

Sustainability report 2019.

Operating in the consumer electronics industry means we have a clear responsibility to act sustainably. Our sustainability approach offers us a huge opportunity to challenge long-held industry conventions and initiate change that brings about better outcomes for everybody.

Out of everything we do, our products have the biggest social and environmental impact. We can tackle this impact and still create great headphones and speakers through sustainable design.

At the same time, we are working hard to achieve a better understanding of our climate impact. Knowing our footprint means we can take better decisions to reduce it.

Traditionally the consumer electronics supply chain poses many social and environmental challenges. We are committed to working with our suppliers to raise these standards.

But it's not just about our products. It's also about our people. We want show respect towards our employees and treat everyone fairly.

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



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



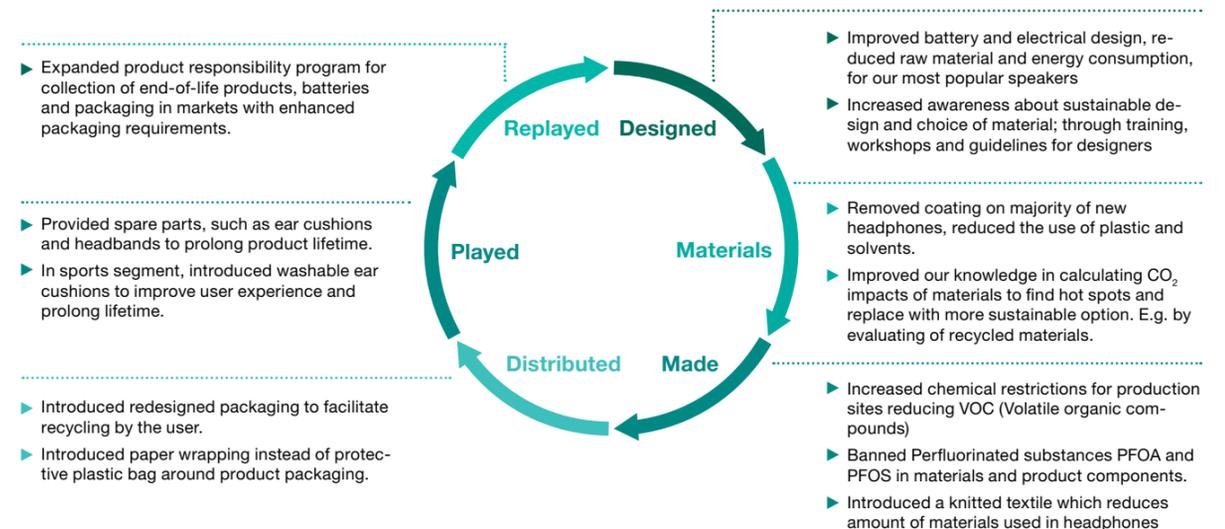
Sustainable design

Sustainable design is our most important tool to reduce climate and social impact. That's why it's one of our highest priorities. Through clever design, careful choice of materials and tech innovation we can create enduring, quality products.

Our approach

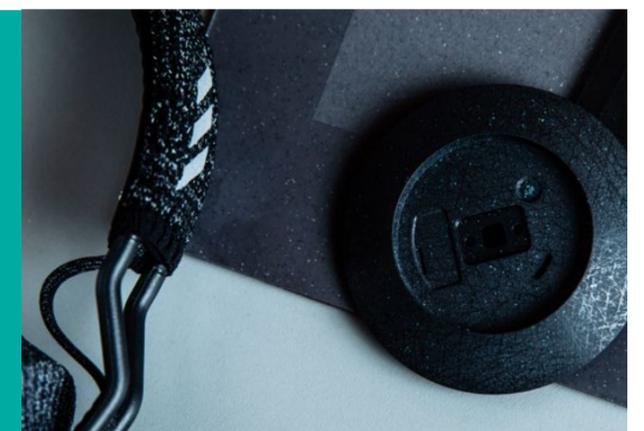
We are innovative, curious and unafraid to challenge conventional methods to lower the impact of our products. From assessing new materials and technical solutions to using sustainable design tools and guidelines we can work towards a circular future.

