

# **SK bioscience Co., Ltd. and its subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2022 and 2021  
with the independent auditor's report



# **SK bioscience Co., Ltd. and its subsidiaries**

Index

as of December 31, 2022

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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)

The Shareholders and Board of Directors  
SK bioscience Co., Ltd.

**Opinion**

We have audited the accompanying consolidated financial statements of SK bioscience Co., Ltd. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS").

**Basis for opinion**

We conducted our audit in accordance with Korean Standards on Auditing ("KSA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### Revenue recognition of C(D)MO contracts

As stated in Note 18, the Group recognizes sales of KRW 210,044 million from the contract to provide C(D)MO production services for the COVID-19 vaccine. The C(D)MO business consists of technology transfer procedures, regulatory approval procedures, commercial production procedures, and R&D services. The Group recognizes revenue over the period when the control of biopharmaceuticals produced and intellectual property rights is transferred to the customer. Revenue recognition of C(D)MO contracts was selected as a key audit matter as the amount of revenue from the C(D)MO business is material to the consolidated financial statements, and significant management judgement is required to determine the timing and amount of revenue recognition.

The primary audit procedures we performed to address the key audit matter are as follows:

- A) Assessed the appropriateness of accounting policies related to revenue recognition
- B) Evaluated the internal controls related to determining the amount and timing of revenue recognition
- C) Evaluated contracts for each project to evaluate the appropriateness of the accounting treatment for revenue recognition
- D) Assessed the appropriateness of determining the timing of revenue recognition and amount for each project
- E) Performed an independent recalculation to verify project progress and contract assets and contract liabilities for each project

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 KSA 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 consolidated financial statements.

As part of an audit in accordance with KSA we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner in charge of the audit resulting in this independent auditor's report is Byung Hyun Bae.



March 15, 2023

This audit report is effective as of March 15, 2023, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Consolidated financial statements for the years ended December 31, 2022 and 2021**

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

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

**SK bioscience Co., Ltd. and its subsidiaries**  
**Consolidated statements of financial position**  
**as of December 31, 2022 and 2021**

(in Korean won)

|   | Notes         | 2022                              | 2021                              |
|---|---------------|-----------------------------------|-----------------------------------|
| <b>Assets</b>                                     |               |                                   |                                   |
| <b>Current assets</b>                             |               |                                   |                                   |
| Cash and cash equivalents                         |               | ₩ 225,287,448,498                 | ₩ 98,028,261,476                  |
| Short-term financial instruments                  | 5,8,28        | 1,255,518,124,579                 | 1,547,635,053,895                 |
| Trade and other receivables                       | 5,6,19,21     | 89,660,819,430                    | 48,134,756,342                    |
| Derivative assets                                 | 5,28          | 9,637,555,127                     | 451,437,320                       |
| Inventories                                       | 7,21          | 187,405,857,755                   | 135,045,958,241                   |
| Other current assets                              | 5,9           | 16,184,405,041                    | 8,508,763,659                     |
|   |               | <u>1,783,694,210,430</u>          | <u>1,837,804,230,933</u>          |
| <b>Non-current assets</b>                         |               |                                   |                                   |
| Long-term financial instruments                   | 5,8,28        | 1,500,081,846                     | 21,609,994,880                    |
| Deposits  | 5             | 3,644,702,000                     | 690,786,300                       |
| Property, plant and equipment                     | 10            | 264,157,638,183                   | 210,264,960,079                   |
| Right-of-use assets                               | 11            | 28,898,972,525                    | 10,718,418,998                    |
| Intangible assets                                 | 12            | 18,181,330,028                    | 17,061,308,340                    |
| Derivative assets                                 | 5,28          | -                                 | 1,639,872,813                     |
| Other non-current assets                          | 9             | 6,529,051,247                     | 91,528,897                        |
| Net defined benefit assets                        | 16            | 13,955,544,937                    | -                                 |
| Deferred tax assets                               | 24            | 21,369,852,354                    | 10,241,570,838                    |
|   |               | <u>358,237,173,120</u>            | <u>272,318,441,145</u>            |
| <b>Total assets</b>                               |               | <b><u>₩ 2,141,931,383,550</u></b> | <b><u>₩ 2,110,122,672,078</u></b> |
| <b>Liabilities</b>                                |               |                                   |                                   |
| <b>Current liabilities</b>                        |               |                                   |                                   |
| Trade and other payables                          | 5,13,19,27    | ₩ 55,705,312,035                  | ₩ 102,184,957,493                 |
| Derivative liabilities                            | 5,28          | 67,152,779                        | 894,889,623                       |
| Short-term borrowings                             | 5,14,26,27    | 45,549,996,149                    | 11,671,373,163                    |
| Current portion of long-term liabilities          | 5,14,26,27    | 38,008,459,456                    | 47,977,691,552                    |
| Current lease liabilities                         | 5,11,19,26,27 | 12,234,525,491                    | 2,309,258,445                     |
| Provisions  | 17            | 2,811,240,676                     | -                                 |
| Other current liabilities                         | 5,15,27       | 49,769,031,796                    | 94,638,850,895                    |
| Contract liabilities                              | 21            | 155,675,821,297                   | 98,789,264,762                    |
| Current tax liabilities                           |               | 20,215,887,502                    | 101,485,878,190                   |
|   |               | <u>380,037,427,181</u>            | <u>459,952,164,123</u>            |
| <b>Non-current liabilities</b>                    |               |                                   |                                   |
| Bonds payable                                     | 5,14,26,27    | -                                 | 35,502,634,699                    |
| Non-current lease liabilities                     | 5,11,19,26,27 | 17,543,211,721                    | 8,774,626,367                     |
| Defined benefit liabilities                       | 16            | -                                 | 4,246,059,488                     |
| Provisions  | 17            | 2,278,409,185                     | -                                 |
| Other non-current liabilities                     | 15            | 370,339,400                       | 335,238,907                       |
|   |               | <u>20,191,960,306</u>             | <u>48,858,559,461</u>             |
| <b>Total liabilities</b>                          |               | <b><u>400,229,387,487</u></b>     | <b><u>508,810,723,584</u></b>     |
| <b>Equity</b>                                     |               |                                   |                                   |
| Equity attributable to owners of the parent:      |               |                                   |                                   |
| Issued capital                                    | 1,20          | 38,392,023,000                    | 38,250,000,000                    |
| Capital surplus                                   | 20            | 1,160,008,131,320                 | 1,157,063,863,363                 |
| Other equity                                      | 20            | 9,847,528,264                     | 900,709,824                       |
| Accumulated other comprehensive loss              | 20            | 76,797,881                        | (207,788,407)                     |
| Retained earnings                                 | 20            | 533,377,515,598                   | 405,305,163,714                   |
| Total equity attributable to owners of the parent |               | <u>1,741,701,996,063</u>          | <u>1,601,311,948,494</u>          |
| Non-controlling interests                         |               | -                                 | -                                 |
| <b>Total equity</b>                               |               | <u>1,741,701,996,063</u>          | <u>1,601,311,948,494</u>          |
| <b>Total liabilities and equity</b>               |               | <b><u>₩ 2,141,931,383,550</u></b> | <b><u>₩ 2,110,122,672,078</u></b> |

The accompanying notes are an integral part of the consolidated financial statements.

**SK bioscience Co., Ltd. and its subsidiaries**  
**Consolidated statements of comprehensive income**  
**for the years ended December 31, 2022 and 2021**

(in Korean won)

|   | Notes | 2022                     | 2021                     |
|---|-------|--------------------------|--------------------------|
| <b>Sales</b>  | 19,21 | ₩ 456,725,871,196        | ₩ 929,000,929,909        |
| <b>Cost of sales</b>  | 19,22 | 217,114,929,809          | 358,717,802,802          |
| <b>Gross profit</b>   |       | <b>239,610,941,387</b>   | <b>570,283,127,107</b>   |
| Selling and administrative expenses   | 22    | 124,597,323,544          | 96,063,270,783           |
| <b>Operating profit</b>   |       | <b>115,013,617,843</b>   | <b>474,219,856,324</b>   |
| Other income  | 19,23 | 1,701,502,687            | 5,158,809,854            |
| Other expenses  | 19,23 | 6,147,692,870            | 2,849,001,486            |
| Finance income  | 23    | 116,609,193,843          | 26,241,023,313           |
| Finance costs   | 23    | 85,443,439,049           | 31,642,507,480           |
| <b>Profit before income tax</b>   |       | <b>141,733,182,454</b>   | <b>471,128,180,525</b>   |
| Income tax expense  | 23    | 19,281,232,523           | 115,988,903,686          |
| <b>Profit for the year</b>  |       | <b>₩ 122,451,949,931</b> | <b>₩ 355,139,276,839</b> |
| Attributable to:  |       |                          |                          |
| Owners of the parent  |       | 122,451,949,931          | 355,139,276,839          |
| Non-controlling interests   |       | -                        | -                        |
| <b>Other comprehensive income</b>   |       |                          |                          |
| Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:     |       |                          |                          |
| Net gain on valuation of derivatives  | 5,24  | 473,256,333              | 1,256,961,127            |
| Net loss on translation of foreign operations   |       | (188,670,045)            | -                        |
| Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods: |       |                          |                          |
| Remeasurements of net defined benefit liability   | 16,24 | 5,620,401,953            | (3,070,363,753)          |
| <b>Other comprehensive income (loss) for the year, net of tax</b>                                 |       | <b>5,904,988,241</b>     | <b>(1,813,402,626)</b>   |
| <b>Total comprehensive income for the year</b>  |       | <b>₩ 128,356,938,172</b> | <b>₩ 353,325,874,213</b> |
| Attributable to:  |       |                          |                          |
| Owners of the parent  |       | 128,356,938,172          | 353,325,874,213          |
| Non-controlling interests   |       | -                        | -                        |
| <b>Earnings per share</b>   |       |                          |                          |
| <b>Basic earnings per share</b>   | 25    | ₩ 1,596                  | ₩ 4,844                  |
| <b>Diluted earnings per share</b>   | 25    | ₩ 1,590                  | ₩ 4,810                  |

The accompanying notes are an integral part of the consolidated financial statements.

**SK bioscience Co., Ltd. and its subsidiaries**  
**Consolidated statements of changes in equity**  
**for the years ended December 31, 2022 and 2021**

(in Korean won)

|   | Issued capital   | Capital surplus     | Other equity    | Accumulated other comprehensive income | Retained Earnings | Total               | Non-controlling interests | Total Equity        |
|---|------------------|---------------------|-----------------|--|-------------------|---------------------|---------------------------|---------------------|
| <b>As of January 1, 2021</b>                    | ₩ 30,600,000,000 | ₩ 180,518,033,363   | ₩ 900,709,824   | ₩ (1,464,749,534)                      | ₩ 53,236,250,628  | ₩ 263,790,244,281   | ₩ -                       | ₩ 263,790,244,281   |
| <b>Total comprehensive income:</b>              |                  |                     |                 |  |                   |                     |                           |                     |
| Profit for the period                           | -                | -                   | -               | -                                      | 355,139,276,839   | 355,139,276,839     | -                         | 355,139,276,839     |
| Remeasurements of net defined benefit liability | -                | -                   | -               | -                                      | (3,070,363,753)   | (3,070,363,753)     | -                         | (3,070,363,753)     |
| Net gain on valuation of derivatives            | -                | -                   | -               | 1,256,961,127                          | -                 | 1,256,961,127       | -                         | 1,256,961,127       |
|   | -                | -                   | -               | 1,256,961,127                          | 352,068,913,086   | 353,325,874,213     | -                         | 353,325,874,213     |
| <b>Transactions with shareholders:</b>          |                  |                     |                 |  |                   |                     |                           |                     |
| Issue of share capital with consideration       | 7,650,000,000    | 976,545,830,000     | -               | -                                      | -                 | 984,195,830,000     | -                         | 984,195,830,000     |
|   | 7,650,000,000    | 976,545,830,000     | -               | -                                      | -                 | 984,195,830,000     | -                         | 984,195,830,000     |
| <b>As of December 31, 2021</b>                  | ₩ 38,250,000,000 | ₩ 1,157,063,863,363 | ₩ 900,709,824   | ₩ (207,788,407)                        | ₩ 405,305,163,714 | ₩ 1,601,311,948,494 | ₩ -                       | ₩ 1,601,311,948,494 |
| <b>As of January 1, 2022</b>                    | ₩ 38,250,000,000 | ₩ 1,157,063,863,363 | ₩ 900,709,824   | ₩ (207,788,407)                        | ₩ 405,305,163,714 | ₩ 1,601,311,948,494 | ₩ -                       | ₩ 1,601,311,948,494 |
| <b>Total comprehensive income:</b>              |                  |                     |                 |  |                   |                     |                           |                     |
| Profit for the period                           | -                | -                   | -               | -                                      | 122,451,949,931   | 122,451,949,931     | -                         | 122,451,949,931     |
| Remeasurements of net defined benefit liability | -                | -                   | -               | -                                      | 5,620,401,953     | 5,620,401,953       | -                         | 5,620,401,953       |
| Net gain on valuation of derivatives            | -                | -                   | -               | 473,256,333                            | -                 | 473,256,333         | -                         | 473,256,333         |
| Net loss on translation of foreign operations   | -                | -                   | -               | (188,670,045)                          | -                 | (188,670,045)       | -                         | (188,670,045)       |
|   | -                | -                   | -               | 284,586,288                            | 128,072,351,884   | 128,356,938,172     | -                         | 128,356,938,172     |
| <b>Transactions with shareholders:</b>          |                  |                     |                 |  |                   |                     |                           |                     |
| Exercise of stock options                       | 142,023,000      | 2,944,267,957       | 8,946,818,440   | -                                      | -                 | 12,033,109,397      | -                         | 12,033,109,397      |
|   | 142,023,000      | 2,944,267,957       | 8,946,818,440   | -                                      | -                 | 12,033,109,397      | -                         | 12,033,109,397      |
| <b>As of December 31, 2022</b>                  | ₩ 38,392,023,000 | ₩ 1,160,008,131,320 | ₩ 9,847,528,264 | ₩ 76,797,881                           | ₩ 533,377,515,598 | ₩ 1,741,701,996,063 | ₩ -                       | ₩ 1,741,701,996,063 |

The accompanying notes are an integral part of the consolidated financial statements.

**SK bioscience Co., Ltd. and its subsidiaries**  
**Consolidated statements of cash flows**  
**for the years ended December 31, 2022 and 2021**

(in Korean won)

|  | Notes | 2022                      | 2021                         |
|--|-------|---------------------------|------------------------------|
| <b>Cash flows from operating activities</b>                              |       |                           |                              |
| Profit for the year  |       | ₩ 122,451,949,931         | ₩ 355,139,276,839            |
| Adjustments to reconcile profit for the year to net cash flows           | 26    | 63,457,288,409            | 149,393,967,069              |
| Working capital adjustments  | 26    | (208,378,665,373)         | 44,000,929,111               |
| Interest received  |       | 4,401,590,579             | 453,142,397                  |
| Interest paid  |       | (2,680,638,264)           | (3,406,990,670)              |
| Income taxes paid  |       | (104,209,809,662)         | (8,986,636,965)              |
| <b>Net cash inflow (outflow) from operating activities</b>               |       | <b>(124,958,284,380)</b>  | <b>536,593,687,781</b>       |
| <b>Cash flows from investing activities</b>                              |       |                           |                              |
| Decrease in deposits   |       | ₩ 43,896,000              | ₩ 149,000,000                |
| Proceeds from sale of short-term financial instruments                   |       | 337,242,205,045           | -                            |
| Proceeds from sale of long-term financial instruments                    |       | 15,810,000,000            | 990,000,000                  |
| Decrease in long-term loans  |       | -                         | 7,334,760,741                |
| Proceeds from sale of intangible assets                                  |       | -                         | -                            |
| Proceeds from sale of property, plant and equipment                      |       | 34,566,000                | 47,084,500                   |
| Receipt of government grants   |       | 3,179,262                 | -                            |
| Purchase of short-term financial instruments                             |       | -                         | (1,363,007,018,515)          |
| Purchase of long-term financial instruments                              |       | (1,000,086,966)           | (22,599,994,880)             |
| Increase in deposits   |       | (2,997,811,700)           | (384,558,100)                |
| Payments for property, plant and equipment                               |       | (72,235,836,024)          | (42,763,209,540)             |
| Capitalized borrowing costs on purchase of property, plant and equipment |       | (757,015,714)             | (144,013,848)                |
| Purchase of intangible assets  |       | (3,496,591,392)           | (1,562,335,632)              |
| <b>Net cash inflow (outflow) from investing activities</b>               |       | <b>₩ 272,646,504,511</b>  | <b>₩ (1,421,940,285,274)</b> |
| <b>Cash flows from financing activities</b>                              |       |                           |                              |
| Issue of ordinary shares   |       | ₩ -                       | ₩ 983,255,829,460            |
| Proceeds from exercise of stock options                                  |       | 2,617,945,592             | -                            |
| Proceeds from short-term borrowings                                      |       | 48,741,669,883            | 11,323,630,881               |
| Repayment of bond payables   |       | (48,000,000,000)          | (11,000,000,000)             |
| Repayment of current lease liabilities                                   |       | (7,031,220,313)           | (1,837,088,665)              |
| Repayment of short-term borrowings                                       |       | (16,195,557,184)          | (50,000,000)                 |
| Repayment of long-term borrowings  |       | -                         | (22,684,000,000)             |
| Transaction settlements of derivatives                                   |       | -                         | (628,085,085)                |
| <b>Net cash inflow (outflow) from financing activities</b>               |       | <b>₩ (19,867,162,022)</b> | <b>₩ 958,380,286,591</b>     |
| <b>Net increase in cash and cash equivalents</b>                         |       | <b>127,821,058,109</b>    | <b>73,033,689,098</b>        |
| Cash and cash equivalents at the beginning of the financial year         |       | 98,028,261,476            | 24,972,320,525               |
| Effects of exchange rate changes on cash and cash equivalents            |       | (561,871,087)             | 22,251,853                   |
| <b>Cash and cash equivalents at the end of the year</b>                  |       | <b>₩ 225,287,448,498</b>  | <b>₩ 98,028,261,476</b>      |

The accompanying notes are an integral part of the consolidated financial statements.

