Zound Industries Annual Report 2017

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2017 was another successful year for Zound Industries. Consolidated sales for the year amounted to SEK 1,403.1 million, which is equivalent to an **increase of SEK 361.8 million or 34.7 percent** compared to the previous year.


Marshall

Content

Report of the Board of Directors

GROUP
Information about the operations

› The Board of Directors and the CEO of Zound Industries International AB (publ.), corp. id. no. 556757-4610, hereby submit the annual accounts and consolidated financial statements for the financial year 2017. All amounts are reported in SEK million unless otherwise stated. Any amounts in parenthesis refer to the preceding year.

› 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, the subsidiary Zound Industries Ltd 100%-owned, the subsidiary Zound Industries Shenzen Limited 100%-owned, Zound Industries USA Inc. 100%-owned and Zound Industries Smartphones AB 100%-owned.

› Zound Industries operates the entire chain from design and development, to marketing and sales of audio products. However, the Company does not conduct its own manufacturing but engages contract manufacturers in Asia.

› The Company's brands are the proprietary Urbanears and also Marshall, which is operated under licence. These brands are currently represented in 119 markets, where the main markets are the Nordic region, USA, France, Germany, UK and China. Distribution takes place via distributors, directly through business-to-business, as well as own e-commerce sales directly to the consumer.

› The head office is based in Stockholm with production offices in Shenzhen, China, and sales and marketing offices in New York, USA and Paris, France.

Events during the financial year

› 2017 was another successful year for Zound Industries. Consolidated sales for the year amounted to SEK 1,403.1 million, which is equivalent to an increase of SEK 361.8 million or 34.7 percent compared to the previous year. The Group reported operating income of SEK 83.3 million compared to SEK 34.0 million in the previous year. However, the previous year was charged with an impairment loss related to the smartphones product segment. Adjusted for these items affecting comparability, operating profit decreased by SEK 13.9 million. The change in earnings is in line with the plan that the Company is working towards.

During the year, the Company established itself in a new product category and introduced Wifi-based speakers for the Urbanears and Marshall brands. The Company also introduced a number of Bluetooth-based headphones, for example Monitor BT, which was the final part of the wireless headphones family that is now available in the market from Marshall. Urbanears supplemented its active range with the Stadion BT model and the iconic Plattan model gained an updated wireless design in the form of the Plattan 2 BT model.

The headphones segment is the product segment that reported the highest overall percentage growth during the year. However, in absolute numbers, the speakers segment contributed most to the total sales increase thanks to its relatively higher share of sales. The product category speakers represented 62 percent of total sales compared to 61 percent in the previous year.

E-commerce is continuing to increase in importance for the Company, both directly under own management and indirectly through the portion that is sold online via the CE channel. During the year, the Company also experienced increased seasonal variation where the importance of so-called shopping events, such as 11/11 in China and Black Friday as well as Cyber Monday in the rest of the world, are increasing in terms of importance. The fourth quarter is the most important quarter for the Company seasonally, and during 2017 sales in this period amounted to SEK 533.6 million, which is equivalent to 38.0 percent of total sales during the year.

A change in consumer behaviour is the increased use of so-called omnichannels in the purchasing process. In other words, how the consumer is increasingly tending to use a combination of both online and offline sources in order to obtain information before a purchasing decision. This trend applies regardless of where and how the final purchase actually occurs and confirms the Company's strategy of further increasing its online efforts but also continuing to have a strong presence in physical channels.

During the year, work continued with implementing internal and external changes in order to enable continued growth and profitability during the next few years. The strategic plan, which was launched during 2016 has been refined and extended into a five-year plan. In line with this plan, the Company is continuing to strengthen the organisation through recruitment of key people, enhancement of business processes and investment in product development, technology and support systems. The Company has also increased its sales and marketing investments in order to capture immediate business opportunities and ensure long-term growth.

In 2017, the Company entered into an exclusive agreement with Adidas covering several years relating to design, development, marketing and sales of audio products in the sports and lifestyle segments. The first products based on this partnership are expected to be available in the market during the second half of 2019.

Events during the financial year

› The result of the Company's operations and the financial position at the end of the financial year in other respects is clear from the accompanying income statement and balance sheet with notes.

Change of accounting principles in the consolidated financial statements and in the Parent company's accounts

› During the year, the Group changed accounting principles to International Financial Reporting Standards (IFRS). In the Parent company, a change was made to RFR 2 Accounting for Legal Entities.

Equity in the Group changed with the transition to new accounting rules. For a detailed description of the effects on the consolidated financial statements, refer to Note 30.

The change of accounting principles in the Parent company has not implied any effects on earnings and on the financial position. See Note 2.21 for a more detailed description of the change of accounting principles in the Parent company.

Multi-year summary Group*

KEY RATIOS Amounts in SEK million	1 Jan 2017– 31 Dec 2017	1 Jan 2016– 31 Dec 2016	1 Jan 2015– 31 Dec 2015	1 Jan 2014– 31 Dec 2014 (Not IFRS*)	1 Jan 2013– 31 Dec 2013 (Not IFRS*)
Earnings					
Net sales	1,403.1	1,041.3	757.4	532.5	312.2
EBITDA	105.2	95.9	52.5	51.0	1.0
EBIT	83.3	20.6	34.5	41.5	–7.9
Profit before tax	80.0	17.2	29.5	41.4	–9.6
Net profit for the period	60.6	12.9	24.1	32.4	–8.2
Margins					
Operating margin, %, EBITDA	7.5%	9.2%	6.9%	9.6%	0.3%
Operating margin, % EBIT	5.9%	2.0%	4.6%	7.8%	neg.
Profit margin, %	5.7%	1.6%	3.7%	7.8%	neg.
Financial position					
Total assets	690.0	587.2	511.6	302.0	190.1
Equity	314.9	255.5	241.8	132.6	69.5
Equity/assets ratio, %	45.6%	43.5%	47.3%	43.9%	36.6%
Employees					
Average number of employees	161	129	98	71	62

* During 2017 the Group changed accounting principles to IFRS, with comparative years of equity with start January 1st 2015. The above comparative years 2013 and 2014 are presented in accordance with previous applied principle.

Risks and risk management

› The risk management is primarily handled by the CEO and CFO in consultation with the Board. The risk management includes identifying, evaluating and securing commercial, operational, financial, legal and regulatory risks. This occurs in close collaboration with the Group's operating units and there are specific departments for handling certain individual areas.

Commercial risks

› The Company is exposed to a number of commercial risks such as changed 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 in order to handle the Group's commercial risks.

Operational risks

› The strong growth and pace of change in the Company imposes strict demands for awareness of the risks that can arise due to inadequate internal routines, processes, systems or due to other internal and external events. Continual work is underway in the Company in order to develop and adapt internal routines, processes and systems to support and control the operations in an adequate way.

In addition to this basic work, there are also a number of policies and manuals in order to minimise the risk of losses as far as possible due to shortcomings in these areas. In 2017, for example, a large amount of work was invested in creating a finance manual that clearly documents routines, processes and areas of responsibility in the financial function and related units.

Legal and regulatory risks

› The Company has a Legal and Compliance unit that together handle contract-related obligations, external regulations and other laws and ordinances. Both of these functions work together to ensure compliance in relevant areas and minimise the Company's risks. The awareness concerning legal and regulatory risks is considered to be good.

Financial risks

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

For a more detailed description of the Group's risk management, refer to the section Financial risk management, Note 3, in the supplementary disclosures.

Ownership

The Group is 12.6 percent owned by Telia Company AB and 9.6 percent by Time Investors SAS. The remainer of the ownership is spread among 370 other shareholders, of which Varenne AB with subsidiaries represents a total participating interest equivalent to 13.6 percent.

Sustainability and diversity

› Sustainability is defined here as work with environmental issues, employee and social issues, respect for human rights and anti-corruption work. Respect for people and the environment we live in has always been part of Zound Industries' business operations. The next step is now to prioritise, integrate and manage the sustainability work. In 2017, a Sustainability Manager was appointed to strengthen the sustainability work and take it to the next level.

Sustainability risks and measures to reduce them

› A review of the Company's sustainability aspects, risks and activities has been conducted, followed by interviews with internal and external stakeholders in order to identify the most important sustainability risks and impact areas. Sustainability risks have been considered in the prioritisation of sustainability issues, together with stakeholder expectations and the business strategy. The Management team has performed a risk analysis and identified prioritised areas in an action plan for the coming years. The Company's material risks and how they are handled are described below.

The products largest impacts, and also the most material sustainability risks are found upstream and downstream of Zound Industries' core business. The most important identified risk areas in the sustainability area for Zound Industries are:

- Social conditions in the supply chain
- Environmental impacts during manufacturing of components and material for the products, in the supply chain and in the waste management process
- Environmental impacts from transports and use of packaging material
- Employee issues, such as working environment including stress and strategic competence supply
- Anti-corruption
- Product safety

Increased focus on sustainability from consumers and stakeholders represents both an opportunity and a risk, and needs to be handled correctly.

Policies and guidelines

› In order to communicate the focus of the sustainability work, there are a number of policies and guidelines that together cover the sustainability area. The most important are the Code of Conduct for Zound Industries' employees, partners and suppliers as well as the Environmental policy.

The table below summarises how we work with sustainability in relation to policies, routines and follow-up of outcomes.

