



PT HM SAMPOERNA Tbk.

Number : 127/CLD/HMS/IX/2020
 Attachment : Attendance List and Q&A
 Re. : Report on the Implementation of 2020 Public Expose of PT Hanjaya Mandala Sampoerna Tbk. (the “**Company**”) via Electronic

Jakarta, 23 September 2020

To.

The Board of Directors of PT Bursa Efek Indonesia

Indonesia Stock Exchange Building

Jl. Jend. Sudirman Kav. 52-53

Jakarta - 12190

Attn.: Head of Company Evaluation Division I

Dear Sirs,

Referring to Letter of the Company No.122/CLD/HMS/IX/2020 dated 4 September 2020 regarding Plan to Convene 2020 Annual Public Expose PT Hanjaya Mandala Sampoerna Tbk. (the “Company”) via Electronic as updated by letter No.123/CLD/HMS/IX/2020 dated 9 September 2020 regarding Changes on Timing of 2020 Annual Public Expose of PT Hanjaya Mandala Sampoerna Tbk. and letter No.126/CLD/HMS/IX/2020 dated 15 September 2020 regarding Submission on Annual Public Expose Material for Q1-2020 & Q2-2020 Performance Results of PT Hanjaya Mandala Sampoerna Tbk., hereby the Company submits Report on the Implementation of Public Expose which has been held:

Date : Friday, 18 September 2020
 Time : 10.00 - 11.00 Western Indonesian Time
 Platform : Microsoft Teams Live Event
 Agenda : Q1-2020 & Q2-2020 Company Performance

Participants attending the Public Expose (excluding the Management and employees of the Company) are 64 persons, consisting of financial analysts, retail investors, shareholders and media journalists in detail as set forth in [Appendix 1](#).

The material of the Public Expose is presented by the Management of the Company, as follows:

No	Material	Speaker
1.	Highlights of Q1-2020 and Q2-2020 Company Performance	Mindaugas Trumpaitis
2.	Question and Answer	

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After the presentation by Management of the Company, the audience was given the opportunity to ask questions. Questions and answers take place in Bahasa Indonesia and English which are further summarized in Bahasa Indonesia and in detail as attached in Appendix 2.

Hence we convey the report, thank you.

Best Regards,
PT Hanjaya Mandala Sampoerna Tbk.

Signed and sealed

Bambang Priambodo
Corporate Secretary



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Appendix 1 - Attendance List

No	Name	Institution
1	Nanda Aria Putra	Alinea.id
2	Giovanni Dustin	Bahana
3	Sandy Ham	BCA Sekuritas
4	Andi M Arif	Bisnis Indonesia
5	Nur Qolbi	Bisnis Indonesia
6	Nur Hadi Pratomo	Bisnis Indonesia
7	Tansino Aulia	Bofa
8	Dharwin Yuwono	CA Capital
9	Gabriella Jessica Hidayat	CGS CIMB Indonesia
10	Patricia Gabriela	CIMB
11	Vivi Handoyo Lie	Citigroup Securities Indonesia
12	Merlissa Trisno	CLSA
13	Yuli	CNN
14	Natalia Sutanto	Danareksa Sekuritas
15	Jeremy	Goldman Sachs
16	June Zhu	Goldman Sachs
17	Judith	Harian Kompas
18	Selviana Aripin	HSBC Global Research
19	Surianto Surianto	Individual Investor
20	Frengky Humardhani	Individual Investor
21	Roland Adi Nugraha	Individual Investor
22	Yoga Saputra	Individual Investor
23	Edgar Dihadja	Individual Investor
24	Agung Noegroho	Individual Investor
25	Elbert Setiadharna	Indopremier
26	Kevie Aditya	IndoPremier Sekuritas
27	Yunindita	Jakarta Post
28	Sulistyo	Jogjaja
29	Ihya Ulum Aldin	katadata
30	Picessius Yunky Pradana	KEI
31	Berliana Elisabeth	KEI
32	Atiqa Hanum	KEI
33	Septian Indra	KEI
34	Kiky	Kompas
35	Riyanto	Mandiri Sekuritas



