UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-32312

Novelis Inc.

(Exact name of registrant as specified in its charter)

Canada *(State or other jurisdiction of incorporation or organization)*	**98-0442987** *(I.R.S. Employer Identification Number)*
3560 Lenox Road, Suite 2000 **Atlanta, Georgia** *(Address of principal executive offices)*	**30326** *(Zip Code)*

Telephone: (404) 760-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past
90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such
files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of July 31, 2011, the registrant had 1,000 shares of common stock, no par value, outstanding. All of the registrant's outstanding shares were held indirectly by Hindalco Industries Ltd., the registrant's parent company.

Novelis Inc.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (unaudited)***

Novelis Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(In millions)

	Three Months Ended June 30,	
	2011	2010
Net sales	$3,113	$2,533
Cost of goods sold (exclusive of depreciation and amortization)	2,708	2,208
Selling, general and administrative expenses	95	81
Depreciation and amortization	89	103
Research and development expenses	12	9
Interest expense and amortization of debt issuance costs	77	39
Interest income	(4)	(3)
Restructuring charges, net	19	6
Equity in net loss of non-consolidated affiliates	2	3
Other (income) expense, net	(21)	13
	2,977	2,459
Income before income taxes	136	74
Income tax provision	59	15
Net income	77	59
Net income attributable to noncontrolling interests	15	9
Net income attributable to our common shareholder	$ 62	$ 50

See accompanying notes to the condensed consolidated financial statements.

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Novelis Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(In millions, except number of shares)

	June 30, 2011	March 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 307	$ 311
Accounts receivable, net		
— third parties (net of allowances of $8 and $7 as of June 30, 2011 and March 31, 2011, respectively)	1,598	1,480
— related parties	33	28
Inventories, net	1,435	1,338
Prepaid expenses and other current assets	65	50
Fair value of derivative instruments	156	165
Deferred income tax assets	36	39
Total current assets	3,630	3,411
Property, plant and equipment, net	2,560	2,543
Goodwill	611	611
Intangible assets, net	700	707
Investment in and advances to non-consolidated affiliates	754	743
Fair value of derivative instruments, net of current portion	20	17
Deferred income tax assets	51	52
Other long-term assets		
— third parties	180	193
— related parties	19	19
Total assets	$ 8,525	$ 8,296
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Current portion of long-term debt	$ 21	$ 21
Short-term borrowings	207	17
Accounts payable		
— third parties	1,328	1,378
— related parties	51	50
Fair value of derivative instruments	71	82
Accrued expenses and other current liabilities	487	568
Deferred income tax liabilities	42	43
Total current liabilities	2,207	2,159
Long-term debt, net of current portion	4,069	4,065
Deferred income tax liabilities	583	552
Accrued postretirement benefits	532	526
Other long-term liabilities	371	359
Total liabilities	7,762	7,661
Commitments and contingencies		
Shareholder's equity		
Common stock, no par value; unlimited number of shares authorized; 1,000 shares issued and outstanding as of June 30, 2011 and March 31, 2011	—	—
Additional paid-in capital	1,830	1,830
Accumulated deficit	(1,380)	(1,442)
Accumulated other comprehensive income	103	57
Total equity of our common shareholder	553	445
Noncontrolling interests	210	190
Total equity	763	635
Total liabilities and equity	$ 8,525	$ 8,296

See accompanying notes to the condensed consolidated financial statements.

Novelis Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In millions)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
OPERATING ACTIVITIES		
Net income	$ 77	$ 59
Adjustments to determine net cash (used in) provided by operating activities:		
Depreciation and amortization	89	103
(Gain) loss on unrealized derivatives and other derivatives in investing activities, net	(24)	6
Deferred income taxes	37	(11)
Write-off and amortization of fair value adjustments, net	3	5
Equity in net loss of non-consolidated affiliates	2	3
Foreign exchange remeasurement of debt	—	7
(Gain) loss on sale of assets	1	(13)
Other, net	18	3
Changes in assets and liabilities:		
Accounts receivable	(92)	(146)
Inventories	(81)	(38)
Accounts payable	(70)	51
Other current assets	(13)	(8)
Other current liabilities	(83)	16
Other noncurrent assets	9	(3)
Other noncurrent liabilities	12	(12)
Net cash (used in) provided by operating activities	(115)	22
INVESTING ACTIVITIES		
Capital expenditures	(67)	(23)
Proceeds from sales of assets — third parties	—	15
Proceeds from investment in and advances to non-consolidated affiliates, net	1	—
(Outflow) proceeds from related party loans receivable, net	(6)	3
(Outflow) proceeds from settlement of other undesignated derivative instruments, net	(7)	32
Net cash (used in) provided by investing activities	(79)	27
FINANCING ACTIVITIES		
Proceeds from issuance of debt — third parties	3	—
Principal payments — third parties	(5)	(4)
Short-term borrowings (payments), net	190	(41)
Dividends, noncontrolling interest	—	(17)
Net cash provided by (used in) financing activities	188	(62)
Net decrease in cash and cash equivalents	(6)	(13)
Effect of exchange rate changes on cash balances held in foreign currencies	2	(5)
Cash and cash equivalents — beginning of period	311	437
Cash and cash equivalents — end of period	$ 307	$ 419

See accompanying notes to the condensed consolidated financial statements.

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Novelis Inc.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDER'S EQUITY (unaudited)
(In millions, except number of shares)

	Equity of our Common Shareholder						
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (AOCI)	Non-controlling Interests	Total Equity
	Shares	Amount					
Balance as of March 31, 2011	1,000	$ —	$ 1,830	$ (1,442)	$ 57	$ 190	$ 635
Net income attributable to our common shareholder	—	—	—	62	—	—	62
Net income attributable to noncontrolling interests	—	—	—	—	—	15	15
Currency translation adjustment, net of tax provision of $2 in AOCI	—	—	—	—	52	5	57
Change in fair value of effective portion of cash flow hedges, net of tax benefit of $7 included in AOCI	—	—	—	—	(6)	—	(6)
Change in pension and other benefits, net of tax provision of $1 included in AOCI	—	—	—	—	—	—	—
Balance as of June 30, 2011	1,000	$ —	$ 1,830	$ (1,380)	$ 103	$ 210	$ 763

See accompanying notes to the condensed consolidated financial statements.

Novelis Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
(In millions)

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Attributable to Our Common Shareholder	Attributable to Noncontrolling Interests	Total	Attributable to Our Common Shareholder	Attributable to Noncontrolling Interests	Total
Net income	$ 62	$ 15	$ 77	$ 50	$ 9	$ 59
Other comprehensive income (loss):						
Currency translation adjustment	54	5	59	(116)	(8)	(124)
Net change in fair value of effective portion of cash flow hedges	(13)	—	(13)	9	—	9
Net change in pension and other benefits	1	—	1	—	—	—
Other comprehensive income (loss) before income tax effect	42	5	47	(107)	(8)	(115)
Income tax (benefit) provision related to items of other comprehensive income (loss)	(4)	—	(4)	3	—	3
Other comprehensive income (loss), net of tax	46	5	51	(110)	(8)	(118)
Comprehensive income (loss)	$ 108	$ 20	$ 128	$ (60)	$ 1	$ (59)

See accompanying notes to the condensed consolidated financial statements.

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

References herein to “Novelis,” the “Company,” “we,” “our,” or “us” refer to Novelis Inc. and its subsidiaries unless the context specifically indicates otherwise. References herein to “Hindalco” refer to Hindalco Industries Limited. In October 2007, the Rio Tinto Group purchased all the outstanding shares of Alcan, Inc. and became Rio Tinto Alcan Inc. References herein to “Rio Tinto Alcan” refer to Rio Tinto Alcan Inc.

Description of Business and Basis of Presentation

Novelis Inc., formed in Canada on September 21, 2004, and its subsidiaries, is the world’s leading aluminum rolled products producer based on shipment volume. We produce aluminum sheet and light gauge products where the end-use destination of the products includes the beverage and food can, transportation, construction and industrial, and foil products markets. As of June 30, 2011, we had operations in eleven countries on four continents: North America, South America, Asia and Europe, 29 operating plants and seven research and development facilities. In addition to aluminum rolled products plants, our South American businesses include bauxite mining, primary aluminum smelting and power generation facilities.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended March 31, 2011 filed with the United States Securities and Exchange Commission (SEC) on May 26, 2011. Management believes that all adjustments necessary for the fair statement of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The principal areas of judgment relate to (1) the fair value of derivative financial instruments; (2) impairment of goodwill; (3) impairments of long-lived assets, intangible assets and equity investments; (4) actuarial assumptions related to pension and other postretirement benefit plans; (5) income tax reserves and valuation allowances and (6) assessment of loss contingencies, including environmental, litigation and other tax reserves.

Acquisition of Novelis Common Stock

On May 15, 2007, the Company was acquired by Hindalco through its indirect wholly-owned subsidiary pursuant to a plan of arrangement (the Arrangement) at a price of $44.93 per share. The aggregate purchase price for all of the Company’s common shares was $3.4 billion and Hindalco also assumed $2.8 billion of Novelis’ debt for a total transaction value of $6.2 billion. Subsequent to completion of the Arrangement on May 15, 2007, all of our common shares were indirectly held by Hindalco.

Amalgamation of AV Aluminum Inc. and Novelis Inc.

Effective September 29, 2010, in connection with an internal restructuring transaction, pursuant to articles of amalgamation under the Canadian Business Corporations Act, we were amalgamated (the Amalgamation) with our direct parent AV Aluminum Inc., a Canadian corporation (AV Aluminum), to form an amalgamated corporation named Novelis Inc., also a Canadian corporation.

As a result of the Amalgamation, we and AV Aluminum continue our corporate existence, the amalgamated Novelis Inc. remains liable for all of our and AV Aluminum’s obligations and we continue to own all of our respective property. Since AV Aluminum was a holding company whose sole asset was the shares of the pre amalgamated Novelis, our business, management, board of directors and corporate governance procedures following the Amalgamation are identical to those of Novelis immediately prior to the Amalgamation. Novelis Inc., like AV Aluminum, remains an indirect, wholly-owned subsidiary of Hindalco. We have retrospectively recast all periods presented to reflect the amalgamated companies.

The Amalgamation had no impact on our balance sheet, consolidated statements of operations or our consolidated statements of cash flows for the three months ended June 30, 2011, and 2010.

Consolidation Policy

Our consolidated financial statements include the assets, liabilities, revenues and expenses of all wholly-owned subsidiaries, majority-owned subsidiaries over which we exercise control and entities in which we have a controlling financial interest or are deemed to be the primary beneficiary. We eliminate all significant intercompany accounts and transactions from our consolidated financial statements.

Reclassification

For the three months ended June 30, 2010, we reclassified $6 million from "(Gain) loss on change in fair value of derivative instruments, net" to "Other (income) expense, net" to conform with the current year presentation. This reclassification had no impact on "Income before income taxes," "Net income," the balance sheet or cash flows.

Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 develops common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs) and improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. ASU No. 2011-04 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We have not yet commenced evaluating the potential impact, if any, of the adoption of ASU No. 2011-04 on our consolidated financial statements and disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income: Presentation of Comprehensive Income*. ASU No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We currently present comprehensive income as a separate statement; and therefore, we do not expect this standard to impact our financial statements or disclosures.

2. RESTRUCTURING PROGRAMS

"Restructuring charges, net" for the three months ended June 30, 2011 is $19 million, which includes $13 million of non-cash fixed asset impairments that were not recorded through the restructuring reserve. The following table summarizes our restructuring reserve activity by segment (in millions).

	Europe	North America	Asia	South America	Corporate	Restructuring Reserves
Balance as of March 31, 2011	$ 37	$ 6	$—	$ 4	$ 3	$ 50
Provisions, net	4	1	—	1	—	6
Cash payments	(11)	(3)	—	(1)	—	(15)
Balance as of June 30, 2011	$ 30	$ 4	$—	$ 4	$ 3	$ 41

Europe

The Company ceased operations associated with the Bridgnorth, UK foil rolling and laminating operations at the end of April 2011. In the three months ended June 30, 2011, based on negotiations for the sale of the land and buildings on the Bridgnorth site, we recorded an additional $5 million of fixed asset impairment and restructuring charges related to the sale and site closure and made payments of $8 million in severance and other exit payments related to this plan.

Total "Restructuring charges, net" for the three months ended June 30, 2011 consisted of $8 million of severance across our European plants, additional fixed asset impairments related to restructuring actions initiated in prior years and other exit costs. For the three months ended June 30, 2011, we made $6 million in severance payments, $1 million in payments for environmental remediation and $4 million in other exit related payments.

As of June 30, 2011, the restructuring reserve balance of $30 million was comprised of $24 million of environmental remediation liabilities, $3 million of severance costs and $3 million of other costs.

North America

In the three months ended June 30, 2011, we recorded an additional $1 million related to the previously announced relocation of our North American headquarters from Cleveland to Atlanta and we made $3 million in payments related to previously announced separation programs. As of June 30, 2011, the restructuring reserve balance of $4 million was comprised of $3 million of severance costs and $1 million of other costs.

South America

In the three month period ended June 30, 2011, the Company announced that it ceased production of converter foil (9 microns thickness or less) for flexible packaging and stopped production of one rolling mill at the Santo André plant in Brazil. The decision was made due to overcapacity in the foil market and increased competition from low-cost countries. Approximately 74 positions were eliminated in the Santo Andre plant related to ceasing these operations. For the three months ended June 30, 2011, the Company recorded $3 million in asset impairment costs related to the write down of land and building to fair value and $1 million in severance related costs.

Total “Restructuring charges, net” for the three months ended June 30, 2011, consisted of $11 million of severance costs, fixed asset impairments related to current quarter restructuring actions and impairments related to actions initiated in prior years. For the three months ended June 30, 2011, we made $1 million in severance payments.

As of June 30, 2011, the restructuring reserve balance of $4 million was comprised of $3 million of environmental remediation liabilities and $1 million of other costs.

Corporate

As of June 30, 2011, the restructuring reserve balance of $3 million was comprised of lease termination costs incurred in the relocation of our corporate headquarters to a new facility in Atlanta and other contract termination fees.

3. INVENTORIES

Inventories consisted of the following (in millions).

	June 30, 2011	March 31, 2011
Finished goods	$ 310	$ 293
Work in process	511	529
Raw materials	511	414
Supplies	111	109
	1,443	1,345
Allowances	(8)	(7)
Inventories, net	$ 1,435	$ 1,338

4. CONSOLIDATION OF VARIABLE INTEREST ENTITIES (VIE)

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. An entity is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

We have a joint interest in Logan Aluminum Inc. (Logan) with ARCO Aluminum, Inc. (ARCO). Logan processes metal received from Novelis and ARCO and charges the respective partner a fee to cover expenses. Logan is thinly capitalized and relies on the regular reimbursement of costs and expenses by Novelis and ARCO to fund its operations. This reimbursement is considered a variable interest as it constitutes a form of financing of the activities of Logan. Other than these contractually required reimbursements, we do not provide other material support to Logan. Logan's creditors do not have recourse to our general credit.

