

# **KRAFTON, Inc.**

Separate Financial Statements  
December 31, 2021 and 2020

KRAFTON, Inc.

**KRAFTON, Inc.**  
**Index**  
**December 31, 2020 and 2019**

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	<b>Page(s)</b>
<b>Independent Auditor's Report .....</b>	
<b>Separate Financial Statements</b>	
Separate Statements of Financial Position.....	1 - 2
Separate Statements of Comprehensive Income.....	3
Separate Statements of Changes in Equity.....	4 – 5
Separate Statements of Cash Flows.....	6 – 7
Notes to the Separate Financial Statements.....	8 – 99
<b>Independent Auditors' Review report on Internal Control over Financial Reporting</b>	100 – 101
<b>Report on the Effectiveness of Internal Control over Financial Reporting.....</b>	102 – 103

## Independent auditor's report

### The Shareholders and Board of Directors Krafton, Inc.

#### Opinion

We have audited the separate financial statements of Krafton, Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2021 and 2020, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for each of the years in the period ended December 31, 2021, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2021 and 2020, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("KIFRS").

We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Design and Operation Integrated Framework in accordance with Korean Auditing Standards ("KGAAS") issued by the Committee of Internal Control Operations, and our report dated March 14, 2022 expressed an unqualified opinion thereon.

#### Basis for Opinion

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

#### Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the separate financial statements of the current period. This matter was addressed in the context of our audit of the separate financial statements taken as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

#### ***Occurrence and cut-off of game sales revenue*** (Note 21)

##### (1) Reasons for the decision as a key audit matter

Game sales, the Company's operating profit, have many factors involved in the event of occurrence, and revenue recognition is recorded through complex internal processes including the use of computer systems. There is a potential risk that the amount of revenue recognition will not be appropriate due to this complex processing and large amounts of data processing. Therefore, we judged that there is a significant risk regarding the occurrence and cut-off of game sales revenue.

(2) How the key audit matter was addressed in the audit

The main audit procedures we have performed to confirm the occurrence of the Company's game sales revenue and the cut-off of accounting attributable to the period are as follows.

- Understanding and evaluating the accounting policy for the Company's recognition of revenue from game sales
- Evaluation of the effectiveness of internal controls related to the Company's revenue recognition
- Understanding and reviewing the process of cut-off the Company's game sales revenue to the period
- Understanding and evaluating deferred sales calculation logic for testing the cut-off of the Company's revenue to the period
- Review of the occurrence of game sales revenue and the cut-off of the period through confirmation of the evidence on a sampling basis

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

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

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

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

**Auditor's Responsibilities for the Audit of the Separate Financial Statements**

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Jong Seok Lee.



March 14, 2022

This audit report is effective as of March 14, 2022, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modifications to this report.

**KRAFTON, Inc.****Separate Statements of Financial Position****December 31, 2021 and December 31, 2020**

(in thousands of Korean Won)	Notes	December 31, 2021		December 31, 2020	
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5,6	₩	2,832,057,949	₩	661,654,353
Current portion of financial assets at fair value through profit or loss	5,6,10		-		12,070,055
Trade receivables	4,5,6,7		525,942,930		460,025,815
Other current financial assets	5,6,7,8,13		70,171,032		70,180,140
Other current assets	7		38,716,445		38,014,800
			<u>3,466,888,356</u>		<u>1,241,945,163</u>
<b>Non-current assets</b>					
Investments in subsidiaries and associates	12		1,294,246,781		35,876,845
Financial assets at fair value through profit or loss	5,6,10		88,809,217		27,137,332
Financial assets at fair value through other comprehensive income	5,6,11		109,880,530		71,389,744
Property and equipment	13		201,143,474		105,522,618
Intangible assets	14		10,801,730		6,920,534
Investment properties	15		183,259,225		68,679,131
Other non-current financial assets	5,6,7,8,13		42,012,852		25,284,530
Other non-current assets	7		4,658,866		4,861,376
Deferred tax assets	25		78,509,214		61,093,699
Derivative assets	5,6		844,177		-
			<u>2,014,166,066</u>		<u>406,765,809</u>
<b>Total assets</b>		₩	5,481,054,422	₩	1,648,710,972

(continued)

**Liabilities****Current liabilities**

Other current financial liabilities	4,5,6,9	328,791,361	204,048,895
Other current liabilities	9,21	73,385,230	84,506,389
Provisions	17	37,529,676	44,762,724
Current tax liabilities		111,200,406	47,060,964
Current derivative liabilities	5,6	-	774,000
		<u>550,906,673</u>	<u>381,152,972</u>

**Non-current liabilities**

Financial liabilities at fair value through profit or loss	4,5,6	195,350,040	-
Net defined benefit liability	16	10,772,823	6,604,271
Provisions	17	12,127,609	5,000,534
Other non-current financial liabilities	4,5,6,9	114,690,746	55,150,496
Derivative liabilities	4,5,6	5,127,343	-
		<u>338,068,561</u>	<u>66,755,301</u>
<b>Total liabilities</b>		<u>888,975,234</u>	<u>447,908,273</u>

**Equity**

Share capital	19	4,896,705	4,278,519
Reserves	19	4,861,995,661	2,026,668,321
Other components of equity	19,20	134,804,394	121,675,683
Accumulated deficits	19	(409,617,572)	(951,819,824)

**Total equity****Total liabilities and equity**

	<u>4,592,079,188</u>	<u>1,200,802,699</u>
<b>Total liabilities and equity</b>	<u>₩ 5,481,054,422</u>	<u>₩ 1,648,710,972</u>

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

**KRAFTON, Inc.**  
**Separate Statements of Comprehensive Income**  
**Years Ended December 31, 2021 and 2020**

(in thousands of Korean Won)

	Notes	December 31, 2021	December 31, 2020
<b>Revenue</b>	21	₩ 1,828,373,788	₩ 95,437,031
<b>Operating costs</b>	22	1,131,998,343	224,448,921
<b>Operating profit (loss)</b>		696,375,445	(129,011,890)
Other income	23	146,011,673	149,532,020
Other expenses	23	68,783,697	72,784,729
Finance income	24	11,720,851	1,586,636
Finance costs	24	5,848,123	5,050,364
<b>Profit (loss) before income tax</b>		779,476,149	(55,728,327)
<b>Income tax expense</b>	25	237,273,898	(60,879,835)
<b>Profit for the year</b>		₩ 542,202,251	₩ 5,151,508
<b>Other comprehensive income (loss)</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Gain (loss) on valuation of financial assets at fair value through other comprehensive income		22,657,183	37,730,822
Remeasurements of net defined benefit liability	16	(2,367,547)	(911,548)
<i>Items that will be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(8,873)	(29,817)
<b>Other comprehensive income for the year, net of tax</b>		₩ 20,280,763	₩ 36,789,457
<b>Total comprehensive income for the year</b>		₩ 562,483,014	₩ 41,940,965
<b>Earnings per share (in Korean Won)</b>	26		
Basic earnings per share		₩ 12,538	₩ 128
Diluted earnings per share		12,287	125

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



# KRAFTON, Inc.

## Separate Statements of Changes in Equity Years Ended December 31, 2021 and 2020

<i>(in thousands of Korean Won)</i>	Share Capital	Capital surplus	Other Components of Equity	Accumulated Deficits	Total
<b>Balance at January 1, 2020</b>	₩ 4,022,749	₩ 972,499,400	₩ 67,027,928	₩ (956,971,331)	₩ 86,578,746
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	5,151,508	5,151,508
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	37,730,822	-	37,730,822
Remeasurements of net defined benefit liability	-	-	(911,548)	-	(911,548)
Exchange differences on translation of foreign operations	-	-	(29,817)	-	(29,817)
<b>Transactions with shareholders recognized directly to equity</b>					
Exercise of share options	36,494	19,349,190	(18,954,800)	-	430,884
Share-based payment expenses	-	-	3,232,722	-	3,232,722
Grant of stock options to Issue of ordinary shares related to merger	-	-	33,580,376	-	33,580,376
<b>Balance at December 31, 2020</b>	₩ 4,278,519	₩ 2,026,668,320	₩ 121,675,683	₩ (951,819,823)	₩ 1,200,802,699
	₩ 219,276	₩ 1,034,819,730	-	-	₩ 1,035,039,006

(continued)

<b>Balance at January 1, 2021</b>	W	4,278,519	W	2,026,668,320	W	121,675,683	W	(951,819,823)	W	1,200,802,699
<b>Total comprehensive income</b>										
Profit for the year		-		-		-		542,202,251		542,202,251
Gain on valuation of financial assets at fair value through other comprehensive income		-		-		22,657,183		-		22,657,183
Remeasurements of net defined benefit liability		-		-		(2,367,547)		-		(2,367,547)
Exchange differences on translation of foreign operations		-		-		(8,873)		-		(8,873)
<b>Transactions with shareholders recognized directly to equity</b>										
Exercise of share options		55,786		57,233,632		(56,524,681)		-		764,737
Share-based payment expenses		-		-		14,170,564		-		14,170,564
Grant of stock options to executives and employees of subsidiaries		-		-		1,491,680		-		1,491,680
Disposal of treasury shares		-		6,452,617		-		-		6,452,617
Paid in capital increase		562,400		2,771,641,092		-		-		2,772,203,492
Gift of shares		-		-		33,710,385		-		33,710,385
<b>Balance at December 31, 2021</b>	W	4,896,705	W	4,861,995,661	W	134,804,394	W	(409,617,572)	W	4,592,079,188

# KRAFTON, Inc.

## Separate Statements of Cash Flows

Years Ended December 31, 2021 and 2020

(in thousands of Korean Won)

	Note	December 31, 2021	December 31, 2020
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	₩ 871,837,645	₩ (118,736,909)
Interest received		10,777,611	908,928
Interest paid		(5,307,912)	(4,414,483)
Dividends received		570,827	139,303,000
Income taxes paid		(201,062,664)	(1,108,367)
<b>Net cash flows provided by operating activities</b>		<b>676,815,507</b>	<b>15,952,169</b>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments	₩	11,960,000	₩ 22,313,000
Collection of short-term loans		11,554,160	2,092,200
Disposal of financial assets at fair value through profit or loss		14,708,686	10,322,963
Collection of long-term loans		2,948,290	6,155,320
Decrease in deposits		2,546,237	174,373
Collection of lease receivables		1,627,010	180,121
Disposal of property and equipment		264,480	148,365
Cash inflow due to merger		-	750,010,328
Receipt of government subsidies		360,000	-
Decrease in long-term advanced payments		77,208	-
Increase in short-term loans		(8,268,560)	(25,857,900)
Increase in long-term financial instruments		(1,787,649)	-
Acquisition of financial assets at fair value through profit or loss		(44,299,585)	(10,262,785)
Acquisition of financial assets at fair value through other comprehensive income		(6,132,399)	(2,380,400)
Increase in long-term loans		(25,810,929)	(12,402,000)
Increase in long-term advanced payments		(68,833)	(417,581)
Acquisition of property and equipment		(53,954,884)	(12,461,123)
Acquisition of intangible assets		(3,978,113)	(3,125,128)
Acquisition of investment properties		(106,803,541)	(68,698,757)
Increase in deposits		(19,310,585)	-
Acquisition of investments in associates		(378,798,523)	(5,622,872)
Acquisition of investments in subsidiaries		(696,878,017)	(2,437,000)
Decrease in derivative liabilities		(520,159)	-
Cash outflow due to split-off		-	(14,259,763)
<b>activities</b>	₩	<b>(1,300,565,706)</b>	₩ <b>633,471,361</b>

(continued)

**Cash flows from financing activities**

Increase in leasehold deposits received	₩	2,339,819	₩	218,439
Increase in short-term borrowings		-		106,000,000
Increase in paid in capital		2,772,203,492		-
Exercise of share options		764,736		432,236
Decrease in leasehold deposits received		(30,780)		-
Decrease in short-term borrowings		-		(88,000,000)
Stock issuance cost and others		-		(1,352)
Repayments of lease liabilities		(30,086,125)		(15,327,750)
<b>Net cash flows provided by(used in) financing activities</b>		<u>2,745,191,142</u>		<u>3,321,573</u>
<b>Net increase in cash and cash equivalents</b>		2,121,440,943		652,745,103
Cash and cash equivalents at the beginning of the year		661,654,353		15,284,007
Effects of exchange rate changes on cash and cash equivalents		<u>48,962,653</u>		<u>(6,374,757)</u>
<b>Cash and cash equivalents at the end of the year</b>	₩	<u>2,832,057,949</u>	₩	<u>661,654,353</u>

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

# KRAFTON, Inc.

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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#### 1. General Information

Krafton, Inc. (the "Company") was incorporated in the Republic of Korea on March 26, 2007 to engage in software development and related subsidiary businesses. The Company's headquarters is located at 231, Teheran-ro, Gangnam-gu, Seoul, the Republic of Korea. The Company changed its name from Bluehole, Inc. into Krafton, Inc on November 30, 2018.

In order to maximize the synergy effect of the online and mobile game business and to increase management efficiency, the Company merged with PUBG Corporation, PUBG Labs, Inc. and PUBG Works, Inc. as of December 1, 2020 according to the resolution of the Board of Directors and extraordinary shareholders' meeting on September 23, 2020 and October 29, 2020, respectively.

Meanwhile, in order to enhance competitiveness of core businesses and increase management efficiency, the Company split off its business segments resulting in the establishment of Bluehole Studio, Inc. on December 1, 2020, in accordance with resolution of the Board of Directors and special resolution of the shareholders on September 23, 2020 and November 5, 2020, respectively.

The Company has been listed on the KOSPI Market of the Korea Exchange (KRX) since August 10, 2021.

As of December 31, 2021, the Company's share capital amounts to ordinary shares of ₩4,897 million, through number of share option exercises, paid-in capital increases and 5-for-1 share split effective on May 4, 2021. As of December 31, 2021, the Company's shareholders are as follows:

	Number of shares	Percentage of ownership
Byung-gyu Chang	7,027,965	14.35%
Image Frame Investment (HK) Limited	6,641,640	13.56%
National Pension Service (NPS)	3,272,543	6.68%
Treasury shares	2,167,418	4.43%
Others	29,857,479	60.98%
	<u>48,967,045</u>	<u>100.00%</u>

#### 2. Significant Accounting Policies

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

##### 2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with Korean International Financial Reporting Standards ("KIFRS"). The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. In the event of any differences in interpreting the separate financial statements or the independent auditor's

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

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

The separate financial statements of the Company have been prepared in accordance with KIFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The separate financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property and equipment and investment properties – measured at fair value
- assets held for sale – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value.

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

## **2.2 Changes in Accounting Policy and Disclosures**

### *2.2.1 New and amended standards adopted by the Company*

The Company has applied the following standards and interpretations for the first time for their annual reporting period commencing January 1, 2021.

#### *(a) Amendments to KIFRS 1116 Leases – Practical expedient for COVID-19 - Related Rent Concessions*

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

#### *(b) KIFRS 1109, KIFRS 1039, KIFRS 1107, KIFRS 1104 and KIFRS 1116 (Amendments) – Interest Rate Benchmark Reform - Phase 2*

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

## **2.2 Changes in Accounting Policy and Disclosures, (cont'd)**

The amendments include the following practical expedients:

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

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

### *2.2.2 New standards and interpretations not yet adopted by the Company*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

#### *(a) Amendment to KIFRS 1116 - Covid-19 - Related Rent Concessions provided after June 30, 2021*

The application of the practical expedient, in which a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. The amendment should be applied for annual periods beginning on or after April 1, 2021, and earlier application is permitted. The Company does not expect these amendments to have a significant impact on the separate financial statements.

#### *(b) Amendments to KIFRS 1103 Business Combinations – Reference to the Conceptual Framework*

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and KIFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect these amendments to have a significant impact on the separate financial statements.

## **2.2 Changes in Accounting Policy and Disclosures, (cont'd)**

### *(c) Amendments to KIFRS 1016 Property, Plant and Equipment - Proceeds before intended use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect these amendments to have a significant impact on the separate financial statements.

### *(d) Amendments to KIFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract*

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect these amendments to have a significant impact on the separate financial statements.

### *(e) Amendments to KIFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company is assessing the impact of these amendments on the separate financial statements.

### *(f) New Standard: Korean IFRS 1117 Insurance Contract*

Korean IFRS 1117 Insurance Contracts replaces Korean IFRS 1104 Insurance Contracts. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This Standard should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 Financial Instruments.



**2.2 Changes in Accounting Policy and Disclosures, (cont'd)**

*(g) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies*

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The IASB amended IFRS Practice Statement 2 Disclosure of Accounting Policies to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

*(h) Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates*

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

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

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

*(j) Annual improvements to KIFRS 2018-2020*

Annual improvements of KIFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect these amendments to have a significant impact on the separate financial statements.

1. KIFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
2. KIFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
3. KIFRS 1116 *Leases* – Lease incentives
4. KIFRS 1041 *Agriculture* – Measuring fair value

## **2.3 Subsidiaries, Joint Ventures, and Associates**

The financial statements of the Company are the separate financial statements prepared in accordance with KIFRS 1027 *Separate Financial Statements*. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method. Management applied the carrying amounts under the previous KGAAP at the time of transition to KIFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established. Investments in subsidiaries and associates are measured at cost in accordance with KIFRS 1027.

## **2.4 Foreign Currency Translation**

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

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which each entity operates (the “functional currency”). The financial statements are presented in Korean won, which is the Company’s functional and presentation currency.

