

SK bioscience Co., Ltd. and its subsidiaries

Consolidated financial statements
for each of the two years in the period ended December 31, 2024
with the independent auditor's report



Table of contents

Independent auditor's report

Page

Consolidated financial statements

Consolidated statements of financial position 1

Consolidated statements of comprehensive income or loss 2

Consolidated statements of changes in equity 3

Consolidated statements of cash flows 4

Notes to the consolidated financial statements 5



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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 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, 2024 and 2023, and the consolidated statements of comprehensive income or loss, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2024, and the notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for each of the two years in the period ended December 31, 2024 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 Standard 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 matter

A key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Valuation of inventory

As described in Note 7 to the consolidated financial statements, the Group recognizes KRW 81,467 million of valuation allowance for inventory losses.

When it is difficult to recover the cost of inventory, such as when the inventory is physically damaged or fully or partially obsolete, the valuation allowance for inventory losses is recognized to reduce the cost of the inventory to the net realizable value. We have identified this as a key audit matter because the amount of inventory is significant in the Group's consolidated financial statements, and the measurement and determination of the net realizable value of inventory require significant management judgment.

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

- Assess the reasonableness of the accounting policies related to the measurement basis of inventory.

- Evaluate internal controls related to the determination of the amount and the subject of the inventory valuation allowance.
- Assess the existence and obsolescence of inventory by attending due diligence.
- Assess the appropriateness of management's judgment and estimates reflected in the inventory valuation.
- Perform independent recalculation of the inventory valuation allowance.

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.
- 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 Group'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 Group 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 on the audit resulting in this independent auditor's report is Tae-Hwan Kim.



March 17, 2025

This audit report is effective as of March 17, 2025, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report 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 each of the two years in the period ended December 31, 2024

“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, 2024 and 2023

<i>(in Korean won)</i>	<u>Notes</u>	<u>2024</u>	<u>2023</u>
Assets			
Current assets			
Cash and cash equivalents	5	₩ 312,701,506,497	₩ 127,025,638,858
Short-term financial instruments	5,8,29	845,406,651,305	1,147,115,602,719
Trade and other receivables	5,6,20	188,395,819,948	22,342,472,698
Derivative assets	5,29	194,812	219,402,544
Inventories	7,22	211,125,922,530	80,649,373,609
Other current assets	9	19,042,548,726	5,616,993,102
		<u>1,576,672,643,818</u>	<u>1,382,969,483,530</u>
Non-current assets			
Long-term financial instruments	5,8,29	22,357,325,293	42,729,362,596
Deposits	5	1,162,620,358	6,003,004,685
Property, plant and equipment	10	972,923,184,089	296,287,725,019
Right-of-use assets	11	9,684,131,655	19,635,504,100
Intangible assets	12	124,547,642,127	22,458,594,902
Investment properties	13	6,671,989,931	-
Other non-current assets	9	1,911,882,861	4,434,764,034
Net defined benefit assets	17	19,530,087,926	18,701,863,420
Deferred tax assets	25	108,134,528,834	59,218,877,798
		<u>1,266,923,393,074</u>	<u>469,469,696,554</u>
Total assets		<u>₩ 2,843,596,036,892</u>	<u>₩ 1,852,439,180,084</u>
Liabilities			
Current liabilities			
Trade and other payables	5,14,20,28	₩ 106,057,403,616	₩ 45,602,460,947
Derivative liabilities	5,29	1,660,062,261	28,921,897
Current lease liabilities	5,11,20,27,28	6,956,507,890	8,137,402,368
Provisions	18	40,303,428,042	-
Other current liabilities	5,16,28	28,614,217,024	29,656,407,123
Contract liabilities	22	120,003,474,818	52,194,703,557
Current tax liabilities		6,994,323,782	-
		<u>310,589,417,433</u>	<u>135,619,895,892</u>
Non-current liabilities			
Long-term borrowings	5,15,27,28	383,331,233,929	-
Non-current lease liabilities	5,11,20,27,28	2,526,005,392	12,436,126,173
Contract liabilities	22	51,026,373,643	-
Provisions	18	742,520,058	-
Other non-current liabilities	16	968,473,338	527,841,643
Deferred tax liabilities	25	71,959,835,525	-
		<u>510,554,441,885</u>	<u>12,963,967,816</u>
Total liabilities		<u>821,143,859,318</u>	<u>148,583,863,708</u>
Equity			
Equity attributable to owners of the parent:			
Issued capital	1,21	39,173,646,500	38,413,875,000
Capital surplus	21	1,235,376,401,692	1,160,455,938,979
Other equity	21	10,350,889,454	10,350,889,454
Accumulated other comprehensive income (loss)	21	17,907,028,490	(54,785,940,514)
Retained earnings	21	499,757,259,954	549,420,553,457
Total equity attributable to owners of the parent		<u>1,802,565,226,090</u>	<u>1,703,855,316,376</u>
Non-controlling interests	1	219,886,951,484	-
Total equity		<u>2,022,452,177,574</u>	<u>1,703,855,316,376</u>
Total liabilities and equity		<u>₩ 2,843,596,036,892</u>	<u>₩ 1,852,439,180,084</u>

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
December 31, 2024 and 2023

1. Corporate information

1.1 Parent Company

SK bioscience Co., Ltd. (the "Company") was incorporated on July 1, 2018 through a split-off 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, 2024, the Company's issued capital amounts to KRW 39,173,647 thousand.

Details of the Company's major shareholders as of December 31, 2024 are as follows:

	Ordinary shares	
	Number of shares	Equity ownership (%)
SK Chemicals Co., Ltd.	52,059,724	66.45
Employee stock ownership association	341,761	0.44
Klocke Holding GmbH	1,519,543	1.94
Others	24,426,265	31.17
	<u>78,347,293</u>	<u>100.00</u>

The consolidated financial statements of the Group have been approved by the Board of Directors on February 5, 2025 and the final approval is scheduled at the shareholders' meeting on March 26, 2025.

1.2 Consolidated subsidiary

A subsidiary whose accounts are included in the consolidated financial statements as of December 31, 2024 is as follows:

Subsidiary	Ownership interest	Country of domicile	Year-end	Principal business activity
SK bioscience USA, Inc.	100%	USA	December	Development of bio-technology
SK bioscience Germany GmbH(*1)	100%	Germany	December	Holding company
IDT Biologika GmbH(*2)	60.65%	Germany	December	Pharmaceutical manufacturing
IDT Biologika Corporation(*3)	60.65%	USA	December	Pharmaceutical manufacturing
Technik-Energie-Wasser Servicegesellschaft mbH(*2)	60%	Germany	December	Other service

(*1) Newly established by the Company for the year ended December 31, 2024 and included as a subsidiary.

(*2) Included as a subsidiary for the year ended December 31, 2024 due to acquisition, and is a subsidiary of SK bioscience Germany GmbH.

(*3) A subsidiary of IDT Biologika GmbH, and the ownership interest is presented based on the parent company's shareholding ratio."

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

1.2 Consolidated subsidiary (cont'd)

The summarized financial information of the consolidated subsidiary as of and for the year ended December 31, 2024 and 2023 is as follows (Korean won in thousands):

Subsidiary	2024				
	Assets	Liabilities	Equity	Sales	Profit (loss)
SK bioscience USA, Inc.	₩ 7,401,865	₩ 406,215	₩ 6,995,650	₩ -	₩ (1,954,412)
SK bioscience Germany GmbH(*1)	381,453,550	14,961,385	366,492,165	-	(775,286)
IDT Biologika GmbH (*1), (*2)	969,256,731	419,247,767	550,008,964	108,836,904	(1,865,959)
Technik-Energie-Wasser Servicegesellschaft mbH(*2)	91,515,880	19,696,149	71,819,731	17,305,730	11,580,730

(*1) Consolidated financial information including subsidiaries.

(*2) Financial information subsequent to the acquisition of control in October 2024.

Subsidiary	2023					Total comprehensive income (loss)
	Assets	Liabilities	Equity	Sales	Profit (loss)	
SK bioscience USA, Inc.	₩ 4,586,343	₩ 548,174	₩ 4,038,169	₩ -	₩ (2,089,243)	₩ (1,959,036)

1.3 Changes in consolidated subsidiaries

Subsidiaries newly included in consolidation for the year ended December 31, 2024 are as follows:

Subsidiary	Reason
SK bioscience Germany GmbH	Newly incorporated
IDT Biologika GmbH(*1)	Newly acquired
IDT Biologika Corporation(*2)	Newly acquired
Technik-Energie-Wasser Servicegesellschaft mbH(*1)	Newly acquired

(*1) Subsidiaries of SK bioscience Germany GmbH

(*2) A subsidiary of IDT Biologika GmbH

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

1.4 Non-controlling interests

Details of non-controlling interests as of December 31, 2024 are as follows (Korean won in thousands):

	IDT Biologika GmbH		Technik-Energie-Wasser Servicegesellschaft mbH		Total
Non-controlling interest ownership (%)		39.35		40.00	
Total assets	₩	969,256,731	₩	91,515,880	₩ 1,060,772,611
Total liabilities		419,247,767		19,696,149	438,943,916
Net assets		550,008,964		71,819,731	621,828,695
Non-controlling interests		193,839,899		26,047,052	219,886,951

Changes of non-controlling interests' net income and related items for year ended December 31, 2024 are as follows (Korean won in thousands):

	IDT Biologika GmbH		Technik-Energie-Wasser Servicegesellschaft mbH		Total
Non-controlling interest ownership (%)		39.35		40.00	
Total comprehensive income(loss):					
Profit(loss) for the period	₩	(1,865,959)	₩	11,580,730	₩ 9,714,771
Other comprehensive income		19,592,160		2,496,550	22,088,710
Total comprehensive income		17,726,201		14,077,280	31,803,481
Profit (loss) attributable to non-controlling interests		(734,302)		4,498,430	3,764,128
Total comprehensive income attributable to non-controlling interests		6,167,403		5,630,451	11,797,854
Cash flows:					
Cash flows from operating activities	₩	10,803,985	₩	2,296,871	₩ 13,100,856
Cash flows from investing activities		(3,456,497)		14,728,575	11,272,078
Cash flows from financing activities		2,978,200		(4,467,300)	(1,489,100)
Effects of exchange rate changes		6,019,109		690,884	6,709,993
Increase in cash and cash equivalents		16,344,797		13,249,030	29,593,827
Dividends on non-controlling interests		-		4,467,300	4,467,300

2. Basis of preparation and material accounting policies

2.1 Basis of preparation

SK bioscience Co., Ltd. and its subsidiaries (collectively referred to as 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.

SK bioscience Co., Ltd. and its subsidiaries

Notes to the consolidated financial statements

December 31, 2024 and 2023

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2024. 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; and
- 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; and
- the Group's voting rights and potential voting rights.

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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.2 Basis of consolidation (cont'd)

When the Group loses control of a subsidiary, it accounts for the loss of control 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; and
- 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).

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.

SK bioscience Co., Ltd. and its subsidiaries

Notes to the consolidated financial statements

December 31, 2024 and 2023

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, and 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.

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 using input or output method 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 to be 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 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.4 Revenue from contracts with customers (cont'd)

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 identifiability, control, 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, the Group recognizes a refund liability, not revenue. 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.4 Revenue from contracts with customers (cont'd)

(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.

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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.6 Taxes (cont'd)

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; or
- 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:

- 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; or
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when it is not probable that the temporary differences will reverse in the foreseeable future or 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.6 Taxes (cont'd)

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, and 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

December 31, 2024 and 2023

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 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 or termination benefits.

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; and
- 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 and other 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 and other 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 for revenue recognition in the Note 2.4.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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); and
- 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 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
December 31, 2024 and 2023

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. The difference between the transaction price and the fair value is recognized in OCI.

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 may elect 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 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
December 31, 2024 and 2023

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	<u>3</u>

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
December 31, 2024 and 2023

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 consist 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.

The Group classifies financial liabilities that arise from supplier finance arrangement within trade and other payables in the consolidated statement of financial position if they have a similar nature and function to trade payables. This is the case if the supplier finance arrangement is part of the working capital used in the Group's normal operating cycle, the level of security provided is similar to trade payables and the terms of the liabilities that are part of the supplier finance arrangement are not substantially different from the terms of trade payables that are not part of the arrangement. Cash flows related to liabilities arising from supplier finance arrangements that are classified in trade and other payables in the consolidated statement of financial position are included in operating activities in the consolidated statement of cash flows.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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

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 at fair value through profit or loss.

