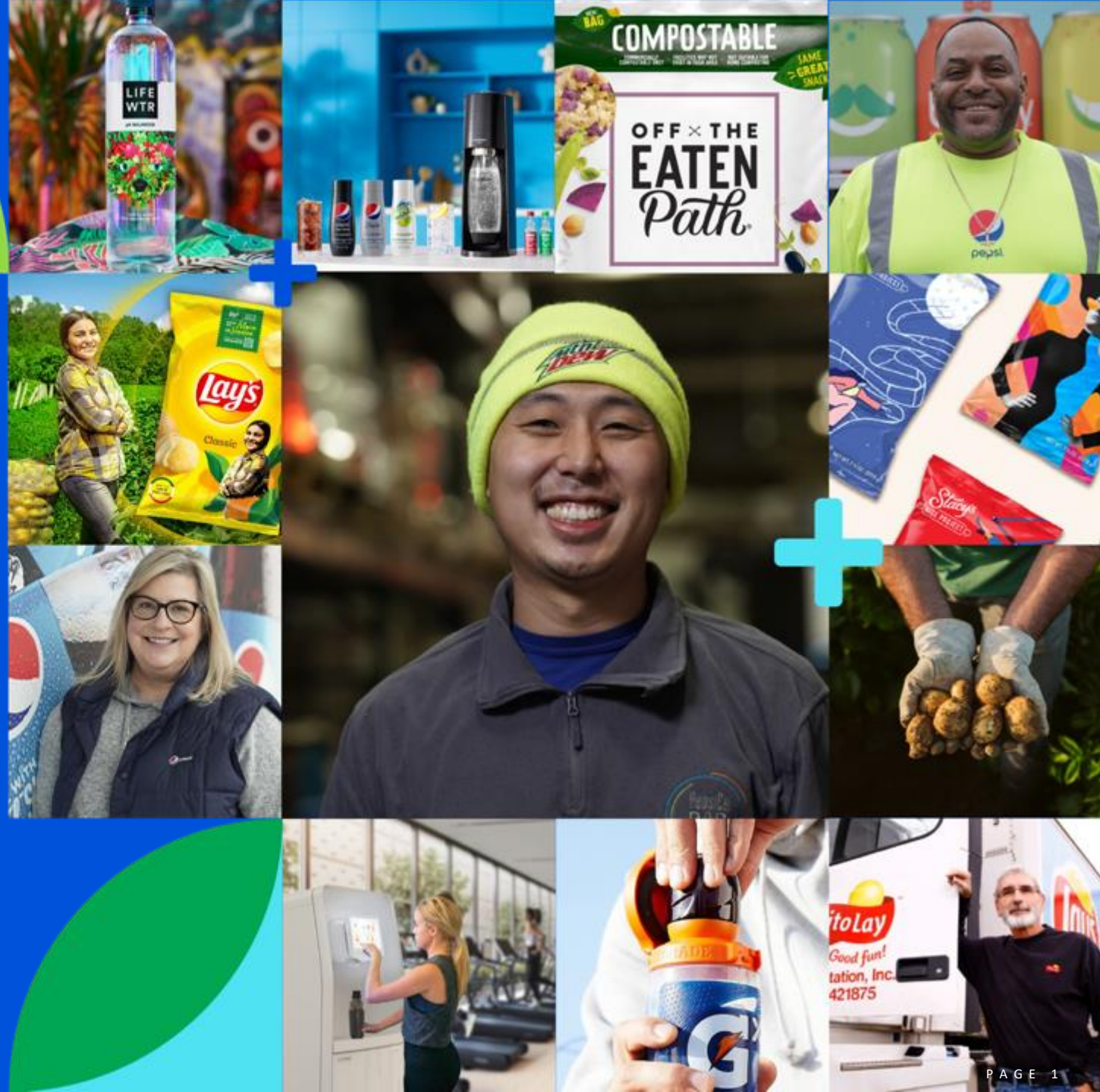




What is a Science-Based Target?

Guidance for Suppliers

August 2023



Anti-trust statement

Brief statement from the U.S Securities Exchange Commission (SEC)

This meeting shall not result in any discussion, activity or conduct that may violate any applicable competition law. By way of example, participants shall not discuss, communicate, or exchange any commercially sensitive information, including information relating to pricing, marketing and advertising strategy, costs and revenues, trading terms and conditions with third parties, including purchasing strategy, terms of supply, trade programs, or distribution strategy. If any participant has any question regarding the legality of proposed discussion the subject discussion should stop immediately, and participant should consult its own legal counsel. PepsiCo accepts no responsibility for the actions of any participants that disregard this notice.

Acknowledgement

This guidance is adapted from the Supplier Leadership on Climate Transition (SLoCT) program co-founded by PepsiCo and other brands and coordinated by Guidehouse, and Microsoft's GHG accounting training to suppliers which Microsoft developed in partnership with CDP and Engie Impact.

The guidance is based on the GHG Protocol Guidance for Corporate Greenhouse Gas Accounting and Reporting. Suppliers can review the full GHG Protocol Guidance at <https://ghgprotocol.org>

- [GHG Protocol Corporate Accounting and Reporting Standard](#)
- [GHG Protocol Scope 2 Guidance](#)



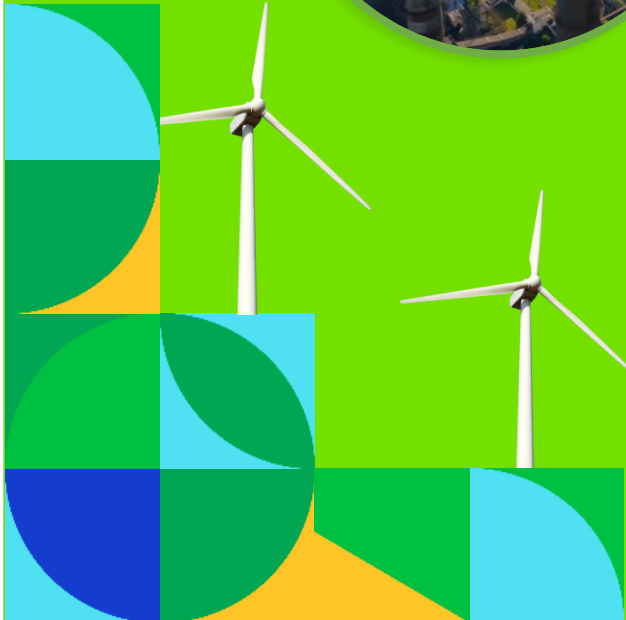
What is a Science-Based Target?