Area	Policy and outcome	Tools	Indicators
Environment	Environmental policy	Audit of product manufacturers	Action plans and correcting deviations from audits
		Chemical analysis of material and products	Indicators for product transports shall be developed
			Material in packaging
Employee and social issues	Code of Conduct	Culture and values implemented during the year Employee survey to be introduced during 2018	Absence due to illness
	Equal conditions policy		Employee survey from 2018
Human rights	Code of Conduct	Audit of product manufacturers	Proportion of product suppliers that were audited (number/sales volume)
	Anti-discrimination policy		
Anti-corruption	Code of Conduct	Audit of product manufacturers	No indicators in place
	Whistleblower policy	Risk analysis	Training during 2018
		Routines for follow-up of irregularities	Improve training in the Code of Conduct for new employees

Current practice
Employees

› Zound Industries currently employs 165 full-time employees in Sweden, China, France and the USA. The majority of the personnel and corporate functions, including staff, are based in Stockholm. In 2017, a programme centred around the Company's culture and values was developed and communicated throughout the entire Company. The values are Courage for curiosity, Create the wow, On the ball and Magic is together. Zound Industries strives to create a culture where every employee is important – where all employees feel they can develop in their roles and be happy as individuals, in an inclusive, curious and respectful working environment.

During the year, a large number of activities were carried out for the employees in the Stockholm office that were connected to the values such as seminars about diversity, human rights, creativity and climate-smart material. Using the experience gained from these activities, similar but adapted activities for the other offices will be carried out in the coming years.

As the Company is growing, clearer guidelines shall be developed for working environment efforts. During the year, a more systematic working method was initiated in the working environment area in order to discover and reduce physical and psychosocial risks.

The gender distribution in the Group is 54.1 percent men and 45.9 percent women. The absence due to illness in the Group during 2017 was 1.07 percent.

Current practice
Anti-corruption

› Zound Industries has zero tolerance against all types av corruption and other unethical business methods. All employees shall refrain from offering, giving and accepting bribes and other inappropriate benefits. Employees must have the knowledge and tools to always put the Company's interests first and escalate any doubts about potential conflicts of interests. The Company shall further clarify the rules for business entertainment and how gifts should be handled.

The Code of Conduct contains requirements for fighting corruption and has been signed by all product manufacturers. All product manufacturers were audited in accordance with the Code of Conduct during 2016–2017. Through active collaboration, it was possible to correct all deviations by the end of 2017.

Current practice
Environmental and social impact of products

› Zound Industries' most significant environmental impact is indirect through design, production, transport as well as the use and waste management phases of the products. The direct environmental impact in Zound Industries organisation is relatively minor, and mainly consists of energy consumption in offices, business travel and sourcing of products and material for offices and events. The same applies to social issues. The focus is therefore on improving upstream and downstream impacts in the supply chain.

The electronics industry has complex supply chains and there are still obvious risks for violations of human rights and negative environmental impacts. The key to more sustainable working methods includes traceability, know how and sector cooperation. Zound Industries handles this through:

- Know how in sustainable design and choice of material: through training, workshops and guidelines for designers. Several life cycle analyses of products have been performed in order to enable evaluation of design and choice of material, and identify potential improvements. During the year, new resources were recruited to increase know how regarding sustainable material.

- Longer useful life of the products: Supplying spare parts to extend the useful life and increase customer satisfaction are also an important means of reducing environmental impacts, and the service for this was improved during 2017.

- Packaging material has been reduced and replaced. The design has been changed to simplify recycling and plastic insulation has been replaced with cardboard boxes in several of the most sold products during the year. This replacement has worked well and the substitution to material with less environmental impacts is continuing.

- Sustainable innovation: Identication of new, sustainable products and business opportunities by engaging experts in the field.

- Supplier collaboration: Zound Industries wants to collaborate with a reasonably limited number of reliable suppliers, where long-term relationships can be developed. Suppliers are expected to share the same values regarding business ethics, human rights, good working environment and product safety through the entire supply chain. Through the Code of Conduct and Product environmental standards, Zound Industries' requirements are communicated. Through cooperation from daily contacts and meetings to quarterly business meetings at Management level, including chemical analysis of products to ensure compliance with standards relating to hazardous substances and third party audits, compliance with requirements is checked. Collaboration with a number of suppliers has been actively discontinued due to insufficient capacity to meet requirements.

- Transports are an important area for reducing climate impacts and will be investigated further during 2018. The main alternative is always boat but sometimes air transport is also required due to the time factor. Several alternatives to air freight of products were evaluated during the year, including trials using rail services.

- Collaborations within the industry and with stakeholders regarding sustainability, such as choice of material and human rights, have been carried out and will continue in order to improve the sustainability work.

Proposed appropriation of profits at the Annual General Meeting 2018

› The Board proposes that the unappropriated profits as of 31 December 2017, SEK 43.0 million, shall be carried forward.

For changes in the equity during the year, see the report of changes in equity for the year for the Group and the Parent company. For other information please refer to the following financial statements and notes.


Marshall

Consolidated Income Statement

All amounts in SEK million (MSEK)	Note	2017	2016	2015
Operating income				
Revenue	5	1,403.1	1,041.3	757.4
Other income		2.2	1.8	0.9
Total income		**1,405.3**	**1,043.1**	**758.3**
Operating expenses				
Raw materials and consumables		–795.6	–612.3	–427.6
Other external expenses	6	–355.1	–232.5	–205.3
Personnel costs	7	–144.9	–102.4	–72.7
Depreciation and write-down of tangible and intangible assets	10, 11, 12	–21.9	–75.3	–18.0
Other operating expenses		–4.6	–	–0.3
Total operating expenses		**–1,322.0**	**–1,022.4**	**–723.8**
Operating profit		**83.3**	**20.6**	**34.5**
Financial income	8	0.4	0.8	0.0
Financial expenses	8	–3.7	–4.3	–5.0
Result from financial items		–3.3	–3.5	–5.0
Profit before tax		**80.0**	**17.2**	**29.5**
Income tax	9	–19.4	–4.2	–5.4
PROFIT FOR THE YEAR		**60.6**	**12.9**	**24.1**
Net profit attributable:				
Parent company shareholders		60.6	12.9	24.1
Earnings per share, before dilution (SEK)				
Earnings from continuing operations		7.41	1.64	3.36
Earnings per share, after dilution (SEK)				
Earnings from continuing operations		7.41	1.58	3.12
Average number of shares before dilution effects		8,181,958	7,905,358	7,169,477
Average number of shares after dilution effects		8,181,958	8,181,958	7,722,677

Consolidated Statement of Comprehensive Income

All amounts in SEK million (MSEK)	2017	2016	2015
Profit for the year	**60.6**	**12.9**	**24.1**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Translation differences	–1.3	0.8	0.7
Other comprehensive income for the year, net of tax	–1.3	0.8	0.7
Total comprehensive income for the year	**59.3**	**13.7**	**24.8**
Total comprehensive income attributable to:			
Parent company shareholders	59.3	13.7	24.8

Consolidated Balance Sheet

All amounts in SEK million (MSEK)	Note	2017-12-31	2016-12-31	2015-12-31	2015-01-01
ASSETS					
Non fixed assets					
Patents and brands	10	7.3	9.9	10.0	9.9
Other intangible assets	10	0.4	–	44.8	26.0
Right of use assets	11	33.9	42.5	55.5	8.5
Equipment, tools and fixtures	12	9.3	11.9	7.6	4.2
Other long-term investments	13	7.1	6.2	0.6	0.5
Deferred tax assets	9	4.0	2.2	2.4	0.4
Total fixed assets		**61.9**	**72.7**	**121.0**	**49.6**
Current assets					
Inventories	14	338.5	246.2	157.3	96.3
Accounts receivables	15	224.5	180.2	120.1	147.4
Derivatives			0.3	–	–
Other receivables		8.0	2.7	18.6	2.9
Prepaid expenses and deferred income	16	17.0	26.7	18.1	11.3
Cash and cash equivalents		40.1	58.3	76.5	2.8
Total current assets		**628.1**	**514.5**	**390.6**	**260.7**
TOTAL ASSETS		**690.0**	**587.2**	**511.6**	**310.2**
EQUITY	17				
Equity attributable to owners of the Parent company					
Share capital	17	0.8	0.8	0.8	0.7
Other contributed capital		148.1	148.1	148.1	63.4
Reserves		0.2	1.5	0.7	0.0
Retained earnings including result for the year		165.8	105.1	92.2	67.9
Total equity		**314.9**	**255.5**	**241.8**	**132.0**
LIABILITIES					
Fixed liabilities					
Convertible right of use assets	11	18.7	29.6	40.1	5.0
Other long-term liabilities		–	–	–	0.1
Deferred tax liabilities	9	9.7	5.8	6.5	4.2
Total fixed liabilities		**28.4**	**35.4**	**46.6**	**9.3**
Current liabilities					
Bank overdraft	18	32.9	–	–	27.0
Liabilities right of use assets	11	14.2	11.9	13.8	3.8
Accounts payables		163.0	195.0	109.7	102.6
Current tax payables	9	10.1	0.3	8.3	4.6
Derivatives		–	0.1	–	–
Other liabilities	19	10.8	4.3	26.6	3.8
Prepaid income and deferred expenses	20	115.8	84.8	64.9	27.1
Total current liabilities		**346.7**	**296.3**	**223.2**	**169.0**
TOTAL EQUITY AND LIABILITIES		**690.0**	**587.2**	**511.6**	**310.2**

