

HANDOK INC.

SEPARATE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

AND INDEPENDENT AUDITORS' REPORT

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## **Independent Auditors' Report**

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Shareholders of

Handok Inc.

March 9, 2023

### **Audit Opinion**

We have audited the separate financial statements of Handok Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2022 and 2021, respectively, and the separate statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows, for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the Company's Internal Control over Financial Reporting ("ICFR") as of December 31, 2022 based on the criteria established in the Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 9, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

### **Basis for Audit Opinion**

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate 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 audit opinion.

## Key Audit Matters

The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below as key audit matters to be communicated in our report.

- Impairment testing of investments in subsidiaries and associates

### (1) Why it was determined to be a Key Audit Matter

The carrying amount of investments in subsidiaries and associates ("investments in associates") recorded in the separate financial statements amounted to ₩144,562 million as of December 31, 2022. As described in Note 2 to the financial statements, the Company identifies whether there are any impairment indicators of investments in associates annually at the end of each reporting period and performs impairment testing on investments in associates for which impairment indicators have been identified. The Company calculates the amount of impairment as the amount by which the carrying amount of investments in associates exceeds its recoverable amount. We determined impairment testing of investments in associates to be a key audit matter as there are inherent uncertainties and management's judgment involved in the estimation of significant key assumptions used to estimate the value-in-use such as sales growth rate, discount rate and terminal growth rate.

### (2) How the Key Audit Matter was addressed in the audit

Audit procedures we have performed to address this key audit matter included the following:

- ① Assessing the independence and competence of the external valuation specialists engaged by the Company to estimate value-in-use.
- ② Engaging our internal specialists to assist in assessing the appropriateness of key assumptions such as sales growth rate, discount rate, and terminal growth rate applied to estimate value-in-use.
- ③ Assessing the reasonableness of key assumptions and variables used to estimate value-in-use by comparing the latest business plans adopted by management with historical performance and available external data.
- ④ Assessing the appropriateness of the Company's forecasts by comparing the Company's estimates of cash flow calculations from the previous year with the actual results for the current year.

## Other Matters

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

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

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

In preparing the separate financial statements, management of the Company 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.

### **Auditors' Responsibilities for the Audit of the Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 KSAs 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the 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 auditors' report to the related disclosures in the separate 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 auditors' 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 separate financial statements, including the disclosures, and whether the separate 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 separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Byoung Kyu Song.

*Shihan Accounting Corporation*

Notice to Readers

This report is effective as of the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

HANDOK INC. (the "Company")

SEPARATE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

The accompanying separate financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, Handok Inc.'s management.

Young-Jin Kim, Chairman & CEO / Jin-ki Baik, President  
Handok Inc.

## HANDOK INC.

## SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2022 and 2021

	Notes	Korean won	
		December 31, 2022	December 31, 2021
		(in Korean won)	
<b><u>ASSETS:</u></b>			
Current Assets:			
Cash and cash equivalents	4, 5, 6	₩ 28,773,196,568	₩ 27,284,690,674
Trade and other receivables	4, 5, 6, 9, 39	172,569,292,539	171,811,388,480
Other current assets	10	47,292,514,151	32,442,869,851
Inventories	11	91,737,053,181	83,266,325,400
Other financial assets	4, 5, 6, 12	1,637,255,258	5,433,763,093
		<u>342,009,311,697</u>	<u>320,239,037,498</u>
Non-current Assets:			
Long-term other financial assets	4, 5, 6, 12	4,000,000	5,000,000
Long-term trade and other receivables	4, 5, 6, 9, 39	2,133,005,515	1,284,963,616
Financial assets at fair value through profit or loss	4, 5, 6, 7, 39	45,828,366,046	40,930,656,572
Financial assets at fair value through other comprehensive income	4, 5, 6, 8	10,905,415	20,172,395
Property, plant and equipment	13, 38	218,899,734,744	209,140,165,974
Investment properties	15, 38	48,594,033,762	53,370,243,614
Intangible assets	14	70,496,119,782	65,371,552,993
Investments in subsidiaries and associates	17	144,561,504,780	136,241,507,126
Other non-current assets	10, 16, 22	16,128,319,752	1,619,011,009
		<u>546,655,989,796</u>	<u>507,983,273,299</u>
Total assets		<u>₩ 888,665,301,493</u>	<u>₩ 828,222,310,797</u>

**LIABILITIES AND SHAREHOLDER'S EQUITY:****LIABILITIES:**

## Current Liabilities:

Trade and other payables	4, 5, 6, 18, 39	₩ 137,416,754,045	₩ 136,097,758,506
Other current liabilities	19	4,675,928,554	3,803,567,925
Other financial liabilities	4, 5, 6, 16, 20	400,151,451	816,605,264
Short-term borrowings	4, 5, 6, 20	77,469,210,000	118,164,960,000
Current portion of debentures	4, 5, 6, 20	34,882,962,924	-
Provisions for other liabilities	21	9,810,977,833	12,785,796,465
Current tax liabilities		4,963,675,950	4,425,181,630
		<u>269,619,660,757</u>	<u>276,093,869,790</u>

(Continued)

HANDOK INC.

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2022 and 2021 (CONTINUED)

	Notes	Korean won	
		December 31, 2022	December 31, 2021
		(in Korean won)	
Non-current liabilities:			
Long-term trade and other payables	4, 5, 6, 18, 25	₩ 7,274,308,885	₩ 7,415,420,577
Other non-current liabilities	19	-	56,424,951
Long-term other financial liabilities	4, 5, 6, 16, 20, 38, 39	4,658,577,883	900,051,734
Long-term borrowings	4, 5, 6, 20	135,045,670,000	54,709,880,000
Debentures	4, 5, 6, 20	49,644,167,652	84,076,178,918
Long-term provisions for other liabilities	21	1,265,888,288	2,927,801,573
Employee benefit obligations	22	2,293,059,155	3,360,478,229
Deferred tax liabilities	23	15,850,403,980	13,308,666,116
		216,032,075,843	166,754,902,098
Total liabilities		485,651,736,600	442,848,771,888
SHAREHOLDER'S EQUITY:			
Share capital	1, 24	6,881,766,500	6,881,766,500
Share premium		36,748,103,056	36,748,103,056
Other components of equity	26	41,586,784,920	41,926,746,577
Retained earnings	27	317,796,910,417	299,816,922,776
Total shareholder's equity		403,013,564,893	385,373,538,909
Total liabilities and shareholder's equity		₩ 888,665,301,493	₩ 828,222,310,797

(Concluded)

See accompanying notes to separate financial statements.

HANDOK INC.

SEPARATE STATEMENTS OF PROFIT OR LOSS  
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	Notes	Korean won	
		2022	2021
		(in Korean won)	
Revenue	28, 39	₩ 536,574,430,720	₩ 511,148,488,062
Cost of sales	28, 29, 39	366,791,925,612	346,810,615,729
Gross profit		169,782,505,108	164,337,872,333
Selling and administrative expenses	29, 30, 31, 32	140,679,345,702	135,408,204,245
Operating profit		29,103,159,406	28,929,668,088
Other income	6, 33, 39	16,963,026,090	11,894,878,603
Other expenses	6, 33, 39	16,146,029,478	10,423,236,903
Finance income	6, 34, 39	11,413,628,871	8,432,335,183
Finance costs	6, 34	20,717,658,218	22,803,694,886
Profit before income tax		20,616,126,671	16,029,950,085
Income tax expense	23	2,781,173,862	4,695,113,359
Net profit for the period		₩ 17,834,952,809	₩ 11,334,836,726
Basic earnings per share	35	₩ 1,296	₩ 824
Diluted earnings per share	35	₩ 1,296	₩ 824

See accompanying notes to separate financial statements.

HANDOK INC.

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	Notes	Korean won	
		2022	2021
		(in Korean won)	
Net profit for the period		₩ 17,834,952,809	₩ 11,334,836,726
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liability	22, 23	4,969,295,753	668,265,413
Losses on valuation of financial assets at fair value through other comprehensive income		(7,024,371)	-
Items that are subsequently reclassified to profit or loss:			
Cash flow hedge	23, 38	(339,961,657)	314,134,146
Other comprehensive income for the period, net of tax		4,622,309,725	982,399,559
Total comprehensive income for the period		₩ 22,457,262,534	₩ 12,317,236,285

See accompanying notes to separate financial statements.

HANDOK INC.

SEPARATE STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	Korean won				
	Share Capital	Share Premium	Other Components of Equity (in Korean won)	Retained earnings	Total equity
Balance at January 1, 2021	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,612,612,431	₩ 291,942,880,537	₩ 377,185,362,524
Total comprehensive income for the period:					
Net profit for the period	-	-	-	11,334,836,726	11,334,836,726
Remeasurements of net defined benefit liability	-	-	-	668,265,413	668,265,413
Cash flow hedge	-	-	314,134,146	-	314,134,146
Transactions with owners:					
Dividends	-	-	-	(4,129,059,900)	(4,129,059,900)
Balance at December 31, 2021	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,926,746,577	₩ 299,816,922,776	₩ 385,373,538,909
Balance at January 1, 2022	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,926,746,577	₩ 299,816,922,776	₩ 385,373,538,909
Total comprehensive income for the period:					
Net profit for the period	-	-	-	17,834,952,809	17,834,952,809
Remeasurements of net defined benefit liability	-	-	-	4,969,295,753	4,969,295,753
Losses on valuation of financial assets at fair value through other comprehensive income	-	-	-	(7,024,371)	(7,024,371)
Cash flow hedge	-	-	(339,961,657)	-	(339,961,657)
Transactions with owners:					
Dividends	-	-	-	(4,817,236,550)	(4,817,236,550)
Balance at December 31, 2022	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,586,784,920	₩ 317,796,910,417	₩ 403,013,564,893

See accompanying notes to separate financial statements.

## HANDOK INC.

## SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	Notes	Korean won	
		2022	2021
(in Korean won)			
Cash flows from operating activities:			
Cash generated from operations	37	₩ 36,925,036,689	₩ 54,520,295,946
Income taxes paid		(1,176,665,890)	(13,263,357,850)
Interest paid		(7,408,340,825)	(6,223,644,072)
Interest received		457,467,803	389,732,920
Dividends received		96,850	437,249,753
Net cash provided by operating activities		<u>28,797,594,627</u>	<u>35,860,276,697</u>
Cash flows from investing activities:			
Increase in short-term loans		-	(1,000,000,000)
Increase in long-term loans to employees		(90,000,000)	(120,000,000)
Increase in leasehold deposits		(3,000,000)	(40,000,000)
Purchases of financial assets at fair value through profit or loss		(6,347,377,047)	(13,654,975,227)
Purchases of other financial assets		(35,000,000,000)	(148,000,000,000)
Purchases of investments in subsidiaries and associates		(19,555,550,013)	(6,055,000,000)
Purchases of property, plant and equipment		(36,163,969,089)	(43,006,345,813)
Purchases of intangible assets		(7,512,440,146)	(426,842,525)
Decrease in long-term loans to employees		314,940,000	171,340,000
Proceeds from sale of financial assets at fair value through profit or loss		511,668,793	2,891,404,984
Proceeds from sale of other financial assets		40,000,000,000	153,000,000,000
Decrease in leasehold deposits		105,420,000	-
Decrease in other deposits		-	18,000,000
Decrease in guarantee deposits for checking accounts		1,000,000	-
Proceeds from sale of property, plant and equipment		211,588,861	10,314,801,737
Proceeds from sale of intangible assets		293,972,727	36,088,639
Receipt of payments for finance lease receivables		22,054,375	-
Net cash used in investing activities		<u>(63,211,691,539)</u>	<u>(45,871,528,205)</u>

(Continued)

HANDOK INC.

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021 (CONTINUED)

Notes	Korean won	
	2022	2021
	(in Korean won)	
Cash flows from financing activities:		
Proceeds from short-term borrowings	₩ 181,650,000,000	₩ 222,000,000,000
Proceeds from long-term borrowings	117,347,500,000	5,000,000,000
Proceeds from issuance of debentures	-	49,299,480,000
Receipts of government grants	59,784,000	59,784,000
Increase in lease liabilities	91,116,598	461,673,827
Payment of cash dividends	(4,817,236,550)	(4,129,059,900)
Repayments of short-term borrowings	(257,664,960,000)	(226,450,160,000)
Repayments at Debentures	-	(30,000,000,000)
Decrease in government grants	(55,371,872)	(55,203,088)
Repayments of lease liabilities	(520,835,978)	(666,191,691)
Net cash provided by financing activities	<u>36,089,996,198</u>	<u>15,520,323,148</u>
Net increase in cash and cash equivalents	1,675,899,286	5,509,071,640
Cash and cash equivalents at beginning of year	27,284,690,674	21,775,628,727
Effect of foreign exchange rate changes	(187,393,392)	(9,693)
Cash and cash equivalents at end of the year	<u>₩ 28,773,196,568</u>	<u>₩ 27,284,690,674</u>

(Concluded)

See accompanying notes to separate financial statements.

# HANDOK INC.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

### 1. General Information

Handok Inc. (the "Company") was incorporated on August 19, 1958, under the Commercial Code of the Republic of Korea, to engage in the manufacture and sale of pharmaceutical products and lease of real estate. The head office of the Company is located in Gangnam-gu, Seoul, with its factory in Eumsung County, North Chungcheong Province in Korea and research laboratory in Gangseo-gu, Seoul. In addition, the Company established and operates branches in Korea.

The Company's shares were offered to the public on June 30, 1976, and all issued and outstanding shares were listed on the Korea Stock Exchange.

As at December 31, 2022, the Company's paid-in capital amounted to ₩6,882 million and 13,763,533 shares of ordinary shares are issued and outstanding, which are owned by the following shareholders:

Name of shareholder	Number of Ordinary shares	Percentage of Ownership	Remarks
Y.J. Kim	1,878,397	13.65%	Representative director
Y&S International Co., Ltd.	2,435,290	17.69%	Related parties
National Pension Service	740,720	5.38%	
Others	8,709,126	63.28%	
	<u>13,763,533</u>	<u>100.00%</u>	

### 2. Significant Accounting Policies

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

#### 2.1 Basis of Preparation

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

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

The Company prepares its financial statements in accordance with K-IFRS 1027 *Separate Financial Statements*. The separate financial statements require investors with joint control or significant influence over the parent or investee to invest their assets in accordance with the cost method or the method prescribed in K-IFRS 1109 *Financial Instruments*, or using the equity method of accounting as prescribed in K-IFRS 1028 *Investments in Associates and Joint Ventures*.

The principal accounting policies are set out below. Except for the effect of the Amendments to K-IFRSs and new interpretations set out below, the principal accounting policies used to prepare the separate financial statements as of and for the year ended December 31, 2022 are consistent with the accounting policies used to prepare the separate financial statements as of and for the year ended December 31, 2021.

The accompanying separate financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given.

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

*(a) New and amended standards adopted by the Company*

In the current year, the Company has applied a number of new and amended K-IFRSs and new interpretations issued that are effective accounting periods beginning on or after January 1, 2022.

*- K-IFRS 1116 Leases – Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment)*

The practical expedient permits a lessee to elect not to assess whether rent concessions occurring as a direct consequence of COVID-19 are a lease modification. The practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before June 30, 2022.

A lessee that makes this election shall apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances. The amendments are effective for annual periods beginning on or after April 1, 2021.

*- K-IFRS 1103 Business Combinations – Reference to the Conceptual Framework (Amendment)*

The amendments update K-IFRS 1103 so that it refers to the revised Conceptual Framework for Financial Reporting where the recognition criteria for assets and liabilities has been amended. They also add to K-IFRS 1103 a requirement that, for obligations and contingent liabilities within the scope of K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, or K-IFRS 2121 *Levies*, an acquirer applies the respective standard. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for annual periods beginning on or after January 1, 2022.

*- K-IFRS 1016 Property, Plant and Equipment – Proceeds before Intended Use (Amendment)*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, and requires entities to recognize such sales proceeds and related costs in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022.

*- K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract (Amendment)*

The amendments specify that when identifying onerous contracts, the 'cost of fulfilling' a contract consists of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022.

*- Annual Improvements to IFRS Standards 2018-2020*

The Annual Improvements are effective for annual periods beginning on or after January 1, 2022.

- K-IFRS 1101 *First-time Adoption of K-IFRS*: Subsidiaries that are first-time adopters
- K-IFRS 1109 *Financial Instruments*: Fees related to the 10 percent test for derecognition of financial liabilities
- K-IFRS 1116 *Leases*: Lease incentives
- K-IFRS 1041 *Agriculture*: Measuring fair value

*(b) New and revised K-IFRSs in issue but not yet effective*

At the date of authorization of these financial statements, the Company has not applied the following new and revised K-IFRS Standards that have been issued but are not yet effective:

*- K-IFRS 1001 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies (Amendment)*

The amendments change the requirements in K-IFRS 1001 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'.

