

PERFORMANCE WITH PURPOSE

Good for PepsiCo, Good for growers, Good for the planet

Great businesses have great supply chains. PepsiCo's relationships with farmers across Europe are critical to our future success because without them, we wouldn't have the vital raw materials to make our products. We need a successful and sustainable agriculture sector to thrive now and in the future.

The pressure on farmers is increasing. Our climate is changing. Water is becoming an increasingly precious resource. The economic outlook is challenging and we have more mouths to feed. So growers need to produce more crops with fewer inputs such as water, energy and fertiliser. Now, more than ever, we need to work together with our agricultural partners to overcome these challenges so that they can focus on what they do best – growing wholesome and nutritious crops.

At PepsiCo, we see this as an exciting opportunity. We are as passionate about farming as our farmers, and have a strong track record of developing long-term and personal relationships. Some extend across three generations and more than 40 years.

As one of Europe's top five food and beverage companies, we believe we can help our farmers and the wider agricultural sector to be successful and sustainable.

Our Europe-wide farming strategy spanning some 22 countries from Portugal to Russia and Turkey to the Netherlands is based on three key approaches: supporting local farming, producing more and better with less, and innovating for better farming.

For example, our Spanish growers are helping us establish a locally sourced supply of peanuts, the first of its kind in Europe. It will provide jobs, reduce carbon emissions and ensure a sustainable supply of peanuts for our snacks. This initiative is a win for a region facing high unemployment, a win for the planet and a win for PepsiCo.

This document sets out many more examples of our approach and our progress to date. I believe that there is more that needs to be done and that we cannot do it alone. We have formed many partnerships with peer companies, NGOs, academic institutions and others to help our growers grow more with less. If you share our ambition, please join us.



Anderson Guimaraes
Chief Executive Officer
PepsiCo Europe



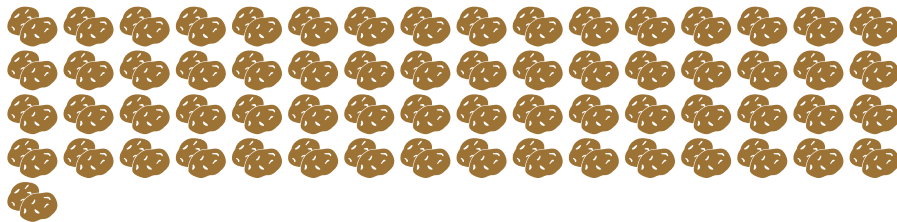
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This page: Balbirnie Farms, Fife, UK
Front cover: Laszlo Peter, Laszlo Peter jr.,
M&P Agro, Cernat, Romania

A business based on agriculture

As the parent company of Lays, Quaker, Looza and Matutano, PepsiCo is a major buyer of agricultural produce in Europe. We need high quality raw materials to make our products.



Potatoes

Over 1 million tonnes



Oats

Over 120,000 tonnes



Corn

Over 70,000 tonnes



Apples

Over 30,000 tonnes



Nuts

Over 2,000 tonnes

*1 icon = 20,000 tonnes

These ingredients for our European products come from



over 2,500 farmers in
around 30 European countries



Our crops, sourced from throughout Europe, help us to make the following products:



As one of the biggest players in the snacks and juices categories, PepsiCo's scope and scale gives us the potential to make a difference.

Why is sustainable agriculture important?

AS A FOOD AND BEVERAGE BUSINESS, OUR PRODUCTS START ON THE FARM

Maintaining a secure and sustainable supply of high quality crops is essential for our business. We are using our knowledge, resources and scale to help tackle these crucial issues and to support and maintain a vibrant and successful agricultural sector in Europe so that our business can continue to thrive and grow now and in the future.

Agriculture is at the centre of some of the biggest global sustainability and social challenges, including water, greenhouse gas emissions, climate change, food security, biodiversity, resource efficiency and an aging and shrinking farm labor force amongst others.

