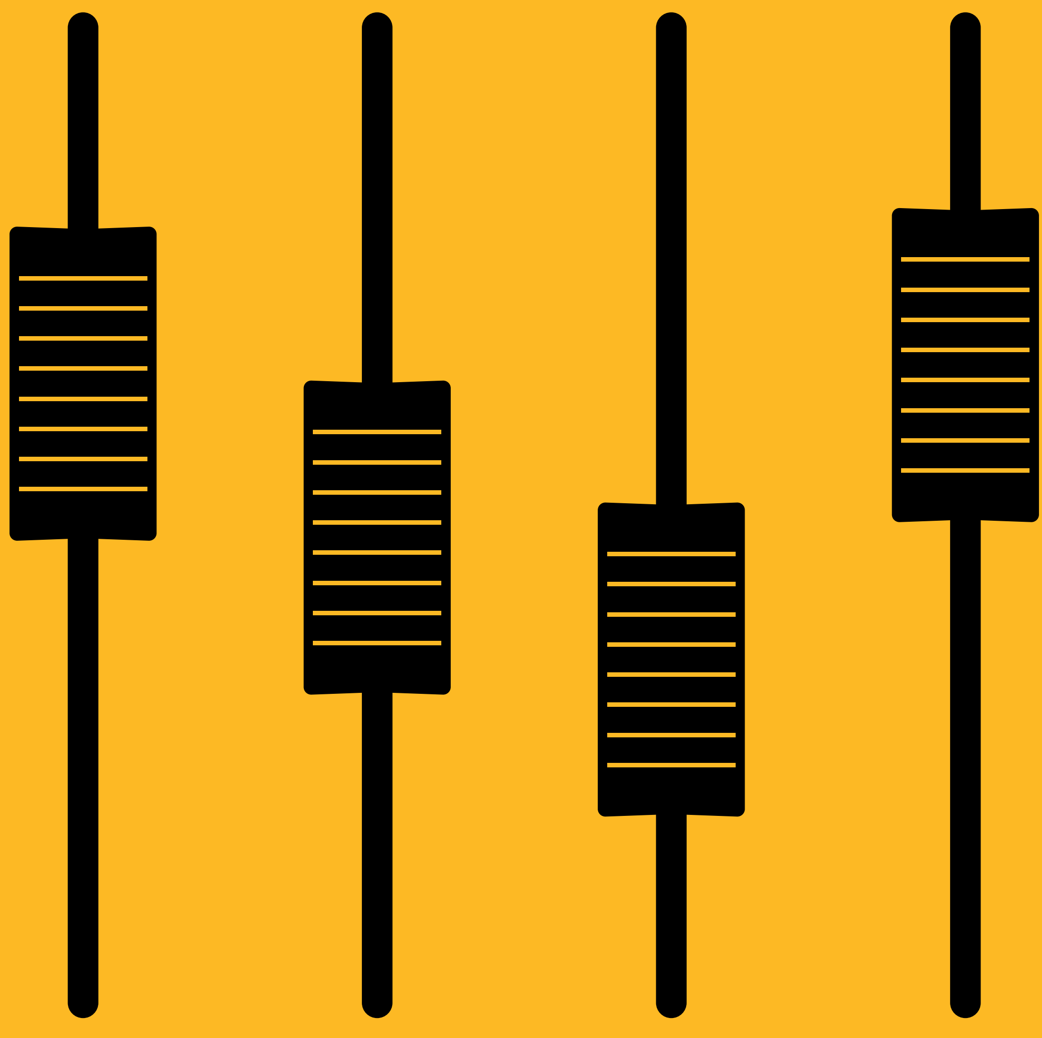
Annual Report 2020.



zoundustries

Our purpose is to amplify life by humanising tech.

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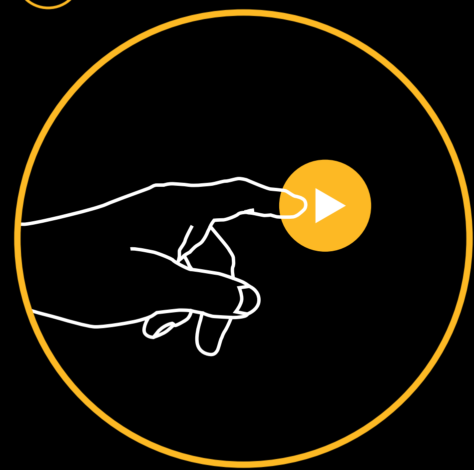

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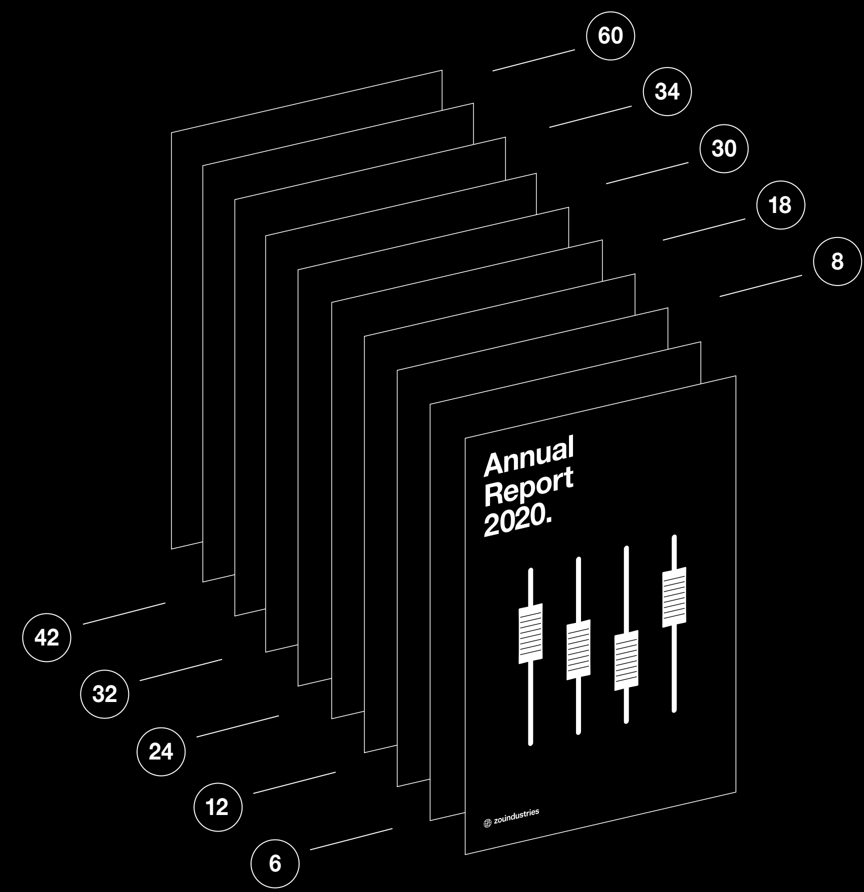
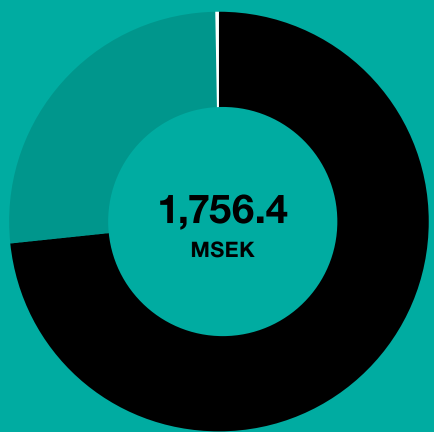


2020 was an extraordinary year shaped by the global pandemic, but it was also a year of successful product launches and continued consumer demand for Zound's brands and products.

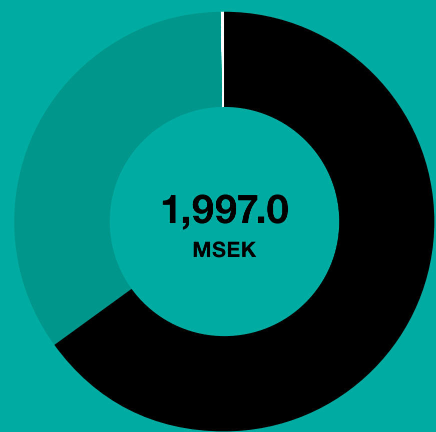
Sales segmentation

2020 / Full year



- **Speakers** 1,289.0 MSEK
- **Headphones** 465.3 MSEK
- **Other** 2.1 MSEK

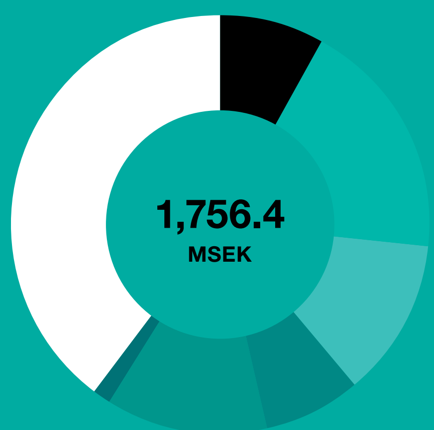
2019 / Full year



- **Speakers** 1,302.3 MSEK
- **Headphones** 691.5 MSEK
- **Other** 3.3 MSEK

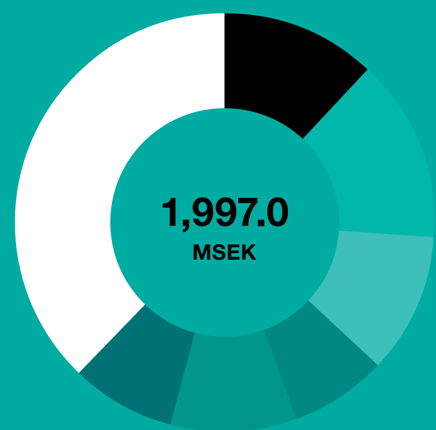
Sales key markets

2020 / Full year



- **Nordic Countries** 145.1 MSEK
- **USA** 327.9 MSEK
- **France** 211.3 MSEK
- **Germany** 134.7 MSEK
- **China** 216.1 MSEK
- **UK** 24.1 MSEK
- **Other** 697.2 MSEK

2019 / Full year



- **Nordic Countries** 238.9 MSEK
- **USA** 287.6 MSEK
- **France** 216.7 MSEK
- **Germany** 146.8 MSEK
- **China** 193.0 MSEK
- **UK** 160.1 MSEK
- **Other** 753.8 MSEK

Total revenues

Adjusted operating profit, EBIT*: 20.7 MSEK

1,771 MSEK +

*Adjusted for expenses affecting comparability

2020 Highlights

April We unveiled our first true wireless headphones, Urbanears Luma and Alby, which soon became a firm favourite with consumers.

May Henri de Bodinat was appointed Chairman of the Board, taking over from Tommy Jacobsson. Jonathan Ellery, Managing Director of licenced brand Marshall, also joined the board.

June Adidas extended their portfolio with the edition of the RPD-01, a step-in model to open up the brand to a wider audience.

July Summer in Europe heralded the arrival of Marshall Emberton, our most compact portable speaker. It quickly became our fastest every selling product.

September We strengthened the management team with the appointment of Linda Sjö as our new Chief Legal Officer.

October We welcomed our new CEO. Jeremy de Maillard brings international leadership experience and a proven track record of building brands and growing businesses at global and iconic brands such as adidas, The North Face and Vans.

Marshall updated the iconic Major IV headphone to feature 80+ hours playtime and wireless charging.

December One of the biggest winners of 2020 was our own ecom channels. During 2020 their sales increased by 42%.

MSEK / Full year	2020	2019	Δ %
Total revenues	1771.2	2,008.2	-12
Net sales	1,756.4	1,997.0	-12
Gross profit	644.4	772.8	-17
Gross margin, %	36.7	38.7	-
Operating profit, EBIT	9.4	-16.6	-156
Operating margin, %	0.5	-0.8	-
Adjusted operating profit, EBIT*	20.7	44.3	-53
Adjusted operating margin, %*	1.2	2.2	-
Net profit/loss for the period	6.4	-34.3	-119
Equity/assets ratio, %	45.9	36.5	-
Interest-bearing net debt	-101.9	317.6	-132
Cash flow from operating activities	386.9	-60.4	-740
Earnings per share before and after dilution, SEK	0.74	-3.98	-119w

** Adjusted for expenses affecting comparability of -11.3 MSEK in the full year 2020 and -60.9 in the full year 2019*

An extraordinary year.

Jeremy de Maillard, CEO

> "Our iconic brands & products, multi-channel approach and broad geographical footprint are key strengths for the company that we will continue to build on."
>
> **Jeremy de Maillard, CEO**

When we published last year's Annual Report, we could not have predicted how 2020 would unfold. From a worldwide pandemic to racial injustice, the world changed. We still do not know the long-term impacts of these events, but the immediate shockwaves were felt by everyone and people around the world had to think hard about what matters most to us as a society and as human beings. All these events translated into high volatility in the business throughout the year – both in terms of consumer demand and supply chain.

When the world started opening up again at the end of August, demand rocketed and we had the best third quarter ever in the history of Zound, followed by a stable Q4. The year-end net sales amounted to 1,756 MSEK, down 12% from 1,997 MSEK in 2019. Operating profit for the full year came in at 9.4 MSEK.

In terms of products, Zound started the year with the launch of Marshall's Monitor II ANC headphones that won widespread praise for its performance. The launch of Marshall Emberton followed in the summer, a portable speaker that quickly became Zound's fastest ever selling product. Rounding up the year, Marshall released an update to its best-selling headphone franchise with the Major IV and its 80+ hours playtime. Urbanears launched its first true wireless products, Luma and Alby, and adidas broadened its portfolio with the RPD-01, a wireless headphone tuned for runners.

Another success story was eCommerce. As consumers around the world moved to online shopping, our owned eCommerce channel benefited and grew by 42% over the year. We also saw stronger sales on our digital partners' channels, such as Tmall, Best Buy online and Amazon.

We also experienced double-digit growth in our two biggest markets. In the US, sales increased by 14% driven partly by our deepened partnership with Best Buy. While in China, sales grew by 12% fuelled by our presence in Tmall and JD.com.

Our iconic brands & products, multi-channel approach and broad geographical footprint are key strengths for the company that we will continue to build on.

We made some key changes in our leadership this year. Henri de Bodinat took over as Chairman of the Board and Jon Ellery, Marshall's Managing Director, joined the Board of Directors in May. Finally, I had the pleasure of joining Zound as CEO in October.

Overall, the whole organization had to adjust. We went from a close-knit team, who thrive on collaboration and chance meetings in the kitchen, to a company spread across hundreds of home offices. Instead of asking our colleagues how they were in the corridor, we were asking them if they were on mute on video calls.

Despite this huge change in the status quo, the team adapted quickly to working remotely and found new ways to co-operate. Everybody pulled together and pushed hard to keep our products moving through development, into production and onto the market.

The first few months of 2021 have been dedicated to shaping our new vision and strategy for Zound for the next three to five years. More details to come but we already have a solid product pipeline for the year and the team is stronger than ever.

I'd like to express my gratitude to every Zound employee around the world, it's a been a difficult year for all of us but the future looks bright. I'm honoured to be surrounded by talented, kind and ambitious people, and to be part of this team as we write our next chapter together and unlock the full potential of Zound moving forward.

Marshall

Marshall is an iconic British brand that has been at the forefront of guitar amplification innovation for more than half a century. Marshall not only designs and makes cutting edge products, it also makes handwired reissues of its historic amplifiers – amps that in the ‘60s, ‘70s & ‘80s defined the sound of rock and British blues music. Marshall still makes vintage and modern all-valve amplifers today at its home in Bletchley, England.

In 2010 a now legendary partnership was formed between Marshall and the two-year-old start-up Zound Industries. We released the first Marshall headphones that same year and in 2012 the first Marshall home speaker entered the scene.

The sound of Marshall has rocked stages all over the world for more than half a century. Breathless roadies and roaring trucks have worked hard to deliver this iconic sound. This unparalleled amount of wisdom has been distilled and fused into every part of our Marshall headphones and speakers. Nothing has been compromised when translating the heritage of big stage performance to the individual enjoyment of good music.

