

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

PepsiCo, Inc.
14 July 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">Green Bond
Relevant standards	<ul style="list-style-type: none">Green Bond Principles, as administered by the ICMA (June 2021)
Scope of verification	<ul style="list-style-type: none">PepsiCo Green Bond Framework (as of July 13, 2022)PepsiCo Selection Criteria (as of July 13, 2022)
Lifecycle	<ul style="list-style-type: none">Pre-issuance verification
Validity	<ul style="list-style-type: none">As long as there is no material change to the Framework

CONTENTS

SCOPE OF WORK	3
PEPSICO BUSINESS OVERVIEW	3
ISS ESG ASSESSMENT SUMMARY.....	4
ISS ESG SPO ASSESSMENT.....	5
PART I: ALIGNMENT WITH ICMA GREEN BOND PRINCIPLES	5
PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE	7
A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs	7
B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA.....	11
PART III: GREEN BONDS LINK TO PEPSICO’S SUSTAINABILITY STRATEGY.....	13
A. PEPSICO’S BUSINESS EXPOSURE TO ESG RISKS.....	13
B. CONSISTENCY OF GREEN BOND WITH PEPSICO’S SUSTAINABILITY STRATEGY	15
ANNEX 1: Methodology	19
ANNEX 2: ISS ESG Corporate Rating Methodology.....	20
ANNEX 3: Quality management processes	22
About ISS ESG SPO	23

SCOPE OF WORK

PepsiCo, Inc. (“the issuer” or “PepsiCo”) commissioned ISS ESG to assist with its Green Bond Framework by assessing three core elements to determine the sustainability quality of the instrument:

1. PepsiCo’s Green Bond Framework (July 13, 2022 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP).
2. The selection criteria – whether the projects contribute positively to the United Nations Sustainable Development Goals (“SDGs” or “UN SDGs”) and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).
3. Green Bond link to PepsiCo’s sustainability strategy – drawing on PepsiCo’s overall sustainability profile and issuance-specific Use of Proceeds (UoP) categories.

PEPSICO BUSINESS OVERVIEW

PepsiCo, Inc. engages in the manufacture, marketing, distribution, and sale of beverages, food, and snacks. It operates through the following business segments: Frito-Lay North America (FLNA); Quaker Foods North America (QFNA); PepsiCo Beverages North America (PBNA); Latin America (LatAm); Europe; Africa, Middle East, and South Asia (AMESA); and Asia Pacific, Australia and New Zealand, and China Region (APAC). The FLNA segment markets, distributes, and sells snack foods under the Lay’s, Doritos, Cheetos, Tostitos, Fritos, Ruffles, and Santitas brands. The QFNA segment includes cereals, rice, and pasta under the Quaker, Pearl Milling Company, Quaker Chewy, Cap’n Crunch, Life, and Rice-A-Roni brands. The PBNA segment is composed of beverage concentrates, fountain syrups, and finished goods under various beverage brands such as Pepsi, Gatorade, Mountain Dew, Diet Pepsi, Aquafina, Diet Mountain Dew, Sierra Mist, and Mug. The LatAm segment covers beverage, food, and snack businesses in the Latin American region. The Europe segment includes beverage, food, and snack goods in Europe. The AMESA segment deals with all beverage and convenient food businesses in Africa, the Middle East and South Asia. The APAC segment consists of all business operations in Asia Pacific, Australia and New Zealand, and China region. The company was founded by Donald M. Kendall, Sr. and Herman W. Lay in 1965 and is headquartered in Purchase, NY.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
<p>Part 1:</p> <p>Alignment with GBP</p>	<p>The issuer has defined a formal concept for its Green Bond regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green Bond Principles.</p>	<p>Aligned</p>
<p>Part 2:</p> <p>Sustainability quality of the Selection Criteria</p>	<p>The Green Bond will (re-)finance eligible project categories which include <i>Circular Economy & Virgin Plastic Waste Reduction, Decarbonization and Climate Resilience within Operations and Value Chain, Pursuing Net Positive Water Impact, and Regenerative Agriculture.</i></p> <p>The use of proceed categories <i>Circular Economy & Virgin Plastic Waste Reduction, Decarbonization and Climate Resilience within Operations and Value Chain, Pursuing Net Positive Water Impact, and Regenerative Agriculture</i> improve the company's operations impacts and mitigate potential negative externalities of the issuer's sector on SDGs, 6 'Clean Water and Sanitation', 7 'Affordable and Clean Energy', 11 'Sustainable Cities and Communities', 12 'Responsible Consumption and Production', 13 'Climate Action', and 15 'Life on Land'. The use of proceeds category of <i>Regenerative agriculture (GMOs)</i> has no net impact.</p> <p>The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p>Positive</p>
<p>Part 3:</p> <p>Green Bond link to issuer's sustainability strategy</p>	<p>According to the ISS ESG Corporate Rating published on May 23, 2022, the issuer shows a medium sustainability performance. Leveraging ISS ESG's Corporate Rating research, further information about the issuer's ESG performance can be found on ISS ESG Gateway at: https://www.issgovernance.com/esg/iss-esg-gateway/</p> <p>The Use of Proceeds financed through this Green Bond are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Green Bond is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>

