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## OPERATIONS REVIEW

Pactiv Corporation is a leader in consumer products and specialty packaging markets, recognized for its innovative products and customer service. Several business strengths give rise to this reputation, including brand and market leadership; broad and innovative product lines; channel access; distribution strength; and commitment to continuous productivity improvement and cost leadership.

The key to our growth and progress is our ability to understand and meet the needs of our diverse customer base. We do this through two business segments: Hefty® Consumer Products and Foodservice/Food Packaging, and Protective and Flexible Packaging.

### Growth and Productivity

In 2002 we focused on two main goals: sales growth and productivity improvement. Our results showed success on both fronts. Sales rose 2.4 percent to \$2.9 billion. During the year volume grew 6 percent. Full year earnings per share from continuing operations were \$1.37, an increase of 33 percent from \$1.03 in 2001.

In late 2001 we began a productivity program to develop a competitive advantage through operational excellence. Our focus on productivity in 2002 allowed us to reduce manufacturing, transportation, distribution, and warehousing costs. This improvement was achieved in large part through increased machine uptime, reductions in scrap, and improved efficiencies in our distribution operations. In total we generated \$30 million in savings, which helped fund research and development and new product launches, and improved our bottom line.

Our emphasis on reducing manufacturing costs, improving logistics efficiency, and implementing best practices will be key to our ongoing success, and we expect to see further improvement in 2003 and 2004. In addition, we have initiated an aggressive program to improve purchasing practices for goods and services procured outside the manufacturing arena.

## HEFTY® CONSUMER PRODUCTS AND FOODSERVICE/FOOD PACKAGING SEGMENT

Performance in 2002 was excellent. This segment accounted for 72 percent of the company's sales in 2002. Sales rose 3 percent, while volume, excluding 2001 divestitures, increased 9 percent. Operating income in 2002 rose 20 percent, while operating margin increased to 16.8 percent from 14.4 percent.

The strong performance was driven by the following factors:

- Positive market trends, including increasing consumer demand for convenience and continued growth in spending on meals prepared, wholly or in part, outside the home
- Strong market shares and an aggressive new product development program
- Significant competitive advantages stemming from scale in manufacturing and distribution
- Productivity improvements from focusing on operational excellence

## Hefty® Consumer Products

The Hefty® brand is one of the nation's most trusted and respected brands, and the leader in every segment of the consumer market in which it competes: waste bags, tableware, disposable cookware, and slider food bags.

To meet the challenges of growing both sales and income in an increasingly competitive and demanding marketplace, this business is focused on two key areas: leveraging the brand through new product development and extending relationships with strategic customers.

### NEW PRODUCT DEVELOPMENT

New products are key to growth in the consumer-products market, and the Hefty® brand extended its leadership in this area in 2002 with the national introduction of several items. Hefty® The Gripper™ tall kitchen bags captured a 3-percent market share in the waste bag segment in its first year of introduction. Hefty® ZooPals™ disposable plates for children were introduced in January 2002, and by year-end reached target distribution levels and gained 2.5 percent of the better-plate market. Thicker Hefty® OneZip® food storage bags also were well received and helped drive 2002 sales and market share since their introduction.

Our strategy is to continue to grow the Hefty® brand by introducing more high quality, innovative products for our retail customers. In 2003, in fact, Hefty® Consumer Products plans to introduce three to four additional new products. Some of these will create new categories and extend our reputation as an innovator. Others will represent important extensions of existing product lines. In combination with focused marketing support, new product introductions will further enhance the strength and profitability of the Hefty® brand, and sales of these higher-margin products will enable Pactiv to reach its targeted profit growth.

### STRATEGIC RELATIONSHIPS

In addition to driving growth through new products, we are leveraging our scale and service capabilities to expand our position as a preferred supplier. Dedicated direct-sales people, strong broker relationships, excellent retail coverage, and outstanding customer-service teams play important roles in providing merchandising, promotion, and logistics counsel to our strategic customers. While our focus will be on driving higher-margin sales for branded Hefty® products, we also will continue to expand our products distributed under private labels in categories where it makes sense for our customers and creates financially attractive opportunities for Pactiv.

