

SK bioscience Co., Ltd.

**Financial statements
for the years ended December 31, 2020 and 2019
with the independent auditor's report**



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Independent auditor's report

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
SK bioscience Co., Ltd.

Opinion

We have audited the accompanying financial statements of SK bioscience Co., Ltd. (the Company), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statement, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SK bioscience Co., Ltd. as at December 31, 2020, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

The financial statements of the Company for the year ended December 31, 2019, were audited by another auditor who expressed an unqualified opinion on those statements on November 27, 2020.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and,

based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Seoul, Korea
March 22, 2021

<p>This report is effective as of March 22 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>

SK bioscience Co., Ltd.

Financial statements for the years ended December 31, 2020 and 2019

“The accompanying financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Company.”

Jae-Yong Ahn
Chief Executive Officers
SK bioscience Co., Ltd.

SK bioscience Co., Ltd.
Statements of Financial Position
December 31, 2020 and 2019

<i>(in Korean won)</i>	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	4	₩ 24,972,320,525	₩ 14,380,269,304
Short-term financial instruments	4,7,26	190,926,330,781	80,088,334,823
Trade and other receivables	4,5,17,19	45,837,781,062	32,429,407,875
Derivative assets	4,26	128,357,439	-
Inventories	6	70,275,309,592	36,377,862,430
Contract assets	19	979,914,679	-
Other current assets	4,8	782,143,190	7,465,388,335
		<u>333,902,157,268</u>	<u>170,741,262,767</u>
Non-current assets			
Long-term financial instruments	4,7	-	10,596,800,527
Deposits	4	455,228,200	347,964,000
Property, plant and equipment	9	180,992,207,643	182,477,178,513
Right-of-use assets	10	8,486,731,592	8,292,843,789
Intangible assets	11	17,857,569,807	19,479,008,186
Other non-current assets	8	95,258,777	85,680,000
Derivative assets	4,26	-	64,870,035
Deferred tax assets	22	20,442,618,217	11,894,501,846
		<u>228,329,614,236</u>	<u>233,238,846,896</u>
Total assets		<u>₩ 562,231,771,504</u>	<u>₩ 403,980,109,663</u>
Liabilities			
Current liabilities			
Trade and other payables	4,12,17,25	₩ 39,153,321,767	₩ 31,613,417,961
Current portion of long-term liabilities	4,13,24,25	10,994,490,194	-
Current lease liabilities	10,24,25	1,613,599,491	1,350,756,026
Other current liabilities	4,14,25	28,639,938,233	7,780,772,370
Contract liabilities	19	94,899,123,570	4,686,704,748
Derivative liabilities	4,26	75,413,686	-
Current tax liabilities		5,263,607,972	77,748,419
		<u>180,639,494,913</u>	<u>45,509,399,524</u>
Non-current liabilities			
Bonds payable	4,13,24,25	80,473,018,458	93,472,368,366
Long-term borrowings	4,13,24,25	21,760,000,000	23,156,000,000
Non-current lease liabilities	10,24,25	7,125,959,071	7,093,024,565
Defined benefit liabilities	15	4,357,739,216	2,015,142,780
Derivative liabilities	4,26	3,617,387,249	-
Other non-current liabilities	14	467,928,316	-
		<u>117,802,032,310</u>	<u>125,736,535,711</u>
Total liabilities		<u>298,441,527,223</u>	<u>171,245,935,235</u>
Equity			
Issued capital	1,18	30,600,000,000	10,200,000,000
Capital surplus	18	180,518,033,363	201,219,488,323
Other equity	18	900,709,824	325,256,321
Accumulated other comprehensive loss	18	(1,464,749,534)	(1,319,018,513)
Retained earnings	18	53,236,250,628	22,308,448,297
Total equity		<u>263,790,244,281</u>	<u>232,734,174,428</u>
Total liabilities and equity		<u>₩ 562,231,771,504</u>	<u>₩ 403,980,109,663</u>

The above statements of financial position should be read in conjunction with the accompanying notes.

SK bioscience Co., Ltd.
Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

<i>(in Korean won)</i>	Notes	2020	2019
Sales	17,19	₩ 225,610,784,857	₩ 183,937,702,390
Cost of sales	17,20	<u>130,268,716,195</u>	<u>106,078,005,297</u>
Gross profit		95,342,068,662	77,859,697,093
Selling and administrative expenses	20	<u>57,631,621,422</u>	<u>55,063,177,634</u>
Operating profit		37,710,447,240	22,796,519,459
Other income	17,21	3,742,467,366	143,926,541
Other expenses	17,21	1,909,152,299	1,933,834,300
Finance income	21	7,902,996,428	5,184,640,896
Finance costs	21	<u>10,153,505,952</u>	<u>7,705,979,772</u>
Profit before income tax		37,293,252,783	18,485,272,824
Income tax expense	22	<u>4,403,540,826</u>	<u>3,807,868,054</u>
Profit for the year		<u>₩ 32,889,711,957</u>	<u>₩ 14,677,404,770</u>
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Net loss on valuation of derivatives	4,22	(145,731,021)	(76,943,579)
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liability	15,22	<u>(1,961,909,626)</u>	<u>(1,412,162,222)</u>
Other comprehensive income for the year, net of tax		<u>(2,107,640,647)</u>	<u>(1,489,105,801)</u>
Total comprehensive income for the year		<u>₩ 30,782,071,310</u>	<u>₩ 13,188,298,969</u>
Earnings per share			
Basic earnings per share	23	₩ 537	₩ 240
Diluted earnings per share	23	₩ 533	₩ -

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

SK bioscience Co., Ltd.
Statements of Changes in Equity
Years Ended December 31, 2020 and 2019

(in Korean won)

	Issued capital	Capital surplus	Other equity	Accumulated other comprehensive loss	Retained Earnings	Total Equity
As of January 1, 2019 (restated)	₩ 10,200,000,000	₩ 201,219,488,323	₩ 25,019,717	₩ (1,242,074,934)	₩ 9,043,205,749	₩ 219,245,638,855
Total comprehensive income:						
Profit for the period	-	-	-	-	14,677,404,770	14,677,404,770
Remeasurement gain on defined benefit plans	-	-	-	-	(1,412,162,222)	(1,412,162,222)
Net loss on valuation of derivatives	-	-	-	(76,943,579)	-	(76,943,579)
Transactions with shareholders:						
Share-based payments	-	-	300,236,604	-	-	300,236,604
As of December 31, 2019 (restated)	<u>₩ 10,200,000,000</u>	<u>₩ 201,219,488,323</u>	<u>₩ 325,256,321</u>	<u>₩ (1,319,018,513)</u>	<u>₩ 22,308,448,297</u>	<u>₩ 232,734,174,428</u>
As of January 1, 2020 (restated)	₩ 10,200,000,000	₩ 201,219,488,323	₩ 325,256,321	₩ (1,319,018,513)	₩ 22,308,448,297	₩ 232,734,174,428
Total comprehensive income:						
Profit for the period	-	-	-	-	32,889,711,957	32,889,711,957
Remeasurement gain on defined benefit plans	-	-	-	-	(1,961,909,626)	(1,961,909,626)
Net loss on valuation of derivatives	-	-	-	(145,731,021)	-	(145,731,021)
Transactions with shareholders:						
Share-based payments	-	-	575,453,503	-	-	575,453,503
Issue of share capital without consideration	20,400,000,000	(20,701,454,960)	-	-	-	(301,454,960)
As of December 31, 2020	<u>₩ 30,600,000,000</u>	<u>₩ 180,518,033,363</u>	<u>₩ 900,709,824</u>	<u>₩ (1,464,749,534)</u>	<u>₩ 53,236,250,628</u>	<u>₩ 263,790,244,281</u>

The above statements of changes in equity should be read in conjunction with the accompanying notes.

SK bioscience Co., Ltd.
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

<i>(in Korean won)</i>	Notes	2020	2019
Cash flows from operating activities			
Profit for the year		₩ 32,889,711,957	₩ 14,677,404,770
Adjustments to reconcile profit for the year to net cash flows	24	25,139,242,470	25,131,001,684
Working capital adjustments	24	66,407,705,524	8,061,486,829
Interest received		90,642,113	191,716,363
Interest paid		(4,054,556,228)	(4,508,310,897)
Income taxes paid		(248,955,211)	(7,580,773,559)
Net cash inflow from operating activities		<u>120,223,790,625</u>	<u>35,972,525,190</u>
Cash flows from investing activities			
Decrease in deposits		175,896,000	54,000,000
Proceeds from sale of short-term financial instruments		-	20,631,943,985
Decrease in long-term loans		3,262,039,786	388,039,473
Proceeds from sale of intangible assets		468,767,273	5,940,179
Proceeds from sale of property, plant and equipment		454,545	99,921,621
Receipt of government grants		877,397,000	188,603,000
Purchase of short-term financial instruments		(102,396,742,157)	-
Increase in deposits		(283,160,200)	(46,000,000)
Payments for property, plant and equipment		(9,734,815,623)	(23,093,585,797)
Capitalized borrowing costs on purchase of property, plant and equipment		(191,371,334)	(604,254,538)
Purchase of intangible assets		(271,382,968)	(270,567,393)
Net cash outflow from investing activities		<u>(108,092,917,678)</u>	<u>(2,645,959,470)</u>
Cash flows from financing activities			
Repayment of current portion of long-term liabilities		-	(11,250,000,000)
Repayment of current lease liabilities		(1,237,366,766)	(935,486,267)
Repayment of long-term borrowings		-	(11,250,000,000)
Establishment cost		(301,454,960)	-
Net cash outflow from financing activities		<u>(1,538,821,726)</u>	<u>(23,435,486,267)</u>
Net increase (decrease) in cash and cash equivalents		10,592,051,221	9,891,079,453
Cash and cash equivalents at the beginning of the financial year		14,380,269,304	4,489,189,851
Cash and cash equivalents at the end of the year		<u>₩ 24,972,320,525</u>	<u>₩ 14,380,269,304</u>

The above statements of cash flows should be read in conjunction with the accompanying notes.

SK bioscience Co., Ltd.
Notes to the Financial Statements
December 31, 2020 and 2019

1. Corporate Information

SK bioscience Co., Ltd. (the "Company") was incorporated on July 1, 2018 through physical division of vaccine business unit from SK Chemicals Co., Ltd. and is engaged in research and development, manufacturing, production and sales of vaccine and bio-medical products, and leasing of related intellectual property rights.

Details of the Company's major shareholders as of December 31, 2020 are as follows:

	Common Stock	
	Number of shares	Percentage of ownership(%)
SK Chemicals Co., Ltd.	60,000,000	98.04%
Employee stock ownership association	811,990	1.33%
Others	388,010	0.63%
	61,200,000	100.00%

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying financial statements.

The financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value

SK bioscience Co., Ltd.
Notes to the Financial Statements
December 31, 2020 and 2019

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

2.2.1 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020.

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements and Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors – Definition of Material

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1103 Business Combination – Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments do not have a significant impact on the financial statements.

(c) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement and Korean IFRS 1107 Financial Instruments: Disclosure – Interest Rate Benchmark Reform

The amendments allow to apply the exceptions in relation the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Company assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have a significant impact on the financial statements.

2.2.2 New standards and interpretations not yet adopted by the Company

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Company.

SK bioscience Co., Ltd.
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(a) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(c) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(d) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts : Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(e) Annual improvements to Korean IFRS 2018-2020

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

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Notes to the Financial Statements
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- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value

(f) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(g) Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

2.3 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The financial statements are presented in Korean won, which is the Company's functional and presentation currency.

SK bioscience Co., Ltd.
Notes to the Financial Statements
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(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other income or other expenses'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income.

2.4 Financial Assets

(a) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of non-designated equity investment are recognized in profit or loss.

(b) Measurement

SK bioscience Co., Ltd.
Notes to the Financial Statements
December 31, 2020 and 2019

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'finance income or expenses' and impairment losses are presented in 'other expenses'.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or expenses' in the year in which it arises.

B. Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as

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'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'finance income and expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the statement of financial position.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.5 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company has hedge relationships and designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges)

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At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 26.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. A non-derivative financial asset and a non-derivative financial liability is classified as a current or non-current based on its expected maturity and its settlement, respectively.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity, limited to the cumulative change in fair value (present value) of the hedged item (the present value of the cumulative change in the future expected cash flows of the hedged item) from the inception of the hedge. The ineffective portion is recognized in 'finance income (costs)'.

When option contracts are used to hedge forecast transactions, the Company designates only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognized in the cash flow hedge reserve within equity. The changes in the time value of the option contracts that relate to the hedged item ('aligned time value') are recognized within the costs of hedging in other comprehensive income within equity.

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot element as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot element of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognized within other comprehensive income within equity. In some cases, the Company may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss (for example through cost of sales).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognized in profit or loss within 'finance cost' at the same time as the interest

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expense on the hedged borrowings.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any accumulated cash flow hedge reserve at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cash flow hedge reserve and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Changes in the fair value of derivatives that are designated as fair value hedging instruments are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity using a recalculated effective interest rate.

2.6 Trade Receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance. See Note 5 for a description of the Company's accounting policy for impairment.

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving average method.

2.8 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful lives
Buildings	40 years
Structures	40
Machinery	10
Vehicles	5
Others	5 - 10

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The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.9 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.10 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.11 Intangible Assets

Intangible assets are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful lives
Industrial property rights	5 - 10 years
Development costs	10
Software	5

(a) Internally Generated Development Cost

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- The availability of resources to complete the asset
- How the asset will generate future economic benefits
- The ability to measure reliably the expenditure during development

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New development project is processed through phases of discovering new drug candidate, preclinical trial, phase 1 clinical trial, phase 2 clinical trial, phase 3 clinical trial, request for the government approval, completion of government approval and sales of products. The Company generally recognizes expenditures incurred after the phase 3 clinical trials as intangible assets, and expenditures incurred before the phase are recognized as expenses within research and development expenses.

(b) Others

Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized.

2.12 Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.13 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Financial Liabilities

(a) Classification and measurement

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade and other payables', 'borrowings' 'bonds payable' and 'other liabilities' in the statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

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2.15 Provisions

Provisions for service warranties, make good obligation, and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

2.16 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Company recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset when the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

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2.17 Employee Benefits

(a) Post-employment benefits

The Company operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The contribution is recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

(b) Share-based payments

Equity-settled share-based payment is recognized at fair value of equity instruments granted, and employee benefit expense is recognized over the vesting period. At the end of each period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

(c) Other long-term employee benefits

The Company provide long-term employee benefits that are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by an independent qualified actuary.

2.18 Revenue Recognition

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The Company engages in the research and development, production, sales and related intellectual property lease of vaccines and biopharmaceuticals. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

(a) Sales of vaccines and biopharmaceuticals

Revenue from sale of vaccines and biopharmaceuticals is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of vaccines and biopharmaceuticals. The normal credit term is 90 to 180 days upon delivery. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of vaccines and biopharmaceuticals, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

(b) Contract development and manufacturing of vaccine and biopharmaceutical products

The Company renders services including contract development and manufacturing of vaccines and biopharmaceutical products, bioanalysis, etc. Goods manufactured by the Company do not have an alternative use to the Company, and it has an enforceable right to payment for performance completed to date. This is because that the Company produces bio-medical products at a quality that a customer requires and is entitled to reimbursement of the costs incurred to date, including a reasonable margin if a customer terminates a contract. Therefore, the Company recognizes revenue over time as it satisfies its performance obligation over a contract period.

(c) Licensing: right to use

In some contracts with customers, the Company licenses out to the customers through a technical transfer. The Company has no other goods or services transferred to the customers under the contracts other than a performance obligation for provision of licenses. The above license contract is a license that provides a right to use the entity's intellectual property as it exists at the point in time at which the license is granted. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the license at the point in time at which the license transfers. Consequently, the Company accounts for the license as a performance obligation satisfied at a point in time.

(d) Licensing: right to access

The Company provides licenses for pharmaceuticals to customers and receives consideration in return. The Company also provides research and other services to customers throughout the license period. The nature of the Company's promise to grant the license is to provide the customer with access to the entity's intellectual property as it exists throughout the license period. The Company accounts for the

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promised license as a performance obligation satisfied over time. The Company measures the progress of performance obligation based on the license period.

(e) Collaborative arrangements

The Company enters into collaborative arrangements with the counterparty to share the risks and benefits derived from the activities and processes of jointly developing a product to be marketed. Costs incurred for collaborative arrangements are recognized as either intangible assets or expenses, depending whether the conditions of differentiability, regulation, and future economic benefits are met. The Company recognizes goods or services provided and related considerations as revenue in accordance with the performance obligation identified under the contracts. The obligation of sharing the resources invested in the activities and processes under the collaborative arrangements is not included in the performance obligation.

(1) Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of pharmaceuticals provide customers with a right of return. The right of return gives rise to variable consideration.

Right of return

Certain contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in KIFRS 1115 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Company recognizes a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

(2) Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company

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has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

(3) Costs to fulfill a contract

Costs to fulfill a contract are costs incurred in fulfilling a contract with customer. If the costs are related directly to a contract or to an anticipated contract that the entity can specifically identify, generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and are expected to be recovered, the costs are recognized as assets. And the costs to fulfill a contract are recognized as cost of sales based on percentage of completion.

(4) Assets and liabilities arising from rights of return

Right of return assets

Right of return asset represents the Company's right to recover the goods expected to be returned by customers. However, due to the inherent nature of vaccines and biopharmaceuticals, the assets returned are discarded, so the Company does not recognize the right of return asset.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Company ultimately expects it will have to return to the customer. The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

2.19 Leases

(a) Lessor

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

(b) Lessee

The Company enters into lease contracts for various items of buildings, machinery, vehicles and other equipment used for business. Lease contracts are typically made for fixed periods of 3 to 10 years, but they may have extension options as described in (b) below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is lessee, the Company applies the

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practical expedient which has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Company determines the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Company should consider a termination penalty in determining the period for which the contract is enforceable.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Company (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing

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or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Company elected not to apply that revaluation model to buildings held by the Company that are presented in the right-of-use assets.

Payments associated with short-term leases of certain machinery and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT-equipment and small items of office furniture.

(c) Extension and termination options

Extension and termination options are included in the real estate leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

2.20 Segment Reporting

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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2.21 Approval of Issuance of the Financial Statements

The financial statements 2020 were approved for issue by the Board of Directors on February 15, 2021 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Impact of Coronavirus disease 2019 ("COVID-19")

During 2020, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Company.

Significant accounting estimates and assumptions applied in the preparation of the financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Company's business, financial position and financial performance cannot presently be determined.

(b) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 22).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System for Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(c) Impairment of financial assets

The provisions for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as

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well as forward looking estimates at the end of each reporting period (Note 5).

(d) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 15).

(e) Revenue recognition

A refund liability and a right to the returned goods are recognized for the products expected to be returned once they are sold. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method), and the Company's revenue is affected by changes in expected return rate.

(f) Net realizable value of inventory

Inventory is recorded at the lower of its acquisition cost or net realizable value. Measurement of the net realizable value requires estimated selling price and selling expense, which are highly subject to management's judgement.

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4. Financial Instruments

4.1 Financial Assets

Details of financial assets by category as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

(in thousands of Korean won)

	2020				
	Financial assets at fair value through profit or loss		Financial assets measured at amortized cost		Total
Current assets					
Cash and cash equivalents	₩	-	₩	24,972,321	₩ 24,972,321
Short-term financial instruments		183,735,897		7,190,433	190,926,330
Trade and other accounts receivable		-		45,837,781	45,837,781
Other current assets (*1)		-		40,400	40,400
Derivatives assets		128,357		-	128,357
		183,864,254		78,040,935	261,905,189
Non-current assets					
Deposits		-		455,228	455,228
		-		455,228	455,228
	₩	183,864,254	₩	78,496,163	₩ 262,360,417

(*1) Consists of guarantee deposits

(in thousands of Korean won)

(in thousands of Korean won)

	2019						
	Derivatives designated as hedging instruments		Financial assets at fair value through profit or loss		Financial assets measured at amortized cost		Total
Current assets							
Cash and cash equivalents	₩	-	₩	-	₩	14,380,269	₩ 14,380,269
Short-term financial instruments		-		80,088,335		-	80,088,335
Trade and other receivables		-		-		32,429,408	32,429,408
Other current assets (*1)		-		-		43,115	43,115
				80,088,335		46,852,792	126,941,127
Non-current assets							
Long-term financial instruments		-		-		10,596,800	10,596,800
Deposits		-		-		347,964	347,964
Derivatives assets		64,870		-		-	64,870
		64,870		-		10,944,764	11,009,634
	₩	64,870	₩	80,088,335	₩	57,797,556	₩ 137,950,761

(*1) Consists of guarantee deposits

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4.2 Financial Liabilities

Details of financial liabilities by category as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020			
	Financial liabilities measured at amortized cost	Financial liabilities at fair value through profit or loss	Derivatives designated as hedging instruments	Total
Current liabilities				
Trade and other payables	₩ 39,153,322	₩ -	₩ -	₩ 39,153,322
Derivative financial liabilities	-	75,414	-	75,414
Current portion of bonds payable	10,994,490	-	-	10,994,490
Other current liabilities (*1)	17,167,682	-	-	17,167,682
	<u>67,315,494</u>	<u>75,414</u>	<u>-</u>	<u>67,390,908</u>
Non-current liabilities				
Bonds payable	80,473,018	-	-	80,473,018
Long-term borrowings	21,760,000	-	-	21,760,000
Derivative liabilities	-	-	3,617,387	3,617,387
	<u>102,233,018</u>	<u>-</u>	<u>3,617,387</u>	<u>105,850,405</u>
	<u>₩ 169,548,512</u>	<u>₩ 75,414</u>	<u>₩ 3,617,387</u>	<u>₩ 173,241,313</u>

(*1) Consists of guarantee deposits received

(in thousands of Korean won)

	2019	
	Financial liabilities measured at amortized cost	Total
Current liabilities		
Trade and other payables	₩ 31,613,418	₩ 31,613,418
Other current liabilities (*1)	3,574,495	3,574,495
	<u>35,187,913</u>	<u>35,187,913</u>
Non-current liabilities		
Bonds payable	93,472,368	93,472,368
Long-term borrowings	23,156,000	23,156,000
	<u>116,628,368</u>	<u>116,628,368</u>
	<u>₩ 151,816,281</u>	<u>₩ 151,816,281</u>

(*1) Consists of guarantee deposits received

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4.3 Gains or Losses from the Financial Instruments

Details of net gains or losses by financial instrument by category for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020				
	Financial asset measured at amortized cost	Financial assets at fair value through profit or loss	Derivatives designated as hedging instruments	Financial liabilities measured at amortized cost	Total
Profit or loss					
Interest income (expenses)	₩ 469,593	₩ -	₩ -	₩ (4,150,694)	₩ (3,681,101)
Gain(loss) on foreign currency translation	(275,412)	-	-	4,792,936	4,517,524
Loss on foreign currency transactions	(1,340,355)	-	-	(5,315)	(1,345,670)
Gain(loss) on valuation of derivatives	-	52,944	(3,490,000)	-	(3,437,056)
Gain on transactions of derivatives	-	444,973	-	-	444,973
Reversal of allowance for doubtful accounts	69,371	-	-	-	69,371
Gain on valuation of financial assets at fair value through profit or loss	-	148,370	-	-	148,370
Gain on sale of financial assets at fair value through profit or loss	-	1,102,450	-	-	1,102,450
	(1,076,803)	1,748,737	(3,490,000)	636,927	(2,181,139)
Other comprehensive income(loss)					
Loss on valuation of derivatives(*1)	-	-	(145,731)	-	(145,731)
	₩ (1,076,803)	₩ 1,748,737	₩ (3,635,731)	₩ 636,927	₩ (2,326,870)

(*1) Net of income tax effect

(in thousands of Korean won)

