



PEPSICO

SUSTAINABLE FARMING PROGRAM

SCHEME
RULES

AUGUST 2018



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1. INTRODUCTION



1.1 SETTING THE STAGE

As a leading food and beverage company, agriculture is central to our supply chain. Our products depend on a safe, high-quality, and affordable supply of agricultural raw materials to meet the demands of our business as well as the expectations of our consumers, customers, and other stakeholders. Agriculture sits at the nexus of three critical agendas for PepsiCo: Business Impact, World Relevance and Corporate Reputation. Given the importance of agricultural materials to PepsiCo, we aim to champion the best thinking, practices, and technology to support sustainable agriculture within our global agricultural supply chain.



Figure 1: Agriculture sits at the nexus of three critical agendas: Business Impact, World Relevance and Corporate Reputation

PepsiCo's Global Sustainable Agriculture Policy outlines our aspirations and goals for sustainability at the farm level within our agricultural supply chain. The Sustainable Farming Program (SFP) - formerly the Sustainable Farming Initiative (SFI) - was created as the primary vehicle to help deliver against these aspirations. It is a means for engaging with growers to build capability, address relevant risks and encourage continuous improvement through fundamental agricultural practices that span the broad aspects of sustainability. The program is comprised of two components:

- the **SFP Code**, which lists PepsiCo's farm-level sustainable agriculture principles and practices, and
- the **SFP Continuous Improvement Process**, whereby farmers are continuously assessed against the SFP Code and efforts taken to address missing sustainable agriculture principles.

The SFP is designed for global implementation. It is intended to be relevant and adaptable across all cropping systems and scalable to farm size and market maturity.

1.2 PURPOSE OF THE SCHEME RULES

The scheme rules provide an implementation framework for the SFP Continuous Improvement Process. This framework is intended to provide executional guidelines that promote consistency across PepsiCo's global deployment of the SFP, as well as articulate what is meant by any claims PepsiCo may make about sustainably sourcing agricultural materials. As the SFP is a global program, the scheme rules were designed with the intention of having enough flexibility to accommodate the differing circumstances found within PepsiCo's supply chain.

PepsiCo reserves the right to modify this document, which will be reviewed annually.

1.3 SFP CONTINUOUS IMPROVEMENT PROCESS

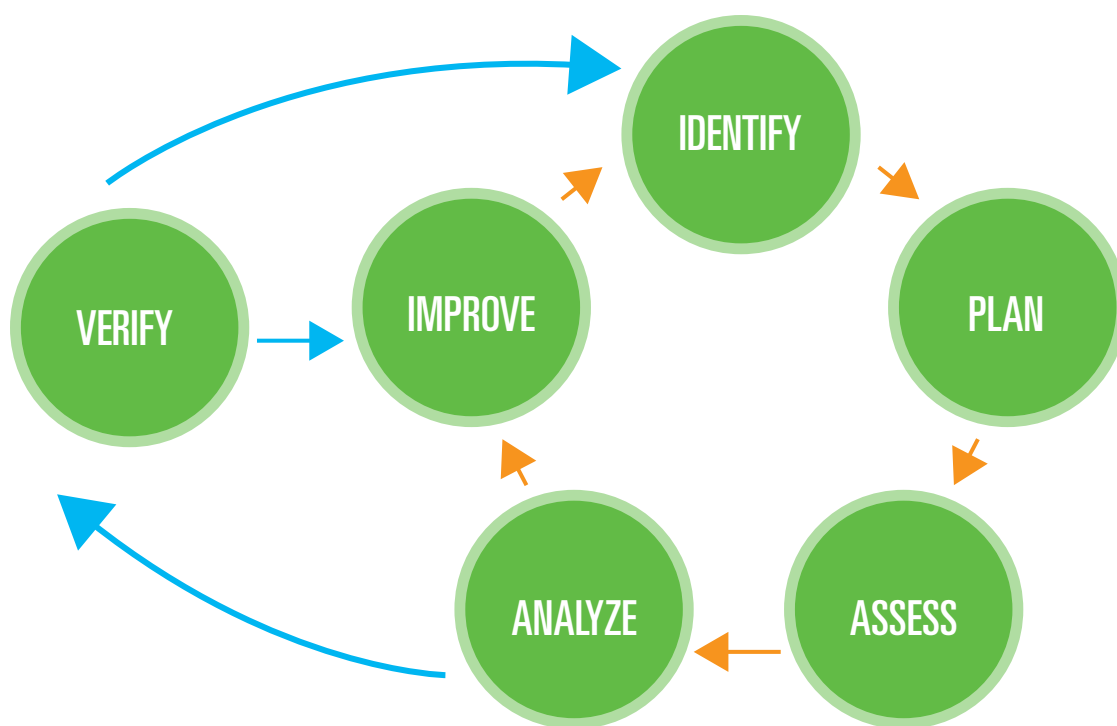


Figure 2: The SFP Continuous Improvement Process is comprised of five primary steps that enable PepsiCo to drive sustainable performance into our supply chain. When performance has reached a point in which PepsiCo would like to claim sustainable sourcing, third party verification is required.

The SFP Continuous Improvement Process is a cyclical process geared towards assessing and then addressing sustainability opportunities at the farm level within PepsiCo's agricultural supply chain. It starts, as depicted in *Figure 2*, with identifying the need for SFP deployment. Once deployment is initiated, the appropriate planning can take place to enable effective assessment of on-farm sustainability. Results from the assessment are then analyzed for data quality and to identify sustainability opportunities. PepsiCo will then develop improvement programs to encourage and support farmers in their adoption of sustainable farming practices. As this is a continuous improvement process, eventually the cycle will begin again. In cases where the data indicates strong sustainability performance, PepsiCo may initiate data verification to enable sustainable sourcing claims. The outcome of verification will determine the appropriate re-entry point into the continuous improvement process.

Details related to each phase can be found in Sections 2 - 7 of this document.

1.4 SFP CODE

The SFP Code outlines the specific farm-level principles and practices that embody PepsiCo's sustainable agriculture policy. These principles span a comprehensive array of topics across the three widely recognized pillars of sustainability: Environmental, Social and Economic. The SFP Code has been organized into a hierarchy of increasing granularity as shown in *Figure 3*. This structure provides a better understanding of how specific farm practices feed up to PepsiCo's high level principles for sustainable agriculture.

