

Pactiv Corporation

**Interim unaudited condensed consolidated financial statements
For the three and nine month periods ended September 30, 2010**

Consolidated Statement of Income

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|--|-------------|---------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions, except share and per share data) | | | |
| Sales | \$ 944 | \$ 839 | \$ 2,694 | \$ 2,506 |
| Costs and expenses | | | | |
| Cost of sales, excluding depreciation and amortization | 696 | 562 | 1,955 | 1,658 |
| Selling, general, and administrative | 84 | 83 | 236 | 263 |
| Depreciation and amortization | 49 | 46 | 145 | 138 |
| Other | (2) | — | (2) | 1 |
| | 827 | 691 | 2,334 | 2,060 |
| Operating income | 117 | 148 | 360 | 446 |
| Other income (expense) | | | | |
| Interest income | — | — | — | 1 |
| Interest expense, net of interest capitalized | (25) | (23) | (74) | (70) |
| Share of income of joint ventures | 1 | — | 1 | — |
| | 93 | 125 | 287 | 377 |
| Income before income taxes | 93 | 125 | 287 | 377 |
| Income tax expense | 13 | 45 | 84 | 139 |
| | 80 | 80 | 203 | 238 |
| Income from continuing operations | 80 | 80 | 203 | 238 |
| Discontinued operations, net of tax | 2 | 15 | 2 | 14 |
| | 82 | 95 | 205 | 252 |
| Net income | 82 | 95 | 205 | 252 |
| Less: Net income attributable to the noncontrolling interest | 1 | 1 | 1 | 1 |
| | 81 | 94 | 204 | 251 |
| Net income attributable to Pactiv | \$ 81 | \$ 94 | \$ 204 | \$ 251 |
| Amounts attributable to Pactiv common shareholders | | | | |
| Income from continuing operations, net of tax | \$ 79 | \$ 79 | \$ 202 | \$ 237 |
| Discontinued operations, net of tax | 2 | 15 | 2 | 14 |
| | 81 | 94 | 204 | 251 |
| Net income | \$ 81 | \$ 94 | \$ 204 | \$ 251 |
| Earnings per share | | | | |
| Weighted-average number of shares of common stock outstanding | | | | |
| Basic | 132,998,767 | 131,972,681 | 132,810,707 | 131,860,351 |
| Diluted | 134,366,631 | 133,193,283 | 134,052,934 | 132,819,294 |
| Basic earnings per share of common stock attributable to Pactiv common shareholders | | | | |
| Continuing operations | \$ 0.59 | \$ 0.60 | \$ 1.52 | \$ 1.79 |
| Discontinued operations | 0.01 | 0.12 | 0.01 | 0.11 |
| | \$ 0.60 | \$ 0.72 | \$ 1.53 | \$ 1.90 |
| Total | \$ 0.60 | \$ 0.72 | \$ 1.53 | \$ 1.90 |
| Diluted earnings per share of common stock attributable to Pactiv common shareholders | | | | |
| Continuing operations | \$ 0.59 | \$ 0.59 | \$ 1.51 | \$ 1.78 |
| Discontinued operations | 0.01 | 0.11 | 0.01 | 0.10 |
| | \$ 0.60 | \$ 0.70 | \$ 1.52 | \$ 1.88 |
| Total | \$ 0.60 | \$ 0.70 | \$ 1.52 | \$ 1.88 |

The accompanying notes to the financial statements are an integral part of this statement.

Condensed Consolidated Statement of Financial Position

| | September 30, 2010 | December 31, 2009 |
|--|---|------------------------------|
| | (In millions, except share data) | |
| Assets | | |
| Current assets | | |
| Cash and temporary cash investments | \$ 52 | \$ 46 |
| Accounts and notes receivable | | |
| Trade, less allowances of \$4 and \$6 at the respective dates, including \$397 of trade held by variable interest entity (Pactiv RSA) at September 30, 2010, and \$228 of retained interest in trade receivable securitization (Pactiv RSA) at December 31, 2009 | 444 | 277 |
| Other | <u>33</u> | <u>51</u> |
| Total accounts and notes receivable | <u>477</u> | <u>328</u> |
| Inventories | | |
| Finished goods | 291 | 240 |
| Work in process | 47 | 39 |
| Raw materials | 81 | 63 |
| Other materials and supplies | <u>63</u> | <u>48</u> |
| Total inventories | <u>482</u> | <u>390</u> |
| Deferred income tax assets | <u>34</u> | <u>53</u> |
| Other | <u>14</u> | <u>15</u> |
| Total current assets | <u>1,059</u> | <u>832</u> |
| Property, plant, and equipment, net | <u>1,234</u> | <u>1,172</u> |
| Other assets | | |
| Goodwill | 1,236 | 1,135 |
| Intangible assets, net | 368 | 372 |
| Other | <u>62</u> | <u>63</u> |
| Total other assets | <u>1,666</u> | <u>1,570</u> |
| Total assets | <u>\$ 3,959</u> | <u>\$ 3,574</u> |
| Liabilities and equity | | |
| Current liabilities | | |
| Short-term debt of variable interest entity (Pactiv RSA) and current maturities of long-term debt | \$ 165 | \$ 5 |
| Accounts payable | 190 | 144 |
| Taxes accrued | 32 | 24 |
| Interest accrued | 29 | 20 |
| Accrued promotions, rebates, and discounts | 67 | 73 |
| Accrued payroll and benefits | 60 | 97 |
| Other | <u>51</u> | <u>54</u> |
| Total current liabilities | <u>594</u> | <u>417</u> |
| Long-term debt | <u>1,270</u> | <u>1,270</u> |
| Deferred income taxes | <u>111</u> | <u>61</u> |
| Pension and postretirement benefits | <u>598</u> | <u>694</u> |
| Other | <u>135</u> | <u>131</u> |
| Pactiv shareholders' equity | | |
| Common stock — \$0.01 par value, 350,000,000 shares authorized, 133,034,546 and 132,334,417 shares issued and outstanding, after deducting 38,748,631 and 39,448,760 shares held in treasury, at the respective dates | 1 | 1 |
| Premium on common stock and other capital surplus | 738 | 729 |
| Accumulated other comprehensive income (loss) | | |
| Currency translation adjustment | 1 | (3) |
| Pension and postretirement plans | (1,695) | (1,729) |
| Gain (loss) on derivatives | 6 | 6 |
| Retained earnings | <u>2,185</u> | <u>1,981</u> |
| Total Pactiv shareholders' equity | <u>1,236</u> | <u>985</u> |
| Noncontrolling interest | <u>15</u> | <u>16</u> |
| Total equity | <u>1,251</u> | <u>1,001</u> |
| Total liabilities and equity | <u>\$ 3,959</u> | <u>\$ 3,574</u> |

