Novelis Korea Limited

Financial Statements
December 31, 2016 and 2015

Novelis Korea Limited
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December 31, 2016 and 2015

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
Novelis Korea Limited

We have audited the accompanying financial statements of Novelis Korea Limited (the "Company"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the statements of income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with the Accounting Standards for Non-Public Entities in the Republic of Korea and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 internal control relevant to the entity's preparation and fair presentation 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 present fairly, in all material respects, the financial position of Novelis Korea Limited as of December 31, 2016 and 2015, and its financial performance and cash flows for the years then ended in conformity with the Accounting Standards for Non-Public Entities in the Republic of Korea.

Other Matter
Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, financial performance and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Samil PricewaterhouseCoopers

March 24, 2017
Seoul, Korea

This report is effective as of March 24, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Novelis Korea Limited
Statements of Financial Position
December 31, 2016 and 2015

(in millions of Korean won)		2016		2015
Assets				
Current assets				
Cash and cash equivalents (Note 13)	₩	292,986	₩	219,919
Short-term investment assets (Note 4)		9		8
Trade accounts and notes receivable, net (Notes 5, 13 and 28)		274,367		261,510
Other accounts receivable (Notes 13 and 28)		3,811		11,476
Prepaid expenses		10,293		9,359
Prepaid value added taxes		7,771		8,839
Short-term loans to employees		206		176
Loans to affiliated companies (Notes 13 and 28)		78,553		52,740
Derivative instrument assets (Note 25)		9,961		7,259
Firm commitment assets (Note 25)		153		2,353
Current deferred income tax assets (Note 16)		7,979		9,070
Other current assets		4,977		2,573
Inventories, net (Notes 6 and 8)		166,291		151,793
Total current assets		857,357		737,075
Non-current assets				
Long-term investment assets (Notes 3 and 4)		30		36
Derivative instrument assets (Note 25)		-		2,602
Long-term loans to employees		313		1,032
Plan assets for severane benefits (Note 12)		255		-
Property, plant and equipment, net (Notes 7 and 8)		687,287		725,401
Intangible assets, net (Note 9)		3,593		3,303
Deferred income tax assets (Note 16)		3,819		2,665
Deposits provided		3,401		4,013
Long-term prepaid expenses		505		-
Total non-current assets		699,203		739,052
Total assets	₩	1,556,560	₩	1,476,127

Novelis Korea Limited
Statements of Financial Position

December 31, 2016 and 2015

(in millions of Korean won)		2016		2015
Liabilities and Equity				
Current liabilities				
Trade accounts and notes payable (Notes 11, 13 and 28)	₩	542,635	₩	475,587
Other accounts payable (Notes 11, 13 and 28)		30,554		29,676
Advance receipts		172		1,054
Withholdings		1,402		2,010
Accrued expenses (Notes 11 and 15)		28,824		26,939
Short-term borrowings (Note 11)		13,500		57,500
Current portion of long-term liabilities (Note 11)		73,260		20,760
Derivative instrument liabilities (Notes 11 and 25)		19,094		17,740
Firm commitment liabilities (Note 25)		158		80
Income taxes payable		12,793		7,204
Dividends payable		30		30
Carbon Emission liabilities (Note 26)		2,365		2,803
Unearned revenue		191		
Total current liabilities		724,978		641,383
Non-current liabilities				
Long-term borrowings (Note 11)		131,990		191,250
Asset retirement obligation liabilities (Note 7)		700		654
Derivative instrument liabilities (Notes 11 and 25)		555		312
Long-term accrued expenses (Notes 11 and 15)		3,721		3,085
Accrued severance benefits, net (Note 12)		-		2,578
Long-term unearned revenues		1,905		-
Total non-current liabilities		138,871		197,879
Total liabilities		863,849		839,262
Equity				
Capital stock (Notes 1 and 17)				
Common stock		116,905		116,905
Capital surplus				
Paid-in capital in excess of par value		399,241		399,241
Accumulated other comprehensive income				
Gain on valuation of cash flow hedge (Notes 23 and 25)		(3,172)		(472)
Retained earnings				
Legal reserve		29,834		29,834
Unappropriated retained earnings (Note 18)		149,903		91,357
Total Equity		692,711		636,865
Total liabilities and Equity	₩	1,556,560	₩	1,476,127

The accompanying notes are an integral part of these financial statements

Novelis Korea Limited
Statements of Income
Years ended December 31, 2016 and 2015

(in millions of Korean won, except per share amounts)		2016		2015
Sales (Notes 19 and 28)	₩	1,753,200	₩	2,000,958
Cost of sales (Notes 20, 22 and 28)		1,567,229		1,824,993
Gross income		185,971		175,965
Selling and administrative expenses (Notes 21 and 22)		101,155		109,450
Operating income		84,816		66,515
Non-operating income				
Interest income		5,536		3,365
Gain on foreign currency transactions		24,959		39,759
Gain on foreign currency translation		9,222		7,075
Gain on disposal of property, plant and equipment		44		173
Gain on derivative transactions		97,216		99,592
Gain on valuation of derivatives (Note 25)		9,300		4,946
Gain on valuation of firm commitments (Note 25)		36		2,393
Others		2,094		1,363
		148,407		158,666
Non-operating expenses				
Interest expense		7,717		10,234
Loss on foreign currency transactions		23,004		22,585
Loss on foreign currency translation		4,634		2,045
Loss on disposal of trade accounts and notes receivable		1,603		2,400
Loss on disposal of property, plant and equipment		312		141
Provision for asset retirement obligation liabilities		46		43
Loss on derivative transactions		100,555		122,409
Loss on valuation of derivatives (Note 25)		15,142		12,003
Loss on valuation of firm commitments (Note 25)		178		152
Others		2,152		212
		155,903		172,745
Income before income tax expense		77,320		52,436
Income tax expense (Note 16)		18,774		13,296
Net income (Note 23)	₩	58,546	₩	39,140
Basic and diluted earnings per share (Note 24)	₩	1,252	₩	837

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

Novelis Korea Limited

Statements of Changes in Equity
Years ended December 31, 2016 and 2015

(in millions of Korean won)

	Capital stock	Capital surplus	Accumulated other comprehensive income and loss	Retained earnings	Total
Balances as of January 1, 2015	₩ 116,905	₩ 399,241	₩ 6,443	₩ 82,051	₩ 604,640
Dividends	-	-	-	-	-
Retained earnings after appropriation	116,905	399,241	- 6,443	- 82,051	- 604,640
Loss on valuation of cash flow hedge (Note 25)	-	-	(6,915)	-	(6,915)
Net income	-	-	-	39,140	39,140
Balances as of December 31, 2015	₩ 116,905	₩ 399,241	₩ (472)	₩ 121,191	- ₩ 636,865
Balances as of January 1, 2016	₩ 116,905	₩ 399,241	₩ (472)	₩ 121,191	₩ 636,865
Dividends					
Retained earnings after appropriation	116,905	399,241	(472)	121,191	636,865
Loss on valuation of cash flow hedge (Note 25)	-	-	(2,700)	-	(2,700)
Net income	-	-	-	58,546	58,546
Balances as of December 31, 2016	₩ 116,905	₩ 399,241	₩ (3,172)	₩ 179,737	₩ 692,711

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

Novelis Korea Limited
Statements of Cash Flows
Years ended December 31, 2016 and 2015