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 profit or loss.

Financial liabilities designated upon initial recognition as 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 at 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 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.

SK bioscience Co., Ltd. and its subsidiaries

Notes to the consolidated financial statements

December 31, 2024 and 2023

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 29.

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.

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; and

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.

SK bioscience Co., Ltd. and its subsidiaries

Notes to the consolidated financial statements

December 31, 2024 and 2023

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:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; and
- 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; and
- 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 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 profit or loss.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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

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 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.

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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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 and 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 property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs 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 to 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 profit or loss when the asset is derecognized.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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 Investment properties

Investment properties are measured initially at cost, including transaction costs, and include replacement costs that meet the asset recognition criteria at the time of occurrence. However, costs incurred from routine maintenance activities are recognized as expenses when incurred. Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment losses.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property, the Group considers the requirements for measuring the transaction price under KIFRS 1115.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.16 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 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.16 Leases (cont'd)

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 is 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 comprehensive income 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.

2.17 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.

SK bioscience Co., Ltd. and its subsidiaries

Notes to the consolidated financial statements

December 31, 2024 and 2023

2.18 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.

2.19 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.

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; and
- the ability to measure reliably the expenditure during development.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.19 Intangible assets (cont'd)

The Group's new development project process is as follows: the discovery of new drug candidate materials, pre-clinical trials, phase 1 clinical trials, phase 2 clinical trials, phase 3 clinical trials, application for government approval, acquisition 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 before phase 3 clinical trials 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.

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 to 10
Development costs	10
Software	5

2.20 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.

SK bioscience Co., Ltd. and its subsidiaries

Notes to the consolidated financial statements

December 31, 2024 and 2023

2.20 Impairment of non-financial assets (cont'd)

Impairment losses of continuing operations, including impairment on inventories, are recognized in 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.

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.

2.21 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.21 Provisions (cont'd)

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).

Restructuring provisions

Restructuring provisions are recognized only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

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.

2.22 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.22 Share-based payments (cont'd)

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.

2.23 Events after the reporting period

If the Group receives information after the reporting period, but prior to the date of authorization for issue, about conditions that existed at the end of the reporting period, it will assess whether the information affects the amounts that it recognizes in its consolidated financial statements. The Group will adjust the amounts recognized in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognized in its consolidated financial statements, but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

2.24 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

2.25 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

2.25 Business combinations and goodwill (cont'd)

The Group determines that a business has been acquired when the group of activities and assets acquired includes input variables and substantive processes which contribute significantly to its ability to create outputs. It is considered substantive if (1) the acquired process (or set of processes) is crucial for the ability to continue to create outputs, and the acquired input variables include an organized labor with skills, knowledge or experience needed to carry out the relevant process (or set of processes), or (2) if the acquired process is deemed to significantly contribute to its ability to continue to produce an output or is considered unique or scarce, or to substitute, if any significant cost or effort is required, or if the ability to continue to produce outputs is delayed.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of KIFRS 1109 *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with KIFRS 1109. Other contingent consideration that is not within the scope of KIFRS 1109 is measured based on the accounting standards as appropriate.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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 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. Renewal periods for leases of plant and machinery with longer non-cancellable periods are not included as part of the lease term as renewal option is 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.

Classification of property lease

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

SK bioscience Co., Ltd. and its subsidiaries

Notes to the consolidated financial statements

December 31, 2024 and 2023

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.

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
December 31, 2024 and 2023

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, 2024, the carrying amount of capitalized development costs was KRW 11,027 million (2023: KRW 8,281 million).

Useful lives and residual values of property, plant and equipment

The Group reviews the estimated residual values and expected useful lives of property, plant and equipment at least annually. In particular, it considers the impact of health, safety and environmental legislation in its assessment of expected useful lives and estimated residual values. Furthermore, the Group considers climate-related matters, including physical and transition risks. Specifically, it determines whether climate-related legislation and regulations might impact either the useful life or residual values, e.g., by banning or restricting the use of the Group's fossil fuel-driven machinery and equipment or imposing additional energy efficiency requirements on its buildings and office properties.

Provision for decommissioning

The Group has recognized a provision for decommissioning obligations associated with office premises under lease. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the office in order to remediate the environmental damage caused and the expected timing of those costs.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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, 2024. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(1) Amendments to KIFRS 1116 - *Lease Liability in a Sale and Leaseback*

The amendments to KIFRS 1116 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments had no impact on the Group's consolidated financial statements.

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

The amendments to 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 terms of a liability that could result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

In addition, an entity is required to disclose when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. The amendments have not had an impact on the classification of the Group's liabilities.

(3) Amendments to KIFRS 1007 and KIFRS 1107 - *Supplier Finance Arrangements*

The amendments to KIFRS 1007 *Statement of Cash Flows* and KIFRS 1107 *Financial Instruments: Disclosures* clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

As a result of implementing the amendments, the Group has provided additional disclosures about its supplier finance arrangement. Please refer to Note 14.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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) Amendments to KIFRS 1021 - *Lack of exchangeability*

The amendments to KIFRS 1021 *The Effects of Changes in Foreign Exchange Rates* specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendments will be effective for annual reporting periods beginning on or after January 1, 2025. Early adoption is permitted, but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(2) Amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures – Classification and Measurement of Financial Instruments*

The amendments to KIFRS 1109 *Financial Instruments* and KIFRS 1107 *Financial Instruments: Disclosures – Classification and Measurement of Financial Instruments* include the following:

- clarifying that a financial liability is derecognized on the settlement date and introducing an accounting policy choice to derecognize financial liabilities that are settled by using electronic payment system before the settlement date (if specific criteria are met);
- providing additional guidance as to how to assess contractual cash flows of financial assets that include environmental, social and governance (ESG)-linked features and similar features;
- clarifying what constitutes non-recourse features and the characteristics of contractually linked financial instruments; and
- introducing new disclosures for financial instruments with contingent features and adding a disclosure requirement for equity instruments measured at fair value through other comprehensive income.

The amendments will be effective for annual periods beginning on or after January 1, 2026. Earlier adoption is permitted, but only for the amendments for the classification of financial assets and related disclosures. The Group does not plan to early apply the amendments.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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

(3) Annual Improvements to KIFRS - Volume 11

Annual Improvements to KIFRS - Volume 11 have been announced for the purpose of improving consistency of requirements set out in each standard, enhancing clarity, and providing better understanding of the amendments.

- Amendments to KIFRS 1101 *First-time adoption of KIFRS: Hedge accounting by a first-time adopter*
- Amendments to KIFRS 1107 *Financial Instruments: Disclosures: Gain or loss on derecognition, Guidance for application of amendments in practice*
- Amendments to KIFRS 1109 *Financial Instruments: Accounting for derecognition of lease liabilities and definition of transaction prices*
- Amendments to KIFRS 1110 *Consolidated Financial Statements: Determination of a 'de facto agent'*
- Amendments to KIFRS 1007 *Statement of Cash Flows: Cost Method*

The amendments will be effective for annual periods beginning on or after January 1, 2026. Earlier adoption is permitted, but will need to be disclosed. The amendments are not expected to have a material impact on the consolidated financial statements.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

5. Financial instruments (cont'd)

Financial liabilities

Details of financial liabilities by category as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		Total
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	
Current liabilities:			
Trade and other payables	₩ -	₩ 106,057,404	₩ 106,057,404
Derivative financial liabilities	1,660,062	-	1,660,062
Current lease liabilities (*1)	-	6,956,508	6,956,508
Other current liabilities (*2)	-	2,767,401	2,767,401
	<u>1,660,062</u>	<u>115,781,313</u>	<u>117,441,375</u>
Non-current liabilities:			
Long-term borrowings	-	383,331,234	383,331,234
Non-current lease liabilities (*1)	-	2,526,005	2,526,005
	<u>-</u>	<u>385,857,239</u>	<u>385,857,239</u>
	<u>₩ 1,660,062</u>	<u>₩ 501,638,552</u>	<u>₩ 503,298,614</u>

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

(*2) Consist of guarantee deposits received

	2023		Total
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	
Current liabilities:			
Trade and other payables	₩ -	₩ 45,602,461	₩ 45,602,461
Derivative financial liabilities	28,922	-	28,922
Current lease liabilities (*1)	-	8,137,402	8,137,402
Other current liabilities (*2)	-	2,367,946	2,367,946
	<u>28,922</u>	<u>56,107,809</u>	<u>56,136,731</u>
Non-current liabilities:			
Non-current lease liabilities (*1)	-	12,436,126	12,436,126
	<u>-</u>	<u>12,436,126</u>	<u>12,436,126</u>
	<u>₩ 28,922</u>	<u>₩ 68,543,935</u>	<u>₩ 68,572,857</u>

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

(*2) Consist of guarantee deposits received

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

5. Financial instruments (cont'd)

Gains or losses on the financial instruments

Details of net gains or losses on financial instrument by category for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024					Total
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets measured at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	
Profit for the year:						
Interest income (expenses)	₩ -	₩ -	₩ 6,978,080	₩ -	₩ (3,684,910)	₩ 3,293,170
Gain(loss) on foreign currency translation	-	-	5,193,662	-	(3,015,572)	2,178,090
Gain on foreign currency transactions	-	-	557,556	-	401,564	959,120
Gain(loss) on valuation of derivatives	195	-	-	(1,660,062)	-	(1,659,867)
Gain(loss) on transactions of derivatives	(7,300,962)	-	-	2,201,730	-	(5,099,232)
Reversal of allowance for doubtful accounts	-	-	81,700	-	-	81,700
Gain on valuation of financial assets at fair value through profit or loss	9,487,627	-	-	-	-	9,487,627
Gain on disposal of financial assets at fair value through profit or loss	14,674,528	-	-	-	-	14,674,528
	<u>16,861,388</u>	<u>-</u>	<u>12,810,998</u>	<u>541,668</u>	<u>(6,298,918)</u>	<u>23,915,136</u>
Other comprehensive income(loss)(*1)						
Net gain on valuation of financial assets at fair value through other comprehensive income	-	61,379,515	-	-	-	61,379,515
	<u>₩ 16,861,388</u>	<u>₩ 61,379,515</u>	<u>₩ 12,810,998</u>	<u>₩ 541,668</u>	<u>₩ (6,298,918)</u>	<u>₩ 85,294,651</u>

(*1) Net of income tax effect

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

5. Financial instruments (cont'd)

	2023					
	Financial assets and liabilities at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives designated as hedging instruments	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the year:						
Interest income (expenses)	₩ -	₩ -	₩ -	₩ 13,555,354	₩ (1,398,139)	₩ 12,157,215
Gain on foreign currency translation	-	-	-	4,690,214	6,874	4,697,088
Gain(loss) on foreign currency transactions	-	-	-	9,892,518	(1,264,683)	8,627,835
Gain on valuation of derivatives	190,481	-	1,124,659	-	-	190,481
Loss on transactions of derivatives	(21,263,669)	-	-	-	-	(20,139,010)
Reversal of allowance for doubtful accounts	-	-	-	29,334	-	29,334
Gain on valuation of financial assets at fair value through profit or loss	5,544,554	-	-	-	-	5,544,554
Gain on disposal of financial assets at fair value through profit or loss	8,232,374	-	-	-	-	8,232,374
	<u>₩ (7,296,260)</u>	<u>-</u>	<u>₩ 1,124,659</u>	<u>₩ 28,167,420</u>	<u>₩ (2,655,948)</u>	<u>₩ 19,339,871</u>
Other comprehensive income(loss)(*1)						
Net loss on valuation of derivatives	-	-	(265,468)	-	-	(265,468)
Net loss on valuation of financial assets at fair value through other comprehensive income	-	(54,727,477)	-	-	-	(54,727,477)
	<u>₩ (7,296,260)</u>	<u>₩ (54,727,477)</u>	<u>₩ 859,191</u>	<u>₩ 28,167,420</u>	<u>₩ (2,655,948)</u>	<u>₩ (35,653,074)</u>

(*1) Net of income tax effect

Cash and cash equivalents

Details of Cash and cash equivalents as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Cash on hand	₩	1,170	₩	-
Demand deposits		213,219,467		37,082,215
Other cash equivalents		99,480,869		89,943,424
	<u>₩</u>	<u>312,701,506</u>	<u>₩</u>	<u>127,025,639</u>

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

5. Financial instruments (cont'd)

Derivatives

Derivatives as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
	Assets	Liabilities	Assets	Liabilities
Derivative assets(liabilities): not designated as hedging instrument				
Currency forwards	₩ 195	₩ 1,660,062	₩ 219,403	₩ 28,922