Building long-term resilience for the whole food supply chain, including farmers, food companies, retailers and consumers, will be key to addressing these issues.

Newmafruits Farm
Kent, Uk

Our foundation for farming for the future

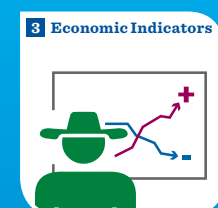
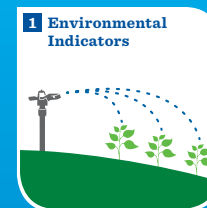
Our approach to sustainable agriculture is guided by *Performance with Purpose* - our goal to deliver sustained, top-tier financial results by providing a wide range of foods and beverages from treats to healthy eats; finding innovative ways to minimize our impact on the environment and lower our costs through energy and water conservation, as well as reduced use of packaging material; providing a safe and inclusive workplace for our employees globally; and by respecting, supporting and investing in the local communities in which we operate. *Performance with Purpose* is based on three pillars: human sustainability, environmental sustainability and talent sustainability.

Working with the farmers that supply our ingredients to build a successful, resilient supply chain will help us deliver great products in a sustainable way.

Globally, we are led by our Sustainable Agricultural Policy and our Sustainable Farming Initiative (see diagram) and work with farmers to apply proven sustainable agricultural practices, while providing support to local farmers.

In 2012, we launched our Sustainable Farming Initiative (SFI). The SFI is a comprehensive program with application to potato, citrus, oats and corn crops and to growers of all sizes in developed, developing and emerging markets. It enables PepsiCo to measure the environmental, social and local economic impacts associated with our agricultural supply chain. We plan to continue to expand SFI across global markets for crops key to our business in order to drive continuous improvement in our agricultural operations.

Sustainable Farm Initiative: Global Indicators



Learn more about our Global Sustainable Agriculture Policy at:
<http://www.pepsico.com/Purpose/Environmental-Sustainability/Agriculture.html>

Passionate about growing

HOW WE DELIVER SUSTAINABLE AGRICULTURE IN EUROPE

In view of the challenges and opportunities for our business, our growers and farming across Europe, we bring this approach to life through our *Passionate about Growing* strategy. We aim to work directly with local growers now and in the future to source the best crops in the most sustainable way by:

1 Supporting local agriculture

We have a strong track record of working with local farming industries to grow crops together and develop a successful and sustainable supply chain. While we operate in a global economy, sourcing key crops close to where they are produced is part of our strategy.

2 Producing more with less

We are developing and rolling out best practice approaches, learning from colleagues around the world, and reducing the use of key inputs such as water and fertiliser.

3 Innovating for better farming

We bring technological innovations to our growers that allow them to measure and then reduce their water and energy use. We also use our internal expertise, scale and partnerships to deliver new varieties of our key crops that have better yields, are better quality, have fewer defects and use fewer inputs such as water and fertiliser to grow.

Our approach is based on collaboration with farmers and with the many organisations that can help us and them meet these aims. This includes universities, NGOs, peer companies, farming organisations and others.

Gilston Mains
Fife, UK



“Our aim is to work directly with local growers for the long-term to source the best crops in the most sustainable way.”

David Wilkinson
Agriculture Director
PEPSICO EUROPE



Rolling out sustainable agriculture across Europe

We are helping farmers across Europe to reduce environmental impacts, increase their crops' resilience and improve their competitiveness.

