

Karnell.

ESG policy

May 2022

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1. Background and Purpose

Karnell Group AB (publ) ("Karnell") is a Nordic industrial technology group that invests in sustainable companies of high quality with a clear industrial technology base; primarily product companies and niche manufacturers with good history, high underlying margins, and strong cash flows as well as good development opportunities where Karnell can add value as an active owner. The starting point for this objective is local laws, investor demands, international frameworks, as well as our own morality and common sense.

Sustainability is today an established concept among investors and companies and includes both environmental and social aspects, but also effective corporate governance that enables follow-up of sustainability activities at the Group's various levels. For Karnell, sustainable business means striving to have a long-term sustainable business model, which among other things mean integrating sustainability issues into the business strategy and corporate governance and taking responsibility for the impact we expose people and the environment to. We believe that companies that identify and manage business risks and business opportunities linked to sustainability are better positioned to create long-term value. Therefore, we believe that a long-term sustainable strategy should be an integral part of the investment process and business plan, as well as in Karnell's model of active ownership.

This policy document aims to clarify Karnell's approach and guidelines in sustainability that will influence all Karnell employees in both the parent company and in the subsidiaries. The document also includes:

- i. Code of Conduct
- ii. Work Environment Policy
- iii. Business Ethics Policy

2. Framework for Sustainability Work

Framework for the Investment Process

Karnell's ESG policy applies to all companies and employees within the Group. At the overall level of Karnell's investment process, we only invest in sustainable businesses or companies that have the potential to develop a sustainable business. Furthermore, there are certain types of activities that Karnell states that we do not want to get involved in;

(i) Manufacturing of Weapons.

Refers to investment objects with a significant activity in the field of weapons and ammunition. Does not apply to weapons manufacturing used in the Nordic defense industry. Furthermore, we do not invest in the manufacture of nuclear weapons, cluster munitions and mines.

(ii) Betting and Gambling.

Aimed at betting and gambling companies.

(iii) Tobacco, Alcohol, and other Drugs.

Covers both direct manufacturing and equipment directly intended to manufacture these goods.

(iv) Fossil Fuels (Coal, Oil, and Natural Gas).

Refers to investment objects with significant operations in coal, oil, and natural gas. Karnell wants to reduce the environmental impact and support companies that have the potential to develop a sustainable business through a transition to renewable energy, such as biofuels or electricity from solar and wind.

(v) Activities Involving Illegal Economic Activities or Questionable Moral Activities such as Pornography.

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Otherwise, Karnell shall follow investment criteria in line with agreements with our investors.

When conducting due diligence in the investment process of new potential acquisitions, it is essential to understand how business risks and business opportunities related to sustainability are managed throughout the company's value chain. There are several criteria in environment, social and governance (so-called ESG) that will be investigated during this phase. The findings are reported in the investment recommendation presented to the Board of Directors before a potential decision on acquisition takes place.

Framework for Responsible Ownership and Sustainable Entrepreneurship

Sustainability is crucial to driving long-term value creation at Karnell. Integrating sustainability issues into our subsidiaries' business strategy and corporate governance is a comprehensive effort that involves prioritizing, measuring, and establishing goals and carrying out ESG activities as part of the business.

Karnell strives to have a holistic approach to sustainability throughout the Group and we have a number of common focus areas within ESG that Karnell actively works with:

Environment

- Reduce environmental impact through reduced energy consumption, decarbonization, and transport optimization.
- Strive to replace products with a negative environmental impact with new environmentally friendly products to the extent that it is feasible.
- Take measures to reduce emissions of all kinds of greenhouse gases and other harmful substances.
- Maximize the use of recyclable inputs in production.
- Promote circular business models and resource efficiency.

Social Aspects

- Promote diversity and have zero tolerance for discrimination by ensuring fair treatment of employees and other stakeholders.
- Comply with international human rights conventions.
- Respect employees' rights regarding decent working conditions such as minimum wages.
- Strive for a safe working environment and prevent work-related injuries and ill health.

Governance

- Comply with laws and regulations where the Group operates.
- Apply high business ethics and prevent corruption.
- Create goal-driven sustainability plans that are integrated into the subsidiaries' governance model.
- Set a clear corporate governance structure with effective control mechanisms (e.g., a whistleblowing function).
- Integrate sustainability aspects into the subsidiaries' business plans and follow-up process.

The above are examples of important business-related sustainability requirements, but there are many other aspects that prevent environmental damage and waste of resources, create a better working environment, and improve corporate governance.

Karnell supports the UN's Sustainable Development Goals and believe that we can have the greatest impact by following Goal 13: Combat climate change; Goal 8: Decent work and economic growth; Goal 16: Peaceful and inclusive societies; Goal 9: Sustainable industry, innovations, and infrastructure; Goal 12: Responsible consumption and production.

3. Reporting, Division of Responsibilities, and Follow-up

Karnell's Group CEO is responsible for ensuring that the Group's overall sustainability operations work.

