FINANCIAL STATEMENT

ARVIND MILLS LIMITED

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales &amp; Operating Income</td>
<td>1,362</td>
<td>448</td>
<td>358</td>
<td>483</td>
<td>1,589</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>496</td>
<td>156</td>
<td>122</td>
<td>157</td>
<td>505</td>
</tr>
<tr>
<td>Direct Materials</td>
<td>141</td>
<td>48</td>
<td>42</td>
<td>72</td>
<td>171</td>
</tr>
<tr>
<td>Power, water, fuel</td>
<td>132</td>
<td>50</td>
<td>37</td>
<td>40</td>
<td>144</td>
</tr>
<tr>
<td>Salaries &amp; wages</td>
<td>153</td>
<td>58</td>
<td>34</td>
<td>52</td>
<td>136</td>
</tr>
<tr>
<td>Decrease / (Increase) in stock</td>
<td>-83</td>
<td>-35</td>
<td>-24</td>
<td>-12</td>
<td>10</td>
</tr>
<tr>
<td>Other overheads</td>
<td>285</td>
<td>100</td>
<td>55</td>
<td>108</td>
<td>219</td>
</tr>
<tr>
<td>Total cost of sales</td>
<td>1,124</td>
<td>377</td>
<td>266</td>
<td>416</td>
<td>1,184</td>
</tr>
<tr>
<td>Operating Profit/(Loss)</td>
<td>238</td>
<td>71</td>
<td>92</td>
<td>67</td>
<td>404</td>
</tr>
<tr>
<td>Other Income</td>
<td>8</td>
<td>3</td>
<td>6</td>
<td>8</td>
<td>23</td>
</tr>
<tr>
<td>Foreign Exchange (Gain)/Loss</td>
<td>1</td>
<td>-6</td>
<td>5</td>
<td>-8</td>
<td>5</td>
</tr>
<tr>
<td>Net Interest &amp; Finance Cost</td>
<td>117</td>
<td>40</td>
<td>33</td>
<td>41</td>
<td>130</td>
</tr>
<tr>
<td>Cash Accrual</td>
<td>128</td>
<td>39</td>
<td>59</td>
<td>43</td>
<td>291</td>
</tr>
<tr>
<td>Depreciation</td>
<td>113</td>
<td>35</td>
<td>39</td>
<td>30</td>
<td>155</td>
</tr>
<tr>
<td>Profit before tax &amp; Non Recurring/Extra Ordinary Items</td>
<td>15</td>
<td>5</td>
<td>20</td>
<td>13</td>
<td>136</td>
</tr>
<tr>
<td>Non Recurring/Extra Ordinary income/(expenses) Items (Net)</td>
<td>101</td>
<td>101</td>
<td>0</td>
<td>-7</td>
<td>0</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>116</td>
<td>106</td>
<td>20</td>
<td>6</td>
<td>136</td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Minimum Alternative Tax(MAT) &amp; FBT</td>
<td>2</td>
<td>0</td>
<td>-1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>114</td>
<td>105</td>
<td>21</td>
<td>5</td>
<td>127</td>
</tr>
</tbody>
</table>

The current year figures are not comparable with previous year as current values include Arvind Brands Limited with effect from 1st April 2006.

Sales Mix

[Sales Mix Pie Chart]
**Denim Volume & Realization**

![Denim Volume & Realization Graph](image)

**Shirting Volume & Realization**

![Shirting Volume & Realization Graph](image)
Key Input Cost

Denim Cotton Cost - Arvind

SIGNIFICANT ITEMS

Non Recurring Items

Extraordinary Income from sale of Stake in VF Arvind Brands Private Limited

The existing business of the VF licensed brands in India, including intellectual assets and existing licenses from VF for Lee, Wrangler, Nautica, Jansport and Kipling brands, hitherto held by Arvind Fashions Limited were transferred to this new company. VF Corporation has bought 60% equity of the new company. Arvind Mills sold the VF brands license for US$ 33 million. Accounting for the carrying cost of holding, past losses and other expenses, the Company has made a one time gain of Rs. 101 crores. This earning is reflected as non-recurring income in the financial statements. The company had originally stated a gain of Rs.107 crores, due to additional provisions required on the transfer, the net gain now stands corrected.

The total profit from transfer of the business was Rs.144.79 crores. An adjustment of Rs.24.86 crores was made in the value of current assets of the Company. Rs.13 crores was written off for bad and doubtful advances.

Write off of CENVAT credit in books
A one-time write off of the CENVAT credit lying in the books and past CENVAT availed on closing inventory as on 1st October amounting to Rs. 5.83 crores was undertaken when the Company opted for “Zero Excise Duty” regime.

**Merger of Arvind Brands Limited**

The merger of Arvind Brands Limited and its subsidiaries into Arvind Mills Limited is complete. With the scheme of merger being approved by the Honorable High court of Gujarat, the merger comes into effect from the 1st April 2006. All the business of Arvind Brands Limited, comprising of the branded business of Excalibur, Newport, Flying Machine, Ruf N Tuf and Arrow along with the multi brand retailing operations under Megamart banner.

