

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

	Fourth Quarter Ended December 31		Year Ended December 31	
	2006	2005	2006	2005
Sales	\$ 269,814	\$ 239,772	\$1,116,525	\$ 956,969
Other income (expense), net (a) (b)	710	(3,648)	1,444	(544)
	<u>270,524</u>	<u>236,124</u>	<u>1,117,969</u>	<u>956,425</u>
Cost of goods sold (a)	225,662	206,275	944,839	810,621
Freight	7,107	6,065	28,096	24,691
Selling, R&D and general expenses (a)	19,764	17,288	76,448	73,705
Amortization of intangibles	37	37	149	299
Interest expense	1,289	1,321	5,520	4,573
Asset impairments and costs associated with exit and disposal activities (a)	670	3,817	4,080	16,334
	<u>254,529</u>	<u>234,803</u>	<u>1,059,132</u>	<u>930,223</u>
Income before income taxes	15,995	1,321	58,837	26,202
Income taxes (b)	4,949	431	20,636	9,973
Net income (a) (b) (c)	<u>\$ 11,046</u>	<u>\$ 890</u>	<u>\$ 38,201</u>	<u>\$ 16,229</u>
Earnings per share:				
Basic	\$.28	\$.02	\$.99	\$.42
Diluted	.28	.02	.98	.42
Shares used to compute earnings per share:				
Basic	38,793	38,527	38,671	38,471
Diluted	39,092	38,594	38,931	38,597

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

	Fourth Quarter Ended December 31		Year Ended December 31	
	2006	2005	2006	2005
Net Sales				
Film Products	\$ 128,472	\$ 115,972	\$ 511,169	\$ 460,277
Aluminum Extrusions	134,235	117,735	577,260	471,749
AFBS (formerly Therics) (d)	-	-	-	252
Total net sales	262,707	233,707	1,088,429	932,278
Add back freight	7,107	6,065	28,096	24,691
Sales as shown in the Consolidated Statements of Income	<u>\$ 269,814</u>	<u>\$ 239,772</u>	<u>\$ 1,116,525</u>	<u>\$ 956,969</u>
Operating Profit				
Film Products:				
Ongoing operations	\$ 15,034	\$ 8,150	\$ 57,645	\$ 44,946
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets and related income from LIFO inventory liquidations (a)	14	(3,143)	221	(3,955)
Aluminum Extrusions:				
Ongoing operations	6,084	4,722	22,031	19,302
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets (a)	-	1,368	(1,434)	122
AFBS (formerly Therics) (d):				
Ongoing operations	-	-	-	(3,467)
Loss on investment in Therics, LLC	-	(54)	(25)	(145)
Plant shutdowns, asset impairments and restructurings (a)	(143)	(269)	(637)	(10,318)
Total	20,989	10,774	77,801	46,485
Interest income	418	200	1,240	586
Interest expense	1,289	1,321	5,520	4,573
Gain on the sale of corporate assets (b)	-	-	56	61
Loss from write-down of investment in Novalux (b)	-	5,000	-	5,000
Stock option-based compensation costs (e)	262	-	970	-
Corporate expenses, net (a)	3,861	3,332	13,770	11,357
Income before income taxes	15,995	1,321	58,837	26,202
Income taxes (b)	4,949	431	20,636	9,973
Net income (a) (b) (c)	<u>\$ 11,046</u>	<u>\$ 890</u>	<u>\$ 38,201</u>	<u>\$ 16,229</u>

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

	December 31, 2006	December 31, 2005
Assets		
Cash & cash equivalents	\$ 40,898	\$ 23,434
Accounts & notes receivable, net	121,834	119,330
Income taxes recoverable	10,975	7,163
Inventories	68,930	62,438
Deferred income taxes	6,055	7,778
Prepaid expenses & other	4,558	4,224
Total current assets	<u>253,250</u>	<u>224,367</u>
Property, plant & equipment, net	325,763	322,876
Other assets (f)	64,078	96,527
Goodwill & other intangibles	138,696	137,988
Total assets	<u>\$ 781,787</u>	<u>\$ 781,758</u>
Liabilities and Shareholders' Equity		
Accounts payable	\$ 69,426	\$ 61,731
Accrued expenses	41,906	36,031
Current portion of long-term debt	678	-
Total current liabilities	<u>112,010</u>	<u>97,762</u>
Long-term debt	61,842	113,050
Deferred income taxes	75,772	74,287
Other noncurrent liabilities (f)	15,568	11,297
Shareholders' equity (f)	516,595	485,362
Total liabilities and shareholders' equity	<u>\$ 781,787</u>	<u>\$ 781,758</u>