## Foodservice/Food Packaging

Pactiv is the leading provider to the foodservice, supermarket, and food packaging markets, producing and selling approximately 3,500 items across North America. Our products include a broad variety of shapes, sizes, and functional capabilities, and are used for fresh and frozen foods in supermarkets, for take-out meals in foodservice and restaurants, and by food processors to package their products. Pactiv's manufacturing and technical capabilities allow us to provide the right material for each end-user requirement. These materials include plastics for clear display applications, foam take-out containers and trays, and high heat and microwaveable prepared food containers. We also produce dual-ovenable paperboard products, disposable aluminum cookware, and molded fibre packaging. In 2003, we plan to continue to grow the business by introducing new products and through acquisitions. And as we grow, Pactiv's "one-stop" customer service strategy will create even more value for our customers.





## NEW PRODUCTS

Our development efforts target value-added specialized products that meet the growing market demands for differentiation, food safety, and convenience.

In 2002, we introduced a significant number of new products, which included new packaging for leading fast-food restaurant chains. We extended the range of microwavable products we offer to supermarkets and other grocery chains to support their prepared food programs and introduced a wide range of products for packer/processors, including new case-ready and extended shelf life trays. Much of 2002 volume growth came from these new, higher-margin items.

In addition, we entered new product lines through acquisition. In June 2002, we purchased Winkler Forming, a leading manufacturer of APET (amorphous polyethylene terephthalate) products. Among other attributes, this material provides packaging with high clarity, luster, and excellent strength and durability for product protection – even at below freezing temperatures.

These capabilities provide important expansion opportunities in the fast-growing wholesale bakery, confectionery, and fresh-cut produce markets. Winkler's current manufacturing capacity can accommodate a 40-percent growth in sales with modest capital additions.

In October 2002, we purchased 70 percent of Mexico-based Central de Bolsas, S.A. de C.V. (Jaguar Corporation), a leading thermoformer of cold cups and plates and foam products for foodservice and food packaging applications. The joint venture provides Pactiv with a solid base from which to increase sales of U.S.-manufactured products in the fast-growing Mexican market and a source of new products that can serve its U.S. customer base. We plan to add capacity in Mexico in 2003.

## ONE-STOP SUPPLIER

Our broad product offering and nationwide logistics operations allow us to be a "one-stop" supplier to our customers. We offer national access to our broad product offering with one order, one customer representative, one truck delivery, and one invoice. We believe this unique level of service creates significant value for our customers and will be pivotal in our plans for growth over the long term.

In 2002, we advanced these logistics capabilities significantly with the full implementation of our customer-linked manufacturing and logistics management system, which now integrates production planning, distribution, and customer service. Going forward, we intend to expand this emphasis with an intensified focus on customers and distributors that can benefit most from a streamlined, simplified supply chain. Our goal is to grow, consistently and strategically, with the leaders and consolidators in the foodservice, supermarket, and food packaging industries.

## PROTECTIVE AND FLEXIBLE PACKAGING

Pactiv's Protective and Flexible business holds strong positions in high-potential markets in Europe, North America, and Asia. This business group produces a wide range of products including air cushion films, inflatable void fill pillows, padded mailers, plank and sheet foam, hospital supplies, flexible packaging for food and non-food products, and Hexacomb® kraft honeycomb.

This segment accounted for 28 percent of the company's sales in 2002. Sales in 2002 were even with 2001. Volume, excluding 2001 divestitures, increased 5 percent. Excluding restructuring and other charges, operating income in 2002 rose 38 percent from 2001, while operating margin increased to 7.1 percent from 5.2 percent.

The segment's improved results reflect cost reductions achieved through restructuring efforts that began in early 2001 and continued through 2002. This improvement has been accomplished through plant closures and realignments to improve productivity, exiting underperforming product lines, and implementing manufacturing process improvements, notably by removing capacity constraints on higher-margin product lines.

We have begun a broader productivity initiative in our European operations in 2003 that, when coupled with the anticipated economic recovery in the months ahead, should lead to continued improvement in performance.

