and development	59	58	—	—	117
Selling, general, and administrative	174	215	1	—	390
Depreciation and amortization of other intangibles	65	94	—	—	159
	3,095	3,849	1	(958)	5,987
Other income (expense)					
Loss on sale of receivables	(2)	(2)	—	—	(4)
Other income (expense)	(6)	21	—	(15)	—
	(8)	19	—	(15)	(4)
Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	215	254	(1)	(15)	453
Interest expense —					
External (net of interest capitalized)	(1)	3	74	—	76
Affiliated companies (net of interest income)	(9)	6	3	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	225	245	(78)	(15)	377
Income tax expense (benefit)	(70)	75	—	—	5
Equity in net income (loss) from affiliated companies	121	—	401	(522)	—
Net income (loss)	416	170	323	(537)	372
Less: Net income attributable to noncontrolling interests	—	49	—	—	49
Net income (loss) attributable to Tenneco Inc.	\$416	\$ 121	\$ 323	\$ (537)	\$ 323
Comprehensive income (loss) attributable to Tenneco Inc.	\$416	\$ 121	\$ 338	\$ (537)	\$ 338

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Nine Months Ended September 30, 2015

	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	\$2,817	\$ 3,361	\$ —	\$ —	\$ 6,178
Affiliated companies	313	423	—	(736 )	—
	3,130	3,784	—	(736 )	6,178
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	2,609	3,284	—	(736 )	5,157
Engineering, research, and development	59	55	—	—	114
Selling, general, and administrative	137	219	3	—	359
Depreciation and amortization of other intangibles	66	88	—	—	154
	2,871	3,646	3	(736 )	5,784
Other income (expense)					
Loss on sale of receivables	(1 )	(2 )	—	—	(3 )
Other income (expense)	37	11	—	(48 )	—
	36	9	—	(48 )	(3 )
Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	295	147	(3 )	(48 )	391
Interest expense —					
External (net of interest capitalized)	(2 )	2	49	—	49
Affiliated companies (net of interest income)	56	(57 )	1	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	241	202	(53 )	(48 )	342
Income tax expense	83	39	—	—	122
Equity in net income (loss) from affiliated companies	115	—	232	(347 )	—
Net income (loss)	273	163	179	(395 )	220
Less: Net income attributable to noncontrolling interests	—	41	—	—	41
Net income (loss) attributable to Tenneco Inc.	\$273	\$ 122	\$ 179	\$ (395 )	\$ 179
Comprehensive income (loss) attributable to Tenneco Inc.	\$273	\$ 122	\$ 93	\$ (395 )	\$ 93

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## BALANCE SHEET

	September 30, 2016				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$—	\$ 324	\$ —	\$—	\$ 324
Restricted cash	—	2	—	—	2
Receivables, net	407	1,381	—	(490 )	1,298
Inventories	364	389	—	—	753
Prepayments and other	107	193	—	—	300
Total current assets	878	2,289	—	(490 )	2,677
Other assets:					
Investment in affiliated companies	1,149	—	1,245	(2,394 )	—
Notes and advances receivable from affiliates	949	15,714	4,792	(21,455 )	—
Long-term receivables, net	9	1	—	—	10
Goodwill	22	36	—	—	58
Intangibles, net	8	12	—	—	20
Deferred income taxes	55	22	141	—	218
Other	44	48	9	—	101
	2,236	15,833	6,187	(23,849 )	407
Plant, property, and equipment, at cost	1,331	2,253	—	—	3,584
Less — Accumulated depreciation and amortization	(880 )	(1,382 )	—	—	(2,262 )
	451	871	—	—	1,322
Total assets	\$3,565	\$ 18,993	\$ 6,187	\$(24,339)	\$ 4,406
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt — non-affiliated	\$—	\$ 109	\$ 15	\$—	\$ 124
Short-term debt — affiliated	97	211	—	(308 )	—
Accounts payable	577	997	—	(117 )	1,457
Accrued taxes	13	34	—	—	47
Other	120	250	12	(65 )	317
Total current liabilities	807	1,601	27	(490 )	1,945
Long-term debt — non-affiliated	—	15	1,295	—	1,310
Long-term debt — affiliated	1,564	15,661	4,230	(21,455 )	—
Deferred income taxes	—	8	—	—	8
Postretirement benefits and other liabilities	358	75	—	—	433
Commitments and contingencies					
Total liabilities	2,729	17,360	5,552	(21,945 )	3,696
Redeemable noncontrolling interests	—	35	—	—	35

Edgar Filing: TENNECO INC - Form 10-Q

Tenneco Inc. shareholders' equity	836	1,558	635	(2,394 )	635
Noncontrolling interests	—	40	—	—	40
Total equity	836	1,598	635	(2,394 )	675
Total liabilities, redeemable noncontrolling interests and equity	\$3,565	\$ 18,993	\$ 6,187	\$(24,339)	\$ 4,406

34

---

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## BALANCE SHEET

	December 31, 2015				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$2	\$ 285	\$ —	\$—	\$ 287
Restricted cash	—	1	—	—	1
Receivables, net	299	1,241	—	(428 )	1,112
Inventories	333	349	—	—	682
Prepayments and other	67	162	—	—	229
Total current assets	701	2,038	—	(428 )	2,311
Other assets:					
Investment in affiliated companies	1,146	—	893	(2,039 )	—
Notes and advances receivable from affiliates	938	13,291	4,788	(19,017 )	—
Long-term receivables, net	11	2	—	—	13
Goodwill	22	38	—	—	60
Intangibles, net	9	13	—	—	22
Deferred income taxes	122	28	68	—	218
Other	42	47	11	—	100
	2,290	13,419	5,760	(21,056 )	413
Plant, property, and equipment, at cost	1,281	2,137	—	—	3,418
Less — Accumulated depreciation and amortization	(851 )	(1,324 )	—	—	(2,175 )
	430	813	—	—	1,243
Total assets	\$3,421	\$ 16,270	\$ 5,760	\$(21,484)	\$ 3,967
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt — non-affiliated	\$—	\$ 73	\$ 13	\$—	\$ 86
Short-term debt — affiliated	164	147	—	(311 )	—
Accounts payable	484	955	—	(63 )	1,376
Accrued taxes	6	31	—	—	37
Other	125	221	3	(54 )	295
Total current liabilities	779	1,427	16	(428 )	1,794
Long-term debt — non-affiliated	—	21	1,103	—	1,124
Long-term debt — affiliated	1,583	13,226	4,208	(19,017 )	—
Deferred income taxes	—	7	—	—	7
Postretirement benefits and other liabilities	424	100	—	—	524
Commitments and contingencies					
Total liabilities	2,786	14,781	5,327	(19,445 )	3,449
Redeemable noncontrolling interests	—	43	—	—	43

Edgar Filing: TENNECO INC - Form 10-Q

Tenneco Inc. shareholders' equity	635	1,404	433	(2,039 )	433
Noncontrolling interests	—	42	—	—	42
Total equity	635	1,446	433	(2,039 )	475
Total liabilities, redeemable noncontrolling interests and equity	\$3,421	\$ 16,270	\$ 5,760	\$(21,484)	\$ 3,967

35

---

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

Three Months Ended September 30, 2016

Guaranteed	Non-guaranteed	Tenneco Inc.	Reclass &	Consolidated
Subsidiaries	Subsidiaries	(Parent Company)	Elims	

(Millions)

Operating Activities					
Net cash provided (used) by operating activities	\$ 170	\$ (17 )	\$ (10 )	\$ (4 )	\$ 139
Investing Activities					
Proceeds from sale of assets	1	—	—	—	1
Cash payments for plant, property, and equipment	(29 )	(45 )	—	—	(74 )
Cash payments for software related intangible assets	(6 )	—	—	—	(6 )
Changes in restricted cash	—	1	—	—	1
Net cash used by investing activities	(34 )	(44 )	—	—	(78 )
Financing Activities					
Issuance of common shares	—	—	7	—	7
Tax impact from stock-based compensation	—	—	(11 )	—	(11 )
Retirement of long-term debt	—	—	(179 )	—	(179 )
Issuance of long-term debt	—	2	—	—	2
Purchase of common stock under the share repurchase program	—	—	(89 )	—	(89 )
Net decrease in bank overdrafts	—	(1 )	—	—	(1 )
Net increase in revolver borrowings and short-term debt excluding current maturities of long-term debt	—	46	152	—	198
Net increase in short-term borrowings secured by accounts receivables	—	—	50	—	50
Intercompany dividend payments and net increase (decrease) in intercompany obligations	(137 )	54	79	4	—
Distributions to noncontrolling interest partners	—	(28 )	—	—	(28 )
Net cash provided (used) by financing activities	(137 )	73	9	4	(51 )
Effect of foreign exchange rate changes on cash and cash equivalents	(1 )	3	1	—	3
Increase (decrease) in cash and cash equivalents	(2 )	15	—	—	13
Cash and cash equivalents, July 1	2	309	—	—	311
Cash and cash equivalents, September 30 (Note)	\$ —	\$ 324	\$ —	\$ —	\$ 324

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

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

Three Months Ended September 30, 2015

Guarantor Subsidiaries	Non-guarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
---------------------------	-------------------------------	-------------------------------------	--------------------	--------------

(Millions)

Operating Activities					
Net cash provided (used) by operating activities	\$17	\$ 114	\$ 4	\$ (29 )	\$ 106
Investing Activities					
Proceeds from sale of assets	(1 )	2	—	—	1
Cash payments for plant, property, and equipment	(36 )	(35 )	—	—	(71 )
Cash payments for software related intangible assets	(2 )	(3 )	—	—	(5 )
Net cash used by investing activities	(39 )	(36 )	—	—	(75 )
Financing Activities					
Tax benefit from stock-based compensation	—	—	(5 )	—	(5 )
Retirement of long-term debt	—	(1 )	(3 )	—	(4 )
Issuance of long-term debt	—	1	—	—	1
Purchase of common stock under the share repurchase program	—	—	(114 )	—	(114 )
Net decrease in bank overdrafts	—	(10 )	—	—	(10 )
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables	—	(29 )	167	—	138
Net decrease in short-term borrowings secured by accounts receivable	—	—	(20 )	—	(20 )
Intercompany dividend payments and net increase (decrease) in intercompany obligations	20	(20 )	(29 )	29	—
Distributions to noncontrolling interest partners	—	(22 )	—	—	(22 )
Net cash provided (used) by financing activities	20	(81 )	(4 )	29	(36 )
Effect of foreign exchange rate changes on cash and cash equivalents	—	(25 )	—	—	(25 )
Decrease in cash and cash equivalents	(2 )	(28 )	—	—	(30 )
Cash and cash equivalents, July 1	4	246	—	—	250
Cash and cash equivalents, September 30 (Note)	\$2	\$ 218	\$ —	\$ —	\$ 220

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

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2016				
	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Tenneco Inc (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 113	\$ 187	\$ (46 )	\$ (15 )	\$ 239
<b>Investing Activities</b>					
Proceeds from sale of assets	1	3	—	—	4
Cash payments for plant, property, and equipment	(72 )	(141 )	—	—	(213 )
Cash payments for software related intangible assets	(10 )	(5 )	—	—	(15 )
Changes in restricted cash	—	(1 )	—	—	(1 )
Net cash used by investing activities	(81 )	(144 )	—	—	(225 )
<b>Financing Activities</b>					
Issuance of common shares	—	—	11	—	11
Tax impact from stock-based compensation	—	—	(10 )	—	(10 )
Retirement of long-term debt	—	(16 )	(511 )	—	(527 )
Issuance of long-term debt	—	8	500	—	508
Debt issuance cost of long-term debt	—	—	(8 )	—	(8 )
Purchase of common stock under the share repurchase program	—	—	(146 )	—	(146 )
Net increase in bank overdrafts	—	4	—	—	4
Net increase in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables	—	36	187	—	223
Net increase in short-term borrowings secured by accounts receivables	—	—	20	—	20
Intercompany dividend payments and net increase (decrease) in intercompany obligations	(34 )	16	3	15	—
Distributions to noncontrolling interest partners	—	(55 )	—	—	(55 )
Net cash provided (used) by financing activities	(34 )	(7 )	46	15	20
Effect of foreign exchange rate changes on cash and cash equivalents	—	3	—	—	3
Increase (decrease) in cash and cash equivalents	(2 )	39	—	—	37
Cash and cash equivalents, January 1	2	285	—	—	287
Cash and cash equivalents, September 30 (Note)	\$ —	\$ 324	\$ —	\$ —	\$ 324

