



PEPSICO REPORT

EU CODE OF CONDUCT FOR RESPONSIBLE BUSINESS AND MARKETING PRACTICES

APRIL 2022

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 2021:

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 20%
- Our No Sugar volume mix has increased by 5 points to 31%

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

- Reformulation across markets and top brands; greater marketing and sales focus on 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 2022 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

Policy enablers

- Continued regulatory acceptance of sweeteners underpins 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. 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. 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 2021:

- By the end of 2021, our sales in products A+B have moved from \$18MM to \$22MM (retail sales value)
- As for our second commitment, we have kicked off the internal process to transform our snacks that currently rate D+E in Nutri-Score to be shifted to classification C or better. That is a process that takes time, so we are not reporting any significant progress towards the 2025 targets in 2021

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

- We will shift a number of our products from D+E into C from the second half of 2022, as planned
- Efforts to reformulate products are inevitably long-term projects. We are positive about the steps made so far to establish the programme in line with the timeframe set in our commitment

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

- This year, 2022, we have reformulated Lays Oven Baked in North West Europe markets to Nutri-Score B, with plans to roll this out to all our markets in the coming years. We believe this progress will be reflected in next year’s report on the Code of Conduct
- In addition, we will launch new Nutri-Score B offerings in our Healthier Snacking Snack-a-Jacks, PopWorks and Benenuts brands in North West Europe and France
- Starting this year, 2022, and phased over the coming years, we will reformulate many of our Lays and Doritos portfolio to reduce sodium and saturated fat, in line with our corporate ‘Winning with Purpose’ commitments which will convert Nutri-Score D and E products to Nutri-Score C or better

Policy enablers

- Continuing uncertainty over the direction the EU – and individual Member States - will take with regard to front of pack nutritional labelling will continue to have an impact on business and on our efforts to reformulate against set health and nutritional criteria. For this reason, PepsiCo supports the creation of a single harmonised front of pack nutrition labelling system in the EU, ending the proliferation of voluntary front of pack nutrition labelling schemes across the bloc
- Harmonisation will reduce complexities in the supply chain and establish legal certainty for food businesses. It will also bring a desirable level of consistency to consumer information across the EU and will provide a level playing field for food businesses
- To date, we apply the Nutri-Score label in a number of EU markets and are planning for gradual further rollout across our food and beverage portfolio, as this system resonates strongly in several EU countries. We are doing so despite Nutri-Score not being perfect: while for food products, Nutri-Score’s underlying threshold nutrient values result in a fair assessment of the relative healthiness of the product, for beverages, we are concerned that the currently applied values do not result in the same fair assessment, providing consumers with less ability to differentiate within one and the same category
- It is important to emphasise that the introduction of any front of pack nutrition labelling scheme must 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 2021:

- By end 2021, all production of our Pepsi brand at our plants in Spain, Germany, Poland and Romania had converted to 100% rPET. In comparison to our baseline year, none of our markets had 100% rPET inclusion in brand Pepsi in 2019
- As a consequence, and with rPET inclusion (at less than 100%) in other markets, our plastic bottles contained, on average, 48% rPET for beverages sold in EU markets by the end 2021
- We have continued to make progress since the end of 2021. We have already switched to 100% rPET bottles in France and Belgium since the start of this year
- We also continue to extend rPET to other brands such as Mirinda in Romania, Germany and Poland, Lipton in Romania, Poland, France and Germany and Schwip Schwap, 7Up, and Mountain Dew in Germany

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 have made significant financial investments to secure supply, including long-term off-take agreements
- We allocate large marketing spend to inform and educate consumers
- We have allocated time and resources to education of our internal PepsiCo colleagues
- We continue to support well-run industry led DRS

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

- 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

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.
- 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 higher landfill and incineration fees/costs