The supporting paragraphs in K-IFRS 1001 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to K-IFRS 1001 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

*- K-IFRS 1001 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (Amendment)*

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

*- K-IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendment)*

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

*- K-IFRS 1012 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment)*

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying K-IFRS 1116 *Leases* at the commencement date of a lease.

Following the amendments to K-IFRS 1012, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in K-IFRS 1012.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

The Company does not anticipate that the application of the enactment and amendments will have a significant impact on the Company's separate financial statements.

## **2.2 Accounting Policies**

### **2.2.1 Subsidiaries and Associates**

The financial statements of the Company are the separate financial statements prepared in accordance with K-IFRS 1027, *Separate Financial Statements*. Investments in subsidiaries and associates are recognized at cost based on direct equity investments. Management applied the carrying amounts under the previous K-GAAP at the time of transition to the K-IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries and associates in profits or loss when its right to receive the dividend is established.

The Company applies K-IFRS 1028 *Investments in Associates and Joint Ventures* to determine whether additional impairment loss should be recognized for investments in subsidiaries and associates. Since goodwill is included within the carrying amount of investments in associates and joint ventures and not presented as a separate line, it is not separately tested for impairment. Investments in associates and joint ventures are tested for impairment whenever events or changes in circumstances indicate that they might be impaired. When necessary, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (the higher of the investment's fair value less costs of disposal and its value-in-use) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

### **2.2.2 Foreign Currency Translation**

#### *(a) Functional and presentation currency*

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

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate at the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated using the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognized in profit or loss.

Translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equity instruments held at fair value through other comprehensive income are recognized in other comprehensive income.

### 2.2.3 Financial Assets

#### *(a) Classification*

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

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

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

Foreign exchange gains and losses resulting from the translation of borrowings in foreign currencies are recognized in profit or loss as finance income or costs. Other foreign exchange gains and losses are classified as other income or other expenses.

Translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equity instruments held at fair value through other comprehensive income are recognized in other comprehensive income.

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

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

#### *(b) Measurement*

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

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

##### *i. Debt Instruments*

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

- **Amortized cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the financial asset is derecognized or impaired. Interest income from financial assets is included in 'finance income' using the effective interest rate method.

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Changes in the carrying amount are recognized in other comprehensive income, except changes in the carrying amount as a result of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from to profit or loss. Interest income from these financial assets calculated using the effective interest method is included in 'finance income'. Foreign exchange gains and losses are presented in other income or expenses and impairment losses are presented in other expenses.
- Fair value through profit or loss: Financial assets that do not meet the criteria for being measured at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. Any gain or loss on a debt investment that is measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and is included in finance income or costs in the period in which it is incurred.

#### *ii. Equity Instruments*

The Company subsequently measures all investments in equity instruments at fair value. The Company may designate equity instruments held for long-term investment or strategic purposes as at fair value through other comprehensive income. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. The cumulative gain or loss in other comprehensive income is not reclassified to profit or loss on disposal of the equity investments, instead, it is reclassified to retained earnings. Dividend income from such equity instruments continue to be recognized in profit or loss as finance income when the right to receive payments is established.

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

#### *(c) Impairment*

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments that are measured at amortized cost or at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

#### *(d) Recognition and Derecognition*

All regular way purchases and sales of financial assets are recognized and derecognized on a trade date basis. The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial assets and substantial all the risks and rewards of ownership of the asset to another entity.

If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes an associated financial liability for the consideration received. The Company classifies such associated financial liabilities as borrowings in the statement of financial position.

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

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

#### **2.2.4 Derivative Instruments**

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company enters into a variety of derivative financial instruments to manage its exposure risks, including the following hedging instruments:

- Hedges of changes in the fair value of recognized assets or liabilities (Fair value hedge)
- Hedges of changes in the expected future cash flows of specific assets or liabilities (Cash flow hedge)
- Hedges of net investments in foreign operations (Net investment hedge)

A derivative that is designated as a hedging instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realized or settled within 12 months. A derivative that is designated as a hedging instrument is presented as a current asset or a current liability if the remaining maturity of the instrument is less than 12 months. Other derivative liabilities that are not designated as hedging instruments are presented as current or non-current derivative liabilities based on the date of settlement, and other derivative assets that are not designated as hedging instruments are presented as current or non-current derivative assets based on their expected maturity date.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The Company designates only the changes in the intrinsic value of the option of option contracts as the hedging instrument in cash flow hedging relationships. The gains and losses in the effective portion of changes in the intrinsic value of the option is recognized as cash flow hedge within equity. Changes in the time value of options is recognized as cash flow hedge in other comprehensive income.

The Company generally designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is recognized as cash flow hedge within equity. The change in the forward element of a hedged forecast transaction is recognized as the cost of hedging in other comprehensive income. In certain cases, the Company designates the change in fair value of the forward exchange contract as the hedging instrument in cash flow hedging relationships. In which case, the effective portion of changes in the fair value of the forward exchange contract is recognized as cash flow hedge in equity.

Amounts previously accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, with the following provisions:

- When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, changes in the value of the time value of options, and changes in the value of the forward elements of forward contracts are included directly in the initial cost of the non-financial item when it is recognized. The deferred amounts are ultimately recognized in profit or loss in items such as cost of sales.
- Gains and losses arising on the effective portion of changes in the value of the interest rate swaps are included as finance costs in profits or loss in the periods when the hedged item affects profit or loss.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

### **2.2.5 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving average method (the specific identification method for work-in-process and inventories in-transit).

### **2.2.6 Non-current Assets (and Disposal Groups) Held for Sale**

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use, and a sale is considered highly probable. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

### **2.2.7 Property, Plant and Equipment**

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

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

	<u>Useful lives</u>
Buildings	10 ~ 60 years
Structures	5 ~ 20 years
Machinery and equipment	5 ~ 20 years
Vehicles	5 ~ 10 years
Tools and furniture	3 ~ 10 years
Finance lease assets	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

## 2.2.8 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 2.2.9 Government Grants

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

## 2.2.10 Intangible Assets

### (a) Goodwill

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

### (b) License and industrial property rights

License (including technology transfer contracts regarding new drugs) and industrial property rights acquired from third parties are shown at acquisition cost. License and industrial property rights have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of license and industrial property rights over their estimated useful lives.

### (c) Other intangible assets

Other intangible assets include development costs and software, and are amortized on a straight-line basis over their estimated useful lives when they are available for use or sale. However, membership rights that have indefinite useful lives are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with finite useful lives using the straight-line method over the following periods:

	<u>Useful Lives</u>
License and franchise	5 ~ 12 years
Industrial property rights	3 ~ 10 years
Other intangible assets	5 ~ 20 years

### (d) Research and Development

Research expenses are recognized as an expense in the period in which it is incurred. Development costs that are directly attributable to identifiable and unique development project controlled by the Company are recognized as intangible assets when all of the following conditions have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.

- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development costs that do not meet these criteria are recognized as an expense in the period in which it is incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs recognized as assets are amortized over their estimated useful lives based on straight-line method from the day they are available for sale or use, and are tested for impairment.

### **2.2.11 Investment Property**

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at cost. Subsequent to initial recognition, investment property is measured at cost less any accumulated depreciation and accumulated impairment losses. The Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 10 – 60 years.

### **2.2.12 Impairment of Non-financial Assets**

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

### **2.2.13 Financial Liabilities**

#### *(a) Classification and measurement*

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the near term. Derivative instruments that are not designated and effective hedging instruments, and embedded derivatives that have been separated from their financial instrument hosts are also classified as held for trading.

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

Preferred shares with a mandatory redemption at a specific date are classified as liabilities. Interest expense on these preferred shares are calculated using the effective interest method and are recognized in the statement of income as 'finance costs', together with interest expenses recognized from other financial liabilities.

#### *(b) Derecognition*

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled, or have expired, or when the terms of an existing financial liability have been substantially modified. The difference between the carrying amount of the financial liability derecognized or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

### **2.2.14 Financial Guarantee Contracts**

The Company recognizes financial guarantee contracts as 'other financial liabilities' in the statement of financial position. Financial guarantee contracts are measured initially at their fair values, and are measured subsequently at the higher of:

- The amount of the loss allowance determined in accordance with the expected credit loss model of financial instruments, and
- The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with K-IFRS 1115 *Revenue from Contracts with Customers*.

The Company recognized financial guarantee contracts provided to subsidiaries for no compensation by adding the amount to investments in subsidiaries.

### **2.2.15 Provisions**

Provisions are recognized as part of reserve for incentive bonuses, refund liabilities, and government grants repayable when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provision for incentive bonuses is recognized as provisions for the estimated future payment, which is paid to employees based on their performance for the period. Refund liabilities are estimated for the future amount of sales return and recognized based on the past experience rate. The portion of government grants for which the Company has repayment obligations for is recognized as 'government grants repayable'.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

### **2.2.16 Current and Deferred Tax**

The income tax expense for the period consists of current and deferred tax. Current and deferred tax are recognized in profit or loss, except when they relate to items recognized in other comprehensive income or directly in equity in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. The income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### **2.2.17 Employee Benefits**

#### *(a) Post-employment benefits*

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

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit plans are retirement plans that are not defined contribution plans. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depends on the employee's age, periods of service and salary levels. The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur in other comprehensive income.

Past service cost is recognized in profit or loss when the plan amendment or curtailment occurs, and gains or losses on settlement of a defined benefit plan are recognized when the settlement occurs.

#### *(b) Share-based payments*

Under a cash-settled share-based payment plan, the Company compensates the difference of the fair value and the exercise price of option as the consideration for employee services received. The total expense that will be recognized over the vesting period is determined by reference to the fair value of the option granted. Until the liability is settled, the Company is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognized in profit or loss for the year.

#### *(c) Other long-term employee benefits*

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

## **2.2.18 Revenue Recognition**

From January 1, 2018, the Company has applied K-IFRS 1115 *Revenue from Contracts with Customers*.

### *(a) Identification of performance obligations*

The Company provides pharmaceutical products, health functional food, and reagent for medical devices to a customer. The Company identifies performance obligations from reagent for medical device contract with a customer such as (a) provision of reagent, (b) lease of medical device, and (c) maintenance of medical device.

### *(b) Variable consideration*

The Company estimates an amount of variable consideration by using the expected values which the Company expects to better predict the amount of consideration. The Company recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The refund liability is measured at the amount of consideration received for which the Company does not expect to be entitled.

### *(c) Allocating the transaction price*

The Company allocates the transaction price in an arrangement to each separate performance obligation based on the relative standalone selling prices. The Company determines the standalone selling price for each separate performance obligation by using expected cost plus a margin approach to estimate expected cost plus a reasonable margin.

### *(d) Returns*

The Company recognizes a refund liability for the expected refunds to customers and adjusts the revenue. At the same time, a right to recover the product from the customer where the customer exercises the right of return is recognized as an asset and a corresponding adjustment to cost of sales. A right to recover the product is measured by reference to the former carrying amount of the product less any expected costs to recover those products.

### *(e) Performance obligation satisfied over time*

The Company provides contractual clinical trial services to clients. The Company itself does not have alternative uses for any assets created during such services, and recognizes revenue for such completed contractual services for which the Company has an enforceable right to demand payment.

## **2.2.19 Lease**

### *(a) The Company as lessee*

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payment of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost, less any accumulated depreciation and accumulated impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies K-IFRS 1036 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

*(b) The Company as lessor*

Leases for which the Company is a lessor are classified as finance or operating leases at the inception of the lease. Leases are classified by determining whether the Company transfers substantially all the risk and rewards of ownership of the underlying asset.

Whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees are recognized as receivables at the amount of the Company's net investment in the leases, and interest income is recognized using the effective interest rate method on the uncollected portion.

### **2.2.20 Approval of Issuance of the Financial Statements**

The separate financial statements are expected to be approved for issue by the Board of Directors on March 9, 2023, and will be reported at the Annual Shareholder's Meeting.

### **3. Critical Accounting Estimates and Assumptions**

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

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

*(a) Impairment of goodwill*

The Company tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (see Note 14).

*(b) Income taxes*

The Company's taxable income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (see Note 23).

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

#### *(c) Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (see Note 5).

#### *(d) Impairment of financial assets*

The provision for impairment of financial assets is based on assumptions about the risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (see Note 4.1.2).

#### *(e) Net defined benefit liability*

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions, including the discount rate (see Note 22).

#### *(f) Provisions*

As at December 31, 2022, the Company recognizes provisions for estimated incentive and estimated returns as explained in Note 21. These provisions are estimated based on past experience.

The recent outbreaks of Covid-19 have resulted in significant impacts on the economy. Significant accounting estimates and assumptions applied in the preparation of the separate financial statements may be adjusted depending on the changes in uncertainties from Covid-19. However, the exact impact that Covid-19 may have on the Company's financial position and performance cannot presently be determined.

## **4. Financial Risk Management**

### **4.1 Financial Risk Factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the variability of financial markets and seeks to minimize any adverse effects on the financial performance of the Company.

Risk management is carried out by a treasury department under policies approved by the Board of Directors. The Board of Directors reviews and approves written policies for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Company's treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units.

#### **4.1.1 Market risk**

##### *(a) Foreign exchange risk*

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro and the Japanese Yen. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

The Company's financial instruments exposed to foreign exchange risk as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
Cash and cash equivalents:				
USD	₩	5,626,628	₩	2,016
Trade receivables:				
USD		1,928,039		1,858,929
Non-trade receivables:				
USD		27,184		1,126
Trade payables:				
USD		6,044,439		8,646,237
EUR		717,372		1,185,909
JPY		108,663		909,438
Non-trade payables:				
USD		1,068,608		120,145
EUR		-		28,395
JPY		2,383		-
Short-term borrowings in foreign currency:				
USD		25,346,000		35,565,000
Long-term borrowings in foreign currency:				
USD		38,019,000		23,710,000
Derivative assets (cash flow hedge):				
USD		1,637,255		433,763
Derivative liabilities (cash flow hedge):				
USD		4,220,529		453,744

The table below summarizes the impact of increases/decreases of foreign exchange rates on the Company's profit before tax for the year. The analysis is based on the assumption that foreign exchange rates have increased/decreased by 10 percent with all other variables held constant (Unit: in thousands of Korean won).

	<u>2022</u>		<u>2021</u>	
	<u>10% Increase</u>	<u>10% Decrease</u>	<u>10% Increase</u>	<u>10% Decrease</u>
USD	₩6,547,947 decrease	₩6,547,947 increase	₩6,619,929 decrease	₩6,619,929 increase
EUR	71,737 decrease	71,737 increase	121,430 decrease	121,430 increase
JPY	11,105 decrease	11,105 increase	90,944 decrease	90,944 increase

The above table estimate of the impact of increases/decreases on monetary assets and liabilities does not include the effect of hedges created by derivative instruments. The Company has entered into a swap agreement in order to hedge the currency exchange risk from long-term borrowings in foreign currencies (see Note 38).

*(b) Interest rate risk*

Interest rate risk refers to the risk of changes in interest income and interest expenses arising from changes in the market interest rate, which affect deposits and borrowings subject to variable interest rates. The Company manages interest rate risk to minimize uncertainties and interest expenses created by changes in interest rates and maximize the Company's value.

The Company's borrowings and trade receivables are estimated at amortized cost. Borrowings issued at variable rates are exposed to the risk of changes in market interest rates.

The carrying amounts of borrowings exposed to interest rate risk as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Borrowings	₩ 155,364,880	₩ 128,274,840

The table below summarizes the impact of increases/decreases of interest rate on the Company's profit before tax for the year. The analysis is based on the assumption that interest rate has increased/decreased by 1 percent with all other variables held constant (Unit: in thousands of Korean won).

	<u>2022</u>		<u>2021</u>	
	<u>1% Increase</u>	<u>1% Decrease</u>	<u>1% Increase</u>	<u>1% Decrease</u>
Interest expense	<u>₩1,553,649 increase</u>	<u>₩1,553,649 decrease</u>	<u>₩1,282,748 increase</u>	<u>₩1,282,748 decrease</u>

The above estimate of the impact of increases/decreases of interest rate does not include the effect of hedges created by derivative instruments. The Company has entered into a swap contract in order to hedge the risk arising from the floating interest rate on long-term borrowings in foreign currencies (see Note 38).

#### **4.1.2 Credit Risk**

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated after taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash, notes or using major credit cards.

No credit limits were exceeded during the reporting period, and management does not expect any losses if the above counterparties are in default under the terms of the agreements.

The maximum exposure to credit risk as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash and cash equivalents	₩ 28,773,197	₩ 27,284,691
Trade and other receivables	172,569,293	171,811,388
Financial assets measured at amortized cost	-	5,000,000
Derivative financial instruments	1,637,255	433,763
Long-term other financial assets	4,000	5,000
Long-term trade and other receivables	2,113,006	1,284,964
Financial assets at fair value through profit or loss	45,828,366	40,930,657
Financial assets at fair value through other comprehensive income	10,905	20,172
Financial guarantee contracts (*)	2,007,395	2,016,172

(\*) Financial guarantee contracts represent the total amounts of financial guarantee contracts provided by the Company for office rental contracts and payment of payables on price of goods of Theravalues Corporation, a subsidiary.