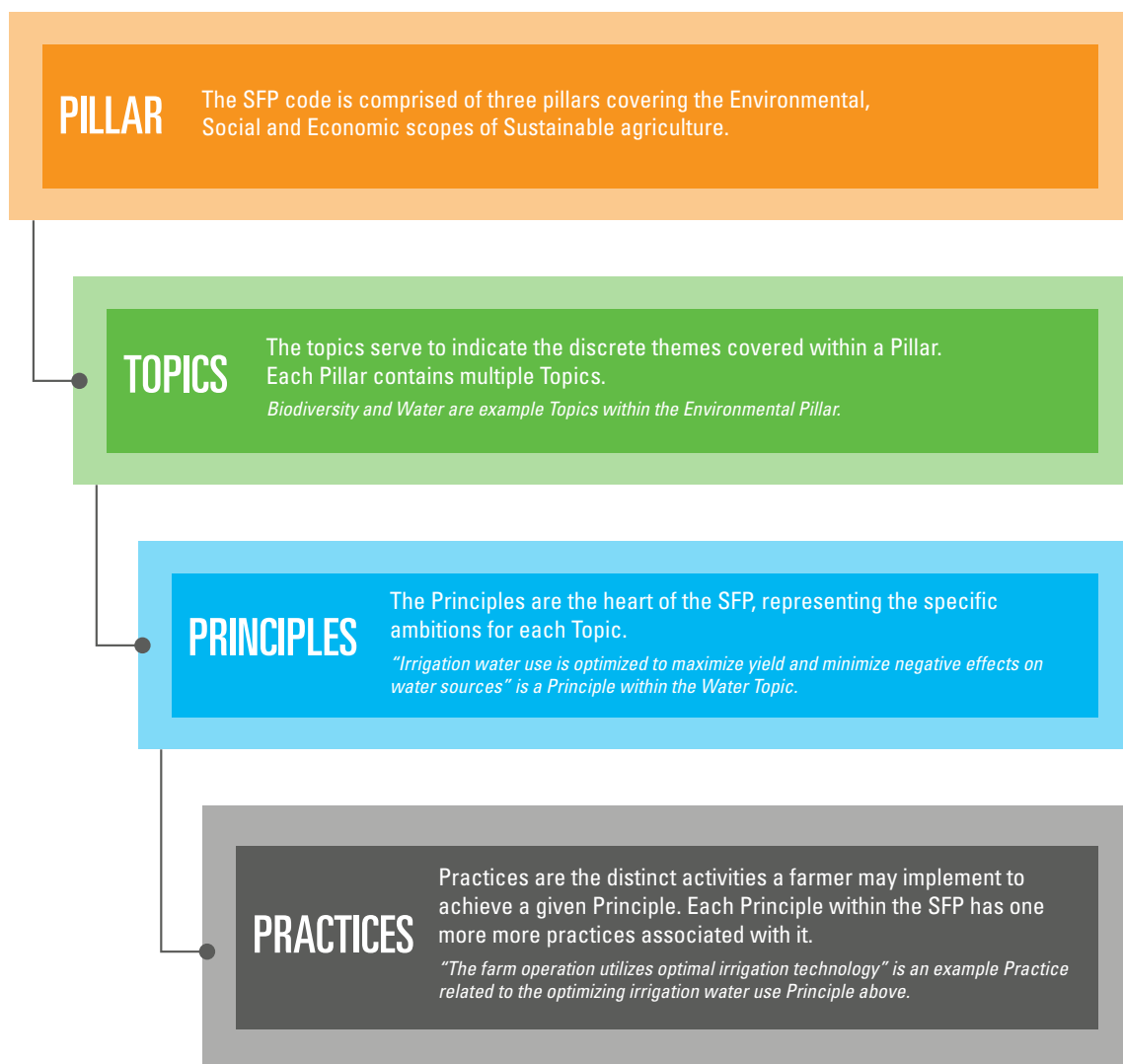


Figure 3: The SFP Code is structured into an increasingly granular hierarchy, with on-farm practices anchored back to the pillars of sustainability through specific SFP Principles and Topics.

The SFP Pillars and their respective Topics are outlined below in *Figure 4*. Each Topic targets a distinct area of focus within its respective Pillar and is comprised of relevant sustainability Principles and their constituent Practices. The Principles and Practices contained within these Pillars are supported by a Foundation focused on general farm management practices. A robust farm management system is critical for the effective delivery and maintenance of a sustainable farming operation.

SFP IS PEPSICO'S BEST PRACTICE TOOL FOR ADVANCING SUSTAINABLE AGRO ACROSS OUR SUPPLY CHAIN

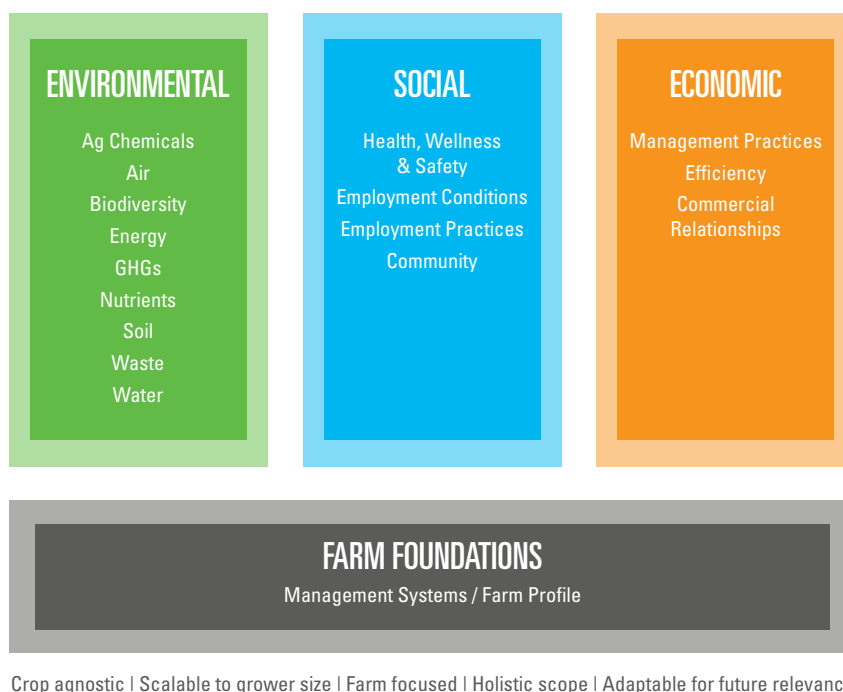


Figure 4: PepsiCo's SFP covers a comprehensive range of topics across the three pillars of sustainability and rests upon a solid farm foundation.

The SFP Principles are the vehicle by which PepsiCo conveys its specific expectations and performance objectives for sustainability in agriculture. There are two types of Principles within the SFP Code: Fundamental Principles and Progressive Principles. The Fundamental Principles are considered essential principles of sustainable agriculture. Progressive Principles are considered more advanced and are intended to encourage farmers to keep pushing forward in the continuous improvement journey, particularly in areas of high risk or relevance for them.

PILLAR	TOPIC	PRINCIPLE TYPE	PRINCIPLES
	AGROCHEMICALS	Fundamental	All agrochemicals applied are registered in the geography of use, in the country of production and as required by any national and international treaties.
		Fundamental	The management, selection, purchase, storage, security, handling, application and transport of agrochemicals meets all relevant legal requirements including national and international treaties, and occurs in a way that minimizes any negative effects on the environment.
		Fundamental	Develop and maintain an Integrated Pest Management Plan.
		Fundamental	Maintain agrochemical inventory and application records.
		Progressive	Keep crop scouting records.
		Progressive	Maintain, clean and calibrate agrochemical application machinery to ensure accurate application.
		Progressive	Keep agrochemical application equipment calibration records.

Figure 5: Agrochemicals, one of the Topics within the Environmental Pillar, has four Fundamental Principles and three Progressive Principles.