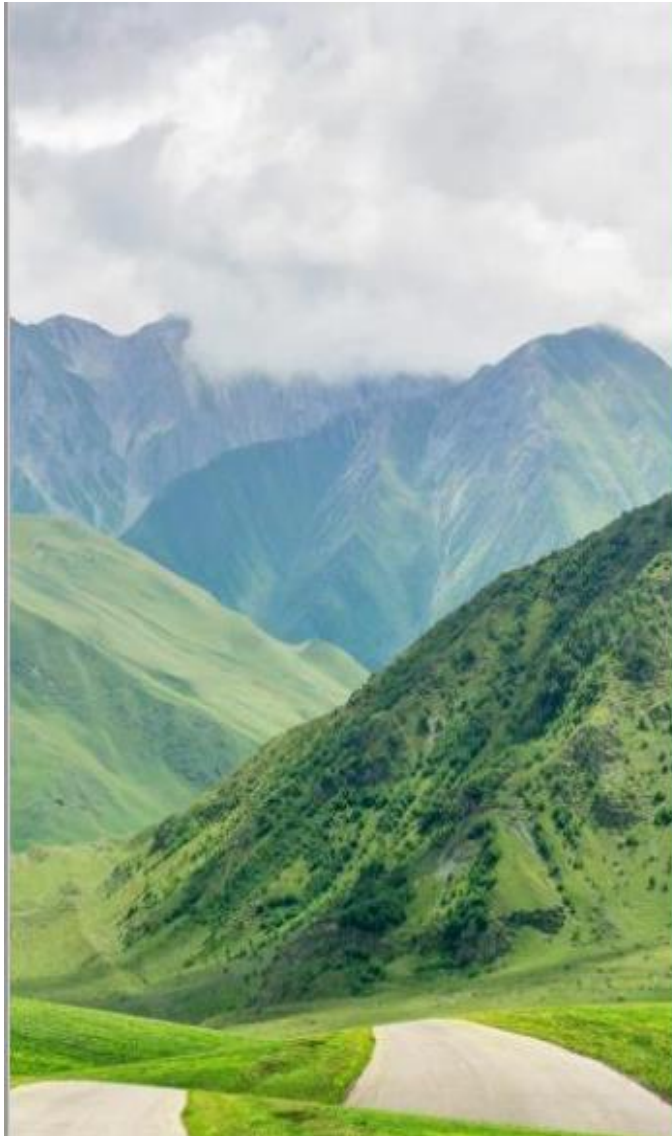
PepsiCo's Climate Ambition



Reduce absolute greenhouse gas emissions across our value chain by more than **40%** by 2030 including a **75%** reduction in emissions from our direct operations (compared to 2015 baseline)



Achieve **Net Zero** emissions by 2040



Science-Based Targets

- A science-based target is a GHG emissions reduction target in line with what the **latest climate science** says is necessary to meet the **Paris Agreement** goals.
- Science-based targets are validated by the Science Based Target initiative (SBTi).
- Setting a science-based target ensures that your business is aligned to the Paris Agreement in the **near-term** (5-10 years) and **long-term** (20-30 years).

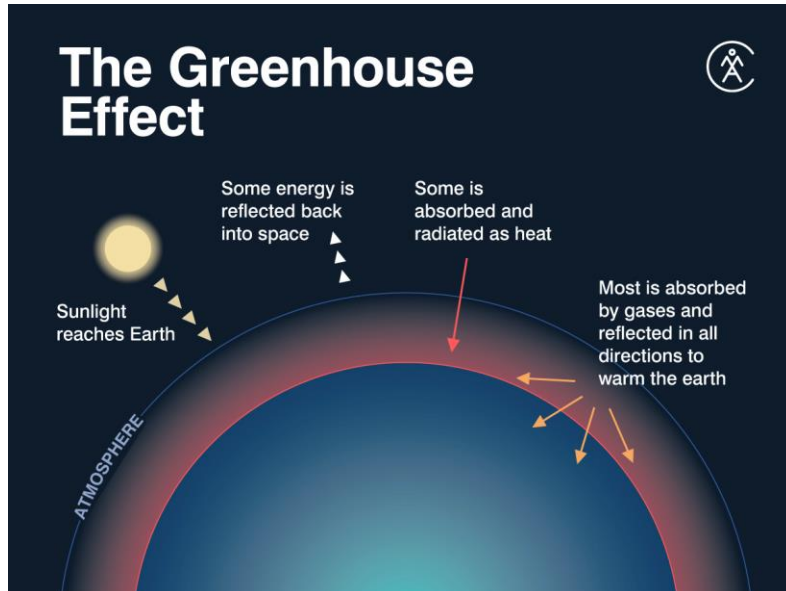


1. Why Should Companies Set Science-Based Targets?

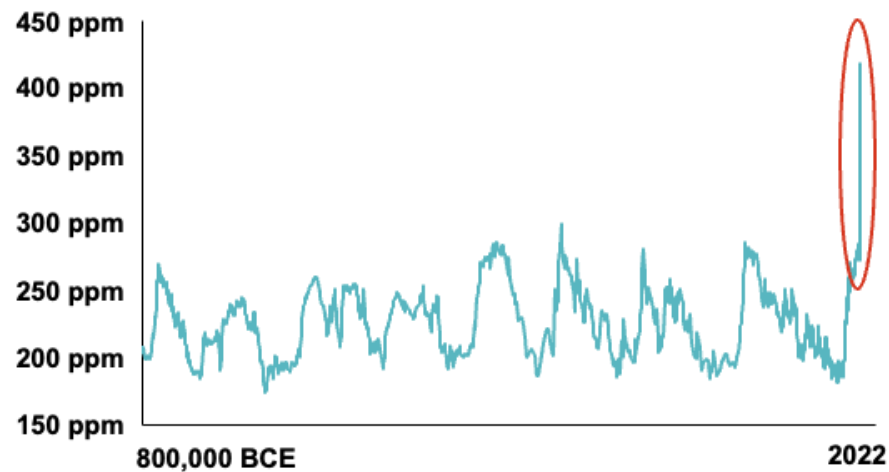


What are Greenhouse Gases (GHG's)?