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Parent company				
All amounts in SEK million (MSEK)	Note	Share capital	Other contributed capital	Reserves	Retained earnings including result for the year	Total equity
Opening balance as at 2015-01-01	17	**0.7**	**63.4**	**0.0**	**67.9**	**132.0**
Comprehensive income						
Profit for the year					24.1	24.1
Other comprehensive income for the year						
Translation differences				0.7		0.7
Total comprehensive income		**–**	**–**	**0.7**	**24.3**	**25.0**
Transactions with shareholders						
New share issue		0.1	84.7			84.8
Total transactions with shareholders		**0.1**	**84.7**	**–**	**–**	**84.8**
BALANCE AS AT 2015-12-31		**0.8**	**148.1**	**0.7**	**92.2**	**241.8**
Opening balance as at 2016-01-01	17	**0.8**	**148.1**	**0.7**	**92.2**	**241.8**
Comprehensive income						
Profit for the year					12.9	12.9
Other comprehensive income for the year						
Translation differences				0.8		0.8
Total comprehensive income		**–**	**–**	**0.8**	**12.9**	**13.7**
Transactions with shareholders						
New share issue		0.1				0.1
Total transactions with shareholders		**0.1**	**–**	**–**	**–**	**0.1**
						–
BALANCE AS AT 2016-12-31		**0.8**	**148.1**	**1.5**	**105.2**	**255.5**
Opening balance as at 2017-01-01	17	**0.8**	**148.1**	**1.5**	**105.2**	**255.5**
Comprehensive income						
Profit for the year					60.6	60.6
Other comprehensive income for the year						
Translation differences				–1.3		–1.3
Total comprehensive income		**–**	**–**	**–1.3**	**60.6**	**59.3**
Transactions with shareholders						
Total transactions with shareholders		**–**	**–**	**–**	**–**	**–**
BALANCE AS AT 2017-12-31		**0.8**	**148.1**	**0.2**	**165.8**	**314.9**

Consolidated Statement of Cash Flows

All amounts in SEK million (MSEK)	Note	2017-12-31	2016-12-31	2015-12-31
Cash flow from operating activities				
Operating result		83.3	20.6	34.5
Adjustment for items not included in cash flow				
– Reversal of depreciation and amortisation		21.9	75.3	18.0
– Other items, without cash flow impact	24	29.1	–9.8	–1.4
Interest received		0.1	0.8	0.0
Interest paid		–3.6	–4.3	–5.0
Tax paid		–9.6	–13.0	–2.6
Cash flow from operating activities before change in working capital		**121.0**	**69.7**	**43.4**
Changes in working capital				
Increase/decrease in inventories		–113.6	–81.2	–60.6
Increase/decrease in accounts receivables		–48.9	–60.2	27.4
Increase/decrease in other current receivables		4.3	–15.3	–25.2
Increase/decrease in other current liabilities		41.0	40.3	45.1
Increase/decrease in accounts payable		–31.4	85.3	7.0
Total change in working capital		**–148.6**	**–31.1**	**–6.3**
Cash flow from operating activities		**–27.5**	**38.6**	**37.1**
Cash flow from investing activities				
Investments in intangible assets		–3.0	–11.2	–30.5
Investments in tangible fixed assets		–5.4	–7.9	–5.7
Sale of financial fixed assets		–0.9	–5.6	–0.1
Cash flow from investing activities		**–9.3**	**–24.7**	**–36.2**
Cash flow from financing activities				
New share issue, net after expenses		0.0	0.1	84.8
Change in bank overdraft		32.9	–	–27.0
Borrowings		–	–	65.0
Amortisation of borrowings		–13.3	–33.0	–50.6
Cash flow from financing activities		**19.6**	**–32.9**	**72.1**
Cash flow for the period		**–17.2**	**–19.1**	**73.0**
Cash and cash equivalents at beginning of the period		58.3	76.6	2.8
Exchange rate differences in cash and cash equivalents		–1.1	0.8	0.7
Cash and cash equivalents at end of period		**40.1**	**58.3**	**76.5**

Parent company
Income Statement

All amounts in SEK million (MSEK)	Note	2017	2016	2015
Operating income				
Revenue	5	1,322.4	946.2	725.4
Other income		1.5	2.5	0.7
Total income		**1,323.9**	**948.7**	**726.1**
Operating expenses				
Raw materials and consumables		–809.9	–569.6	–448.2
Other external expenses	6	–301.3	–194.6	–155.1
Personnel costs	7	–123.5	–86.8	–62.5
Depreciation and write-down of tangible and intangible assets	10, 12	–8.3	–62.1	–13.4
Other operating expenses		–4.6	–	–0.3
Total operating expenses		**–1,247.6**	**–913.1**	**–679.5**
Operating profit		**76.3**	**35.7**	**46.7**
Other interest income and similar profit (loss) items		0.3	0.0	0.0
Interest expense and similar profit (loss) items		–2.3	–2.8	–3.0
Result from financial items		**–2.0**	**–2.8**	**–3.0**
Profit before tax		74.3	32.9	43.7
Appropriations	25	–17.9	–19.2	–18.5
Income tax	9	–13.4	–3.2	–4.2
Profit for the year		**43.0**	**10.5**	**21.0**

Parent company
Statement of Comprehensive Income

All amounts in SEK million (MSEK)	2017-12-31	2016-12-31	2015-12-31
Profit for the year	**43.0**	**10.5**	**21.0**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Total comprehensive income for the year	**43.0**	**33.4**	**21.0**

Parent company
Balance Sheet

All amounts in SEK million (MSEK)	Note	2017-12-31	2016-12-31	2015-12-31	2015-01-01
ASSETS					
Fixed assets					
Intangible assets					
Patents and brands	10	7.2	9.9	10.0	9.8
Other intangible assets	10	0.4	–	44.8	26.0
Total intangible assets		**7.6**	**9.9**	**54.8**	**35.8**
Tangible assets					
Equipment, tools and fixtures	12	8.2	11.5	7.3	3.9
Total tangible assets		**8.2**	**11.5**	**7.3**	**3.9**
Financial assets					
Participations in Group companies	26	2.7	2.7	2.7	2.7
Other long-term receivables	13	6.1	5.8	0.2	0.6
Total financial assets		**8.8**	**8.5**	**2.9**	**3.3**
Total fixed assets		**24.7**	**29.9**	**65.0**	**43.0**
Current assets					
Current receivables					
Inventories		273.5	201.6	101.5	90.5
Accounts receivables		167.2	138.5	92.1	144.5
Receivables from Group companies		109.9	106.0	70.9	7.4
Other receivables		7.9	2.1	2.7	2.6
Prepaid expenses and deferred income	16	18.0	25.2	17.0	10.9
Total current receivables		**576.6**	**473.4**	**284.2**	**255.9**
Cash and cash equivalents		21.8	39.0	54.4	–3.3
Total current assets		**598.4**	**512.4**	**338.6**	**252.6**
TOTAL ASSETS		**623.1**	**542.3**	**403.6**	**295.6**

Parent company
Balance Sheet, cont.

All amounts in SEK million (MSEK)	Note	2017-12-31	2016-12-31	2015-12-31	2015-01-01
EQUITY AND LIABILITIES					
Equity	17, 29				
Restricted equity					
Share capital		0.8	0.8	0.8	0.7
Total restricted equity		**0.8**	**0.8**	**0.8**	**0.7**
Non-restricted equiy					
Share premium reserve		148.1	148.1	148.1	63.4
Profit brought forward		82.0	71.5	50.5	28.7
Profit for the year		43.0	10.5	21.0	21.9
Total non-restricted equity		**273.0**	**230.1**	**219.6**	**113.9**
Total equity		**273.9**	**230.9**	**220.4**	**114.6**
Untaxed reserves	27	44.0	26.1	29.7	18.9
Fixed liabilities					
Other long-term liabilities		–	–	–	0.1
Total fixed liabilities		–	–	–	0.1
Current liabilities					
Bank overdraft	18	32.9	–	–	27.0
Accounts payables		156.4	188.5	97.3	101.0
Liabilities to group companies		–	25.5	9.6	2.7
Current tax payables	9	8.3	0.1	7.2	4.6
Other liabilities		7.0	4.2	5.3	3.4
Accrued expenses and deferred income	20	100.6	67.1	34.2	26.8
Total current liabilities		**305.2**	**285.4**	**153.5**	**165.5**
TOTAL EQUITY AND LIABILITIES		**623.1**	**542.3**	**403.6**	**299.2**

Parent company
Changes in Equity

	Restricted equity	Non-restricted equity			
	Share capital	Share premium reserve	Profit brought forward	Profit for the year	Total equity
Equity as at 2015-01–01	**0.7**	**63.4**	**28.7**	**21.9**	**114.6**
Profit for the year				21.0	21.0
Profit allocation as decided at annual general meetings					–
– Result carried forward			21.9	–21.9	–
New share issue	0.1				0.1
Share premium reserve		84.7			84.7
Equity as at 2015-12-31	**0.8**	**148.1**	**50.5**	**21.0**	**220.4**
Adjusted equity as at 2016-01-01	**0.8**	**148.1**	**50.5**	**21.0**	**220.4**
Profit for the year				10.5	10.5
Profit allocation as decided at annual general meetings					–
– Result carried forward			21.0	–21.0	–
New share issue	0.1				0.1
Equity as at 2016-12-31	**0.8**	**148.1**	**71.5**	**10.5**	**230.9**
Equity as at 2017-01-01	**0.8**	**148.1**	**71.5**	**10.5**	**230.9**
Profit for the year				43.0	43.0
Profit allocation as decided at annual general meetings					–
– Dividend					–
– Result brought forward			10.5	–10.5	–
Equity as at 2017-12-31	**0.8**	**148.1**	**82.0**	**43.0**	**273.9**

Parent company
Statement of Cash Flows

All amounts in SEK million (MSEK)	Note	2017-12-31	2016-12-31	2015-12-31
Cash flow from operating activities				
Operating result		76.3	35.7	46.7
Adjustment for items not included in cash flow				
– Reversal of depreciation and amortisation		8.3	62.1	13.4
– Other items, without cash flow impact	24	20.1	–0.5	0.7
Interest received		0.3	0.0	0.0
Interest paid		–2.3	–2.8	–3.0
Tax paid		–7.4	–11.9	–2.9
Cash flow from operating activities before change in working capital		**95.4**	**82.7**	**54.9**
Changes in working capital				
Increase/decrease in inventories		–87.4	–99.7	–10.5
Increase/decrease in accounts receivables		–28.8	–51.8	52.4
Increase/decrease in other current receivables		–2.5	–37.3	–70.6
Increase/decrease in other current liabilities		13.0	49.4	10.6
Increase/decrease in accounts payable		–32.1	91.1	–3.7
Total change in working capital		**–137.7**	**–48.3**	**–21.7**
Cash flow from operating activities		**–42.3**	**34.4**	**33.2**
Cash flow from investing activities				
Investments in intangible assets		–3.0	–13.7	–30.5
Investments in fixed assets		–4.4	–7.7	–5.6
Purchases of financial fixed assets		–0.3	–5.6	–0.1
Cash flow from investing activities		**–7.7**	**–27.0**	**–36.1**
Cash flow from financing activities				
New share issue		0.0	0.1	84.8
Change in bank overdraft		32.9	–	–27.0
Borrowings		–	–	30.0
Amortisation of borrowings		–	–	–31.1
Dividend to shareholders of the Parent company		–	–22.9	0.0
Cash flow from financing activities		**32.9**	**–22.9**	**56.6**
Cash flow for the period		**–17.1**	**–15.4**	**53.7**
Cash at beginning of the period		39.0	54.4	0.7
Cash at end of period		21.8	39.0	54.4

Notes for the Parent company and the Group

Note 1 General 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 liability Company, which is registered in Sweden and has its registered office in Jönköping. The visiting address for the head office is Centralplan 15, Stockholm.

