

RAYLO.

Green Financing Framework

September 2024

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1. Introduction and Overview of Sustainability at Raylo

Raylo's mission is to accelerate the transition to a circular economy for electronic devices. Its proposition thus enables a reduction in landfill waste (and pollution), conserving natural resources and reducing carbon emissions. Raylo believes that consumers will only make that transition if access to circular electronic technology is cost-effective and convenient.

Raylo's technology platform enables the "lease-and-reuse" of electronic devices, which makes them more sustainable, accessible and affordable. This innovative "lease-and-reuse" model maximises device utilisation by directly satisfying a full range of preferences and affordability constraints, and ultimately addressing the e-waste issue when a device reaches obsolescence. Raylo therefore redesigned the consumption model into a fully functioning circular ecosystem. Raylo customers choose between leasing a brand new or refurbished device on a monthly rolling (cancel anytime) or fixed term lease. When customers want to upgrade to a newer model, the device is returned to Raylo for refurbishment and reused by another Raylo customer.

Raylo's devices live a long and fulfilled life, never abandoned in a drawer, before being sustainably recycled by Raylo when the time comes. Every smartphone includes a free screen protector and case to keep devices in good condition and reduce the need for refurbishment or replacement parts; Raylo's phone cases are compostable (not just recyclable) – for every 10 Raylo smartphones 1kg of plastic is kept out of the waste cycle. Raylo also has an impact via its trade-in program, whereby new Raylo customers can trade-in their old device when first joining Raylo.

The environmental benefits are enhanced if Raylo retrieves and re-leases devices as quickly as possible. Thus, one critical factor in executing this circular model is a seamless upgrade experience for customers, and an efficient reverse logistics process for the returned device; a fundamental change to access and ownership. Figure 1 helps illustrate this concept, where the share of devices hired by customers are predominantly mobile phones (70%) as well as other consumer electronics such as laptops (5%), consoles (13%) and tablets (6%).



Figure 1: Raylo Circular Economy model. See Raylo's Sustainability Report 2023 for more details¹

Raylo's analysis demonstrates that Raylo's ecosystem, comprised of customers enjoying both refurbished and new smartphones who upgrade every 2.67 years, reduces emissions

¹ https://assets.website-files.com/5ca6f1703977261264f0212e/657b2ab4f86009d7f3459a81_Sustainability_Report_Raylo.pdf

by 56% vs. a traditional linear economy with the same behaviours over the long term. This translates to an average saving over 1.65kg of CO₂e every month, adding up to almost 200kg of CO₂e reduced every 10 years. Raylo believes that for the 71.8 million active mobile phones in the UK, a move to the circular ecosystem would realise savings of c.1.43 million tonnes of CO₂ per annum. This is equivalent to taking over 1 million new cars off the UK's roads. If this scope is broadened to having a smartphone, tablet and laptop (see Figure 2 below), the impact is over 5x greater – with emission reduction of over 8.6kg in CO₂e per month.

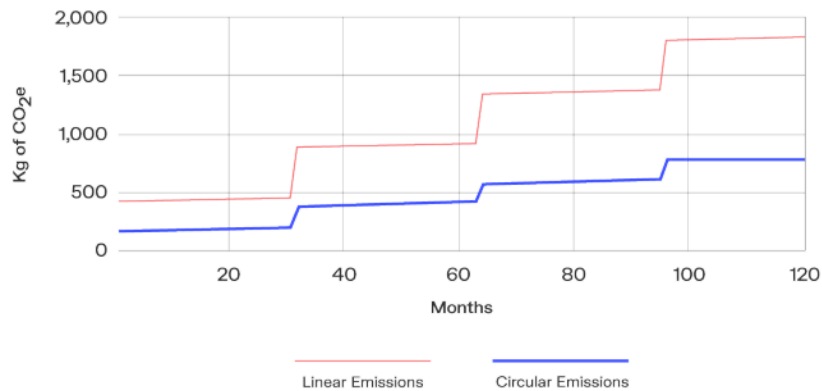


Figure 2: Total CO₂e for a user with a smartphone, tablet and laptop (kg); see Raylo's Sustainability Report 2023 for more details²

The “lease-and-reuse” model therefore avoids carbon emissions across the end-to-end product lifecycle – from manufacturing and usage of devices, to refurbishment & recycling. The individual compositions in terms of footprint are detailed in Figure 3 below.