The Greenhouse Effect



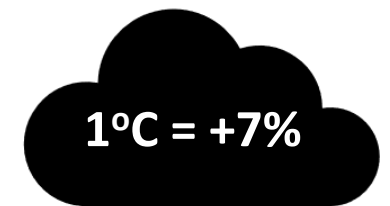
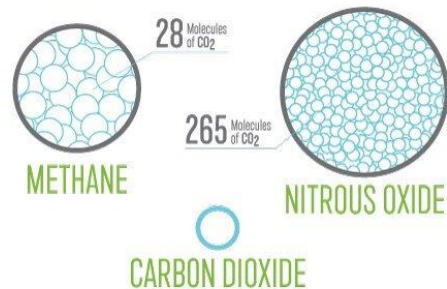
Increase in GHG over time

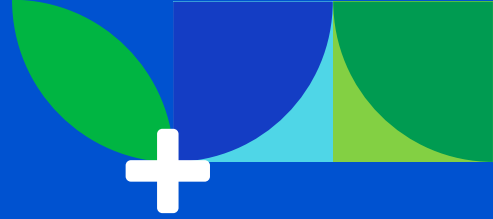


Results in extreme weather events, food insecurity



STRENGTH OF GREENHOUSE GASES





Intergovernmental Panel on Climate Change:

Global warming must not exceed 1.5°C to avoid catastrophic impacts

To achieve this, Greenhouse Gas Emissions (GHG) must reduce by **43% by 2030** compared to 2019. The private sector plays a vital role.

GHG Targets Help Companies Align Their Business with Global Climate Goals



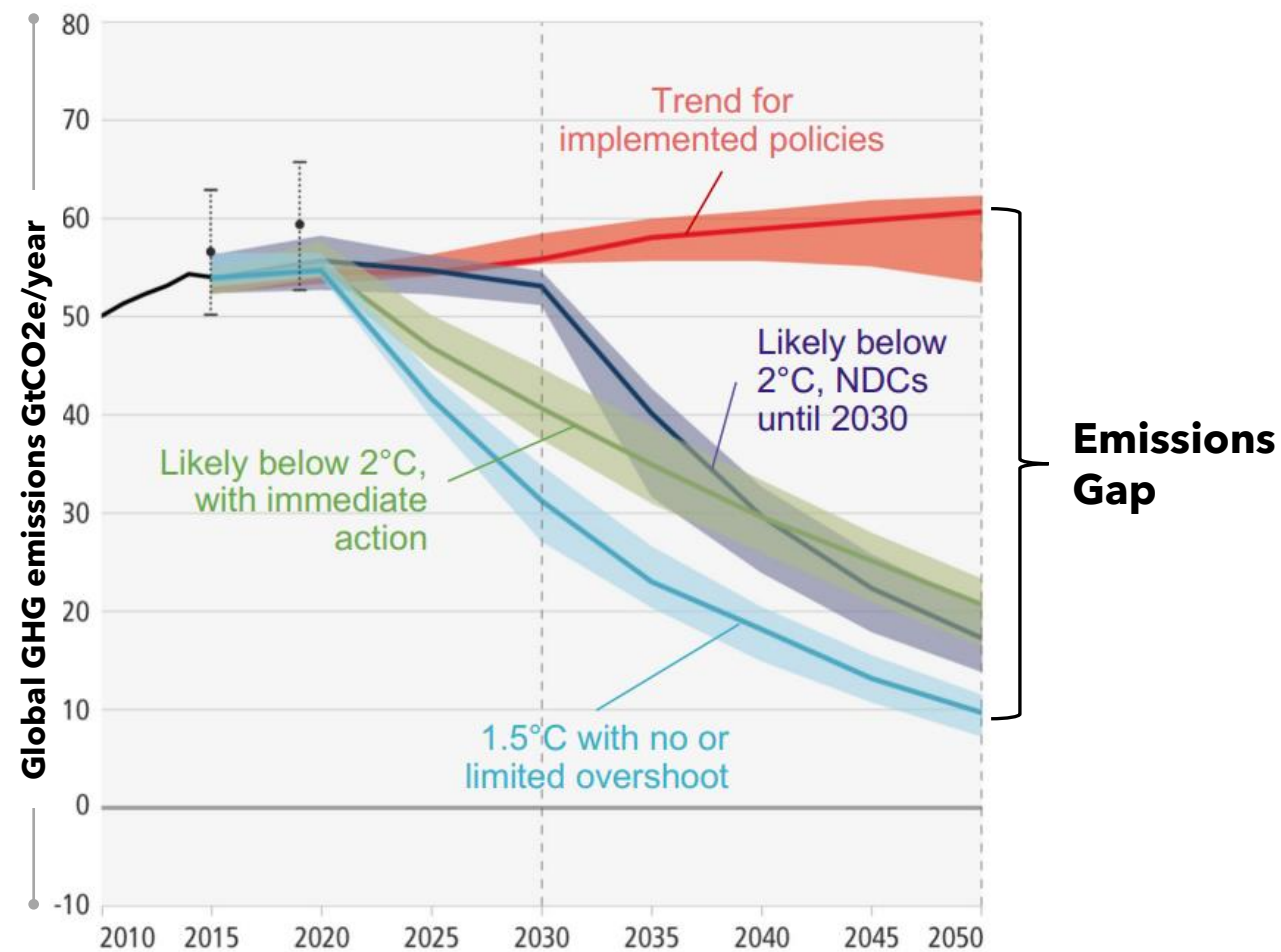
To limit warming to 1.5°C, global GHG emissions must peak before 2025 and reduce by 43% by 2030 compared to 2019