Improvements across the product lifecycle during 2019 include:



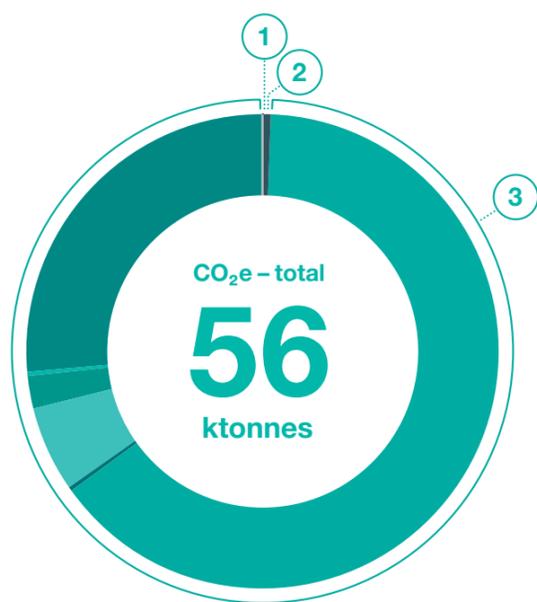
Case – Materials

Traditionally, plastic parts in our headphones have been coated to get a premium, tactile surface. However, this coating can contain solvents and softeners hazardous for our health and the environment. Etching a delicately designed texture directly into the moulding means we can achieve a high-quality, tactile surface and remove the need for coatings. These changes have increased product lifetime, reduced use of raw materials and production processes, as well as improved occupational health conditions in the manufacturing process.



Reducing climate impact

For us transparency about our sustainability performance is critical. So is reducing our climate impact across the entire value chain. To achieve the best possible results, we need to focus our efforts where we have the biggest footprint, but first we need to know what that impact is.



Our approach

To get a holistic view of our climate impact, we calculate our emissions based on the Greenhouse Gas Protocol and work towards reducing our impact across the entire value chain. (See “reporting principles” on page 55).

Our calculations are based on 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.

The vast majority of our emissions are indirect. We report all our emission within Scope 1 and Scope 2 as well as our most significant indirect emissions within Scope 3, where data is available. For example, we are still evaluating the best way to calculate climate emissions from the end of life of our sold products.

Scope 1	Direct GHG emissions	0,00%
Scope 2	Electricity indirect GHG emissions	0,18%
Scope 3	Purchased goods and services	65,18%
	Fuel- and energy related activities	0,02%
	Transportation and distribution	5,73%
	Business travel	2,32%
	Employee commuting	0,07%
	Use of sold products	26,49%

Scope 1 and Scope 2

In 2019 emissions generated from leased vehicles was 16 tonnes CO₂e. (Scope 1)

The majority of our employees are based in our head office in Stockholm, Sweden. The office uses 100% renewable electricity and heating comes from waste incineration. For offices outside Sweden we use the country’s typical energy mix. Total emissions generated from heating, cooling and electricity for 2019 is estimated at 103.1 tonnes CO₂e. (Scope 2) A small amount of CO₂e is generated when producing and distributing the energy we use (fuel – and energy related activities). This amounts to 11.5 tonnes CO₂e. (Scope 3).

Purchased goods and services

In 2019 emissions generated from the materials we used and the production of our headphones and speakers is calculated at 36,709 tonnes CO₂e¹. We talk more about our initiatives to reduce impact in these areas under Sustainable Design on page X.

Transport and distribution

Product transportation accounts for about six percent of our total carbon footprint. We mainly use sea and rail to distribute our products from our warehouse in China to local warehouses in Europe and the USA (97 percent) with just three percent distributed by air. Transport of our products from our local warehouses to local markets and from our China warehouse to Asia Pacific customers happens largely by road (82 percent). In 2019 our carbon emissions from distributing our products is estimated at 3,228 tonnes CO₂e (both Zound and customer-controlled transports), which corresponds to 0.3 CO₂e/tonnes of shipped product.

