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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 December 31, 2007

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	**98-0442987**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification number)*
3399 Peachtree Road NE, Suite 1500 Atlanta, Georgia	**30326**
(Address of principal executive offices)	*(Zip Code)*

Telephone: (404) 814-4200
(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 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 þ Accelerated filer o Non-accelerated filer o 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 January 31, 2008, the registrant had 77,459,658 common shares outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Novelis Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (unaudited)
(in millions, except per share amounts)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Net sales	$ 2,735	$ 2,472	$ 7,103	$ 1,281	$ 7,530
Cost of goods sold (exclusive of depreciation and amortization shown below)	2,475	2,386	6,466	1,205	7,182
Selling, general and administrative expenses	99	117	229	95	318
Depreciation and amortization	105	59	260	28	175
Research and development expenses	11	11	34	6	31
Interest expense and amortization of debt issuance costs — net	47	57	128	26	158
(Gain) loss on change in fair value of derivative instruments — net	50	(5)	72	(20)	(9)
Equity in net (income) loss of non-consolidated affiliates	4	(4)	9	(1)	(13)
Sale transaction fees	—	—	—	32	—
Other (income) expenses — net	(11)	(9)	(7)	4	(6)
	2,780	2,612	7,191	1,375	7,836
Income (loss) before provision (benefit) for taxes on income (loss) and minority interests' share	(45)	(140)	(88)	(94)	(306)
Provision (benefit) for taxes on income (loss)	4	(34)	4	4	(106)
Income (loss) before minority interests' share	(49)	(106)	(92)	(98)	(200)
Minority interests' share	—	1	2	1	(1)
Net income (loss)	(49)	(105)	(90)	(97)	(201)
Other comprehensive income (loss) — net of tax					
Currency translation adjustment	40	63	68	35	131
Change in fair value of effective portion of hedges — net	—	(16)	2	(1)	(39)
Postretirement benefit plans Amortization of net actuarial loss	—	—	—	(1)	—
Change in minimum pension liability	—	16	—	—	12
Other comprehensive income (loss) — net of tax	40	63	70	33	104
Comprehensive income (loss)	$ (9)	$ (42)	$ (20)	$ (64)	$ (97)
Dividends per common share	$ 0.00	$ 0.01	$ 0.00	$ 0.00	$ 0.11

The accompanying notes are an integral part of these condensed consolidated financial statements.

Novelis Inc.

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

	As of	
	December 31, 2007 *Successor*	March 31, 2007 *Predecessor*
ASSETS		
Current assets		
Cash and cash equivalents	$ 133	$ 128
Accounts receivable (net of allowances of $1 as of December 31, 2007 and $29 as of March 31, 2007)		
— third parties	1,335	1,350
— related parties	29	25
Inventories	1,441	1,483
Prepaid expenses and other current assets	48	39
Current portion of fair value of derivative instruments	54	92
Deferred income tax assets	6	19
Total current assets	3,046	3,136
Property, plant and equipment — net	3,372	2,106
Goodwill	2,174	239
Intangible assets — net	873	20
Investment in and advances to non-consolidated affiliates	920	153
Fair value of derivative instruments — net of current portion	10	55
Deferred income tax assets	7	102
Other long-term assets		
— third parties	92	105
— related parties	42	54
Total assets	$ 10,536	$ 5,970
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Current portion of long-term debt	$ 14	$ 143
Short-term borrowings	245	245
Accounts payable		
— third parties	1,323	1,614
— related parties	60	49
Accrued expenses and other current liabilities	881	480
Deferred income tax liabilities	70	73
Total current liabilities	2,593	2,604
Long-term debt — net of current portion	2,559	2,157
Deferred income tax liabilities	685	103
Accrued postretirement benefits	413	427
Other long-term liabilities	659	352
	6,909	5,643
Commitments and contingencies		
Minority interests in equity of consolidated affiliates	150	152
Shareholder's equity		
Common stock, no par value; unlimited number of shares authorized; 77,459,658 and 75,357,660 shares issued and outstanding as of December 31, 2007 and March 31, 2007, respectively	—	—
Additional paid-in capital	3,497	428
Accumulated deficit	(90)	(263)
Accumulated other comprehensive income (loss)	70	10
Total shareholder's equity	3,477	175
Total liabilities and shareholder's equity	$ 10,536	$ 5,970

The accompanying notes are an integral part of these condensed consolidated financial statements.

Novelis Inc.

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

	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Predecessor*
OPERATING ACTIVITIES			
Net income (loss)	$ (90)	$ (97)	$ (201)
Adjustments to determine net cash provided by (used in) operating activities:			
Depreciation and amortization	260	28	175
(Gain) loss on change in fair value of derivative instruments — net	72	(20)	(9)
Deferred income taxes	(46)	(18)	(159)
Amortization of debt issuance costs	8	1	11
Write-off and amortization of fair value adjustments — net	(156)	—	—
Provision for uncollectible accounts receivable	1	—	2
Equity in net (income) loss of non-consolidated affiliates	9	(1)	(13)
Dividends from non-consolidated affiliates	—	4	5
Minority interests' share	(2)	(1)	1
Share-based compensation	—	—	8
(Gain) loss on sales of businesses, investments and assets — net	—	—	(20)
Changes in assets and liabilities (net of effects from acquisitions and divestitures):			
Accounts receivable			
— third parties	76	(21)	(55)
— related parties	1	—	2
Inventories	190	(76)	(66)
Prepaid expenses and other current assets	(1)	(7)	40
Other long-term assets	(4)	(1)	7
Accounts payable			
— third parties	(260)	(62)	235
— related parties	7	—	3
Accrued expenses and other current liabilities	(53)	42	(65)
Accrued postretirement benefits	2	1	(37)
Other long-term liabilities	17	(2)	57
Net cash provided by (used in) operating activities	31	(230)	(79)
INVESTING ACTIVITIES			
Capital expenditures	(120)	(17)	(95)
Proceeds from sales of assets	4	—	36
Changes to investment in and advances to non-consolidated affiliates	5	1	1
Proceeds from loans receivable — net — related parties	12	—	30
Net proceeds from settlement of derivative instruments	56	18	167
Net cash provided by (used in) investing activities	(43)	2	139
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	92	—	—
Proceeds from issuance of debt	1,100	150	41
Principal repayments	(1,005)	(1)	(241)
Short-term borrowings — net	(103)	60	97
Dividends			
— common shareholders	—	—	(8)
— minority interests	(1)	(7)	(2)
Net receipts from Alcan	—	—	5
Debt issuance costs	(37)	(2)	(10)
Proceeds from the exercise of stock options	—	1	2
Net cash provided by (used in) financing activities	46	201	(116)
Net increase (decrease) in cash and cash equivalents	34	(27)	(56)
Effect of exchange rate changes on cash balances held in foreign currencies	(3)	1	5
Cash and cash equivalents — beginning of period	102	128	124
Cash and cash equivalents — end of period	$ 133	$ 102	$ 73
Supplemental disclosures of cash flow information:			
Interest paid	$ 122	$ 13	$ 125
Income taxes paid	50	9	56
Supplemental schedule of non-cash investing and financing activities related to the Acquisition of Novelis Common Stock (Note 2):			
Property, plant and equipment	$ (1,346)		
Goodwill	(1,933)		
Intangible assets	(883)		
Investment in and advances to non-consolidated affiliates	(775)		
Debt	70		
Supplemental schedule of non-cash investing and financing activities related to the spin-off transaction and post closing adjustments:			
Additional paid-in capital			$ (43)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Novelis Inc.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Predecessor:						
Balance as of March 31, 2007	75,357,660	$ —	$ 428	$ (263)	$ 10	$ 175
Activity April 1, 2007 Through May 15, 2007						
Net loss	—	—	—	(97)	—	(97)
Issuance of common stock from the exercise of stock options	57,876	—	1	—	—	1
Conversion of share-based compensation plans from equity-based plans to liability-based plans	—	—	(7)	—	—	(7)
Currency translation adjustment	—	—	—	—	35	35
Change in fair value of effective portion of hedges — net	—	—	—	—	(1)	(1)
Postretirement benefit plans						
Amortization of net actuarial loss	—	—	—	—	(1)	(1)
Balance as of May 15, 2007	75,415,536	$ —	$ 422	$ (360)	$ 43	$ 105
Successor:						
Balance as of May 16, 2007	75,415,536	$ —	$ 3,405	$ —	$ —	$ 3,405
Activity May 16, 2007 Through December 31, 2007						
Net loss	—	—	—	(90)	—	(90)
Issuance of common stock	2,044,122	—	92	—	—	92
Currency translation adjustment	—	—	—	—	68	68
Change in fair value of effective portion of hedges — net	—	—	—	—	2	2
Balance as of December 31, 2007	77,459,658	$ —	$ 3,497	$ (90)	$ 70	$ 3,477

The accompanying notes are an integral part of these 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 as both Predecessor and Successor (as defined below) unless the context specifically indicates otherwise. References herein to "Hindalco" refer to Hindalco Industries Limited. References herein to "Alcan" refer to Rio Tinto Alcan Inc.

Change in Fiscal Year End

On June 26, 2007, our board of directors approved the change of our fiscal year end to March 31 from December 31. On June 28, 2007, we filed a Transition Report on Form 10-Q for the three month period ended March 31, 2007 with the United States Securities and Exchange Commission (SEC) pursuant to Rule 13a-10 of the Securities Exchange Act of 1934 for transition period reporting. Accordingly, these unaudited condensed consolidated financial statements are presented on the basis of our new fiscal year end of March 31.

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 construction and industrial, beverage and food cans, foil products and transportation markets. As of December 31, 2007, we had operations on four continents: North America; Europe; Asia and South America, through 33 operating plants and three research facilities in 11 countries. In addition to aluminum rolled products plants, our South American businesses include bauxite mining, alumina refining, primary aluminum smelting and power generation facilities that are integrated with our rolling plants in Brazil.

These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated and combined financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on March 1, 2007, as amended on April 30, 2007. These unaudited condensed consolidated financial statements have been prepared pursuant to SEC Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made herein are adequate to make the information not misleading.

The unaudited condensed consolidated statement of operations and comprehensive income (loss) and statement of cash flows for the nine months ended December 31, 2006 have been derived from the audited consolidated financial statements included in our previously filed Annual Report on Form 10-K for the year ended December 31, 2006 and from the unaudited condensed consolidated financial statements included in our previously filed Quarterly Report on Form 10-Q for the period ended March 31, 2006, as such nine month period was not previously reported.

Predecessor and Successor Reporting

Our acquisition by Hindalco (see Note 2 — Acquisition of Novelis Common Stock) was recorded in accordance with Staff Accounting Bulletin No. 103, *Push Down Basis of Accounting Required in Certain Limited Circumstances.* In the accompanying December 31, 2007 condensed consolidated balance sheet, the consideration and related costs paid by Hindalco in connection with the acquisition have been "pushed down" to us and have been allocated to the assets acquired and liabilities assumed in accordance with Financial Accounting Standards Board (FASB) Statement No. 141, *Business Combinations*. Due to the impact of push down accounting, the Company's condensed consolidated financial statements and certain note presentations

Novelis Inc.

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

for the nine months ended December 31, 2007 are presented in two distinct periods to indicate the application of different bases of accounting between the periods presented: (1) the period up to, and including, the acquisition date (April 1, 2007 through May 15, 2007, labeled "Predecessor") and (2) the period after that date (May 16, 2007 through December 31, 2007, labeled "Successor"). The accompanying unaudited condensed consolidated financial statements include a black line division which indicates that the Predecessor and Successor reporting entities shown are not comparable.

The unaudited results of operations for the interim periods shown in these condensed consolidated financial statements, including the periods shown as Predecessor and Successor, are not necessarily indicative of operating results for the entire fiscal year. In the opinion of management, the accompanying unaudited condensed consolidated financial statements recognize all adjustments of a normal recurring nature considered necessary to fairly state our consolidated financial position, results of operations, cash flows and changes in shareholder's equity for the periods presented.

Change in Impairment Testing Date

During the quarter ended December 31, 2007, we changed our method of applying FASB Statement No. 142, *Goodwill and Other Intangible Assets* by changing the date of our annual testing for goodwill impairment from October 31 to the last day in February of each year. We believe the change is preferable in the circumstances due to (1) the change in our fiscal year end from December 31 to March 31 and (2) our normal business process for updating the Company's annual and strategic plans, which we finalize each year during our fourth fiscal quarter. This change had no impact on our consolidated financial position, results of operations or cash flows.

Reclassifications and Revisions

Certain reclassifications of prior periods' amounts and presentation have been made to conform to the presentation adopted for the current periods. The following reclassifications and presentation changes were made to the prior periods' condensed consolidated statements of operations to conform to the current period presentation: (a) the amounts previously presented in *Restructuring charges — net* and *Impairment charges on long-lived assets* were reclassified to *Other (income) expenses — net* and (b) *Gain (loss) on change in fair value of derivative instruments — net* and *Sale transaction fees* were reclassified from *Other (income) expenses — net* to separate line items. These reclassifications have no effect on total assets, total shareholder's equity, net loss or cash flows as previously presented.

As a result of the acquisition by Hindalco, and based on the way our President and Chief Operating Officer (our chief operating decision-maker) reviews the results of segment operations, during the quarter ended June 30, 2007, we changed our segment performance measure to Segment Income, as defined in Note 18 — Segment and Major Customer Information.

Recently Issued Accounting Standards

In December 2007, the FASB issued FASB Statement No. 141 (Revised), *Business Combinations*, ("FASB Statement No. 141(R)") which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FASB Statement No. 141(R) also requires acquirers to estimate the acquisition-date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. We will be required to apply this new standard prospectively to business

combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. FASB Statement No. 141(R) amends certain provisions of FASB Statement No. 109, *Accounting for Income Taxes*, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of FASB Statement No. 141(R) would also apply the provisions of FASB Statement No. 141(R). Early adoption is prohibited. We are currently evaluating the effects that FASB Statement No. 141(R) may have on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within shareholder's equity, but separate from the parent's equity, (ii) the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations, and (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. FASB Statement No. 160 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. We have not yet commenced evaluating the potential impact, if any, of the adoption of FASB Statement No. 160 on our consolidated financial position, results of operations and cash flows.

In April 2007, the FASB issued Staff Position No. FIN 39-1, *Amendment of FASB Interpretation No 39*, (FSP FIN 39-1). FSP FIN 39-1 amends FASB Statement No. 39, *Offsetting of Amounts Related to Certain Contracts*, by permitting entities that enter into master netting arrangements as part of their derivative transactions to offset in their financial statements net derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007. We have not yet commenced evaluating the potential impact, if any, of the adoption of FSP FIN 39-1 on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. FASB Statement No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company's choice to use fair value on its earnings. FASB Statement No. 159 also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. FASB Statement No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments.* FASB Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We have not yet commenced evaluating the potential impact, if any, of the adoption of FASB Statement No. 159 on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently

evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

We have determined that all other recently issued accounting pronouncements will not have a material impact on our consolidated financial position, results of operations and cash flows, or do not apply to our operations.

2. Acquisition of Novelis Common Stock

On May 15, 2007, the Company was acquired by Hindalco through its indirect wholly-owned subsidiary AV Metals Inc. (Acquisition Sub) pursuant to a plan of arrangement (Arrangement) entered into on February 10, 2007 and approved by the Ontario Superior Court of Justice on May 14, 2007. As a result of the Arrangement, Acquisition Sub acquired all of the Company's outstanding common shares at a price of $44.93 per share, and all outstanding stock options and other equity incentives were terminated in exchange for cash payments. The aggregate purchase price for the Company's common shares was $3.4 billion and immediately following the Arrangement, the common shares of the Company were transferred from Acquisition Sub to its wholly-owned subsidiary AV Aluminum Inc. (AV Aluminum). Hindalco also assumed $2.8 billion of Novelis' debt for a total transaction value of $6.2 billion.

On June 22, 2007, we issued 2,044,122 additional common shares to AV Aluminum for $44.93 per share resulting in an additional equity contribution of approximately $92 million. This contribution was equal in amount to certain payments made by Novelis related to change in control compensation to certain employees and directors, lender fees and other transaction costs incurred by the Company. As this transaction was approved by Hindalco and the Company and executed subsequent to the Arrangement, the $92 million is not included in the determination of total consideration.

Purchase Price Allocation and Goodwill

As a result of the Arrangement, the consideration and transaction costs paid by Hindalco in connection with the transaction have been "pushed down" to us and have been allocated to the assets acquired and liabilities assumed in accordance with FASB Statement No. 141. The following table summarizes total consideration paid under the Arrangement (in millions).

Purchase of all outstanding 75,415,536 shares at $44.93 per share	$ 3,388
Direct transaction costs incurred by Hindalco	17
Total consideration	$ 3,405

In accordance with FASB Statement No. 141, during our quarter ended June 30, 2007 we allocated total consideration ($3.405 billion) to the assets acquired and liabilities assumed based on our initial estimates of fair value using methodologies and assumptions that we believed were reasonable. During our quarter ended December 31, 2007, we revised our initial allocation of the total consideration to identifiable assets and liabilities based on refined estimates. The revised valuation, which is still preliminary, decreased the amount allocated to goodwill by $164 million from our initial estimates. The decrease is primarily due to our revised assessment of the valuation of the acquired tangible and intangible assets, the allocation of fair value to our reporting units, remeasurement of postretirement benefits and the income tax implications of the new basis of accounting triggered by the Arrangement.

Novelis Inc.

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

The following table presents a summary of our revised and initial allocations of total consideration to assets acquired and liabilities assumed at the date of the Arrangement (in millions).

	Revised	Initial
Assets acquired:		
Current assets	$ 3,210	$ 3,210
Property, plant and equipment	3,452	3,350
Goodwill	2,177	2,341
Intangible assets	903	879
Investment in and advances to non-consolidated affiliates	927	762
Fair value of derivative instruments — net of current portion	3	3
Deferred income tax assets	111	117
Other long-term assets	110	110
Total assets acquired	10,893	10,772
Liabilities assumed:		
Accounts payable	(1,612)	(1,612)
Accrued expenses and other current liabilities	(738)	(738)
Debt, including current portion and short-term borrowings	(2,824)	(2,824)
Deferred income tax liabilities, including current portion	(1,025)	(874)
Accrued postretirement benefits	(400)	(430)
Other long-term liabilities	(736)	(736)
Minority interests in equity of consolidated affiliates	(153)	(153)
Total liabilities assumed	(7,488)	(7,367)
Total consideration	$ 3,405	$ 3,405

The goodwill resulting from the Arrangement reflects the value of our in-place workforce, deferred income taxes associated with the fair value adjustments and potential synergies. The majority of the push down adjustments, including goodwill, did not impact our cash flows and were not deductible for income tax purposes.

The revised allocation shown above includes a total of $685 million for the fair value of liabilities associated with unfavorable sales contracts ($371 million included in *Other long-term liabilities* and $314 million included in *Accrued expenses and other liabilities*). Of this amount, $655 million relates to unfavorable sales contracts in North America. These contracts include a ceiling over which metal purchase costs cannot contractually be passed through to certain customers, unless adjusted. Subsequent to the Arrangement, the fair values of these liabilities are credited to *Net sales* over the remaining lives of the underlying contracts. The reduction of these liabilities does not affect our cash flows.

Intangible assets include (1) $124 million for a favorable energy supply contract in North America, recorded at its estimated fair value, (2) $15 million for other favorable supply contracts in Europe and (3) $9 million for the estimated value of acquired in-process research and development projects that had not yet reached technological feasibility. In accordance with FASB Statement No. 141, the $9 million of acquired in-process research and development was expensed upon acquisition and charged to *Research and development expenses* in the period from May 16, 2007 through December 31, 2007.

Novelis Inc.

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

To estimate fair values, we considered a number of factors, including the application of multiples to discounted cash flow estimates. There is considerable management judgment with respect to cash flow estimates and appropriate multiples used in determining fair value. Certain amounts are subject to change as remaining information on the fair values is received and valuation analyses are finalized. Specifically, we continue to evaluate the valuation and useful lives of the acquired tangible and intangible assets, postretirement benefits and the income tax implications of the new basis of accounting triggered by the Arrangement. These final valuations and other studies will be performed by Hindalco and Novelis, and the final fair values and allocations may differ materially from our revised preliminary estimates shown above. We expect to complete our final allocation of the total consideration before March 31, 2008.

We incurred a total of $64 million in fees and expenses related to the Arrangement, of which $32 million was incurred in each of the periods from April 1, 2007 through May 15, 2007 and the three months ended March 31, 2007. These fees and expenses are included in *Sale transaction fees* in our condensed consolidated statements of operations.

Unaudited Condensed Consolidated Pro Forma Results

The unaudited condensed consolidated pro forma results of operations provided below for the three and nine month periods ended December 31, 2007 and 2006 are presented as though the Arrangement had occurred at the beginning of each of the nine months ended December 31, 2007 and 2006, after giving effect to purchase accounting adjustments related to depreciation and amortization of the revalued assets and liabilities, interest expense and other acquisition related adjustments in connection with the Arrangement. The pro forma results include estimates and assumptions that management believes are reasonable. However, pro forma results are not necessarily indicative of the results that would have occurred if the acquisition had been in effect on the dates indicated, or which may result in future periods.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Net sales	$ 2,727	$ 2,544	$ 8,417	$ 7,777
Loss before provision for taxes and minority interests’ share	$ (57)	$ (137)	$ (179)	$ (279)
Net income (loss)	$ (61)	$ (102)	$ (184)	$ (174)

3. Restructuring Programs

We recognized $1 million, $2 million, and $1 million in restructuring costs during the three months ended December 31, 2007, the period from May 16, 2007 through December 31, 2007 and the period from April 1, 2007 through May 15, 2007, respectively, relating primarily to restructuring actions begun during 2006 in two of our European facilities. There were $1 million in other exit related reserves attributable to foreign currency translation for each of the three months ended December 31, 2007 and the period from April 1, 2007 through May 15, 2007.

Novelis Inc.

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

All restructuring provisions and recoveries are included in *Other (income) expenses — net* in the accompanying condensed consolidated statements of operations unless otherwise stated. The following table summarizes the activity in our restructuring liabilities (all of which relate to our Europe operating segment) (in millions).

	Europe		
	Severance Reserves	Other Exit Related Reserves	Total Restructuring Reserves
Predecessor:			
Balance as of March 31, 2007	$ 18	$ 18	$ 36
April 1, 2007 through May 15, 2007 Activity:			
Provisions — net	1	—	1
Cash payments	—	(1)	(1)
Adjustments — other	—	1	1
Balance as of May 15, 2007	19	18	37
Successor:			
May 16, 2007 through June 30, 2007 Activity:			
Provisions — net	1	—	1
Cash payments	(2)	(1)	(3)
Balance as of June 30, 2007	18	17	35
July 1, 2007 to September 30, 2007 Activity:			
Cash payments	(5)	(1)	(6)
Balance as of September 30, 2007	13	16	29
October 1, 2007 through December 31, 2007 Activity:			
Provisions — net	1	—	1
Cash payments	(3)	(1)	(4)
Adjustments — other	—	1	1
Balance as of December 31, 2007	$ 11	$ 16	$ 27

4. Inventories

Inventories consist of the following (in millions).

	As of	
	December 31, 2007 *Successor*	March 31, 2007 *Predecessor*
Finished goods	$ 366	$ 359
Work in process	556	412
Raw materials	445	614
Supplies	76	120
	1,443	1,505
Allowances	(2)	(22)
Inventories	$ 1,441	$ 1,483

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED
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5. Property, Plant and Equipment

Property, plant and equipment — net consists of the following (in millions).

	As of	
	December 31, 2007 *Successor*	March 31, 2007 *Predecessor*
Land and property rights	$ 254	$ 97
Buildings	838	895
Machinery and equipment	2,376	4,699
	3,468	5,691
Accumulated depreciation and amortization	(217)	(3,674)
	3,251	2,017
Construction in progress	121	89
Property, plant and equipment — net	$ 3,372	$ 2,106

Depreciation and amortization expense related to property, plant and equipment is shown in the table below (in millions).

	Three Months Ended December 31, 2007 *Successor*	Three Months Ended December 31, 2006 *Predecessor*	May 16, 2007 Through December 31, 2007 *Successor*	April 1, 2007 Through May 15, 2007 *Predecessor*	Nine Months Ended December 31, 2006 *Predecessor*
Depreciation expense related to property, plant and equipment	$ 94	$ 58	$ 235	$ 28	$ 173

6. Goodwill and Intangible Assets

Goodwill

The following table summarizes the balances and activity in goodwill by operating segment (in millions).

	Successor			*Predecessor*		
Operating Segment	**Balance as of May 16, 2007**	**Adjustments (A)**	**Balance as of December 31, 2007**	**Balance as of March 31, 2007**	**Cumulative Translation Adjustment**	**Balance as of May 15, 2007**
North America	$ 1,527	$ (414)	$ 1,113	$ —	$ —	$ —
Europe	389	411	800	239	5	244
Asia	162	(162)	—	—	—	—
South America	263	(2)	261	—	—	—
	$ 2,341	$ (167)	$ 2,174	$ 239	$ 5	$ 244

(A) These adjustments include $164 million related to the revision of our initial estimates of fair value and allocation of the total consideration to assets acquired and liabilities assumed in connection with our acquisition by Hindalco recorded during the quarter ended December 31, 2007. See Note 2 — Acquisition of Novelis Common Stock.

Novelis Inc.

NOTES TO THE CONDENSED CONSOLIDATED
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Intangible Assets

The following table summarizes the components of intangible assets (in millions).

	As of							
	December 31, 2007 *Successor*				March 31, 2007 *Predecessor*			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Life
Tradename	$ 146	$ (4)	$ 142	20 years	$ 14	$ (6)	$ 8	15 years
Technology	167	(7)	160	15 years	20	(8)	12	15 years
Customer relationships	461	(14)	447	20 years	—	—	—	
Favorable energy supply contract	123	(9)	114	9.5 years	—	—	—	
Other favorable contracts	15	(5)	10	3.3 years	—	—	—	
	$ 912	$ (39)	$ 873	17.3 years	$ 34	$ (14)	$ 20	15 years

Our favorable energy supply contract and other favorable contracts are amortized over their estimated useful lives using methods that reflect the pattern in which the economic benefits are expected to be consumed. All other intangible assets are amortized using the straight-line method.

Amortization expense related to intangible assets is shown in the table below (in millions) and includes $6 million and $14 million included in *Cost of goods sold* related to favorable energy supply and other favorable contracts for the three months ended December 31, 2007 and for the period from May 16, 2007 through December 31, 2007, respectively.

	Three Months Ended December 31,		May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	2007 *Successor*	2006 *Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Total Amortization expense related to intangible assets	$ 17	$ 1	$ 39	$ —	$ 2
Less: Amortization expense related to intangible assets included in *Cost of goods sold*	(6)	—	(14)	—	—
Amortization expense related to intangible assets included in *Depreciation and amortization*	$ 11	$ 1	$ 25	$ —	$ 2

Estimated total amortization expense related to intangible assets for the remainder of fiscal 2008 and each of the five succeeding fiscal years is shown in the table below (in millions). Actual amounts may differ from these estimates due to such factors as raw material consumption patterns, impairments, additional intangible asset acquisitions, remeasurement of amounts valued in foreign currencies and other events.

Fiscal Year Ending March 31,	
2008 (remaining three months)	$ 16
2009	61
2010	59
2011	55
2012	54
2013	54

7. Investment in and Advances to Non-Consolidated Affiliates and Related Party Transactions

The following table summarizes the ownership structure and our ownership percentage of the non-consolidated affiliates in which we have an investment as of December 31, 2007 and which we account for using the equity method. We have no material investments that we account for using the cost method.

Affiliate Name	Ownership Structure	Ownership Percentage
Aluminium Norf GmbH	Corporation	50%
Consorcio Candonga	Unincorporated Joint Venture	50%
MiniMRF LLC	Limited Liability Company	50%
Deutsche Aluminium Verpackung Recycling GmbH	Corporation	30%
France Aluminium Recyclage S.A.	Public Limited Company	20%

In September 2007, we completed the dissolution of EuroNorca Partners, and we received approximately $2 million in the completion of liquidation proceedings. No gain or loss was recognized on the liquidation.

In November 2006, we sold the common and preferred shares of our 25% interest in Petrocoque S.A. Industria e Comercio (Petrocoque) to the other shareholders of Petrocoque. Prior to the sale, we accounted for Petrocoque using the equity method of accounting. The results of operations of Petrocoque through the date of sale for the three and nine month periods ended December 31, 2006 are included in the table below.

Novelis Inc.

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

We do not control our non-consolidated affiliates, but have the ability to exercise significant influence over their operating and financial policies. The following table summarizes (on a 100% basis, in millions) the condensed and combined results of operations of our equity method affiliates, on a historical basis of accounting. These results do not include the incremental depreciation and amortization expense that we record in our equity method accounting, which arises as a result of the amortization of fair value adjustments we made to our investments in non-consolidated affiliates due to the Arrangement. For the three months ended December 31, 2007 and the period from May 16, 2007 through December 31, 2007, we recorded incremental depreciation and amortization expense of $15 million and $26 million, respectively, as part of our equity method accounting for these affiliates.

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Net sales	$ 161	$ 138	$ 384	$ 45	$ 426
Costs, expenses and provisions for taxes on income	168	129	379	43	397
Net income (loss)	$ (7)	$ 9	$ 5	$ 2	$ 29

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. The following table describes the nature and amounts of significant transactions that we had with related parties (in millions).

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Purchases of tolling services and electricity					
Aluminium Norf GmbH(A)	$ 77	$ 57	$ 182	$ 21	$ 175
Consorcio Candonga(B)	$ 4	$ 4	$ 9	$ 1	$ 11
Petrocoque(C)	n.a.	$ —	n.a.	$ —	$ 1
Interest income					
Aluminium Norf GmbH(D)	$ —	$ —	$ —	$ —	$ 1

n.a. not applicable — see (C).

(A) We purchase tolling services (the conversion of customer-owned metal) from Aluminium Norf GmbH.

(B) We purchase electricity from Consorcio Candonga for our operations in South America.

(C) We purchase calcined-coke from Petrocoque for use in our smelting operation in South America. As previously discussed, we sold our interest in Petrocoque in November 2006. They are not considered a related party subsequent to the quarter ended December 31, 2006.

(D) We earn interest income on a loan due from Aluminium Norf GmbH.

Novelis Inc.

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

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

	As of	
	December 31, 2007 *Successor*	March 31, 2007 *Predecessor*
Accounts receivable(A)	$ 29	$ 25
Other long-term receivables(A)	$ 42	$ 54
Accounts payable(B)	$ 60	$ 49

(A) The balances represent current and non-current portions of a loan due from Aluminium Norf GmbH.

(B) We purchase tolling services from Aluminium Norf GmbH and electricity from Consorcio Candonga.

8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are comprised of the following (in millions).