# SK bioscience Co., Ltd. and its subsidiaries

## Notes to the consolidated financial statements

### as of December 31, 2022 and 2021

#### 1. Corporate information

##### 1.1 Parent Company

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 biopharmaceutical products, and leasing of related intellectual property rights. The Company was listed on securities market on March 18, 2021. As of December 31, 2022, the Company's issued capital amounts to KRW 38,392,023 thousand.

Details of the Company's major shareholders as of December 31, 2022 are as follows:

|                                      | Ordinary shares  |                      |
|--------------------------------------|------------------|----------------------|
|                                      | Number of shares | Equity ownership (%) |
| SK Chemicals Co., Ltd.               | 52,350,000       | 68.18                |
| Employee stock ownership association | 623,603          | 0.81                 |
| Others                               | 23,810,443       | 31.01                |
|                                      | 76,784,046       | 100.00               |

The consolidated financial statements of the Group have been approved by the Board of Directors on February 8, 2023 and the final approval is scheduled at the shareholders' meeting on March 27, 2023.

##### 1.2 Consolidated subsidiary

A subsidiary whose accounts are included in the consolidated financial statements as of December 31, 2022 is as follows:

| Subsidiary                   | Ownership interest | Country of domicile | Year-end | Principal business activity   |
|------------------------------|--------------------|---------------------|----------|-------------------------------|
| SK bioscience USA, Inc. (*1) | 100%               | USA                 | December | Development of bio-technology |

(\*1) Newly established by the Company for the year ended December 31, 2022 and included as a subsidiary.

Summarized financial information of the consolidated subsidiary as of and for the year ended December 31, 2022 is as follows:

(in thousands of Korean won)

| Subsidiary              | Assets      | Liabilities | Equity      | Sales | Loss for the year | Total comprehensive income |
|-------------------------|-------------|-------------|-------------|-------|-------------------|----------------------------|
| SK bioscience USA, Inc. | ₩ 6,292,487 | ₩ 295,282   | ₩ 5,997,205 | ₩ -   | ₩ (364,624)       | ₩ (553,294)                |

# SK bioscience Co., Ltd. and its subsidiaries

## Notes to the consolidated financial statements

### as of December 31, 2022 and 2021

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#### 1.3 Changes in consolidated subsidiaries

A subsidiary newly included in consolidation for the year ended December 31, 2022 is as follows:

| Subsidiary              | Reason             |
|-------------------------|--------------------|
| SK bioscience USA, Inc. | Newly incorporated |

## 2. Basis of preparation and summary of material accounting policies

### 2.1 Basis of preparation

SK bioscience Co., Ltd. and its subsidiaries (the "Group") prepares statutory financial statements in Korean in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS"), as prescribed in the *Act on External Audit of Stock Companies*. The accompanying consolidated financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, debt and equity financial assets that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in Korean won (KRW) and all values are rounded to the nearest thousands, except when otherwise indicated.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that holding a majority of voting rights results in control. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.2 Basis of consolidation (cont'd)**

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

When the Group loses control of a subsidiary, it accounts for as follows:

- Derecognizes the assets including goodwill and liabilities of the subsidiary
- Derecognizes the carrying amount any non-controlling interests.
- Derecognizes cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### **2.3 Foreign currency translation**

The Group's consolidated financial statements are presented in Korean won, which is also its functional currency.

##### **(1) Transactions and balances**

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss is also recognized in OCI or profit or loss, respectively).

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.3 Foreign currency translation (cont'd)**

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

#### **(2) Foreign operations**

On consolidation, the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date, and related item amounts in the consolidated statement of comprehensive income are translated at average exchange rates for the year. The exchange differences arising on translation for consolidation are accumulated in the separate component of equity. This cumulative amount of the exchange differences is recognized in profit or loss at the time of disposal of foreign operations.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

#### **2.4 Revenue from contracts with customers**

The Group 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 Group expects to be entitled in exchange for those goods or services. The Group 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.

#### **Sales of vaccines and biopharmaceuticals**

Revenue from sale of vaccines and biopharmaceuticals is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of vaccines and biopharmaceuticals. The normal credit term is 90 to 180 days upon delivery. The Group 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 Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

#### **Contract development and manufacturing of vaccine and biopharmaceutical products**

The Group provides services such as contract development and manufacturing of vaccines and biopharmaceutical products, bioanalysis, etc. Products manufactured by the Group have no alternative use, and the Group has an enforceable right to payment for performance completed to date. The Group produces biopharmaceutical products at a quality that a customer requires and is thus entitled to reimbursement of the costs incurred to date, including a reasonable margin in the event a customer terminates a contract.

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.4 Revenue from contracts with customers (cont'd)**

Some of the revenue from contracts with customers is recognized at a point in time when the performance obligation is completed, and some is recognized over time. The Group measures progress through outputs or inputs and recognizes revenue over time, considering the nature of the goods or services to be transferred to customers. The Group does not disclose the transaction price allocated to the performance obligations that are unsatisfied in accordance with the practical expedient in KIFRS 1115.

##### **Licensing: right to use**

In some contracts with customers, the Group licenses out to the customers through a technical transfer. The Group 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 Group accounts for the license as a performance obligation satisfied at a point in time.

##### **Licensing: right to access**

The Group provides licenses for pharmaceuticals to customers and receives consideration in return. The Group also provides research and other services to customers throughout the license period. The nature of the Group'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 Group accounts for the promised license as a performance obligation satisfied over time. The Group measures the progress of performance obligation based on the license period.

##### **Collaborative arrangements**

The Group 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 on whether the conditions of differentiability, regulation, and future economic benefits are met. The Group 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 Group 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 Group 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 Group 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

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.4 Revenue from contracts with customers (cont'd)**

of revenue, the Group 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 Group 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 assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets in section 2.8 (1) 4) Financial instruments – initial recognition and subsequent measurement.

##### **Trade receivables**

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in the Note 2.8.

##### **Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group 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 Group 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. The Group presents these costs to fulfill a contract as inventories.

#### **(4) Assets and liabilities arising from rights of return**

##### **Right of return assets**

Right of return asset represents the Group'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 Group 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 Group ultimately expects it will have to return to the customer. The Group 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.

Refer to the disclosures of significant judgments, estimates and assumptions relating to revenue from contracts with customers in the Note 3.

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.5 Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by the government or related institutions, with an interest rate below the current applicable market rate, the effect of this preferential interest is regarded as a government grant.

#### **2.6 Taxes**

##### **(1) Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statements of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### **(2) Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill.
- When the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

# SK bioscience Co., Ltd. and its subsidiaries

## Notes to the consolidated financial statements

### as of December 31, 2022 and 2021

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#### 2.6 Taxes (cont'd)

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. On the other hand, the reduced amount is reversed within the reduced range when the possibility of generating taxable income sufficient to be used increases. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### (3) Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

# SK bioscience Co., Ltd. and its subsidiaries

## Notes to the consolidated financial statements

### as of December 31, 2022 and 2021

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#### 2.7 Pension benefits and other post-employment benefits

The Group operates defined benefit pension plan in Korea, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales' and 'selling and administrative expenses' in the statement of comprehensive income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

In addition, the Group operates a defined contribution plan for some employees, and the contribution is recognized as a cost when employees provide services.

#### 2.8 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### (1) Financial assets

###### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under KIFRS 1115. Refer to the accounting policies of Revenue recognition in the Note 2.4.

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.8 Financial instruments – initial recognition and subsequent measurement (cont'd)**

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### **Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon (equity instruments)
- Financial assets at fair value through profit or loss

#### **Financial assets at amortized cost (debt instruments)**

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

#### **Financial assets at fair value through OCI (debt instruments)**

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon

## **SK bioscience Co., Ltd. and its subsidiaries**

### **Notes to the consolidated financial statements**

#### **as of December 31, 2022 and 2021**

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#### **2.8 Financial instruments – initial recognition and subsequent measurement (cont'd)**

derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss. The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

#### **Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under KIFRS 1032 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

# SK bioscience Co., Ltd. and its subsidiaries

## Notes to the consolidated financial statements

### as of December 31, 2022 and 2021

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#### 2.8 Financial instruments – initial recognition and subsequent measurement (cont'd)

##### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

|   | Notes   |
|---|---------|
| Disclosures for significant assumptions | <hr/> 3 |

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.8 Financial instruments – initial recognition and subsequent measurement (cont'd)**

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### **(2) Financial liabilities**

##### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

##### **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

##### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss.

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **2.8 Financial instruments – initial recognition and subsequent measurement (cont'd)**

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1109. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in KIFRS 1109 are satisfied. The Group has not designated any financial liability as of fair value through profit or loss.

#### **Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

#### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

#### **(3) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

#### **2.9 Fair value measurement**

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

# **SK bioscience Co., Ltd. and its subsidiaries**

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#### **2.9 Fair value measurement (cont'd)**

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market 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

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

#### **2.10 Derivative financial instruments and hedge accounting**

##### **Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. In addition, changes in the fair value of derivatives are directly reflected in the consolidated statement of income, and the effective portion for cash flow hedge is reflected in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

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#### **2.10 Derivative financial instruments and hedge accounting (cont'd)**

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

#### **Fair value hedges**

The change in the fair value of a hedging derivative is recognized in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

#### **Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

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#### **2.10 Derivative financial instruments and hedge accounting (cont'd)**

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognized as other expense and the ineffective portion relating to commodity contracts is recognized in other operating income or expenses. Refer to Note 5 for more details.

The Group designates only the currency interest rate swaps as a hedging instrument. The currency interest rate swaps are recognized in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

#### **2.11 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

#### **2.12 Inventories**

Inventories are valued at the lower of cost or net realizable value, with cost being determined using the moving average method. The initial cost of inventories includes purchase costs, conversion costs, and other costs incurred in bringing each product to its present location and condition.

#### **2.13 Property, plant and equipment**

Construction in progress is stated at cost, net of accumulated impairment losses, and property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs

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#### 2.13 Property, plant and equipment (cont'd)

are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

|            | <u>Useful lives (years)</u> |
|------------|-----------------------------|
| Buildings  | 40                          |
| Structures | 40                          |
| Machinery  | 10                          |
| Vehicles   | 5                           |
| Others     | 5 ~ 10                      |

The Group reviews the estimated residual values and expected useful lives of assets at least annually. In particular, the Group considers the impact of health, safety and environmental legislation in its assessment of expected useful lives and estimated residual values.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. At this time, the Group reviews the impact of health, safety and environmental legislation.

#### 2.14 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### 2.15 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### Right-of-use asset

The Group recognizes licensed assets at the lease commencement date (i.e., when the underlying assets are available). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of

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## **Notes to the consolidated financial statements**

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#### **2.15 Leases (cont'd)**

lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.19 Impairment of non-financial assets.

#### **Lease liabilities**

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

#### **Short-term leases and low-value assets**

The Group applies an exemption policy for the recognition of short-term leases (i.e., these leases are less than 12 months from the date the lease commences and do not include the option to buy) for the lease of machinery and facilities. In addition, the Group applies an exemption on recognition of low-value asset of office equipment that are considered low-value assets. Lease payments for short-term leases and low-value asset leases are recognized as expenses on a straight-line basis over the lease term.

#### **Group as a lessor**

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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#### **2.16 Current versus non-current classification**

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### **2.17 Cash dividend**

The Group recognizes a liability to pay a dividend when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

#### **2.18 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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#### **2.18 Intangible assets (cont'd)**

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

#### **Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group 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
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

The Group's new development project process is as follows: the discovery of new drug candidate materials, previous clinical trials, phase 1 clinical trials, phase 2 clinical trials, phase 3 clinical trials, application for government approval, completion of government approval, and commencement of product sales. In general, the Group recognizes expenditures incurred once the project has entered phase 3 clinical trials as intangible assets and treats expenditures incurred in the previous phase as research and development expenses during the current period.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

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#### 2.18 Intangible assets (cont'd)

##### Patents

The patents have been granted for the period of 20 years by the government with the option of renewal at the end of this period.

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

|                            | <u>Useful lives (years)</u> |
|----------------------------|-----------------------------|
| Industrial property rights | 5 ~ 10                      |
| Development costs          | 10                          |
| Software                   | 5                           |

#### 2.19 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

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#### **2.19 Impairment of non-financial assets (cont'd)**

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Intangible assets with indefinite useful lives are tested for impairment annually as of December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

The Group assesses where climate risks could have a significant impact, such as the introduction of emission-reduction legislation that may increase manufacturing costs. These risks in relation to climate-related matters are included as key assumptions where they materially impact the measure of recoverable amount.

#### **2.20 Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

#### **Onerous contracts**

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

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#### **2.21 Share-based payments**

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as of the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee.

Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

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### **3. Material accounting judgments estimates and assumptions**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### **3.1 Judgements**

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

##### **Determining the lease term of contracts with renewal and termination options – Group as lessee**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group included the renewal period as part of the lease term for leases of plant and machinery with shorter non-cancellable period. The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised.

In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

#### **3.2 Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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#### **3.2 Estimates and assumptions (cont'd)**

##### **Defined benefit plans (pension benefits)**

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

##### **Provision for expected credit losses of trade receivables and contract assets**

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

##### **Deferred tax assets**

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. 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 together with future tax planning strategies. Further details on taxes are disclosed in Note 24.

##### **Share-based payments**

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.

##### **Leases - Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain amortized cost an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

# SK bioscience Co., Ltd. and its subsidiaries

## Notes to the consolidated financial statements

### as of December 31, 2022 and 2021

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#### 3.2 Estimates and assumptions (cont'd)

##### Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually, or when circumstances indicate that the carrying value may be impaired. Other non-financial assets are tested for impairment when circumstances indicate that its carrying amount may not be recoverable. In determining a value in use, management estimates future cash flows to be derived from the asset or CGU and applies the appropriate discount rate to those future cash flows.

##### Development costs

The Group capitalizes costs for product development projects. Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. As of December 31, 2022, the carrying amount of capitalized development costs was KRW 11,882 million (2021: KRW 13,088 million).

#### 4. New and amended standards and interpretations

##### 4.1 Application of new and amended standards

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### (1) Onerous Contracts – Costs of Fulfilling a Contract – Amendments to KIFRS 1037

An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Onerous contracts recognized by the group consist only of incremental costs directly relate to the contract, which are unavoidable costs necessary for the performance of contractual obligations (Note 17). Therefore, the amendment has no impact on the consolidated financial statements as the Group does not have loss-making contracts within the scope of application of this amendment.

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#### 4.1 Application of new and amended standards (cont'd)

##### (2) Reference to the Conceptual Framework – Amendments to KIFRS 1103

The amendments replace a reference to a previous version of the International Accounting Standards Board (IASB)'s Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of KIFRS 1103 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* or KIFRS Interpretation 2121 *Levies*, if incurred separately. The exception requires entities to apply the criteria in KIFRS 1037 or KIFRS Interpretation 2121, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to KIFRS 1103 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments.

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

##### (3) Property, Plant and Equipment: Proceeds before Intended Use - Amendments to KIFRS 1016

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

##### (4) KIFRS 1101 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(1) of KIFRS 1101 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to KIFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(1) of KIFRS 1101. These amendments had no impact on the consolidated financial statements of the Group.

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## Notes to the consolidated financial statements

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#### 4.1 Application of new and amended standards (cont'd)

##### (5) KIFRS 1109 *Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for KIFRS 1039 *Financial Instruments: Recognition and Measurement*. In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

##### (6) KIFRS 1041 *Agriculture* – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of KIFRS 1041 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of KIFRS 1041. These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of KIFRS 1041 as of the reporting date.

#### 4.2 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

##### (1) KIFRS 1117 *Insurance Contracts*

In 2021, KIFRS 1117 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure was issued. Once effective, KIFRS 1117 will replace KIFRS 1104 *Insurance Contracts* that was issued in 2007. KIFRS 1117 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of KIFRS 1117 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in KIFRS 1104, which are largely based on grandfathering previous local accounting policies, KIFRS 1117 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of KIFRS 1117 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

KIFRS 1117 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted, provided the entity also applies KIFRS 1109 and KIFRS 1115 on or before the date it first applies KIFRS 1117. This standard is not applicable to the Group.