(in millions of Korean won)	2016	2015
Cash flows from operating activities		
Net income	₩ 58,545	₩ 39,140
Adjustments to reconcile net income to net cash provided by operating activities		
Severance benefits expenses	10,665	10,436
Depreciation and amortization	73,357	74,260
Loss on foreign currency translation	4,638	2,022
Bad debt expenses (reversal of bad debt expenses)	131	(365)
Loss on disposal of property, plant and equipment	312	141
Loss on disposal of trade and notes receivable	1,603	2,400
Loss on valuation of derivatives	15,142	12,003
Loss on valuation of firm commitments	178	152
Provision for asset retirement obligation liabilities	46	43
Other non-operating expenses	192	-
Gain on foreign currency translation	(9,222)	(7,075)
Gain on disposal of property, plant and equipment	(44)	(173)
Gain on valuation of derivatives	(9,300)	(4,946)
Gain on valuation of firm commitments	(36)	(2,393)
	87,662	86,505
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	(6,700)	105,129
Decrease (increase) in other accounts receivable	7,767	(3,771)
Decrease (increase) in prepaid expenses	(1,439)	178
Decrease in prepaid value added taxes	1,068	14,117
Decrease in derivative instrument assets	4,089	11,018
Decrease in firm commitment assets	6	630
Decrease in current deferred income tax assets	1,953	794
Decrease (increase) in other current assets	(2,404)	270
Decrease (increase) in inventories	(14,498)	51,448
Increase in carbon emissions rights	(798)	-
Increase in non-current deferred income tax assets	(1,154)	(670)
Increase (decrease) in trade payables	62,832	(43,870)
Decrease in other accounts payable	(5,711)	(8,897)
Increase (decrease) in advance receipts	(883)	575
Increase (decrease) in withholdings	(607)	562
Increase in accrued expenses	2,652	7,016
Decrease in derivative instrument liabilities	(11,994)	(12,447)
Increase (decrease) in firm commitment liabilities	2,130	(628)
Increase in income taxes payable	5,589	1,084
Increase (decrease) in long-term accrued expenses	636	(57)
Payments of severance benefits	(2,608)	(1,226)
Increase in pension plan assets	(10,898)	(10,627)
Decrease in contributions to the National Pension Fund	7	2
Increase (decrease) in carbon emission liabilities	(438)	2,803
Increase in unearned revenues	191	-
Increase in long-term unearned revenues	1,906	-
	30,694	113,433
Net cash inflow from operating activities	176,901	239,078

Novelis Korea Limited
Statements of Cash Flows
Years ended December 31, 2016 and 2015

(in millions of Korean won)	2016	2015
Cash flows from investing activities		
Proceeds from disposal of short-term investment	₩ 8	₩ 7
Proceeds from short-term loans to employees	689	202
Proceeds from guarantee deposits	687	20
Proceeds from disposal of property, plant and equipment	64	192
Proceeds from affiliated companies	52,740	43,968
Proceeds from disposal of long-term investment	-	1
Acqusition of long-term investment	(3)	(8)
Long-term loans provided to employees	-	(570)
Loans provided to affiliated companies	(77,354)	(48,681)
Acquisition of property, plant and equipment	(29,116)	(43,024)
Acquisition of intangible assets	(714)	(1,074)
Payment of guarantee deposits	(75)	(1,503)
Net cash outflow from investing activities	(53,074)	(50,470)
Cash flows from financing activities		
Payment of long-term borrowings	-	-
Dividends paid	-	-
Increase in long-term borrowings	14,000	80,000
Net decrease in short-term borrowings	(44,000)	(60,000)
Payment of current portion of long-term borrowings	(20,760)	(50,290)
Net cash outflow from financing activities	(50,760)	(30,290)
Net increase in cash and cash equivalents	73,067	158,318
Cash and cash equivalents		
Beginning of the year	219,919	61,601
End of the year	₩ 292,986	₩ 219,919

The accompanying notes are an integral part of these financial statements

1. General information

Novelis Korea Limited (the "Company"), a spin-off from Taihan Electric Wire Co., Ltd., was incorporated in 1999 under the Commercial Code of the Republic of Korea to manufacture and market aluminum and related products. The company's headquarter is located in Yeongju City, North Gyeongsang Province.

As of December 31, 2016, the Company has capital stock amounting to ₩ 116,905 million after several capital increases, which was ₩ 16,500 million upon establishment.

The Company's common major shareholders and their respective ownership as of December 31, 2016, are as follows:

	Number of shares owned	Percentage of Ownership (%)
4260848 Canada Inc.[1]	12,770,000	27.309
4260856 Canada Inc. [1]	19,052,400	40.743
8018227 Canada Inc. [1]	14,939,200	31.947
Other shareholders	400	0.001
	46,762,000	100.000

[1] Owned by Novelis Inc. which was acquired by Hindalco Industries Limited on May 15, 2007.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Company's financial statements have been prepared in accordance with KAS-NPEs(Korean Accounting Standards for Non-Public Entities), which apply to those companies which are subject to the Act on External Audit of Stock Companies but do not prepare their financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying financial statements.

Foreign Currency Translation

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Korean won, which is the Company's functional and presentation currency.

(b) Foreign currency transactions and translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges or available-for-sale debt securities.

2.3 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash without significant transaction costs which are subject to an insignificant risk of change in value.

2.4 Investments in Securities

Costs of securities are determined using the moving-weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized in equity as other comprehensive income. Realized gains and losses on available-for-sale securities are recognized in the income statement.

2.5 Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the related derivative contracts. The resulting changes in fair value of derivative instruments are recognized either in the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in shareholders' equity as accumulated other comprehensive income.

2.6 Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method. Bad debts expense is recorded by the amount of the estimated loss on doubtful accounts less the balance of allowance for doubtful accounts. Bad debts expense for notes receivable from commercial transactions is accounted for as selling and administrative expenses, while bad debts expense from other receivables is accounted for as non-operating expense. Uncollectible receivables are

offset against allowance for doubtful accounts and in case of insufficient amount of allowance, bad debts expense is recognized.

2.7 Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the monthly-average method, except for inventories in-transit which is determined using the specific identification method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed, but not exceeding the original carrying amount before valuation. The said reversal is deducted from cost of sales.

2.8 Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Property, plant and equipment are stated at acquisition cost, net of accumulated depreciation calculated based on the following depreciation method and estimated useful lives:

Description	Estimated useful lives	Depreciation Method
Buildings	9 - 47 years	Straight-line method
Structures	8 - 40 years	"
Machinery and equipment	8 - 22 years	"
Vehicles	5 - 8 years	"
Tools and furniture	4 - 10 years	"

Expenditures incurred after the acquisition or completion of assets are capitalized only when it is probable that future economic benefits associated with the item will flow to the Company, which includes the enhancement of the value of the related assets over their recently appraised value or extension of the useful life of the related assets, and the fair value for the related cost can be reliably measured. All other routine maintenance and repairs are charged to expense as incurred.

2.9 Borrowing Costs

The Company capitalizes the interest it incurs on borrowings used to finance the cost of manufacturing, acquisition, and construction of property, plant, and equipment, intangible assets, investment property and inventories that require more than one year to complete from the initial date of manufacture, acquisition, and construction (qualifying asset).

