

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

	Fourth Quarter Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
Sales	\$ 239,772	\$ 226,678	\$ 956,969	\$ 861,165
Other income (expense), net (a) (c)	(3,648)	914	(544)	15,604
	<u>236,124</u>	<u>227,592</u>	<u>956,425</u>	<u>876,769</u>
Cost of goods sold (a)	206,275	190,806	810,621	717,120
Freight	6,065	6,344	24,691	22,398
Selling, R&D and general expenses (a)	17,288	20,020	73,705	75,295
Amortization of intangibles	37	106	299	330
Interest expense	1,321	943	4,573	3,171
Asset impairments and costs associated with exit and disposal activities (a) (b)	3,817	3,310	16,334	22,973
	<u>234,803</u>	<u>221,529</u>	<u>930,223</u>	<u>841,287</u>
Income from continuing operations before income taxes	1,321	6,063	26,202	35,482
Income taxes (c)	431	2,703	9,973	9,222
Income from continuing operations	890	3,360	16,229	26,260
Discontinued operations (d):				
Gain from venture capital investment activities (including an after-tax gain on a tax-related item of \$2.3 million in 2004)	-	2,921	-	2,921
Net income (a) (b) (c) (d) (e)	<u>\$ 890</u>	<u>\$ 6,281</u>	<u>\$ 16,229</u>	<u>\$ 29,181</u>
Earnings per share:				
Basic:				
Continuing operations	\$.02	\$.09	\$.42	\$.69
Discontinued operations	-	.08	-	.08
Net income	<u>\$.02</u>	<u>\$.17</u>	<u>\$.42</u>	<u>\$.77</u>
Diluted:				
Continuing operations	\$.02	\$.09	\$.42	\$.68
Discontinued operations	-	.07	-	.08
Net income	<u>\$.02</u>	<u>\$.16</u>	<u>\$.42</u>	<u>\$.76</u>
Shares used to compute earnings per share:				
Basic	38,527	38,398	38,471	38,295
Diluted	38,594	38,655	38,597	38,507

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

	Fourth Quarter Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
Net Sales				
Film Products	\$ 115,972	\$ 111,317	\$ 460,277	\$ 413,257
Aluminum Extrusions	117,735	108,903	471,749	425,130
AFBS (formerly Therics) (b)	-	114	252	380
Total net sales	<u>233,707</u>	<u>220,334</u>	<u>932,278</u>	<u>838,767</u>
Add back freight	6,065	6,344	24,691	22,398
Sales as shown in the Consolidated Statements of Income	<u>\$ 239,772</u>	<u>\$ 226,678</u>	<u>\$ 956,969</u>	<u>\$ 861,165</u>
Operating Profit				
Film Products:				
Ongoing operations	\$ 8,150	\$ 11,406	\$ 44,946	\$ 43,259
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets (a)	(3,143)	(1,720)	(3,955)	(10,438)
Aluminum Extrusions:				
Ongoing operations	4,722	3,297	19,302	22,637
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets (a)	1,368	(632)	122	(10,553)
Other (c)	-	-	-	7,316
AFBS (formerly Therics) (b):				
Ongoing operations	-	(2,525)	(3,467)	(9,763)
Loss on investment in Therics, LLC	(54)	-	(145)	-
Plant shutdowns, asset impairments and restructurings (a)	(269)	(1,017)	(10,318)	(2,041)
Total	<u>10,774</u>	<u>8,809</u>	<u>46,485</u>	<u>40,417</u>
Interest income	200	118	586	350
Interest expense	1,321	943	4,573	3,171
Gain on the sale of corporate assets (c)	-	1,013	61	7,560
Loss from write-down of investment in Novalux (c)	5,000	-	5,000	-
Corporate expenses, net (a)	3,332	2,934	11,357	9,674
Income from continuing operations before income taxes	<u>1,321</u>	<u>6,063</u>	<u>26,202</u>	<u>35,482</u>
Income taxes (c)	431	2,703	9,973	9,222
Income from continuing operations	<u>890</u>	<u>3,360</u>	<u>16,229</u>	<u>26,260</u>
Income from discontinued operations (d)	-	2,921	-	2,921
Net income (a) (b) (c) (d) (e)	<u>\$ 890</u>	<u>\$ 6,281</u>	<u>\$ 16,229</u>	<u>\$ 29,181</u>