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

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2015				
	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Tenneco Inc (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$61	\$ 202	\$ (28 )	\$ (47 )	\$ 188
<b>Investing Activities</b>					
Proceeds from sale of assets	—	3	—	—	3
Cash payments for plant, property, and equipment	(93 )	(128 )	—	—	(221 )
Cash payments for software related intangible assets	(7 )	(6 )	—	—	(13 )
Changes in restricted cash	—	1	—	—	1
Net cash used by investing activities	(100)	(130 )	—	—	(230 )
<b>Financing Activities</b>					
Issuance of common shares	—	—	5	—	5
Tax benefit from stock-based compensation	—	—	1	—	1
Retirement of long-term debt	—	(14 )	(11 )	—	(25 )
Issuance of long-term debt	—	1	—	—	1
Debt issuance cost of long-term debt	—	—	(1 )	—	(1 )
Purchase of common stock under the share repurchase program	—	—	(158 )	—	(158 )
Net decrease in bank overdrafts	—	(21 )	—	—	(21 )
Net increase in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables	—	30	193	—	223
Net increase in short-term borrowings secured by accounts receivables	—	—	30	—	30
Intercompany dividend payments and net increase (decrease) in intercompany obligations	31	(47 )	(31 )	47	—
Distributions to noncontrolling interest partners	—	(44 )	—	—	(44 )
Net cash provided (used) by financing activities	31	(95 )	28	47	11
Effect of foreign exchange rate changes on cash and cash equivalents	—	(31 )	—	—	(31 )
Decrease in cash and cash equivalents	(8 )	(54 )	—	—	(62 )
Cash and cash equivalents, January 1	10	272	—	—	282
Cash and cash equivalents, September 30 (Note)	\$2	\$ 218	\$ —	\$ —	\$ 220

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

Table of Contents

## ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As you read the following review of our financial condition and results of operations, you should also read our condensed consolidated financial statements and related notes beginning on page 6.

## Executive Summary

We are one of the world's leading manufacturers of clean air and ride performance products and systems for light vehicle, commercial truck and off-highway applications. We serve both original equipment (OE) vehicle designers and manufacturers and the repair and replacement markets, or aftermarket, globally through leading brands, including Monroe®, Rancho®, Clevite® Elastomers, Axios™, Kinetic® and Fric-Rot™ ride performance products and Walker®, XNOx®, Fonos™, DynoMax® and Thrush® clean air products. We serve more than 80 different original equipment manufacturers and commercial truck and off-highway engine manufacturers, and our products are included on nine of the top 10 car models produced for sale in Europe and eight of the top 10 light truck models produced for sale in North America for 2015. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. As of December 31, 2015, we operated 93 manufacturing facilities worldwide and employed approximately 30,000 people to service our customers' demands.

Factors that continue to be critical to our success include winning new business awards, managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business needs, maintaining competitive wages and benefits, maximizing efficiencies in manufacturing processes and reducing overall costs. In addition, our ability to adapt to key industry trends, such as a shift in consumer preferences to other vehicles in response to higher fuel costs and other economic and social factors, increasing technologically sophisticated content, changing aftermarket distribution channels, increasing environmental standards and extended product life of automotive parts, also play a critical role in our success. Other factors that are critical to our success include adjusting to economic challenges such as increases in the cost of raw materials and our ability to successfully reduce the impact of any such cost increases through material substitutions, cost reduction initiatives and other methods.

For the third quarter of 2016, light vehicle production was up two percent in North America, 14 percent in India and 24 percent in China compared to the third quarter of 2015. Light vehicle production was down two percent in Europe, 10 percent in South America and six percent in Australia in the third quarter of 2016 when compared to the third quarter of 2015.

Total revenues for the third quarter of 2016 were \$2,096 million, up four percent from \$2,025 million in the third quarter of 2015 on strong global light vehicle revenues, driven by both the Clean Air and Ride Performance product lines. Excluding the impact of currency and substrate sales, revenue was up \$93 million, or six percent, from \$1,550 million to \$1,643 million. The increase in revenues was driven primarily by stronger OE light vehicle volumes mainly in Europe, South America and India and China as well as new platforms in Europe and China, which were partially offset by lower aftermarket and lower commercial truck, off-highway and other vehicle revenues mainly in North America.

Cost of sales (exclusive of depreciation and amortization): Cost of sales for the third quarter of 2016 was \$1,741 million, or 83.1 percent of sales, compared to \$1,707 million, or 84.3 percent of sales in the third quarter of 2015. The following table lists the primary drivers behind the change in cost of sales (\$ millions).

Quarter ended September 30, 2015	\$1,707
Volume and mix	119
Material	(31 )
Currency exchange rates	(38 )
Restructuring	(28 )
Other Costs	12
Quarter ended September 30, 2016	\$1,741

The increase in cost of sales was due to the year-over-year increase in volume and higher other costs, mainly manufacturing, partially offset by the impact of currency exchange rates, lower net material costs and lower restructuring.

## Edgar Filing: TENNECO INC - Form 10-Q

Gross margin: Revenue less cost of sales for the third quarter of 2016 was \$355 million, or 16.9 percent, versus \$318 million, or 15.7 percent, in the third quarter of 2015. The effect on gross margin resulting from year-over-year increase in volume, lower net material costs and lower restructuring was partially offset by higher other costs, mainly manufacturing.

Engineering, research and development: Engineering, research and development expense was \$41 million and \$35 million in the third quarters of 2016 and 2015, respectively.

Selling, general and administrative (SG&A): SG&A expense was down \$4 million in the third quarter of 2016 at \$109 million compared to \$113 million in the third quarter of 2015.

Table of Contents

Depreciation and amortization: Depreciation and amortization expense was \$53 million in each of the third quarters of 2016 and 2015.

Earnings before interest expense, taxes and noncontrolling interests (“EBIT”) was \$152 million for the third quarter of 2016, an increase of \$36 million when compared to \$116 million in the third quarter of the prior year. Higher OE light vehicle volumes in Europe, South America and India and China, new platforms in Europe and China as well as lower restructuring and related expenses were partially offset by lower aftermarket and lower commercial truck, off-highway and other vehicle revenues mainly in North America. EBIT for the third quarter of 2015 also benefited from the timing of a customer recovery in China Clean Air of \$5 million.

Total revenues for the first nine months of 2016 were \$6,444 million, up four percent from \$6,178 million in the first nine months of 2015 on strong global light vehicle revenues, driven by both the Clean Air and Ride Performance product lines. Excluding the impact of currency and substrate sales, revenue was up \$327 million, or seven percent, from \$4,744 million to \$5,071 million. The increase in revenues was driven primarily by stronger OE light vehicle volumes in North America Clean Air, Europe, South America and India and China and increased aftermarket Ride Performance sales in Europe and South America, new platforms in North America, Europe and China as well as higher commercial truck, off-highway and other Clean Air revenue, which were partially offset by lower commercial truck, off-highway and other Ride Performance revenue mainly in North America and Europe and lower aftermarket revenue in North America.

Cost of sales (exclusive of depreciation and amortization): Cost of sales for the first nine months of 2016 was \$5,321 million, or 82.6 percent of sales, compared to \$5,157 million, or 83.5 percent of sales in the first nine months of 2015. The following table lists the primary drivers behind the change in cost of sales (\$ millions).

Nine months ended September 30, 2015	\$5,157
Volume and mix	425
Material	(107 )
Currency exchange rates	(136 )
Restructuring	(34 )
Other Costs	16
Nine months ended September 30, 2016	\$5,321

The increase in cost of sales was due to the year-over-year increase in volume and higher other costs, mainly manufacturing, partially offset by the impact of currency exchange rates, lower net material costs and lower restructuring.

Gross margin: Revenue less cost of sales for the first nine months of 2016 was \$1,123 million, or 17.4 percent, versus \$1,021 million, or 16.5 percent, in the first nine months of 2015. The effect on gross margin resulting from year-over-year increase in volume, lower net material costs and lower restructuring was partially offset by higher other costs, mainly manufacturing, and unfavorable currency.

Engineering, research and development: Engineering, research and development expense was \$117 million and \$114 million in the first nine months of 2016 and 2015, respectively.

Selling, general and administrative (SG&A): SG&A expense was up \$31 million in the first nine months of 2016 at \$390 million compared to \$359 million in the first nine months of 2015.

Depreciation and amortization: Depreciation and amortization expense was \$159 million in the first nine months of 2016, compared to \$154 million in the first nine months of 2015.

EBIT was \$453 million for the first nine months of 2016, an increase of \$62 million when compared to \$391 million in the first nine months of the prior year. Higher OE light vehicle volumes in North America Clean Air, Europe, South America and India and China, increased aftermarket Ride Performance sales in Europe and South America, new platforms in North America, Europe and China, higher commercial truck, off-highway and other Clean Air revenue, the benefit of our product cost leadership initiatives, lower restructuring and related expenses and savings from previous restructuring activities were partially offset by lower commercial truck, off-highway and other Ride Performance revenue mainly in North America and Europe, lower aftermarket revenue in North America, higher SG&A and engineering expenses and \$23 million of negative currency. EBIT for the first nine months of 2015 also

benefited from the timing of a customer recovery in China Clean Air of \$5 million.

Results from Operations

The tables below reflect our revenues for the three months and nine months periods ended September 30, 2016 and 2015. We show the component of our OE revenue represented by substrate sales. While we generally have primary design, engineering and manufacturing responsibility for OE emission control systems, we do not manufacture substrates. Substrates

41

---

Table of Contents

are porous ceramic filters coated with a catalyst - typically, precious metals such as platinum, palladium and rhodium. These are supplied to us by Tier 2 suppliers generally as directed by our OE customers. We generally earn a small margin on these components of the system. As the need for more sophisticated emission control solutions increases to meet more stringent environmental regulations, and as we capture more diesel aftertreatment business, these substrate components have been increasing as a percentage of our revenue. While these substrates dilute our gross margin percentage, they are a necessary component of an emission control system.

Our value-add content in an emission control system includes designing the system to meet environmental regulations through integration of the substrates into the system, maximizing use of thermal energy to heat up the catalyst quickly, efficiently managing airflow to reduce back pressure as the exhaust stream moves past the catalyst, managing the expansion and contraction of the emission control system components due to temperature extremes experienced by an emission control system, using advanced acoustic engineering tools to design the desired exhaust sound, minimizing the opportunity for the fragile components of the substrate to be damaged when we integrate it into the emission control system and reducing unwanted noise, vibration and harshness transmitted through the emission control system. We present these substrate sales separately in the following table because we believe investors utilize this information to understand the impact of this portion of our revenues on our overall business and because it removes the impact of potentially volatile precious metals pricing from our revenues. While our original equipment customers generally assume the risk of precious metals pricing volatility, it impacts our reported revenues. Presenting revenues that exclude "substrates" used in catalytic converters and diesel particulate filters removes this impact.

Additionally, we present these reconciliations of revenues in order to reflect value-add revenues without the effect of changes in foreign currency rates. We have not reflected any currency impact in the 2015 table since this is the base period for measuring the effects of currency during 2016 on our operations. We believe investors find this information useful in understanding period-to-period comparisons in our revenues.