Derivative instruments not designated as hedging instruments as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
	Sell	Hana Bank and others Sell	Buy	
Contract with Buy/Sell				
Contract amount	USD 26,014,577 EUR 50,051,675 AUD 661,527	USD 23,805,393 EUR 98,850 AUD 289,141	USD 314,746 EUR 788,309	
Gain(loss) on valuation of derivatives	₩ (1,659,867)	₩ 204,268	₩ (13,788)	

6. Trade and other receivables

Details of trade and other receivables as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024	2023
Trade receivables	₩ 96,916,003	₩ 12,977,293
Less: allowance for doubtful accounts	(2,454,405)	(49,216)
Other receivables	82,501,705	4,107,883
Accrued revenues	11,432,517	5,306,513
	₩ 188,395,820	₩ 22,342,473

Changes in allowance for doubtful accounts of trade and other receivables for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Beginning Balance:	₩ 49,216	₩ 183,925
Reversals	(81,700)	(29,334)
Write offs	(159,535)	(105,375)
Change in scope of consolidation	2,557,509	-
Exchange differences	88,915	-
Ending Balance:	₩ 2,454,405	₩ 49,216

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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, 2024 and 2023 was determined as follows for trade receivables (Korean won in thousands):

	2024							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	-	-	-	-	-	-	-	-
Hospital	-	-	-	-	-	-	100%	0.48%
Export/Others	-	-	-	-	-	100%	35.10%	2.97%
Trade receivables								
Wholesale	₩ 7,840,301	₩ 1,027,841	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 8,868,142
Hospital	826,716	4,820,650	786,541	1,210	-	-	31,157	6,466,274
Export/Others	-	71,854,680	1,441,223	1,217,060	184,059	7,934	6,876,631	81,581,587
Loss allowance provision								
Wholesale	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	-
Hospital	-	-	-	-	-	-	31,157	31,157
Export/Others	-	-	-	-	-	7,934	2,415,314	2,423,248

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

	2023							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	-	-	-	-	-	-	-	-
Hospital	-	-	-	-	-	-	100%	1.51%
Export/Others	-	-	-	-	-	-	-	-
Trade receivables								
Wholesale	₩ 6,639,966	₩ 817,353	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 7,457,319
Hospital	792,566	1,706,579	707,759	-	45	-	49,216	3,256,165
Export/Others	-	2,254,700	9,110	-	-	-	-	2,263,810
Loss allowance provision								
Wholesale	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	-
Hospital	-	-	-	-	-	-	49,216	49,216
Export/Others	-	-	-	-	-	-	-	-

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

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

7. Inventories

Details of inventories as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		
	Acquisition cost	Valuation allowance	Book value
Merchandise	₩ 1,144,818	₩ (27,851)	₩ 1,116,967
Finished goods	57,311,692	(12,789,022)	44,522,670
Semi-finished goods	23,484,567	(8,861,958)	14,622,609
Work-in-progress	63,825,330	(15,551,928)	48,273,402
Raw materials	105,508,184	(30,885,625)	74,622,559
Supplies	40,963,223	(13,350,546)	27,612,677
Goods in transit	131,691	-	131,691
Others	223,348	-	223,348
Total (*1)	₩ 292,592,853	₩ (81,466,930)	₩ 211,125,923

(*1) Including contract fulfillment costs amounting to KRW 8,810,973 thousand (see Note 22).

	2023		
	Acquisition cost	Valuation allowance	Book value
Merchandise	₩ 624,773	₩ (157,196)	₩ 467,577
Finished goods	8,867,926	(806,579)	8,061,347
Semi-finished goods	30,213,440	(20,510,222)	9,703,218
Work-in-progress	19,917,016	(8,048,160)	11,868,856
Raw materials	67,143,315	(48,610,437)	18,532,878
Supplies	54,063,981	(22,048,483)	32,015,498
	₩ 180,830,451	₩ (100,181,077)	₩ 80,649,374

Reversal of loss on valuation of inventories recognized in relation to inventories assets for the year ended December 31, 2024 is KRW 76,641,436 thousand (for the year ended December 31, 2023, loss on valuation of inventories is KRW 49,358,346 thousand).

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

8. Short-term and long-term financial instruments

Short-term financial instruments as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Financial asset measured at amortized cost:				
Deposits (*1)	₩	143,542,406	₩	175,300,000
Commercial paper		90,000,000		100,000,000
		<u>233,542,406</u>		<u>275,300,000</u>
Financial assets at fair value through profit or loss:				
MMW		358,693,072		741,651,075
MMF		-		50,022,028
Structured trust deposit		75,000,000		50,000,000
Private bond trust		106,921,801		30,142,500
Public bond fund		36,389,824		-
Asset-backed commercial paper		19,741,394		-
Derivative-linked securities		15,118,154		-
		<u>611,864,245</u>		<u>871,815,603</u>
	₩	<u>845,406,651</u>	₩	<u>1,147,115,603</u>

(*1) Deposits amounting KRW 1,600,000 thousand is provided as collateral for employee stock ownership association loan (Note 19).

Long-term financial instruments as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	Ownership interest(%)	2024		2023	
Financial assets at fair value through profit or loss:					
Non-marketable equity securities (*1)					
SML Biopharm Co., Ltd. (*2)	3.42	₩	1,000,001	₩	1,000,001
K-Bio Vaccine Fund	3.33		1,510,550		-
Debt securities					
Sunflower Therapeutics PBC (*3)	-		2,940,000		-
			<u>5,450,551</u>		<u>1,000,001</u>
Financial assets at fair value through other comprehensive income:					
Marketable equity securities					
Novavax Inc. (*4)	0.62		11,818,800		40,229,280
Non-marketable equity securities (*1)					
CTCELLS Co., Ltd. (*4)	2.83		177,968		1,000,076
CLIPS Bnc Co., Ltd. (*4,5)	0.54		500,006		500,006
Fina Biosolutions LLC (*4)	12.00		4,410,000		-
			<u>16,906,774</u>		<u>41,729,362</u>
		₩	<u>22,357,325</u>	₩	<u>42,729,363</u>

(*1) The Group measures non-marketable equity securities at acquisition cost in cases where there is no active market, fair value cannot be reliably determined, or the difference between fair value and acquisition cost is not material.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

8. Short-term and long-term financial instrument (cont'd)

(*2) These are redeemable convertible preferred shares.

(*3) For the year ended December 31, 2024, the Group entered into a Simple Agreement for Future Equity (SAFE) with Sunflower Therapeutics PBC. Under this agreement, the Group holds the right to receive preferred shares from Sunflower Therapeutics PBC based on the quantity determined upon a subsequent financing round.

(*4) The Group designated the financial instrument as measured at fair value through other comprehensive income at initial recognition, as it is not held for trading purposes.

(*5) These are convertible preferred shares.

Changes in short-term and long-term financial instruments for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

Short-term financial instruments

	2024		2023	
Beginning balance:	₩	1,147,115,603	₩	1,255,518,125
Net increase (decrease) (*1)		(311,196,579)		(113,947,076)
Valuation		9,487,627		5,544,554
Ending balance:	₩	845,406,651	₩	1,147,115,603

(*1) The increase or decrease in the financial asset is presented on a net basis.

Long-term financial instruments

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	
	2024	2023	2024	2023
Beginning balance:	₩ 1,000,001	₩ -	₩ 41,729,362	₩ 1,500,082
Acquisitions (disposals)	4,266,350	1,000,001	(101,133,447)	111,396,350
Valuation (*1)	-	-	76,075,359	(71,167,070)
Exchange differences	184,200	-	235,500	-
Ending balance:	₩ 5,450,551	₩ 1,000,001	₩ 16,906,774	₩ 41,729,362

(*1) Financial assets measured at fair value through other comprehensive income are presented as the amount before tax.

9. Other assets

Details of other assets as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Other current assets:				
Advance payments	₩	2,886,237	₩	2,445,789
Prepaid expenses		5,747,595		1,612,860
Prepaid corporate income tax		8,204,717		1,558,344
Deposit guarantee		2,204,000		-
	₩	19,042,549	₩	5,616,993
Other non-current assets:				
Other investment assets	₩	85,680	₩	85,680
Long-term prepaid expenses		1,826,203		4,349,084
	₩	1,911,883	₩	4,434,764

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

10. Property, plant and equipment

Changes in the book value of property, plant and equipment for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024						
	Beginning balance	Acquisitions	Disposals	Depreciation	Change in scope of consolidation	Others (*1)	Ending balance
Land	₩ 45,279,517	₩ -	₩ (1,805,215)	₩ -	₩ 26,696,444	₩ 1,135,993	₩ 71,306,739
Buildings	123,275,612	237,000	(604,409)	(5,909,344)	234,899,872	8,686,499	360,585,230
Structures	1,039,445	-	-	(2,095,971)	59,037,737	7,320,658	65,301,869
Machinery	55,840,805	5,785,901	(158,621)	(17,593,058)	123,018,379	7,933,090	174,826,496
Vehicles	38,551	-	(11,428)	(17,740)	41,700	44,243	95,326
Others	5,175,389	469,816	(2,071)	(4,911,943)	64,214,214	4,588,509	69,533,914
Construction-in-progress	64,516,689	152,457,417	(57,567)	-	19,494,912	(11,788,305)	224,623,146
Machinery-in-transit	1,121,717	5,528,747	-	-	-	-	6,650,464
	₩ 296,287,725	₩ 164,478,881	₩ (2,639,311)	₩ (30,528,056)	₩ 527,403,258	₩ 17,920,687	₩ 972,923,184

(*1) Including reclassification of construction-in-progress and exchange differences effect.

	2023					
	Beginning balance	Acquisitions	Disposals	Depreciation	Others (*1)	Ending balance
Land	₩ 45,269,581	₩ -	₩ -	₩ -	₩ 9,936	₩ 45,279,517
Buildings	126,780,396	200,480	-	(3,794,096)	88,832	123,275,612
Structures	960,560	105,690	-	(26,805)	-	1,039,445
Machinery	53,135,206	12,316,066	(7,365)	(12,316,591)	2,713,489	55,840,805
Vehicles	5,651	42,617	-	(9,717)	-	38,551
Others	4,852,788	1,638,833	(6)	(1,595,056)	278,830	5,175,389
Construction-in-progress	32,525,083	38,778,541	(66,907)	-	(6,720,028)	64,516,689
Machinery-in-transit	628,373	493,344	-	-	-	1,121,717
	₩ 264,157,638	₩ 53,575,571	₩ (74,278)	₩ (17,742,265)	₩ (3,628,941)	₩ 296,287,725

(*1) Including reclassification of construction-in-progress and exchange differences effect.

Borrowing costs

Capitalized borrowing costs for the year ended December 31, 2024 are KRW 4,771,276 thousand (2023: KRW 423,967 thousand). The capitalized interest rate used to calculate the capitalizable borrowing costs is 5.3% (2023: 3.52%).

Insured assets

As of December 31, 2024, the Group carries comprehensive property insurance for property, plant and equipment, inventories and others for up to KRW 1,675,271,765 thousand (2023: KRW 688,598,111 thousand) (see Note 19).

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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

11. Leases

Changes in the book value of right-of-use assets each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024						
	Beginning balance	Acquisitions	Disposals	Depreciation	Change in scope of consolidation	Others	Ending balance
Buildings	₩ 18,743,974	₩ 5,776,981	₩ (8,711,028)	₩ (9,860,336)	₩ -	₩ 784,523	₩ 6,734,114
Vehicles	749,083	1,112,448	(259,757)	(827,431)	1,964,890	71,045	2,810,278
Machinery	142,447	74,282	-	(76,989)	-	-	139,740
	₩ 19,635,504	₩ 6,963,711	₩ (8,970,785)	₩ (10,764,756)	₩ 1,964,890	₩ 855,568	₩ 9,684,132

	2023						
	Beginning balance	Acquisitions	Disposals	Depreciation	Others	Ending balance	
Buildings	₩ 27,612,096	₩ 2,977,319	₩ (560,240)	₩ (11,280,028)	₩ (5,173)	₩ 18,743,974	
Vehicles	1,001,983	482,997	(163,413)	(572,484)	-	749,083	
Machinery	284,894	-	-	(142,447)	-	142,447	
	₩ 28,898,973	₩ 3,460,316	₩ (723,653)	₩ (11,994,959)	₩ (5,173)	₩ 19,635,504	

Lease liabilities for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024		2023	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Less than 1 year	₩ 7,137,227	₩ 6,956,507	₩ 8,381,661	₩ 8,137,402
2 years or less	2,271,110	2,074,078	4,269,822	3,988,819
5 years or less	655,304	451,928	9,706,475	8,447,307
More than 5 years	-	-	-	-
	₩ 10,063,641	₩ 9,482,513	₩ 22,357,958	₩ 20,573,528

Changes in the book value of lease liabilities for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Beginning balance	₩ 20,573,528	₩ 29,777,737
Increase	6,963,711	3,440,671
Decrease	(9,341,819)	(729,985)
Lease payment	(11,681,899)	(13,137,981)
Change in scope of consolidation	1,964,890	-
Interest expenses	891,289	1,227,760
Exchange differences	112,813	(4,674)
Ending balance	₩ 9,482,513	₩ 20,573,528

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

11. Leases (cont'd)

Expenses recognized in relation to lease contracts for each the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Other operating expenses including supplies expenses		
Short-term lease	₩ 216,171	₩ 174,254
Low-value asset lease	68,154	154,885
Depreciation and impairment		
Depreciation of right of use assets	10,764,756	11,994,959
Net finance cost		
interest expense of lease liabilities	891,289	1,227,760

The Group had a total cash outflow of KRW 11,966 million for leases for the year ended December 31, 2024 (2023 : KRW 13,467 million).

