

Preliminary Index Methodology

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Introduction

The Tobacco Transformation Index (the “Index”) is a tool to accelerate the transformation of the global tobacco industry and the reduction of harm caused by tobacco use. Specifically, the Index monitors tobacco companies’ activities with respect to:

1. Phasing out high-risk tobacco products;
2. Developing and responsibly offering reduced-risk alternatives to support current users to move away from high-risk products;
3. Preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products, especially youth; and,
4. Ensuring consistency of tobacco harm reduction activities across all markets of operation.

The Index will biennially rank the world’s 15 largest tobacco companies, which account for approximately 90% of global tobacco product volume sales, on their relative progress towards industry transformation. This ranking and supporting analyses aim to stimulate innovation and competition among companies and equip all stakeholders with valuable information for understanding and engaging with them to drive change.

The Index will be supplemented by country fact sheets profiling relevant regulation and related conditions in 36 markets, which account for approximately 85% of current global sales and consumption of tobacco products. The objective of the country fact sheets is to contextualize global company behavior within local market conditions, and in future iterations to analyze specific company activities in each market.¹

Accelerating Progress Against Smoking

The global effort to curtail tobacco use – particularly smoking – has made material progress in recent decades, especially in developed countries. However, globally, more than a billion people still smoke, and more than seven million die prematurely every year.

The Tobacco Transformation Index seeks to accelerate progress by encouraging the tobacco industry to reduce the health impacts caused by tobacco use, beginning with the elimination of its highest risk products. This approach aligns with the strategy of tobacco harm reduction, which envisions a transition toward lower risk nicotine products as a means of dramatically reducing disease and premature death associated with tobacco use, and as a complement to ongoing prevention and cessation efforts.

High-Risk Versus Reduced-Risk Products

Key to this approach is monitoring companies’ activities and investments as they pertain to high-risk tobacco products versus reduced-risk alternatives, which is the basis for many of the core indicators in the Index.

¹ The list of companies and countries under review can be found in the appendix.

In the absence of an established, internationally standardized classification of tobacco products based on risk, the Index utilizes available research based on the spectrum of risk concept.² The table below summarizes a working classification for the purposes of the first edition of the Index. This categorization will evolve in future iterations, as new research and information becomes available.

High-Risk Products	Reduced-Risk Alternatives
Bidis	Cartridges
Chewing tobacco	E-liquids
Cigarettes	Heated tobacco
Cigarillos	Moist snuff
Cigars	Nicotine replacement therapy (NRT)
Gutkha	Non-tobacco nicotine pouches
Smoking tobacco	Single use cig-a-like

Preventing New Uptake

As reduced-risk alternatives continue to proliferate, many stakeholders worry about the potential that they will be taken up by non-smokers and non-users of high-risk products, particularly youth. If that happens, then the benefits of reduced harm to existing adult users may be offset by potential harm to new users. For this reason, the Index also monitors companies' relevant commitments, actions, and disclosures as they relate to the prevention of access and marketing of reduced-risk alternatives to all non-smokers and non-users of high-risk products.

² Product categorization of harm was primarily based on the research of Nutt et al. (2014) and Abrams et al. (2018). Detailed definitions of the different tobacco products can be found in the appendix. Please note that the Foundation has commissioned a scientific literature review which will inform classification of product types according to relative risk and will be presented in the Methodology Report published in conjunction with the final Index report.

Methodology Overview

The Tobacco Transformation Index's Preliminary Methodology has been developed and refined based on input from an extensive global stakeholder engagement process, analysis of other leading benchmarks and indices, as well as existing standards and frameworks, a detailed analysis of the tobacco industry, and consultation with several of the companies that will be assessed by the Index.

In developing the Preliminary Index Methodology, the Index team has adhered to strict principles of transparency and accountability in all its work, including consultation with stakeholders and the tobacco industry on a voluntary basis. The Index team also believes that continuous improvement is essential to enhance the relevance and impact of the Index over time, and to further accelerate the reduction of harm caused by tobacco use. With each iteration, we will undertake a thorough review and consult with stakeholders to understand opportunities for improvement to the indicators and the overall Index program, with the aim of driving transformation of the target companies.

Design Principles

The following key principles have been used to guide the development of the Tobacco Transformation Index Preliminary's Methodology:

- **Focus and Scope** – The Index focuses on measuring and evaluating companies' activities and performance only as they relate to tobacco harm reduction. Although other environmental, social and governance (ESG) issues are important and may impact a company's overall performance, they are beyond the scope of this tool. Similarly, the Index evaluates companies' activities in the tobacco and nicotine industry only. Shifting focus and investment to other industries may create certain societal benefits and/or reduce the tobacco-related harm that a company is directly responsible for; however, existing customers may simply migrate to high-risk products offered by other companies or via illicit channels. The Index therefore focuses on what companies are (or are not) doing to support an industry-wide transition toward reduced harm, including supporting existing users to either quit or transition to reduced-risk alternatives.
- **Materiality** – Topics and indicators shall be selected and prioritized on the basis of their materiality, or significance, to the goal of tobacco harm reduction and, in turn, the long-term impact and viability of the company. This acknowledges both financial and non-financial concepts of materiality, recognizing that the negative health impacts of tobacco products are a key concern of stakeholders and that a given company's long-term financial performance will depend partly on its ability to minimize or eliminate such impacts.
- **Ability to Control/Influence** – Indicators should focus on matters that company management has reasonable ability to control or influence. An important principle is that companies should be neither rewarded nor penalized for simply following applicable law.
- **Utility** – Indicators should provide information and insight that is useful for investors and other stakeholders to engage with companies to drive change. The Index alone cannot bring about the desired scale or pace of change in the tobacco industry, nor can it dictate to companies all of the

actions necessary to effect such change. Rather, it works by providing relevant data and insight to stakeholders who can more directly influence companies.

- **Improvement** – The Index recognizes the importance of continuous improvement and the acceleration of change over time. Therefore, where applicable, performance will be assessed on the basis of both point-in-time and rate-of-change indicators.
- **Feasibility** – Categories and indicators must be able to be reasonably evaluated based on information obtainable from public reporting, relevant research databases, primary research, and/or verifiable data provided directly by companies.
- **Transparency** – In many areas, the Index recognizes the value of transparency in its own right, with indicators evaluating the presence and/or quality of disclosure itself, not just the performance or practices being disclosed. Where such disclosure is insufficient or absent, it will likely affect the scoring for both transparency and whatever underlying issue is being evaluated.
- **Alignment** – To the extent possible, the Index’s indicators should be aligned with issues, concepts and/or measurements prioritized by other relevant frameworks, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) Tobacco Standard; however, it should also be made clear how and where the Index differs, and why its approach is necessary and/or creates unique value relative to these other frameworks.

Technical Categories

The Tobacco Transformation Index consists of seven technical categories, each covering an area of corporate activity that reflects progress toward industry transformation. Each category is further broken down into subcategories which will be measured based on quantifiable indicators. The technical categories are as follows: Strategy and Management, Product Sales, Capital Allocation, Product Offer, Marketing, Lobbying and Advocacy, and Supply Chain Transition.

Indicators

The Preliminary Index currently includes 45 indicators, allowing the evaluation of a multitude of company actions. Each indicator has been included based on its relevance, feasibility, and materiality. For purposes of assessing companies, each indicator will resolve to a numeric value based on analysis of relevant quantitative and/or qualitative metrics.

Strategic Pillars

The strategic pillars complement the technical categories and offer a fully rounded view of each company’s approach to transformation. Each indicator relates to one of the strategic pillars identified:

- **Commitment:** Addresses the extent to which the company has incorporated the goal of industry transformation into its vision and strategy, its internal policies and codes of conduct, and its public stance and subsequent action.
- **Performance:** Addresses the company’s quantifiable progress in phasing out high-risk tobacco products, along with performance and investments associated with reduced-risk alternatives. Associated indicators represent the tangible results of the company’s strategy.

