Novelis Takes Actions To Cap Metal Price Ceiling Exposure

ATLANTA, Dec. 22 /PRNewswire-FirstCall/ Novelis Inc. (NYSE: NVL) (TSX: NVL) announced today that the Company has taken a series of actions to limit its short- and long-term metal price ceiling exposure.

The cornerstone of this initiative is the successful negotiation of certain can sheet contracts in North America which removes the metal price ceiling from those contracts. As a result, the Company expects that it will no longer have metal price ceiling exposure beyond 2006 that exceeds its internal hedge position. At the same time, Novelis is pleased to have achieved these changes while also maintaining or enhancing long-term volume as well as contract terms and conditions.

Novelis also outlined further steps it has taken to minimize its exposure during the fourth quarter of 2005 and during 2006:

- For the fourth quarter of 2005, the Company has established metal positions such that its maximum ceiling price exposure impacting Regional Income beyond its internal hedge position in the quarter is expected to be less than $5 million.
- For the first half of 2006, the Company has hedged its metal price ceiling exposure (above its internal hedge position) through the purchase of call options positioned to cover the exposure at the ceiling price.
- For the second half of 2006, the Company's metal price ceiling exposure (above the Company's internal hedge position) has now been hedged with call option positions at various strike prices. As a result, the Company's maximum potential metal price ceiling exposure impacting Regional Income (above its internal hedge position) is expected to be approximately $45 million beyond the cost of the options, assuming the current Midwest premium. Novelis said that at any point between today and 2007, should an economic opportunity arise to further limit the remaining metal price ceiling exposure for the second half, the Company will consider taking such actions.

Approximately 20% of the Company's total volume is currently subject to contracts with a metal price ceiling. As a result of these actions, the percentage of the Company's total volume subject to contracts with a metal price ceiling should drop to approximately 10% of the Company's total volume by 2007. The Company remains committed to eliminating all remaining metal price ceiling contract provisions as soon as possible.

"As an aluminum conversion business, one of our highest priorities must be to minimize, to the extent possible, metal price exposure and volatility to our earnings," said Brian Sturgell, president and chief executive officer. "While a metal price ceiling has been a standard component in can sheet contracts in North America since 1996, the industry has not previously encountered a sustained level of high metal prices like those existing today. As a result, we have undertaken two major initiatives. First, we have announced and are taking actions toward the elimination of the ceiling concept in all of our can sheet contracts. Second, in late September, we significantly revised our hedging policy and initiated the actions necessary to cap our remaining metal price ceiling exposure in a comprehensive manner, while at the same time ensuring that our business practices continue to be aligned with the Novelis conversion business model."

The financial impact of purchasing the 2006 options was a cash outflow of approximately $43 million in 2005, provided for by utilizing a portion of the Company's strong cash flows during the year. The Regional Income impact to the first half of 2006 will be an expense of approximately $29 million. The Regional Income impact on the second half of 2006 will be an expense of approximately $14 million. These expenses will be incurred as the options mature in 2006.

Other Metal Price Impacts

The Company said that it will continue to be impacted by metal price movements unrelated to metal price ceiling contracts. These are associated with its Brazilian smelter metal sales and recurring metal timing differences. Novelis accounts for its inventory on a weighted average cost basis. Virtually all of its sales are made on the basis of metal price plus conversion price. Metal timing differences arise due to the difference between the price of metal charged to customers in a given period and the price of metal charged to cost of goods sold in that period.

Internal Hedges

Novelis' total volume that includes a metal price ceiling in 2006 is approximately 20% of its aggregate annual global volume. Novelis' internal hedges cover approximately one-half of its current metal price ceiling volume or approximately 10% of its aggregate annual global volume. The portion covered by the Company's internal hedges is calculated by taking Novelis' full volume of production from the Company's Brazilian smelters and a portion of the volume from the Company's used beverage can (UBC) purchases. The Company assumes in the calculation that UBC spreads will continue to move relative to high metal prices as they have in the past.

In addition to the above, a portion of Novelis' can sheet sales volume is represented by commercial tolling arrangements that also reduce the Company's hedging requirements. Under these arrangements, the Company converts scrap back into can sheet for customers, an activity that represents no metal risk to Novelis.

Novelis is the global leader in aluminum rolled products and aluminum can recycling. The Company has 36 operating facilities in 11 countries and more than 13,000 employees. Novelis has the unparalleled capability to provide its customers with a regional supply of technically sophisticated rolled aluminum products throughout Asia, Europe, North America, and South America. Through its advanced production capabilities, the Company supplies aluminum sheet and foil to the automotive and transportation, beverage and food packaging, construction and industrial, and printing markets. For more information on Novelis, visit http://www.novelis.com.

Statements made in this news release that describe Novelis' intentions, expectations or predictions may be forward-looking statements within the meaning of securities laws. Novelis cautions that, by their nature, forward- looking statements involve risk and uncertainty and that Novelis' actual results could differ materially from those expressed or implied in such statements. Important factors which could cause such differences include an increase in the price of aluminum (or premiums associated with such price), an increase in the price of derivative instruments, a default under the new can sheet contracts, an increase in energy costs, global supply and demand conditions for rolled aluminum products, changes in the relative value of various currencies, demand and pricing within the principal markets for the Company's products, changes in government regulations, particularly those affecting environmental, health or safety compliance, economic developments, relationships with (and financial or operating conditions of) customers and suppliers, competition from other aluminum rolled products producers as well as from substitute materials such as steel, glass, plastic and composite materials, and the level of our indebtedness and ability to generate cash and other factors relating to the Company's ongoing operations. Reference should be made to Novelis' registration statement on Form S-4, as amended, filed with the Securities and Exchange Commission for a discussion of major risk factors.

SOURCE Novelis Inc.

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