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Group as a lessor

The Group has entered into operating leases on land, buildings, and other properties. These leases have terms of between 1 and 50 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognized by the Group during the current year is KRW 5,178 thousand.

Future minimum rentals receivable under operating leases as of December 31, 2024 is as follows (Korean won in thousands):

	Amount
Less than 1 year	₩ 121,566
2 years or less	70,686
3 years or less	61,597
4 years or less	55,611
5 years or less	55,611
More than 5 years	1,108,227
	1,473,298

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

12. Intangible assets

Changes in the book value of intangible assets for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024							
	Beginning balance	Acquisitions	Disposals	Amortization	Reclassification (*1)	Change in scope of consolidation	Exchange differences	Ending balance
Industrial property rights	₩ 5,493,039	₩ 64,817	₩ (2,668)	₩ (1,177,598)	₩ 242,004	₩ -	₩ -	₩ 4,619,594
Development costs	8,280,894	5,059,786	-	(2,313,498)	-	-	-	11,027,182
Software	7,317,226	2,686,738	-	(4,008,582)	685,034	12,746,036	461,205	19,887,657
Goodwill	-	-	-	-	-	55,351,342	2,084,696	57,436,038
Customer relationships	-	-	-	(432,744)	-	29,588,470	1,054,009	30,209,735
Memberships	1,367,436	-	-	-	-	-	-	1,367,436
	<u>₩ 22,458,595</u>	<u>₩ 7,811,341</u>	<u>₩ (2,668)</u>	<u>₩ (7,932,422)</u>	<u>₩ 927,038</u>	<u>₩ 97,685,848</u>	<u>₩ 3,599,910</u>	<u>₩ 124,547,642</u>

(*1) Including the effects of transfers from construction in progress.

	2023							
	Beginning balance	Acquisitions	Disposals	Amortization	Impairment	Reclassification (*1)	Ending balance	
Industrial property rights	₩ 688,233	₩ 5,220,003	₩ (1)	₩ (548,774)	₩ -	₩ 133,578	₩ 5,493,039	
Development costs	11,882,434	-	-	(2,447,902)	(1,153,638)	-	8,280,894	
Software	4,243,227	1,614,631	(1,044)	(2,030,803)	-	3,491,215	7,317,226	
Memberships	1,367,436	-	-	-	-	-	1,367,436	
	<u>₩ 18,181,330</u>	<u>₩ 6,834,634</u>	<u>₩ (1,045)</u>	<u>₩ (5,027,479)</u>	<u>₩ (1,153,638)</u>	<u>₩ 3,624,793</u>	<u>₩ 22,458,595</u>	

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

Details of development costs as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

		Name	2024			2023			
			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	₩ 1,020,000	₩ -	2 years	
		Vaccine	4,354,658	-	4,354,658	694,172	-	1 years	
		Vaccine	NBP608 Shingles (*3)	10,199,115	-	10,199,115	2,974,742	-	3 years
		Vaccine	NBP608 chickenpox (*4)	3,486,768	-	3,486,768	1,278,482	-	4 years
		Vaccine	GBP510 COVID-19 (*5)	1,344,045	-	1,344,045	-	(1,153,638)	-
Under Development	Vaccine	GBP410 pneumococcus (*6)	5,059,786	5,059,786	5,059,786	-	-	-	
			<u>₩ 24,444,372</u>	<u>₩ 5,100,000</u>	<u>₩ 29,544,372</u>	<u>₩ 11,027,182</u>	<u>₩ (1,153,638)</u>		

(*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. Due to the indications of impairment were identified for the GBP510 development costs, and an impairment loss was recognized for the year end December 31, 2023.

(*6) It is a pneumococcal preventive vaccine currently undergoing Phase 3 clinical trials.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

12. Intangible assets (cont'd)

		2023						
		Capitalized research and development costs (cumulative)			Research and development costs			
		Name	Phase3	Sales approved	Total	Book value	Accumulated impairment loss	Residual amortization period
Development Completed	Genetic recombination	NBP601 (*1)	₩ -	₩ 5,100,000	₩ 5,100,000	₩ 1,530,000	₩ -	3 years
	Vaccine	NBP607 (*2)	4,354,658	-	4,354,658	1,129,082	-	2 years
		NBP608 Shingles (*3)	10,199,115	-	10,199,115	3,994,654	-	4 years
	Vaccine	NBP608 chickenpox (*4)	3,486,768	-	3,486,768	1,627,158	-	5 years
	Vaccine	GBP510 COVID-19 (*5)	1,344,045	-	1,344,045	-	(1,153,638)	-
			₩ 19,384,586	₩ 5,100,000	₩ 24,484,586	₩ 8,280,894	₩ (1,153,638)	

(*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. Due to the indications of impairment were identified for the GBP510 development costs, and an impairment loss was recognized for the year end December 31, 2023.

Changes in the book value of development costs for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

		2024					
		NBP601	NBP607	NBP608		GBP410	Total
				Shingles	Chickenpox		
Beginning balance	₩	1,530,000	₩ 1,129,082	₩ 3,994,654	₩ 1,627,158	₩ -	₩ 8,280,894
Acquisition		-	-	-	-	5,059,786	5,059,786
Amortization		(510,000)	(434,910)	(1,019,912)	(348,676)	-	(2,313,498)
Ending balance	₩	1,020,000	₩ 694,172	₩ 2,974,742	₩ 1,278,482	₩ 5,059,786	₩ 11,027,182

		2023					
		NBP601	NBP607	NBP608		GBP510	Total
				Shingles	Chickenpox		
Beginning balance	₩	2,040,000	₩ 1,563,991	₩ 5,014,565	₩ 1,975,835	₩ 1,288,043	₩ 11,882,434
Acquisition		-	-	-	-	-	-
Amortization		(510,000)	(434,909)	(1,019,911)	(348,677)	(134,405)	(2,447,902)
Impairment		-	-	-	-	(1,153,638)	(1,153,638)
Ending balance	₩	1,530,000	₩ 1,129,082	₩ 3,994,654	₩ 1,627,158	₩ -	₩ 8,280,894

R&D expenses recognized as expenses for each of the years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Selling and administrative expenses	₩ 101,114,609	₩ 117,280,840
Government grants, etc.	(29,761,795)	(31,537,424)
	₩ 71,352,814	₩ 85,743,416

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

12. Intangible assets (cont'd)

Impairment test for intangible assets

The Group performs an annual impairment test for intangible assets with indefinite useful lives and goodwill, and estimates their recoverable amounts for this purpose.

The key assumptions used in calculating the recoverable amounts reflect management's assessment of the future of the relevant industry, based on both external and internal information.

Although it is assessed that reasonably possible changes in key assumptions are not expected to cause the total carrying amount to exceed the total recoverable amount, the impact of such changes may offset this assessment.

Business combination with IDT Biologika GmbH

As of December 31, 2024, goodwill of KRW 57,436,038 thousand has been recognized in connection with the acquisition of shares in IDT Biologika GmbH. However, the initial accounting for the business combination under KIFRS 1103 *Business Combinations* has been determined on a provisional basis as of December 31, 2024, and the business combination has been accounted for using provisional values, as the initial allocation of goodwill has not yet been finalized. The Group will adjust the provisional amounts retrospectively, as necessary, when the initial accounting for the business combination is completed within the measurement period, which does not exceed 12 months from the acquisition date.

13. Investment properties

Changes in investment properties for the year ended December 31, 2024 are as follows (Korean won in thousands):

	Beginning balance		Change in scope of consolidation		Exchange differences		Ending balance	
Land	₩	-	₩	6,433,388	₩	238,602	₩	6,671,990

Rental income from investment properties recognized for the year ended December 31, 2024, amounts to KRW 5,178 thousand. As of December 31, 2024, the carrying amount of the investment properties does not differ significantly from their fair value.

14. Trade and other payables

Trade and other payables as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Trade payables (*1)	₩	17,817,548	₩	3,370,136
Other payables		33,942,022		22,516,815
Accrued expenses		54,297,834		19,715,510
	₩	106,057,404	₩	45,602,461

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

As of December 31, 2024, the Group has trade receivable-secured loan with line of credit of KRW 7,000 million subject to supplier finance arrangement with Hana Bank and others, none of which is executed (see Note 19).

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

15. Borrowings

There were no borrowings as of December 31, 2023. Details of long-term borrowings as of December 31, 2024 consist of the following (Korean won in thousands):

Lender	Classification	Maturity	Annual interest rates (%)	Amount	
Woori Bank	Facility loan	2031.03.28	3M CD + 1.68%	₩	80,000,000
The Korea Development Bank / Nong Hyup Bank	Acquisition financing (*1) Working capital loan	2029.09.27 2029.10.10	3M EURIBOR+1.86 3M EURIBOR+1.86	₩	112,239,984 EUR 74,000,000
					191,091,250 EUR 125,000,000
					<u>₩ 383,331,234</u>

(*1) The Group has provided equity interests in IDT Biologika GmbH and Technik-Energie Wasser Servicegesellschaft mbH that it acquired as collateral.

16. Other liabilities

Other liabilities as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
	Current	Non-current	Current	Non-current
Advances	₩ 22,356,098	₩ -	₩ 24,762,196	₩ -
Withholdings	3,490,718	-	2,526,265	-
Deposits received	2,767,401	-	2,367,946	-
Long-term employee benefits	-	968,473	-	527,842
	<u>₩ 28,614,217</u>	<u>₩ 968,473</u>	<u>₩ 29,656,407</u>	<u>₩ 527,842</u>

17. Employee benefit 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 by an independent actuary firm.

Changes in the carrying amounts of employee benefit assets for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Changes in defined benefit assets:		
Beginning balance	₩ (18,701,863)	₩ (13,955,545)
Retirement benefits paid	(304,524)	(395,095)
Provision during the period	11,401,922	7,139,705
Re-measurement loss (gain)	(4,920,878)	8,159,534
Contributions to defined benefit plans	(7,004,745)	(19,640,000)
Transfer to and from affiliates	-	(10,462)
Ending balance	<u>₩ (19,530,088)</u>	<u>₩ (18,701,863)</u>
Defined benefit liabilities in the statement of financial position:		
Present value of defined benefit obligation	₩ 47,285,362	₩ 41,308,176
Fair value of plan assets	(66,815,450)	(60,010,039)
	<u>₩ (19,530,088)</u>	<u>₩ (18,701,863)</u>

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

17. Employee benefit assets (cont'd)

Expenses incurred for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Current service costs	₩ 11,529,960	₩ 7,861,207
Past service cost	683,623	-
Interest expenses	1,758,922	1,293,108
Expected return on plan assets	(2,570,583)	(2,014,610)
	<u>₩ 11,401,922</u>	<u>₩ 7,139,705</u>

Changes in the present value of the defined benefit obligation for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Beginning balance	₩ 41,308,176	₩ 25,621,328
Current service costs	11,529,960	7,861,207
Past service cost	683,623	-
Interest expenses	1,758,922	1,293,108
Re-measurement loss (gain)	(4,433,679)	8,930,514
Retirement benefits paid	(3,490,169)	(2,855,368)
Transfer to and from affiliates	(71,471)	457,387
Ending balance	<u>₩ 47,285,362</u>	<u>₩ 41,308,176</u>

Changes in the fair value of plan assets for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Beginning balance	₩ 60,010,039	₩ 39,576,873
Expected return on plan assets	2,570,583	2,014,610
Re-measurement gain	487,199	770,980
Contribution	7,004,745	19,640,000
Retirement benefits paid	(3,185,645)	(2,460,273)
Transfer to and from affiliates	(71,471)	467,849
Ending balance	<u>₩ 66,815,450</u>	<u>₩ 60,010,039</u>

As of December 31, 2024, and 2023, plan assets consist entirely of principal and interest-guaranteed financial instruments such as time deposits.