Novelis has a majority voting right on Logan's board of directors and has the ability to direct the majority of Logan's production operations. We also have the ability to take the majority share of production and associated costs. These facts qualify Novelis as Logan's primary beneficiary and this entity is consolidated for all periods presented. All significant intercompany transactions and balances have been eliminated.

Effective August 1, 2011, a consortium of Japanese companies purchased ARCO. The transaction does not impact Novelis' interest in Logan.

The following table summarizes the carrying value and classification of assets and liabilities owned by the Logan joint venture and consolidated in our condensed consolidated balance sheets (in millions). There are significant other assets used in the operations of Logan that are not part of the joint venture, as they are directly owned and consolidated by Novelis or ARCO.

	June 30, 2011	March 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 1	$ 1
Accounts receivable	20	27
Inventories, net	39	36
Total current assets	60	64
Property, plant and equipment, net	16	13
Goodwill	12	12
Deferred income taxes	54	52
Other long-term assets	3	3
Total assets	$ 145	$ 144
Liabilities		
Current liabilities		
Accounts payable	$ 24	$ 26
Accrued expenses and other current liabilities	12	11
Total current liabilities	36	37
Accrued postretirement benefits	121	120
Other long-term liabilities	2	2
Total liabilities	$ 159	$ 159

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

5. INVESTMENT IN AND ADVANCES TO NON-CONSOLIDATED AFFILIATES AND RELATED PARTY TRANSACTIONS

The following table summarizes our share of the condensed results of operations of our equity method affiliates (in millions). These results include the incremental depreciation and amortization expense that we record in our equity method accounting as a result of fair value adjustments made to our investments in non-consolidated affiliates due to the Arrangement.

	Three Months Ended June 30,	
	2011	2010
Net sales	$ 66	$ 56
Costs, expenses and provisions for taxes on income	68	59
Net loss	$ (2)	$ (3)

Included in the accompanying condensed consolidated financial statements are transactions and balances arising from business we conduct with these non-consolidated affiliates, which we classify as related party transactions and balances. For the three months ended June 30, 2011 and 2010, we purchased $66 million and $56 million of tolling services from Aluminium Norf GmbH (Norf), respectively. For the same periods, we earned less than $1 million of interest income on a loan due from Norf.

The following table describes the period-end account balances that we had with these non-consolidated affiliates, shown as related party balances in the accompanying condensed consolidated balance sheets (in millions). We had no other material related party balances.

	June 30, 2011	March 31, 2011
Accounts receivable	$ 33	$ 28
Other long-term assets	$ 19	$ 19
Accounts payable	$ 51	$ 50

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

6. DEBT

Debt consists of the following (in millions).

		June 30, 2011			March 31, 2011		
	Interest Rates(A)	Principal	Unamortized Carrying Value Adjustments	Carrying Value	Principal	Unamortized Carrying Value Adjustments	Carrying Value
Third party debt:							
Short term borrowings	3.77%	$ 207	$ —	$ 207	$ 17	$ —	$ 17
Novelis Inc.							
Floating rate Term Loan Facility, due March 2017	3.75%	1,493	(36)(B)	1,457	1,496	(38)(B)	1,458
8.375% Senior Notes, due December 2017	8.375%	1,100	—	1,100	1,100	—	1,100
8.75% Senior Notes, due December 2020	8.75%	1,400	(1)	1,399	1,400	(1)	1,399
7.25% Senior Notes, due February 2015	7.25%	74	3	77	74	3	77
Novelis Switzerland S.A.							
Capital lease obligation, due December 2019 (Swiss francs (CHF) 46 million)	7.50%	52	(3)	49	48	(3)	45
Novelis Brazil							
BNDES loans, due December 2018 through March 2019	5.50%	8	(3)	5	5	(2)	3
Other							
Other debt, due August 2011 through November 2015	4.01%	3	—	3	4	—	4
Total debt — third parties		4,337	(40)	4,297	4,144	(41)	4,103
Less: Short term borrowings		(207)	—	(207)	(17)	—	(17)
Current portion of long term debt		(21)	—	(21)	(21)	—	(21)
Long-term debt, net of current portion — third parties:		$ 4,109	$ (40)	$ 4,069	$ 4,106	$ (41)	$ 4,065

(A) Interest rates are as of June 30, 2011 and exclude the effects of related interest rate swaps and accretion/amortization of fair value adjustments as a result of the Arrangement, the debt exchange completed in fiscal 2009 and the series of refinancing transactions we completed in fiscal 2011.

(B) Debt existing at the time of the Arrangement was recorded at fair value. In connection with a series of refinancing transactions a portion of the historical fair value adjustments were allocated to the Term Loan Facility, due March 2017.

Principal repayment requirements for our total debt over the next five years and thereafter (excluding unamortized carrying value adjustments and using rates of exchange as of June 30, 2011 for our debt denominated in foreign currencies) are as follows (in millions).

As of June 30, 2011	Amount
Short-term borrowings and Current portion of long term debt due within one year	$ 228
2 years	21
3 years	22
4 years	97
5 years	23
Thereafter	3,946
Total	$ 4,337

Senior Notes

On December 17, 2010, we issued $1.1 billion in aggregate principal amount of 8.375% Senior Notes Due 2017 (the 2017 Notes) and $1.4 billion in aggregate principal amount of 8.75% Senior Notes Due 2020 (the 2020 Notes, and together with the 2017 Notes, the Notes).

Also, on December 17, 2010, we commenced a cash tender offer and consent solicitation for our 7.25% Senior Notes due 2015 (the 7.25% Notes) and our 11.5% Senior Notes due 2015 (the 11.5% Notes). The entire $185 million aggregate outstanding principal amount of the 11.5% Notes was tendered and redeemed. Of the $1.1 billion aggregate principal amount of the 7.25% Notes, $74 million was not redeemed and is expected to remain outstanding through maturity in February 2015. The 7.25% Notes that remain outstanding are not longer subject to substantially all of the restrictive covenants and certain events of default originally included in the indenture for the 7.25% Notes.

Senior Secured Credit Facilities

The senior secured credit facilities consist of (1) a $1.5 billion six-year secured term loan credit facility (Term Loan Facility), due March 2017 and (2) an $800 million five-year asset based loan facility (ABL Facility) that may be increased by an additional $200 million. The interest rate on the Term Loan Facility is the higher of LIBOR or a floor of 100 basis points, plus a spread ranging from 2.75% to 3.0% depending on the Company's net leverage ratio, as defined in the Term Loan Facility agreement. The senior secured credit facilities contain various affirmative covenants, including covenants with respect to our financial statements, litigation and other reporting requirements, insurance, payment of taxes, employee benefits and (subject to certain limitations) causing new subsidiaries to pledge collateral and guaranty our obligations. Substantially all of our assets are pledged as collateral under the senior secured credit facilities.

Short-Term Borrowings and Lines of Credit

As of June 30, 2011, our short-term borrowings were $207 million consisting of $189 million of short-term loans under our ABL Facility and $18 million in bank overdrafts. As of June 30, 2011, $35 million of the ABL Facility was utilized for letters of credit, and we had $576 million in remaining availability under the ABL Facility. The weighted average interest rate on our total short-term borrowings was 3.77% and 2.43% as of June 30, 2011 and March 31, 2011, respectively.

As of June 30, 2011, we had $143 million of outstanding letters of credit in Korea which are not related to the ABL Facility.

BNDES Loans

In the fourth quarter of fiscal 2011 and the first quarter of fiscal 2012, Novelis Brazil entered into five new loan agreements (the BNDES loans) with Brazil's National Bank for Economic and Social Development (BNDES) related to the plant expansion in Pindamonhangaba, Brazil (Pinda). The agreements provided for a commitment of Brazilian Real (R$) borrowings at a fixed rate of 5.5% up to an aggregate of $22 million (R$34 million). As of June 30, 2011, we had borrowed $8 million (R$13 million) under the BNDES loan agreements with maturity dates of December 2018 through March 2019. Since the BNDES loans bear sub-market interest rates, we have calculated the fair value of the loans at inception and will amortize the discount over the life of the loans using the effective interest method. As of June 30, 2011, the total unamortized discount on the BNDES loans was $3 million.

Interest Rate Swaps

We use interest rate swaps to manage our exposure to changes in the benchmark LIBOR interest rate which impacts our variable-rate debt. Prior to the completion of the December 17, 2010 refinancing transactions, these swaps were designated as cash flow hedges. Upon completion of the refinancing transactions, we ceased hedge accounting for these swaps on December 17, 2010. No interest rate swaps were designated as of June 30, 2011.

7. SHARE-BASED COMPENSATION

The board of directors has authorized four long term incentive plans as follows:

- The Novelis Long-Term Incentive Plan FY 2009 — FY 2012 (2009 LTIP) was authorized in June 2008. Under the 2009 LTIP, phantom stock appreciation rights (SARs) were granted to certain of our executive officers and key employees.
- The Novelis Long-Term Incentive Plan FY 2010 — FY 2013 (2010 LTIP) was authorized in June 2009. Under the 2010 LTIP, SARs were granted to certain of our executive officers and key employees.
- The Novelis Long-Term Incentive Plan FY 2011— FY 2014 (2011 LTIP) was authorized in May 2010. The 2011 LTIP provides for SARs and phantom restricted stock units (RSUs).
- The Novelis Long-Term Incentive Plan FY 2012— FY 2015 (2012 LTIP) was authorized in May 2011. The 2012 LTIP provides for SARs and RSUs.

Under all four plans, SARs vest at the rate of 25% per year, subject to performance criteria and expire seven years from their grant date. Each SAR is to be settled in cash based on the difference between the market value of one Hindalco share on the date of grant and the market value on the date of exercise, subject to a maximum payout as defined by the plan. The RSUs under the 2011 LTIP and 2012 LTIP vest in full three years from the grant date and are not subject to performance criteria. The payout on the RSUs is limited to three times the grant price.

Total compensation expense related to SARs and RSUs under the long term incentive plans for the respective periods is presented in the table below (in millions). These amounts are included in “Selling, general and administrative expenses” in our condensed consolidated statements of operations. As the performance criteria for fiscal years 2013, 2014 and 2015 have not yet been established, measurement periods for SARs relating to those periods have not yet commenced. As a result, only compensation expense for vested and current year SARs has been recorded for the three months ended June 30, 2011 and 2010.

	Three Months Ended June 30,	
	2011	2010
Novelis Long-Term Incentive Plan 2009	$ 3	$ 1
Novelis Long-Term Incentive Plan 2010	2	1
Novelis Long-Term Incentive Plan 2011	(1)	—
Novelis Long-Term Incentive Plan 2012	—	—
Total compensation expense	$ 4	$ 2

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The tables below show the RSUs activity under our 2012 LTIP and 2011 LTIP and the SARs activity under our 2012 LTIP, 2011 LTIP, 2010 LTIP and 2009 LTIP.

2012 LTIP	Number of RSUs	Grant Date Fair Value (in Indian Rupees)	Aggregate Intrinsic Value (USD in millions)
RSUs outstanding as of March 31, 2011	—	—	$ —
Granted	859,840	192.38	3
RSUs outstanding as of June 30, 2011	859,840	192.38	$ 3

2012 LTIP	Number of SARs	Weighted Average Exercise Price (in Indian Rupees)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (USD in millions)
SARs outstanding as of March 31, 2011	—	—	—	$ —
Granted	6,545,337	192.38		—
SARs outstanding as of June 30, 2011	6,545,337	192.38	6.9	$ —

2011 LTIP	Number of RSUs	Grant Date Fair Value (in Indian Rupees)	Aggregate Intrinsic Value (USD in millions)
RSUs outstanding as of March 31, 2011	906,057	148.79	$ 4
Forfeited/Cancelled	6,699	147.10	
RSUs outstanding as of June 30, 2011	899,358	148.80	$ 4

2011 LTIP	Number of SARs	Weighted Average Exercise Price (in Indian Rupees)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (USD in millions)
SARs outstanding as of March 31, 2011	7,117,652	148.79	6.2	$ 10
Exercised	48,421	147.10		
Forfeited/Cancelled	39,472	147.10		
SARs outstanding as of June 30, 2011	7,029,759	148.81	5.9	$ 5

2010 LTIP	Number of SARs	Weighted Average Exercise Price (in Indian Rupees)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (USD in millions)
SARs outstanding as of March 31, 2011	11,052,491	88.46	5.2	$ 25
Exercised	733,882	85.79		
Forfeited/Cancelled	67,860	85.79		
SARs outstanding as of June 30, 2011	10,250,749	88.67	5.0	$ 21

2009 LTIP	Number of SARs	Weighted Average Exercise Price (in Indian Rupees)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (USD in millions)
SARs outstanding as of March 31, 2011	8,944,822	60.50	4.2	$ 14
Exercised	1,894,525	60.50		
Forfeited/Cancelled	54,908	60.50		
SARs outstanding as of June 30, 2011	6,995,389	60.50	4.0	$ 13

The fair value of each SAR is based on the difference between the fair value of a long call and a short call option. The fair value of each of these call options was determined using the Monte Carlo Simulation model. We used historical stock price volatility data of Hindalco on the Bombay Stock Exchange to determine expected volatility assumptions. The fair value of each SAR under the 2012 LTIP, 2011 LTIP, 2010 LTIP and 2009 LTIP was estimated as of June 30, 2011 using the following assumptions:

	2012 LTIP	2011 LTIP	2010 LTIP	2009 LTIP
Risk-free interest rate	8.38%	8.39%	8.36%	8.33%
Dividend yield	0.75%	0.75%	0.75%	0.75%
Volatility	50%	53%	54%	58%
Time interval (in years)	0.004	0.004	0.004	0.004

The fair value of the SARs is being recognized over the requisite performance and service period of each tranche, subject to the achievement of any performance criterion. Since the performance criteria for fiscal years 2013, 2014 and 2015 have not yet been established and therefore, measurement periods for SARs relating to those periods have not yet commenced, no compensation expense for those tranches has been recorded for the quarter ended June 30, 2011. As of June 30, 2011, 9,227,454 SARs were exercisable.

Unrecognized compensation expense related to the non-vested SARs (assuming all future performance criteria are met) is $32 million which is expected to be realized over a weighted average period of 1.9 years. Unrecognized compensation expense related to the RSU's is $6 million and will be recognized over the remaining vesting period of two and half years.

8. POSTRETIREMENT BENEFIT PLANS

Our pension obligations relate to funded defined benefit pension plans in the U.S., Canada, Switzerland and the U.K.; unfunded pension plans in Germany; unfunded lump sum indemnities in France, Malaysia and Italy; and partially funded lump sum indemnities in South Korea. Our other postretirement obligations (Other Benefits, as shown in certain tables below) include unfunded healthcare and life insurance benefits provided to retired employees in Canada, the U.S. and Brazil.

