



Karnell Group AB (publ)

SUSTAINABILITY REPORT

2021

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CEO LETTER

Karnell makes a long-term commitment when we invest. We have a long-term horizon when discussing our impact on society and our environment. In addition, we plan our investments and operations to reduce our environmental impact and ensure transparency. That is our way of providing value creation for generations to come.

Companies that integrate environmental and societal concerns into their strategy strengthen their competitiveness and become better equipped for future challenges. A successful sustainability strategy should be well integrated in the core business and aligned with the business strategy and operations. To us ESG is a tool to seize opportunities, mitigate risks and maximize the resources available to us while generating a financial surplus.

In 2021, Karnell launched an ambitious and structured sustainability work in the entire group to make ESG aspects an integrated part of our strategy and operations. Among other things, we have implemented an ESG policy, whistleblower function and together with external consultants identified common ESG aspects and forward-looking measures enabling a robust risk management in the entire group. Whether a company is formally affected by ESG legislation is in most cases decided on criteria of company size. Today Karnell is met informally by the regulation but will meet the regulations in the financial year 2022. During 2022, we aim to set ESG targets to follow-up on during the coming years to steer the group in a common and sustainable direction.

Finally, we want to empower our group companies to align their strategies and operations with our overarching ESG-priorities. We expect all companies in our group to respect fundamental principles related to human rights, labor, environment, and anti-corruption. Through our group companies, we take action to advance societal goals and the implementation of the UN Sustainability Development Goals. Karnell is committed to act in support of achieving the SDGs and we specifically focus on five of the goals: SDG 13 Climate Action; SDG 8 Decent Work and Economic Growth; SDG 16 Peace, Justice and Strong Institutions; SDG 9 Industry, Innovation and Infrastructure; SDG 12 Responsible Consumption and Production.

Petter Moldenius

CEO

ABOUT KARNELL

Karnell is a long-term, active owner who invests in Nordic industrial and technology companies. We invest in companies with good development opportunities to add value as active owners. To act decisively, we only invest in companies as majority owners with the opportunity to make quick decisions when needed. Our primary focus is on smaller and medium sized private companies operating in the industrial technology sector headquartered in the Nordics. We have two business segments: product companies and niche production companies. Our companies develop, produce, and sell industrial goods and services. We are active owners, with no stated investment horizon, who act as advisors and support our companies through the board of directors. Together we break down significant issues and work in a structured way with the challenges.

“Engaged long-term owner of industrial product market leaders, headquartered in the Nordics”

OUR VISION

Attractive choice for long-term investors who seeks above market returns. Karnell creates value by being an engaged long-term owner with financial strength, deep industrial knowhow and network to support our companies.

BUSINESS CONCEPT

Karnell invests in sustainable industrial product market leaders, headquartered in the Nordics with support in global market trends and strong prospects for continued attractive performance. As engaged owners we identify and support initiatives that will create the most value for each company.

KEY VALUES

We run our group in a decentralized manner, all companies have its unique culture and way of working but Karnell’s values are guiding principles throughout the group.

- Sustainability
- Professionalism
- Challenge and improve

OUR COMPANIES

PRODUCT COMPANIES

AUTORI OY

Autori is Finland's leading supplier of administrative software for the infrastructure maintenance industry, based in Uleåborg. Acquired 2017.



VEBE TEKNIK AB

Vebe is a developer and manufacturer of bag filling systems, based in Björköby. Acquired 2020.



RE-BOARD TECHNOLOGY AB

Re-board is a manufacturer of board material, based in Norrköping. Acquired 2020.



ROTOMON OY*

Rotomon is youthful and growing manufacturer of plastic products, based in Kangasniemi. Acquired 2022.



DRIVEX*

Drivex is a leading manufacturer of attachments for snow removal, road maintenance, material handling and construction work, based in Edsbyn. Acquired 2022.