The principal assumptions used in actuarial calculation as of December 31, 2024 and 2023 are as follows:

	2024	2023
Discount rate	3.39%	4.34%
Expected rate of return on plan assets	3.39%	4.34%
Future salary increase	7.20%	7.81%

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

17. Employee benefit assets (cont'd)

Details of re-measurement losses (gains) as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Financial assumptions	₩	(175,346)	₩	9,655,158
Experience adjustments		1,844,591		(724,644)
Demographic assumptions		(6,102,924)		-
Re-measurement loss on plan assets		(487,199)		(770,980)
	₩	(4,920,878)	₩	8,159,534

The following table demonstrates a sensitivity analysis of the effect of changes in the principal assumptions used in actuarial calculation on the present value of defined benefit obligation as of December 31, 2024 and 2023 (Korean won in thousands):

	2024			
	Effect of changes in the discount rate		Effect of changes in the future salaries	
	Increase by 1% point	Decrease by 1% point	Increase by 1% point	Decrease by 1% point
Defined benefit obligation	₩ (3,417,879)	₩ 3,938,282	₩ 3,920,066	₩ (3,466,296)

	2023			
	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	₩ (4,835,579)	₩ 5,870,390	₩ 5,833,470	₩ (4,895,399)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The weighted-average duration of the defined benefit obligation as of December 31, 2024 is 8.01 years (2023 : 13.42 years). The expected maturity analysis of undiscounted pension benefits is as follows (Korean won in thousands):

	2024		2023	
Less than 1 year	₩	5,011,513	₩	1,642,988
Between 1-2 years		5,511,336		2,127,600
Between 2-5 years		24,330,458		16,321,037
Between 5-10 years		34,803,991		19,916,694
Between 10-20 years		85,256,431		132,344,848
Over 20 years		58,574,297		344,376,870
	₩	213,488,026	₩	516,730,037

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

17. Employee benefit assets (cont'd)

Expected contributions to retirement benefit plans for the year ended December 31, 2025 are KRW 9,898,011 thousand.

Expenses recognized in profit or loss in relation to the defined contribution plan during the year ended December 31, 2024 are KRW 39,995 thousand (2023 : KRW 29,450 thousand).

18. Provisions

Provisions as of December 31, 2024 are as follows (Korean won in thousands):

	Current	Non-current
Restructuring provisions (*1)	₩ 29,535,105	₩ -
Provision – Assurance type warranty (*2)	5,939,880	-
Provision – Contribution (*3)	2,194,490	-
Onerous contracts (*4)	2,328,208	-
Provision for decommissioning	-	742,520
Other provisions	305,745	-
	₩ 40,303,428	₩ 742,520

(*1) For the year ended December 31, 2024, the Group announced a restructuring plan that includes the relocation of the principal place of business of IDT Biologika Corporation, giving rise to a constructive obligation. Accordingly, the Group recognized a provision for direct restructuring costs, including compensation to lessors for losses.

(*2) The Group recognized a provision for expected warranty claims related to products sold and services rendered for the year ended December 31, 2024, based on historical experience. The related costs are expected to be incurred in the following period. The provision was estimated using the best available current information.

(*3) As a result of past events such as construction activities and energy use, the Group has a constructive obligation to pay additional contributions or refund government grants. The provision was estimated based on the best available current information related to these obligations.

(*4) As the Company 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

19. Commitments and contingencies

Details of significant litigation related to the Group as of December 31, 2024 are as follows:

Legal claim	Plaintiff	Defendant	Contents	Litigation amount	Remark
Patent infringement claims (*1, *2)	Wyeth LLC, Pfizer Pharmaceuticals Korea Ltd.	The Company	Prohibition of pneumococcus vaccine patent right infringement and damage claims	KRW 100 million	Third trial in progress
Compensation for damages claims (*2)	The Government of the Republic of Korea	The Company 외 26 others	Compensation for damages claims	KRW 10,000	First trial in progress
Lawsuit for annulment of unfair trade practice ruling	The Company	Korea Trade Commission	Annulment of unfair trade practice ruling	KRW 105 million	First trial in progress

(*1) As of December 31, 2024, the second trial was concluded in favor of the Company; however, in January 2025, the plaintiff filed an appeal with the Supreme Court against the appellate court's decision.

(*2) The Company and others are named as defendants in this litigation, and the claimed amount is subject to change during the course of the legal proceedings.

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, 2024 are as follows:

Financial institution	Category	Limit	Amount
Hana Bank	Secured loan of credit sales	KRW 4,000 million	-
	Derivative deposit exemption arrangement	USD 73,000,000	-
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	-
Woori Bank	Corporate working capital loans	KRW 5,000 million	-
	Facility loans	KRW 250,000 million	KRW 80,000 million
Suhyup Bank	Derivative (Revolving credit)	KRW 15,000 million	USD 6,732,750
The Korea Development Bank / Nong Hyup Bank	Acquisition financing (*1)	EUR 74,000,000	EUR 74,000,000
	Corporate working capital loans	EUR 125,000,000	EUR 125,000,000
JP Morgan Chase Bank (*2)	Derivative (Revolving credit)	-	USD 19,281,827
		-	AUD 661,527
		-	EUR 50,000,000

(*1) The Group has provided the equity interests in IDT Biologika GmbH and Technik-Energie Wasser Servicegesellschaft mbH that it acquired as collateral.

(*2) The daily limit for settlement is USD 100,000,000, and the execution amount is the sum of transaction amounts for December 2024.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

19. Commitments and contingencies (cont'd)

Details of insurance commitments as of December 31, 2024 and 2023 are as follows (Korean won in millions):

Category	Financial institution	2024	2023
Comprehensive property insurance	Samsung Fire & Marine Insurance Co., Ltd.	₩ 540,584	₩ 622,059
	Hyundai Marine & Fire Insurance Co., Ltd.	62,847	56,539
	Meritz Fire & Marine Insurance Co., Ltd.	8,000	10,000
	AXA Vers. A.G and others	EUR 656,380,446	
Performance guarantee insurance etc.	Seoul Guarantee Insurance Co., Ltd.	6,938	6,650
Product liability insurance	Hyundai Marine & Fire Insurance Co., Ltd.	14,700	25,788

Details of insurance commitments as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

Financial instruments	Classification	2024	2023
Time deposits	Employee stock ownership association loan security provided	₩ 1,600,000	₩ 5,300,000

Technology transfer agreement and joint development

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 at a point in time when the Group fulfilled the requirements for the right to consideration, and the product is currently under Phase 3 clinical trial progress. On December 20, 2024, the Group entered into an additional agreement with Sanofi to further develop a next-generation pneumococcal vaccine. The total contract value of this new agreement amounts to EUR 350,000,000, including an upfront payment and milestone payments.

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

The Group signed a 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 entered into an amended contract to terminate the existing CMO and CDMO agreements with Novavax, Inc. for the year ended December 31, 2023.

The Group signed an agreement with Novavax, Inc. on February 12, 2021 to be granted exclusive rights to development, manufacture, and sale of the COVID-19 vaccine developed by Novavax, Inc. in South Korea. During the prior period, the Group entered into an amended agreement regarding the existing contract, granting the Group exclusive rights to develop, manufacture, and sell the COVID-19 vaccine (including variant antigens) developed by Novavax, Inc. within the Republic of Korea until February 12, 2029, and non-exclusive rights within Thailand and Vietnam until June 30, 2028.

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 perform various procedures, such as gaining permission for facility construction plan and use, within a certain period of time from the contract date, and if not, the sales contract may be terminated. On February 17, 2023, the Group entered into a construction contract with SK Ecoplant Co., Ltd. in relation to the Incheon Songdo Global R&PD Center.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

20. Related party transactions

Details of the Group's related parties as of December 31, 2024 are as follows:

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

(*1) 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

20. Related party transactions (cont'd)

Significant transactions with related parties for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

Related parties	Entities	2024										
		Sales		Purchase		Other expenses	Other income	Purchase of fixed assets				
Ultimate parent company	SK Discovery Co., Ltd.	₩	-	₩	-	₩	1,395,201	₩	6,947	₩	-	
Parent company	SK Chemicals Co., Ltd.		-		13,457,158		3,149,032		-		-	
	SK Gas Co., Ltd.		-		-		1,365,413		-		-	
	SK Plasma Co., Ltd.		344,912		-		484		966		-	
	SK D&D Co., Ltd.		-		-		12,887		-		-	
	SK Inc.		-		-		3,650,570		-		6,492,487	
	SK Innovation Co., Ltd.		-		-		718,503		-		-	
	SK Telecom Co., Ltd.		-		-		1,183,107		-		-	
	SK ONS Co., Ltd.		-		-		4,030		-		-	
	SK Networks Co., Ltd.		-		-		31,050		-		-	
	SK Biopharmaceuticals Co., Ltd.		-		-		235,211		-		-	
	SK Magic Co., Ltd.		-		-		31,516		-		-	
Other related parties	Happynarae Co., Ltd.		-		212,436		1,564,450		-		137,882	
	SK Broadband Co., Ltd.		-		-		5,951		-		-	
	SK Hynix Co., Ltd.		-		-		25,309		-		-	
	SK Hystec Co., Ltd.		4,800		-		-		-		-	
	SK PINX Co., Ltd.		-		-		66,000		-		-	
	SK Ecoplant Co., Ltd. (*1)		-		-		46,068		-		95,839,393	
	SK MN service Co., Ltd.		-		-		33,675		-		-	
	SK Energy Co., Ltd.		-		-		43,331		-		-	
	SK RENT A CAR Co., Ltd. (*2)		-		-		7,427		-		-	
	SK Ecoengineering Co., Ltd.		-		-		-		-		17,365,547	
	Ackerton Partners Co., Ltd.		-		-		90,333		-		-	
	SK FOREST Co., Ltd.		-		-		8,160		-		-	
	Klocke Verpackungs-Service GmbH		101,744		-		-		23,729		-	
			₩	451,456	₩	13,669,594	₩	13,667,708	₩	31,642	₩	119,835,309

(*1) The Group entered into a construction contract with SK Ecoplant Co., Ltd. in relation to the Incheon Songdo Global R&PD Center, amounting to KRW 250,514 million for the year ended December 31, 2023 (Note 19).

(*2) Presenting the amount of transactions having occurred up to the date when the entity is excluded from the related parties.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

20. Related party transactions (cont'd)

Related parties	Entities	2023				
		Sales	Purchase	Other expenses	Other income	Purchase of fixed assets
Ultimate parent company	SK Discovery Co., Ltd.	₩ -	₩ -	₩ 1,421,634	₩ 23,747	₩ -
Parent company	SK Chemicals Co., Ltd.	-	13,934,783	3,021,111	-	-
	SK Gas Co., Ltd.	-	-	1,876,738	-	-
	SK Plasma Co., Ltd.	356,513	-	2,512	-	-
	SK D&D Co., Ltd.	-	-	12,576	-	-
	SK Inc.	-	-	3,262,263	-	2,584,779
	SK Innovation Co., Ltd.	-	-	872,263	-	-
	SK Telecom Co., Ltd.	-	-	1,318,693	-	-
	SK Networks Co., Ltd.	-	-	30,000	-	-
	SK Magic Co., Ltd.	-	-	27,441	-	-
	Happynarae Co., Ltd.	-	626,551	1,613,344	-	84,675
	SK Broadband Co., Ltd.	-	-	4,728	-	-
Other related parties	SK Hynix Co., Ltd.	75,731	-	9,399	-	-
	SK Hystec Co., Ltd.	172,390	-	-	-	-
	SK PINX Co., Ltd.	-	-	87,177	-	-
	SK Ecoplant Co., Ltd. (*1)	-	-	45,191	-	21,932,013
	SK MN service Co., Ltd.	-	-	12,295	-	-
	SK Energy Co., Ltd.	-	-	51,577	-	-
	SK Shieldus Co., Ltd.	-	-	1,261,853	-	171,308
	SK RENT A CAR Co., Ltd.	-	-	8,870	-	-
	SK Ecoengineering Co., Ltd.	-	-	-	-	184,800
	SK FOREST Co., Ltd.	-	-	7,980	-	-
	SK Chemicals America, Inc.	-	-	24,150	-	-
	SK Shieldus America, Inc.	-	-	-	-	124,878
		<u>₩ 604,634</u>	<u>₩ 14,561,334</u>	<u>₩ 14,971,795</u>	<u>₩ 23,747</u>	<u>₩ 25,082,453</u>

(*1) The Group entered into a construction contract with SK Ecoplant Co., Ltd. in relation to the Incheon Songdo Global R&PD Center, amounting to KRW 250,514 million for the year ended December 31, 2023 (Note 19).