On 27 April 2018, these consolidated financial statements were approved by the Board of Directors.

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

This is the first report published in accordance with the International Financial Reporting Standards (IFRS). The effects of the transition to IFRS from previously applied accounting principles are described in more detail in Note 30.

Note 2 Summary of significant accounting principles

2.1 Basis of preparation

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

Assets and liabilities are recognised at historical cost, with the exception of derivative instruments, which are measured at fair value through profit or loss.

The most important accounting principles applied when these consolidated financial statements were prepared are presented below.

The preparation of financial statements in conformity with IFRS requires the use of critical 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 are areas where assumptions and estimates are of considerable significance for the consolidated financial statements, are specified in Note 4.

The Parent company's financial statements are prepared in accordance with RFR 2, Accounting for Legal Entities and the Swedish Annual Accounts Act. In those cases where the Parent company applies different accounting principles than the Group, it is stated separately at the end of the described accounting principles.

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

All standards that became effective during 2017 have been applied in the consolidated financial statements. In addition, IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases were early-adopted. These three standards were applied in all of the presented periods.

Standards, amendments and interpretations of existing standards that will become effective in 2018 or subsequently and which (may) have an impact on the financial statements

No material new standards, amendments and interpretations of existing standards that become effective in 2018 or subsequently have been identified.

2.2 Consolidation

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.

2.3 Segment reporting and earnings per share

Operating segments

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

An operating segment is a part of a Company whose operational performance is regularly reviewed by the Group's "Chief Operating Decision Maker" who decides on what resources are to be allocated to the segment and evaluates the segment's earnings. Within Zound Industries, a group, composed of the CEO and the Company's Management team, has been identified as the Chief Operating Decision Maker.

The operations are followed up on a revenue basis according to the following segments:

1. Sales channels (Distributors, Direct sales, E-commerce and Other). The other segment mainly consists of sales via Internet.
2. Product category (Headphones and Speakers and Other).

In addition, sales are presented per key geographical area. Earnings are followed up for the Group as a whole.

Earnings per share

Earnings per share before dilution are calculated by dividing the net profit 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 the net profit 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 recognised if a conversion to ordinary shares would lead to a decrease in earnings per share after dilution.

2.4 Foreign currency translation

Functional currency and presentation currency

Items included in the financial statements of the various Group units are measured in the currency 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 prevailing on the transaction date. Exchange gains and losses arising on settlement of such transactions on translation of monetary assets and liabilities in foreign currency at the closing day rate, are recognised in profit or loss. Exchange differences on lending and borrowing are recognised in net financial items, while other exchange differences are included in operating profit.

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 recognised as a separate component of other comprehensive income and in the category Reserves within equity.

During consolidation, exchange differences, which arose 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 recognised in equity are transferred to profit or loss and recognised as a component of the capital gain/loss.

2.5 Intangible assets

Capitalised expenditure for development and similar work

Development costs directly attributable to the development and testing of identifiable and unique products controlled by the Group are recognised 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 expenditure for consultants, materials and a reasonable proportion of the indirect costs. During capitalisation, the portion of the expenditure recognised as income against received/expected contributions is considered. Capitalised development costs are recognised as intangible assets and are written off from the date when the asset is ready to be used.

Other intangible assets

Other intangible assets mainly consist of expenditure for trademark protection, patents and business systems.

Intangible assets acquired separately are recognised at cost. All intangible assets recognised in the Group have a determinable useful life and are recognised at cost less accumulated depreciation and any impairment losses.

Depreciation periods

Capitalised expenditure for development and similar work: 5 years
Other intangible assets: 5 years

2.6 Equipment, tools and fixtures

All items of equipment, tools and fixtures are recognised at acquisition value less depreciation using the straight-line method. Cost includes expenditure, which is directly attributable to the acquisition of the asset.

Equipment, tools and fixtures in the Group consists of equipment and tools.

Additional expenditure is added to the asset's carrying amount or is recognised as a separate asset, depending on what is appropriate, only if it is probable that the future economic benefits associated with the asset will accrue to the Group and that the cost of the asset can be measured in a reliable manner. The carrying amount for the replaced portion is derecognised. All other forms of repair and maintenance expenditure are expensed in the income statement during the period in which such expenditure arises.

Depreciation of other assets, in order to allocate their cost at the estimated residual value over the estimated useful life, is performed on a straight-line basis as follows:

Depreciation periods equipment, tools and fixtures
Equipment and tools: 5 years

Impairment of equipment, tools and fixtures

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.

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

See also the following section regarding description of impairment of non-financial assets.

2.7 Impairment of non-financial assets

Assets with an indefinite useful life are not depreciated but are tested annually for possible impairment. At present, the Group has no assets with indefinite useful lives.

Property, plant and equipment and such intangible assets which are depreciated are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not actually be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash generating units).

An impairment loss is reversed if there is an indication that the impairment requirement 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 recognised, less deprecation where appropriate, if no impairment loss had been recognised.

2.8 Financial instruments

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

a. financial assets and liabilities measured at fair value through profit or loss,
b. loans and receivables, and
c. other financial liabilities.

The classification depends on the purpose for which the financial asset or liability was acquired.

Financial assets and liabilities measured at fair value through profit or loss

Financial assets and liabilities measured at fair value through profit or loss are financial instruments that are held for trading. A financial asset or a financial liability is to be classified in this category if it was acquired principally for the purpose of being sold in the short-term. Derivatives are classified as held for trading if they are not part of a hedge accounting relationship. The Group has derivatives instruments in the form of currency futures contracts, which are used for financial hedging and not for speculative purposes. However, hedge accounting is not applied within Zound Industries.

Note 2
Summary of significant accounting principles, cont.

Loans and receivables

Loans and receivables are financial assets that are not derivatives, which have fixed or determinable payments and which are not quoted on an active market. They are included in current assets, with the exception of items with maturities more than 12 months after the balance sheet date, which are classified as fixed assets. Loans and receivables are recognised as accounts receivables, other receivables, accrued income and financial assets in the balance sheet. Cash and cash equivalents are also included in this category. An impairment of accounts receivables is recognised in profit or loss as other external expense.

Other financial liabilities

The Group's accounts payables are classified as other financial liabilities, see description of accounting principles in sections 2.13 and 2.14 below.

General principles

Purchase and sale of financial assets and liabilities are recognised on the transaction date – the date when the Group undertakes to purchase or sell the asset or liability. Financial assets and liabilities are initially recognised at fair value plus transaction costs, which applies to all financial assets and liabilities that are not recognised at fair value through profit or loss. Financial assets and liabilities are initially measured at fair value through profit or loss, while attributable transaction costs are recognised in the income statement. Financial assets are derecognised when the right to receive cash flows from the instrument has expired or has been transferred and the Group has transferred essentially all risks and rewards associated with ownership. A financial liability is derecognised when the contractual obligation has been fulfilled or in some other manner has been extinguished.

Loan receivables, accounts receivables and other financial liabilities are recognised after the date of acquisition at amortised cost by application of the effective interest method.

The fair value of borrowing is estimated, for disclosure purposes, by discounting the future contracted cash flow at the current market interest rate available to the Group for similar financial liabilities. Group borrowing consists of the obligations to companies for which lease obligations exist. In the case that the lease obligation is not to a credit institution, e.g in respect of the Group's rent for premises, the obligation has been recognised among Other fixed liabilities, or Other liabilities in those cases where it is a liability that falls due within 12 months from the balance sheet date.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that an impairment requirement exists in respect of a financial asset or a group of financial assets. A financial asset or group of financial assets has an impairment requirement and is written down only if there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset and that this event has an impact on the estimated future cash flows for the financial asset that can be estimated in a reliable way.

2.9 Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost is determined by applying the first-in first-out method (FIFO). The cost of goods for resale consists of the cost of purchasing the goods. Borrowing costs are not included. Inventories mainly consist of products for sale. Net realisable 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 regard to possible impairment requirements.

2.10 Accounts receivables

Accounts receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less any provision for impairment.

The Group applies the simplified method for assessing expected credit losses in accounts receivables, as described in IFRS 9 Financial Instruments. The Group measures the credit loss provision at an amount corresponding to the expected credit losses for the remaining terms of the accounts receivables, which fall within the scope of IFRS 15. None of the Group's accounts receivables contain any significant financing component.

A summary of the Group's estimates regarding a credit loss provision is found in Note 3 Financial risks.

The size of the provision reflects a probability weighted amount, which is determined by the Group evaluating a range of possible outcomes. In addition, the model takes account of the time value of money. Both losses on accounts receivables and recovered previously impaired accounts receivables are recognised in the income statement as other external expense.

Carrying amounts of accounts receivables, after any impairment losses, are assumed to correspond to their fair value, since this item is short-term in nature.