Farmers are assessed against the SFP Principles via a checklist where they indicate which Practices they have implemented on their farms that enable them to fulfill each Principle. All farmer groups engaged in the SFP will, at a minimum, be assessed against all applicable Fundamental Principles and Practices. Progressive Principles and Practices may be included in a farmer assessment when growers have either demonstrated adherence to related Fundamental Principles and/or when the subject matter is of specific importance to the farmer (e.g. Progressive Principles for the Water Topic would likely be included for farmers located in a water stressed area). It should be noted that when progressive content is to be included, it must be done on a Topic by Topic basis. This means, for example, if progressive content for Water is to be included, all of the Water Progressive Principles and Practices need to be included - not just a customized selection.

When it comes to specific on-farm practices, PepsiCo recognizes that there is not one right way to farm and that “best practice” might vary by location and crop as well as evolve over time. As such, the SFP Code was designed with the intention of providing some flexibility to farmers in selecting the sustainability practices that work best for their farming operation. Each Practice within the SFP Code has been designated as either a Critical Practice, a Necessary Practice or an Example Practice. The difference between these designations is explained in *Figure 6*.

PRACTICE DESIGNATION (ABBR.)	DESIGNATION SIGNIFICANCE
CRITICAL (CRIT)	Critical Practices are a special subset of the Necessary Practices. In addition to being necessary to uphold their respective Principle, Critical Practices are of the utmost priority as they pertain to legal compliance and human rights. Critical Practices will only be found under Fundamental Principles.
NECESSARY (NEC)	Necessary Practices are considered a requirement for upholding their respective Principles. Necessary Practices are typically more <u>general</u> to enable flexibility in the exact practices utilized by the farmer.
EXAMPLE (EX)	Example Practices are well known examples of the <u>specific activities</u> which enable a farmer to fulfill an SFP Principle. They are intended to supplement the more general Necessary Practices by providing the farmer an opportunity to both learn and communicate what specifically they are or could be doing for each SFP Principle. As a result of PepsiCo’s belief that there is not one right way to farm and that “best practice” might vary by location and crop as well as evolve over time, Example Practices are not explicitly treated as a requirement.

EXAMPLE PRINCIPLE AND PRACTICES

Health & Safety Principle: Protect the health and safety of people who work on the farm using an effective and comprehensive safety management system.

- ☐ All people who work on the farm are treated equally in terms of health and safety management
- ☐ The farm operation has a health and safety management system
- ☐ The farm conducts a health and safety risk assessment prior to implementing changes in its operation
- ☐ There is always at least one person available that is trained in first aid and CPR in case of emergency

Figure 6: The Practices within the SFP are designated one of three ways.

PepsiCo reserves the right to modify the SFP Code in its sole discretion.

1.5 THE SFP AS A SELF-ASSESSMENT

The SFP is not intended to be a third party certification or a program for which every farmer has to undergo a verification audit. Rather, the SFP assessment is a self-assessment conducted directly by the farmer or, when support is required, by a qualified second party assessor who works on behalf of PepsiCo. PepsiCo views the self-assessment as the **farmer's** interpretation and representation of the sustainability practices and technologies currently implemented on the farm, regardless of whether it was completed by the farmer or with assistance.

An SFP self-assessment is intended to represent an entire farming operation, meaning the practices checked by the farmer should be relevant and applicable for all crops cultivated by the farm operation. However, in cases where there are varying management practices from field to field or crop to crop, multiple self-assessments may be completed for a single farming operation. The farmer will clearly communicate what the self-assessment responses are relevant to, by indicating what the applicable acreage and crops are within their assessment(s). Farmers should strive to continually improve sustainability performance across their entire farming operation, not just for crops or growing cycles relevant to PepsiCo's supply chain.

1.6 FARM MANAGEMENT GROUPS

While the SFP is designed to impact farm-level sustainability, the size and complexity of PepsiCo's supply chain makes it impractical to deploy the program with every single farmer. In most cases, PepsiCo will leverage Farm Management Groups (FMGs) to assess sustainability performance and develop group-wide improvement strategies.

KEY TERM: FARM MANAGEMENT GROUP (FMG)

A Farm Management Group is a group of farmers with a logical coherence for which one could reasonably expect to see similar farm practices and sustainability performance. This logical coherence could be a result of delivering the same raw material, being members of the same cooperative, geographical proximity, or supplying to the same aggregator or processor.

PepsiCo typically groups farmers in our supply chain into FMGs by crop, geography and engagement approach (see *Section 4.2* for more information on Engagement Approaches).

FMGs are important as they facilitate more effective SFP deployment and management by:

- Enabling representative sampling (see *Section 3.3*)
- Increasing the likelihood of identifying shared opportunities, thus allowing for more focused improvement and engagement programs
- Simplifying sustainability performance claims management (e.g. 100 FMG claims vs. 100,000 individual farmer claims).

While it is preferred that FMGs remain consistent, they may vary from year to year. An FMG may need to be modified to reflect contractual changes within its constituent farmers or within the surrounding landscape. Insights from previous engagements with an FMG may also lead to adjustments. Modifications may include subdivision or mergers with other FMGs. Farmers within an FMG need to be clearly identified and documented, particularly when sustainability claims are to be made about volume produced by the FMG. PepsiCo reserves the sole right to make discretionary changes to the FMGs.

KEY ROLE: FMG COORDINATOR

In order for the FMG approach to be effective, a coordinator needs to be assigned to each FMG. The FMG Coordinator is responsible for coordinating the required activities within each phase of the SFP Continuous Improvement Process with the assigned FMG and is often the one engaging directly with the individual farmers within the group. If PepsiCo buys directly from the farmers, the FMG Coordinator will likely be the PepsiCo employee who manages or is otherwise very close to the contractual relationship with the grower. In cases where PepsiCo is buying via an aggregator or processor, the Coordinator will most likely be an employee of the aggregator or processor.

1.7 SUSTAINABILITY CLAIMS

PepsiCo will internally recognize a given volume of material we buy¹ as “sustainable” when it has been produced in accordance with the SFP Fundamental Principles². PepsiCo will recognize volume as sustainable on an FMG-by-FMG basis; however, there may be some exceptions where PepsiCo will recognize volume for an individual farmer (e.g. with very large scale farmers or where FMGs are not utilized). PepsiCo will not publicly claim volume as sustainable until a third party assessment verifies the SFP self-assessment results relevant to the claim are valid. Additional details on verification can be found in *Section 7*.

In addition to internally recognizing and publicly claiming volume as sustainable, PepsiCo will utilize three intermediary statuses.

“Responsible” means the volume was produced in a way that respects human rights and complies with all relevant legal requirements. This means a 100% implementation rate for Critical Practices within the SFP Code². This status will be used for internal tracking.

“Engaged” indicates the volume is subject to active improvement programs designed to address identified opportunities. See *Section 6* for additional information on improvement programs. This status will be leveraged in external reporting to illustrate progress towards sustainable sourcing.

“Assessed” means that the volume has been evaluated² but not yet recognized as Engaged, Responsible or Sustainable. This status will be used for internal tracking.

“Assessed,” “Engaged” and “Responsible” will be used for classification purposes to aid in the tracking of progress towards sustainable sourcing and will be based solely on the results from the self-assessments and program activities. Consequently, verification assessments will only be executed for “Sustainable” claims.

¹PepsiCo will track volume of the agricultural materials we purchase. In some cases, we purchase raw, unprocessed agricultural materials, such as potato or oranges, and in other cases, we purchase processed materials, such as cane sugar or palm oil. We will not convert the volumes of the processed agricultural materials we buy back to the raw source crop volume.