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No	Name	Institution
36	Adrian Joezer	Mandiri Sekuritas
37	Isnaputra Iskandar	Maybank Kim Eng Sekuritas
38	Christine Natasya	Mirae Asset
39	Divya Gangahar	Morgan Stanley
40	Mega	Nomura
41	Deidy Wijaya	Nomura
42	Leonardo Hamonangan	PT Bahana TCW Investment Management
43	Illona Freddy	PT Korea Investment and Securities Indonesia
44	Michael Tanubrata	PWC
45	Edrick Prince	PWC
46	Jocelin Go	PWC
47	Steven Bong	PWC
48	Sara Claudia	PWC
49	Michael Setjoadi	RHB Sekuritas Indonesia
50	Marco	RHB Sekuritas Indonesia
51	Octavius Prakarsa	Schroders
52	Aditya Sutandhi	Schroders
53	Richardo	Semesta Asset Management
54	Jennifer Natalia Widjaja	Sucor Sekuritas
55	Petrus Dabu	The Economics
56	Nanda	Trend Asia
57	Heribertus Ariando	Trimegah
58	Ivan Reynaldo Sutheja	UBS
59	Permada Darmono	UBS
60	Sasha Riza	Verdhana
61	Hadi Soegiarto	Verdhana
62	Annisa	Warta Ekonomi
63	Nila	Wongkito.co
64	Mewaharti Lai	Yuanta Sekuritas



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Appendix 2 - Public Expose - Q&A Session

Question 1

Andy – *Bisnis Indonesia*

First question related to the excise tax increase for 2021, we heard an initial information that the increase will be 4.75%. What is the view of HM Sampoerna and the directors about the excise tax increase on 2021? Do you think 4.75% is appropriate or too high considering heavy increase this year in 2020?

Second question, according to Indonesia Tobacco Farmers Association (APTI), the tobacco absorption from big manufacturers has only reached 40%. What is Sampoerna view about this issue?

Third, related to the IQOS in Indonesia, currently IQOS is distributed only in big cities. How the progress / update on IQOS sales and what is Sampoerna's view to the Indonesian National Standard (SNI) that is currently being discussed by the Ministry of Industry? What is Sampoerna view and contribution on the discussion?

Last one, what is Sampoerna's view on the domestic production of liquid nicotine in Indonesia? Does Sampoerna have plan to expand into that category?

Answer:

Elvira Lianita – Director External Affairs PT HM Sampoerna Tbk.

On your question one, I just want to clarify that the 4.75% increase is on government collection or revenue target not on the excise tax tariff.

Mindaugas Trumpaitis – President Director PT HM Sampoerna Tbk.

The first question on excise tax, as it has been pointed by Bu Elvira, it is not about the tariff increase but it is about the collection target what government is planning. So, it is still too early to say what is going to be the excise tax tariff increase. From our side, we fully recognized that government needs revenues to survive in this COVID environment. For us, we recognized that and we support that idea. The most important thing is by how much the excise tax is going to increase by different cigarette categories. And it is important to ensure level playing field and predictability. And as I was talking in my presentation about SKT, the most important thing or critical factor is to protect labor intensive sector. Just to give an example, to produce 1 billion cigarette of SKT, you need to have 2,700 employees. To produce the same quantity of cigarettes on machines, you only need 21 employees. So, to protect employment, we encourage government to be very mindful about total excise tax increase and specifically on the SKT category.

On your second question, as I have mentioned in my presentation, the total estimated industry decline for this year is 15% and this all happening; and actually in Q2 this year the estimated industry decline was 22%. So, the demand for the product drives also the demand for the raw materials. So, that's what is driving this reduction in purchase of tobacco leaf. So, this is another reason for the government to be mindful about the excise tax policy for next year because if industry continues to decline on that level, it is going to be very difficult to increase the purchase of tobacco ground in Indonesia which is also very important.



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On the third one, on IQOS, we are very happy to hear that government is talking about the reduced risk products, recognizing reduced risk products, introducing the standards for the reduced risk products. Because you know, from scientific evidences and from different institutions worldwide that reduced risk products reduce the exposure of harmful and potentially harmful chemicals to the body. So, it's much better to switch to those products than continuing smoking. When it comes to IQOS today, we have limited distribution on this product again provided that environment is not conducive for this product, it's very difficult to launch this product in this pandemic environment but we are very happy with the result. We've started our IQOS club in March 2019, today we have more than 20 thousand of former adults smokers who are now members of IQOS club and switched to IQOS product and we gradually going to expand the commercialization of this product, working hand-in-hand with government while establishing the standards for this category.

Lastly, when it comes to liquid production, I don't have much to say here because we are not producing liquid for electronic cigarettes yet in Indonesia and we do not plan to do that in the near future.

Elvira Lianita – Director External Affairs PT HM Sampoerna Tbk.

