Arvind
FASHIONING POSSIBILITIES

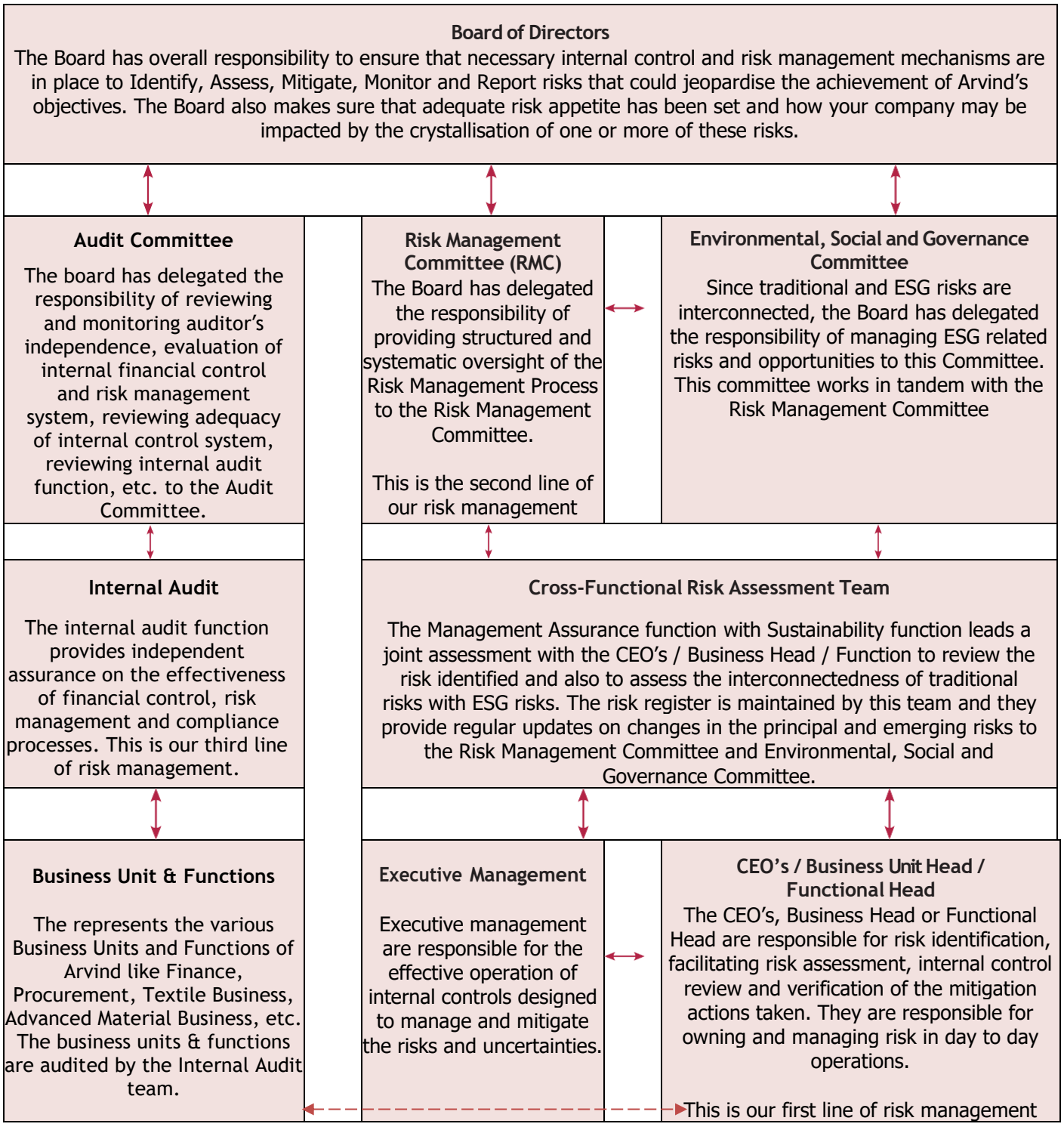
Risk Management Report

Every adversity contains within it seeds of advantages. While we remain watchful and prepared for risks, we try to see every challenge as an opportunity to create value. We also consistently scan the business environment to prospect for opportunities and leverage them for growth.

