# PT Pan Brothers Tbk

Corporates Core+ | Diversified Manufacturing | Indonesia

## ESG Ratings

| | ESG Rating[a] | Score | Analysis Type |
|---|---|---|---|
| Entity | 3 | 50 | Full Entity |
| Instrument | Not Applicable | Not Applicable | Not Applicable |
| Framework | Not Applicable | Not Applicable | Not Applicable |

[a] ESG Rating of 1-5, where 1 is the strongest. Date ESG Rating and score assigned: 5 May 2023.
Note: For Framework, analysis types can be green, social, sustainability, sustainability-linked, conventional, or other.

## Credentials

| Transition | ICMA | EU Green Bond Standard |
|---|---|---|
| N/A | N/A | N/A |

See Appendix A for definitions of Transition and ICMA; other details


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## The Entity – Highlights

PT Pan Brothers Tbk (Pan Brothers) is a textile producer and one of Indonesia's largest listed integrated garment manufacturers. The company focuses on manufacturing various types of apparel with medium to high complexity. Its product segments include technical, functional and activewear garments; woven garments; cut and sewn knit garments; and personal protective equipment. It is export-oriented and supplies a wide-ranging client base that includes Adidas, Uniqlo, Northface and Amersports, among others. Its geographical segments include Asia, Europe, America and others. Asia is its largest geographical segment, accounting for 61% of its sales revenue.

The company's corporate headquarters, business and principal operations are located in Indonesia, while Singapore serves as the centre of its export operations. Pan Brothers is also the parent company to 13 subsidiaries, expanding the company's presence to Singapore, Hong Kong and the Netherlands.

Pan Brothers was listed on the Indonesian Stock Exchange in 1990, and its controlling shareholder is PT Trisetijo Manunggal Utama, with a share percentage of around 30%. The company had 30,380 employees and USD690 million in revenue at 31 December 2022. It experienced issues with financing in 2021 and 2022, but has successfully restructured its debt.

Pan Brothers' ESG strategy and commitments cover all 13 subsidiaries and are aligned to 10 UN Sustainable Development Goals (SDGs). Sustainable Fitch views the ESG strategy as developing, although the management's commitment to sustainability appears strong, with the board overseeing the company's ESG strategy. The company has not assessed its ESG risks and opportunities in its corporate risk management strategy. Its subsidiaries are, however, externally audited for environmental performance by its global partners as part of their supplier agreements. It would be best practice for Pan Brothers to integrate its ESG strategy with its corporate strategy, and we expect the company to improve its ESG performance in future years.

Pan Brothers' net-zero or carbon neutrality goal is not yet available to the public, but it has committed to setting targets to be verified by the Science Based Targets initiative (SBTi). The company has indicated to us that it intends to commit to a net-zero target over the next few years, and has been engaging with a third-party sustainability disclosure platform.

The company's sustainability reporting is fairly clear and organised, and is published at the same time as its financial reports. Reflecting the developing stage of its ESG journey, its environmental information has undergone restatements over the years. The company has also referenced the core option of the Global Reporting Initiative standards in its reporting and complied with all local regulatory reporting requirements.

Source: Sustainable Fitch, Pan Brothers annual report 2022, Pan Brothers sustainability report 2022

# Entity Analysis

## Broader Perspective on Sector

| Sector Trajectory | Fitch's View |
|---|---|
| Short Term | • The garment manufacturing and textile production industries, as part of the upstream textile value chain for the fashion industry, have significant potential negative environmental and social impacts.<br>• The environmental impacts of the garment manufacturing and textile production industries include: severe and wide-ranging pollution, high water and energy consumption, and high waste generation.<br>• Pollution by the industry arises from both hazardous chemicals used in production, and waste and effluents, such as microfibres shed by synthetic fibres, resulting in the fashion industry being the world's second-worst polluter. This has a significant adverse impact on marine life and may be passed along the food chain to humans.<br>• High water and energy consumption, typically from fossil-fuel-based sources, are also necessary as part of textile production due to the wet processing stages of dyeing and finishing, leading to high GHG emissions. According to a 2018 report by the UN Climate Change, the fashion industry is responsible for 10% of global CO2 emissions, which is more than all international flights and shipping combined. In addition, clothing is a major contributor to the rise in transportation and shipping emissions due to the rise in fast fashion and in online retailing with free shipping and returns.<br>• At present, Indonesia's renewable energy potential is largely untapped. Its national electricity demand is forecast to grow fivefold over the upcoming three decades against the backdrop of industrialisation and population growth. As of end-2022, renewable energy only accounts for 13.5% of the country's energy mix, with an aim for the renewable energy portion to grow to 23% of the country's energy mix by 2025.<br>• Additionally, many of the machines used in the Indonesian textile industry are out-of-date machines, with 57% being older than 15 years. This means that, in the short term, both energy efficiency and renewable energy sources will be significant challenges in emissions reduction for the Indonesian garment industry.<br>• In terms of social impact, key social issues that face the textile value chain include a widening gender wage gap, high risks of occupational injuries, poor labour conditions, and exposure to modern slavery and child labour risks. Indonesia also has a large informal worker sector, in which people work in unregistered, unregulated and unprotected jobs.<br>• Indonesia has integrated the SDGs into its National Medium-Term Development Plan for 2020–2024, and currently sees human capital development and acceleration of digital transformation as focus points of the government's agenda. A carbon tax was also introduced in 2021, and the government continues to push for the development of Indonesia's ESG financing ecosystem, becoming a pioneer for ESG-related financing. |
| Long Term | • In the long term, we expect that online distribution channels are likely to overtake brick-and-mortar shops. The impact of greater reliance on online distribution channels is that the extra emissions from transportation can add to the fashion industry's carbon footprint and need to be closely monitored.<br>• Most fashion retailers, including fast fashion, offer online shopping with free deliveries and returns, resulting in greater contributions to shipping and transport emissions due to high return rates. This also contributes to higher waste generated from excessive plastic packaging, including plastic bags, plastic hangers and polyester labels on clothing.<br>• Changing climate patterns and weather unpredictability influence the fashion industry from a natural fibre crop and logistics disruption point of view, but also affect sales since the product offerings are based on assumptions concerning weather patterns. For instance, a warmer-than-usual autumn may reduce sales of cold-weather garments.<br>• Manufacturers are expected to feel more pressure from stakeholders to strengthen their sustainability capabilities and emissions reduction plans, as well as define net-zero emission strategies. In terms of long-term sustainability initiatives, we expect to see industry focus on the creation of new textile materials, including smart textiles capable of monitoring physical health, sustainable natural alternatives to cotton, and synthetic fibres that can be reused or that do not shed microplastics.<br>• We further expect the EU strategy for sustainable and circular textiles to spread across the global value chain, resulting in more focus on sustainable design requirements. With the growing global focus on greenwashing, we also expect that standards on green claims will be introduced in the long term.<br>• Indonesia's government has also committed to implementing the SDGs by 2030 and published a roadmap to the SDGs. As a result, we expect the focus to be on infrastructure development for inter-regional connectivity and optimising the effectiveness of renewable energy and raw materials use in manufacturing. |