#### 4.1.3 Liquidity Risk

Cash flow forecasting is performed by the Company's treasury. The Company's treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Company's treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the end of the reporting period, the Company held ₩28,773 million (2021: ₩27,285 million) in cash and cash equivalents that are expected to readily generate cash inflows for managing liquidity risk.

The analyses of the Company's liquidity risk as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>			
	<u>Within 1 year</u>	<u>Over 1 year and Within 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Trade and other payables	₩ 137,416,754	₩ 7,274,309	₩ -	₩ 144,691,063
Borrowings	85,504,138	101,582,786	44,765,868	231,852,792
Debentures	36,618,088	50,596,500	-	87,214,588
Financial guarantee liabilities (*)	-	2,007,395	-	2,007,395
Other financial liabilities	415,360	414,734	-	830,094
	<u>₩ 259,954,340</u>	<u>₩ 161,875,724</u>	<u>₩ 44,765,868</u>	<u>₩ 466,595,932</u>

	December 31, 2021			
	Within 1 year	Over 1 year and Within 5 years	Over 5 years	Total
Trade and other payables	₩ 136,097,759	₩ 7,415,421	₩ -	₩ 143,513,180
Borrowings	121,513,292	31,673,101	25,357,642	178,544,035
Debentures	1,898,650	87,214,588	-	89,113,238
Financial guarantee liabilities (*)	470,812	1,545,360	-	2,016,172
Other financial liabilities	558,250	706,376	-	1,264,626
	<u>₩ 260,538,763</u>	<u>₩ 128,554,846</u>	<u>₩ 25,357,642</u>	<u>₩ 414,451,251</u>

(\*) Financial guarantee liabilities represents the total amounts of financial guarantee contracts provided by the Company for office rental contracts and payment of payables on price of goods of Theravalues Corporation, a subsidiary.

The table above analyzes the Company's non-derivative financial liabilities based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

## 4.2 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so the Company can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with other companies in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is 'equity' as shown in the statements of financial position plus net debt.

The gearing ratios as at December 31, 2022 and 2021, were as follows (Unit: in thousands of Korean won):

	December 31, 2022	December 31, 2021
Total borrowings	₩ 297,042,011	₩ 256,951,019
Less: cash and cash equivalents	<u>(28,773,197)</u>	<u>(27,284,691)</u>
Net debt	268,268,814	229,666,328
Total equity	<u>403,013,565</u>	<u>385,373,539</u>
Total capital	₩ <u>671,282,379</u>	₩ <u>615,039,867</u>
Gearing ratio	<u>39.96%</u>	<u>37.34%</u>

## 5. Fair Value Estimation

### 5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	December 31, 2022		December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	₩ 28,773,197	₩ 28,773,197	₩ 27,284,691	₩ 27,284,691
Trade and other receivables	172,569,293	172,569,293	171,811,388	171,811,388
Other financial assets	-	-	5,000,000	5,000,000
Long-term other financial assets	4,000	4,000	5,000	5,000
Derivative financial assets (cash flow hedge)	1,637,255	1,637,255	433,763	433,763
Long-term trade and other receivables	2,133,006	2,133,006	1,284,964	1,284,964
Financial assets at fair value through profit or loss	45,828,366	45,828,366	40,930,657	40,930,657
Financial assets at fair value through other comprehensive income	10,905	10,905	20,172	20,172
	<u>₩ 250,956,022</u>	<u>₩ 250,956,022</u>	<u>₩ 246,770,635</u>	<u>₩ 246,770,635</u>
Financial liabilities:				
Trade and other payables	₩ 137,416,754	₩ 137,416,754	₩ 136,097,759	₩ 136,097,759
Other financial liabilities	-	-	1,691	1,691
Short-term borrowings	77,469,210	77,469,210	118,164,960	118,164,960
Current portion of debentures	34,882,963	34,882,963	-	-
Long-term trade and other payables	7,274,309	7,274,309	7,415,421	7,415,421
Long-term other financial liabilities	32,886	32,886	38,260	38,260
Derivative financial liabilities (cash flow hedge)	-	-	281,005	281,005
Long-term derivative financial liabilities (cash flow hedge)	4,220,529	4,220,529	172,739	172,739
Lease liabilities	805,314	805,314	1,222,962	1,222,962
Long-term borrowings	135,045,670	135,045,670	54,709,880	54,709,880
Debentures	49,644,168	49,644,168	84,076,179	84,076,179
	<u>₩ 446,791,803</u>	<u>₩ 446,791,803</u>	<u>₩ 402,180,856</u>	<u>₩ 402,180,856</u>

## 5.2 Fair Value Hierarchy

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets:				
Financial assets at fair value through profit or loss	₩ 18,378,126	₩ -	₩ 27,450,240	₩ 45,828,366
Financial assets at fair value through other comprehensive income	-	-	10,905	10,905
Derivative financial assets	-	1,637,255	-	1,637,255
Liabilities:				
Long-term derivative financial liabilities	-	4,220,529	-	4,220,529
	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets:				
Financial assets at fair value through profit or loss	₩ 17,160,690	₩ -	₩ 23,769,967	₩ 40,930,657
Financial assets at fair value through other comprehensive income	-	-	20,172	20,172
Derivative financial assets	-	433,763	-	433,763
Liabilities:				
Derivative financial liabilities	-	281,005	-	281,005
Long-term derivative financial liabilities	-	172,739	-	172,739

### 5.3 Valuation Technique and the Inputs

Valuation techniques and inputs used in level 2 and level 3 fair value measurements are as follows (Unit: in thousands of Korean won):

	December 31, 2022				
	Fair value	Level	Valuation techniques	Input	Range of inputs (weighted average)
Financial assets at fair value through profit or loss:					
Investment convertible notes	₩ 3,999,000	3	Binomial Model	Discount rate: Volatility:	3.8% ~ 16.77% 54.78%
Debt instruments	464,707	3	Net asset valuation method	-	-
Debt instruments	5,916,648	3	Net asset valuation method	-	-
Debt instruments	9,750,000	3	Net asset valuation method	-	-
Equity instruments	3,000,842	3	Transaction price of inactive market	-	-
Equity instruments	3,000,024	3	Transaction price of inactive market	-	-
Equity instruments	1,319,018	3	Transaction price of inactive market	-	-
Financial assets at fair value through other comprehensive income:					
Equity instruments	10,905	3	Transaction price of inactive market	-	-
Derivative financial assets:					
Currency swap	1,637,255	2	Net present value	-	-
Long-term derivative financial liabilities:					
Currency swap	4,220,529	2	Net present value	-	-

	December 31, 2021				
	Fair value	Level	Valuation techniques	Input	Range of inputs (weighted average)
Financial assets at fair value through profit or loss:					
Investment convertible notes	₩ 4,649,000	3	Binomial Model	Discount rate: Volatility:	1.9% ~ 14.75% 70.82%
Debt instruments	976,376	3	Net asset valuation method	-	-
Debt instruments	5,295,302	3	Net asset valuation method	-	-
Debt instruments	6,000,000	3	Net asset valuation method	-	-
Equity instruments	567,850	3	Transaction price of inactive market	-	-
Equity instruments	280,573	3	Transaction price of inactive market	-	-
Equity instruments	3,000,842	3	Transaction price of inactive market	-	-
Equity instruments	3,000,024	3	Transaction price of inactive market	-	-
Financial assets at fair value through other comprehensive income:					
Equity instruments	20,172	3	Transaction price of inactive market	-	-
Derivative financial assets:					
Currency swap	433,763	2	Net present value	-	-
Derivative financial liabilities:					
Currency swap	281,005	2	Net present value	-	-
Long-term derivative financial liabilities:					
Currency swap	172,739	2	Net present value	-	-

#### 5.4 Valuation Processes for Fair Value Measurements Categorized as Level 3

Investment convertible notes categorized as level 3 were measured by a specialized external rating agency.

### 5.5 Sensitivity Analysis for Recurring Fair Value Measurements Categorized as Level 3

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the most favorable or most unfavorable amounts are presented.

The results of the sensitivity analysis for the effect on profit or loss from changes in inputs by 10 percent for financial instrument, which is categorized as Level 3 and subject to sensitivity analysis, are as follows (Unit: in thousands of Korean won):

	2022		2021	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets at fair value through profit or loss:				
Investment convertible notes	₩ 23,141	₩ (18,995)	₩ 200,845	₩ (192,455)
Debt instruments	-	-	-	-
Equity instruments	-	-	-	-

### 6. Financial Instruments by Category

Categorizations of financial assets as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	December 31, 2022	December 31, 2021
Financial assets measured at amortized cost:		
Cash and cash equivalents	₩ 28,773,197	₩ 27,284,691
Trade and other receivables	172,569,293	171,811,388
Long-term trade and other receivables	2,133,006	1,284,964
Other financial assets	-	5,000,000
Long-term other financial assets	4,000	5,000
Financial assets at fair value:		
Financial assets at fair value through profit or loss	45,828,366	40,930,657
Financial assets at fair value through other comprehensive income	10,905	20,172
Derivative financial assets	1,637,255	433,763
	₩ 250,956,022	₩ 246,770,635

Categorizations of financial liabilities as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Financial liabilities measured at amortized cost:		
Trade and other payables	₩ 137,416,754	₩ 136,097,759
Short-term borrowings	77,469,210	118,164,960
Current portion of debentures	34,882,963	-
Long-term trade and other payables	7,274,309	7,415,421
Financial guarantee liabilities (*1)	32,886	39,951
Lease liabilities	805,314	1,222,962
Long-term borrowings	135,045,670	54,709,880
Debentures	49,644,168	84,076,179
Financial liabilities at fair value:		
Derivative financial liabilities (cash flow hedge) (*2)	4,220,529	453,744
	<u>₩ 446,791,803</u>	<u>₩ 402,180,856</u>

(\*1) Financial guarantee liabilities are recognized for leasehold deposits and price of goods of Theravalues Corporation.

(\*2) Derivative financial liabilities (cash flow hedge) categorized as financial liabilities at fair value are recognized as the fair value of the swap agreement used to hedge cash flow risk arising from the floating interest rate on long-term borrowings in foreign currencies (see Note 38).

Gains and losses on financial instruments by category for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>2022</u>	<u>2021</u>
Financial assets measured at amortized cost:		
Interest income	₩ 371,858	₩ 334,625
Gains on foreign currency translation	422	8,361
Losses on foreign currency translation	(279,133)	(322)
Financial assets at fair value through profit or loss:		
Losses on valuation of financial assets at fair value through profit or loss	(937,999)	(9,961,054)
Losses from sale of financial assets at fair value through profit or loss	-	(9,573)
Interest income	80,000	80,000
Distribution income from investment funds	-	437,153
Financial assets at fair value through other comprehensive income:		
Distribution income from investment funds	97	97
Financial liabilities measured at amortized cost:		
Interest income	12,431	13,122
Interest expense	(8,223,885)	(5,755,171)
Gains on foreign currency translation	3,837,723	43,915
Losses on foreign currency translation	(1,641,831)	(4,879,098)
Financial assets and liabilities at fair value:		
Gains (losses) on valuation of derivative financial instruments recognized in profit or loss	(2,114,795)	5,362,076
Cash flow hedge recognized in other comprehensive income (*)	(448,498)	(414,425)

(\*) Value before income tax effect

## 7. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	Issued by	December 31, 2022		December 31, 2021	
Beneficiary certificates	MaC Fund, L.P.	₩	464,707	₩	976,376
Beneficiary certificates	RMGP Bio-Pharma Investment Fund, L.P.		5,916,648		5,295,302
Convertible preferred shares	SANA HEALTH, Inc.		-		280,573
Convertible preferred shares	HD Medical Inc.		-		567,850
Ordinary shares	BiomX Ltd.		94,500		757,580
Ordinary shares	SCM Life Science, Co.		2,038,144		2,743,384
Ordinary shares	Adicet Bio, Inc.		3,290,746		6,022,388
Convertible notes	NB Postech, Inc.		3,999,000		4,649,000
Beneficiary certificates	Intervest Open Innovation Private Equity Fund		9,750,000		6,000,000
Ordinary shares (*1)	WELT Corp.		3,000,842		3,000,842
Ordinary shares (*2)	Compass Therapeutics, Inc.		12,954,737		7,637,338
Ordinary shares (*1)	Spark Biopharma, Inc.		3,000,024		3,000,024
Convertible preferred shares (*3)	ImmPACT Bio USA Inc.		1,319,018		-
		₩	45,828,366	₩	40,930,657

(\*1) In 2021, the Company acquired ordinary shares issued by WELT Corp. and Spark Biopharma, Inc. These investments were classified as financial assets at fair value through profit or loss upon acquisition.

(\*2) In 2021, TRIGR Therapeutics, Inc., agreed to a merger with Compass Therapeutics, Inc. The Company reclassified these investments as financial assets at fair value through profit or loss after taking into consideration the changes in percentage ownership after the merger.

(\*3) In 2022, the Company acquired convertible preferred shares issued by ImmPACT Bio USA Inc. These investments were classified as financial assets at fair value through profit or loss upon acquisition.

Changes in financial assets at fair value through profit or loss for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021	
Beginning balance	₩	40,930,657	₩	31,043,712
Acquisition		6,347,377		13,654,975
Disposal		(511,669)		(2,900,978)
Reclassification (*)		-		9,094,002
Valuation		(937,999)		(9,961,054)
Ending balance	₩	45,828,366	₩	40,930,657

(\*) In 2021, investments in TRIGR Therapeutics, previously an associate of the Company, were reclassified as financial assets at fair value through profit or loss following its merger with Compass Therapeutics, Inc.

## 8. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
Non-current				
Unlisted shares:				
The Korea Economic Daily Company Limited	₩	10,760	₩	10,760
Doctor Yonsei		-		9,266
Korea Management Association		145		145
Real-telecom Company, Limited		-		1
	₩	<u>10,905</u>	₩	<u>20,172</u>

Upon disposal of the above equity instruments, the accumulated other comprehensive income is not reclassified to profit or loss and is instead reclassified to retained earnings.

Details of financial assets at fair value through other comprehensive income as at December 31, 2022 and 2021, are as follows (Unit: in, number of shares, in thousands of Korean won):

	<u>December 31, 2022</u>			<u>December 31, 2021</u>	
	<u>Shares owned</u>	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Carrying value</u>	
The Korea Economic Daily Company Limited	1,937	₩ 22,940	₩ 10,760	₩	10,760
Doctor Yonsei	-	100,000	-		9,266
Korea Management Association	100	145	145		145
Real-telecom Company, Limited	-	977,350	-		1
	<u>2,037</u>	<u>₩ 1,100,435</u>	<u>₩ 10,905</u>	<u>₩</u>	<u>20,172</u>

Changes in financial assets at fair value through other comprehensive income for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>2022</u>		<u>2021</u>	
Beginning balance	₩	20,172	₩	20,172
Write-off (*)		(9,267)		-
Ending balance	₩	<u>10,905</u>	₩	<u>20,172</u>

(\*) The accumulated other comprehensive income (₩7,024,000) related to the write-off was reclassified to retained earnings.'

## 9. Trade and Other Receivables

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Trade receivables	₩ 165,217,805	₩ 164,021,284
Provision for impairment	(156,310)	(237,865)
Trade receivables, net	<u>165,061,495</u>	<u>163,783,419</u>
Other receivables	<u>7,507,798</u>	<u>8,027,969</u>
	<u>172,569,293</u>	<u>171,811,388</u>
Long-term other receivables	2,133,006	1,284,964
	<u>₩ 174,702,299</u>	<u>₩ 173,096,352</u>

The carrying amounts of other receivables as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other receivables:		
Non-trade receivables	₩ 6,234,472	₩ 6,818,748
Accrued income	26,171	31,781
Short-term loans	1,144,200	1,177,440
Finance lease receivables	102,955	-
	<u>7,507,798</u>	<u>8,027,969</u>
Long-term other receivables:		
Long-term loans	426,500	618,200
Guarantee deposits	567,501	666,764
Finance lease receivables	1,139,005	-
	<u>2,133,006</u>	<u>1,284,964</u>
	<u>₩ 9,640,804</u>	<u>₩ 9,312,933</u>

The aging analysis of trade and other receivables as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Receivables not past due	₩ 173,181,915	₩ 172,802,310
Past due but not impaired (*1)		
Up to 3 months	1,326,922	281,077
Over 3 months	277,879	34,138
	<u>1,604,801</u>	<u>315,215</u>
Impaired receivables (*2)		
Receivables not past due	-	2,398
Up to 3 months	-	-
Over 3 months	71,893	214,294
	<u>71,893</u>	<u>216,692</u>
	<u>₩ 174,858,609</u>	<u>₩ 173,334,217</u>

(\*1) Trade receivables past due, but not impaired, relates to a number of clients for whom there is no recent history of doubtful debt.