The accompanying notes to the financial statements are an integral part of this statement.

Condensed Consolidated Statement of Cash Flows

| | For the Nine Months Ended September 30 | |
|---|--|-----------------------|
| | 2010 | 2009 |
| | (In millions) | |
| Operating activities | | |
| Net income | \$ 205 | \$ 252 |
| Discontinued operations | (2) | (14) |
| Income from continuing operations | 203 | 238 |
| Adjustments to reconcile income from continuing operations to cash provided (used) by operating activities: | | |
| Depreciation and amortization | 145 | 138 |
| Deferred income taxes | 6 | 100 |
| Restructuring and other | — | (1) |
| Pension income | (36) | (27) |
| Noncash compensation expense | 11 | 13 |
| Net working capital | (79) | 129 |
| Pension contributions | — | (400) |
| Other | 4 | 4 |
| Cash provided (used) by operating activities — continuing operations | 254 | 194 |
| Cash provided (used) by operating activities — discontinued operations | — | (3) |
| Cash provided (used) by operating activities | <u>\$ 254</u> | <u>\$ 191</u> |
| Investing activities | | |
| Expenditures for property, plant, and equipment | \$(100) | \$ (78) |
| Acquisitions of businesses and assets | (203) | (20) |
| Other investing activities | 1 | 2 |
| Cash provided (used) by investing activities | <u>\$(302)</u> | <u>\$ (96)</u> |
| Financing activities | | |
| Issuance of common stock | \$ 3 | \$ 2 |
| Revolving credit facility borrowings | 160 | — |
| Revolving credit facility payment | (130) | (70) |
| Asset securitization borrowings | 20 | — |
| Dividends paid to noncontrolling interest | (2) | (1) |
| Other | 2 | (2) |
| Cash provided (used) by financing activities | <u>\$ 53</u> | <u>\$ (71)</u> |
| Effect of foreign exchange rate changes on cash and temporary cash investments | 1 | — |
| Increase (decrease) in cash and temporary cash investments | 6 | 24 |
| Cash and temporary cash investments, January 1 | 46 | 80 |
| Cash and temporary cash investments, September 30 | <u>\$ 52</u> | <u>\$ 104</u> |

The accompanying notes to the financial statements are an integral part of this statement.

Consolidated Statement of Changes in Equity

| | Pactiv Shareholders | | | | | Total Equity |
|--|----------------------------------|---|----------------------|--|----------------------------|-----------------|
| | Common Stock | Premium on Common Stock and Other Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | |
| | (In millions, except share data) | | | | | |
| Nine months ended September 30, 2010 | | | | | | |
| Balance, December 31, 2009 | \$1 | \$729 | \$1,981 | \$(1,726) | \$16 | \$1,001 |
| Premium on common stock issued (700,129 shares) | | 16 | | | | 16 |
| Translation of foreign currency statements | | | | 4 | | 4 |
| Stock-based compensation | | (7) | | | | (7) |
| Change in pension and postretirement plan funded status, net of tax of \$24 . . | | | | 34 | | 34 |
| Dividends to noncontrolling interest | | | | | (2) | (2) |
| Net income | <u>—</u> | <u>—</u> | <u>204</u> | <u>—</u> | <u>1</u> | <u>205</u> |
| Balance, September 30, 2010 | <u>\$1</u> | <u>\$738</u> | <u>\$2,185</u> | <u>\$(1,688)</u> | <u>\$15</u> | <u>\$1,251</u> |
| Nine months ended September 30, 2009 | | | | | | |
| Balance, December 31, 2008 | \$1 | \$710 | \$1,658 | \$(1,698) | \$16 | \$ 687 |
| Premium on common stock issued (485,106 shares) | | 12 | | | | 12 |
| Translation of foreign currency statements | | | | 8 | | 8 |
| Stock-based compensation | | (3) | | | | (3) |
| Gain (loss) on derivatives | | | | (1) | | (1) |
| Change in pension and postretirement plan funded status, net of tax of \$14 . . | | | | 23 | | 23 |
| Dividends paid to noncontrolling interest | | | | | (1) | (1) |
| Net income | <u>—</u> | <u>—</u> | <u>251</u> | <u>—</u> | <u>1</u> | <u>252</u> |
| Balance, September 30, 2009 | <u>\$1</u> | <u>\$719</u> | <u>\$1,909</u> | <u>\$(1,668)</u> | <u>\$16</u> | <u>\$ 977</u> |

The accompanying notes to the financial statements are an integral part of this statement.

