

RISK MANAGEMENT, RISKS AND UNCERTAINTIES

Valoe's Board of Directors is responsible for controlling the company's accounts and finances. The Board is responsible for internal control, while the President and CEO handle the practical arrangement and monitor internal control efficiency. Business management and control are taken care of using a Group-wide reporting and forecasting system.

The purpose of risk management is to ensure that any significant business risks are identified and monitored appropriately. The company's business and financial risks are managed centrally by the Group's financial department, and reports on risks are presented to the Board of Directors as necessary.

Due to the small size of the company and its business operations, Valoe does not have an internal auditing organization or an audit committee.

RISKS RELATED TO FINANCIAL POSITION AND FINANCING

The Operating Cash Flow Does not Materialise as Planned

We have estimated that Valoe Group's net sales for the financial year 2022 will clearly increase and loss at the EBITDA level will decrease compared to the previous year. Our business growth expectations are based on existing and new development projects to supply photovoltaic applications, particularly for transport and the industrialization of the projects. Provided our development projects do not lead to the industrialization phase quickly enough, this could have a material adverse effect on our operating result and financial position.

We Cannot Increase the Cell Production Capacity at the Lithuanian Plant Quickly Enough

We estimate that the production volumes at the Lithuanian solar cell plant will grow. Although production volumes are still low, the quality requirements have been met, and production volumes are increasing. However, more and more difficulties in raw material supply may further hamper the increase in solar cell production volumes, which could have a material adverse effect on the company's results and/or financial situation.

Rising Raw Materials Prices and Procurement Costs Cannot Be Passed on to Customer Prices

Raw material prices and procurement costs have risen sharply. We use sourced components from international material suppliers and subcontractors in our production. The main raw materials include silicon wafers, silver, other metals, plastics, and glass. All these materials now have longer delivery times and higher prices. If we cannot pass on higher purchasing costs to our customer prices, the increase in prices may significantly affect the company's profitability and financial situation.

The Assumptions Related to the Company's Cash Flow Do Not Realise

Failure to realize the assumptions related to the company's cash flow forecasts could lead to a situation where the company's impairment tests would indicate the need to write down the company's intangible and tangible assets or goodwill. In such a situation, impairment of intangible and tangible assets could have an adverse effect on the company's financial position. A detailed description of the company's impairment testing can be found in Note 12 to the consolidated financial statements.

In current exceptional circumstances, banks or public or private funding organizations may face unpredictable pressures that could slow the payment of already agreed funding to Valoe. Such a situation could, in some circumstances, cause the company's working capital situation to tighten even more.

Risks Related to the Adequacy of Funding

As mentioned in the section INVESTMENTS above, the lack of long-term financing would limit our growth. For example, if any major car manufacturer were to order a photovoltaic application for any of its cars, it would mean significant investments at our module and cell factories this year. If required funding is postponed, the start of production would be delayed, which might result in a reduction or loss of orders.

RISKS RELATED TO THE STRATEGY, BUSINESS OPERATIONS, NEW TECHNOLOGIES, AND MANUFACTURING

Our R&D Projects Do Not Deliver Outcome Quickly Enough

Should Valoe's product development projects fail or take too long to achieve results, new products are delayed, and competition tightens, the price level of new products falls, and Valoe's profitability remains substantially lower than estimated, which could significantly affect the company's financial position.

The Production of the Products Developed in Our Development Projects Does Not Start Quickly Enough

Our growth strategy is based on success in new photovoltaic applications, e.g., for transport. We have announced several such projects. Our goal is that at least some of these development projects lead to industrialization/mass production agreements.

If we could not sign an industrialization or mass production agreement with our partners fast enough, it could significantly affect the company's growth, profitability, and financial position. In 2020, the most significant project was the development project with Sono Motors GmbH, which has already moved to the industrialization phase. If the project were substantially delayed, it could have a negative impact on our estimated revenue and margins.

Materials and Services Supplies Related Risks

The COVID-19 pandemic delayed Valoe's module production and hampered, especially, the start of cell mass production, as well as the start of customer deliveries and the realization of cash flow. Since last fall, the shortage of materials and components has, month by month, delayed the final assembly and ramp-up of the production line we expected to have already in December. We use international material suppliers and subcontractors for our production whose delivery times have been extended unprecedentedly. For the moment, it is impossible to assess the ultimate impact of material and component shortages on us and others technology companies. The war in Ukraine will have an unpredictable effect on delivery problems. Ukrainian companies often play a crucial role in several essential materials and components supply chains.