Source: Sustainable Fitch

# Entity Analysis

## Broader Perspective on Company

| Company Direction | Fitch's View |
|---|---|
| Short Term | • Pan Brothers' ESG performance is broadly in line with the trends observed across the Indonesian garment and textile manufacturing sector.<br>• The company is in the process of developing its net-zero targets and implementing disclosures of its absolute emissions. In the process of doing so, it may also develop a comprehensive net-zero strategy and integrate its ESG strategy into the corporate strategy.<br>• Depending on the robustness of its targets, disclosures and strategy, the company may face a significant reputational risk as consumers become increasingly sustainability conscious and refuse to buy clothes from brands that fail to deliver on ESG pledges, causing global brands to become more stringent in evaluating their value chains.<br>• The group is vulnerable to the effects of climate change.<br>• From a consumer perspective, increasingly changing weather patterns have large impacts on sales and the waste problem as a knock-on effect, especially for fast fashion, which brings new garments to the market weekly. Pan Brothers is particularly vulnerable, as the group has a focus on sports, lifestyle, and outdoor and performance apparel.<br>• From a production perspective, extreme weather conditions such as high heat, floods and intense humidity cause significant declines in labour efficiency and productivity, as workers fall ill more often and have their energy and focus drained by poor working environment conditions, and as severe weather conditions damage facilities.<br>• The company has had an increase in inventory unsold over the past three years, to USD233.4 million in 2022 and USD223.6 million in 2021 from USD156.0 million in 2019, with an increase in turnover to 123 days in 2022 and 118 days in 2021 from 86 days in 2019. The company indicated that this was the result of transportation barriers. It would be best practice for the company to ensure that this is dealt with in an environmentally conscious manner. |
| Long Term | • Pan Brothers has committed to setting SBTi-validated goals and is in the process of setting quantitative annual reduction goals, which we expect would improve its sustainability strategy and disclosures in future reports. The company has also confirmed that it will be disclosing absolute emissions statistics for its Scopes 1, 2 and 3 categories in the near term, as well as reporting progress against its targets. The best practice would be for Pan Brothers to develop short-, mid- and long-term goals to meet in its sustainability strategy. |

## Broader Perspective on Company

| Company Direction | Fitch's View |
|---|---|
| | • In terms of environmental practices, Pan Brothers has begun research and development into recycling textile waste and using more sustainable fibres, which is a positive development. Reflecting its early stage, however, the impact is not yet significant, as recycling cannot be done at a large scale and the overall sustainability of fibres used has not yet been fully studied. The best practice according to the UN Environment Programme's Sustainability and Circularity in the Textile Value Chain: Global Stocktaking report is for companies to take into account the whole life cycle in the selection of fibres used, considering functional properties of the fibre along with an environmentally appropriate product life cycle, which includes the use phase and end-of-life management.<br>• In our view, as consumers' environmental awareness and governments' regulatory pressure increases, Pan Brothers' clients will need to start fundamentally changing their business models towards producing fewer, higher quality products. Clothing and footwear items need to be made to last for years in order to preserve the environment. Unsold and lightly used items need to be recyclable rather than incinerated or landfilled.<br>• The same will apply to the social dimension as the focus shifts to fair wages and safe working environments for workers. It is likely that companies will face stricter human rights audits in the supply chain, and it would be best practice for Pan Brothers to ensure that its oversight of human rights issues is robust. There may also be a greater focus on climate change adaptation measures that are expected to be implemented in factories to ensure safe working conditions. |

