

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries

**Consolidated Financial Statements
December 31, 2023**

ATTACHMENT: INDEPENDENT AUDITOR'S REPORT

Samsung Electro-Mechanics Co., Ltd.

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INDEPENDENT AUDITOR'S REPORT

English Translation of Independent Auditor's Report Originally Issued in Korean on February 23, 2024

To the Shareholders and the Board of Directors of Samsung Electro-Mechanics Co., Ltd.

Audit Opinion

We have audited consolidated financial statements of Samsung Electro-Mechanics Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2023 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We have also audited, in accordance with the Korean Standards on Auditing ("KSAs"), the internal control over financial reporting of the Group as of December 31, 2023, based on the 'Conceptual Framework for Design and Operation of Internal Control over Financial Reporting', and our report dated February 23, 2024 expressed an unqualified opinion.

Basis for Opinion

We conducted our audits in accordance with the KSAs. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition cut-off related to sales of goods (export sales)

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Reason why the matter was determined to be a key audit matter

As described in Note 2 to the consolidated financial statements, the Group is engaged in manufacturing and selling electronics components. Revenue from contracts with customers is recognized when control of the goods is transferred to the customer with the relevant consideration.

The timing of the transfer of control of the Group's products may vary depending on transaction agreements with customers and export terms and conditions, and management's judgement on the timing of revenue recognition is required. Considering the possibility of deliberate manipulation or potential error, we determined the revenue recognition cut-off related to sales of goods as a Key Audit Matter.

How our audit addressed the Key Audit Matter

Key audit procedures we have performed in relation to the Group's revenue recognition cut-off are as follows.

- Evaluated reasonableness of the Group's accounting policy and standard for revenue recognition cut-off.
- Obtained an understanding of controls over sales and accounting systems and evaluated the design and operational effectiveness of those controls.
- Examined the relevant transaction agreements and evidences through audit sampling at transaction level from sales records that occurred before and after the end of the reporting period.
- Determined whether there are any unusual changes by analyzing monthly sales trend of major customers.
- Examined the cause of cancellation and the relevant evidences through audit sampling from sales records canceled within a short period after the end of the reporting period.

Other Matters

The consolidated financial statements of the Group for the year ended December 31, 2022, were audited by another auditor, in accordance with the KSAs, whose audit report dated February 17, 2023, expressed an unqualified opinion on those consolidated financial statements.

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

The accompanying consolidated financial statements as of and for the years ended December 31, 2023 and 2022, have been translated into the U.S. dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 2 to the consolidated financial statements.

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

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

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

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

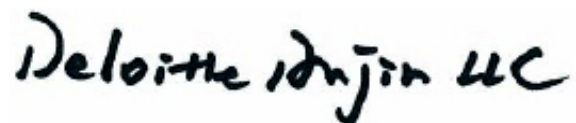
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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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 institutional safety measures.

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

The engagement partner on the audit resulting in this independent auditor's report is Dong Hwui Ahn.



February 23, 2024

Notice to Readers

This report is effective as of February 23, 2024, the audit report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditor's report.

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2023 and 2022

	Notes	Korean won		U.S. dollar (Note 2)	
		2023	2022	2023	2022
Assets					
Current assets:					
Cash and cash equivalents	4,27	₩ 1,669,189,597,138	₩ 1,677,067,099,648	\$ 1,294,547,539	\$ 1,300,656,972
Other current financial assets	5,27	65,119,675,394	66,362,458,824	50,503,859	51,467,705
Trade and other receivables	6,24,27	1,235,009,440,897	1,055,693,111,101	957,817,156	818,747,566
Short-term loans	27	121,486,617	94,172,710	94,219	73,036
Advanced payments		22,667,419,488	25,891,472,558	17,579,820	20,080,249
Prepaid expenses		48,240,192,974	49,412,984,936	37,412,900	38,322,464
Prepaid income tax	22	25,421,553,191	4,968,964,427	19,715,801	3,853,703
Inventories, net	7	2,119,538,128,949	1,901,579,577,671	1,643,817,379	1,474,778,639
Right of return assets	15	23,110,826,498	20,384,009,240	17,923,706	15,808,911
Assets held for sale	28	-	86,864,919,734	-	67,368,481
		<u>5,208,418,321,146</u>	<u>4,888,318,770,849</u>	<u>4,039,412,379</u>	<u>3,791,157,725</u>
Non-current assets:					
Investment in associates	8	66,479,378,394	71,089,149,075	51,558,382	55,133,511
Financial assets measured at fair value	9,27	210,783,748,644	245,763,578,235	163,474,289	190,603,054
Long-term loans	27	4,159,967,818	3,432,637,802	3,226,282	2,662,198
Property, plant and equipment	10,18	5,603,337,560,847	5,235,280,993,908	4,345,693,781	4,060,245,846
Right-of-use assets	12	107,155,092,423	117,039,322,096	83,104,616	90,770,375
Intangible assets, net	11	151,368,146,277	150,053,392,512	117,394,250	116,374,587
Net employee defined benefit assets	16	125,719,439,733	111,842,773,479	97,502,280	86,740,169
Other non-current financial assets	5,27	14,162,945,763	19,621,751,801	10,984,137	15,217,738
Long-term advanced payments and prepaid expenses		40,144,644,353	31,353,287,053	31,134,360	24,316,184
Deferred tax assets	22	<u>126,142,356,450</u>	<u>123,375,241,831</u>	<u>97,830,275</u>	<u>95,684,227</u>
		<u>6,449,453,280,702</u>	<u>6,108,852,127,792</u>	<u>5,001,902,653</u>	<u>4,737,747,889</u>
Total assets		<u>₩ 11,657,871,601,848</u>	<u>₩ 10,997,170,898,641</u>	<u>\$ 9,041,315,032</u>	<u>\$ 8,528,905,614</u>

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2023 and 2022

	Notes	Korean won		U.S. dollar (Note 2)	
		2023	2022	2023	2022
Liabilities					
Current liabilities:					
Trade and other payables	13,24,27	₩ 1,283,198,829,232	₩ 1,193,565,531,695	\$ 995,190,654	\$ 925,675,145
Short-term borrowings	6,14,27	1,067,870,754,310	810,257,330,032	828,191,992	628,398,736
Advances received	18	196,206,367,419	73,382,677,506	152,168,735	56,912,267
Income tax payables		18,151,193,406	77,119,295,531	14,077,240	59,810,218
Current portion of long-term borrowings	14,27	237,120,413,218	274,390,225,080	183,899,809	212,804,580
Current lease liabilities	12,27	24,904,225,632	23,894,998,289	19,314,585	18,531,874
Provisions for product warranties	17	1,184,996,790	1,459,642,448	919,030	1,132,032
Refund liabilities	15	26,315,439,604	25,227,794,028	20,409,058	19,565,530
Other current liabilities	5,27	45,507,409,812	45,825,985,361	35,293,477	35,540,550
		<u>2,900,459,629,423</u>	<u>2,525,123,479,970</u>	<u>2,249,464,580</u>	<u>1,958,370,932</u>
Non-current liabilities:					
Long-term borrowings	14,27	216,522,309,951	336,606,575,602	167,924,856	261,056,752
Long-term other payables	13	79,828,943,115	77,900,142,665	61,911,698	60,415,808
Net employee defined benefit liabilities	16	20,872,781,397	16,861,659,083	16,187,980	13,077,136
Long-term advances received	18	358,469,092,654	285,786,320,663	278,012,326	221,642,873
Long-term lease liabilities	12,27	50,095,396,736	60,087,422,315	38,851,711	46,601,072
Deferred tax liabilities	22	1,298,473,124	1,320,619,058	1,007,037	1,024,212
		<u>727,086,996,977</u>	<u>778,562,739,386</u>	<u>563,895,608</u>	<u>603,817,853</u>
Total liabilities		<u>3,627,546,626,400</u>	<u>3,303,686,219,356</u>	<u>2,813,360,188</u>	<u>2,562,188,785</u>
Equity					
Issued capital	19	388,003,400,000	388,003,400,000	300,917,791	300,917,791
Share premium	19	1,053,516,215,437	1,053,516,215,437	817,059,264	817,059,264
Other components of equity	19	(146,701,455,500)	(146,701,455,500)	(113,774,977)	(113,774,977)
Accumulated other comprehensive income	19	679,817,803,853	623,163,733,141	527,235,772	483,297,451
Other capital reserves	19	3,842,665,257,472	3,315,765,257,472	2,980,196,415	2,571,556,738
Retained earnings		<u>2,030,411,122,731</u>	<u>2,304,746,822,612</u>	<u>1,574,694,527</u>	<u>1,787,456,819</u>
Equity attributable to owners of the parent		<u>7,847,712,343,993</u>	<u>7,538,493,973,162</u>	<u>6,086,328,792</u>	<u>5,846,513,086</u>
Non-controlling interests		<u>182,612,631,455</u>	<u>154,990,706,123</u>	<u>141,626,052</u>	<u>120,203,743</u>
Total equity		<u>8,030,324,975,448</u>	<u>7,693,484,679,285</u>	<u>6,227,954,844</u>	<u>5,966,716,829</u>
Total liabilities and equity		<u>₩ 11,657,871,601,848</u>	<u>₩ 10,997,170,898,641</u>	<u>\$ 9,041,315,032</u>	<u>\$ 8,528,905,614</u>

The U.S. dollar figures are provided for information purpose only and do not form part of the audited consolidated financial statements. See Note 2.

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

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
December 31, 2023 and 2022

Notes	Korean won		U.S. dollar (Note 2)	
	2023	2022	2023	2022
Continuing operations				
Sales	3,20,24 ₩ 8,909,448,483,915	₩ 9,424,551,868,027	\$ 6,909,763,056	\$ 7,309,253,814
Cost of sales	20,24 7,188,574,154,996	7,161,405,783,757	5,575,131,189	5,554,060,636
Gross profit	1,720,874,328,919	2,263,146,084,270	1,334,631,867	1,755,193,178
Selling and administrative expenses	20 1,081,450,591,799	1,080,310,159,999	838,723,896	837,839,429
Operating profit	639,423,737,120	1,182,835,924,271	495,907,970	917,353,749
Financial income	21,27 52,981,551,270	29,253,949,383	41,090,082	22,688,033
Financial costs	21,27 67,685,972,714	46,306,451,763	52,494,162	35,913,178
Share of profit of associates	8,21 (4,742,266,088)	(2,916,492,121)	(3,677,886)	(2,261,899)
Other income	21,27 341,648,413,030	504,596,301,520	264,966,971	391,341,943
Other expenses	21,27 418,415,340,682	480,635,143,560	324,503,909	372,758,759
Profit before tax from continuing operations	543,210,121,936	1,186,828,087,730	421,289,066	920,449,890
Income tax expense	22 84,846,197,067	164,121,856,507	65,802,852	127,285,448
Profit for the year from continuing operations	458,363,924,869	1,022,706,231,223	355,486,214	793,164,442
Discontinued operations				
Loss for the year from discontinued operations	28 (7,881,799,696)	(29,187,049,053)	(6,112,765)	(22,636,148)
Profit for the year	₩ 450,482,125,173	₩ 993,519,182,170	\$ 349,373,449	\$ 770,528,294
Other comprehensive income (loss)				
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):</i>				
Net gains (loss) on valuation of				
financial assets measured at fair value through OCI	(24,380,241,342)	(16,110,674,057)	(18,908,206)	(12,494,706)
Net gains (loss) on disposal of				
financial assets measured at fair value through OCI	71,922,189,390	-	55,779,579	-
Re-measurement loss on defined benefit plans	(11,600,503,793)	(8,469,877,031)	(8,996,823)	(6,568,851)
Capital changes in equity method	99,371,555	(827,238,693)	77,068	(641,569)
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):</i>				
Exchange differences on translation of foreign operations	10,666,132,276	15,806,710,619	8,272,167	12,258,966
Other comprehensive income (loss), net of tax	46,706,948,086	(9,601,079,162)	36,223,785	(7,446,160)
Total comprehensive income, net of tax	₩ 497,189,073,259	₩ 983,918,103,008	\$ 385,597,234	\$ 763,082,134

Notes	Korean won		U.S. dollar (Note 2)	
	2023	2022	2023	2022
Profit for the year from continuing operations attributable to:				
Equity holders of the parent	₩ 430,838,506,308	₩ 1,009,738,691,180	\$ 334,138,752	\$ 783,107,407
Non-controlling interests	27,525,418,561	12,967,540,043	21,347,463	10,057,034
Profit for the year attributable to:				
Equity holders of the parent	₩ 422,956,706,612	₩ 980,551,642,127	\$ 328,025,986	\$ 760,471,260
Non-controlling interests	27,525,418,561	12,967,540,043	21,347,463	10,057,034
Total comprehensive income for the year attributable to:				
Equity holders of the parent	₩ 468,010,273,531	₩ 978,336,879,830	\$ 362,967,484	\$ 758,753,591
Non-controlling interests	29,178,799,728	5,581,223,178	22,629,750	4,328,543
Earnings per share:				
23				
Basic and diluted, profit for the year attributable to ordinary shareholders of the parent				
	₩ 5,597	₩ 12,977	\$ 4.34	\$ 10.06
Basic and diluted, profit for the year attributable to preferred shareholders of the parent				
	₩ 5,647	₩ 13,027	\$ 4.38	\$ 10.10
Basic and diluted, profit for the year from continuing operations attributable to ordinary shareholders of the parent				
	₩ 5,701	₩ 13,364	\$ 4.42	\$ 10.36
Basic and diluted, profit for the year from continuing operations attributable to preferred shareholders of the parent				
	₩ 5,751	₩ 13,414	\$ 4.46	\$ 10.40

The U.S. dollar figures are provided for information purpose only and do not form part of the audited consolidated financial statements. See Note 2.
The above consolidated statements of comprehensive should be read in conjunction with the accompanying notes.

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
December 31, 2023 and 2022

(in Korean won)

	Attributable to equity holders of the parent								Non-controlling interests	Total equity
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Other capital reserves	Retained earnings	Subtotal			
January 1, 2022	₩ 388,003,400,000	₩ 1,053,516,215,437	₩ (146,701,455,500)	₩ 616,908,618,407	₩ 2,716,885,257,472	₩ 2,090,356,960,216	₩ 6,718,948,996,032	₩ 152,176,646,779	₩ 8,371,125,642,811	
Profit for the year	-	-	-	-	-	990,551,642,127	990,551,642,127	12,967,540,043	993,519,182,170	
Other comprehensive income:										
Remeasurement gains on defined benefit plans	-	-	-	-	-	(8,469,877,031)	(8,469,877,031)	-	(8,469,877,031)	
Net gains on valuation of										
financial assets measured at fair value	-	-	-	(16,110,674,057)	-	-	(16,110,674,057)	-	(16,110,674,057)	
Capital changes in equity method	-	-	-	(827,238,693)	-	-	(827,238,693)	-	(827,238,693)	
Foreign currency translation adjustments	-	-	-	23,193,027,484	-	-	23,193,027,484	(7,386,316,865)	15,806,710,619	
Total comprehensive income	-	-	-	6,255,114,734	-	972,081,765,096	978,336,879,830	5,581,223,178	983,918,103,008	
Dividends	-	-	-	-	-	(158,791,902,700)	(158,791,902,700)	(2,816,043,834)	(161,607,946,534)	
Appropriation of retained earnings	-	-	-	-	598,900,000,000	(598,900,000,000)	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	48,880,000	48,880,000	
December 31, 2022	₩ 388,003,400,000	₩ 1,053,516,215,437	₩ (146,701,455,500)	₩ 623,163,733,141	₩ 3,315,785,257,472	₩ 2,304,746,822,612	₩ 7,538,493,973,162	₩ 154,990,706,123	₩ 7,693,484,679,285	
January 1, 2023	₩ 388,003,400,000	₩ 1,053,516,215,437	₩ (146,701,455,500)	₩ 623,163,733,141	₩ 3,315,785,257,472	₩ 2,304,746,822,612	₩ 7,538,493,973,162	₩ 154,990,706,123	₩ 7,693,484,679,285	
Profit for the year	-	-	-	-	-	422,956,706,612	422,956,706,612	27,525,418,561	450,482,125,173	
Other comprehensive income:										
Remeasurement gains on defined benefit plans	-	-	-	-	-	(11,600,503,793)	(11,600,503,793)	-	(11,600,503,793)	
Net gains on valuation of										
financial assets measured at fair value	-	-	-	(24,380,241,342)	-	-	(24,380,241,342)	-	(24,380,241,342)	
Net gains on disposal of										
financial assets measured at fair value	-	-	-	71,922,189,390	-	-	71,922,189,390	-	71,922,189,390	
Capital changes in equity method	-	-	-	99,371,555	-	-	99,371,555	-	99,371,555	
Foreign currency translation adjustments	-	-	-	9,012,751,109	-	-	9,012,751,109	1,653,381,167	10,666,132,276	
Total comprehensive income	-	-	-	56,654,070,712	-	411,356,202,819	488,010,273,531	29,178,799,728	497,189,073,259	
Dividends	-	-	-	-	-	(158,791,902,700)	(158,791,902,700)	(1,555,284,396)	(160,347,187,096)	
Appropriation of retained earnings	-	-	-	-	526,900,000,000	(526,900,000,000)	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	(1,590,000)	(1,590,000)	
December 31, 2023	₩ 388,003,400,000	₩ 1,053,516,215,437	₩ (146,701,455,500)	₩ 679,817,803,853	₩ 3,842,685,257,472	₩ 2,030,411,122,731	₩ 7,847,712,343,993	₩ 182,612,631,455	₩ 8,030,324,975,448	