# **SK bioscience Co., Ltd. and its subsidiaries**

## **Notes to the consolidated financial statements**

### **as of December 31, 2022 and 2021**

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#### **4.2 Standards issued but not yet effective (cont'd)**

##### **(2) Amendments to KIFRS 1001: Classification of Liabilities as Current or Non-current**

The amendments to paragraphs 69 to 76 of KIFRS 1001 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

##### **(3) Definition of Accounting Estimates - Amendments to KIFRS 1008**

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group's financial statements.

##### **(4) Disclosure of Accounting Policies - Amendments to KIFRS 1001**

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. The Group is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements.

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**4.2 Standards issued but not yet effective (cont'd)**

**(5) Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to KIFRS 1012**

The amendments narrow the scope of the initial recognition exception under KIFRS 1012, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Group is currently assessing the impact of the amendments.

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**5. Financial instruments**

**Financial assets**

Details of financial assets by category as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                  | 2022  |   |   |   |                        |
|----------------------------------|---|---|---|---|------------------------|
|                                  | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Financial assets measured at amortized cost | Derivatives designated as hedging instruments | Total                  |
| Current assets:                  |   |   |   |   |                        |
| Short-term financial instruments | ₩ 1,250,218,125                                       | ₩ -   | ₩ 5,300,000                                 | ₩ -   | ₩ 1,255,518,125        |
| Trade and other receivables      | -   | -   | 89,660,819                                  | -   | 89,660,819             |
| Derivatives assets               | 4,919,333   | -   | -   | 4,718,222                                     | 9,637,555              |
|                                  | <u>1,255,137,458</u>                                  | <u>-</u>  | <u>94,960,819</u>                           | <u>4,718,222</u>                              | <u>1,354,816,499</u>   |
| Non-current assets:              |   |   |   |   |                        |
| Long-term financial instruments  | -   | 1,500,082   | -   | -   | 1,500,082              |
| Deposits                         | -   | -   | 3,644,702                                   | -   | 3,644,702              |
|                                  | <u>-</u>  | <u>1,500,082</u>  | <u>3,644,702</u>                            | <u>-</u>                                      | <u>5,144,784</u>       |
|                                  | <u>₩ 1,255,137,458</u>                                | <u>₩ 1,500,082</u>  | <u>₩ 98,605,521</u>                         | <u>₩ 4,718,222</u>                            | <u>₩ 1,359,961,283</u> |
|                                  |   |   |   |   |                        |
|                                  | 2021  |   |   |   |                        |
|                                  | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Financial assets measured at amortized cost | Derivatives designated as hedging instruments | Total                  |
| Current assets:                  |   |   |   |   |                        |
| Short-term financial instruments | ₩ 1,547,635,054                                       | ₩ -   | ₩ -   | ₩ -   | ₩ 1,547,635,054        |
| Trade and other receivables      | -   | -   | 48,134,756                                  | -   | 48,134,756             |
| Other current assets (*1)        | -   | -   | 40,400                                      | -   | 40,400                 |
| Derivatives assets               | 451,437   | -   | -   | -   | 451,437                |
|                                  | <u>1,548,086,491</u>                                  | <u>-</u>  | <u>48,175,156</u>                           | <u>-</u>                                      | <u>1,596,261,647</u>   |
| Non-current assets:              |   |   |   |   |                        |
| Long-term financial instruments  | -   | 499,995   | 21,110,000                                  | -   | 21,609,995             |
| Deposits                         | -   | -   | 690,786                                     | -   | 690,786                |
| Derivatives assets               | -   | -   | -   | 1,639,873                                     | 1,639,873              |
|                                  | <u>-</u>  | <u>499,995</u>  | <u>21,800,786</u>                           | <u>1,639,873</u>                              | <u>23,940,654</u>      |
|                                  | <u>₩ 1,548,086,491</u>                                | <u>₩ 499,995</u>  | <u>₩ 69,975,942</u>                         | <u>₩ 1,639,873</u>                            | <u>₩ 1,620,202,301</u> |

(\*1) These are guarantee deposits.

**SK bioscience Co., Ltd. and its subsidiaries**  
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**5. Financial instruments (cont'd)**

**Financial liabilities**

Details of financial liabilities by category as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022   |  |                      |
|--|--|--|----------------------|
|  | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Total                |
| Current liabilities:                     |  |  |                      |
| Trade and other payables                 | ₩ -  | ₩ 55,705,312                                     | ₩ 55,705,312         |
| Derivative financial liabilities         | 67,153   | -  | 67,153               |
| Short-term borrowings                    | -  | 45,549,996                                       | 45,549,996           |
| Current portion of long-term liabilities | -  | 38,008,459                                       | 38,008,459           |
| Current lease liabilities (*1)           | -  | 12,234,525                                       | 12,234,525           |
| Other current liabilities (*2)           | -  | 1,960,755  | 1,960,755            |
|  | <u>67,153</u>  | <u>153,459,047</u>                               | <u>153,526,200</u>   |
| Non-current liabilities:                 |  |  |                      |
| Non-current lease liabilities (*1)       | -  | 17,543,212                                       | 17,543,212           |
|  | -  | 17,543,212                                       | 17,543,212           |
|  | <u>₩ 67,153</u>  | <u>₩ 171,002,259</u>                             | <u>₩ 171,069,412</u> |

(\*1) Lease liabilities are liabilities recognized in accordance with KIFRS 1116.

(\*2) Consists of guarantee deposits received

|  | 2021   |  |                      |
|--|--|--|----------------------|
|  | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Total                |
| Current liabilities:                     |  |  |                      |
| Trade and other payables                 | ₩ -  | ₩ 102,184,957                                    | ₩ 102,184,957        |
| Derivative financial liabilities         | 894,890  | -  | 894,890              |
| Short-term borrowings                    | -  | 11,671,373                                       | 11,671,373           |
| Current portion of long-term liabilities | -  | 47,977,692                                       | 47,977,692           |
| Current lease liabilities (*1)           | -  | 2,309,258  | 2,309,258            |
| Other current liabilities (*2)           | -  | 10,724,892                                       | 10,724,892           |
|  | <u>894,890</u>   | <u>174,868,172</u>                               | <u>175,763,062</u>   |
| Non-current liabilities:                 |  |  |                      |
| Bonds payable                            | -  | 35,502,635                                       | 35,502,635           |
| Non-current lease liabilities (*1)       | -  | 8,774,626  | 8,774,626            |
|  | -  | 44,277,261                                       | 44,277,261           |
|  | <u>₩ 894,890</u>   | <u>₩ 219,145,433</u>                             | <u>₩ 220,040,323</u> |

(\*1) Lease liabilities are liabilities recognized in accordance with KIFRS 1116.

(\*2) Consists of guarantee deposits received

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**5. Financial instruments (cont'd)**

**Gains or losses from the financial instruments**

Details of net gains or losses by financial instrument by category for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022  |   |  |  |                     |
|--|---|---|--|--|---------------------|
|  | Financial assets at fair value through profit or loss | Derivatives designated as hedging instruments | Financial asset measured at amortized cost | Financial liabilities measured at amortized cost | Total               |
| Profit for the year:   |   |   |  |  |                     |
| Interest income (expenses)   | ₩ -   | ₩ -   | ₩ 4,854,444                                | ₩ (2,460,940)                                    | ₩ 2,393,504         |
| Loss on foreign currency translation   | -   | -   | (997,193)                                  | (3,782,147)                                      | (4,779,340)         |
| Gain(loss) on foreign currency transactions                                      | -   | -   | 23,742,717                                 | (2,457,122)                                      | 21,285,595          |
| Gain on valuation of derivatives   | 4,852,181   | 2,454,000                                     | -  | -  | 7,306,181           |
| Loss on transactions of derivatives  | (31,915,052)  | -   | -  | -  | (31,915,052)        |
| Reversal of allowance for doubtful accounts                                      | -   | -   | 21,083                                     | -  | 21,083              |
| Gain(loss) on valuation of financial assets at fair value through profit or loss | (6,203,083)   | -   | -  | -  | (6,203,083)         |
| Gain(loss) on sale of financial assets at fair value through profit or loss      | 43,077,950  | -   | -  | -  | 43,077,950          |
|  | <u>9,811,996</u>                                      | <u>2,454,000</u>                              | <u>27,621,051</u>                          | <u>(8,700,209)</u>                               | <u>31,186,838</u>   |
| Other comprehensive income(loss):  |   |   |  |  |                     |
| Net gain on valuation of derivatives (*1)  | -   | 473,256                                       | -  | -  | 473,256             |
|  | <u>₩ 9,811,996</u>                                    | <u>₩ 2,927,256</u>                            | <u>₩ 27,621,051</u>                        | <u>₩ (8,700,209)</u>                             | <u>₩ 31,660,094</u> |

(\*1) Net of income tax effect

|  | 2021  |   |  |  |                      |
|--|---|---|--|--|----------------------|
|  | Financial assets at fair value through profit or loss | Derivatives designated as hedging instruments | Financial asset measured at amortized cost | Financial liabilities measured at amortized cost | Total                |
| Profit for the year:   |   |   |  |  |                      |
| Interest income (expenses)   | ₩ -   | ₩ -   | ₩ 1,516,518                                | ₩ (3,426,927)                                    | ₩ (1,910,409)        |
| Loss on foreign currency translation                                       | -   | -   | (90,001)                                   | (3,826,234)                                      | (3,916,235)          |
| Gain(loss) on foreign currency transactions                                | -   | -   | 3,737,634                                  | (1,483,648)                                      | 2,253,986            |
| Gain(loss) on valuation of derivatives                                     | (443,453)   | 2,925,000                                     | -  | -  | 2,481,547            |
| Gain(loss) on transactions of derivatives                                  | (5,248,426)   | 45,915  | -  | -  | (5,202,511)          |
| Reversal of allowance for doubtful accounts                                | -   | -   | 9,396                                      | -  | 9,396                |
| Loss on valuation of financial assets at fair value through profit or loss | (8,062,082)   | -   | -  | -  | (8,062,082)          |
| Gain on sale of financial assets at fair value through profit or loss      | 8,954,220   | -   | -  | -  | 8,954,220            |
|  | <u>(4,799,741)</u>                                    | <u>2,970,915</u>                              | <u>5,173,547</u>                           | <u>(8,736,809)</u>                               | <u>(5,392,088)</u>   |
| Other comprehensive income(loss):  |   |   |  |  |                      |
| Net gain on valuation of derivatives (*1)                                  | -   | 1,256,961                                     | -  | -  | 1,256,961            |
|  | <u>₩ (4,799,741)</u>                                  | <u>₩ 4,227,876</u>                            | <u>₩ 5,173,547</u>                         | <u>₩ (8,736,809)</u>                             | <u>₩ (4,135,127)</u> |

(\*1) Net of income tax effect

**SK bioscience Co., Ltd. and its subsidiaries**  
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**5. Financial instruments (cont'd)**

**Derivatives**

Derivatives as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|   | 2022        |             | 2021      |             |
|---|-------------|-------------|-----------|-------------|
|   | Assets      | Liabilities | Assets    | Liabilities |
| Derivative assets(liabilities)<br>not designated as hedging instrument: |             |             |           |             |
| Currency forwards   | ₩ 4,919,333 | ₩ 67,153    | ₩ 451,437 | ₩ 894,890   |
| Derivative assets(liabilities)<br>designated as hedging instrument:     |             |             |           |             |
| Currency swaps  | 4,718,222   | -           | 1,639,873 | -           |

Derivative instruments not designated as hedging instruments as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                  | 2022                 |               |
|----------------------------------|----------------------|---------------|
|                                  | Hana Bank and others |               |
|                                  | Sell                 | Buy           |
| Contract with<br>Buy/Sell        |                      |               |
| Contract amount                  | USD 216,237,739      | USD 5,961,253 |
| Loss on valuation of derivatives | ₩ 4,873,056          | ₩ (20,875)    |

  

|                                  | 2021                 |                |
|----------------------------------|----------------------|----------------|
|                                  | Hana Bank and others |                |
|                                  | Sell                 | Buy            |
| Contract with<br>Buy/Sell        |                      |                |
| Contract amount                  | USD 238,790,000      | USD 47,525,000 |
| Gain on valuation of derivatives | ₩ (300,521)          | ₩ (142,932)    |

Derivative instruments designated as hedging instruments as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                       | 2022   |            |
|---------------------------------------|--|------------|
|                                       | Hana Bank  |            |
| Contract with<br>Hedged item          | Floating rate foreign currency privately placed corporate bond<br>(Face value: USD 30,000,000) |            |
| Contract period                       | 2018.06.29 ~ 2023.06.29  |            |
| Buy/Sell                              | Buy  |            |
| Purpose                               | Hedge of foreign currency risk and interest rate fluctuation risk                              |            |
| Contract amount                       | ₩  | 33,645,000 |
| Fair value                            |  | 4,718,222  |
| Gain(loss) on valuation in            |  |            |
| Reclassified to profit or loss        |  | 2,454,000  |
| Other comprehensive income(loss) (*1) |  | 473,256    |

(\*1) Net of income tax effect

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**5. Financial instruments (cont'd)**

|                                       | 2021   |            |
|---------------------------------------|--|------------|
| Contract with                         | Hana Bank  |            |
| Hedged item                           | Floating rate foreign currency privately placed corporate bond<br>(Face value: USD 30,000,000) |            |
| Contract period                       | 2018.06.29 ~ 2023.06.29  |            |
| Buy/Sell                              | Buy  |            |
| Purpose                               | Hedge of foreign currency risk and interest rate fluctuation risk                              |            |
| Contract amount                       | ₩  | 33,645,000 |
| Fair value                            |  | 1,639,873  |
| Gain(loss) on valuation in            |  |            |
| Reclassified to profit or loss        |  | 2,925,000  |
| Other comprehensive income(loss) (*1) |  | 1,256,961  |

(\*1) Net of income tax effect

**6. Trade and other receivables**

Details of trade and other receivables as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                       | 2022 |            | 2021 |            |
|---------------------------------------|------|------------|------|------------|
| Trade receivables                     | ₩    | 39,768,868 | ₩    | 38,303,361 |
| Less: allowance for doubtful accounts |      | (183,925)  |      | (297,395)  |
| Other receivables                     |      | 48,601,633 |      | 9,107,399  |
| Accrued revenues                      |      | 1,474,243  |      | 1,021,391  |
|                                       | ₩    | 89,660,819 | ₩    | 48,134,756 |

Changes in allowance for doubtful accounts for trade and other receivables for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                   | 2022 |          | 2021 |         |
|-------------------|------|----------|------|---------|
| Beginning Balance | ₩    | 297,395  | ₩    | 306,791 |
| Reversals         |      | (21,083) |      | (9,396) |
| Write offs        |      | (92,387) |      | -       |
| Ending Balance    | ₩    | 183,925  | ₩    | 297,395 |

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**6. Trade and other receivables (cont'd)**

The Group 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.

On that basis, the loss allowance as of December 31, 2022 and 2021 was determined as follows for trade receivables (Korean won in thousands):

|                          | 2022        |                    |                    |                    |                     |                     |                          | Total       |
|--------------------------|-------------|--------------------|--------------------|--------------------|---------------------|---------------------|--------------------------|-------------|
|                          | Secured     | Less than 3 months | Less than 6 months | Less than 9 months | Less than 12 months | More than 12 months | Individual analysis (*1) |             |
| Expected loss rate       |             |                    |                    |                    |                     |                     |                          |             |
| Wholesale                | -           | -                  | -                  | -                  | 100.0%              | -                   | -                        | 0.00%       |
| Hospital                 | -           | -                  | -                  | -                  | -                   | 100.0%              | 100.0%                   | 18.95%      |
| Export/Others            | -           | -                  | -                  | -                  | -                   | -                   | -                        | -           |
| Trade receivables        |             |                    |                    |                    |                     |                     |                          |             |
| Wholesale                | ₩ 1,519,384 | ₩ 1,124,059        | ₩ -                | ₩ -                | ₩ 55                | ₩ -                 | ₩ -                      | ₩ 2,643,498 |
| Hospital                 | 190,226     | 539,415            | 56,756             | -                  | -                   | 7,259               | 176,611                  | 970,267     |
| Export/Others            | -           | 18,032,713         | 18,122,390         | -                  | -                   | -                   | -                        | 36,155,103  |
| Loss allowance provision |             |                    |                    |                    |                     |                     |                          |             |
| Wholesale                | ₩ -         | ₩ -                | ₩ -                | ₩ -                | ₩ 55                | ₩ -                 | ₩ -                      | ₩ 55        |
| Hospital                 | -           | -                  | -                  | -                  | -                   | 7,259               | 176,611                  | 183,870     |
| Export/Others            | -           | -                  | -                  | -                  | -                   | -                   | -                        | -           |