Risk Management Approach and Governance

We have a robust Enterprise Risk Management (ERM) framework that enables us to mitigate risk and achieve better growth. At Arvind, we see in every challenge a new opportunity to innovate, and drive growth and value. As per recommendations of TCFD, we have integrated our Climate-related Risk management into our existing ERM framework. The key principles that we have followed while integrating climate-related risk are - Interconnections | Temporal Orientation | Proportionality | Consistency. We are continuously scanning and monitoring the various risks faced by our business, and seeking out the opportunities that we can harness for sustained growth despite the risks.

Our Risk Management Governance Framework



Enterprise Risk Management Process

Our ERM strategy is integrated throughout the organisation to support the achievement of our strategic goals. The risk management processes follows a top-down and bottom-up evaluation to determine the risks as well as understand the impact, likelihood, root-cause and mitigation measures half yearly to implement for managing the risks and realising the opportunities. The risk management process followed in shown in Figure 1.

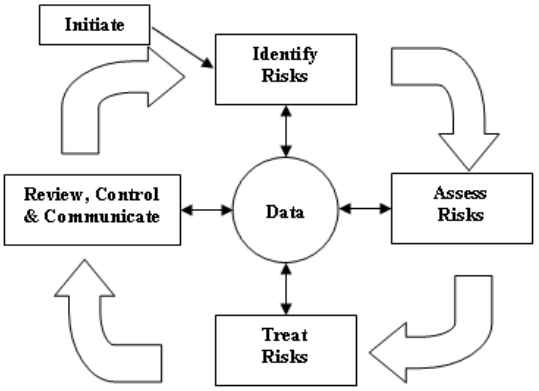


Figure 1: Risk Management Process

Time Horizon

Our risk management approach considers the time horizon of short term to be 1 to 2 years, for medium term to be 3 to 5 years and for long term to be 5 to 15 years.

Identify Risks

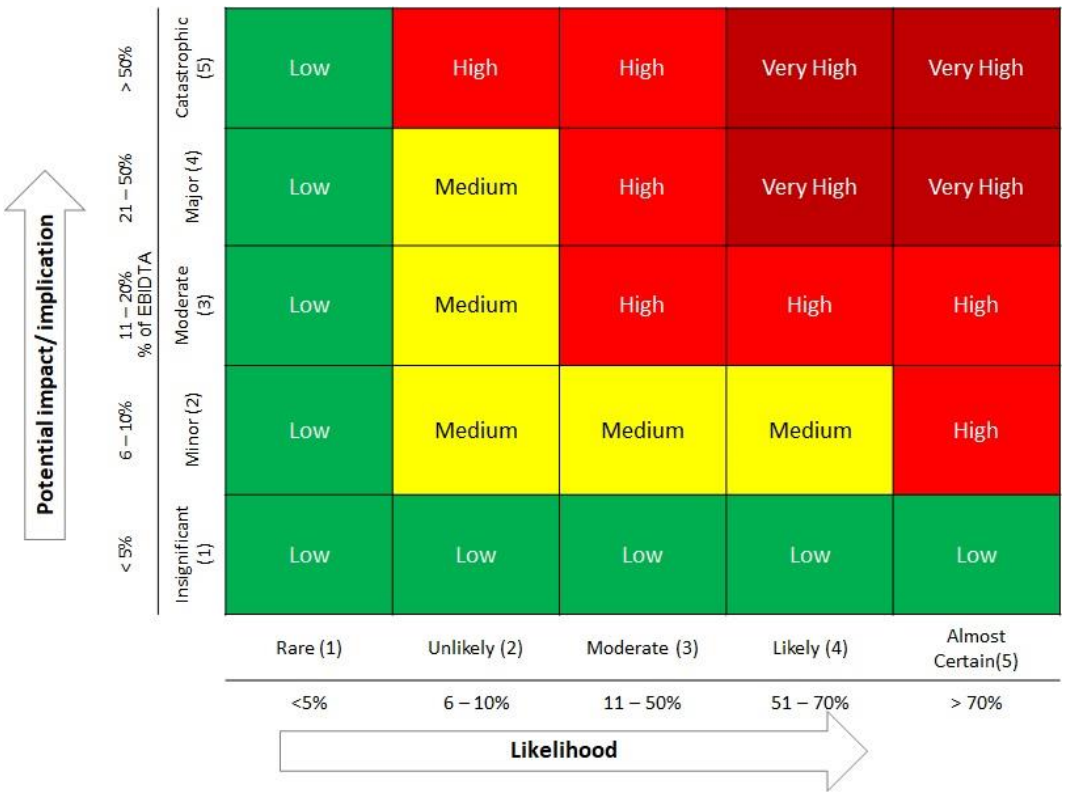
For the identification of Risks, the cross functional risk assessment team engages in one-on-one as well as group discussion with Executive Management, CEO's, Business Head and Functional Heads. Based on these discussion a risk register is prepared. These discussions are focussed on identifying financial, management risks and ESG related risks called as our Principal Risks.