Consolidated Statement of Comprehensive Income (Loss)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | | |
| Net income | \$ 82 | \$ 95 | \$205 | \$252 |
| Other comprehensive income (loss) | | | | |
| Pension and postretirement plans | 11 | 8 | 34 | 23 |
| Net currency translation gain (loss) | 9 | 2 | 4 | 8 |
| Gain (loss) on derivatives | <u>—</u> | <u>(1)</u> | <u>—</u> | <u>(1)</u> |
| Total other comprehensive income (loss) | <u>20</u> | <u>9</u> | <u>38</u> | <u>30</u> |
| Consolidated comprehensive income (loss) | 102 | 104 | 243 | 282 |
| Comprehensive income (loss) attributable to the noncontrolling interest | <u>1</u> | <u>1</u> | <u>1</u> | <u>1</u> |
| Comprehensive income (loss) attributable to Pactiv | <u>\$101</u> | <u>\$103</u> | <u>\$242</u> | <u>\$281</u> |

The accompanying notes to the financial statements are an integral part of this statement.

Pactiv Corporation
Notes to Financial Statements (Unaudited)

Note 1. Basis of Presentation

The consolidated statement of income for the three- and nine-month periods ended September 30, 2010, and 2009, the condensed consolidated statement of financial position at September 30, 2010, the condensed consolidated statement of cash flows for the nine-month periods ended September 30, 2010, and 2009, the consolidated statement of changes in equity for the nine-month period ended September 30, 2010, and 2009, and the consolidated statement of comprehensive income (loss) for the three- and nine-month periods ended September 30, 2010, and 2009 are unaudited. In our opinion, the accompanying financial statements contain all normal recurring adjustments necessary to present fairly the results of operations, financial position, and cash flows for the periods and at the dates indicated. These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). They do not include all of the information and footnotes required by generally accepted accounting principles. Accordingly, these statements should be read in conjunction with Pactiv's Form 10-K for the year ended December 31, 2009, which may be found at www.pactiv.com, under the Investor Relations link, in the subsection entitled "SEC Filings," or a free copy may be obtained by contacting Investor Relations at (866) 456-5439. Certain reclassifications have been made to the prior year financial information to conform with the current year presentation.

On April 1, 2010, we purchased PWP Holdings, Inc. and PWP Industries (PWP) for \$203 million. PWP Industries manufactures and sells amorphous polyethylene terephthalate (APET) products in the foodservice market. The purchase price was funded by borrowing \$160 million on our revolving credit facility, adding \$20 million to the asset securitization program, and utilizing \$23 million in cash reserves. The results of this business have been included in the consolidated financial statements as of that date.

On January 5, 2009, we purchased the polypropylene cup business of WinCup for \$20 million. This business operates one manufacturing facility in North Carolina. The results of this business have been included in the consolidated financial statements as of that date.

We have three reporting segments:

- *Consumer Products* manufactures disposable plastic, foam, molded fiber, pressed paperboard, and aluminum packaging products, and sells them to customers such as grocery stores, mass merchandisers, and discount chains. Products include waste bags, food storage bags, and disposable tableware and cookware. We sell many of our consumer products under well-known trademarks, such as Hefty®.
- *Foodservice/Food Packaging* manufactures foam, clear plastic, aluminum, pressed paperboard, and molded fiber packaging products, and sells them to customers in the food distribution channel, who prepare and process food for consumption. Customers include foodservice distributors, restaurants, other institutional foodservice outlets, food processors, and grocery chains.
- *Other* includes corporate and administrative service operations and retiree benefit income and expense.

The accounting policies of the reporting segments are the same as those for Pactiv as a whole. Where discrete financial information is not available by segment, reasonable allocations of expenses and assets/liabilities are used.

Note 2. Acquisition

On November 16, 2010 Reynolds Acquisition Corporation (Reynolds), a wholly owned indirect subsidiary of Reynolds Group Holdings Limited (RGHL) acquired 100% of the outstanding common stock of Pactiv for an aggregate purchase price of \$4.5 billion. Reynolds merged with and into Pactiv with Pactiv surviving the merger as an indirect wholly owned subsidiary of RGHL.

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Notes to Financial Statements (Unaudited) — (Continued)

Note 3. Summary of Accounting Policies

For a complete discussion of our accounting policies, refer to Pactiv's most recent filing on Form 10-K.

Changes in Accounting Principles

The Financial Accounting Standards Board (FASB) issued updates to Accounting Standards Codification (ASC) 860-10 "Transfers and Servicing," which were effective for interim and annual periods beginning after November 15, 2009. The updated provisions require additional information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets, eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognition of financial assets, and requires additional disclosures. ASC 860-10 was effective on January 1, 2010. See "Accounts and Notes Receivables" below and Note 6 for additional details.

The FASB issued updates to ASC 810-10 "Consolidation," which were effective for interim and annual periods beginning after November 15, 2009. These updated provisions require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity, require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, and eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity. In addition, the provisions include an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. Lastly, the provisions require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. ASC 860-10 was effective on January 1, 2010. See "Accounts and Notes Receivables" below and Note 6 for additional details.

Accounts and Notes Receivable

We have an asset securitization agreement under which certain of our accounts receivable are sold to our variable interest entity (VIE), Pactiv RSA. Under the accounting principles in effect prior to 2010, Pactiv RSA was not consolidated with our financial statements. In accordance with updated provisions within ASC 810-10 and 860-10, which we adopted January 1, 2010, Pactiv RSA was included in the consolidated financial statements as of that date.

Pactiv RSA held \$397 million of receivables at September 30, 2010, securing \$130 million of short-term debt borrowed from various financial institutions that hold interests in the VIE on a pro-rata basis equal to their shares of the total loan. The collection of these receivables is used first to repay the loans. Any remaining amounts collected are retained by Pactiv RSA. If the collection of the receivables is insufficient to repay the loans, the lenders do not have recourse to Pactiv. We maintain an allowance for doubtful accounts for any potential uncollectable amounts after the loans are repaid. At December 31, 2009, under the prior accounting principles, securitized receivables totaling \$110 million were recorded as a reduction to accounts and notes receivable and no debt was recorded.

