

SK bioscience Co., Ltd.

Financial statements
for the year ended December 31, 2021
with the independent auditor's report



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Independent Auditor's Report

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

Opinion

We have audited the financial statements of SK Bioscience Co., Ltd. (the "Company"), which comprise the statement of financial position as of December 31, 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with Korean International Financial Reporting Standards ("KIFRS").

We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Design and Operation Integrated Framework in accordance with Korean Auditing Standards ("KGAAS") issued by the Committee of Internal Control Operations, and our report dated March 16, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

Key audit matters

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

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

Revenue recognition of C(D)MO contracts

As stated in Note 17, the Company recognizes sales of KRW 214,907 million from the contract to provide C(D)MO production services for the COVID-19 vaccine. The C(D)MO business consists of technology transfer procedures, regulatory approval procedures, commercial production procedures, and R&D services. The Company recognizes revenue over the period when the control of biopharmaceuticals produced and intellectual property

rights is transferred to the customer. Revenue recognition of C(D)MO contracts was selected as a key audit matter as the amount of revenue from the C(D)MO business is significant to the financial statements, and significant management judgement is required to determine the timing and amount of revenue recognition.

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

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

Other Matters

The financial statements of the Company for the year ended December 31, 2020 were audited by Samil Accounting Corporation, who expressed an unqualified opinion thereon on March 22, 2021

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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 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 partner in charge of the audit resulting in this independent auditor's report is Yong Soo Jung.



March 16, 2022

This audit report is effective as of March 16, 2022, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's report date to the time this report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

SK bioscience Co., Ltd.

Financial statements for the years ended December 31, 2021 and 2020

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

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

SK bioscience Co., Ltd.
Statements of Financial Position
as of December 31, 2021 and 2020

(in Korean won)	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents		₩ 98,028,261,476	₩ 24,972,320,525
Short-term financial instruments	5, 8, 27	1,547,635,053,895	190,926,330,781
Trade and other receivables	5, 6, 18	48,134,756,342	45,837,781,062
Current derivative assets	5,27	451,437,320	128,357,439
Inventories	7	135,045,958,241	70,275,309,592
Contract assets	20	-	979,914,679
Other current assets	5, 9	8,508,763,659	782,143,190
		<u>1,837,804,230,933</u>	<u>333,902,157,268</u>
Non-current assets			
Long-term financial instruments	5, 8, 17, 27	21,609,994,880	-
Deposits	5	690,786,300	455,228,200
Property, plant and equipment	10	210,264,960,079	180,992,207,643
Right-of-use assets	11	10,718,418,998	8,486,731,592
Intangible assets	12	17,061,308,340	17,857,569,807
Non-current derivative assets	5, 27	1,639,872,813	-
Other non-current assets	9	91,528,897	95,258,777
Deferred tax assets	23	10,241,570,838	20,442,618,217
		<u>272,318,441,145</u>	<u>228,329,614,236</u>
Total assets		<u>₩ 2,110,122,672,078</u>	<u>₩ 562,231,771,504</u>
Liabilities			
Current liabilities			
Trade and other payables	5, 13, 18, 26	₩ 102,184,957,493	₩ 39,153,321,767
Current derivative liabilities	5, 27	894,889,623	75,413,686
Short-term borrowings	5, 14, 25, 26	11,671,373,163	-
Current portion of long-term liabilities	5, 14, 25, 26	47,977,691,552	10,994,490,194
Current lease liabilities	5, 11, 18, 25, 26	2,309,258,445	1,613,599,491
Other current liabilities	5, 15, 26	94,638,850,895	28,639,938,233
Contract liabilities	20	98,789,264,762	94,899,123,570
Current tax liabilities		101,485,878,190	5,263,607,972
		459,952,164,123	180,639,494,913
Non-current liabilities			
Bonds payable	5, 14, 25, 26	35,502,634,699	80,473,018,458
Long-term borrowings	5, 14, 25, 26	-	21,760,000,000
Non-current lease liabilities	5, 11, 18, 25, 26	8,774,626,367	7,125,959,071
Defined benefit liabilities	16	4,246,059,488	4,357,739,216
Non-current derivative liabilities	5, 27	-	3,617,387,249
Other non-current liabilities	15	335,238,907	467,928,316
		<u>48,858,559,461</u>	<u>117,802,032,310</u>
Total liabilities		<u>508,810,723,584</u>	<u>298,441,527,223</u>
Equity			
Issued capital	1, 19	38,250,000,000	30,600,000,000
Capital surplus	19	1,157,063,863,363	180,518,033,363
Other equity	19	900,709,824	900,709,824
Accumulated other comprehensive loss	19	(207,788,407)	(1,464,749,534)
Retained earnings	19	405,305,163,714	53,236,250,628
Total equity		<u>1,601,311,948,494</u>	<u>263,790,244,281</u>
Total liabilities and equity		<u>₩ 2,110,122,672,078</u>	<u>₩ 562,231,771,504</u>

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

SK bioscience Co., Ltd.
Statements of Comprehensive Income
for the years ended December 31, 2021 and 2020

(in Korean won)

	Notes	2021	2020
Sales	18, 20	₩ 929,000,929,909	₩ 225,610,784,857
Cost of sales	18, 21	<u>358,717,802,802</u>	<u>130,268,716,195</u>
Gross profit		570,283,127,107	95,342,068,662
Selling and administrative expenses	21	<u>96,063,270,783</u>	<u>57,631,621,422</u>
Operating profit		474,219,856,324	37,710,447,240
Other income	18, 22	5,158,809,854	3,742,467,366
Other expenses	18, 22	2,849,001,486	1,909,152,299
Finance income	22	26,241,023,313	7,902,996,428
Finance costs	22	<u>31,642,507,480</u>	<u>10,153,505,952</u>
Profit before income tax		471,128,180,525	37,293,252,783
Income tax expense	23	<u>115,988,903,686</u>	<u>4,403,540,826</u>
Profit for the year		₩ 355,139,276,839	₩ 32,889,711,957
Other comprehensive income (loss):			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net gain (loss) on valuation of derivatives	5, 23	1,256,961,127	(145,731,021)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of net defined benefit obligation	16, 23	<u>(3,070,363,753)</u>	<u>(1,961,909,626)</u>
Other comprehensive loss for the year, net of tax		<u>(1,813,402,626)</u>	<u>(2,107,640,647)</u>
Total comprehensive income for the year		₩ 353,325,874,213	₩ 30,782,071,310
Earnings per share:			
Basic earnings per share	24	₩ 4,844	₩ 537
Diluted earnings per share	24	₩ 4,810	₩ 533

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

SK bioscience Co., Ltd.
Statements of Changes in Equity
for the years ended December 31, 2021 and 2020

(in Korean won)

	Issued capital	Capital surplus	Other capital adjustments	Accumulated other comprehensive loss	Retained earnings	Total equity
As of January 1, 2020	₩ 10,200,000,000	₩ 201,219,488,323	₩ 325,256,321	₩ (1,319,018,513)	₩ 22,308,448,297	₩ 232,734,174,428
Total comprehensive income:						
Profit for the year	-	-	-	-	32,889,711,957	32,889,711,957
Remeasurement loss on defined benefit plans	-	-	-	-	(1,961,909,626)	(1,961,909,626)
Net loss on valuation of derivatives	-	-	-	(145,731,021)	-	(145,731,021)
	-	-	-	(145,731,021)	30,927,802,331	30,782,071,310
Transactions with shareholders:						
Share-based payments	-	-	575,453,503	-	-	575,453,503
Issue of share capital without consideration	20,400,000,000	(20,701,454,960)	-	-	-	(301,454,960)
	20,400,000,000	(20,701,454,960)	575,453,503	-	-	273,998,543
As of December 31, 2020	₩ 30,600,000,000	₩ 180,518,033,363	₩ 900,709,824	₩ (1,464,749,534)	₩ 53,236,250,628	₩ 263,790,244,281
As of January 1, 2021	₩ 30,600,000,000	₩ 180,518,033,363	₩ 900,709,824	₩ (1,464,749,534)	₩ 53,236,250,628	₩ 263,790,244,281
Total comprehensive income:						
Profit for the year	-	-	-	-	355,139,276,839	355,139,276,839
Remeasurement loss on defined benefit obligation	-	-	-	-	(3,070,363,753)	(3,070,363,753)
Net gain on valuation of derivatives	-	-	-	1,256,961,127	-	1,256,961,127
	-	-	-	1,256,961,127	352,068,913,086	353,325,874,213
Transactions with shareholders:						
Issue of share capital with consideration	7,650,000,000	976,545,830,000	-	-	-	984,195,830,000
As of December 31, 2021	₩ 38,250,000,000	₩ 1,157,063,863,363	₩ 900,709,824	₩ (207,788,407)	₩ 405,305,163,714	₩ 1,601,311,948,494

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

SK bioscience Co., Ltd.
Statements of Cash Flows
for the years ended December 31, 2021 and 2020

(in Korean won)