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

20. Related party transactions (cont'd)

Account balances with related parties as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

Related parties	Entities	2024			
		Receivables		Payables	
		Trade receivables	Other receivables	Trade payables	Other payables (*1)
Ultimate parent company	SK Discovery Co., Ltd.	₩ -	₩ 30,195	₩ -	₩ 113,433
Parent company	SK Chemicals Co., Ltd.	-	-	245,499	3,749,398
	SK D&D Co., Ltd.	-	-	-	1,226
	SK Gas Co., Ltd.	-	803,515	-	1,265,474
	SK Telecom Co., Ltd.	-	-	-	924
	Happynarae Co., Ltd.	-	-	21,320	173,590
	SK MN service Co., Ltd.	-	-	-	5,275
	SK Ecoplant Co., Ltd.	-	32,885	-	5,077,681
	SK Innovation Co., Ltd.	-	-	-	4,990
	SK Inc.	-	-	-	626,697
	SK Ecoengineering Co., Ltd.	-	-	-	5,668,266
	SK Plasma Co., Ltd.	32,461	-	-	-
	Klocke Verpackungs-Service GmbH	121,714	-	-	-
		₩ 154,175	₩ 866,595	₩ 266,819	₩ 16,686,954

(*1) Other liabilities include lease liabilities.

Related parties	Entities	2023			
		Receivables		Payables	
		Trade receivables	Other receivables	Trade payables	Other payables (*1)
Ultimate parent company	SK Discovery Co., Ltd.	₩ -	₩ 10,908	₩ -	₩ 127,039
Parent company	SK Chemicals Co., Ltd.	-	-	288,996	11,852,739
	SK Gas Co., Ltd.	-	765,252	-	3,824,144
	SK D&D Co., Ltd.	-	-	-	1,139
	SK Telecom Co., Ltd.	-	-	-	135,511
	Happynarae Co., Ltd.	-	-	9,280	152,358
	SK Hynix Co., Ltd.	-	-	-	1,430
	SK Hystec Co., Ltd.	1,128	-	-	-
Other related parties	SK Ecoplant Co., Ltd.	-	32,885	-	8,855,000
	SK Innovation Co., Ltd.	-	-	-	91,881
	SK Shieldus Co., Ltd.	-	-	-	197,642
	SK Inc.	-	-	-	783,637
	SK RENT A CAR Co., Ltd.	-	-	-	563
	SK Ecoengineering Co., Ltd.	-	-	-	50,820
	SK Plasma Co., Ltd.	30,998	-	-	-
		₩ 32,126	₩ 809,045	₩ 298,276	₩ 26,073,903

(*1) Other liabilities include lease liabilities.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

20. Related party transactions (cont'd)

Compensation for key management personnel for each of the two years in the period ended December 31, 2024 is as follows (Korean won in thousands):

	2024		2023	
Salaries	₩	2,050,863	₩	8,326,032
Provision for retirement benefits		474,551		2,380,431
	₩	2,525,414	₩	10,706,463

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

21. Equity

Details of equity as of December 31, 2024 and 2023 are as follows:

	Unit	2024		2023	
		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		78,347,293		76,827,750
Issued capital	Korean won In thousands	₩	39,173,647	₩	38,413,875

(*1) Issued capital increased due to a paid-in capital increase of 1,519,543 ordinary shares for the year ended December 31, 2024.

Details of capital surplus as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Paid-in capital in excess of par value	₩	1,235,376,402	₩	1,160,455,939

Details of other capital adjustments as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Stock option	₩	360,304	₩	360,304
Other		9,990,585		9,990,585
	₩	10,350,889	₩	10,350,889

The details of stock options as of December 31, 2024, 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
Dec. 11, 2018	218,520	Dec. 12, 2021 – Dec. 11, 2028	₩ 9,154	₩ 1,649

(*1) As a result of increase of capital stock without consideration and stock split during 2020, 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

21. 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 each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

2024					
Grant date	Number of shares authorized		Fair value		
	Granted	Ending balance	Beginning balance	Decrease	Ending balance
Dec. 11, 2018	546,270	218,520	₩ 360,304	₩ -	₩ 360,304

2023					
Grant date	Number of shares authorized		Fair value		
	Granted	Ending balance	Beginning balance	Increase	Ending balance
Dec. 11, 2018	546,270	218,520	₩ 432,364	₩ (72,060)	₩ 360,304

Details of accumulated other comprehensive income (loss) as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Net gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩	6,652,038	₩	(54,727,477)
Net gain (loss) on translation of foreign operations		11,254,990		(58,464)
	₩	17,907,028	₩	(54,785,941)

Details of retained earnings as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Unappropriated retained earnings	₩	499,757,260	₩	549,420,553

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

22. 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 each of the two years in the period ended December 31, 2024 (Korean won in thousands):

	2024		2023
Type of goods or services:			
Sales of finished goods	₩ 96,964,580	₩	108,458,063
Sales of merchandise	53,001,108		22,938,581
Sales from provision of services and others	117,579,361		238,108,912
Total revenue from contracts with customers	<u>₩ 267,545,049</u>	<u>₩</u>	<u>369,505,556</u>
Geographical markets:			
Domestic	₩ 131,494,800	₩	158,217,121
America	24,798,778		185,961,474
Europe	107,123,993		21,201,941
Middle East	576,975		231,614
Asia	3,550,503		3,893,406
Total revenue from contracts with customers	<u>₩ 267,545,049</u>	<u>₩</u>	<u>369,505,556</u>
Timing of revenue recognition			
At a point of time	₩ 155,336,261	₩	242,941,360
Over a period of time	112,208,788		126,564,196
Total revenue from contracts with customers	<u>₩ 267,545,049</u>	<u>₩</u>	<u>369,505,556</u>

Contract balances

Details of the Group's contract balances as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023
Inventories (*1)	₩ 8,810,973	₩	-
Contract liabilities	171,029,849		52,194,703

(*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 (see Note 7).

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

22. Operating segment information (cont'd)

Details of changes in contract assets and liabilities for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024			
	Contract liabilities			
	Unearned revenues (*1)		Refund liabilities (*2)	
Beginning balance	₩	48,869,563	₩	3,325,140
Increase (decrease)		117,952,674		882,472
Ending balance	₩	166,822,237	₩	4,207,612
Current portion	₩	115,795,863	₩	4,207,612
Non-current portion		51,026,374		-

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

(*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.

	2023			
	Contract liabilities			
	Unearned revenues (*1)		Refund liabilities (*2)	
Beginning balance	₩	146,222,469	₩	9,453,352
Increase (decrease)		(97,352,906)		(6,128,212)
Ending balance	₩	48,869,563	₩	3,325,140
Current portion	₩	48,869,563	₩	3,325,140
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.

(*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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

22. Operating segment information (cont'd)

For management purposes, the Group decided to consider the organization as a single reportable segment considering the nature of goods or services that generate operating income. Therefore, the Group has not disclosed information about operating income (loss), profit before income tax and total assets/ liabilities that is disaggregated by segments.

There were three customers each of which accounted for more than 10% of sales for the year ended December 31, 2024. The sales from those customers amount to KRW 35,274,802 thousand, 25,407,249 thousand and 14,908,228 thousand, respectively, for the year ended December 31, 2024. There were two customers each of which accounted for more than 10% of sales for the year ended December 31, 2023. The sales from those customers amount to KRW 180,453,943 thousand and 60,941,618 thousand, respectively, for the year ended December 31, 2023.

23. Operating expenses

Details of cost of sales and selling and administrative expenses by nature for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Changes in inventories	₩ (7,182,489)	₩ 39,713,758
Raw materials used	94,136,330	130,874,847
Cost of merchandise sold	36,578,329	20,950,283
Depreciation and amortization (*1)	49,225,234	34,764,703
Salaries and wages	146,100,119	103,158,977
Transport and storage of oil expenses	3,076,828	2,649,145
Rental fees and service fees	39,955,801	26,753,692
Marketing fees	2,309,484	1,857,115
Others	41,776,711	20,770,801
	<u>₩ 405,976,347</u>	<u>₩ 381,493,321</u>

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

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

23. Operating expenses (cont'd)

Details of selling and administrative expenses for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Salaries	₩ 35,230,104	₩ 28,281,531
Provision for retirement benefits	4,110,882	2,167,560
Employee welfare benefits	5,888,840	4,890,801
Travel	2,198,395	1,901,991
Communication	287,736	162,049
Utilities	7,829	3,072
Taxes and dues	1,273,999	1,417,477
Rents	928,102	153,861
Depreciation	4,689,278	3,901,220
Insurance	247,310	682,045
Entertainment	2,325,585	608,285
Repairs	539,059	75,503
Transportation and storage	17,182	33
Office supplies	420,835	167,243
Vehicle maintenance	357,194	342,946
Training	2,860,666	3,152,546
Printing	20,126	26,966
Rental fees and service fees	29,003,300	16,308,330
Research	71,352,814	85,743,416
Advertising and marketing	2,292,512	1,848,942
Sales commission	890,185	223,968
Promotions	3,903	-
Samples	123	1,625
Reversal of allowance for doubtful accounts	(81,700)	(29,334)
Conference	322,385	260,411
Amortization	4,220,330	1,938,080
	<u>₩ 169,406,974</u>	<u>₩ 154,230,567</u>

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

24. Other income and expenses

Details of other income and expenses for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Other income:		
Gain on disposal of property, plant and equipment	₩ 14,558,536	₩ 535
Gain on disposal of right-of-use assets	371,034	6,379
Gain on bargain purchase	15,410,998	-
Miscellaneous income	1,372,243	5,882,035
	<u>₩ 31,712,811</u>	<u>₩ 5,888,949</u>
Other expenses:		
Loss on disposal of property, plant and equipment	₩ 667,729	₩ 74,278
Loss on disposal of right-of-use assets	-	47
Loss on disposal of intangible assets	2,668	646
Impairment loss on property, plant and equipment	1,409	-
Impairment loss on intangible assets	-	1,153,638
Donations	4,075,853	3,517,329
Miscellaneous expenses	1,474,118	1,138,555
	<u>₩ 6,221,777</u>	<u>₩ 5,884,493</u>

Details of finance income and costs for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Finance income:		
Interest income	₩ 6,978,080	₩ 13,555,354
Gain on foreign currency transactions	3,097,027	19,321,394
Gain on foreign currency translations	7,007,690	7,449,419
Gain on valuation of derivatives	195	219,403
Gain on derivatives transactions	2,201,730	29,829,649
Gain on valuation of financial assets at fair value through profit or loss	9,487,627	5,544,554
Gain on disposal of financial assets at fair value through profit or loss	16,759,687	14,287,435
	<u>₩ 45,532,036</u>	<u>₩ 90,207,208</u>
Finance costs:		
Interest expenses	₩ 2,793,621	₩ 170,379
Interest expenses relating to leases	891,289	1,227,760
Loss on foreign currency transactions	2,137,907	10,693,560
Loss on foreign currency translations	4,829,600	2,752,332
Loss on valuation of derivatives	1,660,062	28,922
Loss on derivatives transactions	7,300,962	49,968,658
Loss on disposal of financial assets at fair value through profit or loss	2,085,160	6,055,061
	<u>₩ 21,698,601</u>	<u>₩ 70,896,672</u>

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

25. Income tax benefit

The major components of income tax benefit for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Current income tax	₩ 6,329,505	₩ 1,867,721
Adjustments of prior period income tax recognized in current period	(667,923)	1,997,533
Changes in deferred taxes arising from temporary differences	(28,843,377)	(37,849,026)
Income tax reflected directly to equity	(15,807,963)	18,993,280
Income tax benefit	<u>₩ (38,989,758)</u>	<u>₩ (14,990,492)</u>

