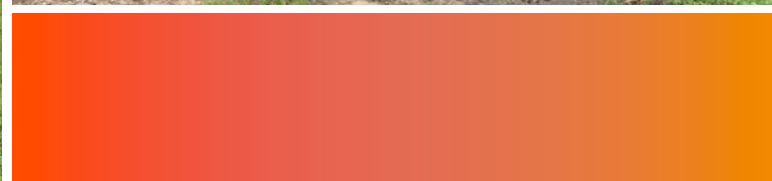


**PEPSICO**

# PALM OIL PROGRESS REPORT

2018







# TABLE OF CONTENTS

- Goals & Strategy** ..... 1
- Summary of Progress** ..... 2
- Risk Management** ..... 3
  - Roundtable on Sustainable Palm Oil (RSPO) Certification
  - Risk Assessment
  - Traceability
  - Traceability to Plantation
- Supplier Engagement** ..... 5
  - Supplier Scorecards
  - Supplier Code of Conduct
  - Grievance Mechanism
- Positive Impact** ..... 7
  - Coalition for Sustainable Livelihoods (Aceh & North Sumatra, Indonesia)
  - Siak –Pelalawan Landscape Program (Riau, Indonesia)
  - Holistic Palm Oil Sustainability Program (Mexico)
- Transparency and Stakeholder Engagement** ..... 9
  - Reporting and Disclosure
  - Stakeholder Engagement
  - Collaboration
- Continuing Our Progress** ..... 10





# GOALS & STRATEGY

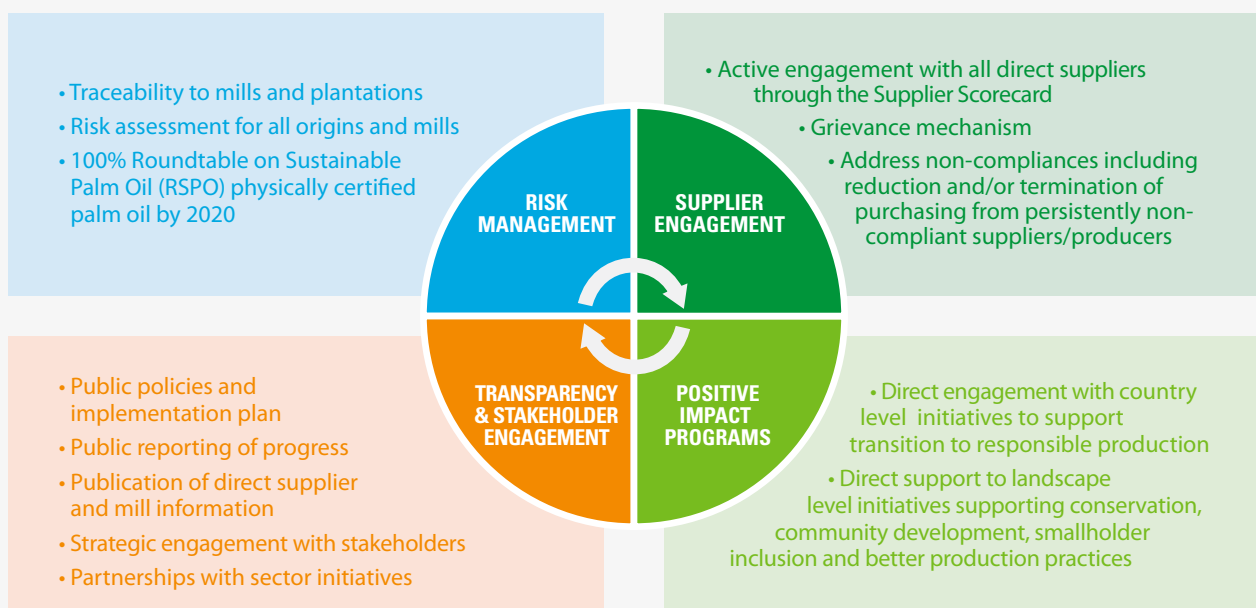
Our goal is to have a supply chain with no deforestation, no peatland development and no exploitation, which we aspire to deliver by the end of 2020. In 2018, PepsiCo updated its [Global Policy on Sustainable Palm Oil](#) and set our implementation plan through the end of 2020. Building on our [2017 Palm Oil Progress Report](#), this report demonstrates our progress in 2018 and outlines our future priorities. Additional information on our efforts surrounding palm oil can be found on our [website](#).