- **Transparency:** Addresses the company's disclosure of information necessary for stakeholders to effectively monitor and evaluate its commitment and performance.

Scoring

The Tobacco Transformation Index aims to measure company performance and spotlight practices that either support or impede industry transformation. Through a transparent and balanced system of weights, metrics, and scoring, these varied facets of company behavior will be distilled into a single score.

Weight: Each technical category, subcategory and indicator is assigned a relative weight which represents its significance with regard to the company's transformation. Initial suggested weightings at category level are provided below in the Summary table, while the weight for each indicator will be presented in the Methodology Report published in conjunction with the final Index report.

Metrics: Each indicator has metrics against which the company's performance will be scored on a relative basis, depending on the performance and practices of the 15 tobacco companies. The Index is a relative ranking, comparing companies with each other rather than against an absolute standard. As this is the first iteration of the Index, metrics will be finalized upon completion of the research and gathering of all relevant data. Details on the metrics for each indicator will be presented in the Methodology Report published in conjunction with the final Index report.

Score: The company is assigned a score for each indicator based on its performance against the specified metrics. The overall score for each category is based on the score for each indicator within that category and is adjusted based on the relative weight assigned.

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Summary Table

Category		Weight	Sub-Category	
1	Strategy and Management	7%	1A	Vision and Management Systems
			1B	Stakeholder Engagement
2	Product Sales	29%	2A	Volume Sales of Tobacco Products
			2B	Value Sales of Tobacco Products
3	Capital Allocation	29%	3A	Capital Allocation
4	Product Offer	11%	4A	Product Portfolio
			4B	Pricing
5	Marketing	11%	5A	Marketing Code
			5B	Marketing Compliance
			5C	Marketing Expenditure
6	Lobbying and Advocacy	6%	6A	Lobbying and Advocacy
7	Supply Chain Transition	7%	7A	Supply Chain Transformation Impact

1 Strategy and Management

This category assesses whether the company has made a specific commitment to industry transformation, and how its approach is embedded within its business strategy and management systems. It also assesses how stakeholder engagement is reported and incorporated into the company's strategy.

The Index asserts that a company's commitment to industry transformation is the first step to achieve relevant results. Commitment to industry transformation should be integrated into the company's core business strategy, with clear accountability rooted at the top of the organization. Furthermore, transformation is more likely to be prioritized if the company is transparent in its commitment, tracks performance, and reports to its stakeholders.

Companies engaging with and considering the viewpoints and interests of a wide range of stakeholders when developing and implementing strategies to reduce harm caused by tobacco use are more likely to be committed to industry transformation. Furthermore, public disclosure of processes for identifying and interacting with relevant stakeholders, as well as incorporating feedback regarding the company's strategy, facilitates accountability.

1A Vision and Management Systems

Assesses the implementation, commitment, and communication of long-term strategies to support industry transformation, including the phasing out of high-risk tobacco products and investment in reduced-risk alternatives, and how this is integrated into the overall business strategy and management of the company.

Companies' commitment to reduction of harm caused by tobacco use is the first step to achieve industry transformation. The degree to which a company has embraced the goal of transformation and the effort with which it pursues it depends on the comprehensive strategy implemented, which may include, for example, the establishment of specific, measurable, relevant and timebound goals (see 1A.1). A comprehensive strategy to support transformation is a starting point, but it must be supported by transparent disclosure that brings clarity and focus to strategy implementation. Companies that welcome scrutiny and share best practice enable visibility for all stakeholders, ensuring that best practice can be shared and challenged (see 1A.2).

In order to effectively implement a transformation strategy, detailed accountability structure and governance mechanisms within a company are key. Responsibility for transformation to the highest-level position and board-level oversight affect the likelihood that strategic objectives are set, prioritized, and achieved. In addition, incentives that encourage employees to appropriately prioritize and contribute to the company's transformation objectives are considered relevant (see 1A.3 and 1A.4).

The Sustainability Accounting Standards Board's (SASB) Tobacco Standard³ similarly tackles this area. Under its Public Health topic area, under code FB-TB-260a.2, it stipulates that companies' disclosures should include "discussion of the process to assess risks and opportunities associated with 'tobacco harm reduction' products." The Global Reporting Initiative's (GRI) General Disclosures⁴ (GRI-102) also covers this with a number of standards in relation to overall company management and reporting of the scope of operations. Amongst others, this includes an ethical evaluation, with GRI 102-16 requiring "a description of the organization's values, principles, standards, and norms of behavior." GRI 102-26 specifies the importance of reporting senior executive engagement, and GRI 102-35 extends this to remuneration requiring reporting on "how performance criteria in the remuneration policies relate to the highest governance body's and senior executives' objectives for economic, environmental, and social topics."

Indicator		Pillar
1	Harm Reduction Strategy Commitment to phase out high-risk tobacco products and responsibly develop and offer reduced-risk alternatives	Commitment

³ SASB. (2018). Tobacco Sustainability Accounting Standard

⁴ GRI Standards – Global Sustainability Standards Board (GSSB)

2	Public Disclosure of Harm Reduction Strategy Public reporting on specific targets and performance in achieving industry transformation	Transparency
3	Governance and Management Accountability structure and governance mechanisms within the company for achieving tobacco harm reduction objectives	Commitment
4	Performance Management and Incentives Performance incentives for achieving tobacco harm reduction objectives	Commitment

1B Stakeholder Engagement

Assesses how the wider viewpoints and interests of stakeholders are incorporated when developing and implementing strategies to achieve transformation, as well as evaluating disclosure of these policies.

Engaging with, or otherwise considering the opinions of a wide range of stakeholders enhances accountability and ensures a company is fully aware of the potential impact of its policies and plans. This may be done through direct engagement, which allows for constructive dialogue and knowledge-sharing; however, recognizing the limitation for tobacco companies to engage with other parties, it might be pursued via other means. A robust system for selecting stakeholders and incorporating external feedback on industry transformation is believed to enhance companies' strategy development and effectiveness of implementation (see 1B.5).

Since transparency allows scrutiny and enhances best practice, disclosure of stakeholder engagement activities and their outcomes enables stakeholders to evaluate the robustness and influence of engagement activities. Evidence of transparency may include, for example, disclosure of principles of engagement, and company response to feedback received (see 1B.6).

GRI Disclosures 102-40, 102-42, 102-43 and 102-44 also highlight the importance of this requiring of reporting on stakeholder engagement. These include recording all engagements, how the participants were identified, how they were approached, and the topics discussed.

Indicator	Pillar
5 Stakeholder Engagement Clear systems for selecting stakeholders and incorporating insight focused on industry transformation	Commitment
6 Disclosure of Stakeholder Engagement Disclosure of stakeholder engagement activities in industry transformation and their outcomes	Transparency

2 Product Sales

This category assesses the company's historical performance in its sales of high-risk tobacco products and in proportion to sales of reduced-risk alternatives, including rates of change. It also assesses the consistency of performance across all the markets where the company operates.

Transformation of the tobacco industry must result in the phasing out of high-risk tobacco products in every market where the company operates. Core to this Index is making companies accountable for the harm caused by their products and, as such, responsible for supporting consumers to transition away from high-risk products, in part by responsibly offering accessible reduced-risk alternatives. This should result in decreasing sales of high-risk products and an increase in the share of sales generated by reduced-risk alternatives as compared to high-risk products. Sales of products outside the tobacco industry are not considered by the Index (see Design Principles section).

2A Volume Sales of Tobacco Products

Assesses volume sales of high-risk tobacco products and reduced-risk products, while evaluating performance across LMICs and HMICs.