2.11 Cash

Cash: includes cash in hand, bank balances and other current investments with maturities of three months or less. Overdraft facilities are recognised as borrowing among current liabilities.

2.12 Share capital

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

2.13 Accounts payables

Accounts payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method. Carrying amounts of accounts payables are assumed to correspond to their fair value, since this item is short-term in nature.

2.14 Borrowing

Borrowing (borrowing from credit institutions and other long-term borrowing) is initially carried at fair value, net after transaction costs. Borrowing is subsequently recognised at amortised cost and any difference between the amount received (net after transaction costs) and the amount of repayment is recognised in the income statement allocated over the term of the loan using the effective interest method.

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

Borrowing costs (interest expenses and transaction costs) are recognised in profit or loss in the period in which they apply.

On the balance sheet date, Group borrowing consisted of obligations to companies for leasing contracts. There was no borrowing in relation to credit institutions on the balance sheet date.

2.15 Current and deferred tax

The current tax expense is calculated on the basis of 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 recognised 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. However, deferred tax is not recognised if it arises as a result 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 recognised or taxable profit. Deferred income tax is calculated on the basis of tax rates (and laws) that have been enacted or which were in practice enacted on the balance sheet date or that are expected to apply when the deferred tax asset concerned is realised or the deferred tax liability is settled.

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

Deferred tax is calculated on temporary differences arising on participations in subsidiaries, except where the timing of reversal of the temporary difference can be controlled by the Group and it is likely that the temporary difference will not be reversed in the foreseeable future.

2.16 Employee remuneration

Pension obligations

The Group only operates defined Pension commitments.

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 recognised as personnel expenses in line with being earned when the employees perform services for the Company. Prepaid contributions are recognised as an asset insofar as a cash refund or decrease in future payments could accrue to the Group.

Costs related to service during previous periods are recognised directly in profit or loss.

Short-term employee benefits

Short-term employee benefits are calculated without discounting and are recognised as an expense as the related services are received.

Severance pay

Compensation on termination of employment is 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 recognises severence pay when the Group is demonstrably obligated 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. Benefits that are due more than 12 months after the balance sheet date are discounted to present value.

Profit-sharing and bonus schemes

The Group recognises a liability and a cost for bonus and profit-sharing, based on a formula that takes into account 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.

2.17 Revenue recognition

Revenue includes the fair value of the consideration received, or which shall be received for goods sold and services performed in the Group. The Group recognises income when the amount can be measured reliably and it is probable that future economic benefits will accrue to the Company and when the special critieria described below per type of activity are met.

Sale of goods

Sale of goods accounts for the largest part of the Group's sales. The majority of the products are sold via distributors and are taken up as income when the goods are delivered in accordance with the terms of delivery. Sales to end customers via our e-commerce platform occur based on a return right of 14 days. Discounts are recognised as a reduction in income, in connection with the recognition of income from the sale.

Financing component

The Group does not expect to have a contract where the time between the transfer of goods to the customer and the customer's payment exceeds 12 months, and for this reason an adjustment of the transaction price with regard to the time value is not made.

Interest income

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

2.18 Leases

Zound Industries leases premises for the operations. Otherwise, the existence of leasing contracts 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 for 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 recognised as a right of use asset and a corresponding liability on the day when the asset is available for the first time for use by the Group. Every lease payment is allocated between amortisation of debt and financial expense (interest expense). The financing expense is recognised in profit or loss over the lease term, in such a way that the interest level is set in relation to the remaining liability.

The right of use asset is written off over the shortest period of the remaining economic life and the remaining lease term.

The right of use is calculated at the present value of all future payments, using the imputed rate of interest if this is known. If the imputed rate of interest is not known, the marginal loan interest rate is used. As the Group does not have any borrowing, the interest rate was estimated at 3.23 percent.

Critical estimates and assessments are described in more detail in Note 4.

2.19 Dividends

Dividends to the Parent company's shareholders are recognised as a liability in the Group's financial statements in the period when the dividend is approved by the Parent company's shareholders. No dividends will be proposed ahead of the 2018 Annual General Meeting in respect of the financial year 2017.

2.20 Accounting principles in the Parent company

The accounting principles in the Parent company essentially correspond with the consolidated financial statements. The Parent company's financial statements are prepared in accordance with RFR 2, Accounting for Legal Entities and the Annual Accounts Act. RFR 2 specifies exceptions to 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.

The Parent company uses the layouts specified in the Annual Accounts Act, which means that a different presentation of equity is applied.

Shares in subsidiaries are recognised at amortised cost 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 recognised. Impairment losses are recognised 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 rent of premises are expensed in the period in which they arise. The cost is charged to other external expenses.

Financial assets and liabilities are initially recognised at fair value with the addition or deduction of transaction costs. Upon subsequent recognition, financial liabilities and assets are measured at amortised cost according to the effective interest method.

Due to the connection between accounting and taxation in the Parent company's financial statement, appropriations and untaxed reserves are reported. Group contributions are reported in the Parent

Note 2
Summary of significant accounting principles, cont.

company according to the alternative rule, which means that both the Group contributions received and submitted are reported as appropriations in the income statement.

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

EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and taxes
Operating margin % EBITDA	Earnings before depreciation and amortisation 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 on untaxed reserves in relation to total assets.

Note 3
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 minimise 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.

The Group does not apply hedge accounting according to the rules in IFRS 9.

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 profit and equity. The 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 recognised under a separate category in equity called Reserves. The Group's guidelines are that net investments in foreign currency should not be hedged using financial derivatives, inter alia, in order to avoid any undesirable liquidity effects when such derivatives are extended.

Transaction exposure

Transaction exposure mainly means exposure arising from commercial flows, i.e. sales and purchases across national borders.

Intra-group loans are translated at the closing day rate of the entity, which has the claim or liability denominated in a currency other than the functional currency that applies for each unit. Net intra-group loans have no impact on equity, however, they affect the consolidated income statement.

A relatively large proportion of the Group's sales and purchases are made in currencies other than Swedish krona, which gives rise to exposure for the Group. This exposure is largely evened out by matching assets and liabilities in the corresponding currency.

No significant borrowing arises.

Intra-group loans are translated at the closing day rate of the entity, which has the claim or liability denominated in a currency other than the functional currency that applies for each unit. Apart from net profit for the year, net intra-group loans have no impact on equity, but affect the consolidated income statement.

(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 flow 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 accounts receivables and cash and cash equivalents.

See Note 12 Accounts receivables, and the subsequent paragraph, for a more detailed description of the Group's exposure in accounts receivables.

Customer credit risk

In addition to overall monitoring at a Group level, more detailed follow-up of customer credit risks occurs at a 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 accounts receivables consists of the carrying amount, on each given date.

Liquidity risk/Financing risk

On 31 December 2017, the Group had available liquidity of SEK 40.1 million. This liquidity consists of bank balances. In addition to the recognised cash and cash equivalents, the Group has an unutilised overdraft facility of SEK 117.1 million.

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.

Group Amounts in SEK million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
as of 31 December 2017				
Overdraft facilities	32.9	–	–	–
Liabilities relating to leases	14.5	11.6	8.2	–
Derivative instruments	–	–	–	–
Accounts payables and other liabilities	289.5	–	–	–
Total	**336.9**	**11.6**	**8.2**	**–**
As of 31 December 2016				
Borrowing	–	–	–	–
Liabilities relating to leases	14.5	14.6	19.9	–
Derivative instruments	0.1			
Accounts payables and other liabilities	306.9	–	–	–
Total	**321.5**	**14.6**	**19.9**	**–**

Fair value hierarchy

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

Level 1 Quoted prices on active markets for identical assets or liabilities.

Level 2 Other input data than the quoted prices, which is observable for assets or liabilities, either direct, e.g. as prices or indirect, e.g. derived from prices.

Level 3 Unobservable inputs for the asset or liability. The appropriate level is determined on the basis of the lowest level of inputs that is essential for fair value measurement.

The instruments that the Group has measured at fair value consist of derivative instruments, which are included in Level 2, in other words derived from prices. In addition, an assessment has been made of the fair value of the lease obligations and changes in market interest rates. 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 to reduce the cost of capital.

In the same way as other companies in the sector, Zound Industries calculates capital on the basis of the debt/equity ratio. This key ratio is calculated as net debt divided by capital employed. Net debt 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 employed is calculated as Equity in the consolidated balance sheet plus net debt.

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

	31 Dec 2017	31 Dec 2016	31 Dec 2015	1 Jan 2015
Total borrowing	51.6	29.6	40.1	32.2
Less: cash and cash equivalents	–40.1	–58.3	–76.6	–2.8
Net debt	**11.5**	**–28.7**	**–36.5**	**29.3**
Total equity	314.9	255.5	241.8	132.0
Total capital	**326.4**	**226.8**	**205.3**	**161.3**
Debt/equity ratio	4%	neg.	neg.	18%

Note 4 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, we have made a complete review of inventories and tested impairment requirements item by item. Total obsolesence for 2017 amounted to SEK 26.8 million.

Also see Note 14 for disclosure about inventories.

Otherwise, any estimates are shown in connection with each note.

Royalties and sales commissions

Royalties and sales commissions are recognised in accordance with the contractual terms and conditions stipulated in agreements with licence 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 cost.

Note 5 Segment information

Zound Industries follows up sales per distribution channel and per product category. In addition, sales are followed up by geographical area, for which separate disclosures are provided below.

Assets and liabilities are only followed up at a Group level. The Group has no customers that represent more than 10 percent of total sales.

