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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, 2014 and 2013, 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, 2014 and 2013, 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 Matters
The financial statements of the Company as of and for the year ended December 31, 2013 were audited in accordance with the previous Korean Standards on Auditing.

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 16, 2015
Seoul, Korea

This report is effective as of March 16, 2015, 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, 2014 and 2013

(in millions of Korean won)		2014		2013
Assets				
Current assets				
Cash and cash equivalents (Note 13)	₩	61,601	₩	131,683
Short-term investment assets (Note 4)		7		4
Trade accounts and notes receivable, net (Notes 5, 13 and 28)		366,741		204,940
Other accounts receivable (Notes 13 and 28)		7,717		4,546
Prepaid expenses		9,537		1,479
Prepaid value added taxes		22,956		17,742
Short-term loans to employees		195		221
Loans to affiliated companies (Notes 13 and 28)		43,968		-
Derivative instrument assets (Note 26)		23,481		19,086
Firm commitment assets (Note 26)		591		2,317
Current deferred income tax assets (Note 16)		7,656		3,631
Other current assets		2,841		3,702
Inventories, net (Notes 6 and 8)		203,241		145,983
Total current assets		750,532		535,334
Non-current assets				
Long-term investment assets (Notes 3 and 4)		37		39
Derivative instrument assets (Note 26)		-		6,075
Long-term loans to employees		646		616
Property, plant and equipment, net (Notes 7 and 8)		764,629		802,363
Intangible assets, net (Note 9)		3,554		4,587
Deferred income tax assets (Note 16)		1,994		1,206
Deposits provided		2,531		2,633
Total non-current assets		773,391		817,519
Total assets	₩	1,523,923	₩	1,352,853

Novelis Korea Limited
Statements of Financial Position
December 31, 2014 and 2013

(in millions of Korean won)		2014		2013
Liabilities and Equity				
Current liabilities				
Trade accounts and notes payable (Notes 11, 13 and 28)	₩	519,026	₩	330,144
Other accounts payable (Notes 11, 13 and 28)		42,382		37,070
Advance receipts		480		290
Withholdings		1,447		1,399
Accrued expenses (Notes 11 and 15)		24,775		50,775
Short-term borrowings (Note 11)		117,500		50,000
Current portion of long-term liabilities(Note 11)		86,290		65,000
Derivative instrument liabilities (Notes 11 and 26)		16,053		8,946
Firm commitment liabilities (Note 26)		556		68
Income taxes payable		6,120		15,635
Dividends payable		30		29
Total current liabilities		814,659		559,356
Non-current liabilities				
Long-term borrowings (Note 11)		96,010		104,800
Asset retirement obligation liabilities (Note 7)		610		569
Derivative instrument liabilities (Notes 11 and 26)		867		188
Long-term accrued expenses (Notes 11 and 15)		3,143		2,548
Accrued severance benefits, net (Note 12)		3,994		5,271
Total non-current liabilities		104,624		113,376
Total liabilities		919,283		672,732
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 26)		6,443		14,096
Retained earnings				
Legal reserve		29,835		20,342
Unappropriated retained earnings(Note 18)		52,216		129,537
Total Equity		604,640		680,121
Total liabilities and Equity	₩	1,523,923	₩	1,352,853

The accompanying notes are an integral part of these financial statements

Novelis Korea Limited
Statements of Income
Years ended December 31, 2014 and 2013

(in millions of Korean won, except per share amounts)		2014		2013
Sales (Notes 19 and 28)	₩	1,962,941	₩	1,856,053
Cost of sales (Notes 20, 22 and 28)		1,808,341		1,625,348
Gross income		154,600		230,705
Selling and administrative expenses (Notes 21 and 22)		111,795		95,213
Operating income		42,805		135,492
Non-operating income				
Interest income		2,046		1,937
Gain on foreign currency transactions		19,383		22,964
Gain on foreign currency translation		8,199		1,804
Gain on disposal of property, plant and equipment		213		370
Gain on derivative transactions		82,408		68,854
Gain on valuation of derivatives (Note 26)		11,322		32,826
Gain on valuation of firm commitments (Note 26)		667		4,964
Others		1,803		996
		126,041		134,715
Non-operating expenses				
Interest expense		9,382		3,808
Loss on foreign currency transactions		14,909		27,497
Loss on foreign currency translation		1,540		838
Loss on disposal of trade accounts and notes receivable		2,525		1,906
Loss on disposal of property, plant and equipment		707		868
Provision for asset retirement obligation liabilities		41		38
Impairment loss on property, plant and equipment		-		166
Depreciation of assets not in use		338		692
Loss on derivative transactions		92,327		66,904
Loss on valuation of derivatives (Note 26)		13,309		36,260
Loss on valuation of firm commitments (Note 26)		693		134
Others		262		758
		136,033		139,869
Income before income tax expense		32,813		130,338
Income tax expense (Note 16)		5,714		17,420
Net income (Note 23)	₩	27,099	₩	112,918
Basic earnings per share (Note 24)	₩	580	₩	2,415

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

Novelis Korea Limited

Statements of Changes in Equity
Years ended December 31, 2014 and 2013

(in millions of Korean won)