Source: Sustainable Fitch

# Entity Analysis

## Business Activities

| Company Material Core Contributions | Fitch's View | |
|---|---|---|
| | Environmental | Social |
| **Manufacture and sale of garments** | | |
| **ESG Rating** **3** | | |
| • The garment segment is the company's main business activity and consists of garment manufacturing, product development and retail.<br>• There are three main types of garments produced: technical, functional and activewear jackets suited for snowboarding, ski outer wear, activewear, jogging, hiking, and other sports and outdoor activities, etc; woven garments such as padded and light-weight jackets, pants, shorts, casual pants, dresses, shirts, etc; and cut and sewn knit garments such as polo shirts, golf shirts, track suits and sweat suits; these use various fabrics. Personal protective equipment products, such as various types of masks and hazmat protection, using various medical-grade materials, were also produced during the pandemic.<br>• The garment manufacturing group's setup capacity in the year 2022 was supported by sewing machines and automation located in West Java, Banten and Central Java, and was 117 million pieces of garments. As of 2020, Pan Brothers procured various kinds of materials to support the production process from a total of 995 suppliers, with 175 local suppliers and 760 import suppliers from 32 different countries. In terms of fabrics, the company sources cotton (organic and non-organic), polyester (recycled and non-recycled), interlining, knit fabric, woven fabric, nylon, Tencel (lyocell), modal, rayon, spun bond polypropylene and others.<br>• Pan Brothers defines recyclable materials as materials that can be processed and reused in the production of new products. These materials can be transformed into new products without significant degradation of their inherent properties, for example, fabric scraps.<br>• The company defines sustainable raw materials as materials that are obtained from renewable sources and are produced in a way that does not harm the environment. These materials are extracted and processed in a manner that minimises waste, reduces pollution, and conserves natural resources. Examples of sustainable raw materials include organic cotton, and recycled materials.<br>• To ensure compliance, traceability and transparency in the company's material sourcing efforts, Pan Brothers only classifies materials sourced as sustainable or recycled if suppliers have the following certifications: PFOA/PFOS Free, Biodegradable, RDS, BCI, GOTS, OCS, OEKO-TEX, IOS MAT 0010, Bluesign, PFC Free, C0, Global Recycled Standard, and Recycled Claim Standard.<br>• The subsidiaries involved are PT Pan Brothers Tbk; PT Pancaprima Ekabrothers; PT Hollit International; Continental 8 Pte, Ltd; Cosmic Gear Ltd; PT Eco Smart Garment Indonesia (ESGI SAMBI); PT Prima Sejati Sejahtera (PSS); PT Teodore Pan Garmindo; PT Berkah Indo Garment; PB Apparel Pte, Ltd.; PT Apparelindo Prima Sentosa; PB Apparel Pte, Ltd.; PB International BV.; and PB Island Pte, Ltd. | • Pan Brothers' clientele includes retailers who partially offer seasonal collections at an affordable price, and stakeholders, including NGOs, claim the non-traditional fashion segment is the worst polluter within the sector.<br>• Pan Brothers has begun working towards the development of a sustainable material, sustainable material sourcing from certified suppliers and sourcing materials from local sources that comply with international environmental standards. This is still at an early stage.<br>• At the time of our assessment, research into the development of a sustainable material for the garment manufacturing segment is focused on recycling fabrics, but while it has been used to make uniforms for the operator staff in all facilities, it has not yet become a business offering.<br>• With regards to the sourcing of materials, an estimated 18.4% of materials sourced were sustainable materials in 2022, down from 20% in 2021. Procurement from local sources was at 16.2% in 2022, a decrease from 20.2% in 2021. There has been a downward trend in materials sourced from local and sustainable sources since 2020, and we are unable to assess whether the change in reporting scope has had any contribution to this downward trend. | • There are high social risks generally associated with the garment manufacturing and textile production industries, which generally are prone to poor and unsafe working conditions, with modern slavery and child labour being high potential social risks.<br>• Pan Brothers has not, however, been involved in any significant reported social incidents, has environmental and occupational health and safety management systems in place for its subsidiaries and is audited for compliance by its clients.<br>• The company has stated that it adheres to the minimum working age of 18 and its employees are allowed to join unions. As a member of Better Work Indonesia, the company's management has committed to being actively involved in communications with the labour unions. Additionally, Pan Brothers adheres to the 2021 regional and national minimum wage standard.<br>• These include canteens for employees, training and education programmes including scholarships and subsidies for employees, their family members, and the local community, job training and employment opportunities with Pan Brothers for the local community, and support for employees with disability. These initiatives are aligned to the UN SDGs, including SDGs 7 (affordable and clean energy), 8 (decent work and economic growth) and 12 (responsible consumption and production). |

# Entity Analysis

## Business Activities

| Company Material Core Contributions | | Fitch's View | |
|---|---|---|---|
| | | Environmental | Social |
| **Manufacture and sale of garments** | | | |
| **ESG Rating** | **3** | | |
| Represents 97.33% of revenue. | | | |
| **Manufacture of textiles, and sewing and embroidery thread** | | | |
| **ESG Rating** | **3** | | |
| • The textiles, and sewing and embroidery thread manufacturing segment accounts for a small percentage of the company's business activities.<br>• The subsidiaries involved are PT Ocean Asia Industry and PT Victory Pan Multitex. PT Ocean Asia Industry manufactures circular knitted fabric, and has piece dyeing and printing facilities. PT Victory Pan Multitex produces sewing thread and embroidery thread.<br>Represents 2.67% of revenue. | | • The textile production stage of the textile value chain is considered to have higher environmental impact than the garment manufacturing stage due to the high energy and water consumption of the textile production industry.<br>• For the textile production segment, research into the development of sustainable materials is focused on the use of natural dyes, but the impact on the business activity is unclear. | • Please see the manufacture and sale of garments section above. |
| Source: Pan Brothers annual report 2022, Pan Brothers sustainability report 2022 | | Source: Sustainable Fitch, based on Pan Brothers annual report 2022, Pan Brothers sustainability report 2022 | |