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

	Year Ended December 31	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 38,201	\$ 16,229
Adjustments for noncash items:		
Depreciation	44,132	38,490
Amortization of intangibles	149	299
Deferred income taxes	10,155	9,217
Accrued pension income and postretirement benefits	3,178	(1,979)
Loss from write-down of investment in Novalux	-	5,000
Gain on sale of assets	(317)	(4,174)
Loss on asset impairments and divestitures	1,150	9,378
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivables	151	(3,361)
Inventories	(5,080)	2,803
Income taxes recoverable	1,991	(12,966)
Prepaid expenses and other	(275)	530
Accounts payable	6,218	(648)
Accrued expenses	5,374	(2,942)
Other, net	(422)	(2,173)
Net cash provided by operating activities	104,605	53,703
Cash flows from investing activities:		
Capital expenditures	(40,573)	(62,543)
Novalux investment	(542)	(1,095)
Proceeds from the sale of assets and property disposals	475	8,018
Other, net	-	636
Net cash used in investing activities	(40,640)	(54,984)
Cash flows from financing activities:		
Dividends paid	(6,221)	(6,190)
Debt principal payments	(54,530)	(147,846)
Borrowings	4,000	156,500
Proceeds from exercise of stock options	9,702	1,130
Net cash (used in) provided by financing activities	(47,049)	3,594
Effect of exchange rate changes on cash	548	(1,873)
Increase in cash and cash equivalents	17,464	440
Cash and cash equivalents at beginning of period	23,434	22,994
Cash and cash equivalents at end of period	\$ 40,898	\$ 23,434

Selected Financial Measures
(In Millions)
(Unaudited)

For the Twelve Months Ended December 31, 2006

	Film Products	Aluminum Extrusions	Total
Operating profit from ongoing operations	\$ 57.6	\$ 22.0	\$ 79.6
Allocation of corporate overhead	(9.9)	(3.7)	(13.6)
Add back depreciation and amortization	31.9	12.3	44.2
Adjusted EBITDA (g)	<u>\$ 79.6</u>	<u>\$ 30.6</u>	<u>\$ 110.2</u>

Selected balance sheet and other data as of December 31, 2006:

Net debt (h)	\$ 21.6
Shares outstanding	39.3

Notes to the Financial Tables

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

- A net pretax gain associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of \$280,000 for related LIFO inventory liquidations (included in "Cost of goods sold" in the condensed consolidated statements of income) and a gain of \$261,000 on the sale of related property and equipment (included in "Other income (expense), net" in the condensed consolidated statements of income), partially offset by other shutdown-related costs of \$527,000; and
- A pretax charge of \$143,000 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 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 \$2.9 million for related LIFO inventory liquidations (included in "Cost of goods sold" in the condensed consolidated statements of income) and a gain of \$261,000 on the sale of related property and equipment (included in "Other income (expense), net" in the condensed consolidated statements of income), partially offset by severance and other costs of \$1.6 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 \$637,000 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 fourth quarter of 2005 include:

- A pretax charge of \$2.1 million related to the planned shutdown of the films manufacturing facility in LaGrange, Georgia, including asset impairment charges of \$1.6 million and severance and other costs of \$486,000;
- A pretax gain of \$1.9 million related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including a \$1.7 million gain on the sale of the facility (included in "Other income (expense), net" in the condensed consolidated statements of income), and a net gain of \$195,000 primarily due to the reversal to income of certain shutdown-related items of \$235,000;
- Pretax charges of \$583,000 for asset impairments in Film Products;
- A net pretax charge of \$495,000 in Aluminum Extrusions, including an asset impairment of \$597,000, partially offset by the reversal to income of certain shutdown-related accruals of \$102,000;
- Pretax charges of \$397,000 for severance and other employee-related costs in connection with restructurings in Film Products (\$127,000) and at corporate headquarters (\$270,000; included in "Corporate expenses, net" in the net sales and operating profit by segment table);
- A net pretax charge of \$269,000 in AFBS (formerly Therics), including an additional charge of \$353,000 related to the estimated loss on the sub-lease of a portion of the facility in Princeton, New Jersey, partially offset by the reversal to income of \$84,000 related to certain sale transaction accruals;
- A pretax charge of \$182,000 in Film Products related to the write-off of an investment;
- A net pretax charge of \$118,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, \$164,000 in pretax

charges for employee relocation and recruitment is included in "Selling, R&D and general expenses" in the condensed consolidated statements of income); and

- Pretax charges of \$31,000 for accelerated depreciation related to restructurings in Film Products.

Plant shutdowns, asset impairments and restructurings in 2005 include:

- Pretax charges of \$10.3 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 \$3.3 million and severance and other transaction-related costs of \$1.4 million (see Note (d) for additional information);
- Pretax charges of \$2.2 million related to severance and other employee-related costs in connection with restructurings in Film Products (\$1.1 million), Aluminum Extrusions (\$648,000) and at corporate headquarters (\$455,000; included in "Corporate expenses, net" in the net sales and operating profit by segment table);
- A pretax charge of \$2.1 million related to the planned shutdown of the films manufacturing facility in LaGrange, Georgia, including asset impairment charges of \$1.6 million and severance and other costs of \$486,000;
- 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 net pretax gain of \$1.3 million related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including a \$1.7 million gain on the sale of the facility (included in "Other income (expense), net" in the condensed consolidated statements of income), \$1.1 million of shutdown-related costs, partially offset by the reversal to income of certain accruals associated with severance and employee costs (\$474,000) and other shutdown-related costs (\$235,000);
- A pretax charge of \$1 million for process reengineering costs associated with the implementation of a global information system in Film Products (included in "Costs of goods sold" in the condensed consolidated statements of income);
- A net pretax charge of \$843,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, \$1.4 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;
- Pretax charges of \$583,000 for asset impairments in Film Products;
- 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);
- A net pretax charge of \$495,000 in Aluminum Extrusions, including an asset impairment of \$597,000, partially offset by the reversal to income of certain shutdown-related accruals of \$102,000;
- Pretax charges of \$353,000 for accelerated depreciation related to restructurings in Film Products; and
- A pretax charge of \$182,000 in Film Products related to the write-off of an investment.

- (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.

As of December 31, 2005, the investment in Novalux, Inc. of \$6.1 million was written down to estimated fair value of \$1.1 million. Novalux is developing a laser technology for potential use in a variety of applications. The loss from the write-down is included in "Other income (expense), net" in the condensed consolidated statements of income.

Income taxes in 2006 includes a reversal of a valuation allowance of \$577,000 for deferred tax assets associated with capital loss carryforwards recorded with the write-down of the investment in Novalux. Outside appraisal of the value of corporate assets, primarily real estate, performed in December 2006, indicates that realization of related deferred tax assets is more likely than not.

- (c) Comprehensive income (loss), defined as net income and other comprehensive income (loss), was income of \$14.1 million for the fourth quarter of 2006 and a loss of \$1.5 million for the fourth quarter of 2005. Comprehensive income (loss) was income of \$46.3 million in 2006 and income of \$9.4 million in 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, which is 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 (SFAS) 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) Effective December 31, 2006, Tredegar adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). This statement requires the recognition in the balance sheet of the funded status of each of our defined benefit pension and other postretirement plans. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The initial impact of SFAS 158, net of deferred taxes, is recognized directly in shareholders' equity. Adjustments from the new standard will not impact our debt covenant computations since our credit agreement allows us to elect to use generally accepted accounting principles in effect when the agreement was signed.
- (g) Adjusted EBITDA for the twelve months ended December 31, 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.

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

Debt	\$ 62.5
Less: Cash and cash equivalents	(40.9)
Net debt	<u>\$ 21.6</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.