Assess Risks

Risk assessment process enables that the principal risks identified are categorised and graded in relation to their potential impact. According to our methodology, risks are evaluated by looking at two dimensions: the likelihood of occurrence and the severity of potential impact it materialises. Based on this evaluation, we classify risks into three categories: Strategic, Operational and Regulatory.

Strategic Risks: Relating to high level goals, aligned with and challenging the company's mission.
Operational Risks: Relating to effective and efficient use of company's resources and day to day operations.
Regulatory Risks: Relating to the company's compliance with applicable laws and regulations.

Risk Evaluation Categories



Risk Mitigation

After the risk assessment, as per the risk management cycle, treatment of risks is carried out. This involves identifying options to treat risk, assessing the identified options, preparing and implementing risk treatment plan. The risk treatment plan is prepared keeping in mind that the risk should be either eliminated, mitigated or transferred after implementing the plan. The Executive management is responsible for the effective operation of internal controls designed as per the risk treatment plan to manage and mitigate the risks and uncertainties.

Review, Control & Communicate

The risk review process involves re-examination of all the identified risks to ensure that the current assessment remains valid. The CEO's, Business Head or Functional Head are responsible for internal control review and verification of the mitigation actions taken. An effective system of prompt communication, follow-up and escalation is established to effectively review, control & communicate about the identified risks and the progress of mitigating actions.

The output of this process along with the output of Climate Risk Management process is shared with the ESG Committee and in turn the Board to enable them in making decisions to mitigate, transfer, accept, or control the identified risks and capitalize on the opportunities in business operation, upstream or downstream stages of the value chain.

Business Risks

Illustrative list of key business risks are mentioned below:

Risk Description	Nature of Risk	Potential Impact	Likelihood	Brief Mitigating Actions
Shift in consumer as well as customer demand due to geo political or macro-economic factors	Strategic	Major	Moderate	Expanding/ diversifying business opportunities across geographies and business verticals. Business verticalization to provide customer with OneArvind experience.
Operational disruption in the event of major non-compliance to the regulatory laws and compliances	Regulatory	Moderate	Unlikely	Compliance tool is deployed to ensure timely regulatory compliances are performed by the respective process owners. Dedicated team to monitor adherence of regulatory laws and compliances.
Delay in order fulfilment due to unavailability/ lack of skilled manpower	Operational	Minor	Unlikely	Continuous training and development of manpower. Location specific dedicated teams to ensure identification and development of talent pool.
Operational disruption in the event of safety incident	Operational	Moderate	Unlikely	Structured job-oriented training programs for employees and workers across businesses. Area/ Location specific safety awareness programs conducted on periodic basis.

Climate Risk Management

Climate change is defined as the phenomenon of long-term change in average weather patterns at a global, regional or local level. Human influence on climate is the dominant cause of observed warming since the mid-20th century. The warming has already driven changes in the ecosystem like increase in droughts, floods and other extreme weather events. These changes are also affecting the people and livelihoods all around the world (IPCC, 2018). It is also reshaping the operational environment for businesses and almost all industries are vulnerable to effects of climate change. It

includes the potential for adverse effects on lives, livelihoods, health status, economic, social and cultural assets, services (including environmental), and infrastructure due to climate change.

In order to understand and disclose to stakeholders about the risk and opportunities arising as a result of climate change, the Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015. In 2017, TCFD came up with a framework with four recommendations for climate related financial disclosures. These recommendations were adopted by CDP in 2018. Since, we have been reporting in CDP from 2015, we have integrated the TCFD recommendations in our organisation. The details of which are mentioned below:

Governance

Initially, the Executive Director was the boards champion for sustainability and overseeing the convergence between sustainability and business policy. We strengthened this structure by creating a board level Environmental, Social and Governance (ESG) Committee. This committee considers ESG risks & opportunities while setting up ESG visions & ambition and reviewing & guiding strategy for the company.