Volume sales of high-risk products are the unequivocal marker of a company's commitment and actions towards industry transformation, and its contribution to phasing out high-risk tobacco products. Declining volume sales of high-risk products is a critical measure of progress towards industry transformation (see 2A.7). Furthermore, the Index considers company activity focused on offering reduced-risk alternatives in concert with company activity focused on reducing sales of high-risk tobacco products. The ratio of volume sales of reduced-risk alternatives to high-risk tobacco products is considered an indication of company's performance in supporting current users to move away from high-risk products (see 2A.9).

A company's rate of change with regards to volume sales is a key indicator of whether the company is accelerating the phasing out of high-risk tobacco products. Capturing both 2019 data and the evolution of volume sales over the last three financial years will allow the Index to report the status as of the most recent annual periods, as well measure a company's pace of transformation (see 2A.8 and 2A.10).

An essential component of the Index is monitoring company activity and performance across different markets, in order to evaluate whether it is pursuing a consistent, global approach to tobacco harm reduction within local regulatory guidelines (see 2A.11, 2A.12, 2A.13).

The SASB Tobacco Standard also highlights the importance of tracking volume sales. Under Activity Metrics, it includes reporting of volume sales of combustible tobacco products: (1) cigarette, (2) cigar, and (3) other smoked tobacco products (FB-TB-000.A). This also applies to Non-Combustible product sales volume: (1) traditional smokeless tobacco, (2) non-tobacco

nicotine products, (3) heated tobacco products, and (4) nicotine replacement therapy products (FB-TB-000.B).

Indicator		Pillar
7	Volume Sales of High-Risk Products Volume sales of high-risk tobacco products (last financial year: 2019)	Performance
8	Volume Sales of High-Risk Products – Rate of Change Evolution in volume sales of high-risk tobacco products (last three financial years: 2017, 2018, 2019)	Performance
9	Ratio of Volume Sales (RRPs vs HRPs) Ratio of volume sales of reduced-risk alternatives to high-risk tobacco products (last financial year: 2019)	Performance
10	Ratio of Volume Sales (RRPs vs HRPs) – Rate of Change Evolution of the ratio of volume sales of reduced-risk alternatives to high-risk tobacco products (last three financial years: 2017, 2018, 2019)	Performance
11	Volume Sales of High-Risk Products in LMICs vs HMICs – Rate of Change Evolution of volume sales of high-risk tobacco products in LMICs vs HMICs (last three financial years: 2017, 2018, 2019)	Performance
12	Ratio of Volume Sales (RRPs vs HRPs) in LMICs vs HMICs Ratio of volume sales of reduced-risk alternatives to high-risk tobacco products in LMICs vs HMICs (last financial year: 2019)	Performance
13	Ratio of Volume Sales (RRPs vs HRPs) in LMICs vs HMICs – Rate of Change Evolution of the ratio of volume sales of reduced-risk alternatives to high-risk tobacco products in LMICs vs HMICs (last three financial years: 2017, 2018, 2019)	Performance

2B Value Sales of Tobacco Products

Assesses the level of net value sales of high-risk tobacco products and reduced-risk products, while evaluating performance across LMICs and HMICs.

Value sales indicate the reliance of a company on sales of high-risk products, which contextualizes its efforts towards industry transformation and highlights the extent of barriers to transformation. The value of sales of high-risk products, which is a function of volume sales and pricing, is a critical measure of progress towards industry transformation (see 2A.14). As with volume sales, the ratio of value sales of reduced-risk alternatives to that of high-risk tobacco products is considered an indication of a company's performance in supporting existing consumers to transition away from high-risk products (see 2A.16).

Companies' rates of change towards industry transformation and consistency of values sales across markets are also captured (see 2A.15, 2A.17, see 2A.18, 2A.19, 2A.20).

The SASB Tobacco Standard also captures value sales, stipulating within its Public Health topic area the requirement for separate reporting of: (1) gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products (FB-TB-260a.1.). The GRI disclosure 201-1 also requires the reporting of financial information. The SAM Corporate Sustainability Assessment (CSA)⁵, as used by the Dow Jones Sustainability Indices (DJSI)⁶, also requires companies to report revenues.

Indicator		Pillar
14	Value Sales of High-Risk Products Net sales ⁷ of high-risk tobacco products (last financial year: 2019)	Performance
15	Value Sales of High-Risk Products – Rate of Change Evolution in net sales of high-risk tobacco products (last three financial years: 2017, 2018, 2019)	Performance
16	Ratio of Value Sales (RRPs vs HRPs) Ratio of net sales of reduced-risk alternatives to high-risk tobacco products (last financial year: 2019)	Performance
17	Ratio of Value Sales (RRPs vs HRPs) – Rate of Change Evolution of the ratio of net sales of reduced-risk alternatives to high-risk tobacco products (last three financial years: 2017, 2018, 2019)	Performance
18	Value Sales of High-Risk Products in LMICs vs HMICs – Rate of Change Evolution of net sales of high-risk tobacco products in LMICs vs HMICs (last three financial years: 2017, 2018, 2019)	Performance
19	Ratio of Value Sales (RRPs vs HRPs) in LMICs vs HMICs Ratio of net sales of reduced-risk alternatives to high-risk tobacco products in LMICs vs HMICs (last financial year: 2019)	Performance
20	Ratio of Value Sales (RRPs vs HRPs) in LMICs vs HMICs – Rate of Change Evolution of the ratio of net sales of reduced-risk alternatives to high-risk tobacco products in LMICs vs HMICs (last three financial years: 2017, 2018, 2019)	Performance

⁵ CSA Companion 2020 – SAM Corporate Sustainability Assessment (CSA)

⁶ S&P Dow Jones. (2019). Dow Jones Sustainability Indices – Methodology

⁷ Net value sales refer to gross sales minus applicable sales returns, allowances, and discounts. Gross sales do not include cost of goods sold, operating expenses, excise tax expenses or other charges.

3 Capital Allocation

This category assesses the company’s performance on allocating resources away from high-risk products to reduced-risk alternatives. It is indicative of a structural shift away from high-risk tobacco products.

Sustained action is necessary to change deep-rooted corporate, societal and consumer behavior. The Capital Allocation category covers this directly through indicators associated with long-term investment in R&D, infrastructure, and M&A activity in reduced-risk product alternatives relative to high-risk products. In this manner, the category is indicative of structural shifts and as such it is recognized as a leading indicator. Company commitment to transformation of the tobacco industry must result in a reallocation of resources away from high-risk categories to reduced-risk alternatives. Investments outside the tobacco industry are not considered by the Index (see Design Principles section).

3A Capital Allocation

Assesses how the company is mobilizing resources away from high-risk products and towards reduced-risk alternatives.

M&A, R&D and capital expenditure are quantifiable financial measures of investment activity that reflect a company’s performance objectives related to structural transformation. Seeking to increase sales of high-risk products by entering new markets that support high growth for the tobacco business is regarded as strongly impeding industry transformation. On the other hand, a relative increase in R&D and capital investment to produce harm-reduction products to support consumers to switch to reduced-risk alternatives and ultimately quit altogether, as well as supporting scientific research into tobacco harm reduction, potentially contributes to industry transformation (see 3A.21 to 3A.26).