Net Sales and Operating Revenues for the Three Months Ended September 30, 2016 and 2015

	Three Months Ended September 30, 2016				
	Revenues	Substrate Sales	Value-add Revenues	Currency Impact on Value-add Revenues	Value-add Revenues excluding Currency
	(Millions)				
Clean Air Division					
North America	\$716	\$ 248	\$ 468	\$ —	\$ 468
Europe, South America & India	487	181	306	(11 )	317
Asia Pacific	257	55	202	(8 )	210
Total Clean Air Division	1,460	484	976	(19 )	995
Ride Performance Division					
North America	306	—	306	(2 )	308
Europe, South America & India	258	—	258	(7 )	265
Asia Pacific	72	—	72	(3 )	75
Total Ride Performance Division	636	—	636	(12 )	648
Total Tenneco Inc.	\$2,096	\$ 484	\$ 1,612	\$ (31 )	\$ 1,643

Table of Contents

## Three Months Ended September 30, 2015

	Revenues	Substrate Sales	Value-add Revenues	Currency Impact on Value-add Revenues	Value-add Revenues excluding Currency
(Millions)					
Clean Air Division					
North America	\$720	\$ 251	\$ 469	\$	—\$ 469
Europe, South America & India	453	166	287	—	287
Asia Pacific	235	58	177	—	177
Total Clean Air Division	1,408	475	933	—	933
Ride Performance Division					
North America	330	—	330	—	330
Europe, South America & India	236	—	236	—	236
Asia Pacific	51	—	51	—	51
Total Ride Performance Division	617	—	617	—	617
Total Tenneco Inc.	\$2,025	\$ 475	\$ 1,550	\$	—\$ 1,550

## Three Months Ended September 30, 2016

## Versus Three Months Ended September 30, 2015

## Dollar and Percent Increase (Decrease)

	Revenues	Percent	Value-add Revenues excluding Currency	Percent
(Millions Except Percent Amounts)				
Clean Air Division				
North America	\$ (4 )	(1 )%	\$ (1 )	— %
Europe, South America & India	34	8 %	30	10 %
Asia Pacific	22	9 %	33	19 %
Total Clean Air Division	52	4 %	62	7 %
Ride Performance Division				
North America	(24 )	(7 )%	(22 )	(7 )%
Europe, South America & India	22	9 %	29	12 %
Asia Pacific	21	41 %	24	47 %
Total Ride Performance Division	19	3 %	31	5 %
Total Tenneco Inc.	\$ 71	4 %	\$ 93	6 %

## Light Vehicle Industry Production by Region for Three Months Ended September 30, 2016 and 2015 (According to IHS Automotive, October 2016)

	2016	2015	Increase (Decrease)	% Increase (Decrease)
Three Months Ended September 30, (Number of Vehicles in Thousands)				
North America	4,457	4,368	89	2 %
Europe	4,721	4,806	(85)	(2 )%
South America	697	779	(82)	(10 )%
India	1,124	988	136	14 %
Total Europe, South America & India	6,542	6,573	(31)	— %

Edgar Filing: TENNECO INC - Form 10-Q

China	5,985	4,830	1,155	24	%
Australia	45	47	(2)	(6)	%

Clean Air revenue was up \$52 million in the third quarter of 2016 compared to the third quarter of 2015 with higher volumes in all segments. In North America, higher volumes drove a \$4 million revenue increase due to increased OE light vehicle sales offset partially by lower commercial truck, off-highway and other vehicle revenue and lower aftermarket revenue.

Table of Contents

Currency had no impact on North American revenues. In the European, South American and Indian segment, higher volumes drove a \$52 million increase in revenues mainly due to increased OE light vehicle sales in Europe and South America as well as new platforms in Europe. Currency had a \$17 million unfavorable impact on European, South American and Indian revenues. In Asia Pacific, higher volumes of \$43 million were mainly driven by increased OE light vehicle sales, higher commercial truck, off-highway and other revenue and new programs in China. Currency had a \$10 million unfavorable impact on Asia Pacific revenues.

Ride Performance revenue was up \$19 million in the third quarter of 2016 compared to the third quarter of 2015. In North America, lower volumes of \$31 million were driven by lower volumes in OE light vehicle, commercial truck and aftermarket net of favorable mix. Currency had a \$2 million unfavorable impact on North American revenues. In the European, South American and Indian segment, higher volumes of \$29 million were driven by increases in light vehicle and aftermarket sales in the region, which was partially offset by lower commercial truck and off-highway vehicle revenues in Europe reflecting the sale of the Marzocchi specialty business. Currency had a \$7 million unfavorable impact on European, South American and Indian revenues. In Asia Pacific, higher volumes of \$24 million were mainly driven by increased OE light vehicle volumes in China. Currency had a \$3 million unfavorable impact on Asia Pacific revenues.

## Net Sales and Operating Revenues for the Nine Months Ended September 30, 2016 and 2015

	Nine Months Ended September 30, 2016				
	Revenues	Substrate Sales	Value-add Revenues	Currency Impact on Value-add Revenues	Value-add Revenues excluding Currency
	(Millions)				
Clean Air Division					
North America	\$2,252	\$ 792	\$ 1,460	\$ (1 )	\$ 1,461
Europe, South America & India	1,498	548	950	(45 )	995
Asia Pacific	777	173	604	(27 )	631
Total Clean Air Division	4,527	1,513	3,014	(73 )	3,087
Ride Performance Division					
North America	952	—	952	(10 )	962
Europe, South America & India	771	—	771	(47 )	818
Asia Pacific	194	—	194	(10 )	204
Total Ride Performance Division	1,917	—	1,917	(67 )	1,984
Total Tenneco Inc.	\$6,444	\$ 1,513	\$ 4,931	\$ (140 )	\$ 5,071
	Nine Months Ended September 30, 2015				
	Revenues	Substrate Sales	Value-add Revenues	Currency Impact on Value-add Revenues	Value-add Revenues excluding Currency
	(Millions)				
Clean Air Division					
North America	\$2,150	\$ 760	\$ 1,390	\$ —	—\$ 1,390
Europe, South America & India	1,381	500	881	—	881
Asia Pacific	743	174	569	—	569
Total Clean Air Division	4,274	1,434	2,840	—	2,840
Ride Performance Division					
North America	1,021	—	1,021	—	1,021
Europe, South America & India	718	—	718	—	718
Asia Pacific	165	—	165	—	165
Total Ride Performance Division	1,904	—	1,904	—	1,904

Edgar Filing: TENNECO INC - Form 10-Q

Total Tenneco Inc.            \$6,178 \$ 1,434    \$ 4,744    \$            —\$ 4,744

44

---

Table of Contents

Nine Months Ended September 30,  
2016  
Versus Nine Months Ended September  
30, 2015  
Dollar and Percent Increase (Decrease)  
Value-add  
Revenues Percent Revenues Percent  
excluding  
Currency  
(Millions Except Percent Amounts)

Clean Air Division								
North America	\$ 102	5	%	\$ 71	5	%		
Europe, South America & India	117	8	%	114	13	%		
Asia Pacific	34	5	%	62	11	%		
Total Clean Air Division	253	6	%	247	9	%		
Ride Performance Division								
North America	(69	)	(7	)%	(59	)	(6	)%
Europe, South America & India	53	7	%	100	14	%		
Asia Pacific	29	18	%	39	24	%		
Total Ride Performance Division	13	1	%	80	4	%		
Total Tenneco Inc.	\$ 266	4	%	\$ 327	7	%		

Light Vehicle Industry Production by Region for Nine Months Ended September 30, 2016 and 2015 (According to IHS Automotive, October 2016)

	Nine Months Ended September 30,		Increase (Decrease)	% Increase (Decrease)	
	2016	2015			
(Number of Vehicles in Thousands)					
North America	13,524	13,167	357	3	%
Europe	16,137	15,724	413	3	%
South America	1,996	2,383	(387)	(16)	)%
India	3,132	2,879	253	9	%
Total Europe, South America & India	21,265	20,986	279	1	%
China	18,428	16,506	1,922	12	%
Australia	123	128	(5)	(4)	)%

Clean Air revenue was up \$253 million in the first nine months of 2016 compared to the first nine months of 2015 with higher volumes in all segments. In North America, higher volumes drove a \$135 million revenue increase due to increased OE light vehicle sales and new platforms offset partially by lower commercial truck, off-highway and other vehicle revenue and lower aftermarket revenue. Currency had a \$1 million unfavorable impact on North American revenues. In the European, South American and Indian segment, higher volumes drove a \$187 million increase in revenues mainly due to increased OE light vehicle sales, higher commercial truck, off-highway and other vehicle revenue and new platforms in Europe. Currency had a \$62 million unfavorable impact on European, South American and Indian revenues. In Asia Pacific, higher volumes of \$84 million were mainly driven by increased OE light vehicle sales and new programs in China and higher commercial truck, off-highway and other vehicle revenue in China and Japan. Currency had a \$33 million unfavorable impact on Asia Pacific revenues.

Ride Performance revenue was up \$13 million in the first nine months of 2016 compared to the first nine months of 2015. In North America, lower volumes of \$80 million were driven by lower volumes in OE light vehicle, commercial truck and aftermarket net of favorable mix. Currency had a \$10 million unfavorable impact on North American revenues. In the European, South American and Indian segment, higher volumes of \$99 million were driven by

increases in light vehicle sales in Europe, South America and India and higher aftermarket sales in Europe and South America, which were partially offset by lower commercial truck and off-highway vehicle revenues in Europe reflecting the sale of the Marzocchi specialty business. Currency had a \$47 million unfavorable impact on European, South American and Indian revenues. In Asia Pacific, higher volumes of \$39 million were mainly driven by increased OE light vehicle volumes in China. Currency had a \$10 million unfavorable impact on Asia Pacific revenues.

Table of Contents

Earnings before Interest Expense, Income Taxes and Noncontrolling Interests (“EBIT”) for the Three Months Ended September 30, 2016 and 2015

	Three Months Ended September 30, 2016 2015 (Millions)		Change
Clean Air Division			
North America	\$44	\$58	\$(14 )
Europe, South America & India	30	14	16
Asia Pacific	37	31	6
Total Clean Air Division	111	103	8
Ride Performance Division			
North America	37	39	(2 )
Europe, South America & India	11	(21 )	32
Asia Pacific	15	9	6
Total Ride Performance Division	63	27	36
Other	(22 )	(14 )	(8 )
Total Tenneco Inc.	\$152	\$116	\$36

The EBIT results shown in the preceding table include the following items, certain of which are discussed below under “Restructuring and Other Charges,” which have an effect on the comparability of EBIT results between periods:

	Three Months Ended September 30, 2016 2015 (Millions)	
Clean Air Division		
Europe, South America & India		
Restructuring and related expenses	\$ 1	\$ 2
Asia Pacific		
Restructuring and related expenses	1	2
Total Clean Air Division	\$ 2	\$ 4
Ride Performance Division		
North America		
Restructuring and related expenses	5	1
Europe, South America & India		
Restructuring and related expenses	—	29
Asia Pacific		
Restructuring and related expenses	—	1
Total Ride Performance Division	\$ 5	\$ 31

EBIT for the Clean Air division was \$111 million in the third quarter of 2016 compared to \$103 million in the third quarter a year ago. EBIT for North America decreased \$14 million, to \$44 million, in the third quarter of 2016 versus the third quarter of 2015. The benefit from higher OE light vehicle sales and favorable currency was more than offset by lower commercial truck, off-highway and other vehicle revenue, lower aftermarket volumes and higher manufacturing costs. Europe, South America and India's EBIT was \$30 million in the third quarter of 2016 and \$14

million in the third quarter of 2015. The benefit from higher light vehicle volumes in Europe and South America, new platforms and favorable mix in Europe and lower restructuring and related expenses was partially offset by negative currency. EBIT for Asia Pacific increased \$6 million to \$37 million in the third quarter of 2016 from \$31 million in the third quarter of 2015. EBIT benefited from higher OE light vehicle sales, higher commercial truck, off-highway and other vehicle revenue and new platforms in China as well as lower restructuring and related expenses, partially offset by negative currency. For the Clean Air division, restructuring and related expenses of \$2 million were included in EBIT for each of the third quarter of 2016 and \$4 million for the same period in 2015. EBIT for Clean Air division also benefited from the timing of a customer recovery in China of \$5 million in the third quarter of 2015. Currency had a \$1 million unfavorable impact on EBIT of the Clean Air division for the third quarter of 2016 when compared to last year.