2.10 Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using the following depreciation method and estimated useful lives:

Description	Estimated useful lives	Depreciation Method
Software	4 - 8 years	Straight-line method

2.11 Impairment of Non-financial Assets

Intangible assets not yet available for use are tested annually for impairment. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Property, plant and equipment are reviewed for impairment under the above circumstances and when gross estimated future cash flows expected from the use and disposal of property, plant and equipment (individual assets or cash-generating units) is less than the carrying amount. Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels (cash-generating units) for which there are separate and identifiable cash flows.

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Provisions and Contingent Liabilities

Provisions are recognized when it is probable that an outflow of resources will occur due to a present obligation resulting from a past event, and the amount can be reliably estimated. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reviewed at each report date and adjusted to reflect the current best estimate. The discount rate used in the present value measurement is the discount rate adjusted to reflect the current best estimate at each report date.

2.13 Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating losses to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the equity.

2.14 Employee Benefits

(a) Provision for severance benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Provision for severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of the statement of financial position.

The Company contributes a certain portion of the severance benefits to the National Pension Service according to the National Pension Law. The contribution amount is recorded as a deduction from the provision for severance benefits.

The Company has a defined contribution pension plan with the related contribution to the pension plan recorded as severance benefit expense.

The Company also has a defined benefit pension plan, and accrues severance benefits for current employees and pension payables for retired employees.

Pension plan assets are presented as a deduction from the total of provision for severance benefits and pension payables. The excess portion of pension plan assets over provision for severance benefits and pension plan liabilities is recorded as investment assets.

(b) Annual paid leave obligations

The Company recognizes expenses and liabilities related to annual paid leave during an accounting period when an employee has rendered service that gives rise to employee's entitlement to future annual paid leave.

The Company recognizes expenses and liabilities for the entire annual paid leave resulting from the rendered service as the Company compensates for unused annual leave.

2.15 Revenue Recognition

Revenue is measured as the fair value of the consideration received or receivable, and represents amounts receivable for the sale of goods and rendering of services, stated net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of goods are transferred to the customer. Interest income is recognized using the effective interest method.

2.16 Share-based Payments

For equity-settled share-based payment, the fair value of the goods or employee services received in exchange for the grant of the options is recognized as an expense and a capital adjustment. If the fair value of goods or employee services cannot be reliably estimated, the fair value is estimated based on the fair value of the equity granted.

For cash-settled share-based payment, the fair value of the obligation the Company will assume is determined by the fair value of the goods or employee services received in exchange for the grant of the options. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized as an expense in income statement.

Share-based payment transactions with an option for the parties to choose between cash and equity settlement are accounted for based on the substance of the transaction.

2.17 Carbon Emission Rights (Allowances) and Liabilities

With Enforcement of Allocation and Trading of Carbon Emissions Allowances, allowances that are received free of charge from the government are measured at zero while allowances purchased are measured at acquisition cost and stated net of accumulated impairment loss. Emissions liabilities are measured as the sum of the carrying amount of the allocated allowances that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. The allowances and emissions liabilities are classified as intangible assets and provisions, respectively, in the statement of financial position.

2.18 Measurement of Financial Assets and Financial Liabilities

(a) Initial measurement

Financial assets and financial liabilities are measured at fair value at the initial recognition. Generally, the transaction price (i.e. the fair value of the consideration paid for financial assets and received for financial liabilities) is treated as fair value. In addition, if there is any significant difference between the fair value and the nominal amount of receivable and payable from long-term lending and borrowing transactions or sales transactions with long-term deferred payment conditions, total amount of receivable and payable is carried at fair value.

If the consideration paid (or received) includes any amount for other than financial instruments, fair value of the financial instrument is carried at the market price. When market price is not available, fair value is estimated using valuation techniques (including present value based techniques). However, although the consideration consists of the amount for other than financial instrument, the whole amount is initially recognized if a benefit in return from using the funds is imposed or there is a certain relationship between raising and using funds. Also for lease deposits, the whole transaction price is recognized at inception. Trading securities and derivatives (except when hedge accounting is applied) are subsequently measured at fair value after initial recognition, and changes in fair value are recognized in profit and loss. In the case of other financial assets and liabilities, any transaction costs related to the acquisition of financial assets or issuance of financial liabilities are added to or deducted from the initially recognized fair value.

When measuring the present value of financial instruments, the Company uses the internal interest rate of transactions that occurred in the current period. If internal interest rate is not available or the difference from the market interest rate is material, market interest rate is applied. If the market interest rate cannot be calculated, then the weighted average interest rate which is calculated by reasonable and objective standards is used. If reasonable and objective standards are unavailable, the Company applies the financing costs which are reasonably estimated using the distribution rate of corporate bonds, reflecting the Company's credit rating.

(b) Subsequent measurement

Financial assets and financial liabilities other than derivatives (Note 2.5) are measured at amortized cost using the effective interest method.

3. Restricted Financial Instruments

As of December 31, 2016 and 2015, restricted financial instruments related to bank overdraft agreements amounted to ₩ 4 million.

4. Short-term and Long-term Investment Assets

Short-term and Long-term investment assets as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	**2016**	**2015**
Short-term investment assets		
Held-to-maturity securities	₩ 9	₩ 8
Long-term investment assets		
Bank deposits	4	4
Held-to-maturity securities	26	32
	30	36
	₩ 39	₩ 44

Short-term and long-term held-to-maturity securities as of December 31, 2016 and 2015, consist of government and public bonds.

Maturities of long-term held-to-maturity securities as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Maturity period		
Within one year	₩ 9	₩ 8
More than one year to five years	26	32
	₩ 35	₩ 40

5. Trade Receivables

Trade receivables as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Trade receivables	₩ 274,713	₩ 261,724
Less: Allowance for doubtful accounts	(346)	(214)
	₩ 274,367	₩ 261,510

As of December 31, 2016 and 2015, trade bills transferred through banks that have not yet matured are as follows:

(in millions of Korea won, in thousands of US dollars)	2016	2015	
Forfeiture of export receivables of US$ 91,202 (2015:US$ 145,940)	₩ 110,218	₩ 171,042	Without recourse
Financing of domestic receivables	20,795	22,180	Without recourse
	₩ 131,013	₩ 193,222	

6. Inventories

Details of inventories as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Finished goods	₩ 38,851	₩ 35,846
Merchandise	1	67
Work-in-process	85,511	66,958
Raw materials	21,926	31,748
Supplies	19,010	16,924
Materials in transit	3,476	3,529
	168,775	155,072
Less: Valuation allowance[1]	(2,484)	(3,279)
	₩ 166,291	₩ 151,793

[1] As of December 31, 2016, valuation allowance of inventory and work-in-process amounted to ₩ 12 million (2015: ₩ 881 million) and ₩ 5 million (2015: ₩ - million), respectively. In addition, valuation allowance of supplies amounted to ₩ 2,467 million (2015: ₩ 2,398 million).

7. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016							
	Land	Buildings	Structures	Machinery & Equipment	Vehicles	Tools	Construction-in-progress	Total
Balance as of January 1, 2016	₩ 75,999	₩ 140,091	₩ 23,327	₩ 473,448	₩ 2,916	₩ 7,413	₩ 2,207	₩ 725,401
Acquisition	-	992	514	14,395	537	2,484	15,625	34,547
Disposal	-	-	-	(306)	-	(26)	-	(332)
Transfer	-	110	364	11,088	30	1,633	(13,331)	(106)
Depreciation	-	(5,088)	(1,503)	(61,067)	(1,114)	(3,259)	-	(72,031)
Impairment	-	-	-	-	-	(192)	-	(192)
Balance as of December 31, 2016	₩ 75,999	₩ 136,105	₩ 22,702	₩ 437,558	₩ 2,369	₩ 8,053	₩ 4,501	₩ 687,287
Acquisition cost	₩ 75,999	₩ 203,516	₩ 54,855	₩ 1,158,413	₩ 9,712	₩ 57,757	₩ 4,501	₩ 1,564,753
Accumulated depreciation	-	(67,411)	(32,082)	(719,765)	(7,343)	(49,451)	-	(876,052)
Accumulated impairment	-	-	(71)	(1,090)	-	(253)	-	(1,414)

(in millions of Korean won)	2015							
	Land	Buildings	Structures	Machinery & Equipment	Vehicles	Tools	Construction-in-progress	Total
Balance as of January 1, 2015	₩ 75,999	₩ 142,011	₩ 23,516	₩ 499,907	₩ 2,864	₩ 8,704	₩ 11,628	₩ 764,629
Acquisition	-	588	315	10,872	907	1,255	19,929	33,866
Disposal	-	-	-	(73)	(54)	(33)	-	(160)
Transfer	-	2,517	1,002	24,114	358	1,557	(29,350)	198
Depreciation	-	(5,025)	(1,506)	(61,372)	(1,159)	(4,070)	-	(73,132)
Balance as of December 31, 2015	₩ 75,999	₩ 140,091	₩ 23,327	₩ 473,448	₩ 2,916	₩ 7,413	₩ 2,207	₩ 725,401
Acquisition cost	₩ 75,999	₩ 202,414	₩ 54,015	₩ 1,134,607	₩ 9,861	₩ 53,852	₩ 2,207	₩ 1,532,955
Accumulated depreciation	-	(62,323)	(30,617)	(660,069)	(6,945)	(46,378)	-	(806,332)
Accumulated impairment	-	-	(71)	(1,090)	-	(61)	-	(1,222)

As of December 31, 2016, the book value of the Company's land is recorded at ₩ 75,999 million. (2015: ₩ 75,999 million).

As of December 31, 2016, the value of the Company's land, as determined by the local government for property tax assessment purposes, amounts to approximately ₩ 122,367 million (2015: ₩ 115,657 million).

The Company recognizes asset retirement obligation liabilities of ₩ 699 million and ₩ 654 million as of December 31, 2016 and 2015, respectively, which represent the present value of the estimated expenses for the required dismantlement of waste water facilities and the recovery of the related land when the facilities are removed from the site. The asset retirement obligation liabilities are recognized as part of the carrying amounts of the related assets as well.

8. Insured Assets

The details of the insurance as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won, in thousands of US dollars)

		Amount Insured		Insurance	
Type of Insurance	**Asset Insured**	**2016**	**2015**	**Company**	**Beneficiary**
General property insurance	Inventories and property, plant and equipment, excluding land and certain construction-in-progress	US$ 1,695,939	US$ 1,661,806	Hyundai Marine & Fire Insurance Co.,Ltd.	The Company
General insurance for losses from product liability	-	US$ 10,000	US$ 10,000	Hyundai Marine & Fire Insurance Co.,Ltd.	The Company
General insurance for losses from gas accidents	-	₩ 12,920	₩ 11,020	Hyundai Marine & Fire Insurance Co.,Ltd.	The Company
Short-term Export Insurance	Trade Receivables	US$ 289,998	US$ 289,998	Korea Trade Insurance Corporation	The Company and others

Besides the above insurance, the Company has marine insurance for the export transactions. In addition, the Company has car liability insurance and comprehensive insurance for its vehicles and accident insurance for the benefit of its employees.

9. Intangible Assets

Details of intangible assets as of December 31, 2016 and 2015, are as follows:

	2016			
(in millions of Korean won)	**Software**	**Carbon Emissions Rights**	**Construction-in-progress intangible assets**	**Total**
Balance as of January 1, 2016	₩ 2,928	₩ -	₩ 375	₩ 3,303
Acquisition	342	798	372	1,512
Transfer	851	-	(746)	105
Amortization	(1,327)	-	-	(1,327)
Balance as of December 31, 2016	₩ 2,794	₩ 798	₩ 1	₩ 3,593
Acquisition cost	₩ 12,267	₩ 798	₩ 1	₩ 13,066
Accumulated amortization	(9,473)	-	-	(9,473)

	2015		
(in millions of Korean won)	**Software**	**Construction-in-progress intangible assets**	**Tot**
Balance as of January 1, 2015	₩ 3,554	₩ -	₩ 3,554
Acquisition	51	1,024	1,075
Transfer	451	(649)	(198)
Amortization	(1,128)	-	(1,128)
Balance as of December 31, 2015	₩ 2,928	₩ 375	₩ 3,303
Acquisition cost	11,199	375	11,574
Accumulated amortization	(8,271)	-	(8,271)

For the year ended December 31, 2016, the Company classified the amortization amounting to ₩ 619 million as cost of sales, and ₩ 708 million as selling and administrative expenses.

10. Capitalization of borrowing costs

For the year ended December 31, 2016, the Company does not have borrowings used to finance the cost of acquiring the Company's property, plant and equipment.

Effects on statements of financial position and income statements as of and for the years ended December 31, 2016 and 2015, are as follows:

	2016		2015	
(in millions of Korean won)	**Capitalized**	**Expensed**	**Capitalized**	**Expensed**
Acquisition cost	₩ 1,564,753	₩ 1,557,032	₩ 1,532,955	₩ 1,525,234
Accumulated Depreciation	(877,466)	(875,605)	(806,332)	(805,047)
Net book Amounts	687,287	681,427	725,401	718,965
Equity	692,712	686,852	636,865	630,429

	2016		2015	
(in millions of Korean won)	**Capitalized**	**Expensed**	**Capitalized**	**Expensed**
Depreciation	₩ 72,223	₩ 71,647	₩ 73,132	₩ 72,566
Interest expense	7,717	7,717	10,234	10,520
Net income	58,545	59,122	39,140	39,420

11. Borrowings

Short-term borrowings as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	Lender	Interest rate (%) as of December 31, 2016	2016	2015
General loans	Citibank Korea	2.59	₩ 13,500	₩ 27,500
General loans	Bank of America	-	-	30,000
			₩ 13,500	₩ 57,500

Long-term borrowings as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	Lender	Interest rate (%) as of December 31, 2016	2016	2015
General loans	Shinhan Bank	2.60 ~ 2.80	₩ 35,500	₩ 35,500
Facility loans	Shinhan Bank	2.27 ~ 2.49	74,500	74,500
General loans	Korea Development Bank	2.97	30,000	30,000
Facility loans	Korea Development Bank	2.73	20,000	20,000
Facility loans	Woori Bank	2.45	22,500	22,500
Facility loans	KEB Hana Bank	1.75	2,750	3,510
Facility loans	Bank of China	2.59 ~ 2.72	20,000	6,000
General loans	Nonghyup Bank	-	-	20,000
			205,250	212,010
Less: Current portion of long-term liabilities			(73,260)	(20,760)
			₩ 131,990	₩ 191,250

Liquidity risk is defined as the risk that the Company is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Company forecasts its cash flow and liquidity status such as sufficient cash level to meet operational needs and sets action plans on a monthly basis to manage liquidity risk proactively.