In 2018, our global purchase of palm oil was approximately 480,000 metric tons (MT), of which palm kernel oil comprised approximately 4,000 MT. Our top suppliers were Cargill, Oleofinos, and Wilmar, and the top three countries from which PepsiCo sourced palm oil were Indonesia, Malaysia and Mexico.

We have developed a holistic, inclusive and collaborative approach to deliver our commitments for sustainable palm oil. This is built on four pillars:

- **Risk Management:** How we understand areas of concern and opportunity in our supply chain;
- **Supplier Engagement:** How we engage with suppliers to communicate our expectations and improve performance;
- **Positive Impact:** How we work collaboratively to transform the wider industry; and
- **Transparency and Stakeholder Engagement:** How we report on our progress and engage with the broader stakeholder community.

## PEPSICO DELIVERY STRATEGY







# SUMMARY OF PROGRESS

In 2018, we continued to engage with our suppliers and key stakeholders in the regions we source from as well as the wider industry to help drive change. We partner with Proforest and One Peterson to support the delivery of our strategy. Highlights on our progress and performance include:

## RISK MANAGEMENT

- Achieved 52% RSPO physically certified sustainable palm oil, exceeding our interim target of 50% for 2018. We aim to achieve 80% by the end of 2019 and 100% by the end of 2020.
- Achieved 97% traceability to mill by the end of 2018, up from 94% in 2017 and 65% in 2016.
- Implemented our [Palm Oil Traceability Protocol](#), with 22% of our direct suppliers' self-reported mill data independently verified.
- Since launching our Traceability to Plantation Protocol, 26 suppliers representing 32% of our volume reported traceability to plantation.
- Supported the development of a methodology to assess social risks in our supply base at the sub-jurisdictional level enabling us to better understand human rights risks in our supply chain.
- Supported the World Resources Institute's (WRI) Global Forest Watch (GFW) satellite system for monitoring of deforestation.

## SUPPLIER ENGAGEMENT

- Based on our supplier scorecards, overall performance scores for our suppliers improved by 39% as compared to the 2017 baseline.
- Built capacity of 30 direct suppliers to enable them to create, improve and implement no deforestation, no development on peatlands, and no exploitation of indigenous peoples, workers and local communities (NDPE) policies, through webinars delivered in both English and Spanish.
- Continued to manage grievances raised by third parties in our supply chain.

## POSITIVE IMPACT

- Continued the implementation of our holistic program for sustainable palm oil in Mexico. We have added additional industry representatives with Nestlé joining to help strengthen and enhance the program. In addition, through the High Conservation Value (HCV) approach, 44,000 hectares of Oleopalma's supply base in Mexico were assessed, which includes smallholders, medium and large palm producers.
- PepsiCo is a founding member of the Landscape Program in Siak and Pelalawan promoting sustainable palm oil production and improved livelihoods in these districts within the Riau province of Indonesia.
- PepsiCo is also a founding member of the Coalition for Sustainable Livelihoods (CSL). The coalition has agreed to work collectively to achieve common objectives for smallholder livelihoods, sustainable agricultural production and conservation in the North Sumatra and Aceh provinces of Indonesia.

## TRANSPARENCY AND STAKEHOLDER ENGAGEMENT

- Published our [Global Policy on Sustainable Palm Oil](#) reflecting our commitment to NDPE.
- Publicly disclosed direct suppliers and mills we sourced from in 2018.
- Convened a group of companies and other stakeholders in a pre-competitive manner with the aim to develop an approach for monitoring and reporting on progress made against delivering NDPE commitments on palm oil volumes.
- Continued to play an active role in other industry platforms such as the Consumer Goods Forum (CGF) and AIM-Progress.
- Engaged with civil society to review our updated policy, progress, and future actions.

# RISK MANAGEMENT

PepsiCo's approach to risk management is based on traceability and physical certification, which provides us with critical information about our supply chain. This enables us to focus our attention and resources on regions of greatest risk and where we can prioritize our engagement efforts and investments in the most meaningful way.

## RSPO CERTIFICATION

PepsiCo was a strong supporter of improvements to RSPO's standards and, in 2018, we participated in the official revision of the 2013 Principles and Criteria (P&C's). The new P&C's focus on the impact areas of prosperity, people and planet, and provide an update to existing criteria on peat development, forest protection, legal sourcing and human rights. In addition, the revised P&C's address smallholder inclusion with the objective of increasing accessibility and simplifying the path to RSPO certification. Since 2017, 100% of our direct suppliers have been RSPO members.

