



PT HM SAMPOERNA Tbk.

## *Public Expose*

*September 9, 2021*

# Forward-Looking and Cautionary Statements

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- HMS’ business risks include: significant increases in cigarette-related taxes; the imposition of discriminatory excise tax structures; fluctuations in customer inventory levels due to increases in product taxes and prices; increasing marketing and regulatory restrictions, often with the goal of reducing or preventing the use of tobacco products; health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke; litigation related to tobacco use; intense competition; regulatory and political developments; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations; adverse changes in applicable corporate tax laws; adverse changes in the cost and quality of tobacco and other agricultural products and raw materials; and the integrity of its information systems. HMS’ future profitability may also be adversely affected should it be unsuccessful in its attempts to produce products with the potential to reduce exposure to harmful constituents in smoke, individual risk and population harm; if it is unable to successfully introduce new products, promote brand equity or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally and the development of strategic business relationships; or if it is unable to attract and retain the best global talent.
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# ***Forward-Looking and Cautionary Statements***

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- The COVID-19 pandemic has created significant societal and economic disruption, and resulted in closures of stores, factories and offices, and restrictions on manufacturing, distribution and travel, all of which will adversely impact our business, results of operations, cash flows and financial position during the continuation of the pandemic. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective. While much of the COVID-19 pandemic and its effect on our business is still unknown, currently, significant risks include our diminished ability to convert adult smokers to our RRPs, significant volume declines in our duty-free business and certain other key markets, disruptions or delays in our manufacturing and supply chain, increased currency volatility, and delays in certain cost saving, transformation and restructuring initiatives. Our business could also be adversely impacted if key personnel or a significant number of employees or business partners become unavailable due to the COVID-19 outbreak. The significant adverse impact of COVID-19 on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers, lower demand for our products, particularly for our mid-price or premium-price brands, and increased illicit trade. Continuation of the pandemic could disrupt our access to the credit markets or increase our borrowing costs. Governments may temporarily be unable to focus on the development of science based regulatory frameworks for the development and commercialization of RRPs or on the enforcement or implementation of regulations that are significant to our business. In addition, messaging about the potential negative impacts of the use of our products on COVID-19 risks may lead to increasingly restrictive regulatory measures on the sale and use of our products, negatively impact demand for our products, the willingness of adult consumers to switch to our RRPs and our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRPs.
- Despite our efforts to manage these risks, their impact also depends on factors beyond our knowledge or control, including the duration and severity of the outbreak and actions taken to contain its spread and to mitigate its public health effects, and the ultimate economic consequences thereof.

## Key Highlights

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- We remain committed to **invest & actively advocate attracting other foreign investors** in Indonesia and in that way support the Government in accelerating **national economic recovery and development**
- **Double-digit excise tax increases**, coupled with COVID impact, negatively affected Cigarette Industry, including Sampoerna
- Decreased affordability created further **downtrading** and led to the **continuous growth of cheap cigarette produced** by the Below-V1 manufacturers
- While Sampoerna **gained share of segment in the V1 Tax category** with its premium-priced and SKT portfolio, **the overall market share in 1H 2021 was down** due to the downtrading to the Below-V1 segment
- Sampoerna continued to **support employment** by investing and creating new jobs in the most labor-intensive **Hand Rolled Kretek - SKT segment**
- **Employees' Safety & Product Integrity** was a key priority during the COVID outbreaks and by vaccinating all, approximately 65,000\* of our direct and indirect employees, we are supporting Government in achieving herd immunity

# Employees' Safety & Product Integrity

- We have implemented strict **health & hygiene protocols** inline or exceeding the Government regulations & standards
- To ensure Product Integrity we **quarantine our products for 5 days**, nearly twice as long as WHO's guidelines

## Our commitment to safety

### Extended Covid-19 Support

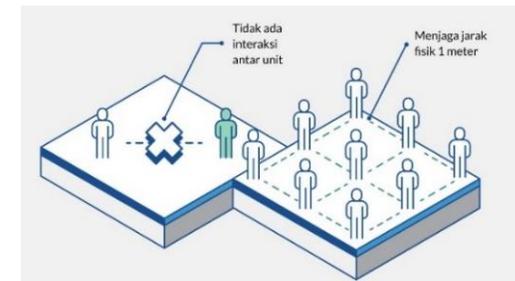
- Continued education on protocols
- Provide vitamins, tele-consultation, homecare, and shelter support
- Collaborating with health facilities on 3T (testing, tracing, and treatment)
- On-site clinic and testing facilities