	Capital stock	Capital surplus	Accumulated other comprehensive income and loss	Retained earnings	Total
Balances as of January 1, 2013	₩ 116,905	₩ 399,241	₩ 8,216	₩ 123,470	₩ 647,832
Dividends	-	-	-	(86,509)	(86,509)
Retained earnings after appropriation	116,905	399,241	8,216	36,961	561,323
Gain on valuation of cash flow hedge(Note 26)	-	-	5,880	-	5,880
Net income	-	-	-	112,918	112,918
Balances as of December 31, 2013	₩ 116,905	₩ 399,241	₩ 14,096	₩ 149,879	₩ 680,121
Balances as of January 1, 2014	₩ 116,905	₩ 399,241	₩ 14,096	₩ 149,879	₩ 680,121
Dividends	-	-	-	(94,927)	(94,927)
Retained earnings after appropriation	116,905	399,241	14,096	54,952	585,194
Loss on valuation of cash flow hedge(Note 26)	-	-	(7,653)	-	(7,653)
Net income	-	-	-	27,099	27,099
Balances as of December 31, 2014	₩ 116,905	₩ 399,241	₩ 6,443	₩ 82,051	₩ 604,640

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

Novelis Korea Limited
Statements of Cash Flows
Years ended December 31, 2014 and 2013

(in millions of Korean won)	2014	2013
Cash flows from operating activities		
Net income	₩ 27,099	₩ 112,918
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for severance benefits	9,673	8,612
Impairment loss on property, plant and equipment	-	166
Depreciation and amortization	78,540	55,883
Loss on foreign currency translation	1,537	829
Change of allowance for doubtful accounts	119	(3)
Loss on disposal of property, plant and equipment	707	868
Loss on disposal of trade and notes receivable	2,525	1,906
Loss on valuation of derivatives	13,309	36,260
Loss on valuation of firm commitments	693	134
Provision for asset retirement obligation liabilities	41	38
Gain on foreign currency translation	(8,198)	(1,804)
Gain on disposal of property, plant and equipment	(212)	(370)
Gain on valuation of derivatives	(11,322)	(32,826)
Gain on valuation of firm commitments	(667)	(4,964)
	86,745	64,729
Changes in operating assets and liabilities		
Decrease(increase) in trade receivables	(158,444)	31,286
Decrease(increase) in other accounts receivable	(1,619)	1,775
Increase in prepaid expenses	(8,058)	(236)
Decrease(increase) in prepaid value added taxes	(5,213)	4,076
Decrease in derivative instrument assets	6,599	48,969
Decrease in firm commitment assets	2,394	5,044
Increase in current deferred income tax assets	(1,582)	(4,912)
Increase in other current assets	(691)	(805)
Decrease(increase) in inventories	(57,258)	21,589
Increase in non-current deferred income tax assets	(788)	(161)
Increase(decrease) in trade payables	188,952	(4,908)
Increase in other accounts payable	5,633	14,133
Increase(decrease) in advance receipts	190	(572)
Increase in withholdings	48	342
Increase in accrued expenses	602	3,568
Decrease in derivative instrument liabilities	(9,218)	(56,808)
Decrease in firm commitment liabilities	(205)	(2,901)
Increase(decrease) in income taxes payable	(9,515)	5,743
Increase in long-term accrued expenses	595	815
Payments of severance benefits	(888)	(877)
Increase in pension plan assets	(10,066)	(7,599)
Decrease in contributions to the National Pension Fund	3	6
	(58,529)	57,567
Net cash provided by operating activities	55,315	235,214

The accompanying notes are an integral part of these financial statements

Novelis Korea Limited
Statements of Cash Flows
Years ended December 31, 2014 and 2013

(in millions of Korean won)		2014		2013
Cash flows from investing activities				
Proceeds from disposal of short-term investment	₩	4	₩	6
Proceeds from short-term loans to employees		297		228
Proceeds from guarantee deposits		113		70
Proceeds from disposal of property, plant and equipment		151		414
Proceeds from disposal of intangible assets		-		-
Acquisition of long-term investment		(4)		(10)
Long-term loans provided to employees		(300)		(250)
Loans provided to affiliated companies		(42,540)		-
Acquisition of property, plant and equipment		(67,701)		(185,461)
Acquisition of intangible assets		(479)		(2,624)
Payment of guarantee deposits		(11)		(685)
Net cash used in investing activities		(110,470)		(188,312)
Cash flows from financing activities				
Increase in short-term borrowings		87,500		-
Increase in long-term borrowings		22,500		-
Payment of long-term borrowings		(7,500)		-
Payment of current portion of long-term borrowings		(22,500)		-
Dividends paid		(94,927)		(86,509)
Net cash used in financing activities		(14,927)		(86,509)
Net decrease in cash and cash equivalents		(70,082)		(39,607)
Cash and cash equivalents (Note 27)				
Beginning of the year		131,683		171,290
End of the year	₩	61,601	₩	131,683

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, 2014, 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, 2014, 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 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 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, 2014 and 2013, restricted financial instruments related to bank overdraft agreements amounted to ₩ 5 million.

4. Short-term and Long-term Investment Assets

Short-term and Long-term investment assets as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	**2014**	**2013**
Short-term investment assets		
Held-to-maturity securities	₩ 7	₩ 4
Long-term investment assets		
Bank deposits	5	5
Held-to-maturity securities	32	34
	37	39
	₩ 44	₩ 43

Short-term and long-term held-to-maturity securities as of December 31, 2014 and 2013, consist of government and public bonds.