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
December 31, 2023 and 2022

(in U.S. dollars (Note 2))

	Attributable to equity holders of the parent								
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Other capital reserves	Retained earnings	Subtotal	Non-controlling interests	Total equity
January 1, 2022	\$ 300,917,791	\$ 817,059,284	\$ (113,774,977)	\$ 478,448,288	\$ 2,107,077,135	\$ 1,821,185,792	\$ 5,210,911,273	\$ 118,021,287	\$ 5,328,932,560
Profit for the year	-	-	-	-	-	760,471,260	760,471,260	10,057,034	770,528,294
Other comprehensive income:									
Re-measurement gains on defined benefit plans	-	-	-	-	-	(6,568,851)	(6,568,851)	-	(6,568,851)
Net gains on valuation of									
financial assets measured at fair value	-	-	-	(12,494,706)	-	-	(12,494,706)	-	(12,494,706)
Capital changes in equity method	-	-	-	(641,569)	-	-	(641,569)	-	(641,569)
Foreign currency translation adjustments	-	-	-	17,987,458	-	-	17,987,457	(5,728,491)	12,258,966
Total comprehensive income	-	-	-	4,851,183	-	753,902,408	758,753,591	4,328,543	763,082,134
Dividends	-	-	-	-	-	(123,151,778)	(123,151,778)	(2,183,996)	(125,335,774)
Appropriation of retained earnings	-	-	-	-	484,479,603	(484,479,603)	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	37,909	37,909
December 31, 2022	\$ 300,917,791	\$ 817,059,284	\$ (113,774,977)	\$ 483,297,451	\$ 2,571,556,738	\$ 1,787,456,819	\$ 5,846,513,086	\$ 120,203,743	\$ 5,966,716,829
January 1, 2023	\$ 300,917,791	\$ 817,059,284	\$ (113,774,977)	\$ 483,297,451	\$ 2,571,556,738	\$ 1,787,456,819	\$ 5,846,513,086	\$ 120,203,743	\$ 5,966,716,829
Profit for the year	-	-	-	-	-	328,025,986	328,025,986	21,347,463	349,373,449
Other comprehensive income:									
Re-measurement gains on defined benefit plans	-	-	-	-	-	(8,996,823)	(8,996,823)	-	(8,996,823)
Net gains on valuation of									
financial assets measured at fair value	-	-	-	(18,908,206)	-	-	(18,908,206)	-	(18,908,206)
Net gains on disposal of									
financial assets measured at fair value	-	-	-	55,779,579	-	-	55,779,579	-	55,779,579
Capital changes in equity method	-	-	-	77,068	-	-	77,068	-	77,068
Foreign currency translation adjustments	-	-	-	6,989,880	-	-	6,989,880	1,282,287	8,272,167
Total comprehensive income	-	-	-	43,938,321	-	319,029,163	362,967,484	22,629,750	385,597,234
Dividends	-	-	-	-	-	(123,151,778)	(123,151,778)	(1,206,208)	(124,357,986)
Appropriation of retained earnings	-	-	-	-	408,839,677	(408,839,677)	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	(1,233)	(1,233)
December 31, 2023	\$ 300,917,791	\$ 817,059,284	\$ (113,774,977)	\$ 527,235,772	\$ 2,980,196,415	\$ 1,574,694,527	\$ 6,086,328,792	\$ 141,626,052	\$ 6,227,954,844

The U.S. dollar figures are provided for information purpose only and do not form part of the audited consolidated financial statements. See Note 2.

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

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
December 31, 2023 and 2022

Notes	Korean won		U.S. dollar (Note 2)	
	2023	2022	2023	2022
Cash flows from operating activities				
Cash generated from operations	25 ₩ 1,314,815,645,800	₩ 1,882,897,371,147	\$ 1,019,711,219	\$ 1,460,289,570
Interest received	51,793,182,252	23,811,117,431	40,168,437	18,466,820
Income tax paid	(186,248,712,534)	(331,352,661,847)	(144,446,031)	(256,982,055)
Net cash inflow from operating activities	1,180,360,115,518	1,575,355,826,731	915,433,625	1,221,774,334
Cash flows from investing activities				
Decrease in other financial assets	12,958,028,043	435,478,360,048	10,049,657	337,737,211
Increase in other financial assets	(6,217,840,407)	(434,021,851,443)	(4,822,274)	(336,607,609)
Disposal of financial assets measured at fair value	99,578,203,874	726,454,724	77,228,326	563,405
Acquisition of financial assets measured at fair value	(591,001,233)	(4,330,523,588)	(458,354)	(3,358,557)
Proceeds from disposal of property, plant and equipment	5,369,646,024	17,249,434,305	4,164,453	13,377,877
Acquisition of property, plant and equipment	(1,209,777,658,919)	(1,296,527,887,059)	(938,248,533)	(1,005,528,065)
Receipt of government grant	28,996,188,990	-	22,488,125	-
Proceeds from disposal of intangible assets	21,905,259	56,394,529	16,989	43,737
Acquisition of intangible assets	(47,074,391,786)	(48,572,209,646)	(36,508,757)	(37,670,397)
Dividends received	3,542,887,609	5,296,751,200	2,747,703	4,107,919
Net cash flow due to disposal of discontinued operations	90,344,648,615	(2,925,807,936)	70,067,201	(2,269,124)
Net cash outflow from investing activities	(1,022,849,383,931)	(1,327,570,884,866)	(793,275,465)	(1,029,603,602)
Cash flows from financing activities				
Proceeds from short-term borrowings	1,961,689,648,394	873,717,315,493	1,521,397,277	677,615,415
Repayment of short-term borrowings	(1,694,817,325,050)	(79,566,396,659)	(1,314,423,240)	(61,708,079)
Repayment of current portion of long-term borrowings	(282,200,897,428)	(472,331,712,889)	(218,862,182)	(366,318,996)
Proceeds from long-term borrowings	117,509,400,000	103,316,000,009	91,134,946	80,127,191
Repayment of lease liabilities	(25,573,574,034)	(26,993,651,062)	(19,833,701)	(20,935,048)
Interest paid	(89,393,958,971)	(43,528,508,024)	(69,329,889)	(33,758,731)
Dividends paid	(160,342,144,796)	(161,602,887,384)	(124,354,075)	(125,331,850)
Increase (decrease) in non-controlling interests	(1,590,000)	48,880,000	(1,233)	37,909
Net cash inflow (outflow) from financing activities	(173,130,441,885)	193,059,039,484	(134,272,097)	149,727,811
Net increase (decrease) in cash and cash equivalents	(15,619,710,298)	440,843,981,349	(12,113,937)	341,898,543
Effects of exchange rate changes on cash and cash equivalents	7,742,207,788	3,647,609,957	6,004,504	2,828,920
Cash and cash equivalents at January 1	1,677,067,099,648	1,232,575,508,342	1,300,656,972	955,929,509
Cash and cash equivalents at December 31	₩ 1,669,189,597,138	₩ 1,677,067,099,648	\$ 1,294,547,539	\$ 1,300,656,972

The U.S. dollar figures are provided for information purpose only and do not form part of the audited consolidated financial statements. See Note 2.
The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

1. ORGANIZATION AND BUSINESS:

1.1 The Company

Samsung Electro-Mechanics Co., Ltd. (the "Company") was incorporated on August 8, 1973 under the laws of the Republic of Korea to engage in the manufacture and sale of various electronic components. The ordinary shares of the Company have been publicly traded on the Korean Exchange since 1979.

As of December 31, 2023, the Company's manufacturing plants are located in Suwon, Sejong and Busan. The Company maintains its overseas business operations through 14 direct subsidiaries and one indirect subsidiary located in the Americas, Europe, and Asia.

1.2 Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2023 are as follows (Korean won in thousands):

Subsidiary	Issued capital	Number of shares	Equity interest	Principal activities	Domicile
Tianjin Samsung Electro-Mechanics Co., Ltd. (*1)	331,501,389	-	81.76%	Passive component manufacturing	China
Samsung Electro-Mechanics Philippines, Corp.	53,917,212	4,046,711	100.00%	Passive component manufacturing	Philippines
Samsung High-Tech Electro-Mechanics (Tianjin) Co., Ltd. (*1)	38,972,998	-	95.00%	Camera module manufacturing	China
Kunshan Samsung Electro-Mechanics Co., Ltd. (*1) (*2)	643,181,550	-	100.00%	Printed circuit board manufacturing	China
Samsung Electro-Mechanics America, Inc.	3,420,160	5,000	100.00%	Trading	USA
Samsung Electro-Mechanics Vietnam Co., Ltd. (*1)	112,840,500	-	100.00%	Camera module manufacturing	Vietnam
Samsung Electro-Mechanics GmbH (*1)	3,089,662	-	100.00%	Trading	Germany
Calamba Premier Realty Corporation (*3)	3,383	398	39.80%	Real estate	Philippines
Samsung Electro-Mechanics Pte, Ltd.	1,215,800	1,760,200	100.00%	Trading	Singapore
Samsung Electro-Mechanics (Shenzhen) Co., Ltd. (*1)	2,368,283	-	100.00%	Trading	China
Samsung Electro-Mechanics Japan Co., Ltd.	4,696,119	330,000	100.00%	Trading	Japan
Batino Realty Corporation	2,704	1,000	39.80%	Real estate	Philippines
Samsung Electro-Mechanics Software India Bangalore Private Limited	16,790	100,000	100.00%	Software development	India
Samsung Electro-Mechanics Mexico S.A. de C.V. (*1)	4,936,338	-	100.00%	Camera module manufacturing	Mexico
SVIC#47 (*1)	25,405,000	-	99.00%	Investment	Korea

The fiscal year for all subsidiaries ends on December 31.

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

1.2 Consolidated subsidiaries (cont'd)

(*1) These subsidiaries are limited liability entities that do not issue shares in accordance with local law.

(*2) Kunshan Samsung Electro-Mechanics Co., Ltd. discontinued its operations during 2019, and is under the disposal process of the remaining assets and classified them as assets held for sale (Note 28).

(*3) The subsidiary owns 100% of Batino Realty Corporation, an indirect subsidiary.

Although the Company's equity interests in Calamba Premier Realty Corporation and Batino Realty Corporation are less than 50%, it is assessed that the Group holds *de facto* control over these entities as it has rights arising from contractual agreements.

The summary of the consolidated subsidiaries' financial position as of December 31, 2023 and the results of their financial performance for the year then ended, which have been included in the accompanying consolidated financial statements are as follows (Korean won in thousands):

Subsidiary	Total assets	Total liabilities	Sales	Profit (loss) for the year
Tianjin Samsung Electro-Mechanics Co., Ltd.	₩ 2,105,675,430	₩ 1,180,314,487	₩ 2,872,513,228	₩ 141,008,659
Samsung Electro-Mechanics Philippines, Corp.	915,877,541	537,435,793	1,347,746,574	17,756,048
Samsung High-Tech Electro-Mechanics (Tianjin) Co., Ltd.	517,092,676	248,338,704	1,129,391,444	28,146,284
Kunshan Samsung Electro-Mechanics Co., Ltd.	157,141,630	12,820	299,265	1,076,000
Samsung Electro-Mechanics Vietnam Co., Ltd.	2,405,960,194	1,675,605,807	2,127,368,613	62,322,609
Samsung Electro-Mechanics America, Inc.	62,756,094	30,846,819	373,059,899	3,458,519
Samsung Electro-Mechanics GmbH	110,510,603	56,582,719	298,447,297	4,321,359
Calamba Premier Realty Corporation	10,595,478	7,726,385	-	365,902
Samsung Electro-Mechanics Pte, Ltd.	82,277,495	43,539,305	251,549,190	2,995,302
Samsung Electro-Mechanics (Shenzhen) Co., Ltd.	703,200,857	471,659,185	2,447,735,549	30,917,420
Samsung Electro-Mechanics Japan Co., Ltd.	32,723,294	26,630,774	101,339,267	872,482
Batino Realty Corporation	5,216,673	3,844,391	-	145,793
Samsung Electro-Mechanics Software India Bangalore Private Limited	8,145,043	4,509,134	10,592,298	1,053,191
Samsung Electro-Mechanics Mexico S.A. de C.V.	4,930,203	-	-	180,818
SVIC#47	23,103,927	144,965	-	(203,456)
	<u>₩ 7,145,207,138</u>	<u>₩ 4,287,191,288</u>	<u>₩ 10,960,042,624</u>	<u>₩ 294,416,930</u>

Samsung Electro-Mechanics Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

1.2 Consolidated subsidiaries (cont'd)

Profit attributable to non-controlling interests

Details of profit or loss attributable to non-controlling interests for the year ended December 31, 2023 are as follows (Korean won in thousands):

Subsidiary	Non-controlling ownership	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Remaining non-controlling interests
Tianjin Samsung Electro-Mechanics Co., Ltd.	18.24%	₩ 25,849,312	₩ 1,220,714	₩ 168,717,479
Samsung High-Tech Electro-Mechanics (Tianjin) Co., Ltd.	5.00%	1,370,101	334,570	13,035,471
Calamba Premier Realty Corp.	60.20%	220,273	-	108,365
Batino Realty Corporation	60.20%	87,767	-	735,776
SVIC#47	1.00%	(2,034)	-	15,540
		₩ 27,525,419	₩ 1,555,284	₩ 182,612,631

Subsidiaries included in the consolidation for the year ended December 31, 2023:

Subsidiaries	Description
Samsung Electro-Mechanics Mexico S.A. de C.V.	Establishment

Subsidiaries excluded from the consolidation for the year ended December 31, 2023:

Subsidiaries	Description
Dongguan Samsung Electro-Mechanics Co., Ltd.	Liquidation

2. SIGNIFICANT ACCOUNTING POLICIES:

2.1 Basis of financial statements preparation

Samsung Electro-Mechanics Co., Ltd. and its subsidiaries (collectively, "Group") prepare statutory financial statements in the Korean language in accordance with Korean International Financial Reporting Standards ("K-IFRS") enacted by the *Act on External Audit of Stock Companies*.

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value and when otherwise noted. The consolidated financial statements are presented in Korean won (KRW) with all values rounded to the nearest thousands, except when otherwise indicated. The accompanying consolidated financial statements have been condensed, restructured, and translated into English from the Korean language financial statements.

United States dollar amounts

The U.S. dollar amounts provided herein represent supplementary information solely for the convenience of the reader. All Korean won amounts of the 2023 and 2022 financial statements are translated to U.S. dollars at US\$1:₩1,289.40, the exchange rates in effect on December 31, 2023. Such presentation is not in accordance with Korean International Financial Reporting Standards and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or at any other rate.

2.2 Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest, and other components of equity while any related gain or loss is recognized in profit or loss. Any remaining investment is recognized at fair value.

2.3 Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as of the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

2.3 Business combinations and goodwill (cont'd)

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

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

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

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

2.4 Investment in associates and joint arrangements

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investments in its associate and are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the share of the results of the financial performance of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statements of profit or loss and OCI. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The consolidated financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After the application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statements of profit or loss and OCI.

2.4 Investment in associates and Joint arrangements (cont'd)

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Joint arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.5 Current versus non-current classification

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

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12 months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

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

2.6 Foreign currency translation

The Group's consolidated financial statements are presented in Korean won, which is also its functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2.6 Foreign currency translation (cont'd)

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

Foreign operations

The assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their statements of profit or loss and OCIs are translated at the average exchange rate during the applicable period. The exchange differences arising from the translation are recognized in OCI. On disposal of a foreign operation, the gain or loss on translation of foreign operations recorded in OCI is reclassified to the statements of profit or loss and OCI. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.7 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which represent cash and cash equivalents on the consolidated statements of cash flows.

2.8 Financial instruments: Initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under K-IFRS 1115.

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

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

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

2.8 Financial instruments: Initial recognition and subsequent measurement (cont'd)

Subsequent measurement

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

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

Financial assets measured at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

Financial assets measured at fair value through OCI (debt instruments)

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

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

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

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

Financial assets measured at fair value through OCI (equity instruments)

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

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

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

2.8 Financial instruments: Initial recognition and subsequent measurement (cont'd)

Financial assets measured at fair value through profit or loss

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

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

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

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

Derecognition

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

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

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

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

2.8 Financial instruments: Initial recognition and subsequent measurement (cont'd)

Impairment of financial assets

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

- Disclosures for significant assumptions
- Debt instruments at fair value through OCI
- Trade receivables, including contract assets

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of K-IFRS 1039 are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss

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

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

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

2.8 Financial instruments – impairment of financial assets (cont'd)

Loans and borrowings

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Derecognition

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

Offsetting of financial instruments

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

2.9 Fair value measurement

The Group measures financial instruments, at fair value at each balance sheet date. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

	<u>Notes</u>
Quantitative disclosures of fair value measurement hierarchy	27
Investment in unquoted equity shares	9
Financial instruments (including those carried at amortised cost)	27

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

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

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

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

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

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

2.9 Fair value measurement (cont'd)

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

2.10 Inventories

Inventories are valued at the lower of cost and net realizable value. Purchase costs, transfer costs and costs incurred in bringing each product to its present location and conditions are accounted for initial cost of inventories. Unit costs of inventories are measured by a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.11 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Depreciation of property, plant and equipment is calculated by using the straight-line method over the estimated useful life of the assets as follows:

	<u>Estimated useful life</u>
Buildings	17 – 52
Structures	20 – 40
Machinery	4 – 5
Equipment	4 – 5
Vehicles	4 – 5

2.12 Leases

The Group assesses whether the contract contains a lease when the contract is settled, by considering if the right to control the use of the identified asset is transferred in exchange for price.

