

**Tredegar Corporation**  
**Condensed Consolidated Statements of Income**  
(In Thousands, Except Per-Share Data)  
(Unaudited)

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Sales	\$ 296,256	\$ 240,716	\$ 846,711	\$ 717,197
Other income (expense), net (a) (b)	474	(394)	734	3,104
	<u>296,730</u>	<u>240,322</u>	<u>847,445</u>	<u>720,301</u>
Cost of goods sold (a)	252,848	201,917	719,177	604,346
Freight	7,265	6,281	20,989	18,626
Selling, R&D and general expenses (a)	20,151	17,597	56,684	56,417
Amortization of intangibles	37	50	112	262
Interest expense	1,331	1,196	4,231	3,252
Asset impairments and costs associated with exit and disposal activities (a)	692	1,159	3,410	12,517
	<u>282,324</u>	<u>228,200</u>	<u>804,603</u>	<u>695,420</u>
Income before income taxes	14,406	12,122	42,842	24,881
Income taxes	4,716	4,465	15,687	9,542
Net income (a) (b) (c)	<u>\$ 9,690</u>	<u>\$ 7,657</u>	<u>\$ 27,155</u>	<u>\$ 15,339</u>
Earnings per share:				
Basic	\$ .25	\$ .20	\$ .70	\$ .40
Diluted	.25	.20	.70	.40
Shares used to compute earnings per share:				
Basic	38,654	38,465	38,629	38,453
Diluted	39,123	38,565	38,876	38,598

**Tredegar Corporation**  
**Net Sales and Operating Profit by Segment**  
(In Thousands)  
(Unaudited)

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<b>Net Sales</b>				
Film Products	\$ 134,961	\$ 116,350	\$ 382,697	\$ 344,305
Aluminum Extrusions	154,030	118,085	443,025	354,014
AFBS (formerly Therics) (d)	-	-	-	252
Total net sales	288,991	234,435	825,722	698,571
Add back freight	7,265	6,281	20,989	18,626
Sales as shown in the Consolidated Statements of Income	<u>\$ 296,256</u>	<u>\$ 240,716</u>	<u>\$ 846,711</u>	<u>\$ 717,197</u>
<b>Operating Profit</b>				
Film Products:				
Ongoing operations	\$ 13,770	\$ 13,822	\$ 42,611	\$ 36,796
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets and related income from LIFO inventory liquidations (a)	1,022	(1,225)	207	(812)
Aluminum Extrusions:				
Ongoing operations	5,407	4,362	15,947	14,580
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets (a)	(920)	(406)	(1,434)	(1,246)
AFBS (formerly Therics) (d):				
Ongoing operations	-	-	-	(3,467)
Loss on investment in Therics, LLC	-	(91)	(25)	(91)
Plant shutdowns, asset impairments and restructurings (a)	(494)	-	(494)	(10,049)
Total	18,785	16,462	56,812	35,711
Interest income	315	146	822	386
Interest expense	1,331	1,196	4,231	3,252
Gain on the sale of corporate assets (b)	-	-	56	61
Stock option-based compensation costs (e)	215	-	708	-
Corporate expenses, net (a)	3,148	3,290	9,909	8,025
Income before income taxes	14,406	12,122	42,842	24,881
Income taxes	4,716	4,465	15,687	9,542
Net income (a) (b) (c)	<u>\$ 9,690</u>	<u>\$ 7,657</u>	<u>\$ 27,155</u>	<u>\$ 15,339</u>

**Tredegar Corporation**  
**Condensed Consolidated Balance Sheets**  
(In Thousands)  
(Unaudited)

	September 30, 2006	December 31, 2005
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Cash & cash equivalents	\$ 29,842	\$ 23,434
Accounts & notes receivable, net	159,190	119,330
Income taxes recoverable	4,802	7,163
Inventories	58,773	62,438
Deferred income taxes	7,141	7,778
Prepaid expenses & other	3,388	4,224
Total current assets	<u>263,136</u>	<u>224,367</u>
Property, plant & equipment, net	326,758	322,876
Other assets	95,952	96,527
Goodwill & other intangibles	139,058	137,988
Total assets	<u>\$ 824,904</u>	<u>\$ 781,758</u>
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable	\$ 88,364	\$ 61,731
Accrued expenses	45,805	36,031
Current portion of long-term debt	1,179	-
Total current liabilities	<u>135,348</u>	<u>97,762</u>
Long-term debt	76,915	113,050
Deferred income taxes	86,429	74,287
Other noncurrent liabilities	11,315	11,297
Shareholders' equity	514,897	485,362
Total liabilities and shareholders' equity	<u>\$ 824,904</u>	<u>\$ 781,758</u>

