

To Our Shareholders >

It's all about meeting changes in lifestyles.
At home or at work, we make everyday life
more convenient by delivering choices.



Richard L. Wambold
Chairman & Chief Executive Officer

In last year's letter, I laid out six aggressive goals to shape Pactiv into a leading company in the specialty packaging industry and to deliver extraordinary value to our shareholders. The people of Pactiv performed on those promises exceptionally well...

> **Building a Great Company Means Meeting Our Commitments**

We said we would significantly improve our profitability. We did. Excluding unusual items, 2000 net income from continuing operations totaled \$143 million, or 89 cents per diluted share, up 54 percent from 1999.

We said we would grow sales at above-market rates of 4 percent to 6 percent. We did, driving sales from our core businesses – Hefty® Consumer Products, Foodservice/Food Packaging, and Protective and Flexible Packaging – to more than \$3.1 billion, a gain of 7 percent from 1999, excluding the impact of foreign-currency exchange, divestitures, and discontinued product lines.

We said we would improve our margins substantially. We did that as well. We moved aggressively to pass through resin costs, which rose dramatically, industry-wide, during 2000. As a result, our gross margin expanded 2.6 percentage points from our low point in the first quarter, ending the year at 29.6 percent. Our operating margin widened 2.5 percentage points, closing the year at 13.2 percent. And there's still room for further margin improvement going forward.

We said we would reduce our selling, general & administrative (SG&A) costs by \$40 million. We beat that target, reducing our annual SG&A run rate by a full \$55 million.

We said we would improve our balance sheet. We did. By generating \$155 million in free cash flow and disposing of underperforming assets in 2000, we paid down almost \$500 million in debt and returned another \$100 million to shareholders through the repurchase of 11.7 million shares of our stock.

Most important, we said we would significantly improve the return on capital employed (ROCE) in our businesses. We did that as well, driving our ROCE up 2 percentage points to 8 percent in 2000. We're well on the way to reaching our near-term goal of earning at least 10 percent on capital employed.

> **Setting Demanding Goals**

Results like these demonstrate to our shareholders that when we make commitments we meet them. They demonstrate to our employees that their efforts and contributions are having an important impact both on our own operations and in the marketplace. And they mean we have the capital structure, cash flow, and financing flexibility to advance in our markets and grow.

We have, however, only started to demonstrate what this company can accomplish. The strong trends driving growth in our markets, notably shifting demographics and consumer lifestyles, are changing not only what consumers buy but more and more often how they buy. Our goal going forward is to capitalize on these trends, leveraging Pactiv's proven strengths – leading market shares, strong brands, broad product lines, great history of innovation, and outstanding channel and market access.

We've set high goals. We expect over the long run to translate solid sales growth into 12 percent to 15 percent annual earnings growth and to achieve a ROCE of over 10 percent. Our game plan going forward for building value is based on achieving these goals.

> **Investing In The Winners**

Our business focus is a simple one. We continuously refine our business, ensuring that Pactiv is a leader in every specialty packaging market we choose to serve. In 2000, more than 80 percent of our sales came from products that hold the No. 1 or No. 2 market position.

Since our spin-off we have focused our assets and efforts firmly on the highest-growth, highest-margin markets and businesses – businesses in which we can translate our clear-cut advantages into above-market returns. As part of that effort, we exited the rolled-metal products business, disposed of several small businesses in Europe, and in early 2001, sold our packaging polyethylene business, removing Pactiv from volatile, low-margin markets. We also began a major realignment of our Protective and Flexible Packaging business, which will involve consolidating several facilities, improving productivity, and exiting slow-or-no-growth businesses. Over the next 18 to 24 months, we plan to double the profitability of this business.

Make no mistake – aligning our operations with market realities and allocating our assets to the best-return businesses is a process that never ends. We are continuously assessing every aspect of our company to make sure that we’re positioned to lead.

In 2001, our focus will begin to shift from realignment to growth, including acquisitions. Our industry today offers attractive acquisition opportunities, and we intend to capitalize on them. Our goal is to pursue opportunities that fit our product lines, meet customer needs, and have immediate potential to enhance our results.

> **Extending Market Leadership**

A clear winner is our Hefty® megabrand – one of the best-recognized and most valuable consumer brands in North America. Hefty® has a leading market share position in each of its product lines: Hefty® waste bags, disposable tableware, E-Z Foil®, and OneZip®. Our objective is to extend existing products and add new products to the Hefty® family. Hefty® represents a unique opportunity to create convenience for America’s households and value for Pactiv shareholders.