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

|                          | 2021        |                    |                    |                    |                     |                     |                          | Total       |
|--------------------------|-------------|--------------------|--------------------|--------------------|---------------------|---------------------|--------------------------|-------------|
|                          | Secured     | Less than 3 months | Less than 6 months | Less than 9 months | Less than 12 months | More than 12 months | Individual analysis (*1) |             |
| Expected loss rate       |             |                    |                    |                    |                     |                     |                          |             |
| Wholesale                | -           | -                  | -                  | -                  | -                   | -                   | 100.0%                   | 0.39%       |
| Hospital                 | -           | 0.4%               | 3.7%               | 54.6%              | 98.6%               | 100.0%              | 100.0%                   | 15.87%      |
| Export/Others            | -           | -                  | -                  | -                  | -                   | -                   | -                        | -           |
| Trade receivables        |             |                    |                    |                    |                     |                     |                          |             |
| Wholesale                | ₩ 1,706,501 | ₩ 1,742,221        | ₩ 14,324           | ₩ -                | ₩ -                 | ₩ -                 | ₩ 13,722                 | ₩ 3,476,768 |
| Hospital                 | 316,557     | 1,053,419          | 140,436            | 8,045              | 3,692               | 218,734             | 47,018                   | 1,787,901   |
| Export/Others            | -           | 33,038,692         | -                  | -                  | -                   | -                   | -                        | 33,038,692  |
| Loss allowance provision |             |                    |                    |                    |                     |                     |                          |             |
| Wholesale                | ₩ -         | ₩ -                | ₩ -                | ₩ -                | ₩ -                 | ₩ -                 | ₩ 13,722                 | ₩ 13,722    |
| Hospital                 | -           | 4,720              | 5,166              | 4,396              | 3,639               | 218,734             | 47,018                   | 283,673     |
| Export/Others            | -           | -                  | -                  | -                  | -                   | -                   | -                        | -           |

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

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**7. Inventories**

Details of inventories as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                     | 2022             |                     |               |
|---------------------|------------------|---------------------|---------------|
|                     | Acquisition Cost | Valuation allowance | Book value    |
| Merchandise         | ₩ 4,720,144      | ₩ (2,503,202)       | ₩ 2,216,942   |
| Finished goods      | 2,049,401        | (133,999)           | 1,915,402     |
| Semi-finished goods | 65,060,347       | (10,512,631)        | 54,547,716    |
| Work-in-progress    | 12,884,060       | -                   | 12,884,060    |
| Raw materials       | 67,994,260       | (11,131,035)        | 56,863,225    |
| Supplies            | 85,520,378       | (26,541,865)        | 58,978,513    |
| (*1)                | ₩ 238,228,590    | ₩ (50,822,732)      | ₩ 187,405,858 |

(\*1) It includes CMO and CDMO related contract assets amounting to KRW 37,092,497 thousand (Note 21).

|                      | 2021             |                     |               |
|----------------------|------------------|---------------------|---------------|
|                      | Acquisition Cost | Valuation allowance | Book value    |
| Merchandise          | ₩ 1,088,266      | ₩ (646,848)         | ₩ 441,418     |
| Finished goods       | 5,080,791        | (87,831)            | 4,992,960     |
| Semi-finished goods  | 62,422,874       | (2,313,454)         | 60,109,420    |
| Work-in-progress     | 5,548,864        | -                   | 5,548,864     |
| Raw materials        | 36,847,720       | (3,049,158)         | 33,798,562    |
| Supplies             | 30,985,373       | (855,498)           | 30,129,875    |
| Materials-in-transit | 24,859           | -                   | 24,859        |
| (*1)                 | ₩ 141,998,747    | ₩ (6,952,789)       | ₩ 135,045,958 |

(\*1) It includes CMO and CDMO related contract assets amounting to KRW 36,960,182 thousand (Note 21).

Loss on valuation of inventories recognized in relation to inventory assets during the current period was KRW 43,869,943 thousand (prior year: loss on valuation of inventories was KRW 5,566,456 thousand).

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**8. Short-term and long-term financial instruments**

Short-term and long-term financial instruments as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                   | 2022                |                        |
|-----------------------------------|---------------------|------------------------|
|                                   | Detail              | Amount                 |
| Short-term financial instruments: |                     |                        |
| Short-term investments            | MMW                 | ₩ 1,134,755,313        |
| Short-term investments            | Foreign bonds       | 115,462,812            |
| Deposits (*1)                     | Deposit             | 5,300,000              |
|                                   |                     | <u>₩ 1,255,518,125</u> |
| Long term financial instruments:  |                     |                        |
| Non-marketable equity securities  | CTCELLS Co., Ltd.   | ₩ 1,000,076            |
| Non-marketable equity securities  | CLIPS Bnc Co., Ltd. | 500,006                |
|                                   |                     | <u>₩ 1,500,082</u>     |

(\*1) It is provided as collateral for employee stock ownership association loan (Note 18).

|                                   | 2021              |                        |
|-----------------------------------|-------------------|------------------------|
|                                   | Detail            | Amount                 |
| Short-term financial instruments: |                   |                        |
| Short-term investments            | MMW               | ₩ 1,430,520,738        |
| Short-term investments            | Foreign bonds     | 117,114,316            |
|                                   |                   | <u>₩ 1,547,635,054</u> |
| Long term financial instruments:  |                   |                        |
| Non-marketable equity securities  | CTCELLS Co., Ltd. | ₩ 499,995              |
| Deposits (*1)                     | Deposit           | 21,110,000             |
|                                   |                   | <u>₩ 21,609,995</u>    |

(\*1) It is provided as collateral for employee stock ownership association loan (Note 18).

**9. Other assets**

Details of other assets as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                            | 2022     |                   | 2021     |                  |
|----------------------------|----------|-------------------|----------|------------------|
| Other current assets:      |          |                   |          |                  |
| Advance payments           | ₩        | 14,535,488        | ₩        | 7,061,803        |
| Prepaid expenses           |          | 1,648,917         |          | 1,406,561        |
| Guarantee deposits         |          | -                 |          | 40,400           |
|                            | <u>₩</u> | <u>16,184,405</u> | <u>₩</u> | <u>8,508,764</u> |
| Other non-current assets:  |          |                   |          |                  |
| Other investment assets    | ₩        | 85,680            | ₩        | 85,680           |
| Long-term prepaid expenses |          | 6,443,371         |          | 5,849            |
|                            | <u>₩</u> | <u>6,529,051</u>  | <u>₩</u> | <u>91,529</u>    |

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**10. Property, plant and equipment**

Changes in the book value of property, plant and equipment for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                          | 2022              |              |             |                |               |                |
|--------------------------|-------------------|--------------|-------------|----------------|---------------|----------------|
|                          | Beginning balance | Acquisitions | Disposals   | Depreciation   | Others (*1)   | Ending balance |
| Land                     | ₩ 9,948,684       | ₩ 30,925,415 | ₩ -         | ₩ -            | ₩ 4,395,482   | ₩ 45,269,581   |
| Buildings                | 119,030,531       | 10,088,948   | -           | (3,603,360)    | 1,264,277     | 126,780,396    |
| Structures               | 959,603           | -            | -           | (25,043)       | 26,000        | 960,560        |
| Machinery                | 51,026,145        | 7,126,594    | (165,963)   | (11,097,698)   | 6,246,128     | 53,135,206     |
| Vehicles                 | 10,863            | -            | -           | (5,212)        | -             | 5,651          |
| Others                   | 3,405,540         | 2,545,130    | (96,327)    | (1,243,461)    | 241,906       | 4,852,788      |
| Construction-in-progress | 25,388,979        | 20,857,326   | (197,840)   | -              | (13,523,382)  | 32,525,083     |
| Machinery-in-transit     | 494,615           | 133,758      | -           | -              | -             | 628,373        |
|                          | ₩ 210,264,960     | ₩ 71,677,171 | ₩ (460,130) | ₩ (15,974,774) | ₩ (1,349,589) | ₩ 264,157,638  |

(\*1) Consisted of reclassification of construction-in-progress and reclassification to intangible assets and acquisition of property, plant and equipment by the receipt of government subsidies.

|                          | 2021              |              |            |                |             |                |
|--------------------------|-------------------|--------------|------------|----------------|-------------|----------------|
|                          | Beginning balance | Acquisitions | Disposals  | Depreciation   | Others (*1) | Ending balance |
| Land                     | ₩ 9,948,684       | ₩ -          | ₩ -        | ₩ -            | ₩ -         | ₩ 9,948,684    |
| Buildings                | 111,460,813       | 9,921,323    | -          | (3,362,257)    | 1,010,652   | 119,030,531    |
| Structures               | 983,996           | -            | -          | (24,393)       | -           | 959,603        |
| Machinery                | 47,321,995        | 10,182,419   | (948)      | (9,491,304)    | 3,013,983   | 51,026,145     |
| Vehicles                 | 16,075            | -            | -          | (5,212)        | -           | 10,863         |
| Others                   | 1,657,528         | 2,365,157    | (27,906)   | (671,010)      | 81,771      | 3,405,540      |
| Construction-in-progress | 9,603,117         | 20,799,683   | -          | -              | (5,013,821) | 25,388,979     |
| Machinery-in-transit     | -                 | 494,615      | -          | -              | -           | 494,615        |
|                          | ₩ 180,992,208     | ₩ 43,763,197 | ₩ (28,854) | ₩ (13,554,176) | ₩ (907,415) | ₩ 210,264,960  |

(\*1) Consisted of reclassification of construction-in-progress and reclassification to intangible assets and acquisition of property, plant and equipment by the receipt of government subsidies.

**Borrowing costs**

Capitalized borrowing costs during the current year are KRW 757,016 thousand (2021: KRW 144,014 thousand). The capitalized interest rate used to calculate the capitalizable borrowing costs is 3.44% (2021: 3.42%).

**Insured assets**

As of December 31, 2022, the Group carries comprehensive property insurance for property, plant and equipment, inventories and others for up to KRW 573,525,713 thousand(2021: KRW 313,002,105 thousand).

**Investment in new facilities**

On February 8, 2023, the Company's board of directors resolved to invest in the construction of infrastructure to expand its vaccine business and promote a new business. The total investment amount is KRW 283,800,000 thousand and the expected end date of the investment is December 31, 2025.

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**11. Leases**

Changes in the book value of right-of-use assets for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|           | 2022                |                     |                    |                      |                     |
|-----------|---------------------|---------------------|--------------------|----------------------|---------------------|
|           | Beginning balance   | Acquisitions        | Disposals          | Depreciation         | Ending balance      |
| Building  | ₩ 9,379,915         | ₩ 25,268,678        | ₩ (122,151)        | ₩ (6,914,346)        | ₩ 27,612,096        |
| Vehicles  | 911,163             | 730,771             | (149,773)          | (490,178)            | 1,001,983           |
| Machinery | 427,341             | -                   | -                  | (142,447)            | 284,894             |
|           | <u>₩ 10,718,419</u> | <u>₩ 25,999,449</u> | <u>₩ (271,924)</u> | <u>₩ (7,546,971)</u> | <u>₩ 28,898,973</u> |

  

|           | 2021               |                    |                    |                      |                     |
|-----------|--------------------|--------------------|--------------------|----------------------|---------------------|
|           | Beginning balance  | Acquisitions       | Disposals          | Depreciation         | Ending balance      |
| Building  | ₩ 7,408,586        | ₩ 3,330,744        | ₩ (4,957)          | ₩ (1,354,458)        | ₩ 9,379,915         |
| Vehicles  | 508,358            | 1,143,473          | (282,457)          | (458,211)            | 911,163             |
| Machinery | 569,788            | -                  | -                  | (142,447)            | 427,341             |
|           | <u>₩ 8,486,732</u> | <u>₩ 4,474,217</u> | <u>₩ (287,414)</u> | <u>₩ (1,955,116)</u> | <u>₩ 10,718,419</u> |

Lease liabilities for the year ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                   | 2022                   |                     | 2021                   |                     |
|-------------------|------------------------|---------------------|------------------------|---------------------|
|                   | Minimum lease payments | Present value       | Minimum lease payments | Present value       |
| Less than 1 year  | ₩ 12,527,397           | ₩ 12,234,525        | ₩ 2,348,649            | ₩ 2,309,258         |
| 2 years or less   | 7,704,268              | 7,176,596           | 2,216,106              | 2,110,217           |
| 5 years or less   | 10,460,801             | 8,994,596           | 5,221,168              | 4,650,927           |
| More than 5 years | 1,720,993              | 1,372,020           | 2,447,407              | 2,013,483           |
|                   | <u>₩ 32,413,459</u>    | <u>₩ 29,777,737</u> | <u>₩ 12,233,330</u>    | <u>₩ 11,083,885</u> |

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**11. Leases (cont'd)**

Changes in the book value of lease liabilities for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                   | 2022 |                   | 2021 |                   |
|-------------------|------|-------------------|------|-------------------|
| Beginning balance | ₩    | 11,083,885        | ₩    | 8,739,558         |
| Increase          |      | 25,999,449        |      | 4,474,218         |
| Decrease          |      | (274,377)         |      | (292,803)         |
| Lease payment     |      | (8,061,535)       |      | (2,183,629)       |
| Interest expenses |      | 1,030,315         |      | 346,541           |
| Ending balance    | ₩    | <u>29,777,737</u> | ₩    | <u>11,083,885</u> |

Expenses recognized in the statement of comprehensive income(loss) during the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|   | 2022 |           | 2021 |           |
|---|------|-----------|------|-----------|
| Other operating expenses including supplies expenses: |      |           |      |           |
| Short-term lease                                      | ₩    | 328,137   | ₩    | 271,489   |
| Low-value asset lease                                 |      | 195,384   |      | 148,377   |
| Depreciation and impairment:                          |      |           |      |           |
| Depreciation of right-of-use assets                   |      | 7,546,971 |      | 1,955,116 |
| Net finance cost:                                     |      |           |      |           |
| Interest expense of lease liabilities                 |      | 1,030,315 |      | 346,541   |

The Group had a total cash outflow of KRW 8,585 million for leases during the current year (2021 : KRW 2,603 million).

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**12. Intangible assets**

Changes in the book value of intangible assets for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                            | 2022                |                    |                   |                      |                       |                     |
|----------------------------|---------------------|--------------------|-------------------|----------------------|-----------------------|---------------------|
|                            | Beginning balance   | Acquisitions       | Disposals         | Amortization         | Reclassification (*1) | Ending balance      |
| Industrial property rights | ₩ 473,979           | ₩ 58,871           | ₩ (11,494)        | ₩ (88,423)           | ₩ 255,300             | ₩ 688,233           |
| Development costs          | 13,088,066          | 1,163,867          | -                 | (2,369,499)          | -                     | 11,882,434          |
| Software                   | 3,499,263           | 906,417            | -                 | (1,256,742)          | 1,094,289             | 4,243,227           |
| Memberships                | -                   | 1,367,436          | -                 | -                    | -                     | 1,367,436           |
|                            | <u>₩ 17,061,308</u> | <u>₩ 3,496,591</u> | <u>₩ (11,494)</u> | <u>₩ (3,714,664)</u> | <u>₩ 1,349,589</u>    | <u>₩ 18,181,330</u> |

(\*1) Includes effects of transfers from construction in progress.

|                            | 2021                |                    |                      |                       |                     |  |
|----------------------------|---------------------|--------------------|----------------------|-----------------------|---------------------|--|
|                            | Beginning balance   | Acquisitions       | Amortization         | Reclassification (*1) | Ending balance      |  |
| Industrial property rights | ₩ 518,237           | ₩ 5,180            | ₩ (68,627)           | ₩ 19,189              | ₩ 473,979           |  |
| Development costs          | 15,221,386          | 180,178            | (2,313,498)          | -                     | 13,088,066          |  |
| Software                   | 2,117,947           | 1,376,978          | (883,888)            | 888,226               | 3,499,263           |  |
|                            | <u>₩ 17,857,570</u> | <u>₩ 1,562,336</u> | <u>₩ (3,266,013)</u> | <u>₩ 907,415</u>      | <u>₩ 17,061,308</u> |  |

(\*1) Includes effects of transfers from construction in progress.

Details of development costs as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                       |                       | Name                   | 2022  |                    |                     |                                |                             |                              |
|-----------------------|-----------------------|------------------------|---|--------------------|---------------------|--------------------------------|-----------------------------|------------------------------|
|                       |                       |                        | Capitalized research and development costs (cumulative) |                    |                     | Research and development costs |                             |                              |
|                       |                       |                        | Phase3  | Sales approved     | Total               | Book value                     | Accumulated impairment loss | Residual amortization period |
| Development Completed | Genetic recombination | NBP601 (*1)            | ₩ -   | ₩ 5,100,000        | ₩ 5,100,000         | ₩ 2,040,000                    | ₩ -                         | 4 years                      |
|                       | Vaccine               | NBP607 (*2)            | 4,354,658   | -                  | 4,354,658           | 1,563,991                      | -                           | 3 years                      |
|                       | Vaccine               | NBP608 Shingles (*3)   | 10,199,115  | -                  | 10,199,115          | 5,014,565                      | -                           | 5 years                      |
|                       | Vaccine               | NBP608 chickenpox (*4) | 3,486,768   | -                  | 3,486,768           | 1,975,835                      | -                           | 6 years                      |
|                       | Vaccine               | GBP510 COVID-19 (*5)   | 1,344,045   | -                  | 1,344,045           | 1,288,043                      | -                           | 9 years                      |
|                       |                       |                        | <u>₩ 19,384,586</u>                                     | <u>₩ 5,100,000</u> | <u>₩ 24,484,586</u> | <u>₩ 11,882,434</u>            | <u>₩ -</u>                  |                              |
|                       |                       | Name                   | 2021  |                    |                     |                                |                             |                              |
|                       |                       |                        | Capitalized research and development costs (cumulative) |                    |                     | Research and development costs |                             |                              |
|                       |                       |                        | Phase3  | Sales approved     | Total               | Book value                     | Accumulated impairment loss | Residual amortization period |
| Development Completed | Genetic recombination | NBP601 (*1)            | ₩ -   | ₩ 5,100,000        | ₩ 5,100,000         | ₩ 2,550,000                    | ₩ -                         | 5 years                      |
|                       | Vaccine               | NBP607 (*2)            | 4,354,658   | -                  | 4,354,658           | 1,998,900                      | -                           | 4 years                      |
|                       | Vaccine               | NBP608 Shingles (*3)   | 10,199,115  | -                  | 10,199,115          | 6,034,477                      | -                           | 6 years                      |
|                       | Vaccine               | NBP608 chickenpox (*4) | 3,486,768   | -                  | 3,486,768           | 2,324,511                      | -                           | 7 years                      |
|                       | Under Development     | Vaccine                | GBP510 COVID-19 (*5)                                    | 180,178            | -                   | 180,178                        | 180,178                     | -                            |
|                       |                       |                        | <u>₩ 18,220,719</u>                                     | <u>₩ 5,100,000</u> | <u>₩ 23,320,719</u> | <u>₩ 13,088,066</u>            | <u>₩ -</u>                  |                              |

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**12. Intangible assets (cont'd)**

(\*1) NBP 601 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.