Details of income tax reflected directly in equity for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Deferred tax:		
Re-measurement on defined benefit obligation	₩ (1,112,118)	₩ 1,884,852
Loss on valuation of derivatives	-	93,413
Loss on valuation of financial assets at fair value through other comprehensive income	(14,695,845)	16,439,593
Current tax:		
Stock option	-	575,422
	<u>₩ (15,807,963)</u>	<u>₩ 18,993,280</u>

A reconciliation of income tax expense (income) applicable to profit before income taxes at the statutory tax rate to income tax benefit at the effective tax rate for each of the two years in the period ended December 31, 2024 is as follows (Korean won in thousands):

	2024	2023
Profit (loss) before income tax	₩ (89,106,828)	₩ 7,327,227
Tax at the statutory income tax rate	(19,233,506)	1,507,301
Adjustments:		
Non-deductible expenses for tax purposes	674,159	19,144
Non-taxable income	(21,872)	(240,771)
Tax credit	(24,297,733)	(1,290,669)
Impact on deferred income tax due to changes in tax rate	140,206	946,705
Effects of the tax refund	-	(1,688,563)
Adjustments in respect of current income tax of previous years	(667,922)	1,997,533
Others	4,416,910	(16,241,172)
Income tax benefit	<u>₩ (38,989,758)</u>	<u>₩ (14,990,492)</u>
Effective tax rate (Income tax expense/Profit before income tax)	-	-

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

25. Income tax benefit (cont'd)

Changes in deferred tax assets (liabilities) for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024							Ending balance
	Beginning balance	Recognized in profit or loss	Recognized directly in equity	Change in scope of consolidation	Exchange differences	Change in the tax rate		
Loan	₩ -	₩ 153,802	₩ -	₩ 1,679,427	₩ 66,380	₩ -	₩ 1,899,609	
Defined benefit obligation	8,080,581	2,547,004	(1,112,118)	195,474	7,713	(291,977)	9,426,677	
Plan assets	(9,684,174)	397,737	-	-	-	285,472	(9,000,965)	
Financial assets at fair value through profit or loss	(1,253,407)	(932,424)	-	-	-	67,195	(2,118,636)	
Financial assets at fair value through other comprehensive income	16,088,101	(4,342)	(14,695,845)	-	-	(42,666)	1,345,248	
Accrued revenues	(1,199,585)	630,860	-	-	-	17,483	(551,242)	
Refund liabilities	751,685	199,236	-	-	-	(29,232)	921,689	
Contract liabilities	73,863	(8,321)	-	-	-	(2,015)	63,527	
Valuation allowance on inventories	22,647,037	(15,052,036)	-	2,792,602	103,572	(233,476)	10,257,699	
Accrued expenses	4,344,976	(1,871,777)	-	-	-	(76,028)	2,397,171	
Derivative liabilities	-	(247,689)	-	81,536	(3,568)	-	(169,721)	
Property, plant and equipment	(8,950,145)	2,627,400	-	(61,434,111)	(2,237,748)	241,405	(69,753,199)	
Intangible assets	4,718,714	(2,999,011)	-	(9,332,861)	(342,501)	(48,665)	(8,004,324)	
Investment properties	-	526,175	-	(1,387,002)	(51,441)	-	(912,268)	
Provisions	119,324	829,594	-	471,469	40,875	(16,175)	1,445,087	
Long-term employee benefits	81,451	(23)	-	-	-	(2,154)	79,274	
Stock options	-	-	-	-	-	(2,503)	(2,503)	
Right-of-use assets	(4,312,475)	2,666,646	-	836	126	50,704	(1,594,163)	
Lease liabilities	4,529,410	(2,744,897)	-	-	-	(54,857)	1,729,656	
Others	-	88,349	-	-	-	(2,716)	85,633	
Tax credit carried forward, etc.	23,183,522	24,287,552	-	-	-	-	47,471,074	
Tax loss carried forward	-	33,697,710	-	16,909,408	552,252	-	51,159,370	
Net deferred tax assets	₩ 59,218,878	₩ 44,791,545	₩ (15,807,963)	₩ (50,023,222)	₩ (1,864,340)	₩ (140,205)	₩ 36,174,693	

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

25. Income tax benefit (cont'd)

	2023				
	Beginning balance	Recognized in profit or loss	Recognized directly in equity	Change in the tax rate	Ending balance
Defined benefit obligation	₩ 4,697,148	₩ 1,710,871	₩ 1,884,852	₩ (212,290)	₩ 8,080,581
Plan assets	(6,886,689)	(3,051,903)	-	254,418	(9,684,174)
Financial assets at fair value through profit or loss	1,439,115	(2,725,451)	-	32,929	(1,253,407)
Financial assets at fair value through other comprehensive income	-	71,168	16,439,593	(422,660)	16,088,101
Accrued revenues	(341,944)	(889,156)	-	31,515	(1,199,585)
Refund liabilities	2,193,178	(1,421,745)	-	(19,748)	751,685
Contract liabilities	84,216	(8,413)	-	(1,940)	73,863
Valuation allowance on inventories	11,790,874	11,451,136	-	(594,973)	22,647,037
Accrued expenses	6,193,125	(1,734,000)	-	(114,149)	4,344,976
Derivative liabilities	(1,094,627)	1,001,214	93,413	-	-
Property, plant and equipment	(10,864,796)	1,679,517	-	235,134	(8,950,145)
Intangible assets	7,617,667	(2,774,985)	-	(123,968)	4,718,714
Provisions	1,180,799	(1,180,799)	-	-	-
Long-term employee benefits	85,919	36,540	-	(3,135)	119,324
Stock options	100,309	(592,140)	575,422	(2,140)	81,451
Right-of-use assets	(6,638,466)	2,212,696	-	113,295	(4,312,475)
Lease liabilities	6,834,773	(2,186,370)	-	(118,993)	4,529,410
Tax credit carried forward, etc.	4,979,251	18,204,271	-	-	23,183,522
Net deferred tax assets	₩ 21,369,852	₩ 19,802,451	₩ 18,993,280	₩ (946,705)	₩ 59,218,878

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, 2024 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, 2024.

Pillar Two Model Rules

The Group has applied the temporary exception under KIFRS 1012 *Income Taxes* and therefore does not recognize deferred tax assets and liabilities related to Pillar Two legislation, nor does it disclose related deferred tax information.

Under the Global Anti-Base Erosion Model Rules, the Group may be required to pay top-up taxes in Korea on the profits of subsidiaries that are taxed at an effective tax rate below 15%. Based on the current financial statements, the Group has assessed whether the transitional relief requirements under Article 80 of the *Adjustment of International Taxes Act* are met in the jurisdictions where its subsidiaries operate. The Group has concluded that all such jurisdictions meet the transitional relief criteria.

Accordingly, no current tax expense related to Pillar Two Model Rules has been recognized in the Group's consolidated income tax expense for the current year. The estimated annual effective tax rate is subject to change due to various factors, including tax incentives available to subsidiaries and adjustments to accounting profit required for the calculation of Global Anti-Base Erosion income during subsequent interim periods. As such, the current tax expense related to Pillar Two Model Rules is subject to estimation uncertainty.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

26. Earnings per share

The Group's basic earnings per share for each of the two years in the period ended December 31, 2024 are computed as follows (Korean won in thousands, except per share amounts):

	2024	2023
Profit (loss) for the year	₩ (50,117,070)	₩ 22,317,719
Profit (loss) attributable to non-controlling interests	3,764,128	-
Profit (loss) attributable to owners of the parent	(53,881,198)	22,317,719
Profit (loss) attributable to ordinary shares	(53,881,198)	22,317,719
Weighted average number of ordinary shares outstanding	77,201,408	76,785,722
Basic earnings (losses) per share (Korean won)	(698)	291

The calculation of weighted-average number of issued shares outstanding for each of the two years in the period ended December 31, 2024 are as follows:

		2024		
	Period	Number of days	Number of shares	Weighted-average number of ordinary shares outstanding
Beginning issued shares	Jan. 1, 2024 – Dec. 31, 2024	366	76,827,750	76,827,750
Issue of share capital with consideration	Oct. 3, 2024 – Dec. 31, 2024	90	1,519,543	373,658
			<u>78,347,293</u>	<u>77,201,408</u>
		2023		
	Period	Number of days	Number of shares	Weighted-average number of ordinary shares outstanding
Beginning issued shares	Jan. 1, 2023 – Dec. 31, 2023	365	76,784,046	76,784,046
Proceeds from exercise of stock options	Dec. 18, 2023 – Dec. 31, 2023	14	43,704	1,676
			<u>76,827,750</u>	<u>76,785,722</u>

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

26. 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.

	2024		2023
Profit (loss) attributable to owners of the parent (Korean won in thousands)	₩ (53,881,198)	₩	22,317,719
Weighted average number of ordinary shares outstanding	77,201,408		76,785,722
Potential ordinary shares related to stock options	183,244		227,992
Weighted average number of ordinary shares outstanding for calculation of diluted earnings per share (shares)	77,384,652		77,013,714
Diluted earnings (losses) per share (in Korean won) (*1)	(698)		290

(*1) The diluted losses per share is the same as the basic losses per share for the year ended December 31, 2024 as net loss for the year was incurred resulting in anti-dilutive effect.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

27. Cash flows statement

Adjustments to cash flows generated from the operating activities for each of the two year in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Income tax benefit	₩ (38,989,758)	₩ (14,990,492)
Interest expenses	3,684,910	1,398,139
Interest income	(6,978,080)	(13,555,354)
Gain on valuation of financial assets at fair value through profit or loss	(9,487,627)	(5,544,554)
Gain on disposal of financial assets at fair value through profit or loss	(16,759,687)	(14,287,435)
Loss on disposal of financial assets at fair value through profit or loss	2,085,160	6,055,061
(Reversal of) loss on valuation of inventories	(74,641,436)	49,358,346
Gain on disposal of property, plant and equipment	(14,558,536)	(535)
Loss on disposal of property, plant and equipment	667,729	74,278
Impairment loss on property, plant and equipment	1,409	-
Loss on disposal of intangible assets	2,668	646
Impairment loss on intangible assets	-	1,153,638
Gain on disposal of right-of-use assets	(371,034)	(6,379)
Loss on disposal of right-of-use assets	-	47
Depreciation of property, plant and equipment	30,528,056	17,742,265
Depreciation of right-of-use assets	10,764,756	11,994,959
Amortization of intangible assets	7,932,422	5,027,479
Gain on valuation of derivatives	(195)	(219,403)
Loss on valuation of derivatives	1,660,062	28,922
Reversal of allowance for doubtful accounts	(81,700)	(29,334)
Gain on foreign currency translations	(7,007,690)	(7,449,419)
Loss on foreign currency translations	4,829,600	2,752,332
Provision for severance and retirement benefits	11,401,922	7,139,705
Gain on bargain purchase	(15,410,998)	-
Gain on foreign currency transactions	-	(1,125,002)
Loss on foreign currency transactions	-	1,110,000
Provisions	(6,460,141)	(5,089,650)
Others	(217,862)	1,194,973
	<u>₩ (117,406,050)</u>	<u>₩ 42,733,233</u>

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

27. Cash flows statement (cont'd)

Details of changes in assets and liabilities from the operating activities for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Trade receivables	₩ (2,471,949)	₩ 26,673,860
Other receivables	(81,191,588)	44,493,716
Inventories	79,409,985	52,888,273
Other current assets	3,652,159	17,691,584
Trade payables	(1,242,757)	(7,683,098)
Other payables	91,768	(12,544,288)
Other current liabilities	(3,230,083)	(20,112,591)
Payment of severance and retirement benefits	(304,524)	(395,095)
Contributions to plan assets	(7,004,745)	(19,640,000)
Transfer to and from affiliates	-	(10,462)
Changes in contract liabilities	52,164,171	(103,481,117)
Transaction settlements of derivatives	190,481	3,727,522
	<u>₩ 40,062,918</u>	<u>₩ (18,391,696)</u>

Significant non-cash transactions for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024	2023
Reclassification of construction-in-process to property, plant and equipment and intangible assets	₩ 10,947,340	₩ 6,720,029
Acquisition of lease assets	6,962,967	3,440,671
Reclassification of long-term liabilities to current portion	8,730,721	7,621,374
Gain (Loss) on valuation of financial assets at fair value through other comprehensive income	76,075,360	(71,167,070)
Reclassification of deposits to current portion	2,204,000	-
Changes in other payables relating to acquisition property, plant and equipment	(51,317)	10,134,364
Capitalized borrowing costs on purchase of property, plant and equipment	116,758	-

Changes in liabilities arising from financing activities for each of the two years in the period ended December 31, 2024 are as follows (Korean won in thousands):

	2024					
	Beginning balance	Cash flows from financing activities	Change in scope of consolidation	Reclassification	Others (*1)	Ending balance
Long-term borrowings	₩ -	₩ 192,056,904	₩ 181,309,380	₩ -	₩ 9,964,950	₩ 383,331,234
Current lease liabilities	8,137,402	-	-	1,084,401	(2,265,295)	6,956,508
Non-current lease liabilities	12,436,126	(10,790,610)	1,964,890	(1,084,401)	-	2,526,005

(*1) The amount includes the foreign exchange valuation, interest expenses and others.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

27. Cash flows statement (cont'd)

	2023				
	Beginning balance	Cash flows from financing activities	Reclassification	Others (*1)	Ending balance
Short-term borrowings	₩ 45,549,996	₩ (44,424,994)	₩ -	₩ (1,125,002)	₩ -
Current portion of bonds payable	38,008,459	(39,129,000)	-	1,120,541	-
Current lease liabilities	12,234,525	(11,910,221)	7,621,374	191,724	8,137,402
Non-current lease liabilities	17,543,212	-	(7,621,374)	2,514,288	12,436,126

(*1) The amount includes the foreign exchange valuation, interest expenses and others.

