

MEKO: Risks and uncertainties

The Group's operations are, like all business operations, associated with risks that can affect the Group and our stakeholders to varying degrees. A well-balanced risk management can add value and business benefit, at the same time that risks that are not managed can effectively lead to damage and losses. MEKO continuously maps the Group's risks where the Board of Directors bears the utmost responsibility for the Group's risk management.

Risk-management process

In order to ensure a good overview and suitable management of the risks the business is exposed to, the Group works in a structured manner to identify, analyse and manage risks in accordance with a process initiated in 2019. The ambition is for this work to be fully implemented in 2020. The risk analysis is based on the Group's strategy and business planning work, is a natural part of the operating activities and is also a part of major change or investment projects. Each large legal units in the Group must establish a risk register where its material risks, mitigation measures and the people responsible are identified. The Group's sustainability work is taken into account in risk management and the Group's Code of Conduct is a basis for the analysis.

Governance model for risk management

During 2019, an overall risk management committee was established for the Group. The cases are presented by the Head of Group Risk Management and the President and CEO chairs the committee. The committee is responsible for providing guidance to the organisation and governing the process of ensuring an overview of the Group's risks, as well as following up the effectiveness of the risk management work. Continuous reporting from the respective business area on risk analyses and mitigation measures is made to the committee, which in turn reports material changes in the risk situation to the Board of Directors through the Audit Committee. The risk analysis is annually reviewed more thoroughly in all forums.

Risk function's responsibility and collaboration

Group Risk Management coordinates the Group's risk work and follows up compliance and occurred incidents and supports the subsidiaries with external monitoring, guidelines and training. Regular checks are done between the risk function, internal control responsible's and internal audit in order to share information on shortcomings identified in self-evaluations or audits done. The effectiveness of the activities conducted are thereby improved to increase risk awareness in identified risk areas. For more information on the work on internal control in financial reporting, refer to page 49 of the Corporate Governance Report. In addition, Group Risk Management manages the Group's common insurance plan, which was renegotiated in a tender round during the year, where complete risk analyses, among other efforts, were done for the central warehouses. During the year, the Group's crisis management and business continuity plans were updated. The whistle-blower procedure was also upgraded to a third-party solution.

Market and competitors

Overall market

Description: The aftermarket for cars and light trucks is primarily dependent on the number of cars in the fleet and the mileage on the cars. In recent years, there has been a stable increase in the number of cars and their mileage in our main markets. A decrease in the number of cars and mileage could negatively impact the MEKO's operations. The fact that the spare parts' quality and lifespan are increasing over time is compensated by the parts becoming more expensive and the lifespan of the cars increasing.

Handling: MEKO works continuously to ensure the strength of the concepts and maintain a high rate of innovation to keep or increase our sales even in a declining market. The geographic expansion in 2018 through the acquisitions of FTZ and Inter-Team made MEKO less sensitive to how the market develops in a single country.

During the year: A Group-wide Best Practice effort was initiated in important strategic areas, such as digital services, concepts and logistics. Projects that build on clear business cases are driven at several levels, from experience exchange to jointly working across the Group

Car fleet

Description: Sweden and above all Norway are two countries where the transformation from conventional vehicles to electric vehicles and electric hybrids has come the furthest. The proportion of purely electric vehicles accounted for 2.8 per cent of the total car fleet at the end of 2019. A combined percentage on all of our main markets Denmark, Norway, Poland and Sweden is still low at 0.7 per cent. The transition to electric means that the industry needs to gradually adapt to meet customer demand.

Handling: To future-proof our affiliated workshops to be the first choice of electric car owners, for the past several years, we have gradually adapted the workshops, especially in Norway, to be able to accept rechargeable cars. For example, vehicle technicians are trained in electric and hybrid vehicles through our own training centers. Development is proceeding at varying rates in our main markets and the vehicle technicians are trained at a pace to match the growing demand. We are also increasing our assortment with spare parts and accessories for electric vehicles in pace with the growing demand.

During the year: Launch of certified electric car workshops in MECA Norway. The certification gives the customers security in the knowledge that the workshop has provided its technicians with adequate training and is properly equipped. Careful monitoring of the number of electric vehicles in the respective make is done to ensure the supply of spare parts. Active work to create industry-wide standards for the handling of electric cars in the markets with the strongest growth, i.e. Norway and Sweden.

Competition

Description: The competition regarding car part sales to workshops is extensive. The assortment of the largest players in the brand-independent trade, including MEKO, covers most car makes. In addition, a number of smaller actors, digital actors and brand-dependent actors also compete in the market. In terms of accessories, MEKO competes with a large number of players, including the retail trade, petrol stations, the convenience-goods trade and online actors. A significantly increased competition from one or more actors may entail a risk of reduced market shares for MEKO.

Handling: The operations in MEKO have a strong customer focus and continuously revise and ensure a competitive customer offering both to workshop customers and car owners. As the

majority of MEKO's sales take place digitally, investments in our e-commerce offer are of major importance.