Our **UK** growers aim to reduce emissions by 50% in 5 years while producing more crops. (see page 16-17)

Our agrarian programme is boosting the competitiveness and sustainability of our **Polish** potato growers. (see page 14-15)

Around 85% of all potatoes used by our Russian plants are sourced locally. (see page 14-15)

We are stepping up the use of organic fertilisers in **Belgium, the Netherlands, France and Germany** and boosting output. (see page 21)

We aim to source 100% of the potatoes used for the **Romanian** market from local growers. (see page 14-15)

Our **Spanish** growers are helping us establish a locally sourced supply of peanuts for Matutano, Duyvis and Benenuts. (see page 12-13)

We are working with growers to produce more while reducing water use in **Bulgaria and Greece**. (see page 18)

We are trialling cutting-edge technology in **Spain and the UK** to use water and fertilisers more efficiently. (see page 23)

Our **Turkish** growers have increased output while saving 10 million tonnes of water. (see page 18)



LEGEND

 Countries from which we source crops in Europe

Supporting local agriculture

SOURCING KEY CROPS CLOSE TO WHERE OUR PRODUCTS ARE PRODUCED AND SOLD IS PART OF OUR STRATEGY

Spain and Portugal: Creating a European peanut supply

Our farmers in Spain and Portugal are helping us establish a locally sourced supply of peanuts for PepsiCo brand nuts in Europe, including Matutano, Duyvis and Benenuts. It marks the first time ever that peanuts have been grown commercially in Europe.

PepsiCo is bringing the first ever commercially grown peanuts to Europe

The aim of this initiative is for our Europe business to become self-sufficient in the production, packaging and marketing of peanuts, which are currently imported. It also gives us more control over the quality of the nuts since exclusive varieties can be cultivated to suit our specific requirements.

The project is a key opportunity for the region's agricultural sector, a region which has been hit hard by the economic crisis with high unemployment. It started out with 108 farmers in Spain, but we hope to benefit around 1,000 farm workers throughout Spain and Portugal in order to produce the tonnes that PepsiCo needs in Europe. PepsiCo has also begun trialling peanut crops in Eastern Europe.

There are also environmental benefits. By sourcing closer to our European factories, we will reduce our carbon emissions. In addition, peanuts naturally improve soil quality by fixing nitrogen to the soil, and trials suggest that peanuts can reduce the need for fertilisers for other crops by up to 30%. Therefore peanuts are also an ideal rotation crop for farmers growing corn and tomatoes, which also limits the need to convert unused land into farmland.

Benefits of Euronuts programme

- ▶ Aim to source 100% of peanuts sold in Europe from European growers
- ▶ Expected to benefit 1000 farm workers
- ▶ Reduce need for fertilisers 30%
- ▶ Ideal rotation crop

"For its contribution to the rural development project in the south-west of Spain, and for making our country a supply platform for the European market, by trusting in the competitiveness of our food and agriculture industry, my thanks to PepsiCo."



Miguel Arias Cañete
Spanish Minister of Agriculture,
Food and Environmental Affairs

Godinho Farm
Coruche, Portugal



We already source 100% locally-grown potatoes for most markets in Europe.

M&P Agro
Cernat, Romania

Poland, Romania and Russia: Investing in local growers

PepsiCo used to rely on imports to make Lays crisps for the Polish and Romanian markets. Our agrarian programme has helped Polish and Romanian potato farms become stronger, professional businesses. We give hands-on technical support to our local growers to ensure continuous improvement in the quality, quantity and sustainability of raw materials. These partnerships give our growers a secure and competitive business. We also benefit from having a steady supply of high-quality, locally-grown potatoes in key markets.

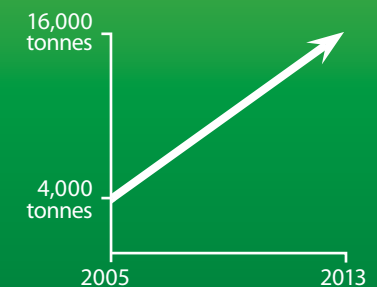
We give hands-on technical support and help farmers access better technology and logistics to improve the quality and quantity of their crops - our ingredients.

To boost potato production in Romania we helped local growers with pre-payments to support their cash flow, including providing high quality potato seeds. We also gave training workshops and shared best practice. As a result, 16,000 tonnes of potatoes were grown locally in

2013 to supply the Lays plant in Romania compared to 4,000 tonnes in 2005. We aim to source 100% of the potatoes used for the Romanian market from Romanian farmers. In Poland, our potato growers now have a total capacity to produce 120,000 tonnes of potatoes per year. We have similar partnerships underway in Bosnia, Serbia and Turkey.