In 2018, we achieved 52% RSPO physically certified sustainable palm oil, exceeding our year-end target of 50%. We are on course to meet our 80% RSPO physically certified target for 2019 and 100% by the end of 2020.



*PepsiCo progress towards 100% RSPO certified palm oil.*

While we strongly support the RSPO and the certification process, we understand that RSPO certification alone is not sufficient to guarantee compliance with our policy and NDPE standards.

During 2018, PepsiCo convened representatives from the industry to develop and trial a measurement and disclosure tool for NDPE implementation. The NDPE Implementation Framework, developed by Proforest, aims to monitor the progress of mills and producers and report on NDPE compliant volumes. PepsiCo collaborated with companies including Cargill to pilot this framework, co-convening two workshops in June and November 2018 alongside the RSPO roundtable (RT) meetings with the aim of bringing a wider group of companies together to support the framework's development and roll out. In 2019, PepsiCo will support the scaling-up of this approach through further collaboration, by piloting and implementation of the framework within our supply chain.

## RISK ASSESSMENT

We conduct risk assessments to identify geographic areas and issues that have the highest likelihood of incidence of noncompliance to help us prioritize our efforts to raise standards. We also rely on other sources of information, including:

- Working with Proforest (and organizations with expertise in managing natural resources sustainably)
- Engagement with direct and indirect suppliers
- Participation in collaborative forums
- Feedback from civil society including through reports and direct engagement
- Experience and knowledge of PepsiCo employees

The key risks identified in our Palm Oil Progress Report 2017 continue to be the main risks in 2018. These are: growth in smallholder production, worker rights, deforestation, development on peatlands, and land rights.

PepsiCo continues to assess environmental risk in our supply base; this includes supporting industry platforms – such as WRI's GFW Universal Mill List and the [GFW Pro platform](#) – to identify risks at the mill and plantation level.

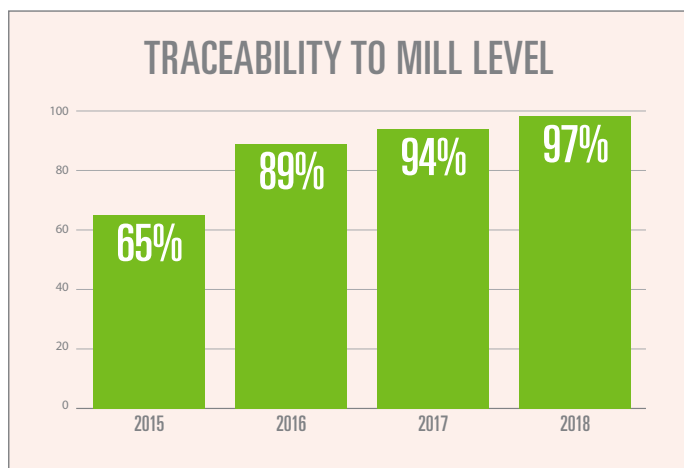
We are also seeking to improve our ability to analyze social risk. In 2018, PepsiCo supported Proforest in developing a [Social Risk Assessment](#) (SRA) tool for palm oil at the sub-national level. The methodology draws on a wide range of expert sources to understand the drivers and occurrences of social





risk including child labor, forced labor, inadequate health and safety and land rights issues across the key palm oil producing countries. These assessments will further help us identify the countries and regions in our supply base with a higher risk of social issues so we can better understand and address the root causes of these issues and prioritize our efforts.

## TRACEABILITY



*PepsiCo progress towards 100% traceability to mill level.*

We continue to strive towards 100% traceability to the mill and plantation in our supply chain, and to ensure high standards of traceability reporting through [PepsiCo's Palm Oil Traceability Protocol](#) (the Protocol) and commitments.

At the end of 2018, our suppliers reported 97% of our palm oil volumes traceable to the mill level. Since the start of the program, mill traceability has increased by over 25%.

PepsiCo is committed to accurate, high-quality traceability data including the validation of self-reported data through independent third-party verification. The Protocol, developed in conjunction with One Peterson, provides guidelines for external parties on how to verify the traceability data at the premises of our suppliers. Control Union, SGS, Bureau Veritas and DNV-GL were approved as independent third-party providers. In 2018, 22% of our Tier 1 suppliers independently verified their mill traceability data. Our goal is for all of our upstream direct suppliers to complete a downstream verification of their mill data by the end of 2019.

## TRACEABILITY TO PLANTATION

PepsiCo is committed to achieving traceability to plantation (TTP) in our supply chain (for definition, see box below), and in 2018, we engaged with our partners and stakeholders to understand how PepsiCo can work with the industry to achieve this.