	2019				
	Financial asset measured at amortized cost	Financial assets at fair value through profit or loss	Derivatives designated as hedging instruments	Financial liabilities measured at amortized cost	Total
Profit or loss					
Interest income (expenses)	₩ 207,205	₩ -	₩ -	₩ (4,184,561)	₩ (3,977,356)
Gain(loss) on foreign currency translation	119	-	-	(1,985,000)	(1,984,881)
Gain(loss) on foreign currency transactions	497,341	-	-	(47,439)	449,902
Gain on valuation of derivatives	-	-	1,985,000	-	1,985,000
Loss on transactions of derivatives	-	(525,374)	-	-	(525,374)
Reversal of allowance for doubtful accounts	516,992	-	-	-	516,992
Loss on valuation of financial assets at fair value through profit or loss	-	(100,573)	-	-	(100,573)
Gain on sale of financial assets at fair value through profit or loss	-	1,631,944	-	-	1,631,944
	1,221,657	1,005,997	1,985,000	(6,217,000)	(2,004,346)
Other comprehensive income(loss)					
Loss on valuation of derivatives(*1)	-	-	(76,944)	-	(76,944)
	₩ 1,221,657	₩ 1,005,997	₩ 1,908,056	₩ (6,217,000)	₩ (2,081,290)

(*1) Net of income tax effect

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4.4 Derivatives

Derivatives as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020		2019	
	Assets	Liabilities	Assets	
Derivative assets(liabilities): not designated as hedging instrument	₩ 128,357	₩ 75,414	₩ -	
Currency forwards				
Derivative assets(liabilities): designated as hedging instrument	-	3,617,387	64,870	
Currency swaps				

Derivative instruments not designated as hedging instruments as of December 31, 2020 are as follows:

(in thousands of Korean won)

	2020	
	KEB Hana Bank	
Contract with		
Buy/Sell	Sell	Buy
Contract amount	USD 25,990,000	USD 5,970,000
Gain(loss) on valuation of derivatives	₩ 32,351	₩ 20,593

All derivative instruments as of December 31, 2019 have been designated as hedging instruments.

Derivative instruments designated as hedging instruments as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020	
	KEB Hana Bank	KEB Hana Bank
Contract with	Floating rate foreign currency	Floating rate
Hedged item	privately placed corporate bond	foreign currency borrowing
	(Face value: USD 30,000,000)	(Face value: USD 20,000,000)
Contract period	2018.06.29~2023.06.29	2018.06.29~2023.06.29
Buy/Sell	Buy	Buy
Purpose	Hedge of foreign currency risk and interest rate fluctuation risk	Hedge of foreign currency risk and interest rate fluctuation risk
Contract amount	₩ 33,645,000	₩ 22,434,000
Fair value	2,180,220	1,437,168
Gain(loss) on valuation in		
Reclassified to profit or loss		(3,490,000)
Other comprehensive income (loss) (*1)		(145,731)

(*1) Net of income tax effect

(in thousands of Korean won)

	2019	
	KEB Hana Bank	KEB Hana Bank
Contract with	Floating rate foreign currency	Floating rate
Hedged item	privately placed corporate bond	foreign currency borrowing
	(Face value: USD 30,000,000)	(Face value: USD 20,000,000)
Contract period	2018.06.29~2023.06.29	2018.06.29~2023.06.29
Buy/Sell	Buy	Buy

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(in thousands of Korean won)

	2019	
Purpose	Hedge of foreign currency risk and interest rate fluctuation risk	Hedge of foreign currency risk and interest rate fluctuation risk
Contract amount	₩ 33,645,000	₩ 22,434,000
Fair value	21,307	43,563
Gain(loss) on valuation in		
Reclassified to profit or loss		1,985,000
Other comprehensive income (loss) (*1)		(76,944)

(*1) Net of income tax effect

5. Trade and Other Receivables

Details of trade and other receivables as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020	2019
Trade receivable	₩ 30,802,930	₩ 32,603,295
Less: allowance for doubtful accounts	(306,791)	(377,285)
Other receivables	15,341,521	187,909
Accrued income	121	15,489
	<u>₩ 45,837,781</u>	<u>₩ 32,429,408</u>

Changes in allowance for doubtful accounts for trade and other receivables for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020	2019
Beginning Balance:	₩ 377,285	₩ 894,277
Reversal	(69,371)	(516,992)
Write off	(1,123)	-
Ending Balance:	<u>₩ 306,791</u>	<u>₩ 377,285</u>

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

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On that basis, the loss allowance as at December 31, 2020 and 2019 was determined as follows for trade receivables:

<i>(in thousands of Korean won)</i>	Secured	Less than 3 months	Less than 6 months	Less than 9 months	Less than 12 months	More than 12 months	Individual analysis(*1)	Total
December 31, 2020								
Expected loss rate								
Wholesale	-	-	-	-	-	-	100%	0.19%
Hospital	-	0.0%	0.1%	7.9%	81.7%	100.0%	100%	2.97%
Export/Others	-	-	-	-	-	-	-	-
Gross carrying amount – trade receivables								
Wholesale	₩ 7,024,836	₩ 89,624	₩ 101,186	₩ -	₩ -	₩ -	13,722	₩ 7,229,368
Hospital	1,354,727	6,111,444	2,090,148	8,022	2,622	237,585	48,987	9,853,515
Export/Others	3,627,440	10,092,525	82	-	-	-	-	13,720,047
Loss allowance provision								
Wholesale	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	13,722	₩ 13,722
Hospital	-	1,230	2,495	629	2,143	237,585	48,987	293,069
Export/Others	-	-	-	-	-	-	-	-
December 31, 2019								
Expected loss rate								
Wholesale	-	-	-	-	-	-	100%	0.14%
Hospital	-	0.2%	0.6%	7.8%	39%	100.0%	100%	1.83%
Export/Others	-	-	-	-	-	-	-	-
Gross carrying amount – trade receivables								
Wholesale	₩ 9,550,471	₩ -	₩ -	₩ -	₩ -	₩ -	13,722	₩ 9,564,193
Hospital	1,722,385	15,195,992	2,538,033	61,492	23,178	261,607	35,221	19,837,908
Export/Others	-	1,400,446	1,800,748	-	-	-	-	3,201,194
Loss allowance provision								
Wholesale	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	13,721	₩ 13,721
Hospital	-	37,833	15,075	4,781	9,047	261,607	35,221	363,564
Export/Others	-	-	-	-	-	-	-	-

(*1) Allowances or provisions for receivables from related party transactions and bad debts are determined by individual analysis.

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6. Inventories

Details of inventories as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

		2020	
	Acquisition Cost	Valuation allowance	Book value
Merchandise	₩ 1,691,140	₩ (15,241)	₩ 1,675,899
Finished goods	2,480,475	(39,795)	2,440,680
Semi-finished goods	28,547,937	(1,230,575)	27,317,362
Work-in-progress	5,127,286	-	5,127,286
Raw materials	17,405,933	(15,203)	17,390,730
Supplies	16,363,978	(85,519)	16,278,459
Materials-in-transit	44,893	-	44,893
	₩ 71,661,642	₩ (1,386,333)	₩ 70,275,309

(in thousands of Korean won)

		2019	
	Acquisition Cost	Valuation allowance	Book value
Merchandise	₩ 1,591,911	₩ (429)	₩ 1,591,482
Finished goods	1,731,753	(70,644)	1,661,109
Semi-finished goods	21,342,280	(3,639,322)	17,702,958
Work-in-progress	2,810,671	-	2,810,671
Raw materials	7,180,881	-	7,180,881
Supplies	5,427,466	-	5,427,466
Materials-in-transit	3,295	-	3,295
	₩ 40,088,257	₩ (3,710,395)	₩ 36,377,862

Reversal of loss on valuation of inventories of KRW 2,324,062 thousand was recognized during the year ended December 31, 2020 (Loss on valuation of inventories of KRW 2,385,738 thousand was recognized during the year ended December 31, 2019).

7. Short-term and Long-term Financial Instruments

Short-term and long-term financial instruments as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

		2020	
	Detail	Amount	
Short-term financial instruments:			
Short-term investments	MMW	₩	183,735,897
Short-term loans (*1)	Employee stock ownership association loan		7,190,433
		₩	190,926,330

(*1) The loan is interest-free until June 30, 2021, thereafter interest is calculated using the weighted average borrowing rate of the Company each year. Discount on present value amounting to KRW 144,327 thousand was deducted as of December 31, 2020.

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(in thousands of Korean won)

		2019	
	Detail	Amount	
Short-term financial instruments:			
Short-term investments	MMW	₩	80,088,335
Long term financial instruments:			
Long-term loans (*1)	Employee stock ownership association loan	₩	10,596,800

(*1) The loan is interest-free until June 30, 2021, thereafter interest is calculated using the weighted average borrowing rate of the Company each year.

8. Other Assets

Details of other assets as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

		2020	2019
Other current assets:			
Advance payments	₩	971	₩ 1,021
Prepaid expenses		740,772	577,297
Prepaid taxes		-	6,843,955
Guarantee deposits		40,400	43,115
	₩	782,143	₩ 7,465,388
Other non-current assets:			
Other investment assets	₩	85,680	₩ 85,680
Long-term prepaid expenses		9,579	-
	₩	95,259	₩ 85,680

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9. Property, Plant and Equipment

Changes in the book value of property, plant and equipment for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020					
	Beginning balance	Purchases	Disposals	Depreciation (*1)	Others (*2)	Ending balance
Land	₩ 9,948,684	₩ -	₩ -	₩ -	₩ -	₩ 9,948,684
Buildings	104,230,440	44,170	-	(3,219,306)	10,405,509	111,460,813
Structures	994,840	13,750	-	(24,594)	-	983,996
Machinery	37,940,899	3,849,565	-	(8,608,278)	14,139,809	47,321,995
Vehicles	22,099	-	-	(6,024)	-	16,075
Others	700,523	1,073,173	(1,021)	(376,172)	261,025	1,657,528
Construction-in progress	28,054,737	7,940,354	-	-	(26,391,974)	9,603,117
Machinery-in-transit	584,957	-	-	-	(584,957)	-
	₩ 182,477,179	₩ 12,921,012	₩ (1,021)	₩ (12,234,374)	₩ (2,170,588)	₩ 180,992,208

(*1) Depreciation expense consists of KRW 11,253,668 thousand included in cost of sales, KRW 164,493 thousand included in selling and administrative expenses, and KRW 816,213 thousand included in R&D expenses.

(*2) Includes the amount receipts of the government subsidy and the reclassification from construction-in-progress.

(in thousands of Korean won)

	2019					
	Beginning balance	Reclassification (*1)	Purchases	Disposals	Depreciation (*2)	Ending balance
Land	₩ 9,948,684	₩ -	₩ -	₩ -	₩ -	₩ 9,948,684
Buildings	107,202,395	-	-	-	(2,971,955)	104,230,440
Structures	1,019,233	-	-	-	(24,393)	994,840
Machinery	43,623,922	-	1,346,824	(82,184)	(7,094,613)	37,940,899
Vehicles	15,818	-	26,061	(2,044)	(17,736)	22,099
Others	1,979,144	(854,682)	195,853	(4,842)	(700,316)	700,523
Construction-in progress	8,729,882	-	19,703,703	-	-	28,054,737
Machinery-in-transit	311,753	-	584,957	-	-	584,957
	₩ 172,830,831	₩ (854,682)	₩ 21,857,398	₩ (89,070)	₩ (10,809,013)	₩ 182,477,179

(*1) Certain other fixed assets are reclassified as the right of use assets, due to the implementation of KIFRS 1116 Lease.

(*2) Depreciation expense consists of KRW 9,856,711 thousand included in cost of sales, KRW 110,728 thousand included in selling and administrative expenses, KRW 841,574 thousand included in R&D expense.

(*3) Includes the amount receipts of the government subsidy and the reclassification from construction-in-progress.

Borrowing costs capitalized during the year ended December 31, 2020 amounted to KRW 191,372 thousand, and the rate used to determine the amount of borrowing costs eligible for capitalization was 3.45% (borrowing costs capitalized during the year ended December 31, 2019 amounted to KRW 604,254 thousand, and the rate used to determine the amount of borrowing costs eligible for capitalization was 3.41%).