We also want to replicate our Polish and Romanian achievements in Russia. With the support of expert training, technology and interest-free loans, 80% of all potatoes used by our Russian plants were sourced from Russian growers only four years after the programme commenced. Within the next few years that number is expected to reach 100%. This ultimately improves the quality of life of our growers and their communities and makes our supply chain more resilient.

Our progress sourcing local potatoes in Romania



Producing more with less

WE ARE WORKING WITH OUR GROWERS TO INTRODUCE BEST PRACTICES THAT REDUCE OUR CROPS' USE OF PRECIOUS NATURAL RESOURCES

Reducing emissions

UK: Reducing emissions by 50% in 5 years

As of the end of 2012, two years into the 50-in-5 journey, the carbon footprint of Walkers' potatoes had been reduced by 27% on a constant yield basis, and by 4% when taking into account the large reduction in yield suffered throughout the UK that year due to flooding and heavy rains at harvest. Led by the information generated by the Cool Farm Tool (see page 22), PepsiCo agronomists and partners, such as ADAS, have been working with growers to measure emissions, identify hotspots and implement approaches that reduce emissions in the field. PepsiCo has worked with environmental organisations since 2008 to measure, certify and reduce the carbon footprints of Walkers Crisps and Quaker Oats. Armed with this information, growers are identifying and making simple changes that add up to big savings without impacting yields. These include optimising activities associated with high emissions, such as the use of tractors and fertilisers.

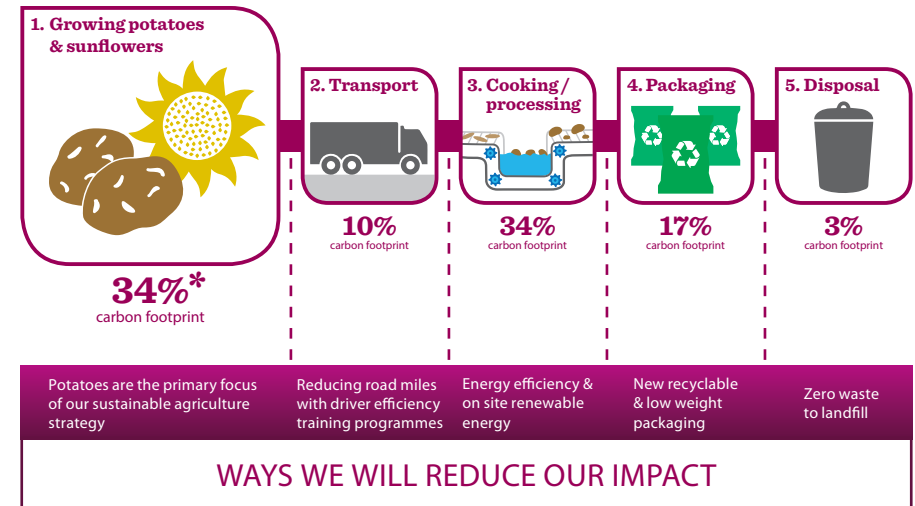
Many of the other innovations that PepsiCo is working with growers to introduce will also help the business to reach its target in the UK of a 50% reduction in emissions by 2015. New varieties of potatoes that use less fertiliser

UK potato growers have reduced carbon emissions 27% since 2010 toward our 50% in 5 target.

and are less susceptible to disease will play a significant part. New methods of adding fertiliser to reduce the amount of emissions released into the air, and using lower carbon fertilisers will also help. We will continue to work with our partners to find ways to tackle other hotspots such as storage facilities. Helping our growers to make them more energy efficient will be a key part in meeting our 50% target.