	As of	
	December 31, 2007 *Successor*	March 31, 2007 *Predecessor*
Accrued compensation and benefits	$ 122	$ 138
Accrued settlement of legal claim	39	39
Accrued interest payable	41	24
Accrued income taxes	75	9
Current portion of unfavorable sales contracts	251	—
Current portion of fair value of derivative instruments	112	33
Other current liabilities	241	237
Accrued expenses and other current liabilities	$ 881	$ 480

Novelis Inc.

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

9. Debt

Debt consists of the following (in millions).

	As of December 31, 2007 *Successor*				March 31, 2007 *Predecessor*
	Interest Rates (A)	Principal	Unamortized Fair Value Adjustments(B)	Carrying Value	Principal
Novelis Inc.					
Floating rate Term Loan facility, due July 2014	6.83%	$ 298	$ —	$ 298	$ —
Floating rate Term Loan B(D)	—	—	—	—	259
7.25% Senior Notes, due February 2015	7.25%	1,399	69	1,468	1,400
Novelis Corporation					
Floating rate Term Loan facility, due July 2014	6.83%(C)	657	—	657	—
Floating rate Term Loan B(D)	—	—	—	—	449
Novelis Switzerland S.A.					
Capital lease obligation, due January 2020 (Swiss francs (CHF) 54 million)	7.50%	48	(4)	44	46
Capital lease obligation, due August 2011 (CHF 3 million)	2.49%	3	—	3	4
Novelis Korea Limited					
Bank loan, due October 2010	5.44%	100	—	100	—
Bank loan, due December 2007(F)	—	—	—	—	70
Bank loan (Korean won (KRW) 40 billion)(E)	—	—	—	—	42
Bank loan, due December 2007 (KRW 25 billion)(F)	—	—	—	—	27
Bank loans, due September 2008 through June 2011 (KRW 1 billion)	3.63%(G)	1	—	1	1
Other					
Other debt, due April 2008 through December 2012	2.21%(G)	2	—	2	2
Total debt		2,508	65	2,573	2,300
Less: current portion		(14)	—	(14)	(143)
Long-term debt — net of current portion		$ 2,494	$ 65	$ 2,559	$ 2,157

(A) Interest rates are as of December 31, 2007 and exclude the effects of accretion/amortization of fair value adjustments as a result of the Arrangement.

(B) Debt was recorded at fair value as a result of the Arrangement (see Note 2 — Acquisition of Novelis Common Stock).

(C) Excludes the effect of any related interest rate swaps. See *New Senior Secured Credit Facilities*.

(D) The Floating rate Term Loan B was refinanced in July 2007. See *New Senior Secured Credit Facilities*.

(E) The Bank loan was refinanced in August 2007 with a short-term borrowing. See *Korean Bank Loans*.

(F) These two Bank loans were refinanced in October 2007. See *Korean Bank Loans*.

(G) Weighted average interest rate.

New Senior Secured Credit Facilities

On May 25, 2007, we entered into a Bank and Bridge Facilities Commitment with affiliates of UBS and ABN AMRO, to provide backstop assurance for the refinancing of our existing indebtedness following the Arrangement. The commitments from UBS and ABN AMRO, provided by the banks on a 50%-50% basis, consisted of the following: (1) a senior secured term loan of up to $1.06 billion; (2) a senior secured asset-based revolving credit facility of up to $900 million and (3) a commitment to issue up to $1.2 billion of unsecured senior notes, if necessary. The commitment contained terms and conditions customary for facilities of this nature.

In connection with these backstop commitments, we paid fees totaling $14 million, which were included in *Other long-term assets — third parties* as of June 30, 2007. Of this amount, $6 million was related to the unsecured senior notes, which were not refinanced, and was written off during the quarter ended September 30, 2007. The remaining $8 million in fees paid have been credited by the lenders towards fees associated with the new senior secured credit facilities (described below) and will be amortized over the lives of the related borrowings.

On July 6, 2007, we entered into new senior secured credit facilities with a syndicate of lenders led by affiliates of UBS and ABN AMRO (New Credit Facilities) providing for aggregate borrowings of up to $1.76 billion. The New Credit Facilities consist of (1) a $960 million seven-year Term Loan facility (Term Loan facility) and (2) an $800 million five year multi-currency asset-based revolving credit line and letter of credit facility (ABL facility).

Under the Term Loan facility, loans characterized as alternate base rate (ABR) borrowings bear interest annually at a rate equal to the alternate base rate (which is the greater of (a) the base rate in effect on a given day and (b) the federal funds effective rate in effect on a given day, plus 0.50%) plus the applicable margin, and loans characterized as Eurocurrency borrowings bear interest at an annual rate equal to the adjusted LIBOR rate for the interest period in effect, plus the applicable margin.

Under the ABL facility, interest charged is dependent on the type of loan: (1) any swingline loan or any loan categorized as an ABR borrowing will bear interest at an annual rate equal to the alternate base rate (which is the greater of (a) the base rate in effect on a given day and (b) the federal funds effective rate in effect on a given day, plus 0.50%), plus the applicable margin; (2) Eurocurrency loans will bear interest at an annual rate equal to the adjusted LIBOR rate for the applicable interest period, plus the applicable margin; (3) loans designated as Canadian base rate borrowings will bear an annual interest rate equal to the Canadian base rate (CAPRIME), plus the applicable margin; (4) loans designated as bankers acceptances (BA) rate loans will bear interest at the average discount rate offered for bankers' acceptances for the applicable BA interest period, plus the applicable margin and (5) loans designated as Euro Interbank Offered Rate (EURIBOR) loans will bear interest annually at a rate equal to the adjusted EURIBOR rate for the applicable interest period, plus the applicable margin. Applicable margins under the ABL facility depend upon excess availability levels calculated on a quarterly basis.

Generally, for both the Term Loan facility and ABL facility, interest rates reset every three months and interest is payable on a monthly, quarterly or other periodic basis depending on the type of loan.

The proceeds from the Term Loan facility of $960 million, drawn in full at the time of closing, and the initial draw of $324 million under the ABL facility were used to pay off the existing senior secured credit facility (discussed below), pay for debt issuance costs of the New Credit Facilities and provide for additional working capital. Mandatory minimum principal amortization payments under the Term Loan facility are $2.4 million per calendar quarter. The first mandatory minimum principal amortization payment was made on September 28, 2007. Additional mandatory prepayments are required to be made in the event of certain collateral liquidations, asset sales, debt and preferred stock issuances, equity issuances, casualty events and

excess cash flow (as defined in the New Credit Facilities). Any unpaid principal remaining is due in full on July 6, 2014.

Borrowing limits under the ABL facility are generally based on 85% of eligible accounts receivable and 75% to 85% of eligible inventories. Commitment fees of 0.25% to 0.375% are based on average daily amounts outstanding under the ABL facility during a fiscal quarter, and are payable quarterly.

The New Credit Facilities include customary affirmative and negative covenants. Under the ABL facility, if our excess availability, as defined under the borrowing, is less than 10% of the borrowing base, we are required to maintain a minimum fixed charge coverage ratio of 1 to 1. Substantially all of our assets are pledged as collateral under the New Credit Facilities.

We incurred debt issuance costs on our New Credit Facilities totaling $32 million, including the $8 million in fees previously paid in conjunction with the backstop commitment. These fees are included in *Other long-term assets — third parties* and are being amortized over the life of the related borrowing in *Interest expense and amortization of debt issuance costs — net* using the "effective interest amortization" method for the Term Loan facility and the straight-line method for the ABL facility. The unamortized amount of these costs was $28 million as of December 31, 2007.

During the quarter ended December 31, 2007, we entered into interest rate swaps to fix the variable LIBOR interest rate for up to $600 million of our floating rate Term Loan facility at effective weighted average interest rates and amounts expiring as follows: (i) 4.1% on $600 million through September 30, 2008, (ii) 4.0% on $500 million through March 31, 2009 and (iii) 4.0% on $400 million through March 31, 2010. We are still obligated to pay any applicable margin, as defined in our New Credit Facilities, in addition to these interest rates.

On July 3, 2007, we terminated an interest rate swap we had to fix the 3-month LIBOR interest rate at an effective weighted average interest rate of 3.9% on $100 million of the floating rate Term Loan B debt, which was originally scheduled to expire on February 3, 2008. The termination resulted in a gain of less than $1 million.

As of December 31, 2007 approximately 80% of our debt was fixed rate and approximately 20% was variable rate.

Old Senior Secured Credit Facilities

In connection with our spin-off from Alcan, we entered into senior secured credit facilities (Old Credit Facilities) providing for aggregate borrowings of up to $1.8 billion. The Old Credit Facilities consisted of (1) a $1.3 billion seven-year senior secured Term Loan B facility, bearing interest at London Interbank Offered Rate (LIBOR) plus 1.75% (which was subject to change based on certain leverage ratios), all of which was borrowed on January 10, 2005, and (2) a $500 million five-year multi-currency revolving credit and letters of credit facility.

The Old Credit Facilities included customary affirmative and negative covenants, as well as financial covenants relating to our maximum total leverage, minimum interest coverage, and minimum fixed charge coverage ratios. Substantially all of our assets were pledged as collateral under the Old Credit Facilities.

The terms of our Old Credit Facilities required that we deliver unaudited quarterly and audited annual financial statements to our lenders within specified periods of time. Due to delays in certain of our SEC filings for 2005 and 2006, we obtained a series of five waiver and consent agreements from the lenders under the facility to extend the various filing deadlines. Fees paid related to the five waiver and consent agreements totaled $6 million.

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On October 16, 2006, we amended the financial covenants to our Old Credit Facilities. In particular, we amended our maximum total leverage, minimum interest coverage, and minimum fixed charge coverage ratios through the quarter ending March 31, 2008.

We also amended and modified other provisions of the Old Credit Facilities to permit more efficient ordinary-course operations, including increasing the amounts of certain permitted investments and receivables securitizations, permitting nominal quarterly dividends, and the transfer of an intercompany loan to another subsidiary. In return for these amendments and modifications, we paid aggregate fees of approximately $3 million to lenders who consented to the amendments and modifications, and agreed to continue paying higher applicable margins on our Old Credit Facilities and higher unused commitment fees on our revolving credit facilities that were instated with a prior waiver and consent agreement in May 2006. Commitment fees related to the unused portion of the $500 million revolving credit facility were 0.625% per annum.

On April 27, 2007, our lenders consented to a further amendment of our Old Credit Facilities. The amendment included permission to increase the Term Loan B facility by $150 million. We utilized the additional funds available under the Term Loan B facility to reduce the outstanding balance of our $500 million revolving credit facility. The additional borrowing capacity under the revolving credit facility was used to fund working capital requirements and certain costs associated with the Arrangement, including the cash settlement of share-based compensation arrangements and lender fees. Additionally, the amendment included a limited waiver of the change of control Event of Default (as defined in the Old Credit Facilities) which effectively extended the requirement to repay the Old Credit Facilities to July 11, 2007. We paid fees of approximately $2 million to lenders who consented to this amendment.

Total debt issuance costs of $43 million, including amendment fees and the waiver and consent agreements discussed above, had been recorded in *Other long-term assets — third parties* and were being amortized over the life of the related borrowing in *Interest expense and amortization of debt issuance costs — net* using the “effective interest amortization” method for the Term Loans and the straight-line method for the revolving credit and letters of credit facility. The unamortized amount of these costs was $26 million as of March 31, 2007. We incurred an additional $2 million in debt issuance costs as described above during the period from April 1, 2007 through May 15, 2007. As a result of the Arrangement and the recording of debt at fair value, the total amount of unamortized debt issuance costs of $28 million was reduced to zero as of May 15, 2007.

7.25% Senior Notes

On February 3, 2005, we issued $1.4 billion aggregate principal amount of senior unsecured debt securities (Senior Notes). The Senior Notes were priced at par, bear interest at 7.25% and mature on February 15, 2015. Debt issuance costs totaling $28 million had been included in *Other long-term assets — third parties* and were being amortized over the life of the related borrowing in *Interest expense and amortization of debt issuance costs — net* using the “effective interest amortization” method. The unamortized amount of these costs was $24 million as of March 31, 2007. As a result of the Arrangement and the recording of debt at fair value, the total amount of unamortized debt issuance costs of $23 million was reduced to zero as of May 15, 2007.

As a result of the Arrangement, the Senior Notes were recorded at their fair value of $1.474 billion based on their market price of 105.25% of $1,000 face value per bond as of May 14, 2007. The incremental fair value of $74 million is being amortized to interest income over the remaining life of the Senior Notes in *Interest expense and amortization of debt issuance costs — net* using the “effective interest amortization” method. Due to the change in the market price of our Senior Notes from 105.25% as of May 14, 2007 to 94.25% as of December 31, 2007, the estimated fair value of this debt has decreased $155 million to

$1.319 billion (after considering the repurchase of approximately $1 million of the Senior Notes pursuant to the tender offer discussed below).

Under the indenture that governs the Senior Notes, we are subject to certain restrictive covenants applicable to incurring additional debt and providing additional guarantees, paying dividends beyond certain amounts and making other restricted payments, sales and transfers of assets, certain consolidations or mergers, and certain transactions with affiliates. We were in compliance with these covenants for the quarter ended December 31, 2007.

The indenture governing the Senior Notes and the related registration rights agreement required us to file a registration statement for the notes and exchange the original, privately placed notes for registered notes. Under the indenture and the related registration rights agreement, we were required to complete the exchange offer for the Senior Notes by November 11, 2005. We did not complete the exchange offer by that date and, as a result, we began to incur additional special interest at rates ranging from 0.25% to 1.00%. We filed a post-effective amendment to the registration statement on December 1, 2006 which was declared effective by the SEC on December 22, 2006. We ceased paying additional special interest effective January 5, 2007, upon completion of the exchange offer.

Tender Offer and Consent Solicitation for 7.25% Senior Notes

Pursuant to the terms of the indenture governing our Senior Notes, we were obligated, within 30 days of closing of the Arrangement, to make an offer to purchase the Senior Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date the Senior Notes were purchased. Consequently, we commenced a tender offer on May 16, 2007, to repurchase all of the outstanding Senior Notes at the prescribed price. This offer expired on July 3, 2007 with holders of approximately $1 million of principal presenting their Senior Notes pursuant to the tender offer.

Korean Bank Loans

In November 2004, Novelis Korea Limited (Novelis Korea), formerly Alcan Taihan Aluminium Limited, entered into a Korean won (KRW) 40 billion ($40 million) floating rate long-term loan due November 2007. We immediately entered into an interest rate swap to fix the interest rate at 4.80%. In August 2007, we refinanced this loan with a floating rate short-term borrowing in the amount of $40 million due by August 2008. We recognized a loss on extinguishment of debt of less than $1 million in connection with this refinancing. Additionally, we immediately entered into an interest rate swap and cross currency swap for the new loan through a 3.94% fixed rate KRW 38 billion ($38 million) loan.

In December 2004, we entered into (1) a $70 million floating rate loan and (2) a KRW 25 billion ($25 million) floating rate loan, both due in December 2007. We immediately entered into an interest rate and cross currency swap on the $70 million floating rate loan through a 4.55% fixed rate KRW 73 billion ($73 million) loan and an interest rate swap on the KRW 25 billion floating rate loan to fix the interest rate at 4.45%. On October 25, 2007, we entered into a $100 million floating rate loan due October 2010 and immediately repaid the $70 million loan. In December 2007, we repaid the KRW 25 billion loan from the proceeds of the $100 million floating rate loan. Additionally, we immediately entered into an interest rate swap and cross currency swap for the $100 million floating rate loan through a 5.44% fixed rate KRW 92 billion ($92 million) loan.

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

Other Agreements

In May 2007, we terminated a loan and a corresponding deposit-and-guarantee agreement for $80 million. We did not include the loan or deposit amounts in our condensed consolidated balance sheet as of March 31, 2007 as the agreement included a legal right of setoff and we had the intent and ability to setoff.

Capital Lease Obligations

In December 2004, we entered into a fifteen-year capital lease obligation with Alcan for assets in Sierre, Switzerland which has an interest rate of 7.5% and calls for fixed quarterly payments of CHF 1.7 million, which is equivalent to $1.5 million at the exchange rate as of December 31, 2007.

In September 2005, we entered into a six-year capital lease obligation for equipment in Switzerland which has an interest rate of 2.49% and calls for fixed monthly payments of CHF 0.1 million, which is equivalent to $0.1 million at the exchange rate as of December 31, 2007.

Short Term Borrowings and Lines of Credit

As of December 31, 2007, our short-term borrowings were $245 million consisting of (1) $167 million of short-term loans under our ABL facility, (2) a $40 million short-term loan in Korea and (3) $38 million in bank overdrafts. Additionally, as of December 31, 2007, $28 million of our ABL facility was utilized for letters of credit and we had approximately $517 million in remaining availability under this revolving credit facility.

As of December 31, 2007, we had an additional $143 million outstanding under letters of credit in Korea not included in our ABL facility. The weighted average interest rate on our total short-term borrowings was 5.55% and 7.77% as of December 31, 2007 and March 31, 2007, respectively.

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

10. Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) — net of tax is comprised of the following (in millions).

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Net change in foreign currency translation adjustments	$ 36	$63	$ 50	$ 31	$ 131
Net change in fair value of effective portion of hedges	1	(16)	5	(1)	(39)
Postretirement benefit plans:					
Amortization of net actuarial loss	—	—	—	(1)	—
Net change in minimum pension liability	—	20	—	—	16
Net other comprehensive income adjustments, before income tax effect	37	67	55	29	108
Income tax effect	3	(4)	15	4	(4)
Other comprehensive income (loss)	$ 40	$63	$ 70	$ 33	$ 104

Accumulated other comprehensive income (loss), net of income tax effects, is comprised of the following (in millions).

	As of December 31, 2007	As of March 31, 2007
	Successor	*Predecessor*
Foreign currency translation adjustments	$ 68	$ 144
Fair value of effective portion of hedges — net	2	(43)
Net actuarial loss	—	(82)
Net prior service cost	—	(8)
Net transition obligation	—	(1)
Accumulated other comprehensive income (loss)	$ 70	$ 10

11. Share-Based Compensation

Effect of Acquisition by Hindalco

As a result of the Arrangement (see Note 2 — Acquisition of Novelis Common Stock), all of our share-based compensation awards (except for our Recognition Awards) were accelerated to vest, cancelled and settled in cash using the $44.93 purchase price per common share paid by Hindalco in the transaction.

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

We made aggregate cash payments (including applicable payroll-related taxes) totaling $72 million to plan participants following consummation of the Arrangement, as follows:

Predecessor:	Shares/Units Settled	Cash Payments (In millions)
Novelis 2006 Incentive Plan (stock options)	825,850	$ 16
Novelis 2006 Incentive Plan (stock appreciation rights)	378,360	7
Novelis Conversion Plan of 2005	1,238,183	29
Stock Price Appreciation Unit Plan	299,873	7
Deferred Share Unit Plan for Non-Executive Directors	109,911	5
Novelis Founders Performance Awards	180,400	8
		$ 72

Compensation expense of $45 million resulting from the accelerated vesting of plan awards is included in *Selling, general and administrative expenses* in our condensed consolidated statement of operations for the period from April 1, 2007 through May 15, 2007. We also recorded a $7 million reduction to our *Additional paid-in capital* during the period from April 1, 2007 through May 15, 2007 for the conversion of certain of our share-based compensation plans from equity-based plans to liability-based plans.

Our Recognition Awards plan remains in place as of December 31, 2007. However, the awards are now payable only in either, at the option of the Executive (defined below), (i) Hindalco common shares (if offered by Hindalco) or (ii) cash.

Recognition Awards

On September 25, 2006, we entered into Recognition Agreements and granted Recognition Awards to certain executive officers and other key employees (Executives) to retain and reward them for continued dedication towards corporate objectives. Under the terms of these agreements, Executives who remain continuously employed by us through the vesting dates of December 31, 2007 and December 31, 2008 are entitled to receive one-half of their total Recognition Awards on each vesting date.

On February 10, 2007, our board of directors adopted resolutions to amend the Recognition Awards with the Executives. As amended, if the Executive remains continuously employed by us through the vesting dates of December 31, 2007 and December 31, 2008, the Executive is entitled to the awards, payable at a value of $44.93 per share, in either, at the option of the Executive, (i) Hindalco common shares (if offered by Hindalco) or (ii) cash.

The number of Recognition Awards payable under the agreements varies by Executive. Originally, there were 145,800 shares subject to award. Prior to the Arrangement and in accordance with the provisions of FASB Statement No. 123 (Revised), *Share-Based Payment*, we valued these awards as of the issuance date and were recognizing their cost over the requisite service period of the Executives. As a result of the Arrangement, the Recognition Awards changed in classification from an equity-based to a liability-based plan using the $44.93 purchase price per common share paid by Hindalco in the transaction as the per share value. This classification change resulted in additional share-based compensation expense of $1.3 million during the period from April 1, 2007 through May 15, 2007.

One-half of the outstanding Recognition Awards vested on December 31, 2007, and were settled for approximately $3 million in cash in January 2008.

Novelis Inc.

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

The table below shows the activity for our Recognition Awards.

	Number of Recognition Awards	Weighted Average Fair Value at Grant Date	Award Redemption Price
Predecessor:			
Recognition Awards as of March 31, 2007	145,800	$ 23.15	
Granted	—		
Vested	—		
Forfeited/Cancelled	—		
Recognition Awards as of May 15, 2007	145,800		$ 44.93
Successor:			
Granted	—		
Vested	(59,050)		
Forfeited/Cancelled	(27,700)		
Recognition Awards as of December 31, 2007	59,050		$ 44.93

As of December 31, 2007, there was approximately $1 million of unamortized compensation expense related to the December 31, 2008 vesting date for the Recognition Awards, which is expected to be recognized during the twelve months ending December 31, 2008.

2006 Stock Options

On October 26, 2006, our board of directors authorized a grant of an aggregate of 885,170 seven-year non-qualified stock options under the Novelis 2006 Incentive Plan (2006 Incentive Plan) at an exercise price of $25.53 to certain of our executive officers and key employees. These options were comprised of equal portions of premium and non-premium options. Both the premium and non-premium options were to vest ratably in 25% annual increments over a four year period measured from October 26, 2006, and could be exercised, in whole or in part, once vested. However, while the premium and non-premium options carry the same exercise price of $25.53, in no event could the premium options be exercised unless the fair market value per share, as defined in the 2006 Incentive Plan, on the business day preceding the exercise date equals or exceeds $28.59. As a result of the Arrangement, all of our stock options under the 2006 Incentive Plan were accelerated to vest, cancelled and settled in cash using the $44.93 purchase price per common share paid by Hindalco in the transaction.

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

The table below shows the option activity (for both premium and non-premium options) under our 2006 Incentive Plan.

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Predecessor:				
Options outstanding as of March 31, 2007	825,850	$ 25.53		
Granted	—	—		
Exercised	—	—		
Forfeited/Cancelled	—	—		
Expired	—	—		
Settled as a result of the Arrangement	(825,850)	$ 25.53		
Options outstanding as of May 15, 2007	—	$ —	—	$ —
Options exercisable as of May 15, 2007	—	$ —	—	$ —

Prior to the Arrangement, we used the Monte Carlo valuation model to determine the fair value of the premium options outstanding under the 2006 Incentive Plan. The Monte Carlo model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award and calculates the fair market value of each award. Because our trading history was shorter than the expected life of the options, we used historical stock price volatility data from comparable companies to supplement our own historical volatility to determine expected volatility assumptions. The annual expected dividend yield was based on dividend payments of $0.01 per share per quarter. Risk-free interest rates were based on U.S. Treasury Strip yields, compounded daily, consistent with the expected lives of the options. The fair value of the premium options was being amortized over the requisite service period of each award, which was originally from one to four years, subject to acceleration in cases where the employee elected retirement or was retirement eligible after October 26, 2007.

Prior to the Arrangement, we used the Black-Scholes valuation model to determine the fair value of non-premium options issued. Because our trading history was shorter than the expected life of the options, we used historical stock price volatility data from comparable companies to supplement our own historical volatility to determine expected volatility assumptions. The annual expected dividend yield was based on dividend payments of $0.01 per share per quarter. Risk-free interest rates were based on U.S. Treasury Strip yields, compounded daily, consistent with the expected lives of the options. Because we did not have a sufficient history of option exercise or cancellation, we estimated the expected life of the options based on an extension of the "simplified method" as prescribed by SEC Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment*, which allows for the use of a mid-point between the earliest and latest dates that an award can be exercised.

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

No premium or non-premium options under the 2006 Incentive Plan were granted during the period from April 1, 2007 through May 15, 2007. Prior to the Arrangement, the fair value of our premium and non-premium options was estimated using the following assumptions:

	April 1, 2007 Through May 15, 2007
	Predecessor
Expected volatility	42.20 to 46.40%
Weighted average volatility	44.30%
Dividend yield	0.16%
Risk-free interest rate	4.68 to 4.71%
Expected life	1.00 to 4.75 years

As a result of the Arrangement, 825,850 premium and non-premium options under the 2006 Incentive Plan were accelerated to vest and were settled in cash for approximately $16 million.

Novelis Conversion Plan of 2005

On January 5, 2005, our board of directors adopted the Novelis Conversion Plan of 2005 (the Conversion Plan) to allow for 1,372,663 Alcan stock options held by employees of Alcan who became our employees following our spin-off from Alcan to be replaced with options to purchase 2,723,914 of our common shares. As a result of the Arrangement, all of our stock options under the Conversion Plan were accelerated to vest, cancelled and settled in cash using the $44.93 purchase price per common share paid by Hindalco in the transaction.

The table below shows the option activity in our Conversion Plan.

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Predecessor:				
Options outstanding as of March 31, 2007	1,296,952	$ 21.74		
Granted	—	—		
Exercised	(57,876)	$ 20.00		
Forfeited/Cancelled	(893)	$ 23.74		
Expired	—	—		
Settled as a result of the Arrangement	(1,238,183)	$ 21.82		
Options outstanding as of May 15, 2007	—	$ —	—	$ —
Options exercisable as of May 15, 2007	—	$ —	—	$ —

Prior to the Arrangement, we used the Black-Scholes valuation model to determine the fair value of the options outstanding. Because we had no trading history at the time of the valuation, we used historical stock price volatility data from comparable companies to determine expected volatility assumptions. The annual expected dividend yield was based on our then current and anticipated dividend payments. Risk-free interest rates were based on U.S. Treasury bond yields, compounded daily, consistent with the expected lives of the options. Because we did not have a sufficient history of option exercise or cancellation, we estimated the

Novelis Inc.

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

expected life of the options based on the lesser of the expected term of Nine years or the remaining life of the option.

No new options under the Conversion Plan were granted since its adoption in January 2005. The fair value of each option was estimated using the following assumptions:

	April 1, 2007 Through May 15, 2007
	Predecessor
Expected volatility	30.30%
Weighted-average volatility	30.30%
Dividend yield	1.56%
Risk-free interest rate	2.88 to 3.73%
Expected life	0.70 to 5.70 years

During the period from April 1, 2007 through May 15, 2007, there were 6,548 options that vested. As a result of the Arrangement, 563,651 options were accelerated to vest with a total fair value of approximately $4 million, and 1,238,183 options were settled in cash using the $44.93 per common share transaction price for approximately $29 million.

Under our Conversion Plan for the period from April 1, 2007 through May 15, 2007, the total intrinsic value of options exercised was approximately $1 million and cash received from options exercised was approximately $1 million. During both the three months and nine months ended December 31, 2006, there were 130,388 and 134,686 options exercised, respectively, at a weighted average exercise price of $17.34 and $17.37, respectively.

Stock Appreciation Rights

On October 26, 2006, our board of directors authorized a grant of 381,090 Stock Appreciation Rights (SARs) under the 2006 Incentive Plan at an exercise price of $25.53 to certain of our executive officers and key employees. The terms of the SARs were identical in all material respects to those of the stock options issued under the 2006 Incentive Plan, except that the incremental increase in the value of the SARs was to be settled in cash rather than shares of Novelis' common stock at the time of exercise. The SARs were comprised of two equal portions: premium and non-premium SARs. Both the premium and non-premium SARs vested ratably in 25% annual increments over the four-year period measured from October 26, 2006, and could be exercised, in whole or in part, once vested. However, while the premium and non-premium SARs carried the same exercise price of $25.53, in no event could the premium SARs be exercised unless the fair market value per share, as defined in the 2006 Incentive Plan, on the business day preceding the exercise date equals or exceeds $28.59. As a result of the Arrangement, all of our SARs under the 2006 Incentive Plan were accelerated to vest, cancelled and settled in cash using the $44.93 purchase price per common share paid by Hindalco in the transaction.

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

The table below shows the SARs activity (for both premium and non-premium SARs) under our 2006 Incentive Plan.

	Number of SARs		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)		Aggregate Intrinsic Value
Predecessor:						
SARs outstanding as of March 31, 2007	380,000	$	25.53			
Granted	—		—			
Exercised	—		—			
Forfeited/Cancelled	(1,640)	$	25.53			
Expired	—		—			
Settled as a result of the Arrangement	(378,360)	$	25.53			
SARs outstanding as of May 15, 2007	—	$	—	—	$	—
SARs exercisable as of May 15, 2007	—	$	—	—	$	—

Prior to the Arrangement, we used the Monte Carlo valuation model to determine the fair value of the premium SARs outstanding under the 2006 Incentive Plan. The Monte Carlo model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award and calculates the fair market value of each award. Because our trading history was shorter than the expected life of the SARs, we used historical stock price volatility data from comparable companies to supplement our own historical volatility to determine expected volatility assumptions. No quarterly or annual dividend was expected. Risk-free interest rates were based on U.S. Treasury Strip yields, compounded daily, consistent with the expected remaining lives of the premium SARs. The fair value of the premium SARs was being amortized over the requisite remaining service period of each award, which was from 0.57 to 3.57 years as of March 31, 2007, subject to acceleration in cases where the employee elects retirement or is retirement eligible after October 26, 2007.

Prior to the Arrangement, we used the Black-Scholes valuation model to determine the fair value of the non-premium SARs outstanding. Because our trading history was shorter than the expected life of the SARs, we used historical stock price volatility data from comparable companies to supplement our own historical volatility to determine expected volatility assumptions. No quarterly or annual dividend was expected. Risk-free interest rates were based on U.S. Treasury Strip yields, compounded daily, consistent with the expected remaining lives of the SARs. Because we did not have a sufficient history of SAR exercise or cancellation, we estimated the expected remaining life of the SARs based on an extension of the “simplified method” as prescribed by SAB No. 107.

As a result of the Arrangement, 378,360 premium and non-premium SARs were accelerated to vest and were settled in cash for approximately $7 million.

Stock Price Appreciation Unit Plan

Prior to the spin-off, some Alcan employees who later transferred to Novelis held Alcan stock price appreciation units (SPAUs). These units entitled them to receive cash equal to the excess of the market value of an Alcan common share on the exercise date of a SPAU over the market value of an Alcan common share on its grant date. On January 6, 2005, these employees received 418,777 Novelis SPAUs to replace their 211,035 Alcan SPAUs at a weighted average exercise price of $22.04. All converted SPAUs that were vested

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

at the spin-off date continued to be vested. Unvested SPAUs were to vest in four equal annual installments beginning on January 6, 2006, the first anniversary of the spin-off date.