Table of Contents

EBIT for the Ride Performance division was \$63 million in the third quarter of 2016 compared to \$27 million in the third quarter a year ago. EBIT for North America decreased \$2 million in the third quarter of 2016 to \$37 million from \$39 million in the third quarter of 2015, driven by lower volumes in light vehicle, commercial truck and aftermarket as well as higher restructuring and related expenses, which were partially offset by improved operational cost management and favorable currency. Europe, South America and India's EBIT was \$11 million in the third quarter of 2016 and negative \$21 million in the third quarter of 2015. The benefit from higher light vehicle sales in the region, higher aftermarket sales in Europe and South America, lower restructuring and related expenses and favorable currency was partially offset by lower commercial truck, off-highway and other vehicle revenue in Europe reflecting the sale of the Marzocchi specialty business. EBIT for Asia Pacific increased to \$15 million in the third quarter of 2016 from \$9 million in the third quarter of 2015, driven by higher light vehicle volumes in China partially offset by higher engineering expense and negative currency. For the Ride Performance division, restructuring and related expenses of \$5 million were included in EBIT for the third quarter of 2016 and \$31 million for the same period in 2015. Currency had a \$1 million favorable impact on EBIT of the Ride Performance division for the third quarter of 2016 when compared to last year.

Currency had no impact on overall company EBIT for the third quarter of 2016 as compared to the prior year's third quarter.

## EBIT as a Percentage of Revenue for the Three Months Ended September 30, 2016 and 2015

	Three Months Ended September 30, 2016		2015	
Clean Air Division				
North America	6 %	8 %		
Europe, South America & India	6 %	3 %		
Asia Pacific	14 %	13 %		
Total Clean Air Division	8 %	7 %		
Ride Performance Division				
North America	12 %	12 %		
Europe, South America & India	4 %	(9) %		
Asia Pacific	21 %	18 %		
Total Ride Performance Division	10 %	4 %		
Total Tenneco Inc.	7 %	6 %		

In the Clean Air division, EBIT as a percentage of revenues for the third quarter of 2016 was up one percentage point compared to last year's third quarter. In North America, EBIT as a percentage of revenues for the third quarter of 2016 was down two percentage points compared to last year's third quarter. The benefit from higher OE light vehicle sales and favorable currency was more than offset by lower commercial truck, off-highway and other vehicle revenue, lower aftermarket volumes and higher manufacturing costs. Europe, South America and India's EBIT as a percentage of revenues for the third quarter of 2016 was up three percentage points compared to the prior year's third quarter. The benefit from higher light vehicle volumes in Europe and South America, new platforms and favorable mix in Europe and lower restructuring and related expenses was partially offset by negative currency. EBIT as a percentage of revenues for Asia Pacific in the third quarter of 2016 was up one percentage point compared to the third quarter of 2015. The benefit from higher OE light vehicle sales, higher commercial truck, off-highway and other vehicle revenue and new platforms in China and lower restructuring and related expenses was partially offset by negative currency and the timing of a customer recovery in China in the third quarter of 2015.

In the Ride Performance division, EBIT as a percentage of revenues was up six percentage points compared to the prior year's third quarter. In the third quarter of 2016, EBIT as a percentage of revenues for North America was even compared to the third quarter of 2015. The benefit of improved operational cost management and favorable currency was offset by lower volumes in light vehicle, commercial truck and aftermarket as well as higher restructuring and related expenses. EBIT as a percentage of revenues in Europe, South America and India was up 13 percentage points compared to the prior year's third quarter. The benefit from higher light vehicle sales in the region, higher aftermarket sales in Europe and South America, lower restructuring and related expenses and favorable currency was partially offset by lower commercial truck, off-highway and other vehicle revenue in Europe reflecting the sale of the Marzocchi specialty business. In Asia Pacific, EBIT as a percentage of revenues for the third quarter of 2016 was up three percentage points compared to last year's third quarter, driven by higher light vehicle volumes in China partially offset by higher engineering expense and negative currency.

Table of Contents

## EBIT for the Nine Months Ended September 30, 2016 and 2015

	Nine Months Ended September 30, 2016 2015 (Millions)		
			Change
Clean Air Division			
North America	\$172	\$179	\$ (7 )
Europe, South America & India	75	36	39
Asia Pacific	109	86	23
Total Clean Air Division	356	301	55
Ride Performance Division			
North America	127	125	2
Europe, South America & India	19	(1 )	20
Asia Pacific	38	27	11
Total Ride Performance Division	184	151	33
Other	(87 )	(61 )	(26 )
Total Tenneco Inc.	\$453	\$391	\$ 62

The EBIT results shown in the preceding table include the following items, certain of which are discussed below under "Restructuring and Other Charges," which have an effect on the comparability of EBIT results between periods:

	Nine Months Ended September 30, 2016 2015 (Millions)	
Clean Air Division		
Europe, South America & India		
Restructuring and related expenses	\$ 2	\$ 4
Asia Pacific		
Restructuring and related expenses	1	3
Total Clean Air Division	\$ 3	\$ 7
Ride Performance Division		
North America		
Restructuring and related expenses	6	2
Europe, South America & India		
Restructuring and related expenses	17	36
Asia Pacific		
Restructuring and related expenses	—	2
Total Ride Performance Division	\$ 23	\$ 40

EBIT for the Clean Air division was \$356 million in the first nine months of 2016 compared to \$301 million in the first nine months a year ago. EBIT for North America decreased \$7 million, to \$172 million, in the first nine months of 2016 versus the first nine months of 2015. The benefit from higher OE light vehicle sales, new platforms and favorable currency was more than offset by lower aftermarket revenue, lower commercial truck and off-highway vehicle revenue and higher SG&A expense. Europe, South America and India's EBIT was \$75 million in the first nine months of 2016 and \$36 million in the first nine months of 2015. The benefit from higher light vehicle volumes, higher commercial truck, off-highway and other vehicle revenue, favorable mix and new platforms in Europe as well

as lower restructuring and related expenses and year-over-year restructuring savings was partially offset by negative currency. EBIT for Asia Pacific increased \$23 million to \$109 million in the first nine months of 2016 from \$86 million in the first nine months of 2015. EBIT benefited from increased OE light vehicle sales and new platforms in China and higher commercial truck, off-highway and other vehicle revenue in China and Japan, strong operational cost management and lower restructuring and related expenses, partially offset by higher SG&A expense and negative currency. For the Clean Air division, \$3 million restructuring and related expenses were included in EBIT for the first nine months of 2016, whereas \$7 million were included for the same period in 2015. EBIT for Clean Air division also benefited from the timing of a customer recovery in China of \$5 million in the first nine months of 2015. Currency had a \$17 million unfavorable impact on EBIT of the Clean Air division for the first nine months of 2016 when compared to last year.

Table of Contents

EBIT for the Ride Performance division was \$184 million in the first nine months of 2016 compared to \$151 million in the first nine months a year ago. EBIT for North America increased \$2 million in the first nine months of 2016 to \$127 million from \$125 million in the first nine months of 2015. The benefit of improved operational cost management was partially offset by lower volumes in light vehicle, commercial truck volumes, lower aftermarket volumes net of favorable mix, higher restructuring and related expenses and higher SG&A. Europe, South America and India's EBIT was \$19 million in the first nine months of 2016 and negative \$1 million in the first nine months of 2015. The benefit from higher light vehicle sales in the region, higher aftermarket sales in Europe and South America, lower restructuring and related expenses and savings from prior restructuring activities was partially offset by unfavorable mix in Europe, lower commercial truck, off-highway and other vehicle revenue in Europe reflecting the sale of the Marzocchi specialty business and negative currency. EBIT for Asia Pacific increased to \$38 million in the first nine months of 2016 from \$27 million in the first nine months of 2015, mainly driven by higher light vehicle volumes in China and lower restructuring and related expenses which were partially offset by higher SG&A and engineering expenses and negative currency. For the Ride Performance division, restructuring and related expenses of \$23 million were included in EBIT for the first nine months of 2016 and \$40 million for the same period in 2015. Currency had a \$6 million unfavorable impact on EBIT of the Ride Performance division for the first nine months of 2016 when compared to last year.

Currency had a \$23 million unfavorable impact on overall company EBIT for the first nine months of 2016 as compared to the first nine months of prior year.

EBIT as a Percentage of Revenue for the Nine Months Ended September 30, 2016 and 2015

	Nine Months Ended September 30, 2016		2015	
Clean Air Division				
North America	8 %	8 %	8 %	8 %
Europe, South America & India	5 %	3 %	3 %	3 %
Asia Pacific	14 %	12 %	12 %	12 %
Total Clean Air Division	8 %	7 %	7 %	7 %
Ride Performance Division				
North America	13 %	12 %	12 %	12 %
Europe, South America & India	2 %	— %	— %	— %
Asia Pacific	20 %	16 %	16 %	16 %
Total Ride Performance Division	10 %	8 %	8 %	8 %
Total Tenneco Inc.	7 %	6 %	6 %	6 %

In the Clean Air division, EBIT as a percentage of revenues for the first nine months of 2016 was up one percentage point compared to the first nine months of last year. In North America, EBIT as a percentage of revenues for the first nine months of 2016 was even compared to the first nine months of last year. The benefit from higher OE light vehicle sales, new platforms and favorable currency was offset by lower aftermarket revenue, lower commercial truck and off-highway vehicle revenue and higher SG&A expense. Europe, South America and India's EBIT as a percentage of revenues for the first nine months of 2016 was up two percentage points compared to the first nine months of prior year. The benefit from higher light vehicle volumes, higher commercial truck, off-highway and other vehicle revenue, favorable mix and new platforms in Europe as well as lower restructuring and related expenses and year-over-year restructuring savings was partially offset by negative currency. EBIT as a percentage of revenues for Asia Pacific in the first nine months of 2016 was up two percentage points compared to the first nine months of 2015. EBIT benefited from increased OE light vehicle sales and new platforms in China and higher commercial truck, off-highway and

other vehicle revenue in China and Japan, strong operational cost management and lower restructuring and related expenses, partially offset by higher SG&A expense, negative currency and the timing of a customer recovery in China.

In the Ride Performance division, EBIT as a percentage of revenues was up two percentage points compared to the first nine months of prior year. In the first nine months of 2016, EBIT as a percentage of revenues for North America was up one percentage point compared to the first nine months of 2015. The benefit of improved operational cost management was partially offset by lower volumes in light vehicle, commercial truck volumes, lower aftermarket volumes net of favorable mix, higher restructuring and related expenses and higher SG&A. EBIT as a percentage of revenues in Europe, South America and India was up two percentage points compared to the first nine months of prior year. The benefit from higher light vehicle sales in the region, higher aftermarket sales in Europe and South America, lower restructuring and related expenses and savings from prior

Table of Contents

restructuring activities was partially offset by unfavorable mix in Europe, lower commercial truck, off-highway and other vehicle revenue in Europe reflecting the sale of the Marzocchi specialty business and negative currency. In Asia Pacific, EBIT as a percentage of revenues for the first nine months of 2016 was up four percentage points compared to the first nine months of last year, mainly driven by higher light vehicle volumes in China and lower restructuring and related expenses which were partially offset by higher SG&A and engineering expenses and negative currency.

**Interest Expense, Net of Interest Capitalized**

We reported interest expense in the third quarter of 2016 of \$24 million (substantially all in our U.S. operations) net of interest capitalized of \$1 million, and \$16 million (substantially all in our U.S. operations) net of interest capitalized of \$2 million in the third quarter of 2015. Included in the third quarter of 2016 was \$8 million of expense related to the completion of our refinancing activities which were initiated in the second quarter of 2016. Excluding the refinancing expenses, interest expense in the third quarter of 2016 was even compared to the interest expense in the prior year.