Business travel

We encourage our employees to use environmentally friendly transport and video-conferencing tools whenever possible. However, we are a global company and our product development, production and sales are in different parts of the world, so business travel is unavoidable. In 2019 emissions generated from business travel by air is estimated at 1,309 tonnes CO₂e.

Employee commuting

96% of our employees either walk, bike or use public transport to get to work. Only 4% commute by car.

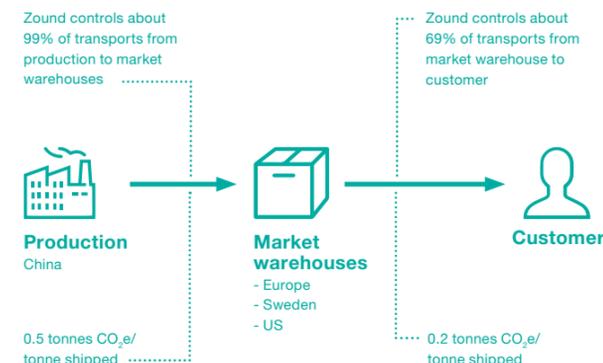
On average, a Zound employee travelled 20,3 km a day to and from work in 2019. Emissions generated from employee commuting is estimated at 39 tonnes CO₂e*.

*ZI sustainability survey.

Use of sold products

Emissions as a result of our consumers using our products is estimated at 14,922 tonnes CO₂e for 2019, the majority as a result of power consumption during usage, idle mode and charging.

¹ Calculated using spend-based method, Miljøgiraff LCA.



Employee commuting	Distance	tCO ₂ e (2019)
Train/Subway	54%	6.6
Walk/Bike	24%	0
Bus	18%	23.4
Car	4%	9.4

Responsible Sourcing

The consumer electronics supply chain presents challenges in terms of human rights, health and safety, as well as environmental impacts from production and sourcing materials. We are committed to improving, but we can't do it alone. We need to work with our suppliers, so we can keep raising standards and improve social, environmental and ethical performance together.

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. On top of this, we work with our partners to share knowledge and experience of sustainability.

Supplier Code of Conduct

The 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, anti-corruption and ethics. A revised version of the supplier Code of Conduct was developed and approved by the Board in October 2019.

Supplier audits

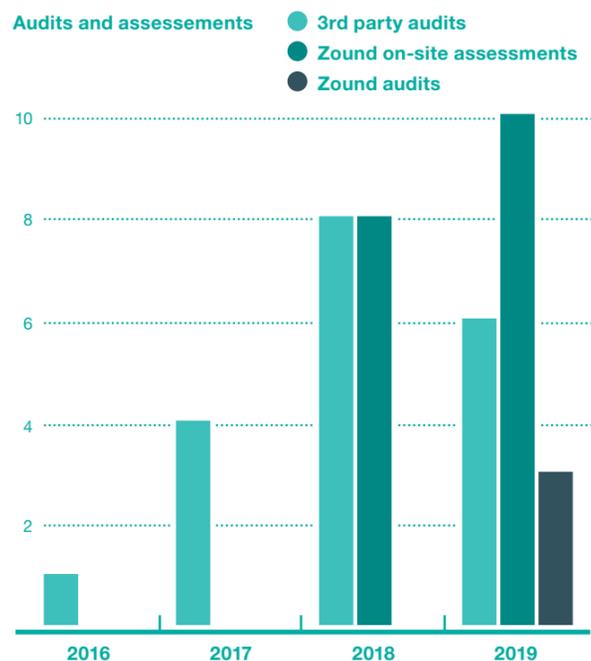
Supplier audits are an important tool to help all our suppliers act in accordance with our requirements.

Zound Audits are based on the Zound Industries Supplier Code of conduct and 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 follow up on corrective actions plans.

We also conduct third party audits as a requirement from our partners. During 2019, we performed six, third-party audits at product manufacturers. In the past three years, 100 percent 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. Since we started our collaboration with adidas in 2018 we've learned a lot and we've used this new knowledge to help our suppliers achieve even higher standards of sustainability.

