Novelis Switzerland SA

Sierre

Report of the statutory auditor
to the General Meeting

on the financial statements 2019/2020

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, statement of income and notes, for the year ended 31 March 2020.

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 2020 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.

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.

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.

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 2020

Enclosures:

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

Balance sheet at
(in Swiss Francs)

	March 31, 2020	March 31, 2019
Assets		
Current assets		
Liquid funds	9 557	12 498
Trade accounts receivable -		
Third parties, net	18 442 116	23 024 474
Group companies	45 085 409	47 300 732
Prepaid expenses and accrued income -		
Third parties	5 476 762	2 310 584
Other receivables -		
Third parties	11 545 885	14 282 782
Shareholders	156 361 221	110 979 500
Loans short term	905 834	905 834
Inventories, net	77 474 808	78 571 769
	315 301 592	277 388 173
Non-current assets		
Prepaid expenses and accrued income -		
Third parties	1 127 841	0
Financial fixed assets -		
Investments	2 954 775	2 954 775
Tangible fixed assets -		
Land and buildings	73 244 396	77 776 814
Machinery and other equipments	107 417 393	112 932 120
Construction in progress	14 218 173	8 573 915
Intangible fixed assets -		
Goodwill	73 695 592	95 804 145
Softwares	302 319	370 585
	272 960 489	298 412 354
Total assets	588 262 081	575 800 527
Liabilities and shareholders' equity		
Current liabilities		
Bank overdrafts		
Trade accounts payable -		
Third parties	84 661 333	79 991 695
Group companies	26 036 320	25 798 900
Short-term liabilities bearing interest	9 308 751	12 008 270
Accrued liabilities	23 491 265	22 649 869
Group companies	56 498	16 142
Short-term debts	2 228 520	2 347 590
	145 782 687	142 812 466
Non-current liabilities		
Long term debts	4 410 604	6 511 296
	4 410 604	6 511 296
Shareholders' equity		
Share capital	5 000 000	5 000 000
Legal reserve	2 500 000	2 500 000
Statutory retained earnings	418 976 765	398 977 610
Profit/loss for the year/period	11 592 025	19 999 155
	438 068 790	426 476 765
Total liabilities and shareholders' equity	588 262 081	575 800 527

Statement of income for the period
(in Swiss Francs)

	April 1, 2019 - March 31, 2020	April 1, 2018 - March 31, 2019
Turnover		
Income from sales	706 661 441	787 131 777
Income from service fees	10 895 015	9 221 001
Sales deductions	(14 492 190)	(14 652 817)
	703 064 266	781 699 961
Materials used	(531 055 856)	(610 338 992)
Energy consumption costs	(12 586 229)	(12 204 631)
Variation in inventories	1 549 152	4 129 910
Gross profit	160 971 333	163 286 248
Personnel costs	(64 064 391)	(61 497 588)
Leasing	(2 137 531)	(4 373 501)
Maintenance	(8 971 786)	(8 822 572)
Other operating costs	(35 488 896)	(34 446 400)
Other income	474 916	581 740
Depreciation & Amorization	(39 570 308)	(29 366 776)
Operating profit before financial items	11 213 337	25 361 151
Financial income	4 880 297	776 456
Financial expense	(720 081)	(408 054)
Operating profit	15 373 553	25 729 553
Non-operating expense	(613 184)	(331 898)
Income before tax	14 760 369	25 397 655
Taxes	(3 168 344)	(5 398 500)
Net income (loss) for the period	11 592 025	19 999 155

Notes to the financial statements 2020

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, 2020 CHF	March 31, 2019 CHF
Raw materials	43 883 490	38 864 988
Work in progress	20 974 116	26 060 090
Finished goods	10 881 632	12 504 152
Consumables and supplies	9 092 119	8 655 979
Valuation adjustments	(7 356 550)	(7 513 441)
	77 474 808	78 571 769

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, excluding VAT not recorded in the balance sheet	March 31, 2020 CHF	March 31, 2019 CHF
Future lease payments	14 232 359	13 626 850
	14 232 359	13 626 850

1.5 Assets pledged in favour of third parties

	March 31, 2020 CHF	March 31, 2019 CHF
Casthouse (net book value)	20 294 771	21 212 469
Trade accounts receivables	63 527 525	70 325 206
Cash	9 557	12 498
	83 831 853	91 550 173

At the balance sheet date Novelis Inc's senior secured facilities consisted of:
(1) a $1,742 million five-year secured term loan credit facility ("Term Loan Facility"), and
(2) a $1,500 million five-year asset based loan facility ("ABL Revolver")
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, 2020, there is no outstanding borrowing under the ABL facility 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, 2020 CHF	March 31, 2019 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	0	169 157
Guarantee in favour of Ernst&Co, Inh. Geiger	600 000	600 000

1.7 Amounts due to pension funds

Amounts due to pension funds	699 121	676 070
	699 121	676 070

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, 2020, the company has 137 (FY19: 267) open forward contracts for an estimated net fair value of +1'649'476 CHF (FY19: +1'935'286 CHF).

137 (FY19: 259) contracts hedge the FX rates risk for an estimated fair value of +1'649'476 CHF (FY19: +1'935'286 CHF) and 0 (FY19: 8) contract hedge the metal price risk (estimated fair value FY19: +2'734 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.

1.12 Subsequent events

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken to contain the virus have affected the economic activity and business of Novelis group in various significant ways:

a) The reduction of economic activity has resulted in a significant reduction in sales, which has forced the group to close Novelis Switzerland SA facility since March 25th.
b) Due to government measures taken, an important number of employees are working from home since March 25th.

As a result, our cumulative revenues in the last month of fiscal year 2020 were approximately 15% lower than our fiscal year 2019 revenues in the same period. The entity applied for short-shift working compensation for almost all employees, which has been approved on April 16th.
The exact impact on our activities in fiscal year 2021 cannot be predicted, considering the uncertainty. However, it is important to note that Sierre plant has partially restart the production on April 23rd 2020 thanks to the progressive restart of the factories of our Automotive customers.

Based on the above the board concluded that there is no material uncertainty that may cast significant doubt upon Novelis Switzerland SA ability to continue as a going concern.
In the medium to long term, the management believes that demand of aluminum for the Automotive business will continue to grow considering the continuous focus on CO2 emissions and environmental sustainability which makes aluminum the material of choice for the next generation of vehicles.

In April 2020, Novelis group has finalized the acquisition of Aleris, a flat rolled aluminum producer in order to further expand its portfolio to the Aerospace business, where the aluminum utilization is expected to further grow in the next years.

Notes to the financial statements 2020

2. Movements on retained earnings (in Swiss Francs)	March 31, 2020 CHF	March 31, 2019 CHF
Retained earnings at the beginning of the period	418 976 765	398 977 610
Appropriations of retained earnings resolved by general meeting		
Dividends	0	0
Appropriations to general legal reserve	0	0
Net income for the period	11 592 025	19 999 155
Retained earnings at the disposal of the annual general meeting	430 568 790	418 976 765

Proposal of the board of directors for appropriation of retained earnings

	2020 Proposal of the board of directors
Gross dividend	0
Appropriation to general	0
legal reserve	0
To be carried forward	430 568 790
	430 568 790