Case study - Walkers

SUSTAINABLE AGRICULTURE FOR OUR POTATOES



* 2% seasoning ingredients

Our 50 in 5 aims

- To **reduce the agricultural carbon emissions** of key crops in the UK by 50% by 2015
- Where our UK farmers operate in water stressed areas, to **reduce the impact of applied water** by 50% within 5 years
- To **apply new technologies such as i-crop™** (see page 23) and **Cool Farm Tool** to measure water inputs and carbon emissions

Reducing water use

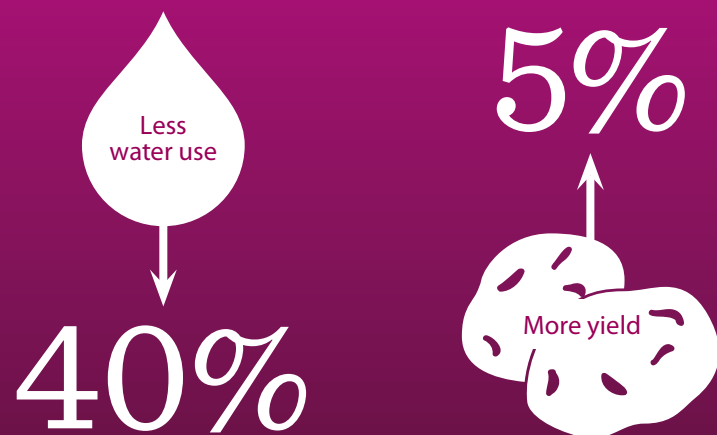
Turkey: Saving 10 million tonnes of water

We want to help our growers get more crop from every drop. We have worked with some of our 500 Turkish farmers to reduce water usage by 34% in 2012 versus 2010 by increasing the use of drip irrigation and mini sprinkler systems and boosting yields. As a result, we have saved around 10 million tonnes of water – enough to fill approximately 4000 professional-size swimming pools.

Greece and Bulgaria: Less water, higher yields

We are working with Greek and Bulgarian potato growers to use water more efficiently by rolling out learnings from i-crop™ and putting in place drip irrigation, which we are also trialling in the UK. Most of our farms in Bulgaria use drip irrigation resulting in 40% less water use per hectare compared to other irrigation methods and increased yields of 5%. Drip irrigation trials that Walkers conducted with its growers in 2011 and 2012 have resulted in increases of 6% in yield over the two years and 42% less use of irrigation water per tonne of potato.

Benefits of drip irrigation use* in Bulgaria



*Per hectare compared to normal irrigation

We want to help our growers get more crop from every drop.