As a result of our audits we have improved processes and conditions at our manufacturing partners' sites. 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

Our employees are the heart and soul of Zound. Their engagement and passion foster a culture that is hard to find elsewhere. We want to nurture this to build a fair and inspiring workplace where our employees thrive and develop.

Our approach

Our values are the basis of everything we do, and we encourage our employees to live them every day. With our code of conduct we give employees the skills and knowledge to navigate tricky situations to uphold these values, remain ethical and retain integrity.

Strong commitment and wellbeing

We want to create a culture where every employee feels valued, can develop in their roles and be happy as individuals – in an inclusive, curious and respectful working environment.

Wellbeing is important for Zound and last year our illness absence rate was 1.9 percent. In the spring we ran a training course for managers and workplace representatives to give them tools and guidance to better address risks in our work environment. While throughout the year, our employees ran a packed schedule of sports activities and our HR team arranged events linked to our values to promote wellbeing.

In 2019 our employee index was 75 out of 100. 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 the leadership.

Strategic talent supply

Apart from production, Zound Industries employs a vast number of different competencies inhouse; from innovation and design to tech and engineering, from marketing and communication to sales

and supply chain. This means we need to recruit the right talent with the right skills to develop products in line with our strategy. During 2019 we launched several new digital tools to help streamline the recruitment process and reach new high-potential candidates with growth mindsets.

Developing our leadership

As the company continues to grow, we need to make sure our leadership grows with it. In 2019 we launched an initiative to train managers reporting to the Management team in our leadership principles. These five pillars give our managers guidance and a shared platform to develop as leaders and take our company forward.

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. All our employees must not offer, give nor accept bribes or any other inappropriate benefits. Our employees must always put Zound's interests first and escalate any doubts about potential conflicts of interests. All Zound operations have been assessed for risk and exposure related to corruption and bribes all employees are trained in preventing bribery and corruption.

Community engagement

We developed a community engagement strategy in 2019. The idea is to donate to areas relevant to our business either via monetary support, products or employee knowledge. All employees can propose and engage in initiatives supporting People, Planet or Passion. Projects in 2019 included work with Mentor Sverige and Fryshuset in Stockholm.

Governance of Sustainability at Zound Industries

The Sustainability and Compliance team leads on Zound's sustainability work.

In 2019 a new Innovation Director joined the management team. Part of their role is to strengthen our products' sustainability performance. The Innovation Director also leads a cross-functional sus-

tainability innovation team working on the product development process.

To help communicate our sustainability work we use a number of policies and guidelines including our Sustainability Policy, Zound Play - our employee code of conduct - and Zound Industries Supplier Code of Conduct.

Sustainability risks and measures to manage them

Zound's approach to sustainability is defined from both a risk and 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 for the coming years. The risk analysis is reviewed annually by sustainability and management.