### Entering the facilities

- Require to wear the provided KN95/KN94/N95 or double masks, and to change every 4 hours
- Self-assessment, temperature check, *PeduliLindungi App* scan prior to entering facility
- Intensified cleaning & sanitization of facilities

### In the facilities

- Cell-based arrangement to minimize contact and facilitate tracing
- Follow physical distancing principles and government's capacity regulations
- Regular, every two hours, disinfection of facilities and common amenities



# COVID-19 Vaccination

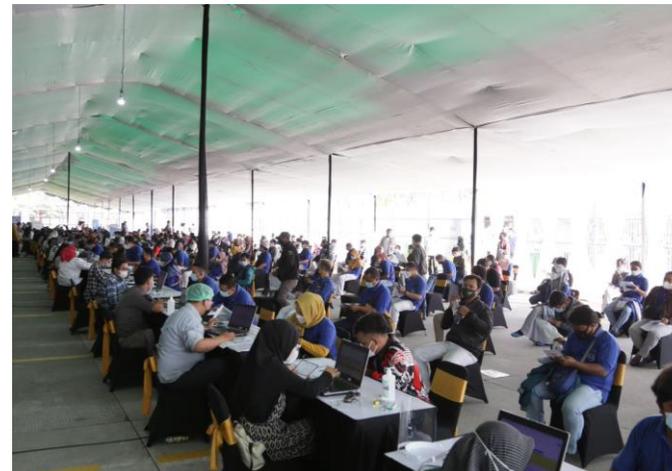
## Committed to fully vaccinate all direct and indirect employees\*

- By August, Sampoerna has administered at least one dose of vaccine to all direct and indirect employees\* of approximately 65,000 people
- Mostly through collaboration with *Vaksinasi Gotong Royong (VGR)*



## Supporting vaccination for other parties

- Sampoerna's Karawang Facility utilized as *Sentra Vaksinasi* for the VGR program
- Working with KADIN on vaccine roll-out for communities through vaccination programs, including Mobile Vaccination (*Vaksinasi Keliling*)



\*For employees who are eligible to receive vaccination

# Our Sustainability Strategies for the Betterment of Indonesia



**2020 marks Sampoerna's first Sustainability Report using GRI standard**



**Alliance for Water Stewardship** certification for Sukorejo production facility



**CDP Climate A list**  
(since 2014)



Implementing an **internal carbon pricing policy** of USD 65 per ton of CO<sub>2</sub>e, aligned with the 1.5°C target and helps strengthen corporate climate leadership



**2 Most Improved PLCs (Indonesia) award** by ASEAN Corporate Governance and ASEAN Capital Market Forum



**5 solar panels** installation in production facilities to produce renewable energy 1,775 MWh/year

# Supporting Economic Recovery and Development

## For tobacco farmers

- Supporting **>23,000 farmers** via the partnership program **Integrated Production System**
- Providing education and supporting the implementation of health and hygiene protocols
- Increased adoption of virtual technology to facilitate trainings during the pandemic

## For MSMEs

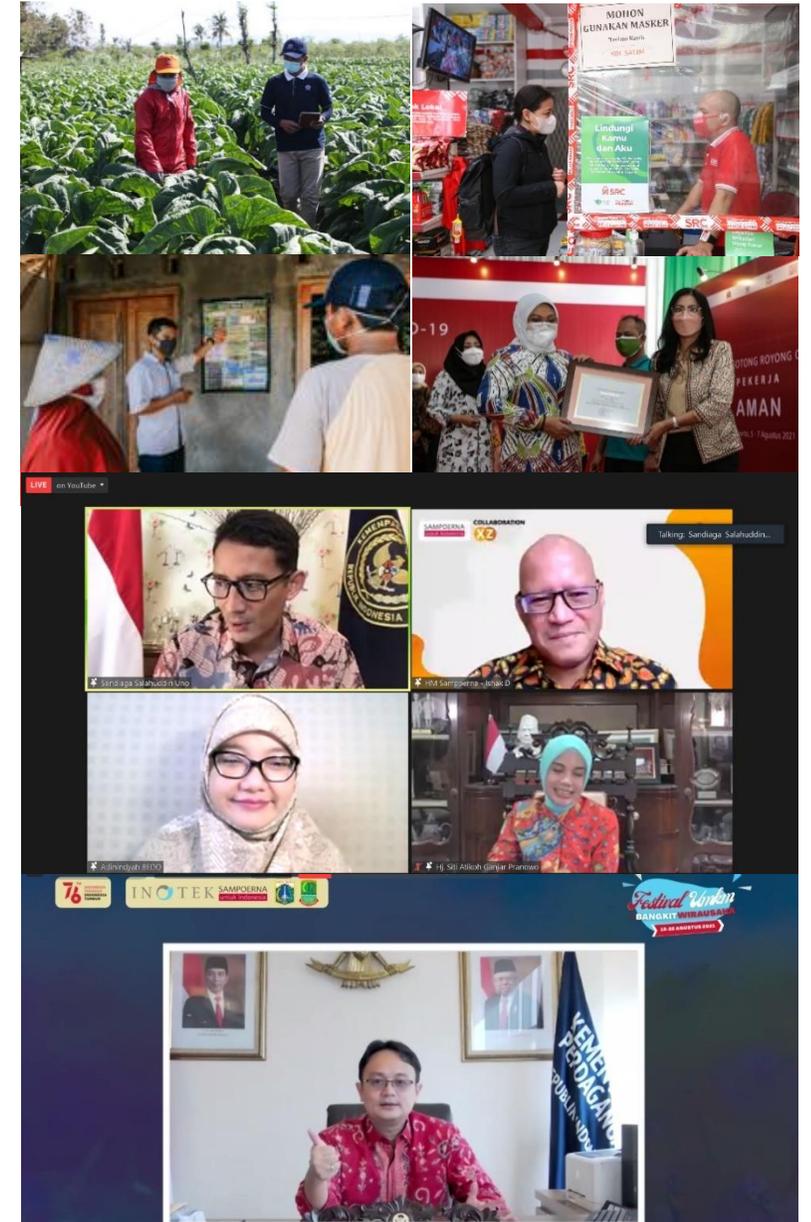
Training programs to support **>1,800 MSMEs\*** to adapt, survive and thrive during the pandemic