Maturities of long-term held-to-maturity securities as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Maturity period		
Within one year	₩ 7	₩ 4
More than one year to five years	32	34
	₩ 39	₩ 38

5. Trade Receivables

Trade receivables as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Trade receivables	₩ 367,320	₩ 205,400
Less: Allowance for doubtful accounts	(579)	(460)
	₩ 366,741	₩ 204,940

As of December 31, 2014 and 2013, trade bills transferred through banks that have not yet matured are as follows:

(in millions of Korea won, in thousands of US dollars)	2014	2013	
Forfeiture of export receivables of US$ 152,193 (2013:US$ 89,164)	₩ 167,290	₩ 94,094	Without recourse
Financing of domestic receivables	27,519	49,050	Without recourse
	₩ 194,809	₩ 143,144	

6. Inventories

Details of inventories as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Finished goods	₩ 48,032	₩ 38,637
Merchandise	768	413
Work-in-process	95,123	54,595
Raw materials	38,544	30,661
Supplies	16,181	11,907
Materials in transit	7,663	11,880
	206,311	148,093
Less: Valuation allowance(*)	(3,070)	(2,110)
	₩ 203,241	₩ 145,983

(*)As of December 31, 2014, valuation allowance of inventory and work-in-process amounted to ₩ 489 million (2013: ₩ 139 million) and ₩ 164 million (2013: nil), respectively. In addition, valuation allowance of supplies amounted to ₩ 2,417 million (2013: ₩ 1,971 million)

7. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014							
	Land	Buildings	Structures	Machinery & Equipment	Vehicles	Tools	Construction-in-progress	Total
Balance as of January 1, 2014	₩ 75,999	₩ 139,904	₩ 21,776	₩ 533,909	₩ 2,927	₩ 11,627	₩ 16,221	₩ 802,363
Acquisition	-	4,251	1,749	8,658	927	1,975	22,380	39,940
Disposal	-	(309)	(41)	(130)	(74)	(92)	-	(646)
Transfer	-	3,174	2,521	21,689	-	85	(26,973)	496
Depreciation	-	(5,009)	(2,489)	(64,219)	(916)	(4,891)	-	(77,524)
Impairment loss	-	-	-	-	-	-	-	-
Balance as of December 31, 2014	₩ 75,999	₩ 142,011	₩ 23,516	₩ 499,907	₩ 2,864	₩ 8,704	₩ 11,628	₩ 764,629
Acquisition cost	₩ 75,999	₩ 199,309	₩ 52,699	₩1,103,932	₩ 9,533	₩ 54,382	₩ 11,628	₩1,507,482
Accumulated depreciation	-	(57,298)	(29,112)	(602,935)	(6,669)	(45,617)	-	(741,631)
Accumulated impairment	-	-	(71)	(1,090)	-	(61)	-	(1,222)

(in millions of Korean won)	2013							
	Land	Buildings	Structures	Machinery & Equipment	Vehicles	Tools	Construction-in-progress	Total
Balance as of January 1, 2013	₩ 75,999	₩ 110,756	₩ 14,306	₩ 211,225	₩ 2,159	₩ 13,190	₩ 231,940	₩ 659,575
Acquisition	-	372	571	11,012	630	1,617	184,859	199,061
Disposal	-	-	-	(771)	-	(141)	-	(912)
Transfer	-	33,013	8,978	355,245	954	2,388	(400,578)	-
Depreciation	-	(4,237)	(2,065)	(42,650)	(816)	(5,427)	-	(55,195)
Impairment loss	-	-	(14)	(152)	-	-	-	(166)
Balance as of December 31, 2013	₩ 75,999	₩ 139,904	₩ 21,776	₩ 533,909	₩ 2,927	₩ 11,627	₩ 16,221	₩ 802,363
Acquisition cost	₩ 75,999	₩ 192,619	₩ 49,014	₩1,075,950	₩ 9,173	₩ 56,874	₩ 16,221	₩1,475,850
Accumulated depreciation	-	(52,715)	(27,131)	(540,819)	(6,246)	(45,186)	-	(672,097)
Accumulated impairment	-	-	(107)	(1,222)	-	(61)	-	(1,390)

As of December 31, 2014, the value of the Company's land, as determined by the local government for property tax assessment purposes, amounts to approximately ₩ 108,393 million (2013: ₩ 97,883 million).

The Company recognizes asset retirement obligation liabilities of ₩ 610 million and ₩ 569 million as of December 31, 2014 and 2013, 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, 2014 and 2013, are as follows:

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

Type of Insurance	Asset Insured	Amount Insured 2014	Amount Insured 2013	Insurance Company	Beneficiary
General property insurance	Inventories and property, plant and equipment, excluding land and certain construction-in-progress	US$ 1,745,867	US$ 1,283,959	Hyundai Marine & Fire Insurance Co.,Ltd.	the Company
General insurance for losses from product liability	-	US$ 10,000	US$ 12,000	Hyundai Marine & Fire Insurance Co.,Ltd.	the Company
Assembled insurance	-	-	US$ 422,299	Hyundai Marine & Fire Insurance Co.,Ltd.	the Company
General insurance for losses from gas accidents	-	₩ 10,640	₩ 10,640	Hyundai Marine & Fire Insurance Co.,Ltd.	the Company
Short-term Export Insurance	Trade Receivables	US$ 297,795	US$ 297,795	Korea Trade Insurance Corporation	the Company, other