¹ ISS ESG's evaluation is based on the PepsiCo's Green Bond Framework (July 13, 2022 version), on the analysed selection criteria as received on the July 13, 2022, and on the ISS ESG Corporate Rating updated on the May 23, 2022 and applicable at the SPO delivery date.

ISS ESG SPO ASSESSMENT

PART I: ALIGNMENT WITH ICMA GREEN BOND PRINCIPLES

This section describes ISS ESG’s assessment of the alignment of the PepsiCo’s Green Bond Framework (dated July 13, 2022) with the ICMA Green Bond Principles.

ICMA GBP	ALIGNMENT	ISS ESG’S OPINION
1. Use of Proceeds	✓	ISS ESG considers the Use of Proceeds description provided by PepsiCo’s Green Bond Framework as aligned with the ICMA Green Bond Principles. The Issuer’s green categories align with the project categories as proposed by the ICMA Green Bond Principles, Criteria are defined in a clear and transparent manner. Environmental benefits are described and quantified.
2. Process for Project Evaluation and Selection	✓	ISS ESG considers the Process for Project Evaluation and Selection description provided by PepsiCo’s Green Bond Framework as aligned with the ICMA Green Bond Principles. The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer. PepsiCo follows best market practices by providing clearly defined responsibilities and including departments other than the treasury.
3. Management of Proceeds	✓	ISS ESG finds that the Management of Proceeds proposed by PepsiCo’s Green Bond Framework as aligned with the ICMA Green Bond Principles. The proceeds from the Green Bond issuance will be allocated to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner and certified in a formal internal process. Moreover, the Issuer discloses the amount of net proceeds that remains unallocated.
4. Reporting	✓	ISS ESG finds that the allocation and impact reporting proposed by PepsiCo’s Green Bond Framework as aligned with the ICMA Green Bond Principles. The Issuer commits to disclose the allocation of proceeds transparently and to report on an annual basis until the proceeds have been fully allocated. PepsiCo explains the level of expected

		<p>reporting and the type of information that will be reported.</p> <p>PepsiCo follows best market practices by committing to impact reporting.</p>
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PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

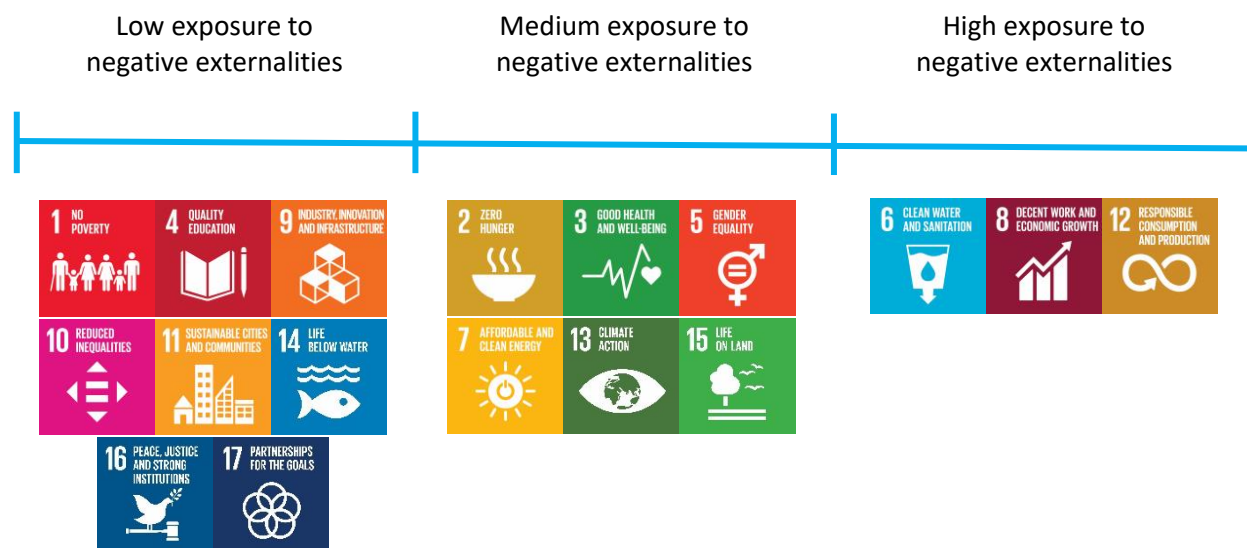
A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