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Notes to Financial Statements (Unaudited) — (Continued)

Note 4. Business Combination

On April 1, 2010, we purchased PWP Holdings, Inc. and PWP Industries for \$203 million, which includes a \$3 million working capital adjustment. The results of this business have been included in the consolidated financial statements as of that date.

The total cost of the acquisition was allocated to the assets acquired and the liabilities assumed based on their respective fair values. Allocations were based on preliminary estimates of the fair market value of assets and liabilities, which are subject to revision based on receipt of final appraisals. Goodwill and other intangible assets recorded in connection with the acquisition totaled \$100 million and \$15 million, respectively. Recorded intangible assets pertaining to customer relationships and non-compete agreements are being amortized over a 15-year period.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

| | (In millions) |
|--|---------------|
| Current assets | \$ 40 |
| Property, plant, and equipment | 70 |
| Intangible assets | 15 |
| Goodwill | <u>100</u> |
| Total assets acquired | <u>225</u> |
| Current liabilities | 18 |
| Long-term liabilities | <u>4</u> |
| Total liabilities assumed | <u>22</u> |
| Net assets acquired | <u>\$203</u> |

Note 5. Discontinued Operations

On October 12, 2005, we completed the sale of most of our protective and flexible packaging businesses. The results of the sold business, as well as costs and charges associated with the transaction, are classified as discontinued operations.

In the third quarter of 2010, we recorded \$2 million of income from discontinued operations related to the expiration of the statute of limitations on the 2006 tax year for tax liabilities which had been recorded in conjunction with divested businesses. In the third quarter of 2009, we recorded \$15 million of income from discontinued operations related to the expiration of the statute of limitations on the 2005 tax year for tax liabilities which had been recorded in conjunction with divested business.

Non-current liabilities related to discontinued operations totaled \$10 million at September 30, 2010, and \$11 million at December 31, 2009.

Note 6. Debt and Financing Arrangements

Short-Term Debt

We have a revolving credit facility, and borrowings under this facility totaled \$30 million at September 30, 2010. At that date, the fair value of this debt was equal to the outstanding balance.

As a part of our 2007 acquisition of Prairie Packaging, Inc. (Prairie), we assumed Prairie's liability for \$5 million borrowed from the Illinois Department Finance Authority (IDFA), which were funded by industrial development revenue bonds issued by the IDFA. This debt will mature on December 1, 2010, and bears

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Notes to Financial Statements (Unaudited) — (Continued)

interest at varying rates (0.50% as of September 30, 2010) not to exceed 12% per annum. We decided to repay this debt in full on October 27, 2010.

On January 1, 2010, we adopted the accounting principles in accordance with updated provisions within ASC 810-10 and 860-10 as described in Note 2 related to our asset securitization program. Consequently, we consolidated Pactiv RSA as of the date of adoption, resulting in an increase in short-term debt. The asset securitization agreement is a five-year agreement expiring in 2012, which allows us to sell up to \$130 million of receivables under the facility. The terms of this agreement are re-negotiated annually; therefore, we have reflected it as short-term debt. The balance as of September 30, 2010, was \$130 million. Interest on this debt is recorded in interest expense. Under the accounting prior to 2010, the discount on the sold receivables was recorded as a loss on sale in other income. The amounts recorded in interest expense were immaterial for the three-month period and \$1 million for the nine-month period ended September 30, 2010. The recorded losses on the sale were immaterial for the three-month period, and \$1 million for the nine-month period ended September 30, 2009.

Long-Term Debt

On October 4, 2010, the Company commenced tender offers/consent solicitations for its 5.875% Notes due July 15, 2012, in an aggregate principal amount of \$250 million (the “2012 Notes”) and its 6.400% Notes due January 15, 2018, in an aggregate principal amount of \$250 million (the “2018 Notes”). On October 19, 2010, the Company announced the expiration of the early tender/consent deadline in connection with 2012 Notes and the 2018 Notes. The results of such tender offers/consent solicitations were as follows: (i) 93.36% of the 2018 Notes were tendered and/or the related consents delivered and not validly withdrawn, so such tendered 2018 Notes will be accepted and purchased at closing of the merger, and (ii) the Company terminated the tender offer/consent solicitation for the 2012 Notes without accepting any tendered 2012 Notes.

On October 20, 2010, the Company commenced an offer to purchase for cash its 2012 Notes, at a price of 101% of the principal amount of such 2012 Notes, plus accrued and unpaid interest on the principal amount tendered to, but not including, the payment date, in accordance with the trust indenture governing the 2012 Notes based on the pending change of control from the pending acquisition of the Company by Reynolds Group Holdings Limited.

Note 7. Financial Instruments

Asset and Liability Instruments

At September 30, 2010, and December 31, 2009, the fair value of cash and temporary cash investments, short-and long-term receivables, accounts payable, and short-term debt were the same as, or not materially different from, the amount recorded for these assets and liabilities. The fair value of long-term debt was approximately \$1.6 billion at September 30, 2010, and \$1.5 billion at December 31, 2009. The recorded amount was \$1.3 billion at September 30, 2010, and December 31, 2009. The fair value of long-term debt was based on quoted market prices for our debt instruments.

Instruments with Off-Balance Sheet Risk (Including Derivatives)

We use derivative instruments, principally swaps, forward contracts, and options, to manage our exposure to movements in foreign currency values, interest rates, and commodity prices.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods in which the hedged transaction affects earnings.