We reported interest expense in the first nine months of 2016 of \$76 million (substantially all in our U.S. operations) net of interest capitalized of \$4 million, and \$49 million (substantially all in our U.S. operations) net of interest capitalized of \$5 million in the first nine months of 2015. Included in the first nine months of 2016 was \$24 million of expense related to the completion of our refinancing activities which were initiated in the second quarter of 2016.

Excluding the refinancing expenses, interest expense increased by \$3 million in the first nine months of 2016 compared to the prior year.

On September 30, 2016, we had \$743 million in long-term debt obligations that have fixed interest rates. Of that amount, \$500 million is fixed through July 2026, \$225 million is fixed through December 2024, and the remainder is fixed from 2016 through 2025. We also have \$584 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to “Liquidity and Capital Resources — Capitalization” later in this Management’s Discussion and Analysis.

**Income Taxes**

We reported income tax benefit of \$69 million and income tax expense of \$34 million in the three month periods ended September 30, 2016 and 2015, respectively. The tax benefit recorded in the third quarter of 2016 included a net tax benefit of \$105 million primarily relating to recognizing a U.S. tax benefit for foreign taxes. During the third quarter, we completed our detailed analysis of our ability to recognize and utilize foreign tax credits within the carryforward period. As a result, we amended our U.S. federal tax returns for the years 2006 to 2012 to claim foreign tax credits in lieu of deducting foreign taxes paid. The U.S. foreign tax credit law provides for a credit against U.S. taxes otherwise payable for foreign taxes paid with regard to dividends, interest and royalties paid to us in the U.S. The tax expense recorded in the third quarter of 2015 included a net tax benefit of \$12 million primarily relating to prior year U.S. research and development tax credits.

We reported income tax expense of \$5 million and \$122 million in the nine month periods ended September 30, 2016 and 2015, respectively. The tax expense recorded in the first nine months of 2016 included a net tax benefit of \$106 million primarily relating to recognizing a U.S. tax benefit for foreign taxes as described above. The tax expense recorded in the first nine months of 2015 included a net tax benefit of \$9 million primarily relating to prior year U.S. research and development tax credits, prior year intercompany transactions and tax adjustments to prior year income tax estimates.

We believe it is reasonably possible that up to \$22 million in unrecognized tax benefits related to the expiration of foreign statute of limitations and the conclusion of income tax examinations may be recognized within the next twelve months.

**Restructuring and Other Charges**

Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. For the full year 2015, we incurred \$63 million in restructuring and related costs including asset write-downs of \$10 million, primarily related to European cost reduction efforts, exiting the Marzocchi suspension business, headcount reductions in Australia and South America, and the closure of a JIT plant in Australia, of which \$46 million was recorded in cost of sales, \$11 million in SG&A, \$1 million in engineering expense, \$1 million in other expense and \$4 million in depreciation and amortization expense. In the third quarter of 2016, we

incurred \$7 million in restructuring and related costs, primarily related to manufacturing footprint improvements in North America Ride Performance as well as headcount reduction and cost improvement initiatives in Europe and China Clean Air, of which \$3 million was recorded in cost of sales and \$4 million in SG&A. In the third quarter of 2015, we incurred \$35 million in restructuring and related costs including asset write-downs of \$9 million, primarily related to European cost reduction efforts, exiting the Marzocchi suspension business, and headcount reductions in Australia and South America, of which \$27 million was recorded in cost of sales, \$3 million in SG&A, \$1 million in engineering expense and \$4 million in depreciation and amortization expense. In the first nine months of 2016, we incurred \$26 million in restructuring and related costs including asset write-downs of \$5 million, primarily related to manufacturing footprint improvements in North America Ride Performance as well as headcount reduction and cost improvement initiatives in

Table of Contents

Europe and China Clean Air and South America, of which \$9 million was recorded in cost of sales, \$12 million in SG&A, \$2 million in other expense and \$3 million in depreciation and amortization expense. In the first nine months of 2015, we incurred \$47 million in restructuring and related costs including asset write-downs of \$9 million, primarily related to European cost reduction efforts, exiting the Marzocchi suspension business, headcount reductions in Australia and South America and the closure of a JIT plant in Australia, of which \$37 million was recorded in cost of sales, \$5 million in SG&A, \$1 million in engineering expense and \$4 million in depreciation and amortization expense.

Amounts related to activities that are part of our restructuring reserves are as follows:

	December 31, 2015	2016 Restructuring Reserve (Millions)	2016 Cash Payments	Impact of Exchange Rates	September 30, 2016 Restructuring Reserve
Employee Severance, Termination Benefits and Other Related Costs	\$30	21	(35)	1	\$ 17

On January 31, 2013, we announced our intent to reduce structural costs in Europe by approximately \$60 million annually. During the first quarter of 2016, we reached an annualized run rate on this cost reduction initiative of \$49 million. With the disposition of the Gijon plant, which was completed at the end of the first quarter, the annualized rate essentially reached our target of \$55 million, at the current exchange rates. In the third quarter of 2016, we incurred \$7 million in restructuring and related costs, of which \$1 million was related to this initiative. In the first nine months of 2016, we incurred \$26 million in restructuring and related costs, of which \$16 million was related to this initiative. While we are nearing the completion of this initiative, we expect to incur additional restructuring and related costs in 2016 due to certain ongoing matters. For example, we closed the Gijon plant in 2013, but subsequently re-opened it in July 2014 with about half of its prior workforce after the employees' works council successfully filed suit challenging the closure decision. Pursuant to an agreement we entered into with employee representatives, we engaged in a sales process for the facility. In March of 2016, we signed an agreement to transfer ownership of the aftermarket shock absorber manufacturing facility in Gijon, Spain to German private equity fund Quantum Capital Partners A.G. (QCP). The transfer to QCP was effective March 31, 2016 and under a three year manufacturing agreement, QCP will also continue as a supplier to Tenneco.

On July 22, 2015, we announced our intention to discontinue our Marzocchi motorcycle fork suspension product line and our mountain bike suspension product line, and liquidate our Marzocchi operations. These actions were subject to a consultation process with the employee representatives and in total eliminated approximately 138 jobs. We employed 127 people at the Marzocchi plant in Bologna, Italy and an additional 11 people in our operations in North America and Taiwan. In November 2015, we closed on the sale of certain assets related to our Marzocchi mountain bike suspension product line to the affiliates of Fox Factory Holding Corp.; and in December 2015, we closed on the sale of the Marzocchi motorcycle fork product line to an Italian company, VRM S.p.A. These actions were a part of our ongoing efforts to optimize our Ride Performance product line globally while continuously improving our operations and increasing profitability. We recorded charges of \$29 million in 2015 related to severance and other employee related costs, asset write-downs and other expenses related to these sales. We anticipate improving financial results by approximately \$5 million annually, beginning in 2016.

Under the terms of our amended and restated senior credit agreement that took effect on December 8, 2014, we are allowed to exclude up to \$150 million in the aggregate of all costs, expenses, fees, fines, penalties, judgments, legal settlements and other amounts associated with any restructuring, litigation, claim, proceeding or investigation related to or undertaken by us or any of our subsidiaries, together with any related provision for taxes, incurred after December 8, 2014 in the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2016, we had excluded \$74 million of allowable charges relating to restructuring initiatives against the \$150 million available under the terms of the senior credit facility.

Earnings Per Share

We reported net income attributable to Tenneco Inc. of \$180 million or \$3.21 per diluted common share for the third quarter of 2016. Included in the results for the third quarter of 2016 was positive impact from net tax benefit partially offset by negative impacts from expenses related to our restructuring activities and costs related to our refinancing activities. The total impact of these items increased earnings per diluted share by \$1.68. We reported net income attributable to Tenneco Inc. of \$52 million or \$0.88 per diluted common share for the third quarter of 2015. Included in the results for the third quarter of 2015 were negative impacts from expenses related to our restructuring activities offset partially by net tax benefits. The total impact of these items decreased earnings per diluted share by \$0.34. We reported net income attributable to Tenneco Inc. of \$323 million or \$5.67 per diluted common share for the first nine months of 2016. Included in the results for the first nine months quarter of 2016 were positive impact from net tax benefit partially offset by negative impacts from expenses related to our restructuring activities and costs related to our refinancing

Table of Contents

activities. The total impact of these items increased earnings per diluted share by \$1.18. We reported net income attributable to Tenneco Inc. of \$179 million or \$2.94 per diluted common share for the first nine months of 2015. Included in the results for the first nine months of 2015 were negative impacts from expenses related to our restructuring activities offset partially by net tax benefits. The total impact of these items decreased earnings per diluted share by \$0.55.

## Dividends on Common Stock

On January 10, 2001, our Board of Directors eliminated the quarterly dividend on our common stock. There are no current plans to reinstate a dividend on our common stock.

## Cash Flows for the Three Months Ended September 30, 2016 and 2015

Three  
Months  
Ended  
September  
30,  
2016 2015  
(Millions)

## Cash provided (used) by:

Operating activities	\$ 139	\$ 106
Investing activities	(78 )	(75 )
Financing activities	(51 )	(36 )

## Operating Activities

For the third quarter of 2016, operating activities provided \$139 million in cash compared to \$106 million in cash provided during last year's third quarter. For the third quarter of 2016, cash used for working capital was \$43 million versus \$34 million of cash used for working capital in the third quarter of 2015. Receivables were a use of cash of \$10 million in the third quarter of 2016 compared to a use of cash of \$17 million in the prior year's third quarter. Inventory represented a cash outflow of \$12 million for the third quarter of 2016 and a cash outflow of \$19 million during the third quarter of 2015. Accounts payable used \$7 million of cash for the quarter ended September 30, 2016, compared to \$7 million of cash provided for the quarter ended September 30, 2015. Cash taxes were \$30 million in the third quarter of 2016 compared to \$44 million in the prior year's third quarter.

## Investing Activities

Cash used for investing activities was \$78 million in the third quarter of 2016 compared to cash used of \$75 million in the same period a year ago. Cash payments for plant, property and equipment were \$74 million in the third quarter of 2016 versus payments of \$71 million in the third quarter of 2015. Cash payments for software-related intangible assets were \$6 million and \$5 million, respectively, for the third quarters of 2016 and 2015. Changes in restricted cash were a source of cash of \$1 million in the third quarter of 2016, whereas there was no change in restricted cash in the same period of 2015.

## Financing Activities

Cash flow from financing activities was an outflow of \$51 million for the quarter ended September 30, 2016 compared to an outflow of \$36 million for the quarter ended September 30, 2015. We repurchased 1,650,259 shares of our outstanding common stock for \$89 million at an average price of \$53.71 per share during the third quarter of 2016 and 2,356,763 shares of our outstanding common stock for \$114 million at an average price of \$48.35 per share during the third quarter of 2015. Since announcing our share repurchase program in 2015, we have repurchased a total of approximately 7.0 million shares for \$359 million, representing 11 percent of the shares outstanding at that time. As of September 30, 2016, we had \$191 million remaining on the share repurchase authorization, which we expect to complete by the end of 2017.

## Cash Flows for the Nine Months Ended September 30, 2016 and 2015

Nine Months  
Ended  
September

30,  
2016 2015  
(Millions)

Cash provided (used) by:

Operating activities	\$239	\$188
Investing activities	(225 )	(230 )
Financing activities	20	11
Operating Activities		

52

---

Table of Contents

For the nine months of 2016, operating activities provided \$239 million in cash compared to \$188 million in cash provided during the first nine months of last year. For the first nine months of 2016, cash used for working capital was \$252 million versus \$199 million of cash used for working capital in the first nine months of 2015. Receivables were a use of cash of \$189 million in the first nine months of 2016 compared to a use of cash of \$237 million in the first nine months of prior year. Inventory represented a cash outflow of \$61 million for the first nine months of 2016 and a cash outflow of \$65 million during the first nine months of 2015. Accounts payable provided \$55 million of cash for the nine months ended September 30, 2016, compared to \$70 million cash provided for the nine months ended September 30, 2015. Cash taxes were \$88 million in the first nine months of 2016 compared to \$79 million for the first nine months of 2015, net of a US tax refund of \$25 million for overpayment in 2014.