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10. Lease

Right-of-use assets

Changes in the book value of right-of-use assets for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of
Korean won)

2020

	Beginning balance	Purchases	Disposals	Depreciation(*1)	Ending balance
Building	₩ 7,109,522	₩ 1,221,744	₩ -	₩ (922,680)	₩ 7,408,586
Vehicles	471,087	341,156	(28,304)	(275,582)	508,357
Machinery	712,235	-	-	(142,447)	569,788
	<u>₩ 8,292,844</u>	<u>₩ 1,562,900</u>	<u>₩ (28,304)</u>	<u>₩ (1,340,709)</u>	<u>₩ 8,486,731</u>

(*1) Depreciation expense consists of KRW 186,272 thousand included in cost of sales, KRW 806,947 thousand included in selling and administrative expenses, KRW 347,490 thousand included in R&D cost.

(in thousands of
Korean won)

2019

	Beginning balance	Reclassification(*1)	Changes in accounting principle(*2)	Purchases	Depreciation(*3)	Ending balance
Building	₩ -	₩ -	₩ 6,419,101	₩ 1,379,554	₩ (689,133)	₩ 7,109,522
Vehicles	-	-	390,237	287,991	(207,141)	471,087
Machinery	-	854,681	-	-	(142,447)	712,235
	<u>₩ -</u>	<u>₩ 854,681</u>	<u>₩ 6,809,338</u>	<u>₩ 1,667,545</u>	<u>₩ (1,038,721)</u>	<u>₩ 8,292,844</u>

(*1) Certain other fixed assets are reclassified into the right of use assets, due to the implementation of KIFRS 1116 Lease.

(*2) The Company newly recognized right-of-use assets in accordance with Korean IFRS 1116 Lease.

(*3) Depreciation expense consists of KRW 178,968 thousand included in cost of sales, KRW 576,231 thousand included in selling and administrative expenses, KRW 283,522 thousand included in R&D cost.

As of December 31, 2020 and 2019, the details of lease liabilities are as follows:

(in thousands of Korean
won)

2020

2019

	Minimum lease payments	Present value	Minimum lease payments	Present value
Due in one year	₩ 1,642,382	₩ 1,613,599	₩ 1,374,825	₩ 1,350,756
Due in two years	1,490,352	1,417,076	1,325,776	1,260,392
Due in five years	3,822,432	3,406,152	3,492,895	3,113,796
Due after five or more years	2,846,037	2,302,731	3,416,474	2,718,837
	<u>₩ 9,801,203</u>	<u>₩ 8,739,558</u>	<u>₩ 9,609,970</u>	<u>₩ 8,443,781</u>

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Changes in the book value of lease liabilities for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>		2020		2019
Beginning balance	₩	8,443,781	₩	902,521
Changes in accounting principles		-		6,809,338
Increase		1,562,900		1,697,153
Decrease		(29,756)		(29,745)
Lease payment		(1,516,615)		(1,187,641)
Interest expenses		279,248		252,155
Ending balance	₩	<u>8,739,558</u>	₩	<u>8,443,781</u>

Expenses incurred for the years ended December 31, 2020 and 2019 in relation to lease contracts are as follows:

<i>(in thousands of Korean won)</i>		2020		2019
Other operating expenses including supplies expenses				
Short-term leases	₩	183,537	₩	196,665
Leases of low value assets		76,742		64,592
Depreciation and impairment				
Depreciation of right of use assets		1,340,709		1,038,720
Net interest expenses				
Interest expenses in relation to lease liabilities		279,248		252,155

The Company had a total cash outflow of KRW 1,776 million for leases in 2020 (the cash outflows of KRW 1,449 million during the year ended in December 31, 2019). The Company does not have lease contracts which include variable payments linked to the quantity of manufactured goods.

11. Intangible Assets

Changes in the book value of intangible assets for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>				2020				
	Beginning balance	Acquisition	Disposals	Amortization(*1)	Others(*2)		Ending balance	
Industrial property rights	₩ 518,132	₩ 9,221	₩ -	₩ (63,793)	₩ 54,677	₩	518,237	₩
Development costs	17,534,884	-	-	(2,313,498)	-		15,221,386	
Software	1,192,335	262,162	-	(575,063)	1,238,512		2,117,946	
Membership	233,657	-	(233,657)	-	-		-	
	<u>₩ 19,479,008</u>	<u>₩ 271,383</u>	<u>₩ (233,657)</u>	<u>₩ (2,952,354)</u>	<u>₩ 1,293,189</u>		<u>₩ 17,857,569</u>	

(*1) Amortization expense consists of KRW 2,386,679 thousand included in cost of sales, KRW 386,854 thousand included in selling and administrative expenses, KRW 178,821 thousand included in R&D cost.

(*2) Includes reclassification from construction-in-progress.

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(in thousands of Korean won)

2019

	Beginning balance	Acquisition	Disposals	Amortization(*1)	Others(*2)	Ending balance
Industrial property rights	₩ 413,704	₩ 88,525	₩ -	₩ (51,172)	₩ 67,075	₩ 518,132
Development costs	19,848,381	-	-	(2,313,497)	-	17,534,884
Software	1,343,761	181,602	(5,400)	(330,836)	3,208	1,192,335
Membership	233,217	440	-	-	-	233,657
	<u>₩ 21,839,063</u>	<u>₩ 270,567</u>	<u>₩ (5,400)</u>	<u>₩ (2,695,505)</u>	<u>₩ 70,283</u>	<u>₩ 19,479,008</u>

(*1) Amortization expense consists of KRW 2,376,460 thousand included in cost of sales, KRW 261,205 thousand included in selling and administrative expenses, KRW 57,840 thousand included in R&D cost.

(*2) Includes reclassification from construction-in-progress.

Details of development costs as of December 31, 2020 and December 31, 2019 are as follows:

(in thousands of Korean won)

2020

		Capitalized research and development costs (cumulative)			Research and development costs		
	Name	Phase3	Sales approved	Total	Book value	Accumulated impairment loss	Residual amortization period
Development Completed	Genetic recombination	NBP601(*1)	₩ -	₩ 5,100,000	₩ 5,100,000	₩ 3,060,000	₩ - 6 years
	Vaccine	NBP607(*2)	4,354,658	-	4,354,658	2,433,809	- 5 years
	Vaccine	NBP608 shingles(*3)	10,199,115	-	10,199,115	7,054,387	- 7 years
	Vaccine	NBP608 chickenpox(*4)	3,486,768	-	3,486,768	2,673,190	- 8 years
			<u>₩ 18,040,541</u>	<u>₩ 5,100,000</u>	<u>₩ 23,140,541</u>	<u>₩ 15,221,386</u>	<u>₩ -</u>

(in thousands of Korean won)

2019

		Capitalised research and development costs (cumulative)			Research and development costs		
	Name	Phase3	Sales approved	Total	Book value	Accumulated impairment loss	Residual amortisation period
Development Completed	Genetic recombination	NBP601(*1)	₩ -	₩ 5,100,000	₩ 5,100,000	₩ 3,570,000	₩ - 7 years
	Vaccine	NBP607(*2)	4,354,658	-	4,354,658	2,868,718	- 6 years
	Vaccine	NBP608 shingles(*3)	10,199,115	-	10,199,115	8,074,300	- 8 years
	Vaccine	NBP608 chickenpox(*4)	3,486,768	-	3,486,768	3,021,866	- 9 years
			<u>₩ 18,040,541</u>	<u>₩ 5,100,000</u>	<u>₩ 23,140,541</u>	<u>₩ 17,534,884</u>	<u>₩ -</u>

(*1) NBP601 is a therapeutic agent for hemophilia and is currently on sale after approval for sale was obtained in Europe and America.

(*2) NBP 607 is an anti-influenza vaccine product and is currently on sale after approval for sale was obtained in 2015.

(*3) It is an anti-herpes vaccine product for adults. It is currently on sale after approval for sale was obtained in 2017.

(*4) It is a vaccine for chickenpox for infants and children, it is currently on sale after approval for sale was obtained in 2018.

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Changes in the book value of development costs for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

(in thousands of Korean won)	2020									
	NBP601		NBP607		NBP608		Total			
					Shingles	Chickenpox				
Beginning balance	₩	3,570,000	₩	2,868,718	₩	8,074,300	₩	3,021,866	₩	17,534,884
Amortization		(510,000)		(434,909)		(1,019,913)		(348,676)		(2,313,498)
Ending balance	₩	3,060,000	₩	2,433,809	₩	7,054,387	₩	2,673,190	₩	15,221,386

(in thousands of Korean won)

(in thousands of Korean won)	2019									
	NBP601		NBP607		NBP608		Total			
					Shingles	Chickenpox				
Beginning balance	₩	4,080,000	₩	3,303,627	₩	9,094,213	₩	3,370,541	₩	19,848,381
Amortization		(510,000)		(434,909)		(1,019,913)		(348,675)		(2,313,497)
Ending balance	₩	3,570,000	₩	2,868,718	₩	8,074,300	₩	3,021,866	₩	17,534,884

R&D costs recognized as expenses for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020		2019	
Selling and administrative expenses	₩	32,483,408	₩	30,295,126
Government subsidies, etc.		(6,496,308)		(2,575,463)
	₩	25,987,100	₩	27,719,663

12. Trade and Other Payables

Trade and other payables as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020		2019	
Trade payables	₩	17,505,191	₩	18,372,076
Other payables		10,128,062		6,146,904
Accrued expenses		11,520,069		7,094,438
	₩	39,153,322	₩	31,613,418

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13. Bond Payables and Borrowings

Bond payables and borrowings as of December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020		2019	
Current portion of long-term liabilities:				
Current portion of long-term borrowings	₩	10,994,490	₩	-
Bond payables		80,473,018		93,472,368
Long-term borrowings		21,760,000		23,156,000
	₩	113,227,508	₩	116,628,368

Details of bonds payable as of December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	Classification	Maturity date	Annual interest rates (%)	2020	2019
1-2 nd public bonds		2021.07.27	3.36	₩ 11,000,000	₩ 11,000,000
2-2 nd public bonds		2022.07.26	3.34	48,000,000	48,000,000
Foreign bonds		2023.06.29	US 3M Libor + 1.88	32,640,000	34,734,000
				91,640,000	93,734,000
Less: discount on bonds payable				(172,492)	(261,632)
Less: current portion				(10,994,490)	-
				₩ 80,473,018	₩ 93,472,368

Details of long-term borrowings as of December 31, 2020 and 2019 consist of the following:

(in thousands of Korean won)

Financial institution	Classification	Maturity date	Annual Interest rates (%)	2020	2019
KEB Hana Bank	Common loans-overseas	2023.06.29	US 3M Libor + 2.00	₩ 21,760,000	₩ 23,156,000
				21,760,000	23,156,000
Less: current portion of long-term borrowings				-	-
				₩ 21,760,000	₩ 23,156,000

14. Other Liabilities

Details of other liabilities as of December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020		2019
	Current	Non-current	Current
Advances	₩ 10,767,625	₩ -	₩ 1,903,180
Withholdings	704,631	-	2,303,097
Guarantee deposits received	17,167,682	-	3,574,495
Long-term employee benefits	-	467,928	-
	₩ 28,639,938	₩ 467,928	₩ 7,780,772

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15. Employee Benefit Liabilities

The Company operates defined benefit pension plans and defined contribution plans for its employees, and the present value of the pension obligation is determined using the projected unit credit method based on actuarial assumptions and on a discount basis by an independent actuary firm.