# Entity Analysis

## Environmental View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| Policies | • Pan Brothers has implemented an environmental management system (EMS) certified to ISO 14001:2015 at two out of 13 subsidiaries, and in 2022 the company committed to obtaining certifications across all operational facilities. This requires monitoring and management of the company's energy and water consumption as well as its waste or end-of-life resources.<br>• The non-certified subsidiaries are currently regularly audited by clients on environmental management practices.<br>• The ISO-certified EMS requires the implementation of an environmental policy that covers the areas of energy, water, waste and resource management as well as stakeholder management and environmental compliance.<br>• Our view is that this is sufficient, although a standalone, public-facing, group-level environmental policy would be helpful in communicating the company's environmental management commitments and engaging with stakeholders.<br>• Specific to water management, Pan Brothers' water management policies cover mainly the reduction of water consumption, a rainwater harvesting system and waste water treatment management. Its textile unit, and dyeing and washing business segment require high water consumption, so the company has water consumption and wastewater treatment procedures in place to comply with government regulations.<br>• Additionally, two of Pan Brothers' subsidiaries involved in textile production have obtained an internationally recognised certification called the Zero Discharge of Hazardous Chemicals, indicating that their chemical bases comply with international standards. | 3 |
| Disclosure | • At the time of assessment, Pan Brothers' disclosures reference the Global Reporting Initiative standards, and information is available on water withdrawal, wastewater and waste materials. Its emissions disclosures include consolidated total emissions for Scopes 1 and 2, but do not include absolute emissions data for Scopes 1, 2 and 3 at the time of assessment. Pan Brothers has committed to developing SBTi targets and responding to a third-party questionnaire.<br>• The market standard is for companies to disclose absolute emissions by Scopes 1, 2 and 3 categories, which allows for the assessment of each Scope separately.<br>• It would also be beneficial to Pan Brothers' ESG profile for disclosures to be expanded to also cover any positive or negative impacts on land use and biodiversity, as these are relevant to stakeholders.<br>• In terms of reporting, Pan Brothers refers to the Higg index and Indonesian government standard, and the company calculates both indirect and direct GHG emissions intensity in tonnes of $CO_2$ equivalent ($tCO_2e$/USD in revenue). Pan Brothers discloses specified | 4 |

## Environmental View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| | conversion factors, such as 1kWh electric = 0.929kg$CO_2e$, 1kg coal = 2.14kg$CO_2e$, and 1 litre gasoline = 2.66kg$CO_2e$ for the calculation for gauging 2021 annual performance. The company uses a benchmarking and sustainability data management platform called SUSY to ensure that environmental data are centralised and monitored in a systematic matter.<br>• With regards to its natural resources disclosures, Pan Brothers also reports on its water and waste management.<br>• For water management, both water consumption and water intensity, as well as wastewater discharge quality are disclosed by business segment.<br>• For waste management, reporting is consolidated at the group level, and reported according to non-hazardous waste (cardboard, cones, plastic and scrap textile fabric) and hazardous waste (used oil, used rags, used lamps and wastewater treatment plant sludge). In terms of non-hazardous waste management, we view disclosures of discarded inventory to be material to the textile production sector. In terms of hazardous waste management, we view disclosures of hazardous chemical waste as material to the business activities of the textile production sector.<br>• Positively, when reporting on its environmental metrics, Pan Brothers provides five years' worth of data. This assists in completeness of the analysis. | |
| Evolution | • According to Pan Brother's 2022 sustainability report, the company sets 2019 performance as a baseline. From the 2023 reporting onwards, Pan Brothers confirms that the company intends to use 2022 performance as its baseline.<br>• Pan Brothers' performance trend shows an improvement from 2019 with a 9% decrease in overall absolute emissions for its garment sector, but an 8% increase in overall absolute emissions for its non-garment sector.<br>• Overall, despite being a small percentage of the business activities, the environmental impact of the non-garment sector is much larger (27.10 million $tCO_2e$ in 2022) than the garment sector (18.25 million $tCO_2e$ in 2022). This resulted in an overall 1% increase in total emissions between 2019 and 2022.<br>• Relatedly, Pan Brothers' energy consumption has increased by 1.6% from 2019, in large part due to increased energy consumption from the non-garment sector, which resulted in an overall increase despite the reduction in energy consumption from the garment sector. This was attributed to increased production in the company's facilities.<br>• In terms of water consumption, for the textile production business segment, water consumption has been relatively stable aside from a steep one-off decrease in water consumption in 2019. For the | 4 |