Components of net periodic benefit cost for all of our significant postretirement benefit plans are shown in the tables below (in millions).

	Pension Benefit Plans Three Months Ended June 30,		Other Benefits Three Months Ended June 30,	
	2011	2010	2011	2010
Service cost	$ 10	$ 9	$ 2	$ 2
Interest cost	17	16	3	2
Expected return on assets	(16)	(14)	—	—
Amortization — losses	3	3	—	—
Net periodic benefit cost	$ 14	$ 14	$ 5	$ 4

The expected long-term rate of return on plan assets is 6.72% in fiscal 2012.

Employer Contributions to Plans

For pension plans, our policy is to fund an amount required to provide for contractual benefits attributed to service to-date, and amortize unfunded actuarial liabilities typically over periods of 15 years or less. We also participate in savings plans in Canada and the U.S., as well as defined contribution pension plans in the U.S., U.K., Canada, Germany, Italy, Switzerland, Malaysia and Brazil. We contributed the following amounts to all plans, including the Rio Tinto Alcan plans that cover our employees (in millions).

	Three Months Ended June 30,	
	2011	2010
Funded pension plans	$ 11	$ 9
Unfunded pension plans	3	3
Savings and defined contribution pension plans	5	5
Total contributions	$ 19	$ 17

During the remainder of fiscal 2012, we expect to contribute an additional $38 million to our funded pension plans, $10 million to our unfunded pension plans and $15 million to our savings and defined contribution plans.

9. CURRENCY (GAINS) LOSSES

The following currency (gains) losses are included in “Other (income) expense, net” in the accompanying condensed consolidated statements of operations (in millions).

	Three Months Ended June 30,	
	2011	2010
(Gain) loss on remeasurement of monetary assets and liabilities, net	$ (1)	$ 21
Loss recognized on balance sheet remeasurement currency exchange contracts, net	11	—
Gain on change in fair value of other currency exchange contracts, net	(13)	(24)
Currency gains, net	$ (3)	$ (3)

The following currency gains (losses) are included in “AOCI,” net of tax and “Noncontrolling interests” (in millions).

	Three Months Ended June 30, 2011	Year Ended March 31, 2011
Cumulative currency translation adjustment — beginning of period	$ 114	$ (3)
Effect of changes in exchange rates	57	117
Cumulative currency translation adjustment — end of period	$ 171	$ 114

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

10. FINANCIAL INSTRUMENTS AND COMMODITY CONTRACTS

The fair values of our financial instruments and commodity contracts as of June 30, 2011 and March 31, 2011 are as follows (in millions).

	June 30, 2011				
	Assets		Liabilities		Net Fair Value
	Current	Noncurrent	Current	Noncurrent(A)	Assets/(Liabilities)
Derivatives designated as hedging instruments:					
Cash flow hedges					
Currency exchange contracts	$ 73	$ 17	$ (2)	$ —	$ 88
Aluminum contracts	8	—	(9)	—	(1)
Net Investment hedges					
Currency exchange contracts	—	—	(2)	(1)	(3)
Fair value hedges					
Aluminum contracts	6	—	—	—	6
Total derivatives designated as hedging instruments	87	17	(13)	(1)	90
Derivatives not designated as hedging instruments:					
Aluminum contracts	55	2	(26)	—	31
Currency exchange contracts	14	1	(20)	(2)	(7)
Interest rate swaps	—	—	(3)	—	(3)
Electricity swap	—	—	(7)	(24)	(31)
Energy contracts	—	—	(2)	—	(2)
Total derivatives not designated as hedging instruments	69	3	(58)	(26)	(12)
Total derivative fair value	$ 156	$ 20	$ (71)	$ (27)	$ 78

	March 31, 2011				
	Assets		Liabilities		Net Fair Value
	Current	Noncurrent	Current	Noncurrent(A)	Assets/(Liabilities)
Derivatives designated as hedging instruments:					
Cash flow hedges					
Currency exchange contracts	$ 43	$ 10	$ (1)	$ —	$ 52
Aluminum contracts	44	—	—	—	44
Fair value hedges					
Aluminum contracts	9	—	—	—	9
Total derivatives designated as hedging instruments	96	10	(1)	—	105
Derivatives not designated as hedging instruments:					
Aluminum contracts	54	5	(49)	—	10
Currency exchange contracts	15	2	(19)	(1)	(3)
Interest rate swaps	—	—	(4)	—	(4)
Electricity swap	—	—	(6)	(23)	(29)
Energy contracts	—	—	(3)	—	(3)
Total derivatives not designated as hedging instruments	69	7	(81)	(24)	(29)
Total derivative fair value	$ 165	$ 17	$ (82)	$ (24)	$ 76

(A) The noncurrent portions of derivative liabilities are included in “Other long-term liabilities” in the accompanying condensed consolidated balance sheets.

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

Aluminum

We use aluminum forward contracts and options to hedge our exposure to changes in the London Metal Exchange (LME) price of aluminum. These exposures arise from firm commitments to sell aluminum in future periods at fixed prices, the forecasted output of our smelter operations in South America and the forecasted metal price lag associated with firm commitments to sell aluminum in future periods at prices based on the LME.

We identify and designate certain aluminum forward contracts as fair value hedges of the metal price risk associated with fixed price sales commitments that qualify as firm commitments. Price risk arises due to fluctuating aluminum prices between the time the sales order is committed and the time the order is shipped. We recognized losses on changes in fair value of derivative contracts of $3 million and losses on changes in the fair value of designated hedged items of $3 million in sales revenue for the three months ended June 30, 2011. We had 18 kt and 25 kt of outstanding aluminum forward contracts designated as fair value hedges as of June 30, 2011 and March 31, 2011, respectively. No aluminum forward contracts were designated as fair value hedges as of June 30, 2010.

We identify and designate certain aluminum forward purchase contracts as cash flow hedges of the metal price risk associated with our future metal purchases that vary based on changes in the price of aluminum. Price risk exposure arises from commitments to sell aluminum in future periods at fixed price. We had 149 kt and 183 kt of outstanding aluminum forward contracts designated as cash flow hedges as of June 30, 2011 and March 31, 2011, respectively. No aluminum forward contracts were designated as cash flow hedges as of June 30, 2010.

The remainder of our aluminum derivative contracts have not been designated as accounting hedges. As of June 30, 2011 and March 31, 2011, we had short positions of 157 kt and 146 kt, respectively, of outstanding aluminum contracts not designated as hedges. The following table summarizes our notional amount (in kt).

	June 30, 2011	March 31, 2011
Hedge Type		
Long (Short)		
Cash flow	149	183
Fair value	18	25
Not designated	(157)	(146)
Total	10	62

Foreign Currency

We use foreign exchange forward contracts and cross-currency swaps to manage our exposure to changes in exchange rates. These exposures arise from recorded assets and liabilities, firm commitments and forecasted cash flows denominated in currencies other than the functional currency of certain operations.

We use foreign currency contracts to hedge expected future foreign currency transactions, which include capital expenditures. These contracts cover the same periods as known or expected exposures. We had $1.0 billion and $644 million of outstanding foreign currency forwards designated as cash flow hedges as of June 30, 2011 and March 31, 2011, respectively. No foreign currency forwards were designated as cash flow hedges as of June 30, 2010.

We use foreign currency contracts to hedge our foreign currency exposure to net investment in foreign subsidiaries. We had $62 million of outstanding foreign currency forwards designated as net investment hedges as of June 30, 2011. We had no contracts designated as net investment hedges as of March 31, 2011 and June 30, 2010. We recorded losses of less than $1 million and gains of $18 million in OCI for the three months ended June 30, 2011 and 2010 respectively.

As of June 30, 2011 and March 31, 2011, we had outstanding currency exchange contracts with a total notional amount of $1.6 billion which were not designated as hedges.

Energy

We own an interest in an electricity swap which we designated as a cash flow hedge of our exposure to fluctuating electricity prices. As of March 31, 2011, due to significant credit deterioration of our counterparty, we discontinued hedge accounting for this electricity swap. Approximately 1.4 million megawatt hours of notional remain outstanding as of June 30, 2011.

We use natural gas swaps to manage our exposure to fluctuating energy prices in North America. As of June 30, 2011 and March 31, 2011, we had 5 million MMBTUs and 6.7 million MMBTUs, respectively, of natural gas swaps that were not designated as hedges. One MMBTU is the equivalent of one decatherm, or one million British Thermal Units.

Interest Rate

We use interest rate swaps to manage our exposure to changes in the benchmark LIBOR interest rate which impacts our variable-rate debt.

Prior to the completion of the December 17, 2010 refinancing transactions, these swaps were designated as cash flow hedges. Upon completion of the refinancing transaction, our exposure to changes in the benchmark LIBOR interest rate was limited. We ceased hedge accounting for these swaps and released all AOCI into earnings during the year ended March 31, 2011. No interest rate swaps were designated as cash flow hedges as of June 30, 2011 and March 31, 2011.

We had $220 million of outstanding interest rate swaps that were not designated as hedges as of June 30, 2011 and March 31, 2011.

Other

For certain customers, we enter into contractual relationships that entitle us to pass through the economic effect of trading positions that we take with other third parties on our customers' behalf. We recognize a derivative position with both the customer and the third party for these types of contracts and we classify cash settlement amounts associated with these derivatives as part of operating activities in the condensed consolidated statements of cash flows. These derivatives expired in February 2010 with the last cash settlement occurring in October 2010.

The following table summarizes the gains (losses) associated with the change in fair value of derivative instruments recognized in earnings (in millions).

	Three Months Ended June 30,	
	2011	2010
Derivative Instruments Not Designated as Hedges		
Aluminum contracts	$ 28	$ (33)
Balance remeasurement currency exchange contracts	(11)	—
Other currency exchange contracts	9	24
Energy contracts	(3)	1
Interest Rate swaps	—	—
Gain (loss) recognized	23	(8)
Derivative Instruments Designated as Hedges		
Cash flow hedges		
Aluminum contracts (C)	(3)	—
Currency exchange contracts (A)	4	—
Electricity swap (B)	—	2
Fair Value hedges		
Aluminum contracts	(3)	—
Fixed priced firm sales commitments (C)	3	—
Gain (loss) recognized	1	2
Total gain (loss) recognized	$ 24	$ (6)
Realized gains (losses)	$ (1)	$ 41
Unrealized gains (losses)	25	(47)
Total gain (loss) recognized	$ 24	$ (6)

(A) Amount represents excluded forward market premium/discount and hedging relationship ineffectiveness.

(B) Amount represents ineffectiveness and amounts released to income from AOCI.

(C) An immaterial amount of ineffectiveness exists in both cash flow and fair value hedging relationships involving aluminum derivatives.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

The following table summarizes the impact on AOCI and earnings of derivative instruments designated as cash flow hedges (in millions). Within the next twelve months, we expect to reclassify $16 million of gains from "AOCI" to earnings.

	Amount of Gain (Loss) Recognized in OCI (Effective Portion) Three Months Ended June 30,		Amount of Gain (Loss) Recognized in "Other (Income) Expense, net" (Ineffective and Excluded Portion) Three Months Ended June 30,	
Derivatives in Cash Flow	2011	2010	2011	2010
Electricity swap (A)	$ —	$ (10)	$ —	$ —
Aluminum contracts	(25)	—	(3)	—
Currency exchange contracts	33	—	4	—
Total	**$ 8**	**$ (10)**	**$ 1**	**$ —**

	Amount of Gain (Loss) Reclassified from AOCI into Income/(Expense) (Effective Portion) Three Months Ended June 30,		Location of Gain (Loss) Reclassified from AOCI into Earnings
Derivatives in Cash Flow	2011	2010	
Electricity swap (A)	$ (1)	$ (1)	Other (income) expense, net
Aluminum contracts	19	—	Cost of goods sold
Currency exchange contracts	3	—	Cost of goods sold and SG&A
Total	**$ 21**	**$ (1)**	

(A) AOCI related to de-designated electricity swap is amortized to income over the remaining term of the hedged item.

11. FAIR VALUE MEASUREMENTS

We record certain assets and liabilities, primarily derivative instruments, on our condensed consolidated balance sheets at fair value. We also disclose the fair values of certain financial instruments, including debt and loans receivable, which are not recorded at fair value. Our objective in measuring fair value is to estimate an exit price in an orderly transaction between market participants on the measurement date. We consider factors such as liquidity, bid/offer spreads and nonperformance risk, including our own nonperformance risk, in measuring fair value. We use observable market inputs wherever possible. To the extent that observable market inputs are not available, our fair value measurements will reflect the assumptions we used. We grade the level of the inputs and assumptions used according to a three-tier hierarchy:

Level 1 — Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that we have the ability to access at the measurement date.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 — Unobservable inputs for which there is little or no market data, which require us to develop our own assumptions based on the best information available as what market participants would use in pricing the asset or liability.

The following section describes the valuation methodologies we used to measure our various financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified:

Derivative Contracts

For certain of our derivative contracts that have fair values based upon trades in liquid markets, such as aluminum forward contracts and options, valuation model inputs can generally be verified and valuation techniques do not involve significant judgment. The fair values of such financial instruments are generally classified within Level 2 of the fair value hierarchy.

The majority of our derivative contracts are valued using industry-standard models that use observable market inputs as their basis, such as time value, forward interest rates, volatility factors, and current (spot) and forward market prices for foreign exchange rates. We generally classify these instruments within Level 2 of the valuation hierarchy. Such derivatives include interest rate swaps, cross-currency swaps, foreign currency forward contracts and certain energy-related forward contracts (e.g., natural gas).

We classify derivative contracts that are valued based on models with significant unobservable market inputs as Level 3 of the valuation hierarchy. These derivatives include certain of our energy-related forward contracts (e.g., electricity) and commodity location premium contracts. Models for these fair value measurements include inputs based on estimated future prices for periods beyond the term of the quoted prices.

For Level 2 and 3 of the fair value hierarchy, where appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations (nonperformance risk).

As of June 30, 2011 and March 31, 2011, we did not have any Level 1 financial instruments.

The following tables present our derivative assets and liabilities which are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2011 and March 31, 2011 (in millions).

	June 30, 2011		March 31, 2011	
	Assets	Liabilities	Assets	Liabilities
Level 2 Instruments				
Aluminum contracts	$ 71	$ (35)	$ 111	$ (48)
Currency exchange contracts	105	(27)	70	(21)
Energy swaps	—	—	—	—
Energy contracts	—	(2)	—	(3)
Interest rate swaps	—	(3)	—	(4)
Total Level 2 Instruments	176	(67)	181	(76)
Level 3 Instruments				
Aluminum contracts	—	—	1	(1)
Electricity swap	—	(31)	—	(29)
Total Level 3 Instruments	—	(31)	1	(30)
Total	$ 176	$ (98)	$ 182	$ (106)

We recognized unrealized losses of $2 million related to Level 3 financial instruments that were still held as of June 30, 2011. These unrealized losses are included in “Other (income) expense, net.”