	Notes	2021	2020
Cash flows from operating activities			
Profit for the year		₩ 355,139,276,839	₩ 32,889,711,957
Adjustments to reconcile profit for the year to net cash flows	24	149,393,967,069	25,139,242,470
Working capital adjustments	24	44,000,929,111	66,407,705,524
Interest received		453,142,397	90,642,113
Interest paid		(3,406,990,670)	(4,054,556,228)
Income taxes paid		(8,986,636,965)	(248,955,211)
Net cash inflow from operating activities		₩ 536,593,687,781	₩ 120,223,790,625
Cash flows from investing activities			
Decrease in deposits		₩ 149,000,000	₩ 175,896,000
Proceeds from sale of long-term financial instruments		990,000,000	-
Decrease in long-term loans		7,334,760,741	3,262,039,786
Proceeds from sale of intangible assets		-	468,767,273
Proceeds from sale of property, plant and equipment		47,084,500	454,545
Receipt of government grants		-	877,397,000
Purchase of short-term financial instruments		(1,363,007,018,515)	(102,396,742,157)
Purchase of long-term financial instruments		(22,599,994,880)	-
Increase in deposits		(384,558,100)	(283,160,200)
Acquisitions of property, plant and equipment		(42,763,209,540)	(9,734,815,623)
Capitalized borrowing costs on purchase of property, plant and equipment		(144,013,848)	(191,371,334)
Acquisitions of intangible assets		(1,562,335,632)	(271,382,968)
Net cash outflow from investing activities		₩ (1,421,940,285,274)	₩ (108,092,917,678)
Cash flows from financing activities			
Issue of ordinary shares		₩ 983,255,829,460	₩ -
Proceeds from short-term borrowings		11,323,630,881	-
Repayment of current portion of long-term liabilities		(11,000,000,000)	-
Repayment of current lease liabilities		(1,837,088,665)	(1,237,366,766)
Repayment of short-term borrowings		(50,000,000)	-
Repayment of long-term borrowings		(22,684,000,000)	-
Establishment costs		-	(301,454,960)
Transaction settlements of derivatives		(628,085,085)	-
Net cash inflow (outflow) from financing activities		₩ 958,380,286,591	₩ (1,538,821,726)
Net increase in cash and cash equivalents		73,033,689,098	10,592,051,221
Cash and cash equivalents at the beginning of the financial year		24,972,320,525	14,380,269,304
Effects of exchange rate changes on cash and cash equivalents		22,251,853	-
Cash and cash equivalents at the end of the year		₩ 98,028,261,476	₩ 24,972,320,525

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

SK bioscience Co., Ltd.
Notes to the financial statements
as of December 31, 2021 and 2020

1. Corporate information

SK bioscience Co., Ltd. (the "Company") was incorporated on July 1, 2018 through physical division of vaccine business unit from SK Chemicals Co., Ltd. and is engaged in research and development, manufacturing, production and sales of vaccine and biopharmaceutical products, and leasing of related intellectual property rights. The Company was listed on securities market on March 18, 2021. As Of December 31, 2021, the Company's issued capital amounts to KRW 38,250,000 thousand.

Details of the Company's major shareholders as of December 31, 2021 are as follows:

	Ordinary shares	
	Number of shares	Equity ownership (%)
SK Chemicals Co., Ltd.	52,350,000	68.43
Employee stock ownership association	2,288,008	2.99
Others	21,861,992	28.58
	<u>76,500,000</u>	<u>100.00</u>

The 2021 financial statements have been approved by the Board of Directors on February 7, 2022 and the final approval is scheduled at the shareholders meeting on March 24, 2022.

2. Basis of preparation and summary of significant accounting policies

2.1 Basis of preparation

The Company prepares statutory financial statements in Korean in accordance with Korean International Financial Reporting Standards ("KIFRS"), as prescribed in the *Act on External Audit of Stock Companies*. The accompanying 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 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 financial statements are presented in Korean won (KRW) and all values are rounded to the nearest thousands, except when otherwise indicated.

2.2 Foreign currency translation

The Company's 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 Company 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.

SK bioscience Co., Ltd.

Notes to the financial statements as of December 31, 2021 and 2020

2.2 Foreign currency translation (cont'd)

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 Company 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 Company determines the transaction date for each payment or receipt of advance consideration.

2.3 Revenue from contracts with customers

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

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 Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of vaccines and biopharmaceuticals, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Contract development and manufacturing of vaccine and biopharmaceutical products

The Company provides services such as contract development and manufacturing of vaccines and biopharmaceutical products, bioanalysis, etc. Products manufactured by the Company have no alternative use, and the Company has an enforceable right to payment for performance completed to date. The Company 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 Company measures progress through outputs or inputs and recognizes revenue over time, considering the nature of the goods or services to be transferred to customers. The Company does not disclose the transaction price allocated to the performance obligations that are unsatisfied in accordance with the practical expedient in KIFRS 1115.

SK bioscience Co., Ltd.

Notes to the financial statements

as of December 31, 2021 and 2020

2.3 Revenue from contracts with customers (cont'd)

Licensing: right to use

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

Licensing: right to access

The Company provides licenses for pharmaceuticals to customers and receives consideration in return. The Company also provides research and other services to customers throughout the license period. The nature of the Company's promise to grant the license is to provide the customer with access to the entity's intellectual property as it exists throughout the license period. The Company accounts for the promised license as a performance obligation satisfied over time. The Company measures the progress of performance obligation based on the license period.

Collaborative arrangements

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

(1) Variable consideration

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

Right of return

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

SK bioscience Co., Ltd.
Notes to the financial statements
as of December 31, 2021 and 2020

2.3 Revenue from contracts with customers (cont'd)

(2) Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. Contract assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets in section 2.7 (1) 4) Financial instruments – initial recognition and subsequent measurement.

Trade receivables

A receivable represents the Company'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 2.7.

Contract liabilities

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

(3) Costs to fulfill a contract

Costs to fulfill a contract are costs incurred in fulfilling a contract with customer. If the costs are related directly to a contract or to an anticipated contract that the entity can specifically identify, generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and are expected to be recovered, the costs are recognized as assets. And the costs to fulfill a contract are recognized as cost of sales based on percentage of completion. The Company 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 Company's right to recover the goods expected to be returned by customers. However, due to the inherent nature of vaccines and biopharmaceuticals, the assets returned are discarded, so the Company does not recognize the right of return asset.

Refund liabilities

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

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

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2.4 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 Company 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.

2.5 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 Company operates and generates taxable income.

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

(2) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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2.5 Taxes (cont'd)

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

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

(3) Sales tax

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

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

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

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2.6 Pension benefits and other post-employment benefits

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

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

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

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

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

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

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

2.7 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 Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under KIFRS 1115. Refer to the accounting policies of Revenue recognition in the Note 2.3.

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2.7 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 Company'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 Company 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
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Company. The Company 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 Company measures debt instruments at fair value through OCI if both of the following conditions are met:

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

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

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

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company 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 Company elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

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

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

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

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

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2.7 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 Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company 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 Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company 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 Company 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	3
Trade receivables, including contract assets	20

The Company 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 Company 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).

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

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company applies the low credit risk simplification. At every reporting date, the Company 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 Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the Company'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 Company 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 Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. 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 Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

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

Derecognition

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

(3) Offsetting of financial instruments

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

2.8 Fair value measurement

The Company 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 27.

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 Company.

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2.8 Fair value measurement (cont'd)

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company 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 Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.9 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company 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.

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
- 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

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2.9 Derivative financial instruments (cont'd)

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company 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 Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

The Company 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.

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2.9 Derivative financial instruments (cont'd)

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

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

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

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

2.10 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.

2.11 Inventories

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

2.12 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 Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs 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.

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2.12 Property, plant and equipment (cont'd)

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

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

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

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

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

2.13 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.

2.14 Leases

The Company 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.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company 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 Company 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.

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2.14 Leases (cont'd)

If ownership of the leased asset transfers to the Company 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 2.18 Impairment of non-financial assets.

Lease liabilities

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

Short-term leases and low-value assets

The Company 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 Company applies an exemption on recognition of low-value asset of office equipment that are considered low-value assets. Lease payments for short-term leases and low-value asset leases are recognized as expenses on a straight-line basis over the lease term.

Company as a lessor

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

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2.15 Current versus non-current classification

The Company 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 Company classifies all other liabilities as non-current.

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

2.16 Cash dividend

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

2.17 Intangible assets

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

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

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2.17 Intangible assets (cont'd)

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

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

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

Research and development costs

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

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

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

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

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2.17 Intangible assets (cont'd)

Patents

The patents have been granted for the period of 10 years by the government with the option of renewal at the end of this period.

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

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

2.12 Impairment of non-financial assets

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company 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 Company 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.

2.19 Greenhouse gas emissions

The Company receives free emission rights as a result of emission trading schemes. The rights are received on an annual basis and, in return, the Company is required to remit rights equal to its actual emissions. The Company has adopted the net liability approach to the emission rights granted. Therefore, a provision is recognized only when actual emissions exceed the emission rights granted and still held. The emission costs are recognized as other operating costs. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right, whereby they are matched to the emission liabilities and remeasured to fair value. The changes in fair value are recognized in the statement of profit or loss.

2.20 Provisions

Provisions are recognized when the Company 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 Company 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.

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as of December 31, 2021 and 2020

2.20 Provisions (cont'd)

Onerous contracts

If the Company 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 Company recognizes any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Company 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).

2.21 Share-based payments

Employees (including senior executives) of the Company 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 Company'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 Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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

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

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Notes to the financial statements
as of December 31, 2021 and 2020

2.21 Share-based payments (cont'd)

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.

3. Significant accounting judgments estimates and assumptions

The preparation of the Company's 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 Company'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 – Company as lessee

The Company 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 Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company 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 Company included the renewal period as part of the lease term for leases of plant and machinery with shorter non-cancellable period. The Company typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised.