²PepsiCo may assess and classify our sourced agricultural material volume using the SFP or an equivalent sustainable agriculture standard. A more detailed description for the use of other standards can be found in the benchmarking section (Section 3.4).

2. IDENTIFY



2.1 TRIGGERS FOR SFP DEVELOPMENT

In order to effectively prioritize our engagement efforts, PepsiCo is leveraging business impact studies, supply chain risk assessments and stakeholder feedback to determine where and when to initiate the SFP Continuous Improvement Process. As explained above, the SFP Continuous Improvement Process is a cyclical process designed to assess and then address sustainability opportunities within PepsiCo's agricultural supply chain; it doesn't stop with a single pass through. Therefore, at some point, PepsiCo will need to start the process over again with FMGs that have already gone through it. Re-deployment should be initiated when:

- PepsiCo has a reason to believe the FMG has achieved measurable improvements.
- The FMG's current (verified) sustainability status is about to expire.
- There is a **substantial change**³ in the structure or composition of the FMG.

KEY TERM: CAMPAIGN

A Campaign refers to a specific effort in time to complete the Plan, Assess, and Analyze phases of the SFP Continuous Improvement Process for a specific FMG. For example, one may refer to the 2015 Campaign with FMG XYZ.

³A change is considered substantial when it influences the sustainability performance or improvement priorities of the FMG as a whole. While this can be somewhat subjective, one defined trigger point is when new growers representing ≥ 10% of the FMG's total production volume are introduced into the FMG.

3. PLAN



3.1 TRACEABILITY

While a PepsiCo supplier may be an individual farmer, a group of farmers, an aggregator or a processor, the SFP assesses **on-farm** activities, and thus, any supplier not directly growing the crop(s) must trace their supply back to the producing farmer(s) in order to perform the SFP assessment there. If traceability cannot be established to the farmer level, the SFP cannot be applied. Furthermore, understanding the supply chain at the farmer level also allows for effective stratification of farmers into FMGs.

Following this requirement, we define traceability as:

Knowing the potential sources of agricultural raw materials within one's supply chain all the way to the farmer level.

When deploying the SFP with farmers who are supplying to an aggregator rather than directly to PepsiCo, PepsiCo will ensure that the FMG it establishes within this farmer base produces at least as much volume as that which PepsiCo is purchasing from the aggregator. Additionally, prior to making any sustainability claims for this volume, PepsiCo will confirm there are sufficient accounting principles in place so no double counting occurs between the aggregator's customers. PepsiCo will accept the accounting principles defined in industry recognized standards.

3.2 PRE-ASSESSMENT ACTIVITIES

Prior to launching any farmer assessments, a few things must occur. These activities are outlined in *Figure 7*.

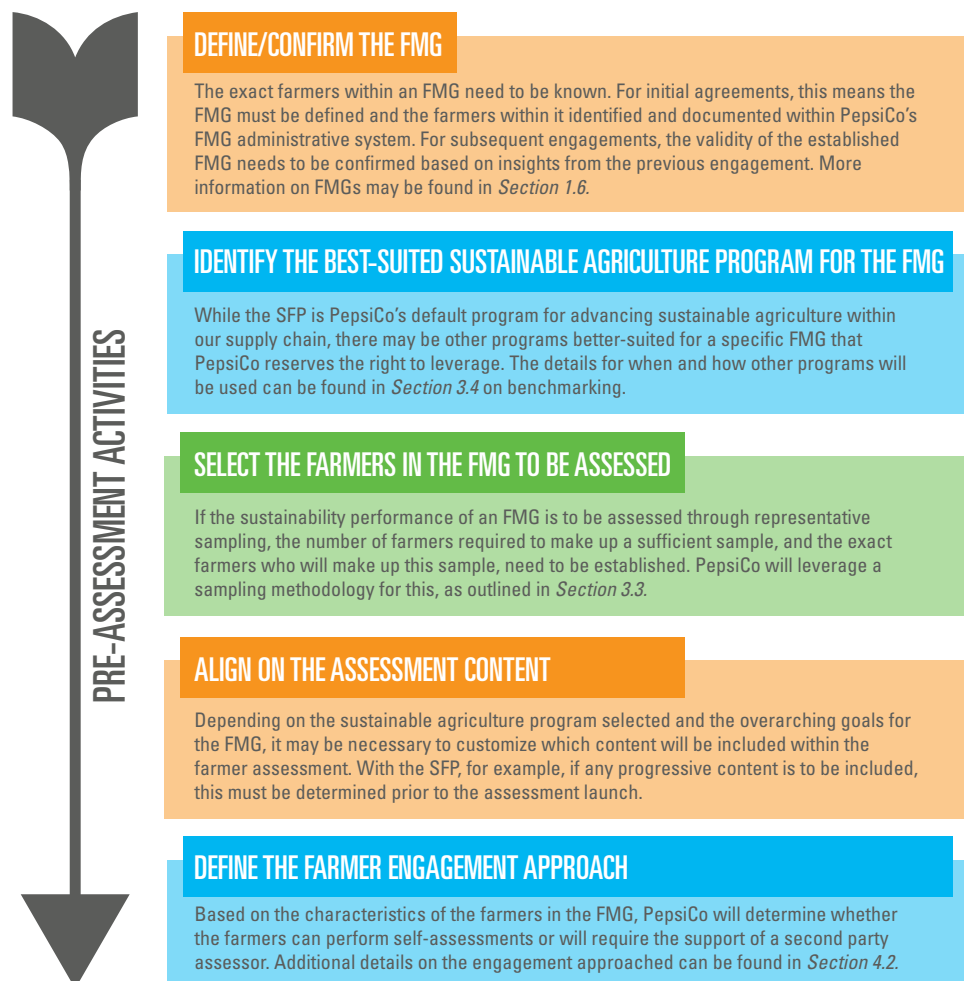


Figure 7: There are a number of activities required prior to launching farmer assessments.

3.3 SAMPLING METHODOLOGY

To determine the number of farms to be assessed within a Farm Management Group, the sampling methodology outlined in *Figure 8* will be applied. This sampling is based on statistical sampling methods with a fixed accuracy of 12.5% and is aligned with the approach utilized by [The Sustainable Agriculture Initiative Platform Farmer Sustainability Assessment program](#). The farmer sample must be drawn from the total number of farmers in the FMG and must be selected randomly.

Figure 8: PepsiCo’s sampling methodology.

NUMBER OF GROWERS IN AN FMG	0-30	31-200	201-300	301-400	401-500	501-1K	1K-4K	4K-30K	>30K
Sample Size for FMG assessment	Every grower	30	33	34	35	37	39	40	41

Alternative sampling methodologies may be used when the FMG is tied to another sustainable agriculture standard. Sample sizes listed here are the minimum required. It is recommended that a few additional growers be added to these minimums, as there may be cases where certain farmers cannot or will not participate. These additional sampled growers will serve as a buffer to ensure the minimum sample size is still satisfied. The FMG Coordinator may also choose to increase the sample size, or even assess every grower within the FMG, for other reasons, including local risk factors.

