Novelis Switzerland SA

Sierre

Report of the statutory auditor to the General Meeting

on the financial statements 2017/2018

pwc

Report of the statutory auditor
to the General Meeting of Novelis Switzerland SA
Sierre

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Novelis Switzerland SA, which comprise the balance sheet, income statement and notes, for the year ended 31 March 2018.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 March 2018 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

PricewaterhouseCoopers SA, avenue C.-F. Ramuz 45, case postale, CH-1001 Lausanne, Switzerland
Téléphone: +41 58 792 81 00, Téléfax: +41 58 792 81 10, www.pwc.ch

PricewaterhouseCoopers SA is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Pierre-Alain Dévaud
Audit expert
Auditor in charge

Patrick Wagner
Audit expert

Lausanne, 27 April 2018

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

Balance sheet at
(in Swiss Francs)

	March 31, 2018	March 31, 2017
Assets		
Current assets		
Liquid funds	7 756	32 653
Trade accounts receivable -		
Third parties, net	30 595 549	30 462 838
Group companies	55 023 108	62 346 262
Prepaid expenses -		
Third parties	4 731 124	2 812 092
Group companies	0	44 079
Other receivables -		
Third parties	20 929 554	15 621 947
Shareholders	307 406 959	281 404 224
Inventories, net	76 986 636	64 391 666
	495 680 686	457 115 761
Fixed assets		
Tangible fixed assets -		
Land and buildings	27 515 046	29 236 157
Machinery and other equipments	35 521 266	36 854 617
Construction in progress	4 407 705	2 588 260
Intangible fixed assets -		
Intellectual property	798 075	1 596 150
Softwares	528 148	266 911
	68 770 240	70 542 095
Total assets	564 450 926	527 657 856

Balance sheet at
(in Swiss Francs)

	March 31, 2018	March 31, 2017
Liabilities and shareholders' equity		
Current liabilities		
Trade accounts payable -		
Third parties	78 539 765	70 506 955
Group companies	31 423 719	45 377 662
Short-term liabilities bearing interest	24 068 916	23 057 987
Accrued liabilities	23 929 976	30 489 277
Short-term debts	10 940	20 862
	157 973 316	169 452 743
Non-current liabilities		
Long term debt	0	10 625
	0	10 625
Shareholders' equity		
Share capital	5 000 000	5 000 000
Legal reserve	2 500 000	2 500 000
Statutory retained earnings	350 694 488	301 066 435
Profit/loss for the year/period	48 283 122	49 628 053
	406 477 610	358 194 488
Total liabilities and shareholders' equity	564 450 926	527 657 856

Statement of income for the period
(in Swiss Francs)

	April 1, 2017 - March 31, 2018	April 1, 2016 - March 31, 2017
Turnover		
Income from sales	823 961 369	740 425 872
Income from service fees	8 846 342	8 159 331
Sales deductions	(13 926 218)	(14 141 473)
	818 881 493	734 443 730
Materials used	(634 256 241)	(540 252 677)
Energy consumption costs	(11 685 712)	(11 309 594)
Variation in inventories	15 818 296	7 575 179
Gross profit	188 757 836	190 456 638
Personnel costs	(63 894 469)	(63 411 524)
Leasing	(9 089 925)	(8 950 941)
Maintenance	(8 315 858)	(8 285 350)
Other operating costs	(36 854 625)	(30 237 154)
Other income	353 630	450 916
Depreciation	(9 778 729)	(9 869 705)
Operating profit before financial items	61 177 860	70 152 880
Financial income	2 612	7 160
Financial expense	(1 644 059)	(8 600 814)
Operating profit	59 536 413	61 559 225
Non-operating expense	(228 990)	(663 873)
Income before tax	59 307 423	60 895 352
Taxes	(11 024 301)	(11 267 299)
Net income (loss) for the period	48 283 122	49 628 053

1. Accounting principles applied in the preparation of the financial statements

These financial statements have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b CO).
Significant balance sheet items are accounted for as follows:

1.1 Trade receivable

Our accounts receivable are geographically dispersed. We do not believe there are any significant concentrations of revenues from any particular customer or group of customers that would subject us to any significant credit risks in the collection of our accounts receivable. We report accounts receivable at the estimated net realizable amount we expect to collect from our customers.

Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. We write-off uncollectible accounts receivable against the allowance for doubtful accounts after exhausting collection efforts. For each of the periods presented, we performed an analysis of our historical cash collection patterns and considered the impact of any known material events in determining the allowance for doubtful accounts.

1.2 Revenue recognition

We recognize sales when the revenue is realized or realizable, and has been earned. We record sales when a firm sales agreement is in place, delivery has occurred and collectability of the fixed or determinable sales price is reasonably assured.

We recognize product revenue, net of trade discounts, allowances, and estimated billing adjustments, in the reporting period in which the products are shipped and the title and risk of ownership pass to the customer. We sell most of our products under contracts based on a “conversion premium,” which is subject to periodic adjustments based on market factors. As a result, the aluminum price risk is largely absorbed by the customer. In situations where we offer customers fixed prices for future delivery of our products, we enter into derivative instruments for all or a portion of the cost of metal inputs to protect our profit on the conversion of the product.

Shipping and handling amounts we bill to our customers are included in “Net sales” and the related shipping and handling costs we incur are included in “Cost of goods sold (exclusive of depreciation and amortization).”

Our customers can receive or earn certain incentives including, but not limited to, contract signing bonuses, cash discounts, volume based incentive programs, and support for infrastructure programs. The incentives are recorded as reductions to "Net sales" and are recognized over the minimum contractual period in which the customer is obligated to make purchases from Novelis.
For incentives that must be earned, management must make estimates related to customer performance and sales volume to determine the total amounts earned and to be recorded as reductions to "Net sales." In making these estimates, management considers historical results. The actual amounts may differ from these estimates.

1.3 Inventories

Inventories are valued at the lower of cost (acquisition or manufacturing cost) for spare parts and net realisable value for metal. Cost comprises all directly attributable costs of materials and production, and overheads necessary to bring the inventories to their present location and condition. Cost is determined using the weighted average method. Net realisable value is the estimated selling price less the estimated cost to completion and the estimated selling cost.
Impairment charges are made for unsellable inventory or inventory with a low turnover.
In addition, a general reserve of 33% has been recorded (excluding metal base).

	March 31, 2018 CHF	March 31, 2017 CHF
Raw materials	35 542 912	29 610 415
Work in progress	26 551 518	20 217 457
Finished goods	13 902 332	13 529 187
Consumables and supplies	7 780 738	7 572 486
Valuation adjustments	(6 790 864)	(6 537 879)
	76 986 636	64 391 666

1.4 Tangible fixed assets and leases

Tangible fixed assets are carried at cost or manufacturing cost less depreciation.
Assets held under finance leases are carried at the lower of the fair value of the asset and the present value of the minimum lease payments.
The related outstanding finance lease obligations are presented under liabilities.
The leased asset is initially capitalised at the lower of the present value of the lease payments and fair value. Lease instalments are broken down into interest and repayment amounts.
The leased asset is depreciated over the shorter of the lease term and the estimated life of the asset.

Depreciation is calculated on the basis of the following useful lives and in accordance with the following methods:

Tangible fixed assets	Useful life	Method
Buildings	33 to 40 years	linear
Machinery (production)	15 to 25 years	linear
Machinery (non-production)	3 to 15 years	linear
Vehicles	3 to 5 years	linear

Lease commitments not recorded in the balance sheet	March 31, 2018 CHF	March 31, 2017 CHF
Liabilities from capital leases	11 655 449	17 332 983
Future operating lease payments	14 293 220	15 631 029
	25 948 669	32 964 011

1.5 Assets pledged in favour of third parties

	March 31, 2018 CHF	March 31, 2017 CHF
Casthouse (net book value)	18 838 881	19 982 659
Trade accounts receivables	85 618 657	92 809 100
Cash	7 756	32 653
	104 465 294	112 824 412