(\*2) Provisions for impaired receivables amount to ₩72 million as at December 31, 2022 (2021: ₩217 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Beginning balance	₩ 237,865	₩ 311,267
Increase in provision for impairment recognized in profit or loss during the year	65,104	(61,553)
Receivables written off during the year as uncollectible	(146,659)	(11,849)
Ending balance	<u>₩ 156,310</u>	<u>₩ 237,865</u>

Provisions for impaired trade receivables are included in selling and general expenses in the statement of profit or loss. The provision for impairment of trade receivables is offset by trade receivables if the trade receivable is considered to be uncollectible.

The maximum exposure of trade and other receivables to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.

## 10. Other Current Assets and Non-current Assets

Other current assets and non-current assets as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other current assets:		
Advance payments	₩ 43,966,681	₩ 29,414,282
Prepaid expenses	3,311,312	2,839,496
Right to the returned goods	14,521	189,092
	<u>47,292,514</u>	<u>32,442,870</u>
Other non-current assets:		
Long-term advance payments	1,201,246	-
Long-term prepaid expenses	30,000	390,000
Right to the returned goods	6,557	20,205
Net defined benefit assets (see Note 22)	14,103,745	-
Right-of-use assets (see Note 16)	786,772	1,208,806
	<u>16,128,320</u>	<u>1,619,011</u>
	<u>₩ 63,420,834</u>	<u>₩ 34,061,881</u>

## 11. Inventories

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

	<u>December 31, 2022</u>		
	<u>Total</u>	<u>Provision for valuation</u>	<u>Net</u>
Merchandise	₩ 44,960,628	₩ (996,050)	₩ 43,964,578
Finished goods	23,987,130	(172,036)	23,815,094
Work-in-process	2,451,470	-	2,451,470
Raw materials	17,881,783	-	17,881,783
Packing materials	1,698,100	-	1,698,100
Inventories in transit	1,926,028	-	1,926,028
	<u>₩ 92,905,139</u>	<u>₩ (1,168,086)</u>	<u>₩ 91,737,053</u>

	December 31, 2021		
	Total	Provision for valuation	Net
Merchandise	₩ 46,634,955	₩ (3,202,118)	₩ 43,432,837
Finished goods	21,829,573	(933,931)	20,895,642
Work-in-process	3,674,150	-	3,674,150
Raw materials	10,207,803	-	10,207,803
Packing materials	1,713,343	-	1,713,343
Inventories in transit	3,342,550	-	3,342,550
	<u>₩ 87,402,374</u>	<u>₩ (4,136,049)</u>	<u>₩ 83,266,325</u>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩342,052 million (2021: ₩326,431 million) for the year ended December 31, 2022.

The Company recognized reversal of losses on valuation of inventories based on net realizable value amounting to ₩1,546 million (2021: losses amounting to ₩1,443 million) and reversal of losses on other valuation amounting to ₩1,422 million (2021: losses amounting ₩839 million) for the year ended December 31, 2022.

## 12. Other Financial Assets

Other financial assets and long-term other financial assets as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	December 31, 2022	December 31, 2021
Other financial assets:		
Financial assets measured at amortized cost	₩ -	₩ 5,000,000
Derivative financial assets (*)	1,637,255	433,763
	<u>₩ 1,637,255</u>	<u>₩ 5,433,763</u>
Long-term other financial assets:		
Guarantee deposits for checking accounts	₩ 4,000	₩ 5,000
	<u>₩ 4,000</u>	<u>₩ 5,000</u>

(\*) Derivative financial assets are recognized as the fair value of the swap agreement entered into by the Company to hedge cash flow risk associated with the floating interest rate and currency exchange rate of borrowings in foreign currencies (see Note 38).

### 13. Property, Plant and Equipment

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

	2022			
	Land	Buildings and Structures	Machinery	Vehicles and tools
Opening net carrying amount	₩ 60,915,619	₩ 101,749,083	₩ 25,399,446	₩ 14,025,038
Acquisition	55,118	2,722,425	722,689	6,333,245
Reclassification	4,007,754	2,693,284	5,143,105	1,370,385
Disposal	-	-	(15,762)	(94,720)
Depreciation	-	(3,334,240)	(5,060,886)	(5,899,393)
Closing net carrying amount	<u>₩ 64,978,491</u>	<u>₩ 103,830,552</u>	<u>₩ 26,188,592</u>	<u>₩ 15,734,555</u>
Acquisition cost	₩ 64,978,491	₩ 148,614,568	₩ 89,749,579	₩ 50,365,970
Government grants	-	(23,296)	-	-
Accumulated depreciation	-	(44,760,720)	(63,560,987)	(34,631,415)
Net carrying amount	<u>₩ 64,978,491</u>	<u>₩ 103,830,552</u>	<u>₩ 26,188,592</u>	<u>₩ 15,734,555</u>

	2022		
	Finance lease assets	Construction in progress	Total
Opening net carrying amount	₩ 4	₩ 7,050,976	₩ 209,140,166
Acquisition	-	13,539,173	23,372,650
Reclassification	-	(11,119,874)	2,094,654
Disposal	(4)	(1,302,730)	(1,413,216)
Depreciation	-	-	(14,294,519)
Closing net carrying amount	<u>₩ -</u>	<u>₩ 8,167,545</u>	<u>₩ 218,899,735</u>
Acquisition cost	₩ -	₩ 8,167,545	₩ 361,876,153
Government grants	-	-	(23,296)
Accumulated depreciation	-	-	(142,953,122)
Net carrying amount	<u>₩ -</u>	<u>₩ 8,167,545</u>	<u>₩ 218,899,735</u>

	2021			
	Land	Buildings and Structures	Machinery	Vehicles and tools
Opening net carrying amount	₩ 65,276,629	₩ 51,470,758	₩ 23,813,682	₩ 14,000,280
Acquisition	-	71,220	3,769,136	6,424,799
Reclassification	-	54,365,195	2,868,449	71,654
Disposal	(4,361,010)	(1,667,372)	(5,694)	(509,684)
Depreciation	-	(2,490,718)	(5,046,127)	(5,962,011)
Closing net carrying amount	<u>₩ 60,915,619</u>	<u>₩ 101,749,083</u>	<u>₩ 25,399,446</u>	<u>₩ 14,025,038</u>
Acquisition cost	₩ 60,915,619	₩ 142,552,595	₩ 85,312,916	₩ 45,777,379
Government grants	-	(116,478)	-	-
Accumulated depreciation	-	(40,687,034)	(59,913,470)	(31,752,341)
Net carrying amount	<u>₩ 60,915,619</u>	<u>₩ 101,749,083</u>	<u>₩ 25,399,446</u>	<u>₩ 14,025,038</u>

	2021		
	Finance lease assets	Construction in progress	Total
Opening net carrying amount	₩ 4	₩ 19,347,714	₩ 173,909,067
Acquisition	-	46,160,300	56,425,455
Reclassification	-	(58,457,038)	(1,151,740)
Disposal	-	-	(6,543,760)
Depreciation	-	-	(13,498,856)
Closing net carrying amount	<u>₩ 4</u>	<u>₩ 7,050,976</u>	<u>₩ 209,140,166</u>
Acquisition cost	₩ 271,850	₩ 7,050,976	₩ 341,881,335
Government grants	-	-	(116,478)
Accumulated depreciation	(271,846)	-	(132,624,691)
Net carrying amount	<u>₩ 4</u>	<u>₩ 7,050,976</u>	<u>₩ 209,140,166</u>

Details of depreciation expense for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022	2021
Cost of sales	₩ 7,288,013	₩ 7,352,087
Administrative and selling expense	5,641,327	5,698,015
Research and development expense	1,365,180	448,754
	<u>₩ 14,294,519</u>	<u>₩ 13,498,856</u>

Details of property, plant and equipment provided as collaterals as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

			December 31, 2022		Secured party
	Carrying amount	Secured amount	Related line item	Related amount	
Land, buildings, and investment property (Head office building)	₩ 82,963,906	₩ 36,000,000	Borrowings (see Note 20)	₩ 98,149,880	Korea Development Bank (*1)
		4,800,000	Rental deposits received (see Note 18)	4,000,000	Industrial Bank of Korea
		8,500,000	Sales contract	-	Siemens Co., Ltd.
		1,000,000	Sales contract	-	Beckman Coulter Korea Ltd.
		6,000,000	Sales contract	-	QIAGEN Korea., Ltd.
		4,700,000	Sales contract	-	Pfizer Korea., Ltd.
Land and buildings (Plant in Eumseong)	₩ 56,466,331	₩ 36,000,000	Borrowings (see Note 20)	₩ 98,149,880	Korea Development Bank (*1)
Land and buildings (Magok)	₩ 71,170,299	₩ 72,000,000	Borrowings (see Note 20)	₩ 98,149,880	Korea Development Bank (*1)

(\*1) The Company provides the head office building, plant in Eumseong and land in Magok as collateral (₩144,000 million) for borrowings amounting to ₩98,150 million from the Korea Development Bank.

		December 31, 2021			
	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land, buildings, and investment property (Head office building)	₩ 83,299,588	₩ 36,000,000	Borrowings (see Note 20)	₩ 77,599,840	Korea Development Bank (*1)
		4,800,000	Rental deposits received (see Note 18)	4,000,000	Industrial Bank of Korea
		8,500,000	Sales contract	-	Siemens Co., Ltd.
		1,000,000	Sales contract	-	Beckman Coulter Korea Ltd.
		6,000,000	Sales contract	-	QIAGEN Korea., Ltd.
		4,700,000	Sales contract	-	Pfizer Korea., Ltd.
Land and buildings (Plant in Eumseong)	₩ 58,453,620	₩ 36,000,000	Borrowings (see Note 20)	₩ 77,599,840	Korea Development Bank (*1)
Land and buildings (Magok)	₩ 68,024,887	₩ 12,172,788	Borrowings (see Note 20)	₩ 77,599,840	Korea Development Bank (*1)

In 2018 and 2017, the Company received government grants of ₩466 million from the Eumseong County Office in relation to the construction of Factory Tour Center.

## 14. Intangible Assets

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

	2022				
	Goodwill	License	Industrial property rights	Other intangible assets	Total
Opening net carrying amount	₩ 38,151,899	₩ 17,254,368	₩ 1,967,547	₩ 7,997,739	₩ 65,371,553
Acquisition	-	-	52,530	7,459,910	7,512,440
Reclassification	-	-	41,352	2,426,666	2,468,018
Disposal	-	-	(333)	(144,476)	(144,809)
Amortization	-	(3,033,549)	(914,441)	(763,092)	(4,711,082)
Impairment	-	-	-	-	-
Closing carrying amount	₩ 38,151,899	₩ 14,220,819	₩ 1,146,655	₩ 16,976,747	₩ 70,496,120
Acquisition cost	₩ 38,151,899	₩ 53,267,490	₩ 9,074,964	₩ 30,285,008	₩ 130,779,361
Government grants	-	-	(1,633)	-	(1,633)
Accumulated amortization and impairment	-	(39,046,671)	(7,926,676)	(13,308,261)	(60,281,608)
Net carrying amount	₩ 38,151,899	₩ 14,220,819	₩ 1,146,655	₩ 16,976,747	₩ 70,496,120
	2021				
	Goodwill	License	Industrial property rights	Other intangible assets	Total
Opening net carrying amount	₩ 38,151,899	₩ 20,741,461	₩ 2,695,194	₩ 7,426,101	₩ 69,014,655
Acquisition	-	-	45,163	381,679	426,842
Reclassification	-	-	129,963	1,021,777	1,151,740
Disposal	-	-	(7,775)	(28,805)	(36,580)
Amortization	-	(3,223,870)	(894,998)	(803,013)	(4,921,881)
Impairment	-	(263,223)	-	-	(263,223)
Closing net carrying amount	₩ 38,151,899	₩ 17,254,368	₩ 1,967,547	₩ 7,997,739	₩ 65,371,553
Acquisition cost	₩ 38,151,899	₩ 54,289,416	₩ 8,990,662	₩ 21,143,232	₩ 122,575,209
Government grants	-	-	(3,033)	-	(3,033)
Accumulated amortization and impairment	-	(37,035,048)	(7,020,082)	(13,145,493)	(57,200,623)
Net carrying amount	₩ 38,151,899	₩ 17,254,368	₩ 1,967,547	₩ 7,997,739	₩ 65,371,553

In 2015, the Company received government grants of ₩7 million in relation to foreign patents on glaucoma, which the Company uses to offset amortization expenses of patents.

Amortization expenses of intangible assets for the years ended December 31, 2022 and 2021, are as follows  
(Unit: in thousands of Korean won):

	2022	2021
Selling and administrative expenses	₩ 2,086,031	₩ 2,373,795
Cost of sales	282,511	254,997
Research and development expense	2,342,540	2,293,089
	<u>₩ 4,711,082</u>	<u>₩ 4,921,881</u>

Carrying amount and remaining amortization period of the major development project as at December 31, 2022 are as follows (Unit: in thousands of Korean won):

Related account	Name of separate asset	Carrying amount	Remaining amortization period
License	Technology transfer contract of Long Acting Human growth hormone (*)	<u>₩ 11,529,434</u>	5.5 years

(\*) In 2012, the Company signed a technology transfer contract with Genexine, Inc., for the technology transfer of Long Acting Human growth hormone.

The Company examines the memberships for impairment at the end of each reporting period, or when there are events that may indicate impairment. The recoverable value of memberships is estimated at net fair value, which is the price in an active market less the disposal cost.

Goodwill was allocated to each of the Company's cash-generating units (CGU). The recoverable amounts of cash-generating units are determined based on value-in-use calculations and the key assumptions used in the calculations are as follows:

Key assumptions	Pharmaceutical business department of Pacific Pharmaceuticals Co., Ltd.
Profit margin ratio	59.09% ~ 62.21%
Sales growth rate (*1)	11.96% ~ 13.36%
Terminal growth rate (*2)	0%
After-tax discount rate	11.51%

(\*1) Sales growth is the weighted average annual growth rate over the five-year forecast period. It is based on population growth rate and long-term inflation forecasts.

(\*2) Terminal growth rate was assumed to be 0 percent.

Impairment test suggests that the carrying amount of CGU does not exceed the recoverable amount.

Details of ongoing development projects recognized as other intangible assets as at December 31, 2022, are as follows (Unit: in thousands of Korean won):

Project name	Research and development expense recognized as intangible assets			Research and development expense		Remaining amortization period
	Phase 3 clinical trials	Other	Total	Accumulated amortization	Carrying amount	
SCM-AD (*1)	₩ -	₩ 1,000,000	₩ 1,000,000	₩ -	₩ 1,000,000	-
Ketotop Russia (*2)	604,697	-	604,697	-	604,697	-
TERA 304 (*3)	1,033,878	-	1,033,878	-	1,033,878	-
TERA 305 (*3)	1,178,880	-	1,178,880	-	1,178,880	-
Reuben 301 (*4)	2,233,076	-	2,233,076	-	2,233,076	-
Reuben 302 (*4)	1,257,097	-	1,257,097	-	1,257,097	-
Reuben 101 (*4)	159,736	-	159,736	-	159,736	-
Reuben 102 (*4)	154,311	-	154,311	-	154,311	-
Reuben 103 (*4)	151,676	-	151,676	-	151,676	-
SBP-101 (*5)	-	1,000,000	1,000,000	-	1,000,000	-
	₩ 6,773,351	₩ 2,000,000	₩ 8,773,351	₩ -	₩ 8,773,351	-

(\*1) A stem cell therapy for the treatment of severe atopic dermatitis. Currently in joint development with SCM Life Sciences. The amount refers to upfront costs paid to SCM Life Sciences.

(\*2) A treatment for joint pain. Currently undergoing phase 3 clinical trials in Russia. As the clinical trials are currently proceeding normally, it was determined that there is a high probability for successful completion of the development project.

(\*3) A treatment for diabetes. Currently undergoing phase 3 clinical trials. As the clinical trials are currently proceeding normally, it was determined that there is a high probability for successful completion of the development project.

(\*4) A treatment for hypertension. Currently undergoing phase 3 clinical trials. As the clinical trials are currently proceeding normally, it was determined that there is a high probability for successful completion of the development project.

(\*5) An immuno-oncology candidate drug that regulates the immune microenvironment. Currently in joint development with Spark Biopharma, Inc. The amount refers to upfront costs paid to Spark Biopharma, Inc.

## 15. Investment Properties

Changes in investment properties for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		
	Land	Building	Total
Opening net carrying amount	₩ 46,706,082	₩ 6,664,162	₩ 53,370,244
Reclassification (*)	(4,007,754)	(554,918)	(4,562,672)
Depreciation	-	(213,538)	(213,538)
Closing net carrying amount	₩ 42,698,328	₩ 5,895,706	₩ 48,594,034
Acquisition cost	₩ 42,698,328	₩ 12,797,310	₩ 55,495,638
Accumulated Depreciation	-	(6,901,604)	(6,901,604)
Net carrying amount	₩ 42,698,328	₩ 5,895,706	₩ 48,594,034

(\*) The Company reclassified investment property to property, plant and equipment after taking into consideration the decrease in proportion of the property used for rentals in 2022.

