

TENNECO INC  
Form 10-Q  
November 04, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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, 2015  
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

(State or other jurisdiction of  
incorporation or organization)

76-0515284

(I.R.S. Employer  
Identification No.)

500 North Field Drive, Lake Forest, Illinois

(Address of principal executive offices)

60045

(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: 57,808,791 shares outstanding as of October 30, 2015.

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

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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, such as the prolonged recession in Europe;
- 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, including our European cost reduction initiatives, and to realize 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 changes in distribution channels for aftermarket products on our ability to increase or maintain aftermarket sales;

customer acceptance of new products;

new technologies that reduce the demand for certain of our products or otherwise render them obsolete;

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- our ability to introduce new products and technologies that satisfy customers' needs in a timely fashion;
- 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 the 2011 earthquake in Japan and flooding in Thailand, 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, 2014 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.

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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, 2015, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three and nine month periods ended September 30, 2015 and 2014 and changes in shareholders' equity for the nine months ended September 30, 2015 and 2014. 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, 2014, 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 25, 2015, we expressed an unqualified opinion on those consolidated financial statements. As discussed in notes 3 and 11 to the accompanying condensed consolidated interim financial statements, the Company changed its method of accounting for the presentation of debt issuance costs for the first quarter of 2015. The accompanying December 31, 2014 condensed consolidated balance sheet reflects this change.

/s/ PricewaterhouseCoopers LLP

Milwaukee, Wisconsin

November 4, 2015

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.

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TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
(Millions Except Share and Per Share Amounts)				
Revenues				
Net sales and operating revenues	\$2,025	\$2,081	\$6,178	\$6,416
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,707	1,735	5,157	5,340
Engineering, research, and development	35	42	114	126
Selling, general, and administrative	113	108	359	379
Depreciation and amortization of other intangibles	53	52	154	155
	1,908	1,937	5,784	6,000
Other expense				
Loss on sale of receivables	(1	) (1	) (3	) (3
Other	—	(3	) —	(4
	(1	) (4	) (3	) (7
Earnings before interest expense, income taxes, and noncontrolling interests	116	140	391	409
Interest expense	16	20	49	58
Earnings before income taxes and noncontrolling interests	100	120	342	351
Income tax expense	34	31	122	117
Net income	66	89	220	234
Less: Net income attributable to noncontrolling interests	14	11	41	29
Net income attributable to Tenneco Inc.	\$52	\$78	\$179	\$205
Earnings per share				
Weighted average shares of common stock outstanding —				
Basic	59,587,628	60,762,667	60,428,806	60,671,410
Diluted	60,020,995	61,713,851	60,946,772	61,635,062
Basic earnings per share of common stock	\$0.89	\$1.29	2.97	3.39
Diluted earnings per share of common stock	\$0.88	\$1.27	2.94	3.33

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

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

	Three Months Ended September 30, 2015					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated
	Other	Other	Other	Other	Other	Other
	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
	Income	Income (Loss)	Income	Income (Loss)	Income	Income (Loss)
	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)
	(Millions)					
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.



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

	Three Months Ended September 30, 2014					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated
	Other	Other	Other	Other	Other	Other
	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
	Income	Income (Loss)	Income	Income (Loss)	Income	Income (Loss)
	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)
	(Millions)					
Net Income		\$ 78		\$ 11		\$ 89
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	\$ (61 )		\$ 4		\$ (57 )	
Translation of foreign currency statements	(60 )	(60 )	—	—	(60 )	(60 )
Balance September 30	(121 )		4		(117 )	
Additional Liability for Pension and Postretirement Benefits						
Balance July 1	(293 )		—		(293 )	
Additional Liability for Pension and Postretirement Benefits, net of tax	2	2	—	—	2	2
Balance September 30	(291 )		—		(291 )	
Balance September 30	\$(412 )		\$4		\$(408 )	
Other Comprehensive Loss		(58 )		—		(58 )
Comprehensive Income		\$ 20		\$ 11		\$ 31

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

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

	Nine Months Ended September 30, 2015					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated	Comprehensive	Accumulated	Comprehensive	Accumulated	Comprehensive
	Other	Income	Other	Income	Other	Income
	Income	(Loss)	Income	(Loss)	Income	(Loss)
	(Loss)		(Loss)		(Loss)	
	(Millions)		(Millions)		(Millions)	
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.

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

	Nine Months Ended September 30, 2014					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated	Other	Accumulated	Other	Accumulated	Other
	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
	Income	Income (Loss)	Income	Income (Loss)	Income	Income (Loss)
	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)
	(Millions)					
Net Income		\$ 205		\$ 29		\$ 234
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	\$ (61	)	\$ 5		\$ (56	)
Translation of foreign currency statements	(60	) (60	) (1	) (1	) (61	) (61
Balance September 30	(121	)	4		(117	)
Additional Liability for Pension and Postretirement Benefits						
Balance January 1	(299	)	—		(299	)
Additional Liability for Pension and Postretirement Benefits, net of tax	8	8	—	—	8	8
Balance September 30	(291	)	—		(291	)
Balance September 30	\$(412	)	\$4		\$(408	)
Other Comprehensive Loss		(52	)		(1	)
Comprehensive Income		\$ 153		\$ 28		\$ 181

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

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TENNECO INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	September 30, 2015	December 31, 2014
	(Millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$220	\$282
Restricted cash	2	3
Receivables —		
Customer notes and accounts, net	1,259	1,064
Other	22	24
Inventories —		
Finished goods	264	272
Work in process	253	221
Raw materials	146	137
Materials and supplies	57	58
Deferred income taxes	72	81
Prepayments and other	276	284
Total current assets	2,571	2,426
Other assets:		
Long-term receivables, net	14	12
Goodwill	62	65
Intangibles, net	23	26
Deferred income taxes	157	143
Other	97	106
	353	352
Plant, property, and equipment, at cost	3,439	3,490
Less — Accumulated depreciation and amortization	(2,206	) (2,272
	1,233	1,218
Total Assets	\$4,157	\$3,996
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$95	\$60
Trade payables	1,364	1,372
Accrued taxes	32	40
Accrued interest	16	3
Accrued liabilities	272	258
Other	71	66
Total current liabilities	1,850	1,799
Long-term debt	1,246	1,055
Deferred income taxes	16	18
Postretirement benefits	314	339
Deferred credits and other liabilities	212	212
Commitments and contingencies		
Total liabilities	3,638	3,423
Redeemable noncontrolling interests	36	35
Tenneco Inc. Shareholders' equity:		

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Common stock	1	1
Premium on common stock and other capital surplus	3,074	3,059
Accumulated other comprehensive loss	(631	) (545
Retained earnings (accumulated deficit)	(1,516	) (1,695
	928	820
Less — Shares held as treasury stock, at cost	481	323
Total Tenneco Inc. shareholders' equity	447	497
Noncontrolling interests	36	41
Total equity	483	538
Total liabilities, redeemable noncontrolling interests and equity	\$4,157	\$3,996

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

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

	Three Months Ended September 30, 2015 (Millions)	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	\$66	\$89	\$220	\$234
Adjustments to reconcile net income to cash provided by operating activities —				
Depreciation and amortization of other intangibles	53	52	154	155
Deferred income taxes	12	(12	) (1	) (13
Stock-based compensation	4	3	13	11
Loss on sale of assets	1	3	2	5
Changes in components of working capital —				
(Increase) decrease in receivables	(17	) 67	(237	) (236
(Increase) decrease in inventories	(19	) (21	) (65	) (125
(Increase) decrease in prepayments and other current assets	(1	) (5	) (4	) (57
Increase (decrease) in payables	7	(44	) 70	116
Increase (decrease) in accrued taxes	(29	) 6	(7	) 6
Increase (decrease) in accrued interest	12	5	13	5
Increase (decrease) in other current liabilities	13	(10	) 31	14
Changes in long-term assets	—	2	1	3
Changes in long-term liabilities	2	(17	) —	(27
Other	2	(3	) (2	) (2
Net cash provided by operating activities	106	115	188	89
Investing Activities				
Proceeds from the sale of assets	1	1	3	1
Cash payments for plant, property, and equipment	(71	) (95	) (221	) (262
Cash payments for software related intangible assets	(5	) (3	) (13	) (12
Changes in restricted cash	—	—	1	—
Net cash used by investing activities	(75	) (97	) (230	) (273
Financing Activities				
Issuance (repurchase) of common shares	—	—	5	(1
Tax impact from stock-based compensation	(5	) 1	1	18
Retirement of long-term debt	(4	) (6	) (25	) (16
Issuance of long-term debt	1	—	1	45
Debt issuance cost of long-term debt	—	—	(1	) —
Purchase of common stock under the share repurchase program	(114	) —	(158	) —
Net decrease in bank overdrafts	(10	) (4	) (21	) (5
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable	138	(20	) 223	147

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Net increase (decrease) in short-term borrowings secured by accounts receivable	(20	) 30	30	20
Capital contribution from noncontrolling interest partner	—	—	—	5
Distributions to noncontrolling interest partners	(22	) —	(44	) (23
Net cash provided (used) by financing activities	(36	) 1	11	190
Effect of foreign exchange rate changes on cash and cash equivalents	(25	) (4	) (31	) (6
Increase (decrease) in cash and cash equivalents	(30	) 15	(62	) —
Cash and cash equivalents, July 1 and January 1, respectively	250	260	282	275
Cash and cash equivalents, September 30 (Note)	\$220	\$275	\$220	\$275
Supplemental Cash Flow Information				
Cash paid during the period for interest	\$5	\$15	\$38	\$53
Cash paid during the period for income taxes (net of refunds)	44	24	79	98
Non-cash Investing and Financing Activities				
Period end balance of trade payables for plant, property, and equipment	\$37	\$39	\$37	\$39

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.

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TENNECO INC.

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

	Nine Months Ended September 30,			
	2015		2014	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	64,454,248	\$1	63,714,728	\$1
Issued pursuant to benefit plans	—	—	75,528	—
Stock options exercised	239,490	—	70,186	—
Balance September 30	64,693,738	1	63,860,442	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,059		3,014
Premium on common stock issued pursuant to benefit plans		15		27
Balance September 30		3,074		3,041
Accumulated Other Comprehensive Loss				
Balance January 1		(545 )		(360 )
Other comprehensive income (loss)		(86 )		(52 )
Balance September 30		(631 )		(412 )
Retained Earnings (Accumulated Deficit)				
Balance January 1		(1,695 )		(1,921 )
Net income attributable to Tenneco Inc.		179		205
Balance September 30		(1,516 )		(1,716 )
Less — Common Stock Held as Treasury Stock, at Cost				
Balance January 1	3,244,692	323	2,844,692	301
Purchase of common stock through stock repurchase program	3,104,763	158	—	—
Balance September 30	6,349,455	481	2,844,692	301
Total Tenneco Inc. shareholders' equity		\$447		\$613
Noncontrolling Interests:				
Balance January 1		\$41		\$39
Net income		16		14
Other comprehensive income (loss)		(1 )		(1 )
Dividends declared		(20 )		(17 )
Balance September 30		\$36		\$35
Total equity		\$483		\$648

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



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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, 2014.

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 \$138 million and \$98 million at September 30, 2015 and December 31, 2014, respectively, for in-process tools and dies that we are building for our original equipment customers.

