EU CODE OF CONDUCT FOR RESPONSIBLE BUSINESS AND MARKETING PRACTICES

APRIL 2023
Commitment made:

PepsiCo commits to reduce the average level of added sugar in our EU soft drinks portfolio by 25% by 2025, and 50% by 2030. This pledge is in line with the company’s global sugar reduction goal.

Progress made towards that commitment, as at 31 December 2022:

We are on track to achieve our commitments by 2025 and 2030. In yearly average, and vs. our 2019 baseline:

- We have reduced our average sugar content by 21%.
- Our No Sugar volume mix has increased by 6 points to 32%.
- This means a reduction in our yearly sugar content by ca. 67,000 tonnes.

Factors that allowed us to make this progress/prevented us from making even more progress:

- Continued reformulation across markets and top brands & continued marketing and sales investment in No Sugar.
- Consumer preferences shifting towards sugar reduction, with regulatory (and tax) environment favouring low/no sugar options in several markets.

Outlook for the future, with regard to this commitment, and policy – or other – enablers – that are needed to achieve the target we have set:

- We are on track to reach our 2025 goals with further reformulation and mix shift across markets and major brands planned in 2023 and beyond, potentially reaching our 25% sugar reduction target ahead of time.
- We will continue to strive to reduce our sugar levels to meet our 2030 targets, providing consumers with ‘Better For You’ products within our soft drinks portfolio.

Policy enablers

- Continued regulatory acceptance and public endorsement of the safety of sweeteners based on strong science underpin this commitment. Any regulatory restriction or questioning by public authorities of the value of the use of sweeteners to consumers in managing their sugar intake would undermine our ability to make strong progress on this commitment.
Commitment made:

PepsiCo commits to build a $500 million “healthier snacking” business in the EU by 2025, with products that would be compliant with a Nutri-Score B definition or better (as rated in July 2021). Our ambition is to grow that part of our business to $1 billion by 2030.

PepsiCo also commits to transform a range of our snacks that currently rate D or E in Nutri-Score to be compliant with a C classification or better (as rated in July 2021). Our ambition is to grow that part of our business to $400 million by 2025, and to $500 million by 2030.

Progress made towards that commitment, as at 31 December 2022:

- By the end of 2022, our sales in products A+B in the EU have increased from $18 million (in 2019, our baseline year) to $128 million (retail sales value). We have reached 25.6% of our 2025 target.
- By the end of 2022, across the EU, we have increased our conversion of products previously classified as D or E to C or better by $53 million (retail sales value). We have reached 13.2% of our 2025 target.

Factors that allowed us to make this progress OR prevented us from making even more progress:

- Efforts to reformulate products are long-term projects that require significant investment and resources. We remain positive about the steps made so far towards our ‘healthier snacking’ business, and PepsiCo will continue to evolve that part of our portfolio.
- We continue to transform a range of our products from D+E into C across different brands in different EU markets. Overall progress since 2019:

Outlook for the future, with regard to this commitment, and policy – or other – enablers – that are needed to achieve the target we have set:

- Despite solid progress to date, and despite PepsiCo’s continued determination towards achieving this commitment, we are concerned that the basis on which we have opted to judge success is not stable, predictable or conducive to year-on-year comparisons.
- PepsiCo is committed to providing our consumers with useful, easy to understand, nutritional information about the products they buy and consume. To that end, PepsiCo committed to rolling out the Nutri-Score front of pack labelling scheme in EU markets wherever and whenever that scheme is accepted, and subsequently based this particular commitment on that scheme.
- As such, the Nutri-Score decision to change the algorithm affecting the ratings for snacks in August 2022 is unwelcome. In effect, it means that a product originally rated D, for instance, but which then moved to a B or C rating through our reformulation efforts, may once again be ‘demoted’ to a D or E when that new algorithm takes effect. Such a system provides neither certainty/confidence to the manufacturer, nor consistency towards the consumer. We need clarification from Nutri-Score as to the likelihood of future algorithm changes and their probable cadence and we need reassurance that any changes made are based on rigorous review of all sound, reliable science with recommendations to reflect the highest standard of assessment of this science. Above all, we want a labelling scheme that is trustworthy, science-based and practicable, towards which our research and innovation colleagues can work with confidence.

Policy enablers

- We need a stable, science-based, predictable Nutri-Score system. If algorithm changes occur, we also need realistic transition periods to implement.
- Continuing uncertainty over the direction the EU – and individual Member States - will take regarding front of pack nutritional labelling continue to have an impact on our efforts to reformulate against set health and nutritional criteria. For this reason, PepsiCo supports the evolution of a single front of pack nutrition labelling system in the EU, ending the proliferation of voluntary labelling schemes across the bloc.
- The introduction of any front of pack nutrition labelling scheme must also go hand in hand with significant consumer education. Only in this way will the introduction of a front of pack nutrition label help shift the purchasing behaviour and dietary habits of the EU population.
Commitment made:

PepsiCo commits to convert to 100% rPET for brand Pepsi bottles in 9 EU markets by end 2022

Progress made towards that commitment, as at 31 December 2022:

- By end of 2022, no virgin PET is used in our Pepsi brand in 7 EU markets: Spain, Germany, Poland, Romania, France, Belgium and Luxembourg. Where plastic packaging is used in those markets, 100% is now rPET.
- In 4 other EU markets: Netherlands, Greece, Denmark and Finland, we are well advanced in transitioning the Pepsi brand to rPET.
- In addition, we continue to extend rPET to other PepsiCo portfolio brands such as Mirinda, Lipton, 7 Up, and Mountain Dew.
- Overall, our plastic bottles contained, on average, 58.1% rPET for beverages sold in EU and UK at the end of 2022.
- [Note: The deadline for this annual report comes a little too early in the internal PepsiCo reporting cycle. The 2022 packaging roll up data above have not yet been fully certified at global level within PepsiCo. As such, it is possible they could still change slightly.]

Factors that allowed us to make this progress/prevented us from making even more progress:

- We have built a long-term sourcing plan encompassing mechanical, enhanced and bio / renewable PET (non-virgin fossil fuel-based packaging).
- We continue to make significant financial investments to secure supply, including long-term off-take agreements.
- Steep price increases in 2022 were unhelpful. The high premium and limited capacity of the market remains a great concern regarding further acceleration of the PepsiCo roll-out.
- It is likely to become more difficult to secure consistent, good quality supply without high return rates of well segregated material - we need clean streams of collected empty bottles to be converted back with low yield loss to recycled bottles. Unfortunately, today, collection rates of empty bottles remain at very low levels in many EU Member States, hindering the level of supplies of good quality rPET.

Outlook for the future, with regard to this commitment, and policy – or other – enablers – that are needed to achieve the target we have set:

- Despite the headwinds described above, we are continuing our agenda through 2023, as the transition of the full Pepsi portfolio progresses well in the Netherlands, Greece, Denmark and Finland. We expect these 4 additional markets to be at 100% rPET by end of 2023.

Policy enablers:

- Faster introduction of legislation to support industry-led, well-run, not-for-profit Deposit Return Schemes, removing the blockages typically seen at existing waste collectors or municipalities. Plus including first right of refusal into DRS schemes to ensure bottle-to-bottle recycling.
- Ensuring that the collected material is sold at the most competitive rate possible. Any efforts by Member States to tax those sales will reduce the system efficiency and will hurt circularity.
- We need clarity on inclusion and use of mass balanced enhanced recycled content (until scale allows dedicated supply).
- We call for no cross-subsidization of costs within existing PRO systems.
- We advocate for a landfill ban and increase in incineration fees/costs.

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