

Summary Report of the Social, Environmental and Human Rights aspects of PepsiCo's Sugarcane Supply Chain in Brazil, based on Third Party Audits

Introduction

PepsiCo recognizes that our success, and the success of the communities in which we and our supply chains operate, are inextricably linked. In order to grow our business sustainably, we also have to take into account the needs and concerns of a wide range of stakeholders who are impacted by our business, not only by our operations, but also by those of our suppliers, the people who work for them and the communities in and around where they operate.

One of the tools that we use, to help ensure that our suppliers take into account PepsiCo's values, programs, systems and commitment to sustainably growing our business, is the PepsiCo Supplier Code of Conduct. This Code sets out our expectations on business integrity, labor practices, health and safety and environmental management for our suppliers. The Code is based on internationally recognized standards, including those set out by the International Labor Organization and the United Nations Global Compact.

The PepsiCo Supplier Code of Conduct is supported by policies covering a wide range of issues, including sustainable agriculture, land use, and forestry stewardship. PepsiCo has also made specific commitments to further support implementation of our policies throughout our supply chain. As an example, in March 2014, we made a commitment to work with suppliers to source 100% sustainable cane sugar by 2020.

To help with implementing this commitment PepsiCo engaged an independent third party, Control Union, to perform audits at three sites in Brazil starting in August and ending in September with results reported in October of 2014. This report summarizes the approach we have taken, the overall findings of the audits and the next steps we will undertake.

Background

PepsiCo sources approximately 0.5% of the global sugar cane supply, for its soft drink bottling operations and food business. Brazil, Thailand and India are three major cane sugar producers and where we source the largest volume of cane sugar from

With Brazil being the largest sugar producer and exporter, we began working with our main supplier in Brazil, Copersucar, identifying three mills and the farms that supply them for assessment of their economic, social and environmental performance as well as their adherence to PepsiCo's policies such as our Land Use Policy. Together, these mills based in Sao Paulo in the Center South Region, supply approximately 20% of the cane sugar that we source in Brazil.

We selected an independent third party audit company, Control Union, to conduct the audits from August through September 2014. Each audit took approximately 3 days, and included detailed site observations, review of relevant documents, and interviews with responsible managers and with workers at both the mills and the farms that supply them.

In addition to the Control Union audit, these mills have been assessed and certified to the Bonsucro standard, the leading certification for sourcing sustainable cane sugar. Among the indicators that must be met to achieve Bonsucro certification are:

- Compliance with relevant applicable laws
- Demonstration of clear title to land in accordance with national practice and law
- Compliance with International Labor Organization (ILO) labor conventions governing child labor, forced labor, discrimination and freedom of association and the right to collective bargaining
- Application of Bonsucro human rights and labor standards to suppliers and contractors.
- Provision of safe and healthy working environment in work place operations
- Provision of employees and workers (including migrant, seasonal and other contract labor) with at least the national minimum wage
- Provision of clear, equitable and comprehensive contracts
- Active engagement and transparent, consultative and participatory processes with all relevant stakeholders.
- Protection of land with high biodiversity value, land with high carbon stock and peatlands.

PepsiCo's audit relied on the Bonsucro standard as the recognized baseline, and made additional complementary inquiries with reference to the PepsiCo Supplier Code of Conduct, PepsiCo's policies on land rights, human rights, and environmental sustainability, as well as the PepsiCo Sustainable Farming Initiative (SFI) (PepsiCo's comprehensive on farm program to enable more sustainable farming in our supply chain), in particular with respect to:

- Overall commitment to sustainability
- Health and safety
- Employment conditions
- Community engagement
- Land rights
- Employment practices, specifically including women's rights
- Environmental standards (including agrochemicals, air, biodiversity, greenhouse gases, nutrients, soil, waste and water)
- Farm Management
- Commercial Relationships

Findings

As discussed above, the audits covered a comprehensive analysis of a wide range of indicators across the environmental, social, and economic issues including human rights and specifically land rights. No evidence of human rights, including land rights, health and safety or environmental practice violations were found and the mills were found to have proper management practices in place.

As part of the audit process it was determined that all workers at the mills and the farms were employed directly, either by the mill or one agricultural partner. Therefore, questions about farm labor providers, or temporary workers, which are part of the audit, were not relevant.

Below are excerpts from the audits on key issues that reflect findings across the mills taken directly from the Control Union audit reports. Please note that some grammar and clarification has been added to the statements where needed:

Community engagement

"At the preparation of Zilor Group's [the company that owns the mills which Copersucar sources from] first Sustainability Report, a process was carried out to determine the company materiality matrix. As a

result, 11 macro-topics were determined as strategic to the stakeholders and the company. They are: 1) worker's health and safety; 2) clients' satisfaction; 3) management of impacts on biodiversity; 4) soil and water resources conservation; 5) monitoring of suppliers' environmental aspects (labor issues); 6) effluents and waste management; 7) rural workers' labor conditions (cane cutters); 8) impact management of the products for consumer's health; 9) harvesting mechanization social impacts and actions developed; 10) social and environmental certifications and 11) product quality. Documentation from the site that covers several of these macro-topics mentioned previously was verified.