In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Company 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.

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3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that 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 Company 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 Company. 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 Company 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 23.

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 Company 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 Company 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 Company '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 Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

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Notes to the financial statements as of December 31, 2021 and 2020

3.2 Estimates and assumptions (cont'd)

Impairment of non-financial assets

The Company 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 Company 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, 2021, the carrying amount of capitalized development costs was KRW 13,088 million (2020: KRW 15,221 million). This amount includes significant investment in the development of COVID-19 vaccine candidate 'GBP 510'. Prior to being marketed, it will need to obtain a safety certificate issued by the relevant regulatory authorities. Due to the nature of the vaccine product, uncertainties exist as to whether the safety certificate will be obtained.

4. New and amended standards and interpretations

4.1 Application of new and amended standards

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(1) Interest Rate Benchmark Reform – Phase 2: Amendments to KIFRS 1109, KIFRS 1039, KIFRS 1107, KIFRS 1104 and KIFRS 1116

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component
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Notes to the financial statements as of December 31, 2021 and 2020

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

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

(2) Amendments to KIFRS 1116 COVID-19 Related Rent Concessions beyond 30 June 2021

During 2020, COVID-19-Related Rent Concessions - amendment to KIFRS 1116 *Leases* was issued. The amendments provide relief to lessees from applying KIFRS 1116 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under KIFRS 1116 if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the COVID-19 pandemic is continuing, on March 31, 2021, the period of application of the practical expedient was extended to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021. However, the Company has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

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 Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

(1) Reference to the Conceptual Framework – Amendments to KIFRS 1103

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. An exception was also added to the recognition principle of KIFRS 1103 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of KIFRS 1037 or KIFRS 2121 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in KIFRS 1103 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

(2) Property, Plant and Equipment: Proceeds before Intended Use – Amendments to KIFRS 1016

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

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

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Notes to the financial statements as of December 31, 2021 and 2020

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

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

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

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

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

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

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

(5) KIFRS 1117 *Insurance Contracts*

In May 2017, KIFRS 17 *Insurance Contracts* was issued, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, KIFRS 1117 will replace KIFRS 1104 *Insurance Contracts* (KIFRS 1104) that was issued in 2005. KIFRS 1117 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of KIFRS 1117 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in KIFRS 1104, which are largely based on grandfathering previous local accounting policies, KIFRS 1117 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of KIFRS 1117 is the general model, supplemented by:

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

KIFRS 1117 is effective for reporting periods beginning on or after January 1 2023, with comparative figures required. Early application is permitted, provided the entity also applies KIFRS 1109 and KIFRS 1115 on or before the date it first applies KIFRS 1117.

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

(6) Disclosure of Accounting Policies - Amendments to KIFRS 1001 and KIFRS Practice Statement 2

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to KIFRS 1001 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Company.

(7) Definition of Accounting Estimates - Amendments to KIFRS 1008

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

(8) Amendments to KIFRS 1012 *Income Taxes* – Narrowing the scope of the initial recognition exception of deferred taxes

The amendments narrowed the scope of the initial recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary difference, thus to resolve accounting diversity in the recognizing of deferred tax assets and liabilities. Paragraphs 15 and 24 (initial recognition exemption of deferred taxes) of KIFRS 1012 were amended to include an additional condition (3) where a deferred tax asset and liability shall be recognized for a temporary difference that arises on initial recognition of an asset or liability in a single transaction if that transaction give rise to equal amounts of taxable and deductible temporary differences. The amendments to KIFRS 1012 are applicable for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

(9) Annual Improvements 2018-2020 Cycle

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

As part of its 2018-2020 annual improvements to KIFRS standards process, an amendment to KIFRS 1101 *First-time Adoption of International Financial Reporting Standards* was issued. The amendment permits a subsidiary that elects to apply paragraph D16(1) of KIFRS 1101 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to KIFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(1) of KIFRS 1101. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

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

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

KIFRS 1041 *Agriculture* – Taxation in fair value measurements

The amendments remove the requirement in paragraph 22 of KIFRS 1041 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of KIFRS 1041.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

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5. Financial instruments

Financial assets

Details of financial assets by category as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021				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	Derivatives designated as hedging instruments	
Current assets:					
Short-term financial instruments	₩ 1,547,635,054	₩ -	₩ -	₩ -	₩ 1,547,635,054
Trade and other receivables	-	-	48,134,756	-	48,134,756
Other current assets (*1)	-	-	40,400	-	40,400
Derivatives assets	451,437	-	-	-	451,437
	<u>1,548,086,491</u>	<u>-</u>	<u>48,175,156</u>	<u>-</u>	<u>1,596,261,647</u>
Non-current assets:					
Long-term financial instruments	-	499,995	21,110,000	-	21,609,995
Deposits	-	-	690,786	-	690,786
Derivatives assets	-	-	-	1,639,873	1,639,873
	<u>-</u>	<u>499,995</u>	<u>21,800,786</u>	<u>1,639,873</u>	<u>23,940,654</u>
	<u>₩ 1,548,086,491</u>	<u>₩ 499,995</u>	<u>₩ 69,975,942</u>	<u>₩ 1,639,873</u>	<u>₩ 1,620,202,301</u>

(*1) These are guarantee deposits.

	2020		
	Financial assets at fair value through profit or loss	Financial assets measured at amortized cost	Total
Current assets:			
Short-term financial instruments	₩ 183,735,897	₩ 7,190,434	₩ 190,926,331
Trade and other accounts receivable	-	45,837,781	45,837,781
Other current assets (*1)	-	40,400	40,400
Derivatives assets	128,357	-	128,357
	<u>183,864,254</u>	<u>53,068,615</u>	<u>236,932,869</u>
Non-current assets:			
Deposits	-	455,228	455,228
	<u>-</u>	<u>455,228</u>	<u>455,228</u>
	<u>₩ 183,864,254</u>	<u>₩ 53,523,843</u>	<u>₩ 237,388,097</u>

(*1) These are guarantee deposits.

SK bioscience Co., Ltd.
Notes to the financial statements
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5. Financial instruments (cont'd)

Financial liabilities

Details of financial liabilities by category as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

(*1) Lease liabilities are liabilities recognized in accordance with KIFRS 16.

(*2) Consists of guarantee deposits received

	2020			
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives designated as hedging instruments	Total
Current liabilities				
Trade and other payables	₩ -	₩ 39,153,322	₩ -	₩ 39,153,322
Derivative financial liabilities	75,414	-	-	75,414
Current portion of long-term liabilities	-	10,994,490	-	10,994,490
Current lease liabilities (*1)	-	1,613,599	-	1,613,599
Other current liabilities (*2)	-	17,167,682	-	17,167,682
	<u>75,414</u>	<u>68,929,093</u>	<u>-</u>	<u>69,004,507</u>
Non-current liabilities				
Bonds payable	-	80,473,018	-	80,473,018
Long-term borrowings	-	21,760,000	-	21,760,000
Non-current lease liabilities (*1)	-	7,125,959	-	7,125,959
Derivative liabilities	-	-	3,617,387	3,617,387
	-	109,358,977	3,617,387	112,976,364
	<u>₩ 75,414</u>	<u>₩ 178,288,070</u>	<u>₩ 3,617,387</u>	<u>₩ 181,980,871</u>

(*1) Lease liabilities are liabilities recognized in accordance with KIFRS 16.

(*2) Consists of guarantee deposits received

SK bioscience Co., Ltd.
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5. Financial instruments (cont'd)

Gains or losses from the financial instruments

Details of net gains or losses by financial instrument by category for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

(*1) Net of income tax effect

	2020				
	Financial assets at fair value through profit or loss	Derivatives designated as hedging instruments	Financial asset measured at amortized cost	Financial liabilities measured at amortized cost	Total
Profit for the year:					
Interest income (expenses)	₩ -	₩ -	₩ 469,593	₩ (4,150,694)	₩ (3,681,101)
Gain(loss) on foreign currency translation	-	-	(275,412)	4,792,936	4,517,524
Gain(loss) on foreign currency transactions	-	-	(1,340,355)	(5,315)	(1,345,670)
Gain(loss) on valuation of derivatives	52,945	(3,490,000)	-	-	(3,437,055)
Gain(loss) on transactions of derivatives	444,973	-	-	-	444,973
Reversal of allowance for doubtful accounts	-	-	69,371	-	69,371
Gain(loss) on valuation of financial assets at fair value through profit or loss	148,370	-	-	-	148,370
Gain(loss) on sale of financial assets at fair value through profit or loss	1,102,450	-	-	-	1,102,450
	<u>1,748,738</u>	<u>(3,490,000)</u>	<u>(1,076,803)</u>	<u>636,927</u>	<u>(2,181,138)</u>
Other comprehensive income(loss)					
Net loss on valuation of derivatives (*1)	-	(145,731)	-	-	(145,731)
	<u>₩ 1,748,738</u>	<u>₩ (3,635,731)</u>	<u>₩ (1,076,803)</u>	<u>₩ 636,927</u>	<u>₩ (2,326,869)</u>

(*1) Net of income tax effect

SK bioscience Co., Ltd.
Notes to the financial statements
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5. Financial instruments (cont'd)