The table below shows the activity in our SPAU Plan.

	Number of SPAUs		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)		Aggregate Intrinsic Value
Predecessor:						
SPAUs outstanding as of March 31, 2007	300,617	$	21.94			
Granted	—		—			
Exercised	—		—			
Forfeited/Cancelled	(744)	$	21.49			
Expired	—		—			
Settled as a result of the Arrangement	(299,873)	$	21.94			
SPAUs outstanding as of May 15, 2007	—	$	—	—	$	—
SPAUs exercisable as of May 15, 2007	—	$	—	—	$	—

Prior to the Arrangement, we used the Black-Scholes valuation model to estimate the fair value of SPAUs granted to employees and to determine the fair value of the SPAUs outstanding. Because our trading history is shorter than the expected life of the SPAUs, we used historical stock price volatility data from comparable companies to supplement our own historical volatility to determine expected volatility assumptions. No quarterly or annual dividend was expected. Risk-free interest rates were based on U.S. Treasury spot rates consistent with the expected remaining lives of the SPAUs. Because we did not have a sufficient history of SPAU exercise or cancellation, we estimated the expected remaining life of the SPAUs based on an extension of the "simplified method" as prescribed by SAB No. 107. As a result of the Arrangement, the SPAUs were valued using the $44.93 purchase price per common share paid by Hindalco in the transaction.

As a result of the Arrangement, 201,495 SPAUs were accelerated to vest and 299,873 SPAUs were settled in cash using the $44.93 per common share transaction price for approximately $7 million.

Deferred Share Unit Plan for Non-Executive Directors

On January 5, 2005, Novelis established the Deferred Share Unit Plan for Non-Executive Directors under which non-executive directors would receive 50% of their compensation payable in the form of directors' deferred share units (DDSUs) and the other 50% in the form of either cash, additional DDSUs or a combination of these two (at the election of each non-executive director). The number of DDSUs was determined by dividing the quarterly amount payable, as elected, by the average closing prices of a common share on the Toronto Stock Exchange (TSX) (adjusted for the noon exchange rate) and New York Stock Exchange (NYSE) on the last five trading days of each quarter. Additional DDSUs representing the equivalent of dividends declared on common shares are credited to each holder of DDSUs. The number of DDSUs outstanding as of March 31, 2007 included DDSUs issued on April 1, 2007, as the required service was provided by the period-end.

The DDSUs were redeemable in cash and/or in shares of our common stock following the participant's retirement from the board. The redemption amount was calculated by multiplying the accumulated balance of DDSUs by the average closing price of a common share on the TSX (adjusted for the noon exchange rate) and NYSE on the last five trading days prior to the redemption date. As a result of the Arrangement, all of our

DDSUs were cancelled and settled in cash using the $44.93 purchase price per common share paid by Hindalco in the transaction.

The table below shows the activity in our DDSU Plan.

	Number of DDSUs	Redemption Price	Aggregate Intrinsic Value
Predecessor:			
DDSUs outstanding as of March 31, 2007	106,578	$ 44.09	
Granted	3,333		
Exercised (paid out)	—		
Forfeited	—		
Expired/Cancelled	—		
Settled as a result of the Arrangement	(109,911)	$ 44.93	
DDSUs outstanding as of May 15, 2007	—	$ —	$ —

As a result of the Arrangement, 109,911 DDSUs were settled in cash using the $44.93 purchase price per common share paid by Hindalco in the transaction for approximately $5 million.

Novelis Founders Performance Awards

In March 2005 (and amended and restated in March 2006 and February 2007), Novelis established a plan to reward certain key executives with Performance Share Units (PSUs) if Novelis common share price improvement targets were achieved within specific time periods. There were three equal tranches of PSUs, and each had a specific share price improvement target. For the first tranche, the target share price of $23.57 applied for the period from March 24, 2005 to March 23, 2008. For the second tranche, the target share price of $25.31 applied for the period from March 24, 2006 to March 23, 2008. For the third tranche, the target share price of $27.28 applied for the period from March 24, 2007 to March 23, 2008. If awarded, a particular tranche was to be paid in cash on the later of nine months from the date the specific common share price target is reached or twelve months after the start of the performance period, and will be based on the average of the daily common share closing prices on the NYSE for the last five trading days prior to the payment date.

The liability for the first tranche was accrued over its term, was valued on March 24, 2006, and was paid in April 2006 in the aggregate amount of approximately $3 million.

In February 2007, our board of directors recognized that the applicable share price threshold had been (or would likely be) met with respect to the second tranche and would probably be met for the third tranche, but in light of the insiders' awareness of the possibility of a change in control transaction, they were subject to a trading blackout. Moreover, it was unlikely that a 15 day open trading window under the Novelis disclosure and insider trading policies would arise prior to the Arrangement. Accordingly, on February 10, 2007, our board of directors further amended the PSUs in order to provide that the applicable threshold for (a) the second tranche was to be met as of February 28, 2007 and (b) the third tranche was to be met as of March 26, 2007, for purposes of PSUs to be awarded.

As a result of the Arrangement, the second and third tranches (represented by 94,450 and 85,950 PSUs, respectively) were settled in cash using the $44.93 purchase price per common share paid by Hindalco in the transaction for a total of approximately $8 million.

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

Share-Based Compensation Expense

Total share-based compensation expense 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.

	Three Months Ended December 31,		May 16, 2007 Through December 31,	April 1, 2007 Through May 15,	Nine Months Ended December 31,
	2007	2006	2007	2007	2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Recognition Awards	$ 0.7	$ 0.5	$ 2.0	$ 1.5	$ 0.5
Novelis 2006 Incentive Plan (stock options)	n.a.	0.7	n.a.	14.5	0.7
Novelis 2006 Incentive Plan (stock appreciation rights)	n.a.	0.4	n.a.	5.6	0.4
Novelis Conversion Plan of 2005	n.a.	5.0	n.a.	23.8	6.5
Stock Price Appreciation Unit Plan	n.a.	1.9	n.a.	(0.5)	3.0
Deferred Share Unit Plan for Non-Executive Directors	n.a.	0.6	n.a.	0.2	1.5
Novelis Founders Performance Awards	n.a.	(0.1)	n.a.	0.1	1.2
Total Shareholder Returns Performance Plan	n.a.	—	n.a.	—	1.0
Total share-based compensation expense	$ 0.7	$ 9.0	$ 2.0	$ 45.2	$ 14.8

n.a. — not applicable as plan was cancelled.

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

12. Postretirement Benefit Plans

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

Pension Benefit Plans	Three Months Ended December 31, 2007 *Successor*	Three Months Ended December 31, 2006 *Predecessor*	May 16, 2007 Through December 31, 2007 *Successor*	April 1, 2007 Through May 15, 2007 *Predecessor*	Nine Months Ended December 31, 2006 *Predecessor*
Service cost	$ 11	$ 13	$ 29	$ 6	$ 32
Interest cost	12	12	30	6	34
Expected return on assets	(11)	(10)	(27)	(5)	(29)
Amortization					
— actuarial losses	—	2	—	—	5
— prior service cost	—	—	—	—	1
Curtailment/settlement losses	1	(4)	1	—	(4)
Net periodic benefit cost	13	13	33	7	39
Proportionate share of non-consolidated affiliate's deferred pension costs, net of $2 million of tax	—	4	—	—	4
Total net periodic benefit cost recognized	$ 13	$ 17	$ 33	$ 7	$ 43

Other Postretirement Benefit Plans	Three Months Ended December 31, 2007 *Successor*	Three Months Ended December 31, 2006 *Predecessor*	May 16, 2007 Through December 31, 2007 *Successor*	April 1, 2007 Through May 15, 2007 *Predecessor*	Nine Months Ended December 31, 2006 *Predecessor*
Service cost	$ 1	$ 2	$ 3	$ 1	$ 4
Interest cost	2	1	5	1	5
Amortization					
— actuarial losses	—	—	—	—	1
Net periodic benefit cost	$ 3	$ 3	$ 8	$ 2	$ 10

The expected long-term rate of return on plan assets is 7.5% in fiscal 2008.

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

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, Malaysia and Brazil. We contributed the following amounts to all plans, including the Alcan plans that cover our employees (in millions).

	Three Months Ended December 31,		May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	2007	2006			
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Funded pension plans	$ 10	$ 17	$ 25	$ 4	$ 30
Unfunded pension plans	4	13	10	2	19
Savings and defined contribution pension plans	4	4	10	2	9
Total contributions	$ 18	$ 34	$ 45	$ 8	$ 58

During the remainder of fiscal 2008, we expect to contribute an additional $14 million to our funded pension plans, $4 million to our unfunded pension plans and $4 million to our savings and defined contribution pension plans.

In October 2007, we completed the transfer of additional U.K. plan assets and liabilities from Alcan to Novelis. Plan liabilities assumed exceeded plan assets received by $3 million. As of December 31, 2007, there remained an outstanding matter related to pension plans in Canada for those employees who elected to transfer their past service to Novelis. We expect the transfer of pension assets and liabilities in Canada will take place by June 30, 2008, and we expect that the plan assets transferred will approximate the liabilities assumed. To the extent that differences between transferred plan assets and liabilities exist, we will record the adjustments to goodwill.

13. Currency Losses (Gains)

The following currency losses (gains) are included in the accompanying condensed consolidated statements of operations (in millions).

	Three Months Ended December 31,		May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	2007	2006			
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Net loss (gain) on change in fair value of currency derivative instruments(A)	$ 19	$ 6	$ (2)	$ (10)	$ 8
Net loss (gain) on translation of monetary assets and liabilities(B)	(12)	7	(3)	4	(3)
Net currency losses (gains)	$ 7	$ 13	$ (5)	$ (6)	$ 5

Novelis Inc.

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

(A) Included in *(Gain) loss on change in fair value of derivative instruments — net* in the accompanying condensed consolidated statements of operations.

(B) Included in *Other (income) expenses — net* in the accompanying condensed consolidated statements of operations.

The following currency gains (losses) are included in *Accumulated other comprehensive income (loss)* in the accompanying condensed consolidated balance sheets (net of tax effect and in millions).

	May 16, 2007 Through December 31, 2007 *Successor*	January 1, 2007 Through March 31, 2007 *Predecessor*
Cumulative currency translation adjustment — beginning of period	$ —	$ 133
Effect of changes in exchange rates	68	11
Cumulative currency translation adjustment — end of period	$ 68	$ 144

14. Financial Instruments and Commodity Contracts

In conducting our business, we use various derivative and non-derivative instruments, including forward contracts, to manage the risks arising from fluctuations in exchange rates, interest rates, aluminum prices and energy prices. Such instruments are used for risk management purposes only. We may be exposed to losses in the future if the counterparties to the contracts fail to perform. We are satisfied that the risk of such non-performance is remote, due to our monitoring of credit exposures. Alcan is the principal counterparty to our aluminum forward contracts.

Certain contracts are designated as hedges of either net investment or cash flows. For these contracts we recognize the change in fair value of the ineffective portion of the hedge as a gain or loss in our current period results of operations. We include the change in fair value of the effective and interest portions of these hedges in *Accumulated other comprehensive income* within Shareholder's equity in the accompanying condensed consolidated balance sheet.

Prior to Completion of the Arrangement

Prior to and during the period from April 1, 2007 through May 15, 2007, we applied hedge accounting to certain of our cross-currency swaps with respect to intercompany loans to several European subsidiaries and forward exchange contracts. Our Euro and British pound (GBP) cross-currency swaps were designated as net investment hedges, while our Swiss franc (CHF) cross-currency swaps and our Brazilian real (BRL) forward foreign exchange contracts were designated as cash flow hedges. As of May 15, 2007, we had $712 million of cross-currency swaps (Euro 475 million, GBP 62 million and CHF 35 million) and $99 million of forward foreign exchange contracts (BRL 229 million). During the period from April 1, 2007 through May 15, 2007, we implemented cash flow hedge accounting for an electricity swap, which was embedded in a supply contract.

During the period from April 1, 2007 through May 15, 2007, the change in fair value of the effective and interest portions of our net investment hedges was a loss of $8 million and the change in fair value of the effective portion of our cash flow hedges was a gain of $7 million.

Impact of the Arrangement and Purchase Accounting

Concurrent with completion of the Arrangement on May 15, 2007, we dedesignated all hedging relationships. The cumulative change in fair value of effective and interest portions of these hedges, previously presented in *Accumulated other comprehensive income* within Shareholder's equity on May 15, 2007, was

Novelis Inc.

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

incorporated in the new basis of accounting. As a result of purchase accounting, the fair value of all embedded derivative instruments was allocated to the fair value of their respective host contracts, reducing the fair value of embedded derivative instruments to zero.

Subsequent to Completion of the Arrangement

We redesignated our electricity swap, noted below, as a cash flow hedge on June 1, 2007. We redesignated our Euro, GBP and CHF cross-currency swaps, noted above, as net investment hedges on September 1, 2007. During the quarter ended December 31, 2007, we entered into a series of interest rate swaps which we designated as cash flow hedges (see Note 9 — Debt).

During the three months ended December 31, 2007 and for the period from May 16, 2007 through December 31, 2007, we recognized pre-tax gains of $1 million and $5 million, respectively, for the change in fair value of the effective portion of our cash flow hedges. As of December 31, 2007, we expect to realize $1 million of effective net losses during the next twelve months. The maximum period over which we have hedged our exposure to cash flow variability is through November 2016.

During the three months ended December 31, 2007 and for the period from May 16, 2007 through December 31, 2007, we recognized pre-tax losses of $33 million and $5 million, respectively, for the change in fair value of the effective portion of our net investment hedges. As of December 31, 2007, we expect to realize $5 million of effective net losses during the next twelve months. The maximum period over which we have hedged our exposure to net investment variability is through February 2015.

The fair values of our financial instruments and commodity contracts as of December 31, 2007 and March 31, 2007 were as follows (in millions).

	Maturity Dates (Fiscal Year)	As of December 31, 2007		
		Assets	Liabilities	Net Fair Value
Successor:				
Foreign exchange forward contracts	2008 through 2012	$ 38	$ (59)	$ (21)
Cross-currency swaps	2008 through 2015	3	(136)	(133)
Interest rate currency swaps	2009 through 2011	1	(1)	—
Interest rate swaps	2009 through 2010	—	(2)	(2)
Aluminum forward contracts	2008 through 2010	1	(52)	(51)
Electricity swap	2017	7	(1)	6
Embedded derivative instruments	2008 through 2009	14	—	14
Natural gas swaps	2008 through 2010	—	(1)	(1)
Total fair value		64	(252)	(188)
Less: current portion(A)		54	(112)	(58)
Noncurrent portion(A)		$ 10	$ (140)	$ (130)

Novelis Inc.

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

	Maturity Dates (Fiscal Year)	As of March 31, 2007 Assets	Liabilities	Net Fair Value
Predecessor:				
Foreign exchange forward contracts	2008 through 2012	$ 16	$ (20)	$ (4)
Interest rate swaps	2008	2	—	2
Cross-currency swaps	2008 through 2015	6	(90)	(84)
Aluminum forward contracts	2008 through 2010	60	(8)	52
Aluminum options	2008	1	—	1
Electricity swap	2017	60	—	60
Embedded derivative instruments	2008	1	—	1
Natural gas swaps	2008	1	—	1
Total fair value		147	(118)	29
Less: current portion(A)		92	(33)	59
Noncurrent portion(A)		$ 55	$ (85)	$ (30)

(A) The amounts of the current and long-term portions of fair values under assets are each presented in the accompanying condensed consolidated balance sheets. The amounts of the current and noncurrent portions of fair values under liabilities are included in *Accrued expenses and other current liabilities* and *Other long-term liabilities*, respectively, in the accompanying condensed consolidated balance sheets.

15. Other (Income) Expenses — Net

Other (income) expenses — net is comprised of the following (in millions).

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Exchange (gains) losses — net	$ (12)	$ 7	$ (3)	$ 4	$ (3)
Restructuring charges — net	1	6	2	1	18
(Gain) loss on sale of equity interest in non-consolidated affiliate(A)	—	(15)	—	—	(15)
(Gain) loss on sale of rights to develop and operate hydroelectric power plants(B)	—	(11)	—	—	(11)
(Gains) losses on disposals of property, plant and equipment — net	—	4	—	—	6
Other — net	—	—	(6)	(1)	(1)
Other (income) expenses — net	$ (11)	$ (9)	$ (7)	$ 4	$ (6)

(A) In November 2006, we sold the common and preferred shares of our 25% interest in Petrocoque to the other shareholders of Petrocoque for approximately $20 million. We recognized a pre-tax gain of approximately $15 million.

(B) During the fourth quarter of 2006, we sold our rights to develop and operate two hydroelectric power plants in South America and recorded a pre-tax gain of approximately $11 million.

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

16. Income Taxes

We provide for income taxes using the liability method in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. In accordance with APB Opinion No. 28, *Interim Financial Reporting*, and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*, the provision for taxes on income recognizes our estimate of the effective tax rate expected to be applicable for the full fiscal year, adjusted for the impact of any discrete events, which are reported in the period in which they occur. Each quarter, we re-evaluate our estimated tax expense for the year and make adjustments for changes in the estimated tax rate. Additionally, we evaluate the realizability of our deferred tax assets on a quarterly basis. Our evaluation considers all positive and negative evidence and factors, such as the scheduled reversal of temporary differences, historical and projected future taxable income or losses, and prudent and feasible tax planning strategies.

The *Provision (benefit) for taxes on income (loss)* for (1) the three months ended December 31, 2007 and (2) the periods from May 16, 2007 through December 31, 2007 and from April 1, 2007 through May 15, 2007 were based on the estimated effective tax rates applicable for the fiscal year ending March 31, 2008, after considering items specifically related to the interim periods. The *Provision (benefit) for taxes on income (loss)* for the three and nine month periods ended December 31, 2006 were based on the estimated effective tax rates applicable for the fiscal year ended December 31, 2006, after considering items specifically related to the interim periods.

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

	Three Months Ended December 31,		May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	2007	2006			
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Pre-tax loss before equity in net (income) loss of non-consolidated affiliates and minority interests' share	$ (41)	$ (144)	$ (79)	$ (95)	$ (319)
Canadian statutory tax rate	33%	33%	33%	33%	33%
Income taxes (benefit) at the Canadian statutory rate	$ (14)	$ (47)	$ (26)	$ (31)	$ (105)
Increase (decrease) in tax rate resulting from:					
Exchange translation items	14	(21)	61	23	5
Exchange remeasurement of deferred income taxes	18	1	25	3	—
Change in valuation allowances	14	29	54	13	38
Enacted tax rate changes	(32)	—	(103)	2	—
Expense/income items with no tax effect — net	—	18	(19)	(11)	10
Tax rate differences on foreign earnings	—	(19)	—	2	(59)
Other — net	4	5	12	3	5
Provision (benefit) for taxes on income (loss)	$ 4	$ (34)	$ 4	$ 4	$ (106)
Effective tax rate	(10)%	24%	(5)%	(4)%	33%

Our effective tax rate differs from the Canadian statutory rate primarily due to the following factors: (1) 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, which is shown above as exchange translation items; (2) the

remeasurement of deferred income taxes due to foreign currency changes, which is shown above as exchange remeasurement of deferred income taxes; (3) changes 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) the effects of enacted tax rate changes on cumulative taxable temporary differences and (5) differences between the Canadian statutory and foreign effective tax rates resulting from the application of an annual effective tax rate to profit and loss entities in different jurisdictions shown above as tax rate differences on foreign earnings.

Cash taxes paid are shown in the table below (in millions).

	Three Months Ended December 31,		May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	2007	2006			
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Cash taxes paid	$ 19	$ 44	$ 50	$ 9	$ 56

Adoption of FASB Interpretation No. 48

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.* FASB Interpretation No. 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FASB Interpretation No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon adoption as of January 1, 2007, we increased our reserves for uncertain tax positions by $1 million. We recognized the increase as a cumulative effect adjustment to Shareholder's equity as an increase to our *Accumulated deficit*. Including this adjustment, reserves for uncertain tax positions totaled $45 million as of January 1, 2007.

During the three months ended December 31, 2007, our unrecognized tax benefits increased $7 million as a result of tax positions taken during a prior period. Our reserves for uncertain tax positions totaled $59 million as of December 31, 2007. Of this total, $47 million represents the amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate in future periods based on anticipated settlement dates.

Tax authorities are currently examining certain of our prior years' tax returns for 1999-2006. We are evaluating potential adjustments related to certain items and we anticipate that it is reasonably possible that settlement of the examination will result in a payment in the range of up to $5 million and a corresponding decrease in unrecognized tax benefits by December 31, 2008.

Separately, we are awaiting a court ruling regarding the utilization of certain operating losses. We anticipate that it is reasonably possible that this ruling will result in a $13 million decrease in unrecognized tax benefits by December 31, 2008 related to this matter. We have fully funded this contingent liability through a judicial deposit, which is included in *Other long-term assets — third parties* as of January 1, 2007.

With the exception of the ongoing tax examinations described above, we are no longer subject to any income tax examinations by any tax authorities for years before 2001. With few exceptions, tax returns for all jurisdictions for all tax years after 2000 are subject to examination by taxing authorities.

Our continuing practice and policy is to record potential interest and penalties related to unrecognized tax benefits in our *Provision (benefit) for taxes on income (loss)*. As of March 31, 2007, we had $8 million accrued for potential interest on income taxes and no amounts accrued for potential penalties. For the three months ended December 31, 2007, our *Provision (benefit) for taxes on income (loss)* included a reduction of less than $1 million of potential interest. For the periods from May 16, 2007 through December 31, 2007 and from April 1, 2007 through May 15, 2007, our *Provision (benefit) for taxes on income (loss)* included charges for an additional

$2 million and less than $1 million of potential interest, respectively. As of December 31, 2007, we had $10 million accrued for potential interest on income taxes and no amounts accrued for potential penalties.

17. Commitments and Contingencies

Primary Supplier

Alcan is our primary supplier of prime and sheet ingot. The table below shows our purchases from Alcan as a percentage of our total combined prime and sheet ingot purchases.

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Purchases from Alcan as a percentage of total combined prime and sheet ingot purchases in kt(A)	33%	37%	35%	34%	35%

(A) One kilotonne (kt) is 1,000 metric tonnes. One metric tonne is equivalent to 2,204.6 pounds.

Legal Proceedings

Reynolds Boat Case. As previously disclosed, we and Alcan were defendants in a case in the United States District Court for the Western District of Washington, in Tacoma, Washington, case number C04-0175RJB. Plaintiffs were Reynolds Metals Company, Alcoa, Inc. and National Union Fire Insurance Company of Pittsburgh PA. The case was tried before a jury beginning on May 1, 2006 under implied warranty theories, based on allegations that from 1998 to 2001 we and Alcan sold certain aluminum products that were ultimately used for marine applications and were unsuitable for such applications. The jury reached a verdict on May 22, 2006 against us and Alcan for approximately $60 million, and the court later awarded Reynolds and Alcoa approximately $16 million in prejudgment interest and court costs.

The case was settled during July 2006 as among us, Alcan, Reynolds, Alcoa and their insurers for $71 million. We contributed approximately $1 million toward the settlement, and the remaining $70 million was funded by our insurers. Although the settlement was substantially funded by our insurance carriers, certain of them have reserved the right to request a refund from us, after reviewing details of the plaintiffs' damages to determine if they include costs of a nature not covered under the insurance contracts. Of the $70 million funded, $39 million is in dispute with and under further review by certain of our insurance carriers. In the quarter ended December 31, 2006, we posted a letter of credit in the amount of approximately $10 million in favor of one of those insurance carriers, while we resolve the extent of coverage of the costs included in the settlement. On October 8, 2007, we received a letter from these insurers stating that they have completed their review and they are requesting a refund of the $39 million plus interest. We reviewed the insurers' position, and on January 7, 2008, we sent a letter to the insurers rejecting their position that Novelis is not entitled to insurance coverage for the judgment against Novelis.

Since our fiscal 2005 Annual Report on Form 10-K was not filed until August 25, 2006, we recognized a liability for the full settlement amount of $71 million on December 31, 2005, included in *Accrued expenses and other current liabilities* on our consolidated balance sheet, with a corresponding charge against earnings. We also recognized an insurance receivable included in *Prepaid expenses and other current assets* on our consolidated balance sheet of $31 million, with a corresponding increase to earnings. Although $70 million of the settlement was funded by our insurers, we only recognized an insurance receivable to the extent that

coverage was not in dispute. This resulted in a net charge of $40 million during the quarter ended December 31, 2005.

In July 2006, we contributed and paid $1 million to our insurers who subsequently paid the entire settlement amount of $71 million to the plaintiffs. Accordingly, during the quarter ended December 31, 2006 we reversed the previously recorded insurance receivable of $31 million and reduced our recorded liability by the same amount plus the $1 million contributed by us. The remaining liability of $39 million represents the amount of the settlement claim that was funded by our insurers but is still in dispute with and under further review by the parties as described above. The $39 million liability is included in *Accrued expenses and other current liabilities* in our condensed consolidated balance sheets as of December 31, 2007 and March 31, 2007.

While the ultimate resolution of the nature and extent of any costs not covered under our insurance contracts cannot be determined with certainty or reasonably estimated at this time, if there is an adverse outcome with respect to insurance coverage, and we are required to reimburse our insurers, it could have a material impact on our cash flows in the period of resolution. Alternatively, the ultimate resolution could be favorable, such that insurance coverage is in excess of the net expense that we have recognized to date. This would result in our recording a non-cash gain in the period of resolution, and this non-cash gain could have a material impact on our results of operations during the period in which such a determination is made.

Coca-Cola Lawsuits. A lawsuit was commenced against Novelis Corporation on February 15, 2007 by Coca-Cola Bottler's Sales and Services Company LLC (CCBSS) in state court in Georgia. In addition, a lawsuit was commenced against Novelis Corporation and Alcan Corporation on April 3, 2007 by Coca-Cola Enterprises Inc., Enterprises Acquisition Company, Inc., The Coca-Cola Company and The Coca-Cola Trading Company, Inc. (collectively CCE) in federal court in Georgia. Novelis intends to defend these claims vigorously.

CCBSS is a consortium of Coca-Cola bottlers across the United States, including Coca-Cola Enterprises Inc. CCBSS alleges that Novelis Corporation breached an aluminum can stock supply agreement between the parties, and seeks monetary damages in an amount to be determined at trial and a declaration of its rights under the agreement. The agreement includes a "most favored nations" provision regarding certain pricing matters. CCBSS alleges that Novelis Corporation breached the terms of the most favored nations provision. The dispute will likely turn on the facts that are presented to the court by the parties and the court's finding as to how certain provisions of the agreement ought to be interpreted. If CCBSS were to prevail in this litigation, the amount of damages would likely be material. Novelis Corporation has filed its answer and the parties are proceeding with discovery.

The claim by CCE seeks monetary damages in an amount to be determined at trial for breach of a prior aluminum can stock supply agreement between CCE and Novelis Corporation, successor to the rights and obligations of Alcan Aluminum Corporation under the agreement. According to its terms, that agreement with CCE terminated in 2006. The CCE supply agreement included a "most favored nations" provision regarding certain pricing matters. CCE alleges that Novelis Corporation's entry into a supply agreement with Anheuser-Busch, Inc. breached the "most favored nations" provision of the CCE supply agreement. If CCE were to prevail in this litigation, the amount of damages would likely be material. The dispute will likely turn on the facts that are presented to the court by the parties and the court's finding as to how certain provisions of the supply agreement ought to be interpreted. Novelis Corporation has moved to dismiss the complaint and has not yet filed its answer. We have not recorded any reserves for these matters.

Anheuser-Busch Litigation. On September 19, 2006, Novelis Corporation filed a lawsuit against Anheuser-Busch, Inc. in federal court in Ohio. Anheuser-Busch, Inc. subsequently filed suit against Novelis Corporation and the Company in federal court in Missouri. On January 3, 2007, Anheuser-Busch, Inc.'s suit was transferred to the Ohio federal court.

Novelis Corporation alleges that Anheuser-Busch, Inc. breached the existing multi-year aluminum can stock supply agreement between the parties, and we seek monetary damages and declaratory relief. Among other claims, we assert that since entering into the supply agreement, Anheuser-Busch, Inc. has breached its confidentiality obligations and there has been a structural change in market conditions that requires a change to the pricing provisions under the agreement.

In its complaint, Anheuser-Busch, Inc. has asked for a declaratory judgment that Anheuser-Busch, Inc. is not obligated to modify the supply agreement as requested by Novelis Corporation, and that Novelis Corporation must continue to perform under the existing supply agreement.

On January 18, 2008, Anheuser-Busch, Inc. filed a motion for summary judgment. Novelis Corporation will have until February 19, 2008 to respond to the motion. Novelis Corporation has continued to perform under the supply agreement during the litigation.

ARCO Aluminum Complaint. On May 24, 2007, Arco Aluminum Inc. (ARCO) filed a complaint against Novelis Corporation and Novelis Inc. in the United States District Court for the Western District of Kentucky. ARCO and Novelis are partners in a joint venture rolling mill located in Logan, Kentucky. In the complaint, ARCO seeks to resolve a perceived dispute over management and control of the joint venture following Hindalco's acquisition of Novelis.

ARCO alleges that its consent was required in connection with Hindalco's acquisition of Novelis. Failure to obtain consent, ARCO alleges, has put us in default of the joint venture agreements, thereby triggering certain provisions in those agreements. The provisions include a reversion of the production management at the joint venture to Logan Aluminum from Novelis, and a reduction of the board of directors of the entity that manages the joint venture from seven members (four appointed by Novelis and three appointed by ARCO) to six members (three appointed by each of Novelis and ARCO).

ARCO is seeking a court declaration that (1) Novelis and its affiliates are prohibited from exercising any managerial authority or control over the joint venture, (2) Novelis' interest in the joint venture is limited to an economic interest only and (3) ARCO has authority to act on behalf of the joint venture. Or, alternatively, ARCO is seeking a reversion of the production management function to Logan Aluminum, and a change in the composition of the board of directors of the entity that manages the joint venture. Novelis filed its answer to the complaint on July 16, 2007.

On July 3, 2007, ARCO filed a motion for partial summary judgment with respect to one of the counts of its complaint relating to the claim that Novelis breached the joint venture agreement by not seeking ARCO's consent. On July 30, 2007, Novelis filed a motion to hold ARCO's motion for summary judgment in abeyance (pending further discovery), along with a demand for a jury. Those motions are pending. We intend to defend these proceedings vigorously.

Environmental Matters

Oswego North Ponds. As previously disclosed, Oswego North Ponds is currently our largest known single environmental loss contingency. In the late 1960s and early 1970s, Novelis Corporation, (formerly known as Alcan Aluminum Corporation, or Alcancorp) used an oil containing polychlorinated biphenyls (PCBs) in its re-melt operations in Oswego, New York. At the time, Novelis Corporation utilized a once-through cooling water system that discharged through a series of constructed ponds and wetlands, collectively referred to as the North Ponds. In the early 1980s, low levels of PCBs were detected in the cooling water system discharge and Novelis Corporation performed several subsequent investigations. The PCB-containing hydraulic oil, Pydraul, which was eliminated from use by Novelis Corporation in the early 1970s, was identified as the source of contamination. In the mid-1980s, the Oswego North Ponds site was classified as an

"inactive hazardous waste disposal site" and added to the New York State Registry. Novelis Corporation ceased discharge through the North Ponds in mid-2002.