3.4 BENCHMARKING

PepsiCo recognizes there is a significant number of sustainable agriculture standards and programs in existence today, and shares the same view as many in the industry that there is a need for harmonization to alleviate program fatigue among the growers and minimize duplication of effort. There are two ways in which PepsiCo endeavors to utilize other sustainable agriculture standards. One way is for PepsiCo to use a standard completely in place of the SFP. This is only possible with programs achieving Complete or Conditional Benchmark (see *Figure 9*). The other way is for PepsiCo to recognize other standards as satisfying portions of the SFP. PepsiCo will determine specifically how and whether it can utilize another sustainable agriculture standard through the process of Benchmarking.

Benchmarking involves a holistic comparison of the required principles and practices within the SFP to another standard. There are four possible outcomes of a Benchmark.

BENCHMARK OUTCOME	DEFINITION	SIGNIFICANCE
COMPLETE	The standard satisfies the Principles and Practices, as well as the continuous improvement processes, required by the SFP.	PepsiCo may utilize this standard with farmers, where relevant, in place of the SFP. Additionally, PepsiCo will recognize growers who already comply with the standard as sustainable.
CONDITIONAL	Combined with a few additional measures, the standard satisfies the Principles and Practices, as well as the continuous improvement processes, required by the SFP.	Where the additional measures are taken, PepsiCo may utilize this standard in place of the SFP and recognize growers as sustainable. ⁵
PARTIAL	The standard has significant overlap with the SFP’s Principles and Practices and is broadly implemented in PepsiCo’s supply chain.	PepsiCo may choose to pre-fill satisfied content within the SFP assessment for growers who comply with the standard, thus reducing the burden of completing the SFP assessment on the growers.
LIMITED	The standard has limited overlap with the SFP’s Principles and Practices.	PepsiCo will not utilize the standard for pre-filling portions of a grower’s SFP assessment.

Figure 9: There are four possible outcomes from benchmarking other standards against the SFP Code.

⁵ PepsiCo will not include these growers in public claims of sustainable sourcing unless they have gone through third party verification – either as part of acquiring certification with the benchmarked standard or through third party verification of the FMG, as arranged by PepsiCo.

PepsiCo will limit benchmarking to standards viewed as strategically significant. Examples of strategically significant standards include those that are considered industry norm for a given agricultural material or to which a significant portion of farmers within an FMG comply. PepsiCo maintains a registry of the standards that have been benchmarked. An overview of the benchmarking process can be found in *Figure 10*.

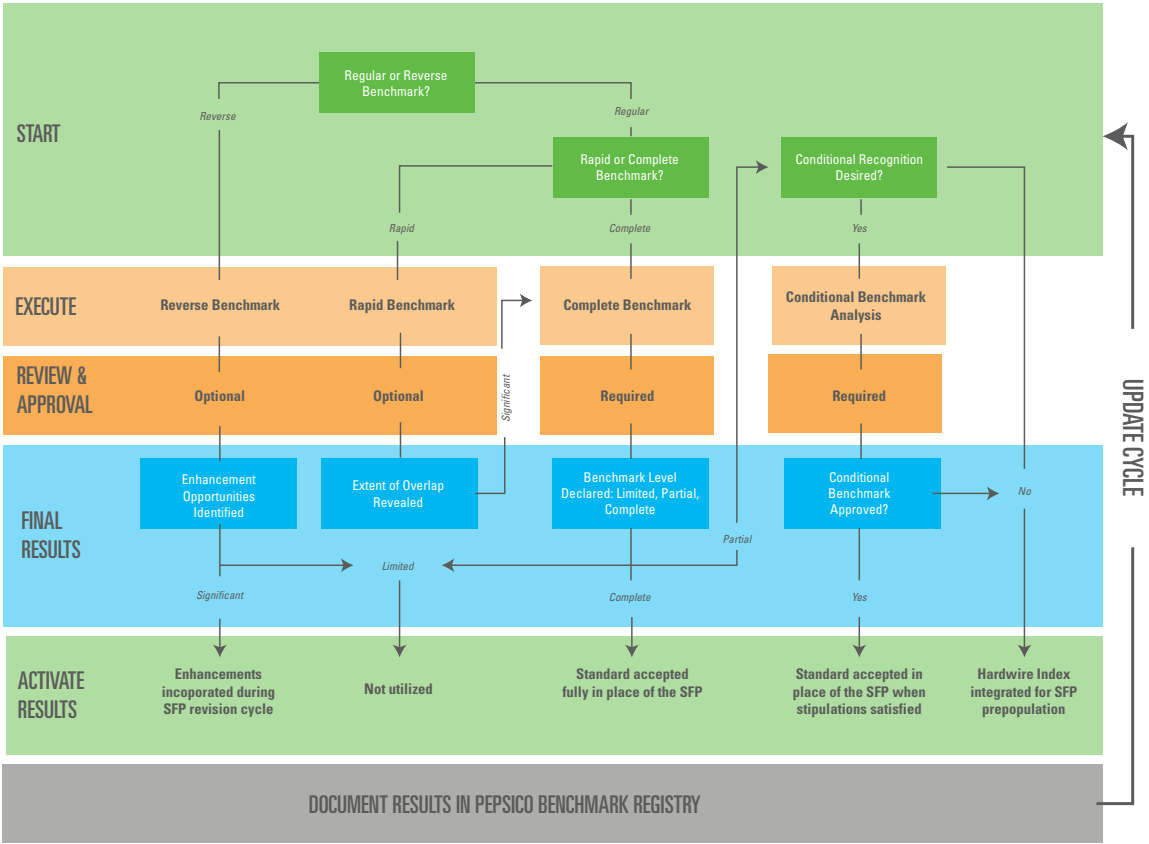


Figure 10: Overview of the Benchmarking Process

4. ASSESS



4.1 COLLECTING DATA

Before completing the self-assessments, farmers need to agree to the SFP Terms of Use. Appropriate tools will be used to collect the assessment responses. The SFP Self-Assessment Questionnaire was created as an Excel file in an effort to simplify its use globally, particularly in remote areas where internet access is limited.

The Questionnaire consists of three sections:

- **Farm Profile:** Acquires basic information on the farming operation such as location and primary contact details. This is also where the farmer will indicate to what acreage and crop(s) their responses are applicable.
- **Questionnaire Customization:** A checklist (also known as the “Parent Matrix”) in which the farmer can identify what local conditions or farming operations exist within their farming system. Their responses will activate only the applicable Principles and Practices within the SFP Code.
- **The SFP Code:** This is where the farmer will respond to the SFP Code. More details on the SFP Code can be found in *Section 1.4*.

In addition to the Excel template created for SFP assessments, PepsiCo may use other mediums to collect the data, such as second party assessors or online assessment platforms.

4.2 THE ENGAGEMENT APPROACHES

Engagement with farmers can be approached in two different ways: self-assessments or second party assessments. A single engagement approach will be used for each FMG. The approach to be used will depend on the capabilities of the farmers within the FMG.

Self-Assessment, in which the farmer is independently completing the SFP Self-Assessment Questionnaire, can be used for highly capable growers. These growers need to be (computer) literate and have a high understanding of the concepts used within the SFP.

If required, farmers can get support for questions they have about the SFP via an SFP hotline and/or additional SFP training, both of which may be executed by either a qualified second party or PepsiCo.

Second Party Assessments are the recommended approach when farmers require support with completing the assessment. The second party assessor is able to interview the grower in such a way that it is clear to the grower what is meant by all the concepts in the assessment. The grower responses are then used to complete the assessment and the data is recognized by PepsiCo as a self-assessment (i.e. the grower’s representation of the sustainability practices on the farm).