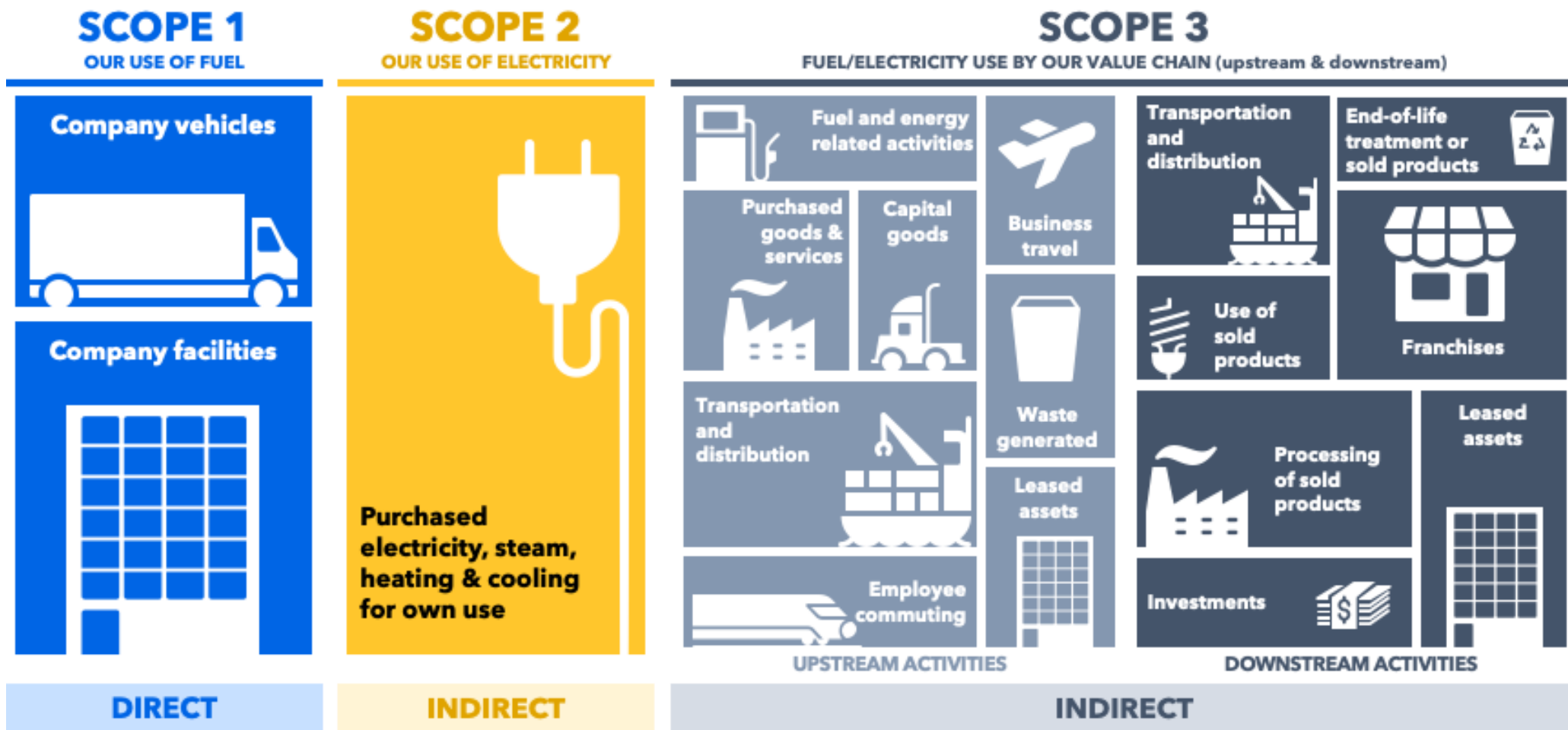
Current national pledges are wholly insufficient to meet the Paris Agreement goals



Companies play a critical role in bridging the emissions gap



Corporate GHG Emissions are Measured and Reported Across 3 Scopes of Emissions According





2. How to Set a SBT





Science-Based Targets (SBTs) show companies **how much** and **how quickly** they need to reduce their GHG emissions



More than 6,000 companies worldwide, including PepsiCo, are partnering with SBTi to set their emissions reductions targets.



What an SBT is:

The level of emission reductions needed to eliminate our 'fair share' of the climate problem, defined by climate science



What SBT is not:

What the company believes is achievable



Science-based Target initiative (SBTi) Sets the Standards and Guidance for SBT



SBTi is considered the gold standard in target setting

The Science Based Targets initiative (SBTi) is an unprecedented collaboration among leading NGOs:



World's largest environmental disclosure platform



World's largest environmental think-tank



World's largest sustainability platform



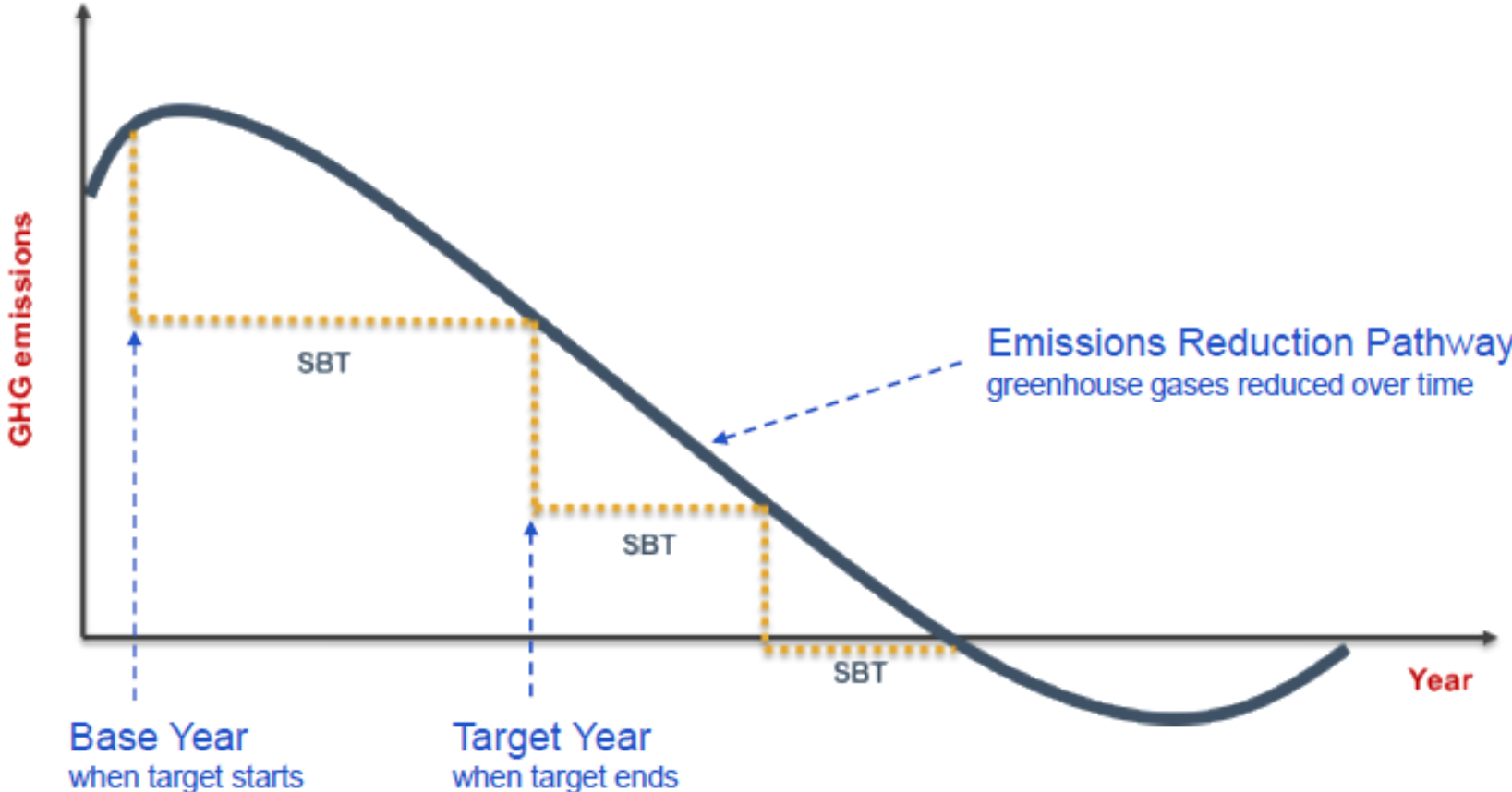
World's largest environmental NGO

The SBTi Vision: Science-based target setting becoming a standard business practice and, we all play a critical role in this low-carbon transition.

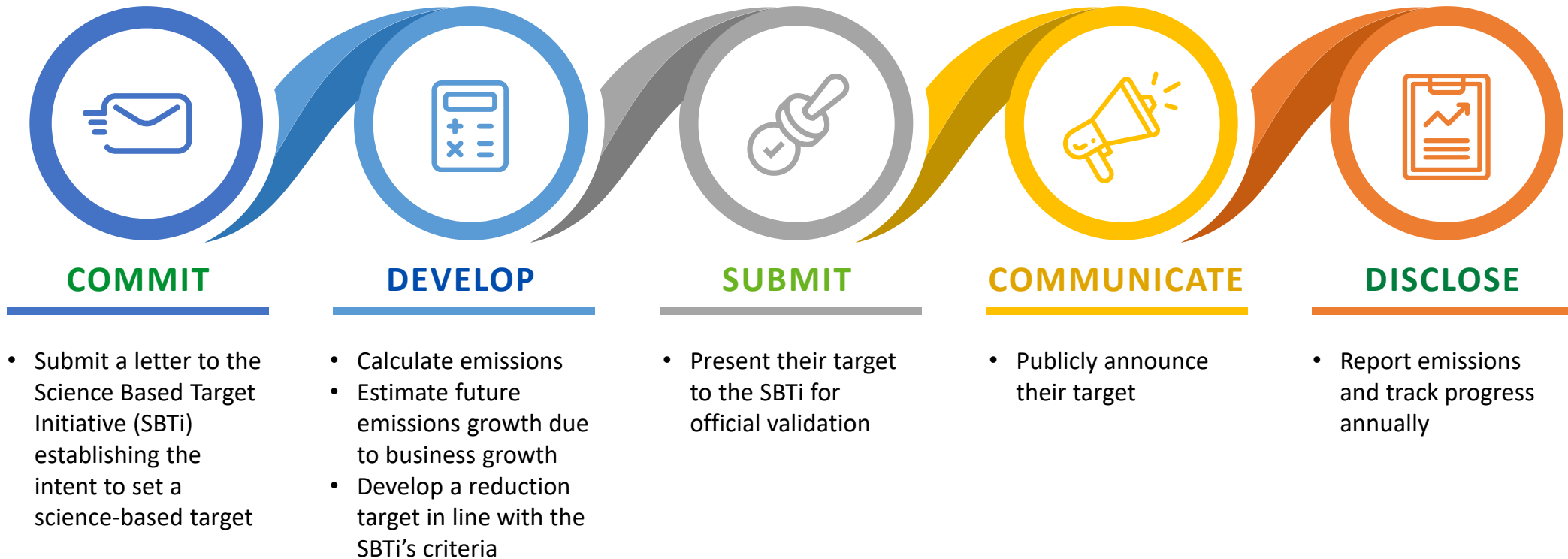
Source: <http://sciencebasedtargets.org/>

Target setting is a process repeated over time to set companies on a path to significantly reduce emissions.

