

## **FEDERAL INCOME TAX IMPLICATIONS OF THE DISTRIBUTION AND REVERSE STOCK SPLIT**

The following discussion applies to the stockholders of record of Tenneco Inc. who participated in both the Distribution and the Reverse Stock Split (both terms defined below). If a stockholder participated in either the Distribution or in the Reverse Stock Split (but not both), such stockholder should refer only to the portion of the discussion that pertains to his, her or its particular situation.

### **The Transaction**

Immediately following the close of business on November 4, 1999, Tenneco Inc. (renamed Tenneco Automotive Inc. following the Distribution, and referred to herein as “Tenneco” for pre-distribution periods and as “Tenneco Automotive” for periods following the distribution), distributed all of the common stock of Pactiv Corporation (formerly known as Tenneco Packaging Inc. and referred to herein as “Pactiv”) to Tenneco common stockholders (the “Distribution”). As a result of the Distribution, each Tenneco common stockholder received one share of Pactiv common stock for each share of Tenneco common stock held as of the close of business on October 29, 1999. On November 5, 1999, Tenneco Automotive effected a reverse stock split (the “Reverse Stock Split”) pursuant to which Tenneco Automotive stockholders received one share of Tenneco Automotive common stock for every five shares of Tenneco Automotive common stock they held as of 7:58 a.m., Eastern Standard Time on that date.

The enclosed summary is for general information purposes only and is not intended as a complete discussion of the tax consequences of the Distribution and Reverse Stock Split. Because the tax treatment of a stockholder may vary depending upon his, her or its particular situation, each stockholder should consult his, her or its own tax advisor as to the particular tax consequences of the Distribution and Reverse Stock Split to such stockholder.

### **Federal Income Tax Consequences of the Distribution**

The Internal Revenue Service (the “IRS”) has ruled that, except for any gain resulting from the cash received in lieu of a fractional share of Tenneco Automotive in the Reverse Stock Split, you will incur no U.S. federal income tax liability as a result of the Distribution. However, the IRS requires that taxpayers who received the tax-free distribution of Pactiv common stock attach to their U.S. income tax return, for the period including November 4, 1999, a statement containing the details of the transaction. For those stockholders who are calendar year taxpayers, the enclosed “Statement A” should be completed and attached to your U.S. federal income tax return for 1999.

## **Federal Income Tax Consequences of the Reverse Stock Split**

Except for any gain resulting from the cash received in lieu of a fractional share of Tenneco Automotive, you should incur no U.S. federal income tax liability as a result of the Reverse Stock Split. No ruling was requested and none received from the IRS regarding the tax consequences of the Reverse Stock Split. The IRS requires that taxpayers who received Tenneco Automotive common stock in the Reverse Stock Split attach to their U.S. income tax return, for the period including November 5, 1999, a statement containing certain information relating to the Reverse Stock Split. For those stockholders who are calendar year taxpayers, the enclosed "Statement B" should be completed and attached to your U.S. Federal income tax return for 1999.

## **Allocation of Tax Basis as a Result of the Distribution and Reverse Stock Split**

Enclosed is a worksheet which illustrates a commonly used method of allocating the tax basis of Tenneco common stock that you owned among the Tenneco Automotive and Pactiv common stock you hold as a result of the Distribution and Reverse Stock Split.

As a result of the Distribution, you must apportion the tax basis (sometimes called cost basis) of the Tenneco common stock you owned among (i) your Tenneco Automotive common stock and (ii) your Pactiv common stock in proportion to their fair market values at the time of the Distribution. In addition, as a result of the Reverse Stock Split, you must assign your tax basis of Tenneco Automotive common stock you own following the Distribution to the shares of the Tenneco Automotive common stock you receive in the Reverse Stock Split (including the fractional shares sold on your behalf). The enclosed tax basis worksheet explains these calculations and includes a sample allocation of tax basis between Tenneco Automotive and Pactiv shares. The percentages used in the worksheet are based on the market price per share for November 5, 1999.

## **Federal Tax Treatment of Cash Received in Lieu of Fractional Shares**

As a result of the Reverse Stock Split, you may have been entitled to receive a fractional share of Tenneco Automotive common stock. However, fractional shares were not issued in the Reverse Stock Split. Instead, such fractional shares were issued to an agent acting on behalf of all stockholders entitled to receive fractional shares. The agent accumulated the fractional shares, sold the shares, and distributed the cash proceeds from such sale (less any brokerage commissions, transfer taxes, and other expenses of the sale) pro-rata to those stockholders entitled to receive the fractional shares.