In addition, the Company copes with potential financial distress by maintaining adequate amount of cash and committed credit facilities. The balance of cash and cash equivalents, and current-financial deposits at December 31, 2016, is ₩ 292,985 million (2015: ₩ 219,919 million). The Company maintains total committed credit lines of ₩ 995,750 million and US$ 198,888 thousand in Korea Exchange Bank and Citibank in Korea and other financial institutions at December 31, 2016 (2015: ₩ 1,009,510 million and US$ 231,342 thousand).

The Company forfeits its trade receivables to financial institutions during short-term liquidity needs. Thus, it secures financing and manages credit risk of the receivables.

Details of the Company's maturity analysis as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016					
	Less than 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables	₩ 542,635	₩ -	₩ -	₩ -	₩ -	₩ 542,635
Other accounts payable	30,554	-	-	-	-	30,554
Accrued expenses	12,899	13,417	3,085	825	1,609	31,835
Derivative instruments	17,231	1,863	555	-	-	19,649
Borrowings	16,628	75,562	119,114	15,342	-	226,646
	₩ 619,947	₩ 90,842	₩ 122,754	₩ 16,167	₩ 1,609	₩ 851,319

The table above analyzes the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity based on the remaining period at the date of the statement of financial position to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

12. Provision for Severance Benefits

Changes in provision for severance benefits for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Beginning balance	₩ 52,525	₩ 43,315
Increase	10,665	10,436
Payment	(2,608)	(1,226)
Ending balance	60,582	52,525
Less: Cumulative contribution to the National Pension Fund	(105)	(113)
Less: Pension Plan assets	(60,732)	(49,834)
Provision for severance benefits	₩ (255)	₩ 2,578

As of December 31, 2016, the Company estimates severance payable to all employees to be ₩60,582 million (2015: ₩ 52,525 million) and records the corresponding amount as provision for severance benefits. Also, the Company funded 100% of severance payable through severance insurance deposits with Korea Investment & Securities and other financial institutions.

Changes in the fair value of plan assets for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		**2016**		**2015**
Beginning balance	₩	49,833	₩	39,207
Employer contributions		13,421		12,047
Benefits paid		(2,523)		(1,420)
Ending balance	₩	60,732	₩	49,834

Plan assets as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		**2016**		**2015**
Cash	₩	3,022	₩	4,454
Time deposits		31,638		26,295
Securities combined with derivatives (guaranteed)		26,072		19,085
	₩	60,732	₩	49,834

13. Foreign Currency Denominated Assets and Liabilities

Significant monetary assets and liabilities denominated in foreign currencies as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won, foreign currencies in thousands)

	2016				**2015**			
	Foreign currencies		**Won equivalents**		**Foreign currencies**		**Won equivalents**	
Foreign currency deposits	US$	234	₩	282	US$	209	₩	245
	HK$	600		94	HK$	387		58
Trade accounts receivable	US$	147,935	₩	178,779	US$	161,289	₩	189,031
	JP¥	30,488		316	JP¥	35,143		342
Other accounts receivable	US$	1,573	₩	1,901	US$	6,783	₩	7,950
	EUR	-		-	EUR	987		1,263
Loans	US$	65,000	₩	78,553	US$	45,000	₩	52,740
Trade accounts payable and notes payable	US$	68,805	₩	83,150	US$	50,914	₩	59,671
	EUR	11		13	EUR	33		42
	JP¥	35,558		369	JP¥	7,092		69
Other accounts payable	US$	11,423	₩	13,805	US$	17,272	₩	20,243
	GBP	85		125	GBP	-		-
	JP¥	12,900		134	JP¥	-		-

14. Contingencies and Commitments

The Company has bank overdraft agreements with KEB Hana Bank and Citibank Korea amounting to ₩ 10.5 billion and US$ 5,000 thousand as of December 31, 2016. The Company also has entered into agreements with Woori bank Korea and other financial institutions in relation to the opening of letters of credit of up to ₩ 22 billion and US$ 41,888 thousand as of December 31, 2016.

The Company has bank loan agreements with Shinhan Bank, Korea Development Bank, Nonghyup, KEB Hana Bank, Woori Bank and Bank of China amounting to ₩ 454.8 billion as of December 31, 2016.

The Company has agreements with Shinhan Bank and other financial institutions regarding a purchase card program of up to ₩ 508.5 billion and US$ 152,000 thousand as of December 31, 2016.

The Company has provided a payment guarantee in relation to borrowings of Novelis China, Novelis Vietnam and Novelis MEA from KEB Hana Bank, Woori Bank and Shinhan Bank amounting up to US$ 89,288 thousand. In addition, the company has provided a payment guarantee to Korean National Tax Service amounting up to ₩ 22 billion as of December 31,2016 in relation to the Mutual agreed procedure between Korean Tax Authority and Canadian Tax Authority.

The Company has accounts receivable forfaiting agreements with Export-Import Bank of Korea and eight other financial institutions.

As of December 31, 2016, the Company has a technical assistance agreement with Novelis Inc. for the manufacture of aluminum products and accordingly, the Company recognized royalty fee amounting to ₩ 11,684 million (2015: ₩ 10,170 million) which was included in research expenses and royalties (Notes 21 and 28).

As of December 31, 2016, the Company has a “Novelis” brand license agreement with Novelis Limited and accordingly, royalty expense amounting ₩ 3,344 million (2015: ₩ 4,874 million) was recognized (Notes 21 and 28).

A management fee refers to a type of commission received in return for the services Novelis Inc. provides to its subsidiaries, which include managerial and strategic consulting services, sales and marketing support, IT and Public Relations services, and others. Novelis Inc. annually imposes such management fee to its subsidiaries pursuant to the Strategic Management Services Agreement that specifically stipulates the above mentioned services (Notes 21 and 28).

15. Share-Based Payments

As of December 31, 2016, the Company’s parent company, Novelis Inc., has granted cash-settled share-based payments based on the share of the parent company, Novelis Inc., and restricted stock units (“RSU”) based on the share of the ultimate parent company, Hindalco Industries Limited, to the employees and directors of the company. The company introduced a new performance-based compensation unit (“Performance Unit”) to give an option for employees to choose between Performance Unit or RSU. The Company is responsible for the compensation cost of said grants.

As of December 31, 2016, details of cash-settled share-based payments and restricted stock unit for employees and directors are as follows:

- Hindalco Industries Limited

		Cash-settled share-based payment							Restricted Stock Unit		
Grant years		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Remaining number of grants[1]		119,411	99,904	187,216	341,145	471,683	493,047	293,974	123,699	157,038	525,456
Maturity years		2017	2018	2019	2020	2021	2022	2023	2021	2022	2023
Exercise price		INR 147.10	INR 192.38	INR 109.58	INR 104.88	INR 145.50	INR 134.58	INR 91.05	-	-	-
Vesting condi-Tions	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 3 yrs	3 yrs	3 yrs	1 ~ 3 yrs
	Non-market conditions	Achievement of target EBITDA for one year of individual service period							-		
Cap (maximum share price at the exercise gain calculation)		INR 371.81	INR 495.67	INR 264.93	INR 255.81	INR 341.19	INR 308.38	INR 223.23	INR 341.19	INR 308.38	INR 223.23

[1] The number of grants is subject to change due to inflow and outflow of vested employees among associated companies.

