Novelis Records $25 Million Profit In First Quarter Of Fiscal Year 2009

ATLANTA, Aug. 14 /PRNewswire/ -- Novelis Inc., a subsidiary of Hindalco Industries Limited (BSE: HINDALCO), today reported net income of US$25 million for the first quarter of fiscal year 2009, which ended on June 30, 2008. This compares with a net loss of $142 million for the corresponding prior year period, which included a number of non-recurring expenses related to the acquisition by Hindalco.

Shipments of flat-rolled aluminum products increased in the first quarter versus the prior year period in all of the company's reported regions except Europe. Total rolled products shipments increased 3 percent or 22 kilotonnes (kt) over the corresponding prior period, from 755 kt to 777 kt. The primary driver of this increase was strong global demand for aluminum can sheet. This was partially offset by decreases in light gauge and specialty products due to weaker construction markets in North America and Europe.

"Today's inflationary environment is clearly very challenging," said Martha Finn Brooks, President and Chief Operating Officer, "but I am encouraged by the continued strength in demand for our products, particularly can stock, which is growing well in a number of markets."

"We continue our efforts to offset rising costs through portfolio optimization, price increases and initiatives to address energy, freight and alloy costs," said Ms. Brooks. "Sustained high metal prices, however, have increased our working capital which drove a substantial negative free cash flow for the first quarter."

Novelis reported pre-tax income of $62 million on sales of $3,103 million for the first quarter, an improvement of $176 million over the prior year period when it incurred a pre-tax loss of $114 million on sales of $2,828 million. The prior year period was affected by several non-recurring expenses related to the sale of Novelis, including $45 million of stock compensation expense and $32 million of transaction costs. The improvement was also due to the benefit of non-cash unrealized gains on derivatives of $21 million versus unrealized losses of $10 million for the corresponding prior period. The gain was primarily driven by an increase in the forward aluminum price on the London Metal Exchange (LME) during the first quarter of fiscal year 2009.

In addition to these items, the first quarter of fiscal year 2009 was favorably impacted versus the prior year quarter by $18 million for certain income and expense items associated with fair value adjustments recorded at the date of acquisition. The pre-tax impact of these items was primarily driven by the accretion of reserves related to unfavorable contracts (recorded at fair value at the date of acquisition) and inventory adjustments in the prior period that did not occur in the current fiscal year, partially offset by higher depreciation and amortization.

The remaining $50 million improvement in pre-tax income was driven primarily by the following factors, which are exclusive of exchange impact:

-- Product mix improvements and price increases added approximately $33 million of pre-tax earnings in the quarter compared with the prior year period.

-- The company realized a $45 million improvement in metal price lag over the prior year period. Metal price lag positively impacted pre-tax earnings by $34 million in the quarter ended June 30, 2008, compared with $11 million of negative impact in the prior year period. (Metal price lag is a timing difference on the pass-through to customers of changing aluminum prices.)

-- The company's exposure to customer contracts with metal price ceilings was reduced by $13 million, net of hedges and exclusive of the impact of the accounting associated with the acquisition, compared with the corresponding quarter of fiscal year 2008.

-- Selling, general and administrative (SG&A) expenses were reduced by approximately $15 million.

-- Interest expense was approximately $11 million lower, driven primarily by reduced borrowing costs.

These gains were offset by the following factors:

-- Input and operational costs in the quarter were approximately $48 million higher than in the prior year period, primarily as a result of energy, freight and alloy costs.

-- Costs associated with currency exposure, primarily to the Brazilian real, were $26 million higher. The average Brazilian real per U.S. dollar strengthened approximately 16% this quarter versus the prior year quarter.

Income tax expense in the first quarter of 2009 included $29 million of income tax expense related to exchange translation and re-measurement items, offset by a $14 million tax benefit associated with statutory tax rate differences on foreign earnings. The prior year period included a net $68 million of tax expense associated with discrete period items and tax rate differences on foreign earnings.

