

Pactiv Corporation (NYSE: PTV) is a leading producer of specialty packaging products with sales of \$3.1 billion and operations in 14 countries. Pactiv is a market leader in targeted sectors of the packaging industry: Consumer Products, with the Hefty® brand; Foodservice / Food Packaging; and Protective and Flexible Packaging. With one of the broadest product lines in the specialty packaging industry, the company derives more than 80% of its sales from product lines in which it holds the No. 1 or No. 2 market-share position.

## ...365 days a year

**TO OUR SHAREHOLDERS:** I am pleased to report Pactiv's fourth consecutive year of improved performance and solid financial results. In 2003, we continued our relentless focus on growth and productivity. We continued to build businesses that generate strong free cash flow. We used our financial strength to invest wisely in the future of our businesses and to enhance shareholder value through share repurchases. We continued to shape ourselves into a company that will achieve even greater growth and success in the years ahead.

Among the major highlights for the year:

- Sales grew 9% to \$3.1 billion.
- Net income rose 24% to \$183 million, or \$1.14 per share, from \$148 million, or \$0.92 per share, in 2002.
- Earnings from continuing operations, excluding \$0.22 per share for a settlement of litigation inherited at the time of our spin-off, totaled \$1.43 per share, compared with \$1.37 per share in 2002. Including this charge, earnings from continuing operations totaled \$1.21 per share.
- Our productivity and procurement improvement programs generated more than \$30 million in cost savings.
- Free cash flow totaled \$224 million, even after deducting \$19 million associated with the litigation settlement.
- Our return on capital employed, which was 6.8% in 2000, reached 11.4% in 2003, well above our weighted-average cost of capital.

**FOUR YEARS OF CONTINUING SUCCESS** In our four years as a public company, we have reshaped our business portfolio. We sold underperforming businesses that had annual sales in excess of \$200 million and added a number of new businesses, including Winkler Forming, Jaguar, and Rock-Tenn's plastic packaging assets, that will strengthen our core businesses and provide future growth. Our businesses are generating substantial, sustainable free cash flow. We repurchased 18 million shares of our common stock, including 2.7% of total outstanding shares in 2003. We reduced debt by \$725 million, or 35%, and established a capital structure that gives us tremendous strength and financial flexibility. And over this period we have delivered total shareholder returns well ahead of both the Dow Jones Industrial Average and S&P 500 Index. Our performance has been strong and consistent.

As these results show, our businesses have sound strategies, and we are implementing them well. We have shaped Pactiv into a business that is building value for its shareholders. Recognizing our

achievements, in early 2004 FORTUNE magazine named Pactiv America's Most Admired Company in our industry group for the second consecutive year. We are proud of our success and more importantly, we look forward to what can be accomplished as we build on this strong foundation.

**LEVERAGING CORE STRENGTHS TO ADVANCE IN OUR MARKETS** Our goals are straightforward. In each of our businesses – Hefty® Consumer Products, Foodservice / Food Packaging, and Protective and Flexible Packaging – we seek to be No. 1 in the measures that matter: growth, profitability, and investment returns. The challenges of being No. 1 – both in financial measures and in service to our customers – are more demanding than ever, and we continue to build on our proven strengths to meet them. These strengths include:

- **Hefty® Brand Equity.** Pactiv's Hefty® brand is one of the nation's most trusted and most recognized brands, and its power represents an important opportunity to create value for both America's households and our shareholders. The Hefty® brand means strength and quality to consumers. It means strong category growth and profit to our retail partners. And to Pactiv, the Hefty® brand provides a way to bring new products to customers who are excited to try them.
- **Product Breadth / Market Leadership.** Across our businesses, Pactiv's broad product lines are leaders in their categories. In fact, the company derives more than 80% of its sales, and an even greater percentage of its earnings, from product lines that hold the No. 1 or No. 2 market-share position. With one of the most extensive product lines in the industry, the company has produced solid growth rates – and done so in a challenging economy.
- **Channel Access and Distribution.** Our product lines are sold through multiple channels. Institutional channels include supermarkets, food packers and processors, distributors, restaurants, and schools. Retail channels include mass merchandisers, warehouse clubs, grocery stores, drug stores, and dollar stores. Over the past several years, the company has aggressively built an industry-leading integrated logistics capability – delivering enhanced value to customers by allowing them to order Pactiv's products with fast, one-truck delivery.
- **Innovation.** Pactiv strives to lead in innovation with one of the industry's foremost new product development capabilities. Through this effort the company continues to deliver more than 50 new packaging products each year, helping customers, driving growth, and differentiating our product offering.
- **Cost Leadership.** We believe that the marketplace will be more competitive as we go forward and that we must be prepared to meet its challenges. We embrace these changes as a part of our strategy. By leveraging our scale, technology, and the skills of our people, Pactiv has become an industry cost leader, and we are working to further improve our operational excellence to become the industry's low total-cost producer.