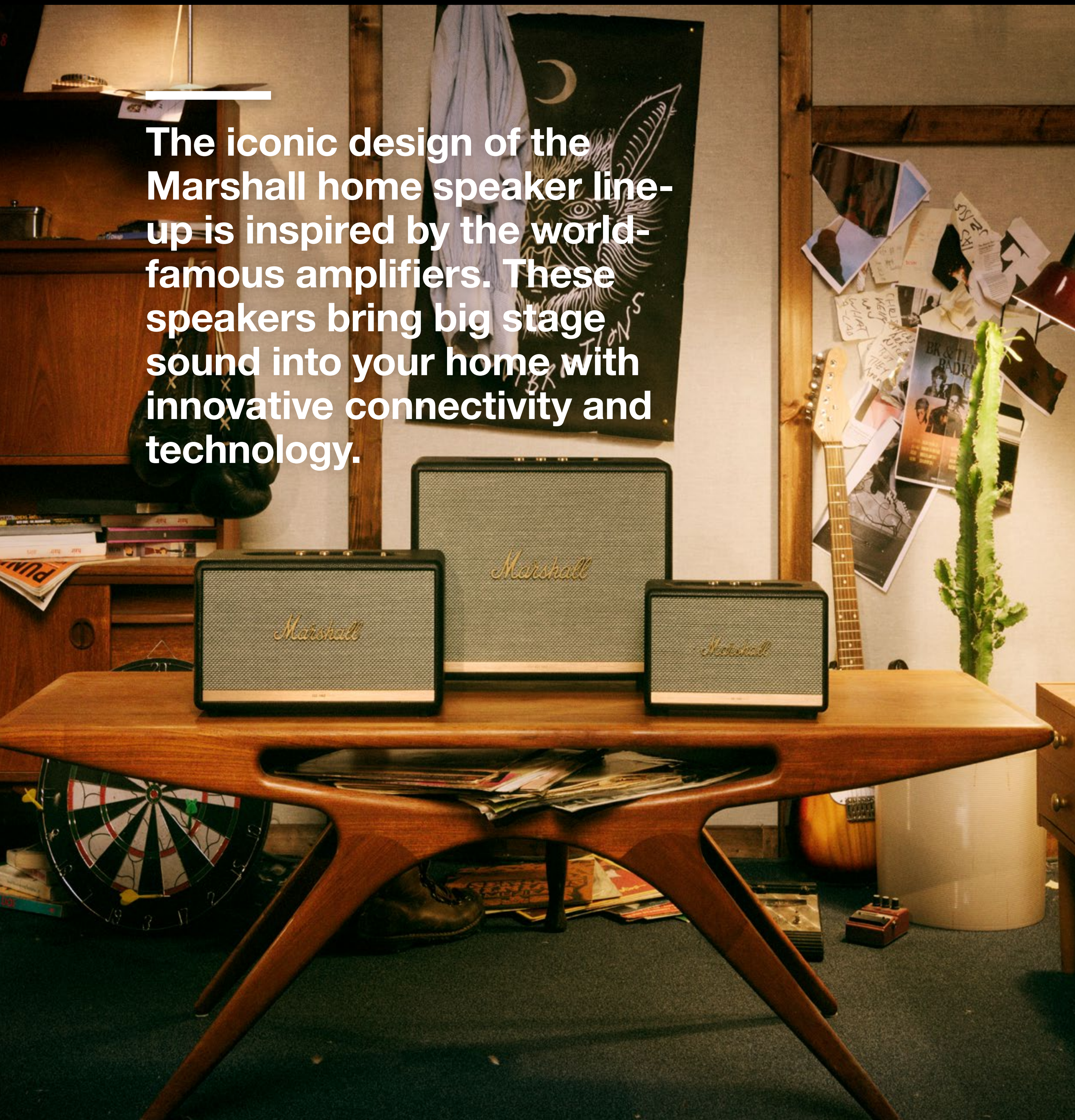
We are not only here to sell products in the world of consumer electronics, we are here to create rock ‘n’ roll experiences that are built on years of credibility. We aim to create new, authentic stories that connect with our consumers, and to become an integral part of their everyday lives.

When we speak about rock ‘n’ roll, we use it as a verb. Rock ‘n’ roll isn’t a genre, it’s a way of life. We speak about it in a broader sense to describe the contemporary lifestyle and mentality that we want to be associated with.

This mentality is strongly connected to our brand values, values in which we live and die by. It’s everything that we do.

Iggy Pop wears Monitor II A.N.C.

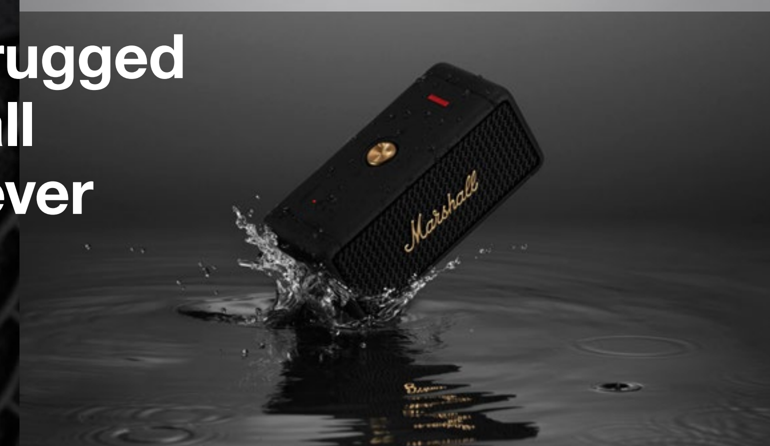
For more than half a century, it has been Marshall’s mission to always be listening. We’ve listened to the ones that no one would listen to, the rebels, the misfits, Kerouac’s “mad ones”. Marshall heard their cry to create something new, something never heard of before, a new sound for their generation, and set out to work alongside them. This is our legacy and it’s still who we are today.



The iconic design of the Marshall home speaker line-up is inspired by the world-famous amplifiers. These speakers bring big stage sound into your home with innovative connectivity and technology.

Home Bluetooth line-up

The Marshall portable speaker line-up is made for backstage roadies, poolside fun and the open road. These speakers bring rugged design and the Marshall signature sound wherever the adventure leads.



From top: Black and Brass family, **Kilburn II Black and Brass,** Emberton Black and Brass

From top: **Mode II, Major IV**

Marshall headphones are made for an all-day listening experience and their design is deeply rooted in our rock ’n’ roll heritage. They combine contemporary technology with bold attitude.

Monitor II A.N.C.

URBANEARS

Urbanears is Zound's inhouse brand that launched our story. Over the past decade it's become part of our DNA. In this world you can't stand still and as our company has evolved so has our first-born brand.

Today we're the leader in providing fashion-led audio lifestyle products for seamless listening experiences that fuse effortless technology and statement design.

We're driven by progressive values, minimalist design and inspired by current movements in fashion, art and music. We believe that style and function go hand-in-hand and that technology should make life easier. That's why we always put the user and their needs first.

Our philosophy is simple: clean aesthetics, user-friendly features and heavy attention to detail.

We believe that style and function go hand-in-hand and that technology should make life easier.

Alby Liberty Green

From top: Plattan 2 Bluetooth Powder Pink, Luma Ultra Violet, Alby New Blue, Sumpan Dark Grey

Alby Liberty Green

Alby New Blue

Everything adidas does is rooted in sport. And sport plays an increasingly important role in people's lives, on and off the field of play. It's central to every culture and society and is core to an individual's health and happiness. adidas believes that, through sport, we have the power to change lives.

Recognising the inherent link between music, sport and lifestyle, adidas and Zound teamed up in 2019 to create a line of headphones. This is a partnership that fuses functional and cutting-edge tech with style and performance.

Co-created by athletes, the headphones are crafted to meet the specific needs of different sporting disciplines. With a focus on technology innovation, function and fit, adidas and Zound Industries are determined to give athletes at every level the ultimate audio experience, in any field of play. From warm-up, to workout, right through recovery.

Co-created by athletes, the headphones are crafted to meet the specific needs of different sporting disciplines.

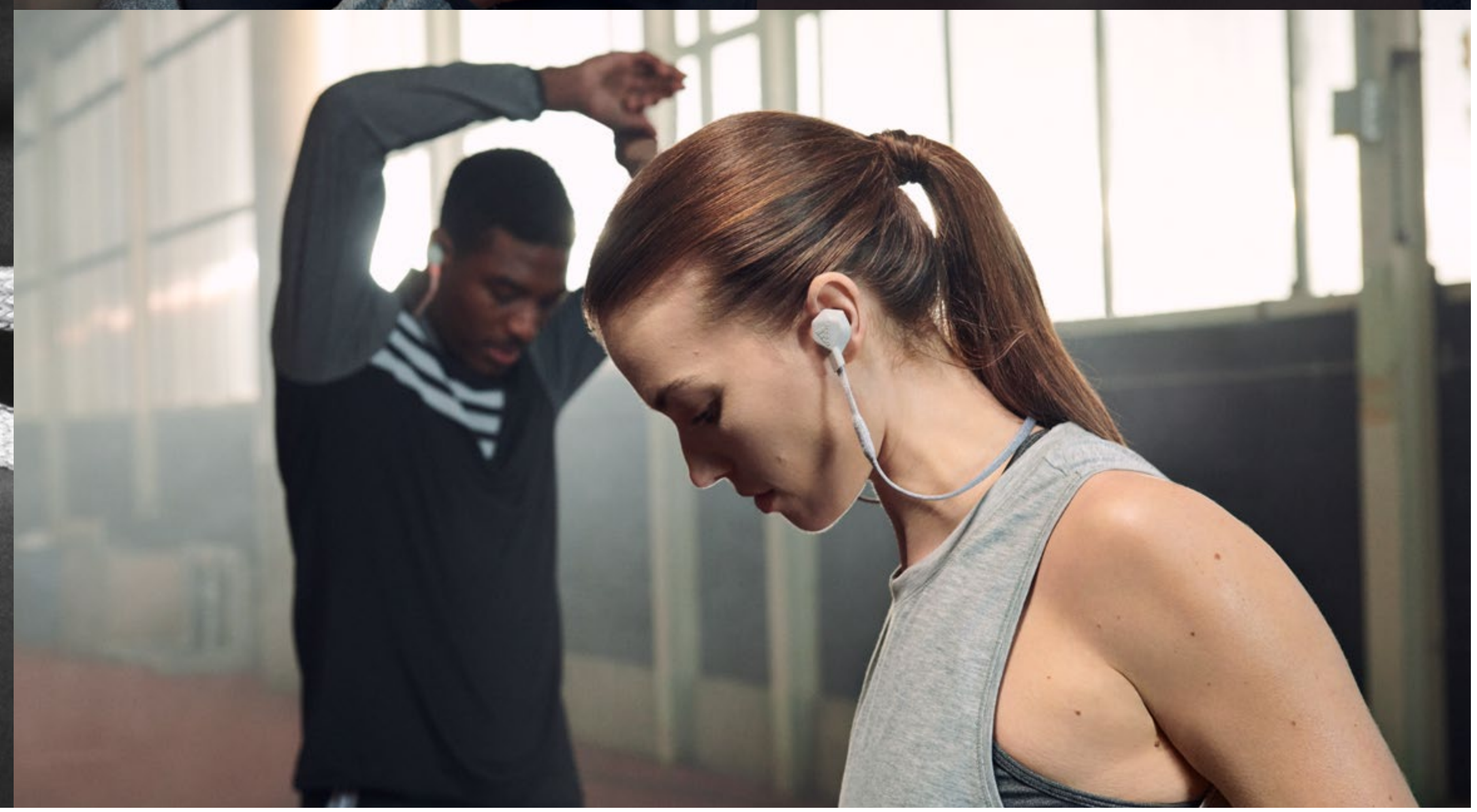
RPT-01 Signal Coral

RPT-01 Light Grey

A fully equipped wireless on-ear headphone engineered to meet the demands of any training routine head-on.

Wireless in-ear headphones built with running in mind. Ergonomic perfection to bring you the best fit for your workout.

FWD-01 Light Grey



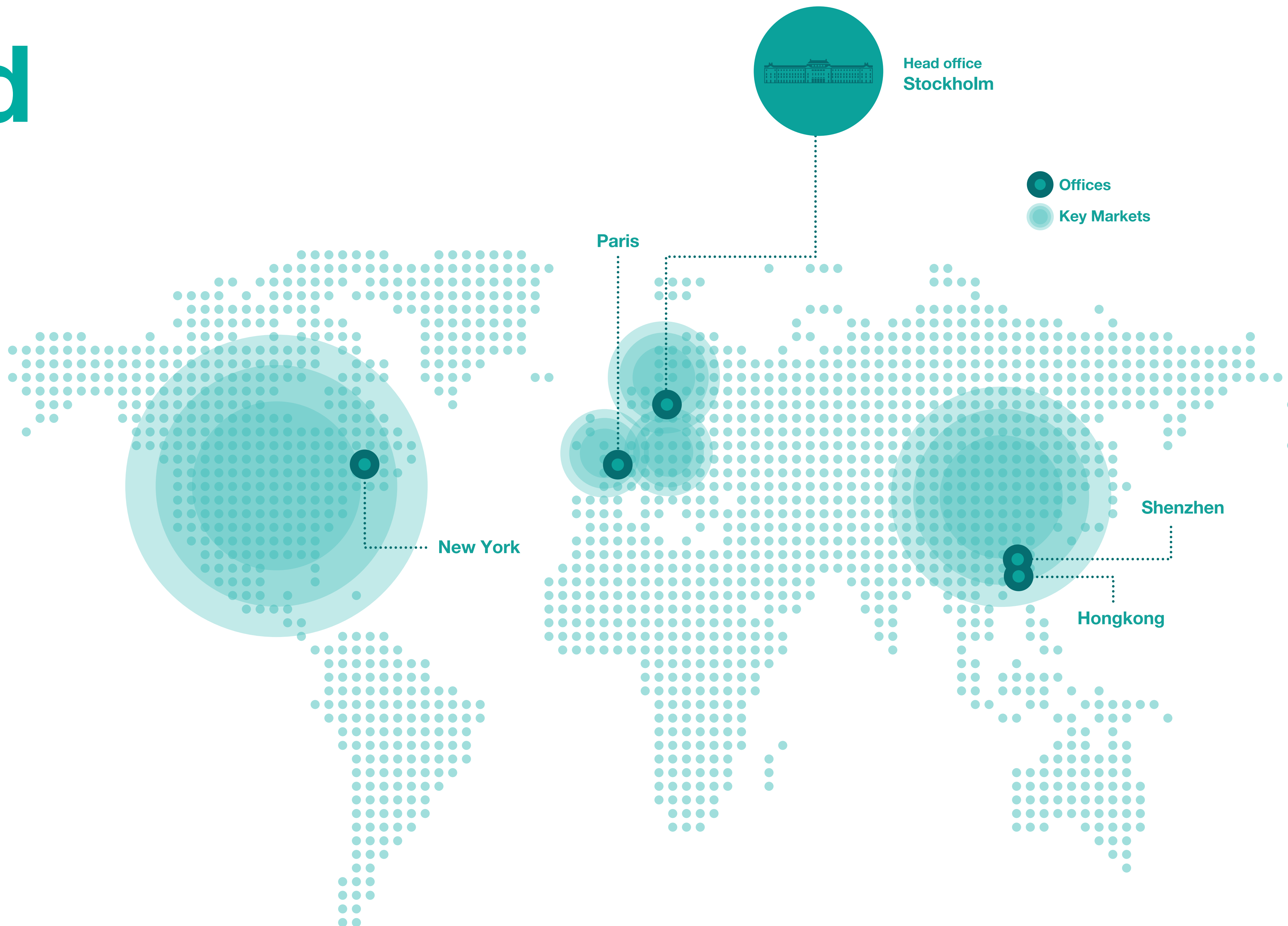
FWD-01 Signal Coral and Light Grey

The World of Zound.

We've been championing the human perspective ever since we stepped onto the tech scene in 2008. Since then, we have infused a fresh vision into the feature-led culture of audio products and built a legion of fans around the world.

We've attracted some of the most iconic brands to our cause and added incredible talent to our global offices. Now we're stepping into a new chapter.

At Zound we exist to amplify life by humanising tech. We do so by connecting with our audience and by challenging the status quo. Our commitment to the world is to bring life to sound.



Distribution to 120 markets worldwide

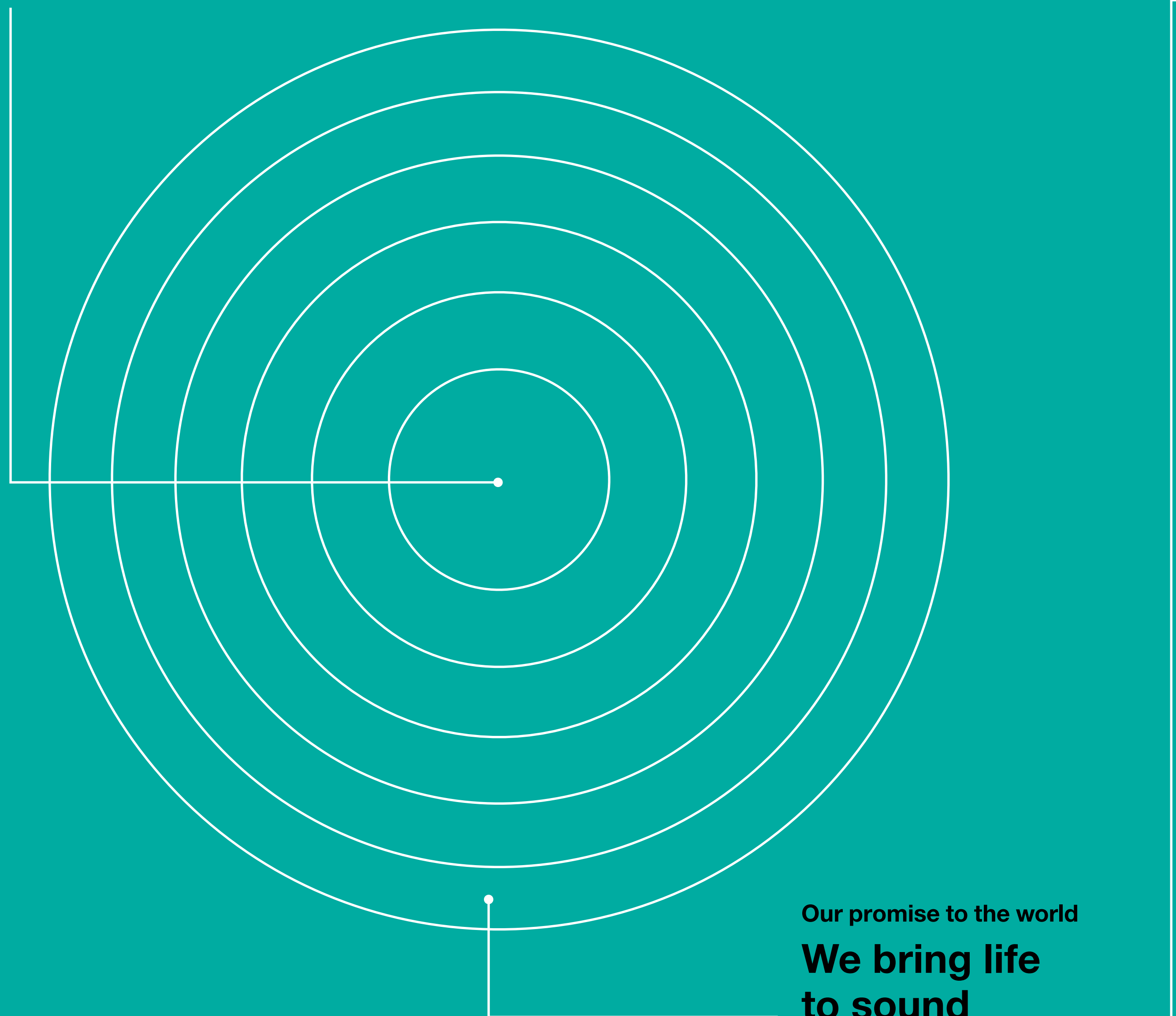
231 employees across 5 offices

Our head office is in Sweden, connected to a global network of local offices in Shenzen, New York, Hong Kong and Paris. We distribute our products to 120 markets globally with a special focus on our key markets of China, USA, France, Germany, UK and the Nordic region.