The business is now a division of Arvind Mills Limited and will continue to operate from Bangalore. The licensed brands from the VF corporation will be operated out of the JV, VF Arvind Brands Private Limited and the Tommy Hilfiger will operate out of Arvind Murjani Brands Private Limited. These joint venture will now become joint ventures of Arvind Mills Limited.

**Revaluation Of Fixed Assets**

The company has undertaken an asset revaluation exercise in order to reflect the true value of the fixed assets in the book. The company had carried an asset revaluation exercise last on 31st March 2000. The company’s assets have been revalued as on 01st October 2006. The net asset block of the company has increased by Rs.25 Crores and is transferred to the revaluation reserve.

**QIV REVIEW**

The current quarter saw the realizations in the denim improving over quarter. The increase was on account both domestic first quality prices and export prices. The company also used to liquidate substantial amount of denim inventory, which has affected the overall margins. The current quarter also saw a 5% increase in the cotton cost, this was primarily on account of the company having exhausted the low grade cotton and is using medium grade inventory. The margins of the current quarter were also impacted due to second jeans factory having commenced operations. While all expenses of this factory are being incurred the revenue are yet to make an impact since the factory is in the process of achieving the required productivity.
PERFORMANCE REVIEW

Denim
For the time being, denim continues to be the mainstay of the Company. The Company pioneered the denim market in India and has been the undisputed market leader for the last two decades. Even during a slowdown of demand between 1997-2000, it continued to leverage opportunities in the domestic market. However, the current supply glut in the domestic denim domestic market has dragged down the entire company’s financial performance. The situation is not expected to improve in the near term.

The stated strategy of the Company is to defocus from the domestic mass market and focus on mid and premium brands in the US and EU. After careful deliberation and consultation with key customers, it is reorganizing its marketing set up. A European product and marketing initiative, headed by a European CEO and marketing head, has been set up in Italy during the current financial year. The initial response to this new organization has been very encouraging. A design studio in SOHO, New York was also started in the previous financial year. The response to this too, has been very positive. Breakthroughs have been accomplished with customers who have never previously considered the Company for selection. Encouraged by the European experience, a new marketing organization for the US is also being created. A new CEO has been finalized for the US and he will take charge in the first quarter of 2007-08. An amount of Rs.4 crores has been debited on account of initial setup and management fee for the European operations.

The cotton cost for the first half of the next financial year will be low because of inventory purchased in the previous cotton season. The new cotton season is expected to open higher than the current inventory holding levels and margins could be impacted in the second half. There are no other supply side factors that are significantly impacting the margins.

The outlook on denim in the near term continues to be negative. Positive impact from the European team’s efforts will be reflected only in the third quarter of 2007-2008. The new US team’s efforts are only expected to fructify in the final quarter of 2007-2008.

Branded Apparel & Retail
The branded apparel business of the Company consists of:

- Its own brands of Excalibur, Flying Machine, Newport and Ruf & Tuf
- The substantially long period license brand of Arrow
- 50% interest in Arvind Murjani Brands Private Limited that holds the perpetual license for apparel and accessories of Tommy Hilfiger brand in India
- Megamart, once the channel for disposing of surplus, which has been successfully repositioned. Continued thrust towards selling private labels through this channel has resulted in the turnover reaching Rs.100 crores in the current financial year.
During the current year, the comparable revenues excluding figure of VF license brand has grown by 18% age. The Company currently has 122 EBO’s across various brands and is planning to take number to 193 in financial year 2007-2008. The Megamart channel has currently 55 company owned and franchisee stores. This will be increased to 100 stores in the next two years.

The Company’s future strategy in the branded apparel business is to build a strong portfolio of brands, both owned & licensed. This will span multiple channels and price points, with each brand appropriating sharp and differentiated consumer propositions. ‘Arrow’ will be the lead brand in the Premium segment with the positioning of best-in class style for the premium consumer. Excalibur will address the young executives’ need for dressing solutions. Flying Machine is being positioned on the platform of ‘Youth Expression’ with the vision to grow it into an iconic youth brand. Newport is clearly positioned as a ‘campus wear’ brand for college students seeking ‘Affordable Fashion’. Brands in mass premium channels will be sold across exclusive outlets, department stores, cash and carry, multi brand and factory outlets. Ruff n Tuff will be the lead brand in the mass segment and will be largely merchandised through the emerging channel of Hypermarkets. The Company’s share in the mass segment will be further increased by offering private label solutions to Hypermarkets.

On the retail front, the Company wishes to focus primarily on branded apparel retail. The strategy is to reposition Megamart as a place to ‘shop smart and feel smart’. It will offer not just big brands at discount, but even greater value through private brands that leverage Arvind’s ‘fabric to fashion’ expertise. The Megamart consumer experience will be quite superior to other discount formats. As part of this strategy, there is an aggressive expansion plan to open large format Megamarts in the top 15 cities. These stores will be 50,000 sq ft + as compared to the current size of 5000 sq ft. Rapid expansion of current format Megamarts to Tier 2 and Tier 3 towns has been initiated from April 2007.

