

Dear Shareholders:

In 2006, Pactiv delivered the strongest performance in its history.

- Sales grew 6% to \$2.92 billion.
- Income from continuing operations* increased 55% to \$228 million.
- Earnings per share* increased 65% to a record \$1.63.
- Free cash flow* grew 94% to a record \$308 million.
- Gross margin rose 4.3 percentage points to 30.5%.
- Operating margin increased 3.6 percentage points to 14.5%.
- The company repurchased 13.9 million shares of its common stock for \$369 million.

In 2006, shareholders saw the value of their investments increase by 62%, a return that outpaced the S&P 500 index by over 46%. Since our spin-off in 1999, we have out-performed the S&P 500 index by over 170%.

We are particularly pleased with our performance in the face of sluggish industry growth and the increase in raw material costs that occurred over the past several years. Our success in 2006 reflects our efforts over the past three years to reposition the company to perform profitably in an environment of higher petrochemical costs, but our mission is far from complete.

We will continue to execute our plan to deliver better value to our customers and return on investment to our shareholders.

Our Focus

- **Leading brands, products, and service**

By listening intently to customers about their needs in a challenging environment, we have been able to deliver better service and product solutions.

- **Investment in higher margin growth businesses**

We allocate our resources, both financial and human, to the most promising business opportunities.

- **Culture of continuous improvement**

We are deploying “lean” principles to drive productivity and efficiency, which will enable us to improve customer service while reducing working capital.

- **Smart price and cost management**

We have effectively managed the spread, or difference, between our selling prices and raw material costs, which is essential in an uncertain petrochemical environment.

Our success going forward will be the result of strong execution in these areas, as well as more emphasis on growth, both organic and through acquisition.

Leverage Core Strengths

We are proud that our strengths take many forms: our Hefty® and Pactiv brands, the breadth of our product lines, our excellence in customer service, our ability to combine products for one-truck delivery, our track record of innovation, our low total-cost position, and most importantly, our people, who are the bedrock that supports our ability to compete.

Our core strategy is to build on the strong foundation we have established since our spin-off. We will add new products and materials that meet our customers’ needs and fuel their growth. In the near term, we will add manufacturing capacity for products made from higher growth, more versatile polypropylene and APET (amorphous polyethylene terephthalate) materials. These materials are used today in a range of packaging applications, including bakery and fresh-cut produce packaging, and tableware. At the same time, our Research, Development, and Engineering group is working on the development of manufacturing processes to bring more “sustainable” material solutions to the market. This will be an evolutionary process – one that includes materials that improve recyclability, come from renewable resources, and/or are biodegradable or compostable.

Building Through Acquisition

While nurturing growth through new products and line extensions is key, we also have excellent opportunities to grow through acquisition. The Pactiv you see today was built through acquisitions – acquisitions that have been integrated to leverage our core strengths and distribution channels.

Going forward, we plan to add businesses that create additional opportunities to serve our customers. This will allow us to strengthen our market position and improve the efficiency and cost of our supply chain. Acquiring businesses that fit means lower risk, greater synergies, and stronger returns for our shareholders.

We stand ready with the resources to acquire strong and attractive businesses that fit with our long-term strategy; however, opportunities to do so do not always present themselves as predictably as we might like – as was the case in 2006. We remain vigilant in our efforts – continuing to actively and patiently seek opportunities to bring synergistic businesses into the fold. Without a doubt, growth through acquisition will continue to be an important part of our efforts to build value for our shareholders.

Strengthening The Foundation As We Build Upon It

A key component of our philosophy is to improve the businesses we already own, every year.

In 2006, we began to introduce “lean” operating principles in many of our facilities. Application of these principles and related tools gives rise to continuous learning and improvement, helping us to accelerate productivity improvements by reducing inventory and scrap levels, providing rapid stock replenishment, shortening scheduling cycles, and enhancing our “one-stop-shopping” capability. We are just beginning the “lean” journey, which will help us uncover additional productivity opportunities over the next several years.

Leadership

Our approach to managing the business has made us a consistent industry leader. For the fifth consecutive year, we have been recognized by FORTUNE Magazine as one of “America’s Most Admired Companies.” In 2007, Pactiv ranked No. 1 in the packaging, containers industry. We are proud of this achievement because it acknowledges the industry’s best – Pactiv employees.

The solid foundation and strong balance sheet we have built will enable us to leverage and build on our strengths in the industries we serve. Our performance-based culture operates effectively and efficiently. Shareholders can depend on us to run the business with a long-term view, to invest wisely, and to create more value with the assets they have entrusted to us.

I would like to thank Pactiv’s board of directors for their involvement, counsel, and leadership. On behalf of our board, I would like to congratulate the Pactiv team for the improvements they made in supporting our customers and for the discipline and dedication it took to improve our overall performance in 2006. For all of us, it was an outstanding year, and we are well positioned for greater progress in 2007 and beyond.

Sincerely,

Richard L. Wambold

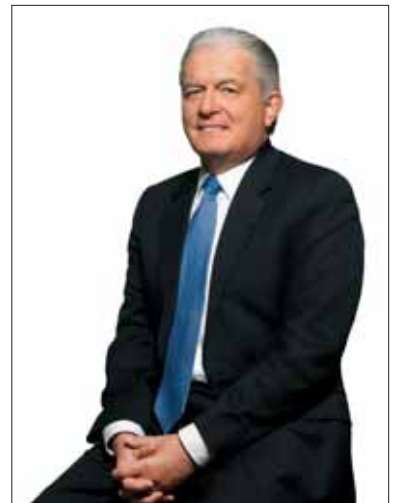
Chairman and Chief Executive Officer

March 19, 2007

*For reconciliation to GAAP, see page 18 for Income from Continuing Operations, Earnings per Share, and Free Cash Flow.



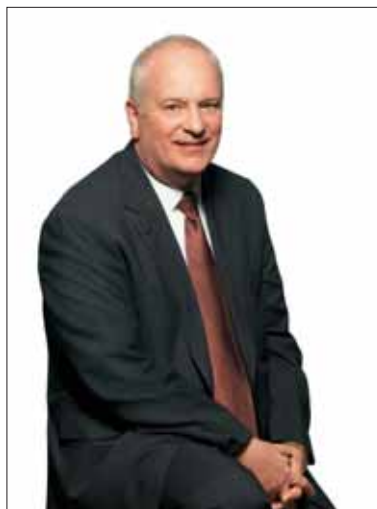
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Chairman and Chief Executive Officer



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