This engagement process helped clarify that TTP must always be linked with strategies that identify and address issues in the supply base. We recognize and commend the efforts of our direct and indirect suppliers to obtain TTP at mills, and to use this information to drive sustainability.

We are working with our direct suppliers who have made progress towards achieving TTP and during the verification of mill data we have begun the process of collecting information on the percentage of oil traceable back to plantation from our suppliers. This has allowed us to understand their 2018 TTP figures and then match this with volumes delivered to PepsiCo.

Since launching our Traceability Protocol, 26 suppliers representing 32% of our volume reported traceability to plantation. In 2019, we will continue to work together with our direct suppliers to further understand the production base.

Through our engagement with suppliers and sector initiatives such as the NDPE Implementation Framework, PepsiCo will continue to support TTP in our supply base.

### INTERIM DEFINITION FROM THE TRACEABILITY WORKING GROUP (TWG)

**At the mill level, volumes can be defined as traceable to plantation with the following information:**

- a. Estate information (> 50ha):** Estate names, parent company names, certification status, % of overall fresh fruit bunch (FFB) tonnage to mill and a GPS point coordinate as a representative location of the source
- b. Dealers:** dealer **names** and % of overall FFB tonnage to mill
- c. Smallholders (< 50ha):** **number** of smallholders, certification status and % of overall FFB tonnage to mill



# SUPPLIER ENGAGEMENT

We continue to work with our direct suppliers through our supplier scorecard mechanism to build their capability to deliver NDPE compliant palm oil, and to address non-compliances found in our supply chain.

## SUPPLIER SCORECARDS

Through our Supplier Scorecard methodology implemented among 54 of our direct suppliers (see our [2017 Palm Oil Progress Report](#) for more details), we have seen marked improvement across the scorecard criteria.

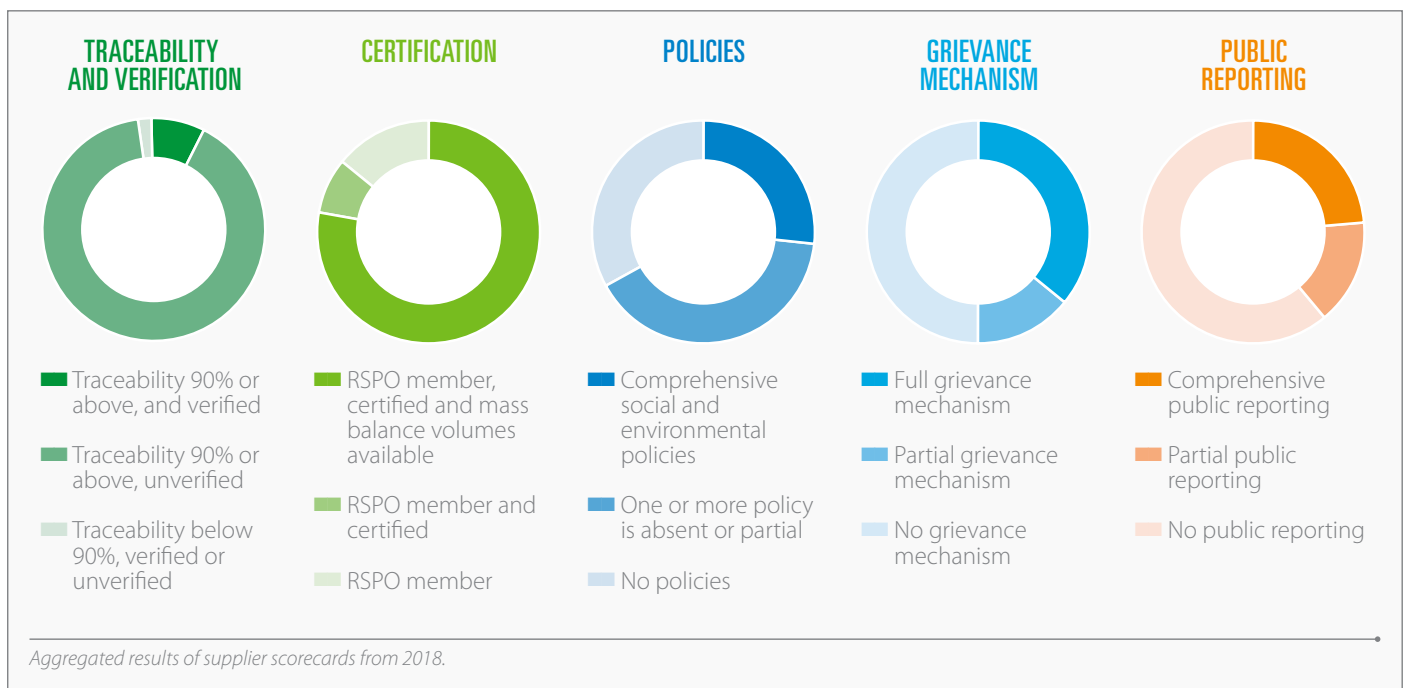
Building on the baseline created in late 2017, we were able to engage suppliers and support capability building to help improve practices in 2018. Our analysis of the results, in consultation with our suppliers, informed our actions to improve policies and transparency related to sustainable palm oil. We delivered this through a variety of engagement methods including one-on-one sessions with subject matter experts and live webinars – delivered in multiple languages – which were recorded for ease of access. In the future, capability building activities will expand to cover additional topics and provide supplier-specific workshops to facilitate targeted improvements in practices, which will be measured by supplier scores.