If I may add to Pak Mindaugas comments, there are 2.700 employees to produce 1 billion SKT cigarettes because it is individually hand rolled by ibu-ibu handrollers; while only 21 employees to produce the same amount of machine made cigarette or 1 billion machine made cigarettes. This is to further emphasize how labor intensive SKT segment is and how important fiscal policy that protect this labor intensive segment.

Question 2

Adrian Joezer – *Mandiri Sekuritas*

First question, can you give us an update whether government has enforced the implementation of the minimum retail selling price (HJE)?

Second, in terms of Sampoerna's scenario. Considering Sampoerna A Mild price gap has widened from the cheaper cigarettes so assuming that the 2021 new excise tariffs is coming-in soon in terms of the announcement, what would be Sampoerna's preference if Government doesn't adjust the 2021 excise. Will Sampoerna still pass-on in terms of the selling prices?

Third question, can you give us any update and some colors on volume recovery post Large Social Public Restrictions (PSBB) relaxation? Because you actually mentioned that Sampoerna A Mild got disrupted because of your strength in the urban city for example but when we look at the mobility recovery in those tier 1 and tier 2 cities are actually slower.

And the last one, considering that the pandemic may lead to a lasting impact, have Sampoerna's seen any changes in terms of the impact toward permanent behavior among the smokers?

Answer:

Mindaugas Trumpaitis – *PT HM Sampoerna Tbk President Director*

On the implementation of minimum retail selling price (HJE), as you all know, that was supposed to come into force on April 1, but it didn't happen for many different reasons. As we understand, government was



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not able to perform the audits because of pandemic situation and delay the audit. The first audit was actually happened during the month of June-July and they have issued follow up letters to all manufactures that were not comply with the minimum retail selling price (HJE). So, this indicates that government has an intention to enforce the regulation. The second audit should come on this month or next month, that's what we understand from the tax office. Again, we still need to see if that is going to materialize provided that now we have the second wave of Large Social Public Restrictions (PSBB) as you all know, in Jakarta started this week. With that information in mind, what we are saying is the likelihood of minimum retail selling price (HJE) enforcement is more to happen in the last quarter of this year. In the beginning of the year, we said more towards September, so this is based on the information that we have; but again this is difficult to predict but we are optimistic that minimum retail selling price (HJE) is going to be enforced as per regulation.

On your second question, when it comes to future pricing and taxes, I don't want to talk too much about that. I suggest that we wait until the excise tax announcement in October and then we are going to decide on our pricing strategies; because today, there is a lot of different rumors and news in the market of what is going to be the excise tax increase and more importantly by different tax categories. Again, I hope government now sees that big *downt trading* is happening from the Volume 1 to Below-Volume 1 tax tier products and that impacted government collection which according to our estimate is trillions of rupiah that government is fore-going because of this *downt trading*. We are hopeful that government is going to reduce the excise tax gap between the Volume 1 and the Below-Volume 1 and in that way reduce the price gaps. Again, because if we look at the government priorities as declared: the first one is to maximize the revenue, so need excise tax for that. The second is to address the health issues related to cigarettes and that is about the pricing, and that's why the minimum price was introduced and that's why government is trying to push the bottom of the market up so the best strategies to do that is actually enforcing the minimum RSP as well as increasing tax on the Below-Volume 1 tax tier more compare to Volume 1. The third government priority is employment and as we discussed, the biggest employment is in SKT category so we are hoping that excise tax in SKT is not going to change for next year because that will be a big support to the SKT labor intensive category.

Now to your third question, after Large Social Public Restrictions (PSBB) was eased, we saw some volume improvement of 5-10% in the latest month in the quarter but again we need to be mindful because it is still a fluid situation as we don't know if those restrictions is going to be deployed in other areas. So, we are optimistic that volume is to recover as the PSBB eased but we need to be mindful of what's going to be with PSBB whether other areas, whether to follow Jakarta or not. But yes, we do see some uplift in the volume of the last month in the quarter.

To your last question related to customer behavior, as already mentioned in the presentation, we saw the trends of *up-taring* and moving to smaller pack, but we also see that migration of consumers from bigger cities to smaller cities and they enter new communities in those cities. And people tend to assimilate themselves to those communities so that potentially driving a little bit of shift of the preferences what product they buy. Now this pandemic is not going to last forever so it's very likely that this migration is going to turn back and people will move back to bigger cities as they will need to go to office and workplace. This bring us optimistic about our brand performance when that happen.



Question 3

Nanda – *Journalist, Trend Asia*

First, Handrolled Kretek or SKT is the segment in tobacco industry that absorb large employment and currently impacted by excessive excise tax in 2020 and COVID-19 pandemic. What is Sampoerna recommendation for this segment to survive?