(\*5) GBP 510 is a COVID-19 vaccine product and is currently on sale after approval for sale was obtained in 2022.

Changes in the book value of development costs for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                   | 2022        |             |             |             |             | Total        |
|-------------------|-------------|-------------|-------------|-------------|-------------|--------------|
|                   | NBP601      | NBP607      | NBP608      |             | GBP510      |              |
|                   |             |             | Shingles    | Chickenpox  |             |              |
| Beginning balance | ₩ 2,550,000 | ₩ 1,998,900 | ₩ 6,034,477 | ₩ 2,324,511 | ₩ 180,178   | ₩ 13,088,066 |
| Acquisition       | -           | -           | -           | -           | 1,163,867   | 1,163,867    |
| Amortization      | (510,000)   | (434,909)   | (1,019,912) | (348,679)   | (56,002)    | (2,369,499)  |
| Ending balance    | ₩ 2,040,000 | ₩ 1,563,991 | ₩ 5,014,565 | ₩ 1,975,835 | ₩ 1,288,043 | ₩ 11,882,434 |

  

|                   | 2021        |             |             |             |           | Total        |
|-------------------|-------------|-------------|-------------|-------------|-----------|--------------|
|                   | NBP601      | NBP607      | NBP608      |             | GBP510    |              |
|                   |             |             | Shingles    | Chickenpox  |           |              |
| Beginning balance | ₩ 3,060,000 | ₩ 2,433,809 | ₩ 7,054,387 | ₩ 2,673,190 | ₩ -       | ₩ 15,221,386 |
| Acquisition       | -           | -           | -           | -           | 180,178   | 180,178      |
| Amortization      | (510,000)   | (434,909)   | (1,019,910) | (348,679)   | -         | (2,313,498)  |
| Ending balance    | ₩ 2,550,000 | ₩ 1,998,900 | ₩ 6,034,477 | ₩ 2,324,511 | ₩ 180,178 | ₩ 13,088,066 |

R&D expenses recognized as expenses for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                     | 2022          | 2021         |
|-------------------------------------|---------------|--------------|
| Selling and administrative expenses | ₩ 111,831,319 | ₩ 99,399,339 |
| Government subsidies, etc.          | (53,871,674)  | (52,149,264) |
|                                     | ₩ 57,959,645  | ₩ 47,250,075 |

**13. Trade and other payables**

Trade and other payables as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                     | 2022         | 2021          |
|---------------------|--------------|---------------|
| Trade payables (*1) | ₩ 11,053,234 | ₩ 63,811,952  |
| Other payables      | 14,409,579   | 12,051,075    |
| Accrued expenses    | 30,242,499   | 26,321,930    |
|                     | ₩ 55,705,312 | ₩ 102,184,957 |

(\*1) Trade payables are normally settled on 30-day to 60-day terms.

**SK bioscience Co., Ltd. and its subsidiaries**  
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**14. Bonds payable and borrowings**

Bonds payable and borrowings as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022                |   | 2021              |
|--|---------------------|---|-------------------|
| Short-term borrowings                    | ₩ 45,549,996        | ₩ | 11,671,373        |
| Current portion of long-term liabilities | 38,008,459          |   | 47,977,692        |
| Bonds payable                            | -                   |   | 35,502,635        |
|  | <u>₩ 83,558,455</u> | ₩ | <u>95,151,700</u> |

Details of short-term borrowings as of December 31, 2022 and 2021 consist of the following (Korean won in thousands):

| Lender   | Classification                    | Annual interest rates (%) | 2022         | 2021         |
|--|-----------------------------------|---------------------------|--------------|--------------|
| Coalition for Epidemic Preparedness Innovations (CEPI) | General loans in foreign currency | -                         | ₩ 45,549,996 | ₩ 11,671,373 |

Details of bonds payable as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

| Classification                                 | Maturity date | Annual interest rates (%) | 2022                | 2021                |
|--|---------------|---------------------------|---------------------|---------------------|
| 2-2 <sup>nd</sup> public bonds                 | 2022.07.26    | -                         | ₩ -                 | ₩ 48,000,000        |
| Foreign bonds                                  | 2023.06.29    | US 3M Libor + 1.88        | 38,019,000          | 35,565,000          |
|  |               |                           | <u>38,019,000</u>   | <u>83,565,000</u>   |
| Less: discount on bonds payable                |               |                           | (10,541)            | (84,673)            |
| Less: current portion of long-term liabilities |               |                           | <u>(38,008,459)</u> | <u>(47,977,692)</u> |
|  |               |                           | <u>₩ -</u>          | <u>₩ 35,502,635</u> |

**SK bioscience Co., Ltd. and its subsidiaries**  
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**15. Other liabilities**

Other liabilities as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                             | 2022                |                  | 2021                |                  |
|-----------------------------|---------------------|------------------|---------------------|------------------|
|                             | Current             | Non-current      | Current             | Non-current      |
| Advances                    | ₩ 37,752,218        | ₩ -              | ₩ 41,566,512        | ₩ -              |
| Withholdings                | 10,056,059          | -                | 42,347,447          | -                |
| Deposits received           | 1,960,755           | -                | 10,724,892          | -                |
| Long-term employee benefits | -                   | 370,339          | -                   | 335,239          |
|                             | <u>₩ 49,769,032</u> | <u>₩ 370,339</u> | <u>₩ 94,638,851</u> | <u>₩ 335,239</u> |

**16. Employee benefit liabilities (assets)**

The Group 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 employee benefit liabilities (assets) for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|   | 2022                  |                    | 2021 |  |
|---|-----------------------|--------------------|------|--|
| Changes in defined benefit liabilities(assets):                     |                       |                    |      |  |
| Beginning balance   | ₩ 4,246,059           | ₩ 4,357,739        |      |  |
| Retirement benefits paid  | (13,469)              | (67,315)           |      |  |
| Provision during the period   | 9,326,642             | 4,905,023          |      |  |
| Re-measurement loss   | (7,414,777)           | 4,050,612          |      |  |
| Contributions to defined benefit plans                              | (20,100,000)          | (9,000,000)        |      |  |
| Ending balance  | <u>₩ (13,955,545)</u> | <u>₩ 4,246,059</u> |      |  |
| Defined benefit liabilities in the statement of financial position: |                       |                    |      |  |
| Present value of defined benefit obligation                         | ₩ 25,621,328          | ₩ 24,999,395       |      |  |
| Fair value of plan assets   | (39,576,873)          | (20,753,336)       |      |  |
|   | <u>₩ (13,955,545)</u> | <u>₩ 4,246,059</u> |      |  |

Expenses incurred for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                | 2022               |                    | 2021 |  |
|--------------------------------|--------------------|--------------------|------|--|
| Current service costs          | ₩ 9,218,285        | ₩ 4,815,320        |      |  |
| Interest expenses              | 637,641            | 590,237            |      |  |
| Expected return on plan assets | (529,284)          | (500,534)          |      |  |
|                                | <u>₩ 9,326,642</u> | <u>₩ 4,905,023</u> |      |  |

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**16. Employee benefit liabilities(assets) (cont'd)**

Changes in the present value of the defined benefit obligation for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                          | 2022         |   | 2021         |
|--------------------------|--------------|---|--------------|
| Beginning balance        | ₩ 24,999,395 | ₩ | 28,688,136   |
| Current service costs    | 9,218,285    |   | 4,815,320    |
| Interest expenses        | 637,641      |   | 590,237      |
| Re-measurement loss      | (7,665,849)  |   | 3,905,738    |
| Retirement benefits paid | (1,802,035)  |   | (14,382,160) |
| Transfer to affiliates   | 233,891      |   | 1,382,124    |
| Ending balance           | ₩ 25,621,328 | ₩ | 24,999,395   |

Changes in the fair value of plan assets for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                | 2022         |   | 2021         |
|--------------------------------|--------------|---|--------------|
| Beginning balance              | ₩ 20,753,336 | ₩ | 24,330,397   |
| Expected return on plan assets | 529,284      |   | 500,534      |
| Re-measurement loss            | (251,072)    |   | (144,874)    |
| Contribution                   | 20,100,000   |   | 9,000,000    |
| Retirement benefits paid       | (1,788,566)  |   | (14,314,845) |
| Transfer to affiliates         | 233,891      |   | 1,382,124    |
| Ending balance                 | ₩ 39,576,873 | ₩ | 20,753,336   |

The principal assumptions used in actuarial calculation as of December 31, 2022 and 2021 are as follows:

|  | 2022  | 2021  |
|--|-------|-------|
| Discount rate                          | 5.17% | 2.59% |
| Expected rate of return on plan assets | 5.17% | 2.59% |
| Future salary increase                 | 6.59% | 6.73% |

Details of re-measurement losses (gains) as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                    | 2022          |   | 2021      |
|------------------------------------|---------------|---|-----------|
| Financial assumptions              | ₩ (8,606,669) | ₩ | 1,636,659 |
| Experience adjustments             | 940,820       |   | 2,269,079 |
| Re-measurement loss on plan assets | 251,072       |   | 144,874   |
|                                    | ₩ (7,414,777) | ₩ | 4,050,612 |

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**16. Employee benefit liabilities (assets) (cont'd)**

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, 2022 and 2021 (Korean won in thousands):

|                            | 2022                                   |                      |  |                      |
|----------------------------|--|----------------------|--|----------------------|
|                            | 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 | ₩ (2,528,339)                          | ₩ 3,025,708          | ₩ 3,065,021                              | ₩ (2,601,530)        |

  

|                            | 2021                                   |                      |  |                      |
|----------------------------|--|----------------------|--|----------------------|
|                            | 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 | ₩ (2,893,646)                          | ₩ 3,516,509          | ₩ 3,465,733                              | ₩ (2,910,071)        |

Plan assets as of December 31, 2022 and 2021, consist of (Korean won in thousands):

|                       | 2022         |                | 2021         |                |
|-----------------------|--------------|----------------|--------------|----------------|
|                       | Amount       | Composition(%) | Amount       | Composition(%) |
| Deposits              | ₩ 39,576,873 | 100.00         | ₩ 20,751,122 | 99.99          |
| National Pension Fund | -            | -              | 2,214        | 0.01           |
|                       | ₩ 39,576,873 | 100.00         | ₩ 20,753,336 | 100.00         |

The weighted-average duration of the defined benefit obligation of December 31, 2022 is 11.32 years. The expected maturity analysis of undiscounted pension benefits is as follows (Korean won in thousands):

|                  | 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 | ₩ 1,539,178      | ₩ 1,679,516       | ₩ 14,328,202      | ₩ 16,069,671       | ₩ 88,829,611        | ₩ 244,618,290 | ₩ 367,064,468 |

Expected contributions to post-employment benefit plans for the year ending December 31, 2023 are KRW 7,474,762 thousand.

Expenses recognized in profit or loss in relation to the defined contribution plan during the year ended December 31, 2022 are KRW 20,429 thousand (2021 : KRW 4,156 thousand).

**SK bioscience Co., Ltd. and its subsidiaries**  
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**17. Provisions**

Provisions as of December 31, 2022 are as follows (Korean won in thousands):

|                        | Current     | Non-current |
|------------------------|-------------|-------------|
| Onerous Contracts (*1) | ₩ 2,811,241 | ₩ 2,278,409 |

(\*1) As the Group estimated that, in some contracts, the unavoidable costs of meeting the obligations under the contract would exceed the economic benefits expected to be received under it, the Group recognized the estimate of the excess amount as provisions.

**18. Commitments and contingencies**

Details of significant litigation related to the Group as of December 31, 2022 are as follows:

| Legal claim   | Plaintiff                                    | Defendant   | Contents  | Litigation amount | Remark  |
|---|--|-------------|---|-------------------|---|
| Patent infringement claims                            | Wyeth LLC, Pfizer Pharmaceuticals Korea Ltd. | The Company | Prohibition of pneumococcus vaccine patent right infringement and damage claims | KRW 100 million   | First trial in progress                                     |
| Application for injunction of patent infringement(*1) | Wyeth LLC, Pfizer Pharmaceuticals Korea Ltd. | The Company | Prohibition of pneumococcus vaccine patent right infringement                   | KRW 100 million   | Dismission of claims in the first trial, Appeal in progress |

(\*1) Appeal is in progress as of December 31, 2022, but the counterparty withdrew the application on January 6, 2023.

The Group is unable to reasonably estimate the ultimate outcome of such proceedings. The Group does not recognize any provisions.

Commitments with the financial institutions as of December 31, 2022 are as follows:

| Financial institution | Category  | Limit              | Amount            |
|-----------------------|---|--------------------|-------------------|
| Hana Bank             | Foreign currency guarantee – Contract execution | USD 30,000,000     | USD 30,000,000    |
|                       | Secured loan of credit sales                    | KRW 4,000 million  | KRW 68 million    |
|                       | Derivative deposit exemption arrangement        | USD 73,000,000     | USD 8,925,755     |
| Shinhan Bank          | Secured loan of credit sales                    | KRW 3,000 million  | -                 |
|                       | Corporate working capital loans                 | KRW 5,000 million  | -                 |
|                       | Derivative (Revolving credit)                   | USD 11,000,000     | USD 987,460       |
| Woori Bank            | Corporate working capital loans                 | KRW 5,000 million  | -                 |
| Suhyup Bank           | Derivative (Revolving credit)                   | KRW 15,000 million | KRW 5,525 million |
| JP Morgan Chase Bank  | Derivative (Revolving credit)                   | USD 100,000,000    | USD 64,050,000    |
| Korea Eximbank        | Export growth loans                             | KRW 10,000 million | -                 |

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**18. Commitments and contingencies (cont'd)**

Details of insurance commitments as of December 31, 2022 and 2021 are as follows (Korean won in millions):

| Financial institution                     | Category                             | 2022    | 2021     |
|---|--------------------------------------|---------|----------|
| Seoul Guarantee Insurance Co., Ltd.       | Performance guarantee insurance etc. | ₩ 360   | ₩ 27,028 |
| KB Insurance Co., Ltd.                    | Comprehensive property insurance     | 521,422 | 313,002  |
| Hyundai Marine & Fire Insurance Co., Ltd. | Comprehensive property insurance     | 52,104  | 41,672   |
| Hyundai Marine & Fire Insurance Co., Ltd. | Product liability insurance          | 25,346  | 23,710   |

Details of insurance commitments as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

| Financial instruments | Classification  | 2022        | 2021         |
|-----------------------|---|-------------|--------------|
| Time deposits         | employee stock ownership association loan security provided | ₩ 5,300,000 | ₩ 21,110,000 |

**Technology transfer agreement and joint development**

The Group signed an agreement with Sanofi Pasteur Inc. of the United States on February 12, 2018 to transfer the technology for producing cell-grown high-efficiency influenza vaccines, amounting to USD 155,000,000. A portion of the amount will be recognized as revenue over time until the end of the obligation based on clinical entry and authorization. The Group may receive sales commission based on terms and conditions. The Group was notified of the termination of this contract on December 9, 2021.

In addition, the Group signed an agreement with Sanofi Pasteur Inc. on the joint development and sale of next-generation pneumonia-bacterial conjugate vaccines on March 19, 2014, amounting to USD 45,000,000 including initial technical fees and milestones for each stage of development. The Group has recognized revenue based on each stage where the Group fulfilled the requirements for the right to consideration.

**CMO (Contract Manufacturing Organization)/CDMO (Contract Development & Manufacturing Organization) agreement**

The Group signed an COVID-19 vaccine CDMO contract with Novavax, Inc. on August 11, 2020, and the amount related to this contract is recognized in installments as revenue for the duration of the contractual obligation.

The Group signed an agreement with Novavax, Inc. on February 12, 2021 to hold exclusive rights to development, manufacture, sale of the COVID-19 vaccine developed by Novavax, Inc. in South Korea. The Group signed the amended agreement to obtain non-exclusive rights of Thailand and Vietnam on December 23, 2021, and added the CMO contract for 2022.

The Group has prepaid Novavax, Inc. a portion of the license fees incurred by Novavax COVID-19 vaccine sold by the Group. As the COVID-19 vaccine developed by Novavax, Inc. had been approved by the Korean Ministry of Food and Drug Safety (KMFDS), the Group paid part of the remaining license fees to Novavax, Inc. as a lump sum.