# Entity Analysis

## Environmental View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| | garment manufacturing business segment, water consumption had increased gradually until a sudden decline in 2022. Both sudden declines have not been explained. Nevertheless, there is a 5% decrease in overall water consumption from 2019, which is positive.<br>• Compared to 2019, Pan Brothers' total waste generated increased by about 13% in 2022, even though the company managed to decrease waste generated by 27% in 2021. This increase was due to the sharp rise in its non-hazardous waste in 2021, particularly plastics and cardboard. Non-hazardous waste accounted for 99% of waste generated from Pan Brothers' operations in 2022. The company managed to decrease the amount of hazardous waste generated by 53%, which was mostly from used rugs and sludge.<br>• More positively, however, textile waste generated appears to be decreasing, following initiatives to recycle and reduce textile fabric scraps. For hazardous wastes, used rugs and sludge also appear to be on a downward trend following facility upgrades that increased efficiency and wastewater treatment processing. | |
| Targets and Supply Chain | • Pan Brothers has several targets related to resource consumption. For example, GHG emissions intensity, energy use intensity, water use intensity and waste diversion are the key metrics towards 2030. These targets are not reflected in the executives' remuneration policy.<br>• It is unclear whether Pan Brothers will be able to achieve its targets due to the slow pace of improvements in its performance metrics.<br>• Pan Brothers has, however, committed to achieving a 50% reduction of GHG emissions towards net-zero emissions by 2030 (base year: 2019), which would be independently validated by the SBTi to be in line with the 1.5°C trajectory by the end of 2023.<br>• Pan Brothers discloses two target years for monitoring its progress towards its sustainability goals: 2025 and 2030. For example, the company has committed to increase renewable energy usage to at least 23% of total energy mix by 2025 and 31% by 2030, respectively. Both of its reduction targets are in line with Indonesia's national energy policy for the contribution of renewable energy to the energy mix.<br>• By 2030, Pan Brothers targets to halve its total generated waste volume (including both hazardous and non-hazardous waste) and to recycle (including upcycling and downcycling) at least 75% of its non-hazardous waste. Pan Brothers identifies scrap textile, cardboard, cones and plastic as non-hazardous, and used rags, used oil, wastewater sludge and used light bulbs as its key hazardous wastes.<br>• Environmental numerical targets for its suppliers' GHG emission intensity, renewable energy sources, water use intensity, chemical or hazardous waste reduction are not yet readily available. It would be best market practice for specific mandatory targets to be in place. Pan Brothers does however have commitments to increase the | 3 |

## Environmental View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| | percentage of sustainably sourced materials to at least 60% of total materials sourced. | |
| Risks and Incident Treatment | • There have been no significant environmental incidents reported in the last few years. | 1 |

Source: Sustainable Fitch, based on Pan Brothers sustainability reports (2021, 2022)

# Entity Analysis

## Social View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| Human Rights | • Pan Brothers has a code of conduct and is a signatory of the UN Women's Empowerment Principles. The company supports the initiatives of the UN Global Compact, although it is not a signatory, and follows the International Labour Organization convention as well as national regulations on minimum age for admission to employment, child labour, discrimination against women and equal pay. | 1 |
| Labour Rights | • Pan Brothers complies with government regulations on labour rights. This means that it supports all employees' rights to the freedom of association and collective bargaining rights, does not allow child labour and its employees' wages are in line with the 2021 minimum wage regulation.<br>• The company also has an occupational health and safety advisory committee registered with the Social, Manpower and Transmigration Office of each region. Three of its 13 subsidiaries also have certified occupational health and safety management systems, while the others have occupational health and safety systems audited by global buyers in the form of buyer audit reports.<br>• Pan Brothers reports that there have been zero fatal accidents across both employees and contractors over the last three years, from 2020 to 2022. The number of minor work-related accidents did, however, rise from an average of 21 cases in 2020 to an average of 40 cases in 2021, before falling back to an average of 17 cases. This has not been explained. The company has indicated to us that these figures include contract workers, although the breakdown is not available.<br>• Pan Brothers' turnover ratio is relatively low; however, it appears to be stabilising at around 8%–10% in the years after 2020. This is a significant increase from the pre-Covid-19 years. From 2017 to 2019, the turnover rate was within 2%. | 1 |
| Diversity | • Pan Brothers disclosed workforce composition by gender, age, education level and position from 2018 to 2021. Pan Brothers also indicated the number of employees with disabilities by location for 2021 (165 employees, or 0.54% of the workforce).<br>• Gender diversity is relatively strong, due to the nature of industry, at 61% female employee representation. One of Pan Brothers' 2030 targets is to achieve gender balance at the upper management level by creating more opportunities.<br>• Female representation at the senior management level (directors of subsidiaries, senior general managers, general managers and deputy general managers) is poor, with 30 men (93.8%) and two women (6.3%). The best market practice is to disclose the diversity and inclusion ambition, targets and progress in line with Pan Brothers' gender diversity commitment. | 4 |

## Social View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| | • In 2022, Pan Brothers entire staff strength was 30,380. In the age group from 18 to 30, 55% (10,904) of the workforce were women and 45% (8,868) were men aged from 18 to 30. The statistics for women (278) and men (250) over the age of 51 are similar.<br>• Pan Brothers does not disclose the gender pay gap at the time of assessment, and does not appear to plan to disclose it in future. The best practice for companies is to disclose the gender pay gap, as pay transparency is a critical tool when it comes to achieving the closing of the gender pay gap. Additionally, this is useful information for investors, as pay transparency is a nonfinancial indicator of talent management and informs investment decision making. | |
| Community and Customers | • Pan Brothers actively engages with the local community. In 2022, the company donated USD706,088.<br>• There are a few notable social initiatives that Pan Brothers engages in. Its canteen programme enables the company to encourage the local community to open canteen facilities in its manufacturing sites. Recycling its scrap fabrics would help generate additional income for the local community. Asking the local community for available parking space and boarding houses for Pan Brothers employees would directly contribute to the local neighbourhood.<br>• Local community empowerment is positioned as one of the company's prioritised social material topics.<br>• Pan Brothers has also promoted academic scholarships and education subsidy programmes for its external and internal stakeholders. The company promotes scholarships and tuition assistance programmes for students across communities, as well as education subsidies for employee family members.<br>• Pan Brothers' customer satisfaction information is not readily available to the public. Disclosing the findings and its targets would provide greater visibility of customer loyalty and satisfaction information to external stakeholders including investors, and would support the company's ESG profile. | 2 |
| Targets and Supply Chain | • "Occupational health and safety" and "provision of jobs and employment" are parts of Pan Brothers' strategic 2030 plan, which is in line with SDG 8. This includes its commitment to expand its recruitment pipeline to include more diverse workforce regardless of gender, age, ethnicity and/or disability, and to comply with regional and national minimum wage standards, as well as to halve the number of average annual work-related accidents from 2020. These targets are not reflected in the executives' remuneration policy.<br>• There are also targets for the training and education of employees and external community and SDGs-aligned social investment. | 2 |