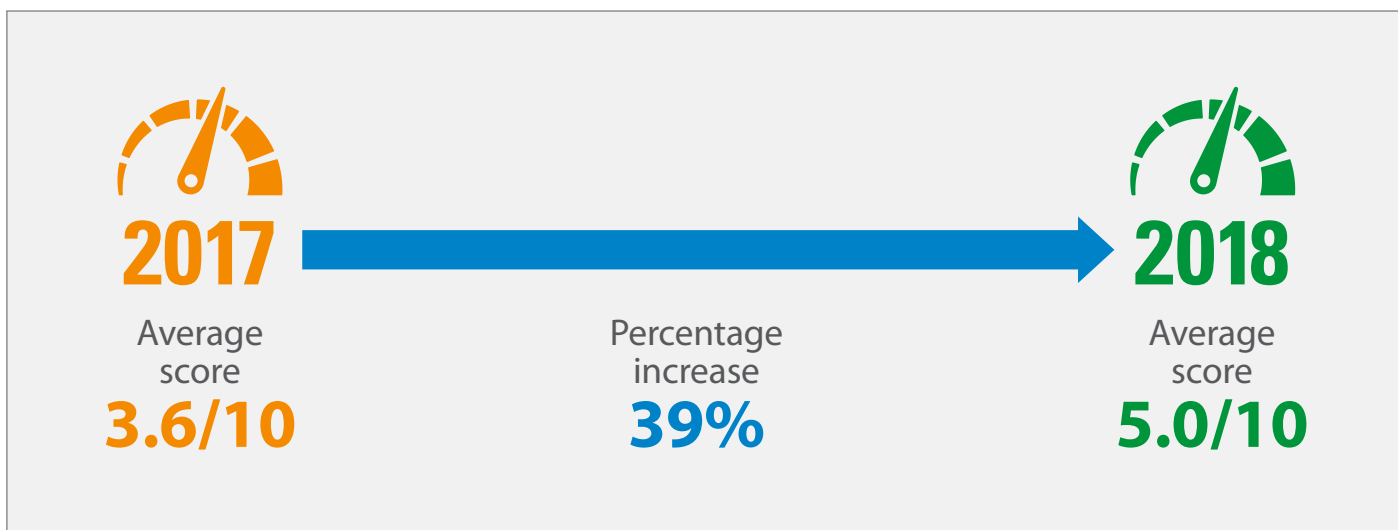
Additionally, higher performing suppliers (in the top 25%) were approached to partner with us on industry leading protocols and practices, such as traceability to mill verification and NDPE policy compliance through participation in the NDPE framework (see page 9).

## SUPPLIER CODE OF CONDUCT

In 2018, PepsiCo revised our [Global Supplier Code of Conduct](#) and online training to clarify and strengthen our expectations around several key issues, including forced labor and migrant worker protections. We continue to incorporate our Supplier Code of Conduct in our palm oil contracts and purchase orders, and suppliers have access to an online training module as part of our Sustainable Sourcing Program, which is also publicly available on our website.

In 2018, 69% of our direct suppliers of palm oil completed our Supplier Code of Conduct training. 28 on-site audits of our palm oil suppliers were conducted or recognized as part of our [Sustainable Sourcing Program](#) with 6 sites scoring red audit results. A red result means that there were major non-compliance findings related to health, safety and hygiene, rest days and wages. All sites with major non-compliance findings have submitted Corrective Action Plans and have had follow-up audits completed to verify if non-compliances were closed within 2018, or re-scheduled audits in 2019.