From purpose to strategy.

Our purpose in the world

To amplify life by humanising tech



Our promise to the world

We bring life to sound

Our purpose inspires us. Our strategy guides us. Our people & culture make magic happen.

Ambition

The most loved, human and connected audio electronics company as well as the #1 challenger and the most exciting alternative to traditional players.

- Double-digit, profitable, revenue growth year-on-year.

Where to play

Engage with the audiences of our three distinct brands. Focus on our own eCom, pure players, CE, lifestyle and B2B. Deliver on true wireless, home and portable speakers as well as innovation.

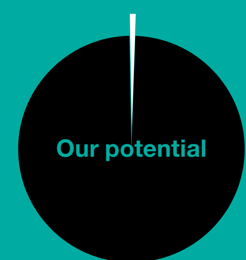
How to win

Be product obsessed, digitally connected, innovation driven, sustainability committed and diversity & inclusion minded.

Enablers

Attract, develop and retain top talent. Build best-in-class capabilities across legal, supply chain, IT & systems and finance.

Our share



With 1% market share on the global audio electronics market today, we're only getting started in achieving our true potential.

Sustainability report 2020.

At Zound we take our sustainability responsibility seriously. Making consumer electronics means we can challenge long-held industry conventions, as well as initiate change that goes beyond the boundaries of sustainability and brings about better outcomes for both people and planet.

Out of everything we do, our products have the biggest impact on the environment. We use sustainable design to tackle this impact while still creating great headphones and speakers.

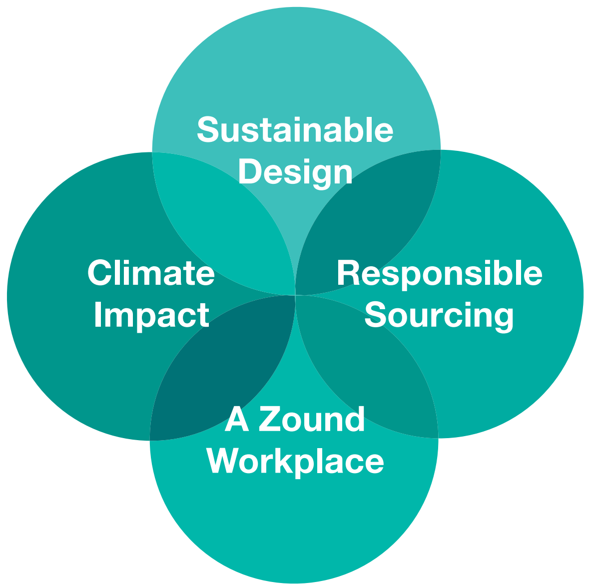
Mapping our climate impact is key to our sustainability work. We need to know where and how we are affecting the environment to make better decisions to reduce it.

Our supply chain involves many stakeholders both upstream and downstream. Because it is so complex, we know there are lots of opportunities for us to make a difference.

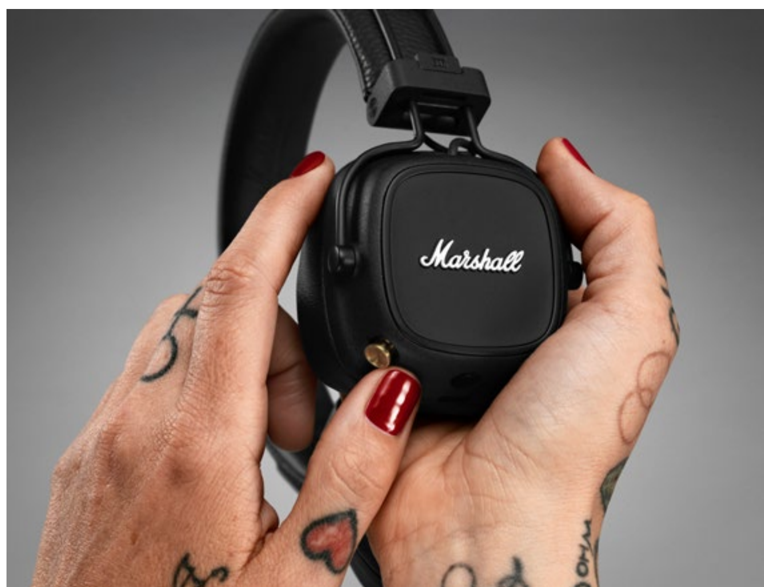
But it is not all about our products. It is also about our people. We want show respect for, and treat all our employees fairly, just like we would want to be treated.

2020 was an unusual year. Zound, like all companies, had to quickly adapt to the unforeseen changes sparked by the global pandemic. We had to find new ways of working, protect our employees, react to fluctuating product demand, find new ways to meet our partners and customers, solve supply issues and so much more.

These focus areas make up the foundation of our sustainability work.



"Sustainable design is our most important tool to reduce climate and social impact."



Sustainable design

At Zound, design is our passion. It drives us to create products our audience desire. Design is also our most valuable tool to enrich lives, reduce our environmental footprint and show our genuine love for our planet. Through clever design, careful choice of materials and tech innovation we can create quality, sustainable products.

Our approach

We are innovative, curious and unafraid to challenge conventional methods to make our products and packaging more sustainable throughout its lifecycle. We use sustainable and durable materials and components where possible, minimise power consumption, as well as take responsibility to extend product longevity and the life of the materials we use.

It is not always clear how consumer electronics can be more sustainable. However, we believe that our portfolio of products has several common, and some unique, improvement opportunities. Working cross-department, we identify these opportunities early in the concept phase, set out clear targets and work to find solutions to implement.

We love a challenge and do not take 'no' for an answer. We have learned that sustainable design is not an isolated product development island, it stretches right across our organisation. And all our departments and locations can research and innovate so we can affect longer-lasting positive change.

CASE Recycled plastic

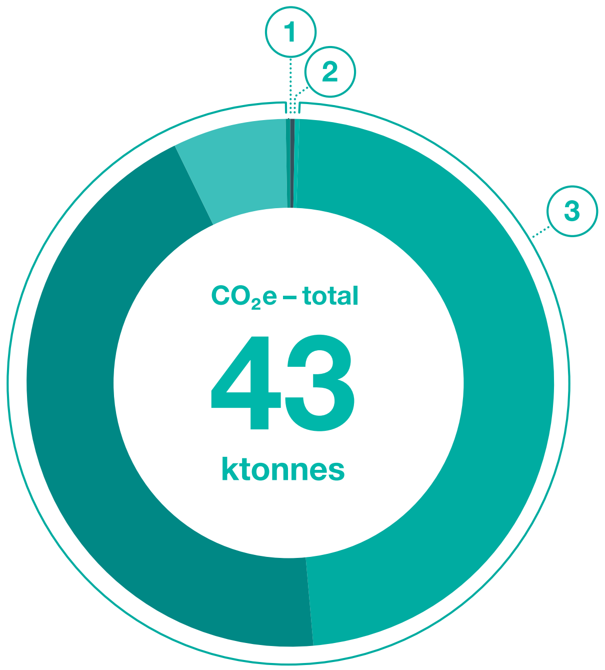
We have not found a way to make headphones and speakers without using plastic. Yet. So, we want to make sure that the plastic we put in our products reuses waste, is durable and has a minimal impact on the environment. Over the past year we have been working close with our recycling partner to create a custom material that ticks all these boxes, and in 2020 we used it for the first time in Marshall's Major IV headphones. The plastic is made from 100% post-consumer products, such as used electronics and water bottles, and because our recycling partner can sort the materials, we will be able to keep bringing you products in a whole rainbow of colours.

CASE Packaging

Packaging is an important part of all our products. At Zound, we have our own inhouse team who make sure that our headphones and speakers are protected and presented in the best way. We aim to minimise the environmental impact of packaging by optimising the size and weight, using materials from renewable sources and slowly, but surely, designing out plastic. Each year we've reduced the amount of non-renewable content in our packaging and in 2020 we hit 99% paper-based materials. Now we are working on cutting out that last percent. For example, this year we ran a pilot to replace the plastic hangers on our headphone packaging with ones made of paper-based materials. The pilot was a success, and we will introduce the new hangers to more products in 2021.

Reducing climate impact

Being transparent about our sustainability performance is critical. And so is reducing climate impact across our entire value chain. To achieve the best possible results, we need to concentrate our efforts on where we have the biggest footprint, and first we need to know what that footprint is.



Our approach

For a holistic view of our climate impact, we calculate our emissions based on the Greenhouse Gas Protocol . In our calculations we use internal and third-party data as well as emission factors from recognised databases. We constantly look for ways to improve the quality of our data and the accuracy of our calculations.

We report all our direct emissions (Scope 1 and Scope 2), as well as our most significant indirect emissions (Scope 3) where data is available. For example, we are still evaluating the best way to calculate greenhouse gas emissions for the end of life of our sold products.

Most of our emissions are indirect. Our direct emissions account for only 0,2 percent.

Scope 1	Direct GHG emissions	0.03 %
Scope 2	Electricity indirect GHG emissions	0.18 %
Scope 3	Purchased goods and services	48.30 %
	Fuel- and energy related activities	0.02 %
	Transportation and distribution	6.99 %
	Business travel	0.29 %
	Employee commuting	0.13 %
	Use of sold products	44.06 %

Purchased goods and services

In 2020 emissions generated from materials used in the production of our headphones and speakers is estimated at 20,726 tonnes CO_2e, compared to 36,709 tonnes CO_2e in 2019. This 2020 figure is much lower than 2019 due to our focus on reducing existing stock levels in place of procuring new units. Find out more about our initiatives to reduce impact in these areas in the Sustainable Design section (p.35).

Product usage

Emissions from consumers using our products is estimated at 18,907 tonnes CO_2e for 2020, compared to 14,922 tonnes CO_2e 2019. This rise is due to increased sales of voice speakers that have higher power consumption when not in use. Our product usage estimations are based on speaker power consumption during active, idle and standby mode.

Transportation of products

Transport of our products accounts for about eight percent of our total carbon footprint. We distribute products from our factories in China directly to our customers within the Asia-Pacific region, and to local warehouses in Europe and the USA. The largest share, 95%, of these transports was by sea or rail. The final five percent of transport was by air, compared to three percent in 2019. Our use of air freight rose in 2020 due to production and distribution issues as a result of the COVID-19 epidemic. After the products have reached our local warehouses, they are distributed to local markets largely by road (93 percent). Carbon emissions from transporting our products is estimated at 3,665 tonnes CO_2e in 2020, compared to 3,200 tonnes CO_2e in 2019. In 2020 it corresponds to 0.23 CO_2e/tonnes of shipped product.

Business travel

During 2020, business travel dropped significantly due to the COVID-19 outbreak. We instigated early travel restrictions and changed in-person meetings to digital events. In 2020 emissions generated from business travel by air is estimate at just 125 tonnes CO_2e, compared to 1,309 tonnes in 2019. We do not currently measure taxi emissions in our business travel calculations.

[1] Our climate calculations are based on the Greenhouse Gas (GHG) Protocol, the most widely used international accounting tool used to understand, quantify, and manage greenhouse gas emissions. Different greenhouse gases are recalculated into CO_2 equivalent (CO_2e). In GHG Protocol the emissions are divided into three scopes; Scope 1 is direct emissions from operations; Scope 2 is indirect emissions from electricity, heating and cooling; Scope 3 is indirect emissions. We use Scope 3 because we do not own nor control any sources directly. It also gives us a fuller picture of our emissions both downstream and upstream from our core operations.

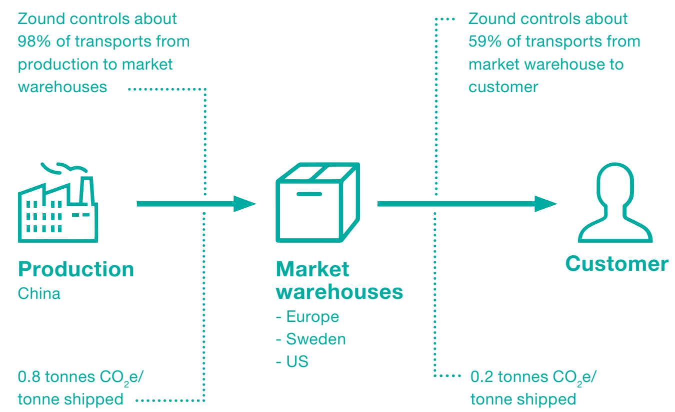
*ZI sustainability survey

Energy use in offices

Our head office and most of our employees are based in Stockholm, Sweden. The office uses 100% renewable electricity and heating comes from waste incineration. For offices outside Sweden, we cannot choose the energy source, so we use the countries' typical energy mix to calculate emissions. Total emissions generated from heating, cooling and electricity for 2020 is estimated at 533 tonnes CO_2e.

Employee commuting

In a normal year, most employees either walk, cycle or use public transport to get to work. In 2020, the majority of staff worked from home from March onwards and if people had to come to office, they took a taxi or came by car to avoid public transport. The percentage of employees commuting by car increased to 9%, up from 4% in 2019, and the emissions from commuting rose 39%. On average, Zound employees travelled 23 km a day to and from work in 2020. Total emissions for commuting are estimated at 54 (39) tonnes CO_2e*.



Employee commuting	Distance	tCO_2e (2019)
Train/Subway	25%	7.0
Walk/Bike	51%	0,0
Bus	15%	22.7
Car	9%	25.1

Responsible Sourcing

The consumer electronics supply chain faces challenges in terms of human rights, health and safety, and the environmental impact of sourcing materials. We are committed to improving, but we cannot do it alone. We need to work with our suppliers to keep raising standards and improve social, environmental and ethical performance together.

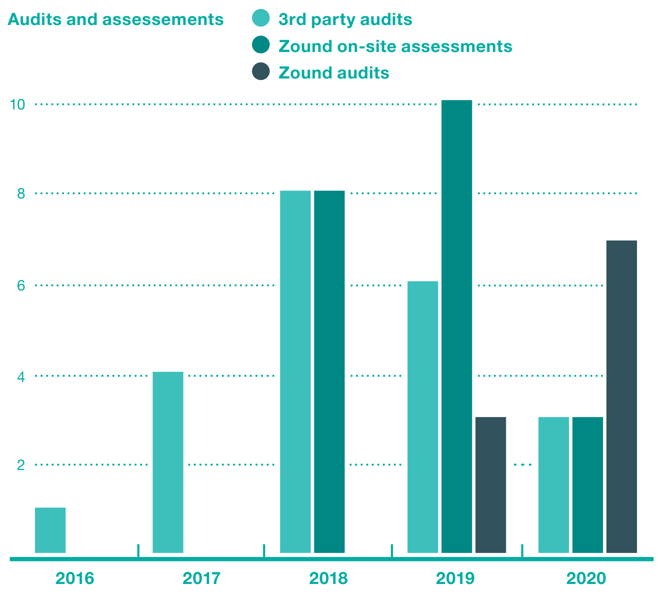
The COVID-19 pandemic presented many unexpected challenges. Product demand fluctuated from a sudden drop in the spring when the world shut down, to a record high after the summer when shops opened again. These dramatic changes impacted our entire supply chain. However, we continued working with all our suppliers throughout the year, having an open and ongoing dialogue with them about subjects like their financial situation, worker conditions and health protection measures. Unfortunately, we had to delay some of our audits during the first half of 2020 due to travel bans, but we were able to catch up with the backlog in the second half of the year.