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Notes to Financial Statements (Unaudited) — (Continued)

Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the hedge instruments are reclassified from OCI to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable.

Foreign Currency

From time to time, we use derivative financial instruments to hedge our exposure to changes in foreign currency exchange rates, principally using foreign currency purchase and sale contracts with terms of less than one year. We do so to mitigate our exposure to exchange rate changes related to third-party trade receivables and accounts payable. Net gains or losses on such contracts are recognized in the statement of income as offsets to foreign currency exchange gains or losses on the underlying transactions. In the statement of cash flows, cash receipts and payments related to hedging contracts are classified in the same way as cash flows from the transactions being hedged. We had no open foreign currency contracts as of September 30, 2010.

Interest Rates

We entered into interest rate swap agreements in connection with the acquisition of Prairie. The agreements were terminated on June 20, 2007, resulting in a gain of \$9 million. This gain is being recorded as a reduction of interest expense over the average life of the underlying debt. Amounts recognized in earnings related to our hedging transactions were \$1 million for both the nine months ended September 30, 2010, and September 30, 2009.

Commodity

During the first nine months of 2010, we entered into natural gas purchase agreements with third parties, hedging a portion of the fourth quarter of 2010 purchases of natural gas used in the production processes at certain of our plants. These purchase agreements are marked to market, with the resulting gains or losses recognized in earnings when hedged transactions are recorded. The mark-to-market adjustments at September 30, 2010, were immaterial.

To minimize volatility in our margins due to large fluctuations in the price of commodities, in the third quarter of 2010 we entered into swap contracts to manage risks associated with market fluctuations in resin prices. These contracts were designated as cash flow hedges of forecasted commodity purchases. As of September 30, 2010, we have hedged, on a monthly basis, approximately 1% of the expected resin purchase volume for the remainder of 2010. Assuming the market prices of the swap contracts remained unchanged from the prices at September 30, 2010, the estimated gain expected to be reclassified to earnings in the remainder of 2010 would be immaterial.

Fair Value Measurements

Financial assets and liabilities that are recorded at fair value consist of derivative contracts that are used to hedge exposures to interest rate, commodity, and currency risks. ASC 820-10-35 "Fair Value Measurements and Disclosures" sets out a fair value hierarchy that groups fair value measurement inputs into three classifications: Level 1, Level 2, or Level 3. Level 1 inputs are quoted prices in an active market for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. All of our fair value measurements for derivative contracts use Level 2 inputs.

The fair value of our derivative instruments recorded in the consolidated balance sheet as of September 30, 2010 was \$1 million. There were no outstanding derivative instruments recorded in the consolidated balance sheet as of December 31, 2009.

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Notes to Financial Statements (Unaudited) — (Continued)

The following table indicates the amounts recognized in OCI for those derivatives designated as cash flow hedges for the nine months ended September 30, 2010, and September 30, 2009.

| | <u>Gain or (Loss) Recognized in OCI (Effective Portion)</u> | | <u>Location of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)</u> | <u>(Gain) or Loss Reclassified from OCI into Income (Effective Portion)</u> | |
|-----------------------------------|---|-------------|---|---|-------------|
| | <u>2010</u> | <u>2009</u> | | <u>2010</u> | <u>2009</u> |
| | | | (In millions) | | |
| Commodity Contracts | \$ 1 | \$— | Cost of Sales | \$— | \$(2) |
| Interest Rate Contracts | \$— | \$— | Interest Expense | \$(1) | \$(1) |

Note 8. Goodwill and Intangible Assets

The changes in the carrying values of goodwill between December 31, 2009, and September 30, 2010, are shown in the following table.

| | <u>Consumer Products</u> | <u>Foodservice/ Food Packaging</u> | <u>Total</u> |
|---|------------------------------|--|----------------|
| | (In millions) | | |
| Balance, December 31, 2009 | \$291 | \$844 | \$1,135 |
| Goodwill additions | — | 100 | 100 |
| Foreign currency translation adjustment | — | 1 | 1 |
| Balance, September 30, 2010 | <u>\$291</u> | <u>\$945</u> | <u>\$1,236</u> |

Intangible assets are summarized in the following table.

| | <u>September 30, 2010</u> | | <u>December 31, 2009</u> | |
|---|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
| | <u>Carrying Value</u> | <u>Accumulated Amortization</u> | <u>Carrying Value</u> | <u>Accumulated Amortization</u> |
| | (In millions) | | | |
| Intangible assets subject to amortization | | | | |
| Patents | \$ 87 | \$ 78 | \$ 87 | \$ 74 |
| Customer relationships | 224 | 47 | 209 | 36 |
| Other | <u>144</u> | <u>91</u> | <u>145</u> | <u>88</u> |
| | 455 | 216 | 441 | 198 |
| Intangible assets not subject to amortization (primarily trademarks) | | | | |
| | <u>129</u> | <u>—</u> | <u>129</u> | <u>—</u> |
| | <u>\$584</u> | <u>\$216</u> | <u>\$570</u> | <u>\$198</u> |

Intangible assets of \$15 million were recorded in connection with the acquisition of PWP Industries and are being amortized over a 15-year period for book purposes. Amortization expense for intangible assets was \$19 million for both the nine months ended September 30, 2010, and September 30, 2009. Amortization expense is estimated to total \$26 million for 2010, \$25 million for 2011, \$24 million for 2012, \$20 million for 2013, and \$20 million for 2014.

We review the carrying value of our goodwill and indefinite-lived intangibles for possible impairment on an annual basis. Our annual review is conducted in the fourth quarter of the year, or earlier if warranted by events or changes in circumstances. There were no events or changes in circumstances in the first nine months of 2010 that warranted an impairment review of the goodwill and indefinite-lived intangibles.