28. 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.

28.1 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, 2024 and 2023.

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, 2024.

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, 2024 and 2023 including the effect of hedge accounting.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

28. 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.

As of December 31, 2024, assuming all other variables remain constant, the impact on profit before income tax of a 1 % change in interest rates is as follows (Korean won in thousands):

	1% point increase		1% point decrease	
Long-term interest-bearing borrowings	₩	(3,833,312)	₩	3,833,312

(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, 2024 and 2023 are as follows (Korean won in thousands):

	2024				2023			
	Assets		Liabilities		Assets		Liabilities (*1)	
USD	₩	35,153,128	₩	93,938,493	₩	32,339,780	₩	738,262
EUR		85,679,582		112,239,985		2,101,146		1,133,942
GBP		-		36,420		-		-
Others		666,270		-		254,471		-
	₩	121,498,980	₩	206,214,898	₩	34,695,397	₩	1,872,204

The impact of 5% change in foreign exchange rate on the Group's profit before income tax for each of the two years in the period ended December 31, 2024 is as follows (Korean won in thousands):

	2024				2023			
	5% point increase		5% point decrease		5% point increase		5% point decrease	
USD	₩	(2,939,268)	₩	2,939,268	₩	1,580,076	₩	(1,580,076)
EUR		(1,328,020)		1,328,020		48,360		(48,360)
GBP		(1,821)		1,821		-		-
Others		33,314		(33,314)		12,724		(12,724)
	₩	(4,235,795)	₩	4,235,795	₩	1,641,160	₩	(1,641,160)

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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

28. 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. Meanwhile, the listed equity securities among the financial assets measured at fair value through other comprehensive income held by the Group are exposed to price risk. The impact of 5% change in share price on the Group's other comprehensive income for each of the two years in the period ended December 31, 2024 is as follows (Korean won in thousands):

	2024		2023	
	5% point increase	5% point decrease	5% point increase	5% point decrease
Other comprehensive income before tax	₩ 590,940	₩ (590,940)	₩ 2,011,464	₩ (2,011,464)
Tax effect	(114,362)	114,362	(464,648)	464,648
Other comprehensive income after tax	₩ 476,578	₩ (476,578)	₩ 1,546,816	₩ (1,546,816)

28.2 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.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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

28.3 Liquidity risk

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

The Group maintains 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, 2024 and 2023 is as follows (Korean won in thousands):

	2024					Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years		
Trade and other payables	₩ 106,057,404	₩ -	₩ -	₩ -	₩ -	₩ 106,057,404
Other current liabilities (*1)	2,767,401	-	-	-	-	2,767,401
Current lease liabilities	7,137,227	-	-	-	-	7,137,227
Borrowings (*2)	19,819,116	19,819,116	398,771,745	42,399,101	-	480,809,078
Non-current lease liabilities	-	2,271,110	655,304	-	-	2,926,414
	₩ 135,781,148	₩ 22,090,226	₩ 399,427,049	₩ 42,399,101	₩ -	₩ 599,697,524

(*1) The amount includes guarantee deposits received.

(*2) The amount includes interest expenses.

	2023					Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years		
Trade and other payables	₩ 45,602,461	₩ -	₩ -	₩ -	₩ -	₩ 45,602,461
Other current liabilities (*1)	2,367,946	-	-	-	-	2,367,946
Current lease liabilities	8,381,661	-	-	-	-	8,381,661
Non-current lease liabilities	-	4,269,822	9,706,475	-	-	13,976,297
	₩ 56,352,068	₩ 4,269,822	₩ 9,706,475	₩ -	₩ -	₩ 70,328,365

(*1) The amount includes guarantee deposits received.

28.4 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, 2024.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

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

Details of the Group's debt-to-equity ratio as of December 31, 2024 and 2023 are as follows (Korean won in thousands):

	2024		2023	
Total liabilities	₩	821,143,859	₩	148,583,864
Adjustment: cash and cash equivalent		(312,701,506)		(127,025,639)
Adjusted liabilities	₩	508,442,353	₩	21,558,225
Total equity	₩	2,022,452,178	₩	1,703,855,316
Debt-to-equity ratio		25.14%		1.27%

29. Fair values

29.1 Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing 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

29.2 Fair value of financial instruments by level

The level of fair value measurements as of December 31, 2024 and 2023 is as follow (Korean won in thousands):

	2024			
	Level 1	Level 2	Level 3 (*1)	Total
Financial assets:				
Short-term financial instruments	₩ -	₩ 845,406,651	₩ -	₩ 845,406,651
Derivatives assets	-	195	-	195
Long-term financial instruments	11,818,800	-	10,538,525	22,357,325
	₩ 11,818,800	₩ 845,406,846	₩ 10,538,525	₩ 867,764,171
Financial liabilities:				
Derivatives liabilities	₩ -	₩ 1,660,062	₩ -	₩ 1,660,062

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

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

29. Fair value (cont'd)

	2023			
	Level 1	Level 2	Level 3 (*1)	Total
Financial assets:				
Short-term financial instruments	₩ -	₩ 871,815,603	₩ -	₩ 871,815,603
Derivatives assets	-	219,403	-	219,403
Long-term financial instruments	<u>40,229,280</u>	<u>-</u>	<u>2,500,083</u>	<u>42,729,363</u>
	<u>₩ 40,229,280</u>	<u>₩ 872,035,006</u>	<u>₩ 2,500,083</u>	<u>₩ 914,764,369</u>
Financial liabilities:				
Derivatives liabilities	₩ -	₩ 28,922	₩ -	₩ 28,922

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

The fair values of cash and cash equivalents, other assets, interest-bearing borrowings, and bonds have been excluded from fair value disclosures, as the effects of discounting are not considered significant and their carrying amounts are deemed as approximate fair values.

29.3 Valuation technique and the inputs

Assets and liabilities measured at fair value in the statement of financial position that are classified as Level 2 in the fair value hierarchy have been measured using the market approach based on the fair value of underlying assets as input variables. The valuation techniques and input variables used for items classified as Level 3 as of December 31, 2024, are as follows (Korean won in thousands):

	Fair value	Valuation technique	Inputs
CTCELLS Co., Ltd.	₩ 177,968	Net asset value method (*1)	Fair value of net asset

(*1) The fair value was determined by applying the Company's ownership interest to the net assets of the investee, as the carrying amounts of the underlying assets were deemed to approximate their fair values.

29.4 Changes in Financial Instruments Classified as Level 3

No significant change between hierarchy levels 1 and 2 occurred during the year ended December 31, 2024. Changes in financial instruments classified as Level 3 during the year ended December 31, 2024 are as follows (Korean won in thousands):

	Beginning balance	Acquisitions	Valuation (*1)	Ending balance
Long-term financial instruments	₩ 2,500,083	₩ 8,440,850	₩ (402,408)	₩ 10,538,525

(*1) The effect of exchange rate fluctuations is included.

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

30. Business combination

On October 2024, the subsidiary SK bioscience Germany GmbH acquired existing shares and newly issued shares through a third-party allotment of IDT Biologika GmbH, as well as existing shares of Technik-Energie-Wasser Servicegesellschaft mbH, with the aim of enhancing corporate value through securing management control.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

The fair value of the identifiable assets and liabilities of IDT Biologika GmbH and Technik-Energie-Wasser Servicegesellschaft mbH as of the date of acquisition is as follows (Korean won in thousands):

IDT Biologika GmbH

	Amount
Assets	₩
Cash and cash equivalents	140,306,420
Short-term financial instruments	381,362
Trade and other receivables	69,170,579
Inventories	122,914,060
Other current assets	6,986,262
Other non-current financial assets	103,197
Property, plant and equipment	473,428,710
Intangible assets	42,316,588
Investment properties	6,433,388
Right-of-use assets	1,721,320
Other non-current assets\	712,556
Deferred tax assets	20,713,268
Total assets	<u>885,187,710</u>
Liabilities	
Trade and other payables	(46,625,523)
Current lease liabilities	(751,878)
Current tax liabilities	(75,902)
Other current liabilities	(14,263,345)
Provisions	(42,908,103)
Long-term borrowings	(181,309,380)
Lease liabilities	(969,442)
Long-term trade and other payables	(7,788,794)
Other non-current liabilities	(49,150,767)
Deferred tax liabilities	(64,413,123)
Total liabilities	<u>(408,256,257)</u>
Total identifiable net assets at fair value	476,931,453
Non-controlling interests (39.35% of net assets)	(187,672,527)
Total net assets acquired	289,258,926
Goodwill arising on acquisition	55,351,342
Purchase consideration transferred	<u>₩ 344,610,268</u>

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

30. Business combination (cont'd)

Details of cash flows related to the business combination are as follows (Korean won in thousands):

	Amount
Net cash acquired with the subsidiary	₩ 140,306,420
Cash paid	(344,610,268)
Net cash flow on acquisition	₩ (204,303,848)

From the date of acquisition, IDT Biologika GmbH contributed KRW 388,186 million of revenue and KRW 77,556 million to net loss of the Group. If the business combination had taken place at the beginning of 2024, the Group's revenue would have been KRW 544,473 million and the net loss would have been KRW 146,941 million.

Technik-Energie-Wasser Servicegesellschaft mbH

(Korean won in thousands):

	Amount
Assets	
Cash and cash equivalents	₩ 9,616,830
Trade and other receivables	10,097,997
Inventories	7,834,866
Other current assets	229,182
Property, plant and equipment	53,974,547
Intangible assets	17,917
Right-of-use assets	243,570
Deferred tax assets	31,810
Total assets	82,046,719
Liabilities	
Trade and other payables	(5,016,192)
Current lease liabilities	(99,776)
Current tax liabilities	(1,547,405)
Other current liabilities	(3,253,631)
Provisions	(2,410,823)
Non-current lease liabilities	(143,794)
Other non-current liabilities	(34,354)
Non-current provisions	(975,818)
Deferred tax liabilities	(6,355,176)
Total liabilities	(19,836,969)
Total identifiable net assets at fair value	62,209,750
Non-controlling interests (40.0% of net assets)	(24,883,900)
Total net assets acquired	37,325,850
Bargain purchase gain arising on acquisition	(15,255,345)
Purchase consideration transferred	₩ 22,070,505

Details of cash flows related to the business combination are as follows (Korean won in thousands):

	Amount
Net cash acquired with the subsidiary	₩ 9,616,830
Cash paid	(22,070,505)
Net cash flow on acquisition	₩ (12,453,675)

SK bioscience Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2024 and 2023

30. Business combination (cont'd)

From the date of acquisition, Technik-Energie-Wasser Servicegesellschaft mbH contributed KRW 2,421 million of revenue and KRW 11,580 million to net profit of the Group. If the business combination had taken place at the beginning of 2024, the Group's revenue would have been KRW 212,141 million and the net loss would have been KRW 51,099 million.

The fair values of the assets acquired and liabilities assumed, the non-controlling interests, and the consideration transferred as of the acquisition date are provisional.

If new information is obtained within one year from the acquisition date about facts and circumstances that existed as of the acquisition date, and adjustments to the amounts recognized or additional provisions need to be made for obligations existing at that date, such changes will be reflected as adjustments to the accounting for the business combination.