Our approach

We want to collaborate with a selected number of long-term suppliers who share our values and sustainability vision. By working closely with these suppliers and maintaining a high presence at our factories we can raise standards. We also work with our partners to share knowledge and experience of sustainability. For example, we conducted training on sustainability, recycled materials, and chemical compliance with our long-term suppliers in 2020.

Supplier Code of Conduct

Zound Industries' Supplier Code of Conduct sets out the sustainability requirements that we expect all our suppliers to fulfil. It covers management, health and safety, human rights, environment and ethics. The code has been signed by all our product suppliers.



Supplier Audits

Audits are an important tool to help our suppliers act in accordance with our requirements. Since we started our collaboration with adidas in 2019, we have learned a lot and we've used this new knowledge to help our suppliers achieve even higher standards of sustainability.

Zound Audits are based on our Supplier Code of Conduct. They focus on identified risk areas typical for our industry and locations. Before and after Zound Audits, we use on-site assessments to make sure the requirements are fully understood and to follow up on corrective actions plans. During 2020, we carried out three on-site assessments and executed full Zound Audits at all five long-term suppliers, one new potential supplier and one second tier supplier.

We also conduct third-party audits as a requirement of our partners. During 2020, we performed three third-party audits at product manufacturers. In the past four years, 100% of our long-term product manufacturers have been audited by a third party. We follow up any identified non-compliance with suppliers and draw up action plans to find and implement improvements.

As a result of our audits, health, safety processes and conditions at our manufacturing partners' sites have improved. Progress in 2020 includes improved conditions and benefits for agency workers, fire safety and regular breaks every two hours. We work in collaboration with suppliers to solve any issues highlighted by our audits. However, if this approach is unsuccessful, we reserve the right to terminate our contract with the supplier.

A Zound workplace

Like many companies, 2020 was a different year for Zound. The effect of COVID-19 has been very present and affected our business in several ways. It challenged our way of working and how we normally cooperate and communicate with each other. Suddenly, the chats by the coffee machine were no longer possible. However, humans are adaptable, and online meetings quickly replaced physical ones. This push to digital happened quickly and made us more creative in the way we collaborate and interact with each other. Digital first has really come true during 2020. Colleagues outside of Sweden, our home country, have even said that they feel closer to the headquarters because of the new level of digital working.

COVID-19 and its effects have changed how we perceive office space too. The landscape and needs of a future workplace will certainly be different than before. The aim for 2021 is to find a balance between the digital and the physical, and to create a workplace that can combine the best of these two worlds.

Building engagement through the digital arena

A strong culture needs to be nurtured and requires constant attention to be kept alive through activities and activations. Back in 2016, we set the stage and captured the essence of the company in four core values that have guided the company ever since.

In 2020, these values went digital. This meant more employees around the world got the opportunity to take part in our initiatives and activities like “Lunch & Learning”, “Lunch lottery” and the December holiday party became globally accessible. This contributed a more inclusive playground and building long-distance engagement will continue to be an integral part of our values work in the future.

Reorganizing the company

With the effects of COVID-19 impacting sales and a need to develop an organisational structure that better delivered new ways of working, we implemented a company-wide reorganisation in the spring of 2020 and paused all new recruitment.

Our talent team turned their focus to helping employees affected by the redundancies. Our head of recruitment developed a programme of support featuring one-to-one coaching, interview support, a talent database and introductions to hiring companies. The initiative was highly appreciated and resulted in employees connecting with other companies and, in some cases, finding new employment.

Physical & mental health

Ensuring the physical and mental health of our employees in 2020 has brought new challenges. Even though most of our employees worked from home, we still have a responsibility to provide them with a healthy workplace. We organised online sport activities, social gatherings and a digital holiday party in December.

Our employee index was 78 out of 100 with an 82% response rate. This score is based on regular employee surveys measuring things like how productive staff feel, how engaged they are with our goals and what they think about leadership. In 2020 we introduced new questions to gauge how employees were coping with the pandemic. The results showed we needed to focus on health and the effects of working from home.

In Stockholm, all employees were offered health examinations with OneLab to identify and prevent health related problems. In 2020 our sickness absence rate was 1.7% across all offices, down 0.2% compared to 2019.

Fight Corruption

We do not tolerate any form of corruption or other unethical business. Our employee Code of Conduct and our Anti-Corruption policy set out how we fight corruption. Employees must not offer, give nor accept bribes or any other inappropriate benefits. They must always put our company's interests first and escalate any potential conflicts of interests. To support employees, we offer online training about preventing bribery and corruption.

In 2020 we carried out a risk assessment to identify elevated risks for bribery and corruption. We interviewed managers about any changes to the business. No incidents or elevated risks have been reported. In fact, there has been a reduction in risk in 2020 due to presenting new products digitally rather than in person.

Governance of Sustainability at Zound Industries

In 2020 we reorganised our sustainability team to maximise our impact. A Sustainable Design Manager leads on our product sustainability while a Sustainability and Compliance Manager works with our corporate responsibility. Alongside these two dedicated posts, a cross function team explores new solutions and ways of working, for example new materials, transportation or business models.

To help communicate our sustainability work with employees and partners we use policies and guidelines including our Sustainability Policy, Zound Play - our employee code of conduct – and our Supplier Code of Conduct.

Sustainability risks and mitigation
Zound's approach to sustainability is defined from both a risk and an opportunity perspective. In 2017, we conducted a review of the company's sustainability topics, risks and activities, including interviews with internal and external stakeholders. In 2018, we revised the analysis and developed an action plan.

In 2020, the risk analysis was reviewed again. One-to-one interviews were held with the management team and external stakeholders (board member, brand licence holder and major retail customer). This review showed we need to keep improving our supply chain (especially mineral and metal sourcing), make our products more sustainable and communicate better with our customers about our sustainability work. Our stakeholders also highlighted the potential to integrate this work into the company strategy.

Risks and risk management sheet

Area	Material impact	Scope	Management
Environment	**Environmental impact from products** From a lifecycle perspective, most of our products' environmental impact comes from extraction of materials, manufacturing and packaging. Apart from managing legal requirements, such as those linked to chemical management, Zound Industries' brand could be exposed if associated with causing negative environmental impacts.	Zound Suppliers	Reducing negative environmental impacts starts with product design and carries on throughout the entire value chain. • Sustainability policy • Sustainable design guidelines – covering the lifecycle of the product. • Build awareness of sustainable design, materials and technologies through training, workshops and guidelines for designers and product development teams • Chemical analyses of materials and products • Sustainability requirement training, including adidas' enhanced requirements for product manufacturers • Sustainability audits of manufacturers • Collection of end-of-life products, batteries and packaging • Continued improvements to size and recycled content of product packaging
	Environmental impact from product transports From a lifecycle perspective, the second largest environmental impact is product transports. Transports made by air lead to both increased costs and a greater climate impact.	Zound	• Sustainability policy • Plan production and optimize logistics • Implement targets on consolidated goods • Evaluate alternative modes of transport, use carbon off-set for US ecom • Use rail to limit air shipments
Human rights	**Responsible supply chain** Zound Industries outsources production to suppliers in China. The electronics industry has a complex supply chain that includes a risk of negatively impacting human rights. Stakeholder interviews in 2020 deem the risks of outsourced production and mineral and metal sourcing high. There is a clear need for a continued focus on risk control.	Zound Suppliers	• Zound Industries Supplier Code of Conduct, (revised 2019) communicated and signed by product manufacturers • Training of product manufacturers • Audit of product manufacturers, both Zound audits and third party audits
Anti-corruption	**Fight corruption** Zound Industries advocates free and fair trade, strives for open and fair competition and ethical conditions within the legal frameworks of the countries in which it operates. If Zound Industries does not follow these principles, it can jeopardise the company's reputation and can also result in fines.	Zound Suppliers	• Supplier Code of Conduct • Employee Code of Conduct • Anti-corruption policy • Risk analysis • Anti-corruption training • Audit of product manufacturers • Routines for follow-up of irregularities • Interviews of managers of teams with elevated risks
Employees & social conditions	**Strategic talent supply** At Zound Industries we manage the entire value chain in-house, apart from production. This means we have expertise in several areas. Having people with the right competencies in the right position is business critical.	Zound	• Quality-assured recruitment process • Skills development according to individual needs
	Strong commitment and wellbeing An inspiring workplace where employees are happy, developing and want to stay, is important to ensure Zound Industries' stable development. Clear leadership, defined areas of responsibility and the right competencies help create a healthy working environment.	Zound	• Employee Code of Conduct • Working with our culture and values • Employee survey conducted in September on leadership, wellbeing, communication • Heartpace, performance management tool, to follow up individual development connected to role, responsibility and performance • Systematic working environment work, including a forum that meets quarterly and employee representatives • Online activities – sports and learning • OneLab, a health platform that identifies ill health and offers the right care at the right time

Reporting principles

Climate Impact:

Zound Industries used the Greenhouse Gas (GHG) Protocol in its climate calculations. This Protocol is the most widely used international accounting tool to understand, quantify, and manage greenhouse gas emissions. The different gases are calculated into CO_2 equivalent (CO_2eq) depending on their global warming potential. To calculate CO_2eq we use emission factors from DEFRA and NTM (default and benchmark transport data).

In the GHG Protocol emissions are divided into three scopes:
Scope 1 is direct emissions from operations.
Scope 2 is indirect emissions from purchases in electricity, heating and cooling.
Scope 3 is indirect emissions.

We have chosen to use a financial approach when declaring our emissions, which means all our emissions fall into Scope 3 because we do not own nor control any sources directly. *

Scope 3 categories that we have not evaluated are capital of goods, fuel- and energy-related activities, waste generated in operations, upstream leased assets, processing of sold products and downstream leased assets. These are estimated to represent less then 1% of total Co_2eq emissions.

*Scope 3 categories which are not applicable are franchises and investments.

About the statutory sustainability report:
The following table indicates where the required information for the statutory sustainability report for 2020 is reported.

Area	Requirement	Page
Overall	Business Model	30–31
Environmental issues	Policy and procedures Risks and risk management Performance	34–41
Employees and social issues	Policy and procedures Risks and risk management Performance	34–41
Human rights	Policy and procedures Risks and risk management Performance	34–41
Anti-corruption	Policy and procedures Risks and risk management Performance	34–41

Report by the Board of Directors

The Board of Directors and the CEO of Zound Industries International AB (publ.), 556757-4610, hereby submit the annual accounts and consolidated financial statements together with the statutory sustainability report for the financial year 2020. All amounts are reported in SEK million (MSEK) unless otherwise stated. Any amounts in parentheses refer to the previous year.

Business overview

Zound Industries International AB was established in 2008 and is the parent company of the Zound Industries Group. The Group consists of the parent company Zound Industries International AB with branches in France and Switzerland, the subsidiaries Zound Industries Ltd, Zound Industries Shenzhen Limited, Zound Industries Services Shenzhen Ltd, Zound Industries USA Inc., Zound Industries UK Ltd and Zound Industries Smartphones AB, all fully owned.

Zound Industries operates the entire value chain from design and development to marketing and sales of audio products. The company does not manufacture its products, but contracts manufacturers in Asia.

The company's brands are the proprietary Urbanears as well as Marshall and adidas, which are operated under licence. These brands are currently represented in 120 markets. The principal markets are China, USA, France, Germany, UK and the Nordic region. Distribution takes place via owned e-com channels, direct sales, third-party distributors and through business-to-business.

The head office is in Stockholm, Sweden, connected to a global network of local offices in Shenzen, New York, Hong Kong and Paris.

Events during the financial year

Consolidated net sales for the year amounted to 1,756.4 MSEK, a decrease of 240.6 MSEK or 12% compared to the previous year. The Group reported an operating profit of 9.4 MSEK compared to -16.6 MSEK in 2019. Operating profit was affected by items affecting comparability of –11.3 MSEK (-60.9 in 2019), primarily connected to reorganisation costs.

A number of important product launches have impacted 2020:

- In March, Marshall launched the Monitor II ANC headphone with active noise cancelling
- In July, Urbanears launched Alby and Luma – the company's first true wireless headphones
- In July, Marhsall launched Emberton, a new step in model in the portable speaker segment
- In October, Marshall launched the Major IV, the fourth generation of the classic headphone with wireless charging and up to 80 hours listening time.

The speaker segment represented 73.4% of total sales compared to 65.2% in the previous year and reported a gross margin of 36.7% compared to 35% in 2019.

Ecommerce continues to become increasingly important for Zound industries, both through direct sales on owned channels and through indirect sales via online merchants. As a channel, ecommerce represents 17% of the total sales in 2020, an increase from 10.5% the previous year. In recent years, the company has experienced more pronounced seasonal variations, where events such as Singles Day in China and Black Friday and Cyber Monday in the rest of the world are increasing in size. The fourth quarter is the most important for the company and in 2020 sales in this period amounted to 588.9 MSEK, equivalent to 33% of the total annual sales.

Another change in consumer behaviour is the increased use of different channels in the purchasing process. This means that the consumer uses a combination of both online and offline sources to gather information before making a purchasing decision. The trend applies regardless of where, or how, the final purchase takes place. This confirms Zound Industries' strategy of further strengthening its online efforts while continuing to have a solid presence in physical channels.

Despite the corona pandemic, Zound Industries did well in its key markets in 2020. In USA and China, two of the most important markets, the company experienced double digit growth. While in France and Germany, sales were stable with volumes similar to 2019, despite the pandemic and delivery difficulties.

During 2020 Zound increased its profitability and reported an improved operating profit in comparison to the previous year. This is partly due to the negative impact of ownership dispersal and long-term incentive programmes in 2019. In addition, a cost saving programme was introduced in 2020, which included a reduction in staffing levels in the Swedish and international operations. This, along with reduced marketing and sales activity due to pandemic impact, led to improved profitability.

The corona pandemic is ongoing and has impacted Zound in different ways during the year. The demand for Zound's products fluctuated throughout the year and the pandemic caused disruption to production, supply problems and a component shortage. Zound's focus has been, and still is, to secure employees' health and safety and employees have mostly worked from home. It is difficult to assess what the continued effects of this will be on Zound's operations and financial development. A reasonable assessment is that COVID-19, which continues to be an issue at the beginning of 2021, could lead to both disruption in supply and changes in consumer behaviour in the coming year. The company is activity working to minimise the impact of such disruption and to find alternative ways to meet demand.

Cash-flow from operating activities amounted to 386.9 MSEK compared to -60.4 MSEK in the previous year. The variance is mainly explained by a large decrease in inventories, which in combination with an extended credit facility with financial partners, puts the Company in a current financial position that can withstand a significant decline in business activity.

On the 27th January 2020, the Board announced the decision that Pernilla Ekman would leave her position as CEO for the company. The principal owners and the Board also announced the decision to suspend the company's exit plans. Martin Axhamre, CFO, served as acting CEO until Jeremy de Maillard joined as the new CEO on 5th October 2020. Jeremy brings international leadership experience and a proven track record of building brands and growing businesses at global and iconic brands such as adidas, The North Face and Vans.

Events after the financial year

On March 18th Marshall released their first ever true wireless headphone, the Mode II. This was accompanied by a new brand campaign featuring Iggy Pop under the tagline Never Stop Listening.

Zound was awarded two red dot distinctions for high quality design for the Marshall products Emberton and Monitor II ANC.

Earnings and financial position

The results of the company's operations and the financial position at the end of the financial year are shown in the accompanying income statement and balance sheet.

Five-year summary, Group

KEY RATIOS

Amounts in MSEK	2020	2019	2018	2017	2016
Earnings					
Net sales	1,756.4	1,997.0	1,856.4	1,403.1	1,041.3
EBITDA	47.7	23.5	101.9	105.2	95.9
EBIT	9.4	-16.6	76.4	83.3	20.6
Profit before tax	13.5	-40.4	64.8	80.0	17.2
Net profit for the period	6.4	-34.3	45.4	60.6	12.9
Margins					
Margin, %, EBITDA	2.7	1.2	5.5	7.5	9.2
Operating margin, %, EBIT	0.5	-0.8	4.1	5.9	2.0
Profit margin, %	0.0	-2.0	3.5	5.7	1.6
Financial position					
Total assets	878.5	1,112.6	1,127.4	690.0	587.2
Equity	402.9	405.9	430.0	314.9	255.5
Equity/assets ratio, %	46	36	38	46	44
Employees					
Average number of employees	231	228	192	161	129

Principal risks and uncertainties

Risks and risk management

Risk management is primarily handled by the CEO and CFO in consultation with the Board. Risk management includes identifying, evaluating and securing commercial, operational, financial, legal and regulatory risks, which also comprise sustainability-related risks. This happens in close collaboration with the company's operating units and there are specific departments for handling certain individual areas.

Commercial risks

The company is exposed to several commercial risks such as changing market conditions, technological developments, dependence on individual brands, product categories, customers, partners and suppliers. Among other things, the company works with diversification, partnerships, competencies and process development to handle the Group's commercial risks.

Operational risks

The strong growth and pace of change in the company demands high awareness of risks that can arise due to inadequate internal routines, processes, systems or due to other internal and external events. The company works continuously to develop and adapt internal routines, processes and systems to support and control the operations accordingly. In addition to this basic work, there are several policies and manuals to minimise the risk of losses due to shortcomings in these areas as far as possible.