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

The following table presents a reconciliation of fair value activity for Level 3 derivative contracts (in millions).

	Level 3 – Electricity Swap
Balance as of March 31, 2011	$ (29)
Realized/unrealized (losses) included in earnings(A)	(1)
Settlements	(1)
Balance as of June 30, 2011	$ (31)

(A) Included in "Other (income) expense, net."

Financial Instruments Not Recorded at Fair Value

The table below presents the estimated fair value of certain financial instruments that are not recorded at fair value on a recurring basis (in millions). The table excludes short-term financial assets and liabilities for which we believe carrying value approximates fair value. We value long-term debt using market and/or broker ask prices when available. When not available, we use a standard credit adjusted discounted cash flow model.

	June 30, 2011		March 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Long-term receivables from related parties	$ 19	$ 19	$ 19	$ 19
Liabilities				
Total debt — third parties (excluding short term borrowings)	4,090	4,321	4,086	4,370

12. OTHER (INCOME) EXPENSE, NET

"Other (income) expense, net" is comprised of the following (in millions).

	Three Months Ended June 30,	
	2011	2010
Foreign currency remeasurement losses, net (A)	$ 10	$ 21
(Gain) loss on ineffectiveness of hedged derivative instruments, net	(1)	—
(Gain) loss on change in fair value of other unrealized derivative instruments, net	(25)	47
(Gain) loss on change in fair value of other realized derivative instruments, net	(9)	(41)
(Gain) loss on sale of assets, net	1	(13)
Other, net	3	(1)
Other (income) expense, net	$ (21)	$ 13

(A) Includes "Loss recognized on balance sheet remeasurement currency exchange contracts, net."

13. INCOME TAXES

A reconciliation of the Canadian statutory tax rates to our effective tax rates is as follows (in millions, except percentages).

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Pre-tax income before equity in net income of non-consolidated affiliates and noncontrolling interests	$ 138	$ 77
Canadian statutory tax rate	27%	29%
Provision at the Canadian statutory rate	37	22
Increase (decrease) for taxes on income (loss) resulting from:		
Exchange translation items	(1)	(2)
Exchange remeasurement of deferred income taxes	10	(2)
Change in valuation allowances	21	3
Expense (income) items not subject to tax	2	(1)
Dividends not subject to tax	(15)	—
Tax rate differences on foreign earnings	4	(5)
Uncertain tax positions, net	1	1
Other — net	—	(1)
Income tax provision	$ 59	$ 15
Effective tax rate	43%	19%

As of June 30, 2011, we had a net deferred tax liability of $538 million. This amount includes gross deferred tax assets of approximately $702 million and a valuation allowance of $262 million.

Subsequent to the balance sheet date, the UK has enacted new tax legislation, which reduces the income tax rate. The new legislation is expected to reduce deferred tax assets and increase tax expense by $3 million in the quarter ended September 30, 2011.

14. COMMITMENTS AND CONTINGENCIES

In connection with our spin-off from Alcan Inc., we assumed a number of liabilities, commitments and contingencies mainly related to our historical rolled products operations, including liabilities in respect of legal claims and environmental matters. As a result, we may be required to indemnify Rio Tinto Alcan for claims successfully brought against Alcan or for the defense of legal actions that arise from time to time in the normal course of our rolled products business including commercial and contract disputes, employee-related claims and tax disputes (including several disputes with Brazil's Ministry of Treasury regarding various forms of manufacturing taxes and social security contributions). In addition to these assumed liabilities and contingencies, we may, in the future, be involved in, or subject to, other disputes, claims and proceedings that arise in the ordinary course of our business, including some that we assert against others, such as environmental, health and safety, product liability, employee, tax, personal injury and other matters. Where appropriate, we have established reserves in respect of these matters (or, if required, we have posted cash guarantees). While the ultimate resolution of, and liability and costs related to, these matters cannot be determined with certainty due to the considerable uncertainties that exist, we do not believe that any of these pending actions, individually or in the aggregate, will materially impair our operations or materially affect our financial condition or liquidity. The following describes certain legal proceedings relating to our business, including those for which we assumed liability as a result of our spin-off from Alcan Inc.

Legal Proceedings

Coca-Cola Lawsuit. On July 8, 2010, a Georgia state court granted Novelis Corporation's motion for summary judgment, effectively dismissing a lawsuit brought by Coca-Cola Bottler's Sales and Services Company LLC (CCBSS) against Novelis Corporation. In the lawsuit, which was filed on February 15, 2007, CCBSS alleged that Novelis Corporation breached the "most favored nations" provision regarding certain pricing matters under an aluminum can stock supply agreement between the parties, and sought monetary damages and other relief. We and CCBSS separately appealed portions of the trial court's summary judgment rulings, and on July 7, 2011, the Georgia Appeals Court issued a decision affirming in part and reversing in part the trial court's summary judgment rulings. We have filed a notice of petition for writ of certiorari with the Georgia Supreme Court seeking review of the Appeals Court decision. We expect the Supreme Court to rule on our petition during the first quarter of 2012. We have concluded that a loss from the litigation is not probable and therefore have not recorded an accrual. In addition, we do not believe there is a reasonable possibility of a loss from the lawsuit.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

Environmental Matters

We own and operate numerous manufacturing and other facilities in various countries around the world. Our operations are subject to environmental laws and regulations from various jurisdictions, which govern, among other things, air emissions, wastewater discharges, the handling, storage and disposal of hazardous substances and wastes, the remediation of contaminated sites, post-mining reclamation and restoration of natural resources, and employee health and safety. Future environmental regulations may be expected to impose stricter compliance requirements on the industries in which we operate. Additional equipment or process changes at some of our facilities may be needed to meet future requirements. The cost of meeting these requirements may be significant. Failure to comply with such laws and regulations could subject us to administrative, civil or criminal penalties, obligations to pay damages or other costs, and injunctions and other orders, including orders to cease operations.

We are involved in proceedings under the U.S. Comprehensive Environmental Response, Compensation, and Liability Act, also known as CERCLA or Superfund, or analogous state provisions regarding liability arising from the usage, storage, treatment or disposal of hazardous substances and wastes at a number of sites in the United States, as well as similar proceedings under the laws and regulations of the other jurisdictions in which we have operations, including Brazil and certain countries in the European Union. Many of these jurisdictions have laws that impose joint and several liability, without regard to fault or the legality of the original conduct, for the costs of environmental remediation, natural resource damages, third party claims, and other expenses. In addition, we are, from time to time, subject to environmental reviews and investigations by relevant governmental authorities.

With respect to environmental loss contingencies, we record a loss contingency whenever such contingency is probable and reasonably estimable. The evaluation model includes all asserted and unasserted claims that can be reasonably identified. Under this evaluation model, the liability and the related costs are quantified based upon the best available evidence regarding actual liability loss and cost estimates. Except for those loss contingencies where no estimate can reasonably be made, the evaluation model is fact-driven and attempts to estimate the full costs of each claim. Management reviews the status of, and estimated liability related to, pending claims and civil actions on a quarterly basis. The estimated costs in respect of such reported liabilities are not offset by amounts related to cost-sharing between parties, insurance, indemnification arrangements or contribution from other potentially responsible parties (PRPs) unless otherwise noted.

We have established procedures for regularly evaluating environmental loss contingencies, including those arising from such environmental reviews and investigations and any other environmental remediation or compliance matters. We believe we have a reasonable basis for evaluating these environmental loss contingencies, and we believe we have made reasonable estimates of the costs that are likely to be borne by us for these environmental loss contingencies. Accordingly, we have established reserves based on our reasonable estimates for the currently anticipated costs associated with these environmental matters. We estimate that the undiscounted remaining clean-up costs related to all of our known environmental matters as of June 30, 2011 will be approximately $55 million. Of this amount, $24 million is included in “Other long-term liabilities,” with the remaining $31 million included in “Accrued expenses and other current liabilities” in our consolidated balance sheet as of June 30, 2011. Management has reviewed the environmental matters, including those for which we assumed liability as a result of our spin-off from Alcan Inc. As a result of this review, management has determined that the currently anticipated costs associated with these environmental matters will not, individually or in the aggregate, materially impact our operations or materially adversely affect our financial condition, results of operations or liquidity.

Brazil Tax Matters

As a result of legal proceedings with Brazil’s Ministry of Treasury regarding certain taxes, as of June 30, 2011 and March 31, 2011, we had cash deposits aggregating approximately $40 million and $50 million, respectively, with the Brazilian government. These deposits, which are included in “Other long-term assets — third parties” in our accompanying condensed consolidated balance sheets, will be expended toward these legal proceedings.

In addition, under a federal tax dispute settlement program established by the Brazilian government, we have settled several disputes with Brazil’s Ministry of Treasury regarding various forms of manufacturing taxes and social security contributions. In most cases we are paying the settlement amounts over a period of 180 months, although in some cases we are paying the settlement amounts over a shorter period. We have established reserves for these settlements ranging from less than $1 million to $153 million as of June 30, 2011. In total, the reserves approximate $190 million and $179 million as of June 30, 2011 and March 31, 2011, respectively. As of June 30, 2011, $14 million and $176 million of reserves are included in “Accrued expenses and other current liabilities” and “ Other long-term liabilities,” respectively, in our accompanying condensed consolidated balance sheets. As of March 31, 2011, $5 million and $174 million reserves are included in “Accrued expenses and other current liabilities” and “Other long-term liabilities,” respectively.

Guarantees of Indebtedness

We have issued guarantees on behalf of certain of our wholly-owned subsidiaries. The indebtedness guaranteed is for trade accounts payable to third parties. Some of the guarantees have annual terms while others have no expiration and have termination notice requirements. Neither we nor any of our subsidiaries hold any assets of any third parties as collateral to offset the potential settlement of these guarantees. Since we consolidate wholly-owned subsidiaries in our consolidated financial statements, all liabilities associated with trade payables for these entities are already included in our condensed consolidated balance sheets. We have no retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets.

15. SEGMENT, MAJOR CUSTOMER AND MAJOR SUPPLIER INFORMATION

Segment Information

Due in part to the regional nature of supply and demand of aluminum rolled products and in order to best serve our customers, we manage our activities on the basis of geographical areas and are organized under four operating segments: North America, Europe, Asia and South America.

We measure the profitability and financial performance of our operating segments based on Segment income. Segment income provides a measure of our underlying segment results that is in line with our portfolio approach to risk management. We define “Segment income” as earnings before (a) “depreciation and amortization”; (b) “interest expense and amortization of debt issuance costs”; (c) “interest income”; (d) “unrealized gains (losses) on change in fair value of derivative instruments, net”, except for foreign currency derivatives on our foreign currency balance sheet exposures, which are included in segment income; (e) “impairment of goodwill”; (f) impairment charges on long-lived assets (other than goodwill); (g) gain or loss on extinguishment of debt; (h) noncontrolling interests’ share; (i) adjustments to reconcile our proportional share of “Segment income” from non-consolidated affiliates to income as determined on the equity method of accounting; (j) “restructuring charges, net”; (k) gains or losses on disposals of property, plant and equipment and businesses, net; (l) other costs, net; (m) litigation settlement, net of insurance recoveries; (n) sale transaction fees; (o) provision or benefit for taxes on income (loss) and (p) cumulative effect of accounting change, net of tax.

Adjustment to Eliminate Proportional Consolidation. The financial information for our segments includes the results of our non-consolidated affiliates on a proportionately consolidated basis, which is consistent with the way we manage our business segments. However, under US GAAP, these non-consolidated affiliates are accounted for using the equity method of accounting. Therefore, in order to reconcile the financial information for the segments shown in the tables below to the relevant US GAAP-based measures, we must remove our proportional share of each line item that we included in the segment amounts. See Note 5 — Investment in and Advances to Non-Consolidated Affiliates and Related Party Transactions for further information about these non-consolidated affiliates.

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

The tables below show selected segment financial information (in millions).

Selected Segment Financial Information

Total Assets	North America	Europe	Asia	South America	Other and Eliminations	Total
June 30, 2011	$2,734	$3,238	$1,103	$1,493	$ (43)	$8,525
March 31, 2011	$2,683	$3,170	$1,015	$1,481	$ (53)	$8,296

Selected Operating Results Three Months Ended June 30, 2011	North America	Europe	Asia	South America	Other and Eliminations	Total
Net sales	$1,157	$1,080	$560	$318	$ (2)	$3,113
Depreciation and amortization	35	36	14	14	(10)	89
Capital expenditures	19	14	9	28	(3)	67

Selected Operating Results Three Months Ended June 30, 2010	North America	Europe	Asia	South America	Other and Eliminations	Total
Net sales	$959	$842	$457	$277	$ (2)	$2,533
Depreciation and amortization	42	33	15	23	(10)	103
Capital expenditures	7	8	6	5	(3)	23

The following table shows the reconciliation from income from reportable segments to “Net income attributable to our common shareholder” (in millions).

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
North America	$ 114	$ 95
Europe	97	81
Asia	57	41
South America	38	46
Depreciation and amortization	(89)	(103)
Interest expense and amortization of debt issuance costs	(77)	(39)
Interest income	4	3
Adjustment to eliminate proportional consolidation	(13)	(10)
Restructuring charges, net	(19)	(6)
Other income, net	24	(34)
Income before income taxes	136	74
Income tax provision	59	15
Net income	77	59
Net income attributable to noncontrolling interests	15	9
Net income attributable to our common shareholder	$ 62	$ 50

Information about Major Customers and Primary Supplier

The table below shows our net sales to Rexam Plc (Rexam), Affiliates of Ball Corporation and Anheuser-Busch InBev (Anheuser-Busch), our three largest customers, as a percentage of total Net sales.

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Rexam	13%	16%
Affiliates of Ball Corporation	12%	7%
Anheuser-Busch	11%	13%

Rio Tinto Alcan is our primary supplier of metal inputs, including prime and sheet ingot. During the three months ended June 30, 2011 and 2010, purchases from Rio Tinto Alcan as a percentage of total combined metal purchases (in kt) were 32% and 35%, respectively, in each period.

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

16. SUPPLEMENTAL INFORMATION

"Accumulated other comprehensive income," net of tax, consists of the following (in millions).