Indicator	Pillar
21 M&A Expenditure on High-Risk Products M&A expenditure related to high-risk products over the last three years as a share of net revenue (last three financial years: 2017, 2018, 2019).	Performance
22 Ratio of M&A Expenditure (RRPs vs HRPs) Ratio of M&A expenditure on reduced-risk alternatives to high-risk products over the last three years (last three financial years: 2017, 2018, 2019)	Performance
23 R&D Expenditure on High-Risk Products R&D expenditure related to high-risk products as a share of net sales (excluding expenditure related to legal compliance requirements; last three financial years: 2017, 2018, 2019)	Performance

24	Ratio of R&D Expenditure (RRPs vs HRPs) Ratio of R&D expenditure on reduced-risk alternatives to high-risk products over the last three years (excluding expenditure related to legal compliance requirements; last three financial years: 2017, 2018, 2019)	Performance
25	Capital Expenditure on High-Risk Products Capital expenditure related to high-risk products as a share of net sales (last three financial years: 2017, 2018, 2019)	Performance
26	Ratio of Capital Expenditure (RRPs vs HRPs) Ratio of capital expenditure on reduced-risk alternatives to high-risk products over the last three years (last three financial years: 2017, 2018, 2019)	Performance

4 Product Offer

This category assesses the company’s commitment to transformation by measuring its efforts to shift consumers away from high-risk tobacco products, and to responsibly offer current smokers and high-risk tobacco users reduced-risk alternatives.

Reducing the offer of high-risk tobacco products and refraining from activities that encourage sales of these products, such as discounting or marketing, supports industry transformation. The responsible introduction of accessible reduced-risk alternatives could support adult smokers in migrating from high-risk tobacco products and ultimately quit altogether. These efforts support industry transformation only if consistent across low-medium and high-medium income countries, within local regulatory guidelines.

4A Product Portfolio

Assesses the provision of reduced-risk alternative products, which may enable consumers to migrate away from high-risk tobacco products. The evaluation is made across countries and via a comparison of LMIC and HMIC markets.

Responsibly developing a product portfolio of reduced-risk alternatives demonstrates a company’s efforts to shift consumers away from high-risk tobacco products (see 4A. 27). To accelerate industry transformation, continuous innovation, and the release of new and scientifically improved reduced-risk products from companies will increase the pace at which existing high-risk product users switch to reduced-risk alternatives (see 4A.28).

In order to achieve industry transformation at a global level, it is important that reduced-risk alternatives are also offered in low-medium income countries, and that companies avoid efforts to exploit weak regulatory frameworks and enforcement to maximize growth of high-risk products in these countries. This practice is common in the tobacco industry, especially as comparatively strong regulations constrain sales of high-risk products in high-medium income countries. It is important that the most serious efforts toward transformation do not occur only in certain

developed markets, while the status quo persists in developing countries, or they move in the opposite direction (see 4A.29 and 4A.30).

The SASB Tobacco Standard also addresses portfolios under FB-TB-260a.2, specifically stipulating the entity should discuss “scope, success, and growth plans related to its current ‘tobacco harm reduction’ product portfolio and, where relevant, its plans to introduce future products and product categories.”

Indicator		Pillar
27	<p>Ratio of Product Portfolio (RRPs vs HRPs)</p> <p>Ratio of number of reduced-risk product categories to high-risk product categories in global product portfolio (last financial year: 2019)</p>	Performance
28	<p>Ratio of Product Portfolio (RRPs vs HRPs) – Rate of Change</p> <p>Evolution of ratio of number of reduced-risk product categories to high-risk product categories in global product portfolio (last three financial years: 2017, 2018, 2019)</p>	Performance
29	<p>Ratio of Product Portfolio (RRPs vs HRPs) in LMICs vs HMICs</p> <p>Ratio of number of reduced-risk product categories to high-risk product categories in LMICs vs HMICs (last financial year: 2019)</p>	Performance
30	<p>Ratio of Product Portfolio (RRPs vs HRPs) in LMICs vs HMICs – Rate of Change</p> <p>Evolution of ratio of number of reduced-risk product categories to high-risk product categories in LMICs vs HMICs (last three financial years: 2017, 2018, 2019)</p>	Performance

4B Pricing

Assesses the affordability of reduced-risk alternatives to high-risk products by company. Affordability is assessed across geographies, including a comparison of LMIC and HMIC markets.

The affordability of reduced-risk alternatives facilitates the responsible migration of consumers away from high-risk products and thus supports industry transformation. As such, the price of reduced-risk alternatives should not necessarily create a barrier to transition. The comparison is focused at company level to understand the difference between the average price of reduced-risk alternatives and that of high-risk products offered by the same company (see 4B.31 and 4B.32).

Affordability is a key contributor to the high consumption of high-risk tobacco products in low-medium income countries, within local regulatory guidelines. A consistent, global approach to tobacco harm reduction by responsibly offering affordable reduced-risk alternatives to existing

high-risk product users in all countries of operation, rather than only selected high-medium income markets, is key to achieving industry transformation (see 4B.33 and 4B.34).

The WHO Framework Convention on Tobacco Control (FCTC) Indicator Compendium⁸ similarly analyzes price, tracking the “Retail price of a pack of the most widely sold brand of tobacco product”. The WHO FCTC does this to assess the affordability of products and the impact of taxes on reducing consumption. This is related to Article 6⁹, which covers price and tax measures to reduce demand for tobacco.

Indicator		Pillar
31	<p>Ratio of Average Price (RRPs vs HRPs)</p> <p>Comparison of average retail price of reduced-risk alternatives with that of high-risk products across all countries of operation under review (last financial year: 2019)</p>	Performance
32	<p>Ratio of Average Price (RRPs vs HRPs) – Rate of Change</p> <p>Evolution of comparison of average retail price of reduced-risk alternatives to high-risk products across all countries of operation under review (last three financial years: 2017, 2018, 2019)</p>	Performance
33	<p>Ratio of Average Price (RRPs vs HRPs) in LMICs vs HMICs</p> <p>Comparison of average retail price of reduced-risk alternatives with that of high-risk products in LMICs vs HMICs (last financial year: 2019)</p>	Performance
34	<p>Ratio of Average Price (RRPs vs HRPs) in LMICs vs HMICs – Rate of Change</p> <p>Evolution of comparison of average retail price of reduced-risk alternatives with that of high-risk products in LMICs vs HMICs (last three financial years: 2017, 2018, 2019)</p>	Performance

5 Marketing

This category assesses how the company’s marketing policy, compliance and expenditure support a transition away from high-risk tobacco products, while also mitigating the potential for uptake of reduced-risk alternatives by non-smokers or non-users of high-risk products.

The development and implementation of responsible marketing practices integrated into a robust marketing code, with a focus on preventing new smoker adoption, health-risk communication, and non-misleading advertising, contributes to responsible industry transformation. The disclosure of any breaches to such a code or regulations is further regarded as indicative of

⁸ FCTC. (2013). WHO FCTC Indicator Compendium

⁹ FCTC. (n.d.). WHO Framework Convention on Tobacco Control

transparency supporting a commitment to industry transformation. Underlying this, it is expected that company spend on high-risk products will be reducing, both in absolute terms and in proportion to expenditures on marketing of reduced-risk products.

5A Marketing Code

Assesses how the company’s marketing policy supports a transition away from high-risk tobacco products, while also mitigating potential unintended consequences of new alternatives.

The presence of health risk communication, non-misleading advertising, and activities to limit the target audience to smoking adults are considered fundamental aspects of a marketing code associated with responsible transformation (see 5A.35). Furthermore, uptake of any nicotine or tobacco product by youth (and other vulnerable segments of the population) must be prevented (see 5A.37). The provision of compliance-monitoring mechanisms encompassing accountability for violations of marketing, and youth access prevention policies by the company itself and its affiliates strengthen the marketing code. Publicly disclosing violations of both codes further strengthens accountability (see 5A.36 and 5A.38).

The SASB Tobacco Standard’s Marketing Practices topic also highlights the importance it attaches to this area. Under codes FB-TB-270a.1 and FB-TB-270a.2, SASB requires analysis of advertising, promotion, and packaging against international standards, principally the World Health Organization FCTC (Articles 11 and 13). Article 11 puts restrictions on packaging and labeling, while Article 13 stipulates bans on advertising, promotion, and sponsorship to which tobacco companies must adhere, as implemented by national governments. GRI 417: Marketing and Labeling also emphasizes the same issues as the Index, requiring both the reporting of approaches to marketing, but also disclosures of non-compliance with regulations or voluntary codes. In relation to this, GRI 419 also highlights the need to report non-compliance.