- Novelis Inc.

		Cash-settled share-based payment					
Grant years		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Remaining number of grants[1]		1,038	250	3,667	7,098	11,128	4,051
Maturity years		2017	2018	2019	2020	2021	2022
Exercise price		$ 63.23	$73.55	$101.85	$91.87	$94.40	$65.35
Vesting condi-Tions	Service period	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs
	Non-market conditions	Achievement of target EBITDA for one year of individual service period					
Cap (maximum share price at the exercise gain calculation)		$159.82	$189.50	$246.25	$174.82	$164.93	$112.40

[1] The number of grants is subject to change due to inflow and outflow of vested employees among associated companies.

In May, 2013, upon approval of the Company's executives and employees, Novelis Inc. decided to cancel and pay certain cash-settled share-based payments that were based on shares of Hindalco Industries Limited and then exchange the remaining share based payments to the share based payment based on shares of Novelis Inc. In May 2016, upon approval of Novelis Inc., the Company provided an option for the executives and employees of the Company to cancel Novelis Inc.'s share-based payments for selecting the new Performance Units. These changes are reflected in the information described above.

Changes in the number of grants and weighted average exercised price of grants for the year ended December 31, 2016, are as follows:

	Hindalco Industries Limited		Novelis Inc.	
	Number of grants	Weighted average exercised price of grants	Number of grants	Weighted average exercised price of grants
Beginning balance	2,233,049	INR 130.85	143,794	$ 81.86
Vested	293,974	92.03	-	-
Cancelled	(171,136)	136.14	(115,376)	80.35
Transferred	15,133	154.23	-	-
Exercised	(396,417)	121.79	(1,186)	63.23
Change due to related Party's Business Transfer	31,777	151.19	-	-
Ending balance	2,006,380	127.15	27,232	89.04
Exercisable balance as of December 31, 2016	921,188	132.71	16,960	91.25

The Company calculated the fair value of the grant, whose service period requirement has not been met using the Monte Carlo method, as follows:

	2013	2014		2015			2016		
	Tranche4	Tranche3	Tranche4	Tranche2	Tranche3	Tranche4	Tranche1	Tranche2	Tranche3
Hindalco	INR 42.62	INR 41.30	INR 36.27	INR 43.76	INR 38.20	INR 33.17	INR 41.57	INR 35.13	INR 30.61
Novelis	$ 0.00	$ 0.00	$ 0.00	$ 4.98	$ 4.98	$ 4.98	-	-	-

The assumptions used for determination of fair value are as follows:

- Hindalco Industries Limited

	2013 Grant	2014 Grant	2015 Grant	2016 Grant
Stock price [1]	INR 151.50	INR 151.50	INR 151.50	INR 151.50
Expected share price volatility [2]	41%	40%	40%	40%
Risk-free interest rate	6.43%	6.57%	6.64%	6.65%
Expected dividend rate	0.66%	0.66%	0.66%	0.66%

[1] The stock price of Hindalco Industries Limited as of December 31, 2016.
[2] The expected exercise period and historical share price as of December 31, 2016, were considered in the calculation of volatility.

- Novelis Inc.

	2013 Grant	2014 Grant	2015 Grant
Stock price [1]	$ 68.75	$ 68.75	$ 68.75
Expected share price volatility [2]	25%	23%	26%
Risk-free interest rate	1.63%	1.88%	2.10%
Expected dividend rate	0.00%	0.00%	0.00%

[1] The stock fair value of Novelis Inc. as of December 31, 2016.
[2] The expected exercise period and historical share price of 11 competitors of Novelis Inc. as of December 31, 2016, were considered in the calculation of volatility.

The difference between the stock price of underlying shares at the reporting period end date and the exercise price is used for the fair value for the 2010 Tranche 1, Tranche 2, Tranche 3 and Tranche 4; 2011 Tranche 1, Tranche 2, Tranche 3 and Tranche 4; 2012 Tranche 1 and Tranche 2, Tranche 3 and Tranche 4; 2013 Tranche 1, Tranche 2 and Tranche 3; 2014 Tranche 1 and Tranche 2; 2015 Tranche 1 whose service requirement period has been met.

The restricted stock unit vested to the employees and directors is calculated based on the fair value of the underlying shares at valuation date.

For the year ended December 31, 2016, the Company recognized the compensation cost on cash-settled share-based payments and restricted stock unit amounting to ₩ 1,703 million as selling and administrative expense, and related liabilities amounting to ₩ 831 million as accrued expense.

16. Income Taxes

Income tax expense for the years ended December 31, 2016 and 2015, consists of:

(in millions of Korean won)	2016	2015
Current income taxes	₩ 17,976	₩ 13,173
Deferred income tax due to temporary differences	(63)	(2,085)
Deferred income tax charged to equity	862	2,208
Income tax expense	₩ 18,775	₩ 13,296

Deferred income taxes charged directly to the equity as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Gain (loss) on valuation of derivative instruments	₩ 862	₩ 2,208

Reconciliation between net income before tax and income tax expense for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	**2016**	**2015**
Net income before tax	₩ 77,320	₩ 52,436
Income tax based on statutory rate	₩ 18,711	₩ 12,690
Add (deduct):		
Non-deductible expense	525	391
Tax credit and exempt	-	(236)
Others	(461)	451
Income tax expense	₩ 18,775	₩ 13,296
Effective tax rate (Income tax expense/net income before tax)	24.28%	25.36%

Changes in the temporary differences and related deferred tax assets and liabilities for the years ended December 31, 2016 and 2015, are as follows:

	Temporary differences			**Deferred tax assets (liabilities)**		
(in millions of Korean won)	**Beginning balance**	**Increase (Decrease)**	**Ending balance**	**Beginning balance**	**Increase (Decrease)**	**Ending balance**
Derivatives	₩ (2,534)	₩ (2,039)	₩ (4,573)	₩ 613	₩ 494	₩ 1,107
Allowance for carbon emission rights	(2,803)	438	(2,365)	678	(106)	572
Accrued expenses	(29,963)	3,405	(26,558)	7,251	(824)	6,427
Property, plant and equipment	(7,999)	(3,034)	(11,033)	1,936	734	2,670
Loss on valuation of inventories	(3,279)	796	(2,483)	793	(192)	601
Gain or loss on foreign currency translation	(24)	-	(24)	6	-	6
Accrued Revenue	2,078	808	2,886	(503)	(195)	(698)
Others	(326)	(56)	(382)	80	12	92
	(44,850)	318	(44,532)	10,854	(77)	10,777
Tax credits	(1,101)	(175)	(1,276)	881	140	1,021
2016	₩ (45,951)	₩ 143	₩ (45,808)	₩ 11,735	₩ 63	₩ 11,798
2015	₩ (37,209)	₩ (8,742)	₩ (45,951)	₩ 9,650	₩ 2,085	₩ 11,735

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion and recognized the deferred income tax asset since all the future deductible tax benefits are determined to be realizable as of December 31, 2016.

The gross balances of deferred tax assets and liabilities as of December 31, 2016 and 2015, are as follows:

	2016		2015	
(in millions of Korean won)	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Current	₩ 8,713	₩ (734)	₩ 9,612	₩ (542)
Non-current	3,819	-	2,665	-
	₩ 12,532	₩ (734)	₩ 12,277	₩ (542)

17. Capital Stock

The Company is authorized to issue 80,000,000 shares with the par value per share of ₩ 2,500. The Company has issued and outstanding 46,762,000 shares of common stock.