Segment information 2017	Distributor	Direct sales	E-Com	Other	Total
Headphones & Speakers	809.0	431.4	111.0	41.9	1,393.3
Other	2.4	1.9	0.9	4.5	9.8
Revenue from external customers	**811.4**	**433.3**	**111.9**	**46.4**	**1,403.1**

Segment information 2016	Distributor	Direct sales	E-Com	Other	Total
Headphones & Speakers	650.4	273.1	61.8	30.4	1,015.7
Other	8.5	7.5	1.1	8.5	25.6
Revenue from external customers	**659.0**	**280.6**	**62.9**	**38.9**	**1,041.3**

Segment information 2015	Distributor	Direct sales	E-Com	Other	Total
Headphones & Speakers	444.2	191.5	31.3	34.7	701.8
Other	2.7	1.9	0.5	50.5	55.6
Revenue from external customers	**446.9**	**193.5**	**31.8**	**85.2**	**757.4**

The smartphone segment was dropped from the product range according to a decision taken in 2016.
The effect on earnings was as follows:

Smartphones	2017	2016	2015
Net sales	4.7	8.5	50.3
Operating expenses	–2.6	–84.5	–66.5
Operating profit	**2.1**	**–76**	**–16.2**

Net sales by geographic market as follows:

Group	2017	2016	2015
Nordics	280.4	219.8	232.5
E-Com	111.9	62.9	31.8
Rest of Europe and the Middle East	641.3	400.5	252.4
North and South America	218.2	220.4	142.9
Asia and Oceania	151.2	137.7	97.8
Total net sales by geographic market	**1,403.1**	**1,041.3**	**757.4**

Net sales by geographic market as follows:

Parent company	2017	2016	2015
Nordics	280.3	146.9	156.2
E-Com	51.1	67.8	62.4
Rest of Europe and the Middle East	642.4	456.5	278.2
North and South America	161.1	131.2	128.9
Asia and Oceania	187.4	143.8	99.7
Total net sales by geographic market	**1,322.4**	**946.2**	**725.4**

Note 6
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 President, 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 consultations and other assignments, respectively.

Group	2017	2016	2015
PwC			
Audit assignments	0.7	0.6	0.5
Tax consultancy services	–	–	0.0
Other consultancy assignments	0.5	0.1	0.0
	1.2	**0.6**	**0.5**
Other auditors			
Audit assignments	0.0	0.0	0.0
Tax consultancy services	0.1	–	–
	0.1	**0.0**	**0.0**
Total	**1.3**	**0.7**	**0.5**

Parent company	2017	2016	2015
PwC			
Audit assignments	0.7	0.6	0.5
Tax consultancy services	–	–	0.0
Other consultancy assignments	0.5	0.1	0.0
Total	**1.2**	**0.6**	**0.5**

Note 7
Employees and personnel expenses

Average number of employees

Group	2017	2016	2015
Women	74	63	49
Men	87	66	49
Total	**161**	**129**	**98**
Parent company			
Women	56	47	36
Men	70	53	42
Total	**126**	**100**	**98**

Average number of employees

Group			
Sweden	127	100	78
China	23	19	17
USA	11	10	3
Total	**161**	**129**	**98**

Note 7 Employees and personnel expenses, cont.

Group

Salaries and remuneration to:	2017	2016	2015
CEO, Board and other senior executives	20.1	16.1	14.2
Other employees	79.8	52.7	33.4
Total salaries and remuneration	**99.8**	**68.8**	**47.6**
Soc. sec. contributions CEO, Board and other senior executives	6.9	4.9	4.3
Soc. sec. contributions other	20.2	13.4	11.3
Pension Board and other senior executives (including special employer's contribution)	4.1	4.0	3.6
Pension others (including special employer's contribution)	7.6	5.3	2.8
Total salaries, remuneration, social security contributions and pensions	**138.6**	**96.3**	**69.6**

Parent company

Salaries and remuneration to:	2017	2016	2015
CEO, Board and other senior executives	20.1	16.1	14.2
Other employees	62.6	44.6	26.1
Total salaries and remuneration	**82.6**	**60.8**	**40.3**
Soc. sec. contributions CEO, Board and other senior executives	6.9	4.9	4.3
Soc. sec. contributions other	18.2	12.6	9.0
Pension Board and other senior executives (including special employer's contribution)	4.1	4.0	3.6
Pension others (including special employer's contribution)	7.3	4.9	2.7
Total salaries, remuneration, social security contributions and pensions	**119.1**	**87.1**	**59.9**

Group and Parent company 2017

Salaries and remuneration to CEO, Board and senior executives	Salaries and other remuneration	Variable remuneration	Pension expenses
Tommy Jacobson, Chairman of the Board	0.3	–	–
Christel Kinning	0.1	–	–
Henri de Bodinat	0.1	–	–
Margareta van den Bosch	0.1	–	–
Nils Granath	0.1	–	–
Pernilla Ekman, CEO	2.7	1.3	0.7
Konrad Bergström	3.5	1.3	0.8
Other senior executives, (8)	8.9	1.6	1.8
Total	**15.8**	**4.2**	**3.3**

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.

Group and Parent company 2016

Salaries and remuneration to CEO, Board and senior executives	Salaries and other remuneration	Variable remuneration	Pension expenses
Tommy Jacobson, Chairman of the Board	0.3	–	–
Christel Kinning	0.1	–	–
Waheed Alli	0.1	–	–
Henri de Bodinat	0.1	–	–
Kenneth Schönborg	0.1	–	–
Margareta van den Bosch	0.1	–	–
Nils Granath	0.1	–	–
Pernilla Ekman, CEO	2.6	1.2	1.0
Konrad Bergström	1.9	0.9	0.6
Other senior executives, (9)	7.7	0.9	1.7
Total	**13.2**	**3.0**	**3.2**

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.

Note 7
Employees and personnel expenses, cont.

Group and Parent company 2015

Salaries and remuneration to CEO, Board and senior executives	Salaries and other remuneration	Variable remuneration	Pension expenses
Tommy Jacobson, Chairman of the Board	0.3	–	–
Christel Kinning	0.1	–	–
Kenneth Schönborg	0.1	–	–
Lars Roth	0.1	–	–
Margareta van den Bosch	0.1	–	–
Henri de Bodinat	0.1	–	–
Pernilla Ekman, CEO	2.5	0.3	0.6
Konrad Bergström	2.5	0.3	0.6
Other senior executives, (8)	6.7	1.1	1.7
Total	**12.5**	**1.8**	**2.8**

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.

Gender distribution of Board members and senior executives:

	2017		2016		2015	
Group	Number on the balance sheet date	Of whom, men	Number on the balance sheet date	Of whom, men	Number on the balance sheet date	Of whom, men
Board members	7	71.4%	8	66.7%	7	62.5%
CEO and other senior executives	9	88.9%	10	90.9%	9	88.9%
Group total	**16**		**18**		**16**	
Parent company						
Board members	7	71.4%	8	66.7%	7	62.5%
CEO and other senior executives	9	88.9%	10	90.9%	9	88.9%
Parent company total	**16**		**18**		**16**	

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

Note 8
Financial income and financial expenses

Group

Financial income	2017	2016	2015
Exchange rate difference, profit	0.3	0.8	–
Interest income	0.1	0.0	0.0
Total financial income	**0.4**	**0.8**	**0.0**
Financial expenses			
Exchange rate difference, loss	0.0	–1.1	–2.0
Interest expense			
– Borrowing, credit institutions	–2.3	–1.7	–2.7
– Finance leases, Unwind of discount	–1.3	–1.4	–0.3
Total financial expenses	**–3.7**	**–4.3**	**–5.0**
Loss from financial items	**–3.3**	**–3.5**	**–5.0**

Note 9
Financial income and financial expenses

Group	2017	2016	2015
Current tax on profit for the year	–17.3	–4.8	–5.2
Deferred tax expense relating to temporary differences	–2.9	–	–0.1
Deferred tax revenue relating to temporary differences	0.8	0.5	–
Total income tax	**–19.4**	**–4.2**	**–5.4**
Parent company			
Current tax for the year	–13.4	–3.2	–4.2
Total tax for the year	**–13.4**	**–3.2**	**–4.2**

The differences between income tax expense and an estimated tax expense based on current tax rates are as follows:

Group	2017	2016	2015
Profit before tax	80.4	17.3	29.3
Income tax calculated in accordance with the Group's current tax rate	–17.7	–3.8	–6.5
Non-taxable income	0.1	0.1	1.6
Non-deductible expenses	–3.9	–0.2	–0.3
Effects of foreign tax rates	2.1	–0.3	–0.1
Other	–	0.0	–0.1
Income tax	**–19.4**	**–4.2**	**–5.4**
Parent company			
Profit before tax	56.4	13.7	25.2
Income tax calculated in accordance with the Group's current tax rate	–12.4	–3.0	–5.5
Non-taxable income	–	–	1.6
Non-deductible expenses	–1.0	–0.2	–0.3
Total tax on profit for the year	**–13.4**	**–3.2**	**–4.2**
Weighted average tax rate in the Group is:	24.12%	24.53%	18.27%
Group			
Deferred tax liabilities			
Untaxed reserves	9.7	5.7	6.5
Derivatives	–	0.0	–
Total deferred tax liabilities	**9.7**	**5.8**	**6.5**
Deferred tax assets			
Inventories	3.8	2.0	2.3
Right of use assets	0.3	0.2	0.1
Total deferred tax assets	**4.0**	**2.2**	**2.4**
Deferred tax liabilities, net	**5.7**	**3.6**	**4.1**

Note 10
Intangible assets

The differences between income tax expense and an estimated tax expense based on current tax rates are as follows:

Group

Patent and trademark	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Opening acquisition cost	23.8	19.9	16.3	11.9
Purchase	2.6	3.9	3.6	4.4
Sales and disposals	–3.8	–	–	–
Exchange differences	0.0	–	0.0	0.0
Closing accumulated acquisition cost	**22.6**	**23.8**	**19.9**	**16.3**
Opening amortisation	–13.9	–9.9	–6.5	–3.4
Depreciation for the year	–4.0	–4.0	–3.4	–3.0
Sales and disposals	2.6	–	–	–
Exchange differences	–	0.0	0.0	0.0
Closing accumulated amortisation	**–15.3**	**–13.9**	**–9.9**	**–6.5**
Closing net book value	**7.3**	**9.9**	**10.0**	**9.9**