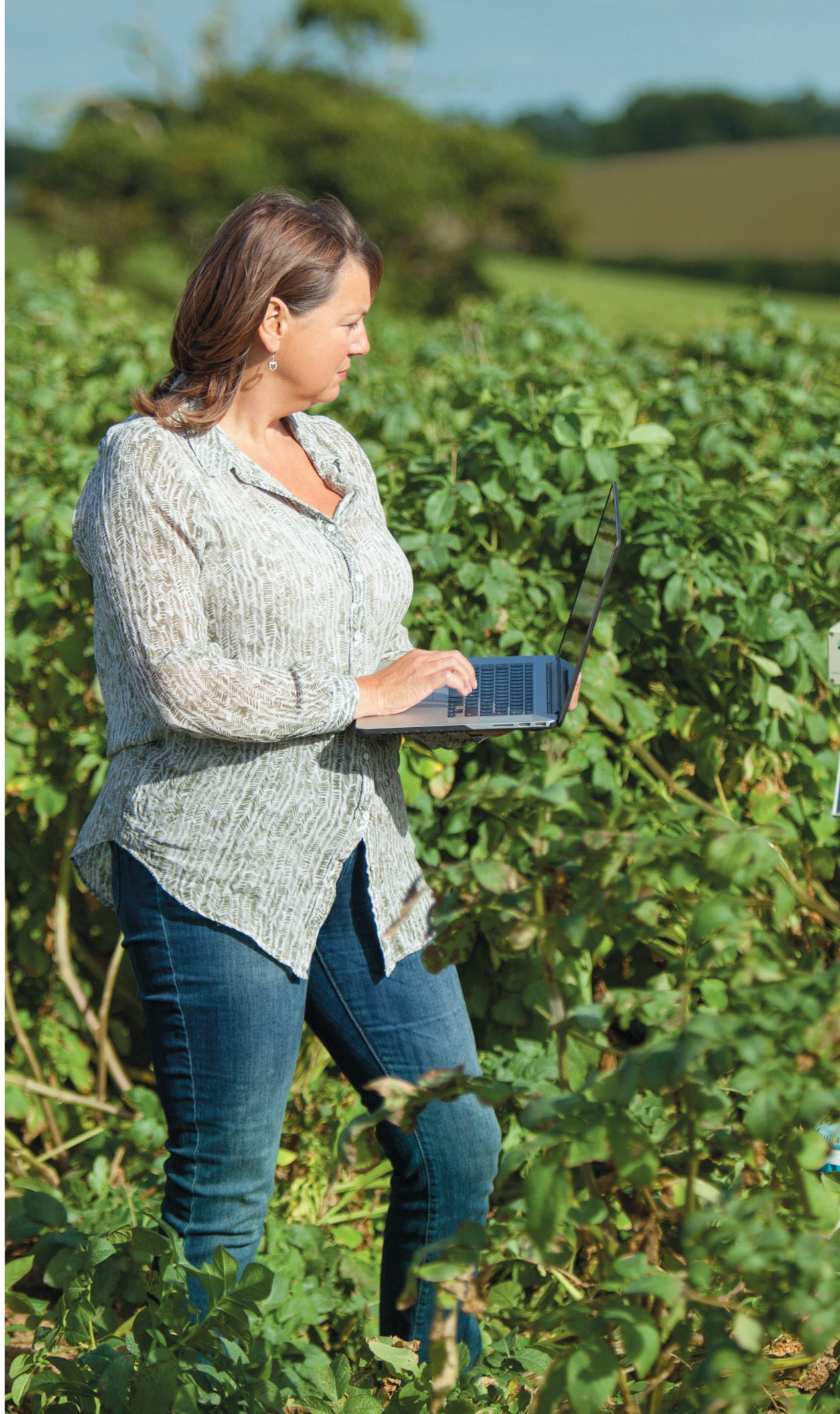
In cases where second party assessments are required, PepsiCo will serve as the second party assessor when they have local capabilities and resources available and a direct relationship with the growers. When capable resources are not available or PepsiCo does not have a direct relationship with the growers, PepsiCo will hire a qualified second party or work through their direct supplier.

KEY ROLE: SECOND PARTY ASSESSOR

The second party assessor’s role is to interview the farmers to support them with completing the assessment and to provide the assessment results to PepsiCo. The second party assessor is responsible for:

- Interviewing the farmer based on the assessment content
- Documenting the assessment results
- Taking note of valuable information that may aid implementation of the SFP Continuous Improvement Process

5. ANALYZE



5.1 DATA QUALITY ASSURANCE AND VALIDATION

Prior to PepsiCo recognizing the assessment results as final, Data Quality Assurance and Data Validation need to be carried out on the received data. Data Quality Assurance simply confirms the self-assessments have been completed in full and according to instructions. It will be performed for each self-assessment received. Any incomplete or erroneous entries will be flagged with the FMG Coordinator for follow-up with the farmer respondents.

Data Validation is intended to sense-check the results and confirm alignment with the true state of affairs at the FMG level. It involves cross-referencing the aggregated FMG results against what local experts and third party risk assessments indicate. Discrepancies between self-assessment results and known (or strongly perceived) risks will be addressed through farmer follow-up. The Data Validation process may also be used to obtain additional information from the farmers that will shed light on the root causes for their sustainability opportunities. This insight will aid in the development of more targeted improvement programs.

Findings from the Data Quality Assurance and Data Validation process may result in a change in the self-assessment data; these changes should be a product of a better understanding of current sustainability performance and not reflect improvements implemented after (or in response to) the assessment.

Results are considered final for a given Campaign once Data Quality Assurance and Data Validation are complete.

5.1 REPORTING

Reporting will be a critical functionality within the SFP Continuous Improvement Process. It will be leveraged to:

- track assessment completion progress within a FMG
- enable data quality assurance and validation of the assessment results
- identify areas of performance and opportunity within each FMG
- track supply chain impact, and
- monitor progress against PepsiCo’s Sustainable Agriculture goals.

When it comes to identifying areas of performance and opportunity within an FMG, PepsiCo will primarily focus on how the group is doing at the Principle level. This will be assessed by determining the Implementation Rates for each SFP Principle.

FMG IMPLEMENTATION RATE FOR PRINCIPLE Y=

OF FARMERS WHO SATISFY PRINCIPLE Y

OF FARMERS FOR WHICH PRINCIPLE Y IS APPLICABLE

X 100%

WHERE, PRINCIPLE Y IS

SATISFIED: All of Principle Y’s Critical and Necessary Practices are met

NOT SATISFIED: At least one of Principle Y’s Critical or Necessary Practices is not met

Reports will enable PepsiCo and the FMG Coordinator to drill down to Practice-level detail in order to facilitate development of targeted and effective improvement programs (further described in Section 6).

Note that final reporting on sustainability performance, opportunities and impact can only occur after the minimum number of growers has submitted their assessments (according to the sampling methodology) and Data Quality Assurance and Data Validation have been completed.