	June 30, 2011	March 31, 2011
Currency translation adjustment	$ 154	$ 102
Fair value of effective portion of cash flow hedges	16	22
Pension and other benefits	(67)	(67)
Accumulated other comprehensive income	$ 103	$ 57

Supplemental cash flow information (in millions):

	Three Months Ended June 30,	
	2011	2010
Interest paid	$ 126	$ 9
Income taxes paid	$ 21	$ 9

17. SUPPLEMENTAL GUARANTOR INFORMATION

In connection with the issuance of our 7.25% Senior Notes, 2017 Notes and 2020 Notes, certain of our wholly-owned subsidiaries, which are 100% owned within the meaning of Rule 3-10(h)(1) of Regulation S-X, provided guarantees. These guarantees are full and unconditional as well as joint and several. The guarantor subsidiaries (the Guarantors) are comprised of the majority of our businesses in Canada, the U.S., the U.K., Brazil, Portugal, Luxembourg and Switzerland, as well as certain businesses in Germany and France. Certain Guarantors may be subject to restrictions on their ability to distribute earnings to Novelis Inc. (the Parent). The remaining subsidiaries (the Non-Guarantors) of the Parent are not guarantors of the Notes.

The following information presents condensed consolidating statements of operations, balance sheets and statements of cash flows of the Parent, the Guarantors, and the Non-Guarantors. Investments include investment in and advances to non-consolidated affiliates as well as investments in net assets of divisions included in the Parent, and have been presented using the equity method of accounting.

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Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

NOVELIS INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (In millions)

	Three Months June 30, 2011				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 305	$ 2,481	$ 1,023	$ (696)	$ 3,113
Cost of goods sold (exclusive of depreciation and amortization)	294	2,170	940	(696)	2,708
Selling, general and administrative expenses	13	67	15	—	95
Depreciation and amortization	—	66	23	—	89
Research and development expenses	8	3	1	—	12
Interest expense and amortization of debt issuance costs	77	14	1	(15)	77
Interest income	(15)	(4)	—	15	(4)
Restructuring charges, net	—	18	1	—	19
Equity in net (income) loss of non-consolidated affiliates	(126)	2	—	126	2
Other (income) expense, net	(8)	(6)	(7)	—	(21)
	243	2,330	974	(570)	2,977
Income (loss) before income taxes	62	151	49	(126)	136
Income tax provision (benefit)	—	46	13	—	59
Net income (loss)	62	105	36	(126)	77
Net income attributable to noncontrolling interests	—	—	15	—	15
Net income (loss) attributable to our common shareholder	$ 62	$ 105	$ 21	$ (126)	$ 62

	Three Months Ended June 30, 2010				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 260	$ 2,032	$ 749	$ (508)	$ 2,533
Cost of goods sold (exclusive of depreciation and amortization)	242	1,804	670	(508)	2,208
Selling, general and administrative expenses	(3)	69	15	—	81
Depreciation and amortization	2	77	24	—	103
Research and development expenses	6	3	—	—	9
Interest expense and amortization of debt issuance costs	29	23	1	(14)	39
Interest income	(14)	(3)	—	14	(3)
Restructuring charges, net	—	5	1	—	6
Equity in net (income) loss of non-consolidated affiliates	(47)	3	—	47	3
Other (income) expense, net	(3)	—	16	—	13
	212	1,981	727	(461)	2,459
Income (loss) before income taxes	48	51	22	(47)	74
Income tax provision (benefit)	(2)	13	4	—	15
Net income (loss)	50	38	18	(47)	59
Net income attributable to noncontrolling interests	—	—	9	—	9
Net income (loss) attributable to our common shareholder	$ 50	$ 38	$ 9	$ (47)	$ 50

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Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

NOVELIS INC.

CONDENSED CONSOLIDATING BALANCE SHEET
(In millions)

	June 30, 2011				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 5	$ 202	$ 100	$ —	$ 307
Accounts receivable, net of allowances					
— third parties	53	975	570	—	1,598
— related parties	766	364	113	(1,210)	33
Inventories	66	992	377	—	1,435
Prepaid expenses and other current assets	3	53	9	—	65
Fair value of derivative instruments	5	134	25	(8)	156
Deferred income tax assets	1	34	1	—	36
Total current assets	899	2,754	1,195	(1,218)	3,630
Property, plant and equipment, net	138	1,907	515	—	2,560
Goodwill	(1)	600	12	—	611
Intangible assets, net	18	694	(12)	—	700
Investments in and advances to non-consolidated affiliates	1,392	753	1	(1,392)	754
Fair value of derivative instruments, net of current portion	—	16	5	(1)	20
Deferred income tax assets	—	37	14	—	51
Other long-term assets	2,692	180	69	(2,742)	199
Total assets	$ 5,138	$ 6,941	$ 1,799	$ (5,353)	$ 8,525
LIABILITIES AND SHAREHOLDER'S EQUITY					
Current liabilities					
Current portion of long-term debt	$ 15	$ 5	$ 1	$ —	$ 21
Short-term borrowings					
— third parties	160	33	14	—	207
— related parties	18	363	21	(402)	—
Accounts payable					
— third parties	75	694	559	—	1,328
— related parties	80	565	212	(806)	51
Fair value of derivative instruments	5	66	8	(8)	71
Accrued expenses and other current liabilities	59	318	112	(2)	487
Deferred income tax liabilities	—	40	2	—	42
Total current liabilities	412	2,084	929	(1,218)	2,207
Long-term debt, net of current portion					
— third parties	4,017	52	—	—	4,069
— related parties	92	2,576	74	(2,742)	—
Deferred income tax liabilities	1	573	9	—	583
Accrued postretirement benefits	40	346	146	—	532
Other long-term liabilities	23	343	6	(1)	371
Total liabilities	4,585	5,974	1,164	(3,961)	7,762
Commitments and contingencies					
Shareholder's equity					
Common stock	—	—	—	—	—
Additional paid-in capital	1,830	—	—	—	1,830
Retained earnings (accumulated deficit)	(1,380)	954	457	(1,411)	(1,380)
Accumulated other comprehensive income (loss)	103	13	(32)	19	103
Total equity of our common shareholder	553	967	425	(1,392)	553
Noncontrolling interests	—	—	210	—	210
Total equity	553	967	635	(1,392)	763
Total liabilities and equity	$ 5,138	$ 6,941	$ 1,799	$ (5,353)	$ 8,525

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

NOVELIS INC.

CONDENSED CONSOLIDATING BALANCE SHEET
(In millions)

	As of March 31, 2011				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 1	$ 225	$ 85	$ —	$ 311
Accounts receivable, net of allowances					
— third parties	31	920	529	—	1,480
— related parties	640	319	89	(1,020)	28
Inventories	60	961	317	—	1,338
Prepaid expenses and other current assets	2	40	8	—	50
Fair value of derivative instruments	5	140	30	(10)	165
Deferred income tax assets	—	37	2	—	39
Total current assets	739	2,642	1,060	(1,030)	3,411
Property, plant and equipment, net	136	1,898	509	—	2,543
Goodwill	—	600	11	—	611
Intangible assets, net	15	699	(7)	—	707
Investments in and advances to non-consolidated affiliates	1,273	743	—	(1,273)	743
Fair value of derivative instruments, net of current portion	—	16	3	(2)	17
Deferred income tax assets	—	39	13	—	52
Other long-term assets	2,768	195	68	(2,819)	212
Total assets	$ 4,931	$ 6,832	$ 1,657	$ (5,124)	$ 8,296
LIABILITIES AND SHAREHOLDER'S EQUITY					
Current liabilities					
Current portion of long-term debt	$ 15	$ 5	$ 1	$ —	$ 21
Short-term borrowings					
— third parties	—	—	17	—	17
— related parties	22	334	20	(376)	—
Accounts payable					
— third parties	73	812	493	—	1,378
— related parties	78	438	175	(641)	50
Fair value of derivative instruments	4	73	17	(12)	82
Accrued expenses and other current liabilities	119	332	119	(2)	568
Deferred income tax liabilities	—	43	—	—	43
Total current liabilities	311	2,037	842	(1,031)	2,159
Long-term debt, net of current portion					
— third parties	4,019	46	—	—	4,065
— related parties	97	2,644	77	(2,818)	—
Deferred income tax liabilities	—	542	10	—	552
Accrued postretirement benefits	40	344	142	—	526
Other long-term liabilities	19	336	6	(2)	359
	4,486	5,949	1,077	(3,851)	7,661
Commitments and contingencies					
Shareholder's equity					
Common stock	—	—	—	—	—
Additional paid-in capital	1,830	—	—	—	1,830
Retained earnings (accumulated deficit)	(1,442)	892	434	(1,326)	(1,442)
Accumulated other comprehensive income (loss)	57	(9)	(44)	53	57
Total equity of our common shareholder	445	883	390	(1,273)	445
Noncontrolling interests	—	—	190	—	190
Total equity	445	883	580	(1,273)	635
Total liabilities and equity	$ 4,931	$ 6,832	$ 1,657	$ (5,124)	$ 8,296

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Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (Continued)

NOVELIS INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (In millions)

	Three Months Ended June 30, 2011				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$ (138)	$ 56	$ 36	$ (69)	$ (115)
INVESTING ACTIVITIES					
Capital expenditures	(4)	(50)	(13)	—	(67)
Proceeds from sales of assets	—	—	—	—	—
Proceeds from investment in and advances to non-consolidated affiliates, net	—	1	—	—	1
(Outflow) proceeds from related party loans receivable, net	—	(6)	—	—	(6)
(Outflow) proceeds from settlement of undesignated derivative instruments, net	—	(5)	(2)	—	(7)
Net cash (used in) provided by investing activities	(4)	(60)	(15)	—	(79)
FINANCING ACTIVITIES					
Proceeds from issuance of debt					
— third parties	—	3	—	—	3
— related parties	—	—	—	—	—
Principal payments					
— third parties	(4)	(1)	—	—	(5)
— related parties	(5)	—	(5)	10	—
Short-term borrowings, net					
— third parties	160	34	(4)	—	190
— related parties	(5)	(55)	1	59	—
Dividends — noncontrolling interests	—	—	—	—	—
Net cash provided by (used in) financing activities	146	(19)	(8)	69	188
Net increase (decrease) in cash and cash equivalents	4	(23)	13	—	(6)
Effect of exchange rate changes on cash balances held in foreign currencies	—	—	2	—	2
Cash and cash equivalents — beginning of period	1	225	85	—	311
Cash and cash equivalents — end of period	$ 5	$ 202	$ 100	$ —	$ 307

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NOVELIS INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In millions)

	Three Months Ended June 30, 2010				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$ 29	$ (18)	$ 11	$ —	$ 22
INVESTING ACTIVITIES					
Capital expenditures	(4)	(13)	(6)	—	(23)
Proceeds from sales of assets	—	14	1	—	15
(Outflow) proceeds from related party loans receivable, net	—	3	—	—	3
(Outflow) proceeds from settlement of undesignated derivative instruments, net	(4)	36	—	—	32
Net cash (used in) provided by investing activities	(8)	40	(5)	—	27
FINANCING ACTIVITIES					
Principal payments					
— third parties	(1)	(3)	—	—	(4)
— related parties	—	22	(8)	(14)	—
Short-term borrowings, net					
— third parties	—	(45)	4	—	(41)
— related parties	(16)	4	(2)	14	—
Dividends — noncontrolling interests	—	—	(17)	—	(17)
Net cash provided by (used in) financing activities	(17)	(22)	(23)	—	(62)
Net increase (decrease) in cash and cash equivalents	4	—	(17)	—	(13)
Effect of exchange rate changes on cash balances held in foreign currencies	—	(3)	(2)	—	(5)
Cash and cash equivalents — beginning of period	22	266	149	—	437
Cash and cash equivalents — end of period	$ 26	$ 263	$ 130	$ —	$ 419

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

FORWARD LOOKING STATEMENTS

The following information should be read together with our unaudited condensed consolidated financial statements and accompanying notes included elsewhere in this quarterly report for a more complete understanding of our financial condition and results of operations. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below, particularly in "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND MARKET DATA."

OVERVIEW AND REFERENCES

Novelis is the world's leading aluminum rolled products producer based on shipment volume. We produce aluminum sheet and light gauge products for the beverage and food can, transportation, electronics, construction and industrial, and foil products markets. As of June 30, 2011, we had operations in eleven countries on four continents: 29 operating plants including three recycling facilities, and seven research and development facilities. In addition to aluminum rolled products plants, our South American businesses include bauxite mining, primary aluminum smelting and power generation facilities. We are the only company of our size and scope focused solely on aluminum rolled products markets and capable of local supply of technologically sophisticated products in all of these geographic regions.

References herein to "Novelis," the "Company," "we," "our," or "us" refer to Novelis Inc. and its subsidiaries unless the context specifically indicates otherwise. References herein to "Hindalco" refer to Hindalco Industries Limited. In October 2007, the Rio Tinto Group purchased all the outstanding shares of Alcan, Inc. and became Rio Tinto Alcan Inc. References herein to "Rio Tinto Alcan" refer to Rio Tinto Alcan Inc.

All tonnages are stated in metric tonnes. One metric tonne is equivalent to 2,204.6 pounds. One kilotonne (kt) is 1,000 metric tonnes. One MMBTU is the equivalent of one decatherm, or one million British Thermal Units.

References to our Form 10-K made throughout this document refer to our Annual Report on Form 10-K for the year ended March 31, 2011, filed with the United States Securities and Exchange Commission (SEC) on May 26, 2011.

On May 15, 2007, the Company was acquired by Hindalco through its indirect wholly-owned subsidiary pursuant to a plan of arrangement (the Arrangement) at a price of $44.93 per share. The aggregate purchase price for all of the Company's common shares was $3.4 billion and Hindalco also assumed $2.8 billion of Novelis' debt for a total transaction value of $6.2 billion. Subsequent to completion of the Arrangement on May 15, 2007, all of our common shares were indirectly held by Hindalco.

Amalgamation of AV Aluminum Inc. and Novelis Inc.

Effective September 29, 2010, in connection with an internal restructuring transaction and pursuant to articles of amalgamation under the Canadian Business Corporations Act, we were amalgamated (the Amalgamation) with our direct parent AV Aluminum Inc., a Canadian corporation (AV Aluminum), to form an amalgamated corporation named Novelis Inc., also a Canadian corporation.

As a result of the Amalgamation, we and AV Aluminum continue our corporate existence, the amalgamated Novelis Inc. remains liable for all of our and AV Aluminum's obligations, and we continue to own all of our respective property. Since AV Aluminum was a holding company whose sole asset was the shares of the pre amalgamated Novelis, our business, management, board of directors and corporate governance procedures following the Amalgamation are identical to those of Novelis immediately prior to the Amalgamation. Novelis Inc., like AV Aluminum, remains an indirect, wholly-owned subsidiary of Hindalco. We have retrospectively recast all periods presented to reflect the amalgamated companies.

HIGHLIGHTS

We experienced another strong quarter for the first quarter of fiscal 2012. Our cost management efforts, our agility in reacting to changes in the market and our focus on the fundamentals of our business in our core markets of can, automotive and specialty products have driven strong performance by our business.