Help in implementing Health and sanitation protocols in over **150,000 SRC** (Sampoerna Retail Community) members

Intensified Trade Partners digitalization with the AYO SRC app, reaching **over 100,000 SRC** members

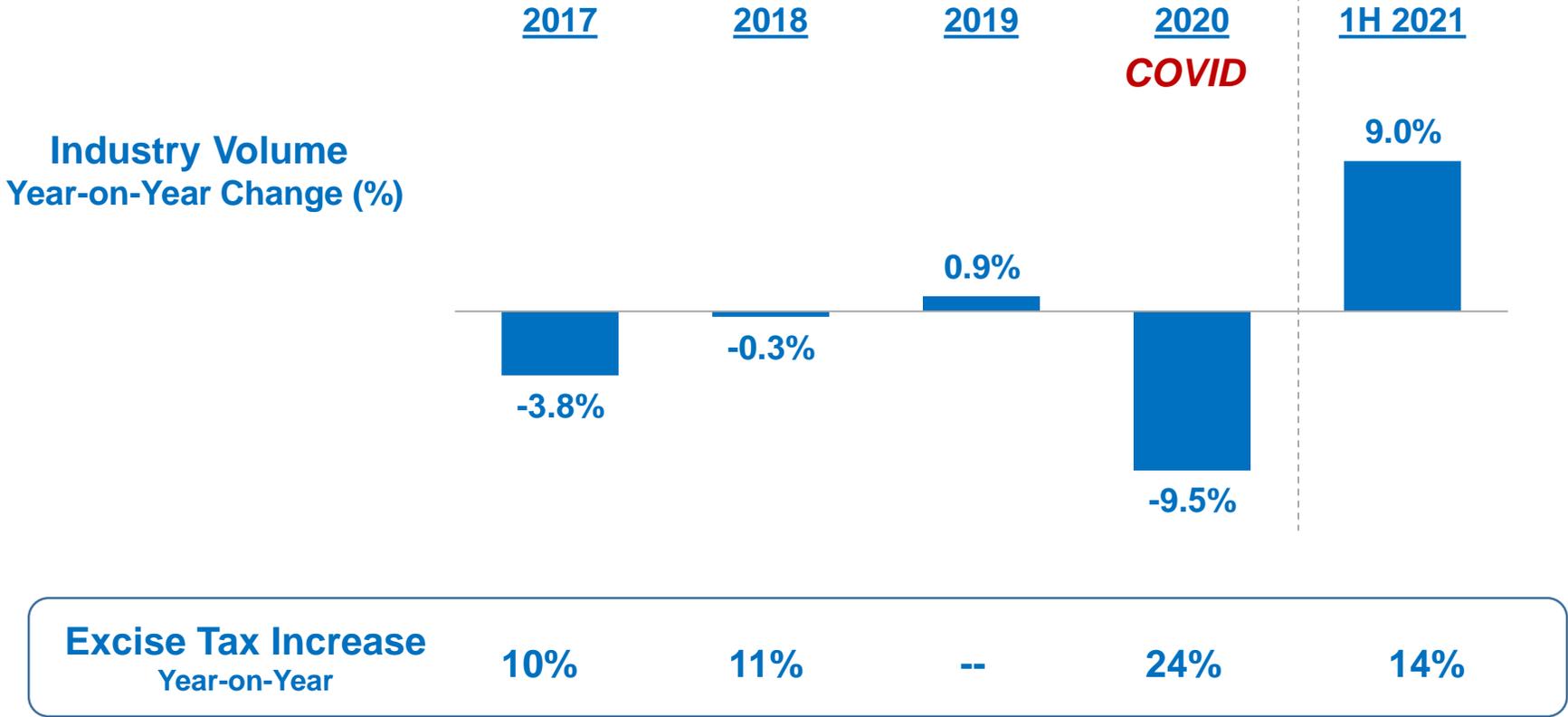
## For society at large

- Working with CSR partners, local governments and stakeholders to provide **targeted support**