### *(b) Transactions and balances*

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

Gain or loss on foreign currency translation that relates to cash and cash equivalents, long and short-term financial instruments, loans and borrowings are presented in the statement of comprehensive income within ‘other income or other expenses’.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income.

The functional currency of all the foreign operations are different from the presentation currency of the Company. Assets and liabilities of each foreign operation’s statement of financial position presented are translated at the closing rate at the end of the reporting date, and income and expenses for each statement of comprehensive income are translated at average exchange rates.

Exchange differences arising from the translation of the net investment in foreign operations are recognized in other comprehensive income and presented as a separate component of equity. When a foreign operation is partially disposed of or sold, the exchange differences that were recorded in equity are recognized in the statement of profit or loss.

## **2.5 Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits, and short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

## **2.6 Revenue Recognition**

### *(a) Identification of Performance Obligation*

The Company engages in game publishing business which it provides a right to access the game, and updating, planning, developing and maintaining services of game to customers. A publishing contract with a customer is identified as a single performance obligation since the benefits from the sales of game is significantly restricted without updating services. On the other hand, virtual item sales through online and mobile games are classified as a single performance obligation.

In addition, the Company recognizes royalty revenue by providing a license of the Company's intellectual property (IP) to publishing companies. The Company determines to recognize as a single performance obligation for providing updates and technical support services for incidental to the game service.

### *(b) A performance obligation is satisfied over time*

Game revenue consists of (i) revenue from providing a right to access games and (ii) revenue from sales of game items, and is deferred and recognized over the expected period of use, since the Company is required to provide games with updates during the period.

In addition, the Company recognizes royalty revenue from providing a license for the Company's IP. According to KIFRS 1115, royalty revenue from providing a right to access the entity's IP is recognized over the license period. However, the Company recognizes revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property when the subsequent sale or usage occurs.

### *(c) Costs incurred to fulfill a contract*

Costs to fulfill a contract are capitalized only if (i) the costs relate directly to the contract or to an anticipated contract that the Company can specifically identify; (ii) the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The capitalized costs are recognized as contract costs over service providing period under reasonable method.

### *(d) Contract assets and contract liabilities*

A contract asset is the Company's right to receive consideration for goods or services transferred to a customer, and a contract liability is defined as the Company's obligation to transfer goods or services to the customer in proportion to the consideration received by the Company (or due consideration). The Company offsets the contract assets and contract liabilities arising from one contract and presents them in the statement of financial position in net terms.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.7 Financial Assets**

*(a) Classification*

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

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

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

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

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

*(b) Measurement*

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

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

*A. Debt instruments*

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

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

**2.7 Financial Assets, (cont'd)**

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or expenses' in the year in which it arises.

*B. Equity instruments*

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'other income' when the right to receive payments is established.

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

*(c) Impairment*

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

*(d) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date,

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.7 Financial Assets, (cont'd)**

the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the statement of financial position.

*(e) Offsetting of financial instruments*

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

**2.8 Derivative Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other income or other expenses' based on the nature of transactions.

**2.9 Trade Receivables**

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

**2.10 Property and Equipment**

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The estimated costs of dismantling and removing an asset and restoring the site on which it is located are also included in the historical cost.

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

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.10 Property and Equipment, (cont'd)**

	<b>Useful lives</b>
Fixtures	5 years
Facilities	5 - 7 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**2.11 Government Grants**

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

**2.12 Intangible Assets**

Intangible assets are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses. Software development costs that are directly attributable to internally generated by the Company are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Customer contracts acquired in a business combination are recognized at fair value at the acquisition date. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods.

Goodwill arising from the business combination is measured as the excess of the acquisition cost over the identifiable assets required, the liabilities assumed and contingent liabilities in the fair value of the asset acquired and the liabilities assumed. Goodwill is initially recognized at acquisition cost and carried at cost less accumulated impairment losses.

	<b>Useful lives</b>
Industrial property rights	5 - 10 years
Software	5 years
Membership rights	Indefinite
Other intangible assets	5 years

**2.13 Investment Properties**

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment

### **2.13 Investment Properties, (cont'd)**

losses. The Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

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

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

### **2.15 Financial Liabilities**

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

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

Financial liabilities are classified at fair value through profit or loss when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination, or held for trading, or it is designated at fair value through profit or loss upon initial recognition.

The Company may, at initial recognition, irrevocably designate a financial liability as a financial liability measured at fair value through profit or loss in the following cases:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and KIFRS 1109 *Financial Instruments: Recognition and Measurement* permits the entire hybrid contract to be designated at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any valuation gain or loss arising from changes in fair value, excluding the portion designated as hedge relationships,



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.15 Financial Liabilities, (cont'd)**

recognized in profit or loss. Interest expenses paid for the financial liabilities at fair value through profit or loss are recognized as 'gain or loss on financial liabilities at fair value through profit or loss' included in the 'other income and expenses'.

However, for financial liabilities designated as financial liabilities measured at fair value through profit or loss, the amount of the change in the liability's fair value attributable to changes in its credit risk is recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Other changes in the liability's fair value is recognized in profit or loss. The amount recognized as other comprehensive income is not subsequently reclassified to profit or loss, but rather transferred to retained earnings when financial liabilities are derecognized.

*(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

**2.16 Employee Benefits**

*(a) Post-employment benefits*

The Company 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 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.

While the Company operates a defined contribution as its primary post-employment benefit plan, the Company pays additional amounts to the employees if each employee's investment results on the contributed amount is less than the payment amount under the defined benefit plan, according to the separate agreement with the employees. The Company measures the additional amount payable to the employees in the same manner as the Company measures the defined benefit obligation. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the

**2.16 Employee Benefits, (cont'd)**

period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

*(b) Other long-term employee benefits*

The Company provides long-term employee benefits that are entitled to employees with long-term service. 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 Company recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by an independent qualified actuary.

In addition, the Company entered into an agreement to pay long-term incentives in proportion to the sales performance to the executives and employees, including the key developers, who can contribute to the Company's long-term growth. Other long-term employee benefits are estimated using actuarial valuation method.

*(c) Share-based payments*

Equity-settled share-based payment is recognized at fair value of equity instruments granted, and employee benefit expense is recognized over the vesting period. At the end of each period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

The Company operates a cash-settled share-based payment and a share-based payment with cash alternatives to compensate the difference between the market price and the exercise price of stock options in return for services provided by employees. The total amount to be recognized as an expense during the vesting period is determined based on the fair value of the share options granted taking into account the terms of service. In addition, the fair value of the liability is remeasured at the end of each reporting period and settlement date until the liability is settled, and changes in fair value are recognized in profit or loss.

Moreover, if the Company grants stock options to the employees of its subsidiaries, the Company accounts for them as an additional contribution to the subsidiaries. The fair value of the employee's service, measured based on the fair value of equity investments granted, is accounted for as an increase in investments in subsidiaries over the vesting period with a corresponding amount recognized as other components of equity.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.17 Provisions**

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

**2.18 Dividends**

Dividends declared are recognized as liabilities at a point in time when approved by the institution prescribed by the Commercial Law.

**2.19 Current and Deferred Tax**

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

The income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted as of the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss. Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that The Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, the Company recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.20 Leases**

*(a) Lessor*

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as an expense over the lease term on the same basis as the lease income. The respective leased assets are included in the statement of financial position based on their nature.

*(b) Lessee*

The Company has entered into various leases agreements including leases of offices. Lease contracts are typically entered into for fixed periods of 4 to 6 years, but may have extension options as described in (c) below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is lessee, the Company applies the practical expedient which has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Company determines the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Company should consider a termination penalty in determining the period for which the contract is enforceable.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as of the commencement date
- Amounts expected to be payable by the Company (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Company (the

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.20 Leases, (cont'd)**

lessee) exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of fixtures and vehicles and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

*(c) Extension and termination options*

Extension and termination options are included in a number of property and equipment leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

## **2.21 Segment Reporting**

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Committee that makes strategic decisions.

## **2.22 Earnings Per Share**

The Company presents in the statement of comprehensive income basic and diluted earnings per share attributable to the ordinary shareholders of the Company. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, the Company adjusts profit or loss attributable to ordinary shareholders of the Company, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

## **2.23 Share Capital**

When the Company purchases its ordinary shares, the acquisition cost including direct transaction costs are deducted from equity until the redemption or reissuance of treasury shares. Consideration received on the subsequent or issue of treasury shares is credited to equity.

## **2.24 Business Combination**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with KIFRS 1012 *Income Taxes* and KIFRS 1019 *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered in to replace share-based payment arrangements of the acquiree are measured in accordance with KIFRS 1102 *Share-based Payment* at the acquisition date; and
- Assets that are classified as held for sale in accordance with KIFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**2.24 Business Combination, (cont'd)**

over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of fair value of the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain.

**2.25 Business Combination under Common Control**

The Company applies the book value method to account for business combinations of entities under common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book values as measured on the consolidated financial statements of the ultimate parent company. However in the case where no financial statements are prepared, the assets and liabilities of the acquiree are measured at book value. In addition, the difference between the sum of consolidated book values of the assets and liabilities transferred and accumulated other comprehensive income; and the consideration paid is recognized as capital surplus.

**2.26 Approval of Issuance of the Financial Statements**

The financial statements for the year ended December 31, 2021 were approved for issuance by the Board of Directors on February 10, 2022 and final approval will be obtained from the shareholders at their Annual General Meeting on March 31, 2022.

**3. Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, 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 of significant judgement and assumptions of certain items are included in relevant notes.

*(a) Revenue recognition*

Game revenue consists of (i) revenue from sales of a right to access games and (ii) revenue from sales of items, and is deferred and recognized over the respective expected period of use. The Company estimates the expected period of use by analyzing customer's behavior pattern considering the attributes of the item and game, and it can be changed significantly according to changes of market and customer behavior pattern.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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*(b) Fair value of financial instruments*

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

*(c) Impairment of financial assets*

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

*(d) Net defined benefit liability*

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

*(e) Income taxes*

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

*(f) Leases*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

#### **4. Financial Risk Management**

##### **4.1 Financial Risk Factors**

*(a)* The Company is exposed to market risk, credit risk and liquidity risk (market risk refers to foreign exchange risk, interest rate risk and market risk for equity securities). The Company establishes and operates financial risk management policy in place to monitor and actively manage these risk factors. The Company's financial assets that are under financial risk management are composed of



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**4.1 Financial Risk Factors, (cont'd)**

cash and cash equivalents, trade receivables, other financial instruments at amortized cost, financial instruments at fair value through other comprehensive income and financial instruments at fair value through profit or loss. The Company's financial liabilities under financial risk management are composed of trade and other payables, and borrowings and others.

*(b) Market risk*

A. Foreign exchange risk

The Company is exposed to foreign exchange risk arising from international operations and transactions with different foreign currencies. Most widely used foreign currencies are the US Dollar, Euro, Japanese Yen and others. The risks of foreign currency exposure to receivables and payables are periodically evaluated, managed and reported.

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>			
	<b>USD</b>	<b>EUR</b>	<b>JPY</b>	<b>Others</b>
Financial assets	₩ 1,094,247,616	₩ 2,810,642	₩ 1,871,151	₩ 14,968,364
Financial liabilities	54,828,985	4,093,297	204,882	5,713,728

<i>(in thousands of Korean won)</i>	<b>December 31, 2020</b>			
	<b>USD</b>	<b>EUR</b>	<b>JPY</b>	<b>Others</b>
Financial assets	₩ 1,028,810,574	₩ 4,687,543	₩ 4,010,266	₩ 9,361,486
Financial liabilities	58,821,056	4,527,675	1,394,318	1,800,953

The table below summarizes the impact of weakened/strengthened Korean won on the Company's profit before income tax. The analysis is based on the assumption that Korean won has weakened/strengthened by 5% with all other variables held constant.

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	
	<b>Strengthened</b>	<b>Weakened</b>
Assets denominated in foreign currency	₩ (55,694,889)	₩ 55,694,889
Liabilities denominated in foreign currency	3,242,045	(3,242,045)
Net effect	₩ (52,452,844)	₩ 52,452,844

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**4.1 Financial Risk Factors, (cont'd)**

*(in thousands of Korean won)*

	<b>December 31, 2020</b>	
	<b>Strengthened</b>	<b>Weakened</b>
Assets denominated in foreign currency	₩ (52,343,493)	₩ 52,343,493
Liabilities denominated in foreign currency	3,327,200	(3,327,200)
Net effect	₩ (49,016,293)	₩ 49,016,293

**B. Interest rate risk**

The Company implements certain measures including monitoring interest rate trends periodically and others in order to manage the uncertainties arising from changes in interest rate.

There are no financial assets and liabilities exposed to interest rate risk as of December 31, 2021.

**C. Price risk**

The effects on the separate statement of comprehensive income when price per share of listed share fluctuates by approximately 1% as of December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Changes in other comprehensive income when price per share of listed shares fluctuates by approximately 1%	₩ 724,071	₩ 522,939

**(c) Credit risk**

Credit risk arises in connection with the normal course of transactions and investing activities, where clients or other parties fail to discharge an obligation. Credit risk also arises from cash and cash equivalents, savings and derivative instruments transactions with financial institutions. To mitigate or eliminate certain of those exposures, the Company transacts only with highly rated financial institutions. The maximum amount exposed to credit risks by each financial instrument is its book value.

**A. Trade receivables**

The Company applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses include forward looking information. The loss allowance provision as of December 31, 2021, is determined as follows:

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**4.1 Financial Risk Factors, (cont'd)**

(in thousands of Korean won)	December 31, 2021						Total
	Less than 90 days past due and within due	Less than 180 days past due	Less than 270 days past due	Less than 1 year past due	More than 1 year past due	Impaired receivables	
Expected loss rate	0.12%	77.83%	100%	100%	100%	100%	
Gross carrying amount	₩ 526,497,444	₩ 379,000	₩ 373,440	₩ 339,598	₩ 232,467	₩ 58,771	₩ 527,880,720
Loss allowance provision	(638,545)	(294,969)	(373,440)	(339,598)	(232,467)	(58,771)	(1,937,790)

The amounts recognized in profit or loss within 'impairment loss' in relation to the impairment of trade receivables for the years ended December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)	December 31, 2021	December 31, 2020
Operating costs	₩ 964,174	₩ 2,331,655

**B. Other financial assets at amortized cost**

All of other financial assets at amortized costs other than trade receivables are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term, and thus the loss allowance provision recognized was limited to 12 months expected losses during the year. However, when a significant increase in credit risk is identified, the loss allowance provision for lifetime expected credit losses should be recognized.

The amounts recognized in profit or loss in relation to the impairment of other financial assets at amortized costs for the years ended December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)	December 31, 2021	December 31, 2020
Non-operating expenses	₩ 20,555,462	₩ 26,832,933

**(d) Liquidity risk**

The ultimate responsibility for our liquidity risk management lies with the Board of Directors, which establishes basic policies to properly manage short-term and mid to long-term funding and liquidity management regulations. The Company maintains liquidity risk by maintaining sufficient reserves and borrowing limits, by continually monitoring forecast cash flows and actual cash flows, and by matching the maturity structure of financial assets and financial liabilities.

The table below summarizes the details of the Company's financial liabilities classified into relevant maturity groupings based on the remaining period as of December 31, 2021 and 2020, to the contractual maturity date:

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**4.1 Financial Risk Factors, (cont'd)**

(in thousands of Korean won)	December 31, 2021					
	Book value	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Other payables	₩ 60,839,516	₩ 60,883,708	₩ 59,898,883	₩ 984,825	₩ -	₩ 60,883,708
Accrued expenses	227,482,968	227,482,968	218,337,681	9,145,287	-	227,482,968
Lease liabilities	148,304,121	158,707,956	47,151,882	110,576,044	980,030	158,707,956
Leasehold deposits received	6,819,653	7,244,352	4,500,958	2,527,607	215,787	7,244,352
Financial guarantee liabilities(*)	35,850	35,850	35,850	-	-	35,850
Derivative liabilities	5,127,343	5,127,343	-	-	5,127,343	5,127,343
Financial liabilities at fair value through profit or loss	195,350,040	195,350,040	-	195,350,040	-	195,350,040
	<u>₩ 643,959,491</u>	<u>₩ 654,832,217</u>	<u>₩ 329,925,254</u>	<u>₩ 318,583,803</u>	<u>₩ 6,323,160</u>	<u>₩ 654,832,217</u>

(\*) As financial guarantee contracts can be demanded for immediate payment, the total contract amount is included in the category within 1 year.

(in thousands of Korean won)	December 31, 2020					
	Book value	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Other payables	₩ 49,463,353	₩ 49,463,353	₩ 49,459,309	₩ 4,044	₩ -	₩ 49,463,353
Accrued expenses	144,368,447	144,368,447	129,551,150	14,817,297	-	144,368,447
Lease liabilities	65,132,480	69,899,486	25,703,957	44,195,529	-	69,899,486
Leasehold deposits received	4,439,227	4,735,314	4,490,958	-	244,356	4,735,314
Financial guarantee liabilities(*)	12,236	12,236	12,236	-	-	12,236
Derivative liabilities	774,000	774,000	774,000	-	-	774,000
	<u>₩ 264,189,743</u>	<u>₩ 269,252,836</u>	<u>₩ 209,991,610</u>	<u>₩ 59,016,870</u>	<u>₩ 244,356</u>	<u>₩ 269,252,836</u>

(\*) As financial guarantee contracts can be demanded for immediate payment, the total contract amount is included in the category within 1 year.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**4.2 Capital Risk Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company considers the debt ratio, and it is calculated by dividing the Company's total liabilities by its shareholder equity presented in the separate financial statements.