# Entity Analysis

## Social View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| | • One of Pan Brothers' social targets is to increase the percentage of local procurement in the total materials the company sources to at least 30% in 2022, from the 20.2% local materials sourced in 2021. This target was not met, as the total percentage of local suppliers (raw materials for fabrics) was 16.2% in 2022. | |
| Risks and Incident Treatment | • According to the sustainability report, there was an increase in the number of work-related accidents at its PT Pan Brothers TBK-PAN 9 Boyolali, PSS and ESGI SAMBI subsidiaries in 2021.<br>• Particularly, PSS, which manufactures various apparel for export purposes, recorded 165 cases in 2021. The company says that those cases were recorded as minor injuries, and the number of injuries at each facility decreased to 56 cases in 2022.<br>• The company does, however, ensure that each factory has a polyclinic to serve employees, and periodic health checks are carried out for all employees each year. | 2 |

Source: Sustainable Fitch, based on Pan Brothers annual report 2021, Pan Brothers sustainability reports (2021, 2022)

# Entity Analysis

## Governance View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| Financials and Reporting | • The company has had issues with financing in the past, as highlighted in the 2021 audit report.<br>• The company's bank syndication facility and bonds expired on 27 January 2021 and 26 January 2022, respectively. It also faces liquidity pressure that arises from a significant USD124 million syndication loan maturing in December 2023.<br>• The company has successfully restructured its debt and no longer faces significant liabilities in the short term. | 5 |
| Top Management and Control | • For the purpose of this report, the board refers to both the board of commissioners and the board of directors. In line with Indonesia's Code of Good Corporate Governance (Code), Pan Brothers has a two-tier board structure composed of the board of commissioners and the board of directors, where the board of commissioners takes a supervisory and advisory role, whereas the board of directors acts as the executive board. Our assessment takes into account the board as a representation of both the board of commissioners and the board of directors.<br>• Two out of three members of the supervisory board (board of commissioners) are independent. Based on Indonesia's Code, this is sufficient, as only 30% of commissioners on the board of commissioners of a listed company should be independent. No employee representatives sit on the board; however, union representatives (representing 41.2% of employees) regularly communicate with the board of directors. There is a segregation of duties between the president director and the chairman of the board, a position taken by the president commissioner. We consider this a good practice.<br>• It appears that the company's board diversity policy applies only to the board of commissioners and considers age, educational background and experience. The company provides no information on the diversity policy for the board of directors.<br>• Three out of seven members on the board of directors are women (42.8%), which is an improvement from the previous year where two out of seven members on the board of directors were women. In terms of nationality, there is one Italian, and the rest of the board of directors are Indonesian.<br>• Pan Brothers has had an audit committee at the board level and an internal audit division since 2002. The audit committee reviews the scope of activities and independence of the company's external auditor as well as the adequacy of the company's internal control structure, and takes the responsibility for reviewing the company's financial reporting process, other significant matters and compliance with the company's policies as well as Indonesia's existing laws. The head of the internal audit unit is appointed by the board of directors, and reports directly to the president director and vice | 3 |

## Governance View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| | president of the director, who both sit on the board of directors. Approval of the appointment must, however, be granted by the board of commissioners, and the head of the internal audit unit can communicate directly with the audit committee, although in our view this does not fully mitigate the risk of conflict of interests. No significant issues have been raised in the external auditor's reports over the last three years. | |
| Remuneration | • Pan Brothers does not report the CEO pay ratio. The disclosure of the CEO pay ratio is helpful in assessing the fairness of wages paid.<br>• Pan Brothers has a nomination and remuneration committee composed of three members, with the president commissioner as a chairman and the independent commissioner as a deputy chairman. It is supported by the company's executive officer in charge of human resources. The breakdown of remuneration recommendations, such as long-term incentives, has not been disclosed.<br>• The company had budgeted USD2.7 million for the remuneration of the board of commissioners and the board of directors for the year 2022. The actual realisation in 2022 was USD0.1 million for the board of commissioners and USD1.0 million for the board of directors. For the year 2023, the company has budgeted USD1.7 million for the board remuneration. The breakdown of remuneration recommendations, such as long-term incentives, has not been disclosed. | 4 |
| Risk Management | • The company's risk management committee is overseen by both the board of commissioners and the board of directors. The committee works with its legal, finance and accounting divisions as well as the human resource and other relevant divisions. The company has identified its financial risks and business risks from its operating environment. It has completed a materiality assessment of its ESG risks, but has not completed a risk assessment or integrated ESG risks into its business risk assessment.<br>• The company does not disclose the information regarding its cybersecurity or IT management practices.<br>• Pan Brothers has an anti-corruption and anti-fraud policy in place, preventing receipt of gifts and clearly communicating that all employees and the board are together responsible for corruption prevention. This is supplemented by the company's code of conduct, which is not publicly available, and an insider information prevention policy. A whistleblowing system has been set up to allow employees and third parties to report suspected violations. Reports are confidential, but checked by the internal audit team, which then reports to the board of directors and audit committee for future action. It is unclear whether all employees receive training and updates on these policies. | 3 |