The Board of Directors of the subsidiaries is responsible for ensuring that this policy document is implemented in each company, that sustainability goals are clearly defined and determined, and that sustainability is integrated into the business strategy. The sustainability goals should be relevant to the business, challenging, few and comprehensive as well as easy to follow-up on. The planning horizon of the subsidiaries shall extend to 2030 and include short-, medium- and long-term objectives. It is important that sustainability work has an impact in the near future and that measures are not unnecessarily postponed in light of the long planning horizon. The CEO of each subsidiary is responsible for ensuring that sustainability activities are carried out. Sustainability work must have the same weight as other planning instruments in the subsidiaries.

Each Board of Directors of the subsidiaries is responsible for discussing sustainability work once a year. Good sustainability work can promote business operations; therefore, the subsidiaries should discuss in both the business and marketing plans how sustainability work should be communicated to customers and the market. Finally, the sustainability work of the subsidiaries shall be reported annually to the CEO of the Karnell Group, where a review and feedback is given to the respective Board of Directors of the subsidiaries.

In connection with the publication of the annual report, a sustainability report at the Group level shall also be published on Karnell's website. This report contains, among other things, key performance indicators based on data obtained from the subsidiaries. The key performance indicators have been developed by an external consultant in 2022. The subsidiaries publish a sustainability report for each company on an annual basis, which shall be published on each website or published together with the company's annual report.

4. Other Policies

Code of Conduct

Karnell's Code of Conduct and related guidelines apply to all companies and employees within Karnell Group AB (publ). Karnell wants to contribute to positive social and environmental development with responsible and sustainable investments and it is therefore important that we ensure that our operations comply with this with all our stakeholders.

Karnell shall respect human rights in all areas of our business. Action shall be taken if human rights violations are identified in our operations or value chain. Forced labor and child labor may occur in our activities and we respect children's rights according to the UN Convention on the Rights of the Child.

In the Group, there is freedom of association. Employees' rights to join or abstain from participating in trade unions and other workers' organizations shall be respected. Any representative of employees in the workplace shall be recognized and negotiations shall be conducted in good spirit.

The Code of Conduct is not an exhaustive document, but together with Karnell's other guidelines and policies, employees can find guidance on how their business can contribute to, in our opinion, a healthy society and environment. All managing directors of the subsidiaries are responsible for ensuring that employees of each company are aware of the Group's Code of Conduct. Any violations must be reported in writing to the Group CEO or submitted anonymously via Karnell's whistleblower function, which is available via Karnell's website (www.karnell.se).

Guidelines for work environment and business ethics can be found under Karnell's work environment policy and business ethics policy, respectively.

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Work Environment Policy

Karnell's work environment policy applies to all companies and employees within Karnell Group AB (publ). The Karnell Group shall offer safe and healthy working conditions as well as prevent work-related injuries and ill health. The goal is to maintain a safe workplace and minimize work environment risks. Continuous work with systematic analysis, mapping and risk assessment shall be carried out of the working environment of groups. Appropriate measures and follow-up on the work on preventive measures to improve the working environment shall be implemented. Applicable laws and regulations must always be followed. Any suspicion of violation of this policy or violation of law must be reported in writing to the Group CEO or submitted anonymously via Karnell's whistleblower function available via Karnell's website (www.karnell.se).

Safety

There must be clear procedures and instructions in all of Karnell's companies in order for employees to be able to perform their duties safely. There must also be safety equipment in place to enable a safe workplace. Any accidents and incidents shall be reported in writing to the Group CEO and appropriate measures shall be implemented. Karnell's goal is that there should be no workplace-related accidents.

Health

Employees shall feel safe and respected when they are at their workplace. Discrimination, victimization, harassment, threats, and abuse are not allowed. All employees shall have fair and equal development opportunities regardless of ethnicity, trade union affiliation, disability, health status, gender, nationality, political affiliation, religion, sexual orientation, or age. There shall be procedures in place to handle any incidents, which shall be reported in writing to the Group CEO.

Business Ethics Policy

Karnell's business ethics policy and related guidelines apply to all companies and employees within Karnell Group (publ). In the Group, all employees are expected to act responsibly and ethically. This policy and associated guidelines and instructions provide information and guidance on how employees should act concerning business ethics issues.

Anti-corruption

Karnell does not tolerate any form of corruption. Employees within the Group may not give, offer, or receive remuneration or benefits that are contrary to applicable legislation, good business practice or that may affect the objectivity of decisions. All handling of gifts, entertainment and other benefits shall be characterized by openness, moderation, and accountability.

Competition

Karnell does not tolerate any form of anti-competitive action, and employees must ensure compliance with competition rules. Employees within the group may not participate in agreements or measures that aim to restrict or distort competition in the market on which they act.

Handling of personal data

Karnell's processing of personal data shall take into account the protection of personal privacy and in accordance with applicable laws such as the General Data Protection Regulation (GDPR). It is of utmost importance that appropriate technical and organizational security measures are taken when processing personal data.

Tax and Money Laundering

Karnell shall comply with laws and regulations regarding tax and anti-money laundering measures. Employees of the Group may not accept or support tax violations or money laundering.

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Marketing and Information

Marketing within the Group shall be designed responsibly and in accordance with applicable rules and laws and in line with good marketing practice. It is of utmost importance that appropriate technical and organizational security measures are taken when processing sensitive data and information.

Insider Information

Karnell's employees shall comply with laws and regulations when handling unpublished information.