	2021		
	Land	Building	Total
Opening net carrying amount	₩ 46,706,082	₩ 6,879,234	₩ 53,585,316
Depreciation	-	(215,072)	(215,072)
Closing net carrying amount	₩ 46,706,082	₩ 6,664,162	₩ 53,370,244
Acquisition cost	₩ 46,706,082	₩ 13,998,492	₩ 60,704,574
Accumulated Depreciation	-	(7,334,330)	(7,334,330)
Net carrying amount	₩ 46,706,082	₩ 6,664,162	₩ 53,370,244

Fair value of investment properties as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	December 31, 2022	December 31, 2021
Land	₩ 101,108,400	₩ 59,177,852
Building	7,891,600	9,461,702
	₩ 109,000,000	₩ 68,639,554

The fair value of the Company's investment properties as at December 31, 2022 has been arrived at on the basis of a valuation carried out on November 30, 2022 by an independent third-party real estate appraiser, Mirae & Saehan Appraisal Co., Ltd., who has been determined to have the sufficient qualifications and experience to appraise real estate in the corresponding location.

Rent income and expenses from investment properties for the year ended December 31, 2022 are ₩4,009 million (2021: ₩3,950 million) and ₩1,933 million (2021: ₩1,838 million), respectively.

## 16. Lease

The Company leases buildings and vehicles, where the lease provider retains legal ownership of the right-of-use assets.

Details of right-of-use assets as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		
	Buildings	Vehicles	Total
Acquisition cost	₩ 47,517	₩ 1,692,468	₩ 1,739,985
Accumulated Depreciation	(28,042)	(925,171)	(953,213)
Net carrying amount	₩ 19,475	₩ 767,297	₩ 786,772
	2021		
	Buildings	Vehicles	Total
Acquisition cost	₩ 47,517	₩ 2,283,213	₩ 2,330,730
Accumulated Depreciation	(3,721)	(1,118,203)	(1,121,924)
Net carrying amount	₩ 43,796	₩ 1,165,010	₩ 1,208,806

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

	2022		
	Buildings	Vehicles	Total
Opening net carrying amount	₩ 43,796	₩ 1,165,010	₩ 1,208,806
Increase	-	285,785	285,785
Decrease	-	(185,818)	(185,818)
Depreciation	(24,321)	(497,680)	(522,001)
Closing net carrying amount	₩ 19,475	₩ 767,297	₩ 786,772

	2021		
	Buildings	Vehicles	Total
Opening net carrying amount	₩ 83,887	₩ 1,298,728	₩ 1,382,615
Increase	47,517	566,255	613,772
Decrease	(4,997)	(140,459)	(145,456)
Depreciation	(82,611)	(559,514)	(642,125)
Closing net carrying amount	₩ 43,796	₩ 1,165,010	₩ 1,208,806

Details of related expenses included in the statement of profits or loss for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022	2021
Right-of-use assets depreciation expense	₩ (522,001)	₩ (642,125)
Lease liabilities interest expense	(18,387)	(33,685)
Right-of-use assets interest revenue	3,158	2,375
Short-term lease related expenses	(42,335)	(94,000)
Petty asset lease related expenses	(35,931)	(36,282)

The carrying amounts of short-term lease contracts held by the Company as at December 31, 2022, is ₩29 million.

Total cash outflows attributed to leases for the year ended December 31, 2022, is ₩620 million.

## 17. Investments in Subsidiaries and Associates

Details of investments in subsidiaries and associates as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

Company	Location	Percentage of ownership (%)	December 31, 2022	December 31, 2021
Subsidiaries:				
Unins (HK) International, Ltd.	Hong Kong	100.00	₩ 159,065	₩ 159,065
Theravalues Corporation	Japan	100.00	17,186,366	17,181,000
Innocuve Inc. (*1)	Korea	72.97	3,999,950	200,000
Associates:				
Kalos Medical Inc. (*2)	Korea	49.96	996,300	996,300
Teva-Handok Pharma Co., Ltd. (*3)	Korea	49.00	23,520,000	23,520,000
Genexine, Inc. (*4)	Korea	15.04	51,858,595	51,858,595
NB Postech, Inc.	Korea	34.99	3,835,000	6,437,000
Joint ventures:				
Rezolute, Inc. (*5)	U.S.A.	16.14	43,006,229	35,889,547
			<u>₩ 144,561,505</u>	<u>₩ 136,241,507</u>

(\*1) In 2021, Innocuve Inc. was established with 100 percent of its issued share capital owned by the Company. In 2022, the Company participated in an issuance of shares by Innocuve Inc. (acquisition cost: ₩3,800 million).

(\*2) The percentage of ownership is 49.96 percent, and the percentage of voting rights of the Company is 34.85 percent due to convertible preferred shares with voting rights.

(\*3) The percentage of ownership is 49 percent, and the percentage of voting rights of the Company is 40 percent due to non-voting shares.

(\*4) Although the Company holds less than 20 percent, the Company has significant influence over the entity as the Company's CEO participates in the investing company's Board of Directors.

(\*5) According to a joint venture agreement between the Company and Genexine, Inc., the Company and Genexine Inc. maintain equal controlling interests in Rezolute, Inc. The Company considered such contractual relationship when determining the classification of the investment as a joint venture.

Changes in investments in subsidiaries and associates for the years ended December 31, 2022 and 2021 are as follows (Unit: in thousands of Korean won):

	2022	2021
Beginning balance	₩ 136,241,507	₩ 141,262,007
Acquisition	19,560,916	6,055,000
Reclassification (*)	-	(5,692,500)
Impairment loss (Reversal of impairment loss)	(11,240,918)	(5,383,000)
Ending balance	<u>₩ 144,561,505</u>	<u>₩ 136,241,507</u>

(\*) In 2021, the Company reclassified investment in an associate to financial assets at fair value through profit or loss, and related gains and losses were recorded in other income.



## 18. Trade and Other Payables

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Trade payables	₩ 107,644,967	₩ 91,732,989
Other payables	29,771,787	44,364,770
	<u>137,416,754</u>	<u>136,097,759</u>
Long-term other payables	7,274,309	7,415,421
	<u>₩ 144,691,063</u>	<u>₩ 143,513,180</u>

Carrying amounts of other payables as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other payables:		
Non-trade payables	₩ 25,632,630	₩ 40,148,861
Accrued expenses	4,098,913	4,165,665
Short-term deposits received	40,244	50,244
	<u>₩ 29,771,787</u>	<u>₩ 44,364,770</u>
Long-term other payables:		
Rental deposits received	₩ 7,068,750	₩ 7,124,200
Deposits received	25,870	25,870
Long-term accrued expenses	179,689	265,351
	<u>₩ 7,274,309</u>	<u>₩ 7,415,421</u>

## 19. Other Liabilities

Other current liabilities and other non-current liabilities as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other current liabilities:		
VAT payable	₩ 3,401,773	₩ 2,431,587
Advance receipts	537,806	649,828
Withholdings	736,350	722,153
	<u>₩ 4,675,929</u>	<u>₩ 3,803,568</u>
Other non-current liabilities:		
Long-term advance receipts	₩ -	₩ 56,425
	<u>₩ -</u>	<u>₩ 56,425</u>

## 20. Borrowings and Other Financial Liabilities

Borrowings and other financial liabilities as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current:		
Short-term borrowings	₩ 77,469,210	₩ 118,164,960
Other financial liabilities	400,151	816,605
Current portion of debentures	35,000,000	-
Less: discount on debentures	(117,037)	-
	<u>112,752,324</u>	<u>118,981,565</u>
Non-current:		
Long-term other financial liabilities	4,658,578	900,052
Long-term borrowings	135,045,670	54,709,880
Debentures	50,000,000	85,000,000
Less: discount on debentures	(355,832)	(923,821)
	<u>189,348,416</u>	<u>139,686,111</u>
	<u>₩ 302,100,740</u>	<u>₩ 258,667,676</u>

Changes in borrowings for the years ended in December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>2022</u>	<u>2021</u>
Opening net carrying amounts	₩ 172,874,840	₩ 167,450,000
Additional borrowings	298,997,500	227,000,000
Repayments of borrowings	(257,664,960)	(226,450,160)
Conversion of borrowings	(1,692,500)	4,875,000
Closing net carrying amounts	<u>₩ 212,514,880</u>	<u>₩ 172,874,840</u>

Details of short-term borrowings as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	Creditor	Interest rate (%)	Latest maturity date	December 31, 2022	December 31, 2021	Payment method
Borrowings from bank	Korea Development Bank (*1)	3M CD +0.75	September 2, 2022	₩ -	₩ 30,000,000	Lump sum payment
	Korea Development Bank (*1)	1.24	February 10, 2022	-	2,100,000	Lump sum payment
	Korea Development Bank (*1)	2.27	February 10, 2023	12,150,000	12,500,000	Installment payment
	Korea Development Bank (*1)	1Y IFD +0.51	October 26, 2022	-	1,999,960	Installment payment
	Suhyup Bank (*2)	3M Libor +2.0	May 26, 2022	-	5,927,500	Lump sum payment
	Suhyup Bank (*2)	3M Libor +2.15	September 16, 2022	-	5,927,500	Lump sum payment
	Woori Bank	3M CD +1.84	October 5, 2022	-	6,000,000	Lump sum payment
	KEB Hana Bank, Hong Kong branch (*2)	3M Libor +1.9	October 31, 2022	-	23,710,000	Lump sum payment
	Korea Development Bank (*1)	3M CD +0.77	September 2, 2023	30,000,000	-	Lump sum payment
	Korea Development Bank (*1, *3)	1Y IFD +1.04	October 20, 2023	3,214,500	-	Installment payment
	Korea Development Bank (*1, *3)	1Y IFD +1.04	October 26, 2023	2,758,750	-	Installment payment
	Korea Development Bank (*1, *3)	1Y IFD +0.51	October 26, 2023	1,999,960	-	Installment payment

(cont.)

	Creditor	Interest rate (%)	Latest maturity date	December 31, 2022	December 31, 2021	Payment method
Borrowings from bank (cont.)	KEB Hana Bank, Hong Kong branch (*2, *3)	3M Libor +2.604	June 25, 2023	₩ 25,346,000	₩ -	Lump sum payment
	Shinhan Bank (*3)	3Y Bond +1.15	September 23, 2023	2,000,000	-	Lump sum payment
Others	KB Handok First Limited (*2)	2.78	October 7, 2022	-	30,000,000	Lump sum payment
				<u>₩ 77,469,210</u>	<u>₩ 118,164,960</u>	

(\*1) The borrowings are collateralized with land, building, and investment properties (see Notes 13 and 38).

(\*2) The Company has entered into a currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 50 million to hedge cash flow risk associated with the changes in interest rate and currency exchange rate for borrowings in foreign currencies (see Note 38).

(\*3) Long-term borrowings in 2021 have been reclassified to current portion in 2022.

Details of long-term borrowings as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	Creditor	Interest rate (%)	Latest maturity date	December 31, 2022	December 31, 2021	Payment method
Borrowings from bank	Korea Development Bank (*1, 2)	1Y IFD +0.51	October 27, 2025	₩ 1,622,964	₩ 2,434,444	Installment payment
	Korea Development Bank (*1, 2)	1Y IFD +0.51	October 27, 2025	2,376,956	3,565,436	Installment payment
	Korea Development Bank (*1, 2)	1Y IFD +1.04	January 20, 2030	17,241,250	20,000,000	Installment payment
	Korea Development Bank (*1, 2)	1Y IFD +1.04	January 20, 2030	4,464,250	5,000,000	Installment payment
	KEB Hana Bank, Hong Kong branch (*3, *4)	3M Libor +2.604	June 25, 2023	-	23,710,000	Lump sum payment
	Korea Development Bank (*1, 2)	1Y IFD +1.04	January 20, 2030	13,392,750	-	Installment payment
	Korea Development Bank (*1, 2)	1Y IFD +1.04	January 20, 2030	8,928,500	-	Installment payment

(cont.)

	Creditor	Interest rate (%)	Latest maturity date	December 31, 2022	December 31, 2021	Payment method
Borrowings from bank (cont.)	Suhyup Bank (*3)	SOFR 3M +1.44	May 26, 2024	₩ 6,336,500	₩ -	Lump sum payment
	Suhyup Bank (*3)	SOFR 3M +1.5	July 12, 2024	6,336,500	-	Lump sum payment
	Woori Bank	3M CD +1.98	October 5, 2024	6,000,000	-	Lump sum payment
	KB Kookmin Bank	3M MOR +2.07	October 7, 2024	30,000,000	-	Lump sum payment
	Shinhan Bank (*2)	3Y Bond +1.15	September 23, 2025	13,000,000	-	Installment payment
	KEB Hana Bank, Hong Kong branch (*3)	5.6	October 31, 2025	25,346,000	-	Lump sum payment
				<u>₩ 135,045,670</u>	<u>₩ 54,709,880</u>	

(\*1) The borrowings are collateralized with land, building, and investment properties (see Notes 13 and 38).

(\*2) Part of borrowings have been reclassified to current portion as short-term borrowings.

(\*3) The Company has entered into a currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 50 million to hedge cash flow risk associated with the changes in interest rate and currency exchange rate for long-term borrowings in foreign currencies (see Note 38).

(\*4) Long-term borrowings in 2021 have been reclassified to current portion in 2022.

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

Type	Maturity date	Interest rate (%)	December 31, 2022	December 31, 2021
36 <sup>th</sup> Bearer, with coupon and non-guaranteed	June 25, 2023	2.083	₩ 20,000,000	₩ 20,000,000
37 <sup>th</sup> Bearer, with coupon and non-guaranteed	July 23, 2023	1.927	15,000,000	15,000,000
38 <sup>th</sup> Bearer, with coupon and non-guaranteed	June 28, 2024	2.386	50,000,000	50,000,000
Sub-total			85,000,000	85,000,000
Less: discount on debentures			(472,869)	(923,821)
Sub-total			84,527,131	84,076,179
Less: current portion			(34,882,963)	-
Total			<u>₩ 49,644,168</u>	<u>₩ 84,076,179</u>

Details of other financial liabilities and long-term other financial liabilities as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other financial liabilities:		
Derivative financial liabilities (*1)	₩ -	₩ 281,005
Lease liabilities	400,151	533,909
Financial guarantee liabilities (*2)	-	1,691
	<u>400,151</u>	<u>816,605</u>
Long-term other financial liabilities:		
Financial guarantee liabilities (*2)	32,886	38,260
Lease liabilities	405,163	689,053
Derivative financial liabilities (*1)	4,220,529	172,739
	<u>4,658,578</u>	<u>900,052</u>
Total	<u>₩ 5,059,685</u>	<u>₩ 1,716,657</u>

(\*1) Derivative financial liabilities categorized as other financial liabilities and long-term other financial liabilities are recognized as the fair value of the swap agreement entered into by the Company to hedge cash flow risk associated with the floating interest rate and currency exchange rate of long-term borrowings in foreign currencies (see Note 38).

(\*2) The Company provided financial guarantee contracts of JPY 60,599,736 and JPY 150,000,000 for office rental contracts and payment of payables on price of goods, respectively, of Theravalues Corporation, a subsidiary, and related financial guarantee expenses were recorded as liabilities.

## 21. Provisions for Other Liabilities

Changes in provisions for other liabilities for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022			
	<u>Reserve for incentive</u>	<u>Refund liability</u>	<u>Government grants repayable</u>	<u>Total</u>
Beginning balance	₩ 4,990,739	₩ 8,807,790	₩ 1,915,069	₩ 15,713,598
Statement of profit or loss:				
Provision	4,747,933	1,367,564	59,784	6,175,281
Settlement	(4,651,645)	(6,104,996)	(55,372)	(10,812,013)
Ending balance:	<u>₩ 5,087,027</u>	<u>₩ 4,070,358</u>	<u>₩ 1,919,481</u>	<u>₩ 11,076,866</u>
Current	₩ 5,087,027	₩ 2,804,470	₩ 1,919,481	₩ 9,810,978
Non-current	-	1,265,888	-	1,265,888

	2021			
	Reserve for incentive	Refund liability	Government grants repayable	Total
Beginning balance	₩ 4,970,115	₩ 3,574,114	₩ 1,910,488	₩ 10,454,717
Statement of profit or loss:				
Provision	4,921,090	6,421,667	59,784	11,402,541
Settlement	(4,900,466)	(1,187,991)	(55,203)	(6,143,660)
Ending balance:	<u>₩ 4,990,739</u>	<u>₩ 8,807,790</u>	<u>₩ 1,915,069</u>	<u>₩ 15,713,598</u>
Current	₩ 4,990,739	₩ 7,774,536	₩ 20,521	₩ 12,785,796
Non-current	-	1,033,254	1,894,548	2,927,802

## 22. Employee Benefit Obligations

### 22.1 Defined Benefit Plan

Details of employee benefit obligations as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	December 31, 2022	December 31, 2021
Net defined benefit liabilities (assets)	₩ (14,103,745)	₩ 990,863
Other long-term employee benefits	2,293,059	2,369,615
	<u>₩ (11,810,686)</u>	<u>₩ 3,360,478</u>

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	December 31, 2022	December 31, 2021
Present value of funded defined benefit obligations	₩ 70,758,826	₩ 72,062,601
Fair value of plan assets (*)	(84,862,571)	(71,071,738)
Net defined benefit liabilities (assets)	<u>₩ (14,103,745)</u>	<u>₩ 990,863</u>

(\*) The contributions to the National Pension Fund of ₩44 million (2021: ₩50 million) are added to the fair value of plan assets as at December 31, 2022.