"Among the audience engaged by Zilor in the process, it can be mentioned: suppliers and agricultural partners, distributors, managers, employees, community, clients, class associations, certification entities, financial institutions and supervisory agencies. Last update of the sustainability matrix was in January 2013."

Land rights

"Each of the mills has legal ownership of the land. This was verified by checking the official document that proves land title. Although there is no official document proving that there is no conflict over land title, it can be concluded that, at the time of the audit, no evidence was found of conflict over land title. This was determined by means of visual observation of the plant and analysis of maps created by FUNAI (Fundação Nacional do Índio) that demonstrate areas of disputes between indigenous people and non-indigenous people."

Bribery, Corruption and Fraud

"The three mills audited establishes a Conduct Commitment determining the corporate social responsibility and operational excellence that reads in its clause "Personal and Commercial Relations", as follows:

- To refuse any service of illegal nature/unfair or that is detrimental and/or threatens the legitimate rights of all stakeholders.
- Not to use commercial relations to gain personal advantage or to third parties.
- Not to engage in practices that characterize unfair competition, like making insinuations or comments that could affect the image of all Parties committed to the business.
- Not to condone with the formation of trusts and cartels; or co-opt with coercive business practices and abuse of power;
- Not to undertake, favor or conduct any kind of fraud and corporate espionage.
- Not to provide/receive benefits or advantages (leisure travels, gifts, financial compensations, tickets to entertainments) to/from Zilor and Partners' Employees, or organization linked to them. Only promotional/institutional gifts (of no commercial value) or goods may be accepted whose value does not exceed 30% of the minimum wage."

Conditions for farm workers

"In all industry and agricultural areas there are toilets organized, clean and enough for all workers. Fresh and drinking water is provided in sufficient quantity and working environments are clean and organized."

"Payrolls and paychecks of all sampled workers in the industry and agriculture were verified. It was not found workers who were not on the payroll. All workers are registered with the Social Security Card."

“No improper discount on workers’ paychecks was observed. Salaries paid are above the national minimum salary and within the wage floor established in the collective workers’ union agreement.”

Migrant workers

“There are neither migrants nor lodgings in the company (industry and agricultural).”

Representation of women’s issues on farm

One site has a women’s committee which represents any specific issues to management. The audits for the other two sites state that: “Committees are mixed, where men and women have the same right to vote. All specific benefits to the women are respected and the ground salaries for the same functions, identical.”

Summary and Next steps

Our audit process has proven to be an effective and efficient way to perform audits of our sugar supply chain capturing not only the leading industry standard but also a complimentary host of indicators from PepsiCo’s policies and programs. These audits determined that our suppliers’ mills were in compliance with these standards and requirements and that no issues concerning human rights or land rights exist at the three mill locations representing approximately 20% of PepsiCo’s Sugar supply in Brazil and ~3% of cane sugar PepsiCo sourcing globally.

While this is the first time we have applied this comprehensive audit process to our suppliers and the farmers that provide them with raw materials, PepsiCo has been engaging with farmers in our supply chain through the PepsiCo SFI program and our Supplier Code of Conduct for many years. While we are gathering feedback on these audits from our suppliers and external stakeholders and apply what we learn and how to communicate the results more effectively and efficiently in the future, we will continue to work our continuous improvement programs with first tier suppliers and particularly growers by rolling out and strengthening our Sustainable Farming Initiative.

Further Information Concerning An Additional Supplier As A Result Of External Stakeholder Concerns

Additionally Oxfam raised concerns about the specific practices of a PepsiCo cane sugar supplier in Brazil, Usina Trapiche, in 2013. PepsiCo takes any concerns raised about its suppliers very seriously. PepsiCo maintains a 24 hour hotline – Speak Up! -- to allow anonymous input on activities by the company and its suppliers that may not be aligned with PepsiCo’s stated standards. PepsiCo investigated these specific charges, including conversations with Usina Trapiche representatives, a review of the documentation provided by Usina Trapiche, and input from relevant third parties. Based on its review, PepsiCo concluded that Usina Trapiche acted within Brazil’s legal framework regarding the utilization of their land. In March 2014, PepsiCo rolled out a new land policy. PepsiCo has put in place a compliance framework in support of our policies which is applicable to all PepsiCo suppliers and will continue to monitor issues that may arise.

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