Improvements of operational performance (processes)





The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories may mitigate the exposure to the negative externalities relevant to the business model and the sector of the Issuer.





According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities² in the Beverages industry (to which PepsiCo belongs) are the following:



The table below aims to display the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

² Please, note that the impact of the Issuer’s products and services resulting from operations and processes is displayed in section 3 of the SPO.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ³	SUSTAINABLE DEVELOPMENT GOALS
<p>Circular Economy & Virgin Plastic Waste Reduction</p> <p>Purchases, directly or via intermediary suppliers, of:</p> <ul style="list-style-type: none"> ▪ rPET for use in product packaging; ▪ Renewable or Bio-based PET (Bio-PET) for use in product packaging⁴; and ▪ Compostable and/or biodegradable for use in product packaging <p>Investments in projects supporting sustainable product packaging infrastructure such as renewable or Bio-PET bottles and compostable and biodegradable convenient foods flex films</p> <p>Investments in projects to strengthen recycling infrastructure and increase recycling rates in key markets; and</p> <p>Investments in projects to introduce or expand reusable solutions to drive circularity⁵</p>		
<p>Decarbonization and Climate Resilience within Operations and Value Chain</p> <p>Investments related to energy efficiency and/or reducing GHG emissions at facilities or equipment such as:</p> <ul style="list-style-type: none"> ▪ Solar installations, lighting upgrades, energy efficient heating elements, variable speed drives on equipment, improvements to air compressors, on-premise sustainable energy generation, and upgrading vending and cooling equipment ▪ Procurement of project specific renewable energy 		

<ul style="list-style-type: none"> Cleaner transportation , such as replacement of fossil fuel-powered vehicles with electric vehicles Green buildings that receive a third-party verified certification, such as LEED Platinum or LEED Gold or other equivalent global standards 		
<p>Net Positive Water Impact</p> <p>Investments related to:</p> <ul style="list-style-type: none"> Water recycling and reuse projects, and improvements in Clean-In-Place systems and other operational processes; <p>Investments to replenish watersheds where PepsiCo operates in high water-risk areas, potentially including:</p> <ul style="list-style-type: none"> Tree plantings⁶, rainwater harvesting, aquifer recharge, wetlands rehabilitation, alternative crop rotations, improved grazing programs and education and awareness building; and Scaling and providing access to drip irrigation or other water savings technologies for farmers. 		
<p>Regenerative Agriculture</p> <p>Investments to adopting regenerative agriculture practices across the supply chain, such as:</p> <ul style="list-style-type: none"> Spending via PepsiCo’s Sustainable Farming Program directed towards farmer training and practice adoption around improving soil health through using cover crops and/or conservation 		

³ Limited information is available on the scale of the improvement as no threshold is provided. ISS ESG only displays the direction of change.
⁴ Addressing Bio-PET risks: <https://www.pepsico.com/docs/default-source/policies/pepsico-sustainable-packaging-policy.pdf>
⁵ Offerings such as SodaStream, SodaStream Professional, powders, concentrates, and refillable options.
⁶ To increase the ability to absorb rainfall into aquifers, rivers and reservoirs.