Strategy

Climate-related risks are sensitive to time horizon, some risks are long-term in nature and some can be experienced in a very short period of time. We have started seeing the physical risks such as increased intensity and frequency of extreme weather events like storms, floods etc. even today. Thus it is imperative that we define our timeframes according to the climate-related risks we face and the sectors & geographies we operate in. At Arvind, our timeframes for Climate Risk Management is aligned with the Enterprise Risk Management approach.

Potential Climate Risk & Opportunities

In alignment with the TCFD recommendations and our Enterprise Risk Management process, we have identified potential risks along with the time horizon, likelihood and the magnitude. The magnitude is assessed on a qualitative basis considering factors like proportion of business affected, size of the impact on those business and the potential for stakeholder concern. The details of this assessment is below:

Physical Risks

Risk Type	Primary Climate-related risk driver	Time Horizon	Likelihood	Magnitude
Acute	Increased frequency of extreme weather events like Drought, Flood, Heat Wave, Heavy Precipitation etc.	Medium Term	Moderate	Medium – Low
Chronic	Changing precipitation patterns and types (rain, hail, snow / ice)	Long Term	Moderate	Medium – Low
Chronic	Changing temperature (air, freshwater, marine water)	Long Term	Moderate	Medium – High
Chronic	Heat Stress	Medium Term	Moderate	Medium
Chronic	Water Scarcity	Long Term	Likely	Medium – High

Transitional Risks

Risk Type	Primary Climate-related risk driver	Time Horizon	Likelihood	Magnitude
Current and Emerging Regulation	Enhanced emission reporting obligation	Short Term	Almost Certain	Low
Current and Emerging Regulation	Carbon Tax	Medium Term	Likely	Medium – Low

Current and Emerging Regulation	Phasing out of coal	Long Term	Almost Certain	Medium – Low
Current and Emerging Regulation	Regulation of existing products and services leading to higher compliance cost	Medium Term	Likely	Medium – Low
Legal	Exposure to litigation for sustainability claims	Long Term	Unlikely	Low
Technology	Unsuccessful investment in new technologies	Medium Term	Likely	High
Technology	Cost of transitioning to lower emissions technology	Medium Term	Almost Certain	Medium
Technology	Early retirement of existing assets	Short Term	Almost Certain	Medium
Market	Increased cost of sustainable raw materials	Medium Term	Likely	Medium – Low
Market	Changing customer behaviour	Medium Term	Almost Certain	High
Market	Shik in demand and supply for sustainable raw materials	Short Term	Almost Certain	Medium
Reputation	Stigmatization of sector	Medium Term	Moderate	Low
Reputation	Increased stakeholder concern	Medium Term	Moderate	Medium – Low

Climate change on one hand poses potential risks as described above, however on the other hand it also brings about a varied set of potential opportunities for organizations willing to innovate and adapt. As we keep evolving to be a sustainable organization, some of our potential opportunities include:

Opportunity Area	Description
Resource Efficiency	Use of more efficient production and distribution processes, use of recycling, reduced water usage and consumption
Energy Source	Use of lower emission sources of energy, Use of new technologies, Participation in carbon market, Shik towards decentralised energy generation
Products and Services	Development of new products and services through R&D and innovation, Development and/or expansion of goods and services with lower emission, Better competitive position to reflect shiking consumer preferences
Markets	Access to new markets
Resilience	Resource substitution / diversification, Participation in renewable energy programs and adoption of energy efficiency measures.

Potential Impact of Climate Risks & Opportunities

At Arvind, we have built our understanding about our impact on climate change and climate change's impact on us. The impact of climate change is reshaping the operating environment of businesses and its potential impact on our business is listed below:

Risk	Opportunities
• Reduced revenue from decreased production capacity e.g. supply chain disruptions • Reduced revenue and higher costs from impacts on operations, and supply chain. • Increased capital expenditures and costs to adopt and deploy new practices/processes • Increased direct costs due to changing input prices e.g. energy, water, sustainable raw material, etc. and output requirements e.g. wastewater, waste etc. • Increased operating cost e.g. caused by higher compliance cost	• Reduced operating costs (through efficiency gains and cost reductions) Reduced exposure to future fossil fuel price increases • Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon • Increased capital availability (as more investors are favouring lower emission producers or ESG compliant companies) • Increased revenue through demand for lower emission products and services • Better competitive position to reflect shiking consumer preferences resulting in increased revenues through access to new and emerging market • Increased reliability of supply chain and ability to operate under various conditions