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, 2014 and 2013, are as follows:

(in millions of Korean won)	2014 Software	2014 Construction-in-progress intangible assets	2014 Total
Balance as of January 1, 2014	₩ 1,618	₩ 2,969	₩ 4,587
Acquisition	35	443	478
Transfer	2,916	(3,412)	(496)
Amortization	(1,015)	-	(1,015)
Balance as of December 31, 2014	3,554	-	3,554
Acquisition cost	10,698	-	10,698
Accumulated amortization	(7,144)	-	(7,144)

	2013		
(in millions of Korean won)	Software	Construction-in-progress intangible assets	Total
Balance as of January 1, 2013	₩ 2,306	₩ 345	₩ 2,651
Acquisition	-	2,624	2,624
Amortization	(688)	-	(688)
Balance as of December 31, 2013	₩ 1,618	₩ 2,969	₩ 4,587
Acquisition cost	7,746	2,969	10,715
Accumulated amortization	(6,128)	-	(6,128)

For the year ended December 31, 2014, the Company classified the amortization amounting to ₩ 488 million as cost of sales and amounting to ₩ 527million as selling and administrative expenses, respectively.

10. Capitalization of borrowing costs

For the year ended December 31, 2014, the Company capitalized interest expense of ₩ 147 million incurred on the 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, 2014 and 2013, are as follows:

	2014		2013	
(in millions of Korean won)	Capitalized	Expensed	Capitalized	Expensed
Acquisition cost	₩ 7,435	₩ -	₩ 7,288	₩ -
Accumulated Depreciation	(719)	-	(170)	-
Net book Amounts	6,716	-	7,118	-
Equity	6,716	(7,435)	7,118	(7,288)

	2014		2013	
(in millions of Korean won)	Capitalized	Expensed	Capitalized	Expensed
Depreciation	₩ 549	₩ -	₩ 150	₩ -
Interest expense	(147)	147	(4,663)	4,663
Net income	(402)	(147)	4,513	(4,663)

11. Borrowings

Short-term borrowings as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	Lender	Interest rate(%) as of December 31, 2014	2014	2013
General loans	Bank of America	2.93	30,000	30,000
General loans	Shinhan Bank	3.38	32,000	-
General loans	Nonghyup Bank	3.11	45,500	20,000
General loans	Hana Bank	3.38	10,000	-
			₩ 117,500	₩ 50,000

Long-term borrowings as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	Lender	Interest rate(%) As of December 31, 2014	2014	2013
Facility loans	Nonghyup Bank	3.01	₩ 10,000	₩ 10,000
Facility loans	Shinhan Bank	2.93	30,000	30,000
Facility loans	Bank of China	2.93	16,000	16,000
Facility loans	Korea Exchange Bank	3.01	30,000	30,000
General loans	Nonghyup Bank	3.51	20,000	-
Facility loans	Woori Bank	3.04	22,500	-
General loans	Shinhan Bank	3.39	20,000	20,000
Facility loans	Shinhan Bank	3.06	30,000	30,000
Facility loans	Korea Exchange Bank	1.75	3,800	3,800
Facility loans	Korea Development Bank	-	-	30,000
			182,300	169,800
	Less: Current portion of long-term liabilities		(86,290)	(65,000)
			₩ 96,010	₩ 104,800

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, 2014, is ₩ 61,601 million (2013: ₩ 131,683 million). The Company maintains total committed credit lines of ₩ 846,800 million and US$ 377,100 thousand in Korea Exchange Bank and Citibank in Korea and other financial institutions at December 31, 2014 (2013: ₩ 621,600 million and US$ 465,100 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, 2014, are as follows:

(in millions of Korean won)

	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	₩ 519,026	₩ -	₩ -	₩ -	₩ -	₩ 519,026
Other accounts payable	42,382	-	-	-	-	42,382
Accrued expenses(including long-term accrued expenses)	21,036	4,033	881	882	1,086	27,918
Derivative instruments	12,152	3,901	867	-	-	16,920
Borrowings	90,931	119,516	23,807	77,149	474	311,877
	₩ 685,527	₩ 127,450	₩ 25,555	₩ 78,031	₩ 1,560	₩ 918,123

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, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Beginning balance	₩ 34,529	₩ 26,794
Increase	9,674	8,612
Payment	(888)	(877)
Ending balance	43,315	34,529
Less: Cumulative contribution to the National Pension Fund	(114)	(117)
Less: Pension Plan assets	(39,207)	(29,141)
Provision for severance benefits	₩ 3,994	₩ 5,271

As of December 31, 2014, the Company estimates severance payable to all employees to be ₩ 43,315 million (2013: ₩ 34,529 million) and records the corresponding amount as provision for severance benefits. Also, the Company funded 91% 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, 2014 and 2013, are as follows:

(in millions of Korean won)		2014		2013
Beginning balance	₩	29,141	₩	21,542
Employer contributions		11,136		8,299
Benefits paid		(1,070)		(700)
Ending balance	₩	39,207	₩	29,141

Plan assets as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)		2014		2013
Cash	₩	7	₩	1
Time deposits		22,963		17,918
Securities combined with derivatives (guaranteed)		16,237		11,222
	₩	39,207	₩	29,141