- This includes **>15,000 PPEs** (such as masks, hazmat suits, gloves) for health workers and **4 high-nasal flow devices** in 2021, among others
- Continued to raise awareness on health protocols throughout our supply chain and community activations



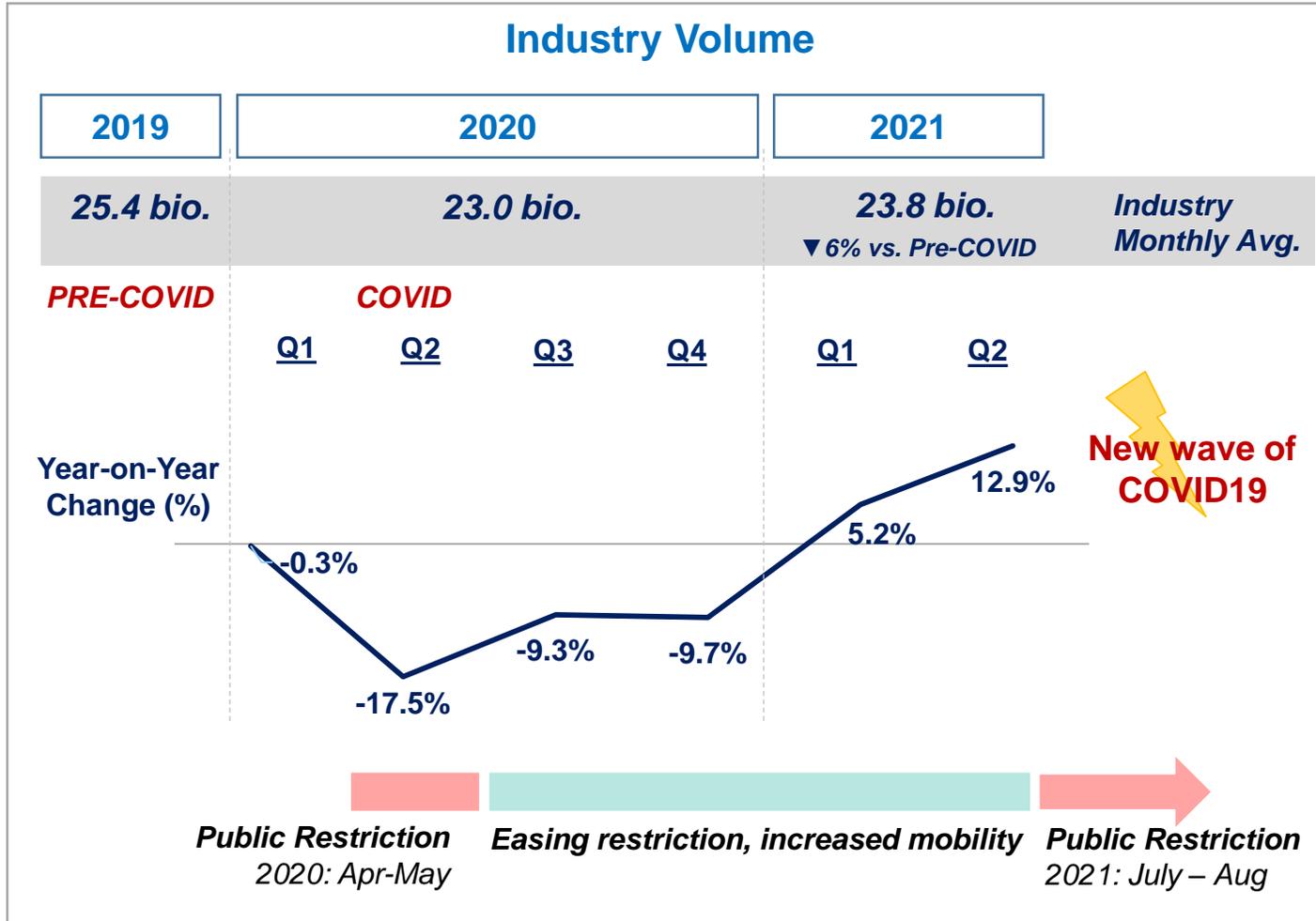
\*With estimated indirect beneficiaries of 25,000 people. MSMEs stands for Micro, Small and Medium Enterprises