## GRIEVANCE MECHANISM

In July 2017, we formalized a grievance mechanism for our agricultural supply chain to enable third parties to raise concerns about potential instances in which our environmental and social goals and policies may not be upheld. Our approach is set out within our [Grievance Mechanism for Our Agricultural Supply Chain](#).

At the end of 2018, 13 open grievances relating to palm oil were registered in our system, including legacy grievances. Two grievances were closed during 2018. For the 13 that remain open, the majority of concerns relate to production in Indonesia. Most have a combination of environmental and social concerns, primarily deforestation and labor rights issues.

We have engaged our direct suppliers who source from the companies at the center of the complaint to:

- Validate the allegations
- Demonstrate the importance we attach to addressing the concerns raised
- Understand corrective action steps already taken and planned in the future
- Influence those actions, monitor progress towards completion and ultimately address the complaint

In 2019, we will continue to address existing and new grievances, as well as review the running of our grievance process to ensure it is meeting its objectives. Our experience to date is that the grievances we have received are usually several tiers down in our supply chain and shared by many other agribusiness and consumer-facing companies. We are currently undertaking further review of our grievance process to examine the best role for PepsiCo to play when grievances are presented, how we can further encourage systematic grievance management throughout our supply chain and with peers, and how we can best support effective grievance systems that sit outside of individual company approaches such as the RSPO.

Significant attention has been paid to a complaint raised against Indofood Agri Resources (IndoAgri), a palm oil producer in Indonesia that is also a subsidiary of Indofood, a large food manufacturing company with which we have a joint venture to manufacture some of our food products in Indonesia. While PepsiCo and our Indonesian joint venture decided some time ago to no longer receive palm oil from IndoAgri, we are disappointed that IndoAgri is no longer a RSPO member. PepsiCo is reviewing what further actions we can take unilaterally and with others.





## POSITIVE IMPACT

PepsiCo is committed to engaging with country-level sector initiatives to support transition to responsible production and plays an active role in the wider transformation of the palm oil sector. In 2018, PepsiCo continued to directly invest in positive impact programs in Indonesia and Mexico.

### COALITION FOR SUSTAINABLE LIVELIHOODS (ACEH & NORTH SUMATRA, INDONESIA)

PepsiCo is a founding member of the CSL. The CSL members have agreed to work collectively to achieve common objectives for smallholder livelihoods, sustainable agricultural production, and conservation in North Sumatra and Aceh to create sustainable commodity value chains (including palm oil). This includes supporting efforts to prevent deforestation for palm oil production in the Leuser ecosystem.

In 2018, the CSL worked on scoping and baselining opportunities, including mapping existing initiatives and outreach to stakeholders. This culminated in a workshop that brought together more than 130 representatives from across government, private sector, financial institutions and civil society. Among other outcomes, participants agreed on the need to strengthen farmer livelihoods, build solutions with government and develop impact programs that can achieve scale.

### SIAK —PELALAWAN LANDSCAPE PROGRAM (RIAU, INDONESIA)

In Riau, PepsiCo is one of seven companies who are working together on a landscape program for sustainable palm oil in the districts of Siak and Pelalawan.

The goal of the program is to create sustainable landscapes across both districts that will produce deforestation-free and exploitation-free palm oil and maintain or enhance key conservation areas. This will build upon existing local efforts and multi-stakeholder platforms to advance a shared vision of sustainable, inclusive palm oil production models.