13. Foreign Currency Denominated Assets and Liabilities

Significant monetary assets and liabilities denominated in foreign currencies as of December 31, 2014 and 2013, are as follows:

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

	2014				2013			
	Foreign currencies		Won equivalents		Foreign currencies		Won equivalents	
Foreign currency deposits	US$	484	₩	532	US$	1,665	₩	1,757
	SG$	3		2	SG$	33		28
	HK$	366		52	HK$	391		53
	JP¥	-		-	JP¥	47,461		477
Trade accounts receivable	US$	254,645	₩	279,906	US$	132,272	₩	139,586
	JP¥	72,858		670	JP¥	39,056		392
	EUR	1		2	EUR	-		-
Other accounts receivable	US$	1,784	₩	1,961	US$	572	₩	603
	EUR	987		1,319	EUR	2		4
Loans	US$	40,000	₩	43,968	US$	-	US$	-
Trade accounts payable and notes payable	US$	11,518	₩	12,661	US$	40,163	₩	42,385
	EUR	-		-	EUR	46		68
	JP¥	2,364		22	JP¥	18,700		188
Other accounts payable	US$	27,554	₩	30,287	US$	19,468	₩	20,545
	EUR	117		156	EUR	2,877		4,190
	CAD	-		-	CAD	135		133

14. Contingencies and Commitments

The Company has bank overdraft agreements with Korea Exchange Bank and Citibank Korea amounting to ₩ 10.5 billion and US$ 5,000 thousand as of December 31, 2014. The Company also has entered into agreements with Citibank Korea and other financial institutions in relation to the opening of letters of credit of up to US$ 372,100 thousand as of December 31, 2014.

The Company has bank loan agreements with Shinhan Bank, Bank of America, Nonghyup, Korea Development Bank, Korea Exchange Bank and Bank of China amounting to ₩ 418.3 billion as of December 31, 2014.

The Company has agreements with Kookmin Bank and other financial institutions regarding a purchase card program of up to ₩ 418 billion as of December 31, 2014.

The Company has provided a payment guarantee in relation to borrowings of Novelis Vietnam from Korea Exchange Bank and Shinhan Bank amounting up to US$ 35,289 thousand.

The Company has accounts receivable forfaiting agreements with HSBC Bank and eight other financial institutions.

As of December 31, 2014, 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 ₩ 8,365 million (2013: ₩ 8,684 million) which was included in research expenses and royalties (Notes 21 and 28).

As of December 31, 2014, the Company has a "Novelis" brand license agreement with Novelis Limited and accordingly, royalty expense amounting ₩ 4,558 million (2013: ₩ 4,566 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, 2014, the Company's parent company, Novelis Inc., has granted cash-settled share-based payments and restricted stock units to the employees and directors of the company based on the share of the ultimate parent company, Hindalco Industries Limited and the parent company, Novelis Inc. The Company is responsible for the compensation cost of the said grants.

As of December 31, 2014, 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		2008	2009	2010	2011	2012	2013	2014	2012	2013	2014
Remaining number of grants[1]		52,598	161,700	178,600	167,293	389,040	491,709	548,792	130,203	146,833	164,031
Maturity years		2015	2016	2017	2018	2019	2020	2021	2015	2016	2016
Exercise price		INR 60.50	INR 85.79	INR 147.10	INR 192.38	INR 109.58	INR 104.88	INR 145.50	-	-	-
Vesting condi-Tions	Service period	2 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	1 ~ 4 yrs	3 yrs	3 yrs	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 143.75	INR 209.48	INR 371.81	INR 495.67	INR 264.14	INR 255.81	INR 341.19	INR 264.14	INR 255.81	INR 341.19

[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
Remaining number of grants[1]		2,533	6,427	13,112	25,381	42,436
Maturity years		2017	2018	2019	2020	2021
Exercise price		$ 63.23	$73.55	$101.81	$91.87	$94.40
Vesting condi-Tions	Service period	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

[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., the parent company, 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.

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, 2014, 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	1,864,123	INR 113.35	54,203	$ 89.86
Vested	548,792	INR 145.50	42,436	$ 94.40
Cancelled	(122,438)	INR 122.94	(5,773)	$ 87.35
Exercised	(300,745)	INR 88.26	(977)	$ 67.72
Ending	1,989,732	INR 125.42	89,889	$ 92.40
Exercisable balance as of December 31, 2014	794,285	INR 121.60	17,446	$ 88.24

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

	2011	2012		2013			2014			
	Tranche4	Tranche3	Tranche4	Tranche2	Tranche3	Tranche4	Tranche1	Tranche2	Tranche3	Tranche4
Hindalco	INR 46.21	INR 72.32	INR 63.67	INR 79.41	INR 72.00	INR 63.48	INR 75.42	INR 69.64	INR 61.35	INR 53.10
Novelis	$ 29.46	$ 21.42	$ 21.41	$ 23.80	$ 23.50	$ 22.66	$ 24.39	$ 23.37	$ 21.83	$ 20.15

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

- Hindalco Industries Limited

	2011 Grant	2012 Grant	2013 Grant	2014 Grant
Stock price [1]	INR 157.55	INR 157.55	INR 157.55	INR 157.55
Expected share price volatility [2]	43%	42%	43%	54%
Risk-free interest rate	7.96%	8.00%	8.03%	8.04%
Expected dividend rate	0.63%	0.63%	0.63%	0.63%

[1] The stock price of Hindalco Industries Limited as of December 31, 2014.
[2] The expected exercise period and historical share price as of December 31, 2014, were considered in the calculation of volatility.