## Trade Payables

Trade payables included \$106 million and \$91 million at September 30, 2015 and December 31, 2014, respectively, for accrued compensation and \$18 million and \$39 million at September 30, 2015 and December 31, 2014, 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, 2015 and December 31, 2014 were as follows:

	September 30, 2015		December 31, 2014	
	Net Carrying Amount (Millions)	Fair Value	Net Carrying Amount	Fair Value
Long-term debt (including current maturities)	\$1,247	\$1,278	\$1,057	\$1,106
Instruments with off-balance sheet risk:				
Foreign exchange forward contracts:				
Asset derivative contracts	—	—	—	—

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 \$759 million at September 30, 2015 and December 31, 2014, respectively. We have classified \$503 million and \$301 million as level 2 in the fair value hierarchy at September 30, 2015 and December 31, 2014, respectively, since we use valuation inputs that are observable both directly and indirectly. We classified the remaining \$31 million and \$46 million, consisting of foreign subsidiary debt, as level 3 in the fair value hierarchy at September 30, 2015 and December 31, 2014, respectively.

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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 — 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 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 liability position of less than \$1 million at both September 30, 2015 and December 31, 2014.

The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of September 30, 2015 (all of which mature in 2015):

		Notional Amount in Foreign Currency (Millions)
Australian dollars	—Purchase	1
British pounds	—Purchase	6
Canadian dollars	—Sell	(4)
European euro	—Sell	(12)
South African rand	—Purchase	99
Japanese yen	—Purchase	456
	—Sell	(967)
Polish zloty	—Sell	(3)
U.S. dollars	—Purchase	24
	—Sell	(18)

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 our condensed consolidated financial statements, 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 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 \$9 million as of September 30, 2015 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

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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 \$14 million and \$17 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, 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, 2015, the maximum amount reimbursable by Futaba to TMEL is approximately \$9 million.

We have issued letters of credit in connection with some obligations of our affiliates. As of September 30, 2015, we have issued \$41 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 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. No such financial instruments were held by our European subsidiary as of September 30, 2015 or December 31, 2014.

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 \$20 million and \$24 million at September 30, 2015 and December 31, 2014, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$15 million and \$17 million at September 30, 2015 and December 31, 2014, 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 \$15 million and \$17 million in other current assets at September 30, 2015 and December 31, 2014, 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. Financial institutions participate in the supply chain financing program on an uncommitted basis and can cease purchasing receivables from Tenneco's suppliers at any time. If the financial institutions 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. The liquidity benefit to Tenneco from the extended payment terms totaled \$20 million at September 30, 2015.

**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 at September 30, 2015 for \$2 million and was not required at December 31, 2014.

(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.

In April 2015, the FASB issued Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt

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liability. 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. Early adoption of the amendments in this update is permitted for financial statements that have not been previously issued. We adopted this standard for the first quarter of 2015 and applied retrospectively. The balance for unamortized debt issuance costs was \$12 million and \$14 million at September 30, 2015 and December 31, 2014, respectively.

On December 8, 2014, we completed an amendment and restatement of our senior credit facility by increasing the amount and extending the maturity dates of our revolving credit facility and our Tranche A Term Facility. As of September 30, 2015, the senior credit facility provides us with a total revolving credit facility size of \$1,200 million and had a \$289 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 \$287 million as of September 30, 2015. 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 \$15 million from current liabilities as of September 30, 2015, 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 2015, are as follows:

	Quarter Ended					
	September 30, 2015		June 30, 2015		March 31, 2015	
	Required	Actual	Required	Actual	Required	Actual
Leverage Ratio (maximum)	3.50	1.51	3.50	1.36	3.50	1.41
Interest Coverage Ratio (minimum)	2.75	13.07	2.75	12.43	2.75	11.95

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, 2015, of the \$1,200 million available under the revolving credit facility, we had unused borrowing capacity of \$979 million with \$214 million in outstanding borrowings and \$7 million in outstanding letters of credit. As of September 30, 2015, our outstanding debt also included (i) \$289 million of a term loan which consisted of a \$287 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 of 5<sup>3</sup>/<sub>8</sub> percent senior notes due December 15, 2024, (iii) \$500 million of notes which consisted of a \$494 million net carrying amount including a \$6 million debt issuance cost of 6<sup>7</sup>/<sub>8</sub> percent senior notes due December 15, 2020, and (iv) \$125 million of other debt.

**(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 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 expense of \$34 million and \$31 million in the three month periods ended September 30, 2015 and 2014, respectively. 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. The tax expense recorded in the third quarter of 2014 included a net tax benefit of \$10 million for tax adjustments to prior year income tax estimates.

We reported income tax expense of \$122 million and \$117 million in the nine month periods ended September 30, 2015 and 2014, respectively. 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

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adjustments to prior year income tax estimates. The tax expense recorded in the first nine months of 2014 included a net tax benefit of \$9 million for tax adjustments to prior year income tax estimates.

We believe it is reasonably possible that up to \$6 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 North America 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 North America, 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 North American 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. and Canada that meet certain eligibility requirements, and the second priority facility also monetizes certain accounts receivable generated in the U.S. and Canada 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 North American program was \$30 million at September 30, 2015 and zero at December 31, 2014.

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 \$192 million and \$153 million at September 30, 2015 and December 31, 2014, respectively.

If we were not able to securitize receivables under either the North American 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 North American 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 North American 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, 2015 and 2014, and \$2 million in each of the nine month periods ended September 30, 2015 and 2014, relating to our North American securitization program. In addition, we recognized a loss of \$1 million in each of the three month periods ended September 30, 2015 and 2014, and \$3 million in each of the nine month periods ended September 30, 2015 and 2014, 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 2015 and 2014.

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**(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 2014, we incurred \$49 million in restructuring and related costs including non-cash charges of \$5 million, primarily related to European cost reduction efforts, headcount reductions in Australia and South America, the sale of a closed facility in Cozad, Nebraska and costs related to organizational changes, of which \$28 million was recorded in cost of sales, \$9 million in SG&A, \$7 million in engineering expense, \$4 million in other expense and \$1 million in depreciation and amortization expense. 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 third quarter of 2014, we incurred \$8 million in restructuring and related costs including non-cash charges of \$2 million, primarily related to European cost reduction efforts, headcount reductions in Australia and the sale of a closed facility in Cozad, Nebraska, of which \$5 million was recorded in cost of sales and \$3 million in other 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. In the first nine months of 2014, we incurred \$28 million in restructuring and related costs including non-cash charges of \$3 million, primarily related to European cost reduction efforts, headcount reductions in Australia and South America and the sale of a closed facility in Cozad, Nebraska, of which \$20 million was recorded in cost of sales, \$3 million in SG&A, \$1 million in engineering expense and \$4 million in other expense.

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

	December 31, 2014	2015	2015 Cash Payments	Impact of Exchange Rates	September 30, 2015 Restructuring Reserve
Employee Severance, Termination Benefits and Other Related Costs	\$40	38	(30	) (3	) \$45

On January 31, 2013, we announced our intent to reduce structural costs in Europe by approximately \$60 million annually. We still expect to reach our target annual savings rate in 2016, however the recent dramatic changes in exchange rates will likely have an impact on the actual savings achieved when translated from Euros into U.S. dollars. In the third quarter of 2015, we incurred \$35 million in restructuring and related costs, of which \$5 million was related to this initiative. In the first nine months of 2015, we incurred \$47 million in restructuring and related costs, of which \$12 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 2015 and 2016 due to certain ongoing matters. For example, we closed a plant in Gijon Spain 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 are currently engaged in a sales process for the facility and intend to continue operating it until a complete transfer of ownership takes place in 2016.

On July 22, 2015, we announced our intention to discontinue our Marzocchi motor bike fork suspension business and our mountain bike business, and liquidate our Marzocchi operations. These actions are subject to a consultation process with the employee representatives and in total would eliminate 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. We intend to assist our motor bike customers with the transition of current production to an alternative supplier and expect to complete the closure by the end of 2015. On October 19, 2015, we entered into an agreement to sell our mountain bike business to Fox Factory, Inc. This intended action is a part of our ongoing efforts to optimize our Ride Performance business globally while continuously improving our operations and increasing profitability. We recorded charges of \$25 million in the third quarter of 2015 related to severance and other employee related costs, asset write-downs and other expenses related to the closure.

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, 2015, we had excluded \$38

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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, 2015, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At September 30, 2015, our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately \$15 million, of which \$3 million is recorded in other current liabilities and \$12 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 1.9 percent. The undiscounted value of the estimated remediation costs was \$18 million. Our expected payments of environmental remediation costs are estimated to be approximately \$1 million in 2015, \$2 million in 2016, \$1 million each year beginning 2017 through 2019 and \$12 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.

Antitrust Investigations

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. We cannot provide any assurance as to when such actions will be filed in the future or how they will ultimately be resolved.

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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.

Antitrust law investigations and related matters 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 matters in light of the uncertainties and many variables involved, and there can be no assurance that the ultimate resolution of these matters, including any civil litigation claims, 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, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another 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, we are subject to lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000's we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and 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 to involve workers in industries that are not automotive-related or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. 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, 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 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 on OE 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.

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

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

	Nine Months Ended September 30,	
	2015	2014
	(Millions)	
Beginning Balance January 1,	\$26	\$24
Accruals related to product warranties	11	18
Reductions for payments made	(13	) (16
Ending Balance September 30,	\$24	\$26

## (8) Earnings Per Share

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(Millions Except Share and Per Share Amounts)			
Basic earnings per share —				
Net income attributable to Tenneco Inc.	\$52	\$78	\$179	\$205
Weighted Average shares of common stock outstanding	59,587,628	60,762,667	60,428,806	60,671,410
Earnings per share of common stock	\$0.89	\$1.29	\$2.97	\$3.39
Diluted earnings per share —				
Net income attributable to Tenneco Inc.	\$52	\$78	\$179	\$205
Weighted Average shares of common stock outstanding	59,587,628	60,762,667	60,428,806	60,671,410
Effect of dilutive securities:				
Restricted stock	76,203	122,865	91,615	135,170
Stock options	357,164	828,319	426,351	828,482
Weighted Average shares of common stock outstanding including dilutive securities	60,020,995	61,713,851	60,946,772	61,635,062
Earnings per share of common stock	\$0.88	\$1.27	\$2.94	\$3.33

Options to purchase 175,343 and 834 shares of common stock were outstanding as of September 30, 2015 and 2014, respectively, but not included in the computation of diluted earnings per share respectively, because the options were anti-dilutive.

## (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 \$1 million in each of the three month periods ended September 30, 2015 and 2014, respectively and \$2 million and \$3 million in compensation expense for each of the nine month periods ended September 30, 2015 and 2014, respectively, related to nonqualified stock options as part of our selling, general and administrative expense. This resulted in a decrease of \$0.01 in both basic and diluted earnings per share for each of the three month periods ended September 30, 2015 and 2014 and a decrease of \$0.03 and \$0.05 in both basic and diluted earnings per share for the nine month period ended September 30, 2015 and 2014.



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, 2015, there was approximately \$3 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 0.4 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs (net of taxes) was less than \$1 million for the three month periods ended September 30, 2015 and 2014 and \$10 million for each of the nine

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

month periods ended September 30, 2015 and 2014, 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 months ended September 30, 2015 and 2014 was \$4 million and \$1 million, respectively.

Stock options exercised in the first nine months of 2015 and 2014 generated a tax benefit of \$6 million and \$4 million, respectively. We started to record this tax benefit in the third quarter of 2013 when we began utilizing our federal and state NOLs.