Group as lessee

The Group applies a single approach to identification and measurement, except for short-term leases and leases of low-value assets. The Group identifies lease liability, as obligation to pay for the lease, and right-of-use asset, as right to control the underlying asset.

At the commencement date, the day that the underlying asset of the lease becomes available, the Group identifies the right-of-use asset. The right-of-use asset is measured as cost initially, and as cost model in subsequent measurements. Besides accumulated depreciation and impairment loss being deducted, adjustments from the remeasurement of lease liability are reflected in the cost model. The cost of right-of-use assets includes the amount of the recognized lease liability, the initial direct cost, and the lease fee paid on the lease commencement date or before, less the incentive received. Right-of-use assets are depreciated on a straight-line basis over a short period of the lease term and the estimated useful life of the following assets:

If the ownership of the underlying asset is transferred to the Group when the lease is terminated, or the exercise price of a purchase option is reflected on the cost of the right-of-use asset, depreciation will be calculated based on the estimated useful life of the underlying asset.

Rights-of-use assets are also susceptible to impairment. See Note 2.15, accounting policy on the impairment of non-financial assets.

On the commencement date, the Group measures the lease liability with the present value of the lease payments to be made during the lease term. The lease payments consist of fixed payments (including in-substance fixed payments), less lease incentives receivable, variable payments that depend on an index or a rate and amounts expected to be payable under residual value guarantees. Lease payments also contains exercise price, when it is reasonably certain that the purchase option will be exercised, and penalties for terminating the lease when the lease term reflects the Group's exercise of an option to terminate the lease.

The variable payments that do not depend on an index or a rate will be recognized as expenses in the period in which the event or condition that triggers those payments occurs, unless the payments are accrued in regard to manufacturing the inventory assets.

The Group utilizes an incremental borrowing rate on the commencement date as the interest rates implicit in the lease cannot be readily determined to calculate the present value of the lease payment. After the commencement date, lease liability will be increased by the interests accrued and decreased by payments made. Additionally, the book value of lease liability will be remeasured with the change in the lease term, lease payments (e.g., fluctuation of unpaid lease payments occurred by an index or a rate) or reassessment on exercise of purchase option on the underlying asset.

The Group's lease liabilities are included in interest bearing debts (See note 27).

The Group applies recognition exemption on short-term leases of machinery and equipment. It is the same on the lease of low-value assets, furniture and fixtures. Lease payments on those leases will be recognized on a straight-line basis.

2.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

2.14 Intangible assets

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

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of loss or profit when the asset is derecognized.

Research and development costs

Expenditures on research activities are recognized as expenses in the period in which they incur. Expenditures on development activities are capitalized as intangible assets (development costs) when the assets become ready to use (development activities for the project are finished). The expenditures on specific projects are recognized as an intangible asset when the Group can demonstrate:

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

Goodwill

Goodwill is accounted for as an intangible asset and is initially measured consideration paid which exceeds the cost of the investment over the Group's share of the fair value of the subsidiary's net identifiable assets.

Patents, licenses, software, and membership

The patents have been granted for a period of 7-10 years by the relevant government agency with the option of renewal at the end of this period. Licenses for the use of intellectual property and software are granted for periods 5 and 4-5 years, respectively. Memberships for usage rights that are not kept for investment purposes, are regarded to have indefinite useful lives and are not amortized.

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

	<u>Estimated useful life</u>
Patents	7-10 years
Industrial property rights	5 years
Other intangible assets	5 years
Software	4 - 5 years

2.15 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining net fair value costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for property previously revalued with the revaluation that was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

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

The following criteria are also applied in assessing impairment of specific assets:

Intangible assets

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

2.16 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period.

2.17 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed from 3rd parties, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement from 3rd parties.

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

Provision for product warranties

The Group accrues provision for warranty corresponding to the estimated costs of future repairs and returns, based on past experience. The provision for product warranties is charged to selling and administrative expenses when the goods covered by warranties are sold to customers.

Asset (allowance) and liability (emission obligation)

The Group is allocated with emission allowances free of charge by the government in accordance with the Act on Allocation and Trading of Emission Allowances in the Republic of Korea. The allowances are allocated to the Group every year for planned periods, and the Group should submit the equivalent number of emission allowances for actual emissions.

The Group measures the emission allowances that it receives from the government free of charge at nil, and measures any purchased emission allowances at cost. In addition, emission allowances are derecognized in the financial statements when they are delivered to the government or sold.

A liability (emission obligation) is recognized only where actual emissions exceed the allocated emission allowances, and the cost of emissions is recognized as an operating cost. The liability is measured by adding the following (1) and (2).

- (1) The carrying value of emission allowances for the year to be delivered to the government
- (2) The best estimate of expenditures, as of the end of a reporting period, in performing emission obligations exceeding the above emission allowances

2.18 Employee benefits

Post-employment benefits

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

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution has been paid. The contribution is recognized as employee benefit expense when they are due.

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

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

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

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

Other long-term employee benefits

The Group provide long-term employee benefits that are entitled to employees with service period of 10 years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group 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.

2.19 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the statements of profit or loss and OCI on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

2.20 Cash dividend

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

2.21 Revenue recognition

Sale of goods

The Group is in the business of manufacturing and selling electronics equipment. Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue from sale of equipment is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment.

Royalty revenue

The Group is obligated to provide know-how to customers over the service period; therefore, the Group will recognize a certain amount of the allocated transaction price for each performance obligation over the service period as revenue.

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for under K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*.

Assets and liabilities arising from rights of return

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

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

2.22 Taxes

Current income tax

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

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

Deferred tax

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

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

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

2.22 Taxes (cont'd)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.23 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 Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.24 Greenhouse Gas Emission Permits and Obligations

Emission permits and emission obligations for compliance

With enforcement of The Act on the Allocation and Trading of Greenhouse Gas Emission Permits, emission permits that are allocated free of charge from the government are measured at zero, and emission permits purchased are recognized at acquisition cost by including any directly attributable costs incurred during the normal course of business. Emission permits are carried at cost less accumulated impairment losses, and those to be submitted to the government within one year from the end of reporting period are classified as current assets.

2.24 Greenhouse Gas Emission Permits and Obligations (cont'd)

Emission obligation is a present obligation of submitting the allowances to the government. Emissions obligations are measured as the sum of the carrying amount of the allocated allowances that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. The emission obligations to be settled within one year from the end of the reporting period are classified as current liabilities.

The Group derecognizes the emission permits when the emission allowance is disposed of or submitted to the government or becomes unable to be disposed of or submitted, and accordingly, the future economic benefits are no longer expected to be probable. The Group derecognizes the emission obligations when the Group submits the emission permits to the government. The emission permits and emission obligations are classified as intangible assets and provisions, respectively, in the statement of financial position.

Emission permits held for trading

Emission permits held for trading are classified as current assets and measured at fair value, and changes in fair value are recognized as profit or loss for the year. Changes in fair value and gain (loss) on disposal are recognized as other income and other expenses, respectively.

2.25 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2023.

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'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. 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 International Accounting Standards Board (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. There is no significant impact of the amendments on the consolidated financial statements.

K-IFRS 1001 Presentation of Financial Statements – Disclosure of financial liabilities with clauses to adjust exercise price (Amendment)

The amendments require disclosure of valuation gains or losses (limited to those recognized in the profit or loss) of the conversion options or warrants (or financial liabilities including them), if all or part of the financial instrument with exercise price that is adjusted depending on the issuer's share price change is classified as financial liability as defined in paragraph 11 (2) of K-IFRS 1032. There is no significant impact of the amendments on the consolidated financial statements.

K-IFRS 1008 Accounting Polices, 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 definition of a change in accounting estimates was deleted. There is no significant impact of the amendments on the consolidated financial statements.

2.25 New and amended standards adopted by the Group (cont'd)

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 profit nor taxable profit. Following the amendments to K-IFRS 1012, an entity is required to recognise 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. There is no significant impact of the amendments on the consolidated financial statements.

K-IFRS 1012 Income Taxes - International Tax Reform—Pillar Two Model Rules (Amendment)

The amendments clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules. The amendments introduce a temporary exception to the accounting requirements for deferred taxes in K-IFRS 1012, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Following the amendments, the group is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes. There is no significant impact of the amendments on the consolidated financial statements.

K-IFRS 1117 Insurance Contracts

K-IFRS 1117 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes K-IFRS 1104 Insurance Contracts. K-IFRS 1117 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees. The group does not have any contracts that meet the definition of an insurance contract under K-IFRS 1117. There is no significant impact of the amendments on the consolidated financial statements.

2.26 New standards and interpretations not yet adopted by the Group

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2023 reporting periods and have not been early adopted by the Group.

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 1 January 2024, with early application permitted. If an entity applies this amendments for an earlier period, it is also required to apply the 2023 amendments early. The directors of the parent company anticipate that the application of these amendments may have an impact on the group's consolidated financial statements in future periods. The Group is currently assessing the impact of the amendments on the consolidated financial statements.

2.26 New standards and interpretations not yet adopted by the Group (cont'd)

K-IFRS 1001 Presentation of Financial Statements – Non-current Liabilities with Covenants (Amendment)

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date.

The amendments also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early. The Group is currently assessing the impact of the amendments on the consolidated financial statements.

K-IFRS 1007 Statement of Cash Flows and K-IFRS 1107 Financial Instruments: Disclosures - Supplier Finance Arrangements (Amendment)

The amendments add a disclosure objective to K-IFRS 1007 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, K-IFRS 1117 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. The Group is currently assessing the impact of the amendments on the consolidated financial statements.

K-IFRS 1116 Leases - Lease Liability in a Sale and Leaseback (Amendment)

The amendments to K-IFRS 1116 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in K-IFRS 1115 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

2.26 New standards and interpretations not yet adopted by the Group (cont'd)

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in K-IFRS 1116. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with K-IFRS 1008 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied K-IFRS 1116. The Group is currently assessing the impact of the amendments on the consolidated financial statements.

K-IFRS 1001 Presentation of Financial Statements – Disclosure of Virtual Assets (Amendment)

The amendments to K-IFRS 1001 add additional disclosure requirements required by other standards for transactions related to virtual assets, setting out disclosure requirement for each case of 1) holding virtual assets, 2) holding virtual assets on behalf of customer, and 3) issuing virtual assets.

When holding a virtual asset, disclosure on the general information about virtual assets, the accounting policy applied and each virtual asset's acquisition method, cost and the fair value at the end of the reporting period is required. Also, when issuing a virtual asset, the entity's obligations and status of fulfilment of the obligation related to the issued virtual asset, the timing and amount of the recognized revenue of the sold virtual asset, the number of virtual assets held after issuance, and important contract details shall be disclosed.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. The Group is currently assessing the impact of the amendments on the consolidated financial statements.

2.27 Significant accounting judgments, estimates and assumptions

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

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

Impairment of non-financial assets

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

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that future taxable income will be available for tax losses. Management of the associate makes key judgments to determine the amount of deferred tax assets that are recognized based on the timing and level of future tax strategy and tax benefits.

Net defined benefit liabilities

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.28 Approval of the financial statements

Approval of the consolidated financial statements of the Group for the year ended December 31, 2023 was approved by the Board of Directors' meeting on January 31, 2024 for submission to the general shareholders' meeting.

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3. OPERATING SEGMENT INFORMATION:

The Group has three reportable operating segments, which are organized based on each segment's products and sales.

- Component: Passive components (MLCC, inductors, chip resistors and others)
- Optics & Communication Solution: Camera module, Network module
- Package Solution: Semiconductor PKG board

Sales to Samsung Electronics Co., Ltd. and its subsidiaries are more than 10% of its total sales, amounting to ₩2,873 billion (2022: ₩3,044 billion) for the year ended December 31, 2023

The following table summarizes the results of financial performance of the Group by operating segment for the years ended December 31, 2023 and 2022 (Korean won in millions):

	2023			
	Component	Optics & Communication Solution	Package solution	Consolidated
Sales	₩ 3,903,022	₩ 3,289,048	₩ 1,717,378	₩ 8,909,448
Depreciation	492,187	88,844	184,356	765,387
Amortisation	20,842	20,288	6,558	47,688
Depreciation of right-of use assets	14,620	6,229	2,747	23,596
Operating profit	361,594	101,231	176,599	639,424
Impairment of Assets	-	35,432	-	35,432

	2022			
	Component	Optics & Communication Solution	Package solution	Consolidated
Sales	₩ 4,132,283	₩ 3,203,950	₩ 2,088,319	₩ 9,424,552
Depreciation	569,900	120,965	116,595	807,460
Amortisation	19,115	19,520	6,486	45,121
Depreciation of right-of use assets	16,295	6,278	3,646	26,219
Operating profit	607,739	110,448	464,649	1,182,836

Geographic information is as follows:

	Major products	Major customers
Korea	Passive component, camera module, semiconductor package substrate, and others	Samsung Electronics, Google, Amkor Technology Korea, and others
China and Southeast Asia	Passive component, camera module and others	Samsung Electronics, Xiaomi, Apple, and others
Japan	Passive component, semiconductor package substrate and others	SOMC, Shinko, and others
America	Passive component, semiconductor package substrate and others	Intel, Dell, Future, and others
Europe	Passive component and others	Rutronik, Bosch, AVNET, and others

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3. Operating segment information (cont'd)

The results of financial performance of the Group by geographic segment for the years ended December 31, 2023 and 2022 (Korean won in millions), are as follows:

	Korea		Overseas					Adjustment	Consolidated
	Domestic	Export	China	Southeast Asia	America	Europe	Japan		
Sales(*1)	₩ 447,435	2,386,539	₩ 3,393,488	₩ 1,917,253	₩ 368,331	₩ 295,063	₩ 101,339	₩ -	₩ 8,909,448
Non-current assets(*2)	2,282,949		1,359,399	2,252,883	1,787	1,582	833	(37,572)	5,861,861

	Korea		Overseas					Adjustment	Consolidated
	Domestic	Export	China	Southeast Asia	America	Europe	Japan		
Sales(*1)	₩ 374,110	3,009,363	₩ 3,177,547	₩ 1,840,231	₩ 526,672	₩ 321,732	₩ 174,897	₩ -	₩ 9,424,552
Non-current assets(*2)	2,250,042		1,516,220	1,719,602	865	2,032	504	13,109	5,502,374

(*1) This amount excludes internal sales within the Group.

(*2) This amount excludes financial assets, deferred tax assets, investment in associates and others.

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Cash on hand	₩ 25,289	₩ 29,652
Short-term deposits	1,669,164,308	1,677,037,448
	<u>₩ 1,669,189,597</u>	<u>₩ 1,677,067,100</u>

5. OTHER ASSETS AND LIABILITIES:

Other assets as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023		2022	
	Current	Non-current	Current	Non-current
Other financial assets:				
Financial instruments	₩ 39,000,000	₩ 19,170	₩ 39,000,000	₩ 19,143
Government and public bonds	8,060	-	-	8,060
Accrued income	6,040,339	-	6,757,206	-
Business guarantee deposits	181,700	-	187,774	-
Lease guarantee deposits	19,889,576	14,143,776	20,417,479	19,594,549
	<u>₩ 65,119,675</u>	<u>₩ 14,162,946</u>	<u>₩ 66,362,459</u>	<u>₩ 19,621,752</u>

Other liabilities as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023		2022	
	Current	Non-current	Current	Non-current
Other liabilities:				
Withholdings	₩ 37,598,088	₩ -	₩ 39,309,133	₩ -
Withholding deposits	4,428,312	-	5,701,399	-
Unearned income	3,481,010	-	815,453	-
	<u>₩ 45,507,410</u>	<u>₩ -</u>	<u>₩ 45,825,985</u>	<u>₩ -</u>

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5. Financial assets and liabilities (cont'd)

Restricted deposits as of December 31, 2023 and 2022 consist of the following (Korean won in thousands):

	Financial institution	2023	2022	Description
Short-term financial instruments	Woori Bank and one other bank	₩ 39,000,000	₩ 39,000,000	Financial support reserve for strategic alliances
Long-term financial instruments	Woori Bank and six other banks	19,170	19,143	Overdraft facilities
		₩ 39,019,170	₩ 39,019,143	

6. TRADE AND OTHER RECEIVABLES:

Trade and other receivables as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023		2022	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,126,444,181	₩ -	₩ 990,685,140	₩ -
Allowance for doubtful accounts	-	-	-	-
Other receivables	108,717,097	280,820	65,464,436	10,820
Allowance for doubtful accounts	(151,837)	(280,820)	(456,465)	(10,820)
	₩ 1,235,009,441	₩ -	₩ 1,055,693,111	₩ -

The changes in allowance for doubtful accounts for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
As of January 1	₩ 467,285	₩ 730,146
Allowance (reversal) for doubtful accounts - others	(31,355)	737,721
Write-off	(3,273)	(1,000,582)
As of December 31	₩ 432,657	₩ 467,285

As of December 31, 2023, and 2022, the aging analysis of trade and other receivables are as follows (Korean won in thousands):

	2023	2022
Neither past due nor impaired	₩ 1,147,232,559	₩ 1,006,175,264
Past due but not impaired:		
Within 30 days	50,849,850	39,023,193
31 - 180 days	13,108,674	10,197,532
181 - 365 days	24,063,760	370,078
Over 365 days	187,255	394,329
	88,209,539	49,985,132
	₩ 1,235,442,098	₩ 1,056,160,396

6. Trade and other receivables (Cont'd)

The Group disposed of its trade receivables in accordance with a factoring agreement entered into with various financial institutions. The Group did not derecognize the trade receivables, as the financial institutions hold recourse rights, and the Group retains the related risk and rewards. The financial liability was recognized as short-term borrowings on the statements of financial position for the years ended December 31, 2023 and 2022 (Note 14).