**Investing Activities**

Cash used for investing activities was \$225 million in the first nine months of 2016 compared to cash used of \$230 million in the same period a year ago. Cash payments for plant, property and equipment were \$213 million in the first nine months of 2016 versus payments of \$221 million in the first nine months of 2015, a decrease of \$8 million. Cash payments for software-related intangible assets were \$15 million and \$13 million, respectively, for the first nine months of 2016 and 2015. Changes in restricted cash were a use of cash of \$1 million in the first nine months of 2016 compared to a source of cash of \$1 million in 2015.

**Financing Activities**

Cash flow from financing activities was an inflow of \$20 million for the nine months ended September 30, 2016 compared to an inflow of \$11 million for the nine months ended September 30, 2015. We repurchased 2,783,064 shares of our outstanding common stock for \$146 million at an average price of \$52.35 per share during the first nine months of 2016 and 3,104,763 shares of our outstanding common stock for \$158 million at an average price of \$50.82 per share during the first nine months of 2015. Since announcing our share repurchase program in 2015, we have repurchased a total of approximately 7.0 million shares for \$359 million, representing 11 percent of the shares outstanding at that time. As of September 30, 2016, we had \$191 million remaining on the share repurchase authorization, which we expect to complete by the end of 2017. In the first nine months of 2016, refinancing activities included the issuance of \$500 million of new 5% senior secured notes due 2026 to refinance our existing 6 7/8% senior notes due 2020.

Borrowings under our revolving credit facility were \$309 million at September 30, 2016 and \$214 million at September 30, 2015. At September 30, 2016, there was \$50 million borrowing under the U.S. accounts receivable securitization programs, whereas at September 30, 2015, there was \$30 million outstanding.

**Outlook**

All our forward looking revenue estimates reflect constant currency. We expect total revenue growth of three percent in the fourth quarter 2016. Higher light vehicle revenue is expected to outpace global light vehicle industry production. Commercial truck revenue will be roughly in line with industry truck production and off-highway revenue is expected to be down year-over-year, reflecting further weakness in the Europe and North America off-highway markets compared with a year ago. In total, OE commercial truck and off-highway revenue is expected to be similar to the third quarter revenues. The global aftermarket is expected to make a solid contribution in the fourth quarter. For the full year, we expect to outpace aggregate industry production by three percent for total revenue growth of six percent year-over-year. Additionally, we expect to deliver adjusted margin improvement for the full year. We also expect revenue growth outpacing industry production in 2017 and 2018 as indicated in our January 2016 revenue estimates.

Tenneco's revenue projections are based on the type of information set forth under "Outlook" in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in Tenneco's Annual Report on Form 10-K for the year ended December 31, 2015. Please see that disclosure for further information. Additionally, revenue assumptions for the fourth quarter and full year 2016 are based on current and projected customer production schedules as well as aggregate industry production, which includes IHS Automotive October 2016 global light vehicle production forecasts, Power Systems Research (PSR) October 2016 forecast for global commercial truck and buses, PSR off-highway engine production in North America and Europe and Tenneco estimates. Unless otherwise indicated, our revenue estimate methodology does not

attempt to forecast currency fluctuation, and accordingly reflects constant currency.

53

---

## Table of Contents

### Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Preparing our condensed consolidated financial statements in accordance with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The following paragraphs include a discussion of some critical areas where estimates are required.

#### Revenue Recognition

We recognize revenue for sales to our original equipment and aftermarket customers when title and risk of loss passes to the customers under the terms of our arrangements with those customers, which is usually at the time of shipment from our plants or distribution centers. Generally, in connection with the sale of exhaust systems to certain original equipment manufacturers, we purchase catalytic converters and diesel particulate filters or components thereof including precious metals ("substrates") on behalf of our customers which are used in the assembled system. These substrates are included in our inventory and "passed through" to the customer at our cost, plus a small margin, since we take title to the inventory and are responsible for both the delivery and quality of the finished product. Revenues recognized for substrate sales were \$1,513 million and \$1,434 million for the first nine months of 2016 and 2015, respectively. For our aftermarket customers, we provide for promotional incentives and returns at the time of sale. Estimates are based upon the terms of the incentives and historical experience with returns. Certain taxes assessed by governmental authorities on revenue producing transactions, such as value added taxes, are excluded from revenue and recorded on a net basis. Shipping and handling costs billed to customers are included in revenues and the related costs are included in cost of sales in our condensed consolidated statements of income.

#### Warranty Reserves

Where we have offered product warranty, we also provide for warranty costs. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified with our products. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims and upon specific warranty issues as they arise. The warranty terms vary but range from one year up to limited lifetime warranties on some of our premium aftermarket products. We actively study trends of our warranty claims and take action to improve product quality and minimize warranty claims. While we have not experienced any material differences between these estimates and our actual costs, it is reasonably possible that future warranty issues could arise that could have a significant impact on our condensed consolidated financial statements.

#### Pre-production Design and Development and Tooling Assets

We expense pre-production design and development costs as incurred unless we have a contractual guarantee for reimbursement from the original equipment customer. Unbilled pre-production design and development costs recorded in prepayments and other and long-term receivables totaled \$31 million and \$21 million at September 30, 2016 and December 31, 2015, respectively. In addition, plant, property and equipment included \$59 million and \$64 million at September 30, 2016 and December 31, 2015, respectively, for original equipment tools and dies that we own, and prepayments and other included \$134 million and \$107 million at September 30, 2016 and December 31, 2015, respectively, for in-process tools and dies that we are building for our original equipment customers.

#### Income Taxes

We recognize deferred tax assets and liabilities on the basis of the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax values, and net operating losses ("NOL") and tax credit carryforwards on a taxing jurisdiction basis. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments,

significant weight is given to evidence that can be objectively verified.

Valuation allowances are established for deferred tax assets based on a “more likely than not” threshold. The ability to realize deferred tax assets depends on our ability to generate sufficient taxable income within the carryforward periods provided for in the tax law for each tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

Table of Contents

- Future reversals of existing taxable temporary differences;
- Taxable income or loss, based on recent results, exclusive of reversing temporary differences and carryforwards;
- Tax-planning strategies; and
- Taxable income in prior carryback years if carryback is permitted under the relevant tax law.

The valuation allowances recorded against deferred tax assets in certain foreign jurisdictions will impact our provision for income taxes until the valuation allowances are released. Our provision for income taxes will include no tax benefit for losses incurred and no tax expense with respect to income generated in these jurisdictions until the respective valuation allowance is eliminated.

For interim tax reporting we estimate our annual effective tax rate and apply it to our year to date ordinary income. Jurisdictions where no tax benefit can be recognized due to a valuation allowance are excluded from the estimated annual effective tax rate. The impact of including these jurisdictions on the quarterly effective rate calculation could result in a higher or lower effective tax rate during a particular quarter due to the mix and timing of actual earnings versus annual projections. The tax effects of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

**Goodwill, net**

We evaluate goodwill for impairment as of October 31st each year, or more frequently if events indicate it is warranted. The goodwill impairment test consists of a two-step process. In step one, we compare the estimated fair value of our reporting units with goodwill to the carrying value of the unit's assets and liabilities to determine if impairment exists within the recorded balance of goodwill. We estimate the fair value of each reporting unit using the income approach which is based on the present value of estimated future cash flows. The income approach is dependent on a number of factors, including estimates of market trends, forecasted revenues and expenses, capital expenditures, weighted average cost of capital and other variables. A separate discount rate derived by a combination of published sources, internal estimates and weighted based on our debt and equity structure, was used to calculate the discounted cash flows for each of our reporting units. These estimates are based on assumptions that we believe to be reasonable, but which are inherently uncertain and outside of the control of management. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist which requires step two to be performed to measure the amount of the impairment loss. The amount of impairment is determined by comparing the implied fair value of a reporting unit's goodwill to its carrying value.

The estimated fair value of each of our reporting units exceeded the carrying value of their assets and liabilities as October 31, 2015.

**Pension and Other Postretirement Benefits**

We have various defined benefit pension plans that cover some of our employees. We also have postretirement health care and life insurance plans that cover some of our domestic employees. Our pension and postretirement health care and life insurance expenses and valuations are dependent on assumptions used by our actuaries in calculating those amounts. These assumptions include discount rates, health care cost trend rates, long-term return on plan assets, retirement rates, mortality rates and other factors. Health care cost trend rate assumptions are developed based on historical cost data and an assessment of likely long-term trends. Retirement rates are based primarily on actual plan experience while mortality rates are based upon the general population experience which is not expected to differ materially from our experience.

Our approach to establishing the discount rate assumption for both our domestic and foreign plans is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan. Based on this approach, we raised the weighted average discount rate for all our pension plans to 3.9 percent in 2016 from 3.7 percent in 2015. The discount rate for postretirement benefits was raised to 4.3 percent in 2016 from 4.1 percent in 2015.

Our approach to determining expected return on plan asset assumptions evaluates both historical returns as well as estimates of future returns, and is adjusted for any expected changes in the long-term outlook for the equity and fixed income markets. As a result, our estimate of the weighted average long-term rate of return on plan assets for all of our

pension plans was lowered to 6.6 percent for 2016 from 6.7 percent for 2015.

Except in the U.K., our pension plans generally do not require employee contributions. Our policy is to fund our pension plans in accordance with applicable U.S. and foreign government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. As of September 30, 2016, all legal funding requirements have been met.

Table of Contents

## New Accounting Pronouncements

Note 11 in our notes to condensed consolidated financial statements located in Part I Item 1 of this Form 10-Q is incorporated herein for reference.

## Liquidity and Capital Resources

## Capitalization

	September 30, 2016	December 31, 2015	% Change	
	(Millions)			
Short-term debt and maturities classified as current	\$ 124	\$ 86	44	%
Long-term debt	1,310	1,124	17	
Total debt	1,434	1,210	19	
Total redeemable noncontrolling interests	35	43	(19)	)
Total noncontrolling interests	40	42	(5)	)
Tenneco Inc. shareholders' equity	635	433	47	
Total equity	675	475	42	
Total capitalization	\$2,144	\$ 1,728	24	%

General. Short-term debt, which includes maturities classified as current, borrowings by foreign subsidiaries, and borrowings under our U.S. accounts receivable securitization program, was \$124 million and \$86 million as of September 30, 2016 and December 31, 2015, respectively. Borrowings under our revolving credit facilities, which are classified as long-term debt, were \$309 million and \$105 million at September 30, 2016 and December 31, 2015, respectively.

The 2016 year-to-date increase in Tenneco Inc. shareholders' equity primarily resulted from net income attributable to Tenneco Inc. of \$323 million, a \$11 million increase related to pension and postretirement benefits, a \$10 million increase in premium on common stock and other capital surplus relating to common stock issued pursuant to benefit plans, and a \$4 million increase caused by the impact of changes in foreign exchange rates on the translation of financial statements of our foreign subsidiaries into U.S. dollars, partially offset by a \$146 million increase in treasury stock as a result of purchases of common stock under our share purchase program.

Overview. Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries.

As of September 30, 2016, the senior credit facility provides us with a total revolving credit facility size of \$1,200 million and had a \$274 million balance outstanding under the Tranche A Term Facility, both of which will mature on December 8, 2019. Net carrying amount for the balance outstanding under the Tranche A Term Facility including a \$2 million debt issuance cost was \$272 million. Funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty (subject to any customary LIBOR breakage fees). The revolving credit facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. Outstanding letters of credit reduce our availability to borrow revolving loans under the facility. We are required to make quarterly principal payments under the Tranche A Term Facility of \$3.75 million through December 31, 2016, \$5.625 million beginning March 31, 2017 through December 31, 2017, \$7.5 million beginning March 31, 2018 through September 30, 2019 and a final payment of \$195 million is due on December 8, 2019. We have excluded the required payments, within the next twelve months, under the Tranche A Term Facility totaling \$21 million from current liabilities as of September 30, 2016, because we have the intent and ability to refinance the obligations on a long-term basis by using our revolving credit facility.