Indicator		Pillar
35	Marketing Code Presence, content, and robustness of the marketing code	Commitment
36	Disclosure of Marketing Code Violations Publication of reported fines, violations, and established breaches of the company’s marketing code	Transparency
37	Youth Access Prevention Code Presence, content, and robustness of youth (and other vulnerable segments of the population) access prevention code	Commitment
38	Disclosure of Youth Access Prevention Code Violations Publication of reported violations and established breaches of the youth (and other vulnerable segments of the population) access prevention code	Transparency

5B Marketing Compliance

Assesses company’s disclosure of violation cases of any applicable law for tobacco control associated with marketing, labeling, and advertising.

Public disclosure demonstrates accountability. Accountability may prevent future violations and incentivize companies to behave more responsibly than they otherwise would. Public disclosure of violations of tobacco control laws and enabling scrutiny of company behavior by stakeholders are regarded as actions which can contribute to industry transformation (see 5B.39).

The SASB Tobacco Standard highlights the importance of compliance and transparency with its accounting metric FB-TB-270a.1, which requires disclosure of “total amount of monetary losses as a result of legal proceedings associated with marketing, labeling, and/or advertising practices.”

Indicator		Pillar
39	Disclosure of Violations Disclosure of cases of violation of any applicable law for tobacco control associated with marketing, labeling, and advertising	Transparency

5C Marketing Expenditure

Assesses the marketing spend on high-risk products, both in absolute terms and in proportion to expenditures on marketing of reduced-risk products.

Low relative marketing spend on high-risk products means that the company’ is not necessarily actively encouraging high-risk product consumption (see 5C.40). On the contrary, the higher the proportion of marketing spend on reduced-risk alternatives compared with high-risk products, the more effective the company may be in supporting current users to move away from high-risk products and contribute to the transformation of the tobacco market (see 5C.41). The Index also acknowledges that certain marketing costs are incurred purely for regulation purposes.

Marketing resources shifted to promoting reduced-risk alternatives should only aim to support current users to move away from high-risk products via clear health risk communication, non-misleading advertising, and other marketing activities that limit the target audience to smoking adults. This aspect is covered in the Marketing Code sub-category (see 5A).

Indicator		Pillar
40	Marketing Expenditure on High-Risk Products Marketing spend (including discounting) on high-risk products as a share of net revenue (last three financial years: 2017, 2018, 2019)	Performance

41	Ratio of Marketing Expenditure (RRPs vs HRP) Ratio of marketing spend (including discounting) on reduced-risk alternatives to high-risk tobacco products (last three financial years: 2017, 2018, 2019)	Performance
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6 Lobbying and Advocacy

This category assesses transparency of interaction between governments, policy makers and advocacy organizations.

Depending on the context, companies undertake advocacy on a wide range of issues related to phasing out high-risk tobacco products, developing and responsibly offering reduced-risk alternatives, and preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products.

6A Lobbying and Advocacy

Assesses a company’s disclosure of positions related to industry transformation, as well as lobbying and advocacy memberships, financial contributions, and activities.

Responsible industry transformation is contributed to by taking a public stance on a wide range of issues related to phasing out high-risk tobacco products, developing and responsibly offering reduced-risk alternatives, and preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products. Transparency is also valued when companies seek to actively influence policy via lobbying and advocacy initiatives, and regarding the resources they allocate to doing so, and as to whether the company’s published policy and resource allocation align (see 6A.42 and 6A.43).

GRI 102-13 takes a similar approach, requiring the provision of “a list of the main memberships of industry or other associations, and national or international advocacy organizations”. In addition, GRI-415 requires the reporting of participation in public policy development and lobbying, and the associated stances taken. The WHO FCTC covers this topic from the viewpoint of regulators, stating in Article 5.3 that “Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law.” Within its tobacco assessment, the SAM CSA (DJSI) analyzes Policy Influence in terms of how much a company does and how transparent it is in disclosing activities. It specifically evaluates the amount of money companies allocate to organizations whose primary role is to influence public policy.

Indicator		Pillar
42	Disclosure of Policy Positions Disclosure of policy positions related to industry transformation	Transparency

43	Disclosure of Lobbying and Advocacy Activities Disclosure of lobbying and advocacy memberships, financial contributions, and activities	Transparency
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7 Supply Chain Transition

This category assesses measures taken by the company to evaluate, plan and support the transition of its supply chain away from high-risk products, which supports the structural transformation of the tobacco industry.

Globally, the tobacco industry supports millions of tobacco leaf farmers that will be impacted by a transition away from traditional tobacco products. Tobacco leaf farmers are essential stakeholders of industry transformation, and their interests and the impact to their livelihoods should be taken into account in order to guarantee sustainable transformation.

7A Supply Chain Transformation Impact

Evaluates the company’s effort to understand how transformation will impact its suppliers, and its activities to support tobacco farmers in reducing their dependence on tobacco production.

Assessing the impact of the shift away from high-risk products on the entire supply chain, and supporting suppliers to transition, is regarded as best practice in facilitating sustainable industry transformation; in particular, a company’s commitment to ensuring that members of the tobacco supply chain are not left behind as the company undergoes transformation away from high-risk tobacco products (see 7A.44). Effective programs to support tobacco farmers could include support in finding alternative crops or alternative uses of the same crop, or transitioning to alternative livelihoods (see 7A.45).

The need to mitigate the negative economic and social impacts on the supply chain of the transition away from high-risk tobacco products is also covered by other frameworks, as seen in Article 17 of the WHO FCTC requiring organizations to “promote, as appropriate, economically viable alternatives for tobacco workers, growers and, as the case may be, individual sellers”. GRI’s 414 disclosure also covers this aspect, with GRI 414-2 requiring the reporting of “significant actual and potential negative social impacts identified in the supply chain”. Taking into account the potential negative economic and social impact on agricultural workers also ties in with the UN’s Sustainable Development Goals¹⁰ and Global Compact¹¹ in its advocacy of sustainable farming and the protection of small farmers and laborers. The SAM CSA (DJSI) also covers worker welfare and evaluates dependencies which can arise in the supply chain.

¹⁰ United Nations (UN). (2019). The Sustainable Development Goals Report.

¹¹ United Nations Global Compact. (2019). Progress Report.

Indicator		Pillar
44	<p>Supply Chain Impact Assessment</p> <p>Efforts to understand how reducing production of (or sales of) combustible tobacco and high-risk products will impact the company’s supply chain and suppliers (last three financial years: 2017, 2018, 2019)</p>	Commitment
45	<p>Supply Chain Transformation Programs</p> <p>Support for tobacco farmers on reducing their dependence on tobacco production (last three financial years: 2017, 2018, 2019)</p>	Commitment

Appendix

Comparison with Other Indices and Frameworks

The Tobacco Transformation Index is inspired by the example set by tools focused on key issues within and across other industries as well as frameworks focused on sustainability standards, in some cases covering specifically the tobacco industry.

Sustainability Accounting Standards Board (SASB)

In its sustainability accounting standards for the tobacco industry, SASB sets out how companies should detail activities related to the sustainability topic areas of Public Health and Marketing Practices in their financial reporting, through defined metrics and disclosures. The Tobacco Transformation Index shares the SASB's goal of increasing transparency and accountability, and has leveraged similar metrics and principles for certain categories.