Derivatives

Derivatives as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Derivative assets(liabilities): not designated as hedging instrument				
Currency forwards	₩ 451,437	₩ 894,890	₩ 128,357	₩ 75,414
Derivative assets(liabilities): designated as hedging instrument				
Currency swaps	1,639,873	-	-	3,617,387

Derivative instruments not designated as hedging instruments as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

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

Derivative instruments designated as hedging instruments as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

(*1) Net of income tax effect

SK bioscience Co., Ltd.
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5. Financial instruments (cont'd)

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

(*1) Net of income tax effect

6. Trade and other receivables

Details of trade and other receivables as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Trade receivables	₩	38,303,361	₩	30,802,930
Less: allowance for doubtful accounts		(297,395)		(306,791)
Other receivables		9,107,399		15,341,521
Accrued revenues		1,021,391		121
	₩	48,134,756	₩	45,837,781

Changes in allowance for doubtful accounts for trade and other receivables for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Beginning Balance:	₩	306,791	₩	377,285
Reversals		(9,396)		(69,371)
Write offs		-		(1,123)
Ending Balance:	₩	297,395	₩	306,791

SK bioscience Co., Ltd.
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6. Trade and other receivables (cont'd)

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

On that basis, the loss allowance as of December 31, 2021 and 2020 was determined as follows for trade receivables (Korean won in thousands):

	2021							Total
	Secured	Less than 3 months	Less than 6 months	Less than 9 months	Less than 12 months	More than 12 months	Individual analysis (*1)	
Expected loss rate								
Wholesale	-	-	-	-	-	-	100%	0.39%
Hospital	-	0.4%	3.7%	54.6%	98.6%	100.0%	100%	15.87%
Export/Others	-	-	-	-	-	-	-	-
Trade receivables								
Wholesale	₩ 1,706,501	₩ 1,742,221	₩ 14,324	₩ -	₩ -	₩ -	₩ 13,722	₩ 3,476,768
Hospital	316,557	1,053,419	140,436	8,045	3,692	218,734	47,018	1,787,901
Export/Others	-	33,038,692	-	-	-	-	-	33,038,692
Loss allowance provision								
Wholesale	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 13,722	₩ 13,722
Hospital	-	4,720	5,166	4,396	3,639	218,734	47,018	283,673
Export/Others	-	-	-	-	-	-	-	-

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

	2020							Total
	Secured	Less than 3 months	Less than 6 months	Less than 9 months	Less than 12 months	More than 12 months	Individual analysis (*1)	
Expected loss rate								
Wholesale	-	-	-	-	-	-	100%	0.19%
Hospital	-	0.0%	0.1%	7.9%	81.7%	100.0%	100%	2.97%
Export/Others	-	-	-	-	-	-	-	-
Trade receivables								
Wholesale	₩ 7,024,836	₩ 89,624	₩ 101,186	₩ -	₩ -	₩ -	₩ 13,722	₩ 7,229,368
Hospital	1,354,727	6,111,444	2,090,148	8,022	2,622	237,585	48,987	9,853,515
Export/Others	3,627,440	10,092,525	82	-	-	-	-	13,720,047
Loss allowance provision								
Wholesale	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 13,722	₩ 13,722
Hospital	-	1,230	2,495	629	2,143	237,585	48,987	293,069
Export/Others	-	-	-	-	-	-	-	-

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

SK bioscience Co., Ltd.
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7. Inventories

Details of inventories as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

(*1) It includes CMO and CDMO related contract assets amounting KRW 36,960,182 thousand (Note 20).

	2020		
	Acquisition Cost	Valuation allowance	Book value
Merchandise	₩ 1,691,140	₩ (15,241)	₩ 1,675,899
Finished goods	2,480,475	(39,795)	2,440,680
Semi-finished goods	28,547,937	(1,230,575)	27,317,362
Work-in-progress	5,127,286	-	5,127,286
Raw materials	17,405,933	(15,203)	17,390,730
Supplies	16,363,978	(85,519)	16,278,459
Materials-in-transit	44,894	-	44,894
(*1)	₩ 71,661,643	₩ (1,386,333)	₩ 70,275,310

(*1) It includes CMO and CDMO related contract assets amounting KRW 15,662,393 thousand (Note 20).

Loss on valuation of inventories recognized in relation to inventory assets during the current period was KRW 5,566,456 thousand (prior year: the reversal of inventory valuation losses was KRW 2,324,062 thousand).

SK bioscience Co., Ltd.
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8. Short-term and long-term financial instruments

Short-term and long-term financial instruments as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

(*1) It is provided as collateral for employee stock ownership association loan (Note 17)

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

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

9. Other assets

Details of other assets as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Other current assets:				
Advance payments	₩	7,061,803	₩	971
Prepaid expenses		1,406,561		740,772
Guarantee deposits		40,400		40,400
	₩	8,508,764	₩	782,143
Other non-current assets:				
Other investment assets	₩	85,680	₩	85,680
Long-term prepaid expenses		5,849		9,579
	₩	91,529	₩	95,259

SK bioscience Co., Ltd.
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10. Property, plant and equipment

Changes in the book value of property, plant and equipment for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

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

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

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

Borrowing costs

Capitalized borrowing costs during the current year are KRW 144,014 thousand (2020: KRW 191,372 thousand). The capitalized interest rate used to calculate the capitalizable borrowing costs is 3.42% (2020: 3.45%).

Insured assets

As of December 31, 2021, the Company carries comprehensive property insurance for property, plant and equipment, inventories and others for up to KRW 313,002,105 thousand.

SK bioscience Co., Ltd.
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11. Leases

Changes in the book value of right-of-use assets for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

	2020				
	Beginning balance	Acquisitions	Disposals	Depreciation	Ending balance
Building	₩ 7,109,522	₩ 1,221,744	₩ -	₩ (922,680)	₩ 7,408,586
Vehicles	471,087	341,157	(28,304)	(275,582)	508,358
Machinery	712,235	-	-	(142,447)	569,788
	<u>₩ 8,292,844</u>	<u>₩ 1,562,901</u>	<u>₩ (28,304)</u>	<u>₩ (1,340,709)</u>	<u>₩ 8,486,732</u>

Lease liabilities for the year ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Less than 1 year	₩ 2,348,649	₩ 2,309,258	₩ 1,642,382	₩ 1,613,599
2 years or less	2,216,106	2,110,217	1,490,352	1,417,076
5 years or less	5,221,168	4,650,927	3,822,432	3,406,152
More than 5 years	2,447,407	2,013,483	2,846,037	2,302,731
	<u>₩ 12,233,330</u>	<u>₩ 11,083,885</u>	<u>₩ 9,801,203</u>	<u>₩ 8,739,558</u>

SK bioscience Co., Ltd.
Notes to the financial statements
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11. Leases (cont'd)

Changes in the book value of lease liabilities for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Beginning balance	₩ 8,739,558	₩	8,443,781
Increase	4,474,218		1,562,900
Decrease	(292,803)		(29,756)
Lease payment	(2,183,629)		(1,516,615)
Interest expenses	346,541		279,248
Ending balance	₩ 11,083,885	₩	8,739,558

Expenses recognized in the statement of comprehensive income(loss) during the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Other operating expenses including supplies expenses			
Short-term lease	₩ 271,489	₩	183,537
Low-value asset lease	148,377		76,742
Depreciation and impairment			
Depreciation of right of use assets	1,955,116		1,340,709
Net finance cost			
interest expense of lease liabilities	346,541		279,248

The Company had a total cash outflow of KRW 2,603 million for leases during the current year (2020 : KRW 1,776 million). The Company does not have lease contracts which include variable payments linked to the quantity of manufactured goods.

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12. Intangible assets

Changes in the book value of intangible assets for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

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

	2020						Ending balance
	Beginning balance	Acquisitions	Disposals	Amortization	Reclassification (*1)		
Industrial property rights	₩ 518,132	₩ 9,221	₩ -	₩ (63,793)	₩ 54,677	₩	518,237
Development costs	17,534,884	-	-	(2,313,498)	-	₩	15,221,386
Software	1,192,335	262,162	-	(575,062)	1,238,512	₩	2,117,947
Membership	233,657	-	(233,657)	-	-	₩	-
	<u>₩ 19,479,008</u>	<u>₩ 271,383</u>	<u>₩ (233,657)</u>	<u>₩ (2,952,353)</u>	<u>₩ 1,293,189</u>	<u>₩</u>	<u>17,857,570</u>

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

Details of development costs as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

		Name	2021					
			Capitalized research and development costs (cumulative)			Research and development costs		
			Phase3	Sales approved	Total	Book value	Accumulated impairment loss	Residual amortization period
Development Completed	Genetic recombination	NBP601 (*1)	₩ -	₩ 5,100,000	₩ 5,100,000	₩ 2,550,000	₩ -	5 years
	Vaccine	NBP607 (*2)	4,354,658	-	4,354,658	1,998,900	-	4 years
	Vaccine	NBP608 Shingles (*3)	10,199,115	-	10,199,115	6,034,477	-	6 years
	Vaccine	NBP608 chickenpox (*4)	3,486,768	-	3,486,768	2,324,511	-	7 years
	Vaccine	GBP510 COVID-19 (*5)	180,178	-	180,178	180,178	-	10 years
			<u>₩ 18,220,719</u>	<u>₩ 5,100,000</u>	<u>₩ 23,320,719</u>	<u>₩ 13,088,066</u>	<u>₩ -</u>	
		Name	2020					
			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	₩ 3,060,000	₩ -	6 years
	Vaccine	NBP607 (*2)	4,354,658	-	4,354,658	2,433,809	-	5 years
	Vaccine	NBP608 Shingles (*3)	10,199,115	-	10,199,115	7,054,387	-	7 years
	Vaccine	NBP608 chickenpox (*4)	3,486,768	-	3,486,768	2,673,190	-	8 years
				<u>₩ 18,040,541</u>	<u>₩ 5,100,000</u>	<u>₩ 23,140,541</u>	<u>₩ 15,221,386</u>	<u>₩ -</u>

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

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

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

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

(*5) GBP 510 is a COVID-19 vaccine product and is currently undergoing phase 3 clinical trials.