- "Net sales" for the first quarter of fiscal 2012 were $3.1 billion, an increase of 23% compared to the $2.5 billion reported in the same period a year ago.
- Shipments of flat rolled products totaled 767 kt for the first quarter of fiscal 2012, an increase of 3% compared to shipments of 746 kt in the first quarter of the previous year, which reflects strong demand for our core products across all our regions.
- We reported pre-tax income of $136 million for the three months ended June 30, 2011, as compared to pre-tax income of $74 million for the three months ended June 30, 2010.
- Cash flow used in operations of $115 million for the first quarter of fiscal 2012 compares to cash flow provided by operations of $22 million for the first quarter of fiscal 2011, primarily related to the amount and timing of interest payments on our debt and changes in working capital as a result of higher average LME aluminum prices and higher inventory volumes.
- We reported strong liquidity of $865 million as of June 30, 2011 as compared to liquidity of $1.1 billion as of June 30, 2010.

BUSINESS AND INDUSTRY CLIMATE

We have experienced strong end customer demand across our regions and core end-use product categories during fiscal 2011 and continuing into the first quarter of fiscal 2012. We operated at or near capacity in all our regions throughout the period and we expect to see continued strong performance by our business.

Key Sales and Shipment Trends

	Three Months Ended				Year Ended	Three Months Ended
	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	March 31, 2011	June 30, 2011
	(In millions, excepts shipments which are in kt)					
Net sales	$ 2,533	$ 2,524	$ 2,560	$ 2,960	$ 10,577	$ 3,113
Percentage increase (decrease) in net sales versus comparable previous year period	29%	16%	21%	22%	22%	23%
Rolled product shipments:						
North America	278	285	262	280	1,105	288
Europe	232	227	208	240	907	237
Asia	146	134	148	152	580	152
South America	90	91	97	99	377	90
Total	746	737	715	771	2,969	767
Beverage and food cans	425	429	424	453	1,731	462
All other rolled products	321	308	291	318	1,238	305
Total	746	737	715	771	2,969	767

Percentage increase (decrease) in rolled products shipments versus comparable previous year period:

North America	9%	10%	8%	2%	7%	4%
Europe	25%	12%	11%	6%	13%	2%
Asia	12%	(4)%	10%	18%	9%	4%
South America	11%	(2)%	15%	15%	10%	—%
Total	15%	6%	10%	8%	10%	3%
Beverage and food cans	7%	5%	14%	12%	10%	9%
All other rolled products	26%	8%	5%	3%	10%	(5)%
Total	15%	6%	10%	8%	10%	3%

Business Model and Key Concepts

Conversion Business Model

Most of our business is conducted under a conversion model, which allows us to pass through increases or decreases in the price of aluminum to our customers. Nearly all of our products have a price structure with two components: (i) a pass-through aluminum price based on the London Metal Exchange (LME) plus local market premiums and (ii) a "conversion premium" price on the conversion cost to produce the rolled product which reflects, among other factors, the competitive market conditions for that product.

Increases or decreases in the average price of aluminum directly impact "net sales", "cost of goods sold (exclusive of depreciation and amortization)" and working capital, albeit on a lag basis. The timing of these impacts on sales and metal purchase costs vary based on contractual arrangements with customers and metal suppliers in each region. Certain of our sales contracts contain fixed metal prices for sales in future periods of time, which exposes us to the risk of changes in aluminum prices. In addition, we are exposed to fluctuating metal prices on our purchases of inventory associated with the period of time between the pricing of our purchases of inventory and the shipment of that inventory to our customers. Timing differences also occur in the flow of metal costs through moving average inventory cost values and cost of goods sold (exclusive of depreciation and amortization). We refer to these timing differences collectively as metal price lag.

We also have exposure to foreign currency risk associated with sales made in currencies that differ from those in which we are paying our conversion costs. For example, sales in Brazil are generally priced in US dollars, but the majority of our conversion costs are paid in Brazilian real. We discuss this foreign currency risk further below.

LME Aluminum Prices

The average (based on the simple average of the monthly averages) and closing prices based upon the LME for aluminum for the three months ended June 30, 2011 and 2010 are as follows:

	Three Months Ended June 30,		
	2011	**2010**	**Percent Change**
London Metal Exchange Prices			
Aluminum (per metric tonne, and presented in U.S. dollars):			
Closing cash price as of beginning of period	$2,600	$2,288	14%
Average cash price during the period	$2,603	$2,096	24%
Closing cash price as of end of period	$2,509	$1,924	30%

Prices increased from March 31, 2011 until the end of April and then steadily declined through the end of the first quarter of fiscal 2012, which resulted in $22 million of unrealized gains on undesignated metal derivatives and deferred unrealized losses of $48 million on designated metal hedges. The decrease in the aluminum price during the first quarter of fiscal 2011 resulted in $66 million of losses on undesignated metal derivatives.

Metal Derivative Instruments

We use derivative instruments to preserve our conversion margin and manage the timing differences associated with metal price lag. We enter into forward metal purchases simultaneous with the sales contracts that contain fixed metal prices. These forward metal purchases directly hedge the economic risk of future metal price fluctuation associated with these contracts. The recognition of unrealized gains and losses on undesignated metal derivative positions typically precedes customer delivery and revenue recognition under the related fixed forward priced contracts. The timing difference between the recognition of unrealized gains and losses on undesignated metal derivatives and revenue recognition impacts income before income taxes and net income. Gains and losses on metal derivative contracts are not recognized in segment income until realized.

Additionally, we sell short-term LME aluminum futures contracts to reduce our exposure to fluctuating aluminum prices during the period of time for which we physically hold the inventory and to manage the metal price lag associated with inventory cost. The majority of our metal purchases are based on average prices for a period of time prior to the period at which we order the metal. Additionally, there is a period of time between when we place an order for metal, when we receive it and when we ship finished products to our customers. These forward metal sales directly hedge the economic risk of future metal price fluctuations on our inventory.

We settle derivative contracts in advance of billing and collecting from our customers, which temporarily impacts our liquidity position. The lag between derivative settlement and customer collection typically ranges from 30 to 60 days.

Foreign Exchange

We operate a global business and conduct business in various currencies around the world. Fluctuations in foreign exchange rates impact our operating results. We recognize foreign exchange gains and losses when business transactions are denominated in currencies other than the functional currency of that operation. The following table presents the exchange rate as of the end of each period and the average of the month-end exchange rates for the three months ended June 30, 2011 and 2010:

	Exchange Rate as of		Average Exchange Rate Three Months Ended June 30,	
	June 30, 2011	March 31, 2011	2011	2010
U.S. dollar per Euro	1.449	1.419	1.458	1.285
Brazilian real per U.S. dollar	1.561	1.627	1.572	1.785
South Korean won per U.S. dollar	1,078	1,107	1,077	1,164
Canadian dollar per U.S. dollar	0.967	0.971	0.963	1.035

During the first quarter of fiscal 2012, the U.S. dollar weakened as compared to the local currency in all our other regions. In Europe and Asia, the weakening of the U.S. dollar resulted in foreign exchange gains as these operations are recorded in local currency. In Brazil, where the U.S. dollar is the functional currency due to predominantly U.S. dollar selling prices and local currency operating costs, we incurred foreign exchange losses. We incurred a foreign exchange gain in North America because of the effect of the weakening dollar as compared to the Euro on the foreign currency remeasurement on a Euro-denominated intercompany loan to Europe.

We use foreign exchange forward contracts and cross-currency swaps to manage our exposure to changes in exchange rates. These exposures arise from recorded assets and liabilities, firm commitments and forecasted cash flows denominated in currencies other than the functional currency of certain operations, which includes capital expenditures. The weakening dollar during the first quarter of fiscal 2012 resulted in $2 million of gains on foreign currency derivatives, as compared to $24 million of gains on foreign exchange derivatives during the first quarter of fiscal 2011.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2011 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2010

We experienced strong demand across all our regions during the first quarter of fiscal 2012, and are operating at or near capacity in all regions. “Net sales” for the three months ended June 30, 2011 increased 23% as compared to the three months ended June 30, 2010, primarily as a result of a 24% increase in average aluminum prices, a 3% increase in flat rolled product (FRP) volumes and higher conversion premiums offset by a decrease in non-FRP volumes.

“Cost of goods sold (exclusive of depreciation and amortization)” increased $500 million, or 23%, which reflects the increased volume and higher average aluminum prices. Increased input cost pressures were partially offset by our ongoing cost management efforts.

“Income before income taxes” for the first quarter of fiscal 2012 was $136 million, an increase of $62 million , or 84%, compared to the $74 million reported in the first quarter of fiscal 2011. In addition to the positive effects from operations discussed above, the following items affected “Income before income taxes:”

- $77 million of “Interest expense and amortization of debt issuance costs” for the first quarter of fiscal 2012 as compared to $39 million for the first quarter of fiscal 2011 as a result of our higher debt balances and amortization of debt issuance costs from our refinancing in the third quarter of fiscal 2011
- $19 million of “Restructuring charges, net” for the first quarter of fiscal 2012 as compared to $6 million for the first quarter of fiscal 2011. The charges in the first quarter of fiscal 2012 are comprised of $10 million of asset impairments related to restructuring actions initiated in prior periods, $5 million of severance costs and asset impairments related to restructuring actions initiated in the current quarter, and $4 million of other costs

- foreign currency remeasurement losses, net of related derivatives, of $10 million for the first quarter of fiscal 2012 as compared to losses of $21 million in the same period in the prior year
- gains of $35 million for the first quarter of fiscal 2012 comprised of ineffectiveness of designated derivatives and changes in fair value of undesignated derivatives other than foreign currency remeasurement as compared to $6 million of losses for the first quarter of fiscal 2011.

We reported "Net income attributable to our common shareholder" of $62 million for the first quarter of fiscal 2012 as compared to $50 million for the first quarter of fiscal 2011, primarily as a result of the factors discussed above. We also recorded an "Income tax provision" of $59 million for the first quarter of fiscal 2012 as compared to $15 million in the same period of the prior year.

Segment Review

Due in part to the regional nature of supply and demand of aluminum rolled products and in order to best serve our customers, we manage our activities on the basis of geographical areas and are organized under four operating segments: North America, Europe, Asia and South America. We are at or near capacity in all regions as we continue to look at ways to debottleneck our operations and optimize our product portfolio and footprint.

We measure the profitability and financial performance of our operating segments based on "Segment income". "Segment income" provides a measure of our underlying segment results that is in line with our portfolio approach to risk management. We define "Segment income" as earnings before (a) "depreciation and amortization"; (b) "interest expense and amortization of debt issuance costs"; (c) "interest income"; (d) "unrealized gains (losses) on change in fair value of derivative instruments, net", except for foreign currency derivatives on our foreign currency balance sheet exposures, which are included in segment income; (e) "impairment of goodwill"; (f) impairment charges on long-lived assets (other than goodwill); (g) gain or loss on extinguishment of debt; (h) noncontrolling interests' share; (i) adjustments to reconcile our proportional share of "Segment income" from non-consolidated affiliates to income as determined on the equity method of accounting; (j) "restructuring charges, net"; (k) gains or losses on disposals of property, plant and equipment and businesses, net; (l) other costs, net; (m) litigation settlement, net of insurance recoveries; (n) sale transaction fees; (o) provision or benefit for taxes on income (loss) and (p) cumulative effect of accounting change, net of tax. Our presentation of "Segment income" on a consolidated basis is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below for additional discussion about our use of total "Segment income."

The tables below show selected segment financial information (in millions, except shipments which are in kt). For additional financial information related to our operating segments, see Note 15 — Segment, Major Customer and Major Supplier Information.

Selected Operating Results Three Months Ended June 30, 2011	North America	Europe	Asia	South America	Eliminations	Total
Net sales	$ 1,157	$ 1,080	$ 560	$ 318	$ (2)	$ 3,113
Shipments (kt)						
Rolled products	288	237	152	90	—	767
Ingot products	4	16	1	9	—	30
Total shipments	292	253	153	99	—	797

Selected Operating Results Three Months Ended June 30, 2010	North America	Europe	Asia	South America	Eliminations	Total
Net sales	$ 959	$ 842	$ 457	$ 277	$ (2)	$ 2,533
Shipments (kt)						
Rolled products	278	232	146	90	—	746
Ingot products	5	17	1	10	—	33
Total shipments	283	249	147	100	—	779

The following table reconciles changes in "Segment income" for the three months ended June 30, 2010 to three months ended June 30, 2011 (in millions). Variances include the related realized derivative gain or loss and unrealized gains or losses on foreign currency derivatives which hedge our foreign currency balance sheet exposure.

Changes in Segment income	North America	Europe	Asia	South America	Total
Segment income — three months ended June 30, 2010	$ 95	$ 81	$ 41	$ 46	$ 263
Volume	10	5	—	2	17
Conversion premium and product mix	11	4	13	10	38
Conversion costs(A)	(8)	5	(9)	(7)	(19)
Metal price lag	14	(6)	(11)	(1)	(4)
Foreign exchange	2	12	19	(5)	28
Primary metal production	—	—	—	—	—
Other changes(B)	(10)	(4)	4	(7)	(17)
Segment income — three months ended June 30, 2011	$ 114	$ 97	$ 57	$ 38	$ 306

(A) Conversion costs include expenses incurred in production such as direct and indirect labor, energy, freight, scrap usage, alloys and hardeners, coatings, alumina, melt loss, the incremental benefit of used beverage cans (UBCs) and other metal costs. Fluctuations in this component reflect cost efficiencies during the period as well as cost inflation (deflation).

(B) Other changes include selling, general & administrative costs and research and development for all segments and certain other items which impact one or more regions. Significant fluctuations in these items are discussed below.

North America

As of June 30, 2011, our North American operations manufactured aluminum sheet and light gauge products through 11 operating plants, including two dedicated recycling facilities. Important end-use applications include beverage cans, containers and packaging, automotive and other transportation applications and other industrial applications.

Our North American operations experienced strong performance across all sectors. Shipments of flat rolled products in the first quarter of fiscal 2012 were 4% higher as compared to a year ago. Net sales for the first quarter of fiscal 2012 were up $198 million, or 21%, as compared to the first quarter of fiscal 2011 reflecting higher average aluminum prices and improved conversion premiums, as well as the increase in volumes previously mentioned.

Segment income for the first quarter of fiscal 2012 was $114 million, up $19 million as compared to the prior year period. Improved volume, conversion premiums and metal price lag all had a positive effect on segment income. The negative effect of conversion costs such as the unfavorable price change of used beverage cans (UBCs) and melt loss were partially offset by positive changes in efficiencies in the use of UBCs. Other changes include higher research and development costs and higher general and administrative costs.

