

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.

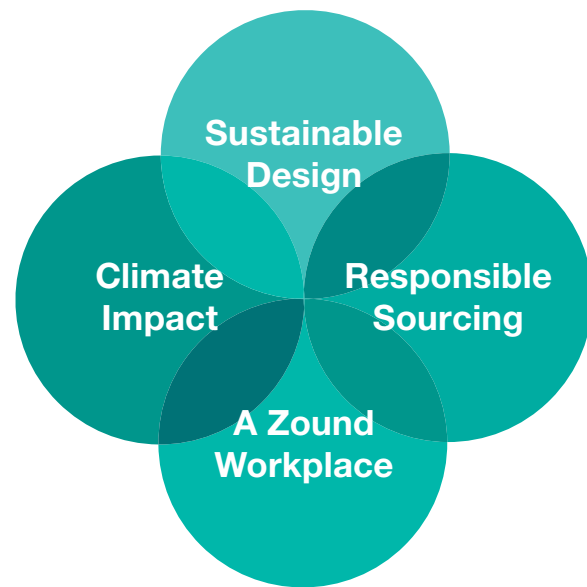
Our supply chain involves many stakeholders both upstream and downstream. Because it is so complex, we know there are lots of opportunities for us to make a difference.

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.

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

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



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

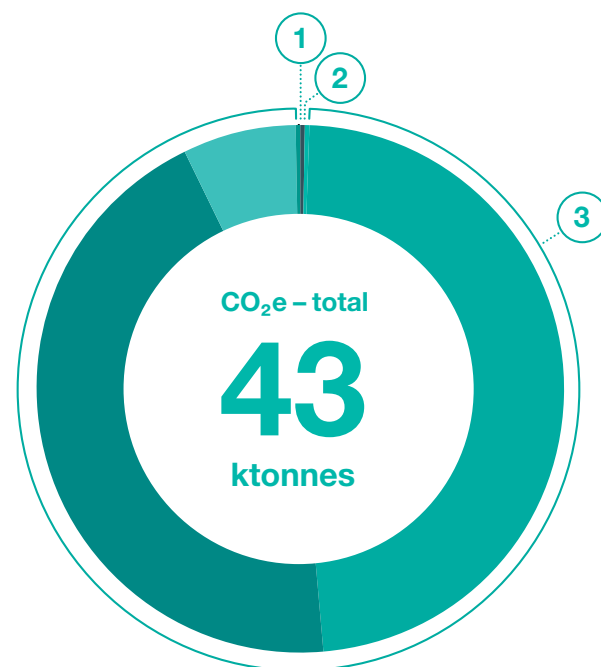
We have not found a way to make headphones and speakers without using plastic. Yet. So, we want to make sure that the plastic we put in our products reuses waste, is durable and has a minimal impact on the environment. Over the past year we have been working close with our recycling partner to create 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 CO₂e, compared to 36,709 tonnes CO₂e 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 CO₂e for 2020, compared to 14,922 tonnes CO₂e

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 CO₂e in 2020, compared to 3,200 tonnes CO₂e in 2019. In 2020 it corresponds to 0.23 CO₂e/tonnes of shipped product.

Business travel

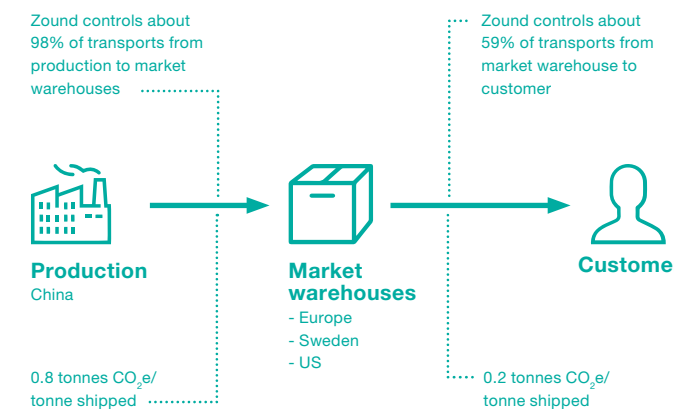
During 2020, business travel dropped significantly due to the COVID-19 outbreak. We instigated early travel restrictions and changed in-person meetings to digital events. In 2020 emissions generated from business travel by air is estimate at just 125 tonnes CO₂e, compared to 1,309 tonnes in 2019. We do not currently measure taxi emissions in our business travel calculations.

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 CO₂e.

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 CO₂e*.



Employee commuting	Distance	tCO ₂ e (2019)
Train/Subway	25%	7.0
Walk/Bike	51%	0.0
Bus	15%	22.7
Car	9%	25.1

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 CO₂ equivalent (CO₂e). 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

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.

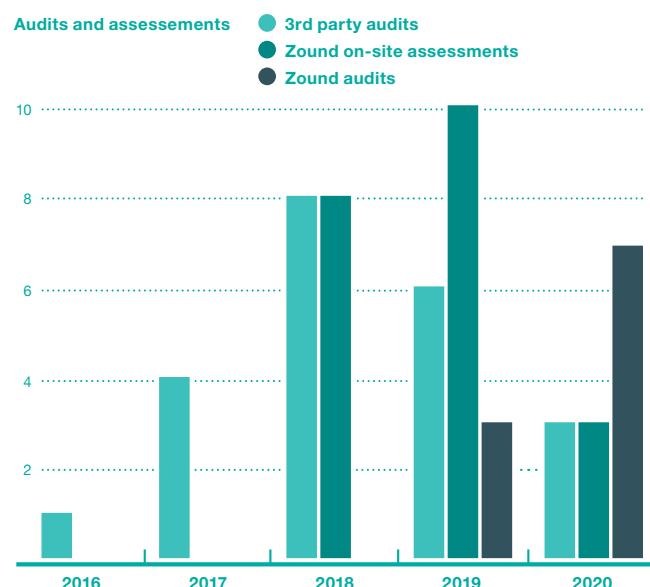
The COVID-19 pandemic presented many unexpected challenges. Product demand fluctuated from a sudden drop in the spring when the world shut down, to a record high after the summer when shops opened again. These dramatic changes impacted our entire supply chain. However, we continued working with all our 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. <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 CO₂ equivalent (CO₂eq) depending on their global warming potential. To calculate CO₂eq 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 than 1% of total CO₂eq 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