- Under Activity Metrics, the SASB Tobacco Standard requires disclosure of volume sales of combustible tobacco products: (1) cigarettes, (2) cigars, and (3) other smoked tobacco products (FB-TB-000.A). This also applies to non-combustible product sales volume: (1) traditional smokeless tobacco, (2) non-tobacco nicotine products, (3) heated tobacco products, and (4) nicotine replacement therapy products (FB-TB-000.B). Volume reporting also forms a core indicator of the Tobacco Transformation Index. The Index covers volume sales through indicators analyzing total sales of high-risk products and their evolution over the last three years, but also the ratio of reduced-risk products to high-risk, and its evolution. In addition, the Index extends the analysis of these factors to indicators covering the ratio of volume sales in LMICs versus HMICs (see 2. Product Sales).
- Within its Public Health topic area, the SASB Tobacco Standard requires the separate reporting of: (1) gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products (FB-TB-260a.1.). The Index also evaluates revenue from reduced-risk and high-risk product categories separately and as compared to each other globally and in LMICs versus HMICs (see 2. Product Sales).
- As part of its Public Health topic area, the SASB Tobacco Standard stipulates that companies' disclosures should include "discussion of the process to assess the risk and opportunities associated with tobacco harm reduction products" (FB-TB-260a.2.). The Index reflects this by assessing how the company has made a specific commitment to reducing the harm associated with tobacco use, and how its approach is embedded within its business strategy and management systems (see 1 Strategy and Management). This is also related to a company's current portfolio and development (see 5A. Product Portfolio).
- As part of its Marketing Practices topic, under codes FB-TB-270a.1 and FB-TB-270a.2, the SASB Tobacco Standard requires analysis of advertising, promotion, and packaging against international standards, principally the World Health Organization Framework Convention on Tobacco Control (Articles 11 and 13). The Index applies the same principle by incorporating indicators which analyze whether companies have a robust marketing code in place, and if they report violations of their own marketing code. It also assesses the existence and content of a youth access prevention code (see 5. Marketing).

The WHO Framework Convention on Tobacco Control (WHO FCTC)

The WHO FCTC is a treaty for national governments under which signatories are recommended to act and legislate in accordance with the conventions of the treaty. Its focus is on improving public health and how regulatory frameworks facilitate this. Its activities impact tobacco companies through government policies, but it does not directly engage with them.

Some of the articles of the WHO FCTC have been leveraged by the Index. Article 11 puts restrictions on packaging and labeling, while Article 13 stipulates bans on advertising, promotion and sponsorship to which tobacco companies must adhere, as implemented by national governments. Recognizing the role of these Articles, the Tobacco Transformation Index includes indicators assessing the robustness of the marketing and youth access prevention codes in terms of the presence of health risk communication and non-misleading advertising, and whether companies disclose transgressions related to these codes (see 5. Marketing). Additionally, Article 17 stipulates the provision of support for economically viable alternative activities for tobacco workers. This is reflected in the Index's Supply Chain Transformation Impact (7A).

The WHO FCTC uses a list of indicators to assess the current status of implementation by signatory countries, which are focused on societal factors and health conditions, rather than company actions. However, the WHO FCTC's Indicator Compendium tracks the "Retail price of a pack of the most widely sold brand of tobacco product". The FCTC does this to assess the affordability of products and the impact of taxes on reducing consumption. This is related to Article 6, which covers price and tax measures to reduce demand for tobacco. In order to similarly analyze affordability, the Index compares the average price of reduced-risk products to that of high-risk products for each company, and how this is evolving, as well as how this relationship differs between LMICs and HMICs (see 4B. Pricing).

The WHO FCTC also covers this topic of lobbying and advocacy (see 6A. Lobbying and Advocacy) from the viewpoint of regulators, stating in Article 5.3 stating that "Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law."

SAM Corporate Sustainability Assessment (CSA) as used by the Dow Jones Sustainability Indices (DJSI)

The CSA assesses a company's sustainability credentials through economic, environmental, and social dimensions. In its coverage of the tobacco industry, it is not focused on consumption reduction, but rather a company's impact on the ecological environment and society. This limits the crossover with the Tobacco Transformation Index, which is focused solely on industry transformation rather than broader environmental, social, and governance (ESG) topics (see Methodology Overview section).

Within its tobacco assessment, the CSA analyzes Policy Influence in terms of how much a company does and how transparent it is in disclosing its activities. The Tobacco Transformation Index has two indicators which are related to this area: "Disclosure of policy positions related to industry

transformation” and “Disclosure of lobbying and advocacy memberships, financial contributions and activities”, which follow the same principles and rationale developed by the CSA (see 6A. Lobbying and Advocacy).

The CSA also assesses Innovation Management, which relates to the Index’s analysis of R&D (see 3. Capital Allocation) and also requires companies to report revenues (see 2. Product Sales). Additionally, it covers worker welfare and evaluates dependencies which can arise in the supply chain (see 7A. Supply Chain Transition).

Global Reporting Initiative (GRI)

The GRI Sustainability Reporting Standards set out how organizations should report their impacts on the economy, the environment and/or society. They are not specific to tobacco, but their approach has been used in a number of ways.

The GRI’s General Disclosures (GRI 102) include a number of standards in relation to overall company management and reporting of the scope of operations, including whether executives’ performance-related pay is linked to social issues, which is covered in the Index’s Strategy and Management Systems indicators (see 1. Strategy and Management). Amongst others, this includes an ethical evaluation, with GRI 102-16 requiring “a description of the organization’s values, principles, standards, and norms of behavior”. GRI 102-26 further specifies the importance of reporting senior executive engagement, and GRI 102-35 extends this to remuneration, requiring reporting on “how performance criteria in the remuneration policies relate to the highest governance body’s and senior executives’ objectives for economic, environmental, and social topics”. This directly correlates with the Index’s indicator on Performance Management and Incentives. GRI Disclosures 102-40, 102-42, 102-43 and 102-44 also highlight the importance of this, requiring reporting on stakeholder engagement (see 1B. Stakeholder Engagement). These include recording all engagements, how the participants were identified, how they were approached, and the topics discussed.

The standards from the GRI on Public Policy (GRI 415) and Marketing and Labelling (GRI 417) are reflected in the Index’s analysis of Marketing Compliance (see 5B. Marketing Compliance) and Marketing and Youth Codes (see 5A. Marketing Code). The GRI 414 standard includes the need to assess the potential negative social impact of terminating a supply contract and the company’s role in mitigating this. The Index assesses this through the Supply Chain Transition indicators (see 7. Supply Chain Transition).

Non-Tobacco Sector Focused Indexes

There are also well-established indexes covering sectors unrelated to tobacco, which the Tobacco Transformation Index has leveraged in terms of research approach, methodology, and indicators. The most relevant include:

- Access to Medicines Index (ATMI)
- Access to Nutrition Index (ATNI)

- Corporate Human Rights Benchmark (CHRB)
- World Benchmarking Alliance (WBA) – Seafood Stewardship Index (SSI)
- Access to Seeds Index (ATSI)

While each has its own nuances, there were several underlying commonalities among them which the Index was able to adopt. The underlying pillars of performance, commitment and transparency are utilized in the Tobacco Transformation Index. The structure of the Index, as composed of numeric scores generated from qualitative and quantitative metrics assigned to each indicator, has been developed based on principles leveraged by the aforementioned indices.

Each of the indices endeavors to evaluate company behavior in an equitable, accessible, and robust manner that supports their specific aims. While each Index has tailored its indicators to meet the specific needs and nuances of the industry under consideration, there are still areas of commonality that the Tobacco Transformation Index has leveraged; for example, the Access to Medicine Index incorporates indicators related to Stakeholder Engagement, Governance of Ethical Marketing, Ethical marketing and Corruption: Disclosure of breaches, Resources dedicated to R&D, and Equitable pricing strategies: Price disclosure. Indicators aiming to capture similar information have been included in the Tobacco Transformation Index (see relevant sections) and parallels can be found in most of the aforementioned indices as well.

