Novelis Reports Loss For Second Quarter Of Fiscal 2009

Metal Derivative and Currency Movements Impact P&L

ATLANTA, Nov. 10 /PRNewswire/ -- Novelis Inc., a subsidiary of Hindalco Industries Limited (BSE: HINDALCO), today reported a net loss of $103 million for the second quarter of fiscal year 2009, which ended on September 30, 2008. This compares with a net loss of $19 million for the corresponding period of fiscal 2008.

Shipments of flat-rolled aluminum products increased slightly in the quarter to 759 kilotonnes (kt) from 747 kt in the prior-year period. Increases in can sheet shipments were offset by decreases in other market sectors as a result of weak demand. Regionally, rolled product shipments increased marginally in North America and Asia, and decreased slightly in Europe. South America, however, saw rolled product shipments increase by 17% on the strength of continued growth in the can sheet market.

"The economic challenge in the second quarter was the cost of energy and other commodity inputs, which increased far in excess of our ability to increase prices," said Martha Finn Brooks, President and Chief Operating Officer. "Our results were further impacted by currency and metal price movements late in the quarter."

"While lower metal and energy prices, as well as some of the changes in currency, will be beneficial to our profitability and cash flow over time," said Brooks, "the demand outlook is highly uncertain in at least three of our four regions. As needed, we will take suitable actions to adjust our production levels and otherwise appropriately manage our business."

On a pre-tax basis, Novelis incurred a loss of $272 million on sales of $2,959 million in the second quarter, compared with the prior-year period when it generated $1 million of pre-tax income on sales of $2,821 million. This decrease in pre-tax earnings included $195 million of non-cash unrealized losses on derivative instruments which are used to hedge forecasted purchases of aluminum and other commodities as well as related foreign currency exposures. In future periods, the losses on these hedging instruments should be offset by the benefits of lower commodity costs, more favorable currency relationships and the reduced impact of contracts with metal price ceilings.

The unrealized losses on derivative instruments were $134 million higher than in the prior-year quarter and are net of $61 million of unrealized gains related to derivative instruments that hedge the income statement re-measurement of foreign currency denominated working capital and debt balances.

In addition to the impact of derivatives, the second quarter of fiscal 2009 was unfavorably affected versus the prior-year quarter by $27 million for certain income and expense items associated with fair value adjustments recorded at the date of the company's acquisition by Hindalco. The pre-tax impact of these items was primarily driven by the lower accretion of reserves related to unfavorable contracts (recorded at fair value at the date of acquisition) during the second quarter of 2009.

The remaining variance compared to the prior-year period resulted primarily from the following factors:

-- Inflation of non-aluminum input costs, such as energy, freight and alloys, increased the cost of sales by $50 million, but was partially offset by the $7 million favorable impact of sales price increases and product mix.

-- In the prior-year quarter, equity in income from non-consolidated affiliates included a $16 million tax benefit associated with a change in the German statutory tax rate.

-- Interest expense was $10 million lower primarily due to lower average interest rates on our variable rate debt.

-- The impact of contracts with metal price ceilings was a net $5 million favorable variance in the second quarter after including the impact of our internal hedges and realized derivative instruments used to offset our exposure.

Both current and prior-year periods benefited from gains on contingent liabilities of nearly equal value.

The net loss of $103 million for the second quarter of fiscal 2009 reflects a $169 million income tax benefit. This level of benefit resulted from:

-- $85 million tax benefit by applying the Canadian statutory tax rate to our pre-tax loss;

-- $63 million tax benefit resulting from exchange translation and re- measurement items;

-- $54 million tax benefit relating to tax rate differences on foreign earnings;

-- Offset by a $15 million increase in valuation allowances and $18 million of other miscellaneous items.

Cash taxes paid were $12 million and $19 million during the second quarters of fiscal years 2009 and 2008, respectively.

Six Month Results (see Note below regarding combined results of operations)

For the six months ended September 30, 2008, ("year-to-date" or "current year"), Novelis reported a net loss of $78 million. This compares with a net loss of $161 million for the corresponding period of fiscal 2008.