Movements in the defined benefit obligations for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021	
Beginning balance	₩	72,062,601	₩	69,988,077
Current service cost		6,857,602		6,950,293
Interest expenses		1,751,966		1,329,069
Effect of changes in plan policies		1,469,779		-
Remeasurements:				
Actuarial losses from change in financial assumptions		(8,110,602)		(2,696,628)
Actuarial losses from change in demographic assumptions		-		(77,307)
Actuarial gains from experience adjustments		1,354,205		1,783,950
Payments from plans:				
Benefit payments		(4,619,214)		(5,214,853)
Transfer to affiliated companies		(7,511)		-
Ending balance	₩	70,758,826	₩	72,062,601

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

	2022		2021	
Beginning balance	₩	71,071,738	₩	64,289,887
Interest income		1,610,431		1,105,579
Remeasurements:				
Return on plan assets (excluding amounts included in interest income)		(200,598)		(108,368)
Contributions:				
Employers		17,000,000		11,000,000
Payments from plans:				
Benefit payments		(4,619,000)		(5,215,360)
Ending balance	₩	84,862,571	₩	71,071,738

Total costs that are recognized on the statements of profit or loss for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021	
Cost of sales	₩	2,400,935	₩	2,106,475
Selling and administrative expenses		5,401,587		4,406,946
Research and development expense		666,393		660,362
	₩	8,468,915	₩	7,173,783

Actuarial gains or losses recognized as other comprehensive income for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021	
Actuarial gains (losses) before income tax	₩	6,555,799	₩	881,617
Income tax effect		(1,586,503)		(213,352)
Actuarial gains (losses) after income tax	₩	4,969,296	₩	668,265

Plan assets are composed of cash and cash equivalents.

The significant actuarial assumptions as at December 31, 2022 and 2021, are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate	5.30%	2.70%
Salary growth rate	4.38%	3.62%

The sensitivity of the defined benefit obligation as at December 31, 2022, to changes in the weighted principal assumptions is as follows:

	<u>Impact on defined benefit obligation</u>		
	<u>Changes in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Discount rate	1.00%	5.0% decrease	6.0% increase
Salary growth rate	1.00%	6.0% increase	5.0% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principle actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The Company reviews the funding level on an annual basis and has a policy to eliminate any deficits in the fund.

Expected contributions to retirement benefit plans for the year ending December 31, 2023, are ₩8,628 million.

The expected maturity analysis of undiscounted retirement benefits as at December 31, 2022, is as follows (Unit: in thousands of Korean won):

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Retirement benefits	<u>₩ 7,962,659</u>	<u>₩ 10,987,748</u>	<u>₩ 27,550,493</u>	<u>₩ 47,116,818</u>	<u>₩ 93,617,718</u>

The weighted average duration of the defined benefit obligations is 5.30 years.

## 22.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩285 million (2021: ₩263 million). Termination benefits of ₩124 million was recognized separately on the statement of profits and loss for the year ended December 31, 2021 (see Note 30).

### 23. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021
Current income tax:			
Current income tax on profits for the year	₩ 1,727,858	₩	6,515,559
Adjustments in respect of prior years	(12,698)		11,691
	<u>1,715,160</u>		<u>6,527,250</u>
Deferred tax:			
Change in deferred tax on temporary differences	3,224,945		(1,518,495)
Effect of future tax rate changes (*)	(683,207)		-
	<u>2,541,738</u>		<u>(1,518,495)</u>
Income tax directly recognized in equity	<u>(1,475,724)</u>		<u>(313,642)</u>
Income tax expense	<u>₩ 2,781,174</u>	₩	<u>4,695,113</u>

(\*) The effect of the tax rate change that will be applied starting from the next financial year in accordance with the revised tax law.

The income tax expense on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory tax rates as follows (Unit: in thousands of Korean won):

	2022		2021
Profit before income tax	₩ 20,616,127	₩	16,029,950
Income tax expense at statutory tax rates (*)	4,989,103		3,879,248
Tax effects of:			
Income not taxable for tax purposes	(4,646,615)		(2,764,689)
Expenses not deductible for tax purposes	5,772,344		5,991,889
Tax credit	(624,070)		(1,099,127)
Others	<u>(2,709,588)</u>		<u>(1,312,208)</u>
Income tax expense	<u>₩ 2,781,174</u>	₩	<u>4,695,113</u>

(\*) Income tax expense at statutory tax rates was calculated using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Income tax effects related to components of other comprehensive income for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022			2021		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liability	₩ 6,555,799	₩ (1,586,503)	₩ 4,969,296	₩ 881,617	₩ (213,352)	₩ 668,265
Cash flow hedge	(448,498)	108,536	(339,962)	414,425	(100,291)	314,134
Gains (losses) on valuation of financial assets at fair value through other comprehensive income	(9,267)	2,243	(7,024)	-	-	-
Income tax effect	₩ 6,098,034	₩ (1,475,724)	₩ 4,622,310	₩ 1,296,042	₩ (313,643)	₩ 982,399

The analysis of deferred tax assets and liabilities as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022	2021
Deferred tax assets:		
Deferred tax assets to be recovered after 12 months	₩ 3,754,381	₩ 4,980,287
Deferred tax assets to be recovered within 12 months	4,936,124	6,495,333
Deferred tax liabilities:		
Deferred tax liability to be recovered after 12 months	(24,157,697)	(24,738,526)
Deferred tax liability to be recovered within 12 months	(383,212)	(45,760)
Deferred tax liabilities, net	₩ (15,850,404)	₩ (13,308,666)

The movements in deferred tax assets and liabilities for the years ended December 31, 2022 and 2021, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows (Unit: in thousands of Korean won):

	2022			
	Beginning	Statement of profit or loss	Equity	Ending
Deferred tax liabilities:				
Gains (losses) on revaluation	₩ (18,908,236)	₩ 781,332	₩ -	₩ (18,126,904)
Retirement benefit obligations	-	(661,960)	-	(661,960)
Impairment losses on investments in associates	(5,562,109)	229,839	-	(5,332,270)
Advanced depreciation provision	(30,219)	1,249	-	(28,970)
Derivative financial liabilities	(225,381)	225,381	-	-
Derivative financial assets	-	(381,625)	1,782	(379,843)
Right to the returned goods	(50,650)	45,760	-	(4,890)
Accrued income	(7,691)	1,619	-	(6,072)
	<u>(24,784,286)</u>	<u>241,595</u>	<u>1,782</u>	<u>(24,540,909)</u>
Deferred tax assets:				
Accrued expense	2,194,620	192,041	-	2,386,661
Reserve for incentive bonuses	1,207,759	(27,569)	-	1,180,190
Retirement benefit obligations	1,409,280	177,223	(1,586,503)	-
Long-term employee benefits	573,447	(41,457)	-	531,990
Government grants	338,482	(34,907)	-	303,575
Derivative financial liabilities	-	651,706	106,754	758,460
Refund liability	2,131,485	(1,187,162)	-	944,323
Losses on valuation of inventories	1,000,924	(729,928)	-	270,996
Accumulated depreciation	1,153,352	(48,919)	-	1,104,433
Lease liabilities	3,426	876	-	4,302
Impairment losses on intangible assets	30,492	(1,260)	-	29,232
Financial assets at fair value through other comprehensive income (valuation)	261,424	(260,841)	2,243	2,826
Financial assets at fair value through profit or loss (valuation)	842,823	165,854	-	1,008,677
Donations	4,188	6,252	-	10,440
Bad debt expense	8,123	(8,123)	-	-
Short-term loans	3,709	(153)	-	3,556
Deemed depreciation	31,127	(2,281)	-	28,846
Other guarantee liabilities	9,668	(1,817)	-	7,851
Payment guarantee fees	10,101	3,100	-	13,201
Stock options	261,190	(160,244)	-	100,946
	<u>11,475,620</u>	<u>(1,307,609)</u>	<u>(1,477,506)</u>	<u>8,690,505</u>
	<u>₩ (13,308,666)</u>	<u>₩ (1,066,014)</u>	<u>₩ (1,475,724)</u>	<u>₩ (15,850,404)</u>

2021

	Beginning	Statement of profit or loss	Equity	Ending
Deferred tax liabilities:				
Financial assets at fair value through profit or loss (valuation)	₩ (1,464,006)	₩ 1,464,006	₩ -	₩ -
Gains (losses) on revaluation	(19,895,168)	986,932	-	(18,908,236)
Impairment losses on investments in associates	(4,529,963)	(1,032,146)	-	(5,562,109)
Advanced depreciation provision	(30,219)	-	-	(30,219)
Derivative financial liabilities	-	(225,381)	-	(225,381)
Right to the returned goods	(164,576)	113,926	-	(50,650)
Accrued income	(1,667)	(6,024)	-	(7,691)
	(26,085,599)	1,301,313	-	(24,784,286)
Deferred tax assets:				
Accrued expense	2,380,054	(185,434)	-	2,194,620
Reserve for incentive bonuses	1,202,768	4,991	-	1,207,759
Retirement benefit obligations	2,058,260	(435,629)	(213,351)	1,409,280
Long-term employee benefits	616,065	(42,618)	-	573,447
Government grants	360,262	(21,780)	-	338,482
Derivative financial liabilities	1,172,533	(1,072,242)	(100,291)	-
Refund liability	864,936	1,266,549	-	2,131,485
Losses on valuation of inventories	421,330	579,594	-	1,000,924
Accumulated depreciation	1,203,851	(50,499)	-	1,153,352
Lease liabilities	4,262	(836)	-	3,426
Impairment losses on intangible assets	30,492	-	-	30,492
Financial assets at fair value through other comprehensive income (valuation)	261,424	-	-	261,424
Financial assets at fair value through profit or loss (valuation)	-	842,823	-	842,823
Donations	11,217	(7,029)	-	4,188
Bad debt expense	5,470	2,653	-	8,123
Short-term loans	3,709	-	-	3,709
Deemed depreciation	32,164	(1,037)	-	31,127
Other guarantee liabilities	12,844	(3,176)	-	9,668
Payment guarantee fees	9,884	217	-	10,101
Stock options	606,913	(345,723)	-	261,190
	11,258,438	530,824	(313,642)	11,475,620
	₩ (14,827,161)	₩ 1,832,137	₩ (313,642)	₩ (13,308,666)

The Company recognized deferred tax assets for the tax effects of temporary differences to the extent that taxable income will be available in the future based upon the Company's performance, the market environment, forecasts of future profitability and other factors. The Company periodically reassesses these factors. As at December 31, 2022, the Company recognized the temporary differences of these income tax effects as deferred tax assets.

## 24. Share Capital

The Company's total number of authorized shares is 30,000,000 shares and total number of ordinary shares issued is 13,763,533 shares with a par value of ₩500 per share.

## 25. Share-based payments

The Company grants stock options to its directors and employees in accordance with the resolution of the board of directors. The details of the stock options are as follows:

Commitment type	Grant date	Cash-settled share-based payment		Exercise price at grant date	Exercisable period
		Stock options outstanding	Settlement method		
Grant stock options (director and employees)	November 9, 2013	56,900 shares	Net cash settlement	17,250 won	November 9, 2018 ~ November 8, 2023
Grant stock options (director and employees)	February 12, 2015	3,200 shares	Net cash settlement	20,350 won	February 12, 2020 ~ February 11, 2025
Grant stock options (director and employees)	August 19, 2015	1,000 shares	Net cash settlement	32,300 won	August 19, 2020 ~ August 18, 2025
Grant stock options (director and employees)	December 8, 2015	19,000 shares	Net cash settlement	28,800 won	December 8, 2020 ~ December 7, 2025
Grant stock options (director and employees)	February 4, 2016	3,000 shares	Net cash settlement	35,800 won	February 4, 2021 ~ February 3, 2026
Grant stock options (director and employees)	May 19, 2016	32,850 shares	Net cash settlement	38,400 won	May 19, 2021 ~ May 18, 2026
Grant stock options (director and employees)	November 3, 2016	1,500 shares	Net cash settlement	25,150 won	November 3, 2021 ~ November 2, 2026
Grant stock options (director and employees)	May 16, 2017	10,950 shares	Net cash settlement	23,800 won	May 16, 2022 ~ May 15, 2027
Grant stock options (director and employees)	August 30, 2017	1,500 shares	Net cash settlement	24,050 won	August 30, 2022 ~ August 29, 2027
Grant stock options (director and employees)	December 14, 2017	550 shares	Net cash settlement	27,750 won	December 14, 2022 ~ December 13, 2027
Grant stock options (director and employees)	February 8, 2018	2,100 shares	Net cash settlement	35,550 won	February 8, 2023 ~ February 7, 2028
Grant stock options (director and employees)	March 22, 2018	4,400 shares	Net cash settlement	40,000 won	March 22, 2023 ~ March 21, 2028
Grant stock options (director and employees)	July 19, 2018	3,650 shares	Net cash settlement	27,600 won	July 19, 2023 ~ July 18, 2028
Grant stock options (director and employees)	September 3, 2018	300 shares	Net cash settlement	28,650 won	September 3, 2023 ~ September 2, 2028

Commitment type	Grant date	Cash-settled share-based payment			Exercisable period
		Stock options outstanding	Settlement method	Exercise price at grant date	
Grant stock options (director and employees)	November 6, 2018	1,250 shares	Net cash settlement	25,750 won	November 6, 2023 ~ November 5, 2028
Grant stock options (director and employees)	December 10, 2018	1,200 shares	Net cash settlement	28,150 won	December 10, 2023 ~ December 9, 2028
Grant stock options (director and employees)	February 12, 2019	3,050 shares	Net cash settlement	27,900 won	February 12, 2024 ~ February 11, 2029
Grant stock options (director and employees)	March 15, 2019	400 shares	Net cash settlement	33,000 won	March 15, 2024 ~ March 14, 2029
Grant stock options (director and employees)	March 28, 2019	300 shares	Net cash settlement	30,700 won	March 28, 2024 ~ March 27, 2029
Grant stock options (director and employees)	July 11, 2019	5,550 shares	Net cash settlement	26,150 won	July 11, 2024 ~ July 10, 2029
Grant stock options (director and employees)	October 31, 2019	2,800 shares	Net cash settlement	21,900 won	October 31, 2024 ~ October 30, 2029
Grant stock options (director and employees)	December 10, 2019	3,500 shares	Net cash settlement	21,900 won	December 10, 2024 ~ December 9, 2029
Grant stock options (director and employees)	March 3, 2020	2,500 shares	Net cash settlement	22,900 won	March 3, 2025 ~ March 2, 2030
Grant stock options (director and employees)	May 14, 2020	6,000 shares	Net cash settlement	24,100 won	May 14, 2025 ~ May 13, 2030
Grant stock options (director and employees)	June 23, 2020	700 shares	Net cash settlement	28,900 won	June 23, 2025 ~ June 22, 2030
Grant stock options (director and employees)	August 31, 2020	3,000 shares	Net cash settlement	38,550 won	August 31, 2025 ~ August 30, 2030
Grant stock options (director and employees)	November 11, 2020	9,300 shares	Net cash settlement	32,550 won	November 11, 2025 ~ November 10, 2030
Grant stock options (director and employees)	February 10, 2021	3,900 shares	Net cash settlement	30,800 won	February 10, 2026 ~ February 9, 2031
Grant stock options (director and employees)	March 17, 2021	2,000 shares	Net cash settlement	28,400 won	March 17, 2026 ~ March 16, 2031
Grant stock options (director and employees)	June 22, 2021	2,400 shares	Net cash settlement	28,400 won	June 22, 2026 ~ June 21, 2031
Grant stock options (director and employees)	October 29, 2021	5,000 shares	Net cash settlement	24,700 won	October 29, 2026 ~ October 28, 2031
Grant stock options (director and employees)	December 16, 2021	3,900 shares	Net cash settlement	23,000 won	December 16, 2026 ~ December 15, 2031

Commitment type	Grant date	Cash-settled share-based payment			Exercisable period
		Stock options outstanding	Settlement method	Exercise price at grant date	
Grant stock options (director and employees)	February 9, 2022	4,100 shares	Net cash settlement	21,550 won	February 9, 2027 ~ February 8, 2032
Grant stock options (director and employees)	March 16, 2022	9,700 shares	Net cash settlement	20,950 won	March 16, 2027 ~ March 15, 2032
Grant stock options (director and employees)	March 24, 2022	3,500 shares	Net cash settlement	21,800 won	March 24, 2027 ~ March 23, 2032
Grant stock options (director and employees)	May 11, 2022	1,350 shares	Net cash settlement	21,900 won	May 11, 2027 ~ May 10, 2032
Grant stock options (director and employees)	July 11, 2022	4,650 shares	Net cash settlement	18,050 won	July 11, 2027 ~ July 10, 2032
Grant stock options (director and employees)	October 18, 2022	3,100 shares	Net cash settlement	15,300 won	October 18, 2027 ~ October 17, 2032
Grant stock options (director and employees)	December 8, 2022	2,400 shares	Net cash settlement	16,350 won	December 8, 2027 ~ December 7, 2032

Since the Company chose the net cash settlement method as the settlement method upon exercise of the granted stock options, the Company recalculates the fair value of the net cash settlement at the end of each reporting period and recognizes related profit or loss and liabilities.