In cooperation with the New York State Department of Environmental Conservation (NYSDEC) and the New York State Department of Health, Novelis Corporation entered into a consent decree in August 2000 to develop and implement a remedial program to address the PCB contamination at the Oswego North Ponds site. A remedial investigation report was submitted in January 2004. The current estimated cost associated with this remediation is in the range of $12 million to $26 million. Based upon the report and other factors, we accrued $19 million as our estimated cost. In addition, NYSDEC held a public hearing on the remediation plan on March 13, 2006 and a Consent Order for the implementation of the remediation plan was executed by NYSDEC and Novelis Corporation, effective January 1, 2007. We believe that our estimate of $19 million is reasonable, and that the remediation plan will be designed and implemented in fiscal 2008.

Brazil Tax Matters

Primarily as a result of legal proceedings with Brazil's Ministry of Treasury regarding certain taxes in South America, as of December 31, 2007 and March 31, 2007, we had cash deposits aggregating approximately $34 million and $25 million, respectively, in judicial depository accounts pending finalization of the related cases. The depository accounts are in the name of the Brazilian government and will be expended towards these legal proceedings or released to us, depending on the outcome of the legal cases. These deposits are included in *Other long-term assets — third parties* in our accompanying condensed consolidated balance sheets. In addition, we are involved in several disputes with Brazil's Ministry of Treasury about various forms of manufacturing taxes and social security contributions, for which we have made no judicial deposits but for which we have established individual reserves ranging from $7 million to $83 million as of December 31, 2007. In total, these reserves approximate $103 million as of December 31, 2007 and are included in *Other long-term liabilities* in our accompanying condensed consolidated balance sheets.

On August 15, 2007, there was a Superior Court of Justice ruling in Brazil reducing the statute of limitations from ten years to five years for claims relating to the application of Brazilian tax credits resulting from previous payments made under a social contribution tax. Accordingly, in the nine months ended December 31, 2007, we reversed $21 million of reserves ($15 million net of tax) relating to the disputed application of such credits in 1999 and 2000, as these tax credits may no longer be challenged by the government.

Guarantees of Indebtedness

We have issued guarantees on behalf of certain of our subsidiaries and non-consolidated affiliates, including:

- certain of our wholly-owned subsidiaries and
- Aluminium Norf GmbH, which is a fifty percent (50%) owned joint venture that does not meet the requirements for consolidation under FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities.*

In the case 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 or non-consolidated affiliates hold any assets of any third parties as collateral to offset the potential settlement of these guarantees.

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

Since we consolidate wholly-owned subsidiaries in our financial statements, all outstanding liabilities associated with trade accounts payable for these entities are already included in our condensed consolidated balance sheets.

The following table discloses information about our obligations under guarantees of indebtedness as of December 31, 2007 (in millions).

Type of Entity	Maximum Potential Future Payment	Liability Carrying Value
Wholly-owned subsidiaries	$ 85	$ 60
Aluminium Norf GmbH	15	—

18. Segment and Major Customer 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.

As a result of the acquisition by Hindalco, and based on the way our President and Chief Operating Officer (our chief operating decision-maker) reviews the results of segment operations, during the quarter ended June 30, 2007 we changed our segment performance measure to Segment Income, as defined below. As a result, certain prior period amounts have been reclassified to conform to the new segment performance measure.

We measure the profitability and financial performance of our operating segments, based on Segment Income, in accordance with FASB Statement No. 131, *Disclosure About the Segments of an Enterprise and Related Information.* 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) interest expense and amortization of debt issuance costs — net; (b) unrealized gains (losses) on change in fair value of derivative instruments — net; (c) realized gains (losses) on corporate derivative instruments — net; (d) depreciation and amortization; (e) impairment charges on long-lived assets; (f) minority interests' share; (g) adjustments to reconcile our proportional share of Segment Income from non-consolidated affiliates to income as determined on the equity method of accounting; (h) restructuring charges — net; (i) gains or losses on disposals of property, plant and equipment and businesses — net; (j) corporate selling, general and administrative expenses; (k) other costs — net; (l) litigation settlement — net of insurance recoveries; (m) sale transaction fees; (n) provision or benefit for taxes on income (loss) and (o) cumulative effect of accounting change.

Net sales and expenses are measured in accordance with the policies and procedures described in Note 1 — Business and Summary of Significant Accounting Policies to our consolidated and combined financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, as amended on April 30, 2007.

We do not treat all derivative instruments as hedges under FASB Statement No. 133. Accordingly, changes in fair value are recognized immediately in earnings, which results in the recognition of fair value as a gain or loss in advance of the contract settlement. In the accompanying condensed consolidated statements of operations, changes in fair value of derivative instruments not accounted for as hedges under FASB Statement No. 133 are recognized in *(Gain) loss on change in fair value of derivative instruments — net.* These gains or losses may or may not result from cash settlement. For Segment Income purposes we only include the impact of the derivative gains or losses to the extent they are settled in cash (i.e., realized) during that period.

The tables below show selected segment financial information (in millions). The Corporate and Other column in the tables below includes functions that are managed directly from our corporate office, which

Novelis Inc.

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

focuses on strategy development and oversees governance, policy, legal compliance, human resources and finance matters. It also includes consolidating and other elimination accounts.

Selected Segment Financial Information

Total Assets	North America	Europe	Asia	South America	Adjustment to Eliminate Proportional Consolidation	Corporate and Other	Total
December 31, 2007 (*Successor*)	$3,847	$4,235	$1,078	$1,456	$ (124)	$ 44	$10,536
March 31, 2007 (*Predecessor*)	$1,566	$2,543	$1,110	$ 821	$ (114)	$ 44	$ 5,970

Comparison of Three Month Data:

Selected Operating Results Three Months Ended December 31, 2007	North America	Europe	Asia	South America	Adjustment to Eliminate Proportional Consolidation	Corporate and Other	Total
(Successor)							
Net sales (to third parties)	$ 995	$ 1,010	$ 483	$ 247	$ —	$ —	$ 2,735
Intersegment sales	5	1	3	—	—	(9)	—
Segment Income	83	45	10	34	—	—	172
Depreciation and amortization	37	57	13	21	(23)	—	105
Capital expenditures	13	35	11	8	(5)	1	63

Selected Operating Results Three Months Ended December 31, 2006	North America	Europe	Asia	South America	Adjustment to Eliminate Proportional Consolidation	Corporate and Other	Total
(Predecessor)							
Net sales (to third parties)	$ 850	$ 932	$ 457	$ 237	$ (4)	$ —	$ 2,472
Intersegment sales	1	3	3	11	—	(18)	—
Segment Income (Loss)	(42)	43	14	44	—	—	59
Depreciation and amortization	17	24	14	11	(8)	1	59
Capital expenditures	15	19	6	9	(10)	—	39

Comparison of Nine Month Data:

Selected Operating Results May 16, 2007 Through December 31, 2007	North America	Europe	Asia	South America	Adjustment to Eliminate Proportional Consolidation	Corporate and Other	Total
(Successor)							
Net sales (to third parties)	$ 2,619	$ 2,695	$ 1,167	$ 622	$ —	$ —	$ 7,103
Intersegment sales	8	2	10	27	—	(47)	—
Segment Income	195	155	26	100	—	—	476
Depreciation and amortization	97	118	37	42	(35)	1	260
Capital expenditures	26	63	21	18	(11)	3	120

Selected Operating Results April 1, 2007 Through May 15, 2007	North America	Europe	Asia	South America	Adjustment to Eliminate Proportional Consolidation	Corporate and Other	Total
(Predecessor)							
Net sales (to third parties)	$ 446	$ 510	$ 216	$ 109	$ —	$ —	$ 1,281
Intersegment sales	—	—	1	7	—	(8)	—
Segment Income (Loss)	(24)	32	6	18	—	—	32
Depreciation and amortization	7	11	7	5	(3)	1	28
Capital expenditures	4	8	4	3	(3)	1	17

Novelis Inc.

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

Selected Operating Results Nine Months Ended December 31, 2006	North America	Europe	Asia	South America	Adjustment to Eliminate Proportional Consolidation	Corporate and Other	Total
(Predecessor)							
Net sales (to third parties)	$ 2,796	$ 2,794	$ 1,298	$ 654	$ (12)	$ —	$ 7,530
Intersegment sales	2	5	12	43	—	(62)	—
Segment Income (Loss)	(37)	191	56	125	—	—	335
Depreciation and amortization	52	69	41	33	(23)	3	175
Capital expenditures	31	36	20	22	(15)	1	95

The following table shows the reconciliation from Total Segment Income to Net income (loss) (in millions).

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Total Segment Income	$ 172	$ 59	$ 476	$ 32	$ 335
Interest expense and amortization of debt issuance costs — net	(47)	(57)	(128)	(26)	(158)
Unrealized gains (losses) on change in fair value of derivative instruments — net(A)	(24)	(16)	(126)	5	(151)
Realized gains (losses) on corporate derivative instruments — net	2	(35)	39	(3)	(35)
Depreciation and amortization	(105)	(59)	(260)	(28)	(175)
Minority interests' share	—	1	2	1	(1)
Adjustment to eliminate proportional consolidation(B)	(18)	(9)	(44)	(7)	(27)
Restructuring charges — net	(1)	(6)	(2)	(1)	(18)
Gains or (losses) on disposal of property, plant, and equipment — net	—	(4)	—	—	(6)
Corporate selling, general and administrative expenses	(17)	(39)	(41)	(35)	(101)
Other costs — net(C)	(7)	26	(2)	1	30
Sale transaction fees	—	—	—	(32)	—
Benefit (provision) for taxes on income (loss)	(4)	34	(4)	(4)	106
Net income (loss)	$ (49)	$ (105)	$ (90)	$ (97)	$ (201)

(A) Unrealized gains (losses) on change in fair value of derivative instruments — net represents the portion of gains (losses) that were not settled in cash during the period. Total realized and unrealized gains (losses) are shown in the table below and are included in the aggregate each period in *(Gain) loss on change in fair value of derivative instruments — net* on our condensed consolidated statements of operations.

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
(Gain) loss on change in fair value of derivative instruments — net:					
Realized and included in Segment Income	$ 28	$ (56)	$ (15)	$ (18)	$ (195)
Realized on corporate derivative instruments	(2)	35	(39)	3	35
Unrealized	24	16	126	(5)	151
(Gain) loss on change in fair value of derivative instruments — net	$ 50	$ (5)	$ 72	$ (20)	$ (9)

(B) Our financial information for our segments (including Segment Income) 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 GAAP, these non-consolidated affiliates are accounted for using the equity method of accounting. Therefore, in order to reconcile Total Segment Income to Net income (loss), the proportional Segment Income of these non-consolidated affiliates is removed from Total Segment Income, net of our share of their net after-tax results, which is reported as *Equity in net (income) loss of non-consolidated affiliates* on our condensed consolidated statements of operations. See Note 7 — Investment in and Advances to Non-Consolidated Affiliates and Related Party Transactions for further information about these non-consolidated affiliates.

(C) Other costs — net includes a gain on sale of equity interest in non-consolidated affiliates and a gain on sale of rights to develop and operate hydroelectric power plants, recognized in the three months ended December 31, 2006 (see Note 15 — Other (Income) Expenses — net).

Major Customer Information

All of our operating segments had net sales to Rexam Plc (Rexam), our largest customer. The table below shows our net sales to Rexam as a percentage of total net sales.

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2006
	Successor	*Predecessor*	*Successor*	*Predecessor*	*Predecessor*
Net sales to Rexam as a percentage of total net sales	15.9%	15.0%	15.2%	13.5%	14.2%

19. Supplemental Guarantor Information

In connection with the issuance of our Senior Notes, certain of our wholly-owned subsidiaries provided guarantees of the Senior Notes. These guarantees are full and unconditional as well as joint and several. The

Novelis Inc.

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

guarantor subsidiaries (the Guarantors) are comprised of the majority of our businesses in Canada, the U.S., the U.K., Brazil and Switzerland, as well as certain businesses in Germany. 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 Senior Notes.

The following information presents consolidating statements of operations, consolidating balance sheets and consolidating 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.

Novelis Inc.

Consolidating Statement of Operations
(In millions)

	Three Months Ended December 31, 2007 *(Successor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 334	$ 2,150	$ 783	$ (532)	$ 2,735
Cost of goods sold (exclusive of depreciation and amortization shown below)	335	1,929	737	(526)	2,475
Selling, general and administrative expenses	20	61	18	—	99
Depreciation and amortization	6	91	8	—	105
Research and development expenses	9	6	(4)	—	11
Interest expense and amortization of debt issuance costs — net	8	32	7	—	47
Loss on change in fair value of derivative instruments — net	(8)	50	8	—	50
Equity in net (income) loss of affiliates	22	4	—	(22)	4
Other (income) expenses — net	(10)	(12)	12	(1)	(11)
	382	2,161	786	(549)	2,780
Income (loss) before provision for taxes on income (loss) and minority interests' share	(48)	(11)	(3)	17	(45)
Provision (benefit) for taxes on income (loss)	1	2	1	—	4
Income (loss) before minority interests' share	(49)	(13)	(4)	17	(49)
Minority interests' share	—	—	—	—	—
Net income (loss)	$ (49)	$ (13)	$ (4)	$ 17	$ (49)

Novelis Inc.

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

Novelis Inc.

Consolidating Statement of Operations
(In millions)

	Three Months Ended December 31, 2006 *(Predecessor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 368	$ 2,031	$ 736	$ (663)	$ 2,472
Cost of goods sold (exclusive of depreciation and amortization shown below)	358	1,993	701	(666)	2,386
Selling, general and administrative expenses	25	76	16	—	117
Depreciation and amortization	4	39	16	—	59
Research and development expenses	8	4	(1)	—	11
Interest expense and amortization of debt issuance costs — net	15	38	4	—	57
Loss on change in fair value of derivative instruments — net	30	(35)	—	—	(5)
Equity in net (income) loss of affiliates	40	(4)	—	(40)	(4)
Other (income) expenses — net	(5)	(7)	3	—	(9)
	475	2,104	739	(706)	2,612
Loss before provision (benefit) for taxes on loss and minority interests' share	(107)	(73)	(3)	43	(140)
Provision (benefit) for taxes on loss	(2)	(36)	4	—	(34)
Loss before minority interests' share	(105)	(37)	(7)	43	(106)
Minority interests' share	—	—	1	—	1
Net loss	$ (105)	$ (37)	$ (6)	$ 43	$ (105)

Novelis Inc.

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

Novelis Inc.

Consolidating Statement of Operations (In millions)

	May 16, 2007 Through December 31, 2007 *(Successor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 948	$ 5,897	$ 1,938	$ (1,680)	$ 7,103
Cost of goods sold (exclusive of depreciation and amortization shown below)	947	5,363	1,836	(1,680)	6,466
Selling, general and administrative expenses	33	148	48	—	229
Depreciation and amortization	14	203	43	—	260
Research and development expenses	18	15	1	—	34
Interest expense and amortization of debt issuance costs — net	26	87	15	—	128
(Gain) loss on change in fair value of derivative instruments — net	(20)	73	19	—	72
Equity in net (income) loss of affiliates	17	9	—	(17)	9
Other (income) expenses — net	(24)	6	11	—	(7)
	1,011	5,904	1,973	(1,697)	7,191
Income (loss) before provision for taxes on income (loss) and minority interests' share	(63)	(7)	(35)	17	(88)
Provision (benefit) for taxes on income (loss)	27	(24)	1	—	4
Income (loss) before minority interests' share	(90)	17	(36)	17	(92)
Minority interests' share	—	—	2	—	2
Net income (loss)	$ (90)	$ 17	$ (34)	$ 17	$ (90)

Novelis Inc.

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

Novelis Inc.

Consolidating Statement of Operations (In millions)

	April 1, 2007 Through May 15, 2007 *(Predecessor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 129	$ 1,020	$ 359	$ (227)	$ 1,281
Cost of goods sold (exclusive of depreciation and amortization shown below)	131	961	340	(227)	1,205
Selling, general and administrative expenses	29	51	15	—	95
Depreciation and amortization	2	18	8	—	28
Research and development expenses	5	1	—	—	6
Interest expense and amortization of debt issuance costs — net	3	20	3	—	26
(Gain) loss on change in fair value of derivative instruments — net	(2)	(19)	1	—	(20)
Equity in net (income) loss of affiliates	29	(1)	—	(29)	(1)
Sale transaction fees	32	—	—	—	32
Other (income) expenses — net	(3)	9	(2)	—	4
	226	1,040	365	(256)	1,375
Loss before provision for taxes on loss and minority interests' share	(97)	(20)	(6)	29	(94)
Provision for taxes on loss	—	3	1	—	4
Loss before minority interests' share	(97)	(23)	(7)	29	(98)
Minority interests' share	—	—	1	—	1
Net income (loss)	$ (97)	$ (23)	$ (6)	$ 29	$ (97)

Novelis Inc.

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

Novelis Inc.

Consolidating Statement of Operations (In millions)

	Nine Months Ended December 31, 2006 *(Predecessor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 1,202	$ 6,380	$ 2,149	$ (2,201)	$ 7,530
Cost of goods sold (exclusive of depreciation and amortization shown below)	1,167	6,188	2,035	(2,208)	7,182
Selling, general and administrative expenses	59	206	53	—	318
Depreciation and amortization	11	115	49	—	175
Research and development expenses	22	9	—	—	31
Interest expense and amortization of debt issuance costs — net	37	108	13	—	158
(Gain) loss on change in fair value of derivative instruments — net	39	(54)	6	—	(9)
Equity in net (income) loss of affiliates	84	(13)	—	(84)	(13)
Other (income) expenses — net	(18)	14	(2)	—	(6)
	1,401	6,573	2,154	(2,292)	7,836
Loss before provision for taxes on income (loss) and minority interests' share	(199)	(193)	(5)	91	(306)
Provision (benefit) for taxes on income (loss)	2	(98)	(10)	—	(106)
Income (loss) before minority interests' share	(201)	(95)	5	91	(200)
Minority interests' share	—	—	(1)	—	(1)
Net income (loss)	$ (201)	$ (95)	$ 4	$ 91	$ (201)

Novelis Inc.

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

Novelis Inc.

Consolidating Balance Sheet
(In millions)

	As of December 31, 2007 *(Successor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 3	$ 97	$ 33	$ —	$ 133
Accounts receivable — net of allowances					
— third parties	37	854	444	—	1,335
— related parties	520	234	18	(743)	29
Inventories	63	966	412	—	1,441
Prepaid expenses and other current assets	5	29	14	—	48
Current portion of fair value of derivative instruments	3	49	4	(2)	54
Deferred income tax assets	—	1	5	—	6
Total current assets	631	2,230	930	(745)	3,046
Property, plant and equipment — net	185	2,433	755	(1)	3,372
Goodwill	—	1,980	194	—	2,174
Intangible assets — net	—	873	—	—	873
Investments	3,594	920	—	(3,594)	920
Fair value of derivative instruments — net of current portion	—	10	—	—	10
Deferred income tax assets	5	1	1	—	7
Other long-term assets	1,262	151	131	(1,410)	134
Total assets	$ 5,677	$ 8,598	$ 2011	$ (5,750)	$ 10,536
LIABILITIES AND SHAREHOLDER'S EQUITY					
Current liabilities					
Current portion of long-term debt	$ 3	$ 10	$ 1	$ —	$ 14
Short-term borrowings					
— third parties	8	170	67	—	245
— related parties	5	394	57	(456)	—
Accounts payable					
— third parties	72	703	548	—	1,323
— related parties	88	200	56	(284)	60
Accrued expenses and other current liabilities	73	711	103	(6)	881
Deferred income tax liabilities	—	69	1	—	70
Total current liabilities	249	2,257	833	(746)	2,593
Long-term debt — net of current portion					
— third parties	1,763	694	102	—	2,559
— related parties	—	1,147	263	(1,410)	—
Deferred income tax liabilities	(6)	674	17	—	685
Accrued postretirement benefits	23	285	105	—	421
Other long-term liabilities	171	469	19	—	659
	2,200	5,526	1,339	(2,156)	6,909
Commitments and contingencies					
Minority interests in equity of consolidated affiliates	—	—	150	—	150
Shareholder's equity					
Common stock	—	—	—	—	—
Additional paid-in capital	3,497	—	—	—	3,497
(Accumulated deficit)/retained earnings/owner's net investment	(90)	3,021	545	(3,566)	(90)
Accumulated other comprehensive income	70	51	(23)	(28)	70
Total shareholder's equity	3,477	3,072	522	(3,594)	3,477
Total liabilities and shareholder's equity	$ 5,677	$ 8,598	$ 2,011	$ (5,750)	$ 10,536

Novelis Inc.

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

Novelis Inc.

Consolidating Balance Sheet
(In millions)

	As of March 31, 2007 *(Predecessor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 6	$ 71	$ 51	$ —	$ 128
Accounts receivable — net of allowances					
— third parties	36	903	411	—	1,350
— related parties	416	500	58	(949)	25
Inventories	65	1,004	417	(3)	1,483
Prepaid expenses and other current assets	3	26	10	—	39
Current portion of fair value of derivative instruments	—	88	4	—	92
Deferred income tax assets	3	12	4	—	19
Total current assets	529	2,604	955	(952)	3,136
Property, plant and equipment — net	112	1,229	765	—	2,106
Goodwill	—	29	210	—	239
Intangible assets — net	—	18	2	—	20
Investments	362	153	—	(362)	153
Fair value of derivative instruments — net of current portion	—	55	—	—	55
Deferred income tax assets	1	66	35	—	102
Other long-term assets	1,231	160	132	(1,364)	159
Total assets	$ 2,235	$ 4,314	$ 2,099	$ (2,678)	$ 5,970
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Current portion of long-term debt	$ —	$ 3	$ 140	$ —	$ 143
Short-term borrowings					
— third parties	—	241	4	—	245
— related parties	15	529	61	(605)	—
Accounts payable					
— third parties	116	938	560	—	1,614
— related parties	69	240	84	(344)	49
Accrued expenses and other current liabilities	63	317	100	—	480
Deferred income tax liabilities	—	73	—	—	73
Total current liabilities	263	2,341	949	(949)	2,604
Long-term debt — net of current portion					
— third parties	1,659	496	2	—	2,157
— related parties	—	1,116	248	(1,364)	—
Deferred income tax liabilities	—	89	14	—	103
Accrued postretirement benefits	19	293	115	—	427
Other long-term liabilities	119	214	19	—	352
	2,060	4,549	1,347	(2,313)	5,643
Commitments and contingencies					
Minority interests in equity of consolidated affiliates	—	—	152	—	152
Shareholders' equity					
Common stock	—	—	—	—	—
Additional paid-in capital	428	—	—	—	428
(Accumulated deficit)/retained earnings/owner's net investment	(263)	(458)	575	(117)	(263)
Accumulated other comprehensive income	10	223	25	(248)	10
Total shareholders' equity	175	(235)	600	(365)	175
Total liabilities and shareholders' equity	$ 2,235	$ 4,314	$ 2,099	$ (2,678)	$ 5,970

Novelis Inc.

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

Novelis Inc.

Consolidating Statement of Cash Flows
(In millions)

	May 16, 2007 Through December 31, 2007 *(Successor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
OPERATING ACTIVITIES					
Net cash provided by (used in) operating activities	$ 200	$ (142)	$ (27)	$ —	$ 31
INVESTING ACTIVITIES					
Capital expenditures	(6)	(90)	(24)	—	(120)
Proceeds from sales of assets	—	3	1	—	4
Changes to investment in and advances to non-consolidated affiliates	(40)	5	—	40	5
Proceeds from loans receivable — net					
— related parties	—	12	—	—	12
Net proceeds from settlement of derivative instruments	13	26	17	—	56
Net cash provided by (used in) investing activities	(33)	(44)	(6)	40	(43)
FINANCING ACTIVITIES					
Proceeds from issuance of common stock	92	40	—	(40)	92
Proceeds from issuance of debt	300	660	140	—	1,100
Principal repayments	(263)	(602)	(140)	—	(1,005)
Short-term borrowings — net					
— third parties	(37)	(84)	18	—	(103)
— related parties	(227)	195	32	—	—
Dividends					
— minority interests	—	—	(1)	—	(1)
Debt issuance costs	(37)	—	—	—	(37)
Net cash provided by (used in) financing activities	(172)	209	49	(40)	46
Net increase in cash and cash equivalents	(5)	23	16	—	34
Effect of exchange rate changes on cash balances held in foreign currencies	—	—	(3)	—	(3)
Cash and cash equivalents — beginning of period	8	74	20	—	102
Cash and cash equivalents — end of period	$ 3	$ 97	$ 33	$ —	$ 133

Novelis Inc.

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

Novelis Inc.

Consolidating Statement of Cash Flows
(In millions)

	April 1, 2007 Through May 15, 2007 *(Predecessor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
OPERATING ACTIVITIES					
Net cash used in operating activities	$ (21)	$ (181)	$ (28)	$ —	$ (230)
INVESTING ACTIVITIES					
Capital expenditures	(1)	(10)	(6)	—	(17)
Changes to investment in and advances to non-consolidated affiliates	—	1	—	—	1
Net proceeds from settlement of derivative instruments	(5)	23	—	—	18
Net cash provided by (used in) investing activities	(6)	14	(6)	—	2
FINANCING ACTIVITIES					
Proceeds from issuance of debt	—	150	—	—	150
Principal repayments	—	(1)	—	—	(1)
Short-term borrowings — net					
— third parties	45	9	6	—	60
— related parties	(15)	11	4	—	—
Dividends					
— minority interests	—	—	(7)	—	(7)
Debt issuance costs	(2)	—	—	—	(2)
Proceeds from the exercise of stock options	1	—	—	—	1
Net cash provided by financing activities	29	169	3	—	201
Net increase (decrease) in cash and cash equivalents	2	2	(31)	—	(27)
Effect of exchange rate changes on cash balances held in foreign currencies	—	1	—	—	1
Cash and cash equivalents — beginning of period	6	71	51		128
Cash and cash equivalents — end of period	$ 8	$ 74	$ 20	$ —	$ 102

Novelis Inc.

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

Novelis Inc.

Consolidating Statement of Cash Flows (In millions)

	Nine Months Ended December 31, 2006 *(Predecessor)*				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
OPERATING ACTIVITIES					
Net cash provided by (used in) operating activities	$ 90	$ (154)	$ 39	$ (54)	$ (79)
INVESTING ACTIVITIES					
Capital expenditures	(5)	(59)	(31)	—	(95)
Cash advance received on pending transfer of rights	—	—	—	—	—
Proceeds from sales of assets	—	36	—	—	36
Changes to investment in and advances to non-consolidated affiliates	—	1	—	—	1
Proceeds from loans receivable — net					
— related parties	(12)	(67)	(28)	137	30
Net proceeds from settlement of derivative instruments	(34)	202	(1)	—	167
Net cash provided by (used in) investing activities	(51)	113	(60)	137	139
FINANCING ACTIVITIES					
Proceeds from issuance of debt					
— third parties	—	—	41	—	41
— related parties	—	1300	460	(1,760)	—
Principal repayments					
— third parties	(54)	(96)	(91)	—	(241)
— related parties	—	(1,187)	(397)	(1,584)	—
Short-term borrowings — net					
— third parties	—	97	—	—	97
— related parties	—	(3)	3	—	—
Dividends					
— common shareholders	(8)	(90)	(3)	93	(8)
— minority interests	—	—	(2)	—	(2)
Net receipts from Alcan	5	—	—	—	5
Debt issuance costs	(10)	—	—	—	(10)
Proceeds from the exercise of stock options	2	—	—	—	2
Net cash provided by (used in) financing activities	(65)	21	11	(83)	(116)
Net decrease in cash and cash equivalents	(26)	(20)	(10)	—	(56)
Effect of exchange rate changes on cash balances held in foreign currencies	—	2	3	—	5
Cash and cash equivalents — beginning of period	29	55	40	—	124
Cash and cash equivalents — end of period	$ 3	$ 37	$ 33	$ —	$ 73

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."

REFERENCES

References herein to "Novelis," the "Company," "we," "our," or "us" refer to Novelis Inc. and its subsidiaries as both Predecessor and Successor unless the context specifically indicates otherwise. References herein to "Hindalco" refer to Hindalco Industries Limited. References herein to "Alcan" refer to Rio Tinto Alcan Inc.

References to our Form 10-K made throughout this document refer to our Annual Report on Form 10-K for the year ended December 31, 2006, as amended, originally filed with the United States Securities and Exchange Commission (SEC) on March 1, 2007, as amended on April 30, 2007.

GENERAL

Novelis is the world's leading aluminum rolled products producer based on shipment volume. We produce aluminum sheet and light gauge products for the construction and industrial, beverage and food cans, foil products and transportation markets. As of December 31, 2007, we had operations on four continents: North America; South America; Asia and Europe, through 33 operating plants and three research facilities in 11 countries. In addition to aluminum rolled products plants, our South American businesses include bauxite mining, alumina refining, primary aluminum smelting and power generation facilities that are integrated with our rolling plants in Brazil. 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.

Acquisition of Novelis Common Stock

On May 15, 2007, the Company was acquired by Hindalco through its indirect wholly-owned subsidiary AV Metals Inc. (Acquisition Sub) pursuant to a plan of arrangement (Arrangement) entered into on February 10, 2007 and approved by the Ontario Superior Court of Justice on May 14, 2007. As a result of the Arrangement, Acquisition Sub acquired all of the Company's outstanding common shares at a price of $44.93 per share, and all outstanding stock options and other equity incentives were terminated in exchange for cash payments. The aggregate purchase price for the Company's common shares was $3.4 billion and immediately following the Arrangement, the common shares of the Company were transferred from Acquisition Sub to its wholly-owned subsidiary AV Aluminum Inc. (AV Aluminum). Hindalco also assumed $2.8 billion of Novelis' debt for a total transaction value of $6.2 billion.

On June 22, 2007, we issued 2,044,122 additional common shares to AV Aluminum for $44.93 per share resulting in an additional equity contribution of approximately $92 million. This contribution was equal in amount to certain payments made by Novelis related to change in control compensation to certain employees and directors, lender fees and other transaction costs incurred by the Company. As this transaction was approved by Hindalco and the Company and executed subsequent to the Arrangement, the $92 million cash payment is not included in the determination of total consideration.