Assumptions — We calculated the fair values of stock option awards using the Black-Scholes option pricing model with the weighted average assumptions listed below. The fair value of share-based awards is determined at the time the awards are granted which is generally in January of each year, and requires judgment in estimating employee and market behavior. There were no stock options granted in 2015.

	Nine Months Ended September 30,	
	2015	2014
Stock Options Granted		
Weighted average grant date fair value, per share	\$—	\$26.46
Weighted average assumptions used:		
Expected volatility	—	% 52.8
Expected lives		5.0
Risk-free interest rates	—	% 1.7
Dividend yields	—	% —

Expected volatility is calculated based on current implied volatility and historical realized volatility for the Company. Expected lives of options are based upon the historical and expected time to post-vesting forfeiture and exercise. We believe this method is the best estimate of the future exercise patterns currently available.

The risk-free interest rates are based upon the Constant Maturity Rates provided by the U.S. Treasury. For our valuations, we used the continuous rate with a term equal to the expected life of the options.

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, 2015			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2015	1,454,003	\$ 31.16	4.4	\$33
Canceled	(20,427)	) 23.75		
Exercised	(96,997)	) 20.78		3
Outstanding, March 31, 2015	1,336,579	\$ 32.03	4.3	\$31
Forfeited	(7,531)	) 47.36		
Exercised	(141,644)	) 14.68		6
Outstanding, June 30, 2015	1,187,404	\$ 34.00	4.2	\$30
Exercised	(749)	) 19.48		
Outstanding, September 30, 2015	1,186,655	\$ 33.99	3.9	\$19

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2014 was \$26.48. There were no stock options granted in 2015. The total fair value of shares vested was \$4 million and \$6

million for the periods ended September 30, 2015 and 2014, respectively.

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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, 2015	
	Shares	Weighted Avg. Grant Date Fair Value
Nonvested Restricted Shares		
Nonvested balance at January 1, 2015	286,051	\$42.35
Granted	350,101	53.40
Vested	(150,171 )	37.86
Nonvested balance at March 31, 2015	485,981	\$51.70
Granted	17,164	56.06
Vested	(13,008 )	46.37
Forfeited	(11,034 )	48.85
Nonvested balance at June 30, 2015	479,103	\$52.07
Granted	7,824	57.98
Vested	(14,948 )	49.98
Nonvested balance at September 30, 2015	471,979	\$52.15

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, 2015, 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 2.5 years. The total fair value of restricted shares vested was \$6 million and \$8 million at September 30, 2015 and 2014, 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. We repurchased 3,104,763 shares for \$158 million through this program in the nine months ended September 30, 2015.

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.

Repurchased shares held as part of our treasury stock were 6,349,455 and 3,244,692 shares at September 30, 2015 and December 31, 2014, 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, 2015, \$18 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 1.9 years.

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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		
	2015	2014	2015	2014	2015	2014	
	US	Foreign	US	Foreign	US	US	
	(Millions)						
Service cost — benefits earned during the period	\$—	\$3	\$1	\$2	\$—	\$—	
Interest cost	4	2	5	5	—	1	
Expected return on plan assets	(5	) (6	) (6	) (7	) —	—	
Net amortization:							
Actuarial loss	1	3	1	3	2	1	
Prior service cost	—	1	—	—	(1	) (2	)
Net pension and postretirement costs	\$—	\$3	\$1	\$3	\$1	\$—	

	Nine Months Ended September 30,						
	Pension				Postretirement		
	2015	2014	2015	2014	2015	2014	
	US	Foreign	US	Foreign	US	US	
	(Millions)						
Service cost — benefits earned during the period	\$1	\$7	\$1	\$6	\$—	\$—	
Interest cost	13	11	15	14	4	4	
Expected return on plan assets	(17	) (16	) (18	) (19	) —	—	
Net amortization:							
Actuarial loss	5	6	5	7	4	2	
Prior service cost (credit)	—	1	—	1	(3	) (5	)
Net pension and postretirement costs	\$2	\$9	\$3	\$9	\$5	\$1	

For the nine months ended September 30, 2015, we made pension contributions of \$1 million and \$11 million for our domestic and foreign pension plans, respectively. Based on current actuarial estimates, we believe we will be required to contribute approximately \$14 million for the remainder of 2015. Pension contributions beyond 2015 will be required, but those amounts will vary based upon many factors including, for example, the performance of our pension fund investments during 2015.

We made postretirement contributions of approximately \$7 million during the first nine months of 2015. Based on current actuarial estimates, we believe we will be required to contribute approximately \$2 million for the remainder of 2015.

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.

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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 periods ended September 30, 2015 and 2014 include the following components:

	Three Months Ended September 30, 2015			2014		
	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	6	(2	) 4	5	(1	) 4
Other comprehensive income – pension benefits	\$6	\$(2	) \$4	\$3	\$(1	) \$2

	Nine Months Ended September 30, 2015			2014		
	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	) \$(4	) \$—	\$(4
Amortization of actuarial loss included in net periodic pension and postretirement cost	15	(4	) 11	14	(2	) 12
Other comprehensive income – pension benefits	\$13	\$(4	) \$9	\$10	\$(2	) \$8

## (11) New Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (“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 is not expected to have an impact on the Company's consolidated financial statements but will impact pension asset disclosure.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. 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. Early adoption of the amendments in this update is permitted for financial statements that have not been previously issued. We adopted this standard for the first quarter of 2015 and applied retrospectively. Please refer to note 3 in our notes to condensed consolidated financial statements located in Part I Item 1 of this Form 10-Q for further discussion.

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

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

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 managed and organized 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.



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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, 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, 2014 and for the Three Months Ended September 30, 2014									
Revenues from external customers	700	484	247	342	252	56	—	—	2,081
Intersegment revenues	4	30	—	3	9	12	—	(58)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	56	14	27	38	9	10	(14)	—	140
Total assets	1,228	895	576	713	542	240	—	27	4,221
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	—	(157)	—
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
At September 30, 2014 and for the Nine Months Ended September 30, 2014									
Revenues from external customers	2,153	1,513	750	1,041	795	164	—	—	6,416
Intersegment revenues	18	88	—	8	31	31	—	(176)	—
EBIT, Earnings (loss) before interest expense, income taxes,	186	41	70	116	39	25	(68)	—	409

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and noncontrolling interests

Total assets	1,228	895	576	713	542	240	—	27	4,221
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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 and 2024 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.

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30, 2015					
	Guarantor	Nonguarantor	Tenneco Inc.	Reclass &	Consolidated	
	Subsidiaries	Subsidiaries	(Parent	Elims		
			Company)			
	(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)	866	1,078	—	(237	) 1,707	
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	

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30, 2014				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	\$934	\$ 1,147	\$—	\$—	\$2,081
Affiliated companies	97	153	—	(250 )	—
	1,031	1,300	—	(250 )	2,081
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	789	1,196	—	(250 )	1,735
Engineering, research, and development	20	22	—	—	42
Selling, general, and administrative	33	74	1	—	108
Depreciation and amortization of other intangibles	22	30	—	—	52
	864	1,322	1	(250 )	1,937
Other income (expense)					
Loss on sale of receivables	—	(1 )	—	—	(1 )
Other income (expense)	(2 )	11 )	—	(12 )	(3 )
	(2 )	10 )	—	(12 )	(4 )
Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	165	(12 )	(1 )	(12 )	140
Interest expense —					
External (net of interest capitalized)	—	1	19	—	20
Affiliated companies (net of interest income)	18	(19 )	1	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	147	6	(21 )	(12 )	120
Income tax expense	34	(3 )	—	—	31
Equity in net income (loss) from affiliated companies	(2 )	—	99	(97 )	—
Net income (loss)	111	9	78	(109 )	89
Less: Net income attributable to noncontrolling interests	—	11	—	—	11
Net income (loss) attributable to Tenneco Inc.	\$ 111	\$ (2 )	\$ 78	\$ (109 )	\$ 78
Comprehensive income (loss) attributable to Tenneco Inc.	\$ 111	\$ (2 )	\$ 20	\$ (109 )	\$ 20

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Nine Months Ended September 30, 2015					
	Guarantor	Nonguarantor	Tenneco Inc.	Reclass &	Consolidated	
	Subsidiaries	Subsidiaries	(Parent	Elims		
			Company)			
	(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	

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Nine Months Ended September 30, 2014					
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated	
	(Millions)					
Revenues						
Net sales and operating revenues —						
External	\$2,861	\$ 3,555	\$—	\$—	\$6,416	
Affiliated companies	303	458	—	(761)	) —	
	3,164	4,013	—	(761)	) 6,416	
Costs and expenses						
Cost of sales (exclusive of depreciation and amortization shown below)	2,566	3,535	—	(761)	) 5,340	
Engineering, research, and development	60	66	—	—	126	
Selling, general, and administrative	139	235	5	—	379	
Depreciation and amortization of other intangibles	64	91	—	—	155	
	2,829	3,927	5	(761)	) 6,000	
Other income (expense)						
Loss on sale of receivables	—	(3	) —	—	(3	)
Other income (expense)	23	11	—	(38)	) (4	)
	23	8	—	(38)	) (7	)
Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	358	94	(5	) (38	) 409	
Interest expense —						
External (net of interest capitalized)	(1	) 2	57	—	58	
Affiliated companies (net of interest income)	55	(56	) 1	—	—	
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	304	148	(63	) (38	) 351	
Income tax expense	70	47	—	—	117	
Equity in net income (loss) from affiliated companies	66	—	268	(334)	) —	
Net income (loss)	300	101	205	(372)	) 234	
Less: Net income attributable to noncontrolling interests	—	29	—	—	29	
Net income (loss) attributable to Tenneco Inc.	\$ 300	\$ 72	\$ 205	\$(372)	) \$ 205	
Comprehensive income (loss) attributable to Tenneco Inc.	\$ 300	\$ 72	\$ 153	\$(372)	) \$ 153	

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## BALANCE SHEET

	September 30, 2015				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$2	\$218	\$—	\$—	\$220
Restricted cash	—	2	—	—	2
Receivables, net	428	1,328	—	(475)	1,281
Inventories	350	370	—	—	720
Deferred income taxes	48	18	6	—	72
Prepayments and other	87	189	—	—	276
Total current assets	915	2,125	6	(475)	2,571
Other assets:					
Investment in affiliated companies	1,155	—	982	(2,137)	—
Notes and advances receivable from affiliates	935	12,688	4,875	(18,498)	—
Long-term receivables, net	11	3	—	—	14
Goodwill	22	40	—	—	62
Intangibles, net	10	13	—	—	23
Deferred income taxes	79	24	54	—	157
Other	36	50	11	—	97
	2,248	12,818	5,922	(20,635)	353
Plant, property, and equipment, at cost	1,281	2,158	—	—	3,439
Less — Accumulated depreciation and amortization	(855)	(1,351)	—	—	(2,206)
	426	807	—	—	1,233
Total assets	\$3,589	\$15,750	\$5,928	\$(21,110)	\$4,157
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt — non-affiliated	\$—	\$80	\$15	\$—	\$95
Short-term debt — affiliated	116	213	—	(329)	—
Trade payables	531	923	—	(90)	1,364
Accrued taxes	14	18	—	—	32
Other	141	259	15	(56)	359
Total current liabilities	802	1,493	30	(475)	1,850
Long-term debt — non-affiliated	—	30	1,216	—	1,246
Long-term debt — affiliated	1,662	12,601	4,235	(18,498)	—
Deferred income taxes	—	16	—	—	16
Postretirement benefits and other liabilities	419	107	—	—	526
Commitments and contingencies					
Total liabilities	2,883	14,247	5,481	(18,973)	3,638