# Industry Performance: Impacted by Double-digit Excise Tax Increases & COVID Pandemic



Source: Company estimate. Note: Excise Tax Increase is weighted average industry increase

# Industry Performance: Downtrading and Continuous Growth of Cheap Cigarette Producers



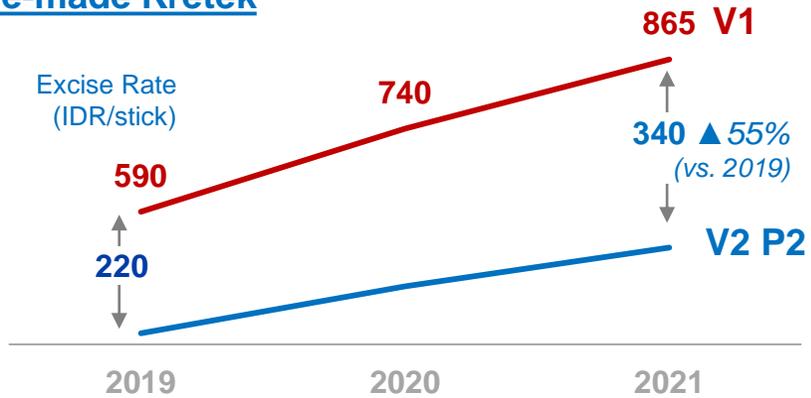
**Strong Growth of Below-V1 category**  
Industry Volume Year-on-Year % Change

	<u>1H'20</u>	<u>1H'21</u>
<b>V1</b>	-14%	-1%
<b>Below-V1</b>	7%	40%
<b>Industry</b>	-9%	9%

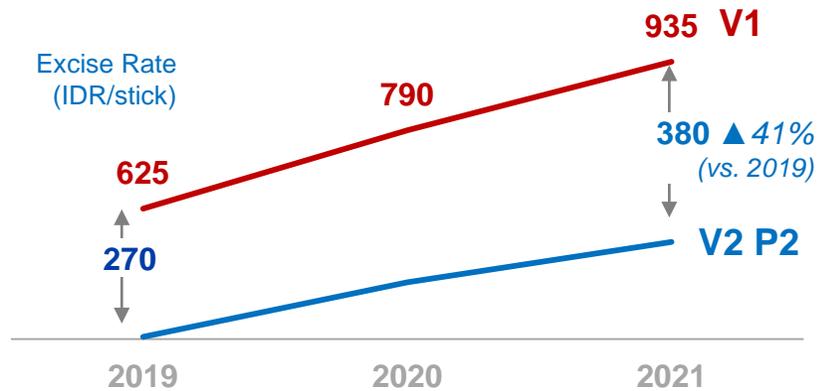
# Industry Performance: Widening Excise Tax Gap between V1 and Below-V1 Category Drives Share of Market Growth of Cheap Cigarette Producers