As discussed in Note 1 — Business and Summary of Significant Accounting Policies in the accompanying condensed and consolidated financial statements, the Arrangement was recorded in accordance with Staff Accounting Bulletin (SAB) No. 103, *Push Down Basis of Accounting Required in Certain Limited Circumstances*, which states that purchase transactions that result in an entity becoming substantially wholly-owned establish a new basis of accounting for the purchased assets and liabilities. Accordingly, in the accompanying

December 31, 2007 condensed consolidated balance sheet, the consideration and related costs paid by Hindalco in connection with the acquisition have been "pushed down" to us and have been allocated to the assets acquired and liabilities assumed in accordance with Financial Accounting Standards Board (FASB) Statement No. 141, *Business Combinations*. Due to the impact of push down accounting, the condensed consolidated financial statements and certain note presentations for the nine months ended December 31, 2007 separate the Company's presentations into distinct periods to indicate the application of different bases of accounting between the periods presented: (1) the period up to, and including, the acquisition date (April 1, 2007 through May 15, 2007, labeled "Predecessor") and (2) the period after that date (May 16, 2007 through December 31, 2007, labeled "Successor"). The accompanying condensed consolidated financial statements and tables included in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) include a black line division when both Predecessor and Successor periods are presented, indicating that the Predecessor and Successor entities are not comparable.

CHANGE IN FISCAL YEAR END

On June 26, 2007, our board of directors approved the change of our fiscal year end to March 31 from December 31. This Quarterly Report on Form 10-Q for the period ended December 31, 2007 is our third quarter filing for our new fiscal year ending March 31, 2008, and references to this quarter will be to the third quarter of fiscal 2008. Comparisons will be made to the three months ended December 31, 2006, which will be referred to as the comparable prior year period, the quarter ended December 31, 2006 or the three months ended December 31, 2006.

NOTE REGARDING COMBINED RESULTS OF OPERATIONS AND SELECTED FINANCIAL AND OPERATING INFORMATION DUE TO OUR ACQUISITION BY HINDALCO

As discussed above, the Arrangement created a new basis of accounting. Under generally accepted accounting principles in the United States of America (GAAP), the condensed consolidated financial statements for the nine months ended December 31, 2007 are presented in two distinct periods, as Predecessor and Successor entities are not comparable in all material respects. However, in our MD&A, in order to facilitate an understanding of our results of operations, segment information and liquidity and capital resources for the nine months ended December 31, 2007 in comparison with the nine months ended December 31, 2006, our Predecessor and Successor operating results, segment information and cash flows are presented on a combined basis. The combined operating results, segment information and cash flows are non-GAAP financial measures, do not include any pro forma assumptions or adjustments and should not be used in isolation or substitution of the Predecessor and Successor operating results, segment information or cash flows.

Shown below are combining schedules of (1) shipments and (2) our results of operations for periods allocable to the Successor, Predecessor and the combined presentation for the nine months ended December 31, 2007 that we use throughout our MD&A.

	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2007
	Successor	*Predecessor*	*Combined*
Combined Shipments:			
Shipments (kt)(A):			
Rolled products(B)	1,886	348	2,234
Ingot products(C)	108	15	123
Total shipments	1,994	363	2,357

(A) One kilotonne (kt) is 1,000 metric tonnes. One metric tonne is equivalent to 2,204.6 pounds.

(B) Rolled products include tolling (the conversion of customer-owned metal).

(C) Ingot products include primary ingot in Brazil, foundry products in Korea and Europe, secondary ingot in Europe and other miscellaneous recyclable aluminum.

	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2007
	Successor	*Predecessor*	*Combined*
Combined Results of Operations ($ in millions)			
Net sales	$ 7,103	$ 1,281	$ 8,384
Cost of goods sold (exclusive of depreciation and amortization shown below)	6,466	1,205	7,671
Selling, general and administrative expenses	229	95	324
Depreciation and amortization	260	28	288
Research and development expenses	34	6	40
Interest expense and amortization of debt issuance costs — net	128	26	154
(Gain) loss on change in fair value of derivative instruments — net	72	(20)	52
Equity in net (income) loss of non-consolidated affiliates	9	(1)	8
Sale transaction fees	—	32	32
Other (income) expenses — net	(7)	4	(3)
	7,191	1,375	8,566
Income (loss) before provision for taxes on income (loss) and minority interests' share	(88)	(94)	(182)
Provision (benefit) for taxes on income (loss)	4	4	8
Income (loss) before minority interests' share	(92)	(98)	(190)
Minority interests' share	2	1	3
Net income (loss)	$ (90)	$ (97)	$ (187)

HIGHLIGHTS

Significant highlights, events and factors impacting our business during the quarters and nine months ended December 31, 2007 and 2006 are presented briefly below. Each is discussed in further detail throughout our MD&A.

- Shipments and selected financial information are as follows ($ in millions):

	Quarter Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	Successor	*Predecessor*	*Combined*	*Predecessor*
Shipments (kt):				
Rolled products	730	729	2,234	2,219
Ingot products	42	38	123	122
Total shipments	772	767	2,357	2,341
Net sales	$ 2,735	$ 2,472	$ 8,384	$ 7,530
Net income (loss)	$ (49)	$ (105)	$ (187)	$ (201)
Net increase (decrease) in total debt(A)	$ 3	$ (11)	$ 208	$ (92)

(A) Net increase (decrease) in total debt is measured comparing the period-end amounts of our total outstanding debt (including short-term borrowings) as shown in our condensed consolidated balance sheets. For the three and nine months ended December 31, 2007, the net increase (decrease) in total debt excludes the change in unamortized fair value adjustments recorded as part of the Arrangement.

- Rolled products shipments during the third quarter ended December 31, 2007 were flat year over year. Increased shipments in South America and Asia were due to increased demand in their local can markets which were offset by reductions in North America and Europe. North America saw continued shipment declines in the automotive, distributor and industrial markets, and Europe experienced minor reductions across several product lines. Year-to-date, rolled product shipments are up in every region except North America primarily as a result of increased demand in their respective regional can markets. Compared to the prior year, the North American demand for rolled products has declined most notably in the industrial and distributor markets partially due to a slowdown in housing construction.
- London Metal Exchange (LME) pricing for aluminum (metal) was an average of 10.3% and 1.4% lower during the third quarter and nine months ended December 31, 2007, respectively, than the comparable prior year periods. Cash prices have trended down this fiscal year and as of March 31, 2007; June 30, 2007; September 30, 2007 and December 31, 2007 cash prices per metric tonne were $2,792; $2,686; $2,440 and $2,360, respectively. This trend negatively impacted our fiscal 2008 third quarter and nine month results as described more fully below under Metal Price Lag.
- During the third quarter of fiscal 2008 and the comparable prior year quarter, we were unable to pass through approximately $45 million and $125 million, respectively, of metal purchase costs associated with sales under contracts with metal price ceilings (described more fully below), for a net favorable comparable impact of approximately $80 million.

  During the nine months ended December 31, 2007 and the comparable prior year period, we were unable to pass through approximately $185 million and $380 million, respectively, of metal purchase costs associated with sales under these contracts, for a net favorable comparable impact of approximately $195 million.

  Net sales for the third quarter and nine months ended December 31, 2007 were also favorably impacted by $76 million and $205 million, respectively, related to the accretion of fair value reserves associated with these contracts, as discussed more fully below under Metal Price Ceilings.
- Compared to the nine months ended December 31, 2006, net loss for the nine months ended December 31, 2007 was impacted by the following pre-tax items associated with or triggered by the Arrangement: (1) $43 million of incremental stock compensation expense, (2) $32 million of sale transaction fees and (3) $18 million of incremental income associated with push-down accounting and the preliminary allocation of purchase price.
- During the third quarter of fiscal 2008 and on a year-to-date basis, our total debt increased by $3 million and $208 million (excluding unamortized fair value adjustments recorded as part of the acquisition by Hindalco), respectively. The year-to-date increase in debt was driven primarily by our need to fund additional working capital requirements as well as certain costs associated with or triggered by the Arrangement that were in excess of the additional $92 million of equity contributed by Hindalco.

- As described more fully in Note 2 — Acquisition of Novelis Common Stock in the accompanying condensed and consolidated financial statements, the consideration paid by Hindalco to acquire Novelis has been pushed down to us and allocated to the assets acquired and liabilities assumed based on our estimates of fair value, using methodologies and assumptions that we believe are reasonable. This allocation of fair value results in additional charges or income to our post-acquisition consolidated statements of operations. A summary of the pre-tax impacts of these items on pre-tax income and Segment Income for the third quarter and nine months ended December 31, 2007 is shown below (in millions).

	Quarter Ended December 31, 2007		Nine Months Ended December 31, 2007	
	Increase (Decrease) to:		Increase (Decrease) to:	
	Pre-Tax Income	Segment Income(A)	Pre-Tax Income	Segment Income(A)
Metal price ceiling contracts	$ 76	$ 76	$ 205	$ 205
Other favorable/unfavorable contracts	(2)	(2)	(5)	(5)
Depreciation and amortization	(48)	—	(113)	—
In-process research and development	—	—	(9)	(9)
Inventory	—	—	(35)	(35)
Equity investments	(15)	—	(26)	—
Fair value of debt	(3)	—	1	—
Total impact	$ 8	$ 74	$ 18	$ 156

(A) We use Segment Income to measure the profitability and financial performance of our operating segments, as discussed below in OPERATING SEGMENT REVIEW.

OUR BUSINESS

Business Model and Key Concepts

Most of our business is conducted under a conversion model, which allows us to pass through increases or decreases in the price of metal 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 "margin over metal" price based on the conversion cost to produce the rolled product and the competitive market conditions for that product.

Metal Price Ceilings

Sales contracts representing approximately 10% of our total shipments for both the quarter and nine months ended December 31, 2007 and 20% for both of the comparable prior year periods, provide for a ceiling over which metal purchase costs cannot contractually be passed through to certain customers, unless adjusted. This negatively impacts our margins when the price we pay for metal is above the ceiling price contained in these contracts. During the quarter ended December 31, 2007 and the comparable prior year period, we were unable to pass through approximately $45 million and $125 million, respectively, of metal purchase costs associated with sales under these contracts. During the nine months ended December 31, 2007 and the comparable prior year period, we were unable to pass through approximately $185 million and $380 million, respectively, of metal purchase costs associated with sales under these contracts. We calculate and report this difference to be approximately the difference between the quoted purchase price on the LME (adjusted for any local premiums and for any price lag associated with purchasing or processing time) and the metal price ceiling in our contracts. Cash flows from operations are negatively impacted by the same amounts, adjusted for any timing difference between customer receipts and vendor payments, and offset partially by reduced income taxes.

Based on a December 31, 2007 aluminum price of $2,360 per tonne, and our best estimate of a range of shipment volumes, we estimate that we will be unable to pass through aluminum purchase costs of approximately $38 — $40 million for the remainder of fiscal 2008 and $240 — $260 million in the aggregate thereafter.

In connection with the allocation of purchase price (i.e., total consideration) paid by Hindalco, we established reserves totaling $655 million as of May 15, 2007 to record these contracts at fair value. Fair value effectively represents the discounted cash flows of the forecasted metal purchase costs in excess of the metal price ceilings contained in these contracts. These reserves are being accreted into Net sales over the remaining lives of the underlying contracts, and this accretion does not impact future cash flows. We recorded total accretion of $205 million during the period from May 16, 2007 through December 31, 2007, $76 million of which was recorded during the quarter ended December 31, 2007.

We employ three strategies to mitigate our risk of rising metal prices that we cannot pass through to certain customers due to metal price ceilings. First, we maximize the amount of our internally supplied metal inputs from our smelting, refining and mining operations in Brazil. Second, we rely on the output from our recycling operations which utilize used beverage cans (UBCs). Both of these sources of aluminum supply have historically provided a benefit as these sources of metal are typically less expensive than purchasing aluminum from third party suppliers. We refer to these two sources as our internal hedges.

Beyond our internal hedges described above, our third strategy to mitigate the risk of loss or reduced profitability associated with the metal price ceilings is to purchase futures, call options and/or synthetic call options on projected aluminum volume requirements above our assumed internal hedge position. To hedge our exposure in 2006, we previously purchased call options at various strike prices. We currently purchase forward derivative instruments to hedge our exposure to further metal price increases.

Metal Price Lag

On certain sales contracts we experience timing differences on the pass through of changing aluminum prices based on the difference between the price we pay for aluminum and the price we ultimately charge our customers after the aluminum is processed. Generally, and in the short-term, in periods of rising prices our earnings benefit from this timing difference while the opposite is true in periods of declining prices, and we refer to this timing difference as metal price lag. Metal price lag negatively impacted the quarter ended December 31, 2007 by approximately $9 million and benefited the comparable prior year period by approximately $27 million, for a net unfavorable impact of $36 million. For the nine months ended December 31, 2007, metal price lag negatively impacted our results by $56 million and favorably impacted the comparable prior year period by approximately $67 million, for a net unfavorable impact of $121 million. These amounts are reported herein without regard to the effects of any derivative instruments we purchased to offset this risk as described below.

Generally, and in the short-term, metal price lag impacts cash flows negatively in periods of rising metal prices due primarily to inventory processing time, while the opposite is true in periods of declining prices.

Certain of our sales contracts, most notably in Europe, contain fixed metal prices for periods of time such as four to thirty-six months. In some cases, this can result in a negative (positive) impact on sales, compared to current prices, as metal prices increase (decrease) because the prices are fixed at historical levels. The positive or negative impact on sales under these contracts has not been included in the metal price lag effect quantified above, as we enter into forward metal purchases simultaneous with the sales contracts thereby eliminating the exposure to changing metal prices on sales under these contracts. For general metal price lag exposure described in the preceding paragraphs, we sell short-term LME forward contracts to help mitigate the exposure, although exact offset hedging is not achieved.

The sales and Segment Income impacts of the above mentioned items are described more fully in the Operations and Segment Review where appropriate.

For accounting purposes, we do not treat all derivative instruments as hedges under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* For example, we do not treat the derivative instruments purchased to mitigate the risks discussed above under metal price ceilings and metal price lag as hedges under FASB No. 133. In those cases, changes in fair value are recognized immediately in earnings, which results in the recognition of fair value as a gain or loss in advance of the contract settlement, and we expect further earnings volatility as a result. In the accompanying condensed consolidated statements of operations, changes in fair value of derivative instruments not accounted for as hedges under FASB Statement No. 133 are recognized in (Gain) loss on change in fair value of derivative instruments — net. These gains or losses may or may not result from cash settlement. For Segment Income purposes we only include the impact of the derivative gains or losses to the extent they are settled in cash during that period.

Internal Controls

We previously reported in our Annual Report on Form 10-K for the year ended December 31, 2006 and continue to report as of December 31, 2007, that we have a material weakness in our internal control over financial reporting as we did not maintain effective controls over accounting for income taxes. See Item 4. Controls and Procedures.

Spin-Off from Alcan

On May 18, 2004, Alcan announced its intention to transfer its rolled products businesses into a separate company and to pursue a spin-off of that company to its shareholders. The rolled products businesses were managed under two separate operating segments within Alcan — Rolled Products Americas and Asia; and Rolled Products Europe. On January 6, 2005, Alcan and its subsidiaries contributed and transferred to Novelis substantially all of the aluminum rolled products businesses operated by Alcan, together with some of Alcan's alumina and primary metal-related businesses in Brazil, which are fully integrated with the rolled products operations there, as well as four rolling facilities in Europe whose end-use markets and customers were similar to ours.

Post-Transaction Adjustments

The agreements giving effect to the spin-off provide for various post-transaction adjustments and the resolution of outstanding matters. On November 8, 2006, we executed a settlement agreement with Alcan resolving the working capital and cash balance adjustments to our opening balance sheet and issues relating to the transfer of U.S. pension assets and liabilities from Alcan to Novelis. In October 2007, we completed the transfer of U.K. plan assets and liabilities. As of December 31, 2007, there remained an outstanding matter related to pension plans in Canada for those employees who elected to transfer their past service to Novelis. We expect the transfer of pension assets and liabilities in Canada will take place by June 30, 2008, and we expect that the plan assets transferred will approximate the liabilities assumed. To the extent that differences between transferred plan assets and liabilities exist, we will record the adjustments to goodwill.

Agreements between Novelis and Alcan

At the spin-off, we entered into various agreements with Alcan including the use of transitional and technical services, the supply from Alcan of metal and alumina, the licensing of certain of Alcan's patents, trademarks and other intellectual property rights, and the use of certain buildings, machinery and equipment, technology and employees at certain facilities retained by Alcan, but required in our business. The terms and conditions of the agreements were determined primarily by Alcan and may not reflect what two unaffiliated parties might have agreed to. Had these agreements been negotiated with unaffiliated third parties, their terms may have been more favorable, or less favorable, to us. See Item 1. Business in our Annual Report on Form 10-K for the year ended December 31, 2006 for additional information.

OPERATIONS AND SEGMENT REVIEW

The following tables present our shipments, our results of operations, prices for aluminum, oil and natural gas and key currency exchange rates for the quarters and nine months ended December 31, 2007 and 2006, and the changes from period to period.

	Quarter Ended December 31,		Percent Change	Nine Months Ended December 31,		Percent Change
	2007	2006		2007	2006	
	Successor	*Predecessor*		*Combined*	*Predecessor*	
Shipments (kt):						
Rolled products, including tolling (the conversion of customer-owned metal)	730	729	0.1%	2,234	2,219	0.7%
Ingot products, including primary and secondary ingot and recyclable aluminum	42	38	10.5%	123	122	0.8%
Total shipments	772	767	0.7%	2,357	2,341	0.7%

	Quarter Ended December 31,		Percent Change	Nine Months Ended December 31,		Percent Change
	2007	2006		2007	2006	
	Successor	*Predecessor*		*Combined*	*Predecessor*	
Results of Operations ($ in millions)						
Net sales	$ 2,735	$ 2,472	10.6%	$ 8,384	$ 7,530	11.3%
Cost of goods sold (exclusive of depreciation and amortization shown below)	2,475	2,386	3.7%	7,671	7,182	6.8%
Selling, general and administrative expenses	99	117	(15.4)%	324	318	1.9%
Depreciation and amortization	105	59	78.0%	288	175	64.6%
Research and development expenses	11	11	—%	40	31	29.0%
Interest expense and amortization of debt issuance costs — net	47	57	(17.5)%	154	158	(2.5)%
(Gain) loss on change in fair value of derivatives — net	50	(5)	(1,100.0)%	52	(9)	(677.8)%
Equity in net (income) loss of non-consolidated affiliates	4	(4)	(200.0)%	8	(13)	(161.5)%
Sale transaction fees	—	—	—%	32	—	n.m.
Other (income) expenses — net	(11)	(9)	22.2%	(3)	(6)	(50.0)%
	2,780	2,612	6.4%	8,566	7,836	9.3%
Income (loss) before provision (benefit) for taxes on income (loss) and minority interests' share	(45)	(140)	(67.9)%	(182)	(306)	(40.5)%
Provision (benefit) for taxes on income (loss)	4	(34)	(111.8)%	8	(106)	(107.5)%
Income (loss) before minority interests' share	(49)	(106)	(53.8)%	(190)	(200)	(5.0)%
Minority interests' share	—	1	(100.0)%	3	(1)	(400.0)%
Net income (loss)	$ (49)	$ (105)	(53.3)%	$ (187)	$ (201)	(7.0)%

n.m. — not meaningful

	Quarter Ended December 31,		Percent Change	Nine Months Ended December 31,		Percent Change
	2007	2006		2007	2006	
	Successor	*Predecessor*		*Combined*	*Predecessor*	
London Metal Exchange Prices						
Aluminum (per metric tonne, and presented in U.S. dollars):						
Closing cash price as of end of period	$ 2,360	$ 2,850	(17.2)%	$ 2,360	$ 2,850	(17.2)%
Average cash price during the period	$ 2,444	$ 2,724	(10.3)%	$ 2,584	$ 2,620	(1.4)%

	Quarter Ended December 31,		U.S. Dollar Strengthen/ (Weaken)	Nine Months Ended December 31,		U.S. Dollar Strengthen/ (Weaken)
	2007	2006		2007	2006	
	Successor	*Predecessor*		*Combined*	*Predecessor*	
Federal Reserve Bank of New York Exchange Rates						
Average of the month end rates:						
U.S. dollar per Euro	1.459	1.308	(11.5)%	1.400	1.286	(8.9)%
Brazilian real per U.S. dollar	1.766	2.145	(17.7)%	1.873	2.164	(13.4)%
South Korean won per U.S. dollar	920	934	(1.5)%	924	944	(2.1)%
Canadian dollar per U.S. dollar	0.979	1.143	(14.3)%	1.033	1.124	(8.1)%

	Quarter Ended December 31,		Percent Change	Nine Months Ended December 31,		Percent Change
	2007	2006		2007	2006	
	Successor	*Predecessor*		*Combined*	*Predecessor*	
New York Mercantile Exchange — Energy Price Quotations						
Light Sweet Crude						
Average settlement price (per barrel)	$ 88.60	$ 59.84	48.1%	$ 73.81	$ 66.21	11.5%
Natural Gas						
Average Henry Hub contract settlement price (per MMBTU)(A)	$ 6.97	$ 6.56	6.3%	$ 6.89	$ 6.64	3.8%

(A) One MMBTU is the equivalent of one decatherm, or one million British Thermal Units.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED DECEMBER 31, 2007 COMPARED TO THE QUARTER ENDED DECEMBER 31, 2006

Shipments

Rolled products shipments increased in Asia and South America due to increased demand in their respective can markets. These increases were offset by reductions in Europe and in North America. North America experienced shipment declines in the automotive, distributor and industrial markets, and Europe experienced minor reductions across several product lines.

Net sales

Net sales for the quarter ended December 31, 2007 increased from the comparable prior year period due primarily to improved pricing, lower exposure to metal price ceilings, accretion of contract fair value reserves and a strengthening euro. This increase was partially offset by lower average LME prices.

Net sales for the third quarter of fiscal 2008 were adversely impacted in North America due to price ceilings on certain can contracts, which limited our ability to pass through approximately $45 million of metal purchase costs. In comparison, we were unable to pass through approximately $125 million of metal purchase costs in the comparable prior year period, for a net favorable impact of approximately $80 million. North America net sales were also favorably impacted by $76 million related to the accretion of the contract fair value reserves, discussed above in Metal Price Ceilings.

Costs and Expenses

The following table presents our costs and expenses for the quarters ended December 31, 2007 and 2006, in U.S. dollars and expressed as percentages of net sales.

	Quarter Ended December 31,			
	2007		2006	
	$ in Millions	% of Net Sales	$ in Millions	% of Net Sales
	Successor		*Predecessor*	
Cost of goods sold (exclusive of depreciation and amortization shown below)	$ 2,475	90.5%	$ 2,386	96.5%
Selling, general and administrative expenses	99	3.6%	117	4.7%
Depreciation and amortization	105	3.8%	59	2.4%
Research and development expenses	11	0.4%	11	0.4%
Interest expense and amortization of debt issuance costs — net	47	1.7%	57	2.3%
(Gain) loss on change in fair value of derivative instruments — net	50	1.8%	(5)	(0.2)%
Equity in net income (loss) of non-consolidated affiliates	4	0.1%	(4)	(0.2)%
Other (income) expenses — net	(11)	(0.4)%	(9)	(0.4)%
	$ 2,780	101.6%	$ 2,612	105.7%

Cost of goods sold. Metal represents approximately 70% — 80% of our input costs, and as a percentage of net sales, cost of goods sold was adversely impacted in both periods due to price ceilings on certain can contracts, as discussed above; however, the current year quarter benefited from less volume sold under these contracts, as well as the accretion of the contract fair value reserves. As a percentage of net sales, cost of goods sold also improved as a result of pricing improvements across all of the regions, partially offset by certain operational cost increases.

Selling, general and administrative expenses (SG&A). SG&A decreased primarily as a result of corporate costs which were approximately $22 million lower. Corporate cost reductions were driven primarily by reduced spending on third party consultants at our corporate headquarters and lower long-term incentive compensation.

Depreciation and amortization. As a result of the Arrangement, as of May 15, 2007, we recorded increases in the basis to our property, plant and equipment and intangible assets. This results in higher post-acquisition depreciation and amortization and explains the increase shown above.

Interest expense and amortization of debt issuance costs — net. Interest expense declined primarily due to penalty interest incurred in the prior year as a result of our delayed filings and due to the write-off of a backstop commitment fee in the prior year.

Other (income) expenses — net. The reconciliation of the difference between the quarters is shown below (in millions):

	Other (Income) Expenses — Net
Other (income) expenses — net for the quarter ended December 31, 2006 *(Predecessor)*	$ (9)
Exchange gains of $12 million in fiscal 2008 compared to losses of $7 million in 2006	(19)
Restructuring charges — net of $1 million in fiscal 2008 compared to $6 million in 2006	(5)
Gain on sale of equity interest in non-consolidated affiliate in 2006 only	15
Gain on sale of rights to develop and operate hydroelectric power plants in 2006 only	11
Losses on disposals of property, plant and equipment — net in 2006 only	(4)
Other (income) expenses — net for the quarter ended December 31, 2007 *(Successor)*	$ (11)

Provision (benefit) for taxes on income (loss)

For the three months ended December 31, 2007, we recorded a $4 million provision for taxes on our pre-tax loss of $41 million, before our equity in net (income) loss of non-consolidated affiliates and minority interests' share, which represented an effective tax rate of (10)%. Our effective tax rate is greater than the benefit at the Canadian statutory rate due primarily to (1) a $32 million benefit from the effects of enacted tax rate changes on cumulative taxable temporary differences, partially offset by (2) $18 million of exchange remeasurement of deferred income taxes, (3) $14 million for (a) pre-tax foreign currency gains or losses with no tax effect and (b) the tax effect of U.S. dollar denominated currency gains or losses with no pre-tax effect and (4) a $14 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.

For the three months ended December 31, 2006, we recorded a $34 million benefit for taxes on our pre-tax loss of $144 million, before our equity in net (income) loss of non-consolidated affiliates and minority interests' share, which represented an effective tax rate of 24%. Our effective tax rate is less than the benefit at the Canadian statutory rate due primarily to (1) a $21 million benefit for (a) pre-tax foreign currency gains or losses with no tax effect and (b) the tax effect of U.S. dollar denominated currency gains or losses with no pre-tax effect, (2) a $29 million increase in valuation allowances 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, (3) an $18 million expense from expense/income items with no tax effect — net and (4) a $19 million benefit from differences between the Canadian statutory and foreign effective tax rates resulting from the application of an annual effective tax rate to profit and loss entities in different jurisdictions.

OPERATING SEGMENT REVIEW FOR THE QUARTER ENDED DECEMBER 31, 2007 COMPARED TO THE QUARTER ENDED DECEMBER 31, 2006

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.

As a result of the acquisition by Hindalco, and based on the way our President and Chief Operating Officer (our chief operating decision-maker) reviews the results of segment operations, during the quarter ended June 30, 2007, we changed our segment performance measure to Segment Income, as defined below. As a result, certain prior period amounts have been reclassified to conform to the new segment performance measure.

We measure the profitability and financial performance of our operating segments, based on Segment Income, in accordance with FASB Statement No. 131, *Disclosure About the Segments of an Enterprise and Related Information.* 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) interest expense and amortization of debt issuance costs — net; (b) unrealized gains (losses) on change in fair value of derivative instruments — net; (c) realized gains (losses) on corporate derivative instruments — net; (d) depreciation and amortization; (e) impairment charges on long-lived assets; (f) minority interests' share; (g) adjustments to reconcile our proportional share of Segment Income from non-consolidated affiliates to income as determined on the equity method of accounting; (h) restructuring charges — net; (i) gains or losses on disposals of property, plant and equipment and businesses — net; (j) corporate selling, general and administrative expenses; (k) other costs — net; (l) litigation settlement — net of insurance recoveries; (m) sale transaction fees; (n) provision or benefit for taxes on income (loss) and (o) cumulative effect of accounting change — net of tax.

Net sales and expenses are measured in accordance with the policies and procedures described in Note 1 — Business and Summary of Significant Accounting Policies to our consolidated and combined financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

We do not treat all derivative instruments as hedges under FASB Statement No. 133. Accordingly, changes in fair value are recognized immediately in earnings, which results in the recognition of fair value as a gain or loss in advance of the contract settlement. In the accompanying condensed consolidated statements of operations, changes in fair value of derivative instruments not accounted for as hedges under FASB

Statement No. 133 are recognized in (Gain) loss on change in fair value of derivative instruments — net. These gains or losses may or may not result from cash settlement. For Segment Income purposes we only include the impact of the derivative gains or losses to the extent they are settled in cash (i.e., realized) during that period.

Reconciliation

The following table presents Segment Income (Loss) by operating segment and reconciles Total Segment Income to Net income (loss) (in millions).

	Quarter Ended December 31,	
	2007 *Successor*	2006 *Predecessor*
Segment Income (Loss)		
North America	$ 83	$ (42)
Europe	45	43
Asia	10	14
South America	34	44
Total Segment Income	172	59
Interest expense and amortization of debt issuance costs — net	(47)	(57)
Unrealized gains (losses) on change in fair value of derivative instruments — net(A)	(24)	(16)
Realized gains (losses) on corporate derivative instruments — net	2	(35)
Depreciation and amortization	(105)	(59)
Minority interests' share	—	1
Adjustment to eliminate proportional consolidation(B)	(18)	(9)
Restructuring charges — net	(1)	(6)
Gains or (losses) on disposal of property, plant, and equipment — net	—	(4)
Corporate selling, general and administrative expenses	(17)	(39)
Other costs — net(C)	(7)	26
Benefit (provision) for taxes on income (loss)	(4)	34
Net income (loss)	$ (49)	$ (105)

(A) Unrealized gains (losses) on change in fair value of derivative instruments — net represents the portion of gains (losses) that were not settled in cash during the period.

(B) Our financial information for our segments (including Segment Income) 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 GAAP, these non-consolidated affiliates are accounted for using the equity method of accounting. Therefore, in order to reconcile Total Segment Income to Net income (loss), the proportional Segment Income of these non-consolidated affiliates is removed from Total Segment Income, net of our share of their net after-tax results, which is reported as Equity in net (income) loss of non-consolidated affiliates on our condensed consolidated statements of operations. See Note 7 — Investment in and Advances to Non-Consolidated Affiliates and Related Party Transactions for further information about these non-consolidated affiliates.

(C) Other costs — net includes a gain on sale of equity interest in non-consolidated affiliates and gains on sale of rights to develop and operate hydroelectric power plants, recognized in the three months ended December 31, 2006 (see Note 15 — Other (Income) Expenses — net).

OPERATING SEGMENT RESULTS

North America

As of December 31, 2007, North America manufactured aluminum sheet and light gauge products through 10 aluminum rolled products facilities and two dedicated recycling facilities. Important end-use applications include beverage cans, containers and packaging, automotive and other transportation applications, building products and other industrial applications.

The following table presents key financial and operating information for North America ($ in millions).

	Quarter Ended December 31, 2007 *Successor*	Quarter Ended December 31, 2006 *Predecessor*	Percent Change
Shipments (kt):			
Rolled products	269	273	(1.5)%
Ingot products	13	14	(7.1)%
Total shipments	282	287	(1.7)%
Net sales	$ 995	$ 850	17.1%
Segment Income (Loss)	$ 83	$ (42)	(297.6)%
Total assets	$ 3,847	$ 1,476	160.6%

Shipments

Rolled products shipments declined primarily due to reduced distributor and industrial demand. Distributors are reducing purchases primarily due to a slowdown in the housing market.