Debt-to-equity ratios as of December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Debt (A)	₩ 888,975,234	447,908,274
Equity (B)	4,592,079,188	1,200,802,699
Debt-to-equity ratio (A/B)	<u>19.36%</u>	<u>37.30%</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**5. Fair Value Measurement**

(a) The carrying amount and fair value of financial assets and liabilities as of December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)

	December 31, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets measured at fair value</b>				
Current portion of financial assets at fair value through profit or loss	₩ -	₩ -	₩ 12,070,055	₩ 12,070,055
Financial assets at fair value through profit or loss	88,809,217	88,809,217	27,137,332	27,137,332
Financial assets at fair value through other comprehensive income	109,880,530	109,880,530	71,389,744	71,389,744
Derivative assets	844,177	844,177	-	-
<b>Financial assets measured at amortized cost</b>				
Cash and cash equivalents	2,832,057,949	2,832,057,949	661,654,353	661,654,353
Trade receivables	525,942,930	525,942,930	460,025,815	460,025,815
Other current financial assets	66,484,552	66,484,552	69,462,091	69,462,091
Other non-current financial assets	36,425,377	36,425,377	24,137,090	24,137,090
<b>Other financial assets</b>				
Current lease receivables	3,686,480	3,686,480	718,049	718,049
Non-current lease receivables	5,587,475	5,587,475	1,147,440	1,147,440
	<u>₩ 3,669,718,687</u>	<u>₩ 3,669,718,687</u>	<u>₩ 1,327,741,969</u>	<u>₩ 1,327,741,969</u>

(in thousands of Korean won)

	December 31, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities measured at fair value</b>				
Financial liabilities at fair value through profit or loss	₩ 195,350,040	₩ 195,350,040	₩ -	₩ -
Current derivative liabilities	-	-	774,000	774,000
Derivative liabilities	5,127,343	5,127,343	-	-
<b>Financial liabilities measured at amortized cost</b>				
Other current financial liabilities	282,466,385	282,466,385	179,026,739	179,026,739
Other non-current financial liabilities	12,711,601	12,711,601	15,040,173	15,040,173
<b>Other financial liabilities</b>				
Current lease liabilities	46,324,976	46,324,976	25,022,156	25,022,156
Non-current lease liabilities	101,979,145	101,979,145	40,110,324	40,110,324
	<u>₩ 643,959,490</u>	<u>₩ 643,959,490</u>	<u>₩ 259,973,392</u>	<u>₩ 259,973,392</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**5. Fair Value Measurement, (cont'd)**

*(b) Fair value measurement of assets and liabilities measured at fair value*

A. Fair value hierarchy and fair value measurement

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value measurement is to estimate 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 under current market conditions. When measuring fair value using valuation techniques, the Company maximizes the use of market information and minimizes the use of unobservable inputs.

The Company categorize asset and liabilities measured at fair value by fair value hierarchy levels, and defined levels are as follows:

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

The fair value of financial instruments traded in active markets is based on quoted prices at the end of reporting period. It is regarded as an active market if quoted prices are readily and regularly available from exchange markets, dealers, brokers, industry groups, pricing services, or regulatory agencies, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price used for financial assets held by the Company is the closing price as of the end of reporting period. These instruments are categorized in 'Level 1'. Instruments included in 'Level 1' are classified as financial assets at fair value through other comprehensive income.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The fair value of assets and liabilities is determined by using an internal valuation model developed by the Company or by an independent external pricing service. The Company uses discounted cash flow techniques and establishes an assumption based on the market condition as of the end of the reporting period. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in 'Level 2'.

If one or more of the significant inputs is not based on observable market data, the instrument is included in 'Level 3'. Assets and liabilities included in 'Level 3' use cost-based approach, Net asset valuation model, binomial model.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**5. Fair Value Measurement, (cont'd)**

B. Financial assets and liabilities measured at fair value

Fair value hierarchy classifications of the financial assets and liabilities that are measured at fair value as of December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)	December 31, 2021			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss	₩ -	₩ -	₩ 88,809,217	₩ 88,809,217
Financial assets at fair value through other comprehensive income	99,871,898	-	10,008,632	109,880,530
Derivative assets	-	-	844,177	844,177
<b>Financial liabilities measured at fair value</b>				
Financial liabilities at fair value through profit or loss	₩ -	₩ -	₩ 195,350,040	₩ 195,350,040
Derivative liabilities	-	-	5,127,343	5,127,343

(in thousands of Korean won)	December 31, 2020			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Current portion of financial assets at fair value through profit or loss	₩ -	₩ 12,070,055	₩ -	₩ 12,070,055
Financial assets at fair value through profit or loss	-	-	27,137,332	27,137,332
Financial assets at fair value through other comprehensive income	68,989,344	-	2,400,400	71,389,744
<b>Financial liabilities measured at fair value</b>				
Derivative liabilities	₩ -	₩ 774,000	₩ -	₩ 774,000



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**5. Fair Value Measurement, (cont'd)**

Valuation techniques and inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy as of December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)	Fair value			Level	Valuation techniques		Inputs	
	December 31, 2021	December 31, 2020			December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Financial assets at fair value through profit or loss	₩ 88,809,217	₩ 27,137,332		3	Net asset valuation model, cost-based approach <sup>1</sup> and binomial model(T-F)		Fair value of the investee's assets, acquisition cost, annualized variability of stock prices and others	
Financial assets at fair value through other comprehensive	10,008,632	2,400,400		3	Cost-based approach <sup>1</sup>		Acquisition cost	
Derivative assets	844,177	-		3	Binomial model		Fair value of the investee's assets, annualized variability of stock prices and others	
Financial liabilities at fair value through profit or loss	195,350,040	-		3	Present value valuation <sup>2</sup>		Discount rate considering credit rating and others	
Derivative liabilities	5,127,343	-		3	Binomial model		Fair value of the investee's assets, Discount rate considering credit rating and others	

<sup>1</sup> For financial assets at fair value through profit or loss held by the Company, the costs are deemed the best estimate of the fair value, since (i) the Company cannot obtain sufficient information for measuring fair value; and (ii) there are no significant changes in the value of investee during the past or the current year.

<sup>2</sup> The discounted cash flow method was applied to evaluate only the cash flows included in the contract terms.

**C. Valuation processes for fair value measurements categorized as Level 3**

Each finance department of the Company's segments is responsible for fair value measurements, which include fair value measurements categorized as Level 3, for the purpose of financial reporting. The department periodically reports the fair value valuation process and its outcome on reporting schedule at the end of each reporting period.

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

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**5. Fair Value Measurement, (cont'd)**

The results of the sensitivity analysis for the effect on profit or loss from changes in inputs for each financial instrument classified as Level 3 for the years ended December 31, 2021, and 2020 are as follows:

(in thousands of Korean won)	December 31, 2021						
	Favorable changes				Unfavorable changes		
	Profit (loss)		Equity		Profit (loss)      Equity		
Financial assets at fair value through profit or loss	₩	619,517	₩	-	₩	(546,990)	-
Derivative assets		145,440		-		(160,041)	-
Financial liabilities at fair value through profit or loss		2,286,293		-		(2,320,237)	-
Derivative liabilities		145,536		-		(147,319)	-

(in thousands of Korean won)	December 31, 2020							
	Favorable changes				Unfavorable changes			
	Profit (loss)		Equity		Profit (loss)		Equity	
Financial assets at fair value through profit or loss	₩	433,218	₩	-	₩	(392,059)	₩	-

Sensitivity analysis for derivatives related to equity instruments were performed by increasing and decreasing correlation between the stock price and the variability by 10%.

*(c) Offsetting financial assets and financial liabilities*

The Company recognizes both trade receivables from and payables to platform providers, which satisfy the criteria for offsetting described in KIFRS 1032 paragraph 42. Therefore, the trade receivables are presented in net basis in the financial statements of the Company. Trade payables which are offset with trade receivables amount to ₩ 13,933 million (December 31, 2020: ₩ 12,380 million) as of December 31, 2021.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**6. Financial Instruments by Category**

**6.1 Carrying Amounts of Financial Instruments by Category**

Carrying amounts of financial assets and liabilities by category as of December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Financial assets</b>		
Financial assets at fair value:		
Current financial assets at fair value through profit or loss	₩ -	₩ 12,070,055
Financial assets at fair value through profit or loss	88,809,217	27,137,332
Financial assets at fair value through other comprehensive income	109,880,530	71,389,744
Derivative assets	844,177	-
Financial assets at amortized cost:		
Cash and cash equivalents	2,832,057,949	661,654,353
Trade receivables	525,942,930	460,025,815
Other current financial assets	66,484,552	69,462,091
Other non-current financial assets	36,425,377	24,137,090
Other financial assets:		
Current lease receivables	3,686,480	718,049
Non-current lease receivables	5,587,475	1,147,440
	<u>₩ 3,669,718,687</u>	<u>₩ 1,327,741,969</u>

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Financial liabilities</b>		
Financial assets at fair value:		
Financial liabilities at fair value through profit or loss	₩ 195,350,040	₩ -
Current derivative liabilities	-	774,000
Derivative liabilities	5,127,343	-
Financial liabilities at amortized cost:		
Other current financial liabilities	282,466,385	179,026,739
Other non-current financial liabilities	12,711,601	15,040,173
Other financial liabilities:		
Current lease liabilities	46,324,976	25,022,156
Non-current lease liabilities	101,979,145	40,110,324
	<u>₩ 643,959,490</u>	<u>₩ 259,973,392</u>

Fair value of financial instruments is equal to the carrying amount, except for equity instruments that do not have a quoted price in an active market and whose fair value cannot be measured reliably.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**6.2 Net Gains or Losses by Category of Financial Instruments**

Net gains or losses on each category of financial instruments for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
Dividends income:				
Financial assets at fair value through profit or loss	₩	229,827	₩	-
Interest income/expenses:				
Financial assets at amortized cost	₩	11,486,266	₩	1,561,505
Financial liabilities at amortized cost		(406,874)		(1,986,445)
Other financial assets		210,922		23,120
Other financial liabilities		(5,307,912)		(2,985,332)
Gain on disposal:				
Financial assets at fair value through profit or loss		891,732		71,566
Current derivative assets		253,841		-
Gain (loss) on valuation:				
Financial assets at fair value through profit or loss		20,226,300		438,073
Financial assets at fair value through other comprehensive income		22,657,183		37,730,822
Financial liabilities at fair value through profit or loss		(1,499,524)		(169,000)
Derivative assets		(234,972)		-
Derivative liabilities		(436,042)		-
Net impairment loss:				
Trade receivables		(964,174)		(2,331,655)
Financial assets at amortized cost		(20,555,462)		(33,418,261)
Net gain on foreign currency translation		104,342,586		(16,942,572)
	₩	<u>130,893,697</u>	₩	<u>(18,008,179)</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**7. Trade Receivables, Other Financial Assets and Other Assets**

Details of trade receivables, other financial assets and other assets as of December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)

	December 31, 2021			December 31, 2020
	Gross amount	Provision for impairment	Net amount	Net amount
<b>Trade receivables</b>	₩ 527,880,720	₩ (1,937,790)	₩ 525,942,930	₩ 460,025,815
<b>Other assets (current)</b>				
Financial assets:				
Short-term financial instruments	28,200,958	-	28,200,958	38,210,960
Short-term loans	18,536,622	-	18,536,622	16,198,623
Other receivables	14,345,003	(698,335)	13,646,668	12,006,065
Accrued income	1,547,729	(738,303)	809,426	1,187,145
Deposits	5,290,878	-	5,290,878	1,859,298
Lease receivables	3,686,480	-	3,686,480	718,049
	71,607,670	(1,436,638)	70,171,032	70,180,140
Advanced payments	7,493,215	-	7,493,215	6,830,110
Prepaid expenses	31,223,230	-	31,223,230	31,184,690
	38,716,445	-	38,716,445	38,014,800
	110,324,115	(1,436,638)	108,887,477	108,194,940
<b>Other assets (non-current)</b>				
Financial assets:				
Long-term loans	88,228,459	(78,824,941)	9,403,518	11,066,021
Long-term financial instruments	1,787,649	-	1,787,649	-
Deposits	25,234,210	-	25,234,210	13,071,070
Lease receivables	5,587,475	-	5,587,475	1,147,440
	120,837,793	(78,824,941)	42,012,852	25,284,531
Advanced payments	4,658,866	-	4,658,866	4,861,376
	125,496,659	(78,824,941)	46,671,718	30,145,907
	₩ 763,701,494	₩ (82,199,369)	₩ 681,502,125	₩ 598,366,662

(in thousands of Korean won)

	December 31, 2021			December 31, 2020
	Gross amount	Provision for impairment	Net amount	Net amount
Third party receivables	₩ 662,077,994	₩ (17,888,901)	₩ 644,189,093	₩ 247,826,153
Related party receivables	101,623,500	(64,310,468)	37,313,032	350,540,509
	₩ 763,701,494	₩ (82,199,369)	₩ 681,502,125	₩ 598,366,662

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**7. Trade Receivables, Other Financial Assets and Other Assets, (cont'd)**

Movements in the provision for impairment for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>				
	<b>Beginning</b>	<b>Written-off</b>	<b>Provision (reversal)</b>	<b>Other</b>	<b>Ending</b>
<b>Trade receivables</b>	₩ 1,102,267	₩ (128,651)	₩ 964,174	₩ -	₩ 1,937,790
<b>Other assets (current)</b>					
Financial assets:					
Other receivables	730,299	(223,075)	191,111	-	698,335
Accrued income	928,590	(66,492)	(11,246)	(112,549)	738,303
<b>Other assets (non-current)</b>					
Financial assets:					
Long-term loans	64,238,505	(5,901,710)	20,375,597	112,549	78,824,941
	<u>₩ 66,999,661</u>	<u>₩ (6,319,928)</u>	<u>₩ 21,519,636</u>	<u>₩ -</u>	<u>₩ 82,199,369</u>

<i>(in thousands of Korean won)</i>	<b>December 30, 2020</b>				
	<b>Beginning</b>	<b>Decrease due to split-off</b>	<b>Increase due to business combination</b>	<b>Provision (reversal)</b>	<b>Ending</b>
<b>Trade receivables</b>	₩ 5,470,214	₩ (7,813,002)	₩ 1,113,399	₩ 2,331,656	₩ 1,102,267
<b>Other assets (current)</b>					
Financial assets:					
Other receivables	5,175,548	(7,104,291)	417,707	2,241,335	730,299
Accrued income	911,707	-	10,186	6,697	928,590
Other assets:					
Advanced payments	161,410	-	-	(161,410)	-
<b>Other assets (non-current)</b>					
Financial assets:					
Long-term loans	36,845,345	-	2,646,850	24,746,310	64,238,505
	<u>₩ 48,564,224</u>	<u>₩ (14,917,293)</u>	<u>₩ 4,188,142</u>	<u>₩ 29,164,588</u>	<u>₩ 66,999,661</u>

As of December 31, 2021 and 2020, fair values of trade receivables, other current assets and other non-current assets are equal to their book value. The maximum exposure of trade and other receivables to credit risk is the book value of receivables mentioned above.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**8. Restricted Financial Instruments**

Financial instruments which are restricted in use as of December 31, 2021 and 2020, are summarized as follows:

<i>(in thousands of Korean won)</i>		<b>December 31,</b>		<b>December 31,</b>	<b>Restriction</b>
		<b>2021</b>		<b>2020</b>	
<b>Short-term financial instruments</b>	Woori Bank	₩ 4,490,958	₩	4,490,958	Provided as collateral <sup>1</sup>
<b>Long-term financial instruments</b>	Shinhan Bank	1,787,649		-	Provided as collateral <sup>1</sup>
		<u>₩ 6,278,607</u>	<u>₩</u>	<u>4,490,958</u>	

<sup>1</sup> Pledged as a collateral for leasehold deposits received (Note 18).

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**9. Other Liabilities**

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

*(in thousands of Korean won)*

	December 31, 2021	December 31, 2020
<b>Other liabilities (current)</b>		
Financial liabilities:		
Other payables	₩ 59,889,460	₩ 49,463,354
Accrued expenses <sup>1</sup>	218,337,681	129,551,149
Lease liabilities	46,324,976	25,022,156
Financial guarantee liabilities	12,892	12,236
Current leasehold deposits received	4,226,352	-
	<u>328,791,361</u>	<u>204,048,895</u>
Contract liabilities and other liabilities:		
Withholdings	10,219,857	10,224,702
Unearned revenue	62,346,648	69,788,227
Advance receipts	818,725	277,108
Leasehold deposits received	-	4,216,351
	<u>73,385,230</u>	<u>84,506,388</u>
<b>Other liabilities (non-current)</b>		
Financial liabilities:		
Long-term other payable	950,056	-
Long-term accrued expenses <sup>2</sup>	9,145,287	14,817,298
Leasehold deposits received	2,593,302	222,875
Lease liabilities	101,979,145	40,110,324
Financial guarantee liabilities	22,956	-
	<u>114,690,746</u>	<u>55,150,497</u>
	<u>₩ 516,867,337</u>	<u>₩ 343,705,780</u>

<sup>1</sup> Includes employee benefit liabilities amounting to ₩ 163,847,735 thousand (2020: ₩ 78,379,349 thousand).

<sup>2</sup> Includes employee benefit liabilities amounting to ₩ 9,145,287 thousand (2020: ₩ 14,817,297 thousand).