**Garment Operations**

The garment business now contributes to 15% of the Company’s turnover. The turnover has increased by 17% compared to the previous financial year’s figure. The growth is on account of both, better productivity in shirt operations and the addition of jeans garment operations.

The current financial year saw significant strides being made in jeans manufacturing operations. The jeans plant capacity was doubled to 8 million pieces during the current financial year. The order book for jeans is full and the Company is exploring organic and inorganic avenues to expand the business.

The knits operation was stable during the year and has benefited from better fabric productivity. The year also saw initiation of dialogue with one of the largest sportswear brand in the world for a long term growth strategy. The Company hopes to do larger volumes of business with this customer in 2007-2008. If the relationship fructifies in the direction envisaged, the knits operations could witness substantial growth.
Shirt operations are operating at optimum capacity utilization and productivity has increased significantly. The Company is looking at methods to increase the capacity through third party tie ups or joint ventures.

**Shirting**

The shirting business continues to be stable. The business has suffered few temporary reverses due to the sluggish post-festival retail season. The Company is focused on offering only value added and mid premium products in the shirting sphere. It has made significant investments to move towards this goal. This includes a state-of-the-art printing facility that will allow it to enter the women's top wear segment. The company is also creating a dedicated ammonia finishing plant through third party investment. A first of its kind in India, this facility will allow significant upgradation of its product mix.

The outlook for shirting is stable. The Company is of the opinion that the current selling prices are sustainable and near term realizations are not likely to witness any significant downturn.

**Telecom**

The telecom division of the Company comprises of two operations a) manufacturing & marketing of EPABX machines under the brand SYNTEL b) providing Public Mobile Radio Trunking Services (PMRTS) in certain service areas under the brand OMNITALK. Arvind has license to operate PMRTS in 9 cities.

An agreement with Arya group which also has license for PMRTS in another 9 cities had created a 50:50 joint venture company Arya Omnitalk Wireless Solutions Private Limited, which manages the PMRTS business of both Arya group as well as Arvind’s. Due to restrictions by DoT policy the license the licenses were held by the respective companies and not transferred. With the liberalized policy guidelines, it is possible to transfer the licenses. Hence the Company is proposing to demerge the PMRTS assets into a 100% subsidiary and subsequently combine the license of both the group in one entity.

**Exchange Rate**

As is evident from the charts below, the Rupee has substantially appreciated against the dollar in the recent past, with annual impact being as high as 9.5%. The Company is predominantly a “dollar revenue rupee cost” company as most of its revenue is either in dollars or linked to dollars. Any erratic movement in the exchange rate is bound to have significant impact. The Company is insulated to an extent, because of a cover for its revenue earnings. It has, to a large extent, taken forward cover for the financial year 2007-2008. However, this is at rates lower than the previous financial year and is therefore likely to impact revenue and earnings. The estimated impact on margins is expected to be around 2-3%.

**SUBSIDIARIES**

*Arvind Products Limited*

The company returned its first full year of significant profitability. The performance of the company improved primarily on back of significant turnaround in the Khakis
business of the company. The company earned a net profit of Rs.7 crores in the current financial year compared to a loss of Rs. 7 crores in the previous year. The operating profit of the company rose by 26% to Rs.61 crores compared to Rs. 48 crores in the previous financial year. The company is expected to return similar performance in 2007-08.

OUTLOOK

The Company maintains a cautious outlook on its near term revenue and earnings. Its efforts are focused towards rapidly growing the downstream business of garment packages, branded apparel and retail. The impact of these efforts will be visible in the medium to long term. Substantial investments have been made in resources and people to create an effective front end for fabric operations as well as develop the ability to deliver differentiated products. These initiatives are likely to yield results in the second half of the financial year 2007-2008. The caution on outlook is also influenced by an expected cost push on account of cotton prices, energy cost and revenue impact on account of rupee appreciation.

NOTE ON FORWARD LOOKING STATEMENTS

Statements made in this note which describe the company's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements", which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "estimates," "anticipates" or the negative thereof or other variations thereon. The company cautions that, by their nature, forward-looking statements involve risk and uncertainty and that the company's actual actions or results could differ materially from those expressed or implied in such forward-looking statements or could affect the extent to which a particular projection is realized. Important factors which could cause such differences include global supply and demand conditions, changes in the relative value of various currencies, cyclical demand and pricing within the principal markets for the company's products, regulatory approvals and other factors changes in government regulations, particularly those affecting environmental, health or safety compliance, economic developments, relationships with and financial and operating conditions of customers and suppliers, ability to attain expected benefits and other factors within the countries in which the company operates or sells its products and other factors relating to the company's ongoing operations including, but not limited to, litigation, labor negotiations and fiscal regimes.

Media Contact :
Mr. Hemant Bohra, Adfactors PR : hbohra@adfactorspr.com

Investor Contact :
Mr. Karthik Krishnan , karthik.krishnan@arvindmills.com