Cash which you received in lieu of a fractional share of Tenneco Automotive common stock in the Reverse Stock Split will be treated for federal income tax purposes as paid in exchange for your fractional share of stock. This means that you will realize a capital gain or loss (assuming that the Tenneco Automotive common stock would, in your hands, be treated as a

capital asset) for U.S. federal income tax purposes measured by the difference between the cash you received for your fractional share and your tax basis in any fractional shares you were entitled to receive. You may use the attached worksheet to determine your tax basis in any fractional shares you were entitled to receive.

### **Holding Period**

The ruling obtained from the IRS by Tenneco addressed the appropriate manner to calculate the holding period for your Pactiv common stock. In general, to determine your holding period for a share of Pactiv common stock, the ruling provides that you add (i) the period that you held your Tenneco common stock with respect to which you received the Pactiv share, plus (ii) the period that you have held the Pactiv share following the Distribution. For example, if you sell Pactiv common stock four months following the Distribution, and you held the Tenneco common stock, which entitled you to the Pactiv common stock in the Distribution, for ten months prior to the Distribution, you will be treated as having held the Pactiv common stock for a total of fourteen months before the disposition. Because your holding period for the Pactiv common stock exceeds one year, any gain or loss on the disposition of the Pactiv common stock would be treated as long-term capital gain or loss if you held such stock as a capital asset.

Although the ruling did not specifically address the holding period for the Tenneco Automotive common stock received in the Reverse Stock Split, in general, to determine your holding period for the Tenneco Automotive common stock, you add (i) the period that you held your Tenneco common stock with respect to which you received the Tenneco Automotive share in the Reverse Stock Split, plus (ii) the period that you have held the Tenneco Automotive share following the Reverse Stock Split. For example, if you sell Tenneco Automotive common stock four months following the Reverse Stock Split, and you held the Tenneco common stock, which entitled you to the Tenneco Automotive common stock in the Reverse Stock Split, for ten months prior to the Reverse Stock Split, you will be treated as having held the Tenneco Automotive common stock for a total of fourteen months before the disposition. Because your holding period for the Tenneco Automotive common stock exceeds one year, any gain or loss on the disposition of the Tenneco Automotive common stock would be treated as long-term capital gain or loss if you held such stock as a capital asset.

### **State and Foreign Tax Consequences**

Many states base their income tax in whole or in part upon taxable income under federal income tax concepts. In such states, the receipt of Tenneco Automotive and Pactiv common stock may be exempt from tax in the same manner as under federal income tax law. Other states, and foreign countries, may not follow the U.S. federal income tax treatment. Stockholders should consult with their tax advisors regarding the state and foreign tax consequences of the receipt of the Tenneco Automotive and Pactiv common stock, and any payment received for fractional shares in the Reverse Stock Split.

**STATEMENT A**  
**Stockholder Statement**  
**Pursuant to Treasury Regulation §1.355-5(b)**

Statement of stockholder receiving a distribution of stock in Pactiv Corporation (a controlled corporation, formerly known as Tenneco Packaging Inc.), pursuant to Treasury Regulation §1.355-5(b).

1. The taxpayer, a stockholder of Tenneco Inc. (“Tenneco”) on November 4, 1999, received a distribution of stock in a controlled corporation pursuant to Section 355 of the Internal Revenue Code.
2. The names and addresses of the corporations involved are as follows:
  - (a) Tenneco Inc. (renamed Tenneco Automotive Inc.) (Parent)  
500 North Field Drive  
Lake Forest, Illinois 60045
  - (b) Pactiv Corporation (formerly known as Tenneco Packaging Inc.)  
1900 West Field Court  
Lake Forest, Illinois 60045
3. The taxpayer surrendered no stock or securities of Tenneco in connection with the distribution.
4. The taxpayer received \_\_\_\_\_ whole shares of Pactiv Corporation (formerly known as Tenneco Packaging Inc.) in the distribution constituting only common shares in such corporation.
5. By letter dated August 20, 1999, the Internal Revenue Service ruled that the distribution by Tenneco of shares of Pactiv Corporation (formerly known as Tenneco Packaging Inc.) was a nontaxable Section 355 corporate separation.