Year-to-date rolled products shipments, at 1,536 kt, were approximately 2% higher than in the prior-year period. The company incurred a pre-tax loss of $212 million on combined net sales of $6,062 million in the current year, which represents a $102 million decrease compared to the prior year when Novelis reported a combined pre-tax loss of $110 million on net sales of $5,649 million. The decrease in pre-tax earnings reflects significant movements in aluminum and currency markets and inflation of operating cost inputs, partially offset by improved pricing and one-time deal related expenses included in the prior year. This decrease is due primarily to the following:

-- Total non-cash unrealized losses on derivative instruments increased by $103 million. This is net of $79 million of unrealized gains related to derivative instruments that hedge the income statement re-measurement of foreign currency denominated working capital and debt balances. The gross $182 million impact on pre-tax income primarily reflects losses on derivative instruments that are used to hedge forecasted purchases of aluminum and other commodities as well as related foreign currency exposures. In future periods, the losses on these hedging instruments should be offset by the benefits of lower commodity costs, more favorable currency relationships and the reduced impact of contracts with metal price ceilings.

-- The inflation of non-aluminum input costs, such as energy, freight and alloys, increased the cost of sales by $101 million, but was partially offset by the $47 million favorable impact of sales price increases and product mix.

-- The prior year included $45 million of stock compensation expense triggered by the sale of Novelis and $32 million for sale transaction costs. In addition to these items, the company reduced selling, general and administrative (SG&A) expenses by an additional $14 million in the current year.

-- Metal price lag favorably impacted our current-year results by $26 million and negatively impacted the prior-year period by $20 million, for a net favorable impact of $46 million between the periods.

-- Interest expense was $26 million lower primarily due to lower average interest rates on our variable rate debt and non-recurring financing fees that occurred in the prior year.

-- The impact of can price ceilings was a net $17 million favorable variance, after including the impact of our internal hedges and realized derivative instruments used to offset our exposure.

-- South American operations incurred $16 million of additional foreign currency losses on transactions denominated in Brazilian real due to a higher average Brazilian real versus U.S. dollar exchange rate.

-- The prior year included a $16 million tax benefit recognized in equity in income from non-consolidated affiliates.

-- The favorable impact of purchase accounting was $8 million lower during the 2009 year-to-date period.

The net loss of $78 million is after recognition of a $134 million income tax benefit. This compares with the corresponding period of 2008 when the net loss of $161 million included an income tax expense of $51 million. Significant tax items in the first six months of fiscal 2009 included:

-- $65 million tax benefit by applying the Canadian statutory tax rate to our pre-tax loss;

-- $34 million tax benefit resulting from exchange translation and re- measurement items;

-- $68 million tax benefit relating to tax rate differences on foreign earnings;

-- Offset by an $18 million increase in valuation allowances and $15 million of other miscellaneous items.

Cash taxes paid during the first six months of fiscal 2009 totaled $67 million, compared to $40 million in the prior-year period.

For further information regarding Novelis' second quarter and year-to-date results, please review the company's

Quarterly Report on Form 10-Q as filed with the U.S. Securities and Exchange Commission on November 10, 2008.

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 (GAAP), the condensed consolidated financial statements for the six months ended September 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 six months ended September 30, 2007, in comparison with the six months ended September 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 three and six months ended September 30, 2008, and for the combined six months ended September 30, 2007. To facilitate reconciliation of combined schedules to GAAP financial measures, we have included the respective Successor and Predecessor periods in each table.

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Six Months Ended September 30, 2008	Six Months Ended September 30, 2007	May 16, 2007 Through September 30, 2007	April 1, 2007 Through May 15, 2007
	Successor	Successor	Successor	Combined	Successor	Predecessor
Shipments (kt)(A):						
Rolled products(B)	759	747	1,536	1,504	1,156	348
Ingot products(C)	49	42	97	81	66	15
Total shipments	808	789	1,633	1,585	1,222	363

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

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007 (Restated)
	Successor	Successor
Net sales	$2,959	$2,821
Cost of goods sold (exclusive of depreciation and amortization shown below)	2,791	2,555
Selling, general and administrative expenses	89	88
Depreciation and amortization	107	103
Research and development expenses	10	10
Interest expense and amortization of debt issuance costs - net	41	56
(Gain) loss on change in fair value of derivative instruments - net	185	30
Equity in net (income) loss of non-consolidated affiliates	(2)	(20)

Sale transaction fees	-	-
Other (income) expenses - net	10	(2)
	3,231	2,820
Income (loss) before provision (benefit) for taxes on income (loss) and minority interests' share	(272)	1
Provision (benefit) for taxes on income (loss)	(169)	20
Income (loss) before minority interests' share	(103)	(19)
Minority interests' share	-	-
Net income (loss)	$(103)	$(19)

Novelis Inc.