18. Retained Earnings

Appropriation of Retained Earnings

Date of Appropriation: March 27, 2017 and March 25, 2016 for the years ended December 31, 2016 and 2015, respectively.

Retained earnings as of December 31, 2016 and 2015, consist of:

(in millions of Korean won)	2016	2015
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 91,357	₩ 52,216
Net income	58,546	39,141
	149,903	91,357
Appropriation of retained earnings		
Legal reserve	-	-
Cash dividends		
Dividends(ratio) per share common stock:		
₩ 46,762,000 (%) in 2016		
₩ 46,762,000 (%) in 2015	-	-
	-	-
Unappropriated retained earnings carried forward to subsequent year	₩ 149,903	₩ 91,357

19. Sales

Sales for the years ended December 31, 2016 and 2015, consist of:

(in millions of Korean won)		**2016**		**2015**
Domestic sales of finished goods	₩	586,218	₩	569,192
Export sales of finished goods		1,093,946		1,360,324
Sales of merchandise		1,458		9,412
Other sales		71,578		62,031
	₩	1,753,200	₩	2,000,959

20. Cost of Sales

Cost of sales for the years ended December 31, 2016 and 2015, consists of:

(in millions of Korean won)		**2016**		**2015**
Cost of finished goods sold				
Finished goods, beginning	₩	35,846	₩	48,032
Manufacturing cost		1,583,657		1,881,033
Loss on valuation of inventories		(496)		209
Finished goods, ending		(38,851)		(35,846)
Transfer to other accounts		(63,366)		(110,203)
Refunded customs duties		(2,825)		(9,105)
		1,513,966		1,774,120
Cost of merchandise sold				
Merchandise, beginning		67		768
Purchases		1,518		7,812
Merchandise, ending		(1)		(67)
Transfer to other accounts		(23)		(20)
		1,561		8,493
Other cost of sales		51,701		42,380
	₩	1,567,229	₩	1,824,993

21. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Personnel expenses	₩ 17,078	₩ 14,895
Severance benefits	972	936
Welfare expenses	2,152	3,122
Travel expenses	1,624	1,598
Communication expenses	1,280	1,465
Fees	4,526	2,551
Rental charges	1,539	1,825
Freight costs	5,118	4,751
Depreciation and amortization	1,399	1,233
Export expenses	18,682	25,580
Overseas offices expenses	1,210	1,134
Research expenses and royalties	14,481	12,399
Claim expenses	8,233	16,411
Brand Fees	3,344	4,874
Management Service Fees	12,990	9,893
Computer expenses	3,688	3,377
Others	2,839	3,406
	₩ 101,155	₩ 109,450

22. Value Added Information

Value added information for the years ended December 31, 2016 and 2015, follows:

	2016			2015		
(in millions of Korean won)	Manufacturing Costs	Selling and Administrative Expenses	Total	Manufacturing Costs	Selling and Administrative Expenses	Total
Personnel expenses	₩ 97,601	₩ 17,078	₩ 114,679	₩ 88,824	₩ 14,895	₩ 103,719
Severance benefits	9,688	972	10,660	9,491	936	10,427
Welfare expenses	16,844	2,152	18,996	16,600	3,122	19,722
Depreciation and Amortization	71,399	1,399	72,798	72,506	1,233	73,739
Tax and dues	1,416	163	1,579	1,316	419	1,735
Rental charges	127	1,539	1,666	131	1,825	1,956
	₩ 197,075	₩ 23,303	₩ 220,378	₩ 188,868	₩ 22,430	₩ 211,298

23. Comprehensive Income

Comprehensive income for the years ended December 31, 2016 and 2015, consists of:

(in millions of Korean won)	2016	2015
Net income	₩ 58,545	₩ 39,140
Other comprehensive income		
Cash flow hedge, net of tax of ₩ 861 million (2015: ₩ 2,208 million)	(2,699)	(6,916)
Comprehensive income	₩ 55,846	₩ 32,224

24. Earnings Per Share

Basic ordinary income per share and earnings per share for the years ended December 31, 2016 and 2015, are calculated as follows:

	2016	2015
Net income	₩ 58,545,465,067	₩ 39,140,442,407
Ordinary income and net income allocated to common stock (A)	58,545,465,067	39,140,442,407
Weighted-average number of common shares outstanding during the year (B)	46,762,000 shares	46,762,000 shares
Basic earnings per share ((A)/(B))	₩ 1,252	₩ 837

Since the Company has not issued any convertible securities such as convertible bonds, diluted ordinary income per share and diluted earnings per share are identical to basic ordinary income per share and basic earnings per share, respectively.

25. Derivatives

In order to hedge against price fluctuation in sales contracts with fixed-prices, the Company enters into futures contracts. Also to hedge against price fluctuation in inventories, the Company has futures contracts. The Company entered into derivative instrument contracts including currency forward to hedge the exposure to changes in foreign exchange rates for assets and liabilities and future cash flows denominated in foreign currencies. In addition, to hedge against interest rate fluctuation in debt, the Company has interest rate swaps

The gains and losses on valuation of derivatives mentioned above for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016					
	Income statements				Other comprehensive income and expense[1]	
	Valuation Gain		Valuation Loss			
Commodity futures	₩	4,275	₩	4,282	₩	434
Firm commitment		36		178		-
Currency forward		5,023		9,836		(4,013)
Interest rate swap		2		1,024		19
	₩	9,336	₩	15,320	₩	(3,560)

[1] The ₩ (2,700) million, net of tax, was recorded in other comprehensive income and expense.

(in millions of Korean won)	2015					
	Income statements				Other comprehensive income and expense[1]	
	Valuation Gain		Valuation Loss			
Commodity futures	₩	2,840	₩	4,551	₩	(9,103)
Firm commitment		2,393		152		-
Currency forward		1,975		7,453		(262)
Interest rate swap		131		-		240
	₩	7,339	₩	12,156	₩	(9,125)

[1] The ₩ (6,916) million, net of tax, was recorded in other comprehensive income and expense

There is no gain or loss on valuation of derivatives, which is the ineffective portion of derivatives of the hedging instrument but meets the hedge effectiveness for the application of fair-value hedge accounting criteria as of December 31, 2016.

The Company recognized gain or loss on valuation of derivatives amounting ₩ 960 million and ₩ 1,015 million, respectively, which are the ineffective portion of derivatives as hedging instrument but meet the hedge effectiveness criteria for the application of cash-flow hedge accounting as of December 31, 2016. The Company applies cash flow hedge accounting and is exposed to fluctuations in cash flows up to May 15th, 2018.

Total accumulated other comprehensive income and loss recognized amount to ₩1,069 million and ₩5,253 million, respectively, of which ₩ 1,069 million and ₩ 4,551 million are expected to be recognized as gain and loss, respectively, within 12 months from December 31, 2017.

Also, the realized gain and loss on derivative transactions recognized upon the expiration of contracts for the year ended December 31, 2016, which were reflected in sales, amounted to ₩ 6,245 million and ₩ 6,170 million, respectively, while gain and loss reflected as cost of sales amounted to ₩ 5,219 million and ₩ 7,407 million, respectively. Realized loss on derivative transactions reflected as interest expenses amounted to ₩ 325 million, while realized gain reflected in property, plant and equipment amounted to ₩ 6 million.