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**10. Financial Assets at Fair Value through Profit or Loss**

Details of financial assets at fair value through profit or loss as of December 31, 2021 and 2020, are as follows:

(in thousands of  
Korean won)

	December 31, 2021			
	Acquisition cost	Accumulated gain (loss) on valuation	Book value	Non-current
Convertible bonds:				
Super Awesome Inc.	₩ 500,000	₩ (500,000)	₩ -	₩ -
Beneficiary certificates:				
BITKRAFT Esports Ventures Fund I, LP	1,045,815	(87,175)	958,640	958,640
MAKERS FUND LP	4,402,513	10,699,348	15,101,861	15,101,861
ESDF INTERNATIONAL HOLDINGS LLC.	513,328	(513,328)	-	-
LAGUNA Young Entrepreneur Fund No. 1	1,500,000	(630)	1,499,370	1,499,370
KNET VALUE-UP Venture Investment	4,878,224	9,129,311	14,007,535	14,007,535
KJ& The 1 <sup>st</sup> Game Fund	1,000,000	-	1,000,000	1,000,000
Kowloon Nights Fund LP	5,534,046	175,311	5,709,357	5,709,357
Lumikai Fund I	771,034	9,715	780,749	780,749
Progression Fund I, L.P.	433,813	10,750	444,563	444,563
WindWalk Games Corp.	895,125	-	895,125	895,125
NPTK Emerging Asia Fund 1 Private Equity Fund	1,111,200	-	1,111,200	1,111,200
Hashed Venture Fund 1	2,000,000	-	2,000,000	2,000,000
Makers Fund II LP	1,597,108	88,016	1,685,124	1,685,124
Future Innovation Private Equity Joint Venture Company 3	18,106,400	427,239	18,533,639	18,533,639
Impact Collective Korea Fund	500,000	-	500,000	500,000
BITKRAFT Ventures Fund II, L.P.	344,220	11,430	355,650	355,650
Hashed Venture Fund 2	800,000	-	800,000	800,000
Intudo Ventures III, LP	292,925	3,450	296,375	296,375
China Ventures Fund II, L.P.	11,537,145	78,263	11,615,408	11,615,408
Redeemable convertible preference shares				
Hidden Sequence Co., Ltd.	2,976,787	1,106,942	4,083,729	4,083,729
21 Studios, Inc	999,999	280,766	1,280,765	1,280,765
Scatter Lab Co., Ltd.	1,000,013	-	1,000,013	1,000,013
Thingsflow Inc.	5,894,925	(744,811)	5,150,114	5,150,114
	₩ 68,634,620	₩ 20,174,597	₩ 88,809,217	₩ 88,809,217

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**10. Financial Assets at Fair Value through Profit or Loss, (cont'd)**

(in thousands of  
Korean won)

	December 31, 2020				
	Acquisition cost	Accumulated gain (loss) on valuation	Book value	Current	Non-current
Convertible bonds:					
Super Awesome Inc.	₩ 500,000	₩ (500,000)	₩ -	₩ -	₩ -
Beacon Studio Co., Ltd.	500,000	(500,000)	-	-	-
Moloco, Inc.	1,107,100	-	1,107,100	-	1,107,100
Beneficiary certificates:					
BITKRAFT Esports Ventures Fund I, LP	879,585	-	879,585	-	879,585
MAKERS FUND LP	5,239,205	-	5,239,205	-	5,239,205
ESDF INTERNATIONAL HOLDINGS LLC.	513,328	(513,328)	-	-	-
Monster Squad Entertainment, Inc.	2,238,600	(2,238,600)	-	-	-
LAGUNA Young Entrepreneur Fund No. 1	1,500,000	(630)	1,499,370	-	1,499,370
KNET VALUE-UP Venture Investment	4,990,000	799,257	5,789,257	-	5,789,257
KJ& The 1 <sup>st</sup> Game Fund	500,000	-	500,000	-	500,000
Kowloon Nights Fund LP	4,411,146	(694,773)	3,716,373	-	3,716,373
Lumikai Fund I	478,559	-	478,559	-	478,559
Progression Fund I, L.P.	287,000	-	287,000	-	287,000
WindWalk Games Corp.	895,125	-	895,125	-	895,125
NPTK Emerging Asia Fund 1 Private Equity Fund	1,111,200	-	1,111,200	-	1,111,200
Hashed Venture Fund 1	800,000	-	800,000	-	800,000
Money market trusts and others	12,244,692	(174,637)	12,070,055	12,070,055	-
Redeemable convertible preference shares					
SUPERBLOKE Corporation	200,003	(200,003)	-	-	-
Hidden Sequence Co., Ltd.	2,976,787	732,654	3,709,441	-	3,709,441
21 Studios, Inc	999,999	125,118	1,125,117	-	1,125,117
Ordinary shares					
SUPERBLOKE Corporation	242,358	(242,358)	-	-	-
	<u>₩ 42,614,687</u>	<u>₩ (3,407,300)</u>	<u>₩ 39,207,387</u>	<u>₩ 12,070,055</u>	<u>₩ 27,137,332</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**11. Financial Assets at Fair Value through Other Comprehensive Income**

Details of financial assets at fair value through profit or loss as of December 31, 2021 and 2020, are as follows:

*(in thousands of  
Korean won)*

	<b>December 31, 2021</b>			
	<b>Acquisition cost</b>	<b>Accumulated loss on valuation</b>	<b>Book value</b>	<b>Non-current</b>
Unlisted equity securities:				
Bunch. Live	₩ 2,380,400	₩ -	₩ 2,380,400	₩ 2,380,400
APPETIZER GAMES CO., LTD.	20,000	-	20,000	20,000
AccelByte Inc.	1,132,399	53,100	1,185,499	1,185,499
SVA ZEPETO METAVERSE I PTE. LTD	5,000,000	237,233	5,237,233	5,237,233
Moloco Inc.	1,107,100	78,400	1,185,500	1,185,500
Listed equity securities:				
Kakao Games Corp.	10,000,121	48,573,849	58,573,970	58,573,970
Neptune Company	10,029,497	31,268,431	41,297,928	41,297,928
	<u>₩ 29,669,517</u>	<u>₩ 80,211,013</u>	<u>₩ 109,880,530</u>	<u>₩ 109,880,530</u>

*(in thousands of  
Korean won)*

	<b>December 31, 2020</b>			
	<b>Acquisition cost</b>	<b>Accumulated loss on valuation</b>	<b>Book value</b>	<b>Non-current</b>
Unlisted equity securities:				
Bunch. Live	₩ 2,380,400	₩ -	₩ 2,380,400	₩ 2,380,400
APPETIZER GAMES CO., LTD.	20,000	-	20,000	20,000
Listed equity securities:				
Kakao Games Corp.	10,000,121	19,608,699	29,608,820	29,608,820
Neptune Company	10,029,497	29,351,027	39,380,524	39,380,524
	<u>₩ 22,430,018</u>	<u>₩ 48,959,726</u>	<u>₩ 71,389,744</u>	<u>₩ 71,389,744</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**12. Investments in Subsidiaries and Associates**

Details of investments in subsidiaries and associates as of December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)

(in thousands of Korean won)	Ownership interest	Location	December 31, 2021			December 31, 2020
			Acquisition cost	Net asset value	Carrying amount	Carrying amount
Subsidiaries						
Rising Wings, Inc.	100%	Domestic	₩ 14,994,742	₩ (42,635,805)	₩ -	₩ -
En Masse Entertainment, Inc.	100%	United States	-	(39,400,522)	-	-
KRAFTON Ventures, Inc.	100%	United States	2,437,000	2,458,123	2,437,000	2,437,000
PUBG Shanghai	100%	China	2,229,940	11,166,867	2,229,940	2,167,600
PUBG Santa Monica, Inc.	100%	United States	1,131,658	10,606,557	1,131,658	851,127
PUBG Amsterdam B.V.	100%	Netherland	12,823,359	10,671,751	-	-
Striking Distance Studios, Inc.	100%	United States	10,901,762	20,063,817	10,901,762	9,020,711
PUBG Japan Corporation	100%	Japan	18,702	1,713,610	-	-
KP PTE. LTD.	100%	Singapore	1	(40,896)	1	1
Striking Distance Studios Spain, S.L.	100%	Spain	1,348,493	1,697,189	1,348,493	1,348,493
Bluehole Studio, Inc.	100%	Domestic	1,147,452	(19,861,181)	-	1,005,541
PUBG Entertainment, Inc.	100%	United States	-	(859,835)	-	-
PUBG INDIA PRIVATE LIMITED	99.99%	India	2,435,256	2,190,209	2,435,256	-
Between US Co. Ltd. <sup>1</sup>	100%	Domestic	10,500,000	2,795,971	2,845,639	-
Dream Motion, Inc. <sup>1</sup>	100%	Domestic	37,678,073	6,380,476	19,651,628	-
SDS Interactive Canada Inc. <sup>1</sup>	100%	Canada	-	48,579	-	-
Thingsflow Inc. <sup>1</sup>	81.49%	Domestic	8,768,700	(4,674,461)	8,649,651	-
Tiptoe Games, Inc. <sup>1</sup>	100%	Domestic	100,000	92,045	100,000	-
Krafton Global GP, LLC <sup>1</sup>	100%	United States	-	-	-	-
Krafton Global, LP <sup>1</sup>	100%	United States	-	(98,399)	-	-
Unknown Worlds Entertainment, Inc. <sup>1</sup>	100%	United States	844,670,858	59,400,467	844,670,858	-
			951,185,996	21,714,562	896,401,886	16,830,473

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**12. Investments in Subsidiaries and Associates, (cont'd)**

**Associates**

Shinhan Alpha REIT Co., Ltd. <sup>2</sup>	1.91%	Domestic	5,620,000	4,073,868	5,620,000	5,620,000
1Up Ventures, L.P	33.42%	United States	8,739,250	8,193,814	8,739,250	7,803,500
Hidden Sequence Co., Ltd. <sup>2</sup>	13.57%	Domestic	2,022,872	(464,760)	2,022,872	2,022,872
Smart Krafton-BonAngels Fund <sup>3</sup>	54.55%	Domestic	10,200,000	10,010,521	10,200,000	3,600,000
Nodwin Gaming Private Limited <sup>2,4</sup>	15.00%	India	25,615,890	3,550,135	25,615,890	-
Un Note Co., Ltd. <sup>2,4</sup>	12.57%	Domestic	1,478	1,414,377	1,478	-
Loco Interactive Pte Limited <sup>2,4</sup>	12.38%	India	3,407,400	55,761	3,407,400	-
Nasadiya Technologies Private Limited <sup>2,4</sup>	17.10%	India	52,238,006	8,184,343	52,238,006	-
Mirae Asset Maps General Private Real Estate Investment Trust 66 <sup>3,4</sup>	74.36%	Domestic	290,000,000	289,823,703	290,000,000	-
			397,844,896	324,841,762	397,844,896	19,046,372
			₩ 1,349,030,892	₩ 346,556,324	₩ 1,294,246,782	₩ 35,876,845

<sup>1</sup> During the years ended December 31, 2021, the entity was included in the scope of subsidiaries due to new investments made by the Company

<sup>2</sup> Although the Company holds less than 20%, the Company classified the entities as associates, as the Company is able to exercise significant influence over the entity.

<sup>3</sup> Although the Company holds more than 50%, the Company classified it as investments in associates, as the Company does not satisfy the requirement of having control and is only able to exercise significant influence over the entity.

<sup>4</sup> During the years ended December 31, 2021, the entity was included in the scope of associates due to new investments made by the Company.

Changes in investments in subsidiaries and associates for the years ended December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)

	December 31, 2021	December 31, 2020
Beginning	₩ 35,876,845	₩ 115,658,943
Decrease due to merger	-	(109,576,354)
Increase due to split-off	-	1,000,000
Acquisition	1,283,938,232	8,059,872
Grant of share options	1,491,680	33,580,376
Impairment loss <sup>1</sup>	(27,059,975)	(12,845,992)
Ending	₩ 1,294,246,782	₩ 35,876,845

<sup>1</sup> The Company recognized impairment loss since the recoverable amount of investments in subsidiaries was less than their carrying amount.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**12. Investments in Subsidiaries and Associates, (cont'd)**

Summarized financial information of investments in subsidiaries and associates as at and for the years ended December 31, 2021 and 2020, are as follows:

(in thousands of  
Korean won)

(in thousands of Korean won)		December 31, 2021					
		Total assets	Total liabilities	Revenue	Profit (loss) for the year	Total comprehensive income (loss) for the year	
<b>Subsidiaries</b>							
RisingWings Inc.	₩	9,804,394	₩ 52,440,199	₩ 18,585,468	₩ (24,812,697)	₩ (24,813,087)	
En Masse Entertainment, Inc.		10,851,729	50,252,251	(2,473)	(4,281,723)	(7,183,937)	
KRAFTON Venture, Inc.		2,458,123	-	-	(9,261)	289,822	
PUBG Shanghai		17,671,569	6,504,702	15,742,019	3,563,027	4,376,926	
PUBG Santa Monica, Inc.		28,730,348	18,123,791	32,920,220	2,900,707	3,338,897	
PUBG Amsterdam B.V.		23,735,877	13,064,126	24,296,089	6,900,749	6,856,330	
Striking Distance Studios, Inc.		46,066,733	26,002,916	76,528,307	636,358	1,786,576	
PUBG Japan Corporation		6,470,711	4,757,101	8,111,904	(1,121,152)	(1,140,165)	
KP PTE. LTD.		624,515	665,411	-	12,136	8,174	
Striking Distance Studios Spain, S.L.		3,922,879	2,225,690	2,740,525	(132,407)	(126,724)	
Bluehole Studio, Inc.		13,334,336	33,195,517	19,724,992	(25,486,435)	(26,739,839)	
PUBG Entertainment, Inc.		948	860,783	-	(532,403)	(576,872)	
PUBG INDIA PRIVATE LIMITED		2,998,012	807,584	2,923,982	(808,565)	(813,463)	
Between US Co. Ltd.		3,969,941	1,173,970	1,525,837	(7,796,281)	(7,796,281)	
Dream Motion, Inc.		8,373,073	1,992,597	4,776,066	859,845	899,420	
SDS Interactive Canada Inc.		534,376	485,797	534,376	48,580	48,580	
Thingsflow Inc.		6,463,407	12,199,833	2,631,610	(1,035,050)	(1,111,959)	
Tiptoe Games, Inc.		102,557	10,512	-	(7,954)	(7,954)	
Krafton Global GP, LLC		-	-	-	-	-	
Krafton Global, LP		1,576,787	1,675,186	-	(94,989)	(98,399)	
Unknown Worlds Entertainment, Inc.		111,399,426	51,998,959	6,361,014	2,967,719	2,698,898	

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**12. Investments in Subsidiaries and Associates, (cont'd)**

**Associates**

Shinhan Alpha REIT Co., Ltd. <sup>1</sup>	1,905,517,475	1,561,690,684	62,105,548	7,038,375	7,038,375
1Up Ventures, L.P	24,528,959	11,262	-	(986,133)	704,684
Hidden Sequence Co., Ltd.	10,973,631	14,298,708	18,657,593	(406,615)	(406,615)
Smart Krafton-BonAngels Fund	18,467,226	114,605	-	(329,842)	(329,842)
Nodwin Gaming Private Limited	34,820,528	11,155,853	11,261,080	194,351	(176,063)
Un Note Co., Ltd.	15,514,978	4,261,322	9,679,601	8,778,745	8,778,745
Loco Interactive Pte Limited	10,391,509	8,863,950	37,966	(5,451,525)	(9,103,323)
Nasadiya Technologies Private Limited	52,644,240	4,783,533	495,614	(7,942,534)	(8,242,252)
Mirae Asset Maps General Private Real Estate Investment Trust	390,024,335	261,424	-	(237,089)	(237,089)

<sup>1</sup> The amount of profit and loss-related information of Shinhan Alpha REIT Co., Ltd., is adjusted from January 1, 2021 to December 31, 2021

(in thousands of  
Korean won)

**December 31, 2020**

<i>Korean won)</i>							Total comprehensive income (loss) for the year			
	Total assets		Total liabilities		Revenue		Profit (loss) for the year			
<b>Subsidiaries</b>										
RisingWings Inc.	₩	5,514,522	₩	26,557,324	₩	24,467,588	₩	(6,386,843)	₩	(6,993,187)
Red Sahara Studio Co., Ltd.		3,109,617		20,627,365		4,761,285		(3,697,349)		(3,784,880)
En Masse Entertainment, Inc.		15,286,572		47,574,408		8,920,145		(16,819,196)		(14,424,955)
KRAFTON Venture, Inc.		2,168,301		-		-		(8,350)		(268,699)
PUBG Shanghai		11,793,455		6,292,088		6,709,614		(218,048)		(171,082)
PUBG Santa Monica, Inc.		29,090,324		24,730,476		25,840,528		2,532,468		2,236,715
PUBG Amsterdam B.V.		19,364,403		18,978,766		20,249,819		(6,618,527)		(6,344,779)
Striking Distance Studios, Inc.		29,073,681		17,489,697		44,361,818		3,026,699		2,006,624
PUBG Japan Corporation		6,567,225		5,193,639		8,340,824		(37,908)		(48,795)
KP PTE. LTD.		545,602		594,672		-		(29,784)		(26,075)
Striking Distance Studios Spain, S.L.		2,824,727		1,345,147		1,616,581		134,032		126,994
Bluehole Studio, Inc.		28,600,648		27,558,073		3,942,811		(39,804)		37,034

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**12. Investments in Subsidiaries and Associates, (cont'd)**

**Associates**

Shinhan Alpha REIT Co., Ltd. <sup>1</sup>	1,358,107,739	1,008,025,563	55,525,192	7,855,461	7,855,461
1Up Ventures, L.P	13,755,015	10,521	-	(689,651)	(1,582,075)
Hidden Sequence Co., Ltd.	6,606,132	9,524,594	3,398,075	(1,046,915)	(1,046,915)
Smart Krafton-BonAngels Fund	6,600,687	18,223	-	(17,536)	(17,536)

<sup>1</sup> The amount of profit and loss-related information of Shinhan Alpha REIT Co., Ltd., is adjusted from January 1, 2020 to December 31, 2020

**13. Property and Equipment and Leases**

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

(in thousands of Korean won)	December 31, 2021				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Acquisition cost	₩ 32,668,950	₩ 43,094,647	₩ 215,052,094	₩ 15,711,218	₩ 306,526,909
Accumulated depreciation	(12,536,639)	(13,583,594)	(77,983,622)	-	(104,103,855)
Government grants <sup>1</sup>	-	(1,279,581)	-	-	(1,279,581)
	₩ 20,132,311	₩ 28,231,472	₩ 137,068,472	₩ 15,711,218	₩ 201,143,473

<sup>1</sup> There are no unfulfilled conditions or other contingencies related to the government grants as of December 31, 2021.