## Excise Tax Gap

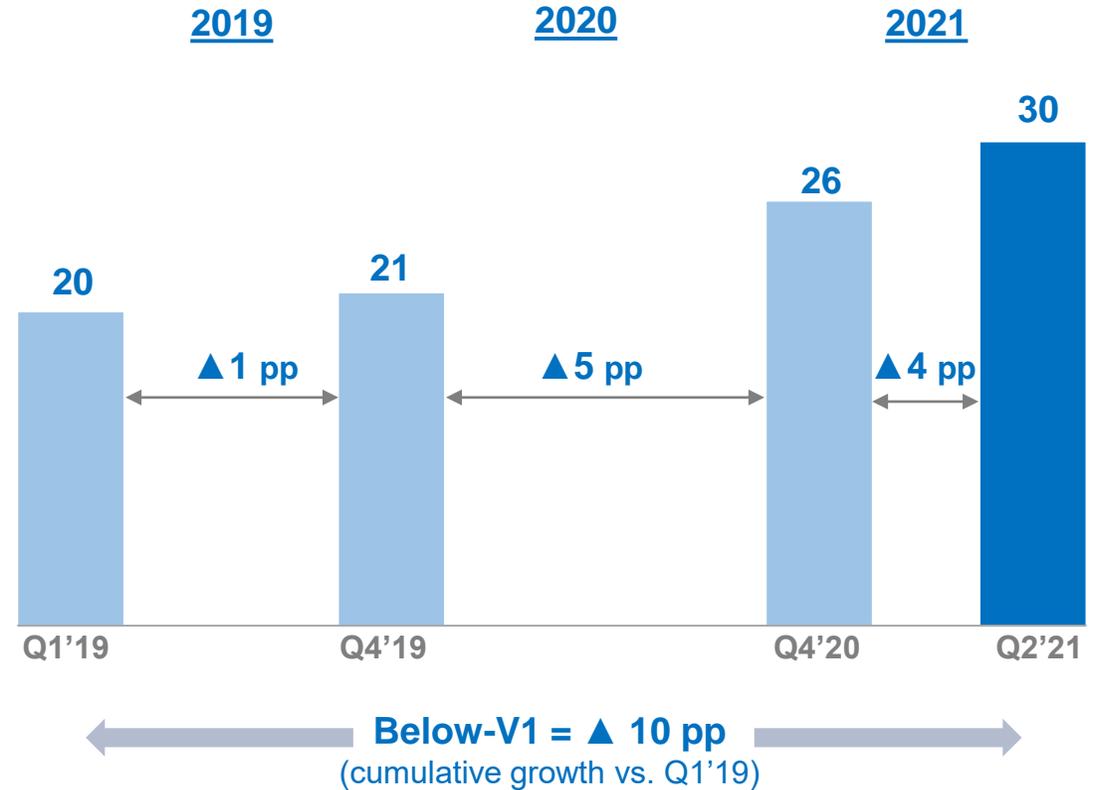
### Machine-made Kretek (SKM)



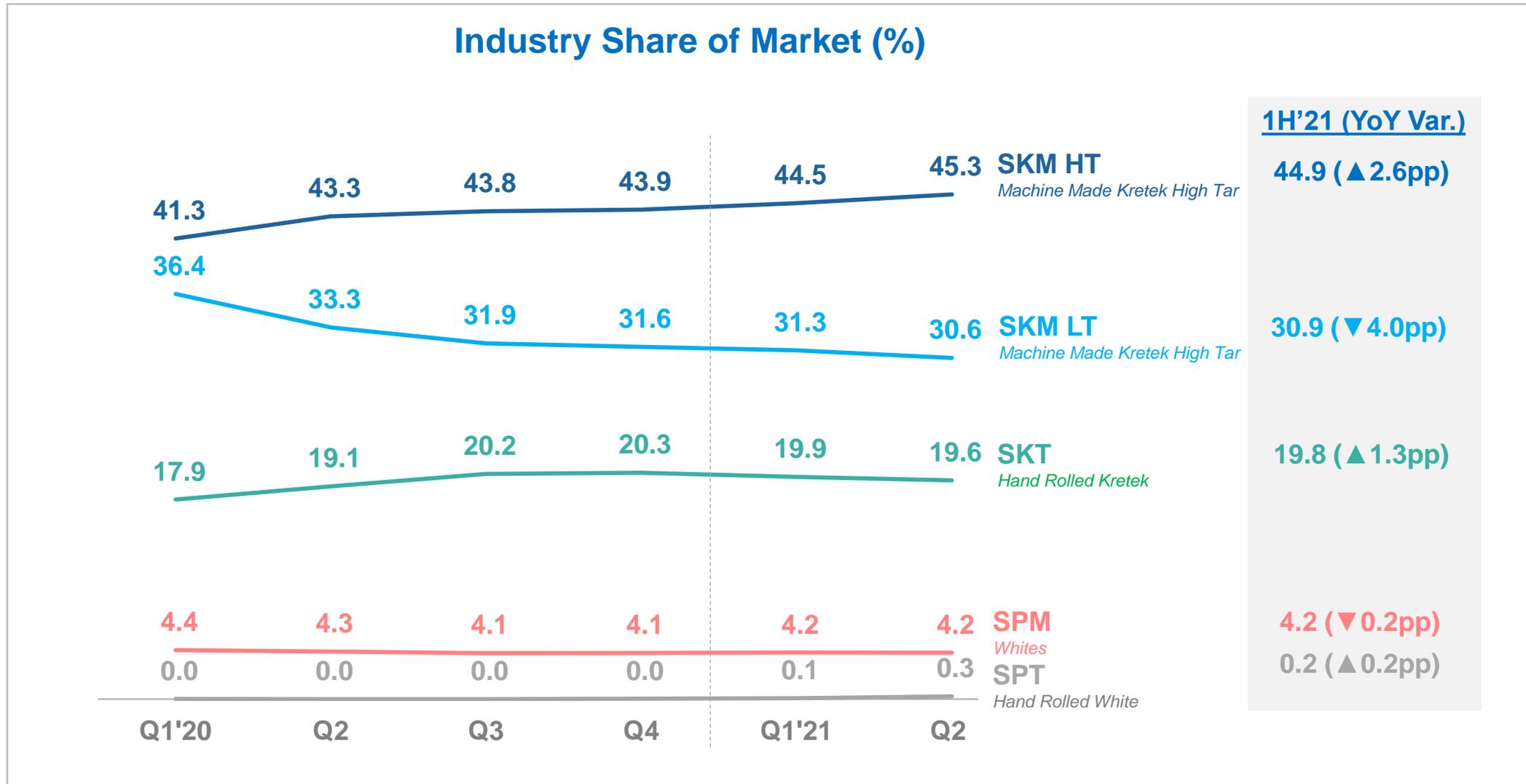
### White (SPM)