6. IMPROVE



6.1 OVERVIEW OF IMPROVEMENT PLANNING

Ultimately, the SFP Continuous Improvement Process is intended to raise the sustainability performance of farmers within the FMG. This will only happen through a concerted effort by the farmers and other relevant supply chain actors (including PepsiCo) to improve upon opportunities identified. When **systemic opportunities** within an FMG are recognized, PepsiCo will facilitate development of an improvement program to address them across the entire FMG.

KEY TERM: SYSTEMIC AND UNIQUE OPPORTUNITIES

A **systemic opportunity** is an indication that a high risk and/or a potentially wide-spread non-conformity with SFP Principles is present across the FMG. A **unique opportunity** represents relatively lower risk non-conformity isolated to a single farm.

In cases where the FMG is engaging in the SFP through a PepsiCo supplier, improvement program development and deployment may be managed by the supplier.

KEY TERM: IMPROVEMENT PROGRAM

Improvement Programs, which are intended to address sustainability opportunities in PepsiCo's agricultural supply chain, focus on building on-farm capability through a variety of methods, including training, tool development, access to finance, research, and critical stakeholder engagement.

At a minimum, **improvement programs will be deployed to the entire FMG** - not just to the farmers directly assessed - on the basis that the assessed farmers are a representative sample of the FMG. Programs may be farm-focused or extend to include a landscape-level scope which may be necessary for certain systemic opportunities that extend beyond the farmers within the FMG ability to address, recognizing that some systemic opportunities may require engagement with other key stakeholders including communities, governmental and non-governmental entities working to address these issues across a farming landscape.

In order for the improvement programs to be effective, clear objectives that outline the desired outcome, and Key Performance Indicators (KPIs) for tracking progress, will be set. The parties responsible for implementation will also be identified and may include the growers, FMG coordinators, PepsiCo staff or second parties that have the required skills and knowledge to implement improvements. A timeline with milestones for achievement will also be established.

6.2 OPPORTUNITY PRIORITIZATION

In some cases, there may not be sufficient resources available to simultaneously develop improvement programs for every opportunity within an FMG. In such cases, there will be a need to prioritize improvement program development for that which will drive the most impact and progress against the sustainable sourcing goals for the FMG.

Specifically, opportunities within an FMG will be prioritized according to the decision tree depicted in *Figure 10*.

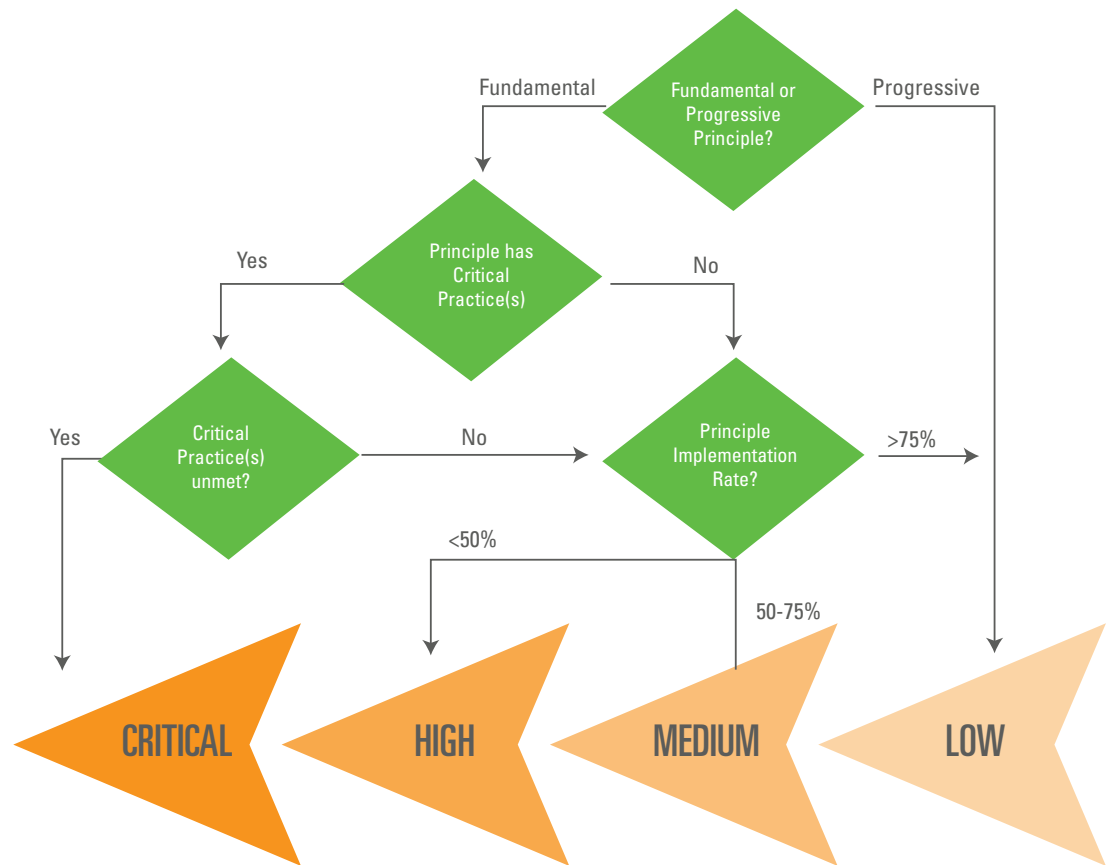


Figure 11: Prioritization guidelines for sustainability opportunities

In addition to the above, the prioritization may be adjusted based on more subjective and strategic considerations, such as:

- **Local Risk and Goals:** Opportunities related to local salient risks or sustainability goals for the FMG may be prioritized.
- **Improvement Program Synergies:** Opportunities may shift across the priority spectrum based on the degree to which they can be addressed through shared improvement programs.
- **Ability to Influence:** Opportunities may shift according to the degree to which they can be readily solved or influenced.

7. VERIFY



7.1 VERIFICATION OVERVIEW

As outlined in *Section 1.7*, PepsiCo will internally recognize volume of the agricultural materials we purchase as either “Assessed,” “Responsible,” “Engaged,” or “Sustainable.”

When there is reason to believe that an FMG has satisfied all the requirements to be classified as sustainable, a third party verification needs to be carried out and the FMG’s performance verified before any public claims can be made. PepsiCo has developed a protocol informed by the [Sustainable Agriculture Platform Farmer Sustainability Assessment program](#) to guide third party verifiers.

Effect of Benchmarking on the Verification Process: If a farmer engaged in the verification process is complying with a benchmarked scheme, as described in section 3.4, the verifier will only verify the principles that are not part of the benchmarked scheme. The other principles covered by the scheme will be considered as compliance. Valid proof of compliance with the benchmarked scheme must be provided by the farmer during verification.

7.2 CLAIM TERM AND PARTIAL SUSTAINABLE SOURCING CLAIMS

Once an FMG has been verified as sustainable, it will be classified as such for three years from the date of the verification assessment results. Any agricultural materials purchased by PepsiCo that are produced by (or originate from) farmers within the verified-sustainable FMG over the subsequent three years will be recognized as sustainable by PepsiCo.