(in thousands of Korean won)	December 31, 2020				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Acquisition cost	₩ 17,773,301	₩ 21,694,550	₩ 106,369,991	₩ 22,898,371	₩ 168,736,213
Accumulated depreciation	(7,895,347)	(9,748,521)	(44,424,296)	-	(62,068,164)
Government grants <sup>1</sup>	-	(1,145,431)	-	-	(1,145,431)
	₩ 9,877,954	₩ 10,800,598	₩ 61,945,695	₩ 22,898,371	₩ 105,522,618

<sup>1</sup> There are no unfulfilled conditions or other contingencies related to the government grants as of December 31, 2020.



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**13. Property and Equipment and Leases, (cont'd)**

Changes in property and equipment for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of  
Korean won)*

	December 31, 2021				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Beginning	₩ 9,877,954	₩ 10,800,598	₩ 61,945,696	₩ 22,898,371	₩ 105,522,619
Acquisitions	15,550,718	24,332,778	105,925,814	3,161,764	148,971,074
Transfers <sup>1</sup>	-	174,000	8,668,000	(10,348,917)	(1,506,917)
Disposals	(276,376)	(1,567,944)	(18,690)	-	(1,863,010)
Depreciation	(5,019,985)	(5,507,961)	(39,452,347)	-	(49,980,293)
Ending	₩ 20,132,311	₩ 28,231,471	₩ 137,068,473	₩ 15,711,218	₩ 201,143,473

<sup>1</sup> Construction in-progress of ₩ 174,000 thousand, ₩ 1,775,563 thousand and ₩ 8,399,354 thousand is reclassified to facilities, intangible assets and investment properties, respectively, for the years ended December 31, 2021.

*(in thousands of  
Korean won)*

	December 31, 2020				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Beginning	₩ 6,437,756	₩ 10,214,891	₩ 56,745,292	₩ -	₩ 73,397,939
Decrease due to split-off	(900,860)	-	-	(21,839)	(922,699)
Increase due to business combination	4,886,301	3,325,494	19,985,234	1,516,404	29,713,433
Acquisitions	1,795,434	100,916	3,410,215	21,377,166	26,683,731
Transfers	-	-	(1,536,116)	26,640	(1,509,476)
Disposals	(156,036)	-	-	-	(156,036)
Depreciation	(2,184,641)	(2,840,703)	(16,658,930)	-	(21,684,274)
Ending	₩ 9,877,954	₩ 10,800,598	₩ 61,945,695	₩ 22,898,371	₩ 105,522,618

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**13. Property and Equipment and Leases, (cont'd)**

*Leases*

A. Amounts recognized in the separate statements of financial position

Lease related amounts recognized in the separate statements of financial position are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
Right-of-use assets <sup>1</sup>				
Properties	₩	137,068,473	₩	61,945,695
Lease receivables <sup>2</sup>				
Current		3,686,480		718,048
Non-current		5,587,475		1,147,439
		<u>9,273,955</u>		<u>1,865,487</u>
	₩	<u>146,342,428</u>	₩	<u>63,811,182</u>
Lease liabilities <sup>3</sup>				
Current	₩	46,324,976	₩	25,022,156
Non-current		101,979,145		40,110,324
	₩	<u>148,304,121</u>	₩	<u>65,132,480</u>

<sup>1</sup> Included in the 'property and equipment' of the separate statements of financial position.

<sup>2</sup> Included in the 'other current financial assets' and 'other non-current financial assets' of the separate statements of financial position.

<sup>3</sup> Included in the 'other current financial liabilities' and 'other non-current financial liabilities' of the separate statements of financial position.

Additions to the right-of-use assets for the years ended December 31, 2021 amounts to ₩ 105,925,814 thousand (December 31, 2020: ₩ 3,410,215 thousand).

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**13. Property and Equipment and Leases, (cont'd)**

The Company has entered into a sublease contract for part of the right-of-use assets and classified them as operating leases. The future lease payments that the Company is expected to receive, are as follows:

*(in thousands of Korean won)*

<b>December 31, 2021</b>							
<b>Total contractual cash flows</b>		<b>Less than 1 years</b>		<b>Less than 5 years</b>		<b>Total</b>	
₩	5,447,194	₩	5,429,154	₩	18,040	₩	5,447,194
<b>December 31, 2020</b>							
<b>Total Contractual cash flows</b>		<b>Less than 1 years</b>		<b>Less than 5 years</b>		<b>Total</b>	
₩	5,615,172	₩	5,399,074	₩	216,098	₩	5,615,172

**B. Amounts recognized in the separate statement of comprehensive income**

Lease related amounts recognized in the separate statements of comprehensive income are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Depreciation of right-of-use assets		
Properties	₩ (39,452,347)	₩ (16,658,930)
Interest expense relating to lease liabilities (included in finance costs)	(5,307,912)	(2,985,332)
Expense relating to short-term leases (included in operating costs)	(439,224)	(50,428)
Expense relating to leases of low-value assets (included in operating costs)	(224,573)	(162,742)
Revenue from sublease lease (included in revenue)	8,134,905	14,269,759
Interest income relating to lease receivables (included in finance income)	210,898	23,120

The total cash outflow for leases for the years ended December 31, 2021 amounts to ₩ 36,057,835 thousand (December 31, 2020: ₩ 15,114,580 thousand).

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**14. Intangible Assets**

Intangible assets as of December 31, 2021 and 2020, consist of:

(in thousands of Korean won)

(in thousands of Korean won)

	December 31, 2021			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 26,901,208	₩ (17,686,741)	₩ (1,341,833)	₩ 7,872,634
Industrial property rights	1,369,791	(624,570)	-	745,221
Copyrights	8,218	(5,865)	-	2,353
Membership rights	1,373,669	(34,717)	-	1,338,952
Other intangible assets	1,054,670	(212,100)	-	842,570
	₩ 30,707,556	₩ (18,563,993)	₩ (1,341,833)	₩ 10,801,730

(in thousands of Korean won)

(in thousands of Korean won)		December 31, 2020			
		Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩	22,266,146	₩ (15,394,984)	₩ (1,341,833)	₩ 5,529,329
Industrial property rights		1,070,346	(395,988)	-	674,358
Copyrights		8,218	(4,528)	-	3,690
Membership rights		679,323	-	-	679,323
Other intangible assets		35,000	(1,167)	-	33,833
	₩	24,059,033	₩ (15,796,667)	₩ (1,341,833)	₩ 6,920,533

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**14. Intangible Assets, (cont'd)**

Changes in intangible assets for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>					
	<b>Software</b>	<b>Industrial property rights</b>	<b>Copyrights</b>	<b>Membership rights</b>	<b>Other intangible assets</b>	<b>Total</b>
Beginning balance	₩ 5,529,329	₩ 674,358	₩ 3,691	₩ 679,323	₩ 33,833	₩ 6,920,534
Acquisitions	2,859,499	98,944	-	694,345	1,019,670	4,672,458
Transfers <sup>1</sup>	1,775,563	194,135	-	-	-	1,969,698
Amortization	(2,291,757)	(222,216)	(1,337)	(34,717)	(210,934)	(2,760,961)
Ending balance	₩ 7,872,633	₩ 745,222	₩ 2,354	₩ 1,338,952	₩ 842,570	₩ 10,801,730

<sup>1</sup> Construction in-progress of ₩ 1,775,563 thousand is reclassified to software and long-term advanced payments of ₩ 194,135 thousand is reclassified to industrial property rights for the years ended December 31, 2021.

<i>(in thousands of Korean won)</i>	<b>December 31, 2020</b>					
	<b>Software</b>	<b>Industrial property rights</b>	<b>Copyrights</b>	<b>Membership rights</b>	<b>Other intangible assets</b>	<b>Total</b>
Beginning balance	₩ 1,781,972	₩ 98,700	₩ 914	₩ 679,323	₩ -	₩ 2,560,909
Decrease due to split-off	(213,678)	-	-	-	-	(213,678)
Increase due to business combination	1,712,832	510,466	3,801	-	-	2,227,099
Acquisitions	3,048,289	117,081	-	-	35,000	3,200,370
Disposals	(74,511)	-	-	-	-	(74,511)
Amortization	(725,575)	(51,889)	(1,025)	-	(1,167)	(779,656)
Ending balance	₩ 5,529,329	₩ 674,358	₩ 3,690	₩ 679,323	₩ 33,833	₩ 6,920,533

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**15. Investment Properties**

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

*(in thousands of Korean won)*

	<b>December 31, 2021</b>		
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Land	₩ 156,224,557	₩ -	₩ 156,224,557
Buildings	27,677,095	(642,427)	27,034,668
	<u>₩ 183,901,652</u>	<u>₩ (642,427)</u>	<u>₩ 183,259,225</u>

*(in thousands of Korean won)*

	<b>December 31, 2020</b>		
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Land	₩ 59,278,258	₩ -	₩ 59,278,258
Buildings	9,420,500	(19,627)	9,400,873
	<u>₩ 68,698,758</u>	<u>₩ (19,627)</u>	<u>₩ 68,679,131</u>

Changes in investment properties for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 59,278,258	₩ 9,400,874	₩ 68,679,132
Acquisitions	89,338,959	17,464,582	106,803,541
Transfers <sup>1</sup>	7,607,340	792,014	8,399,354
Depreciation	-	(622,801)	(622,801)
Ending balance	<u>₩ 156,224,557</u>	<u>₩ 27,034,668</u>	<u>₩ 183,259,225</u>

<sup>1</sup> Construction in-progress of ₩ 8,399,354 thousand is reclassified to investment properties for the years ended December 31, 2021.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**15. Investment Properties, (cont'd)**

*(in thousands of Korean won)*

	December 31, 2020		
	Land	Buildings	Total
Beginning balance	₩ -	₩ -	₩ -
Acquisitions	59,278,258	9,420,500	68,698,758
Depreciation	-	(19,627)	(19,627)
Ending balance	₩ 59,278,258	₩ 9,400,873	₩ 68,679,131

During the year, rental income earned from operating leases of investment property is ₩ 48 million, and direct operating expenses (including repairs and maintenance) from property that generated rental income are ₩ 0 million. Direct operating expenses (including repairs and maintenance) from property that did not generate rental income are ₩ 82 million.

Fair value of investment properties as at December 31, 2021, is ₩ 167,105 million (2020: ₩ 68,698 million). The valuation of investment properties is performed by an independent valuer.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**16. Net Defined Benefit Liabilities**

Details of net defined benefit liabilities recognized in the statements of financial position as of December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Present value of defined benefit obligations	₩ 10,772,823	₩ 6,604,271

Changes in the defined benefit obligations for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Beginning	₩ 6,604,271	₩ 11,897,496
Decrease due to split-off	-	(4,986,650)
Increase due to business combination	-	3,427,488
Current service cost	1,779,287	4,365,261
Interest expense	139,790	215,502
Transfer-in(out)	310,462	(300,202)
Benefit payments	(1,326,569)	(2,434,151)
Remeasurements:		
Actuarial loss from change in financial assumptions	(816,194)	1,471,859
Actuarial loss from experience adjustments	2,528,068	(29,477)
Actuarial loss from change in demographic assumptions	1,553,708	(239,812)
Past service cost and gains or losses on settlements	-	(6,783,043)
Ending	<u>₩ 10,772,823</u>	<u>₩ 6,604,271</u>

The amounts recognized in the statements of comprehensive income related to defined benefit plan for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Current service cost	₩ 1,779,287	₩ 4,365,261
Interest expense	139,790	215,502
Past service cost and gains or losses on settlements	-	(6,783,043)
	<u>₩ 1,919,077</u>	<u>₩ (2,202,280)</u>



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**16. Net Defined Benefit Liabilities, (cont'd)**

The significant actuarial assumptions as of December 31, 2021 and 2020, are as follows:

<i>(in percentage, %)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Discount rate	2.89%	2.21%
Salary growth rate	8.05%	7.88%

Discount rate is measured by reference to corporate bond rated AA+. Mortality rate for defined benefit pension plan announced by Korea Insurance Development Institute is adopted, and the retirement rate is measured by reference to the historical record of retirement.

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

<i>(in thousands of Korean won)</i>	<b>1%p increase</b>	<b>1%p decrease</b>
Discount rate	₩ (2,353,644)	₩ 1,688,573
Salary growth rate	1,567,449	(2,291,835)

Details of remeasurements incurred related to defined benefit plan for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Remeasurements of net defined benefit liability	₩ 3,265,582	₩ 1,202,570
Income tax effect	(898,035)	(291,022)
Remeasurements of net defined benefit liability, after tax	<u>₩ 2,367,547</u>	<u>₩ 911,548</u>

The weighted average duration of the defined benefit obligation is 6.54 years. The expected maturity analysis of undiscounted pension benefits as of December 31, 2021, is as follows:

<i>(in thousands of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1-2 years</b>	<b>Between 2-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Pension benefits	₩ 529,509	₩ 561,298	₩ 2,338,546	₩ 9,240,416	₩ 12,669,769

The expense recognized in the current year in relation to the defined contribution plan amounted to ₩ 8,397,503 thousand (2020: ₩ 7,373,040 thousand).

The Company provides long-term employee benefits to employees who have provided services for a period of five years or more years. The Company measures the long-term employee benefit liabilities using actuarial assumptions.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**17. Provisions**

Changes in provisions for restoration for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>	
	<b>Provision for restoration costs</b>	<b>Other provisions</b>
Beginning	₩ 5,000,534	₩ 44,762,724
Increase due to business combination	-	-
Additions <sup>1</sup>	7,948,453	8,429,527
Used	-	(4,474,180)
Unwinding of discount	-	(11,188,395)
Others <sup>2</sup>	(821,378)	-
Ending	₩ 12,127,609	₩ 37,529,676
Current portion	-	37,529,676
Non-current portion	12,127,609	-

<sup>1</sup> The amount is related to the leasehold improvements of the head office. The Company measured the provision for restoring costs by discounting the best estimate of the restoring costs expected to occur at the end of the lease term with an appropriate discount rate.

<sup>2</sup> Includes the reduction in the obligation for restoration at the end of the lease period due to the new sub-lease contract

*(in thousands of Korean won)*

	<b>December 31, 2020</b>	
	<b>Provision for restoration costs</b>	<b>Other provisions</b>
Beginning	₩ 3,615,513	₩ -
Increase due to business combination	1,207,788	7,600,000
Addition <sup>1</sup>	98,646	37,162,724
Unwinding of discount	78,587	-
Others	-	-
Ending	₩ 5,000,534	₩ 44,762,724
Current portion	-	44,762,724
Non-current portion	5,000,534	-

<sup>1</sup> The amount is related to the leasehold improvements of the head office. The Company measured the provision for restoration costs by discounting the best estimate of the restoration costs expected to occur at the end of the lease term using an appropriate discount rate.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**18. Contingencies and Commitments**

As of December 31, 2021, the Company is providing game services to end-users through contracts with the following major platform operators:

<b>Game</b>	<b>Counterparty</b>	<b>Service region</b>
PLAYERUNKNOWN'S BATTLEGROUNDS (PC)	Valve Corporation Hangzhou Shunwang Technology Co., Ltd. Qingfeng(Beijing) Technology Co.,Ltd.	Worldwide China (except for Hong Kong, Macau and Taiwan) China (except for Hong Kong, Macau and Taiwan)
Thunder Tier One (PC)	Valve Corporation	Worldwide
PLAYERUNKNOWN'S BATTLEGROUNDS (Mobile)	Google Apple Samsung Electronics Coda Payments Pte.Ltd	Korea, Japan, India Korea, Japan, India Korea India
PUBG NEW STATE (Mobile)	Google Apple Samsung Electronics	Worldwide Worldwide Worldwide
PLAYERUNKNOWN'S BATTLEGROUNDS (Stadia)	Google	Part of Europe and U.S.A

The Company has contracts with more than 8 domestic and foreign companies including the above contracts, and the contract period is 1~3 years or longer.

The Company collects considerations for game services from the end-users through the platform providers and pays a certain percentage of revenue generated from the end-users as a fee in exchange for using their platform.