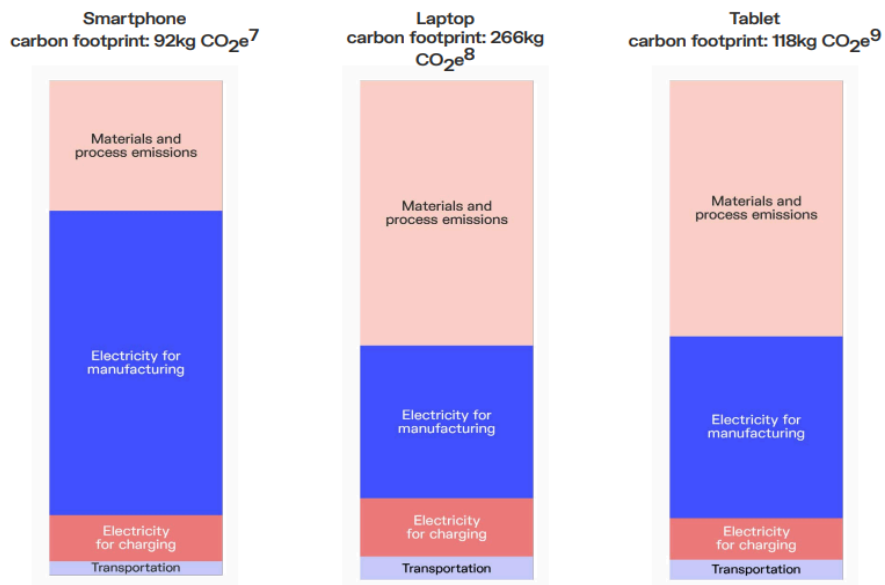


Figure 3: Breakdown of carbon footprints for individual stages for smartphones, laptops and tablets; See Raylo's Sustainability Report 2023 for more details²

² https://assets.website-files.com/5ca6f1703977261264f0212e/657b2ab4f86009d7f3459a81_Sustainability_Report_Raylo.pdf

To ensure the robustness of its circular business model, Raylo's Sustainability Policy sets out a range of ESG commitments towards its business operations, data privacy & safety and supplier selection to manage its impact on the environment and its customers.

Although Raylo has not established a dedicated supply chain engagement program, Raylo assesses its supply chain partners to ensure they are aligned on sustainability principles and engages in activities to address them, such as decarbonising their businesses and/or minimising waste by prioritising reused and recycled materials. This is reflected through the end-of-lease process whereby Raylo sends the device to Ingram Micro to evaluate whether the device is in a condition to be reused for the next Raylo customer, and if not, it is either refurbished or responsibly recycled according to (local) e-waste regulations. Furthermore, Raylo seeks to work with its partners to better understand the impact on its operations from physical climate risk. This includes improving RFI and supplier due-diligence to incorporate physical climate risk considerations.

Raylo will not knowingly engage in activities that pose a significant environmental and social risk, such as those in the fossil fuel extraction and mining sectors.

Raylo is proud to be part of the B Corp movement for a more sustainable and inclusive economy. Raylo Group Limited has achieved an overall 'B Impact Score' of 83.5³. Raylo's continued commitment to providing access and driving inclusion is reflected in its pricing which offers an affordable alternative to purchasing devices outright or on traditional finance options. This is backed by an underwriting process that is powered by proprietary AI and machine learning models for credit, ID and anti-fraud checks, which enables a better assessment of consumer credit risk.

In addition, Raylo is actively developing plans for measuring its carbon footprint and environmental impact. Whilst Raylo doesn't have a net-zero target, this is an area that is expected to be developed and communicated over time.

2. Overview and Rationale for Green Finance Framework

Raylo has developed the Green Financing Framework (the "Framework") with the aim of attracting dedicated funding for the purchase of receivables in relation to hire agreements (i.e. consumer technology leases) that bring a positive environmental impact. The framework aims to become the reference document for all future green debt instruments issued by Raylo.

Under the Framework, Raylo may finance or refinance new or existing Eligible Green Assets, as defined within the Use of Proceeds section, through the issuance of Green debt instruments.

The Framework is intended to provide a clear and transparent set of definitions to enable financing that primarily supports the transition to a net zero economy to create long-term value for stakeholders.