Companies set a series of short- to medium-term targets (5 to 10 years out), eventually leading to zero emissions in the long-term (e.g., by 2050).



How does a supplier set a science-based target?



Once committed, a company has 24 months to submit their targets to the SBTi.

<https://sciencebasedtargets.org/step-by-step-process>

Small and Medium-Sized Enterprises (SMEs)



SBTi defines an SME as a non-subsidiary, independent company with fewer than 500 employees (head count, not FTE)

SBTi has created a simplified process for SMEs to set targets

SMEs are not required to set targets for scope 3 emissions, but must commit to measure and reduce their scope 3

Options for Scope 1&2 target:


1.5°C aligned option

"_____ commits to reduce absolute scope 1 and scope 2 GHG emissions ___% by 2030 from a 20__ base year, and to measure and reduce its scope 3 emissions."

- 50% from a 2018 base year
- 46% from a 2019 base year
- 42% from a 2020 base year



COMMIT: We asked you to commit to setting Science-Based Target



SCIENCE
BASED
TARGETS

**Set a Science-Based
Target (SBT).**

End of 2023*

Sustainability Action Center
S-LoCT Guidehouse program

- [Register online](#) using the SBTi commitment process. Please note Small and Medium enterprises must instead use [the streamlined route for SMEs](#).
- Submit the [standard commitment letter](#). We encourage companies to commit to net-zero and automatically join Race to Zero campaign. Companies that are eligible to join the Race to Zero must follow the SBTi's current fossil fuel policy. For any queries, please contact Race to Zero at racetozero@unfccc.int.
- All committed companies are recognized as "Committed" on our [website](#) and partner website [We Mean Business](#).

Once committed, your company has 24 months to submit their targets to the SBTi. Review the SBTi's [Commitment Compliance Policy](#)

* Initiate the process no later than end of 2023

DEVELOP: Steps to setting a SBT



1



1. Understand your Past Emissions

Calculate and understand your **historic emissions** trend. (Scope 1, 2 & 3)

2



2. Model Target Options

Review **SBTi criteria and resources** and model target options

3



3. Assess Feasibility of Target Options

Build a **high-level reduction/abatement model** to **evaluate the feasibility** of each target option

4



4. Select and Set Target

Decide on the target and get leadership approval. Submit target to SBTi for validation.

5



5. Communicate, Monitor & Report

Communicate your target. **Monitor and report** on progress annually.

Resources: How to use Sustainability Action Center for GHG inventory +

PepsiCo Sustainability Action Center – Resources for our value chain partners, including guidance and tools to calculate Scope 1, 2, and 3 emissions

Take a quick 1 to 5 question assessment to better understand your climate maturity level and find the most useful resources for your level

Let's Go

Level



Plan and Prepare

Level



Calculate Operational Footprint

Level



Calculate Entire Value Chain Footprint

Level



Set Targets

Level



Reduce Emissions and Report Progress

<https://sustainabilityaction.pepsico.com/>

Four considerations for setting near-term SBTs



BOUNDARY	AMBITION	TIMEFRAME	METHODS
<p>How much coverage of your emissions inventory is required?</p>	<p>What is the ambition level in terms of limiting temperature rise?</p>	<p>What is the maximum timeframe to meet your targets?</p>	<p>What are the eligible methods to set your targets?</p>
<p>Scope 1 and 2: 95%</p> <p>Scope 3: If >40% of total emissions, 67% coverage</p>	<p>Scope 1 and 2: 1.5°C</p> <p>Scope 3: Well-below 2°C</p>	<p>5-10 years from date of submission</p>	<ol style="list-style-type: none">1. Absolute reduction2. Sector-specific intensity convergence3. Renewable electricity4. Supplier or customer engagement