Growth at Pactiv isn’t limited to Hefty®. The Foodservice/Food Packaging business is performing well today and has great growth prospects. We have long provided the broadest product line in our markets, and we took our leadership position to new levels in 2000 by extending the range of foam disposables, microwaveable containers, case-ready packaging, and packing trays. In addition, we strengthened our product position in key protective/flexible packaging markets in Europe and the United States. All told, we introduced more than 50 new products in 2000, and many more are scheduled for 2001, mostly designed to capitalize on important long-term trends in the convenience economy.

> **Delivering One Simple Package**

The breadth of our product line is one of Pactiv’s many strengths. Our overriding goal is to deliver packaging solutions – *one simple package* – to our customers, by making our business processes more productive, more efficient, and more customer-focused than ever before. Increasingly, the key to our growth is our unique ability to deliver multiple products through multiple channels to meet multiple needs in an integrated manner.

As a result of investments made over the past several years – in developing an integrated information technology infrastructure, in coordinating our sales, ordering, billing, and service organizations, and in consolidating once-scattered warehouses into focused regional

distribution centers – we are building a logistics capability that can deliver an exceptionally broad product line with superior levels of customer service.

On the institutional side, distributors, supermarkets, major restaurant chains, and many other customers can now benefit from true one-stop shopping for products, only having to deal with one sales representative, one order, one delivery truck, and one invoice. On the retail side, our approach to distribution makes ordering, stocking, and inventory management much simpler. And our company benefits from lower costs and will gain even more from the ease with which new products and acquisitions can be integrated into the mix.

> **Achieving Lasting Cost Leadership**

In 2000, we also took steps to reinforce Pactiv’s long-term position as the industry’s low-cost provider, by leveraging our scale, using technology to improve our processes, and investing in people and productivity.

I touched earlier on an important way in which we are leveraging our scale: through improvements in distribution and logistics. With the creation of regional distribution centers, which now serve 80 percent of the United States, we are positioned to further improve our service and reduce our total delivered cost.

At the same time, we continue to invest in proprietary process technology. In 2000, nearly a quarter of our research and development spending and roughly 30 percent of our capital spending were devoted to efforts to unleash hidden capacity across our manufacturing operations, reduce costs, and improve manufacturing and distribution productivity. We expect to continue spending on process and productivity improvement at the same relative levels for the foreseeable future.

Important as these investments are, much of our progress results directly from the attitude of Pactiv employees. They are committed to finding ways to deliver our products, services, and solutions better, faster, and more efficiently every day.

To help our employees accomplish this, and to make our company a better place to work, we initiated a program to empower employees and to begin to make Pactiv’s culture a competitive advantage. “The Pactiv Attitude” reinforces the behaviors that make people successful, and companies great – behaviors like accountability, teamwork, and earning the trust of each customer. The response of the 3,000 team members trained so far has been excellent and the support this program will give to the hard work we have ahead of us will be well worth the effort.

> **Working With The Best People**

Our markets are, for the most part, consumer driven, and depend to varying degrees on the strength of the U.S. economy, whose growth has slowed thus far in 2001. We're confident that our accomplishments in 2000, combined with the powerful and positive trends driving growth in our markets, will help us reach our performance objectives in 2001 and beyond.

In closing, I want to thank our customers and shareholders for the strong support and encouragement they have given us over the past 16 months as we worked to reshape this company and improve its performance. In our first year as a public company, it was very gratifying to be recently recognized in Fortune magazine's "America's Most Admired Companies," as the third most admired company in our industry group.

I want to thank the members of our Board of Directors for their contributions and counsel throughout the year. In today's environment, serving as a director of any company is a demanding job, particularly at a company that has been transformed as significantly and as rapidly as Pactiv. Their insights and experience are greatly appreciated.

And I want to thank our employees, who made this year a successful one. Across our company, people were asked to make significant changes in how they look at and do their jobs, and how they work with others. Their success in making those changes – in showing what "The Pactiv Attitude" means in practice – was an important factor in our performance.

We are very pleased with our results in our first year as a public company. But we have only begun to demonstrate what we can do. All of us at Pactiv will be working hard to make 2001 even better.

Sincerely,

Richard L. Wambold

Chairman and Chief Executive Officer

March 21, 2001