**Tredegar Corporation**  
**Condensed Consolidated Statement of Cash Flows**  
**(In Thousands)**  
**(Unaudited)**

	Nine Months Ended September 30	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 27,155	\$ 15,339
Adjustments for noncash items:		
Depreciation	32,619	28,203
Amortization of intangibles	112	262
Deferred income taxes	10,135	6,801
Accrued pension income and postretirement benefits	2,358	(1,611)
Gain on sale of assets	(56)	(2,507)
Loss on asset impairments and divestitures	1,150	6,556
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivables	(37,600)	(15,327)
Inventories	5,180	12,631
Income taxes recoverable	2,353	(8,627)
Prepaid expenses and other	870	789
Accounts payable	25,109	(3,169)
Accrued expenses and income taxes payable	7,877	(1,132)
Other, net	(938)	(2,767)
Net cash provided by operating activities	76,324	35,441
Cash flows from investing activities:		
Capital expenditures	(31,714)	(49,027)
Novalux investment	(542)	-
Proceeds from the sale of assets and property disposals	266	3,368
Other, net	-	737
Net cash used in investing activities	(31,990)	(44,922)
Cash flows from financing activities:		
Dividends paid	(4,656)	(4,641)
Debt principal payments	(38,956)	(33,875)
Borrowings	4,000	45,620
Bank overdrafts	-	3,642
Proceeds from exercise of stock options	1,162	406
Net cash (used in) provided by financing activities	(38,450)	11,152
Effect of exchange rate changes on cash	524	(1,218)
Increase in cash and cash equivalents	6,408	453
Cash and cash equivalents at beginning of period	23,434	22,994
Cash and cash equivalents at end of period	\$ 29,842	\$ 23,447

**Selected Financial Measures**  
(In Millions)  
(Unaudited)

For the Twelve Months Ended September 30, 2006

	Film Products	Aluminum Extrusions	Total
Operating profit from ongoing operations	\$ 50.8	\$ 20.6	\$ 71.4
Allocation of corporate overhead	(9.1)	(3.7)	(12.8)
Add back depreciation and amortization	30.9	12.0	42.9
Adjusted EBITDA (f)	<u>\$ 72.6</u>	<u>\$ 28.9</u>	<u>\$ 101.5</u>

Selected balance sheet and other data as of September 30, 2006:

Net debt (g)	\$ 48.3
Shares outstanding	38.8

Notes to the Financial Tables

(a) Plant shutdowns, asset impairments and restructurings in the third quarter of 2006 include:

- A net pretax gain of \$1 million associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of \$1.2 million for related LIFO inventory liquidations (included in "Cost of goods sold" in the condensed consolidated statements of income), partially offset by other shutdown-related costs of \$198,000;
- A pretax charge of \$920,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the condensed consolidated statements of income); and
- A pretax charge of \$494,000 related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey.

Plant shutdowns, asset impairments and restructurings in the first nine months of 2006 include:

- A net pretax gain of \$1.4 million associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of \$2.6 million for related LIFO inventory liquidations (included in "Cost of goods sold" in the condensed consolidated statements of income), partially offset by severance and other costs of \$1 million and asset impairment charges of \$130,000;
- Pretax charges of \$1 million for asset impairments in Film Products;
- A pretax charge of \$920,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the condensed consolidated statements of income);
- Pretax charges of \$727,000 for severance and other employee-related costs in connection with restructurings in Film Products (\$213,000) and Aluminum Extrusions (\$514,000); and
- A pretax charge of \$494,000 related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey.

Plant shutdowns, asset impairments and restructurings in the third quarter of 2005 include:

- Pretax charges of \$906,000 for severance and other employee-related costs in connection with restructurings in Film Products (\$514,000), Aluminum Extrusions (\$207,000), and at corporate headquarters (\$185,000; included in "Corporate expenses, net" in the Operating Profit by Segment table);
- A net pretax charge of \$595,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, \$657,000 in pretax charges for employee relocation and recruitment is included in "Selling, R&D and general expenses" in the condensed consolidated statements of income);
- A pretax charge of \$198,000 related to the shutdown of the aluminum extrusions facility in Aurora, Ontario; and
- Pretax charges of \$117,000 for accelerated depreciation related to restructurings in Film Products.