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Redeemable noncontrolling interests	—	36	—	—	36
Tenneco Inc. shareholders' equity	706	1,431	447	(2,137 )	447
Noncontrolling interests	—	36	—	—	36
Total equity	706	1,467	447	(2,137 )	483
Total liabilities, redeemable noncontrolling interests and equity	\$3,589	\$ 15,750	\$5,928	\$(21,110 )	\$4,157

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## BALANCE SHEET

	December 31, 2014				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 10	\$ 272	\$—	\$—	\$ 282
Restricted cash	—	3	—	—	3
Receivables, net	408	1,309	—	(629 )	1,088
Inventories	312	376	—	—	688
Deferred income taxes	49	25	7	—	81
Prepayments and other	96	188	—	—	284
Total current assets	875	2,173	7	(629 )	2,426
Other assets:					
Investment in affiliated companies	1,064	—	764	(1,828 )	—
Notes and advances receivable from affiliates	944	10,589	4,844	(16,377 )	—
Long-term receivables, net	12	—	—	—	12
Goodwill	22	43	—	—	65
Intangibles, net	10	16	—	—	26
Deferred income taxes	76	14	53	—	143
Other	40	53	13	—	106
	2,168	10,715	5,674	(18,205 )	352
Plant, property, and equipment, at cost	1,236	2,254	—	—	3,490
Less — Accumulated depreciation and amortization	(845 )	(1,427 )	—	—	(2,272 )
	391	827	—	—	1,218
Total assets	\$ 3,434	\$ 13,715	\$ 5,681	\$(18,834 )	\$ 3,996
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt — non-affiliated	\$—	\$ 54	\$ 6	\$—	\$ 60
Short-term debt — affiliated	243	220	9	(472 )	—
Trade payables	478	1,000	—	(106 )	1,372
Accrued taxes	(15 )	31	24	—	40
Other	134	241	3	(51 )	327
Total current liabilities	840	1,546	42	(629 )	1,799
Long-term debt — non-affiliated	—	44	1,011	—	1,055
Long-term debt — affiliated	1,730	10,516	4,131	(16,377 )	—
Deferred income taxes	—	18	—	—	18
Postretirement benefits and other liabilities	418	129	—	4	551
Commitments and contingencies					
Total liabilities	2,988	12,253	5,184	(17,002 )	3,423

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Redeemable noncontrolling interests	—	35	—	—	35
Tenneco Inc. shareholders' equity	446	1,386	497	(1,832	) 497
Noncontrolling interests	—	41	—	—	41
Total equity	446	1,427	497	(1,832	) 538
Total liabilities, redeemable noncontrolling interests and equity	\$3,434	\$ 13,715	\$5,681	\$(18,834	) \$3,996

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

	Three Months Ended September 30, 2015					
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated	
	(Millions)					
<b>Operating Activities</b>						
Net cash provided (used) by operating activities	\$17	\$ 114	\$4	\$(29	) \$106	
<b>Investing Activities</b>						
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	)
<b>Financing Activities</b>						
Tax impact 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 receivables	—	—	(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.



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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

	Three Months Ended September 30, 2014				Consolidated
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	
	(Millions)				
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$86	\$42	\$(13)	) \$—	\$115
<b>Investing Activities</b>					
Proceeds from sale of assets	—	1	—	—	1
Cash payments for plant, property, and equipment	(31)	) (64)	) —	—	(95)
Cash payments for software related intangible assets	(2)	) (1)	) —	—	(3)
Net cash used by investing activities	(33)	) (64)	) —	—	(97)
<b>Financing Activities</b>					
Tax impact from stock-based compensation	—	—	1	—	1
Retirement of long-term debt	—	—	(6)	) —	(6)
Net decrease in bank overdrafts	—	(4)	) —	—	(4)
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	—	22	(42)	) —	(20)
Net increase in short-term borrowings secured by accounts receivable	—	—	30	—	30
Intercompany dividend payments and net increase (decrease) in intercompany obligations	(53)	) 23	30	—	—
Net cash provided (used) by financing activities	(53)	) 41	13	—	1
Effect of foreign exchange rate changes on cash and cash equivalents	—	(4)	) —	—	(4)
Increase in cash and cash equivalents	—	15	—	—	15
Cash and cash equivalents, July 1	—	260	—	—	260
Cash and cash equivalents, September 30 (Note)	\$—	\$275	\$—	\$—	\$275

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

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2015					
	Guarantor Subsidiaries	Nonguarantor 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 impact 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.



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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

## STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2014				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ (70 )	\$ 212	\$ (27 )	\$ (26 )	\$ 89
<b>Investing Activities</b>					
Proceeds from sale of assets	—	1	—	—	1
Cash payments for plant, property, and equipment	(78 )	(184 )	—	—	(262 )
Cash payments for software related intangible assets	(8 )	(4 )	—	—	(12 )
Net cash used by investing activities	(86 )	(187 )	—	—	(273 )
<b>Financing Activities</b>					
Repurchase of common shares	—	—	(1 )	—	(1 )
Tax impact from stock-based compensation	—	—	18	—	18
Retirement of long-term debt	—	—	(16 )	—	(16 )
Issuance of long-term debt	—	45	—	—	45
Net decrease in bank overdrafts	—	(5 )	—	—	(5 )
Net increase in revolver borrowings and short-term debt excluding current maturities of long-term debt	—	29	118	—	147
Net increase in short-term borrowings secured by accounts receivables	—	—	20	—	20
Intercompany dividend payments and net increase (decrease) in intercompany obligations	150	(64 )	(112 )	26	—
Capital contribution from noncontrolling interest partners	—	5	—	—	5
Distributions to noncontrolling interest partners	—	(23 )	—	—	(23 )
Net cash provided (used) by financing activities	150	(13 )	27	26	190
Effect of foreign exchange rate changes on cash and cash equivalents	—	(6 )	—	—	(6 )
Increase (decrease) in cash and cash equivalents	(6 )	6	—	—	—
Cash and cash equivalents, January 1	6	269	—	—	275
Cash and cash equivalents, September 30 (Note)	\$ —	\$ 275	\$ —	\$ —	\$ 275

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



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## 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<sup>®</sup>, Rancho<sup>®</sup>, Clevite<sup>®</sup> Elastomers, Axios<sup>™</sup>, Kinetic<sup>®</sup> and Fric-Rot<sup>™</sup> ride performance products and Walker<sup>®</sup>, XNOx<sup>®</sup>, Fonos<sup>™</sup>, DynoMax<sup>®</sup>, and Thrush<sup>®</sup> clean air products. We serve more than 70 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 2014. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. As of December 31, 2014, we operated 90 manufacturing facilities worldwide and employed approximately 29,000 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 2015, light vehicle production was up five percent in both North America and Europe and six percent in India compared to the third quarter of 2014. Light vehicle production was down 21 percent in South America, five percent in China and two percent in Australia in the third quarter of 2015 when compared to the third quarter of 2014.

Total revenues for the third quarter of 2015 were \$2,025 million, down from \$2,081 million in the third quarter of 2014. Excluding the impact of currency and substrate sales, revenue was up \$77 million, or 5 percent, from \$1,602 million to \$1,679 million, driven primarily by stronger OE light vehicle volumes in North America and Europe, increased aftermarket sales in North America, Europe and South America, as well as new platforms in Europe OE Ride Performance, China and Japan. These factors were partially offset by lower OE light vehicle volumes in China and lower commercial truck, off-highway and other revenues in North America Ride Performance and Europe and South America Clean Air and Ride Performance.

Cost of sales (exclusive of depreciation and amortization): Cost of sales for the third quarter of 2015 was \$1,707 million, or 84.3 percent of sales, compared to \$1,735 million, or 83.4 percent of sales in the third quarter of 2014. The following table lists the primary drivers behind the change in cost of sales (\$ millions).

Quarter ended September 30, 2014	\$1,735
Volume and mix	113
Material	(31 )
Currency exchange rates	(120 )
Restructuring	14
Other Costs	(4 )
Quarter ended September 30, 2015	\$1,707

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

Gross margin: Revenue less cost of sales for the third quarter of 2015 was \$318 million, or 15.7 percent, versus \$346 million, or 16.6 percent, in the third quarter of 2014. The effect on gross margin resulting from year-over-year increase in volume, lower net material costs and lower other costs, mainly manufacturing, was more than offset by unfavorable currency and higher restructuring and related expenses.

Engineering, research and development: Engineering, research and development expense was \$35 million and \$42 million in the third quarters of 2015 and 2014, respectively.

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Selling, general and administrative (SG&A): SG&A expense was up \$5 million in the third quarter of 2015 at \$113 million compared to \$108 million in the third quarter of 2014 mainly due to higher compensation related accruals partially offset by currency.

Depreciation and amortization: Depreciation and amortization expense was \$53 million in the third quarter of 2015, compared to \$52 million in the third quarter of 2014.

Earnings before interest expense, taxes and noncontrolling interests (“EBIT”) was \$116 million for the third quarter of 2015, a decrease of \$24 million when compared to \$140 million in the third quarter of the prior year. Higher OE light vehicle volumes in North America and Europe, increased aftermarket sales in North America, Europe and South America, as well as new platforms in Europe OE Ride Performance, China and Japan, the benefit of our product cost leadership initiatives, and savings from previous restructuring activities were more than offset by lower OE light vehicle volumes in China and lower commercial truck, off-highway and other revenues in North America Ride Performance, Europe and South America, unfavorable mix, higher restructuring costs and negative currency. 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 first nine months of 2015 were \$6,178 million, down from \$6,416 million in the first nine months of 2014. Excluding the impact of currency and substrate sales, revenue was up \$198 million, or 4 percent, from \$4,938 million to \$5,136 million, driven primarily by stronger OE light vehicle volumes in North America Clean Air, Europe, South America and India and China Ride Performance, increased aftermarket sales in North America and South America, higher OE commercial truck, off-highway and other revenue in North America as well as new platforms in Europe OE Ride Performance, China and Japan, partially offset by lower OE light vehicle revenues in North America Ride Performance and China Clean Air and lower commercial truck and off-highway revenues in South America and China.

Cost of sales (exclusive of depreciation and amortization): Cost of sales for the first nine months of 2015 was \$5,157 million, or 83.5 percent of sales, compared to \$5,340 million, or 83.2 percent of sales in the first nine months of 2014. The following table lists the primary drivers behind the change in cost of sales (\$ millions).

Nine months ended September 30, 2014	\$5,340
Volume and mix	294
Material	(83 )
Currency exchange rates	(400 )
Restructuring	4
Other Costs	2
Nine months ended September 30, 2015	\$5,157

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

Gross margin: Revenue less cost of sales for the first nine months of 2015 was \$1,021 million, or 16.5 percent, versus \$1,076 million, or 16.8 percent, in the first nine months of 2014. The effect on gross margin resulting from year-over-year increase in volume and lower net material costs was more than offset by unfavorable currency, higher restructuring and related expenses and higher other costs, mainly manufacturing.

Engineering, research and development: Engineering, research and development expense was \$114 million and \$126 million in the first nine months of 2015 and 2014, respectively, mainly due to currency impact.