Trade receivables factored with recourse as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Book value of trade receivables disposed(*)	₩ 725,592,791	₩ 765,901,830
Book value of related borrowings	725,592,791	765,901,830

(*) Trade receivables disposed include inter-company trade-receivables.

7. INVENTORIES:

Inventories as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023			2022		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
Finished goods and merchandise	₩ 640,218,841	₩ (41,646,868)	₩ 598,571,973	₩ 733,068,939	₩ (47,954,033)	₩ 685,114,906
Work-in-process	936,646,159	(17,285,891)	919,360,268	822,003,887	(36,086,979)	785,916,908
Raw materials	460,102,887	(5,673,980)	454,428,907	337,288,033	(9,661,311)	327,626,722
Supplies	82,881,973	-	82,881,973	69,437,432	-	69,437,432
Materials in-transit	64,295,008	-	64,295,008	33,483,610	-	33,483,610
	<u>₩ 2,184,144,868</u>	<u>₩ (64,606,739)</u>	<u>₩ 2,119,538,129</u>	<u>₩ 1,995,281,901</u>	<u>₩ (93,702,323)</u>	<u>₩ 1,901,579,578</u>

Changes in inventories included in the cost of sales and loss on valuation of inventories (reversal) included in cost of sales for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
Inventories recognized as an expense(*)	₩ 7,219,006,074	₩ 7,155,915,530
Reversal of loss on valuation of inventories(*)	(30,431,918)	25,960,216
	<u>₩ 7,188,574,156</u>	<u>₩ 7,181,875,746</u>

(*) Includes profit (loss) for the year from discontinued operations.

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8. INVESTMENT IN ASSOCIATES:

Investment in associates as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	Stemco Co., Ltd.		Samsung Global Research	
	2023	2022	2023	2022
Number of shares	1,440,000	1,440,000	2,856,000	2,856,000
Equity interest	30.00%	30.00%	23.80%	23.80%
Acquisition cost	₩ 7,200,000	₩ 7,200,000	₩ 14,280,000	₩ 14,280,000
Shareholder portion	₩ 47,310,582	₩ 51,452,759	₩ 19,168,797	₩ 19,636,390
Book value	₩ 47,310,582	₩ 51,452,759	₩ 19,168,797	₩ 19,636,390
Domicile	Korea	Korea	Korea	Korea
Fiscal year end	December 31	December 31	December 31	December 31
Principal activities	Manufacturing and trading of semiconductor parts	Manufacturing and trading of semiconductor parts	Research and development, human resource development	Research and development, human resource development

The following table summarizes the financial position of associates as of December 31, 2023 and 2022, and the results of their financial performance for the years then ended December 31, 2023 and 2022 (Korean won in thousands):

	Stemco Co., Ltd.		Samsung Global Research	
	2023	2022	2023	2022
Current assets	₩ 65,084,660	₩ 58,910,989	₩ 118,870,344	₩ 113,024,754
Non-current assets	170,085,118	148,224,553	66,501,823	67,324,839
Total assets	₩ 235,169,778	₩ 207,135,542	₩ 185,372,167	₩ 180,349,593
Current liabilities	₩ 55,589,440	₩ 29,039,015	₩ 87,335,754	₩ 82,723,644
Non-current liabilities	21,878,399	6,587,329	17,495,250	15,120,109
Total liabilities	₩ 77,467,839	₩ 35,626,344	₩ 104,831,004	₩ 97,843,753
Total equity	₩ 157,701,939	₩ 171,509,198	₩ 80,541,163	₩ 82,505,840
Dividends received from investees	₩ -	₩ 4,924,800	₩ -	₩ -

	Stemco Co., Ltd.		Samsung Global Research	
	2023	2022	2023	2022
Sales	₩ 179,188,069	₩ 196,004,907	₩ 219,537,369	₩ 228,696,932
Profit (loss) for the year	(14,780,440)	(10,652,025)	(1,294,681)	1,172,753
Other comprehensive income (expense)	973,182	2,331,857	(669,996)	(7,638,018)
Total comprehensive income (expense)	(13,807,258)	(8,320,168)	(1,964,677)	(6,465,265)

Details of changes in the carrying amount of equity method investments (Korean won in thousands):

	Stemco Co., Ltd.		Samsung Global Research	
	Jan. 1, 2023	Share of profit or loss in investee	Equity adjustments of investment in associates	Dec. 31, 2023
Stemco Co., Ltd.	₩ 51,452,759	₩ (4,434,132)	₩ 291,955	₩ 47,310,582
Samsung Global Research	19,636,390	(308,134)	(159,459)	19,168,797
	₩ 71,089,149	₩ (4,742,266)	₩ 132,496	₩ 66,479,379

	Stemco Co., Ltd.		Samsung Global Research		
	Jan. 1, 2022	Share of profit in investee	Equity adjustments of investment in associates	Dividends income	Dec. 31, 2022
Stemco Co., Ltd.	₩ 58,873,610	₩ (3,195,607)	₩ 699,556	₩ (4,924,800)	₩ 51,452,759
Samsung Global Research	21,175,123	279,115	(1,817,848)	-	19,636,390
	₩ 80,048,733	₩ (2,916,492)	₩ (1,118,292)	₩ (4,924,800)	₩ 71,089,149

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8. Investment in associates (Cont'd)

Details of changes in the book value of an investment in associates based on their net assets as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023			
	Net assets (A)	Ownership (B)	Shareholder portion (A*B)	Book value
Stemco Co., Ltd.	₩ 157,701,939	30.00%	₩ 47,310,582	₩ 47,310,582
Samsung Global Research	80,541,163	23.80%	19,168,797	19,168,797
	<u>₩ 238,243,102</u>		<u>₩ 66,479,379</u>	<u>₩ 66,479,379</u>
	2022			
	Net assets (A)	Ownership (B)	Shareholder portion (A*B)	Book value
Stemco Co., Ltd.	₩ 171,509,198	30.00%	₩ 51,452,759	₩ 51,452,759
Samsung Global Research	82,505,840	23.80%	19,636,390	19,636,390
	<u>₩ 254,015,038</u>		<u>₩ 71,089,149</u>	<u>₩ 71,089,149</u>

9. FINANCIAL ASSETS MEASURED AT FAIR VALUE:

Details of financial assets measured at fair value as of December 31, 2023 and 2022 are as follows (Korea won in thousands):

	2023		2022
	Acquisition cost	Book value	Book value
Marketable securities	₩ 111,775,522	₩ 145,936,961	₩ 179,854,714
Non-marketable securities	38,955,152	64,846,788	65,908,864
	<u>₩ 150,730,674</u>	<u>₩ 210,783,749</u>	<u>₩ 245,763,578</u>

Marketable securities

Marketable securities as of December 31, 2023 and 2022 are as follows (Korea won in thousands):

	2023				2022	
	Number of shares	Equity interest	Acquisition cost	Book value	Book value	Domicile
Samsung Heavy Industries Co., Ltd.	18,150,855	2.06%	₩ 111,468,896	₩ 140,669,126	₩ 92,750,869	Korea
iMarketkorea Inc.	613,252	1.83%	306,626	5,267,835	6,193,845	Korea
SoluM Co., Ltd.(*)	-	-	-	-	80,910,000	Korea
			<u>₩ 111,775,522</u>	<u>₩ 145,936,961</u>	<u>₩ 179,854,714</u>	

(*) All of the shares are sold in current period(4,650,000 shares).

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9. Financial assets measured at fair value (cont'd)

Non-marketable securities

Non-marketable securities as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	Number of shares	Equity interest (%)	2023		2022
			Acquisition cost	Book value	Book value
Financial assets measured at fair value through OCI					
Samsung Venture Investment Co., Ltd.(*1)	1,020,000	17.00	₩ 5,100,000	₩ 33,603,900	₩ 33,382,560
KMAC fund	8,000	1.00	40,000	40,000	40,000
IMA(*)	347,696	8.69	4,028,477	8,122,874	9,258,450
Inkel Co., Ltd.	40	0.00	200	200	200
Posco Social Corporation Fund(*2)	-	-	-	-	10,000
			<u>9,168,677</u>	<u>41,766,974</u>	<u>42,691,210</u>
Financial assets measured at fair value through profit or loss					
Intellectual Discovery	7,212	0.22	250,004	-	-
Korea Orbcom Ltd.	16,000	3.42	600,000	-	-
KBI cosmolink Co., Ltd.	29,033	1.42	6,451,253	-	-
Optis Co., Ltd.	10,963	0.05	54,816	-	-
DS Asia Holdings	3,208,399	1.80	16,276	-	-
Others	-	-	22,414,126	23,079,814	23,217,654
			<u>29,786,475</u>	<u>23,079,814</u>	<u>23,217,654</u>
			<u>₩ 38,955,152</u>	<u>₩ 64,846,788</u>	<u>₩ 65,908,864</u>

(*1) Valuations on the non-marketable securities were performed by an independent professional appraiser, using fair values calculated using the discounted future cash flows method and other relevant information.

(*2) Liquidation of Posco Social Corporation Fund has been completed during the current period.

Details of changes in accumulated OCI arising from valuation of financial instruments measured at fair value for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023			
	January 1	Increase	Current year tax effect	December 31
Marketable securities	₩ 49,315,643	₩ (31,592,754)	₩ 7,898,189	₩ 25,621,078
Non-marketable securities	26,328,404	(914,235)	228,559	25,642,728
	<u>₩ 75,644,047</u>	<u>₩ (32,506,989)</u>	<u>₩ 8,126,748</u>	<u>₩ 51,263,806</u>
	2022			
	January 1	Increase	Current year tax effect	December 31
Marketable securities	₩ 73,829,150	₩ (34,014,930)	₩ 9,501,423	₩ 49,315,643
Non-marketable securities	17,925,571	10,902,307	(2,499,474)	26,328,404
	<u>₩ 91,754,721</u>	<u>₩ (23,112,623)</u>	<u>₩ 7,001,949</u>	<u>₩ 75,644,047</u>

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10. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023			2022		
	Acquisition cost	Accumulated depreciation(*)	Book value	Acquisition cost	Accumulated depreciation(*)	Book value
Land	₩ 206,484,586	₩ -	₩ 206,484,586	₩ 206,208,095	₩ -	₩ 206,208,095
Buildings	2,799,025,705	(885,657,969)	1,913,367,736	2,730,123,965	(807,473,381)	1,922,650,584
Structures	174,933,802	(85,225,390)	89,708,412	165,443,966	(77,932,633)	87,511,333
Machinery	7,496,290,100	(5,958,224,384)	1,538,065,716	6,978,923,543	(5,399,632,756)	1,579,290,787
Vehicles	6,363,648	(4,577,517)	1,786,131	6,166,632	(4,062,694)	2,103,938
Equipment	491,184,381	(374,039,086)	117,145,295	471,043,294	(331,604,189)	139,439,105
Construction-in-progress and others	1,736,779,685	-	1,736,779,685	1,298,077,152	-	1,298,077,152
	<u>₩ 12,911,061,907</u>	<u>₩ (7,307,724,346)</u>	<u>₩ 5,603,337,561</u>	<u>₩ 11,855,986,647</u>	<u>₩ (6,620,705,653)</u>	<u>₩ 5,235,280,994</u>

(*) Accumulated impairment losses and government grants are included.

Changes in the book value of property, plant and equipment for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023							December 31
	January 1	Additions	Disposals and scrap	Transfers	Depreciation	Impairment losses	Others (*)	
Land	₩ 206,208,095	₩ -	₩ -	₩ 16,523	₩ -	₩ -	₩ 259,968	₩ 206,484,586
Buildings	1,922,650,584	505,003	(10,432,293)	77,831,349	(88,122,368)	-	10,935,461	1,913,367,736
Structures	87,511,333	13,380	(5,397)	9,287,160	(7,256,994)	-	158,930	89,708,412
Machinery	1,579,290,787	33,741,260	(2,365,643)	576,293,406	(618,177,820)	(35,432,239)	4,715,965	1,538,065,716
Vehicles	2,103,938	107,552	(2,188)	292,320	(733,198)	-	17,707	1,786,131
Equipment	139,439,105	9,527,833	(77,061)	19,189,605	(51,095,790)	-	161,603	117,145,295
Construction-in-progress and others	1,298,077,152	1,141,531,036	-	(682,910,363)	-	-	(19,918,140)	1,736,779,685
	<u>₩ 5,235,280,994</u>	<u>₩ 1,185,426,064</u>	<u>₩ (12,882,582)</u>	<u>₩ -</u>	<u>₩ (765,386,170)</u>	<u>₩ (35,432,239)</u>	<u>₩ (3,668,506)</u>	<u>₩ 5,603,337,561</u>

	2022							December 31
	January 1	Additions	Disposals and scrap	Transfers	Depreciation	Others (*)		
Land	₩ 206,489,285	₩ -	₩ -	₩ -	₩ -	₩ (281,190)	₩ 206,208,095	
Buildings	1,975,387,548	8,487,366	(32,790)	4,206,681	(89,439,716)	24,041,495	1,922,650,584	
Structures	92,961,810	11,394	(22,559)	564,379	(7,269,893)	1,266,202	87,511,333	
Machinery	1,854,495,935	25,824,931	(11,180,136)	392,081,465	(657,293,846)	(24,637,562)	1,579,290,787	
Vehicles	1,746,398	418,068	(9)	682,122	(731,097)	(11,544)	2,103,938	
Equipment	139,459,698	26,716,807	(172,211)	25,940,835	(52,725,019)	218,995	139,439,105	
Construction-in-progress and others	368,840,394	1,377,232,295	-	(423,475,482)	-	(24,520,055)	1,298,077,152	
	<u>₩ 4,639,381,068</u>	<u>₩ 1,438,690,861</u>	<u>₩ (11,407,705)</u>	<u>₩ -</u>	<u>₩ (807,459,571)</u>	<u>₩ (23,923,659)</u>	<u>₩ 5,235,280,994</u>	

(*) Others represent transfer to another account foreign exchange rate adjustments and others.

Line items including depreciation in the statements of comprehensive income for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
Cost of sales	₩ 723,196,638	₩ 758,458,277
Selling and administrative expenses	42,189,532	49,001,294
Total amount(*)	<u>₩ 765,386,170</u>	<u>₩ 807,459,571</u>

(*) Includes expenses for the year from discontinued operations.

10. Property, plant and equipment (cont'd)

If a tangible asset is acquired at a price less than its fair value due to government subsidies, the acquisition cost of the tangible asset is the fair value at the acquisition date. Government subsidies are deducted when calculating the book value of the asset and are depreciated over the useful life of the asset. The amount offset by depreciation is ₩31,144,480 thousand (2022: ₩6,563,054 thousand).

Borrowing costs incurred amounting to ₩23,998,155 thousand (2022: ₩4,100,193 thousand) for the year ended December 31, 2023, which were directly attributable to the acquisition and construction of the qualifying property, plant and equipment, are capitalized as part of the cost of those assets.

The Group revalued certain property, plant and equipment in accordance with the *Korean Asset Revaluation Act* on January 1, 1981 and July 1, 1998. The revalued amounts are recorded as deemed cost at the revaluation date in accordance with K-IFRS 1101. The difference between the revaluation amount and book value prior to revaluation is recorded as revaluation surplus in retained earnings and may not be utilized for cash dividends.

Property, plant and equipment are insured against fire and other casualty losses for up to ₩12,946,901,870 thousand and ₩12,264,775,010 thousand as of December 31, 2023 and 2022, respectively.

The Group conducted an impairment test as there were signs that the future expected economic performance of the cash generating unit of LENS would not meet expectations due to falling demand for LENS products and market changes, and recognized ₩35,432 million in impairment losses. The amount of impairment losses was allocated to machinery among the tangible assets because there was no goodwill allocated to the cash generating unit. The recoverable amount of the cash generating unit was calculated based on the value in use, and the impairment losses were counted as other expenses. The discount rate used to calculate the value in use is 13.77%.

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11. INTANGIBLE ASSETS:

Intangible assets as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023			2022		
	Acquisition cost	Accumulated amortisation(*)	Book value	Acquisition cost	Accumulated amortisation(*)	Book value
Patent/industrial proprietary rights	₩ 83,852,405	₩ (42,591,138)	₩ 41,261,267	₩ 71,714,410	₩ (34,596,393)	₩ 37,118,017
Software and others	282,605,352	(226,553,876)	56,051,476	262,737,819	(191,174,029)	71,563,790
Construction in progress	26,072,523	-	26,072,523	13,392,540	-	13,392,540
Membership	30,699,473	(2,716,593)	27,982,880	30,695,639	(2,716,593)	27,979,046
	<u>₩ 423,229,753</u>	<u>₩ (271,861,607)</u>	<u>₩ 151,368,146</u>	<u>₩ 378,540,408</u>	<u>₩ (228,487,015)</u>	<u>₩ 150,053,393</u>

(*) Accumulated impairment losses are included.

Changes in the book value of intangible assets for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023						
	January 1	Additions	Disposals and scrap	Transfers	Amortization	Others (*)	December 31
Patent/industrial proprietary rights	₩ 37,118,017	₩ 14,272,751	₩ (252,882)	₩ -	₩ (9,876,619)	₩ -	₩ 41,261,267
Software and others	71,563,790	14,810,851	(19)	5,323,250	(37,810,451)	2,164,055	56,051,476
Construction in progress	13,392,540	18,003,233	-	(5,323,250)	-	-	26,072,523
Membership	27,979,046	-	-	-	-	3,834	27,982,880
	<u>₩ 150,053,393</u>	<u>₩ 47,086,835</u>	<u>₩ (252,901)</u>	<u>-</u>	<u>₩ (47,687,070)</u>	<u>₩ 2,167,889</u>	<u>₩ 151,368,146</u>

(*) Others represent transfer to another account foreign exchange rate adjustments and others.