Major publishing contracts of the Company as of December 31, 2021, are as follows:

<b>Game</b>	<b>Counterparty</b>	<b>Service region</b>
PLAYERUNKNOWN'S BATTLEGROUNDS (Console)	Microsoft Corporation Sony Interactive Entertainment LLC	Worldwide
PLAYERUNKNOWN'S BATTLEGROUNDS(PC)	Kakao Games Corp.	Korea
PLAYERUNKNOWN'S BATTLEGROUNDS (Mobile)	Tencent Technology (Shenzhen) Company Limited Proxima Beta Pte. Limited	China Worldwide

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**18. Contingencies and Commitments, (cont'd)**

Major other contracts of the Company as of December 31, 2021, are as follows:

Game	Counterparty	Service region
PLAYERUNKNOWN'S BATTLEGROUNDS	Beijing Kuaishou Technology Ltd. Guangzhou Huya Information Technology Ltd.	China

The Company has entered into a license agreement with Epic Games International S.a.r.l. for the "Unreal Engine" required to drive the game, which the Company is obliged to pay a certain percentage of revenue as royalties.

As of December 31, 2021, there are two litigation cases filed against the Company (relating to claim for damages related to stock options and others) and three pending litigations (relating to claim for damages of purchased IT assets and others) filed by the Company. The Company's management believes that the ultimate results of these cases will not have a significant material impact on the financial statements of the Company, and the results of the cases cannot be reliably estimated as of December 31, 2021.

As of December 31, 2021, the Company has been provided guarantees up to ₩2,889 million from Seoul Guarantee Insurance Co., Ltd. in connection with the repayment of contributions for supporting the workplace nursery installation.

As of December 31, 2021, ₩6,279 million of short-term financial instruments are provided as collateral related to leasehold deposits received from sublessee of Krafton Tower.

As of December 31, 2021, the Company has entered into loan commitments up to ₩1,500 million with Woori Bank, and there is no outstanding loan balance.

The Company has entered into an agreement to pay performance-based incentives in proportion to the sales performance to executives and employees, including key developers, who can contribute to the Company's long-term growth.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**18. Contingencies and Commitments, (cont'd)**

On June 25, 2021, the Company entered into a shareholder agreement with existing shareholders in relation to the acquisition of redeemable convertible preferred stock and common stock of Thingsflow Inc. The main terms and conditions of the contract are summarized as follows:

Type	Contents
Put option	Existing shareholders can request the purchase of all the remaining shares within 3 months from the expiration date of the sale if the IPO is not completed by the deadline for the sale, or if the existing shareholders are unable to sell 50% or more of the shares held to a third party.
Call option	During the exercise period of the put option, the Company's call option contract allows the sale of all shares held by the existing shareholders at an amount equivalent to 120% of the put option exercise price.
Others	Existing shareholders cannot sell, transfer, set up as collateral, or other dispositions without prior written consent within the disposition restriction period.

The Company retains the preferred right to purchase all or part of the shares held by the existing shareholders even after the existing shareholders have obtained prior signed consent or after the disposition restriction period has expired.

The Company entered into a contract for contingent consideration to be paid in conjunction with the performance after the acquisition while acquiring a subsidiary Unknown Worlds Entertainment, Inc. The contingent consideration recognized as of December 31, 2021 is ₩195,350,040 thousand.

As of December 31, 2021, the Company has entered into responsible lease agreement with the associate, Mirae Asset Maps General Private Equity Investment Trust No.66, for the business facilities and living facilities to be developed by the associate on 333-16 Seongsu-dong 2-ga, Seongdong-gu, Seoul, and 4 lots of land, for 10 years from completion of construction.

**19. Equity**

*(a) Share capital*

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

<i>(in Korean won and in shares)</i>	December 31, 2021	December 31, 2020
Authorized number of shares	300,000,000	100,000,000
Par value in Korean won	₩ 100	₩ 500
Issued and outstanding number of shares		
Ordinary shares	48,967,045	8,557,037

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**19. Equity, (cont'd)**

*(b) Changes in share capital and capital surplus*

Changes in share capital and capital surplus for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of Korean won)*

	<u>Share capital</u>
Balance at January 1, 2020	₩ 4,022,749
Exercise of share options and others	36,494
Increase due to business combination	219,276
Balance at December 31, 2020	₩ 4,278,519
Balance at January 1, 2021	₩ 4,278,519
Exercise of share options and others	55,786
Disposal of treasury shares	-
Paid-in capital increase	562,400
Balance at December 31, 2021	₩ 4,896,705

	<u>Capital surplus</u>			
<i>(in thousands of Korean won)</i>	Share premium	Other capital surplus	Gain on disposal of treasury shares	Total
Balance at January 1, 2020	₩ 982,564,532	₩ (10,065,132)	₩ -	₩ 972,499,400
Exercise of share options and others	19,349,191	-	-	19,349,191
Changes due to business combination	(219,276)	1,035,039,006	-	1,034,819,730
Balance at December 31, 2020	₩ 1,001,694,447	₩ 1,024,973,874	₩ -	₩ 2,026,668,321
Balance at January 1, 2021	₩ 1,001,694,447	₩ 1,024,973,874	₩ -	₩ 2,026,668,321
Exercise of share options and others	57,233,631	-	-	57,233,631
Disposal of treasury shares	-	-	6,452,617	6,452,617
Paid-in capital increase	2,771,641,092	-	-	2,771,641,092
Balance at December 31, 2021	₩ 3,830,569,170	₩ 1,024,973,874	₩ 6,452,617	₩ 4,861,995,661

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**19. Equity, (cont'd)**

*(c) Other components of equity*

Other components of equity as of September, 2021 and December 31, 2020, consist of:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Treasury shares <sup>1</sup>	₩ -	₩ -
Share-based payments (Note 20)	46,836,184	87,698,621
Other capital adjustments	33,710,386	-
Gain on valuation of financial assets at fair value through other comprehensive income (Note 11)	59,570,920	36,913,738
Actuarial loss (Note 16)	(5,274,406)	(2,906,859)
Exchange differences on translation of foreign operations	(38,690)	(29,817)
	<u>₩ 134,804,394</u>	<u>₩ 121,675,683</u>

<sup>1</sup> The acquisition cost of treasury shares is ₩0.

*(d) Statements of appropriation of retained earnings (disposition of accumulated deficit)*

The appropriation of retained earnings (disposition of accumulated deficit) for the year ended December 31, 2021, is expected to be disposed at the shareholders' meeting on March 31, 2022. The disposition date for the year ended December 31, 2020, was March 31, 2021.

The appropriation of retained earnings (disposition of accumulated deficit) for the years ended December 31, 2021 and 2020, are as follows:

<i>(in Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Undisposed accumulated deficit		
Undisposed accumulated deficit carried over from prior year	₩ (951,819,823,460)	₩ (956,971,331,065)
Profit for the year	<u>542,202,251,423</u>	<u>5,151,507,605</u>
Accumulated deficit available for disposition	(409,617,572,037)	(951,819,823,460)
Disposition of accumulated deficit	2,409,617,572,037	-
Transfer of capital reserve	<u>2,409,617,572,037</u>	<u>-</u>
Undisposed accumulated retained earnings (deficit) to be carried forward	<u>₩ 2,000,000,000,000</u>	<u>₩ (951,819,823,460)</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**20. Share-based Payments**

The terms and conditions of stock options granted as of December 31, 2021, are as follows:

<i>(in Korean won, except number of shares)</i>	<b>11<sup>th</sup></b>	<b>18<sup>th</sup>-1</b>	<b>18<sup>th</sup>-2</b>	<b>18<sup>th</sup>-3</b>	
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled	
Grantee	Employees	Employees	Employees	Employees	
Date of grant	Apr. 1, 2015	Mar. 30, 2017	Mar. 30, 2017	Mar. 30, 2017	
No. of shares granted	118,500	158,815	158,810	136,125	
Outstanding shares as of December 31, 2020	1,000	49,875	49,875	87,375	
No. of shares granted during the year	-	-	-	-	
No. of shares exercised during the year	1,000	14,875	14,875	57,375	
No. of shares cancelled during the year	-	-	-	-	
Outstanding shares as of December 31, 2021	-	35,000	35,000	30,000	
Exercise price	₩ 1,014	₩ 1,003	₩ 1,003	₩ 1,003	
Vesting conditions	3 years of service	2 years of service	3 years of service	4 years of service	
Date of vesting	Apr. 1, 2018	Apr. 1, 2019	Apr. 1, 2020	Apr. 1, 2021	
Date of expiration	Mar. 31, 2021	Mar. 31, 2026	Mar. 31, 2026	Mar. 31, 2026	

<i>(in Korean won, except number of shares)</i>	<b>19<sup>th</sup>-2</b>	<b>19<sup>th</sup>-3</b>	<b>19<sup>th</sup>-5</b>	<b>20<sup>th</sup></b>	<b>21<sup>th</sup></b>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Employees	Employees	Employees	Employees
Date of grant	Oct. 20, 2017	Oct. 20, 2017	Oct. 20, 2017	Jul. 1, 2019	Aug. 1, 2019
No. of shares granted	354,375	303,750	150,000	37,500	29,500
Outstanding shares as of December 31, 2020	354,375	303,750	150,000	37,500	29,500
No. of shares granted during the year	-	-	-	-	-
No. of shares exercised during the year	334,135	-	135,500	-	100
No. of shares cancelled during the year	-	-	-	-	-
Outstanding shares as of December 31, 2021	20,240	303,750	14,500	37,500	29,400
Exercise price	₩ 1,452	₩ 1,452	₩ 1,452	₩ 44,000	₩ 44,000
Vesting conditions	3 years of service	4 years of service	3 years of service	2 years (35%), 3 years (35%), or 4 years (30%) of service	2 years (35%), 3 years (35%), or 4 years (30%) of service
Date of vesting	Oct. 20, 2020	Oct. 20, 2021	Oct. 20, 2020	Jun. 30, 2021 (35%) Jun. 30, 2022 (35%) Jun. 30, 2023 (30%)	Jul. 31, 2021 (35%) Jul. 31, 2022 (35%) Jul. 31, 2023 (30%)
Date of expiration	Oct. 19, 2026	Oct. 19, 2026	Oct. 19, 2025	Jun. 30, 2028	Jul. 31, 2028



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

(in Korean won,  
except number of  
shares)

	22 <sup>nd</sup>	23 <sup>rd</sup>	24 <sup>th</sup>	25 <sup>th</sup>	26 <sup>th</sup>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Cash-settled Employees	Cash-settled Employees	Employees	Employees
Date of grant	Oct. 1, 2019	Nov. 5, 2020	Nov. 5, 2020	Mar. 31, 2021	Mar. 31, 2021
No. of shares granted	6,500	50,000	650,000	178,750	2,500
Outstanding shares as of December 31, 2020	6,500	50,000	650,000	–	–
No. of shares granted during the year	–	–	–	178,750	2,500
No. of shares exercised during the year	–	–	–	–	–
No. of shares cancelled during the year	–	–	–	3,750	–
Outstanding shares as of December 31, 2021	6,500	50,000	650,000	175,000	2,500
Exercise price	₩ 44,000	₩ 144,000	₩ 144,000	₩ 190,000	₩ 190,000
Vesting conditions	2 years (35%), 3 years (35%), or 4 years (30%) of service	2 years (35%), 3 years (35%), or 4 years (30%) of service	Achievement of the target share price after IPO	2 years (35%), 3 years (35%), or 4 years (30%) of service	2 years (70%), 3 years (30%) of service
Date of vesting	Sept. 30, 2021(35%) Sept. 30, 2022(35%) Sept. 30, 2023(30%)	Nov. 5, 2022(35%) Nov. 5, 2023(35%) Nov. 5, 2024(30%)	25% each upon achievement of the target share price after IPO	Mar. 31, 2023(35%) Mar. 31, 2024(35%) Mar. 31, 2025(30%)	Mar. 31, 2023(70%) Mar. 31, 2024(30%)
Date of expiration	Sept. 30, 2028	Nov. 4, 2032	Nov. 4, 2032	Mar. 30, 2028	Mar. 30, 2025(70%) Mar. 30, 2027(30%)

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date. Accordingly, the quantity and exercise price of stock options have been adjusted.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**20. Share-based Payments, (cont'd)**

The terms and conditions of performance-based incentives as of December 31, 2021, are as follows:

*(in Korean won, except  
number of shares)*

	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup>-0</b>	<b>3<sup>rd</sup>-1</b>	<b>3<sup>rd</sup>-2</b>
Date of grant	Oct. 31, 2017	Dec. 22, 2017	Dec. 22, 2017	Feb. 1, 2018
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation
No. of shares granted	15,750	28,000	26,188	3,750
Outstanding shares as of December 31, 2021	12,000	22,500	16,455	3,250
Exercise price	₩ 1,452	₩ 1,452	₩ 1,452	₩ 1,452
	Provision of services	Provision of services	Provision of services	Provision of services
Vesting conditions	/ Non-market performance conditions.	/ Non-market performance conditions.	/ Non-market performance conditions.	/ Non-market performance conditions.
Type of arrangement	Cash	Cash	Cash	Cash
Date of vesting	Nov. 1, 2019(35%) Nov. 1, 2020(35%) Nov. 1, 2021(30%)	Dec. 23, 2019(35%) Dec. 23, 2020(35%) Dec. 23, 2021(30%)	Dec. 23, 2019(35%) Dec. 23, 2020(35%) Dec. 23, 2021(30%)	Feb. 2, 2020(35%) Feb. 2, 2021(35%) Feb. 2, 2022(30%)
Date of expiration	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting

*(in Korean won, except  
number of shares)*

	<b>4<sup>th</sup>-1</b>	<b>4<sup>th</sup>-2</b>	<b>5<sup>th</sup>-1</b>	<b>5<sup>th</sup>-2</b>
Date of grant	Mar. 31, 2018	Mar. 31, 2018	Jun. 30, 2018	Jun. 30, 2018
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation
No. of shares granted	34,000	40,750	6,250	7,500
Outstanding shares as of December 31, 2021	15,875	20,500	4,500	7,500
Exercise price	₩ 14,000	₩ 44,000	₩ 14,000	₩ 58,000
	Provision of services	Provision of services	Provision of services	Provision of services
Vesting conditions	/ Non-market performance conditions.	/ Non-market performance conditions.	/ Non-market performance conditions.	/ Non-market performance conditions.
Type of arrangement	Cash	Cash	Cash	Cash
Date of vesting	Apr. 1, 2020(35%) Apr. 1, 2021(35%) Apr. 1, 2022(30%)	Apr. 1, 2020(35%) Apr. 1, 2021(35%) Apr. 1, 2022(30%)	Jul. 1, 2020(35%) Jul. 1, 2021(35%) Jul. 1, 2022(30%)	Jul. 1, 2020(35%) Jul. 1, 2021(35%) Jul. 1, 2022(30%)
Date of expiration	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**20. Share-based Payments, (cont'd)**

*(in Korean won, except  
number of shares)*

	6 <sup>th</sup> -2	7 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>
Date of grant	Aug. 1, 2018	Aug. 31, 2018	Sep. 30, 2018	Nov. 12, 2018
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation
No. of shares granted	5,000	25,000	6,250	7,500
Outstanding shares as of December 31, 2021	3,000	20,000	5,375	7,500
Exercise price	₩ 58,000	₩ 44,000	₩ 44,000	₩ 78,000
Vesting conditions	Provision of services / Non-market performance conditions.	Provision of services / Non-market performance conditions.	Provision of services / Non-market performance conditions.	Provision of services / Non-market performance conditions.
Type of arrangement	Cash	Cash	Cash	Cash
Date of vesting	Aug. 2, 2020(35%) Aug. 2, 2021(35%) Aug. 2, 2022(30%)	Sep. 1, 2020(35%) Sep. 1, 2021(35%) Sep. 1, 2022(30%)	Oct. 1, 2020(35%) Oct. 1, 2021(35%) Oct. 1, 2022(30%)	Nov. 13, 2020(35%) Nov. 13, 2021(35%) Nov. 13, 2022(30%)
Date of expiration	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting

*(in Korean won, except  
number of shares)*

	13 <sup>th</sup> -1
Date of grant	Jan. 2, 2020
Type of arrangement	Equity-linked Cash Compensation
No. of shares granted	6,500
Outstanding shares as of December 31, 2021	6,000
Exercise price	₩ 1,452
Vesting conditions	Provision of services / Non-market performance conditions.
Type of arrangement	Cash
Date of vesting	Dec. 23, 2020(54%) Dec. 23, 2021(46%)
Date of expiration	4 years from date of vesting

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date. Accordingly, the quantity and exercise price of performance-based incentives have been adjusted.

<sup>2</sup> According to the contents of the performance-based incentives given by the company to its executives and employees, the compensation has been changed to be made in connection with the stock price at the time of the event after the listing.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**20. Share-based Payments, (cont'd)**

Changes in the number of share options granted and weighted average exercise price for the years ended December 31, 2021 and 2020, are as follows:

<i>(in Korean won, except number of shares)</i>	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	1,769,750	₩ 59,554	1,437,185	₩ 3,501
Grant	181,250	190,000	700,000	144,000
Forfeit / Expired	(3,750)	190,000	(2,500)	1,003
Exercise	(557,860)	1,389	(364,935)	1,184
Ending	<u>1,389,390</u>	<u>₩ 99,573</u>	<u>1,769,750</u>	<u>₩ 59,554</u>

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date. Accordingly, the quantity and exercise price of performance-based incentives have been adjusted.

Changes in the number of equity-linked cash compensation granted and weighted average exercise price for the year ended December 31, 2021 are as follows:

<i>(in Korean won, except number of shares)</i>	<b>December 31, 2021</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	194,320	₩ 25,281
Exercise	(47,865)	27,148
Transfer	(2,000)	14,000
Ending	<u>144,455</u>	<u>₩ 24,819</u>

As of December 31, 2021, 464,115 of share options are exercisable and the weighted average exercise price is ₩ 3,704.