Net sales

Net sales increased primarily as a result of reduced exposure to contracts with price ceilings and unfavorable contract fair value accretion as discussed above in Metal Price Ceilings. During the third quarter of fiscal 2008, we were unable to pass through approximately $45 million of metal purchase costs. During the comparable prior year period, we were unable to pass through approximately $125 million of metal purchase costs, for a net favorable comparable impact of approximately $80 million. The third quarter of fiscal 2008 was also favorably impacted by $76 million related to the accretion of the contract fair value reserves, as discussed in Metal Price Ceilings, as well as higher selling prices. These positive impacts were partially offset by lower volume and lower average LME.

Segment Income

As compared to the quarter ended December 31, 2006, Segment Income for the third quarter of fiscal 2008 was favorably impacted by $80 million as a result of the impact of the price ceilings ($156 million including the accretion of the contract fair value reserves), described above. Segment Income was also positively impacted by higher selling prices of approximately $14 million. These and other smaller positive factors were partially offset by lower realized gains related to the cash settlement of derivatives of approximately $36 million and metal price lag of $13 million.

Total assets

The consideration and related costs paid by Hindalco in connection with the Arrangement have been pushed down to us and, in turn, to each of our reporting units, and have been allocated to the assets acquired and liabilities assumed based on their relative fair values. This increased North America assets by approximately $2.5 billion as fair value exceeded historical cost. See Note 2 — Acquisition of Novelis Common Stock in the accompanying condensed and consolidated financial statements.

Europe

As of December 31, 2007, our European segment provided European markets with value-added sheet and light gauge products through 13 aluminum rolled products facilities and 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.

The following table presents key financial and operating information for Europe ($ in millions).

	Quarter Ended December 31, 2007 Successor	Quarter Ended December 31, 2006 Predecessor	Percent Change
Shipments (kt):			
Rolled products	244	258	(5.4)%
Ingot products	13	3	333.3%
Total shipments	257	261	(1.5)%
Net sales	$ 1,010	$ 932	8.4%
Segment Income	$ 45	$ 43	4.7%
Total assets	$ 4,235	$ 2,474	71.2%

Shipments

Rolled products shipments increases in can-end and food can stock were more than offset by slight reductions in all other product lines. Ingot products increased primarily as a result of increased scrap sales.

Net sales

Net sales increased primarily as a result of the euro strengthening against the U.S. dollar and higher selling prices. These factors contributed approximately $49 million and $17 million, respectively, to net sales in the third quarter of fiscal 2008 when compared to the comparable prior year period. Reduced tolling and LME timing differences on certain contracts also increased sales as compared to the prior year.

Segment Income

Segment Income was favorably impacted in fiscal 2008 primarily by improved pricing and lower operating costs. These factors improved Segment Income in the third quarter of fiscal 2008 by approximately $17 million and $10 million, respectively, as compared to the prior year. These positive factors were offset by metal price lag of $23 million. Changes in realized gains from derivatives were slightly more than offset by exchange impacts as compared to the prior year.

Total assets

The consideration and related costs paid by Hindalco in connection with the Arrangement have been pushed down to us and, in turn, to each of our reporting units, and have been allocated to the assets acquired and liabilities assumed based on their relative fair values. This increased Europe assets by approximately $1.8 billion as fair value exceeded historical cost. See Note 2 — Acquisition of Novelis Common Stock in the accompanying condensed and consolidated financial statements.

Asia

As of December 31, 2007, Asia operated three manufacturing facilities, with production balanced between foil, construction and industrial, and beverage and food can end-use applications. The following table presents key financial and operating information for Asia ($ in millions).

	Quarter Ended December 31,		Percent Change
	2007 *Successor*	2006 *Predecessor*	
Shipments (kt):			
Rolled products	134	124	8.1%
Ingot products	9	13	(30.8)%
Total shipments	143	137	4.4%
Net sales	$ 483	$ 457	5.7%
Segment Income	$ 10	$ 14	(28.6)%
Total assets	$ 1,078	$ 1,078	—%

Shipments

Rolled products shipments increased primarily due to higher sales in the can market. Shipments into other markets were comparable between periods.

Net sales

Net sales increased primarily as a result of higher volume offset partially by lower average LME.

Segment Income

Segment Income increased by approximately $8 million due to volume, price and mix. However, this was more than offset by the negative impact of the strengthening Korean won and higher realized losses on the cash settlement of derivatives.

Total assets

The consideration and related costs paid by Hindalco in connection with the Arrangement have been pushed down to us and, in turn, to each of our reporting units, and have been allocated to the assets acquired and liabilities assumed based on their relative fair values. This increased Asia assets by approximately $21 million as fair value exceeded historical cost. See Note 2 — Acquisition of Novelis Common Stock in the accompanying condensed and consolidated financial statements.

South America

As of December 31, 2007, South America operated two rolling plants in Brazil along with two smelters, an alumina refinery, bauxite mines and power generation facilities. South America manufactures various aluminum rolled products, including can stock, automotive and industrial sheet and light gauge for the beverage and food can, construction and industrial and transportation end-use markets.

The following table presents key financial and operating information for South America ($ in millions).

	Quarter Ended December 31, 2007 Successor	Quarter Ended December 31, 2006 Predecessor	Percent Change
Shipments (kt):			
Rolled products	83	74	12.2%
Ingot products	6	8	(25.0)%
Total shipments	89	82	8.5%
Net sales	$ 247	$ 237	4.2%
Segment Income	$ 34	$ 44	(22.7)%
Total assets	$ 1,456	$ 821	77.3%

Shipments

Rolled products shipments increased during the third quarter of fiscal 2008 over the comparable prior year period primarily due to an increase in can shipments driven by strong market demand. This was slightly offset by reductions in shipments in the industrial products markets.

Net sales

Net sales increased primarily as a result of higher shipments and improved pricing, offset partially by lower average LME.

Segment Income

Segment Income was favorably impacted during the third quarter of fiscal 2008 primarily due to higher selling prices, and higher realized gains from derivative settlements. These factors improved Segment Income in the third quarter of fiscal 2008 by approximately $10 million and $9 million, respectively, as compared to the prior year period. These positive factors were more than offset by the strengthening of the Brazilian real, which reduced Segment Income by $15 million, unfavorable metal price lag of $13 million and lower LME which negatively impacts this region due to its smelter operations.

Total assets

The consideration and related costs paid by Hindalco in connection with the Arrangement have been pushed down to us and, in turn, to each of our reporting units, and have been allocated to the assets acquired and liabilities assumed based on their relative fair values. This increased South America assets by approximately $600 million as fair value exceeded historical cost. See Note 2 — Acquisition of Novelis Common Stock in the accompanying condensed and consolidated financial statements.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED DECEMBER 31, 2007 (ON A COMBINED NON-GAAP BASIS) COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2006

As discussed above, the Arrangement created a new basis of accounting. Under GAAP, the condensed consolidated financial statements for the nine months ended December 31, 2007 are presented in two distinct periods, as Predecessor and Successor entities are not comparable in all material respects. However, in order to facilitate an understanding of our results of operations for the nine months ended December 31, 2007 in comparison with the nine months ended December 31, 2006, our Predecessor and Successor results are presented herein on a combined basis. The combined results of operations are non-GAAP financial measures and should not be used in isolation or substitution of the Predecessor and Successor results.

Shipments

Compared to the prior year, rolled products shipments increased on a year to date basis in all regions except North America primarily as a result of increased demand in their respective regional can markets.

Compared to the prior year, North American demand for rolled products has declined across all product groups, most notably in the industrial and distributor markets, partially due to a slowdown in housing construction.

Net sales

Higher net sales in the nine months ended December 31, 2007 resulted primarily from (1) lower exposure to contracts with price ceilings (discussed below) in North America, (2) improved pricing and (3) a strengthening euro against the U.S. dollar. The positive impact of increased volume in Europe, South America and Asia was almost entirely offset by the decrease in volume in North America. While average LME prices were down year-over-year, the effect on sales was relatively flat due to the timing of certain contracts priced in prior periods.

Net sales for the nine months ended December 31, 2007 were adversely impacted in North America due to price ceilings on certain can contracts, which limited our ability to pass through approximately $185 million of metal purchase costs. In comparison, we were unable to pass through approximately $380 million of metal purchase costs in the comparable prior year period, for a net favorable impact of approximately $195 million. In addition, North America net sales were favorably impacted by $205 million related to the accretion of the unfavorable contract fair value reserves, discussed previously in Metal Price Ceilings.

Costs and expenses

The following table presents our costs and expenses for the nine months ended December 31, 2007 and 2006, in U.S. dollars and expressed as percentages of net sales.

	Nine Months Ended December 31,			
	2007		2006	
	$ in Millions	% of Net Sales	$ in Millions	% of Net Sales
	Combined		*Predecessor*	
Cost of goods sold (exclusive of depreciation and amortization shown below)	$ 7,671	91.5%	$ 7,182	95.4%
Selling, general and administrative expenses	324	3.9%	318	4.2%
Depreciation and amortization	288	3.4%	175	2.3%
Research and development expenses	40	0.5%	31	0.4%
Interest expense and amortization of debt issuance costs — net	154	1.8%	158	2.1%
(Gain) loss on change in fair value of derivative instruments — net	52	0.6%	(9)	(0.1)%
Equity in net income (loss) of non-consolidated affiliates	8	0.1%	(13)	(0.1)%
Sale transaction fees	32	0.4%	—	—%
Other (income) expenses — net	(3)	(0.0)%	(6)	(0.1)%
	$ 8,566	102.2%	$ 7,836	104.1%

Cost of goods sold. Metal represents approximately 70% — 80% of our input costs, and as a percentage of net sales, cost of goods sold was adversely impacted in both periods due to price ceilings on certain can contracts, as discussed above; however, the current year period benefited from less volume sold under these contracts, as well as the accretion of the unfavorable contract fair value reserves. As a percentage of net sales, cost of goods sold also improved as a result of pricing improvements across all of the regions, partially offset by certain operational cost increases.

Selling, general and administrative expenses. Compared to the nine months ended December 31, 2006, SG&A for the nine months ended December 31, 2007 increased primarily as a result of $34 million of incremental long-term incentive compensation expense, most of which was triggered by the Arrangement, and a strengthening euro. These increases were partially offset by lower corporate costs. Corporate costs (excluding long-term incentive compensation of $12 million included in the $34 million described above) were $37 million

lower in the current year to date period primarily as a result of $10 million of severance recorded in the prior year to date period for certain former executives and a $17 million reduction in legal and professional fees (primarily associated with the use of third party consultants to assist with our financial reporting requirements in the prior year to date period).

Depreciation and amortization. As a result of the Arrangement, as of May 15, 2007, we recorded increases in the basis to our property, plant and equipment and intangible assets. This results in higher post-acquisition depreciation and amortization and explains the increase shown above.

Research and development expenses. Research and development expenses increased in fiscal 2008 over the comparable prior year period due to a one-time write-off of $9 million of in-process research and development costs resulting from the Arrangement.

Sale transaction fees. We incurred $32 million of fees and expenses related to the Arrangement during the period from April 1, 2007 through May 15, 2007.

Other income (expenses). The reconciliation of the difference between the nine months ended December 31, 2007 and 2006 is shown below (in millions):

	Other (Income) Expenses — Net
Other (income) expenses — net for the nine months ended December 31, 2006 *(Predecessor)*	$ (6)
Exchange losses of $1 million in fiscal 2008 compared to gains of $3 million in 2006	4
Restructuring charges — net of $3 million in fiscal 2008 compared to $18 million in 2006	(15)
Gain on sale of equity interest in non-consolidated affiliate in 2006 only	15
Gain on sale of rights to develop and operate hydroelectric power plants in 2006 only	11
Losses on disposals of property, plant and equipment — net in 2006 only	(6)
Other — net	(6)
Other (income) expenses — net for the nine months ended December 31, 2007 *(Successor)*	$ (3)

Provision (benefit) for taxes on income (loss)

For the nine months ended December 31, 2007, we recorded an $8 million provision for taxes on our pre-tax loss of $174 million, before our equity in net (income) loss of non-consolidated affiliates and minority interests' share, which represented an effective tax rate of (5)%. Our effective tax rate is greater than the benefit at the Canadian statutory rate due primarily to (1) $84 million for (a) pre-tax foreign currency gains or losses with no tax effect and (b) the tax effect of U.S. dollar denominated currency gains or losses with no pre-tax effect, (2) exchange remeasurement of deferred income taxes of $28 million, (3) a $67 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 $101 million benefit from the effects of enacted tax rate changes on cumulative taxable temporary differences and (5) a $30 million benefit from expense/income items with no tax effect — net.

For the nine months ended December 31, 2006, we recorded a $106 million benefit for taxes on our pre-tax loss of $319 million, before our equity in net income of non-consolidated affiliates and minority interests' share, which represented an effective tax rate of 33%. While our effective tax rate is equal to the Canadian statutory rate, the following items represent the significant components of offsetting permanent and timing differences: (1) a $59 million benefit from differences between the Canadian statutory and foreign effective tax rates resulting from the application of an annual effective tax rate to profit and loss entities in different jurisdictions, mostly offset by (2) a $38 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 (3) a $10 million expense from expense/income items with no tax effect — net.

OPERATING SEGMENT REVIEW FOR THE NINE MONTHS ENDED DECEMBER 31, 2007 (ON A COMBINED NON-GAAP BASIS) COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2006

As discussed above, the Arrangement created a new basis of accounting. Under GAAP, the condensed consolidated financial statements for the nine months ended December 31, 2007 are presented in two distinct periods, as Predecessor and Successor entities are not comparable in all material respects. However, in order to facilitate an understanding of our segment information for the nine months ended December 31, 2007 in comparison with the nine months ended December 31, 2006, our Predecessor and Successor segment information is presented herein on a combined basis. The combined segment items are non-GAAP financial measures and should not be used in isolation or substitution of the Predecessor and Successor segment information.

Net sales

Shown below is the schedule of Net sales by operating segment for periods allocable to the Successor, Predecessor and the combined presentation for the nine months ended December 31, 2007 that we use throughout MD&A (in millions).

	May 16, 2007 Through December 31, 2007	April 1, 2007 Through May 15, 2007	Nine Months Ended December 31, 2007
	Successor	*Predecessor*	*Combined*
Combined Net sales by Operating Segment:			
North America	$ 2,619	$ 446	$ 3,065
Europe	2,695	510	3,205
Asia	1,167	216	1,383
South America	622	109	731
Total Net sales	$ 7,103	$ 1,281	$ 8,384

Segment Income

Shown below is the schedule of our reconciliation from Total Segment Income to Net income (loss) by operating segment for periods allocable to the Successor, Predecessor and the combined presentation for the nine months ended December 31, 2007 that we use throughout MD&A (in millions).

	May 16, 2007 Through December 31, 2007 *Successor*	April 1, 2007 Through May 15, 2007 *Predecessor*	Nine Months Ended December 31, 2007 *Combined*
Combined Results by Operating Segment:			
Segment Income (Loss)			
North America	$ 195	$ (24)	$ 171
Europe	155	32	187
Asia	26	6	32
South America	100	18	118
Total Segment Income	476	32	508
Interest expense and amortization of debt issuance costs — net	(128)	(26)	(154)
Unrealized gains (losses) on change in fair value of derivative instruments — net	(126)	5	(121)
Realized gains (losses) on corporate derivative instruments — net	39	(3)	36
Depreciation and amortization	(260)	(28)	(288)
Minority interests' share	2	1	3
Adjustment to eliminate proportional consolidation	(44)	(7)	(51)
Restructuring charges — net	(2)	(1)	(3)
Corporate selling, general and administrative expenses	(41)	(35)	(76)
Other costs — net	(2)	1	(1)
Sale transaction fees	—	(32)	(32)
Benefit (provision) for taxes on income (loss)	(4)	(4)	(8)
Net income (loss)	$ (90)	$ (97)	$ (187)

Reconciliation

The following table presents Segment Income by operating segment and reconciles Total Segment Income to Net income (loss) (in millions).

	Nine Months Ended December 31,	
	2007 *Combined*	2006 *Predecessor*
Segment Income (Loss)		
North America	$ 171	$ (37)
Europe	187	191
Asia	32	56
South America	118	125
Total Segment Income	508	335
Interest expense and amortization of debt issuance costs — net	(154)	(158)
Unrealized losses on change in fair value of derivative instruments — net	(121)	(151)
Realized gains (losses) on corporate derivative instruments — net	36	(35)
Depreciation and amortization	(288)	(175)
Minority interests' share	3	(1)
Adjustment to eliminate proportional consolidation	(51)	(27)
Restructuring charges — net	(3)	(18)
Gains (losses) on disposal of property, plant, and equipment — net	—	(6)
Corporate selling, general and administrative expenses	(76)	(101)
Other costs — net	(1)	30
Sale transaction fees	(32)	—
Benefit (provision) for taxes on income (loss)	(8)	106
Net income (loss)	$ (187)	$ (201)

OPERATING SEGMENT RESULTS

North America

The following table presents key financial and operating information for North America ($ in millions).

	Nine Months Ended December 31,		
	2007 *Combined*	2006 *Predecessor*	Change
Shipments (kt):			
Rolled products	826	867	(4.7)%
Ingot products	46	56	(17.9)%
Total shipments	872	923	(5.5)%
Net sales	$ 3,065	$ 2,796	9.6%
Segment Income (Loss)	$ 171	$ (37)	(562.2)%

Shipments

Rolled products shipments declined due to reduced distributor and industrial demand and lower can volumes. Distributor and industrial demand has declined primarily due to a slowdown in the housing market. Ingot product shipments declined during the nine months ended December 31, 2007 due to lower scrap sales

and improved internal use of primary ingot, excess amounts of which were sold to third parties in the nine months ended December 31, 2006.

Net sales

Net sales increased primarily as a result of reduced exposure to contracts with price ceilings and unfavorable contract fair value accretion as discussed above in Metal Price Ceilings. During the first nine months ended December 31, 2007, we were unable to pass through approximately $185 million of metal purchase costs. During the comparable prior year period, we were unable to pass through approximately $380 million of metal purchase costs, for a net favorable comparable impact of approximately $195 million. The first nine months of fiscal 2008 were also favorably impacted by $205 million related to the accretion of the contract fair value reserves, as discussed in Metal Price Ceilings. These factors were partially offset by approximately $160 million due to lower average LME. In addition, price increases were largely offset by a reduction in volume and unfavorable mix changes.

Segment Income (Loss)

As compared to the nine months ended December 31, 2006, Segment Income for the nine months ended December 31, 2007 was favorably impacted by $195 million as a result of the impact of the price ceilings ($400 million including the accretion of the contract fair value reserves), described above. Segment Income was also positively impacted by approximately $43 million due to higher selling prices. These positive factors were partially offset by (1) the negative impact of metal price lag which unfavorably impacted Segment Income by $55 million as compared to the nine months ended December 31, 2006, (2) lower realized gains related to the cash settlement of derivatives of approximately $109 million, (3) lower volume which negatively impacted Segment Income by approximately $26 million, (4) higher operating expense of approximately $20 million, (5) incremental stock compensation expense of $11 million as a result of the Arrangement and (6) $20 million of additional expenses associated with fair value adjustments recorded as a result of the Arrangement.

Europe

The following table presents key financial and operating information for Europe ($ in millions).

	Nine Months Ended December 31,		Percent Change
	2007 *Combined*	2006 *Predecessor*	
Shipments (kt):			
Rolled products	803	789	1.8%
Ingot products	25	10	150.0%
Total shipments	828	799	3.6%
Net sales	$ 3,205	$ 2,794	14.7%
Segment Income	$ 187	$ 191	(2.1)%

Shipments

Rolled products shipments increased approximately 29kt in the can market. This was partially offset by reductions in the distributor and general purpose markets. Shipments into other markets were comparable between periods. Ingot product shipments have increased as a result of higher scrap sales.

Net sales

Net sales increased primarily as a result of (1) incremental volume, (2) a strengthening euro against the U.S. dollar and (3) higher selling prices. These factors contributed approximately (1) $90 million, (2) $112 million and (3) $37 million, respectively. While average LME was lower year over year, net sales increased from contracts priced in prior periods. This contributed approximately $120 million as compared to the prior year.

This did not deliver any Segment Income increase as the metal costs were hedged at prior period prices (which were comparably higher).

Segment Income

Segment Income was favorably impacted in fiscal 2008 primarily by higher prices, increased volume and currency benefits. These factors improved Segment Income in the nine months ended December 31, 2007 by approximately $37 million, $13 million and $17 million, respectively, versus the comparable prior year period. However, these positive factors were more than offset by unfavorable metal price lag, share-based compensation expense and expenses associated with fair value adjustments recorded as a result of the Arrangement. These factors reduced Segment Income in the nine months ended December 31, 2007 by approximately (1) $55 million, (2) $6 million and (3) $10 million, respectively, on a comparable basis.

Asia

The following table presents key financial and operating information for Asia ($ in millions).

	Nine Months Ended December 31,		Percent Change
	2007 *Combined*	2006 *Predecessor*	
Shipments (kt):			
Rolled products	368	353	4.2%
Ingot products	31	35	(11.4)%
Total shipments	399	388	2.8%
Net sales	$ 1,383	$ 1,298	6.5%
Segment Income	$ 32	$ 56	(42.9)%

Shipments

Rolled products shipments increased approximately 25kt in the can market due to increased demand. This increase was partially offset by a decline of shipments in the industrial and light gauge markets as a result of continued price pressure from Chinese exports, driven by the difference in aluminum metal prices on the Shanghai Foreign Exchange and the LME.

Net sales

Net sales increased approximately $70 million as a result of increased volume. Sales also increased slightly from contracts priced in prior periods. This did not deliver any Segment Income increase as the metal costs were hedged at prior period prices (which were comparably higher).

Segment Income

Segment income benefited approximately $6 million from increased volume, however this was more than offset by operational cost increases of approximately $13 million. In addition, Segment Income was negatively impacted by several smaller items such as higher realized losses on derivatives, currency, and expenses associated with fair value adjustments recorded as a result of the Arrangement which aggregated approximately $17 million.

South America

The following table presents key financial and operating information for South America ($ in millions).

	Nine Months Ended December 31, 2007 *Combined*	Nine Months Ended December 31, 2006 *Predecessor*	Percent Change
Shipments (kt):			
Rolled products	237	210	12.9%
Ingot products	20	21	(4.8)%
Total shipments	257	231	11.3%
Net sales	$ 731	$ 654	11.8%
Segment Income	$ 118	$ 125	(5.6)%

Shipments

Rolled products shipments increased during the nine months ended December 31, 2007 over the comparable prior year period primarily due to an increase in can shipments driven by strong market demand. This was slightly offset by reductions in shipments in the industrial products markets.

Net sales

Net sales increased primarily as a result of higher shipments and increased LME prices.

Segment Income

Segment Income during the nine months ended December 31, 2007 was favorably impacted primarily by (1) increased shipments described above, (2) higher selling prices, (3) higher realized gains on the cash settlement of derivatives, and (4) favorable social tax reserve adjustments. These factors improved Segment Income in the nine months ended December 31, 2007 by approximately (1) $14 million, (2) $39 million, (3) $27 million and (4) $6 million respectively. These positive factors were more than offset by (1) metal price lag, (2) the strengthening of the Brazilian real, (3) higher operating costs and (4) incremental expenses associated with fair value adjustments recorded as a result of the Arrangement. These factors reduced Segment Income by $15 million, $42 million, $19 million and $9 million, respectively, as compared to the prior year. Mix and lower LME also had a slight negative impact on Segment Income as compared to the prior year.

LIQUIDITY AND CAPITAL RESOURCES

As discussed above, the Arrangement created a new basis of accounting. Under GAAP, the condensed consolidated financial statements for the nine months ended December 31, 2007 are presented in two distinct periods, as Predecessor and Successor entities are not comparable in all material respects. However, in order to facilitate an understanding of our liquidity and capital resources as of and for the nine months ended December 31, 2007 in comparison with the nine months ended December 31, 2006, our Predecessor and Successor cash flows are presented herein on a combined basis. The combined cash flows are non-GAAP financial measures and should not be used in isolation or substitution of the Predecessor and Successor cash flows.

Shown below is a condensed combining schedule of cash flows for periods allocable to the Successor, Predecessor and the combined presentation for the nine months ended December 31, 2007 that we use throughout our discussion of liquidity and capital resources.

	May 16, 2007 Through December 31, 2007 *Successor*	April 1, 2007 Through May 15, 2007 *Predecessor*	Nine Months Ended December 31, 2007 *Combined*
OPERATING ACTIVITIES			
Net cash provided by (used in) operating activities	$ 31	$ (230)	$(199)
INVESTING ACTIVITIES			
Capital expenditures	(120)	(17)	(137)
Proceeds from sales of assets	4	—	4
Changes to investment in and advances to non-consolidated affiliates	5	1	6
Proceeds from loans receivable — net — related parties	12	—	12
Net proceeds from settlement of derivative instruments	56	18	74
Net cash provided by (used in) investing activities	(43)	2	(41)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	92	—	92
Proceeds from issuance of debt	1,100	150	1,250
Principal repayments	(1,005)	(1)	(1,006)
Short-term borrowings — net	(103)	60	(43)
Dividends — minority interests	(1)	(7)	(8)
Debt issuance costs	(37)	(2)	(39)
Proceeds from the exercise of stock options	—	1	1
Net cash provided by (used in) financing activities	46	201	247
Net increase (decrease) in cash and cash equivalents	34	(27)	7
Effect of exchange rate changes on cash balances held in foreign currencies	(3)	1	(2)
Cash and cash equivalents — beginning of period	102	128	230
Cash and cash equivalents — end of period	$ 133	$ 102	$235

Operating Activities

Free cash flow (which is a non-GAAP measure) consists of (a) Net cash provided by (used in) operating activities; (b) less dividends and capital expenditures; (c) plus net proceeds from settlement of derivative instruments (which is net of premiums paid to purchase derivative instruments). Dividends include those paid by our less than wholly-owned subsidiaries to their minority shareholders and dividends paid by us to our common shareholder(s). 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. We believe the line on our condensed consolidated statements of cash flows entitled “Net cash provided by (used in) operating activities”

is the most directly comparable measure to Free cash flow. Our method of calculating Free cash flow may not be consistent with that of other companies.

In our discussion of Metal Price Ceilings, we have disclosed that certain of our sales contracts contain a fixed aluminum (metal) price ceiling beyond which the cost of aluminum cannot be passed through to the customer, unless adjusted. During the nine months ended December 31, 2007 and the comparable prior year period, we were unable to pass through approximately $185 million and $380 million, respectively, of metal purchase costs associated with sales under these contracts. Net cash provided by operating activities is negatively impacted by the same amounts, adjusted for any timing difference between customer receipts and vendor payments and offset partially by reduced income taxes. Based on a December 31, 2007 aluminum price of $2,360 per tonne, and our estimate of a range of shipment volumes, we estimate that we will be unable to pass through aluminum purchase costs of approximately $38 — $40 million for the remainder of fiscal 2008 and $240 — $260 million in the aggregate thereafter.

As a result of our acquisition by Hindalco, we established reserves totaling $655 million as of May 15, 2007 representing the fair value of these contracts, and these reserves are being accreted into Net sales over the remaining lives of the contracts in a manner consistent with the forecast used to determine the fair value of the reserves. This accretion does not impact cash flow.

The following tables show the reconciliation from Net cash used in (provided by) operating activities to Free cash flow, the ending balances of cash and cash equivalents and the change between periods ($ in millions).

	Nine Months Ended December 31,		
	2007 *Combined*	2006 *Predecessor*	Change
Net cash used in (provided by) operating activities	$ (199)	$ (79)	$ (120)
Dividends	(8)	(10)	2
Capital expenditures	(137)	(95)	(42)
Net proceeds from settlement of derivative instruments	74	167	(93)
Free cash flow	$ (270)	$ (17)	$ (253)

	As of		
	December 31, 2007 *Successor*	March 31, 2007 *Predecessor*	Change
Ending balances of cash and cash equivalents	$ 133	$ 128	$ 5

In the nine months ended December 31, 2007, net cash used in (provided by) operating activities was influenced primarily by metal purchase costs we were unable to pass through to customers due to the price ceilings previously discussed. Other items that negatively impacted operating cash flow for the nine months ended December 31, 2007 include $72 million paid in share-based compensation payments, $42 million paid for sale transaction fees and bonus payments totaling $25 million for the calendar year ended December 31, 2006 and the period from January 1, 2007 through May 15, 2007, triggered by the Arrangement.

Financing Activities

Overview

During the nine months ended December 31, 2007, our total debt (including short-term borrowings) increased by $208 million (excluding net unamortized fair value adjustments of $65 million recorded as part of the Arrangement), principally as a result of our need to fund additional working capital requirements and certain costs associated with the Arrangement, including sale transaction fees and share-based compensation payments. During the first quarter of fiscal 2008, we also received $92 million in cash from the sale of additional common stock to Hindalco.

New Senior Secured Credit Facilities

On May 25, 2007, we entered into a Bank and Bridge Facilities Commitment with affiliates of UBS and ABN AMRO, to provide backstop assurance for the refinancing of our existing indebtedness following the Arrangement. The commitments from UBS and ABN AMRO, provided by the banks on a 50%-50% basis, consisted of the following: (1) a senior secured term loan of up to $1.06 billion; (2) a senior secured asset-based revolving credit facility of up to $900 million and (3) a commitment to issue up to $1.2 billion of unsecured senior notes, if necessary. The commitment contained terms and conditions customary for facilities of this nature.

In connection with these backstop commitments, we paid fees totaling $14 million, which were included in *Other long-term assets — third parties* as of June 30, 2007. Of this amount, $6 million was related to the unsecured senior notes, which were not refinanced, and was written off during the quarter ended September 30, 2007. The remaining $8 million in fees paid have been credited by the lenders towards fees associated with the new senior secured credit facilities (described below) and will be amortized over the lives of the related borrowings.

On July 6, 2007, we entered into new senior secured credit facilities with a syndicate of lenders led by affiliates of UBS and ABN AMRO (New Credit Facilities) providing for aggregate borrowings of up to $1.76 billion. The New Credit Facilities consist of (1) a $960 million seven-year Term Loan facility (Term Loan facility) and (2) an $800 million five year multi-currency asset-based revolving credit line and letter of credit facility (ABL facility).

Under the Term Loan facility, loans characterized as alternate base rate (ABR) borrowings bear interest annually at a rate equal to the alternate base rate (which is the greater of (a) the base rate in effect on a given day and (b) the federal funds effective rate in effect on a given day, plus 0.50%) plus the applicable margin, and loans characterized as Eurocurrency borrowings bear interest at an annual rate equal to the adjusted LIBOR rate for the interest period in effect, plus the applicable margin.