Changes in the number of stock options outstanding and their related weighted average exercise prices for the year ended December 31, 2022, are as follows (Unit: in Korean won):

	Number of stock options (in number of shares)	Average exercise price per stock option
Beginning balance	204,450	₩ 26,684
Granted	31,250	19,815
Cancellation	9,250	27,126
Ending balance	<u>226,450</u>	<u>₩ 25,718</u>

Compensation costs of stock options are calculated by applying a fair value approach. The related assumptions and variables to calculate the compensation costs are as follows (Unit: in Korean won):

Grant date	Fair value as at December 31, 2022	Share price at valuation date	Exercise price	Expected price volatility (*)	Expected dividend yield	Annual risk- free interest rate
November 9, 2013	₩ 2,023	₩ 16,750	₩ 17,176	33.72%	1.53%	3.743%
February 12, 2015	2,157	16,750	20,350	32.72%	1.53%	3.743%
August 19, 2015	661	16,750	32,300	31.76%	1.53%	3.743%
December 8, 2015	1,095	16,750	28,800	31.27%	1.53%	3.743%
February 4, 2016	561	16,750	35,800	30.62%	1.53%	3.743%
May 19, 2016	492	16,750	38,400	30.07%	1.53%	3.743%
November 3, 2016	1,929	16,750	25,150	29.72%	1.53%	3.743%
May 16, 2017	2,774	16,750	23,800	32.11%	1.53%	3.743%
August 30, 2017	3,173	16,750	24,050	34.25%	1.53%	3.743%
December 14, 2017	3,167	16,750	27,750	37.78%	1.53%	3.743%
February 8, 2018	2,467	16,750	35,550	39.20%	1.53%	3.743%
March 22, 2018	2,125	16,750	40,000	39.21%	1.53%	3.743%
July 19, 2018	4,134	16,750	27,600	42.01%	1.53%	3.743%
September 3, 2018	3,964	16,750	28,650	41.39%	1.53%	3.743%
November 6, 2018	4,556	16,750	25,750	41.65%	1.53%	3.743%
December 10, 2018	4,311	16,750	28,150	42.21%	1.53%	3.743%
February 12, 2019	4,532	16,750	27,900	42.83%	1.53%	3.743%
March 15, 2019	3,881	16,750	33,000	42.67%	1.53%	3.743%
March 28, 2019	4,162	16,750	30,700	42.55%	1.53%	3.743%
July 11, 2019	5,144	16,750	26,150	43.66%	1.53%	3.743%
October 31, 2019	6,172	16,750	21,900	44.59%	1.53%	3.743%
December 10, 2019	6,239	16,750	21,900	44.69%	1.53%	3.743%
March 3, 2020	6,203	16,750	22,900	44.97%	1.53%	3.743%
May 14, 2020	6,186	16,750	24,100	45.72%	1.53%	3.743%
June 23, 2020	5,651	16,750	28,900	46.51%	1.53%	3.743%
August 31, 2020	4,961	16,750	38,550	48.25%	1.53%	3.743%
November 11, 2020	5,580	16,750	32,550	47.74%	1.53%	3.743%
February 10, 2021	5,856	16,750	30,800	47.45%	1.53%	3.743%
March 17, 2021	6,151	16,750	28,400	47.18%	1.53%	3.743%
June 22, 2021	6,182	16,750	28,400	46.63%	1.53%	3.743%
October 29, 2021	6,851	16,750	24,700	46.80%	1.53%	3.743%
December 16, 2021	7,109	16,750	23,000	46.48%	1.53%	3.743%
February 9, 2022	7,392	16,750	21,550	46.43%	1.53%	3.743%
March 16, 2022	7,530	16,750	20,950	46.49%	1.53%	3.743%
March 24, 2022	7,393	16,750	21,800	46.46%	1.53%	3.743%
May 11, 2022	7,434	16,750	21,900	46.58%	1.53%	3.743%
July 11, 2022	8,173	16,750	18,050	46.77%	1.53%	3.743%
October 18, 2022	8,890	16,750	15,300	47.71%	1.53%	3.743%
December 8, 2022	8,880	16,750	16,350	49.13%	1.53%	3.743%

(\*) The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices over the last 7.5 years. The effects of non-transferable options and restrictions on exercises (including the probability of satisfying market conditions attached to options) and others are taken into account when calculating the expected option life based on the management's best estimates.

The Company recognized reversal of share-based payment expenses of ₩644 million (2021: reversal of share-based payment expenses of ₩1,429 million) related to cash-settled share-based payments for the year ended December 31, 2022, (see Note 30).

## 26. Other Components of Equity

Details of other components of equity as at December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other reserves	₩ 254,028	₩ 254,028
Revaluation surplus	39,363,132	39,363,132
Gain on disposal of treasury shares	1,792,289	1,792,289
Cash flow hedge	177,336	517,298
	<u>₩ 41,586,785</u>	<u>₩ 41,926,747</u>

## 27. Retained Earnings

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Legal reserves:		
Legally appropriate retained earnings (*1)	₩ 3,440,883	₩ 3,440,883
Other reserves:		
Reserve for financial structure improvement (*2)	240,500	240,500
Reserve for business expansion	6,000,000	6,000,000
Reserve for facility	31,000,000	31,000,000
Other discretionary appropriated retained earnings	25,994,000	25,994,000
Unappropriated retained earnings	251,121,527	233,141,540
	<u>₩ 317,796,910</u>	<u>₩ 299,816,923</u>

(\*1) The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10 percent of cash dividends paid until such reserves equals 50 percent of its issued share capital. The reserve is not available for cash dividends payment but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times of the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

(\*2) The Company appropriates a certain portion of its unappropriated retained earnings for financial structure improvement as reserves.

The appropriation of retained earnings for the year ended December 31, 2022, is expected to be appropriated at the shareholders' meeting on March 24, 2023 (2021: March 24, 2022).

The appropriation of retained earnings for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	<u>2022</u>	<u>2021</u>
Retained earnings available for appropriation:		
Unappropriated retained earnings carried over from prior year	₩ 228,324,303	₩ 221,138,437
Remeasurements of net defined benefit liability	4,969,295	668,266
Losses from valuation of financial assets at fair value through other comprehensive income	(7,024)	-
Net profit for the period	<u>17,834,953</u>	<u>11,334,837</u>
	<u>251,121,527</u>	<u>233,141,540</u>
Appropriation of retained earnings:		
Legal reserve	-	-
Dividends	5,505,413	4,817,237
Dividends (ratio) per ordinary share:		
₩400 (80%) in 2022,		
₩350 (70%) in 2021		
	<u>5,505,413</u>	<u>4,817,237</u>
Unappropriated retained earnings to be carried forward	<u>₩ 245,616,114</u>	<u>₩ 228,324,303</u>

## 28. Revenue and Cost of Sales

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

	<u>2022</u>	<u>2021</u>
Finished goods	₩ 235,631,844	₩ 201,595,732
Merchandise	267,095,765	278,826,117
Others	33,846,821	30,726,639
	<u>₩ 536,574,430</u>	<u>₩ 511,148,488</u>

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

	<u>2022</u>	<u>2021</u>
Finished goods	₩ 115,848,003	₩ 103,296,438
Merchandise	226,204,038	223,134,915
Others	24,739,885	20,379,263
	<u>₩ 366,791,926</u>	<u>₩ 346,810,616</u>

## 29. Expenses by Nature

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

	2022		2021	
Changes in finished goods and work-in-process	₩	(151,430,250)	₩	(131,386,506)
Changes in merchandise		226,204,038		223,134,915
Used raw materials and consumables		233,576,459		202,338,938
Employee benefit expenses (see Note 30)		86,260,908		81,370,733
Depreciation and amortization		19,741,140		19,277,934
Freight		3,835,848		3,303,073
Advertising		11,478,851		11,689,963
Traveling		4,854,434		4,417,735
Service charge		32,024,510		30,135,922
Education and training		1,168,481		904,276
Seminars		7,891,564		6,807,922
Research and development		2,674,438		2,048,928
Utilities		4,258,092		2,951,490
Repair		3,455,482		3,679,507
Subcontractors charge		6,369,463		5,357,721
Quality control		1,983,658		1,771,105
Impairment loss (reversal of impairment loss)		65,104		(61,553)
Other		13,059,051		14,476,717
Total (*)	₩	507,471,271	₩	482,218,820

(\*) The total represents costs of sales and selling and administrative expenses in the statement of profit or loss.

## 30. Employee Benefit Expenses

Employee benefit expenses for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021	
Salaries	₩	57,136,471	₩	56,134,441
Incentives		14,441,530		12,963,404
Post-employment benefits – defined benefit plan (see Note 22)		8,468,915		7,173,783
Post-employment benefits – defined contribution plan		284,578		263,013
Post-employment benefits – termination benefits		-		124,323
Long-term employee benefits		161,574		120,741
Other employee benefits		6,412,024		6,019,636
Share-based payments (reversal of share-based payments)		(644,184)		(1,428,608)
	₩	86,260,908	₩	81,370,733

### 31. Selling and Administrative Expenses

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

	2022		2021	
Salaries	₩	46,611,498	₩	45,681,126
Post-employment benefits		5,686,166		4,794,282
Freight		3,835,848		3,303,073
Advertising		11,478,851		11,689,963
Service charge		20,427,414		19,856,873
Depreciation		6,297,391		6,555,213
Amortization		2,086,031		2,373,795
Seminars		6,725,443		5,537,828
Research and development		23,419,687		22,566,404
Bad debt expense (reversal of bad debt expense)		65,104		(61,553)
Other selling and administrative expenses		14,045,913		13,111,200
	₩	<u>140,679,346</u>	₩	<u>135,408,204</u>

### 32. Research and Development Expenses

Research and development expenses for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021	
Research and development expenses (selling and administrative expenses)	₩	23,419,687	₩	22,566,404
Development expenses recognized as intangible assets		7,168,725		-
	₩	<u>30,588,412</u>	₩	<u>22,566,404</u>

### 33. Other Income and Expenses

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

	<u>2022</u>	<u>2021</u>
Other income:		
Gains on foreign currency transactions	₩ 1,579,698	₩ 536,187
Gains on foreign currency translation	509,645	52,276
Gains on disposal of property, plant and equipment	114,921	3,836,831
Gains on disposal of intangible assets	149,545	328
Gains on disposal of investments in associates	-	3,401,502
Reversal of impairment losses on investments in associates	-	2,543,000
Other commission income	12,494,103	-
Miscellaneous income	2,115,114	1,524,755
	<u>16,963,026</u>	<u>11,894,879</u>
Other expenses:		
Losses on foreign currency transactions	3,660,755	1,005,497
Losses on foreign currency translation	97,571	4,410
Donations	1,054,469	1,129,916
Losses on disposal of property, plant and equipment	81,094	65,790
Losses on disposal of intangible assets	381	820
Impairment losses on investments in associates	11,240,918	7,926,000
Impairment losses on intangible assets	-	263,223
Miscellaneous losses	10,841	27,581
	<u>16,146,029</u>	<u>10,423,237</u>
	<u>₩ 816,997</u>	<u>₩ 1,471,642</u>

### 34. Finance Income and Costs

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

	2022	2021
Finance Income:		
Bank deposits	₩ 197,722	₩ 33,192
Asset backed short term bond	115,491	258,645
Convertible notes	80,000	80,000
Loans and others	45,919	42,788
Financial guarantee liabilities	12,431	13,122
Right-of-use assets	15,884	2,375
Distribution income from investment funds	97	437,250
Gains on foreign currency translation	3,328,500	-
Gains on valuation of financial assets at fair value through profit or loss	5,317,399	2,202,887
Gains on valuation of derivative financial instruments	2,300,186	5,362,076
	<u>11,413,629</u>	<u>8,432,335</u>
Finance costs:		
Bank borrowings	5,855,896	4,103,949
Debentures	2,349,602	2,249,294
Lease liabilities	18,387	33,685
Less: capitalized borrowing costs (*)	-	(631,757)
Losses on foreign currency translation	1,823,393	4,875,010
Losses on valuation of financial assets at fair value through profit or loss	6,255,398	12,163,941
Losses on disposal of financial assets at fair value through profit or loss	-	9,573
Losses on valuation of derivative financial instruments	4,414,982	-
	<u>20,717,658</u>	<u>22,803,695</u>
	<u>₩ (9,304,029)</u>	<u>₩ (14,371,360)</u>

(\*) The amounts represent capitalized borrowing costs included in the cost of qualifying assets. In 2021, capitalized borrowing costs included in the cost of qualifying assets were calculated by applying a capitalization rate of 2.42 percent.

### 35. Earnings per Share

Basic earnings per share for the years ended December 31, 2022 and 2021, are as follows (Unit: in Korean won):

	<u>2022</u>	<u>2021</u>
Profit attributable to the ordinary equity holders of the Company (*1)	₩ 17,834,952,809	₩ 11,334,836,726
Weighted average number of ordinary shares outstanding (*2)	<u>13,763,533 shares</u>	<u>13,763,533 shares</u>
Earnings per share	<u>₩ 1,296</u>	<u>₩ 824</u>

(\*1) Profit attributable to the ordinary equity holders of the Company is equal to the Company's profit for the year.

(\*2) The weighted average number of ordinary shares outstanding for the years ended December 31, 2022 and 2021 is equal to the number of ordinary shares in issue.

The Company has no outstanding dilutive potential shares, therefore diluted earnings per share is equal to the basic earnings per share.

### 36. Dividends

The dividends paid in 2022 and 2021 were ₩4,817 million (₩350 per share) and ₩4,129 million (₩300 per share), respectively.

For the year ended December 31, 2022, dividends of ₩400 per share, amounting to a total dividend of ₩5,505 million, is to be proposed at the annual general shareholders' meeting on March 24, 2023. These financial statements do not reflect this dividend payable.