Legal and regulatory risks

The company has Legal and Compliance units that handle contract-related obligations, external regulations and other laws and regulations. Both functions work together to ensure compliance in relevant areas and to minimise the company's risks. Awareness concerning legal and regulatory risks is considered good.

Financial risks

Zound Industries is an international business with operations in several countries. The presentation currency is Swedish Crowns. This means that the Group is exposed to currency risks as fluctuating exchange rates, among other things, can impact earnings and equity.

For a more detailed description of the Group's financial risk management, refer to the section Financial risk management, Note 25, in the supplementary disclosures.

Ownership

As of 31st December 2020

The Parent Company's biggest owner is Varenne AB, along with subsidiary Zenith Capital, representing a 23.6% interest. Telia Company AB owns 12%, Time Investors SAS owns 9.1% and Marshall Amps owns 5%. Zound Industries' shares were distributed among a total of 441 shareholders.

Sustainability

Zound Industries' Sustainability Report is found on pages 34–41.

Proposed profit allocation at the 2021 annual general meeting

The Board proposes that the disposable profit on 31 December 2020 of 347,385,220 SEK, shall be carried forward.

For changes in equity during the financial year refer to the Group and Parent Company statements of changes in equality. Otherwise, refer to the accompanying financial statements with notes.

Consolidated Income Statements

Amounts in MSEK	Note	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Net sales	3	1 756,4	1 997,0
Other operating income		14,8	11,2
Total revenue		**1 771,2**	**2 008,2**
Operating expenses			
Raw materials and consumables		-1 112,1	-1 224,3
Other external expenses	4	-387,4	-510,0
Personnel expenses	5	-224,1	-250,5
Depreciation/amortization and impairment of tangible and intangible assets	8,9,10	-38,3	-40,1
Other operating expenses		0.0	0.0
Total operating expenses		-1 761,9	-2 024,8
Operating profit/loss		**9,4**	**-16,6**
Result from financial items			
Financial income	6	13,9	0,0
Financial expenses	6	-9,8	-24,3
Profit/loss from financial items		4,1	-24,2
Profit/loss before tax		**13,5**	**-40,8**
Income tax	7	-7,1	6,6
Net profit/loss for the year		**6,4**	**-34,3**
Net profit for the year attributable to:			
Parent company shareholders		6,4	-34,3
Earnings per share before dilution (SEK)			
Profit from continuing operations		0,74	-3,98
Earnings per share after dilution (SEK)			
Profit from continuing operations		0,74	-3,98
Average number of shares before dilutive effects		8,612,658	8,605,597
Average number of shares after dilutive effects		8,612,658	8,605,597

Consolidated Comprehensive Income Statement

	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Net profit/loss for the year	**6,4**	**-34,3**
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Translation differences	-9,4	0,7
Other comprehensive income for the year, net after tax	-9,4	0,7
Total comprehensive income for the year	**-3,0**	**-33,5**
Total comprehensive income attributable to:		
Parent company shareholders	-3,0	-33,5

Consolidated Balance Sheet

Amounts in MSEK	Note	2020-12-31	2019-12-31
ASSETS			
Non-current assets			
Patents and trademarks	8	4,7	5,7
Other intangible non-current assets	8	64,4	70,7
Right-of-use assets	9	70,2	37,6
Equipment. tools. fixtures and fittings	10	4,1	8,6
Other non-current receivables	11	14,0	13,9
Deferred tax assets	7	13,1	11,7
Total non-current assets		**170,6**	**148,3**
Current assets			
Inventories	12	220,1	607,1
Trade receivables	13	264,9	251,6
Other receivables		4,4	18,4
Prepaid expenses and accrued income	14	48,8	62,0
Cash and cash equivalents		169,7	25,1
Total current assets		**707,9**	**964,3**
TOTAL ASSETS		**878,5**	**1 112,6**

Consolidated Balance Sheets, cont.

Amounts in MSEK	Note	2020	2019
EQUITY	15		
Equity attributable to owners of the Parent company			
Share capital		0,9	0,9
Other contributed capital		225,7	225,7
Reserves		-7,0	2,4
Earned profit including net profit for the year		183,3	176,9
Total equity		**402,9**	**405,9**
LIABILITIES			
Non-current liabilities			
Liabilities relating to Right-of-use assets	9	46,8	14,6
Credit facilities		53,3	0,0
Other non-current liabilities		2,4	1,9
Deferred tax liabilities	7	0,0	4,9
Total non-current liabilities		**102,6**	**21,4**
Current liabilities			
Credit facilities	16	0,0	307,0
Liabilities relating to Right-of-use assets	9	20,9	21,1
Credit facilities		26,7	0,0
Trade payables		162,4	195,6
Current tax liabilities	7	4,7	4,5
Other liabilities	17	12,7	9,6
Accrued expenses and deferred income	18	145,6	147,6
Total current liabilities		**373,0**	**685,3**
TOTAL EQUITY AND LIABILITIES		**878,5**	**1 112,6**

Consolidated Statement of changes in Equity

Amounts in MSEK	Note	Share capital	Other contributed capital	Reserves	Retained earnings including net profit for the year	Total equity
Balance at 2019-01-01		**0,8**	**216,3**	**1,7**	**211,2**	**430,0**
Comprehensive income						
Net profit/loss for the year					-34,3	
Other comprehensive income for the year						
Translation difference				0,7		
Total Comprehensive income				**0,7**	**-34,3**	**-33,6**
Transactions with shareholders						
Non-cash issue		0,0	-0,0			
Subscription warrants			9,4			
Total Transactions with shareholders		0,0	**9,4**			**9,4**
Balance at 2020-01-01		**0,9**	**225,7**	**2,4**	**176,9**	**405,9**
Comprehensive income						
Net profit/loss for the year					6,4	
Other comprehensive income for the year						
Translation difference				-9,4		
Total Comprehensive income				**-9,4**	**6.4**	**-3,0**
Balance at 2020-12-31	17	**0,9**	**225,7**	**-7,0**	**183,3**	**402,9**

Consolidated Statement of Cash Flows

Amounts in MSEK	Note	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Cash flow from operating activities			
Operating profit		9,4	-16,6
Adjustment of items not included in the cash flow			
- Reversal of depreciation and amortisation		38,3	40,1
- Other items not affecting cash flow	22	27,1	17,3
Interest received		0,1	0,0
Interest paid		-9,8	-14,2
Tax paid		-7,8	-28,2
Cash flow from operating activities before change in working capital		**57,3**	**-1,4**
Changes in working capital			
Increase/decrease in inventories and work in progress		351,9	10,1
Increase/decrease in trade receivables		-25,6	-12,2
Increase/decrease in other current receivables		16,6	-25,0
Increase/decrease in other current liabilities		19,5	45,2
Increase/decrease in trade payables		-32,9	-77,0
Total changes in working capital		**329,6**	**-59,0**
Cash flow from operating activities		**386,9**	**-60,4**
Cash flow from investing activities			
Investments in intangible non-current assets		-1,4	-5,2
Investments in property. plant and equipment		-0,6	-2,8
Investments in financial assets		-0,3	-0,8
Cash used in investing activities		**-2,2**	**-8,8**
Cash flow from financing activities			
Overdraft facility	24	-289,9	86,6
Amortisation of liabilities	24	-25,1	-25,0
Non-current liabilities		80,0	0,0
Cash flow from financing activities		**-235,0**	**61,6**
Cash flow for the period		**149,6**	**-7,7**
Cash and cash equivalents at the beginning of the period		25,1	33,5
Exchange difference in cash and cash equivalents		-5,1	-0,8
Cash and cash equivalents at end of period		**169,7**	**25,1**

Parent Company

Income Statement

Amounts in MSEK	Note	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Operating income			
Net sales		1,735.1	1,785.3
Other operating income		9.7	2.3
Total revenue		**1,744.7**	**1,787.5**
Operating expenses			
Raw materials and consumables		-1 035,6	-1 137,3
Other external expenses	4	-303,7	-437,6
Personnel expenses	5	-184,2	-210,8
Depreciation/amortisation and impairment of property. plant and equipment and intangible assets	8,9,10	-13,1	-14,0
Other operating expenses		0,0	0,0
Total operating expenses		**-1 536,6**	**-1 799,8**
Operating profit/loss		**-57,5**	**-55,0**
Result from financial items			
Other interest income and similar profit/loss items		13,3	0,0
Interest expenses and similar profit/loss items		-8,8	-22,6
Profit/loss from financial items		**4,5**	**-22,6**
Profit/loss before tax		**-53,0**	**-77,7**
Appropriations	23	22,9	60,2
Tax on net profit/loss for the year	7	3,2	1,1
Net profit/loss for the year		**-26,9**	**-16,4**

Parent Company

Balance Sheet

Amounts in MSEK	Note	2020-12-31	2019-12-31
ASSETS			
Non-current assets			
Intangible assets			
Patents and trademarks	8	4,5	5,5
Other intangible non-current assets	8	64,4	70,7
Total intangible assets		**69,0**	**76,3**
Tangible assets			
Equipment, tools and fixtures	10	3,5	7,5
Total property. plant and equipment		**3,5**	**7,5**
Financial assets			
Participations in group companies	26	12,4	12,4
Other non-current receivables	7	7,8	2,7
Deferred tax assets	11	11,9	11,5
Total financial assets		**32,1**	**26,7**
Total non-current assets		**104,6**	**110,4**
Current assets			
Current receivables			
Inventories	12	173,4	517,1
Trade receivables	13	167,9	161,5
Receivables from group companies		109,3	201,6
Other receivables		4,0	14,9
Prepaid expenses and accrued income	14	34,8	53,9
Total current receivables		**489,4**	**949,0**
Cash and cash bank balances		150,7	1,1
Total current assets		**640,1**	**950,2**
TOTAL ASSETS		**744,7**	**1 060,5**

Parent Company

Balance Sheet, cont.

Amounts in MSEK	Note	2020-12-31	2019-12-31
EQUITY AND LIABILITIES			
Equity	15		
Restricted equity			
Share capital		0,9	0,9
Total restricted equity		**0,9**	**0,9**
Non-restricted equity			
Share premium reserve		225,7	225,7
Retained earnings		148,6	165,7
Net profit/loss for the year		-26,9	-16,4
Total non-restricted equity		**347.4**	**375,0**
Total equity		**348,2**	**375,9**
Untaxed reserves	27	**0,0**	**22,9**
Non-current liabilities			
Liabilities to group companies		7,8	7,7
Credit facilities		53,3	0,0
Total non-current liabilities		**1,9**	**1,9**
Untaxed reserves		**63,0**	**9,6**
Current liabilities			
Bank overdraft facilities	16	0,0	307,0
Credit facilities		26,7	0,0
Trade payables		156,6	187,5
Liabilities to group companies		9,0	20,4
Current tax liabilities	7	2,3	1,8
Other liabilities	17	12,0	7,4
Accrued expenses and deferred income	18	127,0	128,1
Total current liabilities		333,4	652.2
TOTAL EQUITY AND LIABILITIES		**744,7**	**1 060,5**

Parent Company

Statement of changes in Equity

		Restricted equity	Non-restricted equity			
Amounts in MSEK	Note	Share capital	Share premium reserve	Retained earnings	Profit for the year	Total equity
Equity as at 2019-01-01		**0,8**	**216,3**	**125,1**	**40,5**	**382,8**
Net profit/loss for the year					-16,4	-16,4
Non-registered issue in kind			9,4			9,4
Result carried forward				0,1		0,1
Profit for the year				40,5	-40,5	–
Equity as at 2019-12-31	17		**0,9**	**165,7**	**-16,4**	**375,9**
Equity as at 2020-01-01	17	7	**0,9**	**165,7**	**-16,4**	**375,9**
Net profit/loss for the year					-26,9	-26,9
Translation difference branch				-0,7		-0,7
Profit carried forward				-16,4	16,4	-
Equity as at 2020-12-31	17	**0,9**	**225,7**	**148,6**	**-26,9**	**348,2**

Parent Company

Cash Flow Statement

Amounts in MSEK	Note	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Cash flow from operating activities			
Operating profit		-57,5	-55,0
Adjustment of items not included in cash flow			
- Reversal of depreciation and amortization		13,1	14,0
- Other items not affecting cash flow	22	20,5	26,6
Interest received		–	–
Interest paid		-8,8	-12,7
Tax paid		3,7	-24,3
Cash flow from operating activities before changes in working capital		**-29,1**	**-51,4**
Changes in working capital			
Increase/decrease in inventories and work in progress		323,7	-38,4
Increase/decrease in trade receivables		87,7	-28,0
Increase/decrease in other current receivables		22,8	42,8
Increase/decrease in other current liabilities		-46,6	59,3
Increase/decrease in trade payables		6,9	-77,2
Total changes in working capital		**394,5**	**-41,5**
Cash flow from operating activities		**365,4**	**-93,0**
Cash flow from investing activities			
Investments in intangible non-current assets		-1,4	-5,0
Investments in property. plant and equipment		-0,4	-2,4
Divestment of fixed assets		0,0	0,0
Participations in group companies	26	0,0	0,0
Purchase of financial assets		-0,4	-0,5
Disposal/amortization of other financial assets		0,0	0,0
Cash used in investing activities		**-2,2**	**-8,0**
Cash flow from financing activities			
Overdraft facility	16	-290,4	86,6
Non-current liabilities		80,0	0.0
Cash flow from financing activities		**-210,4**	**86,6**
Cash flow for the period		**1,1**	**16,3**
		-3,2	-0,9
Cash and cash equivalents at beginning of the period		150,7	1,1
Exchange differences in cash and cash equivalents		-0.9	-7.6
Cash and cash equivalents at end of period		**1.1**	**16.3**

Five-year summary

Group

KEY RATIOS Amounts in MSEK	2020-01-01 2020-12-31	2019-01-01 2019-12-31	2018-01-01 2018-12-31	2017-01-01 2017-12-31	2016-01-01 2016-12-31
Earnings					
Net sales	1 756,4	1 997,0	1 856,4	1 403,1	1 041,3
EBITDA	47,7	-23,5	101,9	105,2	95,9
EBIT	9,4	-16,6	76,4	83,3	20,6
Profit before tax	13,5	-40,8	64,8	80,0	17,2
Net profit/loss for the period	6,4	-34,3	45,4	60,6	12,9
Margins					
Margin, %, EBITDA	2,7	1,2	5,5	7,5	9,2
Operating margin, %, EBIT	0,5	-0,8	4,1	5,9	2,0
Profit margin, %	0,0	-2,0	3,5	5,7	1,6
Financial position					
Total assets	878,5	1 112,6	1 127,4	690,0	587,2
Equity	402,9	405,9	430,0	314,9	255,5
Equity/assets ratio, %	46	36	38	46	44
Employees					
Average number of employees	231	228	192	161	129

Notes with Accounting Policies and Risks

Note 1
Corporate information

Zound Industries International AB with subsidiaries (“Zound Industries” or “the Group”) operates the entire chain from design and development, to marketing and sales of audio products.

The parent company is a limited company, which is registered in Sweden and has its registered office in Stockholm, Centralplan 15.

On 19th of May 2020, these consolidated financial statements were approved by the Board of Directors for publication.

The annual accounts are prepared in Swedish kronor and all amounts are reported in millions of Swedish kronor (MSEK) unless otherwise stated.

2.1 Basis of preparation

Group

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, the Swedish Annual Accounts Act and RFR 1 Supplementary Accounting Rules for Groups.

Parent Company

The parent company's accounts are prepared in accordance with the Annual Accounts Act. Zound Industries International AB applies IFRS, with the additions and exceptions ensuing from the Swedish Financial Reporting Board recommendation RFR 2 Accounting for Legal Entities. In those cases, the parent company applies other accounting principles than the Group, this is stated separately at the end of described accounting principles.

The preparation of financial reports in accordance with IFRS requires the use of accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting principles. Areas which involve a high degree of judgment, which are complex or areas where assumptions and estimates are of considerable significance for the consolidated financial statements, are specified in Note 2.

2.2 Amended accounting principles

New and amended standards that will be adopted by the Group in the current period

A number of new or amended standards and interpretations come into force during the coming financial year or later and have not been applied prematurely to these financial reports. Zound has assessed that new or amended standards and interpretations will not have a significant affect on the financial reports.

2.3 Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to or has the right to a variable return from its holding in the entity and has the possibility to affect this return through its influence in the entity. Subsidiaries are included in the consolidated financial statements from and including the date on which control is transferred to the Group. They are deconsolidated from and including the date on which that control ceases. All subsidiaries in the Group were established by the parent company.

2.4 Segment reporting and earnings per share

Operating segments

Zound Industries has voluntarily chosen to apply IFRS 8 Operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive decision maker. The chief executive decision maker is the function that is responsible for allocating resources and assessing the operating segments' results. Within Zound Industries, a group, composed of the CEO and the company's Management team, has been identified as the Chief Executive Decision Maker.

The operation are followed up on a net sales and gross profit on operating segments, which comprise the product categories: Headphones, Speakers and Other.

In addition, sales are presented per key geographical area, sales channel and brand. Earnings are followed up for the Group as a whole, i.e., not broken down by operating segment.

Earnings per share

Earnings per share before dilution is calculated by dividing profit for the year attributable to the parent company's shareholders by a weighted average of the number of outstanding shares during the year.