During the year: Development and continued roll-out of the digital spare parts catalogue have continued in Mekonomen Norway. Investment in an upgraded booking service that simplifies the booking process for both car owners and workshops was carried out and launched in Mekonomen Sweden. Launch in more parts of the Group will take place continuously in 2020. We offer our customers qualified technical support through an FAQ portal and over the phone, which builds loyalty among workshops and gives the car owners faster and more advanced help.

Product offering and services

MEKO's long-term success is dependent, among other things, on the ability to adapt to the customers' needs and changed industry requirements and to introduce attractive new products and services, at the same time that it maintains competitive pricing and builds loyalty. To maintain its competitiveness, MEKO must foresee the customers' needs and purchase and develop products and services that are accepted by these customers. MEKO is also subject to product liability if the products do not work as expected or are defective.

Handling: MEKO's ambition is to lead the industry's development of future product and service offerings. We are investing in central and local resources to foresee and understand future trends. To continue to offer our customers a competitive and affordable customer experience, we continuously adapt our product and service offering and our internal processes. We secure our product liability through purchasing agreements with suppliers in the automotive industry and through careful quality controls of our own brands, supplemented with a Group-wide insurance protection.

During the year: Continuous development of the Group's own business systems for workshops in order to more clearly than before help the workshops to follow standards, work efficiently and engage customers. A new training portal and support portal were launched with a plan to launch in all business areas as it creates synergies and broadens the knowledge database. An analysis of service agreements was carried out with the goal of offering easier and foreseeable car ownership and generating customers for the workshops to build profitability and loyalty. Focus on developing the fleet business for more efficient administration and better service to corporate customers.

Shortage of automotive technicians

Description: There is a shortage of vehicle technicians in the market, which affects MEKO's affiliated and proprietary workshops. The shortage of vehicle technicians with relevant training and experience can in the long term constitute a factor that limits the possibilities of continued growth in our industry or reduce profitability through higher personnel costs. There is a shortage in every market, but the shortage is the worst in the Swedish market.

Handling: With strong brands and concepts, our training centre and our own upper-secondary school programme ProMeister Vehicles in Sweden, we are working continuously to attract people to the vehicle technician profession. At the same time, we contribute to increasing the level of expertise among existing and new vehicle technicians. We also offer our affiliated workshops staffing and recruitment services.

During the year: We actively worked with PR and information campaigns to attract people to the industry. We started a training programme in cooperation with the Swedish Public Employment Service to introduce new adults to the automotive profession where 85% found employment at concept-affiliated workshops and stores after completing training. The decision was also made to

start ProMeister Automotive in a new city in 2020. We see a continued increase in the percentage of women applying for automotive programmes.

Operational risks

Employees

Description: MEKO's success depends on attracting, keeping and developing committed managers and employees. We work for diversity, gender equality and inclusion. With different competencies and experiences among the employees, we will reflect the diversity of our customer groups and thereby develop our customer offering. A good physical and psychosocial work environment and good social conditions are fundamental for our employees. If MEKO does not attract relevant expertise or if there are bad conditions at the workplace, it can affect the Group's operations and earnings negatively.

Handling: The work of identifying, analysing and minimising work environment risks in the operations is done at every level of the Group. Our Code of Conduct, whistleblower system, work environment policy, together with employee appraisals, employee surveys and continuous dialogue, identify irregularities, improprieties and other risk areas. Also refer to pages 28–29 and page 32.

During the year: The Group's Code of Conduct was updated and adapted to the new larger Group. Implementation among all employees in the Group will continue during 2020. An employee survey was conducted in the FTZ, MECA & Mekonomen and Sørensen og Balchen business areas, as well as among central functions.

IT

Description: There is extensive awareness that a coordinated IT structure within certain parts provides the Group major benefits. At the same time, this entails greater risks as disruptions or outages in the Group's common systems affect several subsidiaries where special systems for orders and inventory management are critical.

Handling: An outage in the systems for order and stock management would negatively impact the deliveries to our customers. Threats and risks are regularly analysed to identify and ensure that we have adequate robustness to be able to manage disruptions and outages, such as by there being redundancy for critical systems and communication channels.

During the year: Efforts to strengthen and develop the IT environment's resilience to disruptions and outages were carried out. Processes, roles, responsibilities and technical solutions were reviewed with the aim of ensuring robustness over time.

Cyber crime

Description: Like every company, we are subjected to cyber crime, such as attempted fraud, trespassing or sabotage.

Handling: To combat attempts at trespassing or sabotage to our IT environments, external monitoring is done within the area, as well as a continuous assessment of whether our protection needs to be changed or expanded. We continuously develop our procedures, processes and technical solutions in the area and have preparedness if we were nonetheless attacked.