Europe

As of June 30, 2011, our European segment provided European markets with value-added sheet and light gauge products through 12 operating plants, including one dedicated recycling facility. Europe serves a broad range of aluminum rolled product end-use markets in various applications including can, automotive, lithographic, foil products and painted products. During the first quarter of fiscal 2012, we announced that we are investing to increase our recycling capacity at two of our aluminum rolled products facilities in Europe.

Our European operations have experienced overall strong performance in our key product segments with can and automotive demand compensating for the lost volume from the sale of our confectionary business during March of fiscal 2011. Flat rolled product shipments and "Net sales" in the first quarter of fiscal 2012 were 2% and 28% higher, respectively, as compared to the first quarter of fiscal 2011, which reflects higher average aluminum prices and improved conversion premiums.

Segment income for the first quarter of fiscal 2012 was $97 million, up $16 million compared to the same period of the prior year. Improved volumes, conversion premiums and foreign currency rates as compared to the dollar all had a positive impact on segment income. Negative effects of higher contractor costs and higher price of scrap and melt loss were more than offset by lower labor costs, favorable metal premiums and discounts and favorable other metal costs. Other changes reflect a negative impact from fixed forward price sales contracts compared the same period of the prior year.

Asia

As of June 30, 2011, Asia operated three operating plants with production balanced between beverage and food can, specialty (including electronics) and foil end-use applications. In conjunction with the $400 million expansion of our rolling and recycling capacity in Asia which we announced in the first quarter of fiscal 2012, we broke ground on a recycling and casting center at our Yeongju plant in South Korea.

Overall demand remained strong in the can stock market driven by beer consumption in Korean and Southeast Asian markets. Shipments of flat rolled products in the first quarter of fiscal 2012 increased 4% as compared to a year ago. Net sales for the first quarter of fiscal 2012 were up $103 million, or 23%, as compared to the first quarter of fiscal 2011 reflecting higher average aluminum prices and improved conversion premiums, as well as the increase in volumes previously mentioned. We began to see some softness in the electronics business as a result of economic uncertainty in the U.S. and Europe, but we believe this is a short-term trend and continue to believe in the long-term growth prospects of the electronics end market.

Segment income of $41 million in the first quarter of fiscal 2011 compared favorably to $57 million for the first quarter of fiscal 2012 due to increased conversion premiums and the positive impact of foreign currency exchange rates, partially offset by negative effects of metal price lag and conversion costs such as higher labor costs, utilities and melt loss. Higher volumes of flat rolled products were offset by negative effects of volume inefficiencies related to other metal costs such as coatings and alloys. Other changes reflect a positive impact from fixed forward price sales contracts.

South America

Our operations in South America manufacture various aluminum rolled products for the beverage and food can, construction and industrial and transportation end-use markets. Our South American operations included 3 operating plants in Brazil, including one smelter, power generation facilities and bauxite mines as of June 30, 2011. During the first quarter of fiscal 2012, we announced that we were shutting down certain of our foil lines at our Santo Andre, Brazil facility, leaving one rolling mill in operation at that location. Our previously announced expansion of our Pinda facility in Brazil is expected to come online in mid-fiscal 2013.

Total shipments were 1% lower as compared to the prior year period, with rolled products shipments remaining flat due to unseasonably cold and wet weather which resulted in lower customer demand than expected. We expect demand to normalize toward the latter part of the second quarter of fiscal 2012. Net sales increased 15% as compared to the prior year period as a result of higher average aluminum prices and improved conversion premiums.

Segment income for South America was lower by $8 million as compared to the prior year period. Improved conversion premiums were more than offset by unfavorable exchange rates and negative variances in conversion costs such as metal premiums and discounts and higher costs of UBCs. Other changes include higher general and administrative costs.

Reconciliation of segment results to "Net income"

Costs such as depreciation and amortization, interest expense and unrealized gains (losses) on changes in the fair value of derivatives, except for derivatives to manage our foreign currency balance sheet exposure, are not utilized by our chief operating decision maker in evaluating segment performance. The table below reconciles income from reportable segments to "Net income attributable to our common shareholder" for the three months ended June 30, 2011 and 2010 (in millions).

	Three Months Ended June 30,	
	2011	2010
North America	$ 114	$ 95
Europe	97	81
Asia	57	41
South America	38	46
Total Segment income	306	263
Depreciation and amortization	(89)	(103)
Interest expense and amortization of debt issuance costs	(77)	(39)
Interest income	4	3
Adjustment to eliminate proportional consolidation	(13)	(10)
Restructuring charges, net	(19)	(6)
Other income, net	24	(34)
Income before income taxes	136	74
Income tax provision	59	15
Net income	77	59
Net income attributable to noncontrolling interests	15	9
Net income attributable to our common shareholder	$ 62	$ 50

“Depreciation and amortization” decreased from $103 million for the first quarter of fiscal 2011 to $89 million for the first quarter of fiscal 2012 primarily as a result of facilities that have been shut-down and are no longer being depreciated, as well as assets which became fully depreciated.

“Interest expense and amortization of debt issuance costs” increased primarily due to higher average debt balances as a result of refinancing our debt in the third quarter of fiscal 2011.

“Adjustment to eliminate proportional consolidation” was $13 million of loss for the first quarter of fiscal 2012 as compared to a $10 million loss in the first quarter of fiscal 2011. This adjustment typically relates to depreciation and amortization and income taxes at our Aluminium Norf GmbH (Norf) joint venture. Income taxes related to our equity method investments are reflected in the carrying value of the investment and not in our consolidated income tax provision.

“Restructuring charges, net” in the first quarter of fiscal 2012 primarily related to the shutdown of one of our foil lines in South America, the shutdown and sale of our facility in Bridgnorth in Europe and additional write-downs of assets related to restructuring programs initiated in prior periods. See Note 2 — Restructuring Programs.

“Other income, net” includes primarily the gain or loss on the sale of fixed assets, ineffectiveness of designated derivatives and gains or losses on the change in fair value of unrealized undesignated derivatives other than those foreign currency derivatives on our foreign currency balance sheet exposure which are already included in segment income. For the first quarter of fiscal 2012, “Other income, net” included primarily a $1 million loss on sale of fixed assets, $1 million gain on ineffectiveness of hedged derivative instruments and a $25 million gain on the change in fair value of unrealized undesignated derivatives, whereas the first quarter of fiscal 2011 included a $13 million gain on the sale of unused land in South America and a $47 million loss on the change in fair value of unrealized undesignated derivatives.

For the three months ended June 30, 2011, we recorded a $59 million “income tax provision” on our pre-tax income before our equity in net income of non-consolidated affiliates of $138 million, which represented an effective tax rate of 43%. Our effective tax rate differs from the expense at the Canadian statutory rate primarily due to the following factors: (1) $1 million benefit for pre-tax foreign currency gains or losses with no tax effect and the tax effect of U.S. dollar denominated currency gains or losses with no pre-tax effect, (2) a $10 million expense for exchange remeasurement of deferred income taxes, (3) a $21 million increase in valuation allowances primarily related to tax losses in certain jurisdictions where we believe it is more likely than not that we will not be able to utilize those losses, (4) a $15 million benefit from non-taxable dividends, and (5) a $4 million expense from differences between the Canadian statutory and foreign effective tax rates applied to entities in different jurisdictions.

For the three months ended June 30, 2010, we recorded a $15 million “income tax provision” on our pre-tax income of $77 million, before our equity in net income of non-consolidated affiliates, which represented an effective tax rate of 19%. Our effective tax rate differs from the expense at the Canadian statutory rate primarily due to the following factors: (1) $2 million benefit for pre-tax foreign currency gains or losses with no tax effect and the tax effect of U.S. dollar denominated currency gains or losses with no pre-tax effect, (2) a $2 million benefit for exchange remeasurement of deferred income taxes, (3) a $3 million increase in valuation allowances primarily related to tax losses in certain jurisdictions where we believe it is more likely than not that we will not be able to utilize those losses , and (4) a $5 million benefit from differences between the Canadian statutory and foreign effective tax rates applied to entities in different jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

We believe we have adequate liquidity to meet our operational and capital requirements for the foreseeable future. Our primary sources of liquidity are cash and cash equivalents, borrowing availability under our revolving credit facility and cash generated by operating activities.

As of June 30, 2011, we had available liquidity of $865 million, which reflects an 18% decrease from March 31, 2011 driven by higher capital expenditures and higher working capital needs. We expect continued strong liquidity throughout fiscal 2012 despite significant expected capital expenditures and higher interest payments.

Available Liquidity

Our estimated liquidity as of June 30, 2011 and March 31, 2011 is as follows (in millions):

	June 30, 2011	March 31, 2011
Cash and cash equivalents	$ 307	$ 311
Overdrafts	(18)	(17)
Availability under the ABL facility	576	767
Total estimated liquidity	$ 865	$ 1,061

The "cash and cash equivalents" balance above includes cash held in foreign countries in which we operate.

Free Cash Flow

Free cash flow (which is a non-GAAP measure) consists of: (a) "net cash provided by (used in) operating activities", (b) "plus net cash provided by (used in) investing activities" and (c) less "net proceeds from sales of assets". Management believes that "Free cash flow" is relevant to investors as it provides a measure of the cash generated internally that is available for debt service and other value creation opportunities. However, "Free cash flow" does not necessarily represent cash available for discretionary activities, as certain debt service obligations must be funded out of "Free cash flow". Our method of calculating "Free cash flow" may not be consistent with that of other companies.

The following table shows the "Free cash flow" for the three months ended June 30, 2011 and 2010, the change between periods as well as the ending balances of cash and cash equivalents (in millions).

	Three Months Ended June 30,		
	2011	2010	Change
Net cash (used in) provided by operating activities	$ (115)	$ 22	$ (137)
Net cash provided by (used in) investing activities	(79)	27	(106)
Less: Proceeds from sales of assets	—	(15)	15
Free cash flow	$ (194)	$ 34	$ (228)
Ending cash and cash equivalents	$ 307	$ 419	$ (112)

"Free cash flow" decreased $228 million in the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011. The changes in "Free cash flow" are described in greater detail below.

Operating Activities

Overall operating results were strong for the first quarter of fiscal 2012, reflecting the increase in volumes and conversion premiums and our lower fixed cost structure as a result of our ongoing cost management measures. However, higher working capital balances as a result of higher aluminum prices and inventory volumes in the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011, accounted for approximately $110 million lower cash flows from operations in the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011. Also contributing to lower cash flow from operations in the first quarter of fiscal 2012 was $117 million higher interest paid in first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011 as a result of the refinanced debt entered into in the third quarter of fiscal 2011 and the related change in timing of our semi-annual interest payments. The impact of higher working capital balances and interest payments was offset partially by higher net income discussed previously.

Investing Activities

The following table presents information regarding our "Net cash provided by (used in) investing activities" (in millions).

	Three Months Ended June 30,		
	2011	2010	Change
Capital expenditures	$ (67)	$ (23)	$ (44)
(Outflow) proceeds from settlement of other undesignated derivative instruments, net	(7)	32	(39)
Proceeds from sales of assets — third parties	—	15	(15)
Proceeds from investment in and advances to non-consolidated affiliates, net	1	—	1
(Outflow) proceeds from related parties loans receivable, net	(6)	3	(9)
Net cash (used in) provided by investing activities	$ (79)	$ 27	$ (106)

The majority of our capital expenditures in fiscal 2011 and the first quarter of fiscal 2012 have been for projects devoted to product quality, technology, productivity enhancement and increased capacity. We expect to increase our capital expenditures during the remainder of fiscal 2012 as a result of our previously announced expansions in Brazil, South Korea and North America. We expect that our total annual capital expenditures for fiscal 2012 to be between $550 and $600 million.

The settlement of undesignated derivative instruments resulted in an outflow of $7 million in the three months ended June 30, 2011 as compared to $32 million in cash inflow in the prior year period. The net outflow in the first quarter of fiscal 2011 was primarily related to metal and currency derivatives. Based on forward curves for metal, foreign currencies, interest rates and energy as of June 30, 2011, we forecast approximately $25 million of cash inflows related to the settlement of derivative instruments in the second quarter.

The majority of proceeds from asset sales in the three months ended June 30, 2010 relate to asset sales in South America.

“Proceeds (outflow) from loans receivable”, net during all periods are primarily comprised of additional loans made to, net of payments we received related to a loan due from our non-consolidated affiliate, Aluminium Norf GmbH.

Financing Activities

The following table presents information regarding our “Net cash provided by (used in) financing activities” (in millions).

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change
Proceeds from issuance of debt, third parties	$ 3	$ —	$ 3
Principal payments, third parties	(5)	(4)	(1)
Short-term borrowings (payments), net	190	(41)	231
Dividends, noncontrolling interest	—	(17)	17
Net cash provided by (used in) financing activities	$ 188	$ (62)	$ 250

As of June 30, 2011, our short-term borrowings were $207 million consisting of $189 million of short-term loans under our senior secured credit facilities (ABL Facility) and $18 million in bank overdrafts. As of June 30, 2011, $35 million of the ABL Facility was utilized for letters of credit and we had $576 million in remaining availability under the ABL Facility. The weighted average interest rate on our total short-term borrowings was 3.77% and 2.43% as of June 30, 2011 and March 31, 2011, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

The following discussion addresses the applicable off-balance sheet items for our Company.

Derivative Instruments

See Note 10 — Financial Instruments and Commodity Contracts to our accompanying condensed consolidated financial statements for a full description of derivative instruments.

Guarantees of Indebtedness

We have issued guarantees on behalf of certain of our wholly-owned subsidiaries. The indebtedness guaranteed is for trade accounts payable to third parties. Some of the guarantees have annual terms while others have no expiration and have termination notice requirements. Neither we nor any of our subsidiaries hold any assets of any third parties as collateral to offset the potential settlement of these guarantees. Since we consolidate wholly-owned subsidiaries in our consolidated financial statements, all liabilities associated with trade payables for these entities are already included in our condensed consolidated balance sheets. We have no retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets.

Other

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2011 and March 31, 2011, we are not involved in any unconsolidated SPE transactions.

CONTRACTUAL OBLIGATIONS

We have future obligations under various contracts relating to debt and interest payments, capital and operating leases, long-term purchase obligations, postretirement benefit plans and uncertain tax positions. During the three months ended June 30, 2011, there were no significant changes to these obligations as reported in our Annual Report on Form 10-K for the year ended March 31, 2011.

RETURN OF CAPITAL

Dividends are at the discretion of the board of directors and will depend on, among other things, our financial resources, cash flows generated by our business, our cash requirements, restrictions under the instruments governing our indebtedness, being in compliance with the appropriate indentures and covenants under the instruments that govern our indebtedness that would allow us to legally pay dividends and other relevant factors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

During the three months ended June 30, 2011, there were no significant changes to our critical accounting policies and estimates as reported in our Annual Report on Form 10-K for the year ended March 31, 2011.