The Group recognizes revenue to KRW 210,044 million under CMO/CDMO agreements for the year ended December 31, 2022.

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**18. Commitments and contingencies (cont'd)**

The Group signed a sales contract to build R&D facilities for the land located in Songdo-dong, Yeonsu-gu, Incheon with the Incheon Free Economic Zone(IFEZ) Authority on December 27, 2021. The Group must implement various procedures, such as facility construction plan and permission for use, within a certain period of time from the contract date, and if not, the sales contract may be terminated.

**19. Related party transactions**

Details of the Group's related parties as of December 31, 2022 are as follows:

| Related parties              | Entities  |
|------------------------------|---|
| Ultimate parent company (*1) | SK Discovery Co., Ltd.  |
| Parent company               | SK Chemicals Co., Ltd.  |
|                              | SK Gas Co., Ltd., SK Plasma Co., Ltd.,  |
| Others                       | SK D&D Co., Ltd., SK Inc., Ltd., SK Innovation Co., Ltd., SK Telecom Co., Ltd.,<br>SK Ecoplant Co., Ltd., Happynarae Co., Ltd., SK Shieldus Co., Ltd.,<br>SK Group affiliate (*2) |

(\*1) SK Discovery Co., Ltd. acquired additional shares of SK Chemical Co., Ltd. for the year ended December 31, 2022 and was classified as the ultimate parent company of the Group.

(\*2) The conglomerate affiliates that are also known as the Large-scale Business Group affiliates designated by the Korea Fair Trade Commission, are classified as related parties in accordance with the resolution of the Korean Securities and Futures Commission that those are related parties considering substance of the relationship as stipulated in paragraph 10 of KIFRS 1024.

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**19. Related party transactions (cont'd)**

Significant transactions with related parties for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

| Related parties         | Entities                   | 2022      |             |                |                          |
|-------------------------|----------------------------|-----------|-------------|----------------|--------------------------|
|                         |                            | Sales     | Purchase    | Other expenses | Purchase of fixed assets |
| Ultimate parent company | SK Discovery Co., Ltd.     | ₩ -       | ₩ -         | ₩ 1,163,435    | ₩ -                      |
| Parent company          | SK Chemicals Co., Ltd.     | -         | 1,963,077   | 2,379,050      | -                        |
|                         | SK Gas Co., Ltd.           | -         | -           | 1,932,753      | 127,233                  |
|                         | SK Plasma Co., Ltd.        | 337,472   | (22,685)    | 6,397          | -                        |
|                         | SK D&D Co., Ltd.           | -         | -           | 14,461         | -                        |
|                         | SK Inc.                    | -         | -           | 4,431,456      | 371,927                  |
|                         | SK Innovation Co., Ltd.    | -         | -           | 376,841        | -                        |
|                         | SK Telecom Co., Ltd.       | -         | -           | 1,309,755      | -                        |
|                         | SK Networks Co., Ltd.      | -         | -           | 978            | -                        |
|                         | SK Magic Co., Ltd.         | -         | -           | 21,900         | -                        |
|                         | Happynarae Co., Ltd.       | -         | 617,381     | 2,200,475      | 101,348                  |
| Other related parties   | SK Broadband Co., Ltd.     | -         | -           | 3,673          | -                        |
|                         | SK Hynix Co., Ltd.         | 63,356    | -           | -              | -                        |
|                         | SK Hystec Co., Ltd.        | 179,355   | -           | -              | -                        |
|                         | SK PINX Co., Ltd.          | -         | -           | 62,486         | -                        |
|                         | SK Ecoplant Co., Ltd. (*1) | -         | -           | 45,071         | 8,146,356                |
|                         | SK MN service Co., Ltd.    | -         | -           | 25,134         | -                        |
|                         | SK Energy Co., Ltd.        | -         | -           | 71,895         | -                        |
|                         | SK Shieldus Co., Ltd. (*2) | -         | -           | 1,221,398      | 1,657,444                |
|                         | SK RENT A CAR Co., Ltd.    | -         | -           | 9,896          | -                        |
|                         | SK FOREST Co., Ltd.        | -         | -           | 4,350          | -                        |
|                         | SK Chemicals America       | -         | -           | 8,171          | -                        |
|                         |                            | ₩ 580,183 | ₩ 2,557,773 | ₩ 15,289,575   | ₩ 10,404,308             |

(\*1) SK E&C Co., Ltd. changed its company name to SK Ecoplant Co., Ltd. for the year ended December 31, 2021.

(\*2) SK Infosec Co., Ltd. merged ADT Caps Co., Ltd. for the year ended December 31, 2021 and changed its company name to SK Shieldus Co., Ltd.

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**19. Related party transactions (cont'd)**

| Related parties       | Entities                   | 2021             |                    |                 |                    |                          |
|-----------------------|----------------------------|------------------|--------------------|-----------------|--------------------|--------------------------|
|                       |                            | Sales            | Purchase           | Other income    | Other expenses     | Purchase of fixed assets |
| Parent company        | SK Chemicals Co., Ltd.     | ₩ -              | ₩ 1,798,316        | ₩ 29,807        | ₩ 1,460,851        | ₩ 1,073,772              |
|                       | SK Discovery Co., Ltd.     | -                | -                  | -               | 270,537            | -                        |
|                       | SK Gas Co., Ltd.           | -                | -                  | -               | 745,004            | -                        |
|                       | SK Plasma Co., Ltd.        | 445,711          | 353,017            | -               | 11,864             | -                        |
|                       | SK D&D Co., Ltd.           | -                | -                  | -               | 4,042              | 113,882                  |
|                       | SK Inc.                    | -                | -                  | -               | 1,205,118          | 363,631                  |
|                       | SK Innovation Co., Ltd.    | -                | -                  | -               | 233,611            | -                        |
|                       | SK Telecom Co., Ltd.       | -                | -                  | -               | 336,661            | -                        |
|                       | SK Energy Co., Ltd.        | -                | -                  | -               | 101,699            | -                        |
|                       | SK Ecoplant Co., Ltd. (*1) | -                | -                  | -               | 20,546             | 9,108,503                |
| Other related parties | SK Networks Co., Ltd.      | -                | -                  | -               | 47,727             | -                        |
|                       | SK Magic Co., Ltd.         | -                | -                  | -               | 15,080             | -                        |
|                       | Happynarae Co., Ltd.       | -                | 324,713            | -               | 2,284,587          | 68,031                   |
|                       | SK MN service Co., Ltd.    | -                | -                  | -               | 13,246             | -                        |
|                       | SK Shieldus Co., Ltd. (*2) | -                | -                  | -               | 403,110            | 163,552                  |
|                       | SK RENT A CAR Co.,Ltd.     | -                | -                  | -               | 10,138             | -                        |
|                       | SK Broadband Co., Ltd.     | -                | -                  | -               | 4,781              | -                        |
|                       | SK Telink Co., Ltd.        | -                | -                  | -               | 326                | -                        |
|                       | SK Hynix Co., Ltd.         | 87,520           | -                  | -               | -                  | -                        |
|                       | SK Hystec Co., Ltd.        | 177,716          | -                  | -               | -                  | -                        |
|                       | SK PINX Co., Ltd.          | -                | -                  | -               | 38,500             | -                        |
|                       | SK FOREST Co., Ltd.        | -                | -                  | -               | 3,450              | -                        |
|                       |                            | <u>₩ 710,947</u> | <u>₩ 2,476,046</u> | <u>₩ 29,807</u> | <u>₩ 7,210,878</u> | <u>₩ 10,891,371</u>      |

(\*1) SK E&C Co., Ltd. changed its company name to SK Ecoplant Co., Ltd. for the year ended December 31, 2021.

(\*2) SK Infosec Co., Ltd. merged ADT Caps Co., Ltd. for the year ended December 31, 2021 and changed its company name to SK Shieldus Co., Ltd.

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**19. Related party transactions (cont'd)**

Account balances with related parties as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

| Related parties         | Entities                  | 2022              |                   |                |                     |
|-------------------------|---------------------------|-------------------|-------------------|----------------|---------------------|
|                         |                           | Receivables       |                   | Payables       |                     |
|                         |                           | Trade receivables | Other receivables | Trade payables | Other payables (*1) |
| Ultimate parent company | SK Discovery Co., Ltd.    | ₩ -               | ₩ -               | ₩ -            | ₩ 138,920           |
| Parent company          | SK Chemicals Co., Ltd.    | -                 | -                 | 381,158        | 12,590,070          |
|                         | SK Gas Co., Ltd.          | -                 | 765,252           | -              | 4,559,257           |
|                         | SK D&D Co., Ltd.          | -                 | -                 | -              | 1,192               |
|                         | SK Telecom Co., Ltd.      | -                 | -                 | -              | 151,028             |
|                         | Happynarae Co., Ltd.      | -                 | -                 | 28,911         | 234,481             |
|                         | SK MN service Co., Ltd.   | -                 | -                 | -              | 12,985              |
|                         | SK Ecoplant Co., Ltd.(*2) | -                 | 32,885            | -              | -                   |
| Other related parties   | SK Innovation Co., Ltd.   | -                 | -                 | -              | 36,872              |
|                         | SK Energy Co., Ltd.       | -                 | -                 | -              | 1,400               |
|                         | SK Shieldus Co., Ltd.(*3) | -                 | -                 | -              | 1,127,622           |
|                         | SK Inc.                   | -                 | -                 | -              | 579,999             |
|                         | SK RENT A CAR Co., Ltd.   | -                 | -                 | -              | 612                 |
|                         | SK Plasma Co., Ltd.       | 26,978            | -                 | -              | -                   |
|                         | SK Chemicals America      | -                 | -                 | -              | 249,275             |
|                         |                           | ₩ 26,978          | ₩ 798,137         | ₩ 410,069      | ₩ 19,683,713        |

(\*1) Other liabilities include lease liabilities.

(\*2) SK E&C Co., Ltd. changed its company name to SK Ecoplant Co., Ltd. for the year ended December 31, 2021.

(\*3) SK Infosec Co., Ltd. merged ADT Caps Co., Ltd. for the year ended December 31, 2021 and changed its company name to SK Shieldus Co., Ltd.

| Related parties       | Entities                  | 2021              |                   |                |                     |
|-----------------------|---------------------------|-------------------|-------------------|----------------|---------------------|
|                       |                           | Receivables       |                   | Payables       |                     |
|                       |                           | Trade receivables | Other receivables | Trade payables | Other payables (*1) |
| Parent company        | SK Chemicals Co., Ltd.    | ₩ -               | ₩ -               | ₩ 304,895      | ₩ 7,059,078         |
|                       | SK Discovery Co., Ltd.    | -                 | -                 | -              | 78,776              |
|                       | SK Gas Co., Ltd.          | -                 | 361,505           | -              | 2,632,712           |
|                       | SK Plasma Co., Ltd.       | -                 | 40,167            | -              | -                   |
|                       | SK D&D Co., Ltd.          | -                 | -                 | -              | 1,067               |
|                       | SK Telecom Co., Ltd.      | -                 | -                 | -              | 2,632               |
|                       | SK Inc.                   | -                 | -                 | -              | 177,164             |
| Other related parties | SK Innovation Co., Ltd.   | -                 | 206               | -              | -                   |
|                       | SK Energy Co., Ltd.       | -                 | -                 | -              | 942                 |
|                       | SK Ecoplant Co., Ltd.(*2) | -                 | 32,885            | -              | 65,994              |
|                       | Happynarae Co., Ltd.      | -                 | -                 | 13,793         | 400,446             |
|                       | SK Hystec Co., Ltd.       | 194,832           | -                 | -              | -                   |
|                       | SK MN service Co., Ltd.   | -                 | -                 | -              | 1,980               |
|                       | SK Shieldus Co., Ltd.(*3) | -                 | -                 | -              | 119,784             |
|                       | SK RENT A CAR Co., Ltd.   | -                 | -                 | -              | 1,016               |
|                       |                           | ₩ 194,832         | ₩ 434,763         | ₩ 318,688      | ₩ 10,541,591        |

(\*1) Other liabilities include lease liabilities.

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**19. Related party transactions (cont'd)**

(\*2) SK E&C Co., Ltd. changed its company name to SK Ecoplant Co., Ltd. for the year ended December 31, 2021.

(\*3) SK Infosec Co., Ltd. merged ADT Caps Co., Ltd. for the year ended December 31, 2021 and changed its company name to SK Shieldus Co., Ltd.

Compensation for key management personnel for the years ended December 31, 2022 and 2021 is as follows (Korean won in thousands):

|                                | 2022 |            | 2021 |           |
|--------------------------------|------|------------|------|-----------|
| Salaries                       | ₩    | 8,557,391  | ₩    | 2,319,590 |
| Provision for pension benefits |      | 2,470,040  |      | 609,835   |
|                                | ₩    | 11,027,431 | ₩    | 2,929,425 |

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

**20. Equity**

Details of equity as of December 31, 2022 and 2021 are as follows:

|                              | Unit                       | 2022           |             | 2021           |             |
|------------------------------|----------------------------|----------------|-------------|----------------|-------------|
|                              |                            | Ordinary share |             | Ordinary share |             |
| Authorized shares            | Shares                     |                | 300,000,000 |                | 300,000,000 |
| Par value                    | Korean won                 | ₩              | 500         | ₩              | 500         |
| Number of shares issued (*1) | Shares                     |                | 76,784,046  |                | 76,500,000  |
| Issued capital               | Korean won<br>In thousands | ₩              | 38,392,023  | ₩              | 38,250,000  |

(\*1) Issued capital increased due to the exercise of stock options (ordinary shares 284,046) for the year ended December 31, 2022.

Details of capital surplus as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022 |               | 2021 |               |
|--|------|---------------|------|---------------|
| Paid-in capital in excess of par value | ₩    | 1,160,008,131 | ₩    | 1,157,063,863 |

Details of other capital adjustments as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|              | 2022 |           | 2021 |         |
|--------------|------|-----------|------|---------|
| Stock option | ₩    | 432,364   | ₩    | 900,710 |
| Other        |      | 9,415,164 |      | -       |
|              | ₩    | 9,847,528 | ₩    | 900,710 |

The details of stock options as of December 31, 2022, are as follows (in Korean won and in shares):

| Grant date | Number of shares authorized | Exercise Period         | Exercise price | Fair value as of grant date |
|------------|-----------------------------|-------------------------|----------------|-----------------------------|
| 2018.12.11 | 262,224                     | 2021.12.12 ~ 2028.12.11 | ₩ 9,154        | ₩ 1,649                     |

(\*1) As a result of increase of capital stock without consideration and stock split, the 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 as of grant date was adjusted to KRW 1,649 from KRW 49,465.

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**20. Equity (cont'd)**

Fair value of stock options was calculated according to the binomial option pricing model. The variables applied to the model are as follows (in Korean won):

|                         | Grant date: 2018.12.11 |        |
|-------------------------|------------------------|--------|
| Grant date stock price  | ₩                      | 9,154  |
| Exercise price          |                        | 9,154  |
| Expected variability    |                        | 11.90% |
| Risk-free interest rate |                        | 1.94%  |

(\*1) As a result of increase of capital stock without consideration and stock split, the grant date stock price and exercise price 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, 2022 and 2021 are as follows (Korean won in thousands):

| 2022       |                             |                |                   |             |                |
|------------|-----------------------------|----------------|-------------------|-------------|----------------|
| Grant date | Number of shares authorized |                | Fair value        |             |                |
|            | Granted                     | Ending balance | Beginning balance | Decrease    | Ending balance |
| 2018.12.11 | 546,270                     | 262,224        | ₩ 900,710         | ₩ (468,346) | ₩ 432,364      |

  

| 2021       |                             |                |                   |          |                |
|------------|-----------------------------|----------------|-------------------|----------|----------------|
| Grant date | Number of shares authorized |                | Fair value        |          |                |
|            | Granted                     | Ending balance | Beginning balance | Increase | Ending balance |
| 2018.12.11 | 546,270                     | 546,270        | ₩ 900,710         | ₩ -      | ₩ 900,710      |

Details of accumulated other comprehensive income (loss) as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022 |           | 2021 |           |
|--|------|-----------|------|-----------|
| Net gain (loss) on valuation of derivatives          | ₩    | 265,468   | ₩    | (207,788) |
| Net gain (loss) on translation of foreign operations |      | (188,670) |      | -         |
|  | ₩    | 76,798    | ₩    | (207,788) |

Details of retained earnings as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                  | 2022 |             | 2021 |             |
|----------------------------------|------|-------------|------|-------------|
| Unappropriated retained earnings | ₩    | 533,377,516 | ₩    | 405,305,164 |

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**21. Operating segment information**

**Revenue from contracts with customers**

**Disaggregated revenue information**

Set out below is the disaggregation of the Group's revenue from contracts with customers for the years ended December 31, 2022 and 2021 (Korean won in thousands):

|   | 2022                 |          | 2021               |
|---|----------------------|----------|--------------------|
| Type of goods or services:                  |                      |          |                    |
| Sales of finished goods                     | ₩ 204,623,450        | ₩        | 638,887,242        |
| Sales of merchandise                        | 11,897,340           |          | 26,092,976         |
| Sales from provision of services and others | 240,205,081          |          | 264,020,712        |
| Total revenue from contracts with customers | <u>₩ 456,725,871</u> | <u>₩</u> | <u>929,000,930</u> |
| Geographical markets:                       |                      |          |                    |
| Domestic                                    | ₩ 224,157,241        | ₩        | 695,859,019        |
| America                                     | 217,834,131          |          | 48,408,430         |
| Europe                                      | 13,778,125           |          | 184,500,213        |
| Middle East                                 | 305,040              |          | -                  |
| Asia  | 651,334              |          | 233,268            |
| Total revenue from contracts with customers | <u>₩ 456,725,871</u> | <u>₩</u> | <u>929,000,930</u> |
| Timing of revenue recognition               |                      |          |                    |
| At a point of time                          | ₩ 222,799,980        | ₩        | 671,278,768        |
| Over a period of time                       | 233,925,891          |          | 257,722,162        |
| Total revenue from contracts with customers | <u>₩ 456,725,871</u> | <u>₩</u> | <u>929,000,930</u> |

**Contract balances**

Details of the Group's contract balances as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                      | 2022         |   | 2021       |
|----------------------|--------------|---|------------|
| Inventories (*1)     | ₩ 37,092,497 | ₩ | 36,960,182 |
| Contract liabilities | 155,675,821  |   | 98,789,265 |

(\*1) Costs to fulfil a contract, which are contract assets of the Group, are recognized as inventories. Contract costs included in inventories contain costs of technology transfer and production activities related with finished goods ordered by customers. These activities are recognized as contract assets rather than performance obligation as these are not activities that must be preceded to produce the product ordered by the customer or that are associated with the transfer of goods or services to the customer.