Under the ABL facility, interest charged is dependent on the type of loan: (1) any swingline loan or any loan categorized as an ABR borrowing will bear interest at an annual rate equal to the alternate base rate (which is the greater of (a) the base rate in effect on a given day and (b) the federal funds effective rate in effect on a given day, plus 0.50%), plus the applicable margin; (2) Eurocurrency loans will bear interest at an annual rate equal to the adjusted LIBOR rate for the applicable interest period, plus the applicable margin; (3) loans designated as Canadian base rate borrowings will bear an annual interest rate equal to the Canadian base rate (CAPRIME), plus the applicable margin; (4) loans designated as bankers acceptances (BA) rate loans will bear interest at the average discount rate offered for bankers' acceptances for the applicable BA interest period, plus the applicable margin and (5) loans designated as Euro Interbank Offered Rate (EURIBOR) loans will bear interest annually at a rate equal to the adjusted EURIBOR rate for the applicable interest period, plus the applicable margin. Applicable margins under the ABL facility depend upon excess availability levels calculated on a quarterly basis.

Generally, for both the Term Loan facility and ABL facility, interest rates reset every three months and interest is payable on a monthly, quarterly or other periodic basis depending on the type of loan.

The proceeds from the Term Loan facility of $960 million, drawn in full at the time of closing, and the initial draw of $324 million under the ABL facility were used to pay off the existing senior secured credit facility (discussed below), pay for debt issuance costs of the New Credit Facilities and provide for additional working capital. Mandatory minimum principal amortization payments under the Term Loan facility are $2.4 million per calendar quarter. The first mandatory minimum principal amortization payment was made on September 28, 2007. Additional mandatory prepayments are required to be made in the event of certain collateral liquidations, asset sales, debt and preferred stock issuances, equity issuances, casualty events and excess cash flow (as defined in the New Credit Facilities). Any unpaid principal remaining is due in full on July 6, 2014.

Borrowing limits under the ABL facility are generally based on 85% of eligible accounts receivable and 75% to 85% of eligible inventories. Commitment fees of 0.25% to 0.375% are based on average daily amounts outstanding under the ABL facility during a fiscal quarter, and are payable quarterly.

The New Credit Facilities include customary affirmative and negative covenants. Under the ABL facility, if our excess availability, as defined under the borrowing, is less than 10% of the borrowing base, we are required to maintain a minimum fixed charge coverage ratio of 1 to 1. Substantially all of our assets are pledged as collateral under the New Credit Facilities.

We incurred debt issuance costs on our New Credit Facilities totaling $32 million, including the $8 million in fees previously paid in conjunction with the backstop commitment. These fees are included in *Other long-term assets — third parties* and are being amortized over the life of the related borrowing in *Interest expense and amortization of debt issuance costs — net* using the "effective interest amortization" method for the Term Loan facility and the straight-line method for the ABL facility. The unamortized amount of these costs was $28 million as of December 31, 2007.

During the quarter ended December 31, 2007, we entered into interest rate swaps to fix the variable LIBOR interest rate for up to $600 million of our floating rate Term Loan facility at effective weighted average interest rates and amounts expiring as follows: (i) 4.1% on $600 million through September 30, 2008, (ii) 4.0% on $500 million through March 31, 2009 and (iii) 4.0% on $400 million through March 31, 2010. We are still obligated to pay any applicable margin, as defined in our New Credit Facilities, in addition to these interest rates.

On July 3, 2007, we terminated an interest rate swap we had to fix the 3-month LIBOR interest rate at an effective weighted average interest rate of 3.9% on $100 million of the floating rate Term Loan B debt, which was originally scheduled to expire on February 3, 2008. The termination resulted in a gain of less than $1 million.

As of December 31, 2007 approximately 80% of our debt was fixed rate and approximately 20% was variable rate.

Old Senior Secured Credit Facilities

In connection with our spin-off from Alcan, we entered into senior secured credit facilities (Old Credit Facilities) providing for aggregate borrowings of up to $1.8 billion. The Old Credit Facilities consisted of (1) a $1.3 billion seven-year senior secured Term Loan B facility, bearing interest at London Interbank Offered Rate (LIBOR) plus 1.75% (which was subject to change based on certain leverage ratios), all of which was borrowed on January 10, 2005, and (2) a $500 million five-year multi-currency revolving credit and letters of credit facility.

The Old Credit Facilities included customary affirmative and negative covenants, as well as financial covenants relating to our maximum total leverage, minimum interest coverage, and minimum fixed charge coverage ratios. Substantially all of our assets were pledged as collateral under the Old Credit Facilities.

The terms of our Old Credit Facilities required that we deliver unaudited quarterly and audited annual financial statements to our lenders within specified periods of time. Due to delays in certain of our SEC filings for 2005 and 2006, we obtained a series of five waiver and consent agreements from the lenders under the facility to extend the various filing deadlines. Fees paid related to the five waiver and consent agreements totaled $6 million.

On October 16, 2006, we amended the financial covenants to our Old Credit Facilities. In particular, we amended our maximum total leverage, minimum interest coverage, and minimum fixed charge coverage ratios through the quarter ending March 31, 2008.

We also amended and modified other provisions of the Old Credit Facilities to permit more efficient ordinary-course operations, including increasing the amounts of certain permitted investments and receivables securitizations, permitting nominal quarterly dividends, and the transfer of an intercompany loan to another subsidiary. In return for these amendments and modifications, we paid aggregate fees of approximately $3 million to lenders who consented to the amendments and modifications, and agreed to continue paying higher applicable margins on our Old Credit Facilities and higher unused commitment fees on our revolving credit facilities that were instated with a prior waiver and consent agreement in May 2006. Commitment fees related to the unused portion of the $500 million revolving credit facility were 0.625% per annum.

On April 27, 2007, our lenders consented to a further amendment of our Old Credit Facilities. The amendment included permission to increase the Term Loan B facility by $150 million. We utilized the additional funds available under the Term Loan B facility to reduce the outstanding balance of our $500 million revolving credit facility. The additional borrowing capacity under the revolving credit facility was used to fund working capital requirements and certain costs associated with the Arrangement, including the cash settlement of share-based compensation arrangements and lender fees. Additionally, the amendment included a limited waiver of the change of control Event of Default (as defined in the Old Credit Facilities) which effectively extended the requirement to repay the Old Credit Facilities to July 11, 2007. We paid fees of approximately $2 million to lenders who consented to this amendment.

Total debt issuance costs of $43 million, including amendment fees and the waiver and consent agreements discussed above, had been recorded in *Other long-term assets — third parties* and were being amortized over the life of the related borrowing in *Interest expense and amortization of debt issuance costs — net* using the “effective interest amortization” method for the Term Loans and the straight-line method for the revolving credit and letters of credit facility. The unamortized amount of these costs was $26 million as of March 31, 2007. We incurred an additional $2 million in debt issuance costs as described above during the period from April 1, 2007 through May 15, 2007. As a result of the Arrangement and the recording of debt at fair value, the total amount of unamortized debt issuance costs of $28 million was reduced to zero as of May 15, 2007.

7.25% Senior Notes

On February 3, 2005, we issued $1.4 billion aggregate principal amount of senior unsecured debt securities (Senior Notes). The Senior Notes were priced at par, bear interest at 7.25% and mature on February 15, 2015. Debt issuance costs totaling $28 million had been included in *Other long-term assets — third parties* and were being amortized over the life of the related borrowing in *Interest expense and amortization of debt issuance costs — net* using the “effective interest amortization” method. The unamortized amount of these costs was $24 million as of March 31, 2007. As a result of the Arrangement and the recording of debt at fair value, the total amount of unamortized debt issuance costs of $23 million was reduced to zero as of May 15, 2007.

As a result of the Arrangement, the Senior Notes were recorded at their fair value of $1.474 billion based on their market price of 105.25% of $1,000 face value per bond as of May 14, 2007. The incremental fair value of $74 million is being amortized to interest income over the remaining life of the Senior Notes in *Interest expense and amortization of debt issuance costs — net* using the “effective interest amortization” method. Due to the change in the market price of our Senior Notes from 105.25% as of May 14, 2007 to 94.25% as of December 31, 2007, the estimated fair value of this debt has decreased $155 million to $1.319 billion (after considering the repurchase of approximately $1 million of the Senior Notes pursuant to the tender offer discussed below).

Under the indenture that governs the Senior Notes, we are subject to certain restrictive covenants applicable to incurring additional debt and providing additional guarantees, paying dividends beyond certain amounts and making other restricted payments, sales and transfers of assets, certain consolidations or mergers, and certain transactions with affiliates. We were in compliance with these covenants for the quarter ended December 31, 2007.

The indenture governing the Senior Notes and the related registration rights agreement required us to file a registration statement for the notes and exchange the original, privately placed notes for registered notes. Under the indenture and the related registration rights agreement, we were required to complete the exchange offer for the Senior Notes by November 11, 2005. We did not complete the exchange offer by that date and, as a result, we began to incur additional special interest at rates ranging from 0.25% to 1.00%. We filed a post-effective amendment to the registration statement on December 1, 2006 which was declared effective by the SEC on December 22, 2006. We ceased paying additional special interest effective January 5, 2007, upon completion of the exchange offer.

Tender Offer and Consent Solicitation for 7.25% Senior Notes

Pursuant to the terms of the indenture governing our Senior Notes, we were obligated, within 30 days of closing of the Arrangement, to make an offer to purchase the Senior Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date the Senior Notes were purchased. Consequently, we commenced a tender offer on May 16, 2007, to repurchase all of the outstanding Senior Notes at the prescribed price. This offer expired on July 3, 2007 with holders of approximately $1 million of principal presenting their Senior Notes pursuant to the tender offer.

Korean Bank Loans

In November 2004, Novelis Korea Limited (Novelis Korea), formerly Alcan Taihan Aluminium Limited, entered into a Korean won (KRW) 40 billion ($40 million) floating rate long-term loan due November 2007. We immediately entered into an interest rate swap to fix the interest rate at 4.80%. In August 2007, we refinanced this loan with a floating rate short-term borrowing in the amount of $40 million due by August 2008. We recognized a loss on extinguishment of debt of less than $1 million in connection with this refinancing. Additionally, we immediately entered into an interest rate swap and cross currency swap for the new loan through a 3.94% fixed rate KRW 38 billion ($38 million) loan.

In December 2004, we entered into (1) a $70 million floating rate loan and (2) a KRW 25 billion ($25 million) floating rate loan, both due in December 2007. We immediately entered into an interest rate and cross currency swap on the $70 million floating rate loan through a 4.55% fixed rate KRW 73 billion ($73 million) loan and an interest rate swap on the KRW 25 billion floating rate loan to fix the interest rate at 4.45%. On October 25, 2007, we entered into a $100 million floating rate loan due October 2010 and immediately repaid the $70 million loan. In December 2007, we repaid the KRW 25 billion loan from the proceeds of the $100 million floating rate loan. Additionally, we immediately entered into an interest rate swap and cross currency swap for the $100 million floating rate loan through a 5.44% fixed rate KRW 92 billion ($92 million) loan.

Short Term Borrowings and Lines of Credit

As of December 31, 2007, our short-term borrowings were $245 million consisting of (1) $167 million of short-term loans under our ABL facility, (2) a $40 million short-term loan in Korea and (3) $38 million in bank overdrafts. Additionally, as of December 31, 2007, $28 million of our ABL facility was utilized for letters of credit and we had approximately $517 million in remaining availability under this revolving credit facility.

As of December 31, 2007, we had an additional $143 million outstanding under letters of credit in Korea not included in our ABL facility. The weighted average interest rate on our total short-term borrowings was 5.55% and 7.77% as of December 31, 2007 and March 31, 2007, respectively.

Issuance of Additional Common Stock

On June 22, 2007, we issued 2,044,122 additional shares to AV Aluminum for $44.93 per share resulting in an additional equity contribution of $92 million. This contribution was equal in amount to certain payments made by Novelis related to change in control compensation to certain employees and directors, lender fees and other transaction costs incurred by the Company.

Investing Activities

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

	Nine Months Ended December 31,		
	2007 *Combined*	2006 *Predecessor*	Change
Net proceeds from settlement of derivative instruments	$ 74	$ 167	$ (93)
Capital expenditures	(137)	(95)	(42)
Proceeds from loans receivable — net	12	30	(18)
Changes to investment in and advances to non-consolidated affiliates	6	1	5
Proceeds from sales of assets	4	36	(32)
Net cash provided by (used in) investing activities	$ (41)	$ 139	$ (180)

Net cash provided by investing activities declined compared to the prior year primarily as a result of lower proceeds from the settlement of derivative instruments, increased capital expenditures in 2007 and proceeds from asset sales in South America in the prior year.

The majority of our capital expenditures for the nine months ended December 31, 2007 and 2006 were for projects devoted to product quality, technology, productivity enhancement and increased capacity. We estimate that our annual capital expenditure requirements for items necessary to maintain comparable production, quality and market position levels (maintenance capital) will be approximately $120 million, and that total annual capital expenditures will be approximately $180 to $200 million for all of fiscal 2008.

OFF-BALANCE SHEET ARRANGEMENTS

In accordance with SEC rules, the following qualify as off-balance sheet arrangements:

- any obligation under certain guarantees or contracts;
- a 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;
- any obligation under certain derivative instruments; and
- any obligation under a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

The following discussion addresses each of the above items for our company.

Derivative Instruments

As of December 31, 2007, we have derivative financial instruments, as defined by FASB Statement No. 133. See Note 14 — Financial Instruments and Commodity Contracts to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

In conducting our business, we use various derivative and non-derivative instruments, including forward contracts, to manage the risks arising from fluctuations in exchange rates, interest rates, aluminum prices and energy prices. Such instruments are used for risk management purposes only. We may be exposed to losses in the future if the counterparties to the contracts fail to perform. We are satisfied that the risk of such non-performance is remote, due to our monitoring of credit exposures. Alcan is the principal counterparty to our aluminum forward contracts.

Certain contracts are designated as hedges of either net investment or cash flows. For these contracts we recognize the change in fair value of the ineffective portion of the hedge as a gain or loss in our current period results of operations. We include the change in fair value of the effective and interest portions of these hedges in Accumulated other comprehensive income within Shareholder’s equity in the accompanying condensed consolidated balance sheet.

Prior to Completion of the Arrangement

Prior to and during the period from April 1, 2007 through May 15, 2007, we applied hedge accounting to certain of our cross-currency swaps with respect to intercompany loans to several European subsidiaries and forward exchange contracts. Our Euro and British pound (GBP) cross-currency swaps were designated as net investment hedges, while our Swiss franc (CHF) cross-currency swaps and our Brazilian real (BRL) forward foreign exchange contracts were designated as cash flow hedges. As of May 15, 2007, we had $712 million of cross-currency swaps (Euro 475 million, GBP 62 million and CHF 35 million) and $99 million of forward foreign exchange contracts (BRL 229 million). During the period from April 1, 2007 through May 15, 2007, we implemented cash flow hedge accounting for an electricity swap, which was embedded in a supply contract.

During the period from April 1, 2007 through May 15, 2007, the change in fair value of the effective and interest portions of our net investment hedges was a loss of $8 million and the change in fair value of the effective portion of our cash flow hedges was a gain of $7 million.

Impact of the Arrangement and Purchase Accounting

Concurrent with completion of the Arrangement on May 15, 2007, we dedesignated all hedging relationships. The cumulative change in fair value of effective and interest portions of these hedges, previously presented in Accumulated other comprehensive income within Shareholder's equity on May 15, 2007, was incorporated in the new basis of accounting. As a result of purchase accounting, the fair value of all embedded derivative instruments was allocated to the fair value of their respective host contracts, reducing the fair value of embedded derivative instruments to zero.

Subsequent to Completion of the Arrangement

We redesignated our electricity swap, noted below, as a cash flow hedge on June 1, 2007. We redesignated our Euro, GBP and CHF cross-currency swaps, noted above, as net investment hedges on September 1, 2007. During the quarter ended December 31, 2007, we entered into a series of interest rate swaps which we designated as cash flow hedges (see Note 9 — Debt).

During the three months ended December 31, 2007 and for the period from May 16, 2007 through December 31, 2007, we recognized pre-tax gains of $1 million and $5 million, respectively, for the change in fair value of the effective portion of our cash flow hedges. As of December 31, 2007, we expect to realize $1 million of effective net losses during the next twelve months. The maximum period over which we have hedged our exposure to cash flow variability is through November 2016.

During the three months ended December 31, 2007 and for the period from May 16, 2007 through December 31, 2007, we recognized pre-tax losses of $33 million and $5 million, respectively, for the change in fair value of the effective portion of our net investment hedges. As of December 31, 2007, we expect to realize $5 million of effective net losses during the next twelve months. The maximum period over which we have hedged our exposure to net investment variability is through February 2015.

The fair values of our financial instruments and commodity contracts as of December 31, 2007 were as follows (in millions).

	Maturity Dates (Fiscal Year)	As of December 31, 2007 Assets	Liabilities	Net Fair Value
Successor:				
Foreign exchange forward contracts	2008 through 2012	$ 38	$ (59)	$ (21)
Cross-currency swaps	2008 through 2015	3	(136)	(133)
Interest rate currency swaps	2009 through 2011	1	(1)	—
Interest rate swaps	2009 through 2010	—	(2)	(2)
Aluminum forward contracts	2008 through 2010	1	(52)	(51)
Electricity swap	2017	7	(1)	6
Embedded derivative instruments	2008 through 2009	14	—	14
Natural gas swaps	2008 through 2010	—	(1)	(1)
Total fair value		64	(252)	(188)
Less: current portion		54	(112)	(58)
Noncurrent portion		$ 10	$ (140)	$ (130)

Guarantees of Indebtedness

The following table discloses information about our obligations under guarantees of indebtedness as of December 31, 2007 (in millions).

Type of Entity	Maximum Potential Future Payment	Liability Carrying Value
Wholly-owned subsidiaries	$ 85	$ 60
Aluminium Norf GmbH	15	—

In May 2007, we terminated a loan and a corresponding deposit-and-guarantee agreement for $80 million. We did not include the loan or deposit amounts in our condensed consolidated balance sheet as of March 31, 2007 as the agreement included a legal right of setoff and we had the intent and ability to setoff.

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 December 31, 2007 and March 31, 2007, we were 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, and postretirement benefit plans. During the nine months ended December 31, 2007, there were no significant changes to these obligations as reported in our Annual Report on Form 10-K for the year ended December 31, 2006, other than those described below.

Our total debt increased by $208 million during the period from April 1, 2007 to December 31, 2007 (excluding net unamortized fair value adjustments of $65 million recorded as part of the acquisition by Hindalco), principally as a result of our need to fund additional working capital requirements and certain costs associated with the Arrangement, including Sale transaction fees and share-based compensation payments.

As a result of the amendment to our Old Credit Facilities in April 2007, we obtained a limited waiver of the change of control Event of Default (as defined in the senior secured credit facilities) which effectively extended the requirement to repay the Old Credit Facilities to July 11, 2007. As a result of the Arrangement, we paid off and terminated the Old Credit Facilities on July 6, 2007 through refinancing with the New Credit Facilities.

DIVIDENDS

No dividends have been declared on our common stock during fiscal 2008. Future 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 nine months ended December 31, 2007, 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 December 31, 2006.

RECENT ACCOUNTING STANDARDS

In December 2007, the FASB issued FASB Statement No. 141 (Revised), *Business Combinations*, ("FASB Statement No. 141(R)") which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FASB Statement No. 141(R) also requires acquirers to estimate the acquisition-date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. We will be required to apply this new standard prospectively to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. FASB Statement No. 141(R) amends certain provisions of FASB Statement No. 109, *Accounting for Income Taxes*, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of FASB Statement No. 141(R) would also apply the provisions of FASB Statement No. 141(R). Early adoption is prohibited. We are currently evaluating the effects that FASB Statement No. 141(R) may have on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within shareholder's equity, but separate from the parent's equity, (ii) the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations, and (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. FASB Statement No. 160 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. We have not yet commenced evaluating the potential impact, if any, of the adoption of FASB Statement No. 160 on our consolidated financial position, results of operations and cash flows.

In April 2007, the FASB issued Staff Position (FSP) No. FIN 39-1, *Amendment of FASB Interpretation No 39*, (FSP FIN 39-1). FSP FIN 39-1 amends FASB Statement No. 39, *Offsetting of Amounts Related to Certain Contracts*, by permitting entities that enter into master netting arrangements as part of their derivative transactions to offset in their financial statements net derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007. We have not yet commenced evaluating the potential impact, if any, of the adoption of FSP FIN 39-1 on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. The new statement establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company's choice to use fair value on its earnings. The new statement also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. FASB Statement No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*. FASB Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We have not yet commenced evaluating the potential impact, if any, of the adoption of FASB Statement No. 159 on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

We have determined that all other recently issued accounting pronouncements will not have a material impact on our consolidated financial position, results of operations and cash flows, or do not apply to our operations.

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, our metal price ceiling exposure 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 to the third party industry analysts quoted herein. 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:

- the level of our indebtedness and our ability to generate cash;
- changes in the prices and availability of aluminum (or premiums associated with such prices) or other materials and raw materials we use;

- the effect of metal price ceilings in certain of our sales contracts;
- the effectiveness of our metal hedging activities, including our internal used beverage cans (UBC) and smelter hedges;
- relationships with, and financial and operating conditions of, our customers, suppliers and our ultimate parent, Hindalco;
- fluctuations in the supply of, and prices for, energy in the areas in which we maintain production facilities;
- our ability to access financing for future capital requirements;
- continuing obligations and other relationships resulting from our spin-off from Alcan;
- changes in the relative values of various currencies;
- factors affecting our operations, such as litigation, environmental remediation and clean-up costs, labor relations and negotiations, breakdown of equipment and other events;
- economic, regulatory and political factors within the countries in which we operate or sell our products, including changes in duties or tariffs;
- competition from other aluminum rolled products producers as well as from substitute materials such as steel, glass, plastic and composite materials;
- changes in general economic conditions;
- our ability to improve and maintain effective internal control over financial reporting and disclosure controls and procedures in the future;
- changes in the fair value of derivative instruments;
- cyclical demand and pricing within the principal markets for our products as well as seasonality in certain of our customers' industries;
- changes in government regulations, particularly those affecting taxes, environmental, health or safety compliance;
- changes in interest rates that have the effect of increasing the amounts we pay under our principal credit agreement and other financing agreements; and
- the effect of taxes and changes in tax rates.

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 December 31, 2006, as amended, and filed with the SEC and are specifically incorporated by reference into this filing.

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 (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 our accompanying condensed consolidated balance sheet as of December 31, 2007.

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 and natural gas.

Aluminum

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 LME plus local market premiums and (ii) a “margin over metal” price based on the conversion cost to produce the rolled product and the competitive market conditions for that product.

In situations where we offer customers fixed prices for future delivery of our products, we may enter into derivative instruments for the metal inputs in order to protect the profit on the conversion of the product. Consequently, the gain or loss resulting from movements in the price of aluminum on these contracts would generally be offset by an equal and opposite impact on the net sales and purchases being hedged.

In addition, sales contracts representing approximately 10% of our total shipments for the nine months ended December 31, 2007 provide for a ceiling over which metal purchase costs cannot contractually be passed through to certain customers, unless adjusted. As a result, we are unable to pass through the complete metal purchase costs for sales under these contracts and this negatively impacts our margins when the metal price is above the ceiling price. These contracts expire at varying times and our estimated remaining exposure approximates 10% of estimated shipments in the remainder of fiscal 2008.

However, as previously discussed, in connection with the allocation of purchase price arising from the Arrangement, we established reserves totaling $655 million as of May 15, 2007 to record these sales contracts at fair value. Fair value effectively represents the discounted cash flows of the forecasted metal purchase costs in excess of the metal price ceilings contained in these contracts. These reserves are being accreted into Net sales over the remaining lives of the underlying contracts, and this accretion will not impact future cash flows. During the period from May 16, 2007 through December 31, 2007, we recorded accretion of $205 million.

We employ three strategies to mitigate our risk of rising metal prices that we cannot pass through to certain customers due to metal price ceilings. First, we maximize the amount of our internally supplied metal inputs from our smelting, refining and mining operations in Brazil. Second, we rely on the output from our recycling operations which utilize used beverage cans (UBCs). Both of these sources of aluminum supply have historically provided a benefit as these sources of metal are typically less expensive than purchasing aluminum from third party suppliers. We refer to these two sources as our internal hedges.

Beyond our internal hedges described above, our third strategy to mitigate the risk of loss or reduced profitability associated with the metal price ceilings is to purchase futures, call options and/or synthetic call options on projected aluminum volume requirements above our assumed internal hedge position. To hedge our exposure in 2006, we previously purchased call options at various strike prices. We currently purchase forward derivative instruments to hedge our exposure to further metal price increases.

During the quarter ended December 31, 2006, we sold short-term LME futures contracts to reduce the cash flow volatility of fluctuating metal prices associated with metal price lag. In Europe, we enter into forward metal purchases simultaneous with the 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 positive or negative impact on sales under these contracts has been included in the metal price lag effect described above, without regard to the fixed forward instruments we purchased to offset this risk.

Sensitivities

The following table presents the estimated potential pre-tax gain (loss) in the fair values of these derivative instruments as of December 31, 2007, assuming a 10% decline in the three-month LME price.

	Decline in Rate/Price	Pre-Tax Loss in Fair Value
		($ in millions)
Aluminum Forward Contracts	10%	$ (85)

Electricity and Natural Gas

We use several sources of energy in the manufacture and delivery of our aluminum rolled products. In the nine months ended December 31, 2007, natural gas and electricity represented approximately 70% 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. Recent natural gas pricing changes in the United States have increased our energy costs. 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 December 31, 2007, 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 25% of our total electricity requirements in that region. Additionally, we have entered into an electricity swap in North America to fix a portion of the cost of our electricity requirements.

Rising energy costs worldwide, due to the volatility of supply and international and geopolitical events, expose us to reduced profits 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 pre-tax loss in the fair values of these derivative instruments as of December 31, 2007, assuming a 10% decline in spot prices for energy contracts.

	Decline in Rate/Price	Pre-Tax Loss in Fair Value
		($ in millions)
Electricity	10%	$ (6)
Natural Gas	10%	(4)

Foreign Currency Exchange Risks

Exchange rate movements, particularly the euro, the Canadian dollar, 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 Canada and Brazil, where we have predominately U.S. dollar selling prices and local currency operating costs, we benefit as the local currencies weaken, but are adversely affected as the local currencies strengthen. Foreign currency contracts may be used to hedge the economic exposures at our foreign operations.

It is our policy to minimize functional currency exposures within each of our key regional 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 operating segments are Europe and Asia, which have the euro and the Korean won as their functional currencies, respectively. South America is U.S. dollar functional with Brazilian real transactional exposure.

We face translation risks related to the changes in foreign currency exchange rates. Amounts invested in our 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 in the Shareholder's equity section of the accompanying condensed consolidated balance sheets. Net sales and expenses in our foreign operations' foreign currencies 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 from foreign operations 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 17 — Financial Instruments and Commodity Contracts to our consolidated and combined financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Sensitivities

The following table presents the estimated potential pre-tax loss in the fair values of these derivative instruments as of December 31, 2007, assuming a 10% increase (decrease) in the foreign currency/U.S. dollar exchange rate.

	Increase (Decrease) in Exchange Rate	Pre-Tax Loss in Fair Value ($ in millions)
Currency measured against the U.S. dollar		
Euro	10%	$ (15)
Korean won	10%	(19)
Brazilian real	10%	(22)
Canadian dollar	(10)%	(1)
British pound	10%	(2)
Swiss franc	10%	(26)

	Increase (Decrease) in Exchange Rate	Pre-Tax Loss in Fair Value ($ in millions)
Other cross-currency exchange rates		
Swiss franc measured against the euro	(10)%	$ (31)
British pound measured against the euro	(10)%	(21)

Loans to and investments in European operations have been hedged by cross-currency swaps (euro 475 million, GBP 62 million, CHF 35 million). Loans from European operations have been hedged by cross-currency principal only swaps (euro 111 million). Principal only swaps totaling euro 91 million were accounted for as cash flow hedges through May 15, 2007. Concurrent with the completion of the Arrangement on May 15, 2007, we dedesignated these hedging relationships. On September 1, 2007, we redesignated our cross-currency swaps as net investment hedges. While this has no impact on our cash flows, subsequent changes in the value of currency related derivative instruments that are not designated as hedges are recognized in Gain (loss) on change in fair value of derivative instruments — net in our condensed consolidated statement of operations.

The following table presents the estimated potential pre-tax loss in the fair values of these derivative instruments as of December 31, 2007, assuming a 10% increase in rates.

	Increase in Rate	Pre-Tax Loss in Fair Value ($ in millions)
Currency measured against the U.S. dollar		
Euro	10%	$ (83)
British pound	10%	(15)
Swiss franc	10%	(4)

Interest Rate Risks

We are subject to interest rate risk related to our floating rate debt. For every 12.5 basis point increase in the interest rates on our outstanding variable rate debt as of December 31, 2007, which includes $355 million of Term Loan debt and other variable rate debt of $205 million, our annual pre-tax income would be reduced by approximately $1 million.

As of December 31, 2007, approximately 80% of our debt obligations were at fixed rates. 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.

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 9 — Debt to our accompanying condensed consolidated financial statements for further information.

Sensitivities

The following table presents the estimated potential pre-tax loss in the fair values of these derivative instruments as of December 31, 2007, assuming a 10% decrease in rates.

	Decrease in Rate	Pre-Tax Loss in Fair Value ($ in millions)
Interest Rate Swap Contracts		
North America	(10)%	$ (5)
Asia	(10)%	—

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

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the United States Securities Exchange Act of 1934, as amended (Exchange Act), is (1) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and (2) accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q for the period ended December 31, 2007, members of management, at the direction (and with the participation) of our Principal Executive Officer and Principal Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of December 31, 2007. Based on that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of December 31, 2007, as a result of the continued existence of a material weakness in our accounting for income taxes, as described in our Annual Report on Form 10-K for the year ended December 31, 2006. Notwithstanding this material weakness, management has concluded that the condensed consolidated financial statements included in this report present fairly, in all material respects, our financial position and results of operations and cash flows for

the periods presented in conformity with accounting principles generally accepted in the United States of America

Changes in Internal Control Over Financial Reporting

On October 22, 2007, Novelis Inc. announced that Robert M. Patterson was appointed Vice President Treasury and Planning and Jeffrey Schwaneke was appointed Vice President and Controller (Principal Accounting Officer). Mr. Patterson was formerly Vice President and Controller (Principal Accounting Officer) and replaces Orville Lunking as Treasurer who left Novelis to pursue other opportunities.

On October 1, 2007, the Company hired Michael Pashos as Vice President of Global Tax. With his guidance, the Company will continue to evaluate the current mix of internal and external staffing in the area of income taxes and may make further changes as necessary to most effectively and accurately handle the Company's accounting for income taxes. Additionally, during February 2008, the Company hired a Director and two Managers of tax who will assist Mr. pashos with tax planning, accounting and audit support.