Potato farm
Eskişehir, Turkey

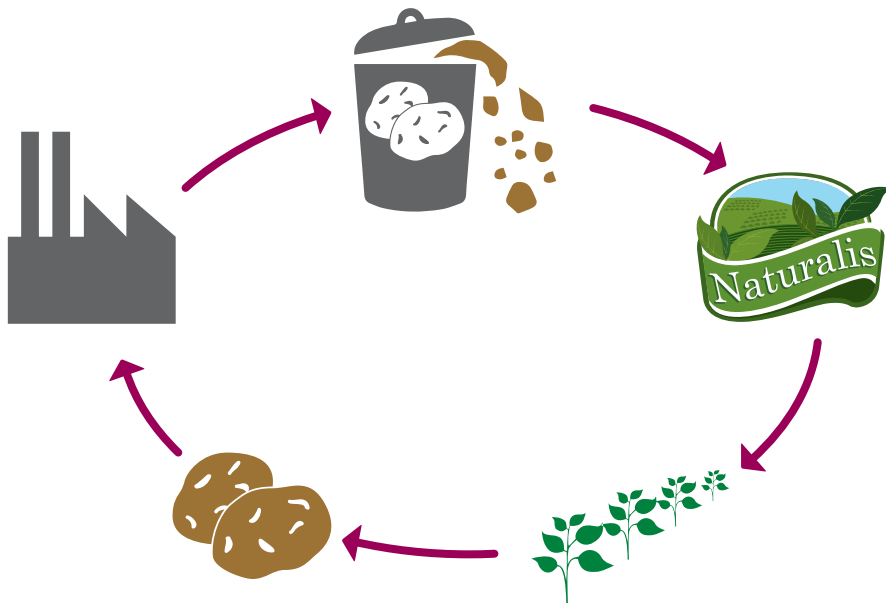
Turning waste into a resource

Turkey: Factories' composted waste is farmers' treasure

We are cooperating with farmers to trial the use of a natural fertiliser for potatoes, Naturalis, that is made from our Turkish potato chip factories' waste. Through our life cycle analysis, we found that the manufacturing and use of fertilisers have a significant impact on climate change. Natural fertiliser is good for the soil as it provides organic content as well as nutrients. It supports PepsiCo Snacks Turkey's aim to reduce chemical usage in fertilisers for potato production by 40%. The ultimate goal is to roll-out this

We are turning potato chip factory waste into a natural fertiliser to grow our potatoes and into energy to power our factories.

fertiliser to cover 100% of our fertiliser needs for potatoes in Turkey, and to sell excess capacity to the market in the long-term.

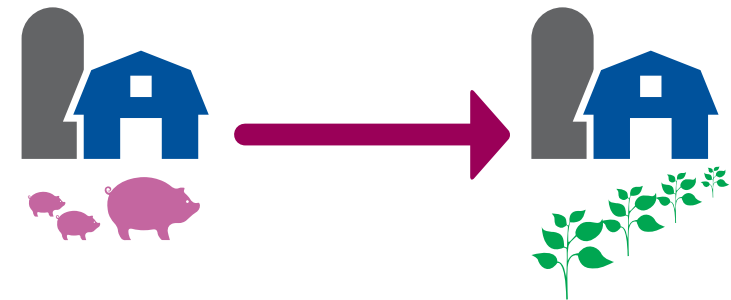


Belgium and the Netherlands: Less chemical fertiliser, less waste and emissions

In Belgium, the Netherlands, France and Germany, we are stepping up the use of organic fertilisers when appropriate to reduce emissions. For example, slurry from Dutch and Belgian dairy and pig farms are placed directly into the soil as a natural fertiliser. This cross-farm cooperation keeps an old practice alive, helps dairy and pig

farmers reduce their waste and reduces our growers' carbon emissions as it reduces the use of chemical fertilisers. It also improves our products' environmental performance because between 40-50%* of the carbon produced per tonne of our potatoes is from fertilisers.

*Based on the Cool Farm calculator



"We used to use chemical fertilisers for our potatoes. With PepsiCo, we trialled organic fertilisers and yielded good results. In the future, we plan to obtain organic fertilisers from local pig farms to further reduce our carbon footprint."

Mr. Lammerant
a Belgian potato grower

Innovating for better farming

WE ARE WORKING WITH OTHERS TO DEVELOP TECHNOLOGICAL INNOVATIONS TO HELP GROWERS MANAGE WATER AND ENERGY USE

Cool Farm Tool

Belgium, France, Germany, the Netherlands, Poland, Portugal, Spain, Turkey and the UK: Over 80 footprint analyses on farms

The Cool Farm Tool is a farmer-friendly greenhouse gas calculator developed in conjunction with the University of

Aberdeen and Unilever. The technology allows farmers to estimate a greenhouse gas footprint within minutes, and to test and compare more sustainable options. This provides a new record-keeping tool and enables our growers to measure and reduce carbon emissions easily.



i-crop™

Belgium, France, Germany, the Netherlands, Poland, Portugal, Spain, Turkey and the UK: i-crop™ used on 84 crops

We developed i-crop™ in collaboration with Cambridge University to help farmers measure and optimise water use by combining weather data and underground moisture probes.