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**21. Operating segment information (cont'd)**

Details of changes in contract assets and liabilities for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                     | 2022                   |             |                         |           |
|---------------------|------------------------|-------------|-------------------------|-----------|
|                     | Contract liabilities   |             |                         |           |
|                     | Unearned revenues (*1) |             | Refund liabilities (*2) |           |
| Beginning balance   | ₩                      | 96,939,155  | ₩                       | 1,850,110 |
| Increase (decrease) |                        | 49,283,314  |                         | 7,603,242 |
| Ending balance      | ₩                      | 146,222,469 | ₩                       | 9,453,352 |
| Current portion     | ₩                      | 146,222,469 | ₩                       | 9,453,352 |
| Non-current portion |                        | -           |                         | -         |

(\*1) The Group recognizes advanced consideration received from the customers as contract liabilities in relation to technology transfer and engineering batch production of CMO/CDMO and license.

(\*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.

|                     | 2021                |                         |                        |                         |
|---------------------|---------------------|-------------------------|------------------------|-------------------------|
|                     | Contract assets     |                         | Contract liabilities   |                         |
|                     | Contract costs (*1) | Due from customers (*2) | Unearned revenues (*3) | Refund liabilities (*4) |
| Beginning balance   | ₩ 324,164           | ₩ 655,751               | ₩ 89,186,984           | ₩ 5,712,140             |
| Increase (decrease) | (324,164)           | (655,751)               | 7,752,171              | (3,862,030)             |
| Ending balance      | ₩ -                 | ₩ -                     | ₩ 96,939,155           | ₩ 1,850,110             |
| Current portion     | ₩ -                 | ₩ -                     | ₩ 96,939,155           | ₩ 1,850,110             |
| 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 prerequisites for production of goods ordered. Accordingly, they are not considered performance obligations but are recognized as contract assets.

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

(\*3) The Group recognizes advanced consideration received from the customers as contract liabilities in relation to technology transfer and engineering batch production of CMO/CDMO and license.

(\*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.

**SK bioscience Co., Ltd. and its subsidiaries**  
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**21. Operating segment information (cont'd)**

For management purposes, the Group is organized into business units based on its products and services and has one reportable segment. Therefore, the Group has not disclosed details of the operating income (loss), profit before income tax and total assets/ liabilities for each operating segment.

There were two customers which accounted for more than 10% of sales for the fiscal year of 2022. The sales to those customers amounted to KRW 209,944,964 thousand and 182,828,063 thousand, respectively for the year ended December 31, 2022. There were two customers which accounted for more than 10% of sales for the fiscal year of 2021. The sales to those customers amounted to KRW 637,935,767 thousand and 166,849,814 thousand, respectively for the year ended December 31, 2021.

**22. Operating expenses**

Details of cost of sales and selling and administrative expenses by nature for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                       | 2022                 |   | 2021               |
|---------------------------------------|----------------------|---|--------------------|
| Changes in inventories                | ₩ 1,304,067          | ₩ | (35,765,918)       |
| Raw materials used                    | 68,615,300           |   | 85,836,408         |
| Cost of merchandise sold              | 11,954,612           |   | 24,733,667         |
| Depreciation and amortization (*1)    | 27,236,409           |   | 18,775,304         |
| Salaries and wages                    | 104,060,988          |   | 83,851,838         |
| Transport and storage of oil expenses | 1,750,606            |   | 1,900,526          |
| Rental fees and service fees          | 41,527,448           |   | 240,381,419        |
| Marketing fees                        | 1,198,000            |   | 1,928,729          |
| Others                                | 84,064,823           |   | 33,139,101         |
|                                       | <u>₩ 341,712,253</u> | ₩ | <u>454,781,074</u> |

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

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**22. Operating expenses (cont'd)**

Details of selling and administrative expenses for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|   | 2022                 |   | 2021              |
|---|----------------------|---|-------------------|
| Salaries                                    | W 27,605,546         | W | 25,012,991        |
| Provision for pension benefits              | 2,599,276            |   | 1,876,377         |
| Employee welfare benefits                   | 4,137,025            |   | 3,337,752         |
| Travel                                      | 998,329              |   | 1,162,387         |
| Communication                               | 118,879              |   | 141,975           |
| Taxes and dues                              | 664,993              |   | 388,559           |
| Rents                                       | 141,753              |   | 60,772            |
| Depreciation                                | 2,901,760            |   | 1,477,235         |
| Insurance                                   | 426,621              |   | 274,770           |
| Entertainment                               | 597,085              |   | 417,824           |
| Repairs                                     | 46,945               |   | 21,229            |
| Office supplies                             | 216,151              |   | 105,023           |
| Vehicle maintenance                         | 281,214              |   | 228,576           |
| Training                                    | 3,067,102            |   | 1,857,435         |
| Printing                                    | 18,865               |   | 34,960            |
| Rental fees and service fees                | 20,324,041           |   | 9,361,613         |
| Research                                    | 57,959,645           |   | 47,250,075        |
| Advertising and marketing                   | 1,190,009            |   | 1,908,501         |
| Sales commission                            | 182,561              |   | 281,384           |
| Samples                                     | 1,784                |   | 20,228            |
| Reversal of allowance for doubtful accounts | (21,083)             |   | (9,396)           |
| Conference                                  | 175,616              |   | 172,990           |
| Amortization                                | 963,125              |   | 680,011           |
| Transportation and storage                  | 82                   |   | -                 |
|   | <u>W 124,597,324</u> | W | <u>96,063,271</u> |

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**23. Other income and expenses**

Details of other income and expenses for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|   | 2022               | 2021               |
|---|--------------------|--------------------|
| Other income:                                     |                    |                    |
| Gain on disposal of property, plant and equipment | ₩ 17,319           | ₩ 22,101           |
| Gain on disposal of right-of-use assets           | 2,452              | 5,523              |
| Miscellaneous income                              | 1,681,732          | 5,131,186          |
|   | <u>₩ 1,701,503</u> | <u>₩ 5,158,810</u> |
| Other expenses:                                   |                    |                    |
| Loss on disposal of property, plant and equipment | ₩ 442,880          | ₩ 3,870            |
| Loss on disposal of right-of-use assets           | -                  | 134                |
| Loss on disposal of intangible assets             | 11,494             | -                  |
| Donations   | 5,162,259          | 2,506,837          |
| Miscellaneous expenses                            | 531,060            | 338,160            |
|   | <u>₩ 6,147,693</u> | <u>₩ 2,849,001</u> |

Details of finance income and costs for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022                 | 2021                |
|--|----------------------|---------------------|
| Finance income:  |                      |                     |
| Interest income  | ₩ 4,854,444          | ₩ 1,516,518         |
| Gain on foreign currency transactions                                      | 34,103,285           | 7,321,596           |
| Gain on foreign currency translations                                      | 2,984,578            | 342,504             |
| Gain on valuation of derivatives   | 7,373,334            | 3,376,437           |
| Gain on derivatives transactions   | 21,696,854           | 4,729,748           |
| Gain on sale of financial assets at fair value through profit or loss      | 45,596,699           | 8,954,220           |
|  | <u>₩ 116,609,194</u> | <u>₩ 26,241,023</u> |
| Finance costs:   |                      |                     |
| Interest expenses  | ₩ 1,430,625          | ₩ 3,080,386         |
| Interest expenses relating to leases                                       | 1,030,315            | 346,541             |
| Loss on foreign currency transactions                                      | 12,817,690           | 5,067,610           |
| Loss on foreign currency translations                                      | 7,763,918            | 4,258,739           |
| Loss on valuation of derivatives   | 67,153               | 894,890             |
| Loss on derivatives transactions   | 53,611,906           | 9,932,259           |
| Loss on valuation of financial assets at fair value through profit or loss | 6,203,083            | 8,062,082           |
| Loss on sale of financial assets at fair value through profit or loss      | 2,518,749            | -                   |
|  | <u>₩ 85,443,439</u>  | <u>₩ 31,642,507</u> |

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**24. Income tax**

The major components of income tax expense for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|   | 2022                | 2021                 |
|---|---------------------|----------------------|
| Current income tax  | ₩ 23,636,385        | ₩ 105,207,977        |
| Adjustments of prior period income tax recognized in current period | (696,566)           | 931                  |
| Changes in deferred taxes arising from temporary differences        | (11,128,281)        | 10,201,047           |
| Income tax reflected directly to equity                             | 7,469,695           | 578,949              |
| Income tax expense  | <u>₩ 19,281,233</u> | <u>₩ 115,988,904</u> |

Details of income tax reflected directly to equity for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022               | 2021             |
|--|--------------------|------------------|
| Deferred tax:                                |                    |                  |
| Re-measurement on defined benefit obligation | ₩ (1,794,377)      | ₩ 980,248        |
| Loss on valuation of derivatives             | (151,092)          | (401,299)        |
| Current tax:                                 |                    |                  |
| Stock option                                 | 9,415,164          | -                |
|  | <u>₩ 7,469,695</u> | <u>₩ 578,949</u> |

A reconciliation of income tax expense applicable to profit before income taxes at the statutory tax rate to income tax expense at the effective tax rate during the years ended December 31, 2022 and 2021 is as follows (Korean won in thousands):

|  | 2022                | 2021                 |
|--|---------------------|----------------------|
| Profit before income tax   | ₩ 141,733,182       | ₩ 471,128,181        |
| Tax at the statutory income tax rate                             | 33,837,430          | 119,198,250          |
| Adjustments:   |                     |                      |
| Non-deductible expenses for tax purposes                         | 335,443             | 187,833              |
| Non-taxable income   | (171,337)           | (928)                |
| Tax credit   | (11,865,199)        | (8,613,707)          |
| Impact on deferred income tax due to changes in tax rate         | 706,491             | -                    |
| Effects of the tax refund  | (1,410,659)         | 3,458,416            |
| Adjustments in respect of current income tax of previous years   | (2,392,299)         | 1,635,288            |
| Others   | 241,363             | 123,752              |
| Income tax expense   | <u>₩ 19,281,233</u> | <u>₩ 115,988,904</u> |
| Effective tax rate (Income tax expense/Profit before income tax) | 13.60%              | 24.62%               |

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**24. Income tax (cont'd)**

Changes in deferred tax assets (liabilities) for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                    | 2022              |                              |                               |                        |                |
|------------------------------------|-------------------|------------------------------|-------------------------------|------------------------|----------------|
|                                    | Beginning balance | Recognized in profit or loss | Recognized directly in equity | Change in the tax rate | Ending balance |
| Defined benefit obligation         | ₩ 4,808,164       | ₩ 1,885,824                  | ₩ (1,794,377)                 | ₩ (202,463)            | ₩ 4,697,148    |
| Plan assets                        | (4,838,408)       | (2,345,121)                  | -                             | 296,840                | (6,886,689)    |
| Securities                         | 1,951,024         | (449,878)                    | -                             | (62,031)               | 1,439,115      |
| Accrued revenues                   | (247,177)         | (109,506)                    | -                             | 14,739                 | (341,944)      |
| Refund liabilities                 | 447,727           | 1,839,985                    | -                             | (94,534)               | 2,193,178      |
| Contract liabilities               | (691,129)         | 778,975                      | -                             | (3,630)                | 84,216         |
| Valuation allowance on inventories | 1,682,575         | 10,616,526                   | -                             | (508,227)              | 11,790,874     |
| Accrued expenses                   | 5,499,499         | 960,571                      | -                             | (266,945)              | 6,193,125      |
| Derivative liabilities             | (396,849)         | (593,868)                    | (151,092)                     | 47,182                 | (1,094,627)    |
| Property, plant and equipment      | (12,705,245)      | 1,372,139                    | -                             | 468,310                | (10,864,796)   |
| Intangible assets                  | 11,070,614        | (3,124,599)                  | -                             | (328,348)              | 7,617,667      |
| Provisions                         | -                 | 1,231,695                    | -                             | (50,896)               | 1,180,799      |
| Long-term employee benefits        | 81,128            | 8,494                        | -                             | (3,703)                | 85,919         |
| Stock options                      | 217,972           | (113,339)                    | -                             | (4,324)                | 100,309        |
| Right-of-use assets                | (2,490,441)       | (4,434,166)                  | -                             | 286,141                | (6,638,466)    |
| Lease liabilities                  | 2,568,598         | 4,560,777                    | -                             | (294,602)              | 6,834,773      |
| Tax credit carried forward, etc.   | 3,283,519         | 1,695,732                    | -                             | -                      | 4,979,251      |
| Net deferred tax assets            | ₩ 10,241,571      | ₩ 13,780,241                 | ₩ (1,945,469)                 | ₩ (706,491)            | ₩ 21,369,852   |

|                                    | 2021              |                              |                               |                |
|------------------------------------|-------------------|------------------------------|-------------------------------|----------------|
|                                    | Beginning balance | Recognized in profit or loss | Recognized directly in equity | Ending balance |
| Loans                              | ₩ 34,927          | ₩ (34,927)                   | ₩ -                           | ₩ -            |
| Defined benefit obligation         | 6,020,354         | (2,192,438)                  | 980,248                       | 4,808,164      |
| Plan assets                        | (5,887,420)       | 1,049,012                    | -                             | (4,838,408)    |
| Securities                         | (35,906)          | 1,986,930                    | -                             | 1,951,024      |
| Accrued revenues                   | (29)              | (247,148)                    | -                             | (247,177)      |
| Refund liabilities                 | 1,382,338         | (934,611)                    | -                             | 447,727        |
| Contract liabilities               | (1,838,088)       | 1,146,959                    | -                             | (691,129)      |
| Valuation allowance on inventories | 335,493           | 1,347,082                    | -                             | 1,682,575      |
| Accrued expenses                   | 2,614,155         | 2,885,344                    | -                             | 5,499,499      |
| Derivative liabilities             | 875,407           | (870,957)                    | (401,299)                     | (396,849)      |
| Property, plant and equipment      | (13,565,321)      | 860,076                      | -                             | (12,705,245)   |
| Intangible assets                  | 14,192,328        | (3,121,714)                  | -                             | 11,070,614     |
| Long-term employee benefits        | 113,239           | (32,111)                     | -                             | 81,128         |
| Stock options                      | 217,972           | -                            | -                             | 217,972        |
| Right-of-use assets                | (1,915,901)       | (574,540)                    | -                             | (2,490,441)    |
| Lease liabilities                  | 1,965,404         | 603,194                      | -                             | 2,568,598      |
| Tax credit carried forward, etc.   | 15,933,666        | (12,650,147)                 | -                             | 3,283,519      |
| Net deferred tax assets            | ₩ 20,442,618      | ₩ (10,779,996)               | ₩ 578,949                     | ₩ 10,241,571   |

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**24. Income tax (cont'd)**

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 Group reviews these factors on a regular basis. Deferred tax assets are recognized for deductible temporary differences as of December 31, 2022 as it is probable that taxable profit will be available against which the temporary differences can be utilized.

The Group did not have carryforward tax credit not recognized as the deferred tax assets in relation to tax credit and others, as of December 31, 2022.