## Below-V1 Share of Market (%)



# Industry Performance: Affordability Pressure Drives the Shift to Higher Tar Products and SKT



## Sampoerna's Performance

### Key Financial Highlights

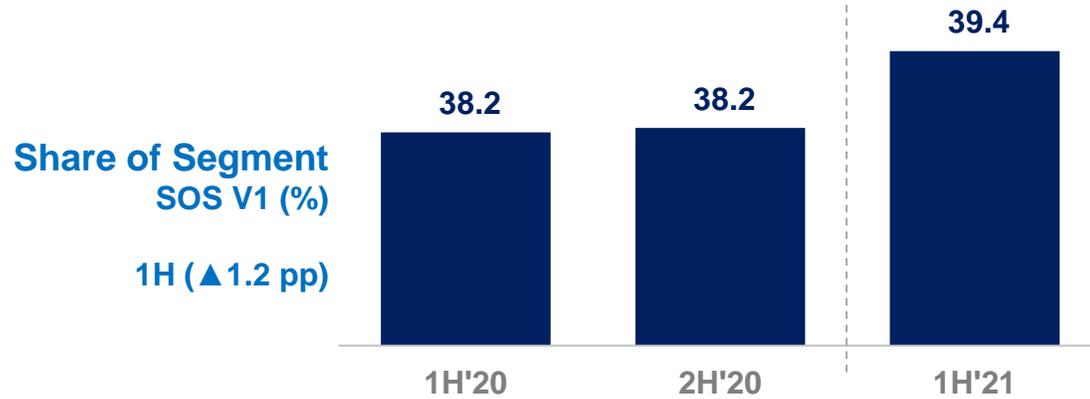
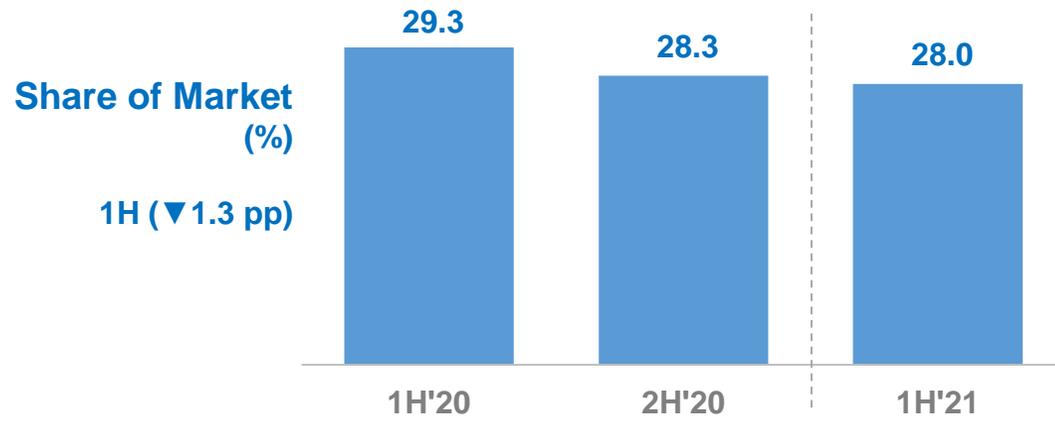
(in IDR trillion, unless otherwise stated)