At September 30, 2016, of the \$1,200 million available under the revolving credit facility, we had unused borrowing capacity of \$891 million with \$309 million in outstanding borrowings and no outstanding letters of credit. As of September 30, 2016, our outstanding debt also included (i) \$274 million of a term loan which consisted of a \$272 million net carrying amount including a \$2 million debt issuance cost related to our Tranche A Term Facility which is

subject to quarterly principal payments as described above through December 8, 2019, (ii) \$225 million of notes which consisted of a \$221 million net carrying amount including a \$4 million debt issuance cost related to our  $5\frac{3}{8}$  percent senior notes due December 15, 2024, (iii) \$500 million of notes which consisted of a \$492 million net carrying amount including a \$8 million debt issuance cost related to our 5 percent senior notes due July 15, 2026 (which were issued on June 13, 2016), and (iv) \$140 million of other debt.

On June 6, 2016, we announced a cash tender offer to purchase our outstanding \$500 million  $6\frac{7}{8}$  percent senior notes due in 2020. We received tenders representing \$325 million aggregate principal amount of the notes and, on June 13, 2016, we

Table of Contents

purchased the tendered notes at a price of 103.81 percent of the principal amount, plus accrued and unpaid interest. On July 13, 2016, we redeemed the remaining outstanding \$175 million aggregate principal amount of the notes that were not purchased pursuant to the tender offer at a price of 103.438 percent of the principal amount, plus accrued and unpaid interest. We used the proceeds of the issuance of our 5 percent senior notes due 2026 to fund the purchase and redemption. The senior credit facility was used to fund the fees and expenses of the tender offer and redemption. We recorded \$16 million and \$8 million of pre-tax interest charges in June and July of 2016, respectively, related to the repurchase and redemption of our 6<sup>7</sup>/<sub>8</sub> percent senior notes due in 2020 and the write-off of deferred debt issuance costs relating to those notes.

We monitor market conditions with respect to the potential refinancing of our outstanding debt obligations, including our senior secured credit facility and senior notes. Depending on market and other conditions, we may seek to refinance our debt obligations from time to time. We cannot make any assurance, however, that any refinancing will be completed.

**Senior Credit Facility — Interest Rates and Fees.** Beginning December 8, 2014, our Tranche A Term Facility and revolving credit facility bear interest at an annual rate equal to, at our option, either (i) London Interbank Offered Rate (“LIBOR”) plus a margin of 175 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 75 basis points, (b) the Federal Funds rate plus 50 basis points plus a margin of 75 basis points, and (c) one month LIBOR plus 100 basis points plus a margin of 75 basis points. The margin we pay on these borrowings will be increased by a total of 25 basis points above the original margin following each fiscal quarter for which our consolidated net leverage ratio is equal to or greater than 2.25 and less than 3.25, and will be increased by a total of 50 basis points above the original margin following each fiscal quarter for which our consolidated net leverage ratio is equal to or greater than 3.25. In addition, the margin we pay on these borrowings will be reduced by a total of 25 basis points below the original margin if our consolidated net leverage ratio is less than 1.25. We also pay a commitment fee equal to 30 basis points that will be reduced to 25 basis points or increased to up to 40 basis points depending on consolidated net leverage ratio changes as set forth in the senior credit facility.

**Senior Credit Facility — Other Terms and Conditions.** Our senior credit facility requires that we maintain financial ratios equal to or better than the following consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA, as defined in the senior credit facility agreement), and consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined in the senior credit facility agreement) at the end of each period indicated. Failure to maintain these ratios will result in a default under our senior credit facility. The financial ratios required under the amended and restated senior credit facility (or the predecessor facility, as applicable) and the actual ratios we achieved for the three quarters of 2016, are as follows:

	Quarter Ended					
	September 30, 2016		June 30, 2016		March 31, 2016	
	Required	Actual	Required	Actual	Required	Actual
Leverage Ratio (maximum)	3.50	1.52	3.50	1.45	3.50	1.54
Interest Coverage Ratio (minimum)	2.75	14.26	2.75	13.93	2.75	13.90

The senior credit facility includes a maximum leverage ratio covenant of 3.50 and a minimum interest coverage ratio of 2.75, in each case through December 8, 2019.

The covenants in our senior credit facility agreement generally prohibit us from repaying or refinancing our senior notes. So long as no default existed, we would, however, under our senior credit facility agreement, be permitted to repay or refinance our senior notes (i) with the net cash proceeds of permitted refinancing indebtedness (as defined in the senior credit facility agreement) or with the net cash proceeds of our common stock, in each case issued within 180 days prior to such repayment; (ii) with the net cash proceeds of the incremental facilities (as defined in the senior credit facility agreement) and certain indebtedness incurred by our foreign subsidiaries; (iii) with the proceeds of the revolving loans (as defined in the senior credit facility agreement); (iv) with the cash generated by our operations; (v) in an amount equal to the net cash proceeds of qualified capital stock (as defined in the senior credit facility agreement) issued by us after December 8, 2014; and (vi) in exchange for permitted refinancing indebtedness or in exchange for shares of our common stock; provided that such purchases are capped as follows (with respect to clauses

(iii), (iv) and (v) based on a pro forma consolidated leverage ratio after giving effect to such purchase, cancellation or redemption):

57

---

Table of Contents

Pro forma Consolidated Leverage Ratio	Aggregate Senior Note Maximum Amount (Millions)
Greater than or equal to 3.0x	\$ 20
Greater than or equal to 2.5x	\$ 100
Greater than or equal to 2.0x	\$ 200
Less than 2.0x	no limit

Although the senior credit facility agreement would permit us to repay or refinance our senior notes under the conditions described above, any repayment or refinancing of our outstanding notes would be subject to market conditions and either the voluntary participation of note holders or our ability to redeem the notes under the terms of the applicable note indenture. For example, while the senior credit facility agreement would allow us to repay our outstanding notes via a direct exchange of the notes for either permitted refinancing indebtedness or for shares of our common stock, we do not, under the terms of the agreements governing our outstanding notes, have the right to refinance the notes via any type of direct exchange.

The senior credit facility agreement also contains other restrictions on our operations that are customary for similar facilities, including limitations on: (i) incurring additional liens; (ii) sale and leaseback transactions (except for the permitted transactions as described in the senior credit facility agreement); (iii) liquidations and dissolutions; (iv) incurring additional indebtedness or guarantees; (v) investments and acquisitions; (vi) dividends and share repurchases; (vii) mergers and consolidations; and (viii) refinancing of the senior notes. Compliance with these requirements and restrictions is a condition for any incremental borrowings under the senior credit facility agreement and failure to meet these requirements enables the lenders to require repayment of any outstanding loans.

As of September 30, 2016, we were in compliance with all the financial covenants and operational restrictions of the senior credit facility. Our senior credit facility does not contain any terms that could accelerate payment of the facility or affect pricing under the facility as a result of a credit rating agency downgrade.

Senior Notes. As of September 30, 2016, our outstanding senior notes included \$225 million of 5<sup>3</sup>/<sub>8</sub> percent senior notes due December 15, 2024 which consisted of \$221 million net carrying amount including a \$4 million debt issuance cost and \$500 million of 5 percent senior notes due July 15, 2026 which consisted of \$492 million net carrying amount including a \$8 million debt issuance cost. Under the indentures governing the remaining notes, we are permitted to redeem some or all of the remaining senior notes at specified prices that decline to par over a specified period, (a) on or after July 15, 2021, in case of the senior notes due 2026, and (b) on or after December 15, 2019, in the case of the senior notes due 2024. In addition, the notes may also be redeemed in whole or in part at a redemption price generally equal to 100 percent of the principal amount thereof plus a premium based on the present values of the remaining payments due to the note holders. Further, the indentures governing the notes also permit us to redeem up to 35 percent of the senior notes with the proceeds of certain equity offerings, (a) on or before July 15, 2019 at a redemption price equal to 105 percent, in case of the senior notes due 2026 and (b) on or before December 15, 2017 at a redemption price equal to 105.375 percent, in case of the senior notes due 2024. If we sell certain of our assets or experience specified kinds of changes in control, we must offer to repurchase the notes due 2026 and 2024 at 101 percent of the principal amount thereof plus accrued and unpaid interest.

Our senior notes due, respectively, December 15, 2024 and July 15, 2026 contain covenants that will, among other things, limit our ability to create liens, and enter into sale and leaseback transactions. Our senior notes due 2024 also require that, as a condition precedent to incurring certain types of indebtedness not otherwise permitted, our consolidated fixed charge coverage ratio, as calculated on a pro forma basis, be greater than 2.00, as well as containing restrictions on our operations, including limitations on: (i) incurring additional indebtedness; (ii) dividends; (iii) distributions and stock repurchases; (iv) investments; (v) asset sales and (vi) mergers and consolidations. Subject to limited exceptions, all of our existing and future material domestic wholly owned subsidiaries fully and unconditionally guarantee our senior notes on a joint and several basis. There are no significant restrictions on the ability of the subsidiaries that have guaranteed these notes to make distributions to us. As of September 30, 2016, we were in compliance with the covenants and restrictions of these indentures.

Accounts Receivable Securitization. We securitize some of our accounts receivable on a limited recourse basis in the U.S. and Europe. As servicer under these accounts receivable securitization programs, we are responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In the U.S., we have an accounts receivable securitization program with three commercial banks comprised of a first priority facility and a second priority facility. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. In March 2015, the U.S. program was amended and extended to April 30, 2017. The first priority facility provides financing of up to \$130 million and the second priority facility, which is subordinated to the first priority facility, provides up to an additional \$50 million of financing. Both facilities monetize accounts receivable generated in the U.S. that meet certain eligibility requirements. The second priority facility also monetizes certain accounts receivable generated in the U.S. that would otherwise be ineligible under the first priority securitization facility. The amount of

Table of Contents

outstanding third-party investments in our securitized accounts receivable under the U.S. program was \$50 million and \$30 million at September 30, 2016 and December 31, 2015, respectively.

Each facility contains customary covenants for financings of this type, including restrictions related to liens, payments, mergers or consolidations and amendments to the agreements underlying the receivables pool. Further, each facility may be terminated upon the occurrence of customary events (with customary grace periods, if applicable), including breaches of covenants, failure to maintain certain financial ratios, inaccuracies of representations and warranties, bankruptcy and insolvency events, certain changes in the rate of default or delinquency of the receivables, a change of control and the entry or other enforcement of material judgments. In addition, each facility contains cross-default provisions, where the facility could be terminated in the event of non-payment of other material indebtedness when due and any other event which permits the acceleration of the maturity of material indebtedness.

We also securitize receivables in our European operations with regional banks in Europe under various separate facilities. The commitments for these arrangements are generally for one year, but some may be canceled with notice 90 days prior to renewal. In some instances, the arrangement provides for cancellation by the applicable financial institution at any time upon notification. The amount of outstanding third-party investments in our securitized accounts receivable in Europe was \$206 million and \$174 million at September 30, 2016 and December 31, 2015, respectively.

If we were not able to securitize receivables under either the U.S. or European securitization programs, our borrowings under our revolving credit agreement might increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit agreement.

In our U.S. accounts receivable securitization programs, we transfer a partial interest in a pool of receivables and the interest that we retain is subordinate to the transferred interest. Accordingly, we account for our U.S. securitization program as a secured borrowing. In our European programs, we transfer accounts receivables in their entirety to the acquiring entities and satisfy all of the conditions established under ASC Topic 860, "Transfers and Servicing," to report the transfer of financial assets in their entirety as a sale. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized \$1 million interest expense in each of the three month periods ended September 30, 2016 and 2015 and \$2 million in each of the nine month periods ended September 30, 2016 and 2015, relating to our U.S. securitization program. In addition, we recognized a loss of \$1 million in each of the three month periods ended September 30, 2016 and 2015, and \$4 million and \$3 million in the nine month periods ended September 30, 2016 and 2015, respectively, on the sale of trade accounts receivable in our European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately two percent during the first nine months of both 2016 and 2015.