Scopes 1 & 2 reduction measures can be categorized into six pillars



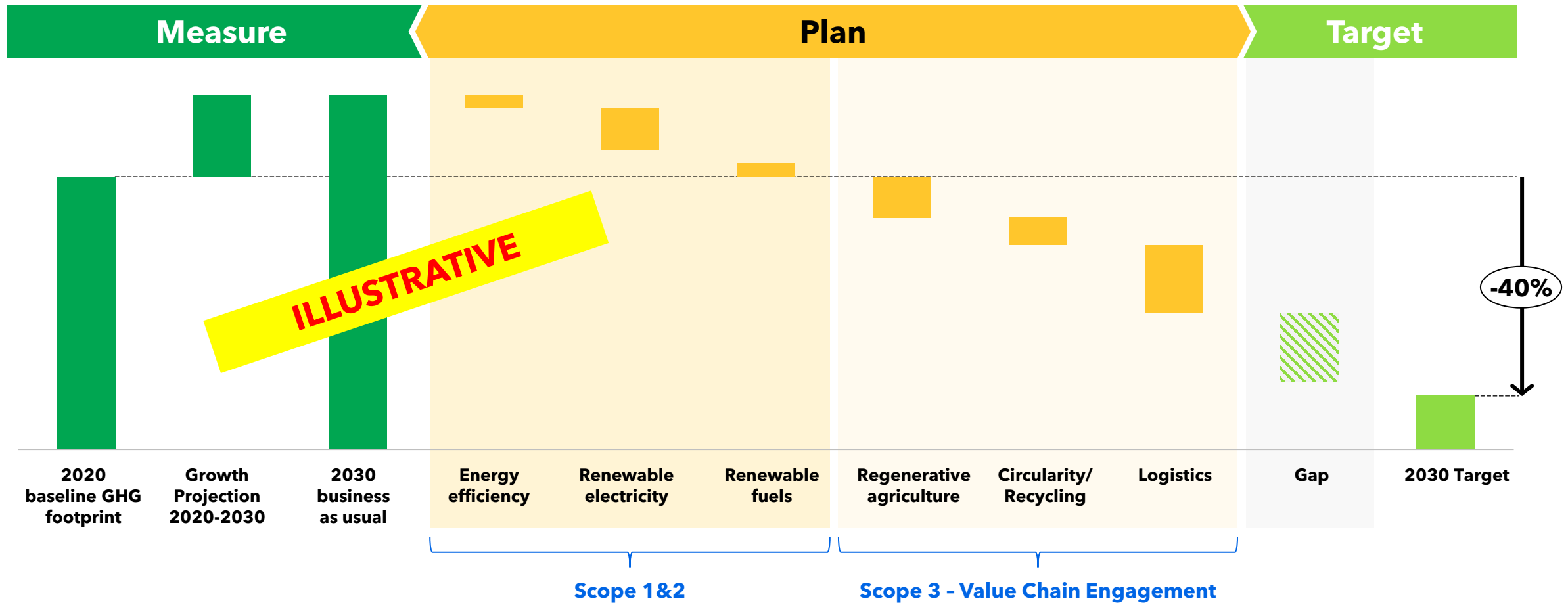
Pillar	Energy Efficiency	Clean Power Generation	Renewable Electricity Procurement	Electrification	Renewable Fuel Procurement	CCU/CCS
Description	Energy efficiency measures in buildings, assets, and processes	On site generation of renewable electricity	Procurement of renewable electricity	Full electrification or hybridization of diesel / natural gas equipment	Procurement of renewable fuels	Carbon Capture and Utilization & Carbon Capture and Storage
Example measures	<ul style="list-style-type: none"> Cogeneration or combined heat and power Behavior training or use of data analytics to reduce energy consumption 	<ul style="list-style-type: none"> Combine solar and wind for optimizing grid capacity On site solar (roofs) and wind 	<ul style="list-style-type: none"> Renewable Energy Certificates (RECs) Green utility tariffs Power Purchase Agreements (PPA) 	<ul style="list-style-type: none"> Electric (hybrid) fleet & equipment Hybrid pumps (heating/ cooling of buildings) 	<ul style="list-style-type: none"> Biogas Biomass / waste to energy Biomethane (renewable natural gas) Green hydrogen, a potential future solution 	<ul style="list-style-type: none"> Direct Air Capture (DAC) Bioenergy with Carbon Capture and Storage (BECCS) Soil carbon sequestration <i>Note that utilization should ensure long-term storage in products</i>

Source: Guidehouse Supplier Leadership on Climate Transition (LoCT) curriculum.

Explore the feasibility of your target options



Evaluating reduction/abatement options reveals what's most effective and any remaining gaps.



Source: Guidehouse Supplier Leadership on Climate Transition (LoCT) curriculum.

Evaluate target methodologies and Select target



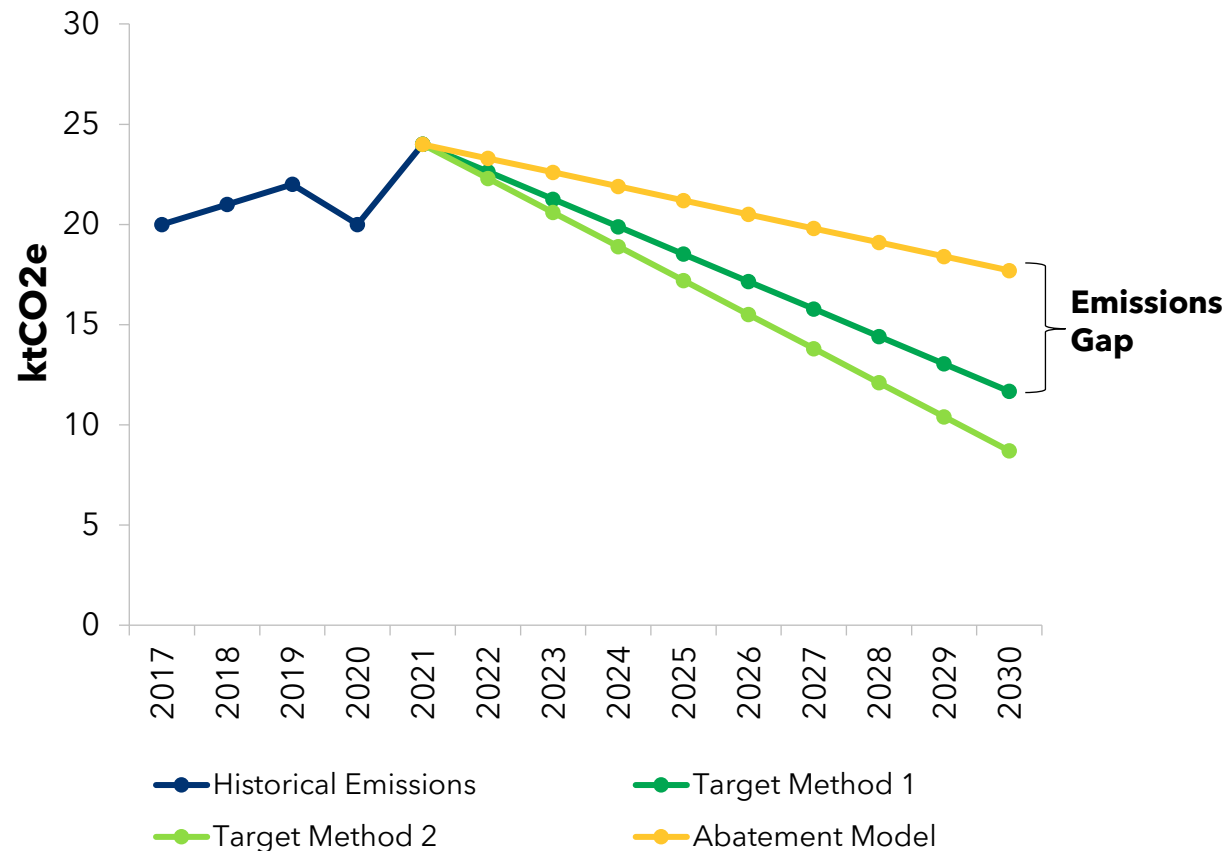
Compare the target methodologies with your reduction/abatement model to choose the most appropriate SBT