<p>tillage, practices to reduce fertilizer/herbicides/pesticides and watershed enhancement and improvement projects</p>		
<p>Regenerative Agriculture – with genetically modified organisms (GMOs)</p> <p>Investments to adopting regenerative agriculture practices across the supply chain, such as</p> <ul style="list-style-type: none"> ▪ Spending via PepsiCo’s Sustainable Farming Program directed towards farmer training and practice adoption around improving soil health through using cover crops and/or conservation tillage, practices to reduce fertilizer/herbicides/pesticides and watershed enhancement and improvement projects 	-	

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA

The table below presents the findings of an ISS ESG assessment of the Selection Criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

KPIs RELEVANT TO ALL CATEGORIES

Labour Health and Safety

- ✓ The issuer has policies in place to systematically ensure that relevant projects provide for high labour and health and safety standards for own employees and in the supply chain. PepsiCo implements its Environmental Health & Safety (EHS) policy through the PepsiCo Global Environmental, Health and Safety Management System (GEHSMS).

KPIs RELEVANT TO CIRCULAR ECONOMY & VIRGIN PLASTIC WASTE REDUCTION; DECARBONIZATION AND CLIMATE RESILIENCE WITHIN OPERATIONS AND VALUE CHAIN; NET POSITIVE WATER IMPACT

Environmental aspects of construction (or production) and operation

- ✓ The issuer has policies in place systematically ensuring that projects financed under the Green Bond Framework provide for a comprehensive environmental management system. Additionally, PepsiCo is pursuing the ISO 14001 Environmental Management Systems Standard for all company-owned sites (As of the end of 2020, 79% of company-owned sites had achieved ISO 14001).

KPIs RELEVANT TO CIRCULAR ECONOMY & VIRGIN PLASTIC WASTE REDUCTION; DECARBONIZATION AND CLIMATE RESILIENCE WITHIN OPERATIONS AND VALUE CHAIN

On-site safety

- ✓ The issuer has policies in place systematically ensuring that projects financed under the Green Bond Framework for which high operational safety standards are in place (e.g. control centre, monitoring, inspections, emergency plans). Additionally, PepsiCo is working toward certifying all company-owned sites to the ISO 45001 Occupational Health and Safety Standard (at the end of 2020, 79% of company-owned sites had achieved ISO 45001 certification).

KPIs RELEVANT TO REGENERATIVE AGRICULTURE

Conservation and biodiversity management

- ✓ The issuer has policies in place systematically ensuring that projects financed under the Green Bond Framework provide for sustainable soil and biodiversity management along the value chain, including feed (e.g. position on pesticide and chemical fertiliser use, crop management, deforestation, soil degradation, biodiversity).

- The issuer does not exclude genetically modified organisms, including feed, from projects financed under the Green Bond Framework.
- ✓ The issuer does have policies place systematically ensuring that projects undergo environmental impact assessments at the planning stage covering when relevant site selection, biodiversity management, etc.

Food safety management system

- ✓ The issuer has policies in place systematically ensuring that projects financed under the Green Bond Framework are subject to food safety management systems based on international certifications (e.g. SQF for farming of animals, Global GAP for farming of fish, Primus GFS for farming of plants and grains).

Environmental aspects of construction (or production) and operation

- ✓ The issuer has policies in place systematically ensuring that projects financed under the Green Bond Framework are subject to greenhouse gas emission reduction targets and provide for respective measures (e.g. avoidance of deforestation in crop farming, manure management in livestock and poultry farming, energy-efficient machinery and cooling, type of fertilizers used).

KPIs RELEVANT TO NET POSITIVE WATER IMPACT

Environmental aspects of construction (or production) and operation

- ✓ The issuer has policies in place systematically ensuring that projects financed under the Green Bond Framework provide for water use reduction measures.

KPIs RELEVANT TO DECARBONIZATION AND CLIMATE RESILIENCE WITHIN OPERATIONS AND VALUE CHAIN

Environmental aspects of construction (or production) and operation

- ✓ The issuer has measures in place systematically ensuring that projects financed under the Green Bond Framework provide for sustainable procurement of construction materials. Minimum design standard for buildings is LEED Gold Standards for allocation to green bonds.

PART III: GREEN BONDS LINK TO PEPSICO'S SUSTAINABILITY STRATEGY

A. PEPSICO'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note that this is not a company specific assessment but areas that are of particular relevance for companies within the industry.