Condensed Consolidated Statements of Operations

($ in millions)

	Six Months Ended September 30, 2008	Six Months Ended September 30, 2007 (Restated)	May 16, 2007 Through September 30, 2007	April 1, 2007 Through May 15, 2007
	Successor	Combined	Successor	Predecessor
Net sales	$6,062	$5,649	$4,368	$1,281
Cost of goods sold (exclusive of depreciation and amortization shown below)	5,622	5,196	3,991	1,205
Selling, general and administrative expenses	173	225	130	95
Depreciation and amortization	223	184	156	28
Research and development expenses	22	29	23	6
Interest expense and amortization of debt issuance costs - net	81	107	81	26
(Gain) loss on change in fair value of derivative instruments - net	119	(4)	16	(20)
Equity in net (income) loss of non-consolidated affiliates	-	(20)	(19)	(1)
Sale transaction fees	-	32	-	32
Other (income) expenses - net	32	13	9	4
	6,272	5,762	4,387	1,375
Income (loss) before provision (benefit) for taxes on income (loss) and minority interests' share	(210)	(113)	(19)	(94)
Provision (benefit) for taxes on income (loss)	(134)	51	47	4
Income (loss) before minority interests' share	(76)	(164)	(66)	(98)
Minority interests' share	(2)	3	2	1
Net income (loss)	$(78)	$(161)	$(64)	$(97)

Novelis Inc.

Condensed Consolidated Statements of Cash Flows

($ in millions)

May 16,

	Six Months Ended September 30, 2008 Successor	Six Months Ended September 30, 2007 Combined	2007 Through September 30, 2007 Successor	April 1, 2007 Through May 15, 2007 Predecessor
OPERATING ACTIVITIES				
Net cash provided by (used in) operating activities	$(390)	$(227)	$3	$(230)
INVESTING ACTIVITIES				
Capital expenditures	(70)	(74)	(57)	(17)
Proceeds from sales of assets	2	1	1	-
Changes to investment in, and advances to, non-consolidated affiliates	13	4	3	1
Proceeds from loans receivable - net - related parties	13	10	10	-
Net proceeds from settlement of derivative instruments	94	90	72	18
Net cash provided by (used in) investing activities	52	31	29	2
FINANCING ACTIVITIES				
Proceeds from issuance of common stock	-	92	92	-
Proceeds from issuance of debt	-	1,110	960	150
Principal repayments	(7)	(906)	(905)	(1)
Short-term borrowings - net	263	(5)	(65)	60
Dividends - minority interests	(5)	(8)	(1)	(7)
Debt issuance costs	-	(37)	(35)	(2)
Proceeds from the exercise of stock options	-	1	-	1
Net cash provided by (used in) financing activities	251	247	46	201
Net increase (decrease) in cash and cash equivalents	(87)	51	78	(27)
Effect of exchange rate changes on cash balances held in foreign currencies	(20)	2	1	1
Cash and cash equivalents - beginning of period	326	128	102	128
Cash and cash equivalents - end of period	$219	$181	$181	$102

About Novelis

Novelis Inc. is the global leader in aluminum rolled products and aluminum can recycling. The company operates in 11 countries, has approximately 12,700 employees 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 Asia, Europe, North America and South America. Novelis 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, please visit http://www.novelis.com/.

Forward-Looking Statements

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. Examples of such statements in this news release include, among other matters, the benefit of lower metal and energy prices on our profitability, the changes in currency on our profitability, our ability to adjust our production levels, and the offset of losses on hedging instruments through lower commodity costs. 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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