Selling, general and administrative (SG&A): SG&A expense was down \$20 million in the first nine months of 2015 at \$359 million compared to \$379 million in the first nine months of 2014 mainly due to currency impact.

Depreciation and amortization: Depreciation and amortization expense was \$154 million in the first nine months of 2015, compared to \$155 million in the first nine months of 2014.

EBIT was \$391 million for the first nine months of 2015, a decrease of \$18 million when compared to \$409 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 Ride Performance, increased aftermarket sales in North America and South America, higher OE commercial truck, off-highway and other revenue in North America as well as new platforms in Europe OE

Ride Performance, China and Japan, the benefit of our product cost leadership initiatives and savings from previous restructuring activities were partially offset by lower OE light vehicle revenues in North America Ride Performance and China Clean Air and lower commercial truck and off-highway volumes in South America and China, unfavorable mix, higher restructuring costs and 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. EBIT for the first nine months of 2014 also included a \$7 million adjustment to workers' compensation reserves.

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## Results from Operations

The tables below reflect our revenues for the three months and nine months periods ended September 30, 2015 and 2014. 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 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 2014 table since this is the base period for measuring the effects of currency during 2015 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, 2015 and 2014

	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	(56)	) 343
Asia Pacific	235	58	177	(9)	) 186
Total Clean Air Division	1,408	475	933	(65)	) 998
Ride Performance Division					
North America	330	—	330	(10)	) 340
Europe, South America & India	236	—	236	(49)	) 285
Asia Pacific	51	—	51	(5)	) 56
Total Ride Performance Division	617	—	617	(64)	) 681
Total Tenneco Inc.	\$2,025	\$475	\$1,550	\$(129)	) \$1,679

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	Three Months Ended September 30, 2014				
	Revenues	Substrate Sales	Value-add Revenues	Currency Impact on Value-add Revenues	Value-add Revenues excluding Currency
	(Millions)				
Clean Air Division					
North America	\$700	\$261	\$439	\$—	\$439
Europe, South America & India	484	164	320	—	320
Asia Pacific	247	54	193	—	193
Total Clean Air Division	1,431	479	952	—	952
Ride Performance Division					
North America	342	—	342	—	342
Europe, South America & India	252	—	252	—	252
Asia Pacific	56	—	56	—	56
Total Ride Performance Division	650	—	650	—	650
Total Tenneco Inc.	\$2,081	\$479	\$1,602	\$—	\$1,602

Three Months Ended September 30, 2015  
Versus Three Months Ended September 30, 2014  
Dollar and Percent Increase (Decrease)

	Revenues		Value-add Revenues excluding Currency	
	Percent	Percent	Percent	Percent
	(Millions Except Percent Amounts)			
Clean Air Division				
North America	\$20	3	% \$30	7
Europe, South America & India	(31	) (6	)% 23	7
Asia Pacific	(12	) (5	)% (7	) (4
Total Clean Air Division	(23	) (2	)% 46	5
Ride Performance Division				
North America	(12	) (4	)% (2	) (1
Europe, South America & India	(16	) (6	)% 33	13
Asia Pacific	(5	) (9	)% —	—
Total Ride Performance Division	(33	) (5	)% 31	5
Total Tenneco Inc.	\$(56	) (3	)% \$77	5

Light Vehicle Industry Production by Region for Three Months Ended September 30, 2015 and 2014 (According to IHS Automotive, October 2015)

	Three Months Ended September 30,				
	2015	2014	Increase (Decrease)	% Increase (Decrease)	
	(Number of Vehicles in Thousands)				
North America	4,370	4,177	193	5	%
Europe	4,772	4,567	205	5	%
South America	779	987	(208	) (21	)%
India	991	934	57	6	%
Total Europe, South America & India	6,542	6,488	54	1	%
China	4,960	5,220	(260	) (5	)%



Australia 47 48 (1 ) (2 )%

Clean Air revenue was down \$23 million in the third quarter of 2015 compared to the third quarter of 2014 with higher volumes in all regions. In North America, higher volumes drove a \$31 million revenue increase due to increased OE light vehicle and aftermarket sales. Currency had no impact on North American revenues. In the European, South American and

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Indian region, higher volumes drove a \$55 million increase in revenues mainly due to increased OE light vehicle sales in Europe, which was partially offset by lower commercial truck and off-highway vehicle revenues in Europe and South America as well as lower OE light vehicle volumes in South America. Currency had an \$84 million unfavorable impact on European, South American and Indian revenues. In Asia Pacific, higher volumes of \$5 million were driven by new programs in China and Japan and higher volumes in light vehicle in Thailand, which was more than offset by lower light vehicle production and lower commercial truck revenues in China. Currency had a \$12 million unfavorable impact on Asia Pacific revenues.

Ride Performance revenue was down \$33 million in the third quarter of 2015 compared to the third quarter of 2014. In North America, lower volumes of \$2 million were driven by lower commercial truck and off-highway vehicle revenues, which was partially offset by higher aftermarket and light vehicle sales. Currency had a \$10 million unfavorable impact on North American revenues. In the European, South American and Indian region, higher volumes of \$33 million were driven by increases in light vehicle and aftermarket revenues across the region as well as new platforms in Europe, which was partially offset by lower commercial truck and off-highway vehicle revenues in Europe and South America. Currency had a \$49 million unfavorable impact on European, South American and Indian revenues. In Asia Pacific, higher aftermarket sales in China and Thailand were offset by lower light vehicle volumes in Thailand and lower aftermarket sales in Australia. Currency had a \$5 million unfavorable impact on Asia Pacific revenues.

## Net Sales and Operating Revenues for the Nine Months Ended September 30, 2015 and 2014

	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	\$(3)	\$1,393
Europe, South America & India	1,381	500	881	(188)	1,069
Asia Pacific	743	174	569	(17)	586
Total Clean Air Division	4,274	1,434	2,840	(208)	3,048
Ride Performance Division					
North America	1,021	—	1,021	(22)	1,043
Europe, South America & India	718	—	718	(152)	870
Asia Pacific	165	—	165	(10)	175
Total Ride Performance Division	1,904	—	1,904	(184)	2,088
Total Tenneco Inc.	\$6,178	\$1,434	\$4,744	\$(392)	\$5,136
	Nine Months Ended September 30, 2014				
	Revenues	Substrate Sales	Value-add Revenues	Currency Impact on Value-add Revenues	Value-add Revenues excluding Currency
	(Millions)				
Clean Air Division					
North America	\$2,153	\$810	\$1,343	\$—	\$1,343
Europe, South America & India	1,513	510	1,003	—	1,003
Asia Pacific	750	158	592	—	592
Total Clean Air Division	4,416	1,478	2,938	—	2,938
Ride Performance Division					
North America	1,041	—	1,041	—	1,041
Europe, South America & India	795	—	795	—	795

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Asia Pacific	164	—	164	—	164
Total Ride Performance Division	2,000	—	2,000	—	2,000
Total Tenneco Inc.	\$6,416	\$1,478	\$4,938	\$—	\$4,938

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Nine Months Ended September 30, 2015  
Versus Nine Months Ended September 30, 2014  
Dollar and Percent Increase (Decrease)

	Revenues	Percent	Value-add		Percent
			Revenues excluding Currency	Percent	
(Millions Except Percent Amounts)					
Clean Air Division					
North America	\$(3	) —	% \$50	4	%
Europe, South America & India	(132	) (9	)% 66	7	%
Asia Pacific	(7	) (1	)% (6	) (1	)%
Total Clean Air Division	(142	) (3	)% 110	4	%
Ride Performance Division					
North America	(20	) (2	)% 2	—	%
Europe, South America & India	(77	) (10	)% 75	9	%
Asia Pacific	1	1	% 11	7	%
Total Ride Performance Division	(96	) (5	)% 88	4	%
Total Tenneco Inc.	\$(238	) (4	)% \$198	4	%

Light Vehicle Industry Production by Region for Nine Months Ended September 30, 2015 and 2014 (According to IHS Automotive, October 2015)

	Nine Months Ended September 30,			
	2015	2014	Increase (Decrease)	% Increase (Decrease)
(Number of Vehicles in Thousands)				
North America	13,171	12,793	378	3 %
Europe	15,687	15,156	531	4 %
South America	2,369	2,876	(507)	(18) %
India	2,883	2,719	164	6 %
Total Europe, South America & India	20,939	20,751	188	1 %
China	16,693	16,377	316	2 %
Australia	128	135	(7)	(5) %

Clean Air revenue was down \$142 million in the first nine months of 2015 compared to the first nine months of 2014. In North America, higher aftermarket volumes were partially offset by unfavorable mix and lower light vehicle and commercial truck and off-highway vehicle volumes, which accounted for \$26 million of the year-over-year increase in revenues. Currency had a \$3 million unfavorable impact on North American revenues. In the European, South American and Indian region, higher volumes drove a \$165 million increase in revenues due to higher light vehicle volumes across the region, partially offset by lower year-over-year commercial truck and off-highway vehicle and aftermarket revenues in the region. Currency had a \$287 million unfavorable impact on European, South American and Indian revenues. The increase in Asia Pacific revenues was primarily driven by higher volumes of \$26 million, mostly due to higher light vehicle production in China and new programs in China and Japan, partially offset by lower commercial truck vehicle volumes in China. Currency had a \$22 million unfavorable impact on Asia Pacific revenues. Ride Performance revenue was down \$96 million in the first nine months of 2015 compared to the first nine months of 2014. In North America, higher volumes of \$4 million driven by higher aftermarket sales were partially offset by lower volumes in light vehicle. Currency had a \$22 million unfavorable impact on North American revenues. In the European, South American and Indian region, higher volumes of \$74 million were driven by light vehicle and aftermarket increases in the region, higher commercial truck and off-highway vehicle revenues and new platforms in Europe. Currency had a \$152 million unfavorable impact on European, South American and Indian revenues. In the

Asia Pacific region, higher volumes of \$12 million, mostly due to higher light vehicle production volumes in China, were partially offset by lower volumes in Australia. Currency had a \$10 million unfavorable impact on Asia Pacific revenues.

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Earnings before Interest Expense, Income Taxes and Noncontrolling Interests (“EBIT”) for the Three Months Ended September 30, 2015 and 2014

	Three Months Ended September		Change	
	30, 2015 (Millions)	2014		
Clean Air Division				
North America	\$58	\$56	\$2	
Europe, South America & India	14	14	—	
Asia Pacific	31	27	4	
Total Clean Air Division	103	97	6	
Ride Performance Division				
North America	39	38	1	
Europe, South America & India	(21	) 9	(30	)
Asia Pacific	9	10	(1	)
Total Ride Performance Division	27	57	(30	)
Other	(14	) (14	) —	
Total Tenneco Inc.	\$116	\$140	\$(24	)

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, 2015 (Millions)	2014
Clean Air Division		
Europe, South America & India		
Restructuring and related expenses	\$2	\$—
Bad debt charge (1)	—	4
Asia Pacific		
Restructuring and related expenses	2	1
Total Clean Air Division	\$4	\$5
Ride Performance Division		
North America		
Restructuring and related expenses	1	3
Europe, South America & India		
Restructuring and related expenses	29	4
Asia Pacific		
Restructuring and related expenses	1	—
Total Ride Performance Division	\$31	\$7

(1) Charge related to the bankruptcy of an aftermarket customer in Europe.