As of December 31, 2021, 108,880 of equity-linked cash compensation are exercisable and the weighted average exercise price is ₩ 20,927.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**20. Share-based Payments, (cont'd)**

The Company measured the cost of the share options granted for the year ended December 31, 2021, by fair value using the binomial model method. The related assumptions and variables to measure the cost of the stock options granted are as follows:

<i>(in Korean won)</i>		<b>December 31, 2021</b>
Weighted average fair value of share options granted during the year	₩	92,629
Weighted average share price at grant date	₩	241,811
Price volatility		41.90%
Risk-free interest rate		0.915%~1.457%

The Company measured the cost of the share options granted for the year ended December 31, 2021, by fair value using the binomial model and Monte Carlo method. The related assumptions and variables to measure the cost of the stock options granted are as follows:

<i>(in Korean won)</i>		<b>December 31, 2021</b>
Weighted average fair value of share options granted during the year	₩	153,904
Weighted average share price at grant date	₩	460,000
Price volatility		57.22%
Risk-free interest rate		0.97%~2.21%

The Company measured the cost of the performance-based incentives granted for the year ended December 31, 2021, by fair value using the Monte Carlo method. The related assumptions and variables to measure the cost of the stock options granted are as follows:

<i>(in Korean won)</i>		<b>December 31, 2021</b>
Weighted average fair value of share options granted during the year	₩	444,810
Weighted average share price at grant date	₩	460,000
Price volatility		57.22%
Risk-free interest rate		0.97%~1.65%

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**20. Share-based Payments, (cont'd)**

Details of the expenses in relation to the share options granted to employees for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Total share-based payment expenses		
Operating costs <sup>1</sup>	₩ 125,599,572	₩ 3,232,722
Investments in subsidiaries <sup>2</sup>	<u>1,491,680</u>	<u>1,341,495</u>
	<u>₩ 127,091,252</u>	<u>₩ 4,574,217</u>

<sup>1</sup>During the year ended December 31, 2021, a shareholder of the Company has announced a plan to donate the Company's shares to executives and employees free of charge. Accordingly, the Company includes estimates based on the fair value and vesting period of shares by applying share-based payment accounting.

<sup>2</sup> The amount does not include share-based payment expenses of ₩32,238,881 thousand which relates to employees of former PUBG Corporation and PUBG LABS, Inc. before the merger.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**21. Revenue from Contracts with Customers**

*(a) Revenue from contracts with customers*

The Company derives revenue from the transfer of goods and services over time in the following major services:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
PC	₩	380,081,318	₩	22,234,955
Mobile		1,399,667,288		56,167,816
Console		14,260,047		3,011,582
Others		34,365,135		14,022,678
	₩	1,828,373,788	₩	95,437,031

Details of the Company's revenue by geographic areas for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Revenue</b>	<b>Ratio</b>	<b>Revenue</b>	<b>Ratio</b>
Asia	₩ 1,618,649,357	₩ 88.53%	₩ 64,701,226	₩ 67.79%
Korea	105,115,796	5.75%	19,276,310	20.20%
North America / Europe	81,857,677	4.48%	9,917,863	10.39%
Others	22,750,958	1.24%	1,541,632	1.62%
	₩ 1,828,373,788	₩ 100.00%	₩ 95,437,031	₩ 100.00%

*(b) Contract liabilities*

The Company has recognized the following assets and liabilities related to contracts with customers:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Contracts liabilities (unearned revenue)	₩ 62,346,648	₩ 69,525,454

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**21. Revenue from Contracts with Customers, (cont'd)**

*(c) Significant changes in contract assets and liabilities*

Contract liabilities are unearned revenue recognized over time, and the amount changes when there are new customers and time elapses.

*(d) Revenue recognized in relation to contract liabilities*

The following table shows how much of the revenue recognized in the current and prior reporting periods relates to contract liabilities.

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Revenue recognized that was included in the contract liability balance	₩ 67,361,142	₩ 950,041

**22. Operating Costs**

Operating costs for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Application fees / Cost of sales	₩ 186,721,161	₩ 10,831,619
Salaries and bonuses	175,844,583	99,793,818
Post-employment benefits	10,316,580	5,499,237
Employee benefits	23,001,429	20,450,118
Travel	2,196,433	920,953
Depreciation	49,980,293	21,684,275
Depreciation – Investment properties	622,801	19,626
Amortization	2,760,961	779,656
Insurance	2,853,966	1,003,561
Supplies	2,410,142	408,235
Commissions and fees	487,399,905	54,000,750
Advertising	57,124,175	2,115,046
Share-based payment expenses	125,599,571	3,232,722
Bad debts expense	964,174	2,331,655
Others	4,202,169	1,377,650
	₩ 1,131,998,343	₩ 224,448,921



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**23. Other Income and Expenses**

Other income and expenses for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Other income</b>		
Gain on foreign currency transactions	₩ 55,041,445	₩ 258,490
Gain on foreign currency translation	61,953,150	619,802
Commission income	2,927,320	-
Gain on disposal of property and equipment	10,873	12,932
Gain on disposal of leases	886,326	186,665
Gain on disposal of financial assets at fair value through profit or loss	891,732	71,566
Gain on valuation of financial assets at fair value through profit or loss	21,058,286	1,749,844
Dividends income	570,827	139,303,000
Reversal other impairment loss	-	6,585,328
Gain on transactions of derivatives	253,841	-
Others	2,417,873	744,393
	<u>₩ 146,011,673</u>	<u>₩ 149,532,020</u>
<b>Other expenses</b>		
Loss on foreign currency transactions	₩ 11,027,298	₩ 2,196,115
Loss on foreign currency translation	1,624,711	15,624,749
Loss on valuation of financial liabilities at fair value through profit or loss	1,499,524	-
Impairment loss on investments in subsidiaries	27,059,975	12,845,991
Loss on disposal of property and equipment	769,334	20,603
Loss on valuation of derivative instruments	671,015	169,000
Loss on disposal of leases	11,254	-
Loss on disposal of intangible assets	-	74,511
Loss on valuation of financial assets at fair value through profit or loss	831,986	1,311,771
Donations	3,844,000	139,567
Other impairment loss	20,555,462	33,418,261
Others	889,138	6,984,161
	<u>₩ 68,783,697</u>	<u>₩ 72,784,729</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**24. Finance Income and Costs**

Finance income and finance costs for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Finance income</b>		
Interest income	₩ 11,697,187	₩ 1,584,625
Financial guarantee income	23,664	2,011
	<u>₩ 11,720,851</u>	<u>₩ 1,586,636</u>
<b>Finance costs</b>		
Interest expenses	₩ 5,848,123	₩ 5,050,364

**25. Income Tax Expense**

Income tax expense for the years ended December 31, 2021 and 2020, consists of:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Current tax	₩ 264,829,660	₩ (25,378,832)
Deferred tax due to temporary differences	(17,415,515)	(23,746,037)
Income tax expense charged directly to equity	(10,140,247)	(11,754,966)
Income tax expense(benefit)	<u>₩ 237,273,898</u>	<u>₩ (60,879,835)</u>

Reconciliation between profit(loss) before income tax and income tax expense (benefit) for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Profit (loss) before income tax	₩ 779,476,150	(55,728,327)
Income tax based on statutory tax rate	203,993,941	(13,970,255)
Adjustments:		
Income not subject to tax and others	12,481,958	13,970,255
Foreign tax credit	29,138,564	835,756
Effect of consolidated tax expense	(7,647,883)	-
Recognition of previously unrecognized deferred taxes	8,081,437	(33,664,483)
Additional tax on corporate income	5,243,268	4,383,405
Claim for rectification <sup>1</sup>	6,056,749	(31,652,740)
Others	(20,074,136)	(781,773)

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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Income tax expense (benefit)	₩ 237,273,898	(60,879,835)
Effective tax rate <sup>2</sup>	30.44%	-

<sup>1</sup> The Company appealed the tax authority for the correction of Tax Reductions for Small or Medium Start-Up Enterprises under the Restriction of Special Taxation Act of the Republic of Korea and received a notice from National Tax Service Seoul Office on February 8, 2021 that the request is reasonable. The Company reclaimed corporate income tax amounting to ₩31,652,740 thousand and interest on the tax amounting to ₩70,243 thousand.

<sup>2</sup> The Company did not calculate the effective tax rate for the year ended December 31, 2020, due to the negative income tax benefit recognized.

**KRAFTON, Inc.**

## 25. Income Tax Expense, (cont'd)

Changes in the temporary differences and related deferred tax assets and liabilities for the years ended December 31, 2021 and 2020, are as follows:

	December 31, 2021					
	Temporary differences and others		Deferred tax assets (liabilities)			
	Beginning	Increase (decrease)	Ending			
			Beginning	Increase (decrease)	Ending	
Unearned revenue	₩ 17,901,278	₩ (14,376,054)	₩ 3,525,224	₩ 4,332,109	₩ (3,362,672)	₩ 969,437
Depreciation	18,287	(6,624)	11,663	4,425	(1,218)	3,207
Government grants	1,145,763	133,818	1,279,581	277,275	74,610	351,885
Allowance for depreciation	(1,145,763)	(133,818)	(1,279,581)	(277,275)	(74,610)	(351,885)
Amortization	9,159	259,318	268,477	2,217	71,614	73,831
Impairment loss on intangible assets	1,124,754	(699,136)	425,618	272,191	(155,146)	117,045
Accrued expenses	107,926,170	37,656,665	145,582,835	26,118,133	13,917,147	40,035,280
Investments in subsidiaries	(25,114,094)	35,560,362	10,446,268	(6,077,611)	8,950,335	2,872,724
Financial assets at fair value through profit or loss	1,990,294	(19,734,244)	(17,743,950)	481,651	(5,361,237)	(4,879,586)
Financial assets at fair value through other comprehensive income	(45,401,326)	(31,251,287)	(76,652,613)	(10,987,121)	(10,092,347)	(21,079,468)
Bad debt expenses	119,265	-	119,265	28,862	3,936	32,798
Provision for impairment	65,867,972	13,695,272	79,563,244	15,940,049	5,939,843	21,879,892
Post-employment benefit obligation	6,604,271	4,168,552	10,772,823	1,598,234	1,364,292	2,962,526
Accrued income	(1,242,764)	363,953	(878,811)	(300,749)	59,076	(241,673)
Provision for restoring costs	5,000,534	7,127,075	12,127,609	1,210,129	2,124,964	3,335,093
Facilities	(1,998,378)	1,374,092	(624,286)	(483,608)	311,929	(171,679)

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**25. Income Tax Expense, (cont'd)**

	Temporary differences and others			December 31, 2021		
	Beginning	Increase (decrease)	Ending	Beginning	Increase (decrease)	Ending
Present value discounts	₩ 2,391,430	₩ 2,980,259	₩ 5,371,689	₩ 578,726	₩ 898,488	₩ 1,477,214
Right-of-use assets	(61,945,696)	(75,122,777)	(137,068,473)	(14,990,858)	(22,702,972)	(37,693,830)
Lease liabilities	65,132,480	83,171,641	148,304,121	15,762,060	25,021,573	40,783,633
Lease receivables	(1,865,489)	(7,408,466)	(9,273,955)	(451,448)	(2,098,889)	(2,550,337)
Other payables	(32,148)	32,148	-	(7,780)	7,780	-
Bonus	231,640	(198,549)	33,091	56,057	(46,957)	9,100
Other receivables	(147,429)	-	(147,429)	(35,678)	(4,865)	(40,543)
Accrued income (deferred revenue)	50,984,357	7,421,849	58,406,206	12,338,214	3,723,493	16,061,707
Prepaid expenses (deferred expenses)	(11,562,158)	(1,110,535)	(12,672,693)	(2,798,042)	(686,949)	(3,484,991)
Derivative instruments	774,000	3,509,165	4,283,165	187,308	990,562	1,177,870
Accumulated depreciation(conversion to KIFRS)	(26)	26	-	(6)	6	-
Commissions	12,877	134,613	147,490	3,116	37,444	40,560
Other provisions	44,762,724	(7,233,048)	37,529,676	10,832,579	(511,918)	10,320,661
Financial guarantee liabilities	12,236	657	12,893	2,961	585	3,546
Share-based payment expenses	-	59,650,111	59,650,111	-	16,403,781	16,403,781
Membership rights	-	42,155	42,155	-	11,593	11,593
Exchange differences on translation of foreign operations	-	42,056	42,056	-	11,565	11,565
Tax losses	95,723,478	(14,891,465)	80,832,013	23,165,082	(936,278)	22,228,804
Tax credits	11,886,863	(6,252,397)	5,634,466	11,886,863	(6,252,397)	5,634,466
	₩ 329,164,561	₩ 78,905,387	₩ 408,069,948	₩ 88,668,065	₩ 27,636,161	₩ 116,304,226
				₩ (27,574,366)	₩ (10,220,646)	₩ (37,795,012)
Unrecognized deferred assets				₩ 61,093,699	₩ 17,415,515	₩ 78,509,214

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**25. Income Tax Expense, (cont'd)**

	December 31, 2020					Deferred tax assets (liabilities)				
	Temporary differences and others									
	Beginning	Increase due to split-off	Increase due to business combination	Increase (decrease)	Ending	Beginning	Increase due to split-off	Increase due to business combination	Increase (decrease)	Ending
<i>(in thousands of Korean won)</i>										
Unearned revenue	₩ 9,524,894	₩ -	₩ 19,851,738	₩ (11,475,354)	₩ 17,901,278	₩ 2,095,477	₩ -	₩ 4,804,121	₩ (2,567,489)	₩ 4,332,109
Depreciation	19,988	-	1,565	(3,266)	18,287	4,397	-	379	(351)	4,425
Government grants	1,346,070	-	384	(200,691)	1,145,763	296,135	-	93	(18,953)	277,275
Allowance for depreciation	(1,346,070)	-	(384)	200,691	(1,145,763)	(296,135)	-	(93)	18,953	(277,275)
Amortization	3,574	-	3,039	2,546	9,159	786	-	735	696	2,217
Impairment loss on intangible assets	904,499	-	472,011	(251,756)	1,124,754	198,990	-	114,227	(41,026)	272,191
Accrued expenses	14,389,451	-	87,020,000	6,516,719	107,926,170	3,165,679	-	21,058,840	1,893,614	26,118,133
Investments in subsidiaries	(5,322,894)	-	21,863,385	(41,654,585)	(25,114,094)	(1,171,037)	-	5,290,939	(10,197,513)	(6,077,611)
Financial assets at fair value through profit or loss	3,844,499	-	(971,974)	(882,231)	1,990,294	845,790	-	(235,218)	(128,921)	481,651
Financial assets at fair value through other comprehensive income	4,375,484	-	-	(49,776,810)	(45,401,326)	962,606	-	-	(11,949,727)	(10,987,121)
Bad debt expenses	238,285	-	-	(119,020)	119,265	52,423	-	-	(23,561)	28,862
Provision for impairment	48,420,249	(14,733,809)	5,967,036	26,214,496	65,867,972	10,652,455	(3,565,582)	1,444,023	7,409,153	15,940,049
Post-employment benefit obligation	11,897,496	(4,986,650)	3,423,738	(3,730,313)	6,604,271	2,617,449	(1,206,769)	828,545	(640,991)	1,598,234
Accrued income	(690,538)	-	(152,515)	(399,711)	(1,242,764)	(151,918)	-	(36,909)	(111,922)	(300,749)
Development costs	11,300,000	-	-	(11,300,000)	-	2,486,000	-	-	(2,486,000)	-

**KRAFTON, Inc.**

## Notes to the Separate Financial Statements

## December 31, 2021 and 2020

## 25. Income Tax Expense, (cont'd)

(in thousands of

*Korean won)*

Korean won)	Temporary differences and others				Deferred tax assets (liabilities)					
	Beginning	Increase due to split-off	Increase due to business combination	Increase (decrease)	Ending	Beginning	Increase due to split-off	Increase due to business combination	Increase (decrease)	Ending
Provision for restoring costs	₩ 3,615,513 (2,501,974)	₩ -	₩ 1,307,294 (186,533)	₩ 77,727 (410,685)	₩ 5,000,534 (1,998,378)	₩ 795,413 (550,434)	₩ -	₩ 316,365 (45,141)	₩ 98,351 (111,967)	₩ 1,210,129 (483,608)
Present value discounts	1,487,301	-	1,314,814		2,391,430	327,206	-	318,185	(66,665)	578,726
Right-of-use assets	(56,745,292)	-	(15,620,070)	10,419,666	(61,945,696)	(12,483,964)	-	(3,780,057)	1,273,163	(14,990,858)
Lease liabilities	57,423,211	-	22,491,400	(14,782,131)	65,132,480	12,633,106	-	5,442,919	(2,313,965)	15,762,060
Lease receivables	(300,304)	-	(7,556,140)	5,990,955	(1,865,489)	(66,067)	-	(1,828,586)	1,443,205	(451,448)
Other payables	(668,831)	-	-	636,683	(32,148)	(147,143)	-	-	139,363	(7,780)
Bonus	-	-	-	231,640	231,640	-	-	-	56,057	56,057
Other receivables	-	-	(147,429)	-	(147,429)	-	-	(35,678)	-	(35,678)
Accrued income	-	-	46,396,104	4,588,253	50,984,357	-	-	11,227,857	1,110,357	12,338,214
(deferred revenue)	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	(10,134,216)	(1,427,942)	(11,562,158)	-	-	(2,452,480)	(345,562)	(2,798,042)
(deferred expenses)	-	-	605,000	169,000	774,000	-	-	146,410	40,898	187,308
Derivative instruments	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	(26)	-	(26)	-	-	(6)	-	(6)
(conversion to KIFRS)	-	-	8,867	4,010	12,877	-	-	2,146	970	3,116
Commissions	-	-	7,600,000	37,162,724	44,762,724	-	-	1,839,200	8,993,379	10,832,579
Other provisions	-	-	-	-	-	-	-	-	-	-
Financial guarantee liabilities	-	-	14,909	(2,673)	12,236	-	-	3,608	(647)	2,961
Tax losses	80,832,013	-	-	14,891,465	95,723,478	17,783,043	-	-	5,382,039	23,165,082
Tax credits	17,191,260	(2,304,410)	-	(2,999,987)	11,886,863	17,191,260	(2,304,410)	-	(2,999,987)	11,886,863
	₩ 199,237,884	₩ (22,024,869)	₩ 183,571,997	₩ (31,620,451)	₩ 329,164,561	57,241,517 (57,241,517)	(7,076,761)	44,424,424	(5,921,115)	88,668,065
Unrecognized deferred assets							-	-	29,667,151	(27,574,366)
						₩	₩	₩	₩	₩
						-	₩ (7,076,761)	₩ 44,424,424	₩ 23,746,036	₩ 61,093,699