Earnings per share after dilution are calculated by dividing profit for the year attributable to the parent company's shareholders by the total number of the weighted average ordinary shares and potential ordinary shares that may give rise to a dilutive effect. The dilutive effect of potential ordinary shares is only recognized if a conversion to ordinary shares would lead to a decrease in earnings per share after dilution.

2.5 Foreign currency translation

Functional currency and presentation currency

Items included in the financial statements of the various Group units are measured in the functional currency, which is used in the economic environment in which each company mainly operates (functional currency). In the consolidated financial statements, the Swedish krona (SEK) is used as the presentation currency, which is also the parent company's functional currency and presentation currency.

Transactions and balance sheet items

Transactions in foreign currencies are translated to the functional currency at the exchange rates that apply on the transaction date. Exchange gains and losses arising on settlement of such transactions and on translation of monetary assets and liabilities in foreign currency at the closing day rate, are recognized in the income statement. Exchange differences on lending and borrowing are recognized in net financial items, while other exchange differences are included in operating profit.

Note 2
Accounting and valuation principles

Group companies

For all Group companies whose earnings and financial position are in a functional currency other than the presentation currency, amounts are translated to the Group's presentation currency, as follows:

(a) assets and liabilities for each of the balance sheets are translated at the closing day rate;
(b) income and expenses for each of the income statements are translated at the average exchange rate (provided this average rate represents a reasonable approximation of the cumulative effect of the rates prevailing on the transaction date, otherwise income and expenses are translated at the transaction date rate), and
(c) all exchange differences arising are recognized as a separate component of other comprehensive income and in the category Reserves within equity.

During consolidation, exchange differences, which arise in consequence of the translation of net investment in foreign operations are transferred to equity. On divestment of a foreign operation, in part or entirely, the exchange differences recognized in equity are transferred to income statement and recognized as a component of the capital gain/loss.

2.6 Intangible assets

Capitalized expenditure for development and similar work

Expenditures directly attributable to the development and testing of identifiable and unique products controlled by the Group are recognized as intangible assets when the following criteria are met:

i. it is technically possible to complete the product so that it can be used,
ii. the company's intention is to complete the product and to use or sell it,
iii. the potential exists to use or sell the product,
iv. it is possible to show how the product will generate probable future economic benefits,
v. adequate technical, financial and other resources are available to complete development and in order to use or sell the product, and
vi. the expenditure attributable to the product during its development can be estimated in a reliable way.

Directly attributable expenditure that is capitalized as part of the asset includes consultancy costs, materials and a reasonable proportion of indirect costs. Capitalized development costs are recognized as intangible assets and are amortized from the date when the asset is ready to be used.

The company expense accrued costs for product development continuously as these do not meet the criteria for being recognized as an intangible asset. This has led to the increased investments in recent years affecting the Company's income statement. Accrued development costs, such as costs for consultants and certifications, are accrued over the period the services are received (usually 12 months or less).

Patents and trademarks

Capitalized expenditures related to trademark protection and patents.

Other intangible assets

Other intangible assets mainly consist of expenditure for license agreements, and business systems.

Other intangible assets that have been externally purchased is recognized at cost.

Amortization periods

All intangible assets in the Group have a determinable useful life and are recognized at cost less accumulated amortization and any impairment losses. Amortization occurs on a straight-line basis over the useful life (5-15 years).

2.7 Tangible assets

Tangible assets in the Group consists of equipment, tools and fixtures. Only if it is most likely that future economic benefits associated with the asset will benefit to the Group and that the cost of the asset can be measured in a reliable manner, the asset will be capitalized in the balance sheet. All tangible assets are recognized at historical cost less depreciation. Historical cost includes expenditure which can be directly attributable to the acquisition of the asset.

Additional expenditure is added to the asset's carrying amount or is recognized as a separate asset, depending on what is appropriate. The carrying amount for the replaced portion is derecognized. All other forms of repair and maintenance expenditure are expensed in the income statement during the period in which such expenditure arises.

Depreciation period of tangible assets

Depreciation in order to allocate their cost at the estimated residual value is performed over the estimated useful life. Depreciation is phased on a straight-line basis over the useful life (3-5 years).

Gains and losses on disposal are determined by a comparison between sales revenue and the carrying amount and are recognized in other operating income and other operating expenses, respectively, in the income statement.

2.8 Impairment of non-financial assets

Assets with an indefinite useful life and capitalized expenses for development where depreciation has not yet begun are not depreciated but are tested annually for possible impairment. At present, the Group has no assets with indefinite useful lives or capitalized expenses for development where depreciation has not yet begun. The assets' residual values and useful lives are tested for impairment on each balance sheet date and adjusted if required. The carrying amount of an asset is immediately written down to the asset's recoverable amount if the carrying amount of the asset should exceed its estimated recoverable amount.

Note 2
Accounting and valuation principles

An impairment loss is reversed if there is an indication that the impairment need no longer exists and a change has occurred in the assumptions that provided the basis for the measurement of the recoverable amount. However, impairment of goodwill is never reversed. A reversal is only made to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been recognized, less deprecation where appropriate, if no impairment loss had been recognized

2.9 Financial instruments

A financial asset or financial liability is recognized in the balance sheet when the company becomes a party according to the instrument's contractual terms. A receivable is raised when the company has performed and there is a contractual obligation for the counterparty to pay, even if the invoice has not yet been sent. Liability is raised when the counterparty has performed and there is a contractual obligation to pay, even if the invoice has not yet been received.

A financial asset is removed from the balance sheet when the rights in the agreement are realized, expire or the company loses control over the asset. The same applies to part of a financial asset. A financial liability is removed from the balance sheet when the obligation of the agreement is fulfilled or in other way is executed. The same applies to part of a financial liability. A financial asset and a financial liability are offset and reported with a net amount in the balance sheet only when there is a legal right to offset the amounts and that there is an intention to settle the items with a net amount or to simultaneously realize the asset and settle the liability. Acquisitions and divestments of financial assets are recognized when the transaction is carried out (reporting on settlement date).

The Group classifies and has financial assets and liabilities in the following categories:

a. financial assets at amortized cost, as well as
b. financial liabilities at amortized cost.

Financial instruments are initially reported at acquisition value corresponding to the instrument's fair value with the addition of transaction costs. In subsequent periods, financial instruments are reported as below.

Financial assets in Zound consist of Other long-term receivables, Accounts receivable, Cash and cash equivalents. All financial assets in Zound consist of liability instruments and their classification is determined by the business model of the portfolio in which the financial asset is included and the nature of the contractual cash flows. Zound's business model for all financial assets that are liability instruments is to collect the principal amount and any interest on the principal amount. The contractual cash flows from these assets consist only of principal amounts and interest, which is therefore classified as financial assets valued at amortized cost. Assets in this category are reported in subsequent periods at amortized cost using the effective interest method. For further information on accounting principles see section Trade payables and Borrowing.

2.10 Inventories

Inventories are recognized at the lower of cost and net realizable value. Cost is determined by applying the first in first out method (FIFO). The cost of goods for resale consists of the cost of purchase of the goods. Borrowing costs are not included. Inventories mainly consist of products for sale. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. The required provision for obsolescence has been made after individual assessment. Regular testing for possible impairment occurs during the year at an overall level. A review of the inventory is performed item by item once every year with regards to possible impairment requirements

2.11 Account receivables

Account receivables are reported after deductions for expected credit losses. Discounting is not applied due to the short term, which is why amortized cost value corresponds to the nominal amount. None of the Group's account receivables contain any significant financing component.

The Group's account receivables is short-term, which is why the Group has chosen to apply the simplified method to estimate expected credit losses in accounts receivable. The Group values the loss reserve at the amount corresponding to the expected credit losses for the remaining maturity from the date on which they are recognized for the first time. The assessments are made taking into account forward-looking information on macroeconomic factors that may affect the customers' ability to pay the claim. The size of the provision reflects a probability-weighted amount that is determined by the Group evaluating receivables item by item. Both losses on accounts receivable and recovered previously written down account receivables are recognized in the income statement as an Other external cost.

A summary of the Group's assessment of loss reserve can be found in note *25 Financial risk and note 13 Accounts receivable.*

The reported value of accounts receivable, after any write-downs, is assumed to correspond to its fair value, since this item is short-term by nature.

2.12 Cash and cash equivalents

Cash include cash in hand, bank balances and other current investments with an initial maturity of three months or less. Overdraft facilities are recognized as borrowing among current liabilities.

2.13 Share capital

Ordinary shares are classified as equity. Transaction costs which can be directly attributed to an issue of new shares are recognized, net after tax, in equity as a deduction from the proceeds of the issue.

2.14 Trade payables

Account payables are initially recognized at fair value and subsequently at amortized cost. Discounting is not applied due to the short term, which is why the amortized cost corresponds to the nominal amount. The reported value of accounts payable is assumed to correspond to its fair value, since this item is short-term by nature.

2.15 Borrowing

Borrowing in the Group consists of a bank overdraft facility and is initially reported at fair value, net after transaction costs and subsequently at amortized cost. Discounting is not applied due to the short term, which is why amortized cost value corresponds to the nominal amount. The accounted amount of the overdraft facility is assumed to correspond to its fair value, since this item is short-term by nature.

Borrowing is classified as current liabilities unless the Group has an unconditional right to postpone payment of the liability for at least 12 months after the balance sheet date.

Borrowing costs (interest expenses and transaction costs) are recognized in the income statement in the period to which they relate.

2.16 Current and deferred tax

The current tax expense is calculated based on the tax rules enacted or in practice enacted on the balance sheet date in the countries where the parent company's subsidiaries operate and generate taxable income. Management regularly evaluates the claims made in tax returns regarding situations where applicable tax rules are subject to interpretation and, when deemed appropriate, makes provisions for amounts likely to be paid to the tax authorities.

Deferred income tax is recognized in its entirety, according to the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The tax base value of tax loss carry forwards is capitalized as a deferred tax asset. However, deferred tax is not recognized if it arises because of a transaction which constitutes the initial recognition of an asset or liability, which is not a business combination and which, at the time of the transaction, does not affect the recognized or taxable profit. Deferred income tax is calculated based on tax rates (and laws) that have been enacted or which were in practice enacted on the balance sheet date and that are expected to apply when the deferred tax asset or the deferred tax liability concerned is reversed.

Deferred tax assets are recognized insofar as it is probable that future taxable surpluses will be available against which the temporary differences can be offset.

2.17 Employee benefits

Retirement benefit obligations

The Group operates defined contribution pension plans only. For defined contribution plans, Zound Industries pays contributions to public or privately managed pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as personnel expenses in line with being earned when the employees perform services to the company. Prepaid contributions are recognized as an asset to the extent that a cash refund or decrease in future payments could accrue to the Group. Costs related to service during previous periods are recognized directly in the income statement.

Remuneration

Short-term employee remunerations are calculated without discounting and are recognized as an expense when they are paid out.

Termination benefits

Severance pay are payable when an employee's position has been terminated by the Group before the normal retirement date or when an employee accepts voluntary retirement in exchange for such compensation. Zound Industries recognizes Severance pay when the Group is demonstrably obliged either to give notice to employees according to a detailed formal plan without the possibility of retraction, or to provide compensation in the event of termination as a result of an offer made to encourage voluntary redundancy.

Profit-sharing and bonus schemes

The Group recognizes a liability and a cost for an earned bonus and profit-sharing, based on a formula that considers the profit attributable to the employees after certain adjustments. The Group reports a provision when there is a legal obligation or an informal obligation due to previous practice.

Share warrants

At an extraordinary general meeting December 14, 2018, it was decided that a share warrant program, series 2018/2020 shall be assigned to senior executives. Transfer and repurchase of warrants have been made on market terms calculated using the Black & Scholes valuation model.

2.18 Revenue recognition

Revenue is recognized when the Group fulfils a performance commitment by transferring a promised goods to a customer. The goods are transferred when the customer gets control of the goods, which is at a certain time. The transaction price is the compensation that the Group expects to receive in exchange for transferring the goods to the customer.

Sale of goods

Sales of goods stands for most of the the Group's sales. The majority of the goods are sold through distributors but also direct to businesses and are reported as revenue when the goods are transferred, which occurs when the goods are delivered to the distributor and there are no unfulfilled commitments that can affect the distributor's approval of the goods. Sales also take place against the end customer via e-commerce and are reported as revenue when the control of the goods is transferred, which occurs when the goods are delivered to the end customer.

When selling goods, there are discounts and income from the sale that are reported based on the price in the agreement, with deductions for estimated discounts. Historical data is used to estimate the discounts expected value and income are only recognized to the extent that it is most likely that a significant reversal of revenue does not occur. A liability is reported for expected volume discounts in relation to sales up to and including the balance sheet date.

Note 2 Accounting and valuation principles

The Group does not expect to have any contract where the time between transfer of goods to customer or payment from customer exceeds 12 months, which is why no adjustment is made for the transaction price with respect to the time value.

A receivable is recognized when the goods have been delivered, as this is the time when the compensation becomes unconditional (i.e., only the time required for payment to be made).

The Group has no significant provisions for product guarantees or liabilities for return rights. There are no significant contractual assets or contractual liabilities in the Group. The Group's agreements with customers have a lock-in period of less than 12 months. Therefore, in accordance with the exemption rules in IFRS 15, information about the transaction price allocated to the long-term performance commitments that are unfulfilled at the end of the reporting period is not reported.

Cost of license and royalties is accounted gross as goods for resale.

Interest income

Interest income is recognized as income and allocated over the term by application of the effective interest method.

2.19 Leases

Zound Industries leases premises for its business operations. Otherwise, the existence of leases is limited to assets of lower value or with short lease terms. Examples of short lease terms can be vehicles that are leased for a number of days. The Group's leases of premises generally run for a period of five years but may vary according to jurisdiction and the counterparty in the leasing contract.

Lease agreements for premises are recognized as a right-of-use asset and a corresponding liability on the day when the asset is available for use for the first time by the Group. Every lease payment is allocated between amortization of liability and financial expense (interest expense). The financial cost shall be allocated over the lease period so that each accounting period is charged with an amount corresponding to a fixed interest rate for the liability recognized during the respective period. The right of use is written off linearly over the shorter of the asset's useful life and the length of the lease.

Assets and liabilities arising from leases are initially recognized at present value. The lease liabilities include the present value of the following lease payments:

- Fixed fees
- variable leasing fees that depend on an index

The lease payments are discounted by the leasing agreement's implicit interest rate if this interest rate can be easily established, otherwise the lessee's marginal loan interest rate is used. The right-of-use is valued at acquisition value and includes the following:

- the amount at which the lease liability was initially valued
- leasing fees paid at or before the start date of the lease
- initial direct expenses
- expenses for restoring the asset to the condition prescribed in the terms of the lease

Zound Industries has chosen to apply the exception in IFRS 16, which means that payments for short contracts and leasing agreements of lesser value are expensed linearly in the income statement. Short contracts are contracts with a lease term of 12 months or less. Contracts of minor value include IT equipment and office furnishings. Due to the immateriality of the amounts the expensed amount is not disclosed.

2.20 Dividends

Dividends to the parent company's shareholders are recognized as a liability in the consolidated financial statements in the period when the dividend is approved by the parent company's shareholders.

2.21 Accounting principles in the parent company

The accounting principles in the parent company essentially correspond with the principles for the consolidated accounts. The parent company's statements are prepared in accordance with RFR 2, Accounting for Legal Entities and the Annual Accounts Act. RFR 2 specifies exceptions and additions to the standards issued by the IASB and the statements issued by IFRIC. Exceptions and additions shall apply from the date on which the legal entity applies the specified standard or statement in its consolidated accounts. Deviations between the consolidated financial statements and the parent company are presented below.

The parent company uses the layout specified in the Annual Accounts Act.

Shares in subsidiaries are recognized at cost of acquisition less possible impairment losses. When there are indications that shares and participations in subsidiaries have decreased in value, an assessment is made of the recoverable amount. If it is lower than the carrying amount, an impairment loss is recognized. Impairment losses are recognized in the item Profit from participations in group companies. The cost of participations in subsidiaries includes transaction costs. In the consolidated financial statements, transaction expenditure is expensed in the period in which it arises.

Expenditures for leases and rented premises are expensed in the period in which they arise. The cost is charged to other external expenses. In the consolidated financial statements, leases are treated as right-of-use assets.

The Parent Company applies the exemption in RFR 2 not to apply IFRS 9. Financial assets and liabilities are instead reported with a basis in acquisition value according to the Annual Accounts Act.

In the parent company's financial statements, appropriations and untaxed reserves are recognized, due to the connection between accounting and taxation. Group contributions are recognized in the parent company using the alternative rule, which means that both group contributions received and paid are recognized as appropriations in the income statement.

2.22 Definitions key ratios multi-year summary in the Report of Board of Directors

EBITDA	Earnings before interest, tax, depreciation and amortization
EBIT	Earnings before interest and taxes
Margin, % EBITDA	Earnings before interest, tax, depreciation and amortization divided by net sales
Operating margin % EBIT	Earnings before interest and taxes divided by net sales
Profit margin	Earnings before taxes divided by net sales
Equity/assets ratio	Equity plus untaxed reserves less tax component of untaxed reserves in relation to total assets.

Note 3 Critical estimates and assumptions in applying the Group's accounting principles

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that appear reasonable under the existing circumstances.