EBIT for the Clean Air division was \$103 million in the third quarter of 2015 compared to \$97 million in the third quarter a year ago. EBIT for North America increased \$2 million to \$58 million in the third quarter of 2015 versus the third quarter of 2014. The benefit from higher aftermarket and light vehicle sales was partially offset by lower commercial truck and off-highway vehicle volumes, unfavorable mix and negative currency. Europe, South America and India's EBIT was \$14 million in each of the third quarters of 2015 and 2014. The benefit from higher light vehicle volumes in Europe, year-over-year restructuring savings and a charge related to the bankruptcy of an European aftermarket customer in prior year was offset by lower light vehicle volumes in South America, lower commercial truck and off-highway vehicle volumes in the region and negative currency. EBIT for Asia Pacific increased \$4 million to \$31 million in the third quarter of 2015 from \$27 million in the third quarter of 2014. EBIT benefited from

new platforms in China and Japan, strong operational cost management and savings from prior restructuring activities, partially offset by lower light vehicle volumes and lower commercial truck revenue in China, higher restructuring and related expenses and negative currency. For the Clean Air division, restructuring and related expenses of \$4 million were included in EBIT for the third quarter of 2015 and \$1 million for the same period in 2014. EBIT for Clean

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Air division also benefited from the timing of a customer recovery in China of \$5 million in the third quarter of 2015. EBIT for the Clean Air division included a charge of \$4 million related to the bankruptcy of an aftermarket customer in Europe in the third quarter of 2014. Currency had a \$7 million unfavorable impact on EBIT of the Clean Air division for 2015 when compared to last year.

EBIT for the Ride Performance division was \$27 million in the third quarter of 2015 compared to \$57 million in the third quarter a year ago. EBIT for North America increased \$1 million in the third quarter of 2015 to \$39 million from \$38 million in the third quarter of 2014. The benefits of increased light vehicle and aftermarket volumes, lower restructuring and related expenses and improved operational cost management were partially offset by lower commercial truck and off-highway vehicle volumes and negative currency. Europe, South America and India's EBIT was negative \$21 million in the third quarter of 2015 and \$9 million in the third quarter of 2014. The benefit from higher light vehicle and aftermarket volumes in the region, new platforms in Europe and savings from prior restructuring activities were more than offset by lower commercial truck and off-highway vehicle volumes in Europe and South America, unfavorable mix, higher restructuring and related expenses and negative currency. EBIT for Asia Pacific was \$9 million in the third quarter of 2015 and \$10 million in the third quarter of 2014. EBIT benefited from higher aftermarket volumes in China and Thailand and operational cost management, which was more than offset by lower aftermarket volumes in Australia, lower light vehicle volumes in Thailand, higher restructuring and related expenses and unfavorable currency. For the Ride Performance division, restructuring and related expenses of \$31 million were included in EBIT for the third quarter of 2015 and \$7 million for the same period in 2014. Currency had a \$17 million unfavorable impact on EBIT of the Ride Performance division for the third quarter of 2015 when compared to last year.

Currency had a \$24 million unfavorable impact on overall company EBIT for the third quarter of 2015 as compared to the prior year's third quarter.

EBIT as a Percentage of Revenue for the Three Months Ended September 30, 2015 and 2014

	Three Months Ended September 30,		
	2015	2014	
Clean Air Division			
North America	8	% 8	%
Europe, South America & India	3	% 3	%
Asia Pacific	13	% 11	%
Total Clean Air Division	7	% 7	%
Ride Performance Division			
North America	12	% 11	%
Europe, South America & India	(9)	)% 4	%
Asia Pacific	18	% 18	%
Total Ride Performance Division	4	% 9	%
Total Tenneco Inc.	6	% 7	%

In the Clean Air division, EBIT as a percentage of revenues for the third quarter of 2015 was even compared to last year's third quarter. In North America, EBIT as a percentage of revenues for the third quarter of 2015 was even compared to last year's third quarter. The benefit from higher aftermarket and light vehicle sales was offset by lower commercial truck and off-highway vehicle volumes, unfavorable mix and negative currency. Europe, South America and India's EBIT as a percentage of revenues for the third quarter of 2015 was even compared to the prior year's third quarter. The benefit from higher light vehicle volumes in Europe, year-over-year restructuring savings and a charge related to the bankruptcy of an European aftermarket customer in prior year was offset by lower light vehicle volumes in South America, lower commercial truck and off-highway vehicle volumes in the region and negative currency. EBIT as a percentage of revenues for Asia Pacific in the third quarter of 2015 was up two percentage points compared to the third quarter of 2014. The benefit from new platforms in China and Japan, strong operational cost management, savings from prior restructuring activities and the timing of a customer recovery in China was partially offset by lower



light vehicle volumes and lower commercial truck revenue in China, higher restructuring and related expenses and negative currency.

In the Ride Performance division, EBIT as a percentage of revenues was down five percentage points compared to the prior year's third quarter. In the third quarter of 2015, EBIT as a percentage of revenues for North America was up one percentage point compared to the third quarter of 2014. The benefits of increased light vehicle and aftermarket volumes, lower restructuring and related expenses and improved operational cost management were partially offset by lower commercial truck and off-highway vehicle volumes and negative currency. EBIT as a percentage of revenues in Europe, South America and India

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was down 13 percentage points compared to the prior year's third quarter. The benefit from higher light vehicle and aftermarket volumes in the region, new platforms in Europe and savings from prior restructuring activities was more than offset by lower commercial truck and off-highway vehicle volumes in Europe and South America, unfavorable mix, higher restructuring and related expenses and negative currency. In Asia Pacific, EBIT as a percentage of revenues for the third quarter of 2015 was even compared to last year's third quarter. The benefit from higher aftermarket volumes in China and Thailand and operational cost management was offset by lower aftermarket volumes in Australia, lower light vehicle volumes in Thailand, higher restructuring and related expenses and unfavorable currency.

## EBIT for the Nine Months Ended September 30, 2015 and 2014

	Nine Months Ended September		Change
	30,	2014	
	2015		
	(Millions)		
Clean Air Division			
North America	\$179	\$186	\$(7 )
Europe, South America & India	36	41	(5 )
Asia Pacific	86	70	16
Total Clean Air Division	301	297	4
Ride Performance Division			
North America	125	116	9
Europe, South America & India	(1 )	39	(40 )
Asia Pacific	27	25	2
Total Ride Performance Division	151	180	(29 )
Other	(61 )	(68 )	\$7 )
Total Tenneco Inc.	\$391	\$409	\$(18 )

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,	2014
	2015	
	(Millions)	
Clean Air Division		
Europe, South America & India		
Restructuring and related expenses	\$4	\$9
Bad debt charge (1)	—	4
Asia Pacific		
Restructuring and related expenses	3	5
Total Clean Air Division	\$7	\$18
Ride Performance Division		
North America		
Restructuring and related expenses	2	3
Europe, South America & India		
Restructuring and related expenses	36	10
Asia Pacific		
Restructuring and related expenses	2	1
Total Ride Performance Division	\$40	\$14

(1) Charge related to the bankruptcy of an aftermarket customer in Europe.

EBIT for the Clean Air division was \$301 million in the first nine months of 2015 compared to \$297 million in the first nine months of 2014. EBIT for North America decreased \$7 million to \$179 million in the first nine months of 2015 versus the first nine months of 2014. The benefit from higher aftermarket sales and operational cost management was more than offset by

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lower volumes in commercial truck and off-highway vehicle and light vehicle, unfavorable mix and negative currency. Europe, South America and India's EBIT was \$36 million in the first nine months of 2015 and \$41 million in the first nine months of 2014. The benefit from higher volumes in light vehicle in the region, lower restructuring and related expenses, year-over-year restructuring savings and a charge related to the bankruptcy of an European aftermarket customer in prior year was more than offset by lower aftermarket volumes in Europe, lower commercial truck and off-highway vehicle volumes in South America, unfavorable mix, higher SG&A and engineering expenses and negative currency. EBIT for Asia Pacific increased \$16 million to \$86 million in the first nine months of 2015 from \$70 million in the first nine months of 2014. EBIT benefited from higher light vehicle volumes in China, new platforms in China and Japan, strong operational cost management, positive currency, lower restructuring and related expenses and year-over-year savings from prior restructuring activities, partially offset by lower commercial truck revenue in China. For the Clean Air division, restructuring and related expenses of \$7 million were included in EBIT for the first nine months of 2015 and \$14 million for the same period in 2014. 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. EBIT for Clean Air division included a charge of \$4 million related to the bankruptcy of an aftermarket customer in Europe in the first nine months of 2014. Currency had a \$12 million unfavorable impact on EBIT of the Clean Air division for 2015 when compared to last year.

EBIT for the Ride Performance division was \$151 million in the first nine months of 2015 compared to \$180 million in the first nine months of 2014. EBIT for North America increased \$9 million in the first nine months of 2015 to \$125 million from \$116 million in the first nine months of 2014. The benefit from increased aftermarket volumes, lower restructuring and related expenses and improved operational cost management was partially offset by lower light vehicle volumes and negative currency. Europe, South America and India's EBIT was negative \$1 million in the first nine months of 2015 and \$39 million in the first nine months of 2014. The benefit from higher light vehicle volumes in the region, new platforms in Europe and savings from prior restructuring activities was more than offset by higher restructuring and related expenses, unfavorable mix and negative currency. EBIT for Asia Pacific increased \$2 million to \$27 million in the first nine months of 2015 from \$25 million in the first nine months of 2014. EBIT benefited from higher light vehicle production volumes in China and operational cost management, partially offset by lower volumes in Australia, higher restructuring and related expenses and unfavorable currency. For the Ride Performance division, restructuring and related expenses of \$40 million were included in EBIT for the first nine months of 2015 and \$14 million for the same period in 2014. Currency had a \$37 million unfavorable impact on EBIT of the Ride Performance division for 2015 when compared to last year. EBIT for the Ride Performance division also included a \$7 million expense to adjust workers' compensation reserves in the first nine months of 2014.

Currency had a \$49 million unfavorable impact on overall company EBIT for the first nine months of 2015 as compared to the first nine months of 2014.

EBIT as a Percentage of Revenue for the Nine Months Ended September 30, 2015 and 2014

	Nine Months Ended September 30,		
	2015	2014	
Clean Air Division			
North America	8	% 9	%
Europe, South America & India	3	% 3	%
Asia Pacific	12	% 9	%
Total Clean Air Division	7	% 7	%
Ride Performance Division			
North America	12	% 11	%
Europe, South America & India	—	% 5	%
Asia Pacific	16	% 15	%
Total Ride Performance Division	8	% 9	%
Total Tenneco Inc.	6	% 6	%

In the Clean Air division, EBIT as a percentage of revenues for the first nine months of 2015 was even compared to the first nine months of 2014. In North America, EBIT as a percentage of revenues for the first nine months of 2015 was down one percentage point compared to the first nine months of 2014. The benefit from higher aftermarket sales and operational cost management was more than offset by lower volumes in commercial truck and off-highway vehicle and light vehicle, unfavorable mix and negative currency. Europe, South America and India's EBIT as a percentage of revenues for the first nine months of 2015 was even compared to the first nine months of prior year. The benefit from higher light vehicle volumes in the

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region, lower restructuring and related expenses, year-over-year restructuring savings and a charge related to the bankruptcy of an European aftermarket customer in prior year was offset by lower aftermarket volumes in Europe, lower commercial truck and off-highway vehicle volumes in South America, unfavorable mix, higher SG&A and engineering expenses and negative currency. EBIT as a percentage of revenues for Asia Pacific in the first nine months of 2015 was up three percentage points compared to the first nine months of 2014. The benefit from higher light vehicle volumes in China, new platforms in China and Japan, strong operational cost management, positive currency, lower restructuring and related expenses, year-over-year savings from prior restructuring activities and the timing of a customer recovery in China was partially offset by lower commercial truck revenue in China.

