

TENNECO INC
Form 10-Q
November 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2016
OR

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

Commission file number 1-12387

TENNECO INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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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;

- the overall highly competitive nature of the automobile and commercial vehicle parts industries, and any resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing and volumes over the life of the applicable program);

- the loss of any of our large original equipment manufacturer (“OEM”) customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs or any change in customer demand due to delays in the adoption or enforcement of worldwide emissions regulations;

- our ability to successfully execute cash management and other cost reduction plans, and to realize the anticipated benefits from these plans;

- economic, exchange rate and political conditions in the countries where we operate or sell our products;

- industrywide strikes, labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers’ other suppliers;

- increases in the costs of raw materials, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, customer recovery and other methods;

- the negative impact of fuel price volatility on transportation and logistics costs, raw material costs, discretionary purchases of vehicles or aftermarket products and demand for off-highway equipment;

- the cyclical nature of the global vehicle industry, including the performance of the global aftermarket sector and the impact of vehicle parts’ longer product lives;

- costs related to product warranties and other customer satisfaction actions;

- the failure or breach of our information technology systems, including the consequences of any misappropriation,

- exposure or corruption of sensitive information stored on such systems and the interruption to our business that such failure or breach may cause;

- the impact of consolidation among vehicle parts suppliers and customers on our ability to compete;

-

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

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our ability to realize our business strategy of improving operating performance;
our ability to successfully integrate any acquisitions that we complete and effectively manage our joint ventures and other third-party relationships;
changes by the Financial Accounting Standards Board or the Securities and Exchange Commission of authoritative generally accepted accounting principles or policies;
changes in accounting estimates and assumptions, including changes based on additional information;
any changes by the International Organization for Standardization (ISO) or other such committees in their certification protocols for processes and products, which may have the effect of delaying or hindering our ability to bring new products to market;
the impact of the extensive, increasing and changing laws and regulations to which we are subject, including environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved;
the potential impairment in the carrying value of our long-lived assets and goodwill or our deferred tax assets;
potential volatility in our effective tax rate;
natural disasters, such as earthquakes and flooding, and any resultant disruptions in the supply or production of goods or services to us or by us or in demand by our customers;
acts of war and/or terrorism, as well as actions taken or to be taken by the United States and other governments
• as a result of further acts or threats of terrorism, and the impact of these acts on economic, financial and social conditions in the countries where we operate; and
the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control.

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

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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, 2016, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three and nine month periods ended September 30, 2016 and 2015 and changes in shareholders' equity for the nine months ended September 30, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

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

Accordingly, we do not express such an opinion.

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

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

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

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

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TENNECO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

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

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

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

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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 Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (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)

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

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

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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 Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)
	(Loss)	(Loss)	(Loss)
	(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)	(2)	(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
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 BALANCE SHEETS
 (Unaudited)

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

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

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

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

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

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Net increase (decrease) in short-term borrowings secured by accounts receivable

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

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

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

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TENNECO INC.

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

Nine Months Ended September 30,
2016 2015
Shares Amount Shares Amount
(Millions Except Share Amounts)

Tenneco Inc. Shareholders:

Common Stock

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

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

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Consolidation and Presentation

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

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

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

Prepayments and Other

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

Accounts Payable

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

(2) Financial Instruments

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

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

Long-term debt (including current maturities)	\$1,311	\$1,344	\$1,125	\$1,160
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Instruments with off-balance sheet risk:

Foreign exchange forward contracts:

Asset derivative contracts	1	1	1	1
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Asset and Liability Instruments — The fair value of cash and cash equivalents, short and long-term receivables, accounts payable, and short-term debt was considered to be the same as or was not determined to be materially different from the carrying amount.

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

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

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

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

	Notional Amount in Foreign Currency (Millions)	
Australian dollars	—Purchase	36
British pounds	—Purchase	47
	—Sell	(45)
Canadian dollars	—Sell	(2)
European euro	—Purchase	57
	—Sell	(121)
Japanese yen	—Purchase	677
	—Sell	(240)
Mexican peso	—Purchase	380
South African rand	—Purchase	37
	—Sell	(184)
U.S. dollars	—Purchase	103
	—Sell	(138)

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

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

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

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

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

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

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

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

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

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

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

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

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(3)Long-Term Debt and Financing Arrangements

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

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

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

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

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

At September 30, 2016, of the \$1,200 million available under the revolving credit facility, we had unused borrowing capacity of \$891 million with \$309 million in outstanding borrowings and no outstanding letters of credit. As of September 30, 2016, our outstanding debt also included (i) \$274 million of a term loan which consisted of a \$272 million net carrying amount including a \$2 million debt issuance cost related to our Tranche A Term Facility which is subject to quarterly principal payments as described above through December 8, 2019, (ii) \$225 million of notes which consisted of a \$221 million net carrying amount including a \$4 million debt issuance cost related to our 5³/₈ percent senior notes due December 15, 2024, (iii) \$500 million of notes which consisted of a \$492 million net carrying amount including a \$8 million debt issuance cost related to our 5 percent senior notes due July 15, 2026 (which were issued on June 13, 2016), and (iv) \$140 million of other debt.

On June 6, 2016, we announced a cash tender offer to purchase our outstanding \$500 million 6⁷/₈ percent senior notes due in 2020. We received tenders representing \$325 million aggregate principal amount of the notes and, on June 13, 2016, we purchased the tendered notes at a price of 103.81 percent of the principal amount, plus accrued and unpaid interest. On July 13, 2016, we redeemed the remaining outstanding \$175 million aggregate principal amount of the notes that were not purchased pursuant to the tender offer at a price of 103.438 percent of the principal amount, plus accrued and unpaid interest. We used the proceeds of the issuance of our 5 percent senior notes due 2026 to fund the

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

We recorded \$16 million and \$8 million of pre-tax interest charges in June and July of 2016, respectively, related to the repurchase and redemption of our 6⁷/₈ percent senior notes due in 2020 and the write-off of deferred debt issuance costs relating to those notes.

(4) Income Taxes

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

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

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

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

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

(5)Accounts Receivable Securitization

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

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

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

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

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

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

(6) Restructuring and Other Charges

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

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

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

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

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

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

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