Critical estimates and assessments for accounting purposes

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that are a consequence of these, by definition, rarely correspond to the actual result. The estimates and assumptions that involve a significant risk for material adjustments in the carrying amounts of assets and liabilities during the next financial year are described in main outline below.

Estimate of impairment requirement of inventories

In connection with the financial statements, a complete review of inventories was carried out as well as impairment testing item by item. obsolescence for 2020 amounted to MSEK 29,6 (18,9). Please also see Note 12 for inventory disclosures. Otherwise, any estimates are shown in each specific note.

Cost of royalties and sales commissions

Royalties and sales commissions are recognized in accordance with the contractual terms and conditions stipulated in agreements with license owners and customers. These costs arise in connection with sales transactions to external customers. In cases where billing of royalties and sales commissions is not received in the current reporting period, the size of these items is estimated based on reported sales and is carried as an accrued expense. Royalty expenses is recognized gross as a cost and commissions are recognized as an offset against revenues.

Note 4
Segment information

Zound Industries follow up the net sales and gross profit per product category (operating segment). In addition, sales are followed up by geographical area, sales channel and brand, for which separate disclosures are provided below. Net sales are only followed up for the Group as a whole and not per legal entity.

The Group has no customers that represent more than 10 percent of total net sales.

Segment information

Net sales in the operating segment Product category (operating segment) is distributed as follows:

	Group	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Speakers	1 289,0	1 302,3
Headphones	465,3	691,5
Other	2,1	3,3
Total net sales	**1 756,4**	**1 997,0**

Gross profit in the operating segment Product category (operating segment) is distributed as follows:

	Group	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Speakers	473,5	455,4
Headphones	171,2	317,1
Other	-0,3	0,3
Total gross profit	**644,4**	**772,8**
Other operating income	14,8	11,2
Other operating expenses	-649,8	-800,5
Operating profit	**9,4**	**-16,6**
Financial net	4,1	-24,2
Profit before tax	**13,5**	**-40,8**

Gross margin in the operating segment Product category is distributed as follows:

	Group	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Speakers	36,7%	35,0%
Headphones	36,8%	45,9%
Other	-14,8%	9,3%
Total gross margin	**36,7%**	**38,7%**

Note 4
Segment information

Supplementary information

Net sales in geographical markets are distributed as follows*:

	Group	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Nordic countries**	145,1	238,9
USA	327,9	287,6
France	211,3	216,7
Germany	134,7	146,8
China	216,1	193,0
UK	24,1	160,1
Rest of the world	697,2	753,8
Total net sales	**1 756,4**	**1 997,0**

* Allocation is made based on the country where the customers are located.

** Of the Nordic region, 136,8 (225,9) represent sales in Sweden

Net sales in sales channels are distributed as follows:

	Group	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Distributors	797,2	1 197,6
Direct	623,9	536,9
E-com	298,3	210,6
Other	37,0	52,0
Total net sales	**1 756,4**	**1 997,0**

Net sales per brand are distributed as follows:

	Group	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Marshall	1 591,5	1 828,8
Urbanears	143,8	146,8
Adidas	21,1	21,4
Other	-0,1	0,0
Total net sales	**1 756,4**	**1 997,0**

2020 Fixed assets by country	Sweden	China	France	Hong Kong	UK	USA	Elim	Group
Fixed assets	129,7	3,4	0,6	0,0	0,1	9,6	0,0	143,5
Carrying value	**129.7**	**3.4**	**0.6**	**0.0**	**0.1**	**9.6**	**0.0**	**143.5**

2019 Fixed assets by country	Sweden	China	France	Hong Kong	USA	Elim	Group
Fixed assets	106,0	2,3	0,0	0,0	0,4	14,0	0,0
Carrying value	**106.0**	**2,3**	**003**	**0.0**	**0.4**	**14.0**	**0.0**

Note 5
Audit fees

Audit assignment refers to the review of the annual accounts and bookkeeping as well as the administration by the Board of Directors and the CEO, other tasks the company's auditors are obliged to perform, as well as advice or other assistance prompted by observations in the course of such review or the implementation of such other duties. Everything else, is divided into tax advice and other services, respectively.

	Group		Parent Company	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31	2020-01-01 2020-12-31	2019-01-01 2019-12-31
PwC				
Audit assignment	1,2	0,9	0,9	0.9
Tax advice	0,0	0,4	0,4	0.4
Other services	0,2	5,1	0,2	5.1
	1.4	**6,4**	**1,4**	**5,1**
Other audit firms				
Audit assignment	0.1	0.1	–	–
Tax advice	0.1	0.1	–	–
Total	**1,5**	**6.6**	**1,4**	**6,4**

Note 6
Employees and personnel expenses

Salaries, other allowances, social security contributions and pensions

	Group		Parent Company	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Salaries and remuneration to:				
CEO, Board & other senior executives	19,7	35,6	19,7	35,6
Other employees	129,0	135,9	80,7	104,7
Total salaries and remuneration	**148,7**	**171,4**	**116,5**	**140,3**
Soc. security contributions CEO, Board & other senior executives	5,1	11,1	5,1	11,1
Soc. security contributions other	33,4	35,0	31,5	30,7
Pension Board & other senior executives (including special employer´s contribution)	3,4	3,5	3,4	3,5
Pension other (including special employer´s contribution)	15,6	15,0	14,0	12,9
Total salaries, remuneration, social security contributions and pensions	**206,1**	**234,0**	**170.4**	**198.5**

Group and Parent Company 2020

Salaries and remuneration to CEO, Board and senior executives

	Salaries and other remuneration	Audit committee	Pension expenses
Henri de Bodinat	0,2	–	–
Tommy Jacobson*	–	–	–
Jonathan Forster	0,1	–	–
Christel Kinning	0,1		
Margareta van den Bosch	0,1		
Johan af Sandeberg	0,1		–
Monika Elling	0,1	0,1	–
Jeremy de Maillard, CEO	1,8	–	–
Martin Axhamre, CEO (acting)	4,5	–	0,6
Other senior executives, (7**)	11,4	–	2,8
Total	**18,4**	**0,1**	**3,4**

* Tommy Jacobson has chosen to waive the fee decided by the general meeting of SEK 200,000 for his work as Board Member as well as 50,000 SEK for his work as a member of the Audit Committee.

** Includes final salary payment to former CEO Pernilla Ekman

The numbers in parentheses refer to the number of people that received salaries and remuneration during the year and not necessarily to the number of members on a given date.

Note 6
Employees and personnel expenses

Group and Parent Company 2019

Salaries and remuneration to CEO, Board and senior executives

	Salaries and other remuneration	Audit committee	Prepaid bonus***	Pension expenses
Tommy Jacobson, Chairman of the Board*	–	–	–	–
Christel Kinning	0.1	0.1	–	–
Henri de Bodinat	0.1	–	–	–
Margareta Van den Bosch	0.1	–	–	–
Johan af Sandeberg	0.1	–	–	–
Monika Elling	0.1	0.1	–	–
Jonathan Forster**	0.1	–	–	–
Pernilla Ekman, CEO	2.4	–	6.4	0.7
Martin Axhamre, CEO (acting)	2.4	–	4.3	0.4
Other senior executives, (6)	7.7	–	11.7	1.6
Total	**13.1**	**0.1**	**22.4**	**2.8**

* Tommy Jacobson has chosen to waive the fee decided by the general meeting of SEK 200,000 for his work as Chairman of the Board as well as 50,000 SEK for his work as a member of the Audit Committee.

** Fees for part of the year, elected 23 May 2019.

*** Prepaid bonus for senior executives has been decided at an external board meeting 2019-01-07. Bonus refers to 2019 have not been paid out, instead its reinvested through purchase of warrants.

The numbers in parenthesis refer to the number of persons that received salaries and remuneration during the year and not necessarily to the number of members on a given date.

Share-based payment arrangements

In connection with the implementation of the subscription warrant scheme to senior executives adopted on 14 December 2018, the company financed the warrant premium for a total of 460,000 subscription warrants through a bonus payment to the participants. Grant of warrants was January 2019. The total bonus payment, including social security contributions, gave rise to expenses affecting comparability amounting to MSEK 28.9 during the period of January-September 2019. The participants have, under certain circumstances, undertaken to repay the bonus in the case that the employment terminates before the end of 2020 (applies if there will not be a listing or sale of the company within two years from subscription for the subscription warrants). In exchange for receiving the extra bonus payment, the participants have also waived their regular bonus for 2019 and 2020 (waiver for 2020 applies providing the company has not been listed or sold by the end of 2019). The total cash flow effect for the company of the extra bonus payment is estimated to be MSEK -8.6 net given the waiver of the regular bonus for 2019 for the participants. A repayment obligation of the paid bonus exists for the employees in the case that they terminate their employment. The warrants can be exercised during the period 1 November to 31 December 2021. The exercise price for all outstanding options is SEK 260 per share. If all subscription warrants are exercised this would result in a dilution for the existing shareholders of 5.1 percent.

Average number of employees

Group	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Women	109	110
Men	122	118
Total	**231**	**228**

Parent company	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Women	81	81
Men	91	89
Total	**172**	**170**

Average number of employees Group	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Sweden	168	166
China	37	37
USA	13	13
Hong Kong	3	3
France	5	5
UK	5	4
Total	**231**	**228**

Note 6 Employees and personnel expenses

Gender distribution of Board members and other senior executives

	2020-01-01 – 2020-12-31 Number on balance sheet date	2020-01-01 – 2020-12-31 Of whom, males	2019-01-01 – 2019-12-31 Number on balance sheet date	2019-01-01 – 2019-12-31 Of whom, males
Group				
Board members	5	80,0%	7	57,0%
CEO and other senior executives	8	75,0%	8	75,0%
Group total	**13**		**15**	
Parent Company				
Board members	5	80,0%	7	57,0%
CEO and other senior executives	8	75,0%	8	75,0%
Parent Company total	**13**		**15**	

For the CEO and other senior executives, a mutual period of notice applies according to current applicable rules, of up to 12 months.

Note 7 Financial income and financial expenses

Group	2020-01-01 – 2020-12-31	2019-01-01 – 2019-12-31
Financial income		
Exchange rate difference, gain	13,8	0,0
Interest income	0,1	0,0
Total financial income	**13,9**	**0,0**
Financial expenses		
Exchange rate difference, loss	0,0	-10,1
- borrowing	-8,7	-12,6
- leases, dissolution of the discounting effect	-0,9	-1,5
Other financial expenses	- 0,2	-0,1
Total financial expenses	**-9,8**	**-24,3**
Loss from financial items, net	**4,1**	**-24,2**

Note 8 Income taxes, Deferred tax assets and Deferred tax liabilities

Tax on profit for the year	Group 2020-01-01 – 2020-12-31	Group 2019-01-01 – 2019-12-31	Parent Company 2020-01-01 – 2020-12-31	Parent Company 2019-01-01 – 2019-12-31
Current tax				
Tax expense for the year	-13,2	-4,5	-1,9	-1,8
Adjustment of tax pertaining prior years	-0,2	0,3	0,3	0,3
Total current tax	**-13,4**	**-4,2**	**-1,9**	**-1,5**
Deferred tax				
Deferred tax expense pertaining temporary differences	-1,2	-4,8	–	–
Deferred tax revenue pertaining temporary differences	7,6	15,6	5,1	2,7
Total deferred tax	**6,4**	**10,8**	**5,1**	**2,7**
Recognized tax expense	**-7,1**	**6,6**	**3,2**	**1,1**

Note 8 Income taxes, Deferred tax assets and Deferred tax liabilities

The differences between recognized tax expense and an estimated tax expense based on the current tax rate are the following:

	Group 2020-01-01 – 2020-12-31	Group 2019-01-01 – 2019-12-31	Parent Company 2020-01-01 – 2020-12-31	Parent Company 2019-01-01 – 2019-12-31
Profit before tax	13,5	-40,8	-30,1	-17,5
Income tax calculated at companies current tax*	-2,9	8,7	5,9	3,3
Non-taxable income	0,0	0,0	–	–
Non-deductible expenses	-1,0	-0,7	-1,0	-0,7
Effect of foreign tax rates	-0,1	0,5	0,0	0,5
Effect of changes in tax rates	0,2	-0,3	0,2	-0,3
Adjustment in respect of earlier years	0,0	0,3	0,0	0,3
Other	-3,3	-1,9	-1,9	-1,9
Income tax	**-7,1**	**6,6**	**3,2**	**1,1**
Effective tax rate	**52,6%**	**16,2%**	**10,6%**	**6,3%**

* The enacted Swedish corporate income tax rate will decrease from 21,4% 2020 to 20,6% 2021.

Deferred tax liabilities and deferred tax assets are related to the following balance sheet items:

	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Deferred tax liabilities				
Untaxed reserves	–	4,9	–	–
Total deferred tax liabilities	**–**	**4,9**	**–**	**–**
Deferred tax assets				
Limitation of interest deduction	4,5	2,7	4,5	2,7
Inventories	3,7	7,6	–	–
Deficit	3,3	–	3,3	–
Net of right-of-use assets and liabilities	0,3	0,4	–	–
Deferred tax assets subsidiaries	–	1,0	–	–
Deferred tax asset group	1,4	–	–	–
Total deferred tax assets	**13,1**	**11,7**	**7,8**	**2,7**
Deferred tax, net	**13,1**	**6,7**	**7,8**	**2,7**

Zound Industries Shenzhen Ltd, Kina has a tax loss carry forward of MSEK 4.0 2019 at tax base value for which a deferred tax asset has been capitalized.

Deferred tax assets/liabilities net	Group 2020-01-01 – 2020-12-31	Group 2019-01-01 – 2019-12-31	Parent Company 2020-01-01 – 2020-12-31	Parent Company 2019-01-01 – 2019-12-31
Opening balance	**6,7**	**-4,1**	**2,7**	**–**
Recognised in the income statement	6,8	10,2	5,1	2,7
Currency translation difference	-0,4	0,5	–	–
Closing balance	**13,1**	**6,7**	**7,8**	**2,7**

Note 9 Intangible assets

Patents and trademarks	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Opening balance cost	12,5	14,2	12,3	14,1
Additions	1,3	1,9	1,3	1,8
Sales and disposals	–	-3,6	–	-3,6
Exchange differences	0,0	0,0	–	–
Closing balance cost	**13,9**	**12,5**	**13,6**	**12,3**
Opening balance amortization	-6,9	-7,8	-6,8	-7,7
Amortization for the year	-2,3	-2,7	-2,3	-2,7
Sales and disposals	–	3,6	–	3,6
Exchange differences	0,0	0,0	–	–
Closing balance accumulated amortization	**-9,2**	**-6,9**	**9,1**	**6,8**
Carrying value	**4,7**	**5,7**	**5,5**	**6.4**

Other intangible non-current assets	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Opening balance cost	137,7	134,5	137,7	134,5
Additions	0,1	3,2	0,1	3,2
Sales and disposals	–	–	–	–
Exchange differences	–	–	–	–
Closing balance cost	**137,8**	**137,7**	**137,8**	**137,7**
Opening balance amortization	-67,0	-60,8	-67,0	-60,8
Sales and disposals	4,6	–	4,6	–
Amortization for the year	-11,1	-6,1	-11,1	-6,1
Exchange differences	–	–	–	–
Closing balance accumulated amortization	**-73,3**	**-67,0**	**-73,3**	**-67,0**
Carrying value	**64,4**	**70,7**	**64,4**	**70,7**

Note 10 Right-of-use assets

Depreciation of rights-of-use assets

Group	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Premises	-24,0	-25,4
Total	**-24,0**	**-25,4**

Interest expenses for leasing liabilities amounted to MSEK 0,9 (MSEK 1,5) during the financial year.
The total cash flow impact of the above items amounted to MSEK 25.1 (MSEK 25,0) during the financial year.

The consolidated balance sheet contains the following items related to leases:

Right-of-use assets

Group	2020-12-31	2019-12-31
Premises	70,2	37,6
Total	**70,2**	**37,6**

Liabilities relating to right-of-use assets

Group	2020-12-31	2019-12-31
Current	20,9	21,1
Non-current	46,8	14,6
Total	**67,7**	**35,7**

Group	2020-12-31	2019-12-31
Opening balance cost	99,4	98,5
Additions	58,3	5,1
Sales and disposals	-55,1	-5,1
Exchange differences	-4,2	0,8
Closing balance accumulated cost	**98,4**	**99,4**
Opening balance accumulated depreciation	-61,8	-41,4
Depreciation for the year	-24,0	-25,4
Sales and disposals	55,1	5,1
Exchange differences	2,6	-0,1
Closing balance accumulated depreciation	**-28,1**	**-61,8**
Carrying value	**70,2**	**37,6**

The leasing agreements capitalized in the consolidated balance sheet are related to operational facilities.