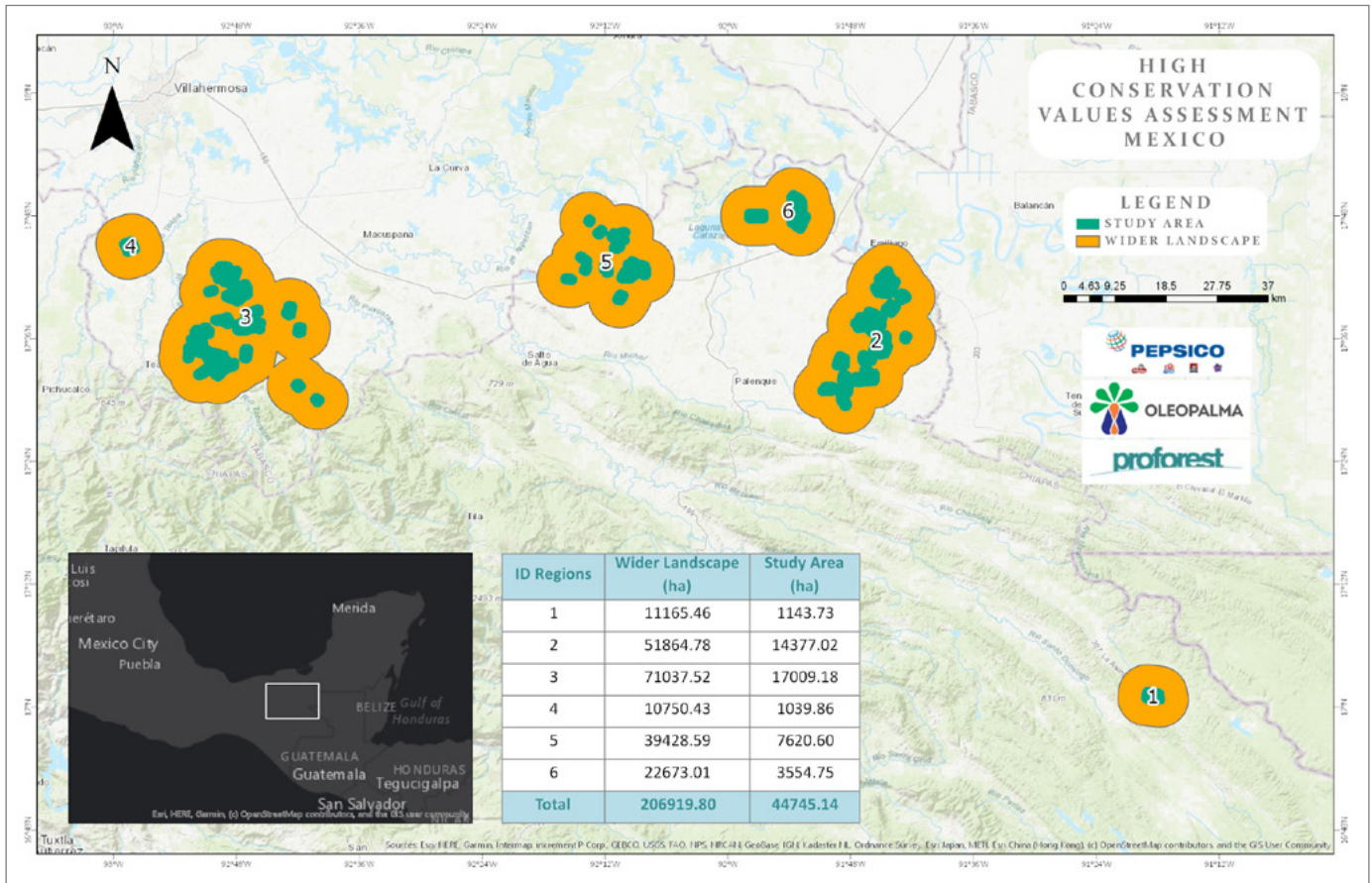
The focus in 2018 has been to design the program. When complete this will deliver:

- A comprehensive map of the production base, key stakeholders and existing initiatives
- Clear boundaries of priority areas
- Clear identification of gaps to address root causes of the main challenges
- Agreement on goals and objectives of the Implementation Phase





## HOLISTIC PALM OIL SUSTAINABILITY PROGRAM (MEXICO)



Over 44,000 hectares of the supply base of Oleopalma, comprised of smallholder, medium, and large palm-producer lands have been assessed through the HCV approach, including a wider landscape around these lands (up to 5km buffer) totaling 200,000 hectares.

Our program in Mexico sets out to secure sustainable palm oil through increased implementation of best agricultural practices, improved livelihoods, and preserving forests and biodiversity through sustained commitment to NDPE. This will be achieved through a strong collaboration across the entire supply chain, from the national palm oil federation to our supplier and smallholders within their supply base. During 2018, Nestlé joined the partnership to enable the program to have a deeper and wider impact.

In 2018, the HCV approach was implemented through a large-scale assessment, adoption of global methodology, and development of local capacity. Over 44,000 hectares of the supply base of Oleopalma, comprised of smallholder, medium, and large palm-producer lands, have been assessed through the HCV approach.