³ <https://www.bcorporation.net/en-us/find-a-b-corp/company/raylo-group-ltd/>

As such, the Framework has been developed in line with global best practice in sustainable finance methodologies, guidelines, and taxonomies, including:

- ICMA Green Bond Principles, June 2021 (“GBP”)⁴
- LMA/LSTA/APLMA Green Loan Principles, February 2023 (“GLP”)⁵

In line with aforementioned guidelines, the Framework will adhere to the ICMA and LMA/LSTA/APLMA Principles, as well as the recommendation for an independent external review. The core components of the Framework include:

- Use of Proceeds
- Evaluation and Selection Process
- Management of Proceeds
- Reporting

Raylo has sought an external review on the Framework from an established independent second-party opinion (“SPO”) provider, S&P Global Ratings, and may choose to publish this on the S&P Global Ratings’s website and on Raylo’s website.

To the extent that ICMA’s GBP documents or LMA/LSTA/APLMA’s GLP documents will be updated in the future, Raylo may update this Framework in order to remain aligned with best market practices and sustainable finance policies and legislation, including obtaining a new Second Party Opinion (“SPO”) as deemed necessary. More generally, this Framework may be subsequently updated as Raylo’s green financing needs change, new products for customers are launched, and/or the sustainable finance market evolves.

⁴ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>

⁵ <https://www.lsta.org/content/green-loan-principles/#>

3. Use of Proceeds – Key Features

3.1.1. Eligible types of Use of Proceeds

The proceeds of each Green financing instrument will be exclusively used to finance and/or refinance in whole or in part, “Eligible Assets”, which are receivables/hire agreements that satisfy the Eligible Green Asset definitions as described below, originated by Raylo or any of its subsidiaries.

“Eligible Portfolio” is defined as Eligible Green Assets originated by Raylo or any of its subsidiaries. All relevant Eligible Green Assets are subject to Raylo’s Sustainability Policy. As part of this policy and as mentioned in Section 1, Raylo will not knowingly engage in activities that pose a significant environmental and social risk, and therefore does not expect to allocate proceeds into those activities.

Where funds are to be used, in whole or part, for refinancing, Raylo aims to provide an estimate of the share of financing vs. refinancing.

A lookback period of up to 36 months prior to the respective issuance will be applied.

3.1.2. Eligible Green Assets

“Eligible Green Asset(s)” refers to Eligible Assets supporting the financing or refinancing of projects that Raylo believes comply with the “Green Asset Definitions” outlined below. Raylo has sought to illustrate how Green Asset Definitions map to and are influenced by the corresponding:

- ICMA Green Bond Principles, June 2021 (“GBP”)⁶
- LMA/LSTA/APLMA Green Loan Principles, February 2023 (“GLP”)⁷
- United Nations Sustainable Development Goals (UN SDGs)

These Green Asset Definitions are intended to encourage financing or refinancing of Eligible Green Assets that Raylo believes have a positive environmental impact, support the transition to a net zero economy and aim to contribute to the UN SDGs, the targets of the Paris Climate Agreement and the UK Net Zero Strategy.

3.2. Eligibility Criteria




Raylo will determine the eligibility of projects/activities (e.g. the receivables in relation to the hire agreements) to be classified as Eligible under the guidelines set out in Section 3.3. The disclosed categories align with the GBP and represent an exhaustive list of eligible activities that will be supported through the Green Financing criteria. All proposed activities must:

- Align to Raylo’s Sustainability Policy
- Contribute positively towards the UN SDGs