Pactiv Corporation
Notes to Financial Statements (Unaudited) — (Continued)

Note 9. Property, Plant, and Equipment, Net

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| | (In millions) | |
| Original cost | | |
| Land, buildings, and improvements | \$ 688 | \$ 667 |
| Machinery and equipment | 2,121 | 1,929 |
| Other, including construction in progress | 122 | 96 |
| | \$ 2,931 | \$ 2,692 |
| Less accumulated depreciation and amortization | (1,697) | (1,520) |
| Net property, plant, and equipment | \$ 1,234 | \$ 1,172 |

Capitalized interest was \$2 million for the nine months ended September 30, 2010, and \$1 million for the nine months ended September 30, 2009.

Note 10. Income Taxes

Total gross unrecognized income tax benefits were \$39 million as of September 30, 2010, and \$58 million as of December 31, 2009. The total amount of unrecognized income tax benefits that, if recognized, would favorably impact our effective tax rate for continuing operations in future periods was \$31 million at September 30, 2010, and \$50 million at December 31, 2009. As of September 30, 2010, it is reasonably possible that the amount of unrecognized income tax benefits may increase or decrease during the following twelve months. However, it is not expected that any such changes, individually or in total, would significantly affect our operating results or financial condition.

It is our continuing practice to record accruals for interest and penalties related to income tax matters as income tax expense. Such accruals totaled \$10 million as of September 30, 2010, and \$11 million as of December 31, 2009. Expense recorded in the first nine months of 2010 for interest and penalties for continuing operations was immaterial.

As a result of the expiration of the U.S. federal statute of limitations for the year ended December 31, 2006, we recorded an income tax benefit of \$21 million for continuing operations and \$2 million for discontinued operations for the three month period ending September 30, 2010. U.S. federal income tax returns filed for the years 2007 through 2009 are open for examination by the Internal Revenue Service. Various state, local, and foreign tax returns filed for the years 2003 through 2009 are open for examination by tax authorities in those jurisdictions.

There were no gross unrecognized income tax benefits related to discontinued operations at September 30, 2010. Total gross unrecognized income tax benefits included \$1 million related to discontinued operations at December 31, 2009. Expense recorded in the first nine months of 2010 for interest and penalties for discontinued operations was immaterial.

In connection with the adoption of ASC 718-10, “Share-Based Payment,” we elected to use the simplified method in calculating our additional paid-in capital pool, as described in prior authoritative guidance. ASC 718-10 requires that tax deductions for compensation costs in excess of amounts recognized for accounting purposes be reported as cash flow from financing activities, rather than as cash flow from operating activities. Such “excess” amounts were \$3 million for the nine months ended September 30, 2010.

On March 23, 2010, the Patient Protection and Affordable Care Act (the “Act”) was signed into law. Included in the provisions is a change in the federal income tax treatment of the Medicare Part D subsidy. For periods beginning after December 31, 2012, we will no longer be entitled to receive a federal income tax

Pactiv Corporation

Notes to Financial Statements (Unaudited) — (Continued)

deduction for payments made to provide our retirees with prescription drug benefits which equal previous subsidies we received from the U.S. government for providing retirees with prescription drug benefits. We had previously recorded a deferred income tax asset for the tax benefit of future payments made with respect to this subsidy. As a result of the Act, we have written-off \$3 million of deferred income tax assets as a component of income tax expense from continuing operations for the nine month period ended September 30, 2010.

Note 11. Common Stock

Earnings Per Share

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

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|--|--|-------------|--|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| | (In millions, except share and per share data) | | | |
| Basic earnings per share | | | | |
| Income from continuing operations attributable to Pactiv | \$ 79 | \$ 79 | \$ 202 | \$ 237 |
| Weighted-average number of shares of common stock outstanding | 132,998,767 | 131,972,681 | 132,810,707 | 131,860,351 |
| Basic earnings from continuing operations attributable to Pactiv | \$ 0.59 | \$ 0.60 | \$ 1.52 | \$ 1.79 |
| Diluted earnings per share | | | | |
| Income from continuing operations attributable to Pactiv | \$ 79 | \$ 79 | \$ 202 | \$ 237 |
| Weighted-average number of shares of common stock outstanding | 132,998,767 | 131,972,681 | 132,810,707 | 131,860,351 |
| Effect of dilutive securities | | | | |
| Stock options | 698,731 | 512,681 | 559,779 | 293,795 |
| Performance shares | 632,430 | 707,921 | 667,526 | 665,148 |
| Restricted shares | 36,703 | — | 14,922 | — |
| Weighted-average number of shares of common stock outstanding, including dilutive securities | 134,366,631 | 133,193,283 | 134,052,934 | 132,819,294 |
| Diluted earnings from continuing operations attributable to Pactiv | \$ 0.59 | \$ 0.59 | \$ 1.51 | \$ 1.78 |

We did not repurchase stock in the first nine months of 2010 or 2009.

Rabbi Trust

In November 1999, we established a rabbi trust and reserved 3,200,000 shares of Pactiv common stock for the trust. These shares were issued to the trust in January 2000. This trust is designed to assure the payment of deferred compensation and supplemental pension benefits. These shares are not considered outstanding for purposes of financial reporting.