PepsiCo also partnered with the [Mexican Federation for Palm Oil \(FEMEXPALMA\)](#) – an impartial entity representing mills and growers and promoting the sustainable production of palm oil in Mexico – to provide training, instructional videos and implementation guides to accelerate the adoption of sustainable practices in Mexico. Additionally, baseline diagnostics were conducted against the RSPO P&C's for 8 FEMEXPALMA members, representing 22,000+ hectares and 90,000+ tons of crude palm oil (CPO). These diagnostics have identified existing compliance against RSPO P&C's and serve as a key step in shaping technical assistance with Mexican mills.





# TRANSPARENCY AND STAKEHOLDER ENGAGEMENT

## REPORTING AND DISCLOSURE

This 2018 Palm Oil Progress Report is our fourth palm oil report and builds on the comprehensive 2017 Palm Oil Progress Report. It is part of an annual reporting cycle and is synchronized with our Annual Communication of Progress to the RSPO. In 2018, we published our direct supplier and mill lists, which provides transparency of our supply chain.

The information in this report is supplemented by detailed information on our website, including further information on specific aspects of our palm oil progress and dedicated sections on related issues such as human rights, deforestation, climate change, land rights, agriculture and sustainable sourcing (see the [Environmental, Social, and Governance \(ESG\) Reporting website](#)).

## STAKEHOLDER ENGAGEMENT

We regularly engage with civil society and other stakeholders to review our policy, our progress and our future actions. Among the issues raised were:

- A desire for clearer statements on our aspirations for an NDPE free supply chain;
- The scope of our policy and the request to apply our policy to companies in our supply chain at the companywide level; and
- The need for greater confidence in the independent verification that standards are being met throughout the palm oil supply chain.

## COLLABORATION

To deliver systemic change where it is needed – at an industry level – we have increased our efforts to engage in, and lead, collective discussions and actions with peer companies and suppliers. As noted earlier, we convened a group of companies and other stakeholders in a pre-competitive manner with the aim of developing an approach to monitoring and reporting on progress against delivering NDPE commitments for palm oil volumes.

The NDPE Implementation Framework aims to develop a common, credible framework in the palm oil industry to monitor the progress of mills and producers and report on NDPE compliant volumes. In 2019, PepsiCo will be supporting the scale-up of the approach through collaboration, testing and applying the framework to ourselves with the aim of publicly reporting in a robust and accurate way on our progress towards an NDPE palm oil supply chain over the next 12 months.

We will continue to be active members of the Consumer Goods Forum palm oil working group, AIM-Progress and the Tropical Forest Alliance.





# CONTINUING OUR PROGRESS

Photo credit: Proforest

PepsiCo's Palm Oil Action Plan is a multi-year program designed to enable our company to play its part in the long-term transformation of the palm oil industry. Since our last progress report, our palm oil team was able to initiate and complete substantial threads of work that set the stage for further progress in 2018 and beyond. As we publish this Progress Report, we note the following priority items currently in our pipeline of work, and we look forward to sharing progress on these and other items in the future:

- **Physical certification:** In 2019, we plan to continue our acceleration of physically certified palm oil in all our markets to 80% to propel us towards our goal of 100% RSPO certified by the end of 2020.
- **Supplier Scorecards:** We will continue to support our suppliers on targeted action plans for continuous progress, including completion of robust policies and mill traceability verification across our supply chain. Our goal is to deliver a 20% improvement in the overall score by year end 2019.
- **Mill traceability data verification:** Continue to implement the data verification process described in our Palm Oil Traceability Protocol across our direct supplier base to help all direct suppliers work towards completing an independent third-party review of the data that is sent to PepsiCo.
- **Grievance mechanism:** We will take learnings from the implementation and running of our grievance mechanism to review our overall approach and improve our decision making and transparency. We will also work with others in the palm oil industry to combine resources and leverage them to address shared challenges collectively.

- **Impact programs:**

- » **Siak –Pelalawan Landscape Program (Riau, Indonesia):** The partners will seek to complete Phase 1 and move towards implementation of pilot programs in partnership with civil society and local government.
  - » **Coalition for Sustainable Livelihoods (Aceh & North Sumatra, Indonesia):** The Coalition will work on developing solutions to systemic challenges such as smallholder legality while also moving to implementation of programs on the ground.
  - » **Holistic Palm Oil Sustainability Program (Mexico):** The partners are continuing to provide capability building on RSPO P&C's to develop sustainable palm oil at the industry level with improvement of smallholder livelihoods. Additionally, training and a guidance document will be provided to support the development of a Social and Environmental Impact Assessment.
- **Stakeholder engagement:** PepsiCo will continue to convene workshops to scale up implementation of the NDPE Implementation Framework, SRA and further improve methodologies for monitoring progress, broad adoption leading to positive change.