Cash taxes paid were $55 million and $21 million during the first quarters of fiscal years 2009 and 2008, respectively. This increase was driven by higher earnings in jurisdictions where we pay cash taxes and the timing of such payments.

NOTE REGARDING COMBINED RESULTS OF OPERATIONS AND SELECTED FINANCIAL AND OPERATING INFORMATION DUE TO THE ACQUISITION

Under generally accepted accounting principles in the United States of America (US GAAP), the condensed consolidated financial statements for the quarter ended June 30, 2007, are presented in two distinct periods, as Predecessor and Successor entities are not comparable in all material respects. However, in order to facilitate an understanding of our results of operations for the quarter ended June 30, 2007, in comparison with the quarter ended June 30, 2008, our Predecessor results and our Successor results are presented and discussed on a combined basis. The combined results of operations are non-GAAP financial measures, do not include any pro-forma assumptions or adjustments and should not be used in isolation or substitution of the Predecessor and Successor results.

Shown below are comparative (1) shipments, (2) results of operations and (3) cash flows for the quarter ended June 30, 2008, and for the combined quarter ended June 30, 2007. To facilitate reconciliation of combined schedules to GAAP financial measures we have included the respective Predecessor and Successor periods in each table.

Shipments:	Three Months Ended June 30, 2008 Successor	Three Months Ended June 30, 2007 Combined	May 16, 2007 Through June 30, 2007 Successor	April 1, 2007 Through May 15, 2007 Predecessor
Shipments (kt)(A):				
Rolled products(B)	777	755	407	348
Ingot products©	48	38	23	15
Total shipments	825	793	430	363

(A) One kilotonne (kt) is 1,000 metric tonnes. One metric tonne is equivalent to 2,204.6 pounds.
(B) Rolled products include tolling (the conversion of customer-owned metal).
© Ingot products include primary ingot in Brazil and Europe, foundry products in Korea, secondary ingot in Europe and other miscellaneous recyclable aluminum.

Novelis Inc.
Condensed Consolidated Statements of Operations
($ in millions)

	Three Months Ended June 30, 2008 Successor	Three Months Ended June 30, 2007 (Restated) Combined	May 16, 2007 Through June 30, 2007 (Restated) Successor	April 1, 2007 Through May 15, 2007 Predecessor
Net sales	$3,103	$2,828	$1,547	$1,281
Cost of goods sold (exclusive of depreciation and amortization shown below)	2,831	2,641	1,436	1,205
Selling, general and administrative expenses	84	137	42	95
Depreciation and amortization	116	81	53	28
Research and development				

expenses	12	19	13	6
Interest expense and amortization of debt issuance costs - net	40	51	25	26
(Gain) loss on change in fair value of derivative instruments - net	(66)	(34)	(14)	(20)
Equity in net (income) loss of non-consolidated affiliates	2	-	1	(1)
Sale transaction fees	-	32	-	32
Other (income) expenses - net	22	15	11	4
	3,041	2,942	1,567	1,375
Income (loss) before provision (benefit) for taxes on income (loss) and minority interests' share	62	(114)	(20)	(94)
Provision (benefit) for taxes on income (loss)	35	31	27	4
Income (loss) before minority interests' share	27	(145)	(47)	(98)
Minority interests' share	(2)	3	2	1
Net income (loss)	$25	$ (142)	$(45)	$(97)

Novelis Inc.
Condensed Consolidated Statements of Cash Flows
($ in millions)

	Three Months Ended June 30, 2008 Successor	Three Months Ended June 30, 2007 Combined	May 16, 2007 Through June 30, 2007 Successor	April 1, 2007 Through May 15, 2007 Predecessor
OPERATING ACTIVITIES				
Net cash provided by (used in) operating activities	$(351)	$(274)	$(44)	$(230)
INVESTING ACTIVITIES				
Capital expenditures	(33)	(39)	(22)	(17)
Proceeds from sales of assets	1	1	1	-
Changes to investment in and advances to non-consolidated affiliates	6	2	1	1
Proceeds from loans receivable - net - related parties	8	4	4	-
Net proceeds from settlement of derivative instruments	34	47	29	18
Net cash provided by (used in) investing activities	16	15	13	2
FINANCING ACTIVITIES				
Proceeds from issuance of common stock	-	92	92	-