Changes in the carrying amounts of defined benefit liabilities for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Changes in defined benefit liabilities:		
Beginning balance	₩ 2,015,143	₩ 1,773,509
Retirement benefits paid	99,148	943,184
Provision during the period	4,050,181	2,772,872
Re-measurement loss	2,588,271	1,863,011
Contributions to defined benefit plans	(4,500,000)	(4,900,000)
Transfer to affiliated company and other accounts	104,997	(437,433)
Ending balance	<u>₩ 4,357,740</u>	<u>₩ 2,015,143</u>
Defined benefit liabilities in the statement of financial position:		
Present value of defined benefit obligation	₩ 28,688,137	₩ 19,660,070
Fair value of plan assets	<u>(24,330,397)</u>	<u>(17,644,927)</u>
	<u>₩ 4,357,740</u>	<u>₩ 2,015,143</u>

Expenses incurred for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Current service costs	₩ 3,984,691	₩ 2,732,216
Interest expenses	394,250	353,756
Expected return on plan assets	<u>(328,760)</u>	<u>(313,100)</u>
	<u>₩ 4,050,181</u>	<u>₩ 2,772,872</u>

Changes in the present value of the defined benefit obligation for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Beginning balance	₩ 19,660,070	₩ 16,072,049
Current service costs	3,984,691	2,732,216
Interest expenses	394,250	353,756
Re-measurement loss	2,545,470	1,739,119
Retirement benefits paid	(590,087)	(671,531)
Transfer to affiliates	2,693,743	(565,539)
Ending balance	<u>₩ 28,688,137</u>	<u>₩ 19,660,070</u>

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Changes in the fair value of plan assets for the years ended December 31, 2020 and 2019 are as follows :

<i>(in thousands of Korean won)</i>		2020		2019
Beginning balance	₩	17,644,927	₩	14,298,540
Expected return on plan assets		328,760		313,100
Re-measurement loss		(42,801)		(123,892)
Contributions to defined benefit plans		4,500,000		4,900,000
Retirement benefits paid		(689,236)		(1,614,715)
Transfer to affiliates		2,588,747		(128,106)
Ending balance	₩	<u>24,330,397</u>	₩	<u>17,644,927</u>

As of December 31, 2020 and 2019, plan assets consist of time deposits and others.

The principal assumptions used in actuarial calculation as of December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	2.09%	1.97%
Expected rate of return on plan assets	2.09%	1.97%
Future salary increase	5.47%	4.56%

Details of re-measurement losses (gains) as of December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>		2020		2019
Financial assumptions	₩	1,352,546	₩	584,316
Experience adjustments		(100,393)		1,154,803
Demographic assumptions		1,293,317		-
Re-measurement loss on plan assets		42,801		123,892
	₩	<u>2,588,271</u>	₩	<u>1,863,011</u>

The following table demonstrates a sensitivity analysis on the effect of changes in the principal assumptions used in actuarial calculation on the present value of defined benefit obligation as of December 31, 2020 and 2019:

<i>(in thousands of Korean won)</i>		2020			
		Effect of changes in the discount rate		Effect of changes in the future salaries	
		Increase by 1% point	Decrease by 1% point	Increase by 1% point	Decrease by 1% point
Defined benefit obligation	₩	(3,413,601)	₩ 4,113,002	₩ 4,074,773	₩ (3,448,259)

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(in thousands of Korean won)

2019

	Effect of changes in the discount rate		Effect of changes in the future salaries	
	Increase by 1% point	Decrease by 1% point	Increase by 1% point	Decrease by 1% point
Defined benefit obligation	₩ (1,765,116)	₩ 2,071,945	₩ 2,051,063	₩ (1,781,862)

Plan assets as of December 31, 2020 and 2019, consist of:

(in thousands of Korean won)

	2020		2019	
	Amount	Composition (%)	Amount	Composition (%)
Deposits	₩ 24,328,183	99.99	₩ 17,642,713	99.99
National Pension Fund	2,214	0.01	2,214	0.01
	<u>₩ 24,330,397</u>	<u>100.00</u>	<u>₩ 17,644,927</u>	<u>100.00</u>

The weighted average duration of the defined benefit obligation is 13.3 years. The expected maturity analysis of undiscounted pension benefits is as follows:

(in thousands of Korean won)	Less than 1 year	Between 1-2 years	Between 2-5 years	Between 5-10 years	Between 10-20 years	Over 20 years	Total
Pension benefits	₩ 852,425	₩ 931,542	₩ 4,404,794	₩ 5,218,879	₩ 15,871,041	₩ 11,328,917	₩ 38,607,598

Expected contributions to post-employment benefit plans for the year ending December 31, 2021, are KRW 4,716,739 thousand.

Expenses recognized in profit or loss in relation to the defined contribution plan during the year ended December 31, 2020 is KRW 17,395 thousand (2019 : KRW 7,064 thousand).

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16. Commitments and Contingencies

Details of significant litigation related to the Company as of December 31, 2020 are as follows:

	Plaintiff	Defendant	Contents	Litigation amount	Remark
Patent infringement claims	Wyeth LLC, Pharmaceuticals Ltd.	Pfizer Korea The Company	Application for injunction against pneumococcus vaccine patent right infringement	KRW 100 million	Second trial in progress
Patent infringement claims	Wyeth LLC, Pharmaceuticals Ltd.	Pfizer Korea The Company	Application for injunction against pneumococcus vaccine patent right infringement and claim for damages of KRW 100 million.	KRW 300 million	First trial in progress
Application for indirect compulsory performance	Wyeth LLC, Pharmaceuticals Ltd.	Pfizer Korea The Company	Application for injunction against pneumococcus vaccine patent right infringement	-	Citation of the plaintiff application

As the outcome of above cases cannot be reasonably estimated, the Company does not recognize any provisions.

Commitments with the financial institutions as of December 31, 2020 are as follows:

Financial institution	Category	Limit	Amount
KEB Hana Bank	Korean won payment guarantee – Contract execution	KRW 280 million	KRW 280 million
	Foreign currency payment guarantee – Contract execution	USD 30,000,000	USD 30,000,000
	Secured loan of credit sales	KRW 4,000 million	-
	Foreign currency working capital loan	USD 20,000,000	USD 20,000,000
	Derivative deposit exemption arrangement	USD 23,500,000	USD 14,019,098
Shinhan Bank	Secured loan of credit sales	KRW 3,000 million	-

Details of insurance commitments as of December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

Financial institution	Category	2020	2019
Seoul Guarantee Insurance Co., Ltd.	Performance guarantee insurance etc.	₩ 290	₩ 588
Samsung Fire Marine Insurance Co., Ltd	Comprehensive property insurance	309,523	255,473
Hyundai Marine & Fire Insurance Co., Ltd	Comprehensive property insurance	37,457	34,380

Technology transfer agreement and joint development

On February 12, 2018, the Company signed an agreement with Sanofi Pasteur Inc. located in United States to transfer the technology for producing cell-grown high efficiency influenza vaccines, which is worth of USD 155,000,000. Part of this contract amount will be recognized as revenue in installments following by clinical entry and authorization until the end of the contract term. The Company may receive sales commission based on terms and conditions.

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In addition, on March 19, 2014, the Company signed an agreement with Sanofi Pasteur Inc. for joint development and sale of next generation's pneumonia-bacterial conjugate vaccines, which is worth of USD 45,000,000, considering initial technical fees and milestones for each stages of development. Part of this contract amount is recognized as revenue in installments when the right to receive considerations is fulfilled at each stage.

CMO/CDMO agreement

On July 3, 2020, the Company signed an agreement with AstraZeneca UK Limited to provide contract manufacturing service of COVID-19 vaccine. The consideration will be recognized as revenue throughout the period until the contract obligation is satisfied.

On August 11, 2020, the Company signed an agreement with Novavax, Inc. to provide contract development and manufacturing service of COVID-19 vaccine. The consideration will be recognized as revenue throughout the period until the contract obligation is satisfied.

17. Related Party Transactions

Details of the Company's related parties as of December 31, 2020 are as follows:

Relationship	Companies
Parent company	SK Chemicals Co., Ltd. SK Discovery Co., Ltd., SK Gas Co., Ltd., SK Networks Co., Ltd.,
Others	SK Telecom Co., Ltd., SK Holdings Co., Ltd., Happynarae Co., Ltd., SK Broadband Co., Ltd., SK Infosec Co., Ltd., SK Plasma Co., Ltd., SK Hynix Co., Ltd., SK MN service Co., Ltd., SK Hystec Co., Ltd., SK Group affiliated company (*1)

(*1) The Company classified the large scale enterprise designated by the Fair Trade Commission according to the specialized relationships established in paragraph 10 of Korean IFRS 1024.

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Significant transactions with related parties for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

		2020				
		Revenue	Purchase	Other expenses	Other income	Purchase of fixed assets
Parent company	SK Chemicals Co., Ltd.	₩ 218,133	₩ 1,892,801	₩ 5,045,476	₩ 107,638	₩ -
Others	SK Gas Co., Ltd.	-	-	456,787	-	-
	SK Plasma Co., Ltd.	938,662	7,936,713	21,944	396	-
	SK Holdings Co., Ltd.	-	-	613,337	-	120,750
	SK Innovation Co., Ltd.	-	-	61,289	-	-
	SK Telecom Co., Ltd.	-	-	242,965	-	20,568
	SK Networks Co., Ltd.	-	-	32,699	-	-
	SK Magic Co., Ltd.	-	-	7,753	-	-
	Happynarae Co., Ltd.	-	180,243	1,732,110	-	31,992
	SK Broadband Co., Ltd.	-	-	4,181	-	-
	SK Telink Co., Ltd.	-	-	1,257	-	-
	SK Hynix Co., Ltd.	79,107	-	-	-	-
	SK Hystec Co., Ltd.	218,898	-	-	-	-
	SK PINX Co., Ltd.	-	-	22,000	-	-
	SK MN service Co., Ltd.	-	-	87,155	-	-
	ADT Caps Co., Ltd.	-	-	4,269	-	-
	SK Energy Co., Ltd.	-	-	98,245	-	-
	SK Infosec Co., Ltd.	-	-	68,699	-	13,125
	SK RENT A CAR Co., Ltd.	-	-	9,655	-	-
	SK FOREST Co., Ltd.	-	-	2,400	-	-
		₩ 1,454,800	₩ 10,009,757	₩ 8,512,221	₩ 108,034	₩ 186,435

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		2019				
		Revenue	Purchase	Other expenses	Purchase of fixed assets	Disposals of fixed assets
Parent company	SK Chemicals Co., Ltd.	₩ 510,742	₩ 2,808,077	₩ 5,648,598	₩ 71,444	₩ 66,210
Others	SK Gas Co., Ltd.	-	-	863,449	-	-
	SK Plasma Co., Ltd.	605,888	-	59,268	-	30,140
	SK Holdings Co., Ltd.	-	-	171,648	4,231	-
	SK Energy Co., Ltd.	-	-	3,000	-	-
	SK Telecom Co., Ltd.	-	-	221,103	-	-
	SK Networks Co., Ltd.	-	-	9,980	-	-
	SK Magic Co., Ltd.	-	-	4,184	-	-
	Happynarae Co., Ltd.	-	1,110,253	2,752,683	103,357	-
	SK Broadband Co., Ltd.	-	-	4,700	-	-
	SK Infosec Co., Ltd.	-	-	24,389	-	-
	SK FOREST Co., Ltd.	-	-	1,900	-	-
	SK Telink Co., Ltd.	-	-	1,142	-	-
	SK Hynix Co., Ltd.	67,683	-	-	-	-
	SK Hystec Co., Ltd.	213,533	-	-	-	-
	SK MN service Co., Ltd.	-	-	85,656	-	-
	ADT Caps Co., Ltd.	-	-	9,920	2,900	-
	Incross Co., Ltd.	-	-	300,000	-	-
		₩ 1,397,846	₩ 3,918,330	₩ 10,161,620	₩ 181,932	₩ 96,350

Account balances with related parties as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

		2020			
		Receivables		Payables	
		Trade receivables	Other receivables	Trade payables	Other payables(*1)
Parent company	SK Chemicals Co., Ltd.	₩ -	₩ 107,638	₩ 256,573	₩ 4,880,917
Others	SK Gas Co., Ltd.	-	215,832	-	2,775,134
	SK Telecom Co., Ltd.	-	-	-	12,159
	Happynarae Co., Ltd.	-	-	2,574	189,432
	SK Hynix Co., Ltd.	-	-	-	2,797
	SK Hystec Co., Ltd.	17,650	-	-	-
	SK Innovation Co., Ltd.	-	-	-	38,018
	SK Energy Co., Ltd.	-	-	-	367
	SK Infosec Co., Ltd.	-	-	-	52,766
	SK Holdings Co., Ltd.	-	-	-	175,533
	SK RENT A CAR Co., Ltd.	-	-	-	2,855
	SK Plasma Co., Ltd.	-	-	1,283,097	2,310
		₩ 17,650	₩ 323,470	₩ 1,542,244	₩ 8,132,288

(*1) Other liabilities include lease liabilities.