Parent company

Patent and trademark				
Opening acquisition cost	23.7	19.9	16.3	11.9
Purchase	2.6	3.9	3.6	4.3
Sales and disposals	–3.8	–	–	–
Closing accumulated acquisition	**22.5**	**23.7**	**19.9**	**16.3**
Opening amortisation	–13.9	–9.9	–6.4	–3.4
Depreciation for the year	–4.0	–4.0	–3.4	–3.0
Sales and disposals	2.6	–	–	–
Closing accumulated amortisation	**–15.3**	**–13.9**	**–9.9**	**–6.4**
Closing net book value	**7.2**	**9.9**	**10.0**	**9.8**

Group and Parent company

Other intangible assets				
Opening acquisition cost	78.5	68.7	41.8	18.1
Purchase	0.4	9.8	26.9	23.7
Sales and disposals	–18.1	–	–	–
Exchange differences	–	–	–	–
Closing accumulated acquisition	**60.9**	**78.5**	**68.7**	**41.8**
Opening amortisation	–78.5	–23.9	–15.8	–12.0
Sales and disposals	18.1	–35.2	–	–
Depreciation for the year	0.0	–19.5	–8.1	–3.8
Exchange differences	–	–	–	–
Closing accumulated amortisation	**–60.4**	**–78.5**	**–23.9**	**–15.8**
Closing net book value	**0.4**	**–**	**44.8**	**26.0**

Note 11 Right of use assets

Depreciation of right of use assets

Group	2017	2016	2015
Premises	–13.3	–13.2	–4.4
Total	**–13.3**	**–13.2**	**–4.4**

Interest expenses included in premises amounted to SEK 1.3 million during the financial year.
The cash flow effect of the above items amounted to SEK 14.1 million during the financial year.

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

Right of use assets

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Premises	33.9	42.5	55.5	8.5
Total	**33.9**	**42.5**	**55.5**	**8.5**

Liabilities relating to right of use assets

Group				
Short-term	14.2	11.9	13.8	3.8
Long-term	18.7	29.6	40.1	5
Total	**33**	**41.5**	**53.9**	**8.8**

Present value of liabilities relating to right of use assets are as follows:

Group				
Within 1 year	14.5	14.5	13.3	5.1
Between 1–5 years	19.8	34.5	40.8	41.8
More than 5 years	–	–	8.2	19.7
Present value of liabilities relating to right of use assets	**34.3**	**49**	**62.3**	**66.5**

Group				
Opening acquisition cost	61.1	67.7	16.3	16.3
Purchase	4.9	0.5	51.5	–
Sales and disposals	–4.8	–7.2	–	–
Exchange differences	–0.5	–	–	–
Closing accumulated acquisition	**60.7**	**61.1**	**67.7**	**16.3**
Opening amortisation	–18.6	–12.2	–7.8	–7.8
Depreciation for the year	–13.3	–13.2	–4.4	–
Sales and disposals	4.8	7.2	0.0	–
Exchange differences	0.3	–0.3	–	–
Closing accumulated amortisation	**–26.8**	**–18.6**	**–12.2**	**–7.8**
Closing net book value	**33.9**	**42.5**	**55.5**	**8.5**

Note 12 Property, plant and equipment

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Opening acquisition cost	28.9	21.2	16.8	16.3
Purchase	5.4	7.7	5.7	0.4
Sales and disposals	–17.9	–	–1.3	–
Exchange differences	0.0	–	0.0	0.1
Closing accumulated acquisition	**16.3**	**28.9**	**21.2**	**16.8**
Opening depreciation	–17.0	–13.6	–12.5	–9.7
Sales and disposals	14.5	–	1.0	–
Depreciation for the year	–4.5	–3.5	–2.1	–2.7
Exchange differences	0.0	0.0	0.0	0.0
Closing accumulated depreciation	**–7.0**	**–17.0**	**–13.6**	**–12.5**
Closing net book value	**9.3**	**11.9**	**7.6**	**4.2**

Parent company	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Opening acquisition cost	28.2	20.6	16.2	16.0
Purchase	4.4	7.7	5.6	0.2
Sales and disposals	–17.7	–	–1.3	–
Closing accumulated acquisition	**15.0**	**28.2**	**20.6**	**16.2**
Opening depreciation	–16.7	–13.3	–12.3	–9.7
Sales and disposals	14.3	–	1.0	–
Depreciation for the year	–4.3	–3.4	–1.9	–2.7
Closing accumulated depreciation	**–6.7**	**–16.7**	**–13.3**	**–12.3**
Closing net book value	**8.2**	**11.5**	**7.3**	**3.9**

Note 13 Other fixed receivables

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Deposits	7.1	6.2	0.6	0.9
Total fixed receivables	**7.1**	**6.2**	**0.6**	**0.9**

Note 14 Inventories

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Raw materials and consumables	7.1	1.3	2.8	1.1
Finished goods	358.1	255.6	156.0	98.0
Total inventories before impairment losses	**365.2**	**256.9**	**158.8**	**99.1**

Impairment of inventories

Group				
Opening impairment losses	–10.6	–1.5	–2.8	–0.9
Used impairment losses	10.6	0.7	2.4	0.3
Impairment during the year	–26.8	–9.9	–1.0	–2.3
Total impairment losses	–26.8	–10.6	–1.5	–2.8
Book value inventories	**338.5**	**246.2**	**157.3**	**96.3**

Note 15 Accounts and other receivables

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Accounts receivables	224.5	180.2	120.1	147.4
Less: provision for impairment of accounts receivables	–	–	–	–
Accounts receivables – net	**224.5**	**180.2**	**120.1**	**147.4**

Accounts receivables per currency

Group				
SEK	31.0	32.8	36.4	23.6
USD	87.7	78.9	44.6	108.2
EUR	94.2	55.5	37.4	15.5
GBP	8.9	–0.2	0.2	0.1
CNY	2.7	0.8	–	–
Other currencies	0.0	12.4	1.5	0.0
Total	**224.5**	**180.2**	**120.1**	**147.4**

Ageing analysis of accounts receivable				
Accounts receivable, not due	192.5	154.0	95.4	114.4
Past due:				
– Less than 30 days	30.6	19.4	27.5	24.0
– Less than two months	1.1	1.5	–5.5	4.3
– Less than three months	0.3	5.3	2.7	4.7
Total past due	**32.0**	**26.3**	**24.7**	**33.0**
Whereof impaired				
Total accounts receivable – trade	**224.5**	**180.2**	**120.1**	**147.4**

The fair value of the Group's accounts receivables corresponds with the carrying amount.
On the balance sheet date, accounts receivables amounting to SEK 32.0 million (26.3) 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 accounts receivables is provided above.

Amounts recognised in the depreciation account are normally written off when the Group is not expected to recover any further liquid assets. The maximum exposure to credit risk in accounts receivables on the balance sheet date consists of carrying amount. The Group has no collateral as security.

Note 16
Prepaid costs and accrued income

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Prepaid rent	0.6	0.4	0.4	0.4
Prepaid selling costs	1.4	0.4	1.4	0.4
Prepaid license costs	1.8	1.0	0.9	0.5
Prepaid event costs	1.9	1.8	2.7	4.3
Prepaid product development costs	6.7	15.0	7.7	2.0
Other	4.7	8.0	4.9	3.7
Total	**17.0**	**26.7**	**18.1**	**11.3**

Parent company	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Prepaid rent	2.7	2.4	2.7	0.8
Prepaid selling costs	1.4	0.4	1.4	0.4
Prepaid license costs	1.7	0.9	0.5	0.5
Prepaid event costs	1.9	1.8	2.6	4.1
Prepaid product development costs	6.7	15.0	7.7	2.0
Other	3.6	4.7	2.1	3.0
Total	**18.0**	**25.2**	**17.0**	**10.9**

Note 17
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	Ordinary share capital	Other paid in capital	Total
At January 1, 2015	**6,841,419**	**0.7**	**63.4**	**64.1**
New share issue	787,339	0.1	84.7	84.8
At December 31, 2015	**7,628,758**	**0.8**	**148.1**	**148.8**
New share issue	553,200	0.1	–	0.1
At December 31, 2016	**8,181,958**	**0.8**	**148.1**	**148.9**
New share issue	–	–	–	–
At December 31, 2017	**8,181,958**	**0.8**	**148.1**	**148.9**

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

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

Note 18
Overdraft facilities

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Approved overdraft facilities	150.0	100.0	65.0	58.0
– of which used	32.9	–	–	27.0

Note 19
Other liabilities

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
VAT liabilities	2.5	1.0	3.8	0.5
Employee-related liabilities	7.1	2.9	2.5	1.9
Other	1.2	0.4	20.4	1.4
Total	**10.8**	**4.3**	**26.6**	**3.8**

Note 20 Accrued expenses and deferred income

Group	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Accrued personnel costs	20.5	13.6	9.1	7.0
Accrued royalties and sales commissions	42.8	30.3	18.6	11.9
Accrued logistics costs	12.5	12.2	5.2	1.2
Accrued product costs	4.7	4.5	10.3	–
Other accrued costs	35.3	24.2	21.7	7.0
Total	**115.8**	**84.8**	**64.9**	**27.1**

Parent company	2017	2016	2015	2014
Accrued personnel costs	18.8	12.5	8.8	6.8
Accrued royalties and sales commissions	41.7	29.1	11.9	11.9
Accrued logistics costs	10.7	8.7	5.2	1.2
Accrued product costs	4.7	4.5	–	–
Other accrued costs	24.7	12.3	8.3	6.9
Total	**100.6**	**67.1**	**34.2**	**26.8**

Note 21 Pledged assets

Group and Parent company

For liabilities to credit institutions	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Floating charges	109.0	109.0	109.0	71.0
Total	**109.0**	**109.0**	**109.0**	**71.0**

Note 22 Contingencies

Group

Bank guarantiees on behalf of subsidiaries	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Rent	6.0	5.6	0.6	0.4
Environmental protection agency	0.0	0.0	0.0	0.0
Total	**6.0**	**5.6**	**0.6**	**0.4**

See also note 4 critical estimates and assumptions in applying the Group's accounting principles.