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

	<u>December 31,</u> 2005	<u>December 31,</u> 2004
Assets		
Cash & cash equivalents	\$ 23,434	\$ 22,994
Accounts & notes receivable, net	119,330	117,314
Income taxes recoverable	7,163	-
Inventories	62,438	65,360
Deferred income taxes	7,778	10,181
Prepaid expenses & other	4,224	4,689
Total current assets	<u>224,367</u>	<u>220,538</u>
Property, plant & equipment, net	322,876	316,692
Other assets	96,527	89,261
Goodwill & other intangibles	137,988	142,983
Total assets	<u>\$ 781,758</u>	<u>\$ 769,474</u>
Liabilities and Shareholders' Equity		
Accounts payable	\$ 61,731	\$ 63,852
Accrued expenses	36,031	38,141
Income taxes payable	-	1,446
Current portion of long-term debt (f)	-	13,125
Total current liabilities	<u>97,762</u>	<u>116,564</u>
Long-term debt (f)	113,050	90,327
Deferred income taxes	74,287	71,141
Other noncurrent liabilities	11,297	11,000
Shareholders' equity	485,362	480,442
Total liabilities and shareholders' equity	<u>\$ 781,758</u>	<u>\$ 769,474</u>

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

	Year Ended December 31	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 16,229	\$ 29,181
Adjustments for noncash items:		
Depreciation	38,490	34,092
Amortization of intangibles	299	330
Deferred income taxes	9,217	1,947
Accrued pension income and postretirement benefits	(1,979)	(3,999)
Loss from write-down of investment in Novalux	5,000	-
Gain on sale of assets	(4,174)	(7,560)
Loss on asset impairments and divestitures	9,378	13,811
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivables	(3,361)	(31,711)
Inventories	2,803	(13,962)
Income taxes recoverable	(12,966)	61,538
Prepaid expenses and other	530	(258)
Accounts payable	(648)	15,502
Accrued expenses and income taxes payable	(2,942)	(3,233)
Other, net	(2,173)	(1,858)
Net cash provided by operating activities	<u>53,703</u>	<u>93,820</u>
Cash flows from investing activities:		
Capital expenditures	(62,543)	(55,651)
Acquisitions	-	(1,420)
Novalux investment	(1,095)	(5,000)
Proceeds from the sale of assets and property disposals	8,018	10,209
Other, net	636	(310)
Net cash used in investing activities	<u>(54,984)</u>	<u>(52,172)</u>
Cash flows from financing activities:		
Dividends paid	(6,190)	(6,154)
Debt principal payments and refinancing costs	(147,846)	(72,750)
Borrowings	156,500	36,573
Proceeds from exercise of stock options	1,130	1,871
Net cash provided by (used in) financing activities	<u>3,594</u>	<u>(40,460)</u>
Effect of exchange rate changes on cash	(1,873)	1,863
Increase in cash and cash equivalents	440	3,051
Cash and cash equivalents at beginning of period	22,994	19,943
Cash and cash equivalents at end of period	<u>\$ 23,434</u>	<u>\$ 22,994</u>

Selected Financial Measures
(In Millions)
(Unaudited)

For the Twelve Months Ended December 31, 2005

	AFBS			Total
	Film Products	Aluminum Extrusions	(formerly Therics) (b)	
Operating profit (loss) from ongoing operations	\$ 44.9	\$ 19.3	\$ (3.4)	\$ 60.8
Allocation of corporate overhead	(7.8)	(3.4)	-	(11.2)
Add back depreciation and amortization	26.7	11.5	.4	38.6
Adjusted EBITDA (g)	<u>\$ 63.8</u>	<u>\$ 27.4</u>	<u>\$ (3.0)</u>	<u>\$ 88.2</u>

Selected balance sheet and other data as of December 31, 2005:

Net debt (h)	\$ 89.6
Shares outstanding	38.7

Notes to the Financial Tables

(a) 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 (b) 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.