SK bioscience Co., Ltd.
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12. Intangible assets (cont'd)

Changes in the book value of development costs for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

	2020					Total
	NBP601	NBP607	NBP608		GBP510	
			Shingles	Chickenpox		
Beginning balance	₩ 3,570,000	₩ 2,868,718	₩ 8,074,300	₩ 3,021,866	₩ -	₩ 17,534,884
Amortization	(510,000)	(434,909)	(1,019,913)	(348,676)	-	(2,313,498)
Ending balance	₩ 3,060,000	₩ 2,433,809	₩ 7,054,387	₩ 2,673,190	₩ -	₩ 15,221,386

R&D expenses recognized as expenses for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Selling and administrative expenses	₩	99,399,339	₩	32,483,408
Government subsidies, etc.		(52,149,264)		(6,496,308)
	₩	47,250,075	₩	25,987,100

13. Trade and other payables

Trade and other payables as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Trade payables (*1)	₩	63,811,952	₩	17,505,191
Other payables		12,051,075		10,128,062
Accrued expenses		26,321,930		11,520,069
	₩	102,184,957	₩	39,153,322

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

SK bioscience Co., Ltd.
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14. Bonds payable and borrowings

Bonds payable and borrowings as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Short-term borrowings	₩ 11,671,373	₩ -
Current portion of long-term liabilities	47,977,692	10,994,490
Bonds payable	35,502,635	80,473,018
Long-term borrowings	-	21,760,000
	<u>₩ 95,151,700</u>	<u>₩ 113,227,508</u>

Details of short-term borrowings as of December 31, 2021 and 2020 consist of the following (Korean won in thousands):

Lender	Classification	Annual interest rates (%)	2021	2020
Coalition for Epidemic Preparedness Innovations (CEPI)	General loans in foreign currency(*1)	-	₩ 11,671,373	₩ -

(*1) Subsidy for R&D support for the COVID-19 vaccine candidate 'GBP510', the Company has no obligation to repay the borrowings if the development fails.

Details of bonds payable as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

Classification	Maturity date	Annual interest rates (%)	2021	2020
1-2 nd public bonds	2021.07.27	-	₩ -	₩ 11,000,000
2-2 nd public bonds	2022.07.26	3.34	48,000,000	48,000,000
Foreign bonds	2023.06.29	US 3M Libor + 1.88	35,565,000	32,640,000
			83,565,000	91,640,000
Less: discount on bonds payable			(84,673)	(172,492)
Less: current portion of long-term liabilities			(47,977,692)	(10,994,490)
			<u>₩ 35,502,635</u>	<u>₩ 80,473,018</u>

Details of long-term borrowings as of December 31, 2021 and 2020 consist of the following (Korean won in thousands):

Financial institution	Classification	Maturity date	Annual interest rates (%)	2021 (*1)	2020
Hana Bank	General loans in foreign currency	2023.06.29	-	₩ -	₩ 21,760,000

(*1) Early repayments of long-term borrowings were made during the year ended December 31, 2021.

SK bioscience Co., Ltd.
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15. Other liabilities

Other liabilities as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
	Current	Non-current	Current	Non-current
Advances	₩ 41,566,512	₩ -	₩ 10,767,625	₩ -
Withholdings	42,347,447	-	704,631	-
Deposits received	10,724,892	-	17,167,682	-
Long-term employee benefits	-	335,239	-	467,928
	₩ 94,638,851	₩ 335,239	₩ 28,639,938	₩ 467,928

16. Employee benefit liabilities

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

Changes in the carrying amounts of employee benefit liabilities for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Changes in defined benefit liabilities:				
Beginning balance	₩ 4,357,739	₩ 2,015,143		
Retirement benefits paid	(67,315)	99,148		
Provision during the period	4,905,023	4,050,181		
Re-measurement loss	4,050,612	2,588,271		
Contributions to defined benefit plans	(9,000,000)	(4,500,000)		
Transfer to affiliates and other accounts	-	104,996		
Ending balance	₩ 4,246,059	₩ 4,357,739		
Defined benefit liabilities in the statement of financial position:				
Present value of defined benefit obligation	₩ 24,999,395	₩ 28,688,136		
Fair value of plan assets	(20,753,336)	(24,330,397)		
	₩ 4,246,059	₩ 4,357,739		

Expenses incurred for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Current service costs	₩ 4,815,320	₩ 3,984,691		
Interest expenses	590,237	394,250		
Expected return on plan assets	(500,534)	(328,760)		
	₩ 4,905,023	₩ 4,050,181		

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16. Employee benefit liabilities (cont'd)

Changes in the present value of the defined benefit obligation for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Beginning balance	₩ 28,688,136	₩	19,660,070
Current service costs	4,815,320		3,984,691
Interest expenses	590,237		394,250
Re-measurement loss	3,905,738		2,545,470
Retirement benefits paid	(14,382,160)		(590,088)
Transfer to affiliates	1,382,124		2,693,743
Ending balance	₩ 24,999,395	₩	28,688,136

Changes in the fair value of plan assets for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Beginning balance	₩ 24,330,397	₩	17,644,927
Expected return on plan assets	500,534		328,760
Re-measurement loss	(144,874)		(42,801)
Contribution	9,000,000		4,500,000
Retirement benefits paid	(14,314,845)		(689,236)
Transfer to affiliates	1,382,124		2,588,747
Ending balance	₩ 20,753,336	₩	24,330,397

The principal assumptions used in actuarial calculation as of December 31, 2021 and 2020 are as follows:

	2021	2020
Discount rate	2.59%	2.09%
Expected rate of return on plan assets	2.59%	2.09%
Future salary increase	6.73%	5.47%

Details of re-measurement losses (gains) as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Financial assumptions	₩ 1,636,659	₩	1,352,546
Experience adjustments	2,269,079		(100,393)
Demographic assumptions	-		1,293,317
Re-measurement loss on plan assets	144,874		42,801
	₩ 4,050,612	₩	2,588,271

SK bioscience Co., Ltd.
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16. Employee benefit liabilities (cont'd)

The following table demonstrates a sensitivity analysis on the effect of changes in the principal assumptions used in actuarial calculation on the present value of defined benefit obligation as of December 31, 2021 and 2020 (Korean won in thousands):

	2021			
	Effect of changes in the discount rate		Effect of changes in the future salaries	
	Increase by 1% point	Decrease by 1% point	Increase by 1% point	Decrease by 1% point
Defined benefit obligation	₩ (2,893,646)	₩ 3,516,509	₩ 3,465,733	₩ (2,910,071)

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

Plan assets as of December 31, 2021 and 2020, consist of (Korean won in thousands):

	2021		2020	
	Amount	Composition(%)	Amount	Composition(%)
Deposits	₩ 20,751,122	99.99	₩ 24,328,183	99.99
National Pension Fund	2,214	0.01	2,214	0.01
	<u>₩ 20,753,336</u>	<u>100.00</u>	<u>₩ 24,330,397</u>	<u>100.00</u>

The weighted average duration of the defined benefit obligation of December 31, 2021 is 13.05 years. The expected maturity analysis of undiscounted pension benefits is as follows (Korean won in thousands):

	Less than 1 year	Between 1-2 years	Between 2-5 years	Between 5-10 years	Between 10-20 years	Over 20 years	Total
Pension benefits	₩ 1,006,636	₩ 1,210,427	₩ 11,321,068	₩ 11,948,123	₩ 67,785,918	₩ 222,800,690	₩ 316,072,862

Expected contributions to post-employment benefit plans for the year ending December 31, 2022 are KRW 8,985,558 thousand.

Expenses recognized in profit or loss in relation to the defined contribution plan during the year ended December 31, 2021 is KRW 4,156 thousand (2020 : KRW 17,395 thousand).