Note 23 Transactions with related parties

For description of salaries and other remuneration to senior executives – see Note 7 Employee benefits. As related parties, we have indentified the Company Management, the Board of the Parent company, Zound Industries International AB, the shareholders of Zound Industries International AB and subsidiaries that are part of the Group. Shares in subsidiaries and transactions between companies that are part of the Group are eliminated in the consolidated financial statements. In the table below, purchasing and sales among group companies are shown.

Purchasing and sales among group companies

The proportion of the year's purchasing and sales relating to group companies is shown below.	2017	2016	2015
Purchasing (%)	1	2	3
Sales (%)	15	12	1

Otherwise, no transactions have arisen with related parties from a consolidation perspective.

Note 24 Adjustment of items not included in the cash flow

Group	2017	2016	2015
Unrealised exchange differences	8.9	–0.1	0.0
Capital gain on sale of tangible assets	4.7	–	0.3
Impairment of inventories	15.5	–7.7	–0.5
Other	–	–2.0	–1.2
Carrying amount	**29.1**	**–9.8**	**–1.4**

Parent company	2017	2016	2015
Capital gain on sale of tangible assets	4.6	–	0.3
Impairment of inventories	15.5	–0.5	–0.5
Other	–	–	0.9
Carrying amount	**20.1**	**–0.5**	**0.7**

Note 25 Appropriations

Parent company	2017	2016	2015
Difference between tax depreciation and depreciation according to plan	1.5	7.6	–4.4
Change in tax allocation reserve	–19.4	–3.9	–6.4
Group contributions paid	–	–22.9	–7.7
Carrying amount	**–17.9**	**–19.2**	**–18.5**

Note 26 Participations in Group companies

Name	Corporate identity number	Domicile	Proportion of equity	Number of participations
Zound Industries Ltd	–	Hong Kong	100%	100
Zound Industries USA Inc	–	Delaware, USA	100%	1,000
Zound Industries Smartphones AB	556998-5723	Stockholm, Sweden	100%	2,000

Parent company	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Zound Industries Ltd	0.0	0.0	0.0	0.0
Zound Industries USA Inc	2.5	2.5	2.5	2.5
Zound Industries Smartphones AB	0.2	0.2	0.2	0.2
Net book amount	**2.7**	**2.7**	**2.7**	**2.7**

Note 27 Untaxed reserves

Parent company	2017-12-31	2016-12-31	2015-12-31	2015-01-01
Accumulated difference between book depreciation and depreciation according to plan	2.2	3.7	11.3	6.9
Tax allocation reserve	41.8	22.4	18.5	12.1
Carrying amount	**44.0**	**26.1**	**29.7**	**18.9**

Note 28
Post-balance sheet events

No significant events have occurred after the end of the financial year.

Note 29
Appropriation of profits

Proposed distribution of earnings
The Board proposes that the profits including share premium reserve, total SEK 273,035,612 are to be carried forward.

Note 30
Effects of transition to IFRS – Group

From and including 1 January 2017, Zound Industries International AB (hereafter called "Zound Industries" or "the Group''), has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The date for Zound Industries' transition to IFRS was 1 January 2015. Consequently, three comparative years are presented in respect of the balance sheets and two comparative periods for income statements and cash flow statements. The Group up to and including the 2016 financial year, prepared its consolidated financial statements in accordance with the Swedish Annual Accounts Act and the Swedish Accounting Standards Board's general guidelines 2012:1 Annual Accounts and Consolidated Accounts.

The transition to IFRS is recognised in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". The effects of the change in accounting principles are recognised directly against equity. Previously published financial information for the financial year 2015 and 2016, prepared according to the Annual Accounts Act and the Swedish Accounting Standards Board's general guidelines, has been restated to IFRS. Financial information relating to earlier financial years than 2015 has not been restated.

The general rule is that all applicable IFRS and IAS standards, which became effective and were adopted by the EU, shall be applied retrospectively. However, IFRS 1 contains transitional arrangements which provide companies with certain options, alternative requirements, to depart from this general rule.

The relevant exceptions for Zound Industries are related to translation differences, which under the exception rules can be set at 0 (zero) as of the date of transition to IFRS. Zound Industries has opted not to apply this exception.

A first-time adopter may assess whether an agreement existing at the time of transition to IFRS contains a lease agreement by applying paragraphs 9-11 of IFRS 16 to these agreements based on the facts and circumstances prevailing on this date. This exception has been applied by Zound Industries.

IFRS 15, Revenue from Contracts with Customers has been applied retrospectively from and including the date of transition to IFRS. No effects on the accounting were identified as a result of IFRS 15. Agreements concluded before the date of transition to IFRS have not been analysed.

The following describes the changes in accounting principles implied by the introduction of IFRS and the effects of the transition on the Group's equity.

	Note	January 1, 2015	December 31, 2015	December 31, 2016
Equity under previously applied principles		**132.6**	**242.3**	**256.2**
Right of use assets	A	8.1	53.2	40.6
Liabilities relating to right of use assets	B	–8.8	–53.9	–41.5
Currency futures	C	–	–	0.1
Total adjustments		**–0.8**	**–0.6**	**–0.8**
Tax effect of adjustments made above	D	0.1	0.1	0.2
Total adjustment of equity		**–0.6**	**–0.5**	**–0.6**
Equity under IFRS		**132.0**	**241.8**	**255.5**

Note 30
Effects of transition to IFRS – Group, Cont.

Explanations of adjustments made above

Presentation and layout

In addition to quantitative effects, a transition to IFRS also means that the classification of assets, liabilities, revenue and expenses may change, which has occurred in the consolidated financial statements. In addition to measurement and classification, the amount of note disclosures has increased significantly both in numerical terms and as regards content.

In addition to the above-stated reclassifications, an income statement contains other sub-lines than those prescribed by the Annual Accounts Act. Among other things, Interest income and similar profit/loss items and Interest expenses and similar profit/loss items, are instead called Financial income and Financial expenses. The line Tax on net profit for the year is instead called Income tax.

The Group classifies all provisions as fixed or current liabilities based on when they are expected to be paid. Provisions for deferred tax are classified as fixed liabilities.

Differences in measurement are mainly described below.

In the case a heading is preceded by a letter (A-D), this aims to describe the quantitative effects in the table above.

A) Right of use assets

Zound Industries has voluntarily chosen to early adopt IFRS 16 Leases. IFRS 16 becomes effective on 1 January 2019 but may be early adopted.

The implications of applying IFRS 16 are that all leases, which have a term of more than 12 months and which are not of a minor value, are recognised in the balance sheet. Firstly, a Right of use asset is recognised, which is written off over the contract period. Secondly, a corresponding liability is recognised, which is represented by the future discounted cash flows arising from the contracts for right of use assets (see subsection B below). Most of the Group's Right of use assets consist of premises in which business is conducted.

Other external expenses have been reduced (increased earnings) by SEK 14.4 million in 2016 and by SEK 4.9 million in 2015. Depreciation costs have increased (decreased earnings) by SEK 13.2 million in 2016 and by SEK 4.4 million in 2015. Net effect on operating income was positive for both 2016 (SEK 1.1 million) and 2015 (SEK 0.5 million).

B) Liabilities relating to right of use assets

Liabilities relating to right of use assets have been recognised of SEK 8.8 million as of 1 January 2015 (opening balance sheet) and of SEK 53.9 million as of 31 December 2015 and SEK 41.5 million as of 31 December 2016. Interest expenses in 2016 increased by SEK 1.4 million and by SEK 0.3 million in 2015.

C) Currency futures

Zound Industries for some cash flows has opted to have financial hedges in the form of currency futures contracts. Hedge accounting has not been applied. The effect on earnings and financial position was limited.

D) Tax effects

The tax effects due to the adjustments in A-C amounted as of 1 January 2015 to SEK 0.1 million, as of 31 December 2015 to SEK 0.1 million and as of 31 December 2016 to SEK 0.2 million.

Translation effects foreign subsidiaries

In equity, exchange rate effects due to translation of foreign subsidiaries were reclassified and recognised in a separate category of equity, called Reserves. The Group has opted not to apply the exception in IFRS 1, which allows for translation differences to be set to zero on the date of transition.

Consolidated statement of cash flows

The cash flow was impacted by the transition to IFRS, due to the recognition of right of use assets. Cash flow from operating activities in 2016 improved by SEK 13.0 million and in 2015 the equivalent increase was SEK 4.6 million. Cash flow from financing actvities weakened by an equivalent amount, which was represented by amortisation of liabilities relating to right of use assets.

Note 31
Effects of transition to RFR 2 – Parent company

In connection with the transition to reporting under IFRS in the consolidated financial statements, the Parent company has changed over to apply RFR 2 Accounting for legal entities.

The accounting in 2016 was prepared in accordance with the Swedish Accounting Standards Board's general guidelines 2012:1 Annual Accounts and Consolidated Accounts. No quantitative effects on the Parent company's equity have been identified.

Signatures

The consolidated income statement and balance sheet will be submitted to the Annual General Meeting on 15 of June 2018 for adoption.

Stockholm, 27 of April 2018

Tommy Jacobson
Chairman of the Board

Pernilla Ekman
Chief Executive Officer

Henri de Bodinat
Board member

Margareta van den Bosch
Board member

Christel Kinning
Board member

Konrad Bergström
Board member

Nils Granath
Board member

Our audit report was submitted 27 of April 2018
Öhrlings PricewaterhouseCoopers AB

Pierre Fogelberg
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