Financial Instruments. One of our European subsidiaries receives payment from one of its customers whereby the accounts receivable are satisfied through the early delivery of financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets. Such financial instruments held by our European subsidiary totaled zero and less than \$1 million as of September 30, 2016 and December 31, 2015, respectively.

In certain instances, several of our Chinese subsidiaries receive payment from customers through the receipt of financial instruments on the date the customer payments are due. Several of our Chinese subsidiaries also satisfy vendor payments through the delivery of financial instruments on the date the payments are due. Financial instruments issued to satisfy vendor payables and not redeemed totaled \$22 million and \$15 million at September 30, 2016 and December 31, 2015, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$14 million and \$8 million at September 30, 2016 and December 31, 2015, respectively. We classify financial instruments received from our customers as other current assets if issued by a financial institution of our customers or as customer notes and accounts, if issued by our customer. We classified \$14

million and \$8 million in other current assets at September 30, 2016 and December 31, 2015, respectively.

The financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are drafts drawn that are payable at a future date and, in some cases, are negotiable and/or are guaranteed by banks of the customers. The use of these instruments for payment follows local commercial practice. Because certain of such financial instruments are guaranteed by our customers' banks, we believe they represent a lower financial risk than the outstanding accounts receivable that they satisfy which are not guaranteed by a bank.

Supply Chain Financing. Certain of our suppliers in the U.S. participate in a supply chain financing program under which they securitize their accounts receivables from Tenneco. The financial institution that participates in the supply chain financing program does so on an uncommitted basis and can cease purchasing receivables from Tenneco's suppliers at any time. If the

Table of Contents

financial institution did not continue to purchase receivables from Tenneco's suppliers under this program, the participating vendors may have a need to renegotiate their payment terms with Tenneco which in turn would cause our borrowings under our revolving credit facility to increase.

Capital Requirements. We believe that cash flows from operations, combined with our cash on hand, subject to any applicable withholding taxes upon repatriation of cash balances from our foreign operations where most of our cash balances are located, and available borrowing capacity described above, assuming that we maintain compliance with the financial covenants and other requirements of our senior credit facility agreement, will be sufficient to meet our future capital requirements, including debt amortization, capital expenditures, pension contributions, and other operational requirements, for the following year. Our ability to meet the financial covenants depends upon a number of operational and economic factors, many of which are beyond our control. In the event that we are unable to meet these financial covenants, we would consider several options to meet our cash flow needs. Such actions include additional restructuring initiatives and other cost reductions, sales of assets, reductions to working capital and capital spending, issuance of equity and other alternatives to enhance our financial and operating position. Should we be required to implement any of these actions to meet our cash flow needs, we believe we can do so in a reasonable time frame.

## Derivative Financial Instruments

## Foreign Currency Exchange Rate Risk

When foreign currency exchange rate risk cannot be managed by operational strategies, we use derivative financial instruments, principally foreign currency forward purchase and sale contracts with terms of less than one year, to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans and accounts receivable and payable in nonfunctional currencies made between affiliates to minimize the need for borrowings from third parties. Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We manage counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. We do not enter into derivative financial instruments for speculative purposes.

In managing our foreign currency exposures, we identify and then hedge exposures by creating offsetting intercompany exposures or through third-party derivative contracts. The fair value of our foreign currency forward contracts was a net asset position of \$1 million at September 30, 2016 and is based on an internally developed model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. The following table summarizes by major currency the notional amounts for our foreign currency forward purchase and sale contracts as of September 30, 2016. All contracts in the following table mature in 2016.

	September 30, 2016	
	Notional Amount	
	in Foreign Currency	
	(Millions)	
Australian dollars	—Purchase	36
British pounds	—Purchase	47
	—Sell (45	)
Canadian dollars	—Sell (2	)
European euro	—Purchase	57
	—Sell (121	)
Japanese yen	—Purchase	67
	—Sell (240	)
Mexican peso	—Purchase	38
South African rand	—Purchase	37
	—Sell (184	)

U.S. dollars      —Purchase \$03  
                         —Sell (138                    )

Interest Rate Risk

Our financial instruments that are sensitive to market risk for changes in interest rates are primarily our debt securities. We use our revolving credit facility to finance our short-term and long-term capital requirements. We pay a current market rate

60

---

Table of Contents

of interest on these borrowings. Our long-term capital requirements have been financed with long-term debt with original maturity dates ranging from five to ten years. On September 30, 2016, we had \$743 million in long-term debt obligations that have fixed interest rates. Of that amount, \$500 million is fixed through July 2026, \$225 million is fixed through December 2024, and the remainder is fixed from 2016 through 2025. We also have \$584 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to “Liquidity and Capital Resources — Capitalization” earlier in this Management’s Discussion and Analysis.

We estimate that the fair value of our long-term debt at September 30, 2016 was about 101 percent of its book value. A one percentage point increase or decrease in interest rates related to our variable interest rate debt would increase or decrease the annual interest expense we recognize in the income statement and the cash we pay for interest expense by about \$7 million.

Environmental Matters, Legal Proceedings and Product Warranties

Note 7 in our notes to condensed consolidated financial statements located in Part I Item 1 of this Form 10-Q is incorporated herein for reference.

We expect to continue to incur legal and related costs in 2016 pertaining to the ongoing antitrust investigation. Such costs may not be evenly distributed throughout the year.

Tenneco 401(K) Retirement Savings Plan

Effective January 1, 2012, the Tenneco Employee Stock Ownership Plan for Hourly Employees and the Tenneco Employee Stock Ownership Plan for Salaried Employees were merged into one plan called the Tenneco 401(k) Retirement Savings Plan (the “Retirement Savings Plan”). Under the plan, subject to limitations in the Internal Revenue Code, participants may elect to defer up to 75 percent of their salary through contributions to the plan, which are invested in selected mutual funds or used to buy our common stock. We match 100 percent of an employee's contributions up to three percent of the employee's salary and 50 percent of an employee's contributions that are between three percent and five percent of the employee's salary. In connection with freezing the defined benefit pension plans for nearly all U.S. based salaried and non-union hourly employees effective December 31, 2006, and the related replacement of those defined benefit plans with defined contribution plans, we are making additional contributions to the Retirement Savings Plan. We recorded expense for these contributions of approximately \$21 million and \$20 million for the nine month periods ended September 30, 2016 and 2015, respectively. Matching contributions vest immediately. Defined benefit replacement contributions fully vest on the employee’s third anniversary of employment.

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For information regarding our exposure to interest rate risk and foreign currency exchange rate risk, see the caption entitled “Derivative Financial Instruments” in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is incorporated herein by reference.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the quarter covered by this report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by our Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II

## ITEM 1A.RISK FACTORS

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. Except for the update of the following risk factor, there have been no other material changes to the Risk Factors described in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

We are subject to, and could be further subject to, investigations by antitrust regulators and related lawsuits by other third parties. Developments in these investigations and related lawsuits could have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We are subject to a variety of laws and regulations that govern our business both in the United States and internationally, including antitrust laws. Violations of antitrust laws can result in significant penalties being imposed by antitrust authorities. Costs, charges and liabilities arising out of or related to these investigations and related lawsuits can also be significant.

Antitrust authorities in various jurisdictions are investigating possible violations of antitrust laws by multiple automotive parts suppliers, including Tenneco. In addition, Tenneco and certain of its competitors are currently subject to civil putative class action lawsuits in the U.S., which allege anti-competitive conduct related to the activities subject to these investigations. More related lawsuits may be filed, including in other jurisdictions. Antitrust law investigations and related lawsuits often continue for several years and can result in significant penalties and liability. At this point, we cannot estimate the ultimate impact on our company from investigations into our antitrust compliance and related lawsuits. In light of the uncertainties and many variables involved in such investigations and related lawsuits, we cannot assure you that the ultimate resolution of these and other investigations and related lawsuits will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

## ITEM 2.UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) Not applicable.

(c) Purchase of equity securities by the issuer and affiliated purchasers. The following table provides information relating to our purchase of shares of our common stock in the third quarter of 2016. These purchases reflect shares withheld upon vesting of restricted stock for minimum tax withholding obligations as well as shares repurchased through our share repurchase program. We generally intend to continue to satisfy tax withholding obligations in connection with the vesting of outstanding restricted stock through the withholding of shares.

In January 2015, our Board of Directors approved a share repurchase program, authorizing our company to repurchase up to \$350 million of our outstanding common stock over a three year period. This repurchase program does not obligate Tenneco to make repurchases at any specific time or situation and is part of our overall capital allocation strategy. In October 2015, our Board of Directors expanded our company's share repurchase plan, authorizing the repurchase of an additional \$200 million of our company's outstanding common stock. This authorization is in addition to the \$350 million share repurchase program our company announced in January 2015. We repurchased 2.8 million shares for \$146 million through this program in the nine months ended September 30, 2016. Since we announced the current share repurchase program in January 2015, we have repurchased 7.0 million shares for \$359 million through September 30, 2016 and anticipate completing the remaining share repurchase authorization of \$191 million by the end of 2017.

Period	Total Number of Shares Purchased	Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Value of Shares That May Yet be Purchased Under These Plans or Programs
--------	-------------------------------------	-----------------------	---	--

Edgar Filing: TENNECO INC - Form 10-Q

				(Millions)
July 2016	603,250	\$ 49.33	600,000	\$ 251
August 2016	515,247	\$ 55.73	515,000	222
September 2016	535,259	\$ 56.61	535,259	191
Total	1,653,756	\$ 53.68	1,650,259	\$ 191

63

---

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Tenneco Inc. has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TENNECO INC.

By: /S/ KENNETH R. TRAMMELL

Kenneth R. Trammell

Executive Vice President and Chief Financial Officer

Dated: November 4, 2016

Table of Contents

INDEX TO EXHIBITS  
TO  
QUARTERLY REPORT ON FORM 10-Q  
FOR QUARTER ENDED SEPTEMBER 30, 2016

Exhibit Number	Description
3.1	<u>By-laws of Tenneco Inc., amended as of October 11, 2016 (incorporated herein by reference to Exhibit 3.1 of the registrant's Current Report on Form 8-K filed October 17, 2016).</u>
10.1	<del>Agreement and General Release between Enrique Orta and Tenneco Automotive Operating Company Inc. dated September 27, 2016 (incorporated herein by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed October 4, 2016).</del>
*10.2	<del>Amendment No. 1 to Tenneco Inc. 2006 Long-Term Incentive Plan.</del>
*10.3	<u>Form of Restricted Stock Award Agreement for Employees under Tenneco Inc. 2006 Long-Term Incentive Plan (for awards after October 10, 2016).</u>
*10.4	<u>Form of Tenneco Inc. Three Year Long-Term Performance Unit Award Agreement (for awards after October 10, 2016).</u>
*10.5	<del>Notice to Employees of Agreement Amendments and New Options for Withholding.</del>
*10.6	<del>Letter of Understanding, dated as of October 7, 2015, between Tenneco Inc. and Josep Fornos.</del>
*12	<del>Computation of Ratio of Earnings to Fixed Charges.</del>
*15.1	<del>Letter of PricewaterhouseCoopers LLP regarding interim financial information.</del>
*31.1	<del>Certification of Gregg M. Sherrill under Section 302 of the Sarbanes-Oxley Act of 2002.</del>
*31.2	<del>Certification of Kenneth R. Trammell under Section 302 of the Sarbanes-Oxley Act of 2002.</del>
*32.1	<u>Certification of Gregg M. Sherrill and Kenneth R. Trammell under Section 906 of the Sarbanes-Oxley Act of 2002.</u>
*101.INS	<del>XBRL Instance Document.</del>
*101.SCH	<del>XBRL Taxonomy Extension Schema Document.</del>
*101.CAL	<del>XBRL Taxonomy Extension Calculation Linkbase Document.</del>
*101.DEF	<del>XBRL Taxonomy Extension Definition Linkbase Document.</del>
*101.LAB	<del>XBRL Taxonomy Extension Label Linkbase Document.</del>
*101.PRE	<del>XBRL Taxonomy Extension Presentation Linkbase Document.</del>
	* Filed herewith.