NISCH PRODUCTION

TEKNISERI OY

Tekniseri is Finland's leading supplier of industrial printing on plastics and metals, based in Kempele. Acquired 2017.



SIMFAS SWEDEN AB

SimFAS is a manufacturer of fillers, adhesives and sealants, based in Simrishamn. Acquired 2019.



KL MECHANICS OY

KL Mechanics is one of Finland's leading precision manufacturers, based in Oulunsalo. Acquired 2021.



*Acquired in 2022, not included in the sustainability report for 2021.

ESG IN THE INVESTMENT CYCLE

We integrate sustainability aspects throughout the investment cycle. We develop resilient companies that can withstand the challenges of the future. Through our ESG policy and investment policy, we have developed a framework for integrating sustainability that includes exclusion criteria, processes for identifying risks and opportunities, and ESG standards and expectations of our portfolio companies.

Karnell evaluates several potential investments each year to find companies that already are, or can become, market leaders in their segment. The first step in this process is to screen the target companies against Karnell's investment criteria and investment restrictions. This process excludes companies whose business models or activities are linked to controversial or unethical sectors. We also exclude companies that risk violating international conventions and guidelines, such as the OECD guidelines, UN Guiding Principles on Business and Human Rights, and Labor Rights conventions. We also assess sustainability risks and opportunities as part of the due diligence. In the assessments we consider both sector-specific risks and general trends.

The second step is an in-depth evaluation of significant potential investment risks and opportunities. Due diligence is mandatory and is carried out by external experts. The assessment result is used as a basis in the development of the new portfolio company. The results from the due diligence are weighed together with the total final basis for investment decisions and used as a basis for the development of the new portfolio company.

In 2021 we specified Karnell's requirements and expectations for each portfolio company's integration of sustainability. We have developed our ESG policy, which serves as a framework for the portfolio companies to lean on, including mandatory guidelines that each company must adhere to. Full implementation of the policy is planned for 2022.

DEAL SOURCING & INVESTMENT

- INVESTMENT RESTRICTIONS AND EXCLUSION CHECK
- ESG DUE DILIGENCE

PORTFOLIO MANAGEMENT

- ESG POLICY IMPLEMENTATION
- ESG REPORTING AND MONITORING

OUR ESG AREAS OF FOCUS

Based on a materiality analysis where we considered our impact on our stakeholders and the society as well as our stakeholders and the society's impact on us, we have identified our ESG-areas of focus (as seen in the model below). These are the areas that we consider as most critical to the portfolio's long-term value creation.

We are committed to act in support of achieving the UN Sustainable Development Goals. The progress made towards each of the 17 goals and the 169 targets has an impact on us and they are all interconnected. To make an impactful contribution in this complex development it is essential that our areas of focus are linked to the SDGs. On our quest to ensure a sustainable development in our portfolio and in the society, we focus on SDG 8 Decent Work, SDG 9 Industry Innovation SDG 12 Sustainable Consumption and Production, SDG 13 Climate Action and SDG 16 Peace Justice and Strong Institutions.



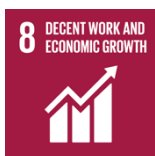


ENVIRONMENT

The increase in global temperatures will not slow down if businesses do not take action. These climate changes have environmental, social, and economic consequences. Changes in weather patterns, rising sea levels, and increased frequency of extreme weather events have caused the general public and policymakers to expect more when it comes to business climate action.

Karnell has prioritized mitigating climate impact in our operations and our portfolio. Failure to address climate concerns can result in several direct and indirect harmful effects on our portfolio companies and us, including regulatory and reputational risks. The primary climate-related risks for Karnell and our portfolio companies are greenhouse gas (GHG) emissions that the portfolio generates through its operations, energy consumption, and transportation. We initiated a climate commitment for the portfolio during the year to reduce emissions. It is material to keep the climate footprint as small as possible for all our portfolio companies. The emissions vary between the companies depending on their operations, and they need different strategies to reduce their climate impact. As part of establishing our ESG policy and framework for sustainability, we take action to map and measure each company's greenhouse gas emissions. To obtain reliable data for the entire portfolio's emissions is a huge commitment that will take time and perseverance. However, systematically reporting and monitoring the portfolio's climate impact is necessary to transition to a climate-adapted business model. As a start, in 2022, we will calculate the portfolio companies' emissions of greenhouse gases according to the international framework GHG protocols, scopes 1 and 2. This is the first step on the journey towards net-zero emissions.