	1H 2020	1H 2021	Variance YoY	
<i>Volume (bio.)</i>	38.5	40.0	▲ 1.5 bio.	▲ 3.9%
Net Revenues	44.7	47.6	▲ 2.9	▲ 6.5%
Gross Profit	9.7	8.8	▼ 0.9	▼ 9.3%
<i>Gross Profit Margin</i>	21.8%	18.6%	--	(3.2) pp
EBIT	5.8	4.9	▼ 0.9	▼ 14.9%
Net Profit	4.9	4.1	▼ 0.8	▼ 15.4%
<i>Tax Payment</i>	33.6	32.8	▼ 0.8	▼ 2.5%

# Sampoerna's Performance

Sampoerna gained share of segment in the V1 category with its Premium priced and SKT portfolio

## Sampoerna Performance



## Our premium portfolio and SKT products gained share of market

1H' 21 Share of Market (%)  
(variance vs. PY)

12.4% SOM  
▲ 0.5 pp



*Marlboro*  
SPM

2.4% SOM  
◀▶



2.2% SOM  
▲ 0.4 pp

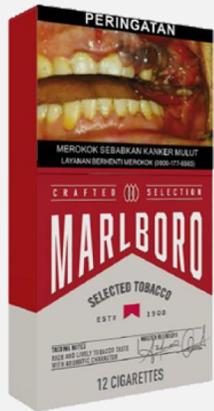


7.0% SOM  
▲ 0.3 pp

Mid/low price portfolio ▼ 1.9 pp

# Supporting Employment by Investing in the Most Labor-intensive Hand Rolled and SKT Segment

## New products launched



### Marlboro Crafted 12s

Hand-rolled White (SPT)

Launched: Nov'20

Distribution expansion to nationwide



### Dji Sam Soe Elite 12s

Hand-rolled Kretek (SKT)

with Tobacco Shield™

Launched: Aug'21 in selected areas in Sumatra



## Creating New Jobs in the Most Labor-intensive SKT Segment

- We appreciate the government's decision not to increase the excise tax tariff for SKT segment in 2021 and in that way **reversed the historic declining trend of SKT category** and sustain employment
- In 2021 Sampoerna added SKT production capacity through TPOs and **created employment for more than 6,000 people** across Java
- Around **70%\*** of total tobacco industry workers, mostly women, are involved in the SKT segment
- Sampoerna employs approx. 65,000 direct and indirect employees, where over 75% of them are working in SKT plants
- As the champion of SKT segment we **continue to drive innovation and invest** in the SKT category



## ***Creating a Steady Path to National Economic Recovery***

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- **Double-digit excise tax increases** coupled with COVID pandemic have negatively impacted the cigarette industry
  - The economic impact of the pandemic has worsened affordability and led to **further downtrading**
- **Wide excise tax gaps** between V1 and the Below-V1 created unlevel playing field and led to **continuous growth of cheap cigarette producers**
- We are investing to **protect the most labor-intensive, traditional** hand-rolled and SKT segment
- We remain committed to **invest & actively advocate to attract other foreign investors** in Indonesia and in that way support the Government in accelerating **National economic recovery and development**

### ***Policy recommendation***

#### **Excise policy that supports industry recovery post COVID-19, provide predictability and level playing field**

- Moderate increase for machine-made V1
- Closing excise tax gap between V1 and Below-V1 category to optimize revenue collection and stop proliferation of Below-V1 cigarettes
- No excise tariff and banderole increase on the traditional and labor intensive SKT category
- Excise policy roadmap



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Public Expose 2021**

# **Q&A Session**

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# **Glossary of Key Terms and Definitions**

# Glossary of Key Terms and Definitions

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- Numerical notations in all tables, graphics, and infographics in this presentation are in English
- Trademarks are italicized
- Comparisons are made to the same prior-year period unless otherwise stated
- “SKM HT” is Machine Made Kretek High Tar
- “SKM LT” is Machine Made Kretek Low Tar
- “SKT” is Hand Rolled Kretek
- “SPM” is Machine Made White
- “SPT” is Hand Rolled White
- Reduced-risk products or RRP is the term Philip Morris International (PMI) uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing smoking. PMI has a range of RRPs in various stages of development, scientific assessment and commercialization. PMI RRPs are smoke-free products that produce an aerosol that contains far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke
- "SOM" stands for share of market
- “SRC” is Sampoerna Retail Community
- “V1” stands for Volume Tax Tier 1 as per regulation 198/PMK.010/2020 defined as annual production volume per cigarette category of more than 3 billion units (for SKM and SPM) and 2 billion units (for SKT) for total company and affiliated companies
- “Below-V1” stands for Below-Volume Tier 1 as per regulation 198/PMK.010/2020 defined as annual production volume per cigarette category of less than 3 billion units (for SKM and SPM) and 2 billion units (for SKT) for total company and affiliated companies