#### GROWTH

We also are driving sales growth through new product development, better leveraging of existing products, and small acquisitions. Among our accomplishments in 2002, we:

- Launched the Pactiv Air® 2000 inflatable pouch, designed to help shippers protect products from damage related to shock and vibration
- Introduced new co-extruded air cushioning for improved strength and quality
- Introduced a new line of cushioned mailing envelopes under the Hefty® brand
- Expanded our medical products capacity in Europe
- Launched EZ Bubble-Out™ Bags-on-a-Roll
- Completed five small strategic acquisitions in Europe's growth markets

#### SERVICE AND QUALITY IMPROVEMENTS

We made outstanding progress in service and quality improvement in 2002. On-time fill rates improved to 98 percent – a significant enhancement for our customers. In addition, this segment made a substantial effort to improve quality and saw customer satisfaction improve dramatically. In 2003, we will continue to put the customer first and expect that focus to lead to further market share gains.

## CONSUMER AND FOODSERVICE/FOOD PACKAGING

### HEFTY® CONSUMER PRODUCTS

#### HEFTY® WASTE BAGS

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Hefty® The Gripper® Tall Kitchen Bags  
Hefty® Cinch Sak® Trash/Tall Kitchen/Lawn & Leaf/Medium/Recycling Bags  
Hefty® EasyFlaps® Trash/Tall Kitchen Bags  
Hefty® HandleSak® Trash/Tall Kitchen/Recycling Bags  
Hefty® TwistTie Trash/Large Trash/Tall Kitchen/Lawn & Leaf/Medium/Small/Recycling Bags  
Hefty® Steel-Sak® Drawstring/TwistTie Heavy Duty Trash Bags  
Hefty® basics Trash/Tall Kitchen/Bags  
Hefty® Scrap Bags  
Hefty® Compactor Bags  
Hefty® Contractor Bags  
Hefty® Renew Trash/Tall Kitchen Bags

#### HEFTY® TABLEWARE

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Hefty® EveryDay Foam Plates/Bowls/Trays  
Hefty® ElegantWare® Plates/Bowls  
Hefty® Classic Impressions® Plates  
Hefty® Holiday Prints Plates/Bowls/Cups  
Hefty® Heavy Duty Paper Plates  
Hefty® Supreme Plates  
Hefty® Superweight Plates  
Hefty® Hearty Meals™ Plates/Bowls

#### HEFTY® ZOO PALS® PRODUCTS

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Hefty® Zoo Pals® Plates  
Hefty® Zoo Pals® Fun Slider Bags

#### HEFTY® ONEZIP® PRODUCTS

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Hefty® OneZip® Storage Quart/Gallon Bags  
Hefty® OneZip® Freezer Quart/Gallon Bags  
Hefty® OneZip® Sandwich Bags  
Hefty® OneZip® Jumbo 2.5 Gallon Bags  
Hefty® OneZip® Holiday Bags  
Hefty® OneZip® Glow-in-the-Dark Halloween Bags

#### HEFTY® E-Z FOIL® PRODUCTS

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Superoaster® Roaster/Baking/Casserole/Take Along Pans  
EZ Elegance® Baking/Casserole/Roaster/Take Along Pans  
Country Cookin'® Baking/Casserole/Take Along Pans  
Party Colors™ Baking Pans  
Fiesta™ Pans  
Crown Classic® Roasters  
Crown Oval® Roasters

#### KORDITE®

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Kordite® Drawstring Trash/Tall Kitchen/Lawn & Leaf Bags  
Kordite® TwistTie Trash/Tall Kitchen/Lawn & Leaf Bags  
Kordite® Foam Plates

#### BAGGIES®

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Baggies® Storage Gallon/2-Gallon Bags  
Baggies® Sandwich Bags

### FOODSERVICE / FOOD PACKAGING

#### BAKERY

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Cakes  
Pies  
Cookies  
Loaf Cakes & Bread  
Pastries  
Breakfast Foods

#### HOME MEAL REPLACEMENT

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Cold Ready To Eat  
Hot Ready To Eat  
Ovenable  
Dual-Ovenable  
Microwaveable

#### CARRY-OUT

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Cold Ready To Eat  
Hot Ready To Eat  
Ovenable  
Dual-Ovenable  
Microwaveable  
Catering  
Box Lunch  
Handled Containers  
Beverage Cups  
Film / Foil Wraps  
Clear Display Packaging  
Cup Carriers  
Dual Color Containers  
Hot Cups  
Cold Cups

#### PACKER / PROCESSOR

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Bakery Packaging  
Frozen Foods  
Meat Products  
Egg Packaging  
Agriculture  
Dual-Ovenable  
Slide-Rite® Zipper Bags  
ActiveTech® Modified Atmosphere Packaging  
Extended Shelf Life Trays