**COMPLETE AND ATTACH TO YOUR U.S. FEDERAL INCOME TAX RETURN**  
**FOR THE TAX PERIOD INCLUDING NOVEMBER 4, 1999.**

**STATEMENT B**  
**STOCKHOLDER STATEMENT**  
**PURSUANT TO TREASURY REGULATION §1.368-3(b)**

Statement, pursuant to Treasury Regulation §1.368-3(b), of stockholder whose common stock in Tenneco Automotive Inc., a Delaware corporation formerly known as Tenneco Inc. (“Tenneco Automotive”), was exchanged for Tenneco Automotive common stock.

1. On November 5, 1999, in the reverse stock split (the “Reverse Stock Split”), the taxpayer received one share of Tenneco Automotive common stock for every five shares of Tenneco Automotive common stock he, she or it held.
2. Pursuant to the Reverse Stock Split, the taxpayer received \_\_\_\_\_ whole shares of common stock of Tenneco Automotive, having a fair market value of \$8.125 per share (based on the market price per share for November 5, 1999), in exchange for \_\_\_\_\_ shares of common stock of Tenneco Automotive. In addition, the taxpayer received \$\_\_\_\_\_ in lieu of fractional shares of Tenneco Automotive common stock. The taxpayer assumed no liabilities and received no property subject to liabilities in the Reverse Stock Split.
3. At the time of the exchange, the taxpayer had an adjusted basis of \$\_\_\_\_\_ in the shares of Tenneco Automotive common stock surrendered in the Reverse Stock Split.
4. The name and address of the corporation involved is as follows:

Tenneco Automotive Inc. (formerly Tenneco Inc.)  
500 North Field Drive  
Lake Forest, Illinois 60045

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FOR THE TAX PERIOD INCLUDING NOVEMBER 5, 1999.**

**TENNECO INC.  
U.S. FEDERAL INCOME TAX BASIS WORKSHEET**

		<b>Your Case</b>	<b>Hypothetical Example</b>
1.	Number of Tenneco Inc. (“Tenneco”) common shares held at the open of business on November 5, 1999 (provided such shares were also held at the close of business on October 29, 1999).		51
2.	Number of Pactiv Corporation (“Pactiv”) shares you were entitled to receive in the distribution (the “Distribution”) for each share of Tenneco common stock.	1	1
3.	Line 1 multiplied by line 2. This is the number of Pactiv shares you were entitled to receive in the Distribution.		51
4.	Tax basis of pre-Distribution Tenneco common shares (based on your records).		2550.00
5.	Percentage of the tax basis allocated to your post-Distribution Tenneco Automotive shares.	11.02%	11.02%
6.	Percentage of the tax basis allocated to your Pactiv shares which you received in the Distribution.	88.98%	88.98%
7.	Line 4 multiplied by line 5. This is the tax basis of the post-Distribution Tenneco Automotive shares.		281.01
8.	Line 4 multiplied by line 6. This is the tax basis of the Pactiv shares which were distributed to you.		2268.99
9.	Line 8 divided by line 3. This is the tax basis per share of your Pactiv shares.		44.49
<b>THE PORTION BELOW APPLIES ONLY TO STOCKHOLDERS WHO PARTICIPATED IN THE REVERSE STOCK SPLIT</b>			
10.	Line 1 divided by 5. This is the number of Tenneco Automotive Inc. (“Tenneco Automotive”) shares you were entitled to receive in the reverse stock split (the “Reverse Stock Split”).		10.2
11.	Line 7 divided by line 10. This is the tax basis per share of your post-Reverse Stock Split Tenneco Automotive shares.		27.55
12.	Line 10 less the number of whole shares of Tenneco Automotive stock you were entitled to receive in the Reverse Stock Split. This is the fractional share of Tenneco Automotive stock you were entitled to receive in the Reverse Stock Split.		0.2
13.	Line 11 multiplied by line 12. This is the tax basis of the Tenneco Automotive fractional share with respect to which you received the cash payment.		5.51
14.	Line 7 less Line 13. This is the tax basis of the Tenneco Automotive shares distributed to you in the Reverse Stock Split.		275.50