Other Indexes and Standards

There are other organizations which track, analyze, and set standards for sustainability related issues, which can be applied to a multitude of industries. The Tobacco Transformation Index has analyzed the FTSE Russell FTSE4Good Index, the UN Sustainable Development Goals and Global Compact, and the International Organization of Securities Commissions (IOSCO) – Financial Benchmarks Principles. These have broader areas of focus than the Tobacco Transformation Index, covering wider environmental, social and governance areas. For the most part, direct indicators were not transcribed to the Index, but the approaches and principles used informed the methodologies adopted. For example, considering the potential negative economic and social impact on agricultural workers (see 7. Supply Chain Transition) also ties in with the UN’s Sustainable Development Goals and Global Compact in their advocacy of sustainable farming and the protection of small farmers and laborers.

Summary Table

Subcategory	Reference Framework
1A Vision and Management Systems	SASB: FB-TB-260a.2 GRI 102: General Disclosures GRI Disclosures 102-15, 102-16, 102-20, 102-26, 102-32, 102-35, 416-1 Sustainable Development Goal n. 3 DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products

1B	Stakeholder Engagement	GRI 102: General Disclosures GRI Disclosures 102-40, 102-42, 102-43, and 102-44
2A	Volume Sales of Tobacco Products	SASB: FB-TB-000.A, FB-TB-000.B DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
2B	Value Sales of Tobacco Products	SASB: FB-TB-260a.1 GRI Disclosure 201-1 DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
3A	Capital Allocation	DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
4A	Product Portfolio	SASB FB-TB-260a.2 DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
4B	Pricing	WHO FCTC Article 6
5A	Marketing Code	SASB: FB-TB-270a.2 GRI 417 Management Approach GRI Disclosure 417-1 WHO FCTC Article 11, 13 DJSI Marketing Practices
5B	Marketing Compliance	SASB: FB-TB-270a.1 GRI 417 Management Approach GRI Disclosures 417-2, and 417-3 GRI 419 Management Approach GRI Disclosure 419-1
5C	Marketing Expenditure	WHO FCTC Article 6
6A	Lobbying and Advocacy	GRI 102: General Disclosures GRI Disclosure 102-13 GRI 415 Management Approach GRI Disclosure 415-1 WHO FCTC Article 5.3 DJSI 3.5.1, 3.5.2
7A	Supply Chain Transformation Impact	GRI 414 Management Approach GRI Disclosure 414-2 WHO FCTC Article 17 Sustainable Development Goal n. 1, 2.3, 2.4 UNGC Principle 4, 5 DJSI 3.6.5

Product Definitions

Product	Type	Definitions
High-Risk Products		
Bidis	Combustible Tobacco	Bidis/beedis refers to non-machine tobacco manufactured tobacco products typically originating in India.
Chewing Tobacco	Smokeless Tobacco	Chewing tobacco consists primarily of two types of product: Asian-style and US-style available in those specific geographic areas and other chewing tobacco available in all other markets.
Cigarettes	Combustible Tobacco	The definition of cigarettes for the purposes of the Index is duty-paid, machine-manufactured white-stick products. This category also includes hand-rolled kretek cigarettes present in Indonesia and other brands of cigarettes that do not use white paper. However, it excludes non-machine-manufactured products such as bidis/beedis (India) and papirosy (Russia), and other smoking products made with tobacco but that either do not resemble cigarettes as recognized in the US or Europe, or those that are not machine-manufactured.
Cigarillos	Combustible Tobacco	Cigarillos are defined as miniature cigars weighing less than 3 g each, with a ring gauge of <29. Ring gauge is usually listed under a brand as Length/Ring and is a number indicating the circumference of the cigar's cross section and is enumerated in sixty-fourths of an inch ($64/64 = 1$ inch). Length does not matter as much in determining cigarillo vs. small cigar as some cigarillos can be quite long. However, six inches is the maximum length a cigarillo tends to be.
Cigars	Combustible Tobacco	Cigars are made of tobacco wrapped in leaf as opposed to paper. The product varies considerably in terms of price, quality, and size. Different terms are used to describe the various types of cigar depending on the country. Cigars generally consist of three sections: the filler, the binder, and the wrapper. Cigars are defined as weighing more than 3 g with ring gauges of 30 cm or more.
Gutkha	Smokeless Tobacco	Gutkha is a type of smokeless tobacco that is made in India and is widely used throughout Asia. It is a mixture of tobacco, crushed areca nut (also called betel nut), spices, and other ingredients. It is used like chewing tobacco and is placed in the mouth, usually between the cheek and gum.
Pipe tobacco	Combustible Tobacco	Western-style pipe tobacco includes cut tobacco sold in packaged format for smoking in pipes and available in pouches, tins, and cans.
Roll Your Own (RYO)	Combustible Tobacco	RYO is Fine Cut tobacco sold usually in plastic or foil pouches, metal tins or plastic tubs. It can also be flavored.
Shisha	Combustible Tobacco	Middle-Eastern style water pipe tobacco is also known as “shisha”, “hookah” or “nakhla”. Shisha tobacco is also referred to as molasses tobacco and is moist and sweetly flavored – often with fruit.
Smoking Tobacco	Combustible Tobacco	Smoking tobacco consists of cut tobacco sold in packaged format for smoking either in pipes or for use in roll-your-own (RYO) cigarettes. This excludes smokeless tobacco, such as snuff (or “snus”) and chewing tobacco.

Product	Type	Definitions
Reduced-Risk Products		
Cartridges	Vapor Products	This product category consists entirely of the sales of pre-filled pods or capsules for use with a non cig-a-like closed system device. Currently, these are universally proprietary in nature (pods are useable exclusively with a single specific hardware device).
E-liquids	Vapor Products	Liquid tanks used within a vaporizing device. They are inserted into a refillable liquid chamber. E-liquids can have different nicotine levels and flavors.
Heated Tobacco	Vapor Products	Heat-not-burn devices include products, generally manufactured by major tobacco companies, which heat rather than combust tobacco to produce vapor rather than smoke. Tobacco specifically intended for use in heat-not-burn products are included and can come in the form of tobacco pods or in specially designed cigarette sticks.
Moist Snuff	Moist Snuff	Moist Snuff includes snus either loose or pre-portioned in miniature sized 'teabag' pouches that are placed on the gum and sucked on. Swedish-style snus is distinguished from US-style moist snuff by its processing: Swedish-style snus is pasteurized (heat-treated); compared to US-style moist snuff which is fermented.
Non-Tobacco Nicotine Pouches	Non-Tobacco Nicotine Pouches	Non-tobacco nicotine pouches are manufactured in a similar way to snus using ingredients such as filler, flavors, stabilizers, and nicotine but do not contain tobacco.
NRT Products	NRT Products	Nicotine-based products such as gum, lozenges, patches, and inhalators used to aid smoking cessation. It also Includes nicotine-based products sold as capsules, micro-tabs, or sprays.
Single Use Cig-a-like	Vapor Products	Cig-a-likes are e-cigarette products which are intended to mimic traditional rolled manufactured cigarettes and which contain a battery and enclosed flavor cartridge. No part can be detached or replaced. It also includes cig-a-like-cartridges.

Sources: Euromonitor International Passport's Tobacco and Consumer Health databases, and the National Cancer Institute's Dictionary of Cancer Terms.

