

Dear Shareholders:

2005 was a year of strategic accomplishment for Pactiv. We balanced our commitment to deliver solid financial results with our pledge to build a strong foundation for future growth and continued market leadership. We strive to make Pactiv a top performer in our industry and a company capable of consistently delivering value to shareholders. Our 2005 achievements enabled us to make solid progress.

We remain committed to our strategy of growth in our Hefty® Consumer Products business, and in the high margin, high growth markets within our Foodservice/Food Packaging business. We are well positioned in both segments, with broad product offerings, excellent market share positions, positive consumer trends, and healthy distributors and retailers for our products. In 2005, we reaffirmed our commitment to this strategy with our strongest investment ever in new products. We also made the decision to narrow our strategic focus by divesting substantially all of our Protective and Flexible packaging business. By divesting a profitable but less promising business, we underscored our intent to position our company over time into higher growth, higher margin products and markets. The proceeds from the sale put us in a strong financial position to support future growth.

In 2005, we acquired Newspring Industrial Corp., a leading manufacturer of thin wall injection molded polypropylene products. This addition supports our growth in the upscale chain restaurant and high-end foodservice markets. Newspring's product line is growing at double-digit rates and we invested more than \$18 million to expand capacity to support additional sales in 2006 and beyond. We are excited about the opportunities created by acquisitions like this and will continue to grow our Consumer and Foodservice/Food Packaging businesses in this manner as we move forward.

New Products

A consistent, long-term new product development program is an essential element of our effort to extend our leadership in the major product categories in which we participate. During the first full year of operation of our new state-of-the-art product development center located near our corporate headquarters, we introduced approximately 40 new products across our businesses.



Richard L. Wambold
Chairman and
Chief Executive Officer

LETTER TO SHAREHOLDERS

In 2005, we made a strong commitment to new products in order to support the long-term growth of our Hefty® Consumer Products business. Key to our strategy is making the Hefty® brand a much larger player in the consumer market for disposable tableware products. To do this, we launched Hefty® Serve 'n Store® plates and bowls and Hefty® EZ Grip™ cups to complement our lower-end foam tableware product offering. We expect new product innovations in these categories to generate \$100 million in annual retail sales over the next few years.

These new products will help build our presence and share in a higher margin, growing market where we have a competitive advantage, thanks to the Hefty® brand and to the scale and synergies that come from joint manufacturing with our Foodservice/Food Packaging segment. Implementing a strategy of this magnitude requires a sizeable investment. Expenses associated with the launch of these products negatively impacted 2005 operating income by approximately \$45 million. In 2006, we expect the impact to be half this amount, with growing contributions to profit as we move forward.

In our Foodservice/Food Packaging business, we brought a wide array of new products to our customers. Among them were products for industry-leading fast food and casual dining restaurants. We continue to introduce a significant portion of the industry's new foodservice products, and are well positioned to capitalize on existing and emerging industry trends.

Improving Our Margins

At Pactiv, we are working to innovate in ways that go beyond bringing new products to market. In 2005, we expanded our systematic approach to margin improvement within our company. By adding new management tools and systems, our operations, sales, and marketing teams will contribute to this goal going forward.

Over each of the past four years, we have successfully reduced our product costs through a strong focus on productivity improvement. These efforts have improved our cost structure by over \$100 million, more than offsetting inflation and helping to offset raw material cost increases.



During 2005, we began aggressively attacking operational costs by implementing a Lean Performance initiative. The idea of “lean” is simple – produce to demand – give customers what they want, when they want it. Focus on what the customer values and is willing to pay for. Eliminate waste at every step. One of the strengths in approaching productivity in this way is that we evaluate all business processes and their total costs. With “lean,” we are going beyond traditional measures to seek out the most efficient approach, simultaneously improving quality and lowering costs.

Managing Volatility

The single greatest challenge over the past three years – and particularly in 2005 – has been managing the impact of increasing energy costs, especially on plastic resin, our primary raw material. Since the end of 2002, our material costs have risen by over \$300 million. It has been a strategic effort to offset these cost increases through a combination of aggressive productivity initiatives and, when necessary, passing them on in the form of higher prices.

Financial Results

As we began 2005, we understood that both the commitment to future growth in new products and the drive to recover raw material and energy costs would have a negative impact on short-term profits and volume growth. Nevertheless, we delivered strong financial performance in light of the aggressive goals we set.

Sales grew 8 percent. Volume, while flat for the full year, showed growth in the second half. Excluding restructuring charges, earnings per share* declined from \$1.22 in 2004 to \$0.99, due primarily to product launch costs. Free cash flow* was a healthy \$159 million even after an increase of \$43 million in capital spending to support future growth initiatives and \$15 million in after-tax payments related to a 2004 litigation issue. During the year, we reduced our debt by \$468 million, ending the year with \$700 million in net debt*, giving us the strongest balance sheet since our spin-off in 1999. Finally, we returned \$164 million to shareholders by repurchasing 8.6 million shares of our common stock.



LETTER TO SHAREHOLDERS

Leadership

We are proud that, in 2005, for the third consecutive year, we led our industry as FORTUNE magazine's Most Admired Company in our segment. There's one reason for this achievement – Pactiv has the best people in the industry, and the Board and I are thankful for their dedicated efforts. In late 2005, we welcomed a new Board member to our team, N. Thomas Linebarger, executive vice president of Cummins Inc. and president of Cummins Power Generation.

I want to recognize and thank our customers and suppliers for their support this year. Our customers demonstrated confidence in our company during the difficult operating environment we faced in 2005. Our suppliers made a significant contribution by working closely with us during the raw material shortages that occurred in the aftermath of the Gulf Coast hurricanes.

2005 was a year in which some companies would have reduced their investment in the future to improve earnings. We did not because we have successfully created a business with the wherewithal to perform in even the most difficult operating environments. 2005 was demanding and our performance, both financial and strategic, was solid and positioned us for another year of progress in 2006.

Sincerely,

Richard L. Wambold

Chairman and Chief Executive Officer

March 20, 2006

*For reconciliation to GAAP, see page 51 for earnings per share, free cash flow and net debt.