- Novelis Inc.

	2011 Grant	2012 Grant	2013 Grant	2014 Grant
Stock price [1]	$ 94.40	$ 94.40	$ 94.40	$ 94.40
Expected share price volatility [2]	27%	29%	31%	41%
Risk-free interest rate	1.21%	1.48%	1.71%	1.87%
Expected dividend rate	0.00%	0.00%	0.00%	0.00%

[1] The stock fair value of Novelis Inc. as of December 31, 2014.
[2] The expected exercise period and historical share price of 11 competitors of Novelis Inc. as of December 31, 2014, 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 2008 Tranche 3 and Tranche 4; 2009 Tranche 1, Tranche 2, Tranche 3 and Tranche 4; 2010 Tranche 1 and Tranche 2, Tranche 3 and Tranche 4; 2011 Tranche 1, Tranche 2 and Tranche 3; 2012 Tranche 1 and Tranche 2; 2013 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, 2014, the Company recognized the compensation cost on cash-settled share-based payments and restricted stock unit amounting to ₩ 1,194 million as selling and administrative expense, and related liabilities amounting to ₩ 1,932 million as accrued expense.

16. Income Taxes

Income tax expense for the years ended December 31, 2014 and 2013, consists of:

(in millions of Korean won)	2014	2013
Current income taxes	₩ 8,084	₩ 22,492
Deferred income tax due to temporary differences	(4,813)	(2,783)
Deferred income tax charged to equity	2,443	(2,289)
Income tax expense	₩ 5,714	₩ 17,420

Deferred income taxes charged directly to the equity as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Gain(loss) on valuation of derivative instruments	₩ 2,443	₩ (2,289)

Reconciliation between net income before tax and income tax expense for the years ended December 31, 2014 and 2013, is as follows:

(in millions of Korean won)	2014	2013
Net income before tax	₩ 32,813	₩ 130,338
Income tax based on statutory rate	₩ 7,941	₩ 31,542
Add (deduct):		
Non-deductible expense	114	46
Tax credit and exempt	(1,795)	(12,772)
Others	(546)	(1,396)
Income tax expense	₩ 5,714	₩ 17,420
Effective tax rate (Income tax expense/net income before tax)	17.41%	13.37%

Changes in the temporary differences and related deferred tax assets and liabilities for the years ended December 31, 2014 and 2013, are as follows:

	Temporary differences			Deferred tax assets (liabilities)		
(in millions of Korean won)	Beginning	Increase (Decrease)	Ending	Beginning	Increase (Decrease)	Ending
Derivatives	₩ 18,752	₩ (9,961)	₩ 8,791	₩ (4,538)	₩ 2,411	₩ (2,127)
Accrued expenses	(33,028)	(3,148)	(36,176)	7,993	761	8,754
Property, plant and equipment	(4,585)	(1,730)	(6,315)	1,109	419	1,528
Loss on valuation of inventories	(2,110)	(960)	(3,070)	511	232	743
Gain or loss on foreign currency translation	(26)	2	(24)	6	0	6
Accrued Revenue	1,269	(54)	1,215	(307)	13	(294)
Others	(259)	(214)	(473)	63	51	114
	₩ (19,987)	₩ (16,065)	₩ (36,052)	₩ 4,837	₩ 3,887	₩ 8,724
Tax credits	-	(1,157)	(1,157)	-	926	926
2014	₩ (19,987)	₩ (17,222)	₩ (37,209)	₩ 4,837	₩ 4,813	₩ 9,650
2013	₩ (9,542)	₩ (10,445)	₩ (19,987)	₩ 2,054	₩ 2,783	₩ 4,837

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, 2014.

The gross balances of deferred tax assets and liabilities as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014 Deferred tax assets	2014 Deferred tax liabilities	2013 Deferred tax assets	2013 Deferred tax liabilities
Current	₩ 10,087	₩ (2,431)	₩ 10,380	₩ (6,749)
Non-current	1,994	-	1,206	-
	₩ 12,081	₩ (2,431)	₩ 11,586	₩ (6,749)

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, 2015 and March 3, 2014 for the years ended December 31, 2014 and 2013, respectively.

Retained earnings as of December 31, 2014 and 2013, consist of:

(in millions of Korean won)	2014	2013
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 25,117	₩ 16,619
Net income	27,099	112,918
	52,216	129,537
Appropriation of retained earnings		
Legal reserve	-	9,493
Cash dividends	-	94,927
Dividends(ratio) per share common stock:		
₩ nil (-%) in 2014		
₩ 2,030 (81%) in 2013		
	-	104,420
Unappropriated retained earnings carried forward to subsequent year	₩ 52,216	₩ 25,117

19. Sales

Sales for the years ended December 31, 2014 and 2013, consist of:

(in millions of Korean won)	2014	2013
Domestic sales of finished goods	₩ 630,790	₩ 637,866
Export sales of finished goods	1,255,562	1,162,855
Sales of merchandise	15,630	9,209
Other sales	60,959	46,123
	₩ 1,962,941	₩ 1,856,053

20. Cost of Sales

Cost of sales for the years ended December 31, 2014 and 2013, consists of:

(in millions of Korean won)	2014	2013
Cost of finished goods sold		
Finished goods, beginning	₩ 38,637	₩ 34,948
Manufacturing cost	1,831,152	1,654,397
Loss on valuation of inventories	960	580
Finished goods, ending	(48,032)	(38,637)
Transfer to other accounts	(69,887)	(57,563)
Refunded customs duties	(5,017)	(6,239)
	1,747,813	1,587,486
Cost of merchandise sold		
Merchandise, beginning	413	713
Purchases	14,130	8,424
Merchandise, ending	(768)	(413)
Transfer to other accounts	(137)	(60)
	13,638	8,664
Other cost of sales	46,890	29,198
	₩ 1,808,341	₩ 1,625,348

21. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Personnel expenses	₩ 14,897	₩ 14,899
Severance benefits	1,287	1,253
Welfare expenses	2,176	3,118
Travel expenses	1,629	1,609
Communication expenses	2,010	635
Fees	2,015	2,018
Rental charges	1,783	1,718
Freight costs	5,281	4,885
Depreciation and amortization	1,072	919
Export expenses	24,146	20,780
Overseas offices expenses	1,135	1,069
Research expenses and royalties	10,550	9,827
Claim expenses	6,557	5,064
Brand Fees	4,558	4,566
Management Service Fees	25,512	16,972
Computer expenses	3,104	527
Others	4,083	5,354
	₩ 111,795	₩ 95,213

22. Value Added Information

Value added information for the years ended December 31, 2014 and 2013, follows:

	2014			2013		
(in millions of Korean won)	Manufacturing Costs	Selling and Administrative Expenses	Total	Manufacturing Costs	Selling and Administrative Expenses	Total
Personnel expenses	₩ 81,333	₩ 14,897	₩ 96,230	₩ 65,952	₩ 14,899	₩ 80,851
Severance benefits	8,726	1,287	10,013	7,317	1,253	8,570
Welfare expenses	15,157	2,176	17,333	14,495	3,118	17,613
Depreciation and amortization	77,130	1,072	78,202	54,272	919	55,191
Tax and dues	1,270	136	1,406	1,060	118	1,178
Rental charges	123	1,783	1,906	95	1,718	1,813
	₩ 183,739	₩ 21,351	₩ 205,090	₩ 143,191	₩ 22,025	₩ 165,216

23. Comprehensive Income

Comprehensive income for the years ended December 31, 2014 and 2013, consists of:

(in millions of Korean won)	2014	2013
Net income	₩ 27,099	₩ 112,918
Other comprehensive income		
Cash flow hedge, net of tax of ₩ 2,443 million (2013: 2,289 million)	(7,653)	5,880
Comprehensive income	₩ 19,446	₩ 118,798

24. Earnings Per Share

Basic ordinary income per share and earnings per share for the years ended December 31, 2014 and 2013, are calculated as follows:

	2014	2013
Net income	₩ 27,099,316,402	₩ 112,918,018,987
Ordinary income and net income allocated to common stock (A)	27,099,316,402	112,918,018,987
Weighted-average number of common shares outstanding during the year (B)	46,762,000	46,762,000
Basic earnings per share ((A)/(B))	₩ 580	₩ 2,415

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. Dividends

Details of dividends declared for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
	Common stock	Common stock
Number of common shares (A)	46,762,000 shares	46,762,000 shares
Dividend per share (ratio) (B)	₩ - (-%)	₩ 2,030 (81%)
Dividend amount (A×B)	₩ -	₩ 94,926,860,000

The Company's dividend payout ratio for the years ended December 31, 2014 and 2013, is computed as follows:

	2014	2013
Dividends (A)	₩ -	₩ 94,926,860,000
Net income (B)	27,099,316,402	112,918,018,987
Dividend payout ratio (A/B)	-%	84.1%

26. 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.

The gains and losses on valuation of derivatives mentioned above for the years ended December 31, 2014 and 2013, are as follows:

	2014					
(in millions of Korean won)	Income statements				Other comprehensive income and expense[1]	
	Valuation Gain		Valuation Loss			
Commodity futures	₩	8,048	₩	6,150	₩	8,114
Firm commitment		667		693		-
Currency forward		3,274		7,137		(17,992)
Interest rate swap		-		22		(218)
	₩	11,989	₩	14,002	₩	(10,096)

[1] The ₩ (7,653) million, net of tax, was recorded in other comprehensive income and expense.

	2013					
(in millions of Korean won)	Income statements				Other comprehensive income and expense[1]	
	Valuation Gain		Valuation Loss			
Commodity futures	₩	31,087	₩	33,961	₩	1,219
Firm commitment		4,964		134		-
Currency forward		1,688		2,300		6,782
Interest rate swap		51		-		169
	₩	37,790	₩	36,395	₩	8,170

[1] The ₩ 5,880 million, net of tax, was recorded in other comprehensive income and expense

The Company recognized gain or loss on valuation of derivatives amounting ₩ 3 million and ₩ 64 million, respectively, which is the ineffective portion of derivatives as hedging instrument but meets the hedge effectiveness for the application of fair-value hedge accounting criteria as of December 31, 2014.