Note 11
Property, plant and equipment

Equipment, tools, fixtures and fittings	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Opening balance cost	22,9	21,4	20,3	19,1
Additions	0,6	2,8	0,4	2,4
Sales and disposals	–	-1,4	–	-1,2
Exchange differences	0,2	0,1	–	–
Closing balance cost	**23.5**	**22.9**	**20,8**	**20,3**
Opening balance depreciation	-14,2	-9,6	-12,8	-8,7
Sales and disposals	–	1,4	–	1,2
Depreciation for the year	-5,0	-5,9	-4,4	-5,3
Closing balance accumulated depreciation	**19,3**	**14,2**	**-17,3**	**-12,8**
Carrying value	**4,1**	**8,6**	**3,5**	**7,5**

Note 12
Other non-current receivables

Group	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Endowment insurance	1,9	1,5	1,9	1,5
Deposit	2,2	2,6	0,2	0,2
Blocked bank accounts	9,8	9,8	9,8	9,8
Other	0,1	0,0	0,1	–
Total non-current receivables	**14,0**	**13,9**	**11,9**	**11,5**

Note 13
Inventories

Inventories at cost	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Raw materials and consumables	11,4	14,1	10,8	13,5
Finished goods	238,4	611,9	185,7	521,5
Total inventories before impairments	**249,8**	**626,0**	**196,4**	**535,0**

Impairment	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Opening balance	-18,9	-6,3	-18,0	-6,3
Utilized impairment	7,6	4,7	6,6	4,7
Impairment for the year	-18,3	-17,4	-11,7	-16,4
Total impairment	**-29,6**	**-18,9**	**-23,0**	**-18,0**
Carrying value	**220,1**	**607,1**	**173,4**	**517,1**

Note 14
Trade receivables

Group	Group 2020-12-31	Group 2019-12-31	Parent Company 2020-12-31	Parent Company 2019-12-31
Account receivables	269,9	252,4	171,2	162,2
Loss provision	-5,0	-0,9	-3,2	-0,7
Carrying value	**264,9**	**251,6**	**167,9**	**161,5**

Account receivables distributed per currency

Group	Group 2020-12-31	Group 2019-12-31
SEK	32,8	13,2
USD	135,7	130,0
EUR	65,2	96,0
GBP	19,0	1,3
CNY	12,3	11,0
Total	**264,9**	**251,6**

Analysis of credit risk exposure in account receivables	Group 2020-12-31	Group 2019-12-31
Account receivables which are not due or written down	228,5	209,2
Due:		
- Less than 30 days	34,1	35,9
- Less than 2 months	6,8	7,3
- Less than 3 months	0,0	0,0
- Exceeding 3 months	0,5	0,0
Total due:	41,4	43,3
Loss provision	-5,0	-0,9
Carrying amount	**264,9**	**251,6**

The fair value of the Group's account receivables corresponds with the carrying amount.

On the balance sheet date, account receivables amounting to MSEK 36,4 (MSEK 42,4) were due without any impairment requirement deemed to exist. This applies to a number of independent customers that have not had any financial difficulties in the past. The age analysis of these account receivables is provided above. Amounts recognized in the valuation allowance account are normally written off when the Group is not expected to recover any further liquid assets. The maximum exposure to credit risk in account receivables on the balance sheet date consists of the carrying amount. The Group has no collateral as security.

Note 15 Prepaid expenses and accrued income

	Group		Parent Company	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Prepaid rent	1,4	2,8	5,2	5,1
Prepaid selling expenses	17,1	10,0	–	–
Prepaid license fees	1,0	0,6	1,0	0,6
Prepaid event cost	–	2,0	–	1,1
Prepaid product development costs*	24,0	36,0	24,0	36,0
Accrued income	–	0,9	–	0,9
Other items	5,4	10,6	4,6	10,3
Total prepaid expenses and accrued income	**48,8**	**62,0**	**34,8**	**53,9**

* During the year, 37.4 MSEK (36,7) of expenditures related to research and development has been expensed.

Note 16 Share capital and other contributed capital

A specification of changes in equity is provided in the Statement of Changes in Equity, which is provided immediately after the balance sheet.

	Number of shares (units)	Share capital	Other contributed capital	Total
Opening balance on 1 January 2019	**8 181 958**	**0,8**	**216,3**	**217,1**
Registered issue in kind	430 700	0,0	-0,0	0,0
Share warrants	–	–	9,4	9,4
Closing balance on 31 December 2019	**8 612 658**	**0,9**	**225,7**	**226,5**
Closing balance on 31 December 2020	**8 612 658**	**0,9**	**225,7**	**226,5**

The shares have a quota value of SEK 0.1 per share. Each share carries one vote. All registered shares on the balance sheet day are fully paid-up.

Reserves

The Reserves in equity on the balance sheet date consists in its entirety of translation differences related to net equity in foreign subsidiaries.

Issue in kind

In October 2018, Zound Industries and Marshall Amplification plc extended their license agreement until December 31, 2033. Marshall became part owner of Zound Industries, with a 5 percent ownership interest. The agreement came into force on January 1, 2019. The issue in kind was registered January 2019. The share capital after registration amounts to SEK 861,265.80. New number of shares after the share issue is 8,612,658.

Note 17 Overdraft facility

	Group		Parent Company	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Approved bank overdraft	310,0	400,0	310,0	400,0
- of which utilized	0,0	306,9	0,0	306,9

Note 18 Other liabilities

	Group		Parent Company	
Group	2020-12-31	2019-12-31	2020-12-31	2019-12-31
VAT liability	3,0	3,5	2,6	1,7
Personnel related liabilities	8,1	6,0	7,9	5,7
Other	1,6	0,1	1,5	–
Total other liabilities	**12,7**	**9,6**	**12,0**	**7,4**

Note 19 Accrued expenses and deferred income

	Group		Parent Company	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Accrued personnel expenses	19,8	16,0	17,1	13,2
Accrued royalties and sales commissions	30,7	35,5	30,4	35,5
Accrued Sales commissions	57,1	51,0	57,0	41,2
Accrued logistics costs	8,0	5,4	6,4	4,7
Accrued product costs	0,8	0,4	0,0	–
Other accrued expenses	29,1	39,7	15,9	33,6
Total accrued expenses and deferred income	**145,6**	**147,6**	**127,0**	**128,1**

Note 20 Pledged assets

	Group		Parent Company	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Floating charges	200,0	159,0	200,0	159,0
Total pledged assets	**200,0**	**159,0**	**200,0**	**159,0**

Note 21 Contingent liabilities

	Group		Parent Company	
	2020-12-31	2019-12-31	2020-12-31	2019-12-31
Rental guarantee	9,8	9,8	9,8	9,8
Performance guarantee against Adidas	1,4		1,4	
Contingent liabilities to subsidiaries	–	–	4,3	4,4
Total contingent liabilities	**11,2**	**9,8**	**15,5**	**14,2**

Note 22 Transactions with related parties

As related parties, we have identified the Company Management, the Board of the Parent Company, Zound Industries International AB, the owners of Zound Industries International AB and subsidiaries that are part of the Group. For a description of salaries and other remuneration to senior executives – see Note 5 Employees and personnel expenses.

Shares in subsidiaries and transactions between companies within the Group are eliminated in the consolidated financial statements. In the table below, purchase and sales among group companies are shown. Otherwise, no transactions have arisen with related parties from a consolidation perspective.

Purchase and sales between group companies	2020-01-01 2020-12-31	2019-01-01 2019-12-31
The proportion of the year's purchase and sales relating to group companies is shown below.		
Purchase (percent)	2	2
Sales (percent)	20	14

Note 23 Other items not affecting cash flow

	Group		Parent Company	
	2020-01-01 2020-12-31	2019-01-01 2019-12-31	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Unrealized exchange differences	0,0	-10,0	0,0	0,1
Capital gain/loss on sale of property, plant and equipment			–	–
Write-down of inventories	26,6	17,4	20,0	16,4
Other	0,5	10,0	0,5	10,0
Total adjustment	**27,1**	**17,3**	**20,5**	**26,6**

Note 24 Appropriation

Parent Company	2020-01-01 2020-12-31	2019-01-01 2019-12-31
Difference between tax depreciation and depreciation according to plan	9,8	14,0
Change in tax allocation reserve	13,1	46,1
Group contributions given	–	–
Total appropriation	**22,9**	**60,2**

Note 25 Reconciliation of financial liabilities in financing activities

Group	Liability relating to right-of use assets	Liability relating to overdraft facilities
2019-01-01	**54,8**	**211,4**
Cashflow, amortization of liabilities relating to rights-of-use assets	-25,0	–
Cashflow, interest on payment for liabilities relating to rights-of-use assets	1,5	–
Cashflow, change in overdraft facilities	–	86,6
Additional leasing agreements	5,1	–
Other non-cash-flow related changes (currency and discounting)	2,3	8,9
2019-12-31	**35,7**	**307,0**
2020-01-01	**35,7**	**307,0**
Cashflow, amortization of liabilities relating to rights-of-use assets	-25,1	–
Cashflow, interest on payment for liabilities relating to rights-of-use assets	-0,9	–
Cashflow. change in overdraft facilities	–	-289,9
Additional leasing agreements	58,2	–
Other non-cash-flow related changes (currency and discounting)	-0,4	-17,0
2020-12-31	**67,7**	**0,0**

Parent Company	Liability relating to overdraft facilities
2019-01-01	**211,4**
Cash flow, change in overdraft facilities	86,6
Other, non-cash flow changes (currency and discounting)	8,9
2019-12-31	**307,0**
2020-01-01	**307,0**
Cash flow, change in overdraft facilities	-290,4
Other, non-cash flow changes (currency and discounting)	-16,6
2020-12-31	**0,0**

Note 26 Financial risk management

Through its operations, the Group is exposed to different financial risks: market risk (currency and interest rate risk), credit risk and liquidity/financing risk. The Group's overall risk management policy focuses on the unpredictability of the financial markets and aims to minimize potential adverse effects on the Group's results and liquidity due to financial risks. The risk management is handled by the CFO in consultation with the CEO and the Board, according to the guidelines established by the Board. The risk function identifies, evaluates and hedges financial risks. This occurs in close cooperation with the Group's operating units.

Market risk

(i) Currency risk

Zound Industries is an international Group with subsidiaries and customers in several countries. The presentation currency is the Swedish krona. This means that the Group is exposed to currency risks as fluctuations in exchange rates can impact earnings and equity. A majority of the operations are conducted from the Swedish parent company. Exposure to currency fluctuations in the Group are divided into two main groups, translation exposure and transaction exposure.

Translation exposure

The foreign subsidiaries' assets less liabilities constitute a net investment in foreign currency, which gives rise to a translation difference during consolidation. Such translation differences are transferred directly to consolidated equity and are recognized under a separate category in equity called Reserves.

Transaction exposure

Transaction exposure is mainly meant by exposure resulting from commercial flows, i.e. sales and purchases across national borders. A relatively large part of the Group's sales and purchases take place in a currency other than Swedish kronor, which cause an exposure for the Group. The exposure mainly relates to purchases in the parent company in USD. Exposure is partly offset by sale in USD from the parent company to US and China. The net exposure from outstanding liabilities and receivables at the end of the reporting period was USD -9,0 m(USD-9,5 m. In addition to purchases and sales in USD, there was also a bank overdraft facility of USD 0,0 m (USD 27,8 m). Total net exposure including overdraft facilities was USD -9,0 m (USD-37,3 m) at the end of the reporting period. The Group does not work actively to manage the transaction exposure that arises.

If the USD / SEK exchange rate had been 10% higher / lower, earnings and equity would have been affected by SEK -/+5,8 m (SEK -/+27,3 m).

(ii) Interest rate risk relating to cash flows and Fair values

As the Group does not hold any significant interest-bearing assets or liabilities, the Group's income and cash flows from operating activities are essentially independent of changes in market interest rates.

Limited Credit risk

Credit risk or counterparty risk is the risk that the counterparty in a financial transaction does not meet its obligations on the due date. Credit risk is managed at a Group level and mainly arises through account receivables and cash and cash equivalents.

See Note 13 Account receivables, and the subsequent paragraph, for a more detailed description of the Group's exposure in account receivables.

Customer credit risk

In addition to overall monitoring at Group level, more detailed follow-up of customer credit risks is performed at local level, close to the customer. Customer credit risk is the risk that customers do not meet their obligations. If customers have been credit assessed by independent raters, these assessments are used. In cases where no credit assessment exists, a risk assessment is performed of the customer's creditworthiness where their financial position is considered as well as previous experience and other factors. Risk limits are adopted on the basis of internal or external credit assessments. The use of credit limits is regularly monitored. No larger concentrations of credit risks are estimated to exist. The maximum exposure to credit risks in account receivables consists of the carrying amount, on each given date.

Note 26
Financial risk management

Liquidity risk/Financing risk

On 31 December 2020, the Group had available liquid assets of MSEK 169,7 M (25,1 M). These liquid assets consist of bank balances. In addition to the recognized cash, the Group has an unutilized bank commitment of MSEK 400,0 M (93,0 M).

The table below shows the undiscounted cash flows that arise from the Group's liabilities in the form of financial instruments, based on the earliest remaining maturities contracted on the balance sheet date. Amounts in foreign currency and amounts to be paid based on a variable interest rate have been estimated using the exchange rates and interest rates applicable on the balance sheet date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Group				
Per 31 december 2020				
Bank overdraft	–	–	–	–
Loans	26,7	26,7	26,7	
Liabilities relating to leases	25,3	22,8	18,2	–
Account payables and other liabilities*	179,8		–	–
Total	**231,8**	**49,5**	**44,9**	**–**
As of 31 December 2019				
Bank overdraft	307,0	–	–	–
Liabilities relating to leases	15,9	7,6	8,0	–
Account payables and other liabilities*	209,7		–	–
Total	**532,5**	**7,6**	**8,0**	**–**

*The majority of accounts payable is due for payment within 3 months

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the reliability of the inputs used in the measurements. The fair value hierarchy has the following levels:

Level 1 – Quoted prices on active markets for identical assets or liabilities as the company have access to at the time of valuation.
Level 2 – Other input data than the quoted prices in level 1, which is observable for assets or liabilities, either direct, or indirect.
Level 3 – Unobservable inputs for the asset or liability.

Lease obligations and changes in market interest rates are measured at fair value. Leasing contracts are based on Level 2 inputs, i.e. market interest rates.

Capital risk management

The goal for the capital structure is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital.

In the same way as other companies in the sector, Zound Industries calculates the capital on the basis of the liability /equity ratio. This key ratio is calculated as net liability divided by capital employed. Net liability is calculated as total borrowing (including the items Short-term borrowing and Long-term borrowing in the consolidated balance sheet, including borrowing from owners and right-of-use agreements) less cash and cash equivalents.

Capital is calculated as Equity in the consolidated balance sheet plus net liability.

The liability /equity ratio as of 31 December was as follows:

Group	2020-12-31	2019-12-31	2018-12-31	2017-12-31	2016-12-31
Total borrowing	147,7	342,7	266,2	51,6	29,6
Less: cash and cash equivalents	-169,7	-25,1	-33,5	-40,1	-58,3
Net liability	**-22**	**317,6**	**232,7**	**11,5**	**-28,7**
Total equity	402,9	405,9	430,0	314,9	255,5
Total capital	**380,9**	**723,4**	**662,7**	**326,4**	**226,8**
Liability /equity ratio	**-6%**	**44%**	**35%**	**4%**	**neg.**

Note 27
Participations in group companies

The parent company participations in subsidiaries:

Parent Company			2020-12-31		2019-12-31	
Subsidiary	Number of shares	Participation	Carrying amount	Equity	Carrying amount	Equity
Zound Industries Ltd, Hong Kong	100	100%	0,0	9,5	0,0	10,3
Zound Industries USA Inc, USA	1000	100%	2,5	38,4	2,5	35,3
Zound Industries Shenzhen Ltd, China	–	100%	8,9	33,0	8,9	1,7
Zound Industries Services Shenzhen Ltd, China	–	100%	0,8	2,0	0,8	1,8
Zound Industries UK Ltd	1	100%	0,0	1,6	0,0	1,0
Zound Industries Smartphones AB, Sweden, 556998-5723	2000	100%	0,2	2,4	0,2	2,4
Carrying amount			**12,4**	**86,8**	**12,4**	**52,7**

Note 28
Untaxed reserves

Parent Company	2020-12-31	2019-12-31
Accumulated difference between book depreciation and depreciation according to plan	0,0	9,8
Tax allocation reserve	0,0	13,1
Carrying amount	**0,0**	**22,9**

Note 29
Events after the reporting period

Events after the financial year

On March 18th Marshall released their first ever true wireless headphone, the Mode II. This was accompanied by a new brand campaign featuring Iggy Pop under the tagline Never Stop Listening.

Zound was awarded two red dot distinctions for high quality design for the Marshall products Emberton and Monitor II ANC.

Note 30
Appropriation of earnings

Proposed appropriation of earnings

The Board proposes that the profits including share premium reserve, total SEK 347 385 220, are to be carried forward.

Board assurance

The Board of Directors and the CEO declare that the consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB and adopted by the EU, and give a fair view of the Group's financial position and results of operations.

The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a fair view of the Parent Company's financial position and results of operations. The Board of Directors report for the Group and the Parent Company provides a fair view of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 19th May 2021

Henri de Bodinat
Chairman of the Board

Jeremy de Maillard
Chief Executive Officer

Tommy Jacobson
Board member

Johan af Sandeberg
Board member

Jonathan Forster
Board member

Monika Elling
Board member

Jonathan Ellery
Board member

Our audit report was submitted on 19th May, 2021.

Öhrlings PricewaterhouseCoopers AB

Tobias Pettersson
Authorized Public Accountant
Chief auditor

We bring life to sound.

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