⁶ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>

⁷ <https://www.lsla.org/content/green-loan-principles/#>

3.3. Eligible Green Categories

ICMA GBP & LMA/LSTA/APLMA GLP Category	Eligibility Criteria & Project / Activities	Environmental Objectives	Indicative Impact Metrics	Targeted UN SDGs
<p>Eco-efficient and/or Circular economy adapted Products, Production Technologies and Processes</p>	<p>Purchasing of receivables in relation to hire agreements which have been originated by the Raylo parent/originating entity. These hire agreements will encompass electronic devices which may be in the following conditions:</p> <ul style="list-style-type: none"> ● New ● Refurbished <p>Purchase, refurbishment, and packaging of electronics to be utilised in a “lease-and-reuse” model.</p> <p>Processing of device components suited for material recovery e.g. critical raw materials.</p> <p>Harvesting reusable components</p>	<p>Climate change mitigation by extending each device’s useful lifetime and hence reducing its GHG emissions.</p> <p>Pollution prevention and control by reducing waste (e-waste, or plastic / packaging-related).</p> <p>Promoting natural resource conservation through the “lease-and-reuse” which aims to reduce the number of new devices manufactured.</p>	<p>Avoided emissions of re-used devices (in kg CO2e)</p> <p>Carbon footprint of lease-able assets (in kg CO2e)</p> <p>Percentage lease-able assets that are in their 2nd / 3rd degree of ownership</p> <p>Number of devices re-used</p> <p>Proportion of recycled waste (%)</p> <p>Share of recycled or renewable content per product (%)</p> <p>Reduction in lifecycle GHG emissions of materials through reuse, recycling or composting</p> <p>Number of used products collected from customers for recycling and/or refurbishment</p> <p>The average lifetime of devices hired in years (compared to the equivalent linear product’s expected lifetime)</p> <p>Redundant products that have been repurposed, refurbished or remanufactured as a result of the project as a % of total products to be discarded and/or in absolute amount in tonnes p.a.</p> <p>Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or as absolute amount in tonnes p.a.</p>	  

4. Process of Project Evaluation and Selection

The evaluation and selection process will be conducted by Raylo's ESG Committee to ensure that the net proceeds of the Green debt instrument issued under the Framework will be used to purchase receivables in relation to hire agreements that have been originated, meet the Eligible Financing Criteria, align with Raylo's exclusionary criteria, and contribute to the advancement of the UN SDGs identified.

The ESG Committee is made of key stakeholders to ensure that business decisions at Board level integrate environmental considerations.

ESG Committee Structure – Members and responsibilities:

- Karl Gilbert, Raylo Director and CEO
- Richard Fulton, Raylo Director and Chief Risk Officer
- Sze Ning Chng, Risk Strategy Manager

The ESG Committee meets at least quarterly and is responsible for:

- Review and approval of the Framework and any future amendments
- Selection and approval of proposed Eligible Assets for inclusion in the Eligible Portfolio as set out in the Use of Proceeds section (however, it should be noted that all devices offered to customers under a hire agreement are likely to contribute towards being counted as Eligible Assets)
- Managing the Eligible Portfolio over the lifetime of the outstanding Green financing instruments to ensure the proceeds are used solely for the financing and refinancing of Eligible Assets as per the Eligible Financing Criteria
- Preparation, verification and publication of the annual allocation and impact reporting
- Assessing the status of specific hire agreements (e.g. performing or non-performing) and determining if they need to be removed from the Eligible Portfolio

In addition, non-performing hire agreements will not be eligible for allocation of the proceeds of the Green financing instrument raised under this Framework, which is in-line with the terms of our wider financing facility.

5. Management of Proceeds

The net proceeds from the Green Financing issuance under this Framework will be used by a Raylo borrowing entity to purchase receivables in relation to hire agreements which have been originated by the Raylo parent/originating entity that meet the Eligible Financing Criteria, align with Raylo's exclusionary criteria, and contribute to the advancement of the UN SDGs identified.

The proceeds of the Green financing will be credited to a dedicated account and tracked by the relevant Raylo entities and Finance teams as needed through Raylo's internal information systems & processes in an appropriate manner. The ESG Committee will assess, on a case-by-case basis, each potential Eligible Green receivable/hire agreement and confirm which Eligible assets are appropriate before including them in the Eligible Asset Portfolio. Full allocation of proceeds for each debt instrument is expected within maximum 18 months post issuance.

Raylo's internal accounting and financial management and information systems will contain the following relevant information, including:

- Key information relating to the Green debt instrument including transaction date, principal amount of proceeds, maturity date, and interest margin or coupon, etc.
- Details of Use of Proceeds, including:
- Aggregate amount of proceeds
- Estimated total environmental impact as described in paragraph in the Reporting section
- Other necessary information

After issuance of the Green debt instrument, the net proceeds will be managed by the finance team on a per receivable/per hire agreement basis (i.e. loan-by-loan approach). As long as the Green debt instrument is outstanding, Raylo will intend to exclusively allocate an amount equivalent to or in excess of the net proceeds of the instrument to an Eligible Portfolio in line with the above-mentioned Eligible Financing Criteria and evaluation and selection process. In line with internal monitoring of the Eligible Portfolio, the ESG Committee will review and approve allocations of proceeds from the issuance of the Green debt instrument under this Framework to Eligible receivables/hire agreements on a quarterly basis or as required. Only Eligible Green Assets can be allocated to Raylo's Green debt instruments.