	2022					
	January 1	Additions	Disposals and scrap	Amortization	Others (*)	December 31
Patent/industrial proprietary rights	₩ 33,388,299	₩ 13,037,287	₩ (546,678)	₩ (8,760,891)	₩ -	₩ 37,118,017
Software and others	80,481,401	15,381,287	(7,216)	(36,359,691)	12,068,009	71,563,790
Construction in progress	-	14,367,840	-	-	(975,300)	13,392,540
Membership	27,967,967	-	-	-	11,079	27,979,046
	<u>₩ 141,837,667</u>	<u>₩ 42,786,414</u>	<u>₩ (553,894)</u>	<u>₩ (45,120,582)</u>	<u>₩ 11,103,788</u>	<u>₩ 150,053,393</u>

(*) Others represent transfer to another account foreign exchange rate adjustments and others.

Line items, including Amortization in the statements of comprehensive income for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Cost of sales (*)	₩ 25,087,330	₩ 23,138,758
Selling and administrative expenses (*)	22,599,740	21,981,824
	<u>₩ 47,687,070</u>	<u>₩ 45,120,582</u>

(*) Includes expenses for the year from discontinued operations.

Details of expensed research and development costs incurred in 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
Cost of sales (*)	₩ 59,751,064	₩ 42,767,124
Selling and administrative expenses (*)	528,065,242	521,166,250
	<u>₩ 587,816,306</u>	<u>₩ 563,933,374</u>

(*) Includes expenses for the year from discontinued operations.

11. Intangible assets (cont'd)

Impairment tests for intangible assets with indefinite useful lives

The Group conducted impairment tests on membership and on intangible assets with indefinite useful lives and did not recognize any impairment loss in 2023.

The recoverable amount of membership is the higher of a membership's fair value costs of disposal and its value in use. The Group uses net fair value if it is available. If it is not available, the Group estimates value in use and determines recoverable amounts.

12. LEASES:

Changes in book value of right-of-use assets and lease liabilities for the years ended December 31, 2023 and 2022 (Korean won in thousands).

	2023				
	Right-of-use assets				Lease liability
	Land and buildings	Vehicles and transportation equipment	Other equipment	Total	
As of January 1, 2023	₩ 100,602,269	₩ 16,221,431	₩ 215,622	₩ 117,039,322	₩ 83,982,421
New and renewal of contract	18,959,723	9,992,149	560,751	29,512,623	29,041,368
Write-off due to early termination of contract	(12,572,875)	(122,492)	(12,500)	(12,707,867)	(13,105,469)
Depreciation	(13,696,914)	(9,681,006)	(217,850)	(23,595,770)	-
Interest cost	-	-	-	-	2,365,348
Payment	-	-	-	-	(25,573,574)
Others (*)	(2,385,462)	(589,314)	(118,439)	(3,093,215)	(1,710,471)
As of December 31, 2023	₩ 90,906,741	₩ 15,820,768	₩ 427,584	₩ 107,155,093	₩ 74,999,623

(*) Including effect of foreign currency transactions and translation.

	2022				
	Right-of-use assets				Lease liability
	Land and buildings	Vehicles and transportation equipment	Other equipment	Total	
As of January 1, 2022	₩ 101,252,890	₩ 21,223,786	₩ 324,440	₩ 122,801,116	₩ 90,178,361
New and renewal of contract	15,781,449	5,092,278	-	20,873,727	20,120,173
Write-off due to early termination of contract	(1,112,586)	-	(12,308)	(1,124,894)	(1,152,093)
Depreciation	(15,978,514)	(10,139,423)	(100,777)	(26,218,714)	-
Interest cost	-	-	-	-	2,235,109
Payment	-	-	-	-	(26,993,651)
Others (*)	659,030	44,790	4,267	708,087	(405,478)
As of December 31, 2022	₩ 100,602,269	₩ 16,221,431	₩ 215,622	₩ 117,039,322	₩ 83,982,421

(*) Including effect of foreign currency transactions and translation.

In 2023, the Group recognized ₩13,445,680 thousand (2022: ₩9,050,718 thousand) and ₩1,646,033 thousand (2022: ₩3,143,091 thousand) from short-term leases and leases of low-value assets, respectively.

The total cash outflow for leases in 2023 was ₩40,665,287 thousand (2022: ₩39,187,460 thousand).

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13. TRADE AND OTHER PAYABLES:

Trade and other payables as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023		2022	
	Current	Non-current	Current	Non-current
Trade payables	₩ 595,941,913	₩ -	₩ 381,841,281	₩ -
Other payables	387,903,856	2,852,419	366,125,433	2,650,057
Accrued expenses	299,335,766	76,976,524	445,584,381	75,250,086
Dividends payables	17,294	-	14,437	-
	<u>₩ 1,283,198,829</u>	<u>₩ 79,828,943</u>	<u>₩ 1,193,565,532</u>	<u>₩ 77,900,143</u>

14. BORROWINGS:

Short-term borrowings as of December 31, 2023 and 2022 consist of the following (Korean won in thousands):

Financial institution	Description	Annual interest rate (%) as of Dec. 31, 2023	2023	2022
Woori Bank and 3 other banks	Discount of commercial paper	SOFR + 0.35~0.60	₩ 725,592,791	₩ 765,901,830
Shinhan Bank and 1 other bank	General borrowings	SOFR – 0.1~+0.20	109,599,000	-
Mizuho and 2 other banks	General borrowings	LPR – 0.50~-0.47(*)	232,678,963	-
BoA	General borrowings	-	-	44,355,500
			<u>₩ 1,067,870,754</u>	<u>₩ 810,257,330</u>

(*) LPR refers to the Loan Prime Rate informed by the People's Bank of China.

The Group entered into factoring agreements with recourse for its trade receivables with Woori Bank and others. Factored receivables not overdue as of December 31, 2023 are accounted for as short-term borrowings (Note 6).

Long-term borrowings as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

Financial institution	Description	Annual interest rate (%) as of Dec. 31, 2023	2023	2022
Metro bank	General borrowings	SOFR+ 0.30	₩ 116,046,000	₩ 240,787,000
Citi bank and 1 other bank	General borrowings	SOFR+ 0.85~0.97	103,152,000	101,384,000
HSBC	General borrowings	LPR -0.254	234,444,723	268,825,801
Less current portion of borrowings			<u>(237,120,413)</u>	<u>(274,390,225)</u>
			<u>₩ 216,522,310</u>	<u>₩ 336,606,576</u>

15. REFUND LIABILITIES AND RIGHT OF RETURN ASSETS:

Details of refund liabilities and right of return assets are as follows (Korean won in thousands):

	2023	2022
Refund liabilities	₩ 26,315,440	₩ 25,227,794
Right of return assets	23,110,826	20,384,009

Refund liabilities are estimated obligations to refund some, or all of the consideration received from customers and are measured at the amount the Group estimates. Rights of return assets show the right of the Group to receive return assets as customers exercise their rights.

16. DEFINED BENEFIT LIABILITIES:

The Group has a defined benefit pension plan for its employees, for which the present value of defined benefits liabilities is calculated using the projected unit credit method by an independent actuary firm.

Details of net defined benefit assets recognized in the statements of financial position as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Present value of funded defined benefit obligations	₩ (905,438,929)	₩ (842,112,242)
Fair value of plan assets (*)	1,010,285,587	937,093,356
Net defined benefit assets	₩ 104,846,658	₩ 94,981,114

(*) The contributions to the National Pension Fund of ₩221,314 thousand are included in the fair value of plan assets as of December 31, 2023 (2022: ₩240,560 thousand).

Changes in defined benefit assets for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Changes in defined benefit assets:		
At January 1	₩ 94,981,114	₩ (24,176,014)
Contributions by employer	80,076,297	190,082,335
Retirement benefits paid	11,671,752	9,598,261
Pension cost charged to profit or loss	(66,204,386)	(71,135,742)
Succession of defined benefit liabilities	(210,287)	(424,188)
Re-measurement losses in OCI	(15,079,690)	(9,668,074)
Exchange differences	(388,142)	704,536
At December 31	104,846,658	94,981,114
Defined benefit liabilities in the statement of financial position:		
Present value of defined benefit obligation	(905,438,929)	(842,112,242)
Fair value of plan assets	1,010,285,587	937,093,356
	₩ 104,846,658	₩ 94,981,114

Remeasurement gains on defined benefit plans (net of tax) of ₩11,600,504 thousand (2022: ₩8,469,877 thousand) were recognized as OCI.

16. Defined benefit liabilities (cont'd)

Expenses recorded in relation to the defined benefit pension plan for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
Current service cost	₩ 70,619,710	₩ 68,918,177
Interest cost on benefit obligation	47,780,626	27,832,794
Expected return on plan assets	(52,195,950)	(25,615,229)
	<u>₩ 66,204,386</u>	<u>₩ 71,135,742</u>

Changes in the present value of the defined benefit obligation for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
At January 1	₩ 842,112,242	₩ 796,052,634
Benefits paid	(53,146,711)	(46,524,085)
Current service cost	70,619,710	68,918,177
Interest cost	47,780,626	27,832,794
Succession of defined benefit obligation	210,287	424,188
Remeasurement losses based on changes in demographic assumptions	1,162,946	-
Remeasurement gains based on changes in financial assumptions	(14,943,198)	(48,280,968)
Remeasurement losses based on changes in experience adjustments	11,325,119	44,418,090
Exchange differences	317,908	(728,588)
At December 31	<u>₩ 905,438,929</u>	<u>₩ 842,112,242</u>

The weighted average duration of the defined benefit obligation is 6.84 years (2022: 7.23 years).

Changes in the fair value of plan assets for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
At January 1	₩ 937,093,357	₩ 771,876,620
Contributions by employer	80,076,297	190,082,335
Benefits paid	(41,474,959)	(36,925,824)
Expected return on plan assets	52,195,950	25,615,229
Re-measurement losses	(17,534,822)	(13,530,952)
Exchange differences	(70,235)	(24,052)
At December 31	<u>₩ 1,010,285,588</u>	<u>₩ 937,093,356</u>

The Group has funded 112% of its defined benefit obligation with Samsung Life Insurance Co., Ltd as of December 31, 2023. The Group's employees are individually nominated as the vested beneficiaries of the defined benefit plan assets. Contributions related to the defined benefit obligation are expected to be ₩93,969 million for the next fiscal year.

16. Defined benefit liabilities(cont'd)

The major categories of the fair value of total plan assets as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	₩ 1,009,670,804	₩ 936,451,271
Others	614,784	642,085
	<u>₩ 1,010,285,588</u>	<u>₩ 937,093,356</u>

The principal assumptions used in actuarial calculation as of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Discount rate	1.50% - 7.45%	0.90% - 7.45%
Future salary increases	0.00% - 8.00%	1.80% - 8.00%

The following table demonstrates a sensitivity analysis on the effect of changes in the principal assumptions used in actuarial calculation on the present value of defined benefit obligation as of December 31, 2023 and 2022, respectively (Korean won in thousands):

Effect of changes in the discount rate (Korean won in thousands):

	<u>2023</u>		<u>2022</u>	
	1% point decrease	1% point increase	1% point decrease	1% point increase
Impact on defined benefit liabilities	₩ 67,551,330	₩ (59,416,666)	₩ 64,366,158	₩ (56,534,614)

Effect of changes in future salary increases. (Korean won in thousands):

	<u>2023</u>		<u>2022</u>	
	1% point decrease	1% point increase	1% point decrease	1% point increase
Impact on defined benefit liabilities	₩ (60,103,990)	₩ 67,073,033	₩ (60,286,273)	₩ 67,791,098

The Group also operates a defined contribution pension plan for its employees. The Group's liabilities consist of fixed contributions to be made to a separate pension fund. Future retirement benefits are based on the contributions of the Group and investment gains from plan assets. Plan assets are managed in a separate fund by independent trustees. For the years ended December 31, 2023 and 2022, defined contribution pension plan expenses amounted to ₩16,305,435 thousand and ₩14,245,488 thousand, respectively.

17. PROVISIONS:

Details of provisions for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
Provisions for product warranties	₩ 1,154,482	₩ 1,453,578
Emission liabilities	30,515	6,064
	<u>₩ 1,184,997</u>	<u>₩ 1,459,642</u>

Provisions for product warranties

Provisions for warranty-related costs are recognized when the product is sold to the customers. Initial recognition is based on past experience on the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year.

Emission liabilities

The quantities of emission permits which are allocated free of charge for the third planning period (2021-2025) are as follows.

<i>(in KAU)</i>	2021	2022	2023	2024	2025	Total
Allocated emission permits	458,946	458,946	458,433	454,139	454,139	2,284,603

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17. Provisions (cont'd)

Changes in emission permits quantities and the carrying amounts for the years ended December 31, 2023 and 2022, are as follows.

<i>(in KAU)</i>	2023											
	2022		2023		2024		2025		Total			
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount		
At January 1 and allocation	458,946	₩ -	458,433	₩ -	454,139	₩ -	454,139	₩ -	1,825,657	₩ -		
Carry forward from prior period	14,699	-	-	-	-	-	-	-	14,699	-		
Additional allocation	1,592	-	-	-	-	-	-	-	1,592	-		
Cancellation of allocation	(493)	-	-	-	-	-	-	-	(493)	-		
Surrendered to the government	(474,809)	-	-	-	-	-	-	-	(474,809)	-		
Borrowing/Carry forward	65	-	(65)	-	-	-	-	-	-	-		
At December 31	-	₩ -	458,368	₩ -	454,139	₩ -	454,139	₩ -	1,366,646	₩ -		

<i>(in KAU)</i>	2022											
	2021		2022		2023		2024		2025		Total	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
At January 1 and allocation	458,946	₩ -	458,946	₩ -	458,946	₩ -	454,648	₩ -	454,648	₩ -	2,286,134	₩ -
Carry forward from prior period	22,973	-	14,699	-	-	-	-	-	-	-	37,672	-
Surrendered to the government	(459,220)	-	-	-	-	-	-	-	-	-	(459,220)	-
Disposal	(8,000)	-	-	-	-	-	-	-	-	-	(8,000)	-
Carry forward	(14,699)	-	-	-	-	-	-	-	-	-	(14,699)	-
At December 31	-	₩ -	473,645	₩ -	458,946	₩ -	454,648	₩ -	454,648	₩ -	1,841,887	₩ -

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17. Provisions (cont'd)

Changes in emission liabilities for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands)

	2023	2022
Beginning	₩ 6,064	₩ 416,034
Addition (reversal)	24,451	(409,970)
Ending	<u>₩ 30,515</u>	<u>₩ 6,064</u>

A liability (emission obligation) is recognized only where actual emissions exceed the allocated emission allowances, and the cost of emissions is recognized as debt. Estimated emissions of the Group during 2023 are expected as 461,751KAU.

18. COMMITMENTS AND CONTINGENCIES:

Significant lines of credit

Significant lines of credit with financial institutions as of December 31, 2023 are as follows (Korean won in thousands and U.S. dollar and Euro):

	Credit line (USD, EUR)	Credit line (₩)	Description
Woori Bank and 5 other banks	USD 36,000,000	₩ 80,000,000	Overdraft
	EUR 21,700,000		
	(Equivalent to ₩77,375,403)		
Shinhan Bank and 1 other banks	USD 7,000,000	-	Import letter of credit
	(Equivalent to ₩9,025,800)		
Woori Bank and 4 other banks	USD 860,000,000	₩ 100,000,000	Receivables factoring
	(Equivalent to ₩1,108,884,000)		

The Group provided security deposits for its bank overdraft facilities (see Note 5).

In addition, the Group has loan facilities with accounts receivable pledged as collateral related to purchase payments with Woori Bank of Korea and two other banks (up to ₩103,600,000 thousand) and the Group entered into an agreement for a general loan and others up to USD 1,717 million and RMB 2,297 million with BoA and other financial institutions.

In addition, the Group entered into a performance guarantee agreement amounting to ₩657,527,068 thousand with JPMorgan Chase Bank and others for product supply contracts and performance guarantee related to the license and deposit (see Note 18).

Long-term supply contracts

At the end of the reporting period, the total amount of advances received in relation to long-term supply contracts entered into by the Group with major customers is USD 407 million. The Group is provided with payment guarantee from JPMorgan Chase Bank and others (see Note 18).

Contractual obligations related to acquisition of property, plant and equipment and others

Contractual obligations to purchase property, plant and equipment as of December 31, 2023, are ₩199,392,394 thousand.

19. ISSUED CAPITAL:

The Company is authorized to issue 200 million ordinary shares with a par value per share of ₩5,000. As of December 31, 2023, the Company holds 77,600,680 ordinary shares (including 2,906,984 preferred shares) amounting to ₩388,003,400 thousand, which were issued through a series of stock issuances since the Company's incorporation in 1973.

Under the Articles of Incorporation, the Company is authorized to issue 20 million shares of non-voting preferred shares. The Company may issue cumulative, participating and non-voting preferred shares with a dividend rate of more than 1% of par value of ordinary shares. As of December 31, 2023, 2,906,984 of non-cumulative and non-voting preferred shares have been issued and outstanding.