# Entity Analysis

## Governance View

**ESG Rating: 3**

| Profile | Fitch's View | ESG Rating |
|---|---|---|
| Tax Management | • In terms of the company's tax management, Pan Brothers does not publish any tax reports, nor does it have a publicly available tax management policy.<br>• Pan Brothers has a Dutch subsidiary, which acts as an agent for the group's trading activities and was established to support the company's activities in Europe. Pan Brothers does still pay significant sums in taxes, so we consider the risk of tax avoidance to be low. | 1 |

Source: Sustainable Fitch, based on Pan Brothers annual report 2022, Pan Brothers sustainability report 2022

# Entity Analysis

## Relevant UN Sustainable Development Goals – Entity

| | | |
|---|---|---|
| 7.2: | By 2030, increase substantially the share of renewable energy in the global energy mix |  |
| 8.8: | Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment |  |
| 12.5: | By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse |  |

Source: Sustainable Fitch, UN

Note: Sustainable Fitch evaluates the relevant UN Sustainable Development Goals at the entity level by considering direct contributions, not generic support.

# Appendix A: Key Terms

| Term | Definition |
|---|---|
| **Debt types** | |
| Green | Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies. |
| Social | Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies. |
| Sustainability | Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies. |
| Sustainability-linked | Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan). |
| Conventional | Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective. |
| Other | Any other type of financing instrument or a combination of the above instruments. |

| Term | Definition |
|---|---|
| **Standards** | |
| Transition | A term applied to green, social, sustainable or sustainability-linked instruments, only when the purpose of the debt instrument is to enable the issuer to achieve a climate change-related strategy according to Fitch criteria or methodology. |
| ICMA | International Capital Market Association. The “ICMA” credential on page 1 refers to alignment with ICMA’s Principles and Guidelines: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments. |
| EU Green Bond Standard | A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market". |
| LSTA | Loan Syndications and Trading Association. We refer to alignment with LSTA’s Loan Principles: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments. |
| **Other terms** | |
| ESG debt | Green, social, sustainability and sustainability-linked types of debt. |
| Short term | Within five years. |
| Long term | At least six years away. |
| Entity’s business activity overlap with use of proceeds | The share of the entity’s total business activities that can use proceeds from the debt instrument in question. |
| NACE | An industry standard classification system for economic activities in the EU, based on the United Nations’ International Standard Industrial Classification of All Economic Activities (ISIC). |

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

# Appendix B: Methodology and ESG Rating Definitions

Fitch's ESG Ratings are designed to indicate an entity's Environmental, Social and Governance (ESG) performance and commitment, as well as its integration of ESG considerations into its business, strategy and management, with a focus on actions and outcomes rather than purely on policies and broader commitments.

There are three ratings: the ESG Entity Rating (ESG ER), ESG Instrument Rating (ESG IR) and, for debt instruments linked to ESG key performance indicators (KPIs) and/or use of proceeds, the ESG Framework Rating (ESG FR). ESG Ratings are on a scale from one to five, where one represents full alignment with ESG best practice. Behind each rating sit scores of zero to 100, as well as sub-scores for even greater granularity.

Sustainable Fitch's analysts assess all the business activities of an entity and more than 40 additional headline factors, covering all three ESG pillars. For debt instruments, they assess use of proceeds and more than 20 additional headline factors.

Fitch provides individual datasets with grades and commentary through a feed**.** The score and sub-score database allows direct comparison of entities and instruments, on a full ESG basis or on selected fields.

ESG ERs consider the issuer's strategy, how it relates to sustainability, and how sustainability is embedded in the issuer's business, including ESG policies, procedures, and outcomes. The entity is broken down into constituent business units, with NACE codes, for a granular assessment of E and S factors. Fitch assesses G aspects at the company level.

ESG FRs consider any type of bond, with varying analysis if there is a defined use of proceeds, KPI-linked coupon, or conventional bond. The rating aims to identify the strength of the bond framework on a standalone basis, separate to the entity, regardless of any self-assigned descriptions. Fitch analysts categorise bonds as Green, Social or Sustainability (GSS) types independently, based on their view of the main area covered by the use of proceeds, rather than automatically using the entity's categorisation. They will also determine if the bond should be classed as a transition bond and if it aligns with the EU Green Bond Standard and ICMA principles. Analysis considerations include the use of proceeds and sustainability-linked targets that form the primary purpose of the instrument, and the structure and effectiveness of the framework being used to further that purpose.