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(in thousands of Korean won)

		2019			
		Receivables		Payables	
		Trade receivables	Other receivables	Trade payables	Other payables(*1)
Parent company	SK Chemicals Co., Ltd.	₩ -	₩ -	₩ 547,827	₩ 5,716,125
Others	SK Gas Co., Ltd.	-	210,568	-	1,887,981
	SK Telecom Co., Ltd.	-	-	-	12,159
	SK Networks Co., Ltd.	-	-	-	547
	Happynarae Co., Ltd.	-	-	12,562	164,421
	SK Hystec Co., Ltd.	19,644	-	-	-
	SK MN service Co., Ltd.	-	-	-	2,717
	ADT Caps Co., Ltd.	-	-	-	3,190
		₩ 19,644	₩ 210,568	₩ 560,389	₩ 7,787,140

(*1) Other liabilities include lease liabilities.

Key management personnel compensation for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020	2019
Short-term employee benefits	₩ 1,242,691	₩ 1,051,610
Retirement benefits	362,793	310,645
Share-based compensation expenses	345,291	180,152
	₩ 1,950,775	₩ 1,542,407

The Company's key management personnel include registered directors and internal auditor.

18. Equity

Details of issued capital as of December 31, 2020 and 2019 are as follows:

	2020	2019
	Common Stock	Common Stock
Number of shares authorized (in share)	300,000,000	10,000,000
Par value per share (in Korean won)	₩ 500	₩ 5,000
Number of shares issued (in share)	61,200,000	2,040,000
Issued capital (Korean won in thousands)	₩ 30,600,000	₩ 10,200,000

The Company issued 4,080,000 shares of common stock without consideration, as approved by the Board of Directors on October 5, 2020. As a result, the shares of common stock increased from 2,040,000 to 6,120,000. In addition, the Company declared stock split based on the resolution of annual shareholder's meeting dated October 29, 2020. As a result of the stock split, the shares of common stock increased from 6,120,000 to 61,200,000. The earnings per shares for the years ended December 31, 2020 and 2019 are recalculated based on the changed number of shares (Note 23).

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Details of capital surplus as of December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>		2020		2019
Share premium	₩	180,518,033	₩	201,219,488

Details of other equity as of December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>		2020		2019
Stock options	₩	900,710	₩	325,256

Details of stock options as of December 31, 2020, are as follows:

<i>(in Korean won and in shares)</i>					
Grant date	Number of shares authorized	Exercise Period	Exercise Price per share	Fair value per share at grant date	
2018.12.11	546,270	2021.12.12~2028.12.11	₩ 9,154	₩ 1,649	
(*1) As a result of increase of capital stock without consideration and stock split, number of shares authorized was adjusted to 546,270 from 18,209, exercise price was adjusted to KRW 9,154 from KRW 274,621 and fair value at grant date was adjusted to KRW 1,649 from KRW 49,465.					

Fair value of stock options was measured using the binomial option pricing model, and input variables are as follows:

<i>(in Korean won)</i>	Grant date: 2018.12.11
Market price per share on grant date	₩ 9,154
Exercise price per share	9,154
Expected fluctuation	11.90%
Risk-free interest rate	1.94%

(*1) As a result of increase of capital stock without consideration and stock split, the market price per share on grant date and exercise price per share were adjusted from KRW 274,621 per share to KRW 9,154 per share.

Details of changes in share options for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>					
	2020				
	Number of shares authorized (*1)			Fair value	
Grant date	Granted	Ending balance	Beginning balance	Addition	Ending balance
2018.12.11	546,270	546,270	₩ 325,256	₩ 575,454	₩ 900,710

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(in thousands of Korean won)

2019					
Grant date	Number of shares authorized (*1) Granted	Ending balance	Beginning balance	Fair value Addition	Ending balance
2018.12.11	546,270	546,270	₩ 25,020	₩ 300,236	₩ 325,256

(*1) As a result of increase of capital stock without consideration and stock split, number of shares authorized increased from 18,209 to 546,270.

Details of accumulated other comprehensive income(loss) as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)	2020	2019
Net loss on valuation of derivative assets	₩ (1,464,750)	₩ (1,319,018)

Details of retained earnings as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)	2020	2019
Unappropriated retained earnings	₩ 53,236,250	₩ 22,308,448

Details of appropriation of retained earnings for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)	2020 Appropriation date: March 31, 2021	2019 Appropriation date: March 24, 2020
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	₩ 22,308,448	₩ 9,043,206
Profit for the year	32,889,712	14,677,404
Re-measurement loss of defined benefit plans	(1,961,910)	(1,412,162)
	<u>53,236,250</u>	<u>23,308,448</u>
Appropriations	-	-
Unappropriated retained earnings to be carried forward to the next year	<u>₩ 53,236,250</u>	<u>₩ 22,308,448</u>

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19. Segment Information

Revenue from Contracts with Customers

Disaggregated revenue information

Set out below is the disaggregation of the Company's revenue from contracts with customers for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020		2019	
Type of goods or services:				
Sale of finished goods	₩	146,656,981	₩	82,685,144
Sale of semi-finished goods		1,543,969		-
Sale of merchandise		60,909,888		54,762,716
Sales of services and others		16,499,947		46,489,842
Total revenue from contracts with customers	₩	<u>225,610,785</u>	₩	<u>183,937,702</u>
Geographical markets:				
Domestic	₩	200,575,873	₩	138,580,023
America		5,643,493		37,202,199
Europe		13,964,805		6,736,251
Asia		5,426,614		1,419,229
Total revenue from contracts with customers	₩	<u>225,610,785</u>	₩	<u>183,937,702</u>
Timing of revenue recognition				
Goods transferred at a point in time	₩	216,353,699	₩	182,584,202
Services transferred overtime		9,257,086		1,353,500
Total revenue from contracts with customers	₩	<u>225,610,785</u>	₩	<u>183,937,702</u>

Contract balance

Details of the changes in the Company's contract balance as of December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020		2019	
Trade receivables (*1)	₩	30,802,930	₩	32,603,295
Contract assets		979,915		-
Contract liabilities		94,899,124		4,686,705

(*1) Trade receivables are interest-free and the normal payment terms are 90 to 180 days. The Company recognized a reversal of allowance for doubtful accounts of KRW 69,371 thousand for the year ended December 31, 2020 (2019: KRW 516,992).

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Details of changes in contract assets and liabilities for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020					
	Contract assets		Contract liabilities			
	Contract costs (*1)	Due from customers(*2)	Unearned revenues (*3)	Advances from customers	Refund liabilities (*4)	
Beginning balance	₩ -	₩ -	₩ -	₩ -	₩ 4,686,705	
Increase(decrease)	324,164	655,751	86,658,439	2,528,545	1,025,435	
Ending balance	₩ 324,164	₩ 655,751	₩ 86,658,439	₩ 2,528,545	₩ 5,712,140	
Current portion	₩ 324,164	₩ 655,751	₩ 86,658,439	₩ 2,528,545	₩ 5,712,140	
Non-current portion	-	-	-	-	-	

(*1) Costs incurred in fulfilling a contract include costs for technology transfer and trial batches production in order to manufacture products that customers request. Such activities do not include transferring goods or services to a customer but are prerequisite for production of goods ordered. Accordingly, they do not consist as part of a performance obligation but are recognized as contract assets.

(*2) Unbilled contract assets were recognized due to a difference between the extent of the Company's satisfaction of its performance obligation satisfied over time and the consideration billed to the customer.

(*3) The Company recognizes advance consideration received from a customer in relation to technology transfer and engineering batch production of CMO/CDMO as contract liabilities.

(*4) A provision is recognized for expected warranty claims on products sold during the period, based on past experience of the level of repairs and returns. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the warranty period for all products sold.

(in thousands of Korean won)

	2019	
	Contract liabilities	
	Unearned revenues (*1)	Refund liabilities (*2)
Beginning balance	₩ 1,353,500	₩ 3,929,502
Increase	-	4,686,705
Decrease	(1,353,500)	(3,929,502)
Ending balance	₩ -	₩ 4,686,705
Current portion	₩ -	₩ 4,686,705
Non-current portion	-	-

(*1) Unearned revenues in relation to the sales of the use and access rights of licenses.

(*2) A provision is recognized for expected warranty claims on products sold during the period, based on past experience of the level of repairs and returns. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the warranty period for all products sold.

For management purposes, the Company is organized into business units based on its products and services and has one reportable segment. Therefore, the Company has not disclosed details of the profit or loss for each operating segment.

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There was one single customer accounted for more than 10% of sales revenue for the fiscal year of 2020. The sales to that customer amounted to KRW 27,277,352 thousand for the year ended December 31, 2020 (KRW 37,202,200 thousand for the year ended December 31, 2019).

20. Operating Expenses

Details of cost of sales and selling and administrative expenses by nature for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020		2019
Changes in inventories	₩ (12,710,590)	₩	(4,208,174)
Raw materials used	37,694,901		23,673,084
Cost of merchandise sold	57,418,739		50,914,551
Depreciation and amortization (*1)	16,527,436		14,543,239
Salaries and wages	47,287,228		28,313,394
Logistics expenses	2,016,103		1,897,061
Rental fees and services	17,516,538		10,080,665
Marketing fees	2,420,081		4,111,218
Taxes and dues	620,429		502,206
Consignment services	7,338,283		13,668,147
Others	11,771,190		17,645,792
	<u>₩ 187,900,338</u>	₩	<u>161,141,183</u>

(*1) Depreciation of right-of-use assets is included.

Details of selling and administrative expenses for the years ended December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020		2019
Salaries	₩ 13,086,523	₩	10,165,588
Provision for pension benefits	1,495,646		1,213,937
Employee welfare benefits	1,955,219		1,365,125
Travel	1,079,657		1,218,265
Communication	108,188		115,339
Taxes and dues	235,159		215,002
Rents	37,376		145,437
Depreciation	971,440		686,959
Insurance	157,560		127,483
Entertainment	163,245		134,868
Repairs	1,927		1,000
Office supplies	105,691		53,958
Vehicle maintenance	137,895		145,774
Training	570,578		497,066
Printing	9,598		26,566
Service fees and other fees	6,573,141		5,371,848
Research	25,987,100		27,719,663
Advertising and marketing	2,417,701		4,108,616
Sales commission	1,465,346		1,390,556

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<i>(in thousands of Korean won)</i>	2020	2019
Samples	2,379	2,602
Packaging	-	93,013
Reversal of allowance for doubtful accounts	(69,371)	(516,992)
Conference fees	177,315	220,063
Amortization	386,854	261,205
Share-based compensation expenses	575,454	300,237
	<u>₩ 57,631,621</u>	<u>₩ 55,063,178</u>

21. Other Income and Expenses

Details of other income and expenses for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Other income:		
Gain on disposal of property, plant and equipment	₩ -	₩ 12,234
Gain on sales of intangible assets	235,110	540
Gain on disposal of right-of-use assets	1,452	-
Miscellaneous income	3,505,905	131,152
	<u>₩ 3,742,467</u>	<u>₩ 143,926</u>
Other expenses:		
Loss on disposal of property, plant and equipment	₩ 567	₩ 1,382
Donations	1,247,850	1,479,552
Miscellaneous expenses	660,735	202,745
Loss on disposal of inventories	-	250,155
	<u>₩ 1,909,152</u>	<u>₩ 1,933,834</u>

Details of finance income and costs for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Finance income:		
Interest income	₩ 469,592	₩ 207,205
Gain on foreign currency transactions	520,508	1,198,843
Gain on foreign currency translations	4,884,621	119
Gain on valuation of derivatives	128,358	1,985,000
Gain on derivatives transactions	644,398	161,530
Gain on valuation of financial assets at fair value through profit or loss	153,069	-
Gain on sale of financial assets at fair value through profit or loss	1,102,450	1,631,944
	<u>₩ 7,902,996</u>	<u>₩ 5,184,641</u>
Finance costs:		
Interest expenses	₩ 3,871,446	₩ 3,932,406
Interest expenses relating to leases	279,248	252,155
Loss on foreign currency transactions	1,866,178	748,941
Loss on foreign currency translations	367,096	1,985,000
Loss on valuation of financial assets at fair value through profit or loss	4,698	100,573