We have decided that each company should implement an environmental policy as part of the overall management and risk management system. In addition to stipulating the control of greenhouse gases, the policy must address other environmental concerns. This includes, where applicable, waste management and usage of water, chemicals, and plastic.



SOCIAL

The Group's employees are our most valuable asset, and positive relationships between employees and management are crucial for our companies' development and long-term value creation. By supporting employee wellbeing, we avoid costly consequences. Risks associated with failure to ensure a good work environment include:

- a) High staff turnover and absence leading to higher recruitment and training costs.
- b) Poor working and living conditions for workers pose a threat of low productivity levels or strikes.
- c) Risks associated with bad reputation leads to negative effects on the brand.
- d) Difficulties in committing talent.

Our vision is to ensure long-term growth without compromising working conditions. Therefore, we have a zero vision regarding work-related accidents, illnesses, and incidents. We are committed to promoting good health and wellbeing among employees at Karnell and in the portfolio companies and strive to be a positive force in the lives of all employees. All companies must provide a safe and healthy work environment with policies that define guidelines and principles. We urge all companies to take a proactive approach to prevent health and safety incidents and occupational injuries or diseases. Priority must be given to managing risks linked to mental health within the organization. Good conditions do not only apply within the Karnell Group. Management and control of ESG risks in the value chain are essential. This includes respect for human rights, environmental aspects, working conditions, and business ethics. To manage risks at the supplier level, we will, in 2022, map the portfolio companies' value chains and systematically follow up the most central suppliers. Our goal is to establish a Supplier Code of Conduct, based on the UN Global Compact, that the companies' major suppliers must sign. Furthermore, regular compliance checks must be carried out.



GOVERNANCE

Our view of governance in the context of sustainable business practices is essentially about how well we attend to the interest of stakeholders and act to mitigate social and environmental risks. In this work we focus on:

- a) **Accountability:** We hold ourselves and our companies accountable for precise analysis with regard to board accountability and executive compensation as well as review of relevant financial disclosures and internal controls.
- b) **Risk management and organizational structure:** Compliance, reporting, responsibilities, policy, guidelines and routines and risk processes needs to be reviewed and monitored by executives and boards.
- c) **Business ethics:** Refers to counteracting bribes, corruption and fraud as well compliance with laws and regulations. Also refers to transparent and reliable ESG accounting, communication and tax management.

OUR APPROACH TO BRIBERY AND CORRUPTION

Bribery and corruption are significant threats to democratic processes, fair business practices, and sustainable environmental and economic development. Corruption undermines positive development and harms vulnerable groups by increasing costs and reducing the availability and quality of essential services, such as health care and education. Corruption can also jeopardize economic returns and adversely affect environmental and social performance. Karnell wants to work for ethical business behavior and a culture characterized by integrity. This means zero tolerance for all forms of corruption and bribery, in our own operations, in our portfolio companies, and among our partners.

We have established a whistleblower function where employees can report suspected incidents anonymously. Our ambition is for this function to be fully implemented in each portfolio company by 2022. Furthermore, we work for each portfolio company to establish applicable systems for relevant internal control, continuously prevent money laundering and regularly train and ensure that staff follows policies and routines for business ethics. Suspected incidents of bribery, fraud, corruption, and other illegal activities are reported to Karnell.