Our Approach

Based on the climate risks & opportunities and their associated factors such as time horizon, impact etc. we have adopted the approach of being 'Fundamentally Right'. This approach focuses on input management rather than tailpipe interventions. We continue to push our boundaries to adopt mitigation and adaptation solutions across our six key inputs – Fibre, Water, Energy, Chemicals and People to be proactive in managing climate change. Some of the actions that we have adopted based on our understanding of climate risks & opportunities are:

- Promoting sustainable agriculture practices amongst farmers to build an uninterrupted supply of sustainable fibers and reduce agriculture related emissions.
- Investing in renewable energy and reducing our dependence on fossil fuel source of energy
- Installing Zero Liquid Discharge system in manufacturing operations to reduce our dependence on freshwater
- Adopting green chemistry to reduce our emissions from chemical use
- Investing in resource efficient and low emission technology

Scenario Analysis & Resilience of our Approach

Climate change will impact the economy and environment via either physical risk or transitional risk. Thus, we undertook a qualitative analysis of two physical scenarios (RCP 2.6, RCP 8.5) and two transition scenarios (IEA 2DS, IEA STEPS) to understand the resilience of our approach to climate change.

Physical Climate Scenarios

We have selected RCP 2.6 as it requires very stringent mitigation actions so that carbon dioxide emissions start declining by 2020 and go to zero by 2100. This will likely keep the global temperature rise below 2°C by 2100. On the other hand, we selected RCP 8.5, which is a worst-case scenario i.e. emissions continue to rise throughout the 21st century.

Transition scenarios

For the transitional scenarios, we selected the IEA 2DS and IEA STEPS scenarios. The IEA 2DS scenario was selected as it is built on projected warming limit of 2°C and sets the target of cutting CO2 emissions by almost 60% by 2050 (compared with 2013), followed by continued decline after 2050 until carbon neutrality is reached. The IEA STEPS on

the other does not take for granted that government will meet all its announced goal. It looks at the where the energy system will go without any additional policy implementation.

Insights gained from Climate Scenarios

According to the various scenarios selected above, some of the key physical and transitional changes that may occur are:

- The global mean surface temperature change for the period 2016–2035 relative to 1986–2005 is similar for the four RCPs (RCP2.6, RCP4.5, RCP6.0 and RCP8.5) will likely be in the range 0.3°C to 0.7°C (medium confidence).
- Changes in precipitation will not be uniform. In many mid-latitude and subtropical dry regions, mean precipitation will likely decrease, while in many mid-latitude wet regions, mean precipitation will likely increase under the RCP8.5 scenario.
- By 2100 for RCP8.5, the combination of high temperature and humidity in some areas for parts of the year is expected to compromise common human activities, including growing food and working outdoors (high confidence)
- Climate change is projected to reduce renewable surface water and groundwater resources in most dry subtropical regions (robust evidence, high agreement), intensifying competition for water among sectors (limited evidence, medium agreement).
- In urban areas climate change is projected to increase risks for people, assets, economies and ecosystems, including risks from heat stress, storms and extreme precipitation, inland and coastal flooding, landslides, air pollution, drought, water scarcity, sea level rise and storm surges (very high confidence).
- In IEA 2DS scenario, efficiency and renewable energies will be the main contributors, with a 40% and 35% of the share, respectively. Fuel switching will contribute 5% and nuclear 6%. Furthermore, other technologies still in development e.g. Carbon Capture and Storage will account for 14% of the decrease.
- Comparing 2025 and 2050 for the 2DS scenario there is a considerable decrease in the total primary demand of fossil fuels, 57, 31 and 27%, for coal, oil and natural gas, respectively.
- Coal use rebounds more rapidly in the near term and stays above last year's projections until around 2030, but its subsequent decline is faster than projected in 2020 (and much faster than projected five years ago) as per IEA STEPS.
- In the IEA STEPS, around 2050, there would be a 100% increase in the frequency of extreme heat events compared to today and these would be around 120% more intense; there would also be a 40% increase in ecological droughts that would be around 100% more intense.
- As per IEA STEPS, the global average surface temperature rise would exceed 1.5 degrees Celsius (°C) around 2030. Emissions in 2050 are around 32 Gt CO2: if emissions continue their trend after 2050, and if there are similar changes in non-energy-related greenhouse gas (GHG) emissions, the rise in temperature in 2100 would be around 2.6°C.
- In the STEPS, oil demand in developing economies is 12 million barrels per day (mb/d) higher in 2030 than in 2020 (an increase of nearly 30%), gas demand by 520 bcm (a near-25% increase), and coal demand by 160 million tonnes of coal equivalent (Mtce) (a 4% rise).
- Global unabated coal use in the energy system falls by around 5% to 2030 in the STEPS
- In the STEPS, rising oil and gas demand leads to price levels that incentivise investment in new supply.
- Renewables account for almost two-thirds of all new power capacity additions in emerging market and developing economies (excluding China) in the STEPS by 2030, up from about half today.