The Group's share premium for December 31, 2023 and 2022, is as follows (Korean won in thousands):

	2023	2022
Paid-in capital in excess of par value	₩ 931,477,700	₩ 931,477,700
Consideration for stock warrants	12,160,470	12,160,470
Gains on disposal of treasury stock	16,769,322	16,769,322
Exercise of stock option	1,201,580	1,201,580
Others	91,907,143	91,907,143
	<u>₩ 1,053,516,215</u>	<u>₩ 1,053,516,215</u>

Other components of equity as of December 31, 2023 and 2022, consist solely of treasury stock.

As of December 31, 2023, the Group's treasury stock comprising 2,000,000 ordinary shares and 53,430 preferred shares was repurchased by the Company to stabilize its stock price, which is expected to dispose depending on the stock price.

Accumulated OCI as of December 31, 2023 and 2022, is as follows (Korean won in thousands):

	2023	2022
Fair value loss and gain on financial assets measured at FVOCI	₩ 51,263,805	₩ 75,644,047
Disposal loss and gain on financial assets measured at FVOCI	527,862,899	455,940,710
Equity adjustments of investment in associates	2,125,987	2,026,616
Exchange differences on translations of foreign operations	98,565,113	89,552,360
	<u>₩ 679,817,804</u>	<u>₩ 623,163,733</u>

Other capital reserves of the Group as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Legal reserve (*)	₩ 154,320,491	₩ 138,420,491
Business rationalization reserve	31,537,766	31,537,766
Capital expenditure reserve	7,895,000	7,895,000
Others	3,648,912,000	3,137,912,000
	<u>₩ 3,842,665,257</u>	<u>₩ 3,315,765,257</u>

(*) In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of issued capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a deficit, if any, or be transferred to capital.

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19. Issued capital (cont'd)

Details of dividends declared for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023	2022
Attributable to ordinary shares (2023: ₩1,150 per share, 2022: ₩2,100 per share)	₩ 83,597,750	₩ 152,656,762
Attributable to preferred shares (2023: ₩1,200 per share, 2022: ₩2,150 per share)	3,424,265	6,135,141
	<u>₩ 87,022,015</u>	<u>₩ 158,791,903</u>

20. OPERATING PROFIT:

Revenue from contracts with customers

Details of revenue from contracts with customers are as follows (Korean won in millions):

	2023			
	Component	Optics & Communication Solution	Package Solution	Total
Sales of goods	₩ 3,905,722	₩ 3,269,624	₩ 1,460,016	₩ 8,635,362
Others	(2,700)	19,424	257,362	274,086
Total revenue from contracts with customers	<u>₩ 3,903,022</u>	<u>₩ 3,289,048</u>	<u>₩ 1,717,378</u>	<u>₩ 8,909,448</u>
	2022			
	Component	Optics & Communication Solution	Package Solution	Total
Sales of goods	₩ 4,092,700	₩ 3,159,395	₩ 2,021,600	₩ 9,273,695
Others	39,583	44,555	66,719	150,857
Total revenue from contracts with customers	<u>₩ 4,132,283</u>	<u>₩ 3,203,950</u>	<u>₩ 2,088,319</u>	<u>₩ 9,424,552</u>

Details of the cost of sales and operating expenses for the years ended December 31, 2023 and 2022 by nature of expense are as follows (Korean won in thousands):

	2023	2022
Changes in finished goods and work in progress and others	₩ (46,900,427)	₩ (188,009,684)
Use of raw materials and supplies	3,449,328,459	3,372,203,401
Employee benefit expense	2,069,580,709	2,171,239,504
Depreciation (*) and amortization	836,669,010	878,798,867
Outsourcing expenses	249,427,538	317,463,161
Commissions	172,389,255	194,693,562
Other expenses	1,544,448,206	1,531,315,536
Less: classified as loss from discontinued operation	(4,918,003)	(35,988,403)
	<u>₩ 8,270,024,747</u>	<u>₩ 8,241,715,944</u>

(*) Includes depreciation of right-of-use assets.

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20. Operating profit (cont'd)

Details of employee benefit expenses for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Salaries expenses	₩ 1,629,410,875	₩ 1,741,691,417
Pension costs	85,077,588	86,946,420
Employee welfare benefits	355,092,246	342,601,667
	<u>₩ 2,069,580,709</u>	<u>₩ 2,171,239,504</u>

(*) Includes expenses for the year from discontinued operation.

Depreciation of property, plant and equipment and amortization of intangible assets for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Depreciation (*1)(*2)	₩ 788,981,940	₩ 833,678,285
Amortization (*2)	47,687,070	45,120,582
	<u>₩ 836,669,010</u>	<u>₩ 878,798,867</u>

(*1) Includes depreciation of right-of-use assets.

(*2) Includes expenses for the year from discontinued operation.

Details of selling and administrative expenses for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Salaries and bonuses	₩ 201,782,389	₩ 216,038,527
Post-employment benefits	10,534,851	14,084,388
Employee welfare benefits	68,729,071	56,581,414
Commissions	53,381,491	67,007,206
Depreciation (*) and amortization	30,467,511	40,687,432
Education and training expenses	11,972,498	11,098,265
Utilities expenses	10,091,311	10,379,482
Sample expenses	6,569,913	3,992,174
Travel expenses	10,001,184	7,700,969
Research and development expense	528,065,241	518,368,584
IT expenses	37,445,834	36,903,269
Other expenses	112,409,298	97,468,450
	<u>₩ 1,081,450,592</u>	<u>₩ 1,080,310,160</u>

(*) Includes depreciation of right-of-use assets.

21. NON-OPERATING PROFIT AND EXPENSES:

21.1 Finance income

Finance income consists solely of interest income and details for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023		2022
Financial assets at amortized cost:			
Cash and cash equivalents	₩ 51,676,076	₩	28,261,075
Other financial assets	1,244,362		967,562
Loans	30,244		-
Financial assets measured at FVPL:			
Short-term financial instruments	30,869		25,312
	<u>₩ 52,981,551</u>	<u>₩</u>	<u>29,253,949</u>

21.2 Finance costs

Finance costs consist solely of interest costs and details for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023		2022
Financial liabilities at amortized cost:			
Borrowings	₩ 40,048,245	₩	26,309,978
Other financial liabilities:			
Borrowings	25,272,380		17,761,365
Lease liabilities	2,365,348		2,235,109
	<u>₩ 67,685,973</u>	<u>₩</u>	<u>46,306,452</u>

21.3 Share of profit (loss) in associates

Details of share of profit (loss) in associates for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023		2022
Share of profit (loss) in associates	₩ (4,742,266)	₩	(2,916,492)

21.4 Other income

Details of other income for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023		2022
Dividend income	₩ 3,542,888	₩	371,951
Gain on disposal of financial assets at fair value through PL	520,809		-
Gain on valuation of financial assets at fair value through PL	543,972		1,064,384
Gain on disposal of property, plant and equipment	1,359,841		4,601,174
Gain on disposal of intangible assets	21,905		1,828
Gain on disposal of investment in subsidiaries	1,112,795		-
Reversal of allowance for other doubtful accounts	374,758		260,892
Gain on foreign currency translation	22,893,656		103,895,496
Gain on foreign currency transactions	307,323,383		358,667,131
Commissions received	-		275,795
Others	3,954,406		35,457,651
	<u>₩ 341,648,413</u>	<u>₩</u>	<u>504,596,302</u>

21. Non-operating profit and expenses (cont'd)

21.5 Other expenses

Details of other expenses for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Loss on disposal of property, plant and equipment	₩ 8,914,240	₩ 1,704,502
Impairment loss on property, plant and equipment	35,432,239	-
Loss on disposal of intangible assets	274,806	542,712
Loss on disposal of financial assets at fair value through OCI	7,058	-
Loss on disposal of financial assets at fair value through PL	-	38,344
Loss on valuation of financial assets at fair value through PL	439,614	167,122
Loss on disposal of trade receivables	17,318,704	12,382,239
Allowance for doubtful accounts - others	343,403	1,000,000
Loss on foreign currency translation	39,377,679	152,929,484
Loss on foreign currency transaction	308,155,071	296,821,983
Donations	4,149,918	4,520,106
Others	4,002,609	10,528,652
	<u>₩ 418,415,341</u>	<u>₩ 480,635,144</u>

22. INCOME TAX EXPENSES:

The major components of income tax expense for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Current income tax	₩ 102,796,145	₩ 211,066,367
Adjustments with respect to prior years	4,136,537	8,658,287
Deferred income tax from temporary differences and tax credits	(15,213,248)	(64,989,315)
Income tax expense	<u>₩ 91,719,434</u>	<u>₩ 154,735,339</u>
Income tax expense from continuing operations	₩ 84,846,197	₩ 164,121,857
Income tax expense (benefit) from discontinued operations	6,873,237	(9,386,518)

The tax effect relating to components of OCI (expenses) for the years ended December 31, 2023 and 2022, is as follows (Korean won in thousands):

	2023			2022		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gains on valuation of financial assets measured at fair value through OCI	₩ (32,506,989)	₩ 8,126,748	₩ (24,380,241)	₩ (23,112,623)	₩ 7,001,949	₩ (16,110,674)
Gains on disposal of financial assets measured at fair value through OCI	95,896,252	₩ (23,974,063)	₩ 71,922,189	-	-	-
Re-measurement losses on net defined benefit plans	(15,079,690)	3,479,186	(11,600,504)	(9,668,074)	1,198,197	(8,469,877)
Capital changes in equity method	132,495	(33,124)	99,371	(1,118,292)	291,053	(827,239)
Foreign currency translation adjustments	8,929,366	83,385	9,012,751	14,358,943	8,834,084	23,193,027
	<u>₩ 57,371,434</u>	<u>₩ (12,317,868)</u>	<u>₩ 45,053,566</u>	<u>₩ (19,540,046)</u>	<u>₩ 17,325,283</u>	<u>₩ (2,214,763)</u>

22. Income tax expenses (cont'd)

A reconciliation of profit before tax at the Korea statutory tax rate to income tax expenses at the effective tax rate of the Group is summarized as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Profit before tax	₩ 542,201,559	₩ 1,148,254,521
Tax at domestic tax rates applicable to profits in the respective countries	117,112,732	289,178,744
Adjustments:		
Income not taxable for tax purposes	(20,071,635)	(1,784,443)
Expenses not deductible for tax purposes	17,025,576	16,652,506
Tax effects of investment in subsidiaries and associates	10,153,474	(111,630,947)
Tax credits	(37,069,316)	(38,979,919)
Adjustment in respect of prior years	4,136,537	8,658,287
Remeasurement of deferred tax – change in the tax rate	-	4,559,506
Others	432,066	(11,918,395)
Income tax expenses	<u>₩ 91,719,434</u>	<u>₩ 154,735,339</u>
Effective income tax rate	16.92%	13.48%

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22. Income tax expenses (cont'd)

Significant changes in tax credit carryforwards, cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023				
	January 1	Recognized to income	Recognized to OCI	Effects of exchange rate changes	December 31
Inventories	₩ 24,309,451	₩ (6,528,136)	₩ -	₩ 41,797	₩ 17,823,112
Property, plant and equipment	22,890,041	(2,332,745)	-	(4,061)	20,553,235
Defined benefit liabilities	(25,697,673)	(5,534,191)	3,479,186	576	(27,752,102)
Accrual expenses	50,360,665	1,301,384	-	3,480	51,665,529
Investment securities	(22,476,424)	23,974,062	(15,847,315)	-	(14,349,677)
Unused tax credit carry forwards from prior years	35,783,440	14,673,595	-	-	50,457,035
Investment in subsidiaries and associates	35,971,497	(15,733,370)	50,261	-	20,288,388
Others	913,626	5,392,649	-	(147,912)	6,158,363
	<u>₩ 122,054,623</u>	<u>₩ 15,213,248</u>	<u>₩ (12,317,868)</u>	<u>₩ (106,120)</u>	<u>₩ 124,843,883</u>
	2022				
	January 1	Recognized to income	Recognized to OCI	Effects of exchange rate changes	December 31
Inventories	₩ 16,603,013	₩ 8,092,364	₩ -	₩ (385,926)	₩ 24,309,451
Property, plant and equipment	24,271,561	(1,360,183)	-	(21,337)	22,890,041
Defined benefit liabilities	2,411,185	(29,308,687)	1,198,197	1,632	(25,697,673)
Accrual expenses	53,762,914	(3,436,060)	-	33,811	50,360,665
Investment securities	(29,384,763)	(93,610)	7,001,949	-	(22,476,424)
Unused tax credit carry forwards from prior years	54,840,730	(19,057,290)	-	-	35,783,440
Investment in subsidiaries and associates	(94,803,019)	121,649,379	9,125,137	-	35,971,497
Others	12,522,723	(11,496,598)	-	(112,499)	913,626
	<u>₩ 40,224,344</u>	<u>₩ 64,989,315</u>	<u>₩ 17,325,283</u>	<u>₩ (484,319)</u>	<u>₩ 122,054,623</u>

Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the temporary differences are expected to reverse.

On the other hand, the consolidated entity did not recognize deferred tax assets due to the uncertainty of the temporary difference of ₩256,190,974 thousand to be deducted in connection with the investment of subsidiaries and affiliates in the foreseeable future.

Based on the Group's assessment of future taxable income, the Group's management concluded that it is probable that the recognized deferred tax assets will be realized in future periods.

22. Income tax expenses (cont'd)

The analysis of deferred tax assets and liabilities as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 287,864,131	₩ 263,222,068
Deferred tax asset to be recovered within 12 months	<u>230,334,876</u>	<u>221,454,769</u>
	<u>518,199,007</u>	<u>484,676,837</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(391,596,847)	(360,203,230)
Deferred tax liability to be recovered within 12 months	<u>(1,758,277)</u>	<u>(2,418,984)</u>
	<u>(393,355,124)</u>	<u>(362,622,214)</u>
Deferred tax assets, net	<u>₩ 124,843,883</u>	<u>₩ 122,054,623</u>

The global minimum tax is a system in which the effective tax rate is less than 15% in countries where multinational companies with more than 750 million euros in sales in consolidated financial statements in two or more of the previous four years, and a significant amount is paid to the taxation authority of the country where the parent company that meets certain requirements belongs.

The Republic of Korea, where the parent company of the Group is located, has enacted a global minimum tax law in 2023, and the global minimum tax must be applied from the business year beginning after January 1, 2024.

The Group believes that it will be subject to the Global Minimum Tax Act, but since Korea's Global Minimum Tax Act takes effect on January 1, 2024, it does not affect current corporate tax costs. The Group does not recognize deferred tax assets and liabilities related to the Global Minimum Tax Act and does not disclose information related to deferred tax, applying the temporary exception to deferred tax in Corporate Accounting Standard No. 1012.

It is difficult to reasonably estimate the impact on the Group as of the end of the current period, as laws in the country where the subsidiary is mainly affected by the global minimum tax law are enacted or specific laws are in progress. The Group is reviewing the impact on consolidated financial statements with tax experts in each country.

23. EARNINGS PER SHARE:

Earnings per share was calculated by dividing net profit by the number of ordinary shares, and diluted earnings per share was calculated by dividing net profit by the weighted average number of dilutive potential ordinary shares. Preferred shares are participating preferred shares, having right to participate in division of profits, therefore their earning per share was computed, as well. No dilutive features exist for the years ended December 31, 2023 and 2022, thus, basic earnings per share are equivalent to diluted earnings per share.

The Company's basic (diluted) earnings per share for the years ended December 31, 2023 and 2022 are computed as follows (Korean won in thousands, except per share amounts):

	2023	
	Net profit for the year	Profit for the year from continuing operations
Profit for the year attributable to equity holders of the parent	₩ 422,956,707	₩ 430,838,506
Preferred shares dividend	(6,135,141)	(6,135,141)
Additional dividends attributable to preferred shares	(9,977,975)	(10,275,685)
Profit for the year attributable to ordinary equity holders of the parent	406,843,591	414,427,680
Weighted-average number of shares of ordinary shares outstanding (*)	72,693,696	72,693,696
Basic earnings per share	₩ 5,597	₩ 5,701

(*) There is no change in the number of shares.

	2022	
	Net profit for the year	Profit for the year from continuing operations
Profit for the year attributable to equity holders of the parent	₩ 980,551,642	₩ 1,009,738,691
Preferred shares dividend	(6,135,141)	(6,135,141)
Additional dividends attributable to preferred shares	(31,039,327)	(32,141,774)
Profit for the year attributable to ordinary equity holders of the parent	943,377,174	971,461,776
Weighted-average number of shares of ordinary shares outstanding (*)	72,693,696	72,693,696
Basic earnings per share	₩ 12,977	₩ 13,364

(*) There is no change in the number of shares.

23. Earnings per share (cont'd)

The Company's basic (diluted) earnings per share attributable to preferred shares for the years ended December 31, 2023 and 2022, are computed as follows (Korean won in thousands, except per share amounts):

	2023	
	Net profit for the year	Profit for the year from continuing operations
Profit for the year attributable to preferred shares holders of the parent	₩ 16,113,116	₩ 16,410,826
Weighted-average number of shares of ordinary shares outstanding (*)	2,853,554	2,853,554
Basic earnings per share	₩ 5,647	₩ 5,751

(*) There is no change in the number of shares.

	2022	
	Net profit for the year	Profit for the year from continuing operations
Profit for the year attributable to preferred shares holders of the parent	₩ 37,174,468	₩ 38,276,915
Weighted-average number of shares of ordinary shares outstanding (*)	2,853,554	2,853,554
Basic earnings per share	₩ 13,027	₩ 13,414

(*) There is no change in the number of shares.