HOW I-CROP™ HELPS TO REDUCE WATER USE



Learn more about i-crop™ at:
<http://www.pepsico.co.uk/purpose/environmental-sustainability/agriculture.html>

Smartphone app and satellite technology

Spain and UK: Trialling cutting edge technology

The smartphone app, CanopyCheck, which was also developed in collaboration with Cambridge University and Landmark Information Group, analyses a photograph of a crop taken on a mobile phone to monitor crop development, and along with information from soil moisture monitors it can assess the level of water the crop needs

and when. This technology allowed us to conduct a pilot test with our Spanish peanut growers to determine which irrigation system is the most water efficient. In addition, we are trialling satellite technology to monitor the development of potatoes in the field and to predict yields. This technology, when combined with i-crop™, can give growers advice on how much fertiliser and water should be used to improve their environmental performance.

“Before now, to predict their yields, farmers had to rely on manual measurements which were cumbersome and subject to error. This smartphone app, which we have developed with PepsiCo, enables farmers to more accurately forecast crop yield using digital images and modelling techniques.”

David Firman
Cambridge University



New potato varieties

Our new naturally-bred varieties have:

- ▶ *better quality*
- ▶ *less wastage*
- ▶ *less water*
- ▶ *same great taste, quality and texture*



Duncote Farm
Shropshire, UK

Belgium, Bulgaria, France, Germany, Greece, Netherlands, Poland, Romania, Russia, Serbia, Spain, Turkey and UK: Producing more and better with new varieties

The type of potatoes we use are vital to the quality of the final product that we make. We have expertise in developing and growing varieties that meet consumer expectations for things like texture, taste and colour. Our next generation of naturally-bred varieties

will also help our growers deliver higher yields while using less inputs such as water and fertiliser. Having worked with seed growers and others to develop these new varieties, we are working with farmers to make sure they deliver in the field and we are identifying the best ways to grow them. The initial results from these trials are encouraging both in terms of their sustainability performance – with less wastage due to better quality and less disease – and delivering on taste, quality and texture.

How we work

IN-HOUSE SUSTAINABLE FARMING EXPERTISE

We have a team of 70 Procurement and Agronomy experts in Europe whose relationship with growers is crucial to the success of our *Passionate About Growing* strategy and to ensuring we have the best quality ingredients for our products. The team members work hand-in-hand with growers and suppliers and regularly have their feet in the field.

"We spend a lot of time literally in the field giving growers practical tips on how they can get more and better quality out of their yields."

Arno From
PepsiCo Agronomist



M&P Agro
Cernat, Romania

From left to right: Neli Filip, PepsiCo East Balkans Agro & Purchasing Manager, Laszlo Peter, M&P Agro Farmer, Akos Bajcsi, Timate Farmer; Alexandra Lupascu, PepsiCo Romania Agro Specialist and Csaba Moldovan, Timate Farmer

COLLABORATING WITH PARTNERS

While we have in-house experts, achieving a sustainable future for agriculture requires a whole-of-society approach that can only be achieved through partnerships with farmers and our supply chain, other businesses, researchers, government and non-government organisations.