There have been no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Plan for Material Weakness Existing as of December 31, 2007

We outlined our plan to remediate the material weakness in accounting for income taxes in Item 9A. Controls and Procedures of our Annual Report on Form 10-K for the year ended December 31, 2006, which was filed on March 1, 2007 (and amended on April 30, 2007), and there have been no additional remedial measures implemented since. While we believe that the measures enumerated in our Annual Report will ultimately allow us to remediate this material weakness, we concluded as of December 31, 2007, that there continues to be more than a remote likelihood that a material misstatement of our annual or interim financial statements related to accounting for income taxes will not be prevented or detected. Management believes it is prudent to observe and test these controls over a longer period of time prior to concluding that this weakness has been remediated. We are increasing our internal staffing in the area of income taxes and may make further changes as necessary to remediate this material weakness as quickly as possible. In addition, we will continue to provide training to our tax personnel and specifically focus on areas where adjustments and errors have been previously identified.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

Reynolds Boat Case. As previously disclosed, we and Alcan were defendants in a case in the United States District Court for the Western District of Washington, in Tacoma, Washington, case number C04-0175RJB. Plaintiffs were Reynolds Metals Company, Alcoa, Inc. and National Union Fire Insurance Company of Pittsburgh PA. The case was tried before a jury beginning on May 1, 2006 under implied warranty theories, based on allegations that from 1998 to 2001 we and Alcan sold certain aluminum products that were ultimately used for marine applications and were unsuitable for such applications. The jury reached a verdict on May 22, 2006 against us and Alcan for approximately $60 million, and the court later awarded Reynolds and Alcoa approximately $16 million in prejudgment interest and court costs.

The case was settled during July 2006 as among us, Alcan, Reynolds, Alcoa and their insurers for $71 million. We contributed approximately $1 million toward the settlement, and the remaining $70 million was funded by our insurers. Although the settlement was substantially funded by our insurance carriers, certain of them have reserved the right to request a refund from us, after reviewing details of the plaintiffs' damages to determine if they include costs of a nature not covered under the insurance contracts. Of the $70 million funded, $39 million is in dispute with and under further review by certain of our insurance carriers. In the quarter ended December 31, 2006, we posted a letter of credit in the amount of approximately $10 million in favor of one of those insurance carriers, while we resolve the extent of coverage of the costs included in the settlement. On October 8, 2007, we received a letter from these insurers stating that they have completed their review and they are requesting a refund of the $39 million plus interest. We reviewed the insurers' position, and on January 7, 2008, we sent a letter to the insurers rejecting their position that Novelis is not entitled to insurance coverage for the judgment against Novelis.

Since our fiscal 2005 Annual Report on Form 10-K was not filed until August 25, 2006, we recognized a liability for the full settlement amount of $71 million on December 31, 2005, included in Accrued expenses and other current liabilities on our consolidated balance sheet, with a corresponding charge against earnings. We also recognized an insurance receivable included in Prepaid expenses and other current assets on our consolidated balance sheet of $31 million, with a corresponding increase to earnings. Although $70 million of the settlement was funded by our insurers, we only recognized an insurance receivable to the extent that coverage was not in dispute. This resulted in a net charge of $40 million during the quarter ended December 31, 2005.

In July 2006, we contributed and paid $1 million to our insurers who subsequently paid the entire settlement amount of $71 million to the plaintiffs. Accordingly, during the quarter ended December 31, 2006 we reversed the previously recorded insurance receivable of $31 million and reduced our recorded liability by the same amount plus the $1 million contributed by us. The remaining liability of $39 million represents the amount of the settlement claim that was funded by our insurers but is still in dispute with and under further review by the parties as described above. The $39 million liability is included in Accrued expenses and other current liabilities in our condensed consolidated balance sheets as of December 31, 2007 and March 31, 2007.

While the ultimate resolution of the nature and extent of any costs not covered under our insurance contracts cannot be determined with certainty or reasonably estimated at this time, if there is an adverse outcome with respect to insurance coverage, and we are required to reimburse our insurers, it could have a material impact on our cash flows in the period of resolution. Alternatively, the ultimate resolution could be favorable, such that insurance coverage is in excess of the net expense that we have recognized to date. This would result in our recording a non-cash gain in the period of resolution, and this non-cash gain could have a material impact on our results of operations during the period in which such a determination is made.

Coca-Cola Lawsuits. A lawsuit was commenced against Novelis Corporation on February 15, 2007 by Coca-Cola Bottler's Sales and Services Company LLC (CCBSS) in state court in Georgia. In addition, a lawsuit was commenced against Novelis Corporation and Alcan Corporation on April 3, 2007 by Coca-Cola Enterprises Inc., Enterprises Acquisition Company, Inc., The Coca-Cola Company and The Coca-Cola Trading Company, Inc. (collectively CCE) in federal court in Georgia. Novelis intends to defend these claims vigorously.

CCBSS is a consortium of Coca-Cola bottlers across the United States, including Coca-Cola Enterprises Inc. CCBSS alleges that Novelis Corporation breached an aluminum can stock supply agreement between the parties, and seeks monetary damages in an amount to be determined at trial and a declaration of its rights under the

agreement. The agreement includes a "most favored nations" provision regarding certain pricing matters. CCBSS alleges that Novelis Corporation breached the terms of the most favored nations provision. The dispute will likely turn on the facts that are presented to the court by the parties and the court's finding as to how certain provisions of the agreement ought to be interpreted. If CCBSS were to prevail in this litigation, the amount of damages would likely be material. Novelis Corporation has filed its answer and the parties are proceeding with discovery.

The claim by CCE seeks monetary damages in an amount to be determined at trial for breach of a prior aluminum can stock supply agreement between CCE and Novelis Corporation, successor to the rights and obligations of Alcan Aluminum Corporation under the agreement. According to its terms, that agreement with CCE terminated in 2006. The CCE supply agreement included a "most favored nations" provision regarding certain pricing matters. CCE alleges that Novelis Corporation's entry into a supply agreement with Anheuser-Busch, Inc. breached the "most favored nations" provision of the CCE supply agreement. If CCE were to prevail in this litigation, the amount of damages would likely be material. The dispute will likely turn on the facts that are presented to the court by the parties and the court's finding as to how certain provisions of the supply agreement ought to be interpreted. Novelis Corporation has moved to dismiss the complaint and has not yet filed its answer. We have not recorded any reserves for these matters.

Anheuser-Busch Litigation. On September 19, 2006, Novelis Corporation filed a lawsuit against Anheuser-Busch, Inc. in federal court in Ohio. Anheuser-Busch, Inc. subsequently filed suit against Novelis Corporation and the Company in federal court in Missouri. On January 3, 2007, Anheuser-Busch, Inc.'s suit was transferred to the Ohio federal court.

Novelis Corporation alleges that Anheuser-Busch, Inc. breached the existing multi-year aluminum can stock supply agreement between the parties, and we seek monetary damages and declaratory relief. Among other claims, we assert that since entering into the supply agreement, Anheuser-Busch, Inc. has breached its confidentiality obligations and there has been a structural change in market conditions that requires a change to the pricing provisions under the agreement.

In its complaint, Anheuser-Busch, Inc. has asked for a declaratory judgment that Anheuser-Busch, Inc. is not obligated to modify the supply agreement as requested by Novelis Corporation, and that Novelis Corporation must continue to perform under the existing supply agreement.

On January 18, 2008, Anheuser-Busch, Inc. filed a motion for summary judgment. Novelis Corporation will have until February 19, 2008 to respond to the motion. Novelis Corporation has continued to perform under the supply agreement during the litigation.

ARCO Aluminum Complaint. On May 24, 2007, Arco Aluminum Inc. (ARCO) filed a complaint against Novelis Corporation and Novelis Inc. in the United States District Court for the Western District of Kentucky. ARCO and Novelis are partners in a joint venture rolling mill located in Logan, Kentucky. In the complaint, ARCO seeks to resolve a perceived dispute over management and control of the joint venture following Hindalco's acquisition of Novelis.

ARCO alleges that its consent was required in connection with Hindalco's acquisition of Novelis. Failure to obtain consent, ARCO alleges, has put us in default of the joint venture agreements, thereby triggering certain provisions in those agreements. The provisions include a reversion of the production management at the joint venture to Logan Aluminum from Novelis, and a reduction of the board of directors of the entity that manages the joint venture from seven members (four appointed by Novelis and three appointed by ARCO) to six members (three appointed by each of Novelis and ARCO).

ARCO is seeking a court declaration that (1) Novelis and its affiliates are prohibited from exercising any managerial authority or control over the joint venture, (2) Novelis' interest in the joint venture is limited to an economic interest only and (3) ARCO has authority to act on behalf of the joint venture. Or, alternatively, ARCO is seeking a reversion of the production management function to Logan Aluminum, and a change in the composition of the board of directors of the entity that manages the joint venture. Novelis filed its answer to the complaint on July 16, 2007.

On July 3, 2007, ARCO filed a motion for partial summary judgment with respect to one of the counts of its complaint relating to the claim that Novelis breached the joint venture agreement by not seeking ARCO's consent. On July 30, 2007, Novelis filed a motion to hold ARCO's motion for summary judgment in abeyance (pending further discovery), along with a demand for a jury. Those motions are pending. We intend to defend these proceedings vigorously.

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. 001-32316)
3.1	Restated Certificate and Articles of Incorporation of Novelis Inc. (incorporated by reference to Exhibit 3.1 to the Form 8-K filed by Novelis Inc. on January 7, 2005 (File No. 001-32312))
3.2	By-law No. 1 of Novelis Inc. (incorporated by reference to Exhibit 3.2 to the Form 10 filed by Novelis Inc. on November 17, 2004 (File No. 001-32312))
4.1	Shareholder Rights Agreement between Novelis and CIBC Mellon Trust Company (incorporated by reference to Exhibit 4.1 to the Form 10-K filed by Novelis Inc. on March 30, 2005 (File No. 001-32312))
4.2	Indenture, relating to the Notes, dated as of February 3, 2005, between the Company, the guarantors named on the signature pages thereto and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on February 3, 2005 (File No. 001-32312))
4.3	Form of Note for 7$^{1}/_{4}$% Senior Notes due 2015 (incorporated by reference to Exhibit 4.1 to the Form S-4 filed by Novelis Inc. on August 3, 2005 (File No. 331-127139))
4.4	First Amendment to the Shareholder Rights Agreement between Novelis Inc. and CIBC Mellon Trust Company, dated as of February 10, 2007 (incorporated by reference to our Current Report on Form 8-K filed on February 13, 2007) (File No. 001-32312)
10.1	$800 million asset-based lending credit facility (“ABL Facility”) dated as of July 6, 2007 among Novelis Inc., Novelis Corporation as U.S. Borrower, the other U.S. Subsidiaries of Novelis Inc., Novelis UK Ltd, Novelis AG, AV Aluminum Inc. as parent guarantor, the other guarantors party thereto, with the lenders party thereto, ABN AMRO Bank N.V., as U.S./European issuing bank, swingline lender and administrative agent, LaSalle Business Credit, LLC, as collateral agent and funding agent, UBS Securities LLC, as syndication agent, Bank of America, N.A., National City Business Credit, Inc. and CIT Business Credit Canada Inc., as documentation agents, ABN AMRO Bank N.V. Canada Branch, as Canadian issuing bank, Canadian funding agent and Canadian administrative agent, and ABN AMRO Incorporated and UBS Securities LLC, as joint lead arrangers and joint book managers (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2007 filed on November 9, 2007) (File No. 001-32312)
10.2	$960 million term loan facility (“Term Loan Facility”) dated as of July 6, 2007 among Novelis Inc., Novelis Corporation as U.S. Borrower, AV Aluminum Inc., As Holdings, and the other guarantors party thereto, with the lenders party thereto, UBS AG, Stamford Branch, as administrative agent and as collateral agent, UBS Securities LLC, as syndication agent, ABN AMRO Incorporated, as documentation agent, and UBS Securities LLC and ABN AMRO Incorporated as joint lead arrangers and joint book managers (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the period ended September 30, 2007 filed on November 9, 2007) (File No. 001-32312)
10.3	Intercreditor Agreement dated as of July 6, 2007 by and among Novelis Inc., Novelis Corporation, Novelis PAE Corporation, Novelis Finances USA LLC, Novelis South America Holdings LLC, Aluminum Upstream Holdings LLC, Novelis UK Ltd, Novelis AG, AV Aluminum Inc., and the subsidiary guarantors party thereto, as grantors, ABN AMRO BANK N.V., as revolving credit administrative agent ABN AMRO Bank N.A., acting through its Canadian branch, as revolving credit Canadian administrative agent and as revolving credit Canadian funding agent, La Salle Business Credit, LLC, as revolving credit collateral agent and as revolving credit funding agent, and UBS AG, Stamford Branch, as Term Loan administrative agent, and Term Loan collateral agent (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the period ended September 30, 2007 filed on November 9, 2007) (File No. 001-32312)
10.4	Security Agreement made by Novelis Inc., as Canadian Borrower, Novelis Corporation, as U.S. Borrower and the guarantors from time to time party thereto in favor of UBS AG, Stamford branch, as collateral agent dated as of July 6, 2007 (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the period ended September 30, 2007 filed on November 9, 2007) (File No. 001-32312)

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10.5	Security Agreement made by Novelis Inc., as Canadian Borrower, Novelis Corporation, Novelis PAE Corporation, Novelis Finances USA LLC, Novelis South America Holdings LLC, Aluminum Upstream Holdings LLC, as U.S. Borrowers and the guarantors from time to time party thereto in favor of La Salle Business Credit, LLC, as collateral agent dated as of July 6, 2007 (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the period ended September 30, 2007 filed on November 9, 2007) (File No. 001-32312)
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10.7	Separation and Release Agreement between Novelis Inc. and David Godsell dated November 12, 2007
18.1	Preferability Letter Issued by PricewaterhouseCoopers LLP
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

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)

By: /s/ Jeffrey Schwaneke
Jeffrey Schwaneke
Vice President and Controller
(Principal Accounting Officer)

Date: February 8, 2008

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Mr. David Godsell
4724 Dudley Lane
Atlanta, GA 30327

Dear David:

Re: Termination of Employment

The purpose of this letter is to provide an overview of the terms of your termination of employment from Novelis and to link together various company specific documents relating to your separation of employment. These documents are included as numbered attachments. For the purposes of flow the sequencing of the events and attachments will generally follow historical chronology.

Summary of Transition — David Godsell — Attachment I (February 23, 2007).

On February 23, 2007 during a meeting with Ed Blechschmidt, then Acting CEO of Novelis Inc. and Clarence Chandran, Director and Chairman of the Human Resources Committee of the Board of Directors for Novelis Inc., the content of **Attachment I** was communicated.

From the period February 23, 2007 through the close of the Hindalco transaction on May 15, 2007 you remained on active payroll at your annualized rate of $310,000 as communicated in **Attachment I.** During this period you utilized all your available outstanding vacation entitlement. You remained on payroll for the period May 16, 2007 through June 30, 2007, as Novelis worked through the details of calculating your Change In Control benefits including potential tax gross-ups under Section 3 of your Change In Control Agreement

Specifics identified within the Summary of Transition — Attachment I

a) **Novelis Founders Performance Shares:** The Performance Share Units were cancelled in exchange for a cash payment following the completion of the acquisition of Novelis Inc. by AV Metals Inc., a subsidiary of Hindalco Industries Limited [“the Transaction”].

b) **Conversion Options:** All of your Novelis Conversion options were transferred to Novelis for a cash payment following the completion of the Transaction.

c) **<u>Long Term Incentive (2006):</u>** All your stock options granted on October 26, 2006 under the Novelis Inc. 2006 Incentive Plan were transferred to Novelis for a cash payment following the completion of the Transaction.

d) **<u>Short Term Incentive Award (STI)(2006):</u>** Your STI award for the 2006 fiscal year of $ 85,000 was paid in April 2007.

e) **<u>Short Term Incentive Award (STI)(2007):</u>** Your STI award for the 2007 period of January 1, 2007 to May 15, 2007 was paid at your target bonus level following the completion of the Transaction.

f) **<u>Change In Control:</u>** You were afforded treatment under your **Novelis Change In Control Agreement of September 24, 2006 — Attachment II —** subject to employment termination within 6 months prior or 2 years after a Change In Control. With the May 15, 2007 completion of the Transaction you were deemed to be eligible for Change In Control payout.

g) **<u>Automobile:</u>** The opportunity to purchase the company vehicle was cited.

<u>Agreement Concerning Retirement and Separation and Release Agreement</u>

On July 30, 2007 — you received a letter from Novelis that consisted of an **Agreement Concerning Retirement (Attachment III)** and a **<u>Separation and Release Agreement</u> (Attachment IV)**

The **Agreement Concerning Retirement** outlines some of the major details associated with your retirement from Novelis effective July 1, 2007. Specifically it confirms your entitlements to certain payments and other benefits covered under your Change In Control Agreement as also referenced in **Attachment I** of this letter.

Provided you execute a Separation and Release agreement as required under Section 2(a) of your Change In Control Agreement dated September 24, 2006, you will be entitled to the following payments and other benefits under your Change in Control Agreement.

(a) A lump sum payment in an amount equal to 24 months of total cash compensation (i.e. base salary plus short-term incentive opportunity). This amount will be $961,000. As required under Section 2 of your Change In Control Agreement, this payment will be delayed for a period of six (6) months as required by internal Revenue Code Section 409A.

(b) You are entitled to continue life insurance coverage under the Company's group life insurance plan for a period of twenty-four (24) months at your pre-termination level of coverage. Details of the per month cost for your optional life insurance, spouse life Insurance, child life insurance are attached. The intent would be to take all of these costs from your Change In Control payment unless you elect to drop one or more of these coverage types. The attachment also shows the amount of imputed income to keep your regular coverage in effect for 24 months.

(c) You are entitled to twenty-four (24) months of additional credit for benefit accrual and contribution allocation purposes (including credit for age,

service and earnings pro rated over twenty-four (24) months under the Company's tax qualified and non-qualified pension and savings plan. Your Pension Information has been forwarded to you under separate cover. Your non-qualified savings plan account will be credited with two years additional match [a total of $20,250] as soon as practicable after you execute a Separation and Release Agreement.

(d) Gross-up Payment if warranted under Section 3. Tax Reimbursement of your Change In Control Agreement.

You are entitled to the following benefits even if you elect not to execute a Separation and Release agreement

- Retirement benefits but without the enhancements included with your Change In Control Agreement.
- Retiree medical coverage which begins on July 1, 2007 at active employee rates.
- You have the option of purchasing your company car from Novelis at book value or returning it to Novelis.

The **Agreement Concerning Retirement** also specifies the forfeiture of your Recognition Shares and the cessation of company Short and Long-Term Disability effective as of your retirement date.

Attachment V is the July 13 2007 letter from Beverly Husani outlining your entitlements under various Company Pension plans (subject to certain elections on your part). **Attachment XII** is the October 25, 2007 letter from Beverly Husani updating this information.

The following chart depicts (with appropriate assumptions of elections, start dates, signed CIC Agreement etc...) the sources and composition of the monthly pension payments in US funds.

	July 1, 2007	January 1, 2008
Alcan Pension Plan (APP)	$ 1,378	$ 1,427
Novelis Pension Plan (NPP)	$ 2,898	$ 3,009
Supplemental Retirement Plan (SRBP)	N/A	$ 7,573
Total	$ 4,277	$ 12,009

* SRBP — total of $ 7,573 consists of two parts: a) $ 4,081 per month additional pension due to IRS limit on compensation that can be recognized in qualified plan NPP, b) $ 3,492 per month due to the Change In Control Agreement.

It is important for you to know that payments under the SRBP will commence on January 1, 2008, if you so elect. If you do not make that election, payments will commence at age 55.

You will receive an updated letter from Ms. Husani when we have an indication from you as to when you would want to begin various payments.

Attachment VI is July 19, 2007 letter from Christine Morgan that outlines COBRA coverage for Medical and Dental Coverage. Attached to this a HIPAA Certificate of Group Health Coverage. Under separate cover your were sent information concerning COBRA including a listing of coverage rates and identification of the "election rights expiry date of 09/29/07"

Health care benefits for you and your family can be summarized as follows:

(a) **Medical:** Effective on your early retirement date of July 1 2007, because of your eligibility you began participation under the Novelis Retiree Medical coverage. Until such time that the retiree medical plan changes, if it changes, you are eligible for retiree medical coverage at active employee rates.

(b) **Dental:** Effective June 30 2007 dental coverage for you and your family terminated. You were eligible to elect COBRA coverage as was communicated to you. There is no company provision for dental under current company retiree plans.

<u>Other Issues associated with Termination of Employment:</u>

a) **Novelis Savings Plan:** You should have received a termination kit from Vanguard outlining your various possible elections.

b) **Novelis Canada Savings Plan:** On October 9, 2007 Novelis sent an electronic transmission between payroll (processed in Cleveland) and Fidelity showing your status end date as October 9, 2007. That notification should trigger Fidelity to send distribution material directly to you (we do not get any copies).

c) **AlcanCorp Non-Qualified Deferred Compensation Plan:** Our records indicate that you continue to be a member in this plan that is administered by Vanguard on behalf of Alcan. Novelis as you are aware did not continue this plan after the spin-off from Alcan. You may wish to contact the Alcan shared services center in Chicago (866-704-2379) regarding ongoing participation and disbursement. We expect that your annual distributions for five years will commence March 2008.

d) **Company Vehicle:** You have the option to purchase your company vehicle at book value or return it to the company. The price communicated to you was $ 67,350.00, plus sales tax of $5,388.00, plus an administrative fee of $75.00, for a total of $ 72,813.00. If you have not already done so, you will make that election in writing when you return this signed letter and the Separation and Release Agreement to me.

e) **Short-Term Incentive:** (May 15 — 30 June 2007) — Under the terms of Section 2.(c)(i) of your Change In Control Agreement **(Attachment II),** you shall be entitled to a short term incentive award for this period pursuant to the terms of the incentive plan with respect to which such award is issued (Novelis Annual Incentive Plan 2007 —2008 is attached as **Attachment VII).** The amount of this award will be inclusive of the one time payment covered in section (i) below.

f) **Tax preparation services:** Novelis will provide tax preparation services for the 2007 and 2008 tax years.

g) **Separation and Release Agreement:** As articulated within the Change In Control Agreement, the company has prepared the Separation and Release Agreement that is attached as **Attachment X** and it updates **Attachment IV, Attachment VIM** (red-lined version) and **Attachment IX** (clean version).

h) **Tax Reimbursement — Gross-Up Payment: Attachment XI** is the calculation document reflecting Novelis's contractual requirements under section 3 (c) of the Change In Control Agreement, pertaining to the amount of excise tax to be imposed by Section 4999, if any, and gross-up as determined under Section 280.

i) **One Time Payment.** The company will provide you with a taxable one time payment of $50,000, payable by Novelis as soon as is practicable after January 1, 2008 provided you have executed and have not revoked the Separation and Release Agreement, covering additional consideration for a release, including but not limited to the 2007 STI referenced in section (e), reimbursement for certain legal fees, 409A tax consultation services and similar release-related items. This payment will address all other potential requests for reimbursement associated with Separation and is reflected as consideration cited in section 4 (f) of the Separation and Release Agreement **Attachment X.**

There are two originals of this letter summarizing the termination terms, including all attachments (a “packet”). Please sign both originals of this letter and both originals of the Separation and Release Agreement (also included as **Attachment X**) and return one signed packet to me. You may keep one original packet for your records.

Yours truly,

/s/ Robert Virtue
Robert Virtue
VP Human Resources

Accepted and Agreed:

/s/ David Godsell	November 12 2007
David Godsell	Date:

Exhibit 10.7

SEPARATION AND RELEASE AGREEMENT

This Separation and Release Agreement ("Agreement") is entered into by and between David Godsell ("Employee") and Novelis Inc. ("Novelis") as a result of the termination of the employee's employment relationship other than for Cause and as required by Section 2(a) of the Change in Control Agreement entered into between the Employee and Novelis on September 25, 2006 (the "CIC Agreement").

1. **Separation Date**: The employee's employment relationship terminated on July 1, 2007 ("Separation Date").

2. **Release**: As consideration for the benefits and payments described in the CIC Agreement, which Novelis agrees to pay in accordance with the CIC Agreement, Employee does hereby voluntarily waive, release, hold harmless, acquit and forever discharge Novelis, its predecessors, parents, subsidiaries and affiliated companies, successors and assigns, and the past, present and future officers, directors, employees, representatives and agents from (i) any and all claims, charges, complaints, demands, damages, lawsuits, actions or causes of action he had, has or may have, known or unknown, and of any kind or description whatsoever, which arose prior to the execution of this Agreement; and (ii) any and all claims or legal action against Novelis in any way arising out of or in any way related to Employee's employment with Novelis (including any claim of which the Employee is not aware and those not mentioned in this paragraph 2); and (iii) any and all claims he had, has or may have under any possible legal, equitable, tort, contract, common law, public policy or statutory theory, arising under any federal, state or local law, rule, ordinance or regulation, including but not limited to, the Age Discrimination in Employment Act of 1967, the Civil Rights Act of 1866, the Civil Rights Act of 1991, Title VII of the Civil Rights Act of 1964, the Employee Retirement Income Security Act of 1974, and the Americans with Disabilities Act of 1990, all as amended to the date of this Agreement. Nothing contained in this Release shall affect the parties' rights and obligations under the CIC Agreement, the Novelis Pension Plan, Supplemental Retirement Plan, the Alcan Pension Plan and the Termination of Employment letter dated November 1, 2007.

3. **Noncompete:** Employee agrees that, for twelve (12) months following June 30, 2007, he will not, without the express written consent of Novelis, directly or indirectly work for, or provide services to, directly or indirectly (e.g., as an employee, independent contractor or consultant to a service provider), a direct competitor of Novelis in any role in which Employee could use Novelis' confidential or trade secret information. For purposes of this paragraph 3, a "direct competitor" is any person engaged in the business of producing aluminum rolled products in the markets served by Novelis. The restriction on competition in this paragraph extends to all geographic areas serviced by Novelis during Employee's employment. Further, the restrictions on competition in this paragraph are intended only insofar as is reasonably necessary to protect

Novelis and/or any of its affiliates from unfair competition and, if overbroad, should be reformed as reasonable.

4. **Acknowledgment**: By signing this Agreement and in connection with the release of any and all claims as set forth in paragraph 2, Employee and Novelis acknowledge, agree and represent that:

(a) The execution of this Agreement shall not constitute any admission by Novelis that it has violated any federal, state or local statute, ordinance, rule, regulation or common law, or that Employee has any meritorious claims whatsoever against Novelis.

(b) No promise or inducement has been offered to Employee, except as herein set forth;

(c) This Agreement is being executed voluntarily and knowingly by Employee and Novelis without reliance upon any statements by others or their representatives concerning the nature or extent of any claims or damages or legal liability therefore;

(d) This Agreement has been written in understandable language, and all provisions hereof are understood by Employee and Novelis;

(e) Employee is advised, and has had an opportunity, to consult with an attorney of Employee's own choosing prior to executing this Agreement;

(f) Employee will receive, pursuant to this Agreement, a taxable lump sum of Fifty Thousand Dollars ($50,000.00), which is consideration in addition to anything of value to which the Employee is already entitled;

(g) Employee has twenty-one (21) days from the receipt of this Agreement in which to decide whether to enter into this Agreement, sign it and return it to Bob Virtue at Novelis' Human Resource Department, at 3399 Peachtree Rd. NE, Suite 1500 Atlanta, GA 30326 The Employee may sign this Agreement and return it to Bob Virtue prior to the expiration of the 21-day period; and

(h) Employee has the right to revoke this Agreement during the seven (7) day period by mailing a letter of revocation to Bob Virtue at the above address. Such a letter must be signed and received by Novelis no later than the seventh day after the date on which Employee signed the Agreement. This Agreement shall not become effective or enforceable until the seven (7) day revocation period expires.

(i) This Agreement shall be governed by the law of Georgia.

5. **Entirety of Agreement**: This Agreement contains the entire agreement among the parties hereto with respect to the subject matter hereof, with the exceptions being the CIC Agreement, the Novelis Pension Plan, Supplemental Retirement Plan, the Alcan Pension Plan, and the benefits summarized in the Termination of Employment letter dated November 1, 2007, the terms of which are incorporated herein by reference. This Agreement may not be modified, except in writing signed by Employee and Novelis.

6. **Severability**: If any term, condition, clause or provision of any paragraph of this Agreement shall be determined by a court of competent jurisdiction to be void or invalid as a matter of law, or for any other reason, then only that term, condition, clause or provision as is determined to be void or invalid shall be stricken from this Agreement and the remaining portions of such paragraph shall remain in full force and effect in all other respects.

IN WITNESS WHEREOF, Employee and Novelis have freely, voluntarily and knowingly executed this Agreement as of the day and year first written above.

/s/ David Godsell
Employee

November 12, 2007
Date

/s/ Bob Virtue
Novelis Inc.

November 12, 2007
Date

Exhibit 18.1

February 8, 2008

Board of Directors
Novelis, Inc.
3399 Peachtree Road NE, Suite 1500
Atlanta, Georgia 30326

Dear Directors:

We are providing this letter to you for inclusion as an exhibit to your Form 10-Q filing pursuant to Item 601 of Regulation S-K.

We have been provided a copy of the Company’s Quarterly Report on Form 10-Q for the period ended December 31, 2007. Note 1 therein describes a change in accounting principle related to changing the Company’s annual goodwill impairment test date in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (“FAS 142”) from October 31 to the last day in February. It should be understood that the preferability of one acceptable method of accounting over another for the annual goodwill impairment test date in accordance with FAS 142 has not been addressed in any authoritative accounting literature, and in expressing our concurrence below we have relied on management’s determination that this change in accounting principle is preferable. Based on our reading of management’s stated reasons and justification for this change in accounting principle in the Form 10-Q, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company’s circumstances, the adoption of a preferable accounting principle in conformity with Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*.

We have not audited any financial statements of the Company as of any date or for any period subsequent to December 31, 2006. Accordingly, our comments are subject to change upon completion of an audit of the financial statements covering the period of the accounting change.

Very truly yours,

PricewaterhouseCoopers LLP

Exhibit 31.1

Section 302 Certification of Principal Executive Officer

I, Martha Finn Brooks, President and Chief Operating Officer of Novelis Inc. (Novelis), certify that:

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

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.

Date: February 8, 2008

/s/ Martha Finn Brooks

Martha Finn Brooks
President and Chief Operating Officer
(Principal Executive Officer)

Exhibit 31.2

Section 302 Certification of Principal Financial Officer

I, Steven Fisher, Chief Financial Officer of Novelis Inc. (Novelis), certify that:

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

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.

Date: February 8, 2008

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

Exhibit 32.1

Section 906 Certification of Principal Executive Officer

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 December 31, 2007 (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/ Martha Finn Brooks
Martha Finn Brooks
President and Chief Operating Officer
(Principal Executive Officer)

Date: February 8, 2008

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

Section 906 Certification of Principal Financial Officer

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 December 31, 2007 (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: February 8, 2008

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.