SK bioscience Co., Ltd.
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17. Commitments and contingencies

Details of significant litigation related to the Company as of December 31, 2021 are as follows:

Legal claim	Plaintiff	Defendant	Contents	Litigation amount	Remark
Patent infringement claims	Wyeth LLC, Pfizer Pharmaceuticals Korea Ltd.	The Company	Prohibition of pneumococcus vaccine patent right infringement and damage claims	KRW 300 million	First trial in progress

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

Commitments with the financial institutions as of December 31, 2021 are as follows:

Financial institution	Category	Limit	Amount
Hana Bank	Foreign currency guarantee – Contract execution	USD 30,000,000	USD 30,000,000
	Secured loan of credit sales	KRW 4,000 million	-
	Derivative deposit exemption arrangement	USD 73,000,000	USD 15,584,830
Shinhan Bank	Secured loan of credit sales	KRW 3,000 million	-
	Derivative (Revolving credit)	USD 11,000,000	USD 4,486,822
Woori Bank	Corporate working capital loans	KRW 5,000 million	-
Suhyup Bank	Derivative (Revolving credit)	KRW 11,000 million	KRW 6,615 million
JP Morgan Chase Bank	Derivative (Revolving credit)	USD 100,000,000	USD 41,000,000

Details of insurance commitments as of December 31, 2021 and 2020 are as follows (Korean won in millions):

Financial institution	Category	2021	2020
Seoul Guarantee Insurance Co., Ltd.	Performance guarantee insurance etc.	₩ 27,028	₩ 290
KB Insurance Co., Ltd.	Comprehensive property insurance	313,002	-
Samsung Fire Marine Insurance Co., Ltd.	Comprehensive property insurance	-	309,523
Hyundai Marine & Fire Insurance Co., Ltd.	Comprehensive property insurance	41,672	37,457
Hyundai Marine & Fire Insurance Co., Ltd.	Product liability insurance	23,710	21,760

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

Financial instruments	Classification	2021
Time deposits	employee stock ownership association loan security provided	₩ 21,110,000

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17. Commitments and contingencies (cont'd)

Technology transfer agreement and joint development

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

In addition, the Company 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 Company has recognized revenue based on each stage where the Company fulfilled the requirements for the right to consideration.

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

The Company signed a COVID-19 vaccine CMO contract with AstraZeneca UK Limited on July 3, 2020 and the amount related to this contract is recognized in installments as revenue for the duration of the contractual obligation.

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

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

The Company has prepaid Novavax, Inc. a portion of the license fees incurred by Novavax COVID-19 vaccine sold by the Company. If the COVID-19 vaccine developed by Novavax, Inc. is approved by the Korean Ministry of Food and Drug Safety (KMFDS), it is obligated to pay part of the remaining license fees to Novavax, Inc. as a lump sum (Note 28).

The Company recognizes revenue to KRW 214,907 million under CMO/CDMO agreements for the year ended December 31, 2021.

The Company 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 Company must implement various procedures, such as facility construction plan and permission for use, within a certain period of time from the contract date, and if not, the sales contract may be terminated.

SK bioscience Co., Ltd.
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18. Related party transactions

Details of the Company's related parties as of December 31, 2021 are as follows:

Related parties	Entities
Parent company	SK Chemicals Co., Ltd.
Others	SK Discovery Co., Ltd., SK Gas Co., Ltd., SK Plasma Co., Ltd., SK D&D 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)

(*1) The conglomerate affiliates that is 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.

Significant transactions with related parties for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

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

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

SK bioscience Co., Ltd.
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18. Related party transactions (cont'd)

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

Account balances with related parties as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

(*1) Other liabilities include lease liabilities.

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

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

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18. Related party transactions (cont'd)

Related parties	Entities	2020								
		Receivables		Payables						
		Trade receivables	Other receivables	Trade payables	Other payables (*1)					
Parent company	SK Chemicals Co., Ltd.	₩	-	₩	107,638	₩	256,573	₩	4,880,917	
	SK Gas Co., Ltd.		-		215,832		-		2,775,134	
	SK Telecom Co., Ltd.		-		-		-		12,159	
	Happynarae Co., Ltd.		-		-		2,574		189,432	
	SK Hynix Co., Ltd.		-		-		-		2,797	
	SK Hystec Co., Ltd.		17,560		-		-		-	
	Other related parties	SK Innovation Co., Ltd.		-		-		-		38,018
		SK Energy Co., Ltd.		-		-		-		367
		SK Infosec Co., Ltd.		-		-		-		52,766
		SK Inc.		-		-		-		175,533
		SK RENT A CAR Co.,Ltd.		-		-		-		2,855
		SK Plasma Co., Ltd.		-		-		1,283,097		2,310
		₩	17,560	₩	323,470	₩	1,542,244	₩	8,132,288	

(*1) Other liabilities include lease liabilities.

Compensation for key management personnel for the years ended December 31, 2021 and 2020 is as follows (Korean won in thousands):

	2021		2020	
Salaries	₩	2,319,590	₩	1,242,691
Provision for pension benefits		609,835		362,793
Share-based payment		-		345,291
	₩	2,929,425	₩	1,950,775

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

19. Equity

Details of equity as of December 31, 2021 and 2020 are as follows:

	Unit	2021		2020	
		Ordinary share		Ordinary share	
Authorized shares	Shares		300,000,000		300,000,000
Par value	Korean won	₩	500	₩	500
Number of shares issued (*1)	Shares		76,500,000		61,200,000
Issued capital	Korean won In thousands	₩	38,250,000	₩	30,600,000

(*1) The issued capital was increased by the issue of 15,300,000 ordinary shares of KRW 65,000 per share on March 16, 2021.

Details of capital surplus as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Paid-in capital in excess of par value	₩	1,157,063,863	₩	180,518,033

SK bioscience Co., Ltd.
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19. Equity (cont'd)

Details of other capital adjustments as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Stock option	₩	900,710	₩	900,710

The Company has granted stock options to its key executives, and the details of stock options as of December 31, 2021, are as follows (in Korean won and in shares):

Grant date	Number of shares authorized	Exercise Period	Exercise price	Fair value of grant date
2018.12.11	546,270	2021.12.12 ~ 2028.12.11	₩ 9,154	₩ 1,649

(*1) As a result of increase of capital stock without consideration and stock split, number of shares authorized was adjusted to 546,270 from 18,209, exercise price was adjusted to KRW 9,154 from KRW 274,621 and fair value of grant date was adjusted to KRW 1,649 from KRW 49,465.

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

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

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

Details of changes in share options for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

2021					
Grant date	Number of shares authorized (*1)		Fair value		
	Granted	Ending balance	Beginning balance	Increase	Ending balance
2018.12.11	546,270	546,270	₩ 900,710	₩ -	₩ 900,710

2020					
Grant date	Number of shares authorized (*1)		Fair value		
	Granted	Ending balance	Beginning balance	Increase	Ending balance
2018.12.11	546,270	546,270	₩ 325,256	₩ 575,454	₩ 900,710

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

SK bioscience Co., Ltd.
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19. Equity (cont'd)

Details of accumulated other comprehensive income(loss) as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Net loss on valuation of derivatives	₩ (207,788)	₩ (1,464,750)

Details of retained earnings as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Unappropriated retained earnings	₩ 405,305,164	₩ 53,236,251

Details of appropriation of retained earnings for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	₩ 53,236,251	₩ 22,308,449
Profit for the year	355,139,277	32,889,712
Re-measurement loss on defined benefit obligation	(3,070,364)	(1,961,910)
	<u>405,305,164</u>	<u>53,236,251</u>
Appropriations	-	-
Unappropriated retained earnings to be carried forward to the next year	₩ 405,305,164	₩ 53,236,251

The expected date for disposal of the above retained earnings is March 24, 2022, the statement of disposition of retained earnings for 2020 is scheduled to be approved on March 31, 2021.

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20. Operating segment information

Revenue from contracts with customers

Disaggregated revenue information

Set out below is the disaggregation of the Company's revenue from contracts with customers for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Type of goods or services:			
Sales of finished goods	₩ 638,887,242	₩	148,200,950
Sales of merchandise	26,092,976		60,909,888
Sales from provision of services and others	264,020,712		16,499,947
Total revenue from contracts with customers	<u>₩ 929,000,930</u>	<u>₩</u>	<u>225,610,785</u>
Geographical markets:			
Domestic	₩ 695,859,019	₩	200,575,873
America	48,408,430		5,643,493
Europe	184,500,213		13,964,805
Asia	233,268		5,426,614
Total revenue from contracts with customers	<u>₩ 929,000,930</u>	<u>₩</u>	<u>225,610,785</u>
Timing of revenue recognition			
At a point of time	₩ 671,278,768	₩	216,353,699
Over a period of time	257,722,162		9,257,086
Total revenue from contracts with customers	<u>₩ 929,000,930</u>	<u>₩</u>	<u>225,610,785</u>

Contract balances

Details of the Company's contract balances as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Inventories (*1)	₩ 36,960,182	₩	15,662,393
Contract assets	-		979,915
Contract liabilities	98,789,265		94,899,124

(*1) Contract costs and due from customers, which are contract assets of the Company, are recognized as inventories. Contract costs included in inventories contain direct costs related with production activities of C(D)MO finished goods.

SK bioscience Co., Ltd.
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20. Segment information (cont'd)

Details of changes in contract assets and liabilities for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021			
	Contract assets		Contract liabilities	
	Contract costs (*1)	Due from customers (*2)	Unearned revenues (*3)	Refund liabilities (*4)
Beginning balance	₩ 324,164	₩ 655,751	₩ 89,186,984	₩ 5,712,140
Increase(decrease)	(324,164)	(655,751)	7,752,171	(3,862,030)
Ending balance	₩ -	₩ -	₩ 96,939,155	₩ 1,850,110
Current portion	₩ -	₩ -	₩ 96,939,155	₩ 1,850,110
Non-current portion	-	-	-	-

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

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

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

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

	2020			
	Contract assets		Contract liabilities	
	Contract costs (*1)	Due from customers (*2)	Unearned revenues (*3)	Refund liabilities (*4)
Beginning balance	₩ -	₩ -	₩ -	₩ 4,686,705
Increase(decrease)	324,164	655,751	89,186,984	1,025,435
Ending balance	₩ 324,164	₩ 655,751	₩ 89,186,984	₩ 5,712,140
Current portion	₩ 324,164	₩ 655,751	₩ 89,186,984	₩ 5,712,140
Non-current portion	-	-	-	-

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

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

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

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

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20. Segment information (cont'd)

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

There were two customers accounted for more than 10% of sales for the fiscal year of 2021. The sales to those customers amounted to KRW 637,935,767 thousand and 166,849,814 thousand, respectively for the year ended December 31, 2021. There was one single customer accounted for more than 10% of sales for the fiscal year of 2020. The sales to that customer amounted to KRW 27,277,352 thousand for the year ended December 31, 2020.