Pactiv Corporation
Notes to Financial Statements (Unaudited) — (Continued)

Note 12. Pension Plans and Other Postretirement Benefits

The impact of pension plans on pretax income was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|--------------------|--|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| | (In millions) | | | |
| Components of net periodic benefit income (expense) | | | | |
| Service cost of benefits earned | \$ (4) | \$ (4) | \$ (13) | \$ (11) |
| Interest cost of benefit obligations | (57) | (60) | (170) | (180) |
| Expected return on plan assets | 92 | 87 | 275 | 256 |
| Amortization of unrecognized net losses | <u>(19)</u> | <u>(13)</u> | <u>(56)</u> | <u>(38)</u> |
| Total net periodic benefit income (expense) | <u>\$ 12</u> | <u>\$ 10</u> | <u>\$ 36</u> | <u>\$ 27</u> |

We have postretirement health care and life insurance plans that cover certain of our salaried and hourly employees who retire in accordance with the various provisions of such plans. Benefits may be subject to deductibles, copayments, and other limitations. These postretirement plans are not funded, and we reserve the right to change them.

The impact of postretirement plans on pretax income was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|--------------------|--|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| | (In millions) | | | |
| Components of net periodic benefit income (expense) | | | | |
| Service cost of benefits earned | \$— | \$ (1) | \$ (1) | \$ (1) |
| Interest cost of benefit obligations | (1) | (1) | (3) | (3) |
| Expected return on plan assets | — | — | — | — |
| Amortization of unrecognized net losses | <u>—</u> | <u>1</u> | <u>—</u> | <u>1</u> |
| Total net periodic benefit income (expense) | <u>\$ (1)</u> | <u>\$ (1)</u> | <u>\$ (4)</u> | <u>\$ (3)</u> |

Note 13. Segment Information

Our three segments are Consumer Products, Foodservice/Food Packaging, and Other. See Note 1 for additional details.

Pactiv Corporation
Notes to Financial Statements (Unaudited) — (Continued)

The following table sets forth certain segment information.

| | <u>Consumer Products</u> | <u>Foodservice/Food Packaging</u> | <u>Other</u> | <u>Total</u> |
|--|------------------------------|---------------------------------------|--------------|--------------|
| | (In millions) | | | |
| For the three months ended September 30, 2010 | | | | |
| Sales to external customers | \$ 333 | \$ 611 | \$ — | \$ 944 |
| Operating income (loss) | 58 | 64 | (5)(a) | 117 |
| For the three months ended September 30, 2009 | | | | |
| Sales to external customers | \$ 312 | \$ 527 | \$ — | \$ 839 |
| Operating income (loss) | 80 | 73 | (5)(a) | 148 |
| At September 30, 2010, and for the nine months then ended | | | | |
| Sales to external customers | \$ 985 | \$1,709 | \$ — | \$2,694 |
| Operating income (loss) | 185 | 182 | (7)(a) | 360 |
| Total assets | 1,290 | 2,523 | 146(b) | 3,959 |
| At September 30, 2009, and for the nine months then ended | | | | |
| Sales to external customers | \$ 951 | \$1,555 | \$ — | \$2,506 |
| Operating income (loss) | 223 | 234 | (11)(a) | 446 |
| Total assets | 1,250 | 2,111 | 211(b) | 3,572 |

(a) Includes pension plan income and unallocated corporate expenses.

(b) Includes administrative service operations.

Note 14. Noncontrolling Interests

There were no changes in ownership interest in our subsidiaries for the nine months ended September 30, 2010, or September 30, 2009.

Note 15. Guarantor.

Certain subsidiaries of Pactiv have entered into guarantee and security arrangements in connection with indebtedness entered into by RGHL and its subsidiaries and affiliates in connection with the acquisition of Pactiv by RGHL as described in Note 2. In accordance with SEC regulation S-X Rule 3-10 disclosure requirements, the following condensed consolidating financial information presents:

- (1) The condensed consolidating statements of financial position as of September 30, 2010 and the related statements of income and cash flow for the nine month period ended September 30, 2010 of (a) Pactiv Corporation (the “Parent”), (b) the other guarantor subsidiaries, (c) the non-guarantor subsidiaries and (d) Pactiv Corporation on a consolidated basis.
- (2) The eliminating entries necessary to consolidate the Parent with the other guarantor subsidiaries and the non-guarantor subsidiaries.

Pactiv Corporation

Notes to Financial Statements (Unaudited) — (Continued)

Each guarantor subsidiary is 100% owned by Pactiv Corporation. The indebtedness issued by RGHL is fully and unconditionally guaranteed to the extent permitted by law on a joint and several basis by each guarantor subsidiary. Provided below are condensed statements of income, financial position, and cash flows of Pactiv Corporation and the condensed statements of income, financial position and cash flows of the guarantor and non-guarantor subsidiaries. They have been prepared under the accounting policies of Pactiv Corporation. The guarantor subsidiaries and non-guarantor subsidiaries are each presented on a combined basis. The principle eliminating entries eliminate investments in subsidiaries and intercompany balances and transactions.

Pactiv Corporation
Notes to the Financial Statements
For the nine months ending September 30, 2010

Condensed Consolidating Statement of Income

| | <u>Parent</u> | <u>Guarantor Entities</u> | <u>Non-Guarantor Entities</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|---------------------|-------------------------------|-----------------------------------|-----------------------|----------------------|
| | (In millions) | | | | |
| Sales | \$ — | \$ 2,641 | \$ 53 | \$ — | \$ 2,694 |
| Cost of sales | — | (1,911) | (44) | — | (1,955) |
| Selling, general, and administrative | (43) | (189) | (4) | — | (236) |
| Depreciation and amortization | (5) | (139) | (1) | — | (145) |
| Other | <u>126</u> | <u>(124)</u> | <u>—</u> | <u>—</u> | <u>2</u> |
| Operating income (loss) | 78 | 278 | 4 | 0 | 360 |
| Interest expense (net of interest income) . . | (69) | (5) | — | — | (74) |
| Share of income of joint ventures | — | — | 1 | — | 1 |
| Share of equity earnings of subsidiaries, net of tax | <u>196</u> | <u>—</u> | <u>—</u> | <u>(196)</u> | <u>—</u> |
| Income (loss) before income taxes | 205 | 273 | 5 | (196) | 287 |
| Income tax expense | <u>(3)</u> | <u>(80)</u> | <u>(1)</u> | <u>—</u> | <u>(84)</u> |
| Income from continuing operations | 202 | 193 | 4 | (196) | 203 |
| Discontinued operations, net of tax | <u>2</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>2</u> |
| Net income | 204 | 193 | 4 | (196) | 205 |
| Less: Net income attributable to the noncontrolling interest | <u>—</u> | <u>—</u> | <u>(1)</u> | <u>—</u> | <u>(1)</u> |
| Net income attributable to Pactiv | <u>\$204</u> | <u>\$ 193</u> | <u>\$ 3</u> | <u>\$(196)</u> | <u>\$ 204</u> |