26. Carbon Emissions Rights (Allowances) and Liabilities

(1) Details of emissions rights in 2015, 2016 and 2017, are as follows:

(in millions of Korean won, except quantities for ton)	2015		2016		2017		Total	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
At January 1	340,548	₩ -	300,291	₩ -	294,262	₩ -	935,101	₩ -
Adjustments	(1,359)	-	-	-	-	-	(1,359)	-
Purchase	93,178	1,609	43,085	798	-	-	136,263	2,407
Sale	-	-	-	-	-	-	-	-
Submitted to the government	(432,367)	(1,609)	-	-	-	-	(432,367)	(1,609)
At December 31	-	₩ -	343,376	₩ 798	294,262	₩ -	637,638	₩ 798

(2) Details of emissions liabilities for the year ended December 31, 2016, are as follows:

(in millions of Korean won)	**Emissions obligations**
At January 1	₩ 2,803
Reverse of emission liabilities	(1,194)
Additional addition (excess emissions)	2,365
Used (submitted to the government)	(1,609)
At December 31	₩ 2,365

27. Significant Transactions Not Affecting Cash Flows

Significant transactions not affecting cash flows for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Reclassification of construction-in-progress to property, plant and equipment	₩ 13,330	₩ 29,350
Increase in other accounts payable related to acquisition of property, plant and equipment and intangible assets	5,431	9,158
Reclassification of long-term borrowings to current portion of Long-term borrowings	73,260	20,760

28. Related Party Transactions

The Company's parent company, Novelis Inc., is a foreign registrant and there is no intermediate domestic company which prepares financial statements for external users.

Details of related parties that have sales and other transactions with the Company or have receivables and payables balances as of December 31, 2016 and 2015, are as follows:

	2016	2015
Ultimate parent company	Hindalco Industries Limited	Hindalco Industries Limited
Parent company	Novelis Inc.	Novelis Inc.
Other related parties	Novelis Switzerland-SA, Novelis AG, Novelis Deutschland GMBH, Novelis UK Ltd., Novelis Corporation, Novelis MEA Ltd., Novelis Services Limited, Aluminum company of Malaysia Berhad, Novelis Vietnam Company Limited, Unipessoal Lda., Novelis (Shanghai) Aluminum Trading Company, Novelis (China) Aluminum Products Co Ltd., Novelis Italia SpA, Novelis do Brazil Ltda., Novelis PAE SAS	Novelis Switzerland-SA, Novelis Deutschland GMBH, Novelis Corporation, Novelis MEA Ltd., Novelis Services Limited, Aluminum company of Malaysia Berhad, Novelis Vietnam Company Limited, Novelis Madeira, Unipessoal Lda., Novelis (Shanghai) Aluminum Trading Company, Novelis (China) Aluminum Products Co Ltd., Novelis Italia SpA, Novelis do Brazil Ltda., Novelis PAE SAS

Sales and purchases with related parties for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	Counter party	Sales of goods [1]	Purchase of raw materials [2]	Acquisition of property, plant and equipment	Other Income (expense)
Ultimate parent company	Hindalco Industries Limited	₩ -	₩ 155	₩ -	₩ -
Parent company	Novelis Inc.	-	24,493	-	(633)
Other related parties	Novelis Switzerland SA	55	28	-	-
	Novelis Deutschland GMBH	26,032	-	-	-
	Novelis Corporation	1,111	1,137	391	(690)
	Novelis MEA Ltd.	202,747	12,954	-	(47)
	Novelis Services Limited	-	4,327	-	-
	Novelis Vietnam Company Limited	24,093	-	-	13
	Novelis Shanghai Aluminum Trading Company	-	-	-	(1,386)
	Novelis (China) Aluminum Products Co Ltd	94,673	3,947	-	(659)
	Novelis do Brazil Ltda.	20	-	2	(6)
	Novelis PAE SAS	-	-	21	-
	2016	₩ 348,731	₩ 47,041	₩ 414	₩ (3,408)
	2015	₩ 516,653	₩ 66,691	₩ 273	₩ (1,632)

[1] Sales of goods and rendering of services are included in sales.
[2] Purchases of goods and services (management services) are included in purchases (Note 14).

Year-end balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		Receivables			Payables	
		Trade receivables	**Loans**	**Other receivables**	**Trade payables**	**Other payables**
Parent company	Novelis Inc.	₩ -	24,170	₩ 403	₩ -	₩ 1,637
Other related parties	Novelis Switzerland SA	60	-	-	-	-
	Novelis Deutschland GMBH	3,320	-	-	(1)	361
	Novelis Corporation	494	54,383	121	4	279
	Novelis MEA Ltd.	62,868	-	-	2,653	-
	Novelis Vietnam Company Limited	2,204	-	805	-	-
	Novelis Shanghai Aluminum Trading Company	-	-	-	178	-
	Novelis (China) Aluminum Products Co Ltd	36,297	-	223	1,918	3,389
	Novelis do Brazil Ltda.	4	-	1	-	6
	Novelis PAE SAS	-	-	-	15	-
	2016	₩ 105,247	78,553	₩ 1,553	₩ 4,767	₩ 5,672
	2015	₩ 105,748	52,740	₩ 6,623	₩ 7,191	₩ 9,972

Details of payment guarantees provided by the Company for the related parties as of December 31, 2016, are stated in Note 14.

Details of loan transactions between the Company and the related parties for the year ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		Loan transactions				
2016		**Beginning balance**	**Loans**	**Collection**	**Foreign exchange**	**Ending balance**
Parent company	Novelis Inc.	₩ 52,740	₩ 24,722	₩ (52,740)	₩ (552)	₩ 24,170
Other related parties	Novelis Corporation	-	52,632	-	1,751	54,383
2015						
Parent company	Novelis Inc.	₩ 43,968	₩ 48,681	₩ (43,968)	₩ 4,059	₩ 52,740

29. Approval of Financial Statements

The December 31, 2016 financial statements of the Company were approved by the Board of Directors on March 10, 2017.

Report of Independent Accountants'
Review of Internal Accounting Control System

To the President of
Novelis Korea Limited

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Novelis Korea Limited (the "Company") as of December 31, 2016. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2016, no material weaknesses are identified as of December 31, 2016, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit. However, in accordance with Chapter 5, Application for small- and medium-sized companies of the IACS standards, the design, operation and assessment of its IACS are limited compared with those of public large-sized companies as the Company is a non-public large- sized company. As such, we performed our review in accordance with Chapter 14, Review standards for small- and medium-sized companies.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with Chapter 5, Application for small- and medium-sized companies', of the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2016, and we did not review management's assessment of its IACS subsequent to December 31, 2016. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 24, 2017

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Auditor of
Novelis Korea Limited

I, as the Internal Accounting Control Officer ("IACO") of Novelis Korea Limited ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2016.

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied Chapter 5, Application to small & medium sized companies of the IACS standards for the assessment of design and operations of the IACS.

Based on the assessment on the operation of the IACS, no material weakness has been identified as of December 31, 2016, in all material respect, in accordance with the IACS standards.

February 27, 2017

Paul Stadnikia

Internal Accounting Control Officer

Sachin Satpute

Chief Executive Officer