

## Letter to Shareholders

Richard L. Wambold, Chairman & Chief Executive Officer



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### DEAR SHAREHOLDERS:

At Pactiv Corporation, we have consistently delivered strong financial results, year after year. As much as you have come to expect it of us, we demand excellence from ourselves. In many ways, 2004 was no exception — we posted an 8% growth in sales, including a 4% increase in volume, and \$267 million in free cash flow\*. Our product portfolio is stronger than ever, operating costs have been reduced, and we've invested significantly for the future, helping to ensure our long-term growth.

Yet, 2004 was a year that challenged us like no other. Partially masking what was otherwise a year of excellent business performance was an unprecedented \$110 million surge in raw-material costs... a challenge we expect will continue into 2005. We passed much of these costs through with higher pricing and made excellent progress on our productivity programs, but in the end, we fell short of our earnings target for the year.

A disappointment, yes. Yet often, tough times define who we are and, no doubt, 2004 was a defining moment for us. Our team faced these cost challenges with quick thinking, strategically smart decisions, and an incredible amount of hard work to increase productivity, grow sales, and improve pricing. I'm extremely proud that we did not — nor will we — surrender our long-term mission by cutting investments to boost short-term results.

Instead, we continued to develop and introduce exciting new products and took critical steps to further enhance our product development capability. We strengthened customer partnerships and service capabilities. We invested in productivity and efficiency improvements. And we generated significant cash, returning \$230 million of it to shareholders by repurchasing more than 10 million shares of our stock.

Despite far from ideal circumstances, we delivered on most of our key financial objectives. Through the actions we took last year and those we have already taken and will take in 2005, Pactiv is strong and poised to reap healthy returns for years to come.

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## GROWTH

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New products across our businesses have accounted for more than half of our sales growth over the past two years. The real news is that this is only the beginning.

In 2004, we launched more than 50 new products across the segments we serve, including our new thick, strong, and stretchable Hefty® Ultra Flex™ waste bag line. We expanded our product offering in the food away from home market, and delivered new packaging for fast-food restaurants. And we continued to strengthen our inflatable packaging offering in our protective packaging unit.

In 2005, we will again introduce a strong slate of new products, bolstered by a significant increase in our investment in new product support. We believe that over the next several years our new Hefty® Serve 'n Store™ tableware (highlighted on pages 16 and 17 of this report) will develop into a \$100 million product line. In addition to adding to our sales, new products will strengthen share in their respective markets and add to the long-term strength of the Hefty® brand.

To maintain our potential for continued growth, in 2004 we built a new, state-of-the-art product development center in the Chicago area. As a result, product development and marketing will work closely as a single team to elevate our product innovation efforts to new heights. These synergies, coupled with the addition of talent recruited last year, will drive further improvement in existing product lines, leverage our current strengths to new categories, and, when it makes sense, extend our capabilities into new, high-potential markets.

In 2005, we believe we have excellent opportunities to expand our already strong position with foodservice, processor, and supermarket customers. Increasingly, consumers are letting others do the cooking and are spending a growing percentage of their food dollar on food prepared away from home. Supermarkets have made major gains as a source of take-out food, and take-out is representing a larger and increasing proportion of restaurant sales. As supermarkets, foodservice operators, and processors work to meet the growing consumer demand for more prepared food items, the breadth of our product line — including a wide range of materials and functional capabilities — is allowing us to capitalize on the growth in the market for food away from home.

In March 2005, Pactiv acquired Newspring Industrial Corp., a leading designer and manufacturer of high-quality injection molded packaging for the take-out, delicatessen, and foodservice markets. The purchase of Newspring will allow Pactiv the opportunity to expand in the fast growing market for polypropylene products, as well as provide the company with superior technology and manufacturing know-how.

We made excellent progress in our Protective and Flexible Packaging business in 2004. Sales grew 9%, operating income\* grew 27%, and operating margin\* expanded 1.1 percentage points. The improving economy in North America, and the positive impact of our past restructuring efforts were evident in the segment's results. Europe's sluggish economy slowed our efforts to improve our protective packaging business, but we did see better performance in our flexible packaging operations. We expect each of these businesses to show stronger results as we move forward in 2005.

## PRODUCTIVITY

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Our goal is clear: We will become the lowest total-cost provider in our industry. To achieve that goal, we must aggressively push for even greater levels of efficiency and productivity.

Over the past three years, we have achieved approximately \$90 million in savings from our productivity programs. In 2004, we began to implement lean manufacturing techniques in some of our facilities. These improvement practices are helping us reduce costs, better match production schedules with customer demand, leverage existing assets, and uncover non-value added activities so we can eliminate them from our processes.

## LEADERSHIP

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For the third consecutive year, Pactiv has been named one of America's Most Admired Companies and No. 1 in the packaging, container industry by FORTUNE magazine. Moreover, we ranked first in our industry in each of the eight key attributes that FORTUNE magazine uses to measure company performance.

As we journey forward, we will continue to pursue the strategies that have formed the foundation of our five-year performance as a public company — building on Hefty® brand equity, leveraging our product leadership and channel access in Foodservice/Food Packaging, and improving the performance of our Protective and Flexible Packaging business. Growth through product innovation and cost leadership through improved efficiencies will continue to be our corporate mantras.

It has been said that tough times don't last, but tough people do. So while we can hope for a less volatile raw materials market in 2005, the better strategy is to expect continued uncertainties, plan for them, and mitigate their effects. The support that our customers, shareholders, and Board of Directors provided in 2004 is much appreciated and affirms their belief in our vision, as well as in our employees, whose hard work and dedication have built a solid foundation from which we will continue to grow.

We are excited about the opportunities that lie ahead and we have prepared ourselves to take advantage of them. Ours is a company that is healthy and strong. And as such, I can say with confidence as I look to our future — our best performance is yet to come.

Sincerely,  
**Richard L. Wambold,**  
Chairman & Chief Executive Officer  
March 21, 2005

\*For reconciliation to GAAP, see page 55 for free cash flow and operating margin, and page 24 for operating income.