ESG KEY ISSUES IN THE INDUSTRY
Impacts on soil and biodiversity along the value chain
Customer health and safety
Labour standards and working conditions
Mitigation of direct and indirect climate impacts
Conservation of aquatic ecosystems and water along the value chain

ESG performance of the Issuer

Leveraging ISS ESG's Corporate Rating research, further information about the issuer's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>. Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ⁷	DIRECTION OF IMPACT	UN SDGS
Beverages (promoting malnutrition), food products (highly processed and/or critical nutrient level)	85%	OBSTRUCTION	 
Bottled water, plant-based food products (high nutritional value)	2.5%	CONTRIBUTION	
Food/agricultural products (certified organic), food/agricultural products (certified to a relevant standard)	2%	CONTRIBUTION	 

Breaches of international norms and ESG controversies

At issuer level

At the date of publication, ISS ESG has not identified any severe controversy in which the issuer would be involved.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Beverages industry are as follows: failure to respect the right to just and favourable conditions of work, poor waste management, and anti-competitive behaviour.

Please note, that this is not a company-specific assessment but areas that can be of particular relevance for companies within the industry.

⁷ Percentages presented in this table are not cumulative and were elaborated by ISS ESG according to its proprietary methodology.

B. CONSISTENCY OF GREEN BOND WITH PEPSICO'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

In 2021, PepsiCo introduced PepsiCo positive, a sustainability embedded business plan with the following 4 pillars and targets:

1) Positive Agriculture

Spread the adoption of regenerative agriculture practices across 7 million acres, approximately equal to 100% of the land used around the world to grow PepsiCo's crops and ingredients for their products by 2030.

Advocate for and contribute to a measurable improvement in the health of high water-risk watersheds where PepsiCo directly source their crops, with an improvement in water-use efficiency of 15% by 2025⁸.

Sustainability source 100% of key ingredients by 2030 – for grower-sourced crops, they will be verified against the principles and policies of PepsiCo's Sustainable Farming Program^{9 10}, and supplier-sourced crops will be achieved through a third-party standard that shares the same benchmark as the PepsiCo's Sustainable Farming Program, or a continuous improvement program that addresses the ESG risks with growing relevant crop in limited regions.

Improve the livelihood of over 250,000 people in PepsiCo's agricultural supply chain and communities, including the empowerment of women by 2030.

2) Positive Value Chain

Climate

Reduce absolute GHG emission across the value chain by over 40% by 2030¹¹, including a 75% reduction in emission from direct operation¹¹, and achieve net-zero emission by 2040.

Water

Improve operational water-use efficiency by 25% in high water-risk areas by 2025¹².

Ensure net water positive impact through achieving strong water-use efficiency in all of high water-risk manufacturing sites and all other manufacturing sites by 2030, replenish back to the local watershed more than 100% of water used by 2030, and continue to adopt the Alliance for Water Stewardship standard in high water-risk manufacturing areas.

Packaging

Cut virgin plastic from non-renewable sources per serving across the global beverage and convenient foods portfolio by 50% by 2030¹³.

Design 100% of packaging to be recyclable, compostable, biodegradable or reusable by 2025.

⁸ 15% improvement goal measured against a 2015 baseline.

⁹ [Sustainable Farming Program Scheme Rules, August 2018](#)

¹⁰ [Sustainable Farming Program Fundamental Principles](#)

¹¹ Against a 2015 baseline.

¹² 25% improvement goal measured against a 2015 baseline. High water-risk locations defined by WRI's Aqueduct tool.

¹³ Against a 2020 baseline.

Invest to increase recycling rates in key markets by 2025 via consumer education and partnership programs.

People

Provide meaningful jobs and growth opportunities for employees and empower them to make a positive impact at work, at home and in their local communities.

Build a better workplace and world by advancing human rights and diversity, equity and inclusion for employees, business partnerships, and communities.

3) Positive Choices

Expanded portfolio offerings

Continue to provide consumers choice for every occasion by expanding product offerings by 2025.

Innovative Packaging Solutions

Develop and deploy disruptive sustainable packaging materials and new models for beverages and convenient foods.

Planet and People Brands

Empower consumers with transparent environmental labeling on key products.

Rationale for issuance

PepsiCo is issuing the green bond to finance projects within the 4 categories: circular economy and virgin plastic waste reduction, decarbonization and climate resilience within operations and value chain, pursuing net positive water impact, and regenerative agriculture.