STRATEGY

In 2021 we decided to make ESG an integrated part of our strategy, which means that we consider ESG-aspects in every decision we make. Our approach is to create value for our key stakeholders through strong governance and good management practices. Our strategy balances short-term performance needs with long-term value creation and preservation. We seize opportunities, mitigate risks, and maximize resources while generating a financial surplus. We also assess how our companies develop and implement successful strategies to avoid impulsive and potentially harmful decisions. We assess the companies' strategic maturity and how well they integrated ESG by the following criteria:



Future-mindedness: We look for action-oriented and realistic optimism. The company has identified future opportunities and has a real plan to become or remain a market leader.

Grit: The company demonstrates passion and perseverance for strategic objectives. The goals are clearly defined and responsive to longer-term drivers of value creation, such as technological, societal development, and climate change.




ESG-embodiment: The strategy and strategic objectives align with the organization's distinct contribution to the SDGs. We consider how well the company understands double materiality and can focus sustainability efforts in areas of significant impact.






Resilience: Refers to the portfolio companies' business models and their ability to generate value in the long run. Includes the ability to convert to a circular economy, contribution/impact linked to global goals, and life cycle perspectives.

Unbiasedness: The company's sustainability priorities have been identified through the stakeholders' objective process. The company has taken specific conditions on the market into consideration and identified material aspects.

RISK MANAGEMENT OF MATERIAL ESG ASPECTS IN THE GROUP

The table below shows our commitments in each of the priority ESG areas. To create the greatest possible impact on the UN Sustainability Development Goals, each commitment is linked to key activities and key performance indicators. For the coming reporting year, our ambition is to set quantifiable targets for each commitment.

| ESG | Areas of Focus | Commitment | Actions | KPI | Impact |
|---------------|---------------------------------------|--|--|--|---|
| Environmental | Climate Footprint | Reduce the portfolio's climate footprint and prepare for the transition to net-zero climate emissions | <ul style="list-style-type: none"> Strategic plan for reduced emissions Mapping of CO2 emissions and energy use Climate calculation based on the GHG protocol | <ul style="list-style-type: none"> Emission intensity, scope 1 and 2 Total amount of energy used in operations per year |  |
| | Environmental Concerns | Maintaining good control of compliance | Environmental management system and ESG policy | Share of companies with environmental management systems |  |
| Social | Responsible Human Resource Management | Protect employees' rights and promote a safe and secure, as well as sustainable work environment for all | Maintain good social conditions and implement systems for measuring social issues | <ul style="list-style-type: none"> Gender Diversity Sick leave Staff turnover Total number of injuries relative to total workforce Average hours of training per year per employee Employee engagement (through employee survey) |  |

| ESG | Areas of Focus | Commitment | Actions | KPI | Impact |
|-------------------------|-------------------------------------|---|---|--|---|
| Social | Sustainable Supply Chain Management | Ensure ethical conditions throughout the value chain | Implement Supplier Code of Conduct | Percentage of suppliers who have signed the Supplier Code of Conduct |  |
| | | | Supplier follow-up and compliance control | Number of checks on suppliers' compliance with supplier code of conduct, and description of any deficiencies and actions taken | |
| Governance and Strategy | ESG Risk Management | Ensure effective governance of ESG in all companies | ESG policy and framework as part of each company's overall governance system ESG score card for the entire group | Percentage of companies that have implemented ESG policy |  |
| | Business Ethics | Promote a culture characterized by integrity. We have a zero-tolerance for bribes and corruption. | Implement Business Ethics policy Training for employees Implement whistleblower function | Percentage of all employees who have signed business ethics policy or code of conduct Total number of whistleblowing cases and actions taken Proportion of employees who have completed business ethics training |  |
| | Strategic Maturity | Integrate ESG into the portfolio companies' value-creating agenda | Establish ESG framework and sustainability report for each company | Proportion of companies that report on sustainability |  |
| | Resilient Business Models | Contribute to circular economy and responsible resource management | Carry out life cycle analysis at the portfolio's manufacturing companies Convert to renewable energy use | Proportion of companies that performed life cycle analysis Percentage of renewable energy used for operations |  |