#### DELI

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Deli Salads  
Home Meal Replacement  
Hot Case Products  
Cold Case Products

#### PRODUCE

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Cut Produce  
Whole Produce  
Small Produce One-Piece

#### DINE-IN

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Back of Premise  
Table Service  
Quick Service  
Self Service / Cafeteria  
Institutional

#### MEATS & FISH

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Plastic Meat Trays  
Molded Fibre Meat Trays  
Foam Meat Trays

## PROTECTIVE AND FLEXIBLE PACKAGING

### HEXACOMB® HONEYCOMB

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Cushion-Comb® Cushioning Honeycomb  
Hexacomb® Honeycomb Die-Cuts  
Hexacomb® Pallets Honeycomb  
Hexacomb® Glass Protection  
Hexacomb® Void Fill Honeycomb  
Hexacomb® Venting Honeycomb  
Hexacomb® Transportation Structure  
Hexacomb® Structural Honeycomb  
Hexablok® Pallet Components

### AIR CUSHIONING

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Astro-Cell® Air Cushioning Sheet  
Astro-Cell® Plus Air Cushioning Sheet  
Astro-Suprabubble® Air Cushioning  
Astro-Cell® Anti-Static Air Cushioning  
Pactiv Air® 5000 System  
Pactiv Air® 3000 System  
Pactiv Air® 2000 Inflatable Pouch  
Pactiv Air® 1000 Inflatable Air Cushion  
EZ Bubble-Out™ Bags-on-a-Roll

### MAILERS

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Hefty Express™ Shipping Mailers  
Gator-Pak™ Shipping Mailers  
Gator-Pak™ Lite Shipping Mailers  
Pad Kraft® Shipping Mailers  
Air Kraft® Shipping Mailers  
Tuff-Kraft® Shipping Mailers  
Poly Lite® Shipping Mailers

### SHEET FOAM

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MicroFoam® Protection  
MicroFoam® Cohesive Protection  
Astro-Foam™ Protection  
Sleevit® Protection  
Micro-Tuff Protection  
Laminated Product Protection  
Furniture Systems  
Furniture Guard® Foam Cushioning  
Orca Wrap  
Astro-Sheeter™ System  
Edge Foam® Edge Protectors

### BUILDING PRODUCTS

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GreenGuard® Insulation Board  
GreenGuard® PLYGOOD® Ultra Sheathing  
GreenGuard® Fanfold Underlayment  
GreenGuard® BACKER-PRO Underlayment  
GreenGuard® Classic Wrap Housewrap  
GreenGuard® Value Wrap Housewrap  
GreenGuard® UltraWrap Housewrap  
GreenGuard® RainDrop™ Housewrap  
GreenGuard® Waterproofing Protection Board  
GreenGuard® Roofing Recovery Board  
GreenGuard® Condensation Board  
GreenGuard® Sill Sealer  
GreenGuard® Contractor Tape  
Astro-Foil® Reflective Insulation

### ENGINEERED FOAMS

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PolyPlank® PLK Foam Plank  
PolyPlank® MDL® Dual-Density  
Laminated Plank  
PropaFoam® Foam Cushioning  
PROFLEX® PROFILES  
PolyPlank® LAM Laminated Plank

### MEDICAL & FLEXIBLE

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Propyflex® Non-PVC IV Bags and Film  
Lineartear® Bags with Tear Line Opening  
Flexotear® Bags with Tear Line Opening  
Flexopeel® Pouches with Peelable Opening  
Clearpeel® Clear Pouches with Peelable Opening  
Softpeel® Films for Peelable Opening  
Steriflex® Forming Web Films  
Flexovac® Films for Pouches and Forming Webs  
Formpeel® Thermoforming Films  
Secu-Drape® Sterile Drapes and Gowns  
Medipeel® Peelable Pouches  
Medibowl  
Medizip™ Easy Open/Close Medical Bags  
Stand-up Pouches for Retail Packaging  
Barrier Films for Food Packaging (MAP)  
Printed and Laminated Film for Retail Packaging  
Shrink and Stretch Sleeves, Wrap-around Labels  
Sterilizable and Boilable Films and Bags  
Bags with and without Re-Closure System

### CUSTOM & STOCK PLASTIC THERMOFORMED PACKAGING

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