Companies Under Review

Company	Country	Cigarette Volume Sales 2018 (mn sticks)	Ownership
Altria Group Inc	USA	113,527.9	Publicly traded
British American Tobacco Plc	UK	732,362.5	Publicly traded
China National Tobacco Corp (CNTC)	China	2,322,610.8	State-owned
Djarum PT	Indonesia	39,053.7	Privately held
Eastern Co SAE	Egypt	75,659.8	Publicly traded
Gudang Garam Tbk PT	Indonesia	77,455.5	Publicly traded
Imperial Brands Plc	UK	184,158.0	Publicly traded
ITC Ltd	India	63,554.5	Publicly traded
Japan Tobacco Inc	Japan	454,565.4	Publicly traded
KT&G Corp	South Korea	70,194.5	Publicly traded
Philip Morris International Inc	Switzerland	740,595.0	Publicly traded
Swedish Match AB	Sweden	-	Publicly traded
Swisher International Group Inc	USA	-	Privately held
Tobacco Authority of Thailand	Thailand	19,671.3	State-owned
Vietnam National Tobacco Corp (Vinataba)	Vietnam	49,357.1	State-owned

Source: Data estimates from Euromonitor International Passport's Tobacco database

Countries Under Review

Country	Type	Cigarettes Volume Sales 2018 (mn sticks)	Retail Cigarettes Volume Sales 2018 (mn sticks)	Illicit Cigarettes Volume Sales 2018 (mn sticks)	Reported No. of Smokers 2018 ('000)
Argentina	HMIC	39,765.6	34,820.4	4,945.2	7,324.3
Australia	HMIC	14,488.1	12,951.8	1,536.2	2,650.8
Bangladesh	LMIC	94,235.7	91,572.9	2,662.9	n/a
Brazil	HMIC	104,183.0	48,291.7	55,891.2	18,244.7
Bulgaria	HMIC	11,915.2	11,228.1	687.1	1,872.4
Canada	HMIC	34,372.8	27,301.5	7,071.3	4,474.0
China	HMIC	2,466,115.3	2,368,760.3	97,355.0	305,866.6
Egypt	LMIC	100,683.8	96,251.9	4,431.9	17,510.2
Ethiopia	LMIC	8,776.0	6,222.8	2,553.2	n/a
France	HMIC	49,697.0	40,277.4	9,419.6	13,348.2
Germany	HMIC	82,186.0	75,226.1	6,959.9	14,871.5
India	LMIC	108,960.3	82,504.2	26,456.1	58,030.7
Indonesia	LMIC	331,556.1	307,094.1	24,461.9	65,790.9
Italy	HMIC	73,236.9	68,618.2	4,618.8	10,697.2
Japan	HMIC	132,739.3	132,685.0	54.3	18,804.1
Kenya	LMIC	8,136.1	7,301.9	834.3	10,697.2
Mexico	HMIC	35,870.5	29,827.6	6,043.0	15,916.4
Myanmar	LMIC	9,267.1	9,248.0	19.0	n/a
Nigeria	LMIC	22,083.3	17,171.2	4,912.0	10,603.8
Pakistan	LMIC	79,126.4	51,986.9	27,139.4	25,156.4
Philippines	LMIC	72,930.0	64,402.8	8,527.2	15,560.1
Poland	HMIC	47,742.0	42,897.5	4,844.5	7,446.4
Russia	HMIC	258,519.9	236,519.9	22,000.0	38,533.1
Saudi Arabia	HMIC	24,641.0	22,679.0	1,962.0	7,104.6
Singapore	HMIC	2,803.3	2,701.0	102.2	592.1
South Africa	HMIC	22,520.7	16,939.8	5,581.0	7,120.7
South Korea	HMIC	63,990.6	63,350.3	640.3	8,577.6
Spain	HMIC	52,752.9	47,820.5	4,932.4	8,351.8

Sweden	HMIC	5,940.0	5,640.0	300.0	827.9
Switzerland	HMIC	9,740.3	9,209.9	530.4	1,785.6
Thailand	HMIC	41,516.3	39,311.8	2,204.5	11,904.5
Turkey	HMIC	128,405.5	118,541.7	9,863.7	16,055.7
UK	HMIC	34,470.1	30,095.7	4,374.4	7,293.7
Ukraine	LMIC	63,641.7	60,881.7	2,760.0	7,058.7
USA	HMIC	250,468.1	240,888.3	9,579.8	33,952.8
Vietnam	LMIC	98,039.0	80,865.8	17,173.2	15,088.2

Notes: (1) Smoking population refers to the number of adult smokers aged 18 years and over – i.e., people who currently use any nicotine product (smoking and/or smokeless tobacco) on a daily or non-daily basis.

(2) LMICs and HMICs are identified based on classifications from the World Bank. Different income groups are identified using gross national income (GNI) per capita, in US dollars, converted from local currency using the World Bank Atlas method. Estimates of GNI are obtained from economists in World Bank country units, and the size of the population is estimated by World Bank demographers from a variety of sources, including the UN's biennial World Population Prospects. In particular, the World Bank currently divides economies into four income groupings: low, lower-middle, upper-middle, and high. For the scope of the Index, two main income groups have been identified: LMIC (Low-Middle Income Country): GNI per capita of USD12,375 or less; and HMIC (High-Middle Income Country): GNI per capita of USD12,376 or more.

Sources: Data estimates from Euromonitor International Passport's Tobacco database.

Glossary

Access to Medicine Index (ATMI) – an index that ranks 20 of the world’s largest pharmaceutical companies based on their efforts to address access to medicine, including in strategy, governance, R&D, and pricing.

Access to Nutrition Index (ATNI) – an index that rates food and beverage manufacturers’ nutrition-related policies, practices, and disclosures worldwide on a recurring basis.

Company index/ranking – the company index/ranking of the Tobacco Transformation Index aims to highlight corporate actions of the top 15 largest tobacco companies by cigarette stick equivalent, which either support or impede progress toward a world free of combustible cigarettes and other high-risk tobacco products.

Country fact sheets – the supplemental output of the Tobacco Transformation Index, which will profile “the state of nicotine” in 36 countries (accounting for around 85% of current global smoking sales and consumption), to contextualize the environment in which companies operate.

Foundation for a Smoke-Free World (FSFW) – an independent, nonprofit organization created in 2017 with the mission to end smoking within this generation.

Dow Jones Sustainability Index (DJSI) – a family of benchmarks for investors who believe sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios.

Environmental, Social and Governance (ESG) – a set of factors that measure the sustainability and/or societal impact of an investment in a company. ESG factors are typically tied with long-term performance.

Framework Convention on Tobacco Control (FCTC) – the first global treaty negotiated by the World Health Organization focused on a regulatory strategy to address tobacco addiction through demand reduction and supply issues.

High-medium income country (HMIC) – as defined by the World Bank (as of 1 July 2019), a country with a national income per person (GNI per capita) of USD12,376 or more in 2018.

High-risk products – combustible or other high-risk nicotine products, which include cigarettes, cigars, cigarillos, smoking tobacco, and bidis, as well as traditional smokeless tobacco, such as gutkha.

Low-medium income country (LMIC) – as defined by the World Bank (as of 1 July 2019), a country with a national income per person (GNI per capita) of up to USD12,375 in 2018.

Reduced-risk products – nicotine products that are considered to be less harmful than combustible cigarettes and/or other traditional products. Products which are potentially reduced-risk include vapor products (including open and closed vaping systems and heated tobacco), snus, US-style moist snuff, NRT products and non-tobacco nicotine pouches.

Smoking prevalence – defined by the WHO as the percentage of persons aged 15 years and older who smoke tobacco currently.

Sustainable Development Goals (SDGs) – the 17 goals that make up the United Nations’ 2030 Agenda for Sustainable Development. The Tobacco Transformation Index aims to contribute to SDG 3 (Good Health and Well-Being) and SDG 9 (Industry, Innovation, and Infrastructure).

Tobacco Transformation Index – an index that will highlight and critically evaluate tobacco companies’ activities that either support or impede progress towards a world free of combustible cigarettes and other high-risk tobacco products.

World Health Organization (WHO) – the agency of the United Nations that directs international health and leads partners in global health responses.

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