**WHAT'S NEXT** Leading in our markets and building on that leadership means always asking “What’s next?” and making that happen today.

**Growth** We are determined to build our businesses into even stronger leaders by intimately understanding our customers’ needs, developing new products to meet those needs, moving into new markets, and adding to our portfolio through targeted acquisitions.

New products are driven in large part by creativity. We listen to our customers and then use our marketing and technical capabilities to help solve their problems. Sometimes the answer is as simple as a new way to help merchandise a prepared entrée for takeout. Other times we have to tackle big problems like developing an inexpensive new material that can go directly from the freezer to the microwave. In the end, it’s our employees’ ability to listen and create, and our customers’ willingness to trust and collaborate, that are the keys to our successful new product effort.

Acquisitions also play an important role in our growth. We use acquisitions to add new products and material capabilities, as well as to efficiently enter adjacent markets. In 2003, we acquired the plastic packaging assets of Rock-Tenn Company and completed the acquisition of the remaining 30% of Mexico-based Central de Bolsas, S.A. de C.V. (Jaguar Corporation), making Jaguar a wholly-owned subsidiary of Pactiv. We have a track record of making successful acquisitions, and we expect this capability to be a significant contributor to growth and earnings in the future.

**Productivity** Productivity at Pactiv means paving the way to growth, by becoming more and more efficient. By focusing on productivity – continuously measuring and improving our performance in manufacturing, logistics, quality, and other areas across the company – we have delivered savings and cost improvements, freed up capacity, expanded margins, and increased cash flow. Being the low-cost producer doesn’t just save money, it also funds our ability to grow through new products and acquisitions.

In 2003, we generated over \$30 million in cost savings and productivity improvements, and we’re not letting up. We expect to achieve similar savings in 2004, and we believe that there are many more untapped opportunities for increased efficiency and cost reduction in all areas of our business.

Finally, we are extending our focus on productivity all the way to the unloading dock of our customers. By using our unique distribution capabilities, we can offer our customers better management of their logistics operations and inventory – the result: higher inventory turns, lower costs, and a better bottom line for all of us.



As a result of all of these efforts, we are bringing unique value to our marketplace, both in scale – which means greater efficiencies and lower costs – and in scope, which gives us the opportunity to drive improvements throughout the entire supply chain. We believe we stand apart in our marketplace today, and we have only scratched the surface of what Pactiv can accomplish.

**Attitude** When we went public in November 1999, our challenge was to establish the vision, direction, and discipline needed to realize Pactiv’s full potential. We set financial goals, but just as important, focused on creating a culture that would help us reach our aggressive targets. Pactiv employees now share what we call “The Pactiv Attitude,” a company-wide focus on performance. The Pactiv Attitude is not only about delivering financial results, it’s about building a business that can provide value to all stakeholders over the long term.

**LOOKING AHEAD** As we look at 2004, we continue to see uncertainties. The economy, while improving, has yet to create the demand that is driven by higher employment levels. Raw material costs have continued to climb. We are not waiting for favorable external factors to enhance our margins and profitability. Our future is in our own hands, and we look forward to the opportunity to continue to delight our customers, improve our businesses, and deliver solid returns to shareholders. We are proud of our ability to understand the challenges ahead, and even more proud of our ability to make changes to address them successfully.

I want to thank our customers and shareholders for the support that they provided throughout the year. I also want to express appreciation to our board of directors for their contributions. Specifically, I want to welcome K. Dane Brooksher, who joined the board in March 2003. I would also like to thank Paul T. Stecko, who left our board in October, for the significant contributions he made to our business over the years.

Above all, I want to thank our employees for their efforts throughout 2003. While we accomplished much, we know that looking back is never as important as looking ahead. The employees of Pactiv are doing precisely that, working hard to build on our strengths, grow our business, take our performance to higher levels, and deliver value in 2004 and beyond.

**Richard L. Wambold**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
MARCH 15, 2004