Don't be afraid to set an aspirational target

- Most companies have a gap and rely on **technology and policy unlocks** to address it
- An ambitious target can **inspire and mobilize your employees** to find innovative solutions

Submit target to SBTi for validation

GHG Emissions



COMMUNICATE & DISCLOSE: Communicate, monitor and report



Communicate your targets to PepsiCo and other stakeholders

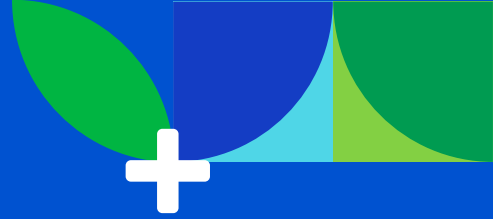
Track and report progress against targets via sustainability reports, company website, CDP, and other venues



Calculate GHG footprint annually to have up-to-date data

Track progress against targets to ensure the target can be achieved

Revise targets if needed after significant changes in businesses (merger & acquisitions), data quality, or calculation assumptions



SBTi FLAG

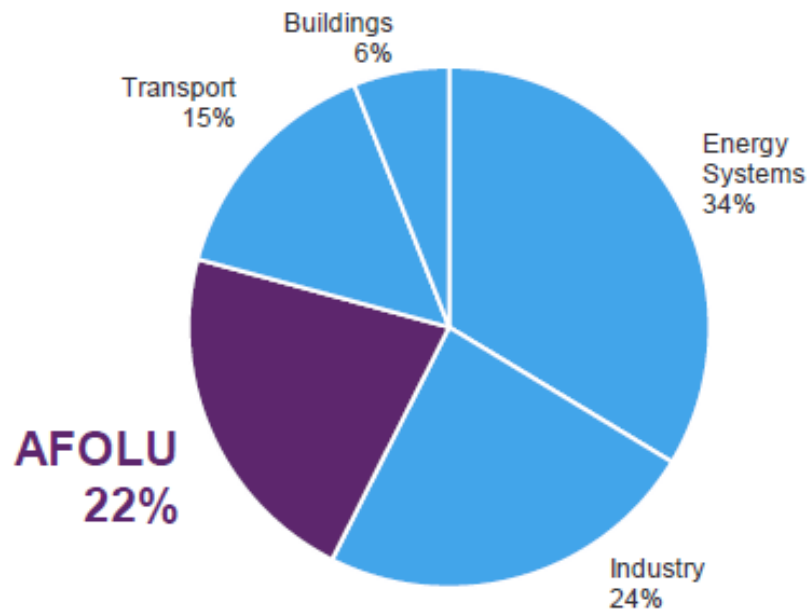
WHY UNDERTAKE FLAG GUIDANCE?

FLAG expands SBTi to include AFOLU* emissions (22% of global emissions)



SBTi Coverage After FLAG

SBTi targets comprehensively cover all IPCC categories of GHG emissions



Data Source: IPCC AR6

WHO SETS A FLAG TARGET

These sectors:

- Forest & Paper Products
- Food Production - Agricultural Production
- Food Production - Animal Source
- Food & Beverage Processing
- Food & Staples Retailing
- Tobacco

Companies in any other sectors that have FLAG related emissions totaling more than 20% of the company's overall emissions across scopes 1,2 and 3.

What if companies fall below the 20% threshold?

- The SBTi recommends (not require) companies that fall below the 20% threshold to set a FLAG target.
- If companies choose not to set a FLAG target: FLAG-related emissions must still be included in the overall target boundary and accounted for, together with energy/industry (non-FLAG) targets.



3. Reminder: PepsiCo Asks



Our Asks of You in Summary



By End of 2023

Provide our portion of your Scope 1&2 emissions (e.g. prorated by volume purchased)

By End of 2023

Commit to setting a Science-Based Target

By End of 2023

Making switch to Renewable Electricity – Enroll in PEP Renew

- Visit **Sustainability Action Center** and get resources to calculate your Scope 1 & 2 emissions
<https://sustainabilityaction.pepsico.com/>
- If eligible, participate in **Guidehouse’s Supplier Leadership on Climate Transition (SLoCT)** program. Reach out to your PepsiCo contact to get invited – if invited lookout for email from loctpartners@guidehouse.com
- SLoCT program includes a section about Forest, Land and Agriculture (FLAG) target setting. The world’s first standard guidance method for companies in land-intensive sectors.
- Develop glidepath to achieve 100% renewable electricity for PEP volumes. Join **PEP REnew program** and sign up via link: [pep+ REnew](https://neonetworkexchange.com/peprenew)

<https://neonetworkexchange.com/peprenew>



What now? 1st step on getting SBT target setting?

If you are just starting, make sure to leverage the resources in this presentation and on PepsiCo's [Sustainability Action Center](#), and join PepsiCo funded Guidehouse SLoCT program if you have been invited to this (emails came from loctpartners@guidehouse.com).

What if I do not have the necessary data?

It is a continuous improvement process. Start with what you have now. Do not wait until you have perfect data to act.

Focus on Scope 1+2 data first, get primary data if you can, set SBT for Scope 1+2, before moving to Scope 3.

What if I have questions?

If you have questions on SBTi methodology and process, reach out directly to [SBTi](#)

For questions related to PepsiCo's supplier sustainability ask and programs, email PepsiCo [team](#)

Thank You