Partial sustainable sourcing claims can be made for an FMG if certain conditions are met. Partial claims cannot be made if there are non-conformities for critical practices. If there are systemic opportunities associated only with necessary practices, however, then the results of a verification assessment can be used to make a sustainable sourcing claim on a portion of the volume for the FMG. In this case a partial sustainable sourcing claim can be made based on the percentage of farms assessed for which there were no non-conformities. For example, for an FMG where the verification sample size is nine farmers there were no critical non-conformities found in any of the farms sampled and there were systemic non-conformities in necessary practices for two of the farms sampled. In this case a partial sustainable sourcing claim can be made on 78% of the volume of the FMG $((7/9)) * 100\% = 78\%$. When partial claims are made the FMG Coordinator must develop and implement an SFP Improvement Program across the entire FMG for systemic opportunities that remain in order for the partial claim to be valid.

The verified-sustainable FMG should undergo re-assessment and re-verification prior to the first harvest after the expiration of the verified sustainable status to avoid a lapse in recognition.

7.3 CHANGE MANAGEMENT

If there is a substantial change in the FMG, as described in section 2.1, during the claim term the volume from the FMG associated with the claim must be adjusted to account for that change. Changes made to the SFP content during the claim term will not affect existing verified-sustainable claims. The FMG will be expected to re-assess against the updated standards during their next Campaign. Any FMG not yet verified sustainable will be required to re-assess against the updated standards before they can undergo third party verification. All new engagements will automatically utilize the updated standards.

8. GLOSSARY



TERM	DEFINITION
ASSESSED	PepsiCo will internally recognize a given volume of material as “assessed” when it has been evaluated, but not yet recognized as either Responsible or Sustainable.
BENCHMARK	A holistic comparison of SFP against the required principles and practices within another standard. There are four possible outcomes of a Benchmark.
Limited	The standard has limited overlap with the SFP’s Principles and Practices, and will not be used to pre-fill grower responses within the SFP assessment.
Complete	The standard satisfies the Principles and Practices, as well as the continuous improvement processes, required by the SFP. PepsiCo may utilize this standard with farmers, where relevant, in place of the SFP. Additionally, PepsiCo will recognize growers who already comply with the standard as sustainable, assuming they have undergone verification.
Conditional	In addition to satisfying a sufficient proportion of the SFP’s Principles and Practices and continuous improvement processes, the standard has undergone a gap analysis and additional stipulations identified. Where all additional stipulations are satisfied, PepsiCo may utilize this standard in place of the SFP and recognize verified growers as sustainable.
Partial	The standard has significant overlap with the SFP’s Principles and Practices and is broadly implemented in PepsiCo’s supply chain. Standards exhibiting partial overlap may be used to pre-fill grower responses within the SFP assessment, where applicable.
CAMPAIGN	A Campaign refers to a specific effort in time to complete the Plan, Assess, and Analyze phases of the SFP Continuous improvement process for a specific FMG. For example, one may refer to the 2015 Campaign with Farm Management Group XYZ.
ENGAGED	PepsiCo will classify volume as “engaged” once it is subject to active improvement programs designed to address opportunities associated with its production. This status will be leveraged in external reporting to illustrate progress towards sustainable sourcing.
FARM MANAGEMENT GROUP (FMG)	A Farm Management Group, or FMG, is a group of farmers with a logical coherence for which one could reasonably expect to see similar farm practices and sustainability performance. This logical coherence could be a result of delivering the same raw material, being members of the same cooperative, geographical proximity, or supplying the same aggregator or processor.
FMG COORDINATOR	An FMG Coordinator is responsible for coordinating the required activities within each phase of the SFP Continuous Improvement Process with the assigned FMG and is often the one engaging directly with the individual farmers within the group. If PepsiCo buys directly from the farmers, the FMG Coordinator will likely be the PepsiCo employee who owns or is otherwise very close to the contractual relationship with the grower. In cases where PepsiCo is buying via an aggregator or processor, the Coordinator will most likely be an employee of the aggregator or processor.
IMPROVEMENT PROGRAMS	Improvement Programs, which are intended to address sustainability opportunities in PepsiCo’s agricultural supply chain, focus on building on-farm capability through a variety of methods, including training, tool development, access to finance, research, and critical stakeholder engagement.
PRINCIPLE IMPLEMENTATION RATE	The percent of farmers within an FMG that are operating in accordance with the given Principle.
RESPONSIBLE	PepsiCo will internally recognize a given volume of material as “responsible” when it has been produced in a way that respects human rights and complies with all relevant legal requirements. This means a 100% implementation rate for Critical Practices within the SFP Code.
SFP CODE	The specific farm-level Principles and Practices which embody PepsiCo’s interpretation of Sustainable Agriculture.
SFP CONTINUOUS IMPROVEMENT PROCESS	The SFP Continuous Improvement Process is a cyclical process geared towards assessing and then addressing sustainability opportunities at the farm level within PepsiCo’s agricultural supply chain
SFP PILLAR	A specific but high level theme within sustainability. The SFP Code is comprised of Environmental, Social and Economic pillars.
SFP PRACTICE	A distinct activity a farmer may implement to achieve the related SFP Principle. Each Principle within the SFP has one or more practices associated with it.
Critical Practice	Critical Practices are a special subset of the Necessary Practices. In addition to being necessary to uphold their respective Principle, they are of the utmost priority as they pertain to legal compliance and human rights. Critical Practices will only be found under Fundamental Principles.
Example Practice	Example Practices are well known examples of the specific activities which enable a farmer to fulfill an SFP Principle. They are intended to supplement the more general Necessary Practices by providing the farmer an opportunity to both learn and communicate what specifically they are or could be doing for each SFP Principle. As a result of PepsiCo’s belief that there is not one right way to farm and that “best practice” might vary by location and crop as well as evolve over time, Example Practices are not explicitly treated as a requirement.
Necessary Practice	Necessary Practices are considered a requirement for upholding their respective Principle. Necessary Practices are typically more general to enable flexibility in the exact practices utilized by the farmer.
SFP PRINCIPLE	The Principles are the heart of the SFP, with each Principle representing a specific objective or standard of performance relevant to its parent Topic.
Fundamental Principle	Fundamental Principles are considered essential for sustainable agriculture and are required to achieve PepsiCo’s “sustainable” designation.
Progressive Principle	Progressive Principles are considered more advanced and are intended to encourage farmers to keep pushing forward in the continuous improvement journey, particularly in areas of high risk or relevance for them.
SFP SELF-ASSESSMENT QUESTIONNAIRE	The survey through which a farmer is assessed against the SFP Code.
SFP TOPIC	The SFP Topics serve to indicate the discrete themes covered within an SFP Pillar. Each SFP Pillar contains multiple Topics.
SUBSTANTIAL CHANGE	In the context of the structure or composition of an FMG, a change is considered substantial when it influences the sustainability performance or improvement priorities of the FMG as a whole. While this can be somewhat subjective, one defined trigger point is when new growers representing ≥ 10% of the FMG’s total production volume are introduced into the FMG.
SUSTAINABLE	PepsiCo will internally recognize a given volume of material we buy as “sustainable” when it has been produced in accordance with the SFP Fundamental Principles. PepsiCo may publicly claim this only after third party verification has been successfully completed.
SYSTEMIC OPPORTUNITY	A systemic opportunity is an indication that a high risk and/or a potentially wide-spread non-conformity with SFP Principles is present across the FMG.
TRACEABILITY	Knowing the potential sources of agricultural raw materials within one’s supply chain all the way to the farmer level.
UNIQUE OPPORTUNITY	A unique opportunity represents a relatively lower risk non-conformity isolated to a single farm.