Novelis Switzerland SA

Sierre

Report of the statutory auditor to the General Meeting

on the financial statements 2018/2019

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 2019.

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 2019 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.

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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, 26 April 2019

Enclosures:

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

Balance sheet at
(in Swiss Francs)

	March 31, 2019	March 31, 2018
Assets		
Current assets		
Liquid funds	12 498	7 756
Trade accounts receivable -		
Third parties, net	23 024 474	30 595 549
Group companies	47 300 732	55 023 108
Prepaid expenses -		
Third parties	2 310 584	4 731 124
Group companies	(16 142)	0
Other receivables -		
Third parties	14 282 782	20 929 554
Shareholders	110 979 500	307 406 959
Loans short term	905 834	0
Inventories, net	78 571 769	76 986 636
	277 372 031	495 680 686
Fixed assets		
Financial fixed assets -		
Investments	2 954 775	0
Tangible fixed assets -		
Land and buildings	77 776 814	27 515 046
Machinery and other equipments	112 932 120	35 521 266
Construction in progress	8 573 915	4 407 705
Intangible fixed assets -		
Goodwill	95 804 145	0
Intellectual property	0	798 075
Softwares	370 585	528 148
	298 412 354	68 770 240
Total assets	575 784 385	564 450 926
Liabilities and shareholders' equity		
Current liabilities		
Trade accounts payable -		
Third parties	79 991 695	78 539 765
Group companies	25 798 900	31 423 719
Short-term liabilities bearing interest	12 008 270	24 068 916
Accrued liabilities	22 649 869	23 929 976
Short-term debts	2 347 590	10 940
	142 796 324	157 973 316
Non-current liabilities		
Long term debts	6 511 296	0
	6 511 296	0
Shareholders' equity		
Share capital	5 000 000	5 000 000
Legal reserve	2 500 000	2 500 000
Statutory retained earnings	398 977 610	350 694 488
Profit/loss for the year/period	19 999 155	48 283 122
	426 476 765	406 477 610
Total liabilities and shareholders' equity	575 784 385	564 450 926

Statement of income for the period
(in Swiss Francs)

	April 1, 2018 - March 31, 2019	April 1, 2017 - March 31, 2018
Turnover		
Income from sales	787 131 777	823 961 369
Income from service fees	9 221 001	8 846 342
Sales deductions	(14 652 817)	(13 926 218)
	781 699 961	818 881 493
Materials used	(610 338 992)	(634 256 241)
Energy consumption costs	(12 204 631)	(11 685 712)
Variation in inventories	4 129 910	15 818 296
Gross profit	163 286 248	188 757 836
Personnel costs	(61 497 588)	(63 894 469)
Leasing	(4 373 501)	(9 089 925)
Maintenance	(8 822 572)	(8 315 858)
Other operating costs	(34 446 400)	(38 204 969)
Other income	581 740	353 630
Depreciation & Amorization	(29 366 776)	(9 778 729)
Operating profit before financial items	25 361 151	59 827 516
Financial income	18 971	2 612
Financial expense	349 431	(1 644 059)
Operating profit	25 729 553	58 186 069
Non-operating expense	(331 898)	(228 990)
Income before tax	25 397 655	57 957 079
Taxes	(5 398 500)	(9 673 957)
Net income (loss) for the period	19 999 155	48 283 122

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, 2019 CHF	March 31, 2018 CHF
Raw materials	38 864 988	35 542 912
Work in progress	26 060 090	26 551 518
Finished goods	12 504 152	13 902 332
Consumables and supplies	8 655 979	7 780 738
Valuation adjustments	(7 513 441)	(6 790 864)
	78 571 769	76 986 636

1.4 Fixed assets and leases

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 and amortization are calculated on the basis of the following useful lives and in accordance with the following methods:

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
Goodwill	5 years	linear

Lease commitments not recorded in the balance sheet	March 31, 2019 CHF	March 31, 2018 CHF
Liabilities from capital leases	507 778	11 655 449
Future operating lease payments	13 119 072	14 293 220
	13 626 850	25 948 669

1.5 Assets pledged in favour of third parties

	March 31, 2019 CHF	March 31, 2018 CHF
Casthouse (net book value)	21 212 469	21 766 422
Trade accounts receivables	70 325 206	85 618 657
Cash	12 498	7 756
	91 550 173	107 392 835

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 Agreement")
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, 2019, there is no outstanding borrowing under the ABL facility (2018: $12 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, 2019 CHF	March 31, 2018 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	169 157	160 357
Guarantee in favour of Ernst&Co, Inh. Geiger	600 000	0

1.7 Amounts due to pension funds

Amounts due to pension funds	676 070	679 120
	676 070	679 120

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, 2019, the company has 267 (FY18: 290) open forward contracts for an estimated net fair value of +1'935'286 CHF (FY18: -4'107'879 CHF).

259 (FY18: 280) contracts hedge the FX rates risk for an estimated fair value of +1'932'552 CHF (FY18: -4'091'618 CHF) and 8 (FY18: 10) contracts hedge the metal price risk for an estimated fair value of CHF +2'734 (FY18: -16'261 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 Departure from the principle of continuity in the presentation.

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

2. Movements on retained earnings

(in Swiss Francs)

	March 31, 2019 CHF	March 31, 2018 CHF
Retained earnings at the beginning of the period	398 977 610	350 694 488
Appropriations of retained earnings resolved by general meeting		
Dividends	0	0
Appropriations to general legal reserve	0	0
Net income for the period	19 999 155	48 283 122
Retained earnings at the disposal of the annual general meeting	418 976 765	398 977 610

Notes to the financial statements 2019

Proposal of the board of directors for appropriation of retained earnings

	2019 Proposal of the board of directors
Gross dividend	0
Appropriation to general	0
legal reserve	0
To be carried forward	418 976 765
	418 976 765