### 37. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

	2022		2021	
Profit before income tax	₩	20,616,127	₩	16,029,950
Adjustments for:				
Interest expenses		7,756,439		5,325,049
Losses (gains) on foreign currency translation		(1,917,181)		4,827,144
Bad debt expense (reversal of bad debt expense)		65,104		(61,553)
Depreciation and amortization		19,005,601		18,420,736
Rental properties depreciation expense		213,538		215,072
Right-of-use assets depreciation expense		522,001		642,125
Gains on disposal of tangible, intangible assets and investment properties		(182,991)		(3,770,550)
Impairment losses on intangible assets		-		263,223
Losses (gains) on valuation of derivative financial instruments		2,114,795		(5,362,076)
Distribution income from investment funds		(97)		(437,250)
Other income		(6,316)		(6,431)
Reversal of share-based payments		(644,184)		(1,428,608)
Incentive bonuses		4,747,933		4,921,090
Post-employment benefits		8,753,494		7,561,119
Losses on valuation of financial assets at fair value through profit or loss		937,999		9,961,054
Losses on disposal of financial assets at fair value through profit or loss		-		9,573
Gains on disposal of investments in subsidiaries and associates		-		(3,401,502)
Impairment losses on investments in subsidiaries and associates		11,240,918		7,926,000
Reversal of impairment losses on investments in subsidiaries and associates		-		(2,543,000)
Long-term employee benefits		161,574		120,741
Changes in assets and liabilities from operations:				
Net decrease (increase) in trade receivables		(1,433,222)		2,671,117
Net decrease (increase) in other receivables		583,001		(1,731,730)
Net decrease (increase) in other assets		(15,778,767)		5,883,890
Net increase in inventories		(8,497,728)		(1,299,409)
Net increase (decrease) in trade payables		16,344,907		(932,669)
Net increase (decrease) in other payables		(1,858,912)		1,969,170
Net increase (decrease) in other liabilities		815,936		(288,848)
Net increase (decrease) in provision for other liabilities		(4,737,432)		5,233,677
Payment of incentive bonuses		(4,651,645)		(4,900,466)
Payment of post-employment benefits		(4,626,726)		(5,214,853)
Payment of long-term employee benefits		(238,130)		(296,850)
Increase in plan assets		(12,380,999)		(5,784,639)
Cash generated from operations	₩	36,925,037	₩	54,520,296

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

2022									
	Short-term borrowings	Long-term borrowings	Liabilities held for the purpose of hedging risk from long-term borrowings in foreign currencies	Government grants	Current portion of debentures	Debentures	Lease liabilities	Total	
At January 1, 2022	₩ 118,164,960	₩ 54,709,880	₩ 19,980	₩ 1,915,069	₩ -	₩ 84,076,179	₩ 1,222,962	₩	₩ 260,109,030
Cash flows	(76,014,960)	117,347,500	-	4,412	-	-	(525,484)	₩	40,811,468
Foreign currency translation	1,636,000	(3,328,500)	1,692,500	-	-	-	-	₩	-
Change in lease liabilities	-	-	-	-	-	-	89,449	₩	89,449
Reclassification of current portions	33,683,210	(33,683,210)	-	-	34,882,963	(34,882,963)	-	₩	-
Amortization of discount on debentures	-	-	-	-	-	450,952	18,387	₩	469,339
Change in fair value	-	-	870,794	-	-	-	-	₩	870,794
At December 31, 2022	₩ 77,469,210	₩ 135,045,670	₩ 2,583,274	₩ 1,919,481	₩ 34,882,963	₩ 49,644,168	₩ 805,314	₩	₩ 302,350,080

2021									
	Short-term borrowings	Long-term borrowings	Liabilities held for the purpose of hedging risk from long-term borrowings in foreign currencies	Government grants	Current portion of debentures	Debentures	Lease liabilities	Total	
At January 1, 2021	₩ 49,050,160	₩ 118,399,840	₩ 5,796,481	₩ 1,910,488	₩ 29,983,492	₩ 34,447,200	₩ 1,400,226	₩	₩ 240,987,887
Cash flows	(4,450,160)	5,000,000	-	4,581	(30,000,000)	49,299,480	(666,192)	₩	19,187,709
Foreign currency translation	2,925,000	1,950,000	(4,875,000)	-	-	-	-	₩	-
Change in lease liabilities	-	-	-	-	-	-	455,243	₩	455,243
Reclassification of current portions	70,639,960	(70,639,960)	-	-	-	-	-	₩	-
Amortization of discount on debentures	-	-	-	-	16,508	329,499	33,685	₩	379,692
Change in fair value	-	-	(901,501)	-	-	-	-	₩	(901,501)
At December 31, 2021	₩ 118,164,960	₩ 54,709,880	₩ 19,980	₩ 1,915,069	₩ -	₩ 84,076,179	₩ 1,222,962	₩	₩ 260,109,030

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

	2022		2021
Transfer of construction-in-progress to property, plant and equipment	₩ (8,651,857)	₩	(57,305,298)
Transfer of construction-in-progress to intangible assets	(2,468,018)		(1,151,740)
Capitalized borrowing costs	-		631,757
Non-trade payables related to acquisition of property, plant and equipment	(12,791,319)		12,787,352
Reclassification of investment properties as property, plant and equipment	(4,562,672)		-
Reclassification of associates as financial assets at fair value through profit or loss	-		5,692,500
Recognition of investments in subsidiaries and associates on portion of renewed payment guarantee	5,366		-
Reclassification of disposal of financial assets at fair value through other comprehensive income	(9,267)		-
Reclassification of finance lease receivables	(1,264,014)		-
Reclassification of long-term prepaid expenses to current portion	360,000		360,000
Reclassification of long-term accrued expenses to current portion	92,201		-
Reclassification of loans to employees to current portion	144,200		176,440
Reclassification of long-term borrowings to current portion	33,683,210		70,639,960
Reclassification of debentures to current portion	34,882,963		-
Reclassification of lease liabilities to current portion	375,007		490,066
Reclassification of financial guarantee liabilities to current portion	-		2,231
Reclassification of other non-current liabilities to current portion	56,425		67,710
Reclassification of non-current government grants payable to current portion	1,894,548		-
Reclassification of derivative financial liabilities to current portion	172,738		281,005
Recognition of right-of-use asset portion of leasehold deposits	-		6,642
Reclassification of net defined liabilities as net defined benefit assets	14,103,745		-
Remeasurements of net defined benefit liabilities	4,969,296		668,265
Applying currency swap risk hedge	(339,962)		314,134
Offsetting government grants with depreciation	94,582		94,582

### 38. Commitments and Contingencies

#### (a) Borrowing agreements

The following table summarizes the borrowing agreements with the banks as at December 31, 2022 (Unit: in thousands of Korean won, in thousands of US dollars):

Bank	Type		Limits
KEB Hana Bank	Advanced credit line	₩	17,000,000
	Payment guarantees in Korean won		500,000
	Currency forward transaction agreement		1,425,571
	Borrowings in foreign currencies (USD)	\$	40,000
Suhyup bank	Borrowings in foreign currencies (USD)	\$	10,000
Shinhan bank	Payment guarantees in Korean won	₩	2,400,000
	General borrowings		15,000,000
KB Kookmin Bank	General borrowings		39,500,000
Busan bank	General borrowings		8,000,000
Woori Bank	Payment guarantees in Korean won		3,000,000
	General borrowings		6,000,000
Korea Development Bank	Industry facilities borrowings		68,149,880
	General borrowings		30,000,000
BNP PARIBAS	General borrowings		5,000,000

#### (b) Payment Guarantees Provided by Others

As at December 31, 2022, the Company has been provided with guarantees from Seoul Guarantee Insurance for its business amounting to ₩1,412 million (2021: ₩1,633 million).

In addition, as at December 31, 2022, the Company has been provided with guarantees from Shinhan Bank and others for risk sharing contracts with National Health Insurance Corporation amounting to ₩5,900 million (2021: ₩5,900 million).

#### (c) Payment Guarantees Provided by the Company

The Company provided financial guarantee contracts of JPY 60,599,736, for office rental contracts and of JPY 150,000,000 for supply of Theracurmin, a raw material, of Theravalues Corporation, a subsidiary, and related financial guarantee expenses were recorded as liabilities (see Note 20).

#### (d) Collaterals

Details of assets provided as collaterals for the Company's liabilities and sales contract as at December 31, 2022, are as follows (see Note 13) (Unit: in thousands of Korean won):

Collateral	Mortgagee	Carrying amount	Collateral Value
Land, buildings and investment properties	Korea Development Bank and others	₩ 210,600,535	₩ 169,000,000

(e) Distribution agreement

The Company has a distribution agreement with Zuellig Pharma Korea Company Limited to receive distribution, warehousing, collection of bills and other management services. The Company incurred service fees amounting to ₩7,425 million (2021: ₩6,740 million) for the year ended December 31, 2022.

(f) Currency swap agreement

The Company has entered into a cross-currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 50 million to hedge currency risk associated with the variable interest rate on borrowings in foreign currencies. The main details of the cross-currency swap are as follows:

Contract start date	Contractor	Amount	Exchange rate	Original interest rate	Swap interest rate	Contract end date
June 25, 2020	KEB Hana Bank	USD 20,000,000	KRW/USD 1,204.70	USD 3M LIBOR + 2.604%	2.98%	June 26, 2023
May 26, 2022	Suhyup Bank	USD 5,000,000	KRW/USD 1,268.50	USD 3M SOFR + 1.44%	3.99%	May 26, 2024
July 12, 2022	Suhyup Bank	USD 5,000,000	KRW/USD 1,315.00	USD 3M SOFR + 1.50%	4.67%	July 12, 2024
October 31, 2022	KEB Hana Bank	USD 20,000,000	KRW/USD 1,421.50	USD 3M SOFR + 2.00%	5.60%	October 31, 2025

In 2022, the Company recognized losses of ₩340 million (2021: gains of ₩314 million) on valuation of the above swap agreements at fair value, after tax effects, as other comprehensive income.

The above swap agreements do not contain adequate and robust alternative provisions for the suspension of the interest reference rates. Various working groups in the industry are researching alternative provisions for various financial instruments and various IBORs, which the company will closely monitor and implement when appropriate.

The Company will continue to apply the amended K-IFRS 1109 *Financial Instruments* until the uncertainty in the timing and amount of the underlying cash flows exposed to the Company due to the interest rate benchmark reform ends. The Company assumes that this uncertainty will not end until the contract referencing the Company's IBOR is changed to specify the date the interest reference rate is replaced, the cash flow of the replacement interest reference rate, and the associated spread adjustment. These changes will depend in part on the addition of alternative provisions not yet added to the Company's contracts and negotiations between borrowers and lenders.

### 39. Related Party Transactions

As at December 31, 2022, Y&S International Co., Ltd., has significant influence over the Company (ownership: 17.69 percent).

The details of related parties as at December 31, 2022 and 2021, are as follows:

	Percentage of ownership (%)	
	2022	2021
Subsidiaries:		
Theravalues Corporation	100.00	100.00
Unins (HK) International Limited	100.00	100.00
Innocuve Inc.	72.97	100.00
Associates:		
Kalos Medical, Inc.	49.96	49.96
Teva-Handok pharma Co., Ltd.	49.00	49.00
Genexine, Inc.	15.04	15.11
NB Postech, Inc.	34.99	34.99
Joint ventures:		
Rezolute, Inc.	16.14	17.90
Other related parties:		
Y&S International Co., Ltd.	-	-
pH Pharma	-	-
KONG SHIN JIN HEUNG Co., Ltd.	-	-

Details of associates and other related parties that have sales and other transaction with the Company or have receivables and payables balances as at December 31, 2022 and 2021, are as follows:

	2022	2021
Subsidiaries	Theravalues Corporation Innocuve Inc.	Theravalues Corporation Innocuve Inc.
Associates	Kalos Medical, Inc. Teva-Handok pharma Co., Ltd. Genexine, Inc. NB Postech, Inc.	Kalos Medical, Inc. Teva-Handok pharma Co., Ltd. Genexine, Inc. NB Postech, Inc.
Joint ventures	Rezolute, Inc.	-
Other related parties	Y&S International Co., Ltd. - (*)	Y&S International Co., Ltd. Eppendorf Korea, Ltd.

(\*) Eppendorf Korea, Ltd. Was excluded from related parties in 2022 after the Company's CEO, Kim Young-Jin, resigned from his position as inside director of Eppendorf Korea, Ltd.

Transactions which occurred in the normal course of business with related parties for the years ended December 31, 2022 and 2021, are as follows (Unit: in thousands of Korean won):

		2022			
	Name of entity	Sales	Other income	Purchases	Acquisition of assets and others
Subsidiaries	Theravalues Corporation	₩ -	₩ 97,287	₩ 703,816	₩ -
	Innocuve Inc.	56,325	30,503	-	-
Associates	Kalos Medical Inc.	21,277	3,838	-	-
	Teva-Handok Pharma Co., Ltd.	1,857,007	2,064	997,200	-
	Genexine, Inc.	2,143	391,884	-	356,185
Joint ventures	NB Postech, Inc.	-	125,874	331,316	5,593
Other related parties	Rezolute, Inc.	-	28,090	-	-
	Y&S International Co., Ltd.	4,968	-	-	-
		<u>₩ 1,941,720</u>	<u>₩ 679,540</u>	<u>₩ 6,773,626</u>	<u>₩ 395,080</u>
		2021			
	Name of entity	Sales	Other income	Purchases	Acquisition of assets and others
Subsidiaries	Theravalues Corporation	₩ -	₩ 63,406	₩ 396,281	₩ 1,016
Associates	Kalos Medical Inc.	37,778	2,038	-	-
	Teva-Handok Pharma Co., Ltd.	3,212,021	37,025	1,078,915	-
	Genexine, Inc.	-	68,848	-	1,942,353
	NB Postech, Inc.	-	42,471	642,142	5,593
	TRIGR Therapeutics, Inc. (*)	-	18,010	-	-
Other related parties	Eppendorf Korea Ltd.	-	-	4,428,538	21,854
	Y&S International Co., Ltd.	4,968	-	-	-
		<u>₩ 3,254,767</u>	<u>₩ 231,798</u>	<u>₩ 6,545,876</u>	<u>₩ 1,970,816</u>

(\*) Includes transactions which occurred with TRIGR Therapeutics, Inc. before TRIGR Therapeutics, Inc. was excluded from the list of related parties.

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

		2022					
		Receivables			Payables		
Name of entity		Trade receivables	Loans	Investment bond (*)	Other receivables	Trade payables	Other payables
Subsidiaries	Theravalues Corporation	₩ 24,181	₩ -	₩ -	₩ 1,257,794	₩ -	₩ -
	Innocuve Inc.	-	-	-	96,663	-	-
Associates	Kalos Medical Inc.	1,747	-	-	426	-	190,000
	Teva-Handok Pharma Co., Ltd.	279,709	-	-	457	274,230	210,970
	Genexine, Inc.	265	-	-	-	-	62,777
	NB Postech, Inc. (*)	-	1,000,000	4,000,003	26,171	-	-
Other related parties	Y&S International Co., Ltd.	-	-	-	-	-	151,110
		₩ 305,902	₩ 1,000,000	₩ 4,000,003	₩ 1,381,511	₩ 274,230	₩ 614,857
		2021					
		Receivables			Payables		
Name of entity		Trade receivables	Loans	Investment bond (*)	Other receivables	Trade payables	Other payables
Subsidiaries	Theravalues Corporation	₩ -	₩ -	₩ -	₩ -	₩ 102,014	₩ -
	Innocuve Inc.	-	-	-	92,860	-	-
Associates	Kalos Medical Inc.	4,028	-	-	85	-	310,450
	Teva-Handok Pharma Co., Ltd.	1,219,447	-	-	3,684	283,371	210,970
	Genexine, Inc.	-	-	-	236,106	-	59,090
	NB Postech, Inc. (*)	-	1,000,000	4,000,003	26,297	143,613	-
Other related parties	Eppendorf Korea Ltd.	-	-	-	-	1,172,257	16,633
	Y&S International Co., Ltd.	-	-	-	-	-	151,110
		₩ 1,223,475	₩ 1,000,000	₩ 4,000,003	₩ 359,032	₩ 1,701,255	₩ 748,253

(\*) Investment bond is convertible note (maturity: 2025) issued by NB Postech, Inc., and includes ₩4,000 million which was reclassified from loans during the year ended December 31, 2020 (see Note 7).

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

	Company	Details	2022
Subsidiaries	Innocuve Inc.	Share issuance	₩ 3,799,950
Associates	Rezolute, Inc.	Share issuance	15,755,600
	Company	Details	2021
Subsidiaries	Innocuve Inc.	Share issuance	₩ 200,000
Associates	NB Postech, Inc.	Loan transactions	1,000,000
	Rezolute, Inc.	Share issuance	5,855,000

(\*) No provision for impairment has been recognized for loans of related parties.

The Company provided financial guarantee contracts of JPY 60,599,736 and JPY 150,000,000 for office rental contracts and payments of payables on price of goods, respectively, to Theravalues Corporation, a subsidiary of the Company. Related financial guarantee expenses were recorded as liabilities (see Note 20).

The compensation paid or payable to key management for employee services for the years ended December 31, 2022 and 2021, consists of the following (Unit: in thousands of Korean won):

	2022		2021	
Short-term benefits	₩	1,522,754	₩	1,583,930
Post-employment benefits		223,081		719,413
Other long-term employee benefits		6,460		25,503
Share-based payments (reversal of share-based payments)		(40,193)		(164,494)
	₩	1,712,102	₩	2,164,352

Key management refers to the members of the Board of Directors who have significant control and responsibility for the planning, operating and controlling of the Company's business activities.



## **Independent Auditors' Report on Internal Control over Financial Reporting**

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Shareholders of  
Handok Inc.

March 9, 2023

### **Opinion on Internal Control over Financial Reporting**

We have audited Handok Inc.'s (the "Company") Internal Control over Financial Reporting as of December 31, 2022, based on the criteria established in the Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

We also have audited, in accordance with Korean Standards on Auditing, the separate financial statements of the Company, which comprise the separate statements of financial position as at December 31, 2022 and 2021, respectively, and its separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flow for the years then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 9, 2023 expressed an unqualified opinion.

### **Basis for Opinion on Internal Control over Financial Reporting**

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting section of our report.

We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting 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 audit opinion.

### **Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting**

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report on the Effectiveness of Internal Control over Financial Reporting.

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

## **Auditors' Responsibilities for the Audit of Internal Control over Financial Reporting**

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

## **Definition and Inherent Limitations of Internal Control over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity'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 entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity'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 and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditors' report is Byoung Kyu Song.

*Shinhan Accounting Corporation*

### Notice to Readers

This report is effective as of the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the Company's internal control over financial reporting and may result in modifications to the auditors' report.

# Report on Operation of Internal Accounting Control System

To the Shareholders, Board of Directors and Audit Committee of Handok Inc.

We, as the President and the Internal Accounting Manager of Handok Inc. (“the Company”), assessed operating status of the Company’s Internal Control over Financial Reporting (“ICFR”) for the year ending December 31, 2022.

Design and the operation of the Internal Accounting Control System are the responsibility of the Company’s management including the President and the Internal Accounting Manager (collectively, “We”, “Our” or “Us”).

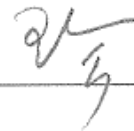
We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

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, 2022, 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.

Feb. 7, 2023



Jin-Ki Baik  
President



Hyeon-Cheol Lee  
Internal Accounting Manager