Source: (International Energy Agency, 2022), (International Energy Agency, 2017), (IPCC, 2014)

Resilience of our Approach

At Arvind, we have consistently focused and invested in strengthening our resilience to future risks. Our investments in sustainable technologies go back a long way, in 1997 we recognised the importance of water and installed our first Zero Liquid Discharge plant which was then the largest in Asia.

Understanding the potential physical and transition changes provides us a way to safeguard and strengthen our business from future risks and is important to us. To summarise, the uncertainties in the future climate states are related to water scarcity, increase in ecological droughts, changes in precipitation pattern, increase in frequency of extreme weather events, phasing out of fossil fuels etc.

The initiatives we are taking as part of our approach of being 'Fundamentally Right' are aligned with the uncertainties faced in future-climate states. For example to tackle water scarcity we are reducing our dependence on freshwater and recycling our water, to reduce our dependence on coal and decreasing emissions we are increasing the use of biomass, to reduce the agricultural GHG emissions we are promoting sustainable farming practices. We have also defined climate related metrics and have set target for each metric. These metrics are tracked continually to ensure that we are on the right path to climate change management. Thus, we believe that our approach is resilient to various future-climate states.

Our financial plans are also aligned with this approach. We are slowly and steadily investing in promoting sustainable agriculture, installing new resource efficient manufacturing machinery, increasing our renewable energy capacity, developing products with low carbon emissions etc. Additionally, we keep on scouting for innovators as well as conduct in house R&D to optimize & reduce

Emerging Risks

We concentrate on improving our knowledge of emerging risks that could negatively impact our business. Together with the Executive Management, the cross-functional team undertakes thorough horizon scanning to identify and evaluate new threats and possibilities as well as how to respond to them. Emerging risks are by their very nature highly speculative, thus in order to manage them, we consult with our key stakeholders to better comprehend them and their possible effects. The emerging risks identified as part of the Enterprise Risk Management process are:

Emerging Risk 1: Adverse Outcomes of AI Technologies in Supply Chains

Category: Technological

Description: The WEF Global Risks Report 2025 identifies "Adverse outcomes of AI technologies" as one of the fastest-rising long-term risks. For Arvind, expanding adoption of AI in supply chain traceability, forecasting, and manufacturing could create unintended consequences. Risks include opaque algorithms, systemic bias in supplier assessments, and compliance challenges if emerging AI regulations in the EU or India impose stricter oversight.

Potential Impact: While immediate impacts are limited, reliance on AI in critical decision-making may compromise data integrity, human rights due diligence, and long-term competitiveness. If regulatory frameworks tighten, Arvind may need to redesign its digital supply-chain model, requiring additional investment and adaptation.

Mitigating Actions: Arvind is engaging with global traceability platforms (TextileGenesis, TrusTrace) to ensure data accuracy and transparency. Conducting AI impact assessments for all new digital tools before deployment, focusing on bias detection, data security, and human oversight.

Emerging Risk 2: Geoeconomic Confrontation and Trade Fragmentation

Category: Geopolitical / Economic

Description: The WEF 2025 report highlights "Geoeconomic confrontation" as a top emerging risk. Rising tariffs, carbon border adjustment mechanisms (CBAM), and trade fragmentation could disrupt global textile flows. Shifts in trade blocs and protectionist policies threaten Arvind's export-oriented business model, particularly in the EU and US markets.