The Company recognized gain or loss on valuation of derivatives amounting ₩ 4,572 million and ₩ 849 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, 2014. The Company applies cash flow hedge accounting and is exposed to fluctuations in cash flows up to March 31, 2016. Total accumulated other comprehensive income and loss recognized amount to ₩14,178 million and ₩5,678 million, respectively, of which ₩ 14,178 million and ₩ 4,811 million are expected to be recognized as gain and loss, respectively, within 12 months from December 31, 2014. Also, the realized gain and loss on derivative transactions recognized upon the expiration of contracts for the year ended December 31, 2014, which were reflected in sales, amounted to ₩ 15,147 million and ₩ 642 million, respectively, while gain and loss reflected as cost of sales amounted to ₩ 3,245 million and ₩ 11,185 million, respectively. Realized loss on derivative transactions reflected as interest

expenses amounted to ₩ 649 million, while realized gain and loss reflected in property, plant and equipment amounted to₩ 13 million and ₩ 200 million, respectively.

27. Significant Transactions Not Affecting Cash Flows

Significant transactions no affecting cash flows for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	2014	2013
Reclassification of construction-in-progress to property, plant and equipment	₩ 26,973	₩ 400,578
Increase(decrease) in other accounts payable related to acquisition of property, plant and equipment	(27,760)	13,600

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, 2014 and 2013, are as follows:

	2014	2013
Ultimate parent company	Hindalco Industries Limited	Hindalco Industries Limited
Parent company	Novelis Inc.	Novelis Inc.
Other related parties	Novelis Corporation, Aluminum company of Malaysia Berhad, Novelis Switzerland SA, Novelis Deutschland GMBH, Novelis Uk Ltd., Novelis MEA Ltd., Novelis Vietnam Company, Novelis Madeira Unipessoal Lda., NOVELIS PAE SAS, Novelis Italia SpA, Novelis Services Limited, Novelis Shanghai Aluminum Trading Company, Novelis (China) Aluminum Products Co Ltd., Novelis do Brazil Ltda.	Novelis Corporation, Aluminum company of Malaysia Berhad, Novelis Switzerland SA, Novelis Deutschland GMBH, Novelis Uk Ltd., Novelis MEA Ltd., Novelis Vietnam Company Limited, Novelis Madeira Unipessoal Lda., Novelis Italia SpA, Novelis PAE SAS, Novelis Services Limited

Sales and purchases with related parties for the years ended December 31, 2014 and 2013, 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	₩ -	₩ -	₩ -	₩ -
Parent company	Novelis Inc.	-	39,444	-	961
Other related parties	Novelis Switzerland SA	51	817	-	123
	Novelis Deutschland GMBH	69,064	39	-	995
	Novelis UK Ltd.	-	-	-	-
	Novelis Corporation	77,517	12,888	12	(7)
	Novelis MEA Ltd.	104,187	10,799	-	(164)
	Novelis Services Limited	-	4,558	-	-
	Aluminum company of Malaysia Berhad	731	14	1	3
	Novelis Vietnam Company Limited	11,306	-	-	407
	Novelis Madeira Unipessoal Lda	-	-	-	(12)
	Novelis Shanghai Aluminum Trading Company	14	-	-	-
	Novelis (China) Aluminum Products Co Ltd	12,187	2,613	-	-
	Novelis do Brazil Ltda.	-	33	-	11
	Novelis PAE SAS	-	65	-	-
	2014	₩ 275,057	₩ 71,270	₩ 13	₩ 2,317
	2013	₩ 95,024	₩ 52,605	₩ 96	₩ (2,620)

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

Year-end balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)		Receivables			Payables	
		Trade receivables	Loans [1]	Other receivables	Trade payables	Other payables
Parent company	Novelis Inc.	₩ -	₩ 43,968	₩ 435	₩ -	₩ 1,956
Other related parties	Novelis Switzerland SA	-	-	14	-	-
	Novelis Deutschland GMBH	40,868	-	1,319	-	-
	Novelis Corporation	54,909	-	61	518	947
	Novelis MEA Ltd.	54,420	-	-	633	-
	Novelis Services Limited	-	-	45	-	-
	Aluminum company of Malaysia Berhad	-	-	-	-	10
	Novelis Vietnam Company Limited	930	-	622	-	9
	Novelis Madeira, Unipessoal Lda	-	-	-	-	-
	Novelis (China) Aluminum Products Co Ltd	8,810	-	-	1,194	-
	Novelis Italia SpA	-	-	-	-	63
	Novelis do Brazil Ltda.	-	-	12	-	-
	Novelis PAE SAS	-	-	-	-	35
	2014	₩ 159,937	₩ 43,968	₩ 2,508	₩ 2,345	₩ 3,020
	2013	₩ 10,318	₩ -	₩ 267	₩ 3,763	₩ 3,799

[1]The above loan is equivalent to $40,000 thousand as of December 31, 2014.

Details of payment guarantees provided by the Company for the related parties as of December 31, 2014, are stated in Note 14.

29. Approval of Financial Statements

The December 31, 2014 financial statements of the Company were approved by the Board of Directors on March 13, 2015.

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, 2014. 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, 2014, no material weaknesses are identified as of December 31, 2014, 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, 2014, and we did not review management's assessment of its IACS subsequent to December 31, 2014. 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 16, 2015

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, 2014.

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, 2014, in all material respect, in accordance with the IACS standards.

February 25, 2015

Paul Stadnikia

Internal Accounting Control Officer

Shashi Maudgal

Chief Executive Officer