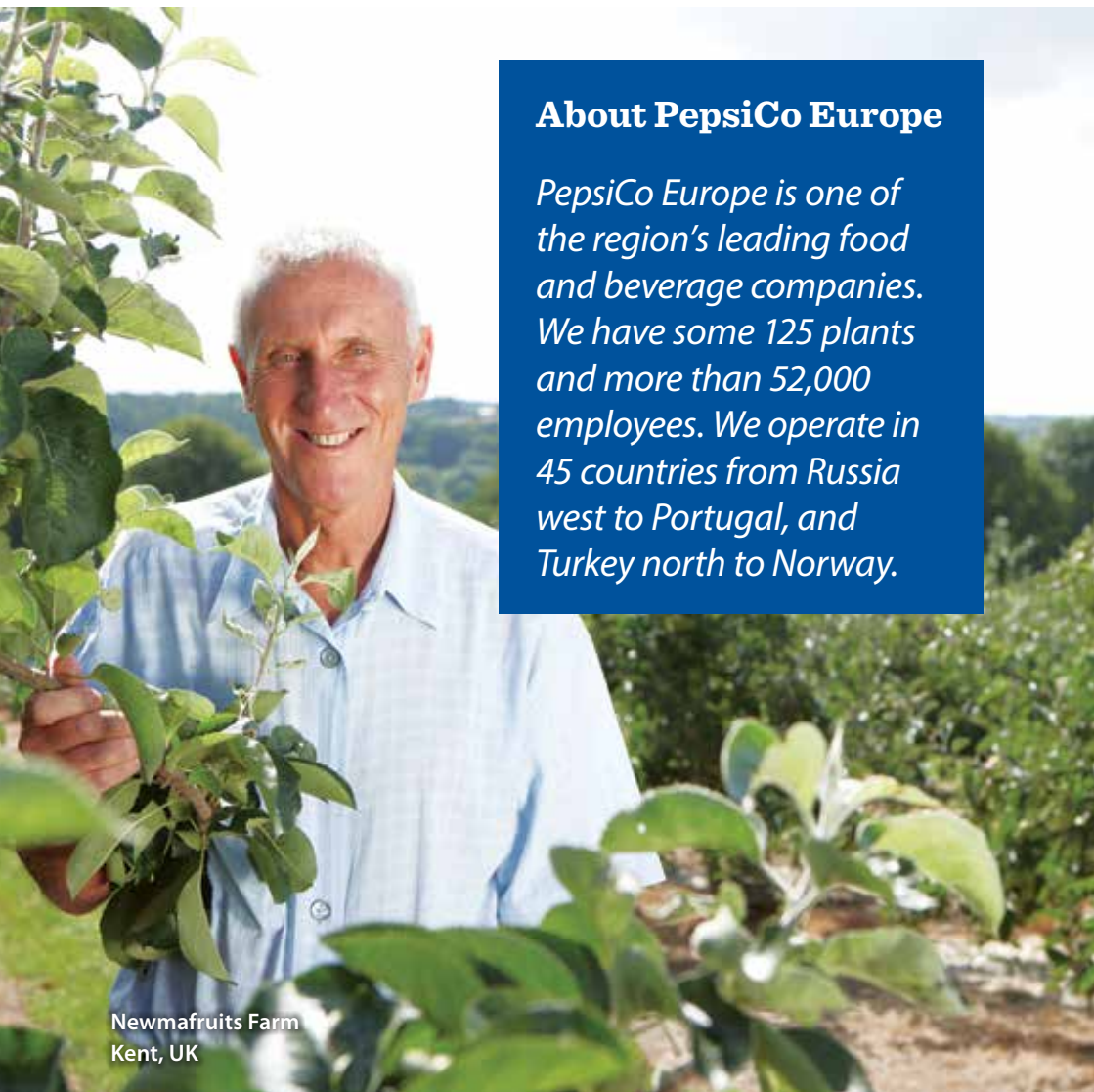
Throughout the document you will have seen examples of initiatives that have resulted from such partnerships. The following is a list of some of the organisations we have worked with in Europe:



*Please join us on our journey
to deliver sustainable agriculture*

For more information, visit our website:

<http://www.pepsico.com/Purpose/Environmental-Sustainability/Agriculture.html>



About PepsiCo Europe

PepsiCo Europe is one of the region's leading food and beverage companies. We have some 125 plants and more than 52,000 employees. We operate in 45 countries from Russia west to Portugal, and Turkey north to Norway.

Newmafruits Farm
Kent, UK

Safe harbour statement

Any forward looking statements in this report are made under the Safe Harbour provisions of the US Private Securities Litigation Reform Act of 1995. All of our forward-looking statements involve risks, uncertainties and assumptions.

If any such risks or uncertainties materialise or if any of the assumptions prove incorrect, our results could differ materially from the outcomes implied by the forward looking statements made.

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