**25. Earnings per share**

The Group's basic earnings per share for the years ended December 31, 2022 and 2021 are computed as follows (Korean won in thousands, except per share amounts):

|  | 2022          | 2021          |
|--|---------------|---------------|
| Profit for the year                                    | ₩ 122,451,950 | ₩ 355,139,277 |
| Profit attributable to owners of the parent            | 122,451,950   | 355,139,277   |
| Profit attributable to ordinary shares                 | 122,451,950   | 355,139,277   |
| Weighted average number of ordinary shares outstanding | 76,715,796    | 73,314,247    |
| Basic earnings per share (Korean won)                  | 1,596         | 4,844         |

The calculation of weighted-average number of issued shares outstanding for the years ended December 31, 2022 and 2021 are as follows:

|   |                        | 2022           |                  |  |
|---|------------------------|----------------|------------------|--|
|   | Period                 | Number of days | Number of shares | Weighted-average number of ordinary shares outstanding |
| Beginning Issued shares                 | 2022.1.1 ~ 2022.12.31  | 365            | 76,500,000       | 76,500,000   |
| Proceeds from exercise of stock options | 2022.3.11 ~ 2022.12.31 | 296            | 100,000          | 81,096   |
|   | 2022.4.5 ~ 2022.12.31  | 271            | 65,556           | 48,673   |
|   | 2022.4.11 ~ 2022.12.31 | 265            | 118,490          | 86,027   |
|   |                        |                | 76,784,046       | 76,715,796   |
|   |                        | 2021           |                  |  |
|   | Period                 | Number of days | Number of shares | Weighted-average number of ordinary shares outstanding |
| Beginning Issued shares                 | 2021.1.1 ~ 2021.12.31  | 365            | 61,200,000       | 61,200,000   |
| Acquisition of treasury stocks          | 2021.3.18 ~ 2021.12.31 | 289            | 15,300,000       | 12,114,247   |
|   |                        |                | 76,500,000       | 73,314,247   |

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**25. Earnings per share (cont'd)**

Diluted earnings per share are calculated by adjusting the weighted-average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group 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.

|   | 2022        | 2021          |
|---|-------------|---------------|
| Profit attributable to owners of the parent (Korean won in thousands) ₩                                       | 122,451,950 | ₩ 355,139,277 |
| Weighted average number of ordinary shares outstanding  | 76,715,796  | 73,314,247    |
| Potential ordinary shares related to stock options  | 305,697     | 517,855       |
| Weighted average number of ordinary shares outstanding for calculation of diluted earnings per share (shares) | 77,021,493  | 73,832,102    |
| Diluted earnings per share (in Korean won)  | 1,590       | 4,810         |

**26. Cash flows statement**

Adjustments to cash flows generated from the operating activities for the year ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022         | 2021          |
|--|--------------|---------------|
| Income tax expenses ₩  | 19,281,233   | ₩ 115,988,904 |
| Interest expenses  | 2,460,940    | 3,426,927     |
| Interest income  | (4,854,444)  | (1,516,518)   |
| Loss on valuation of financial assets at fair value through profit or loss | 6,203,083    | 8,062,082     |
| Gain on sale of financial assets at fair value through profit or loss      | (45,596,699) | (8,954,220)   |
| Loss on sale of financial assets at fair value through profit or loss      | 2,518,749    | -             |
| Loss on valuation of inventories   | 43,869,943   | 5,566,456     |
| Gain on disposal of property, plant and equipment                          | (17,319)     | (22,101)      |
| Loss on disposal of property, plant and equipment                          | 442,880      | 3,870         |
| Loss on disposal of intangible assets                                      | 11,494       | -             |
| Gain on disposal of right-of-use assets                                    | (2,452)      | (5,523)       |
| Loss on disposal of right-of-use assets                                    | -            | 134           |
| Depreciation of property, plant and equipment                              | 15,974,774   | 13,554,176    |
| Depreciation of right-of-use assets  | 7,546,971    | 1,955,116     |
| Amortization of intangible assets  | 3,714,664    | 3,266,013     |
| Gain on valuation of derivatives   | (7,373,334)  | (3,376,437)   |
| Loss on valuation of derivatives   | 67,153       | 894,890       |
| Reversal of allowance for doubtful accounts                                | (21,083)     | (9,396)       |
| Gain on foreign currency translations                                      | (2,984,578)  | (342,504)     |
| Loss on foreign currency translations                                      | 7,763,918    | 4,258,739     |
| Provision for severance and retirement benefits                            | 9,326,642    | 4,905,023     |
| Loss on foreign currency transactions                                      | -            | 924,000       |
| Transaction settlements of derivatives                                     | -            | 7,029         |
| Provisions   | 5,089,650    | -             |
| Others   | 35,103       | 807,307       |
|  | ₩ 63,457,288 | ₩ 149,393,967 |

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**26. Cash flows statement (cont'd)**

Details of changes in assets and liabilities from the operating activities for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022 |               | 2021 |              |
|--|------|---------------|------|--------------|
| Trade receivables                            | ₩    | (4,769,956)   | ₩    | (7,594,701)  |
| Contract assets                              |      | -             |      | 979,915      |
| Other receivables                            |      | (39,877,460)  |      | 6,216,139    |
| Inventories                                  |      | (96,229,843)  |      | (70,337,103) |
| Other current assets                         |      | (14,113,164)  |      | (7,830,643)  |
| Trade payables                               |      | (52,758,718)  |      | 46,536,207   |
| Other payables                               |      | 7,910,658     |      | 15,942,312   |
| Other current liabilities                    |      | (44,869,819)  |      | 65,265,976   |
| Payment of severance and retirement benefits |      | (13,468)      |      | (67,315)     |
| Contributions to plan assets                 |      | (20,100,000)  |      | (9,000,000)  |
| Changes in contract liabilities              |      | 56,886,557    |      | 3,890,142    |
| Transaction settlements of derivatives       |      | (443,452)     |      | -            |
|  | ₩    | (208,378,665) | ₩    | 44,000,929   |

Significant non-cash transactions for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022 |             | 2021 |            |
|--|------|-------------|------|------------|
| Reclassification of construction-in-process to property, plant and equipment and intangible assets | ₩    | 13,523,382  | ₩    | 5,013,821  |
| Acquisition of lease assets  |      | 25,999,449  |      | 4,474,218  |
| Reclassification of long-term liabilities to current portion                                       |      | 54,913,122  |      | 48,656,652 |
| Reclassification of long-term financial instruments to current portion                             |      | 5,300,000   |      | -          |
| Reclassification of derivatives to current portion   |      | 4,718,222   |      | -          |
| Changes in other payables relating to acquisition property, plant and equipment                    |      | (1,312,503) |      | (855,974)  |

Changes in liabilities arising from financing activities for the years ended December 31, 2022 and 2021 are as follows (Korean won in thousands):

|  | 2022              |                                      |                               |              |                |
|--|-------------------|--------------------------------------|-------------------------------|--------------|----------------|
|  | Beginning balance | Cash flows from financing activities | Foreign exchange translations | Others (*1)  | Ending balance |
| Short-term borrowings                    | ₩ 11,671,373      | ₩ 32,546,113                         | ₩ 1,332,510                   | ₩ -          | ₩ 45,549,996   |
| Current portion of long-term liabilities | 47,977,692        | (48,000,000)                         | -                             | 38,030,767   | 38,008,459     |
| Bonds payable                            | 35,502,635        | -                                    | 2,454,000                     | (37,956,635) | -              |
| Current lease liabilities                | 2,309,258         | (7,031,220)                          | -                             | 16,956,487   | 12,234,525     |
| Non-current lease liabilities            | 8,774,626         | -                                    | -                             | 8,768,586    | 17,543,212     |

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

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**26. Cash flows statement (cont'd)**

|  | 2021              |                                      |                               |              |                |
|--|-------------------|--------------------------------------|-------------------------------|--------------|----------------|
|  | Beginning balance | Cash flows from financing activities | Foreign exchange translations | Others (*1)  | Ending balance |
| Short-term borrowings                    | ₩ -               | ₩ 11,273,631                         | ₩ 397,742                     | ₩ -          | ₩ 11,671,373   |
| Long-term borrowings                     | 21,760,000        | (22,684,000)                         | -                             | 924,000      | -              |
| Current portion of long-term liabilities | 10,994,490        | (11,000,000)                         | -                             | 47,983,202   | 47,977,692     |
| Bonds payable                            | 80,473,018        | -                                    | 2,925,000                     | (47,895,383) | 35,502,635     |
| Current lease liabilities                | 1,613,599         | (1,837,089)                          | -                             | 2,532,748    | 2,309,258      |
| Non-current lease liabilities            | 7,125,959         | -                                    | -                             | 1,648,667    | 8,774,626      |

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

**27. Financial risk management objectives and policies**

The Group's principal financial liabilities besides derivatives include trade and other payables, borrowings and bonds payable. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

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

**27.1 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. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as of December 31, 2022 and 2021.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place as of December 31, 2022.

The analyses exclude the impact of movements in market variables on: the carrying values of pension and other post-retirement obligations; provisions; and the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as of December 31, 2022 and 2021 including the effect of hedge accounting.

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**27. Financial risk management objectives and policies (cont'd)**

**(1) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages the risk of future cash flow fluctuations in financial instruments due to changes in market interest rates by entering into currency swap and interest swap contract. The Group does not believe the fluctuation in market interest rate other than those mentioned above has a material impact on its financial statements.

**(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. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's foreign currency financing. The Group manages its foreign currency risk periodically. In particular, the Group manages its foreign currency risk of foreign bond by entering into currency swap contracts.

Details of monetary assets and liabilities not presented in functional currency as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|     | 2022          |                  | 2021          |                  |
|-----|---------------|------------------|---------------|------------------|
|     | Assets        | Liabilities (*1) | Assets        | Liabilities (*1) |
| USD | ₩ 245,617,211 | ₩ 47,958,584     | ₩ 111,194,030 | ₩ 68,188,479     |
| EUR | -             | 578,666          | 16            | 1                |
| GBP | -             | 130,384          | -             | 2,654            |
|     | ₩ 245,617,211 | ₩ 48,667,634     | ₩ 111,194,046 | ₩ 68,191,134     |

(\*1) Not exposed to foreign currency risk, foreign currency bonds with currency swap are excluded.

The impact of 5% change in foreign exchange rate on the Group's profit before income tax for the years ended December 31, 2022 and 2021 is as follows (Korean won in thousands):

|     | 2022              |                   | 2021              |                   |
|-----|-------------------|-------------------|-------------------|-------------------|
|     | 5% point increase | 5% point decrease | 5% point increase | 5% point decrease |
| USD | ₩ 9,882,931       | ₩ (9,882,931)     | ₩ 2,150,278       | ₩ (2,150,278)     |
| EUR | (28,933)          | 28,933            | 1                 | (1)               |
| GBP | (6,519)           | 6,519             | (133)             | 133               |
|     | ₩ 9,847,479       | ₩ (9,847,479)     | ₩ 2,150,146       | ₩ (2,150,146)     |

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

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#### **27. Financial risk management objectives and policies (cont'd)**

##### **(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 Group holds no quoted equity investments, changes in the price of quoted equity investments will not affect the Group's profit or loss as of December 31, 2022. In addition, the Group is not significantly exposed to the risk of price fluctuations of certain products.

#### **27.2 Credit risk**

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

##### **(1) Trade receivables and other receivables, contract assets**

Customer credit risk is managed by each business unit subject to the Group'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 Group evaluates the impairment of trade receivables and other receivables, contract assets at every reporting date. In addition, 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 Group'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 Group 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.

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**27. Financial risk management objectives and policies (cont'd)**

**27.3 Liquidity risk**

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

The Group maintains a short-term and long-term capital management plans to monitor its risk to a shortage of funds. The Group uses a liquidity planning tool to match the maturity profile for its financial liabilities and assets by considering the maturity of financial instruments and the estimated operating cash flows.

The maturity profile of the Group's financial liabilities based on contractual undiscounted payments as of December 31, 2022 and 2021 is as follows (Korean won in thousands):

|                                | 2022                 |                    |                     |                    |            | Total                |
|--------------------------------|----------------------|--------------------|---------------------|--------------------|------------|----------------------|
|                                | Within 1 year        | 1 to 2 years       | 2 to 5 years        | Over 5 years       |            |                      |
| Trade and other payables       | ₩ 55,705,312         | ₩ -                | ₩ -                 | ₩ -                | ₩ -        | ₩ 55,705,312         |
| Other current liabilities (*1) | 1,960,755            | -                  | -                   | -                  | -          | 1,960,755            |
| Short-term borrowings          | 45,549,996           | -                  | -                   | -                  | -          | 45,549,996           |
| Current lease liabilities      | 12,527,397           | -                  | -                   | -                  | -          | 12,527,397           |
| Bonds payable (*2)             | 39,265,307           | -                  | -                   | -                  | -          | 39,265,307           |
| Non-current lease liabilities  | -                    | 7,704,268          | 10,460,801          | 1,720,993          | -          | 19,886,062           |
|                                | <u>₩ 155,008,767</u> | <u>₩ 7,704,268</u> | <u>₩ 10,460,801</u> | <u>₩ 1,720,993</u> | <u>₩ -</u> | <u>₩ 174,894,829</u> |

(\*1) The amount includes guarantee deposits received.

(\*2) The amount includes interest expenses.

|                                | 2021                 |                     |                    |                    |            | Total                |
|--------------------------------|----------------------|---------------------|--------------------|--------------------|------------|----------------------|
|                                | Within 1 year        | 1 to 2 years        | 2 to 5 years       | Over 5 years       |            |                      |
| Trade and other payables       | ₩ 102,184,957        | ₩ -                 | ₩ -                | ₩ -                | ₩ -        | ₩ 102,184,957        |
| Other current liabilities (*1) | 10,724,892           | -                   | -                  | -                  | -          | 10,724,892           |
| Short-term borrowings          | 11,671,373           | -                   | -                  | -                  | -          | 11,671,373           |
| Current lease liabilities      | 2,348,649            | -                   | -                  | -                  | -          | 2,348,649            |
| Bonds payable (*2)             | 50,160,828           | 36,182,369          | -                  | -                  | -          | 86,343,197           |
| Non-current lease liabilities  | -                    | 2,216,106           | 5,221,168          | 2,447,407          | -          | 9,884,681            |
|                                | <u>₩ 177,090,699</u> | <u>₩ 38,398,475</u> | <u>₩ 5,221,168</u> | <u>₩ 2,447,407</u> | <u>₩ -</u> | <u>₩ 223,157,749</u> |

(\*1) The amount includes guarantee deposits received.

(\*2) The amount includes interest expenses.

**27.4 Capital management**

The primary objective of the Group's capital management is to ensure that the Group continues as a going concern and minimizes the cost of raising capital in order to support its business and maximize the shareholder value.

The Group manages and adjusts its capital structure according to changes in economic conditions. To maintain the sound capital structure, the Group 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, 2022.

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**27. Financial risk management objectives and policies (cont'd)**

Details of the Group's debt-to-equity ratio as of December 31, 2022 and 2021 are as follows (Korean won in thousands):

|                                      | 2022 |               | 2021 |               |
|--------------------------------------|------|---------------|------|---------------|
| Total liabilities                    | ₩    | 400,229,387   | ₩    | 508,810,724   |
| Adjustment: cash and cash equivalent |      | (225,287,448) |      | (98,028,261)  |
| Adjusted liabilities                 | ₩    | 174,941,939   | ₩    | 410,782,463   |
| Total equity                         | ₩    | 1,741,701,996 | ₩    | 1,601,311,948 |
| Debt-to-equity ratio                 |      | 10.04%        |      | 25.65%        |

**28. Fair values**

**28.1 Fair value hierarchy**

The Group 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, 2022 and 2021 is as follow (Korean won in thousands):

|                                  | 2022    |                 |              |                 |
|----------------------------------|---------|-----------------|--------------|-----------------|
|                                  | Level 1 | Level 2         | Level 3 (*1) | Total           |
| Financial assets:                |         |                 |              |                 |
| Short-term financial instruments | ₩ -     | ₩ 1,250,218,125 | ₩ -          | ₩ 1,250,218,125 |
| Derivatives assets               | -       | 9,637,555       | -            | 9,637,555       |
| Long-term financial instruments  | -       | -               | 1,500,082    | 1,500,082       |
|                                  | ₩ -     | ₩ 1,259,855,680 | ₩ 1,500,082  | ₩ 1,261,355,762 |
| Financial liabilities:           |         |                 |              |                 |
| Derivatives liabilities          | ₩ -     | ₩ 67,153        | ₩ -          | ₩ 67,153        |

(\*1) These are non-marketable equity securities, of which the cost is determined to be an appropriate estimate of fair value.

|                                  | 2021    |                 |              |                 |
|----------------------------------|---------|-----------------|--------------|-----------------|
|                                  | Level 1 | Level 2         | Level 3 (*1) | Total           |
| Financial assets:                |         |                 |              |                 |
| Short-term financial instruments | ₩ -     | ₩ 1,547,635,054 | ₩ -          | ₩ 1,547,635,054 |
| Derivatives assets               | -       | 2,091,310       | -            | 2,091,310       |
| Long-term financial instruments  | -       | -               | 499,995      | 499,995         |
|                                  | ₩ -     | ₩ 1,549,726,364 | ₩ 499,995    | ₩ 1,550,226,359 |
| Financial liabilities:           |         |                 |              |                 |
| Derivatives liabilities          | ₩ -     | ₩ 894,890       | ₩ -          | ₩ 894,890       |

(\*1) These are non-marketable equity securities, of which the cost is determined to be an appropriate estimate of fair value.

**SK bioscience Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**as of December 31, 2022 and 2021**

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**28. Fair value (cont'd)**

No significant change between hierarchy levels 1 and 2 occurred during the year ended December 31, 2022.

In determining fair value measurement, the impact of potential matters, including legislation, which may affect the fair value measurement of assets and liabilities in the consolidated financial statements has been considered. These risks are included as key assumptions where they materially impact the measurement of recoverable amount. These assumptions have been included in the cash-flow forecasts in assessing value-in-use amounts. At present, the impact is not material to the Group's financial statements.