



**RICHARD L. WAMBOLD**  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**dear shareholders »**

In 2002, Pactiv Corporation once again posted outstanding results. We showed that we can deliver strong volume growth, improve productivity, and generate impressive earnings growth during difficult economic times. In 2002, Pactiv's earnings per share from continuing operations grew 33 percent. Free cash flow, cash from operating activities of \$384 million less capital expenditures of \$126 million, reached \$258 million, or 9 percent of sales. Behind these impressive results were solid volume growth of 6 percent, excellent productivity improvement, and a 1 percentage point expansion in gross margin. We are pleased with the results, and with the fact that our performance and prospects were recognized by the stock market where our share price increased 23 percent despite a significant decline in the S&P 500 Index, and by FORTUNE magazine, which named Pactiv the No. 1 company in our industry group in its 2003 ranking of "America's Most Admired Companies."

### **GOOD AT GETTING BETTER**

These achievements were not matters of chance. We performed well in a tough economic environment because our people created opportunities and executed effectively. Since our spin-off in 1999, we have focused on developing an organization and a culture that delivers dependably on its promises to customers, colleagues, partners, and shareholders.

Shaping a culture is, in many ways, the most significant challenge any leadership team faces, but it is individual employees who ultimately execute plans and get things done. We are fortunate to have a team of employees who are determined to excel at the most important thing an enterprise can be good at: getting better, day after day, quarter after quarter, and year after year.

Pactiv is a fundamentally different company than it was when we were spun off to shareholders, and it is the personal leadership shown by our employees - in every job and at every level - that has made it so. Our people challenge the status quo, push for innovation and continuous improvement, and take pride in our companywide emphasis on integrity, ethics, straightforward communication, and respect for others in everything we do.

To some, this emphasis on culture may sound “soft,” but at Pactiv it has a hard edge and is producing equally hard-edged results. The personal leadership demanded in our company is responsible for our significant performance improvements over the past three years. It has built the confidence of our people. And it is steadily building trust with our customers and shareholders.

These values will, I believe, support even better performance going forward. We have set our sights high – to become the clear leader in every market in which we participate. While the economic environment remains uncertain, our future is, to a large extent, in our control. We have leading positions in virtually every market we serve. We have long-term relationships with leading companies in our markets – the customers who increasingly drive growth. We have the resources and cash flow to support both the continued introduction of new products and strategic acquisitions. We have the productivity programs under way to help drive higher margins and profits. And we are focused on anticipating and meeting customers’ needs – the best way to produce results in the long term.

## PROVEN PERFORMANCE

Our confidence in the future comes from the strong track record of achievement established over the past three years.

In early 2000, I wrote my first letter to shareholders. In it I described a company that had great products, strong and experienced people, and excellent long-term potential. But I also described a company that needed to focus on fixing and reshaping itself before it could grow and expand in new markets. Over the following 24 months we cut selling, general, and administrative (SG&A) costs by \$53 million, exited underperforming businesses, reduced debt from \$2.1 billion to \$1.2 billion, and became one of the best cash flow producers in the industry. We became leaner, stronger, more focused, and, most importantly, we became a team that works together to create value for both customers and shareholders. The result: by the end of 2001 we were ready to begin unlocking the potential that I described two years earlier. With many of the big issues behind us, we could begin to shift to growth.

## GEARED FOR GROWTH

As we began the transition from fixing to building our business, we set a challenging goal: to grow at a 6-percent annual rate, faster than our industry as a whole and particularly aggressive given the weakness of the economy. We achieved that goal as a result of two important initiatives.

First, we continued to increase our efforts to bring new products to market. In 2002 alone, we introduced more than 50 new products companywide - products that are helping to increase our market positions and profitability. In total we estimate that new products accounted for one third of our 2002 internal volume growth.

Second, we expanded our scope and capabilities through strategic "bolt-on" acquisitions, which included the purchase of Winkler Forming, Inc., a leading manufacturer of thermoformed amorphous polyethylene terephthalate (APET) for the supermarket packaging industry, and the acquisition of a 70-percent stake in Mexico-based Jaguar Corporation, a leading thermoformer of high-impact polystyrene cups and polystyrene foam. These acquisitions were slightly accretive to 2002 earnings, and we expect their contribution to rise significantly as we move ahead.

## PRODUCTIVITY PAVES THE PATH TO GROWTH

Our focus on productivity stems from the belief that to grow with strong margins we must be the low cost producer and offer our customers the best service in our industry. Put simply, productivity at Pactiv doesn't mean saving our way to profitability. Instead, it means paving the way to growth. By finding increasingly efficient ways to manufacture and deliver our products and services, we generate additional cash to launch new products and fund acquisitions. By continuously pursuing productivity improvements, we are building a sustainable, long-term competitive advantage. In 2002 our productivity efforts contributed more than \$30 million. Our savings came from reducing scrap, increasing machine uptime, improving material utilization, and enhancing logistics effectiveness. But the secret to our success came from a no-excuses focus on results, leadership, and teamwork throughout our organization, from machine operators to business managers. As we worked throughout the year, we found even more potential for improvement - enough, we believe, to allow us to continue this rate of saving for another two years.

As we look at 2003, we see a sputtering world economy, changing markets, and many other factors that will challenge our customers, our company, our industry, and our country.

In this environment, we will follow the same straightforward formula that led to our past successes. We will continue to drive to higher levels of productivity by extending our program into Europe as well as into other new areas, such as reducing indirect spending. And by doing so, we will again free-up more resources to fund profitable growth. We will fund more new product development and continue to expand our businesses with accretive, tightly focused “bolt-on” acquisitions. There will be challenges, but there also will be opportunities for those companies that have the vision and capability to reach for them.

In closing, I want to thank the members of our Board for their contributions to our business and strategy and for the strong focus they bring to managing Pactiv for its shareholders. In today’s business environment, serving as a director of any organization is a demanding job, and our Board members have performed well.

Above all, I want to thank our employees and our customers, who helped make 2002 another successful year. We accomplished much in 2002 and we are determined to do even better in the future, growing our business, performing as promised, and delivering value to our shareholders.

Sincerely,

Richard L. Wambold  
Chairman and Chief Executive Officer

March 4, 2003