In the Ride Performance division, EBIT as a percentage of revenues was down one percentage point compared to the first nine months of prior year. In the first nine months of 2015, EBIT as a percentage of revenues for North America was up one percentage point compared to the first nine months of 2014. The benefit from increased aftermarket volumes, lower restructuring and related expenses and improved operational cost management was partially offset by lower light vehicle volumes and negative currency. EBIT as a percentage of revenues in Europe, South America and India was down five percentage points compared to the first nine months of prior year. The benefit from higher light vehicle volumes in the region, new platforms in Europe and savings from prior restructuring activities was more than offset by higher restructuring and related expenses, unfavorable mix and negative currency. In Asia Pacific, EBIT as a percentage of revenues for the first nine months of 2015 was up one percentage point from the first nine months of 2014. The benefit from higher light vehicle production volumes in China and operational cost management was partially offset by lower volumes in Australia, higher restructuring and related expenses and unfavorable currency.

**Interest Expense, Net of Interest Capitalized**

We reported interest expense in the third quarter of 2015 of \$16 million (substantially all in our U.S. operations) net of interest capitalized of \$2 million, and \$20 million (substantially all in our U.S. operations) net of interest capitalized of \$1 million in the third quarter of 2014. The decrease was due to lower interest rates from the refinancing completed in December 2014 where we extended maturities, increased size of our senior secured credit facility and reduced the rates on both the credit facility and a senior unsecured note.

We reported interest expense in the first nine months of 2015 of \$49 million (substantially all in our U.S. operations) net of interest capitalized of \$5 million, and \$58 million (substantially all in our U.S. operations) net of interest capitalized of \$3 million in the first nine months of 2014. The decrease was due to the refinancing completed in December 2014.

On September 30, 2015, we had \$758 million in long-term debt obligations that have fixed interest rates. Of that amount, \$500 million is fixed through December 2020, \$225 million is fixed through December 2024 and the remainder is fixed from 2015 through 2025. We also have \$504 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 expense of \$34 million and \$31 million in the three month periods ended September 30, 2015 and 2014, respectively. 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. The tax expense recorded in the third quarter of 2014 included a net tax benefit of \$10 million for tax adjustments to prior year income tax estimates.

We reported income tax expense of \$122 million and \$117 million in the nine month periods ended September 30, 2015 and 2014, respectively. 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. The tax expense recorded in the first nine months of 2014 included a net tax benefit of \$9 million tax adjustments to prior year income tax estimates.

We believe it is reasonably possible that up to \$6 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 2014, we incurred \$49 million in restructuring and related costs including non-cash charges of \$5 million, primarily related to European cost reduction efforts, headcount reductions in Australia and South America, the sale of a closed facility in Cozad, Nebraska and costs related to organizational changes, of which \$28 million was recorded in cost of sales, \$9 million in SG&A, \$7 million in engineering expense, \$4 million in other expense and \$1 million in depreciation and amortization expense. In the third quarter of 2015, we incurred \$35 million in restructuring and related costs including asset

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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 third quarter of 2014, we incurred \$8 million in restructuring and related costs including non-cash charges of \$2 million, primarily related to European cost reduction efforts, headcount reductions in Australia and the sale of a closed facility in Cozad, Nebraska, of which \$5 million was recorded in cost of sales and \$3 million in other 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. In the first nine months of 2014, we incurred \$28 million in restructuring and related costs including non-cash charges of \$3 million, primarily related to European cost reduction efforts, headcount reductions in Australia and South America and the sale of a closed facility in Cozad, Nebraska, of which \$20 million was recorded in cost of sales, \$3 million in SG&A, \$1 million in engineering expense and \$4 million in other expense. Amounts related to activities that are part of our restructuring reserves are as follows:

	December 31, 2014	2015	2015 Cash Payments	Impact of Exchange Rates	September 30, 2015 Restructuring Reserve
Employee Severance, Termination Benefits and Other Related Costs	\$40	38	(30)	(3)	\$45

On January 31, 2013, we announced our intent to reduce structural costs in Europe by approximately \$60 million annually. We still expect to reach our target annual savings rate in 2016, however the recent dramatic changes in exchange rates will likely have an impact on the actual savings achieved when translated from Euros into U.S. dollars. In the third quarter of 2015, we incurred \$35 million in restructuring and related costs, of which \$5 million was related to this initiative. In the first nine months of 2015, we incurred \$47 million in restructuring and related costs, of which \$12 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 2015 and 2016 due to certain ongoing matters. For example, we closed a plant in Gijon Spain 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 are currently engaged in a sales process for the facility and intend to continue operating it until a complete transfer of ownership takes place in 2016.

On July 22, 2015, we announced our intention to discontinue our Marzocchi motor bike fork suspension business and our mountain bike business, and liquidate our Marzocchi operations. These actions are subject to a consultation process with the employee representatives and in total would eliminate 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. We intend to assist our motor bike customers with the transition of current production to an alternative supplier and expect to complete the closure by the end of 2015. On October 19, 2015, we entered into an agreement to sell our mountain bike business to Fox Factory, Inc. This intended action is a part of our ongoing efforts to optimize our Ride Performance business globally while continuously improving our operations and increasing profitability. We recorded charges of \$25 million in the third quarter of 2015 related to severance and other employee related costs, asset write-downs and other expenses related to the closure. We anticipate improving financial results by approximately \$7 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, 2015, we had excluded \$38 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 \$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 and net tax adjustments. The total impact of these items decreased earnings per diluted share by \$0.34. We reported net income attributable to Tenneco Inc. of \$78 million or \$1.27 per diluted common share for the third quarter of 2014. Included in the results for the third quarter of 2014 were negative impacts from expenses related to our restructuring

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activities and a bad debt charge, which were more than offset by net tax benefits. The net impact of these items increased earnings per diluted share by \$0.02.

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 and net tax adjustments. The total impact of these items decreased earnings per diluted share by \$0.55. We reported net income attributable to Tenneco Inc. of \$205 million or \$3.33 per diluted common share for the first nine months of 2014. Included in the results for the first nine months of 2014 were negative impacts from expenses related to our restructuring activities and a bad debt charge, which were partially offset by net tax benefits. The net impact of these items decreased earnings per diluted share by \$0.28.

**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, 2015 and 2014**

	Three Months Ended September 30, 2015		2014
	(Millions)		
Cash provided (used) by:			
Operating activities	\$106		\$115
Investing activities	(75	)	(97 )
Financing activities	(36	)	1

**Operating Activities**

For the third quarter of 2015, operating activities provided \$106 million in cash compared to \$115 million in cash provided during last year's third quarter. Compared to the prior year, the lower cash from operations was primarily driven by lower net income, increased working capital requirements and higher tax payments. For the third quarter of 2015, cash used for working capital was \$34 million versus \$2 million of cash used or working capital in the third quarter of 2014. Receivables were a use of cash of \$17 million in the third quarter of 2015 compared to a source of cash of \$67 million in the prior year's third quarter. Inventory represented a cash outflow of \$19 million for the third quarter of 2015 and a cash outflow of \$21 million during the third quarter of 2014. Accounts payable provided \$7 million of cash for the quarter ended September 30, 2015, compared to \$44 million cash used for the quarter ended September 30, 2014. Cash taxes were \$44 million in the third quarter of 2015 compared to \$24 million in the prior year's third quarter.

**Investing Activities**

Cash used for investing activities was \$75 million in the third quarter of 2015 compared to cash used of \$97 million in the same period a year ago. Cash payments for plant, property and equipment were \$71 million in the third quarter of 2015 versus payments of \$95 million in the third quarter of 2014, a decrease of \$24 million. Cash payments for software-related intangible assets were \$5 million and \$3 million, respectively, for the third quarters of 2015 and 2014. There was no change in restricted cash in the third quarter of 2015 and 2014, respectively.

**Financing Activities**

Cash flow from financing activities was an outflow of \$36 million for the quarter ended September 30, 2015 compared to an inflow of \$1 million for the quarter ended September 30, 2014. During the third quarter of 2015, we repurchased 2,356,763 shares of our outstanding common stock for \$114 million at an average price of \$48.35 per share as part of a previously announced stock buyback plan of up to \$350 million. Taking into account our operating performance, we now anticipate completing the share repurchase program by the end of 2016. Additionally, on October 23, 2015, we announced that our Board of Directors has expanded our share repurchase program, authorizing the repurchase of an additional \$200 million of common stock which we anticipate completing by the end of 2017.



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## Cash Flows for the Nine Months Ended September 30, 2015 and 2014

	Nine Months Ended September 30, 2015		2014
	(Millions)		
Cash provided (used) by:			
Operating activities	\$188		\$89
Investing activities	(230	)	(273
Financing activities	11		190
Operating Activities			

For the first nine months of 2015, operating activities provided \$188 million in cash compared to \$89 million cash provided during the first nine months of last year. Compared to the prior year, the higher cash from operations was primarily driven by working capital improvements, lower interest payments and lower tax payments. For the first nine months of 2015, cash used for working capital was \$199 million versus \$277 million of cash used for working capital in the first nine months of 2014. Receivables were a use of cash of \$237 million in the first nine months of 2015 compared to a use of cash of \$236 million in the first nine months of prior year. Inventory represented a cash outflow of \$65 million for the first nine months of 2015 and a cash outflow of \$125 million during the first nine months of 2014. Accounts payable provided \$70 million of cash for the nine months ended September 30, 2015, compared to \$116 million cash provided for the nine months ended September 30, 2014. Cash taxes were \$79 million for the first nine months of 2015, net of a US tax refund of \$25 million for overpayment in 2014, compared to \$98 million in the first nine months of prior year.

**Investing Activities**

Cash used for investing activities was \$230 million in the first nine months of 2015 compared to cash used of \$273 million in the same period a year ago. Cash payments for plant, property and equipment were \$221 million in the first nine months of 2015 versus payments of \$262 million in the first nine months of 2014, a decrease of \$41 million. Cash payments for software-related intangible assets were \$13 million and \$12 million, respectively, for the first nine months of 2015 and 2014. Changes in restricted cash were a source of cash of \$1 million in the first nine months of 2015, whereas there was no change in restricted cash in the first nine months of 2014.

**Financing Activities**

Cash flow from financing activities was an inflow of \$11 million for the nine months ended September 30, 2015 compared to an inflow of \$190 million for the nine months ended September 30, 2014. During the first nine months of 2015, we repurchased 3,104,763 shares of our outstanding common stock for \$158 million at an average price of \$50.82 per share as part of a previously announced stock buyback plan of up to \$350 million. Taking into account our operating performance, we now anticipate completing the share repurchase program by the end of 2016. Additionally, on October 23, 2015, we announced that our Board of Directors has expanded our share repurchase program, authorizing the repurchase of an additional \$200 million of common stock which we anticipate completing by the end of 2017.