During the year: A Group-wide cyber insurance was taken out to ensure external support and financial compensation in the event of a major incident. Procedures and technical protection against denial-of-service (DOS) attacks were also reviewed.

Damage to central warehouse or regional warehouses

Description: Any damage, such as fire or technical disruption, at any of the Group's central or regional warehouses would entail significant negative consequences for the company's sales and delivery possibilities to our customers, which can in turn harm the Group's reputation.

Handling: Fire safety and protection from technical disruptions are a prioritised area at all of our facilities and extensive emphasis is assigned to prevention efforts. The Group has consequential-loss insurance if a fire were to occur or other damage were to arise that disrupts the operations at our facilities.

During the year: All insurance figures were updated per facility during the year in connection with the tender process of a new insurance solution for the Group. There was also a review of continuity plans for the larger central warehouses.

Losses and value handling risks

Description: The Group's operations include sales and stock-keeping of a large number of products, of which many are considered theft-prone. The Group's operations also include cash management, which entails a risk of theft, both in stores and during the transportation of cash from the store to the bank.

Handling: At MEKO, work is continuously in progress to reduce losses and to define what is scrapping, internal consumption and actual theft. This work is based on it being important to focus on all types of losses, for example, by reviewing order procedures, delivery checks and unpacking of goods. In terms of value handling risks, MEKO strives to provide the same level of solutions for security services, security systems and cash management for all companies within the Group.

During the year: System solutions with better functionality were introduced in Swedish Mekonomen stores, which provided better conditions for stable procedures.

Merger of central warehouses

Description: Merger of the Group's two central warehouses in Sweden is under way and investments have been made in Mekonomen's central warehouse in Strängnäs with an expansion of a fully automated part. We see major strategic gains coming from the merger at the same time that the project is business critical and associated with risks. Problems can arise during the transfer of MECA's operations that lead to operating outages or to the project not resulting in the expected positive effects.

Handling: We evaluate the risks continuously throughout the course of the project. A project organisation is responsible for minimising risks and delays, and makes rapid responses to potential problems possible. Through expanded work on master data and product harmonisation, we ensure that we have the right assortment in the new warehouse. Risks in the merger are minimised through an action plan for various scenarios that may arise upon unforeseen events.

During the year: The project proceeded according to plan. In 2019, preparations and pilots were conducted for the supply of MECA's department warehouse from Strängnäs instead of Eskilstuna. The transfer of all of MECA's department warehouses will continue during 2020.

Environmental risk

Description: MEKO's impact on the environment and climate mainly occurs through energy use in premises, transports and waste and chemicals management. If our stakeholders do not have confidence in our environmental efforts, our operations can be negatively impacted. Possible violations of rules would have a legal impact and harm our brands. Good environmental and

sustainability work is also becoming an increasingly important factor for young people when they choose an employer.

Handling: Our operations work with the environment systematically. MECA Sweden, MECA Norway and Mekonomen Sweden have certified management system in accordance with ISO 14001 (environment).

During the year: During 2019, MEKO analysed the Group's carbon dioxide emissions. A more detailed description of our environmental efforts is on pages 30–31.

Supplier risks

Description: A large number of products and suppliers at a company is usually associated with higher risks in the form of, for example, quality and delivery time, as well as sustainability risks. MEKO warehouses more than 100,000 article numbers in various warehouses in the Group and has access to more than one million articles for order. This makes control and follow-up of quality of spare parts and product content as well as checks of suppliers in relation to corruption or human rights violations an extensive effort for us.

Handling: To facilitate control of the supplier level and the supply chain, all major purchasing agreements are controlled by the Group's joint purchasing organisation. Purchasing takes place mainly from European suppliers, which also deliver to the car makers. The suppliers sign our clause on compliance to the UN Global Compact or have shown an equivalent policy of their own.

During the year: During the year, a Supplier Code of Conduct was developed, which describes in more detail MEKO's expectations of its suppliers.

Corruption risks

Description: Although the risk is considered higher in certain markets and certain industries, corruption is not geographically limited. In general, purchasers and sellers are employee groups that run a greater risk of being involved in corruption. Today, we make purchases from some markets where corruption is a well-known problem, which requires that we actively distance ourselves from these practices (also see above under supplier risks).

Handling: MEKO applies zero tolerance to corruption. The Group's anticorruption policy is included in the Code of Conduct. In addition to this, there are special guidelines regarding anticorruption with rules on gifts and representation.

During the year: Procedures regarding whistle blowing were clarified in 2019 with a web-based system. The system is accessible to employees and external stakeholders, such as suppliers. The whistle-blower procedure can be used anonymously. A web-based course in the Code of Conduct will be launched in 2020.

Financial risks

Description: MEKO's financial risks mainly comprise currency, credit, interest rate and liquidity risks. See Note 36 for a description of the financial risks. In the Corporate Governance Report on pages 49–50, there is a description of the internal control and risk assessment that aim to prevent misstatements in the financial statements.