If a receivable/hire agreement no longer meets the Eligible Financing Criteria, Raylo will remove the receivable/hire agreement from the Eligible Portfolio and aim to replace it with another eligible receivable/hire agreement as soon as reasonably practicable.

Where assets unexpectedly mature such that the outstanding proceeds exceed the amount allocated to Eligible Assets, or where full allocation is not immediately possible, unallocated proceeds will be held at Raylo's discretion in cash or short-term liquid investments until additional Eligible Assets are available.

6. Reporting

The GBP and the GLP require Raylo to make, and keep, readily available up to date information on the use of proceeds to be reviewed annually until full allocation, and on a timely basis in case of material developments. In addition to a list, brief description, and amounts of the Green Projects to which the proceeds from the Green financing instruments issued under this Framework have been allocated, Raylo will provide the expected impact of the projects, and achieved impact, where possible, as also recommended by the GBP and GLP.

Raylo will prepare an allocation and impact report, and will make this available at least annually, including all outstanding Green financing.

On a best-effort basis and subject to the availability of information, Raylo aims to align its reporting with the approach described in the ICMA's 'Handbook - Harmonized Framework for Impact Reporting (June 2023)'⁹.

6.1. Allocation Reporting

Raylo's allocation report will provide the following indicators:

- The total amount and breakdown of proceeds allocated to each Eligible Green asset category
- The total amount and breakdown of Eligible Assets included in the Eligible Portfolio
- The amount and percentage of new hire agreements added to the Eligible Portfolio post initial allocation
- The balance of unallocated proceeds, if any

The reporting will be performed within one year from the first borrowing date of each issuance and at least annually thereafter.

6.2. Impact Reporting

In addition to providing reporting on expected impact, Raylo will provide qualitative and quantitative information on a best-efforts basis to highlight the achieved impact from receivables/hire agreements financed or refinanced by the net proceeds of the Green debt instrument issued in alignment with this Framework. To this end, Raylo is in the process of developing this suite of KPIs and internal reporting tools.

The reporting will be performed within one year from the first borrowing date of each issuance and at least annually thereafter.

The impact report may provide reporting including but not limited to:

ICMA GBP and LMA/LSTA/APLMA category:

Eco-efficient and/or Circular economy adapted Products, Production Technologies and Processes:

- Avoided emissions of re-used devices (in kg CO2e)
- Carbon footprint of lease-able assets (in kg CO2e)
- Percentage lease-able assets that are in their 2nd / 3rd degree of ownership
- Number of devices re-used
- Proportion of recycled waste (%)
- Share of recycled or renewable content per product (%)
- Reduction in lifecycle GHG emissions of materials through reuse, recycling or composting
- Number of used products collected from customers for recycling and/or refurbishment

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<https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf>

- The average lifetime of devices hired in years (compared to the equivalent linear product's expected lifetime)
- Redundant products that have been repurposed, refurbished or remanufactured as a result of the project as a % of total products to be discarded and/or in absolute amount in tonnes p.a.
- Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or as absolute amount in tonnes p.a.

Raylo recognises that whilst the ICMA's 'Handbook - Harmonized Framework for Impact Reporting (June 2023)'¹⁰ proposes quantitative impact reporting metrics, the GBP also encourages issuers to provide qualitative information, which is especially relevant in relation to circular economy projects (for example, the Handbook notes that "for circular economy projects, qualitative information is especially important in order to highlight how a project, a component of a project and/or a business contributes substantially to the circular economy, thereby differentiating it from linear resource efficiency projects that optimise or reduce resource use, but without increasing value retention or value recovery").

7. External Review

7.1. Second Party Opinion

Raylo engaged S&P Global Ratings to provide an external review in the form of a Second Party Opinion on this Framework and the underlying procedures and confirm alignment with the four core components of the ICMA's GBP and LMA/LSTA/APLMA's GLP.

S&P Global Ratings confirmed the alignment of this Framework and the underlying assets and/or procedures with the ICMA GBP and the LMA/LSTA/APLMA's GLP. The Second Party Opinion is available on the website of S&P Global Ratings.

7.2. Verification (post-issuance)

Raylo intends to request an independent third party to produce, on an annual basis, starting one year after the issuance and until maturity of the Green financing instruments issued under this Framework, a limited assurance report of the allocation of the proceeds. The post-issuance external verification report may be made publicly available on Raylo's website.

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<https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf>

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