Proceeds from issuance of debt	-	150	-	150
Principal repayments	(4)	(47)	(46)	(1)
Short-term borrowings - net	313	143	83	60
Dividends - minority interests	-	(8)	(1)	(7)
Debt issuance costs	-	(15)	(13)	(2)
Proceeds from the exercise of stock options	-	1	-	1
Net cash provided by (used in) financing activities	309	316	115	201
Net increase (decrease) in cash and cash equivalents	(26)	57	84	(27)
Effect of exchange rate changes on cash balances held in foreign currencies	(4)	1	-	1
Cash and cash equivalents - beginning of period	326	128	102	128
Cash and cash equivalents - end of period	$296	$186	$186	$102

About Novelis

Novelis Inc. is the global leader in aluminum rolled products and aluminum can recycling. The company operates in 11 countries, employs approximately 12,700 people and reported revenue of $11.2 billion in fiscal year 2008. Novelis supplies premium aluminum sheet and foil products to automotive, transportation, packaging, construction, industrial and printing markets throughout North America, South America, Europe and Asia. The company is a subsidiary of Hindalco Industries Limited, Asia's largest integrated producer of aluminum and a leading copper producer. Hindalco is the flagship company of the Aditya Birla Group, a multinational conglomerate based in Mumbai, India. For more information on Novelis, visit http://www.novelis.com/ .

Statements made in this news release which describe Novelis' intentions, expectations, beliefs or predictions may be forward-looking statements within the meaning of securities laws. Forward-looking statements include statements preceded by, followed by, or including the words "believes," "expects," "anticipates," "plans," "estimates," "projects," "forecasts," or similar expressions. 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. We do not intend, and we disclaim any obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements include, among other things: the level of our indebtedness and our ability to generate cash; relationships with, and financial and operating conditions of, our customers and suppliers; changes in the prices and availability of aluminum (or premiums associated with such prices) or other materials and raw materials we use; the effect of metal price ceilings in certain of our sales contracts; our ability to successfully negotiate with our customers to remove or limit metal price ceilings in our contracts; the effectiveness of our metal hedging activities, including our internal used beverage can and smelter hedges; fluctuations in the supply of, and prices for, energy in the areas in which we maintain production facilities; our ability to access financing for future capital requirements; continuing obligations and other relationships resulting from our spin-off from Alcan; changes in the relative values of various currencies; factors affecting our operations, such as litigation, environmental remediation and clean-up costs, labor relations and negotiations, breakdown of equipment and other events; economic, regulatory and political factors within the countries in which we operate or sell our products, including changes in duties or tariffs; competition from other aluminum rolled products producers as well as from substitute materials such as steel, glass, plastic and composite materials; changes in general economic conditions; our ability to maintain effective internal control over financial reporting and disclosure controls and procedures in the future; changes in the fair value of derivative instruments; cyclical demand and pricing within the principal markets for our products as well as seasonality in certain of our customers' industries; changes in government regulations, particularly those affecting taxes, environmental, health or safety compliance; changes in interest rates that have the effect of increasing the amounts we pay under our principal credit agreements and other financing arrangements; the development of the most efficient tax structure for the Company; and the ongoing integration with Hindalco. The above list of factors is not exhaustive. Other important risk factors are included under the caption "Risk Factors" in our amended Annual Report on Form 10-K/A for the fiscal year ended March 31, 2008, as filed with the SEC, and may be discussed in subsequent filings with the SEC. Further, the risk factors included in our amended Annual Report on Form 10-K/A for the fiscal year ended March 31, 2008, are specifically incorporated by reference into this news release.

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