21. Operating expenses

Details of cost of sales and selling and administrative expenses by nature for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Changes in inventories	₩ (35,765,918)	₩	(12,710,590)
Raw materials used	85,836,408		37,694,901
Cost of merchandise sold	24,733,667		57,418,739
Depreciation and amortization (*1)	18,775,304		16,527,436
Salaries and wages	83,851,838		47,287,228
Transport and storage of oil expenses	1,900,526		2,016,103
Rental fees and service fees	240,381,419		17,516,538
Marketing fees	1,928,729		2,420,081
Others	33,139,101		19,729,902
	<u>₩ 454,781,074</u>	<u>₩</u>	<u>187,900,338</u>

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

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21. Operating expenses (cont'd)

Details of selling and administrative expenses for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Salaries	₩ 25,012,991	₩	13,086,523
Provision for pension benefits	1,876,377		1,495,646
Employee welfare benefits	3,337,752		1,955,219
Travel	1,162,387		1,079,657
Communication	141,975		108,188
Taxes and dues	388,559		235,159
Rents	60,772		37,376
Depreciation	1,477,235		971,440
Insurance	274,770		157,560
Entertainment	417,824		163,245
Repairs	21,229		1,927
Office supplies	105,023		105,691
Vehicle maintenance	228,576		137,895
Training	1,857,435		570,578
Printing	34,960		9,598
Rental fees and service fees	9,361,613		6,573,141
Research	47,250,075		25,987,100
Advertising and marketing	1,908,501		2,417,701
Sales commission	281,384		1,465,346
Samples	20,228		2,379
Reversal of allowance for doubtful accounts	(9,396)		(69,371)
Conference	172,990		177,315
Amortization	680,011		386,854
Stock Compensation	-		575,454
	<u>₩ 96,063,271</u>	₩	<u>57,631,621</u>

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22. Other income and expenses

Details of other income and expenses for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Other income:			
Gain on disposal of property, plant and equipment	₩ 22,101	₩	-
Gain on disposal of intangible assets	-		235,110
Gain on disposal of right-of-use assets	5,523		1,452
Miscellaneous income	5,131,186		3,505,905
	<u>₩ 5,158,810</u>	₩	<u>3,742,467</u>
Other expenses:			
Loss on disposal of property, plant and equipment	₩ 3,870	₩	567
Loss on disposal of right-of-use assets	134		-
Donations	2,506,837		1,247,850
Miscellaneous expenses	338,160		660,735
	<u>₩ 2,849,001</u>	₩	<u>1,909,152</u>

Details of finance income and costs for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020
Finance income:			
Interest income	₩ 1,516,518	₩	469,592
Gain on foreign currency transactions	7,321,596		520,508
Gain on foreign currency translations	342,504		4,884,621
Gain on valuation of derivatives	3,376,437		128,358
Gain on derivatives transactions	4,729,748		644,398
Gain on valuation of financial assets at fair value through profit or loss	-		153,069
Gain on sale of financial assets at fair value through profit or loss	8,954,220		1,102,450
	<u>₩ 26,241,023</u>	₩	<u>7,902,996</u>
Finance costs:			
Interest expenses	₩ 3,080,386	₩	3,871,446
Interest expenses relating to leases	346,541		279,248
Loss on foreign currency transactions	5,067,610		1,866,178
Loss on foreign currency translations	4,258,739		367,096
Loss on valuation of financial assets at fair value through profit or loss	8,062,082		4,698
Loss on valuation of derivatives	894,890		3,565,414
Loss on derivatives transactions	9,932,259		199,426
	<u>₩ 31,642,507</u>	₩	<u>10,153,506</u>

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23. Income tax

The major components of income tax expense (benefit) for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Current income tax	₩ 105,207,977	₩ 5,437,026
Adjustments of prior period income tax recognized in current period	931	(47,650)
Changes in deferred taxes arising from temporary differences	10,201,047	(1,658,723)
Income tax reflected directly to equity	578,949	672,888
Income tax expense	<u>₩ 115,988,904</u>	<u>₩ 4,403,541</u>

Details of income tax reflected directly to equity for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Re-measurement on defined benefit obligation	₩ 980,248	₩ 626,362
Loss on valuation of derivatives	(401,299)	46,526
	<u>₩ 578,949</u>	<u>₩ 672,888</u>

A reconciliation of income tax expense applicable to profit before income taxes at the Korea statutory tax rate to income tax expense at the effective tax rate during the years ended December 31, 2021 and 2020 is as follows (Korean won in thousands):

	2021	2020
Profit before income tax	₩ 471,128,181	₩ 37,293,253
Tax at the statutory income tax rate (*1)	119,198,250	8,562,967
Adjustments:		
Non-deductible expenses for tax purposes	187,833	134,429
Non-taxable income	(928)	(2,394)
Tax credit	(8,613,707)	(5,053,810)
Changes in carried forward tax credits which were not recognized as deferred tax assets and others	-	870,007
Effects of the tax refund	3,458,416	-
Adjustments in respect of current income tax of previous years	1,635,288	-
Others	123,752	(107,658)
Income tax expense	<u>₩ 115,988,904</u>	<u>₩ 4,403,541</u>
Effective tax rate (Income tax expense/Profit before income tax)	24.62%	11.81%

(*1) The Company is subject to corporate income taxes (including local income tax : 10% of Income tax), at the aggregate rate of 10% on taxable income up to ₩ 200,000 thousand, 20% on taxable income from ₩ 200,000 thousand to ₩ 20,000,000 thousand, 22% on taxable income from ₩ 20,000,000 thousand to ₩ 300,000,000 thousand and 25% on taxable income in excess of ₩ 300,000,000 thousand.

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23. Income tax (cont'd)

Changes in deferred tax assets(liabilities) for the years ended December 31, 2021 and 2020 are as follows
(Korean won in thousands):

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

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

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23. Income tax (cont'd)

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, overall economic condition, and industrial outlook. The Company reviews these factors on a regular basis. Deferred tax assets are recognized for deductible temporary differences as of December 31, 2021 as it is probable that taxable profit will be available against which the temporary differences can be utilized.

The Company did not have carryforward tax credit not recognized as the deferred tax assets in relation to tax credit and others, as of December 31, 2021.

24. Earnings per share

The Company's basic earnings per share for the years ended December 31, 2021 and 2020 are computed as follows (Korean won in thousands, except per share amounts):

	2021	2020
Profit for the year	₩ 355,139,277	₩ 32,889,712
Profit attributable to ordinary shares	355,139,277	32,889,712
Weighted average number of ordinary shares outstanding	73,314,247	61,200,000
Basic earnings per share (Korean won)	4,844	537

The calculation of weighted-average number of issued shares outstanding for the years ended December 31, 2021 and 2020 are as follows:

	2021		
	Period	Number of days	Number of shares
Beginning Issued shares	2021.1.1 ~ 2021.12.31	365	61,200,000
Acquisition of treasury stocks	2021.3.18 ~ 2021.12.31	289	15,300,000
			<u>76,500,000</u>
			<u>73,314,247</u>
	2020		
	Period	Number of days	Number of shares
Beginning Issued shares	2020.1.1 ~ 2020.12.31	366	61,200,000
			<u>61,200,000</u>
			<u>61,200,000</u>

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24. Earnings per share (cont'd)

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

	2021		2020
Profit for the year (Korean won in thousands)	₩ 355,139,277	₩	32,889,712
Weighted average number of ordinary shares outstanding	73,314,247		61,200,000
Potential ordinary shares related to stock options	517,855		469,338
Weighted average number of ordinary shares outstanding for calculation of diluted earnings per share (shares)	73,832,102		61,669,338
Diluted earnings per share (in Korean won)	4,810		533

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25. Cash flows statement

Adjustments to cash flows generated from the operating activities for the year ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Income tax expenses	₩	115,988,904	₩	4,403,541
Interest expenses		3,426,927		4,150,694
Interest income		(1,516,518)		(469,592)
Gain on valuation of financial assets at fair value through profit or loss		-		(153,069)
Loss on valuation of financial assets at fair value through profit or loss		8,062,082		4,698
Gain on sale of financial assets at fair value through profit or loss		(8,954,220)		(1,102,450)
Loss on valuation of inventories (reversal)		5,566,456		(2,324,062)
Gain on disposal of property, plant and equipment		(22,101)		-
Loss on disposal of property, plant and equipment		3,870		567
Gain on disposal of intangible assets		-		(235,110)
Gain on disposal of right-of-use assets		(5,523)		(1,452)
Loss on disposal of right-of-use assets		134		-
Depreciation of property, plant and equipment		13,554,176		12,234,374
Depreciation of right-of-use assets		1,955,116		1,340,708
Amortization of intangible assets		3,266,013		2,952,354
Gain on valuation of derivatives		(3,376,437)		(128,357)
Loss on valuation of derivatives		894,890		3,565,414
Reversal of allowance for doubtful accounts		(9,396)		(69,371)
Share-based compensation expenses		-		575,454
Gain on foreign currency translations		(342,504)		(4,884,621)
Loss on foreign currency translations		4,258,739		367,096
Provision for severance and retirement benefits		4,905,023		4,050,181
Loss on foreign currency transactions		924,000		-
Transaction settlements of derivatives		7,029		-
Others		807,307		862,245
	₩	<u>149,393,967</u>	₩	<u>25,139,242</u>