Risks and risk management sheet

Area	Material impact	Scope	Management
Environment	Environmental impact from products The majority of Zound's environmental impact is generated from extraction of materials, production and manufacturing of products and packaging and in the user phase of our sold products. We need to take preventative actions to reduce climate impact to remain relevant for consumers, employees, partners and investors.	Zound Suppliers	Reducing negative environmental impacts starts with the product's design and carries on throughout the entire value chain. - Sustainability policy - Sustainability design checklist – covering the lifecycle of the product. - Training, workshops and guidelines for designers to increase awareness about sustainable design and choice of material. - Training for product manufacturers in sustainability requirements, including additional requirements from adidas - Chemical analyses of materials and products - Zound audits of product manufacturers - Product responsibility programme for collection of end-of-life products, batteries and packaging for new e-Commerce markets - Connection to Green Dot licence for packaging that ensures packaging collection in relevant markets
	Environmental impact from product transports A significant environmental impact of our business activity is product transports. Transports by air increase costs and climate impact.	Zound	- Sustainability policy - Planned production and logistics - Evaluation of alternative modes of transport and more efficient packaging
Human rights	Responsible supply chain Zound's production is outsourced to suppliers in China. Generally, the electronics industry has a complex supply chain, where there are risks associated with a negative impact on human rights.	Zound Suppliers	Zound Industries Supplier Code of Conduct, (revised 2019) is communicated and signed by product manufacturers - Training of product manufacturers - Audit of product manufacturers, both Zound audits as well as 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 in the countries where the Company operates. If Zound Industries does not follow these principles, it can jeopardise the company's reputation and can also result in fines.	Zound Suppliers	- Employee Code of Conduct – Zound Play - Anti-corruption policy - Risk analysis - Anti-corruption training face-to-face for majority of staff, for each team - Zound Industries Supplier Code of Conduct - Audit of product manufacturers - Routines for follow-up of irregularities
Employees & social conditions	Strategic talent supply At Zound Industries, the entire value is managed in-house, apart from production. This means that the Company possesses expertise in a number of areas. Having people with the right competencies in the right position to run our business in the right way is therefore business critical.	Zound	- Quality-assured recruitment process - Skills development according to individual needs - Leadership training initiative for managers
	Strong commitment and wellbeing An inspiring workplace where employees are happy, developing and want to remain working is a requirement for a stable development of Zound Industries. Clear leadership, areas of responsibility and the right competencies are a requirement for a good working environment with a strong commitment and to minimise the risk of negative stress, among other things.	Zound	- Employee Code of Conduct – Zound Play - Culture and values implemented in 2017 - Employee survey implemented in 2018 - Heartpace, performance management tool, in order to follow up individual development connected to role, responsibility and performance - Systematic working environment work, including working environment forum (meets quarterly) and working environment representatives

Reporting principles

Reducing Climate Impact:

For calculation and reporting of greenhouse gas emissions we have used the principles in the Greenhouse Gas (GHG) Protocol, Corporate Accounting and Reporting Standard Revised Edition together with the Technical Guidance for Calculating Scope 3 emissions (version 1.0). We use acknowledged emission factors from DEFRA (conversion factors 2019: full set, for advanced users), IEA 2017 and NTM 2018 (Default and benchmark transport data).

We have chosen to use an operational approach when declaring our emissions. You can find further details about GHG reporting and principles used for each category, on www.zoundindustries.com.

Emissions not included:

- Scope 3 category 12: End-of-Life Treatment of Sold Products has been estimated to have a relevant impact, but we still lack data for 2019.
- Scope 3 categories that have not been evaluated but are estimated to represent less than 1% of total CO₂eq emissions are: 2. Capital of goods, 3. Fuel- and energy- related activities, 5. Waste generated in operations, 8. Upstream leased assets, 10. Processing of sold products, 13. Downstream leased assets.
- Scope 3 categories which are non-applicable: 14. Franchises, 15. Investments.

Transports: At Zound we control and collect data for 89 percent of transportation. The other 11 percent is customer controlled, which means we need to make certain assumptions regarding means of transport for customer-controlled transports.

Reporting influenced by GRI

Where applicable, data and information has been compiled and reported in accordance with GRI Standards:

Reducing Climate impact: Data for product transport has been compiled in accordance with GRI Standard (GRI 305-4 – GHG Emissions intensity).

Responsible Sourcing: Data for responsible sourcing is partly compiled in accordance with GRI standard (GRI 308-1 New suppliers that were screened using environmental criteria and GRI 414-1 New suppliers that were screened using social criteria).

A Zound workplace: Data for anti-corruption is partly compiled in accordance with GRI standard (GRI 205-1 Operations assessed for risks related to corruption).

About the statutory sustainability report:

The following table indicates where the required information for the statutory sustainability report for 2019 is reported.

Area	Requirement	Page
Overall	Business Model	35
Environmental issues	Policy and procedures Risks and risk management Performance	48–49, 52
Employees and social issues	Policy and procedures Risks and risk management Performance	51, 52
Human rights	Policy and procedures Risks and risk management Performance	51, 52
Anti-corruption	Policy and procedures Risks and risk management Performance	50, 51, 52