Since 2006, PepsiCo has embarked on its sustainability journey by integrating sustainability into daily business operations. In 2019, PepsiCo issued its first green bond on the following three green projects categories: Sustainable Plastics and Packaging, Decarbonization of Operations and Supply Chain, and Water Sustainability. The 4 project categories in this new green bond issuance will largely overlap with the project categories in 2019.

To play a part in the circular economy, PepsiCo will continue to invest in projects to increase the use of recycled, compostable/biodegradable, renewable or bio-based, and reusable product packaging.

In regard to lowering carbon emission in existing operations, PepsiCo will utilize this issuance to invest in energy efficient equipment and facilities. Such financing activities will help PepsiCo achieve its goal of reducing its absolute GHG emissions across the value chain by more than 40% by 2030¹¹ and the net-zero emissions target across its value chain by 2040.

To achieve water sustainability in current operation and manufacturing locations at high water-risk communities, PepsiCo will invest in water recycling and reuse projects to replenish water in water-stressed watersheds and further achieve water use efficiency in manufacturing locations. In the long run, such proceeds will reduce absolute water use and be used towards the goal of replenishing more than 100% of water used in company-owned and third party manufacturing facilities back into local watersheds at high water-risk areas by 2030.

Lastly, the proceeds from the issuance will invest in developing techniques to strengthen farming practices, such as building soil health and fertility, training farmers to reduce fertilizers/herbicides/pesticides use, invest in watershed health and management projects, and enhance biodiversity. The impacts of such projects will eventually improve farmer livelihoods, optimize crop yield, and decrease carbon emission.

Contribution of Use of Proceeds categories to sustainability objectives and key ESG industry challenges

ISS ESG mapped the Use of Proceeds categories financed under this Green Bond with the sustainability objectives defined by the Issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Beverages industry. Key ESG industry challenges are key issues that are highly relevant for a given industry to tackle when it comes to sustainability, e.g., climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Circular Economy & Virgin Plastic Waste Reduction	✓	—	Contribution to a non-material objective
Decarbonization and Climate Resilience within Our Operations and Value Chain	✓	✓	Contribution to a material objective
Pursuing Net Positive Water Impact	✓	✓	Contribution to a material objective
Regenerative Agriculture	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this bond are broadly consistent with the Issuer’s sustainability strategy and material ESG topics for the Issuer’s industry. The rationale for issuing Green Bonds is clearly described by the Issuer.*

DISCLAIMER

1. Validity of the SPO: As long as there is no material change to the Framework.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we provide Second Party Opinion (SPO) on bonds based on data provided by the Issuer.
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ANNEX 1: Methodology

ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of PepsiCo’s Green Bond.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the projects can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the projects and which can also be used for reporting. If a majority of projects fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the projects included in the projects pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of projects within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by PepsiCo (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the project location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which PepsiCo’s Green Bond contributes to related SDGs.

ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

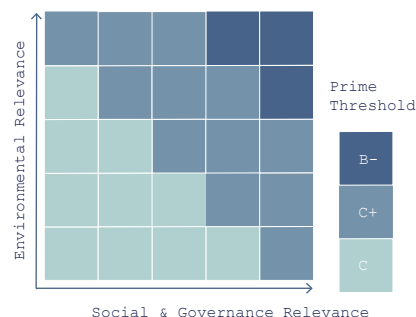
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 3: Quality management processes

SCOPE

PepsiCo commissioned ISS ESG to compile a Green Bond SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the ICMA Green Bond Principles and to assess the sustainability credentials of its Green Bond, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

PepsiCo's responsibility was to provide information and documentation on:

- Green Bond Framework
- Eligibility criteria
- Documentation of ESG risks management at the framework level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the green bond to be issued by PepsiCo based on ISS ESG methodology and in line with the ICMA Green Bond Principles.

The engagement with PepsiCo took place from June to July 2022

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: SPOsales@isscorporatesolutions.com

For more information on this specific Green Bond SPO, please contact: SPOOperations@iss-esg.com

Project team

Project lead

Andrea Torres
Associate
ESG Consultant

Project support

Allen Ng
Associate
ESG Consultant

Project supervision

Marie-Bénédicte Beaudoin
Associate Director
Head of ISS ESG SPO Operations