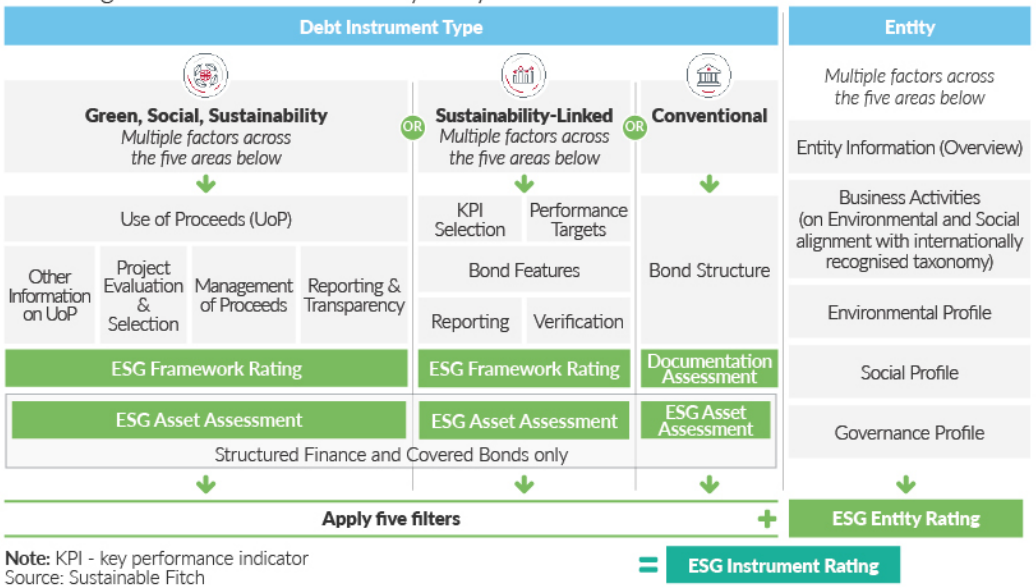
ESG IRs consider different types of debt instruments in the context of the issuing entity, enabling absolute ESG credentials comparisons for similar types of instruments issued by different types of entities, different types of instruments issued by different issuers, as well as different types of instruments issued by a single entity.

## Analytical Process

Analysis considers all available relevant information (ESG and financial), including the entity's ESG report. Fitch's ESG Rating Reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed.

**Fitch's ESG Rating Process**

A visual guide to our debt and entity analysis




**Note:** KPI - key performance indicator
Source: Sustainable Fitch

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds and business activities. In considering those aspects, the rating framework is inspired by major taxonomies (e.g. the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects). Once the analyst has completed the model, with commentary for the related ESG Ratings, it is submitted to the approval committee, which reviews the model for accuracy and consistency. ESG Ratings are monitored annually or more frequently if new information becomes available.

## Use Cases

Sustainable Fitch's ESG Ratings can help inform decisions related to:

- Investment strategy
- Asset allocation and portfolio construction
- Benchmarking and index construction
- Risk management and stress testing
- Identification of transition bonds
- Disclosure and reporting.

# Appendix B: Methodology and ESG Rating Definitions

## Rating Scale and Definitions

| | ESG Entity | ESG Instrument | ESG Framework |
|---|---|---|---|
| 1 | ESG ER of '1' indicates that the entity analysed evidences an excellent ESG profile. | ESG IR of '1' indicates that the debt instrument in the context of the ultimate issuing entity evidences an excellent ESG profile. | ESG FR of '1' indicates that the framework for the instrument evidences an excellent ESG profile. |
| | Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. | Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is excellent in terms of framework structure and proceeds destination. | Framework structure is excellent in terms of alignment with ambitious best practises and proceeds are dedicated to excellent environmental and/or social activities/projects according to taxonomies of reference. |
| 2 | ESG ER of '2' indicates that the entity analysed evidences a good ESG profile. | ESG IR of '2' indicates that the debt instrument in the context of the ultimate issuing entity evidences a good ESG profile. | ESG FR of '2' indicates that the framework for the instrument evidences a good ESG profile. |
| | Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. | Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is good in terms of framework structure and proceeds destination. | Framework structure is good in terms of alignment with ambitious best practises and proceeds are dedicated to good environmental and/or social activities/projects according to taxonomies of reference. |
| 3 | ESG ER of '3' indicates that the entity analysed evidences an average ESG profile. | ESG IR of '3' indicates that the debt instrument in the context of the ultimate issuing entity evidences an average ESG profile. | ESG FR of '3' indicates that the framework for the instrument evidences an average ESG profile. |
| | Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. | Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is average in terms of framework structure and proceeds destination. | Framework structure is average in terms of alignment with ambitious best practises and proceeds are dedicated to average environmental and/or social activities/projects according to taxonomies of reference. |
| 4 | ESG ER of '4' indicates that the entity analysed evidences a sub-average ESG profile. | ESG IR of '4' indicates that the debt instrument in the context of the ultimate issuing entity evidences a sub-average ESG profile. | ESG FR of '4' indicates that the framework for the instrument evidences a sub-average ESG profile. |
| | Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. | Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is sub-average in terms of framework structure and proceeds destination. | Framework structure is sub-average in terms of alignment with ambitious best practises and proceeds are dedicated to sub-average environmental and/or social activities/projects according to taxonomies of reference. |
| 5 | ESG ER of '5' indicates that the entity analysed evidences a poor ESG profile. | ESG IR of '5' indicates that the debt instrument in the context of the ultimate issuing entity evidences a poor ESG profile. | ESG FR of '5' indicates that the framework for the instrument evidences a poor ESG profile. |
| | Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. | Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is poor in terms of framework structure and proceeds destination. | Framework structure is poor in terms of alignment with ambitious best practises and proceeds are dedicated to poor environmental and/or social activities/projects according to taxonomies of reference. |

Source: Sustainable Fitch

## Solicitation

| Status | Solicited |
|---|---|
| The Ratings were solicited and assigned or maintained by Sustainable Fitch at the request of the rated entity. | |

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