PORTFOLIO CASE: RE-BOARD



Re-board® Technology AB holds patented technology and methodology for manufacturing paper boards with a uniquely strong core. The company's main product is a premium lightweight paper-board distributed globally for various applications. Re-board is used continuously by leading brands. Through its core operations, the company supports the achievement of SDG 9 Industry Innovation. The company leads innovation and inspires others to follow with their unique product. The company also contributes to SDG 12 Sustainable Consumption and Production with a well-developed life cycle assessment (LCA). LCA is a method for assessing a product's environmental impact at all stages of its existence, running from the extraction of the raw materials to the moment the finished product leaves the Re-board® production facility.

Environmental

The company calculates emissions related to the life cycle of products, focusing on CO₂. The company has identified global warming potential, terrestrial acidification, ozone formation, fine particulate matter formation, and water consumption as their primary impact areas. Each environmental impact category group quantifies substance emissions into the effect on the environment. The most frequently used category is global warming potential, but the full range of categories gives a more comprehensive picture of a product's effect on the environment.

Social

The company has a policy for health and safety and a policy for data protection. The company closely monitors any changes in legislation or stakeholder expectations to adjust accordingly.

Governance

Re-board® has initiated a collaboration with a local university to engage students in mapping out the business impact on the SDGs. The management team strives to integrate ESG into the business strategy. To work towards clearly defined goals and make decisions based on reliable data is a priority.

PORTFOLIO CASE: SIMFAS



SimFAS produces private label products within the segments fillers, adhesives, and sealants in its factories in Simrishamn. The factories are characterized by effectiveness and has the capacity to adjust production to market demands. SimFAS production supports the achievement of SDG8: Decent Work and Economic Growth. The esteemed personnel are loyal, and many employees have been bringing value to the company for decades. Their well-being and professional development are business imperative. The organization aims to decrease the climate footprint and take climate action to support SDG 13. The company has an extensive and well-implemented procedure to ensure quality and sustainability in its operations.

Environment

SimFAS has mapped the organization's energy usage and developed an action plan for reducing energy use with associated profitability calculations. The goods meet customers' expectations for safe and environmentally friendly products. SimFAS works with continuous improvements to minimize the products' impact on the environment, health, and safety. The company is phasing out hazardous chemicals, and SimFAS uses the environmental management standard ISO 14001. SimFAS are marked in accordance with the Swedish eco-label "The Swan". The company uses recycled plastic in its packaging.

Social

SimFAS has implemented an anti-harassment and non-discrimination policy, occupational health and safety policy, and a data privacy policy to comply with GDPR. Training and professional development are offered to employees to ensure safety and support a sense of meaning and accomplishment at work. Training is planned based on the employees' responsibilities, skills, and knowledge. Consideration is given to both risks of lack of competence for various tasks and the possibility of a better working environment and more efficient production through the possibility of work rotation. Completed activities are followed up during the management's review.

Governance

SimFAS uses the international standard that specifies requirements for a quality management system ISO 90001. The company ensures strong governance by well-planned processes for manufacturing, and objectives are clearly defined and communicated in the organization.

PORTFOLIO CASE: TEKNISERI



Tekniseri works as a partner for industrial manufacturers in producing and developing industrial labeling and insulation products. The company provides industrial customers with printed and insulation products, serving customers in Europe and Asia. The company has adopted an approach supporting SDG 12 Responsible Production and Consumption, including a well-implemented strategy for waste management and careful evaluation of suppliers. Tekniseri also drives innovation and contributes to the fulfillment of SDG 9 - Industry Innovation.

Environment

Tekniseri complies with environmental laws and pays close attention to how operations impact the air, climate, water, land, and biodiversity. Employees are aware of environmental issues in their day-to-day work and are expected to act responsibly and share best practices. The company ensures that chemicals are handled safely by internationally recognized management systems. The company strives for product stewardship that considers the product's lifecycle as a whole. The company has processes to ensure that the products manufactured are safe for the use they are meant for and meet their regulatory requirements.