Second, the tobacco farmers and clove farmers are also impacted by excise tax increase and COVID-19 pandemic. What is the Company doing to protect these farmers in terms of tobacco absorption and farmers wellbeing?

And my last question, what is Sampoerna recommendation for 2021 excise tax increase in particular the machine-made kretek or SKM considering this segment represent almost 70% of tobacco industry ?

Answer:

Mindaugas Trumpaitis – *President Director PT HM Sampoerna Tbk.*

On the first question what we are doing to support SKT as I mentioned during my initial remarks we are not only supporting through the commercial means we are also introducing new product. As I mentioned before, we introduced in March, Sampoerna 234 which is handrolled cigarette. We are doing all we can do from our side to protect employment in SKT.

When it comes to the second questions on farmers, it also partially links to SKT segment. Because if you take one stick of SKT cigarette you have about 2 grams of tobacco versus 0.7 grams of tobacco in machine made cigarette. So supporting SKT from government side that means supporting not only manufacturing part of SKT employment in manufacturing but also supporting farmers that's why we are strongly recommend to be mindful about the excise tax tariff for SKT in 2021 and potentially beyond.

When it comes to farmers, what we are doing, and I'm going to repeat what I mentioned during my initial remarks, Sampoerna promotes sustainable production and helps improve the socioeconomic conditions of the farmers we work with and their communities, and we also supporting them when it comes to COVID prevention.

We also have a Memorandum of Understanding with the government about our purchases of local tobacco so we are committed to buy local tobacco but we need to be also reflective of what is happening with total industry, so if the industry continue to decline at 15% (fifteen percent) then it's going to be of course less absorption of tobacco. Again, first recommendation is to focus on SKT because that's going to help overall ecosystem for manufacturing as well as farmers including clove and tobacco.

When it comes to the third question about total excise tax, our recommendation is that it should be a moderate excise tax increase, so we are recommending inflationary rate excise tax increase for next year when it comes to machine made cigarette; and our strong recommendation is to revise excise tax level on V1 category and below-V1 category because that will help the government to increase the revenue and would reduce this downtrading that what is happening today to cheap cigarette so that in a way also address the second objective of government, the health objective.



And again big opportunity that I also mentioned during my initial remarks is excise tax tier simplification because when it comes to those V2 companies, what's happening is you have large manufacturers; large I mean manufacturers that reported more than 23 trillion rupiah in gross revenue and they are still able to pay lower tax in some specific categories, so the problem is that the volume threshold is defined not as per total company but per product category threshold. And I think that's a big opportunity for government to tackle to do some more level playing field so that large manufacturers cannot take advantage of lower excise tax category.

Question 4

June Zhu – *Goldman Sachs*

The first question regarding the competition and volume market share, so we see that some cigarettes players seems to be holding back price hike since Lebaran to support volume and how Sampoerna responding to that? What would be the company strategy to regain your volume market share without sacrificing profitability and has it worked? Is there any sign of improvements on your volume market share so far?

The second one regarding the cigarette category, so in the past, SKM Low Tar, mild cigarette was growing very fast but now we've seen SKM High Tar has been regaining share for quite number of years and this year SKT also regaining share. So, what is you thought for the category outlook in the next 3 years?

Answer:

Mindaugas Trumpaitis – *President Director PT HM Sampoerna Tbk.*

When it comes to the first question on pricing, to materialize pricing this year was challenging and the most lagging because of this volume growth in the Below V1-segment. Our performance in the V1 segment is pretty decent but we are hit mostly by this Below-V1 segment. Now, when it comes to pricing, since we have in our portfolio more than 30 different SKUs so we have this flexibility of adjusting pricing up without losing too much volume; so it is not depending on one brand because of the price laddering strategy that we introduced since 2017 when we have 3 different brands per category. It is very helpful for us so we can still keep pricing, pass on excise tax and still be relatively competitive in the market. Now, it is difficult to say what is going to be the future but our objective is to stay competitive with our portfolio in the market and to offer legal age smokers with products at different price points in different pricing categories.

Now, when it comes to the trend of consumers moving to the high tar, your observation is absolutely right and I associate that with economic power of consumers; because what we see now, consumers are looking for the best return of the investment. They are buying smaller packs because it is more affordable. They are buying higher tar products including because more impact from higher tar. So longer term that trend potentially can reverse as the economy improves. That would be my view on the latest trend of LTN moving to high tar. I think this links to the economic power of the consumer so when the economy improves, we potentially going to see this trend going back.