Potential Impact: Future policy measures, such as EU carbon tariffs on textiles, could raise costs and reduce market access. Prolonged trade tensions may disrupt supply chains, increase logistics costs, and reduce predictability of exports. These pressures could require Arvind to rethink its sourcing models and regional diversification strategies.

Mitigating Actions: Arvind is conducting scenario planning to evaluate exposure to potential CBAM expansion and other tariff risks. Internal carbon pricing is applied to assess competitiveness under different regulatory scenarios. The company is also building regional resilience through supply-chain diversification and participating in industry forums to keep abreast of the regulatory developments.

Emerging Risk 3: Misinformation and Disinformation Affecting Supply Chain Integrity

Category: Societal / Technological

Description: For Arvind, risks emerge where false sustainability claims or manipulated data challenge the credibility of traceability systems. This could undermine consumer and regulator trust in certified products, especially in export markets.

Potential Impact: Disinformation targeting supply chains could erode brand reputation, increase verification costs, and delay shipments where compliance is questioned.

Mitigating Actions: Participation in multi-brand traceability coalitions; third-party audits of digital traceability platforms; active engagement in consumer and stakeholder awareness campaigns to counter false narratives.

Priority Matrix of Risks

Risk prioritization is an ongoing process, and it is integrated into your organization's risk management framework. Regularly revisiting and updating the risk register ensures to remains agile in responding to emerging risks. Risk score is represented as output of impact and likelihood of associated risk. Higher risk scores indicate higher-priority risks that

requires attention and resources for mitigation. The risks based on priority are listed below:

- Geoeconomic Confrontation and Trade Fragmentation is the highest priority, given its potential to disrupt exports and reshape global textile flows.
- Adverse Outcomes of AI Technologies in Supply Chains is medium-high priority: likelihood is moderate today, but long-term impact could be significant as AI reliance grows.
- Misinformation and Disinformation Affecting Supply Chain Integrity is medium priority, with reputational and compliance risks that may escalate as supply chains digitalize.

Fostering Risk Culture

At Arvind, we recognize the importance of fostering a risk culture within the organization, and to achieve this, we have implemented several measures and steps in organizational culture.

1. Business Division Risk Team
   - Business Division Risk Team involves top-level executives such as CEOs, Business Heads, and Functional Heads. These leaders are responsible for driving risk management initiatives within their respective areas of influence.
   - Team Leader: At the business division level, Risk Teams are formed and led by their respective Business Heads. This decentralized approach ensures that risk management is tailored to the specific needs and operations of each business unit.
   - Team Members: The Unit Risk Teams are comprised of permanent members representing critical functions within the organization, including Finance, HR, Environment & Sustainability, and Safety & Health. This ensures a holistic and multidisciplinary approach to risk management.
   - Risk Champion: To further promote ownership and accountability, each Unit Risk Team selects a Unit Risk Champion from among its members, who is approved by the Business Head of the unit. This champion takes on a leadership role in advocating for and implementing risk management practices.
   - Meeting Frequency: Unit Risk Teams meet quarterly, prior to the organization-wide Risk Meeting, to review and assess existing risks, their impact, and likelihood. This periodic assessment ensures that risk management remains an active and ongoing process.

2. Communication and Education:
   - We place significant emphasis on communication and education regarding risk management. We recognize that for risk management to become ingrained in the culture, employees at all levels must understand its importance and their role in it.
   - Communications: To achieve this, there is a half yearly communication to key business team members that emphasize the significance of risk management throughout the organization.
   - Learning & Development: There are training sessions and workshops to educate employees about its risk framework, policies, and procedures. These educational initiatives empower employees to actively participate in identifying and managing risks.

3. Risk Assessment and Identification:
   - We actively encourage employees to participate in the risk identification process. Front-line employees often have valuable insights into potential risks and issues.
   - Harmless Reporting: To create a culture where employees feel safe to raise concerns, Arvind has established an environment of openness and non-reprisal.
   - Risk Identification: To facilitate risk identification and reporting, Company employs various tools, including risk assessments, surveys, and workshop mechanisms. These tools allow for the collection of risk information from different parts of the organization, enabling a comprehensive view of potential risks.