Pactiv Corporation
Notes to the Financial Statements
September 30, 2010

Condensed Consolidating Statement of Financial Position

| | <u>Parent</u> | <u>Guarantor Entities</u> | <u>Non-Guarantor Entities</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------------|-------------------------------|-----------------------------------|-------------------------|-----------------------|
| | (In millions) | | | | |
| Assets | | | | | |
| Cash and temporary cash investments | \$ 4 | \$ 39 | \$ 9 | \$ — | \$ 52 |
| Accounts and notes receivable | 1 | 455 | 21 | — | 477 |
| Inventories | — | 472 | 10 | — | 482 |
| Intercompany accounts | (223) | 359 | 1 | (137) | — |
| Deferred income tax assets | 34 | — | — | — | 34 |
| Other assets | 4 | 10 | — | — | 14 |
| Total current assets | (180) | 1,335 | 41 | (137) | 1,059 |
| Property, plant, and equipment, net | 49 | 1,173 | 12 | — | 1,234 |
| Goodwill | — | 1,236 | — | — | 1,236 |
| Intangible assets, net | — | 367 | 1 | — | 368 |
| Investments in affiliates & intercompany accounts | 2,814 | — | 2 | (2,814) | 2 |
| Other | 41 | 19 | — | — | 60 |
| Total other assets | 2,855 | 1,622 | 3 | (2,814) | 1,666 |
| Total assets | <u>\$2,724</u> | <u>\$4,130</u> | <u>\$56</u> | <u>\$(2,951)</u> | <u>\$3,959</u> |
| Liabilities and Equity | | | | | |
| Short-term debt, including current maturities of long-term debt | \$ 30 | \$ 135 | \$— | \$ — | \$ 165 |
| Accounts payable | 3 | 182 | 5 | — | 190 |
| Short-term borrowings-affiliates | 11 | (8) | 8 | (11) | — |
| Intercompany accounts | — | 115 | 3 | (118) | — |
| Other liabilities | 61 | 177 | 1 | — | 239 |
| Total current liabilities | 105 | 601 | 17 | (129) | 594 |
| Long-term debt | 1,270 | — | — | — | 1,270 |
| Deferred income taxes | — | 111 | — | — | 111 |
| Intercompany accounts | — | 120 | — | (120) | — |
| Pension and postretirement benefits | — | 598 | — | — | 598 |
| Other | 113 | 20 | 2 | — | 135 |
| Total Pactiv shareholders' equity | 1,236 | 2,680 | 22 | (2,702) | 1,236 |
| Noncontrolling interest | — | — | 15 | — | 15 |
| Total equity | 1,236 | 2,680 | 37 | (2,702) | 1,251 |
| Total liabilities and equity | <u>\$2,724</u> | <u>\$4,130</u> | <u>\$56</u> | <u>\$(2,951)</u> | <u>\$3,959</u> |

Pactiv Corporation
Notes to the Financial Statements
For the nine months ending September 30, 2010
Condensed Consolidating Statement of Cash Flows

| | <u>Parent</u> | <u>Guarantor Entities</u> | <u>Non-Guarantor Entities</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|---------------|-------------------------------|-----------------------------------|---------------------|---------------------|
| | (In millions) | | | | |
| Cash provided (used) by operating activities | \$ — | \$ 242 | \$ (4) | \$ 16 | \$ 254 |
| Cash provided (used) by investing activities | (331) | (172) | — | 201 | (302) |
| Included in investing activities: | | | | | |
| Expenditures for property, plant, and equipment | (1) | (99) | — | — | (100) |
| Acquisitions of business and assets | (203) | — | — | — | (203) |
| Other investing activities | (127) | (73) | — | 201 | 1 |
| Cash provided (used) by financing activities | 331 | (58) | (3) | (217) | 53 |
| Included in financing activities: | | | | | |
| Issuance of common stock | 3 | — | — | — | 3 |
| Revolving credit facility borrowings | 160 | — | — | — | 160 |
| Intercompany borrowings/loans | 296 | (78) | (1) | (217) | — |
| Revolving credit facility payment | (130) | — | — | — | (130) |
| Assets securitization borrowings | — | 20 | — | — | 20 |
| Dividends paid to noncontrolling interest | — | — | (2) | — | (2) |
| Other | 2 | — | — | — | 2 |
| Effect of foreign exchange rate changes on cash and temporary cash investments | <u>—</u> | <u>—</u> | <u>1</u> | <u>—</u> | <u>1</u> |
| Increase (decrease) in cash and temporary cash investments | — | 12 | (6) | — | 6 |
| Cash and temporary cash investments, January 1, 2010 | <u>5</u> | <u>26</u> | <u>15</u> | <u>—</u> | <u>46</u> |
| Cash and temporary cash investments, September 30, 2010 | <u>\$ 5</u> | <u>\$ 38</u> | <u>\$ 9</u> | <u>\$ —</u> | <u>\$ 52</u> |