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24. RELATED-PARTY TRANSACTIONS:

Samsung Electronics Co., Ltd. has significant influence on the Group. Related parties of the Group as of December 31, 2023, are as follows:

Related party	Category
Samsung Electronics Co., Ltd.	Company with significant influence
Samsung Global Research	Associate
Stemco Co., Ltd.	Associate
Samsung Electronics Vietnam THAINGUYEN Co., Ltd.	Others
Samsung Electronics Vietnam Co., Ltd.	Others
Samsung C&T Corporation	Others
Samsung Engineering Co., Ltd.	Others
Samsung SDS Co., Ltd.	Others
Samsung Welstory Inc.	Others
Samsung Display Vietnam Co., Ltd.	Others
Samsung Engineering Construction(Shanghai)Co., Ltd	Others
Samsung Engineering Vietnam Co., Ltd.	Others
Samsung Life Insurance Co., Ltd. and other affiliates (*)	Others

(*) Includes subsidiaries and associates of Samsung Electronics Co., Ltd.

Outstanding balances resulted from the transactions with related parties as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023		2022	
	Receivables	Payables (*)	Receivables	Payables (*)
Company with significant influence:				
Samsung Electronics Co., Ltd.	₩ 88,562,196	₩ 137,503,215	₩ 106,006,868	₩ 179,771,582
Associate:				
Samsung Global Research	-	164,424	-	205,826
Stemco Co., Ltd.	2,291,670	112,912	-	46,190
Others:				
Samsung Electronics Vietnam THAINGUYEN Co., Ltd.	110,384,815	15,104,666	86,397,861	17,341,227
Samsung Electronics Vietnam Co., Ltd.	34,512,717	-	23,828,376	-
Samsung C&T Corporation	19,089,009	743,772	19,089,009	114,829
Samsung Engineering Co., Ltd.	-	81,389,000	-	8,481,867
Samsung SDS Co., Ltd.	1,944	11,110,162	309	10,042,265
Samsung Welstory Inc.	-	1,581,654	-	1,521,230
Samsung Engineering Construction(Shanghai)Co., Ltd	-	-	-	2,081,947
Samsung Engineering Vietnam Co., Ltd.	-	37,476,261	-	9,021,600
Others	43,653,687	25,212,922	30,989,507	24,736,136
	₩ 298,496,038	₩ 310,398,988	₩ 266,311,930	₩ 253,364,699

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24. Related-party transactions (cont'd)

(*) Includes lease liabilities.

The Group operated defined benefit plan with Samsung Life Insurance Co., Ltd. The fair value of the plan as of December 31, 2023, amounts to ₩243,144 million (2022: ₩278,200 million); and interest income recognized amounts to ₩17,165 million for the year ended December 31, 2023 (2022: ₩11,515 million).

Significant transactions with its related parties for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023				
	Sales	Disposal of assets	Purchases	Acquisition of assets	Cash dividends
Company with significant influence:					
Samsung Electronics Co., Ltd.	₩ 820,529,491	₩ -	₩ 603,042,491	₩ 164,330	₩ -
Associate:					
Samsung Global Research	-	-	6,749,669	-	-
Stemco Co., Ltd.	-	732,920	2,257,264	-	-
Others:					
Samsung Electronics Vietnam THAINGUYEN Co., Ltd.	1,029,763,066	-	7,038,748	-	-
Samsung Electronics Vietnam Co., Ltd.	432,848,226	-	1,843,787	-	-
Samsung C&T Corporation	12,607	-	1,531,948	593,700	-
Samsung Engineering Co., Ltd.	-	-	-	132,505,585	-
Samsung SDS Co., Ltd.	6,761	-	76,659,491	16,102,640	-
Samsung Welstory Inc.	-	-	16,386,743	-	-
Samsung Display Vietnam Co., Ltd.	-	-	-	-	-
Samsung Engineering Construction(Shanghai) Co., Ltd	-	-	-	2,308,970	-
Samsung Engineering Vietnam Co., Ltd.	-	-	-	67,226,398	-
Others	395,728,758	-	184,672,714	8,091,566	-
	<u>₩ 2,678,888,909</u>	<u>₩ 732,920</u>	<u>₩ 900,182,855</u>	<u>₩ 226,993,189</u>	<u>₩ -</u>
	2022				
	Sales	Disposal of assets	Purchases	Acquisition of assets	Cash dividends
Company with significant influence:					
Samsung Electronics Co., Ltd.	₩ 945,248,741	₩ -	₩ 619,683,497	₩ 963,158	₩ -
Associate:					
Samsung Global Research	-	9,329	7,189,259	-	-
Stemco Co., Ltd.	2,299,218	-	439,878	-	4,924,800
Others:					
Samsung Electronics Vietnam THAINGUYEN Co., Ltd.	1,004,863,741	-	6,993,414	-	-
Samsung Electronics Vietnam Co., Ltd.	461,092,961	-	1,508,326	-	-
Samsung C&T Corporation	12,625	-	1,925,878	2,970	-
Samsung Engineering Co., Ltd.	-	-	-	48,345,248	-
Samsung SDS Co., Ltd.	6,729	-	81,424,760	20,102,814	-
Samsung Welstory Inc.	-	-	24,896,590	10,280	-
Samsung Display Vietnam Co., Ltd.	8,801,198	-	-	-	-
Samsung Engineering Construction(Shanghai) Co., Ltd	-	-	-	42,977,203	-
Samsung Engineering Vietnam Co., Ltd.	-	-	21,120,400	136,144,716	-
Others	462,916,358	-	207,689,978	14,833,176	-
	<u>₩ 2,885,241,571</u>	<u>₩ 9,329</u>	<u>₩ 972,871,980</u>	<u>₩ 263,379,565</u>	<u>₩ 4,924,800</u>

Dividend paid to Samsung Electronics Co., Ltd. amounts to ₩37,155 million (2022: ₩37,155 million).

24. Related party transactions (cont'd)

The Group has no collateral or guarantees provided to, or received from, related parties as of December 31, 2023.

In accordance with a lease agreements entered with related parties, the Group has recognized rights-of-use assets and lease liabilities of ₩2,835 million (2022: ₩5,722 million), respectively. The repayment of lease liabilities paid to related parties amounts to ₩4,185 million (2022: ₩4,877 million) and interest expense recognized amounts to ₩290 million (2022: ₩381 million) for the year ended December 31, 2023.

In relation to key management compensation for the year ended December 31, 2023, the Group recognized expenses for short-term benefits, including short-term incentives of ₩3,731 million (2022: ₩3,876 million) and long-term benefits, including other long-term employee benefits and pension benefits of ₩3,026 million (2022: ₩2,697 million).

25. SUPPLEMENTARY CONSOLIDATED CASH FLOW INFORMATION:

Cash flows from operating activities for the years ended December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023	2022
Profit for the year	₩ 450,482,125	993,519,182
Adjustments to reconcile profit before tax to net cash flows:		
Valuation of inventories (reversal)	(30,431,918)	25,960,216
Loss on scrap of inventories	101,706,736	112,841,530
Loss on valuation of return assets (reversal)	(24,668)	(1,481,505)
Pension costs	66,204,386	71,135,742
Long-term employee benefits	13,166,806	2,273,589
Depreciation	765,386,170	807,459,571
Depreciation of right-of-use assets	23,595,770	26,218,714
Amortisation of intangible assets	47,687,070	45,120,582
Provision for product warranties	49,149	(1,669,232)
Gain on foreign exchange translation	(22,893,656)	(104,074,191)
Gain (loss) on disposal of financial asset at FV through PL	(520,809)	38,344
Gain on disposal of financial asset at FV through PL	(104,357)	(897,262)
Gain (loss) on disposal of financial asset at FV through OCI	7,058	-
Loss on disposal of trade receivables	17,318,704	12,382,239
(Reversal of) allowance for doubtful accounts - other receivables	(31,355)	737,721
Gain on disposal of property, plant and equipment	(1,359,841)	(4,619,645)
Gain on disposal of intangible assets	(21,905)	(59,411)
Loss on foreign currency translation	39,377,677	153,102,742
Loss on disposal of property, plant and equipment	8,914,240	3,723,233
Loss on disposal of intangible assets	252,901	558,238
Finance income	(53,075,902)	(29,314,103)
Finance costs	67,685,973	46,307,521
Gain on disposal of assets held for sale	(3,479,729)	(716,657)
Dividend income	(3,542,888)	(371,951)
Share of profit in associates	4,742,266	2,916,492
Income tax expense	91,719,434	154,735,339
(Reversal of) refund liabilities	(1,618,624)	(839,218)
(Reversal of) provision for emission liabilities	24,451	(409,970)
Impairment loss on property, plant and equipment	35,432,239	-
Gain on disposal of investment in subsidiaries	(1,112,795)	-
Others	13,306	238,771
	1,165,065,889	1,321,297,439

25. Supplementary consolidated cash flow information (cont'd)

	<u>2023</u>	<u>2022</u>
Working capital adjustments:		
Other financial assets	₩ 801,382	₩ (794,918)
Trade and other receivables	(229,200,394)	144,789,124
Advance payments	3,335,809	617,590
Prepaid expenses	2,975,083	15,126,841
Inventories	(282,767,951)	(230,438,524)
Long-term advance payments and prepaid expenses	891,897	2,357,591
Short-term and long-term loans	(724,089)	(447,503)
Trade and other payables	110,548,276	(428,316,740)
Short-term and long-term advances received	195,294,756	304,239,655
Other financial liabilities	3,442,412	(22,897,307)
Long-term other payables	(6,906,963)	(16,898,651)
Net defined benefit liabilities	<u>(91,537,762)</u>	<u>(199,256,408)</u>
	<u>(300,732,368)</u>	<u>(431,919,250)</u>
Net cash flows from operating activities	<u>₩ 1,314,815,646</u>	<u>₩ 1,882,897,371</u>

Significant transactions not involving cash flows for the years ended December 31, 2023 and 2022 are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Reclassification of construction-in-progress and others	₩ 688,233,613	₩ 424,450,782
Transfer of current portion of long-term borrowings	240,954,790	418,643,791
Acquisition of PPE with account payables and advance payments	(48,349,749)	224,296,438

25. Supplementary consolidated cash flow information (cont'd)

Changes in liability arising from financial activities as of December 31, 2023 and 2022 (Korean won in thousands):

	2023			
	January 1	Net cash flows from financing activities	Others (*)	December 31
Short-term borrowings	₩ 810,257,330	₩ 266,872,323	₩ (9,258,899)	₩ 1,067,870,754
Current portion of long-term borrowings	274,390,225	(282,200,897)	244,931,085	237,120,413
Long-term borrowings	336,606,576	117,509,400	(237,593,666)	216,522,310
Lease liability	83,982,421	(25,573,574)	16,590,777	74,999,624
Dividend payables	14,437	(160,342,145)	160,345,002	17,294
	<u>₩ 1,505,250,989</u>	<u>₩ (83,734,893)</u>	<u>₩ 175,014,299</u>	<u>₩ 1,596,530,395</u>

(*) Others represent effect of foreign currency transaction and translation, non-cash transactions and others.

	2022			
	January 1	Net cash flows from financing activities	Others (*)	December 31
Short-term borrowings	₩ 56,486,397	₩ 794,150,919	₩ (40,379,986)	₩ 810,257,330
Current portion of long-term borrowings	316,116,596	(472,331,713)	430,605,342	274,390,225
Long-term borrowings	619,762,227	103,316,000	(386,471,651)	336,606,576
Lease liability	90,178,361	(26,993,651)	20,797,711	83,982,421
Dividend payables	11,030	(161,602,887)	161,606,294	14,437
	<u>₩ 1,082,554,611</u>	<u>₩ 236,538,668</u>	<u>₩ 186,157,710</u>	<u>₩ 1,505,250,989</u>

(*) Others represent effect of foreign currency transaction and translation, non-cash transactions and others.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES:

The Group's principal financial liabilities, comprise borrowings, trade and other payables, and lease liabilities and other liabilities. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. Also, the Group has various financial assets, including trade receivables, cash and short-term deposits that arrive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

26.1 Market risk

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

The sensitivity analyses in the following sections are related to the position as of December 31, 2023 and 2022.

26.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

Borrowings with floating interest rates amounts to ₩795,920,686 thousand (2022: ₩655,352,301 thousand) as of December 31, 2023. The following table demonstrates a sensitivity analysis to a reasonably possible change in interest rates on that portion of borrowings. With all other variables held constant, the effect of changes in interest rates of floating rate borrowings on profit before tax is as follows (Korean won in thousands):

	2023		2022	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Impact on interest costs	₩ (7,959,208)	₩ 7,959,208	₩ (6,553,523)	₩ 6,553,523

26.1.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities and the Group's net investments in foreign subsidiaries. The book values of monetary assets and liabilities which are not presented in functional currency as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 3,270,605,740	₩ 2,147,657,733	₩ 2,445,963,735	₩ 2,136,705,866
EUR	63,152,322	52,892,397	48,431,178	25,210,848
JPY	14,952,437	104,154,593	1,264,055	97,115,208
PHP	11,051,549	50,279,200	9,461,436	38,970,386
MXN	4,912,770	-	-	-
VND	4,926,711	57,602,758	2,581,818	22,539,399
SGD	678,605	3,592,160	554,426	3,644,005
Others	292,453	867,896	511,016	1,826,344
	<u>₩ 3,370,572,587</u>	<u>₩ 2,417,046,737</u>	<u>₩ 2,508,767,664</u>	<u>₩ 2,326,012,056</u>

The Group manages its foreign currency risk periodically. The following table demonstrates a sensitivity analysis of a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, on the Group's profit before tax as of December 31, 2023 and 2022. (Korean won in thousands):

	2023		2022	
	5% increase	5% decrease	5% increase	5% decrease
USD	₩ 56,147,400	₩ (56,147,400)	₩ 15,462,893	₩ (15,462,893)
EUR	512,996	(512,996)	1,161,016	(1,161,016)
JPY	(4,460,108)	4,460,108	(4,792,558)	4,792,558
PHP	(1,961,383)	1,961,383	(1,475,448)	1,475,448
MXN	245,639	(245,639)	-	-
VND	(2,633,802)	2,633,802	(997,879)	997,879
SGD	(145,678)	145,678	(154,479)	154,479
Others	(28,772)	28,772	(65,766)	65,766
	<u>₩ 47,676,292</u>	<u>₩ (47,676,292)</u>	<u>₩ 9,137,779</u>	<u>₩ (9,137,779)</u>

The sensitivity analyses were conducted on monetary assets and liabilities which are presented in foreign currency other than functional currency as of the reporting date.

26.1.3 Other price risk

The Group's marketable equity securities are susceptible to market price risk arising from the fluctuation in the price of the securities. The following table demonstrates a sensitivity analysis of a reasonably possible change in the price of marketable equity securities on the financial statements of the Group as of December 31, 2023 (Korean won in thousands):

	5% increase	5% decrease
OCI before tax	₩ 7,296,848	₩ (7,296,848)
Income tax effect	(1,824,212)	1,824,212
OCI after tax	₩ 5,472,636	₩ (5,472,636)

26.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss of the Group. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities.

26.2.1 Trade receivables and other receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control related to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is as follows (Korean won in thousands):

	2023	2022
Trade receivables	₩ 1,126,444,181	₩ 990,685,140
Other receivables	89,992,593	28,880,997

The Group assesses the ECLs at the end of every reporting period based on a forward-looking information. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and other receivables, the Group applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables. In addition, the Group entered into guarantee insurance contracts with Korea Trade Insurance Corporation and other insurance corporations for the credit risk of foreign customers.

26.2.2 Other assets

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

26.3 Liquidity risk

Liquidity risk refers to the risk that the Group may default on the contractual obligations that become due. The Group manages its risk of a shortage of funds using a recurring liquidity planning tool. The Group matches the financial liabilities with the financial assets, taking into account the maturity dates and cash flow from operating activities of those financial assets.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (Korean won in thousands):

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26.3 Liquidity risk (cont'd)

The future cash flows of financial liabilities are nominal amounts but not discounted. The remaining maturities indicate the earliest timing when the creditors can request repayments.

	2023				
	Less than 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
Trade and other payables	₩ 1,071,892,174	₩ 13,652,813	₩ 7,310	₩ -	₩ 1,085,552,297
Short-term borrowings	960,158,659	110,983,904	-	-	1,071,142,563
Current portion of long-term borrowings	36,424,106	207,619,814	-	-	244,043,920
Long-term borrowings	2,752,106	8,409,213	222,928,852	-	234,090,171
Lease liability	7,112,931	20,136,032	47,945,480	13,557,963	88,752,406
Other financial liabilities	-	4,428,312	-	-	4,428,312
	<u>₩ 2,078,339,976</u>	<u>₩ 365,230,088</u>	<u>₩ 270,881,642</u>	<u>₩ 13,557,963</u>	<u>₩ 2,728,009,669</u>

	2022				
	Less than 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
Trade and other payables	₩ 843,440,792	₩ 14,189,454	₩ 9,966	₩ -	₩ 857,640,212
Short-term borrowings	766,404,426	45,016,794	-	-	811,421,220
Current portion of long-term borrowings	3,341,084	282,753,729	-	-	286,094,813
Long-term borrowings	4,445,299	13,479,757	359,373,679	-	377,298,735
Lease liability	8,067,217	20,029,440	56,869,671	14,679,895	99,646,223
Other financial liabilities	-	5,701,399	-	-	5,701,399
	<u>₩ 1,625,698,818</u>	<u>₩ 381,170,573</u>	<u>₩ 416,253,316</u>	<u>₩ 14,679,895</u>	<u>₩ 2,437,802,602</u>

26.4 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain the sound capital structure, the Group may adjust the dividend payment to shareholders, reduce capital stock, or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2023 and 2022.