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25. Cash flows statement (cont'd)

Details of changes in assets and liabilities from the operating activities for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Trade receivables	₩	(7,594,701)	₩	1,669,058
Contract assets		979,915		(979,915)
Other receivables		6,216,139		(15,298,840)
Inventories		(70,337,103)		(31,573,385)
Other current assets		(7,830,643)		(29,713)
Trade payables		46,536,207		(866,886)
Other payables		15,942,312		5,319,657
Other current liabilities		65,265,976		22,160,036
Payment of severance and retirement benefits		(67,315)		190,279
Transfer from or to affiliates		-		104,996
Contributions to plan assets		(9,000,000)		(4,500,000)
Changes in contract liabilities		3,890,142		90,212,419
	₩	44,000,929	₩	66,407,706

Significant non-cash transactions for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Reclassification of construction-in-process to property, plant and equipment and intangible assets	₩	5,013,821	₩	26,391,974
Acquisition of lease assets		4,474,218		1,562,900
Reclassification of long-term liabilities to current portion		48,656,652		12,608,090
Changes in other payables relating to acquisition property, plant and equipment		(855,974)		2,994,825
Changes in other payables relating to severance and retirement benefits		-		(91,131)

Changes in liabilities arising from financing activities for the years ended December 31, 2021 and 2020 are as follows (Korean won in thousands):

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

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

SK bioscience Co., Ltd.
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25. Cash flows statement (cont'd)

	2020				
	Beginning balance	Cash flows from financing activities	Foreign exchange translations	Others (*1)	Ending balance
Long-term borrowings	₩ 23,156,000	₩ -	₩ (1,396,000)	₩ -	₩ 21,760,000
Current portion of long-term liabilities	-	-	-	10,994,490	10,994,490
Bonds payable	93,472,368	-	(2,094,000)	(10,905,350)	80,473,018
Current lease liabilities	1,350,756	(1,237,367)	-	1,500,210	1,613,599
Non-current lease liabilities	7,093,025	-	-	32,934	7,125,959

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

26. Financial risk management objectives and policies

The Company'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 Company's operations. The Company's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Company also holds investments in debt and equity instruments and enters into derivative transactions.

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

26.1 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, 2021 and 2020.

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 at December 31, 2021.

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 at December 31, 2021 and 2020 including the effect of hedge accounting.

SK bioscience Co., Ltd.
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26. 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 Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

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

(2) Foreign currency risk

Foreign currency risk is the risk in fair value or future cashflows of financial instruments that may result from changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency) and the Company's foreign currency financing. The Company manages its foreign currency risk periodically. In particular, the Company 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, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
	Assets	Liabilities (*1)	Assets	Liabilities (*1)
USD	₩ 111,194,030	₩ 68,188,479	₩ 34,963,923	₩ 13,333,593
EUR	16	1	41	-
GBP	-	2,654	-	-
	₩ 111,194,046	₩ 68,191,134	₩ 34,963,964	₩ 13,333,593

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

The impact on the Company's profit before income tax due to 5% change in foreign exchange rate for the years ended December 31, 2021 and 2020 is as follows (Korean won in thousands):

	2021		2020	
	5% point increase	5% point decrease	5% point increase	5% point decrease
USD	₩ 2,150,278	₩ (2,150,278)	₩ 1,081,517	₩ (1,081,517)
EUR	1	(1)	2	(2)
GBP	(133)	133	-	-
	₩ 2,150,146	₩ (2,150,146)	₩ 1,081,519	₩ (1,081,519)

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

SK bioscience Co., Ltd.
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26. Financial risk management objectives and policies (cont'd)

(3) Other price risk

Other price risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market prices. As the Company holds no quoted equity investments, changes in the price of quoted equity investments will not affect the Company's profit or loss as of December 31, 2021. In addition, the Company is not significantly exposed to the risk of price fluctuations of certain products.

26.2 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 Company.

(1) Trade receivables and other receivables, contract assets

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

(2) Other assets

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

SK bioscience Co., Ltd.
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26. Financial risk management objectives and policies (cont'd)

26.3 Liquidity risk

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

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

The maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31, 2021 and 2020 is as follows (Korean won in thousands):

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

(*1) The amount includes guarantee deposits received

(*2) The amount includes interest expenses

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

(*1) The amount includes guarantee deposits received

(*2) The amount includes interest expenses

26.4 Capital management

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

The Company manages and adjusts its capital structure according to changes in economic conditions. To maintain the sound capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for managing capital for the year ended December 31, 2021.

SK bioscience Co., Ltd.
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26. Financial risk management objectives and policies (cont'd)

Details of the Company's debt-to-equity ratio as of December 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Total liabilities	₩	508,810,724	₩	298,441,527
Adjustment: cash and cash equivalent		(98,028,261)		(24,972,321)
Adjusted liabilities	₩	410,782,463	₩	273,469,206
Total equity	₩	1,601,311,948	₩	263,790,244
Debt-to-equity ratio		25.65%		103.67%

27. Fair values

27.1 Fair value hierarchy

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

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

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

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

The level of fair value measurements as of December 31, 2021 and 2020 is as follow (Korean won in thousands):

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

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

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

SK bioscience Co., Ltd.
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27. Fair value (cont'd)

No significant change between hierarchy levels 1 and 2 occurred during the year ended December 31, 2021. In determining fair value measurement, the impact of potential matters, including legislation, which may affect the fair value measurement of assets and liabilities in the financial statements has been considered. These risks are included as key assumptions where they materially impact the measure of recoverable amount. These assumptions have been included in the cash-flow forecasts in assessing value-in-use amounts. At present, the impact is not material to the Company's financial statements.

28. Non-adjusting events after the reporting period

Obtain domestic biologics license application approval of Novavax' COVID-19 vaccine

On January 12, 2022, the Company obtained a biologics license application approval of the Novavax COVID-19 vaccine, which was manufactured through an agreement with Novavax, Inc., from the Korean Ministry of Food and Drug Safety (KMFDS).

Independent auditor's report on internal control over financial reporting

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

Opinion on internal control over financial reporting

We have audited SK bioscience Co., Ltd.'s (the "Company") internal control over financial reporting ("ICFR") based on the Conceptual Framework for designing and operating ICFR established by the Operating Committee of ICFR (the "ICFR Committee") as of December 31, 2021.

In our opinion, the Company's ICFR has been effectively designed and operated, in all material respects, as of December 31, 2021, in accordance with the Conceptual Framework for designing and operating ICFR.

We also have audited, in accordance with Korean Auditing Standards ("KGAAS"), the statement of financial position as of December 31, 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and our report dated March 16, 2022, expressed an unqualified opinion thereon.

Basis for opinion on ICFR

We conducted our audit in accordance with KGAAS. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of ICFR section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of ICFR 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.

Responsibilities of management and those charged with governance for ICFR

Management is responsible for designing, implementing, and maintaining an effective ICFR, and for assessing the effectiveness of the ICFR included in the accompanying report on the effectiveness of the ICFR.

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

Auditor's responsibilities for the audit of ICFR

Our responsibility is to express an opinion of the Company's ICFR based on our audit. We conducted our audit in accordance with KGAAS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective ICFR was maintained in all material respects.

An audit of ICFR involves performing procedures to obtain audit evidence as to whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit also includes testing and evaluating the design and operating effectiveness of ICFR based on obtaining an understanding of ICFR and the assessed risk.

ICFR definition and inherent limitations

A company's ICFR is implemented by those charged with governance, management, and other employees and is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("KIFRS"). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with KIFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that ICFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditor's report is Yong Soo Jung.



March 16, 2022

This audit report is effective as of March 16, 2022, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's report date to the time this report is used. Such events and circumstances could significantly affect the Company's ICFR and may result in modifications to this report.

Report on the effectiveness of internal control over financial reporting

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

We, as the Chief Executive Officer and the Internal Accounting Manager of SK bioscience Co., Ltd. (“the Company”), assessed operating status of the Company’s Internal Control over Financial Reporting (“ICFR”) for the year ending December 31, 2021.

Design and operation of ICFR is the responsibility of the Company’s management, including the Chief Executive Officer and the Internal Accounting Manager (collectively, “We”, “Our” or “Us”).

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We used the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’ established by the Operating Committee of Internal Control over Financial Reporting in Korea (the “ICFR Committee”) as the criteria for design and operation of the Company’s ICFR. And we conducted an evaluation of ICFR based on the ‘Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting’ established by the ICFR Committee.

Based on our assessment, we concluded that the Company’s ICFR is designed and operated effectively as of December 31, 2021, in all material respects, in accordance with the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’.

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

February 23, 2022

Jae-Yong Ahn,
Chief Executive Officer

안재용 

Yong-Sung Choi,
Internal Accounting Manager

최용성 (인) 