Plant shutdowns, asset impairments and restructurings in the first nine months of 2005 include:

- A pretax charge of \$10 million related to the sale or assignment of substantially all of AFBS' (formerly Therics) assets, including asset impairment charges of \$5.6 million, lease-related losses of \$3 million and severance and other transaction-related costs of \$1.4 million (see Note (b) for additional information);
  - Pretax charges of \$1.8 million related to severance and other employee-related costs in connection with restructurings in Film Products (\$991,000), Aluminum Extrusions (\$648,000) and at corporate headquarters (\$185,000; included in "Corporate expenses, net" in the Operating Profit by Segment table);
  - A pretax gain of \$1.6 million related to the shutdown of the films manufacturing facility in New Bern, North Carolina, including a \$1.8 million gain on the sale of the facility (included in "Other income (expense), net" in the condensed consolidated statements of income), partially offset by shutdown-related expenses of \$225,000;
  - A pretax charge of \$1 million for process reengineering costs associated with the implementation of a new information system in Film Products (included in "Costs of goods sold" in the condensed consolidated statements of income);
  - A net pretax charge of \$725,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, \$1.2 million in pretax charges for employee relocation and recruitment is included in "Selling, R&D and general expenses" in the condensed consolidated statements of income);
  - A pretax gain of \$653,000 related to the shutdown of the films manufacturing facility in Carbondale, Pennsylvania, including a \$630,000 gain on the sale of the facility (included in "Other income (expense), net" in the condensed consolidated statements of income), and the reversal to income of certain shutdown-related accruals of \$23,000;
  - A net pretax charge of \$597,000 related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including \$1.1 million of shutdown-related costs, partially offset by the reversal to income of certain severance and employee-related accruals of \$474,000;
  - A pretax gain of \$508,000 for interest receivable on tax refund claims (included in "Corporate expenses, net" in the net sales and operating profit by segment table and "Other income (expense), net" in the condensed consolidated statements of income); and
  - Pretax charges of \$322,000 for accelerated depreciation related to restructurings in Film Products.
- (b) Gain on the sale of corporate assets in 2006 includes a gain related to the sale of public equity securities. Gain on the sale of corporate assets in 2005 includes a gain related to the sale of corporate real estate.
- (c) Comprehensive income (loss), defined as net income and other comprehensive income (loss), was income of \$11.9 million for the third quarter of 2006 and income of \$11.4 million for the third quarter of 2005. Comprehensive income (loss) was income of \$32.2 million for the first nine months of 2006 and income of \$10.9 million for the first nine months of 2005. Other comprehensive income (loss) includes changes in unrealized gains and losses on available-for-sale securities, foreign currency translation adjustments, unrealized gains and losses on derivative financial instruments and minimum pension liability recorded net of deferred taxes directly in shareholders' equity.
- (d) On June 30, 2005, substantially all of the assets of AFBS, Inc. (formerly Therics, Inc.), a wholly-owned subsidiary of Tredegar, were sold or assigned to a newly-created limited liability company, Therics, LLC, controlled and managed by an individual not affiliated with Tredegar. AFBS retained substantially all of its liabilities in the transaction, which included customary indemnification provisions for pre-transaction liabilities. AFBS received a 17.5% equity interest in the new company valued at \$170,000 and a 3.5% interest in Theken Spine, LLC valued at \$800,000, along with potential future payments on the sale of certain products by Therics, LLC.
- (e) Effective January 1, 2006, Tredegar adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123(R)) using the modified prospective method. SFAS 123(R) requires the company to record compensation expense for all share-based awards. Tredegar previously applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and provided the required pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Prior periods were not restated.

(f) Adjusted EBITDA for the twelve months ended September 30, 2006, represents income from continuing operations before interest, taxes, depreciation, amortization, unusual items and losses associated with plant shutdowns, asset impairments and restructurings, gains from the sale of assets, investment write-down, charges related to stock option awards accounted for under the fair value-based method and other items. Adjusted EBITDA is not intended to represent cash flow from operations as defined by GAAP and should not be considered as either an alternative to net income (as an indicator of operating performance) or to cash flow (as a measure of liquidity). Tredegar uses Adjusted EBITDA as a measure of unlevered (debt-free) operating cash flow. We also use it when comparing relative enterprise values of manufacturing companies and when measuring debt capacity. When comparing the valuations of a peer group of manufacturing companies, we express enterprise value as a multiple of Adjusted EBITDA. We believe Adjusted EBITDA is preferable to operating profit and other GAAP measures when applying a comparable multiple approach to enterprise valuation because it excludes the items noted above, measures of which may vary among peer companies.

(g) Net debt is calculated as follows (in millions):

Debt	\$ 78.1
Less: Cash and cash equivalents	(29.8)
Net debt	<u>\$ 48.3</u>

Net debt is utilized by management in evaluating the company's financial leverage and equity valuation and the company believes that investors also may find net debt to be helpful for the same purposes.