The Group monitors a gearing ratio, which is net debt divided by total capital (sum of total equity and net debt). Net debt refers to trade and other payables, borrowings and other liabilities, less cash and cash equivalents.

The gearing ratios as of the reporting date are computed as follows (Korean won in thousands):

	2023	2022
Trade and other payables	₩ 1,363,027,772	₩ 1,271,465,675
Borrowings	1,521,513,477	1,421,254,131
Other liabilities	45,507,410	45,825,985
Less: Cash and cash equivalent	<u>(1,669,189,597)</u>	<u>(1,677,067,100)</u>
Net debt	1,260,859,062	1,061,478,691
Total equity	<u>8,030,324,975</u>	<u>7,693,484,679</u>
Total capital (Net debt and shareholder's equity)	<u>₩ 9,291,184,037</u>	<u>₩ 8,754,963,370</u>
Gearing ratio	13.57%	12.12%

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27. FAIR VALUE:

27.1 Fair value of financial instruments

Details of book values and fair values of financial assets and liabilities as of December 31, 2023 and 2022 are as follows (Korean won in thousands):

	2023		2022	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Financial assets at amortized cost				
Cash and cash equivalents	₩ 1,669,189,597	(*1)	₩ 1,677,067,100	(*1)
Trade and other receivables	1,125,639,434	(*1)	942,816,723	(*1)
Short-term and long-term loans	4,281,454	(*1)	3,526,811	(*1)
Other financial assets	40,282,621	(*1)	46,984,211	(*1)
Financial assets measured at FVOCI				
Trade and other receivables(*2)	90,797,340	(*1)	76,742,536	(*1)
Listed equity investments	145,936,961	₩ 145,936,961	179,854,714	₩ 179,854,714
Non-listed equity investments	41,766,974	41,766,974	42,691,210	42,691,210
Financial assets measured at FVPL				
Short-term financial instruments and others	62,079,814	62,079,814	62,217,654	62,217,654
Total financial assets	<u>₩ 3,179,974,195</u>		<u>₩ 3,031,900,959</u>	
Financial liabilities:				
Financial liabilities at amortized cost:				
Trade and other payables	₩ 1,085,552,297	(*1)	₩ 857,640,212	(*1)
Other liabilities	4,428,312	(*1)	5,701,399	(*1)
Short-term borrowings	342,277,963	(*1)	44,355,500	(*1)
Current portion of long-term borrowings	237,120,413	(*1)	274,390,225	(*1)
Long-term borrowings	216,522,310	(*1)	336,606,576	(*1)
Other financial liabilities:				
Borrowings	725,592,791	(*1)	765,901,830	(*1)
Lease liability	74,999,622	(*1)	83,982,421	(*1)
Total financial liabilities	<u>₩ 2,686,493,708</u>		<u>₩ 2,368,578,163</u>	

(*1) Book value is a reasonable approximation of fair value, which is excluded from the fair value disclosures.

(*2) The Group transfers some of its accounts receivable to a particular client and transfers most of its risks and compensations, removing them from its financial statements on the date of transfer and recognizing gains and losses on the disposal of accounts receivable.

27.2 Fair value measurement

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

There have been no other significant transfers between Level 1, Level 2 and Level 3.

27. Fair value (cont'd)

27.3 Fair value on the statement of financial position:

As of December 31, 2023 and 2022, the Group held the following assets and liabilities carried at fair value on the statement of financial position (Korean won in thousands):

	2023			
	Level 1	Level 2	Level 3	Total
Financial assets measured at FVOCI				
Trade and other receivables	₩ -	₩ 90,797,340	₩ -	₩ 90,797,340
Listed equity investment	145,936,961	-	-	145,936,961
Non-listed equity investment	-	-	41,766,974	41,766,974
Financial assets measured at FVPL				
Short-term financial instruments and others	-	-	62,079,814	62,079,814
	2022			
	Level 1	Level 2	Level 3	Total
Financial assets measured at FVOCI				
Trade and other receivables	₩ -	₩ 76,742,536	₩ -	₩ 76,742,236
Listed equity investment	179,854,714	-	-	179,854,714
Non-listed equity investment	-	-	42,691,210	42,691,210
Financial assets measured at FVPL				
Short-term financial instruments and others	-	-	62,217,654	62,217,654

27.4 Valuation Techniques and the Inputs

(1) The valuation method, input variables in assets and liabilities classified as Level 3 are as follows (Korean won in thousands)

Classification	2023			
	Fair value	Valuation method	Input variables	Range of input variables (weighted average)
Financial assets measured at FVOCI				
Samsung Venture Investment Co., Ltd.	₩ 33,603,900	Discounted Cash flow model	Growth rate Discount rate(WACC)	-1.00%~1.00% (0%) 16.11%~18.11%(17.11%)
IMA	8,122,874	Discounted Cash flow model	Growth rate Discount rate(WACC)	0.00%~1.00% (0.5%) 11.38%~13.38%(12.38%)

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27. Fair value (cont'd)

Classification	Fair value	Valuation method	2022	
			Input variables	Range of input variables (weighted average)
Financial assets measured at FVOCI				
Samsung Venture Investment Co., Ltd.	₩ 33,382,560	Discounted Cash flow model	Growth rate Discount rate(WACC)	-1.00%~1.00% (0%) 15.80%~17.80%(16.80%)
IMA	9,258,450	Discounted Cash flow model	Growth rate Discount rate(WACC)	0.00%~1.00% (0.5%) 11.10%~13.10%(12.10%)

(2) Changes in financial instruments classified as Level 3 are as follows (Korean won in thousands):

	2023		
	Beginning	Valuation	Ending
Financial assets measured at FVOCI			
Samsung Venture Investment Co., Ltd.	₩ 33,382,560	₩ 221,340	₩ 33,603,900
IMA	9,258,450	(1,135,576)	8,122,874

	2022		
	Beginning	Valuation	Ending
Financial assets measured at FVOCI			
Samsung Venture Investment Co., Ltd.	₩ 23,104,020	₩ 10,278,540	₩ 33,382,560
IMA	8,634,683	623,767	9,258,450

27.5 Sensitivity analysis of fair value measurement classified as Level 3 of the fair value hierarchy

Sensitivity analysis of financial instrument is based on changes in financial instrument's value in accordance with changes in unobservable input variables derived from a statistical method.

Impact of changes in unobservable input variables is as follows (Korean won in thousands):

	2023			
	Favorable changes		Unfavorable changes	
	Gain and loss	Equity	Gain and loss	Equity
Financial assets measured at FVOCI(*)	₩ -	₩ 1,080,331	₩ -	₩ (1,600,498)

(*) Fair value changes of equity securities in Samsung Venture Investment Co., Ltd. were measured by increasing or decreasing of correlation between two main unobservable variable inputs, the growth rate (-1.00%~1.00%) and discount rate (16.11%~18.11%). Also, the fair value changes of equity securities in IMA were measured by increasing or decreasing of correlation between two main unobservable inputs, the growth rate (0.00%~1.00%) and discount rate (11.38%~13.38%).

27.5 Sensitivity analysis of fair value measurement classified as Level 3 of the fair value hierarchy (cont'd)

	2022						
	Favorable changes		Unfavorable changes				
	Gain and loss	Equity	Gain and loss	Equity			
Financial assets measured at FVOCI(*)	₩	-	₩ 1,107,282	₩	-	₩	(1,585,584)

(*) Fair value changes of equity securities in Samsung Venture Investment Co., Ltd. were measured by increasing or decreasing of the correlation between two main unobservable variable inputs, the growth rate (-1.00%~1.00%) and discount rate (15.80%~17.80%). Also, the fair value changes of equity securities in IMA were measured by increasing or decreasing of the correlation between two main unobservable inputs, the growth rate (-0.00%~1.00%) and discount rate (11.10%~13.10%).

27.6 Details of gains and losses by categories

Details of gains and losses arising from financial instruments by categories for the year ended December 31, 2023 are as follows (Korean won in thousands):

	Financial assets at amortized cost	Financial assets measured at FVOCI	Financial assets measured at FVPL	Financial liabilities at amortized cost	Other financial liabilities	Total
Interest income	₩ 52,950,682	₩ -	₩ 30,869	₩ -	₩ -	₩ 52,981,551
Dividend income	-	3,542,888	-	-	-	3,542,888
Gain on foreign currency transactions	122,771,663	-	-	184,551,720	-	307,323,383
Gain on foreign currency translation	2,313,283	-	-	15,070,991	5,509,382	22,893,656
Loss on foreign currency transactions	(156,651,710)	-	-	(151,503,361)	-	(308,155,071)
Loss on foreign currency translation	(34,161,617)	-	-	(4,312,419)	(903,643)	(39,377,679)
Interest expenses	-	-	-	(45,697,160)	(21,988,813)	(67,685,973)
Loss on disposal of trade receivables	-	(17,318,704)	-	-	-	(17,318,704)
Other bad debt expenses	(343,403)	-	-	-	-	(343,403)
Other bad debt expenses (reversal)	374,758	-	-	-	-	374,758
Loss on disposal of FVOCI	-	(7,058)	-	-	-	(7,058)
Gain or loss on valuation of financial assets measured at fair value through OCI	-	(24,380,241)	-	-	-	(24,380,241)
Gain or loss on disposal of financial assets measured at fair value through OCI	-	71,922,189	-	-	-	71,922,189
Gain or loss on valuation of FVPL	-	-	104,357	-	-	104,357
Gain or loss on disposal of FVPL	-	-	520,809	-	-	520,809

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27.6 Details of gains and losses by categories (cont'd)

Details of gains and losses arising from financial instruments by categories for the year ended December 31, 2022 are as follows (Korean won in thousands):

	Financial assets at amortized cost	Financial assets measured at FVOCI	Financial assets measured at FVPL	Financial liabilities at amortized cost	Other financial liabilities	Total
Interest income	₩ 29,228,637	₩ -	₩ 25,312	₩ -	₩ -	₩ 29,253,949
Dividend income	-	371,951	-	-	-	371,951
Gain on foreign currency transactions	235,592,165	-	-	123,074,967	-	358,667,132
Gain on foreign currency translation	28,325,401	-	-	27,255,341	48,314,754	103,895,496
Loss on foreign currency transactions	(70,825,733)	-	-	(225,996,250)	-	(296,821,983)
Loss on foreign currency translation	(131,724,638)	-	-	(16,998,643)	(4,206,204)	(152,929,485)
Interest expenses	-	-	-	(26,309,978)	(19,996,474)	(46,306,452)
Loss on disposal of trade receivables	-	(12,382,239)	-	-	-	(12,382,239)
Other bad debt expenses(reversal)	(739,108)	-	-	-	-	(739,108)
Gain or loss on valuation of financial assets measured at fair value through OCI	-	(16,110,674)	-	-	-	(16,110,674)
Gain or loss on valuation of FVPL	-	-	897,262	-	-	897,262
Gain or loss on disposal of FVPL	-	-	(38,344)	-	-	(38,344)

28. DISCONTINUED OPERATIONS:

The board of directors of the Group decided to discontinue production and sales of rigid-flex printed circuit boards and dispose of residual assets on October 15, 2021. As the production and operation were terminated in December 2021, related gains and losses were classified as profit (loss) from discontinued operations. On December 12, 2019, Kunshan Samsung Electro-Mechanics Co., Ltd. decided to discontinue its operations. Accordingly, related assets and liabilities are classified as held for sale, and related gains or losses are classified as profit (loss) from discontinued operations.

The consolidated statements of profit or loss for the years ended December 31, 2023 and 2022, included in the comprehensive income statement, are as follows (Korean won in thousands):

	2023		2022
Sales	₩ 299,266	₩	16,724,342
Cost of sales	-		20,469,962
Gross profit (loss)	299,266		(3,745,620)
Selling and administrative expenses	4,918,003		15,518,441
Operating loss	(4,618,737)		(19,264,061)
Non-operating profit (loss)	3,610,174		(19,309,506)
Loss before tax	(1,008,563)		(38,573,567)
Income tax expense(benefit)	6,873,237		(9,386,518)
Loss for the year from discontinued operation after tax	₩ (7,881,800)	₩	(29,187,049)
Basic and diluted, loss for the year from discontinued operations attributable to ordinary shareholders of the parent	₩ (104)	₩	(386)
Basic and diluted, loss for the year from discontinued operations attributable to preferred shareholders of the parent	(104)		(386)

28. Discontinued operations (cont'd)

Assets held for sale and liabilities directly associated with the assets held for sale as of December 31, 2023 and 2022, are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Non-current assets		
Property, plant and equipment	₩ -	₩ 81,022,530
Other non-current assets	-	5,842,390
Assets held for sale	<u>₩ -</u>	<u>₩ 86,864,920</u>
Liabilities directly associated with the assets held for sale	<u>₩ -</u>	<u>₩ -</u>
Net assets classified as held for sale	<u>₩ -</u>	<u>₩ 86,864,920</u>

Cashflows from discontinued operations are as follows (Korean won in thousands):

	<u>2023</u>	<u>2022</u>
Net cash flows from operating activities	₩ (89,721,288)	₩ (38,573,567)
Net cash flows from investing activities	90,329,952	(2,925,808)
Net cash flows from financing activities	-	(37,349)
Effects of exchange rate changes on cash and cash equivalents	(18,086)	1,907,204
Net increase (decrease) in cash and cash equivalents	590,578	(39,629,520)

28. Discontinued operations (cont'd)

The Group sold its Wi-Fi network module business during the year ended December 31, 2022, and the details are as follows: (Korean won in thousands):

	<u>Amount</u>
Disposal consideration	
Cash	₩ 60,000,000
Assets held for sale	
Current assets	
Cash and cash equivalents	₩ 56,925,808
Trade and other receivables	10,990,922
Prepaid expenses	200,937
Inventories, net	15,858,591
Right of return assets	33,937
Non-current assets	
Long-term loans	90,465
Property, plant and equipment	4,335,763
Right-of-use assets	46,808
Intangible assets, net	43,857
Long-term advanced payments and prepaid expenses	696
Deferred tax assets	64,068
Other non-current financial assets	112,792
	<u>₩ 88,704,644</u>
Liabilities held for sale	
Current liabilities	
Trade and other payables	₩ 11,079,374
Advances received	186,351
Income tax payables	205,592
Current lease liabilities	39,559
Provisions for product warranties	27,126
Other current liabilities	154,030
Non-current liabilities	
Net employee defined benefit liabilities	2,893,190
Long-term lease liabilities	9,394
	<u>₩ 14,594,616</u>
Net assets held for sale	₩ 74,110,028
Reclassification of exchange gain associated with a foreign operation	14,826,685
Gain on disposal	716,657

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

English Translation of Independent Auditor's Report on Internal Control over Financial Reporting Originally Issued in Korean on February 23, 2024

To the Shareholders and the Board of Directors of Samsung Electro-Mechanics Co., Ltd.

Audit Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Samsung Electro-Mechanics Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2023, based on 'Conceptual Framework for Design and Operation of Internal Control over Financial Reporting'.

In our opinion, the Group's internal control over financial reporting is designed and operated effectively as of December 31, 2023, in all material respects, in accordance with the 'Conceptual Framework for Design and Operation of Internal Control over Financial Reporting'.

We have also audited, in accordance with the Korean Standards on Auditing ("KSAs"), the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as of December 31, 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, for the year then ended, and notes to the consolidated financial statements, including material accounting policy information, and our report dated February 23, 2024, expressed an unqualified opinion.

Basis for Audit Opinion

We conducted our audits in accordance with the KSAs. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Internal Control over Financial Reporting section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audits of the internal control over financial reporting in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for designing, operating and maintaining effective internal control over financial reporting and for its assessment of 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 is responsible for the oversight of internal control over financial reporting of the Group.

Deloitte.

Auditor's Responsibilities for the Audit of the Internal Control over Financial Reporting

Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We conducted our audit in accordance with the KSAs. 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.

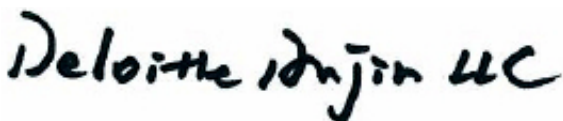
The audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks of that a material weakness exists. The audit includes 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 risks.

Definition and Limitations of Internal Control over Financial Reporting

A group's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRS"). A group'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 group; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS"), and that receipts and expenditures of the group are being made only in accordance with authorizations of management and directors of the group; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the group's assets that could have a material effect on the consolidated financial statements.

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

The engagement partner on the audit resulting in this independent auditor's report is Dong Hwui Ahn.



February 23, 2024

Notice to Readers

This report is effective as of February 23, 2024, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the Group's internal control over financial reporting and may result in modifications to the auditor's report.

Report on the Effectiveness of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and the Board of Directors and Audit Committee of
Samsung Electro-Mechanics Co., Ltd.

We, as the Chief Executive Officer (“CEO”) and the Internal Control over Financial Reporting Officer of Samsung Electro-Mechanics Co., Ltd. and its subsidiaries (the “Group”), assessed the effectiveness of the design and operation of the Group’s Internal Control over Financial Reporting (“ICFR”) for the year ended December 31, 2023

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

Based on the assessment results, we believe that the Group’s ICFR, as at December 31, 2023, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

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

February 20, 2024

Chang Duckhyun
Chief Executive Officer

Kim Sungjin
Internal Control over Financial Reporting Officer