Borrowings under our revolving credit facility were \$214 million at September 30, 2015 and \$196 million at September 30, 2014. There was a \$30 million borrowed under the North American accounts receivable securitization programs at both September 30, 2015 and 2014. In the first nine months of 2014, we received \$4 million for selling 45 percent equity interest in Tenneco Fusheng (Chengdu) Automobile Parts Co., Ltd. to a third party partner.

**Outlook**

Based on current industry forecasts and sequential improvement in customer production schedules in China and excluding negative currency impact, we anticipate total fourth quarter revenue growth of six percent, resulting in full-year revenue growth of five percent.

We anticipate fourth quarter currency headwinds of approximately five percent.

Global light vehicle industry production is expected to decrease one percent in the regions where we operate in the fourth quarter. IHS forecasts higher production in North America (two percent), Europe (one percent) and India (six

percent), flat in China and lower production expected in South America (down 28 percent) and Australia (down five percent). We are well-positioned to significantly outperform industry production with our balance across customers and platforms.

We expect commercial truck and off-highway revenue to continue to significantly outpace the industry in the fourth quarter due to content growth, offsetting a significant portion of the ongoing industry production weakness.

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We also expect solid year-over-year sales growth from our global aftermarket business in the fourth quarter. 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. Based on our operating performance, current industry production forecasts and the anticipated requirements for capital expenditures and working capital to continue funding growth, we are accelerating our share repurchase program and expect to complete it by the end of 2016. Additionally, on October 23, 2015, we announced that our Board of Directors has expanded our share repurchase program, authorizing the repurchase of an additional \$200 million of common stock which we anticipate completing by the end of 2017.

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, 2014. Please see that disclosure for further information. Additionally, revenue assumptions for the fourth quarter are based on current and projected customer projection schedules, as well as IHS Automotive October 2015 production forecasts.

### 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 \$1,434 million and \$1,478 million for the first nine months of 2015 and 2014, 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 on OE 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 \$27 million and \$23 million at September 30, 2015 and December 31, 2014, respectively. In addition, plant, property and equipment included \$58 million and \$59 million at September 30, 2015 and December 31, 2014, respectively, for original equipment tools and dies that we

own, and prepayments and other included \$138 million and \$98 million at September 30, 2015 and December 31, 2014, 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

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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:

- 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 in the fourth quarter of 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.

In the fourth quarter of 2014, the estimated fair value of each of our reporting units exceeded the carrying value of their assets and liabilities as of the testing date.

#### 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

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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 lowered the weighted average discount rate for all our pension plans to 3.7 percent in 2015 from 4.6 percent in 2014. The discount rate for postretirement benefits was lowered to 4.1 percent in 2015 from 4.8 percent in 2014.

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 6.7 percent for 2015 from 6.9 percent for 2014.

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, 2015, all legal funding requirements have been met.

## 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, 2015 (Millions)	December 31, 2014	% Change	
Short-term debt and maturities classified as current	\$95	\$ 60	58	%
Long-term debt	1,246	1,055	18	
Total debt	1,341	1,115	20	
Total redeemable noncontrolling interests	36	35	3	
Total noncontrolling interests	36	41	(12)	)
Tenneco Inc. shareholders' equity	447	497	(10)	)
Total equity	483	538	(10)	)
Total capitalization	\$1,860	\$1,688	10	%

General. Short-term debt, which includes maturities classified as current, borrowings by foreign subsidiaries, and borrowings securitized by our North American accounts receivable securitization program, was \$95 million and \$60 million as of September 30, 2015 and December 31, 2014, respectively. Borrowings under our revolving credit facilities, which are classified as long-term debt, were \$214 million and zero at September 30, 2015 and December 31, 2014, respectively.

The 2015 year-to-date increase in Tenneco Inc. shareholders' equity primarily resulted from net income attributable to Tenneco Inc. of \$179 million, a \$9 million increase related to pension and postretirement benefits and a \$15 million increase in premium on common stock and other capital surplus relating to common stock issued pursuant to benefit plans, partially offset by a \$95 million decrease caused by the impact of changes in foreign exchange rates on the translation of financial statements of our foreign subsidiaries into U.S. dollars and a \$158 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.

In April 2015, the FASB issued Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. 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. Early adoption of the amendments in this update is permitted for financial statements that have not been previously issued. We adopted this standard for

the first quarter of 2015 and applied retrospectively. The balance for unamortized debt issuance costs was \$12 million and \$14 million at September 30, 2015 and December 31, 2014, respectively.

On December 8, 2014, we completed an amendment and restatement of our senior credit facility by increasing the amounts and extending the maturity dates of our revolving credit facility and our Tranche A Term Facility. As of September 30,

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2015, the senior credit facility provides us with a total revolving credit facility size of \$1,200 million and had a \$289 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 \$287 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 \$15 million from current liabilities as of September 30, 2015, 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, 2015, of the \$1,200 million available under the revolving credit facility, we had unused borrowing capacity of \$979 million with \$214 million in outstanding borrowings and \$7 million in outstanding letters of credit. As of September 30, 2015, our outstanding debt also included (i) \$289 million of term debt which consisted of a \$287 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 of 5<sup>3</sup>/<sub>8</sub> percent senior notes due December 15, 2024, (iii) \$500 million of notes which consisted of a \$494 million net carrying amount including a \$6 million debt issuance cost of 6<sup>7</sup>/<sub>8</sub> percent senior notes due December 15, 2020, and (iv) \$125 million of other debt.

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, beginning after we deliver financial statements for the fiscal quarter ending September 30, 2015, 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 2015, are as follows:

	Quarter Ended					
	September 30, 2015		June 30, 2015		March 31, 2015	
	Required	Actual	Required	Actual	Required	Actual
Leverage Ratio (maximum)	3.50	1.51	3.50	1.36	3.50	1.41
Interest Coverage Ratio (minimum)	2.75	13.07	2.75	12.43	2.75	11.95

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

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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):

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, 2015, 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, 2015, our outstanding senior notes also 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 6<sup>7</sup>/<sub>8</sub> percent senior notes due December 15, 2020 which consisted of \$494 million net carrying amount including a \$6 million debt issuance cost. Under the indentures governing the 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 December 15, 2019, in the case of the senior notes due 2024, and (b) on or after December 15, 2015, in the case of the senior notes due 2020. In addition, the notes may also be redeemed at a 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 due 2024, with the proceeds of certain equity offerings completed on or before December 15, 2017. If we sell certain of our assets or experience specified kinds of changes in control, we must offer to repurchase the notes due 2024 and 2020 at 101 percent of the principal amount thereof plus accrued and unpaid interest.

Our senior notes 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. The indentures also contain restrictions on our operations, including limitations on: (i) incurring additional indebtedness or liens; (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 these 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, 2015, 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 North America 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 North America, 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 North American 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. and Canada that meet certain eligibility requirements. The second priority facility

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also monetizes certain accounts receivable generated in the U.S. or Canada 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 North American program was \$30 million at September 30, 2015 and zero at December 31, 2014. 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 \$192 million and \$153 million at September 30, 2015 and December 31, 2014, respectively.

If we were not able to securitize receivables under either the North American 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 North American 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 North American 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, 2015 and 2014, and \$2 million in each of the nine month periods ended September 30, 2015 and 2014, relating to our North American securitization program. In addition, we recognized a loss of \$1 million in each of the three month periods ended September 30, 2015 and 2014, and \$3 million in each of the nine month periods ended September 30, 2015 and 2014, 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 2015 and 2014.

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. No such financial instruments were held by our European subsidiary as of September 30, 2015 or December 31, 2014.

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 \$20 million and \$24 million at September 30, 2015 and December 31, 2014, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$15 million and \$17 million at September 30, 2015 and December 31, 2014,



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 \$15 million and \$17 million in other current assets at September 30, 2015 and December 31, 2014, respectively. Some of our Chinese subsidiaries that issue their own financial instruments to pay vendors are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was required at those Chinese subsidiaries at September 30, 2015 for \$2 million and was not required at December 31, 2014.

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.

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**Supply Chain Financing.** Near the end of the second quarter of 2013 certain of our suppliers in the U.S. extended their payment terms to Tenneco. The liquidity benefit to Tenneco from the extended payment terms totaled \$20 million at September 30, 2015. These suppliers also began participating in a supply chain financing program under which they securitize their accounts receivables from Tenneco. Financial institutions participate in the supply chain financing program on an uncommitted basis and can cease purchasing receivables from Tenneco's suppliers at any time. If the financial institutions did not continue to purchase receivables from Tenneco's suppliers under this program, the participating vendors could reduce their payment terms to 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 loan 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**

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 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 aggregate existing offsetting positions and then hedge residual exposures through third-party derivative contracts. The fair value of our foreign currency forward contracts was less than \$1 million at September 30, 2015 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, 2015. All contracts in the following table mature in 2015.

		September 30, 2015 Notional Amount in Foreign Currency (Millions)
Australian dollars	—Purchase	1
British pounds	—Purchase	6
Canadian dollars	—Sell	(4 )
	—Sell	(12 )
South African rand	—Purchase	99
Japanese yen	—Purchase	456
	—Sell	(967 )
Polish zloty	—Sell	(3 )

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U.S. dollars	—Purchase	24	
	—Sell	(18	)

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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 of interest on these borrowings. Our long-term capital requirements have been financed with long-term debt with original maturity dates ranging from four to ten years. On September 30, 2015, we had \$758 million in long-term debt obligations that have fixed interest rates. Of that amount, \$500 million is fixed through December 2020, \$225 million is fixed through December 2024, and the remainder is fixed from 2015 through 2025. We also have \$504 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, 2015 was about 102 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 \$6 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 pertaining to the ongoing antitrust investigation in 2015. While the quarterly costs we incur in 2015 may be lower than those incurred in 2014, 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 \$20 million and \$19 million for the nine month periods ended September 30, 2015 and 2014, respectively. Matching contributions vest immediately. Defined benefit replacement contributions fully vest on the employee’s third anniversary of employment.

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**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, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## 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. 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, 2014.

## 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 2015. 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 intend to continue to satisfy statutory minimum 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 the Company's 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. We repurchased 3,104,763 shares through this program for the nine month period ended September 30, 2015. Based on our operating performance, current industry production forecasts and the anticipated requirements for capital expenditures and working capital to continue funding growth, we are accelerating our share repurchase program and expect to complete it by the end of 2016.

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 anticipate completing the additional \$200 million share repurchase authorization 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 (Millions)
July 2015	328,052	\$52.90	328,000	\$289
August 2015	979,011	\$49.23	978,763	241
September 2015	1,050,000	\$46.10	1,050,000	192
Total	2,357,063	\$48.35	2,356,763	\$192

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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, 2015

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INDEX TO EXHIBITS  
 TO  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR QUARTER ENDED SEPTEMBER 30, 2015

Exhibit Number	Description
*12	— Computation of Ratio of Earnings to Fixed Charges.
*15.1	— Letter of PricewaterhouseCoopers LLP regarding interim financial information.
*31.1	— Certification of Gregg M. Sherrill under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	— Certification of Kenneth R. Trammell under Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	— Certification of Gregg M. Sherrill and Kenneth R. Trammell under Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	— XBRL Instance Document.
*101.SCH	— XBRL Taxonomy Extension Schema Document.
*101.CAL	— XBRL Taxonomy Extension Calculation Linkbase Document.
*101.DEF	— XBRL Taxonomy Extension Definition Linkbase Document.
*101.LAB	— XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	— XBRL Taxonomy Extension Presentation Linkbase Document.
*	Filed herewith.