Social

Tekniseri is committed to continuously improving the health and safety of its employees. This is followed up with a specific Safety at Work program. Tekniseri Working program aims to improve the working environment and working conditions to maintain employees' operational capacity, prevent occupational accidents and diseases and eliminate hazards. Tekniseri respects cultural differences and does business with stakeholders who do not practice discrimination based on race, religion, gender, age, nationality, or sexual orientation. Tekniseri is committed to conducting its business responsibly and expects the same commitment from suppliers. By carefully evaluating suppliers, the company ensures that the quality, human rights, environmental, anti-corruption, and business ethics requirements are met.

Governance

Tekniseri is committed to supporting global economic, environmental, and socially sustainable development. The company has defined sustainability focus areas throughout the value chain. Those areas include employee health and safety, climate impact, and compliance with ethical code of conduct, social responsibility, and related policies. Tekniseri has a zero-tolerance policy for any forms of bribery, corruption, extortion, and embezzlement.

PERFORMANCE DATA FOR KARNELL GROUP*

Environmental

| Aspect | KPI | Outcome |
|------------------------|---|-----------|
| Climate Footprint** | CO ₂ e emissions per year, scope 1 (tonnes CO ₂ e) | 456 |
| | CO ₂ e emissions per year, scope 2 (tonnes CO ₂ e) | 11 820 |
| | Emission intensity of scope 1 and 2 (tonnes CO ₂ e/EUR 1M sales) | 876 |
| Energy Management | Total amount of energy used in operations per year (KWh) | 7 858 366 |
| | Percentage of renewable energy used for operations | 55 % |
| Environmental Concerns | Portfolio companies with environmental policy | 83 % |
| | Portfolio companies with environmental management system (i.e. ISO) | 67 % |

Social

| Aspect | KPI | Outcome |
|---------------------------------------|--|------------|
| Responsible Human Resource Management | Gender diversity throughout company | 18 % women |
| | Gender diversity in senior leadership (management team) | 11 % women |
| | Sick leave | 7 % |
| | Staff turnover | 13 % |
| | Total number of injuries | 8 |
| | Average hours of training per year per employee | 9 |
| | Portfolio companies with non-discrimination policy | 83 % |
| | Portfolio companies with occupational health and safety policy | 100 % |
| | Portfolio companies with data privacy policy to comply with GDPR | 100 % |

Governance

| Aspect | KPI | Outcome |
|--------------------|---|---------|
| Business Ethics | Total number of whistleblowing cases and actions taken | 0 |
| | Total number and nature of confirmed incidents of corruption | 0 |
| | Companies with internal code of conduct for business ethics | 50 % |
| Strategic Maturity | Companies that have taken ESG aspects into account in risk analysis and risk management | 67 % |

* The data presented above applies to the financial year 2021 and includes data from the entire Group, including the parent company and each portfolio company.

** Calculations of climate data have been inspired by the GHG Protocol. The ambition for the coming reporting year is to form a common and comparable framework for climate reporting in accordance with international standards, which will apply to the entire Group.

ABOUT THIS REPORT

This is the first time that Karnell has prepared a sustainability report. The report covers sustainability data from 2021 and refers to the period 1 January to 31 December. The report focuses on Karnell's approach to sustainability and highlights the sustainability aspects that, by Karnell's management, are considered the most relevant and significant.

This is the first year Karnell has collected sustainability data from the portfolio companies. This year's reporting should be viewed as a first step in reporting non-financial information. Karnell's ambition is to improve the reporting and reliability of the data collected from year to year.

The report has not been externally assured. The report is available on Karnell's website, www.karnell.se. For questions about the report, please contact Petter Moldenius, petter.moldenius@karnell.se.