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<i>(in thousands of Korean won)</i>	2020	2019
Loss on derivatives transactions	199,426	686,904
Loss on valuation of derivatives	3,565,414	-
	<u>₩ 10,153,506</u>	<u>₩ 7,705,979</u>

22. Corporate Income Taxes

Details of corporate income tax for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Current income tax	₩ 5,437,026	₩ 1,783,812
Adjustment of prior period income tax recognized in current period	(47,650)	271,510
Changes in deferred income taxes relating to temporary differences	(1,658,723)	1,277,132
Income tax reflected directly to equity	672,888	475,414
Income tax expense	<u>₩ 4,403,541</u>	<u>₩ 3,807,868</u>

Details of income tax reflected directly to equity for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Re-measurement on defined benefit plans	₩ 626,362	₩ 450,849
Loss on valuation of derivatives	46,526	24,565
	<u>₩ 672,888</u>	<u>₩ 475,414</u>

A reconciliation between income tax expense at the effective tax rate and accounting profit before income tax at the Korea statutory rate for the years ended December 31, 2020 and 2019 is as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Profit before income tax	₩ 37,293,253	₩ 18,485,273
Tax at the statutory income tax rate (*1)	8,562,967	4,044,760
Adjustments:		
Non-deductible expenses	134,429	176,303
Non-taxable income	(2,394)	-
Tax credit	(5,053,810)	(2,788,634)
Changes in carried forward tax credits which were not recognized as deferred tax assets and others	870,007	2,614,613
Others	(107,658)	(239,174)
Income tax expense	<u>₩ 4,403,541</u>	<u>₩ 3,807,868</u>
Effective tax rate (Income tax expense/Profit before income tax)	11.81%	20.60%

(*1) The income tax rate includes corporate income tax rate (10% on taxable income of less than ₩200 million, 20% on taxable income of more than ₩200 million and less than ₩20,000 million, 22% on taxable income of more than ₩20,000 million and less than ₩300,000 million, 25% on taxable income of more than ₩300,000 million) and resident surtax (10% of corporate income tax).

Changes in deferred tax assets(liabilities) for the years ended December 31, 2020 and 2019 are as

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follows:

(in thousands of Korean won)

	2020				
	Beginning balance	Recognized in profit or loss	Recognized directly in equity	Others	Ending balance
Loans	₩ -	₩ 34,927	₩ -	₩ -	₩ 34,927
Defined benefit obligation	4,426,370	967,622	626,362	-	6,020,354
Plan assets	(4,269,537)	(1,617,883)	-	-	(5,887,420)
Investments	24,397	(60,303)	-	-	(35,906)
Accrued income	(3,748)	3,719	-	-	(29)
Refund liabilities	1,134,183	248,155	-	-	1,382,338
Contract liabilities	(2,888,425)	1,050,337	-	-	(1,838,088)
Valuation allowance on inventories	897,916	(562,423)	-	-	335,493
Accrued expenses	1,546,332	1,067,823	-	-	2,614,155
Derivative liabilities	(15,699)	844,580	46,526	-	875,407
Property, plant and equipment	(15,241,293)	1,675,972	-	-	(13,565,321)
Intangible assets	17,313,777	(3,121,449)	-	-	14,192,328
Long-term employee benefits	-	113,239	-	-	113,239
Stock options	78,712	139,260	-	-	217,972
Right-of-use assets	(1,834,507)	(81,394)	-	-	(1,915,901)
Lease liabilities	1,858,933	106,471	-	-	1,965,404
Tax credit carried forward, etc.	8,867,091	177,182	-	6,889,393	15,933,666
Net deferred tax assets	₩ 11,894,502	₩ 985,835	₩ 672,888	₩ 6,889,393	₩ 20,442,618

(in thousands of Korean won)

	2019			
	Beginning balance	Recognized in profit or loss	Recognized directly in equity	Ending balance
Allowance for doubtful accounts	₩ 82,503	₩ (82,503)	₩ -	₩ -
Defined benefit obligation	3,628,628	346,893	450,849	4,426,370
Plan assets	(3,459,711)	(809,826)	-	(4,269,537)
Investments	-	24,397	-	24,397
Accrued income	(45,716)	41,968	-	(3,748)
Refund liabilities	950,940	183,243	-	1,134,183
Contract liabilities	(2,717,613)	(170,812)	-	(2,888,425)
Valuation allowance on inventories	320,567	577,349	-	897,916
Accrued expenses	861,806	684,526	-	1,546,332
Derivative liabilities	440,106	(480,370)	24,565	(15,699)
Property, plant and equipment	(17,112,826)	1,871,533	-	(15,241,293)
Intangible assets	20,439,616	(3,125,839)	-	17,313,777
Stock options	6,055	72,657	-	78,712
Right-of-use assets	-	(1,834,507)	-	(1,834,507)
Lease liabilities	-	1,858,933	-	1,858,933
Tax credit carried forward	9,777,279	(910,188)	-	8,867,091
Net deferred tax assets	₩ 13,171,634	₩ (1,752,546)	₩ 475,414	₩ 11,894,502

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, overall economic condition, and industrial outlook. The Company reviews these factors on a regular basis. Deferred tax assets are recognized for deductible temporary differences as it is probable that taxable profit will be

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available against which the temporary differences can be utilized.

The Company did not have carryforward tax credit not recognized as the deferred tax assets in relation to tax credit and others, as of December 31, 2020 (2019: KRW 2,614,613 thousand).

The analysis of deferred tax assets and liabilities as of December 31, 2020 and 2019, is as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 43,296,319	₩ 36,357,647
Deferred tax asset to be recovered within 12 months	4,366,913	3,602,827
	<u>47,663,232</u>	<u>39,960,473</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(27,184,679)	(28,062,223)
Deferred tax liability to be recovered within 12 months	(35,935)	(3,748)
	<u>(27,220,614)</u>	<u>(28,065,971)</u>
Deferred tax assets (liabilities), net	<u>₩ 20,442,618</u>	<u>₩ 11,894,502</u>

23. Earnings per share

The following table reflects the income and share data used in the basic earnings per share computations for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020	2019
Net profit for the year	₩ 32,889,712	₩ 14,677,405
Net profit attributable to ordinary share holders	32,889,712	14,677,405
Weighted average number of ordinary shares outstanding during the year (shares)	<u>61,200,000</u>	<u>61,200,000</u>
Basic earnings per share (in Korean won)	<u>₩ 537</u>	<u>₩ 240</u>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: stock options. Calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the stock options are exercised.

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<i>(in thousands of Korean won)</i>	2020		2019	
Net profit for the year	₩	32,889,712	₩	14,677,405
Weighted average number of ordinary shares outstanding during the year (shares)		61,200,000		61,200,000
Potential ordinary shares related to stock options		469,338		-
Weighted average number of ordinary shares outstanding for calculation of diluted earnings per share (shares)		61,669,338		61,200,000
Diluted earnings per share (in Korean won)	₩	533	₩	-

24. Cash Flow Statement

Adjustments to cash flows generated from the operating activities for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020		2019	
Income tax expenses	₩	4,403,541	₩	3,807,868
Interest expenses		4,150,694		4,184,561
Interest income		(469,592)		(207,205)
Loss on valuation of financial assets at fair value through profit or loss		4,698		100,573
Gain on valuation of financial assets at fair value through profit or loss		(153,069)		-
Gain on sale of financial assets at fair value through profit or loss		(1,102,450)		(1,631,944)
Gain(loss) on valuation of inventories(reversal)		(2,324,062)		2,385,738
Loss on disposal of property, plant and equipment		567		1,382
Gain on disposal of property, plant and equipment		-		(12,234)
Gain on disposal of intangible assets		(235,110)		(540)
Gain on disposal of right-of-use assets		(1,452)		-
Depreciation of property, plant and equipment		12,234,374		10,809,013
Depreciation of right-of-use assets		1,340,708		1,038,720
Amortization of intangible assets		2,952,354		2,695,505
Gain on valuation of derivatives		(128,357)		(1,985,000)
Reversal of allowance for doubtful accounts		(69,371)		(516,992)
Share-based compensation expenses		575,454		300,237
Loss on valuation of derivatives		3,565,414		-
Gain on foreign currency translations		(4,884,621)		(119)
Loss on foreign currency translations		367,096		1,985,000
Pension benefits		4,050,181		2,772,872
Changes in contract liabilities		-		(596,297)
Others		862,245		(136)
	₩	25,139,242	₩	25,131,002

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Details of working capital adjustments for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020		2019	
Trade receivables	₩	1,669,058	₩	11,843,254
Contract assets		(979,915)		-
Other receivables		(15,298,840)		411,718
Inventories		(31,573,385)		(6,887,871)
Other current assets		(29,713)		(207,736)
Trade payables		(866,886)		7,295,049
Other payables		5,319,657		1,300,777
Other current liabilities		22,160,036		(394,043)
Pension benefits paid		190,279		(14,950)
Transfer from or to affiliates		104,996		(437,433)
Contributions to plan assets		(4,500,000)		(4,900,000)
Transaction settlements of derivatives		-		52,722
Changes in contract liabilities		90,212,419		-
	₩	<u>66,407,706</u>	₩	<u>8,061,487</u>

Significant non-cash transactions for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020		2019	
Changes in accounting policies (Korean IFRS 1116 Leases)	₩	-	₩	6,809,338
Acquisition of lease assets		1,562,900		1,667,545
Reclassification of construction-in-process to property, plant and equipment and intangible assets		26,391,974		482,326
Reclassification of long-term liabilities to current portion		12,608,090		-
Changes in other payables relating to acquisition property, plant and equipment		2,994,825		(1,840,442)
Changes in other payables relating to pension benefits		(91,131)		(958,134)

Changes in liabilities arising from financing activities for the years ended December 31, 2020 and 2019 are as follows:

<i>(in thousands of Korean won)</i>	2020				
	Beginning balance	Cash flows from financing activities	Foreign exchange translations	Others (*1)	Ending balance
Long-term borrowings	23,156,000	-	(1,396,000)	-	21,760,000
Current portion of bonds payable	-	-	-	10,994,490	10,994,490
Bonds payable	93,472,368	-	(2,094,000)	(10,905,350)	80,473,018
Current lease liabilities	1,350,756	(1,237,367)	-	1,500,210	1,613,599
Non-current lease liabilities	7,093,025	-	-	32,935	7,125,960

(*1) The amount includes the reclassifications, interest expenses and others.

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(in thousands of Korean won)

	2019				
	Beginning balance	Cash flows from financing activities	Foreign exchange translations	Others (*1)	Ending balance
Current portion of long-term borrowings	₩ 11,250,000	₩ (11,250,000)	₩ -	₩ -	-
Long-term borrowings	33,612,000	(11,250,000)	794,000	-	23,156,000
Bonds payable	92,195,986	-	1,191,000	85,382	93,472,368
Current lease liabilities	160,935	(935,486)	-	2,125,307	1,350,756
Non-current lease liabilities	741,586	-	-	6,351,439	7,093,025

(*1) The amount includes the reclassifications, interest expenses and others.

25. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities besides derivatives include trade and other payables, borrowings and bonds payables. The main purpose of these financial liabilities is to finance the Company's operations. Also, the Company has various financial assets including cash and cash equivalents, trade and other receivables, loans, and other financial assets including long-term and short-term financial instruments.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's key management oversees the management of these risks in accordance with the Company's risk policies which are reviewed regularly, and details are provided below. Furthermore, it is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

25.1 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise three types of risk: interest rate risk, foreign currency risk and other price risk.

(1) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's borrowings with floating interest rates. The Company measures its interest rate risk by the fluctuation of interest rate of 1% point of floating rate borrowings.