RECENT ACCOUNTING STANDARDS

See Note 1 — Business and Summary of Significant Accounting Policies to our accompanying condensed consolidated financial statements for a full description of accounting pronouncements including the respective dates of adoption and expected effects on results of operations, financial condition and liquidity.

NON-GAAP FINANCIAL MEASURES

Total “Segment income” presents the sum of the results of our four operating segments on a consolidated basis. We believe that total “Segment income” is an operating performance measure that measures operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. In reviewing our corporate operating results, we also believe it is important to review the aggregate consolidated performance of all of our segments on the same basis that we review the performance of each of our regions and to draw comparisons between periods based on the same measure of consolidated performance.

Management believes that investors’ understanding of our performance is enhanced by including this non-GAAP financial measure as a reasonable basis for comparing our ongoing results of operations. Many investors are interested in understanding the performance of our business by comparing our results from ongoing operations from one period to the next and would ordinarily add back items that are not part of normal day-to-day operations of our business. By providing total “Segment income”, together with reconciliations, we believe we are enhancing investors’ understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing strategic initiatives.

However, total “Segment income” is not a measurement of financial performance under GAAP, and our total “Segment income” may not be comparable to similarly titled measures of other companies. Total “Segment income” has important limitations as an analytical tool, and you should not consider this measure in isolation or as a substitute for analysis of our results as reported under GAAP. For example, total “Segment income”:

- does not reflect the company’s cash expenditures or requirements for capital expenditures or capital commitments;

- does not reflect changes in, or cash requirements for, the company's working capital needs;
- does not reflect any costs related to the current or future replacement of assets being depreciated and amortized.

We also use total "Segment income":

- as a measure of operating performance to assist us in comparing our operating performance on a consistent basis because it removes the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budgets and financial projections;
- to evaluate the performance and effectiveness of our operational strategies; and
- as a basis to calculate incentive compensation payments for our key employees.

Total "Segment income" is equivalent to our Adjusted EBITDA, which we refer to in our earnings announcements and other external presentations to analysts and investors.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND MARKET DATA

This document contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry in which we operate, and beliefs and assumptions made by our management. Such statements include, in particular, statements about our plans, strategies and prospects. Words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and variations of such words and similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, our expectations with respect to the impact of metal price movements on our financial performance and the effectiveness of our hedging programs and controls. These statements are based on beliefs and assumptions of Novelis' management, which in turn are based on currently available information. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking 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.

This document also contains information concerning our markets and products generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which these markets and product categories will develop. These assumptions have been derived from information currently available to us and publicly available third party industry journals. This information includes, but is not limited to, product shipments and share of production. Actual market results may differ from those predicted. While we do not know what impact any of these differences may have on our business, our results of operations, financial condition, cash flow and the market price of our securities may be materially adversely affected. Factors that could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements include, among other things:

- relationships with, and financial and operating conditions of, our customers, suppliers and other stakeholders;
- changes in the prices and availability of aluminum (or premiums associated with such prices) or other materials and raw materials we use;
- 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;
- the level of our indebtedness and our ability to generate cash;
- deterioration of our ratings by a credit agency;
- changes in the relative values of various currencies and the effectiveness of our currency hedging activities;
- union disputes and other employee relations issues;
- factors affecting our operations, such as litigation, environmental remediation and clean-up costs, labor relations and negotiations, breakdown of equipment and other events;

- changes in general economic conditions including deterioration in the global economy, particularly sectors in which our customers operate;
- changes in the fair value of derivative instruments or the failure of counterparties to our derivative instruments to honor their agreements;
- the capacity and effectiveness of our metal hedging activities;
- availability of production capacity;
- impairment of our goodwill and other intangible assets;
- continuing obligations and other relationships resulting from our spin-off from Alcan Inc.;
- the impact of restructuring efforts in the future;
- 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;
- cyclical demand and pricing within the principal markets for our products as well as seasonality in certain of our customers' industries; and
- changes in interest rates that have the effect of increasing the amounts we pay under our principal credit agreement and other financing agreements.

The above list of factors is not exhaustive. Some of these and other factors are discussed in more detail under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2011.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in commodity prices (primarily aluminum, electricity and natural gas), foreign currency exchange rates and interest rates that could impact our results of operations and financial condition. We manage our exposure to these and other market risks through regular operating and financing activities and derivative financial instruments. We use derivative financial instruments as risk management tools only, and not for speculative purposes. Except where noted, the derivative contracts are marked-to-market and the related gains and losses are included in earnings in the current accounting period.

By their nature, all derivative financial instruments involve risk, including the credit risk of non-performance by counterparties. All derivative contracts are executed with counterparties that, in our judgment, are creditworthy. Our maximum potential loss may exceed the amount recognized in the accompanying June 30, 2011 condensed consolidated balance sheet.

The decision of whether and when to execute derivative instruments, along with the duration of the instrument, can vary from period to period depending on market conditions and the relative costs of the instruments. The duration is always linked to the timing of the underlying exposure, with the connection between the two being regularly monitored.

Commodity Price Risks

We have commodity price risk with respect to purchases of certain raw materials including aluminum, electricity, natural gas and transport fuel.

Aluminum

Most of our business is conducted under a conversion model that allows us to pass through increases or decreases in the price of aluminum to our customers. Nearly all of our products have a price structure with two components: (i) a pass through aluminum price based on the LME plus local market premiums and (ii) a “conversion premium” based on the conversion cost to produce the rolled product and the competitive market conditions for that product.

A key component of our conversion model is the use of derivative instruments on projected aluminum requirements to preserve our conversion margin. We enter into forward metal purchases simultaneous with the sales contracts that contain fixed metal prices. These forward metal purchases directly hedge the economic risk of future metal price fluctuation associated with these contracts. The recognition of unrealized gains and losses on metal derivative positions typically precedes customer delivery and revenue recognition under the related fixed forward priced contracts. The timing difference between the recognition of unrealized gains and losses on metal derivatives and recognition of revenue impacts income (loss) before income taxes and net income (loss). Gains and losses on metal derivative contracts are not recognized in segment income until realized.

Metal price lag associated with inventory and non-fixed priced sales exposes us to potential losses in periods of falling aluminum prices. We sell short-term LME aluminum futures contracts to reduce our exposure to this risk. We expect the gain or loss on the settlement of the derivative to offset the effect of changes in aluminum prices on future product sales. These hedges generally generate losses in periods of increasing aluminum prices.

Sensitivities

We estimate that a 10% decline in LME Aluminum Prices would result in a $1 million pre-tax loss related to the change in fair value of our aluminum contracts as of June 30, 2011.

Energy

We use several sources of energy in the manufacture and delivery of our aluminum rolled products. In the three months ended June 30, 2011, natural gas and electricity represented approximately 82% of our energy consumption by cost. We also use fuel oil and transport fuel. The majority of energy usage occurs at our casting centers, at our smelters in South America and during the hot rolling of aluminum. Our cold rolling facilities require relatively less energy.

We purchase our natural gas on the open market, which subjects us to market pricing fluctuations. We seek to stabilize our future exposure to natural gas prices through the use of forward purchase contracts. Natural gas prices in Europe, Asia and South America have historically been more stable than in the United States. As of June 30, 2011, we have a nominal amount of forward purchases outstanding related to natural gas.

A portion of our electricity requirements are purchased pursuant to long-term contracts in the local regions in which we operate. A number of our facilities are located in regions with regulated prices, which affords relatively stable costs. In South America, we own and operate hydroelectric facilities that meet approximately 45% of our total electricity requirements in that segment. Additionally, we have entered into an electricity swap in North America to fix a portion of the cost of our electricity requirements.

We purchase a nominal amount of heating oil forward contracts to hedge against fluctuations in the price of our transport fuel.

Fluctuating energy costs worldwide, due to the changes in supply and international and geopolitical events, expose us to earnings volatility as such changes in such costs cannot immediately be recovered under existing contracts and sales agreements, and may only be mitigated in future periods under future pricing arrangements.

Sensitivities

The following table presents the estimated potential effect on the fair values of these derivative instruments as of June 30, 2011, given a 10% decline in spot prices for energy contracts ($ in millions).

	Change in Price	Change in Fair Value
Electricity	(10)%	$ —
Natural Gas	(10)%	(2)

Foreign Currency Exchange Risks

Exchange rate movements, particularly the euro, the Brazilian real and the Korean won against the U.S. dollar, have an impact on our operating results. In Europe, where we have predominantly local currency selling prices and operating costs, we benefit as the euro strengthens, but are adversely affected as the euro weakens. In Korea, where we have local currency selling prices for local sales and U.S. dollar denominated selling prices for exports, we benefit slightly as the won weakens, but are adversely affected as the won strengthens, due to a slightly higher percentage of exports compared to local sales. In Brazil, where we have predominately U.S. dollar selling prices and local currency operating costs, we benefit as the local currency weakens, but are adversely affected as the local currency strengthens. Foreign currency contracts may be used to hedge the economic exposures at our foreign operations.

It is our policy to minimize exposures from non-functional currency denominated transactions within each of our operating segments. As such, the majority of our foreign currency exposures are from either forecasted net sales or forecasted purchase commitments in non-functional currencies. Our most significant non-U.S. dollar functional currency operations have the euro and the Korean won as their functional currencies, respectively. Our Brazilian operations are U.S. dollar functional.

We also face translation risks related to the changes in foreign currency exchange rates which are generally not hedged. Amounts invested in these foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as a component of “Accumulated other comprehensive income (loss)” in the Shareholders’ equity section of the accompanying condensed consolidated balance sheets. Net sales and expenses at these non-U.S. dollar functional currency entities are translated into varying amounts of U.S. dollars depending upon whether the U.S. dollar weakens or strengthens against other currencies. Therefore, changes in exchange rates may either positively or negatively affect our net sales and expenses as expressed in U.S. dollars.

Any negative impact of currency movements on the currency contracts that we have entered into to hedge foreign currency commitments to purchase or sell goods and services would be offset by an equal and opposite favorable exchange impact on the commitments being hedged. For a discussion of accounting policies and other information relating to currency contracts, see Note 1 — Business and Summary of Significant Accounting Policies and Note 10 — Financial Instruments and Commodity Contracts.

Sensitivities

The following table presents the estimated potential effect on the fair values of these derivative instruments as of June 30, 2011, given a 10% change in rates ($ in millions).

	Change in Exchange Rate	Change in Fair Value
Currency measured against the U.S. dollar		
Brazilian real	(10)%	$ (45)
Euro	10%	(34)
Korean won	(10)%	(17)
Canadian dollar	(10)%	(4)
British pound	(10)%	(7)
Swiss franc	(10)%	(10)

Interest Rate Risks

We use interest rate swaps to manage our exposure to changes in the benchmark LIBOR interest rate which impacts our variable-rate debt. Prior to the completion of the December 17, 2010 refinancing transactions, these swaps were designated as cash flow hedges. Upon completion of the refinancing transaction, our exposure to changes in the benchmark LIBOR interest rate was limited which resulted in de-designation. The 2011 Term Loan Facility contains a floor feature of the higher of LIBOR or 100 basis points, plus a spread varying from 2.75% to 3.0% depending on the Company’s net leverage ratio, as defined in the Term Loan Facility agreement. As of June 30, 2011, this floor feature was in effect, changing our variable rate debt to fixed rate debt. Due to the nature of fixed-rate debt, there would be no significant impact on our interest expense or cash flows from either a 10% increase or decrease in market rates of interest.

Due to the floor feature of our 2011 Term Loan Facility mentioned above, a 10 basis point increase in the interest rates on our outstanding variable rate debt as of March 31, 2011, would have no impact on our annual pre-tax income. To be above the 2011 Term Loan Facility floor feature, as of June 30, 2011, 3 month LIBOR would have to increase by 75 basis points (bp). From time to time, we have used interest rate swaps to manage our debt cost. In Korea, we entered into interest rate swaps to fix the interest rate on various floating rate debt. See Note 6 — Debt for further information.

Sensitivities

The following table presents the estimated potential effect on the fair values of these derivative instruments as of June 30, 2011, given a 100 bps negative shift in USD LIBOR ($ in millions).

	Change in Rate	Change in Fair Value
Interest Rate Contracts		
North America	(100)bps	$ (1.6)

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, include controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the Principal Executive Officer and the Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

We have carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon such evaluation, management has concluded that the Company's disclosure controls and procedures were effective as of June 30, 2011.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

We are a party to litigation incidental to our business from time to time. For additional information regarding litigation to which we are a party, see Note 14 — Commitments and Contingencies to our accompanying condensed consolidated financial statements.

Item 1A. *Risk Factors*

The recent downgrade of the U.S. credit rating could have a material adverse impact on our financial condition and results of operations.

On August 5, 2011, Standard & Poor's downgraded the credit rating for long-term U.S. government debt from AAA to AA+. The long-term impacts of the downgrade are unknown. The downgrade could have a material adverse impact on global financial markets and worldwide economic conditions, which could affect our credit ratings and liquidity and those of our customers and other business partners.

See also "Risk Factors" in Part I, Item 1A in our Annual Report on Form 10-K for the year ended March 31, 2011.

Item 6. *Exhibits*

Exhibit No.	Description
2.1	Arrangement Agreement by and among Hindalco Industries Limited, AV Aluminum Inc. and Novelis Inc., dated as of February 10, 2007 (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on February 13, 2007) (File No. 001-32312))
3.1	Restated Certificate and Articles of Amalgamation of Novelis Inc. (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 8-K filed on November 10, 2010 (File No. 001-32312))
3.2	Novelis Inc. Amended and Restated Bylaws, adopted as of July 24, 2008 (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on July 25, 2008 (File No. 001-32312))
10.1*	Novelis 2012 Long-term Incentive Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 26, 2011 (File No. 001-32312).
10.2*	Novelis 2012 Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 26, 2011 (File No. 001-32312).
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Lable Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NOVELIS INC.

By: /s/ Steven Fisher
Steven Fisher
Chief Financial Officer
(Principal Financial Officer and
Authorized Officer)

By /s/ Robert P. Nelson
Robert P. Nelson
Vice President Finance — Controller
(Principal Accounting Officer)

Date: August 9, 2011

EXHIBIT INDEX

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

* Indicates a management contract or compensatory plan or arrangement.

Exhibit 31.1

Certification

I, Philip Martens, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novelis Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Philip Martens
Philip Martens
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2011

Exhibit 31.2

Certification

I, Steven Fisher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novelis Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Steven Fisher

Steven Fisher
Chief Financial Officer
(Principal Financial Officer)

Date: August 9, 2011

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Novelis Inc. (the Company), hereby certifies that the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Philip Martens
Philip Martens
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2011

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this Report.

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Novelis Inc. (the Company), hereby certifies that the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Steven Fisher
Steven Fisher
Chief Financial Officer
(Principal Financial Officer)

Date: August 9, 2011

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this Report.