Plant shutdowns, asset impairments and restructurings in the fourth quarter of 2004 include:

- Pretax charges of \$1.4 million related to severance and other employee-related costs associated with restructurings in AFBS (formerly Therics) (\$590,000), Film Products (\$532,000) and Aluminum Extrusions (\$280,000);
- Pretax charges of \$569,000 (of this amount, \$59,000 for employee relocation is included in "Selling, R&D and general expenses" in the condensed consolidated statements of income) related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products;
- Pretax net charges of \$535,000 related to severance and other costs associated with plant shutdowns in Film Products;
- A pretax charge of \$427,000 related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey;
- A pretax charge of \$352,000 related to the planned shutdown of the aluminum extrusions facility in Aurora, Ontario; and
- Pretax charges of \$84,000 related to accelerated depreciation from plant shutdowns and restructurings in Film Products.

Plant shutdowns, asset impairments and restructurings in 2004 include:

- A pretax charge of \$10.1 million related to the planned shutdown of the aluminum extrusions facility in Aurora, Ontario, including asset impairment charges of \$7.1 million and severance and other costs of \$3 million;
- A pretax charge of \$3 million related to the sale of the films business in Argentina;
- Pretax charges of \$2.6 million related to accelerated depreciation from plant shutdowns and restructurings in Film Products;
- Pretax charges of \$2.5 million related to severance and other costs associated with plant shutdowns in Film Products;
- Pretax charges of \$1.5 million related to severance and other employee-related costs associated with restructurings in AFBS (formerly Therics) (\$735,000), Film Products (\$532,000) and Aluminum Extrusions (\$280,000);
- A pretax charge of \$1.3 million related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey;
- A pretax charge of \$1.3 million (of this amount, \$59,000 for employee relocation is included in "Selling, R&D and general expenses in the condensed consolidated statements of income) related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products; and
- Pretax charges of \$575,000 in Film Products and \$146,000 in Aluminum Extrusions related to asset impairments.

(b) 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.

(c) Gain on the sale of corporate assets in 2005 includes a gain of \$61,000 related to the sale of corporate real estate. Gain on the sale of corporate assets in 2004 includes gains of \$6.1 million related to the sale of public equity securities and gains of \$1 million in the fourth quarter and \$413,000 in the second quarter on 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 2004 include a third-quarter tax benefit of \$4 million related to the reversal of income tax contingency accruals upon favorable conclusion of IRS and state examinations through 2000.

The other pretax gain in 2004 of \$7.3 million included in the Aluminum Extrusions section of the operating profit by segment table is comprised of the present value of an insurance settlement of \$8.4 million (future value of \$8.5 million) associated with environmental costs related to prior years, partially offset by accruals for expected future environmental costs of \$1 million. The company received \$5.2 million of the \$8.5 million insurance settlement in September 2004 and recognized receivables at present value for future amounts due (\$1.5 million received in February 2005 and \$1.8 million received in February 2006). The gain from the insurance settlement is included in "Other income (expense), net" in the condensed consolidated statements of income, while the accruals for expected future environmental costs are included in "Cost of goods sold."

- (d) Discontinued operations for 2004 include a gain of \$3.7 million (\$2.9 million after taxes) primarily related to the reversal of business and occupancy tax contingency accruals associated with Tredegar Investments' venture capital activities (\$2.3 million after taxes) upon favorable resolution. In 2003, Tredegar sold substantially all of its venture capital investment portfolio. The operating results associated with venture capital investment activities have been reported as discontinued operations.
- (e) Comprehensive income (loss), defined as net income and other comprehensive income (loss), was a loss of \$1.5 million for the fourth quarter of 2005 and income of \$13.7 million for the fourth quarter of 2004. Comprehensive income (loss) was income of \$9.4 million in 2005 and income of \$36.1 million in 2004. 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.
- (f) On December 15, 2005, Tredegar entered into a new \$300 million, five-year, revolving, unsecured credit facility. The new credit facility replaced the agreement that was due to expire in September 2006.
- (g) Adjusted EBITDA represents income from 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 writedowns 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 depreciation and amortization, unusual items and losses associated with plant shutdowns, asset impairments and restructurings, measures of which may vary among peer companies.

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

Debt	\$ 113.0
Less: Cash and cash equivalents, net of overdrafts	(23.4)
Net debt	<u>\$ 89.6</u>