Details of borrowings with floating rates as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020	2019
Long-term borrowings	₩ 21,760,000	₩ 23,156,000
Bonds payables	32,640,000	34,734,000
	₩ 54,400,000	₩ 57,890,000

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With all other variables remain constant, the effect of interest rate changes on profit before income tax is as follows:

(in thousands of Korean won)

	2020				2019			
	1% point increase		1% point decrease		1% point increase		1% point decrease	
Long-term borrowings	₩	(217,600)	₩	217,600	₩	(231,560)	₩	231,560
Bonds payables		(326,400)		326,400		(347,340)		347,340
	₩	(544,000)	₩	544,000	₩	(578,900)	₩	578,900

(2) Foreign currency risk

Foreign currency risk is the risk in fair value or future cashflows of financial instruments that may result from changes in foreign exchange rates. Details of monetary assets and liabilities not presented in functional currency as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020				2019			
	Assets		Liabilities		Assets		Liabilities	
USD	₩	34,963,923	₩	67,733,593	₩	2,137,993	₩	58,130,385
EUR		41		-		75,430		-
	₩	34,963,964	₩	67,733,593	₩	2,213,423	₩	58,130,385

The Company manages its foreign currency risk periodically. The impact on the Company's profit before income tax due to 5% change in foreign exchange rate for the years ended December 31, 2020 and 2019 is as follows.

The Company measures its foreign currency risk on regular basis and effectively manages the risk through currency futures, thereby mitigating the impact of the risk on the Company's profit and loss.

(in thousands of Korean won)

	2020				2019			
	5% point increase		5% point decrease		5% point increase		5% point decrease	
USD	₩	(1,638,483)	₩	1,638,483	₩	(2,799,619)	₩	2,799,619
EUR		2		(2)		3,771		(3,771)
	₩	(1,638,481)	₩	1,638,481	₩	(2,795,848)	₩	2,795,848

(3) Other price risk

Other price risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market prices. As the Company holds no quoted equity investments, changes in the price of quoted equity investments will not affect the Company's profit or loss as of December 31, 2020.

25.2 Credit Risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss of the Company.

(1) Trade receivables and other receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. The Company evaluates the impairment of trade receivables and other receivables at every reporting date. In addition, in case of a large number of receivables in low value are included in a group of financial assets with similar credit risk and are collectively considered for impairment.

(2) Other assets

Credit risks associated with the Company's other assets which consist of cash, short-term deposits and short-term and long-term loans arise from the default by the counterparties. Maximum exposure to credit risks will be the book value of the related other assets. The Company deposits its surplus funds with Woori Bank and other financial institutions whose credit ratings are high. Accordingly, credit risk related to financial institutions is considered low.

25.3 Liquidity Risk

Liquidity risk refers to the risk that the Company may default on the contractual obligations that become due.

The Company maintains a short-term and long-term capital management plans to monitor its risk to a shortage of funds. The objective is to maintain continuity between budgeted cash outflows with actual outflows, and uses a liquidity planning tool to match the maturity profile for its financial liabilities and assets.

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The maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31, 2020 and 2019 is as follows:

(in thousands of Korean won)

	2020				
	Less than 1 year	1 year ~ 2 years	2 years ~ 5 years	Over 5 years	Total
Trade and other payables	₩ 39,153,322	₩ -	₩ -	₩ -	₩ 39,153,322
Other current liabilities (*1)	17,167,682	-	-	-	17,167,682
Current lease liabilities	1,642,382	-	-	-	1,642,382
Bonds payable (*2)	14,064,389	50,386,344	33,232,152	-	97,682,885
Long-term borrowings (*2)	807,624	807,624	22,163,812	-	23,779,060
Non-current lease liabilities	-	1,490,352	3,822,432	2,846,037	8,158,821
	<u>₩ 72,835,399</u>	<u>₩ 52,684,320</u>	<u>₩ 59,218,396</u>	<u>₩ 2,846,037</u>	<u>₩ 187,584,152</u>

(*1) The amount includes guarantee deposits received

(*2) The amount includes interest expenses

(in thousands of Korean won)

	2019				
	Less than 1 year	1 year ~ 2 years	2 years ~ 5 years	Over 5 years	Total
Trade and other payables	₩ 31,613,418	₩ -	₩ -	₩ -	₩ 31,613,418
Other current liabilities (*1)	3,574,495	-	-	-	3,574,495
Current lease liabilities	1,374,825	-	-	-	1,374,825
Bonds payable (*2)	3,156,844	14,064,389	85,712,496	-	102,933,729
Long-term borrowings (*2)	809,837	807,624	24,367,436	-	25,984,897
Non-current lease liabilities	-	1,325,776	3,492,895	3,416,473	8,235,144
	<u>₩ 40,529,419</u>	<u>₩ 16,197,789</u>	<u>₩ 113,572,827</u>	<u>₩ 3,416,473</u>	<u>₩ 173,716,508</u>

(*1) The amount includes deposits received

(*2) The amount includes interest expenses

25.4 Capital Management

The primary objective of the Company's capital management is to ensure that the Company continues as a going concern and minimizes the cost of raising capital in order to support its business and maximize the shareholder value. The Company manages and adjusts its capital structure according to changes in economic conditions. To maintain the sound capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for managing capital for the year ended December 31, 2020.

Details of the Company's debt-to-equity ratio as of December 31, 2020 and 2019 are as follows:

(in thousands of Korean won)

	2020	2019
Total liabilities	₩ 298,441,527	₩ 171,245,935
Adjustment: cash and cash equivalent	(24,972,321)	(14,380,269)
Adjusted liabilities	<u>₩ 273,469,206</u>	<u>₩ 156,865,666</u>
Total equity	₩ 263,790,244	₩ 232,734,174
Debt-to-equity ratio	103.67%	67.40%

25.5 Risk Management Activity

(1) Fair value hedges of foreign exchange risk

As of December 31, 2020, the Company has currency swap contracts designated as hedging instruments to hedge foreign currency risk on foreign currency borrowings and foreign currency denominated bonds. The final maturity of foreign currency borrowings and foreign currency bonds is expected to arrive in June 2023. The terms of the above currency swap agreements were concluded to match the repayment schedule of foreign currency borrowings and foreign currency bonds. The parties to the agreement have entered into currency swap agreements with cash as collateral, which effectively reduces the credit risk associated with the contract (counterparty and our credit risk). As a result, risk aversion has been highly evaluated.

(2) Cash flow hedges on interest rate risk

The Company borrows funds at fixed and variable interest rates and is therefore exposed to interest rate risk. In order to manage interest rate risk, the Company maintains an appropriate balance between fixed rate borrowings and floating rate borrowings and enters into interest rate swap contracts. The Company enters into interest rate swap contracts in accordance with the interest rate swap contract. The Company exchanges the difference calculated by applying the difference of fixed interest rate and variable interest rate to a predetermined nominal amount of principal. These agreements enable the Company to mitigate the risk of cash flow fluctuations on variable interest liabilities due to changes in interest rates. Risk aversion activities are periodically assessed to properly adjust the interest rate trends and defined risk aversion, and the optimal hedging strategy is applied.

(3) Other risk management activities

The Company is exposed to foreign currency risk for some of its sales and purchases in accordance with international transactions. In order to reduce this risk, the Company regularly monitors net exposure to key currencies (dollar, euro, and yen) based on expected sales and purchases over the next 12 months. The Company also enters into foreign currency forward contract to avoid such exposure.

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26. Fair Value

26.1 Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosure of the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The level of fair value measurements as of December 31, 2020 and 2019 is as follow:

(in thousands of Korean won)

	2020			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Short-term financial instruments	₩ -	₩ 183,735,897	₩ -	₩ 183,735,897
Derivatives assets	-	128,357	-	128,357
	₩ -	₩ 183,864,254	₩ -	₩ 183,864,254
Financial liabilities:				
Derivatives liabilities	₩ -	₩ 3,692,801	₩ -	₩ 3,692,801
	₩ -	₩ 3,692,801	₩ -	₩ 3,692,801

(in thousands of Korean won)

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Short-term financial instruments	₩ -	₩ 80,088,335	₩ -	₩ 80,088,335
Derivatives assets	-	64,870	-	64,870
	₩ -	₩ 80,153,205	₩ -	₩ 80,153,205

26.2 Valuation Techniques and the Inputs

Valuation techniques and inputs used in the fair value measurements categorized within Level 2 of the fair value hierarchy as of December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

	2020			
	Fair value	Level	Valuation techniques	Inputs
Financial instruments at fair value through profit or loss				
Short-term financial instruments	₩ 183,735,897	2	Present value technique	Credit risk adjusted discount rate
Derivatives assets	₩ 128,357	2	Present value technique	Discount rate and forward exchange rate

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(in thousands of Korean won)

		2020			
		Fair value	Level	Valuation techniques	Inputs
Financial liabilities at fair value through profit or loss					
Derivative liabilities	₩	3,692,801	2	Present value technique	Discount rate and forward exchange rate

(in thousands of Korean won)

		2019			
		Fair value	Level	Valuation techniques	Inputs
Financial assets at fair value through profit or loss					
Short-term financial instruments	₩	80,088,335	2	Present value technique	Credit risk adjusted discount rate
Derivative assets	₩	64,870	2	Present value technique	Discount rate and forward exchange rate

27. Restatement of the Financial Statements

The Company restated the comparative financial statements for the year ended December 31, 2019 to reflect the adjustments due to the change in the timing of revenue recognition.

28. Events After the Reporting Period

The Company declared to issue new shares as approved by the Board of Directors on February 5, 2021 and the Company was listed on securities market on March 18, 2021.

The Company signed an agreement with Novavax, Inc., an U.S. company, on February 12, 2021, to have exclusive rights of the development, production and sale of the COVID-19 vaccine developed by Novavax, Inc. in certain area specified under the terms of the agreement.

Report on Independent Auditor's Review of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

To the Shareholders, Board of Directors of
SK bioscience Co., Ltd.

We have reviewed the accompanying management's report on the effectiveness of the Internal Control over Financial Reporting ("ICFR") of SK bioscience Co., Ltd. (the "Company") as at December 31, 2020. The Company's management is responsible for designing and operating ICFR and for its assessment of the effectiveness of ICFR. Our responsibility is to review the management's report on the effectiveness of the ICFR and issue a report based on our review. The management's report on the effectiveness of the ICFR of the Company states that "Based on the assessment results, Chief Executive Officer and ICFR Officer believe that no material weakness has been identified as at December 31, 2020, in all material respects, in conformity with the Conceptual Framework for Designing and Operating ICFR."

Our review was conducted in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the effectiveness of the ICFR to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's ICFR and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit. However, in accordance with Chapter 5, 'Application to small & medium sized companies' of the Best Practice Guideline, the design, operation and assessment of its ICFR are limited compared with those of public large sized companies as the Company is a non-public large sized company. As such, we performed our review in accordance with Chapter 14, 'Review standards for small & medium sized companies'

A company's ICFR is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the Republic of Korea [or Accounting Standards for Non-Public Entities in the Republic of Korea]. Because of its inherent limitations, ICFR may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the effectiveness of the ICFR, referred to above, is not presented fairly, in all material respects, in accordance with Chapter 5, 'Application to small & medium sized companies', of the Best Practice Guideline.

Our review is based on the Company's ICFR as at December 31, 2020, and we did not review management's assessment of its ICFR subsequent to December 31, 2020. This report has been prepared pursuant to the Acts on External Audit for Stock Companies, etc. in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 22, 2021

Report on the effectiveness of internal control over financial reporting

(English translation of a report originally issued in Korean)

To the Shareholders, Board of Directors and Auditor of SK bioscience Co., Ltd.

We, as the Chief Executive Officer (CEO) and the Internal Control over Financial Reporting Officer of SK bioscience Co., Ltd. (the “Company”), assessed the effectiveness of the design and operation of the Company’s Internal Control over Financial Reporting (ICFR) for the year ended December 31, 2020.

The Company’s management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We designed and operated ICFR in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting* established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee). And, we conducted an evaluation of ICFR based on *Best Practice Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting* established by the ICFR Committee.

Based on the assessment results, we believe that the Company’s ICFR, as of December 31, 2020, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

February 15, 2021

Yong-Sung Choi,
Internal Control over Financial Reporting Officer

Jae-Yong Ahn,
Chief Executive Officer