At the balance sheet date Novelis Inc's senior secured facilities consisted of:
(1) a $1.8 billion five-year secured term loan credit facility ("Term Loan Agreement"), and
(2) a $1.0 billion five-year asset based loan facility (ABL Facility)
All the assets of the Company, along with those of certain other companies in the Novelis Inc. group, have been pledged as security for these facilities.
As of March 31, 2018, the outstanding borrowing under the ABL facility is $12 million (2017: $184 million) for the Novelis Inc. Group.
The ABL Agreement and the Term Loan Agreement require Novelis AG and Novelis Switzerland SA, to enter into:
(i) a First Ranking Account Pledge Agreement related to the ABL Agreement, and
(ii) a Second Ranking Account Pledge Agreement related to the Term Loan Agreement (together, the "Pledge Agreements"). The Pledge Agreements provide collateral rights over certain assets of Novelis AG and Novelis Switzerland SA to the lending syndicates of the ABL Agreement and the Term Loan Agreement.

1.6 Guarantees

	March 31, 2018 CHF	March 31, 2017 CHF
Guarantee in favour of Listex Sàrl, Sierre	3 000 000	3 000 000
Guarantee in favour of Swiss Customs (import)	4 450 000	4 450 000
Guarantee in favour of MOL (Europe) BV	160 357	0

1.7 Amounts due to pension funds

Amounts due to pension funds	679 120	647 926
	679 120	647 926

1.8 Other contingent liabilities

The Company is jointly liable for Swiss VAT with respect to the Novelis AG VAT Group.

1.9 Commitments

As of March 31, 2018, the company has 290 (FY17: 430) open forward contracts for an estimated net fair value of -4'107'879 CHF (FY17: +416'046 CHF).

280 (FY17: 420) contracts hedge the FX rates risk for an estimated fair value of -4'091'618 CHF (FY17: +245'065 CHF) and 10 (FY17: 10) contracts hedge the metal price risk for an estimated fair value of -16'261 CHF (FY17: +170'981 CHF) .

The losses related to these contracts have not been considered in the net profit as they are dedicated to hedge future trade commitments. Therefore, any unrealized losses on the contracts are offset by corresponding gains on future trade commitments.

1.10 Full-time equivalents

The number of full-time equivalents exceeds 250 on an annual average basis.

1.11 Derogation from the principle of continuity in the presentation.

Presentation of accounts for the past year has been changed for purpose of comparison.

1.12 Sierre Leases from Constellium Valais SA

We lease our rolling facility as real and personal property from a subsidiary of Constellium N.V. (Constellium) as part of long-term, renewable lease agreements.

In January 2017, Constellium submitted to us a notice of termination of the lease agreements on the grounds that we breached certain terms and failed to remedy the alleged breaches within the cure period under the lease agreements.

On January 31, 2018, we entered into a framework agreement with Constellium.
Under the agreement, the parties agreed that (i) Novelis will purchase from Constellium all of the rolling facility in Sierre for an aggregate purchase price of €195 million, (ii) Constellium will create a service company that will be jointly owned and operated by the parties to provide certain services to the parties at the Sierre facility, and Novelis will acquire from Constellium a 50% interest in the service company for an aggregate purchase price of €5 million, and (iii) under two commercial arrangements, Constellium will provide ingots to us on a tolling basis and we will provide rolled products to Constellium on a tolling basis, respectively.

The parties also agreed to suspend, until the closing of the transactions described in the agreement, the arbitration proceedings currently before the International Chamber of Commerce (ICC) regarding the existing arrangements between them. At the closing of the transactions, the parties will release all of the claims between them, including the claims subject to the ICC arbitration.

Notes to the financial statements 2018

2.	**Movements on retained earnings** (in Swiss Francs)	**March 31, 2018 CHF**	**March 31, 2017 CHF**
	Retained earnings at the beginning of the period	350 694 488	301 066 435
	Net income for the period	48 283 122	49 628 053
	Retained earnings at the disposal of the annual general meeting	398 977 610	350 694 488

Proposal of the board of directors for appropriation of retained earnings

	2018 **Proposal of the board of directors**
To be carried forward	398 977 610
	398 977 610