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**25. Income Tax Expense, (cont'd)**

The analysis of deferred tax assets and liabilities as of December 31, 2021 and 2020, is as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered within 12 months	₩ 57,328,062	₩ 74,909,733
Deferred tax asset to be recovered after more than 12 months	91,675,145	16,516,531
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered within 12 months	(3,767,207)	(6,382,887)
Deferred tax liability to be recovered after more than 12 months	(66,726,786)	(23,949,678)
Deferred tax assets, net	<u>₩ 78,509,214</u>	<u>₩ 61,093,699</u>

The tax effect that is charged or credited directly to other comprehensive income (expenses) for the years ended December 31, 2021 and 2020, is as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>			<b>December 31, 2020</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Remeasurements of net defined benefit liability	₩ (3,265,582)	₩ 898,035	₩ (2,367,547)	₩ (1,202,569)	₩ 291,022	₩ (911,547)
Gain on disposal of treasury shares	8,900,161	(2,447,544)	6,452,617	-	-	-
Exchange differences on translation of foreign operations	(12,239)	3,366	(8,873)	-	-	-
Gain on valuation of financial assets at fair value through other comprehensive income	31,251,286	(8,594,104)	22,657,182	49,776,810	(12,045,988)	37,730,822

Details of deductible temporary differences not recognized as deferred tax assets as of December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Deductible(taxable) temporary differences	₩ 56,604,384	₩ (30,899,081)
Tax losses	80,832,013	95,723,478
Tax credits	-	11,886,863



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**25. Income Tax Expense, (cont'd)**

As of December 31, 2021 and 2020, the Company recognized deferred tax assets only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized and the deferred tax deduction effect will be realized in the foreseeable future. In addition, deferred tax assets were not recognized for tax losses and tax credits.

As of December 31, 2021, the Company did not recognize deferred tax assets arising from the certain deductible (taxable) temporary differences associated with investments in subsidiaries amounting to ₩ 56,604,384 thousands, since it is probable that the temporary differences will not reverse in the foreseeable future.

The maturity of unused losses and credit as of December 31, 2021, is as follows:

*(in thousands of  
Korean won)*

	Tax losses		Tax credits	
	Amount	Maturity	Amount	Maturity
2017	37,611,924	2027	-	2022
2018	43,220,089	2028	-	2023
2021	-	2036	5,634,466	2026
	<u>₩ 80,832,013</u>		<u>₩ 5,634,466</u>	

**26. Earnings per Share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares.

*(a) Basic earnings per share*

*(in thousands of Korean won)*

	December 31, 2021	December 31, 2020
Profit attributable to the ordinary equity holders of the Company	₩ 542,202,251	₩ 5,151,508
Weighted average number of ordinary shares outstanding	43,245,333 shares	40,394,305 shares
Basic earnings per share <i>(in Korean won)</i> <sup>1</sup>	<u>₩ 12,538</u>	<u>₩ 128</u>

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date. Accordingly, comparative basic earnings per share and diluted earnings per share for the year ended December 31, 2020, have been retrospectively adjusted.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**26. Earnings per Share, (cont'd)**

*(b) Diluted earnings per share*

Diluted earnings per share are calculated by applying the weighted average number of outstanding ordinary shares adjusted to the assumption that all dilutive potential ordinary shares are converted into ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as average market price for the period) based on the monetary value of the subscription rights attached to outstanding share options.

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Profit attributable to ordinary equity holders	₩ 542,202,251	₩ 5,151,508
<i>(in shares)</i>		
Weighted average number of ordinary shares in issue	43,245,333	40,394,305
Adjustment for:		
Assumed conversion of redeemable convertible preferred shares	-	-
Share options	881,545	738,497
Weighted average number of ordinary shares for diluted earnings per share	44,126,877	41,132,802
<i>(in Korean won)</i>		
Diluted earnings per share <sup>1</sup> :	₩ 12,287	₩ 125

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date. Accordingly, comparative basic earnings per share and diluted earnings per share for the year ended December 31, 2020, have been retrospectively adjusted.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**26. Earnings per Share, (cont'd)**

*(c) Weighted average number of ordinary shares outstanding*

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

<i>(in shares)</i>	<b>December 31, 2021</b>		
	<b>Shares</b>	<b>Weight (Days)</b>	<b>Multiple</b>
Beginning	42,785,185	365	15,616,592,525
Acquisition of treasury shares	(2,192,760)	365	(800,357,400)
Exercise of share options	1,000	348	348,000
Exercise of share options	318,630	266	84,755,580
Exercise of share options	169,255	222	37,574,610
Disposal of treasury shares	25,342	212	5,372,504
Paid-in capital increases	5,624,000	148	832,352,000
Exercise of share options	53,375	136	7,259,000
Exercise of share options	100	81	8,100
Exercise of share options	5,000	80	400,000
Exercise of share options	10,500	23	241,500
			<u>15,784,546,419</u>
Days			<u>365</u>
Weighted average number of ordinary shares outstanding <sup>1</sup>			<u>43,245,333</u>

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date. Accordingly, comparative weighted average number of ordinary shares outstanding for the year ended December 31, 2020, have been retrospectively adjusted.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**26. Earnings per Share, (cont'd)**

<i>(in shares)</i>	<b>December 31, 2020</b>		
	<b>Shares</b>	<b>Weight (Days)</b>	<b>Multiple</b>
Beginning	8,045,498	366	2,944,652,268
Issuance of ordinary shares	438,552	30	13,156,560
Acquisition of treasury shares	(438,552)	30	(13,156,560)
Exercise of stock options	37,287	253	9,433,611
Exercise of stock options	2,500	168	420,000
Exercise of stock options	33,200	71	2,357,200
			<u>2,956,863,079</u>
Days			<u>366</u>
Weighted average number of ordinary shares outstanding			8,078,861
Effects resulting from share split			<u>32,315,444</u>
Weighted average number of ordinary shares outstanding after retrospective adjustment for share split <sup>1</sup>			<u>40,394,305</u>

<sup>1</sup> The Company conducted a share split by lowering the par value from ₩500 to ₩100 on May 4, 2021, as the effective date. Accordingly, comparative weighted average number of ordinary shares outstanding for the year ended December 31, 2020, have been retrospectively adjusted.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**27. Statements of Cash Flows**

*(a) Cash generated from operations*

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Profit for the year	₩ 542,202,251	₩ 5,151,508
Adjustments for:		
Interest expenses	5,848,123	5,050,364
Income tax expense	237,273,898	(60,879,835)
Depreciation	49,980,293	21,684,275
Depreciation – investment properties	622,801	19,626
Amortization	2,760,961	779,656
Post-employment benefits	1,919,076	(2,202,281)
Impairment loss	964,174	2,331,655
Other impairment loss	20,555,462	33,418,261
Loss on foreign currency translation	1,624,711	15,624,749
Share-based payment expenses	125,599,571	3,232,722
Performance-based incentive	33,226,000	18,231,413
Impairment loss on investments in subsidiaries	27,059,975	12,845,991
Loss on valuation of financial assets at fair value through profit or loss	831,986	1,311,771
Loss on disposal of property and equipment	769,334	20,603
Loss on disposal of leases	11,254	-
Impairment loss on intangible assets	-	74,511
Loss on valuation of financial liabilities at fair value through profit or loss	1,499,524	-
Loss on valuation of derivative instruments	671,015	169,000
Other expense	-	37,162,724
Interest income	(11,697,188)	(1,584,625)
Dividend income	(570,827)	(139,303,000)
Gain on foreign currency translation	(61,953,150)	(619,802)
Reversal of other impairment loss	-	(6,585,328)
Gain on disposal of financial assets at fair value through profit or loss	(891,732)	(71,566)
Gain on valuation of financial assets at fair value through profit or loss	(21,058,286)	(1,749,844)
Gain on disposal of property and equipment	(10,873)	(12,932)
Gain on disposal of leases	(886,326)	(186,666)
Financial guarantee income	(23,664)	(2,011)
Gain on transactions of derivative instruments	(253,841)	-
Other income	(2,758,868)	-
Change in operating assets and liabilities:		
Increase in trade receivables	(58,386,936)	(44,335,316)

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Increase in other receivables	(1,001,840)	(9,823,810)
Increase in accrued income	-	(291,150)
Increase in advance payment	(663,105)	(2,306,671)
Decrease (increase) in prepaid expenses	270,265	(8,381,556)
Decrease in prepaid value added tax	-	1,827,132
Increase in other payables	19,907,810	3,241,717
Increase (decrease) in accrued expenses	(26,065,028)	18,121,621
Decrease in withholdings	(282,006)	(1,463,296)
Increase in advance receipts	541,617	-
Increase (decrease) in unearned revenue	(7,950,131)	1,310,516
Decrease in other provisions	(4,474,180)	-
Decrease in long-term accrued expenses	(2,047,906)	(17,812,682)
Payments of net defined benefit liability	(1,326,569)	(2,434,151)
Succession to net defined benefit liability	-	(300,202)
Cash provided by(used in) operations	<u>₩ 871,837,645</u>	<u>₩ (118,736,909)</u>

*(b) Non-cash transactions*

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Succession to assets and liabilities due to business combination	₩ -	₩ 1,035,039,006
Transfer of assets and liabilities due to split-off	-	1,000,000
Share-based payments to executives and employees of the subsidiaries	1,491,680	33,580,376
Reclassification to long-term loan from short-term loan	2,176,000	23,765,700
Reclassification to short-term loan from long-term loan	6,528,000	-
Increase in right-of-use assets	105,925,814	3,410,215
Reclassification from construction-in-progress	10,348,917	-
Reclassification to intangible assets from long-term advanced payments	194,135	75,242
Current portion of lease receivables	2,968,431	632,927
Current portion of lease liabilities	21,328,911	1,313,359
Transfer to current portion of long-term accrued expenses	79,500,596	8,919,452
Increase in other payables related to acquisition of property and equipment	262,771	10,812,394
Distribution of treasury shares as purchase consideration of investments in subsidiaries	8,900,161	-
Increase in financial liabilities at fair value through profit or loss related to acquisition of investments in subsidiaries	193,850,516	-
Increase in other payables related to acquisition of investments in subsidiaries	1,898,863	-
Increase in net derivative liabilities related to acquisition of investments in subsidiaries	3,612,150	-

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**27. Statements of Cash Flows, (cont'd)**

*(c) Changes in liabilities arising from financing activities*

Changes in liabilities arising from financial activities for the years ended December 31, 2021 and 2020, are as follows:

*(in thousands of  
Korean won)*

Korean won)		December 31, 2021								
		Cash flows from financing activities		Non-cash flows			Ending			
				New lease	Others					
Beginning										
Leasehold deposits received	₩	4,439,227	₩	2,309,038	₩	-	₩	71,388	₩	6,819,653
Lease liabilities		65,132,480		(30,086,125)		96,794,628		16,463,138		148,304,121
	₩	69,571,707	₩	(27,777,087)	₩	96,794,628	₩	16,534,526	₩	155,123,774

*(in thousands of  
Korean won)*

Korean won)		December 31, 2020								
		Beginning		Cash flows from financing activities		Non-cash flows			Ending	
Increase due to business combination						New lease		Others		
Short-term borrowings	₩	53,000,000	₩	18,000,000	₩	(71,000,000)	₩	-	₩	-
Leasehold deposits received		3,853,726		218,439		-		(595)		367,657
Lease liabilities		57,423,211		(15,327,750)		19,751,282		3,285,737		-
	₩	114,276,937	₩	2,890,689	₩	(51,248,718)	₩	3,285,142	₩	367,657
										69,571,707

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**28. Related Party Transactions**

As of December 31, 2021 and 2020, the subsidiaries, associate and other important related parties of the Company are as follows:

Type	December 31, 2021	December 31, 2020
Subsidiaries	Bluehole Studio, Inc. Rising Wings, Inc. PUBG Santa Monica, Inc. PUBG Amsterdam B.V. PUBG Mad Glory, LLC PUBG Shanghai KP PTE. LTD. Striking Distance Studios, Inc. PUBG JAPAN Corporation Krafton Ventures, L.L.C. Krafton Ventures Fund, L.P. KRAFTON Ventures, Inc. PUBG Entertainment, Inc. Indestructible Frying Pan, LLC Striking Distance Studios Spain, S.L. Bonus XP, Inc. PUBG INDIA PRIVATE LIMITED SDS Interactive Canada Inc. Between US Co. Ltd. Dream Motion, Inc. Thingsflow Inc.(Domestic) Tiptoe Games Inc. Krafton Global GP, LLC Krafton Global, LP Thingsflow Inc. Unknown Worlds Entertainment, Inc. Unknown Worlds Entertainment,Ltd(UK) En Masse Entertainment, Inc.	Bluehole Studio, Inc. Rising Wings, Inc. Red Sahara Studio Co., Ltd PUBG Santa Monica, Inc. PUBG Amsterdam B.V. PUBG Mad Glory, LLC PUBG Shanghai KP PTE. LTD. Striking Distance Studios, Inc. PUBG JAPAN Corporation Krafton Ventures, L.L.C. Krafton Ventures Fund, L.P. KRAFTON Ventures, Inc. PUBG Entertainment, Inc. Indestructible Frying Pan, LLC Striking Distance Studios Spain, S.L. Bonus XP, Inc. PUBG INDIA PRIVATE LIMITED En Masse Entertainment, Inc.
Associates	Shinhan Alpha REIT Co., Ltd. Hidden Sequence Co., Ltd. 1Up Ventures, L.P. Smart Krafton-BonAngels Fund Nodwin Gaming Private Limited Un Note Co., Ltd. Loco Interactive Pte Limited Nasadiya Technologies Private Limited Mirae Asset Maps General Private Real Estate Investment Trust 66	Shinhan Alpha REIT Co., Ltd. Hidden Sequence Co., Ltd. 1Up Ventures, L.P. Smart Krafton-BonAngels Fund
Other Related	Spetznatz Helmet, LLC	Spetznatz Helmet, LLC



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Parties

Voyager X, Inc  
BonAngels Pacemaker Fund 2

Voyager X, Inc  
Tencent Technology (Shenzhen)  
Company Limited and its subsidiaries

Significant transactions with related parties for the years ended December 31, 2021 and 2020, are as follows:

(in thousands of Korean won)

	December 31, 2021					
	Revenue	Finance income <sup>1</sup>	Other income	Operating costs	Finance costs <sup>1</sup>	Other expenses
<b>Subsidiaries</b>						
Bluehole Studio, Inc. <sup>3</sup>	₩ 2,336,815	₩ 75,537	₩ 2,651,537	₩ -	₩ 3,678	₩ -
Rising Wings, Inc. <sup>3</sup>	-	5,063	240,183	-	5,555	-
PUBG Santa Monica, Inc. <sup>3</sup>	-	146,342	-	32,992,968	-	-
PUBG Amsterdam B.V. <sup>3</sup>	897,609	132,058	-	23,168,261	-	-
PUBG Mad Glory, LLC <sup>3</sup>	-	8,847	-	19,493,386	-	-
PUBG Shanghai <sup>3</sup>	-	-	-	10,471,361	-	-
KP PTE. LTD	-	25,134	-	-	-	-
Striking Distance Studios, Inc <sup>3</sup>	-	221,004	-	76,807,359	-	-
PUBG Japan Corporation <sup>3</sup>	-	11,309	-	8,119,417	-	-
Striking Distance Studios Spain, S.L.	-	-	-	2,738,679	-	-
PUBG INDIA PRIVATE LIMITED <sup>3</sup>	-	-	-	2,941,344	-	-
Red Sahara Studio Co., Ltd <sup>2</sup>	1,992	-	-	-	897	-
Between US Co. Ltd. <sup>3</sup>	157	2,133	15,089	102,820	149	2,126
Dream Motion, Inc. <sup>3</sup>	-	-	20,511	-	-	-
Thingsflow Inc. <sup>3</sup>	721	70,807	12,073	-	688	3,765
Tiptoe Games Inc. <sup>3</sup>	167	176	431	-	13	-
Sub Total	₩ 3,237,461	₩ 698,410	₩ 2,939,824	₩ 176,835,595	₩ 10,980	₩ 5,891
<b>Associates</b>						
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ 395,595	₩ 341,000	₩ 276,176	₩ 1,726,717	₩ -
Nodwin Gaming Private Limited	-	-	-	2,005,515	-	-
Sub Total	₩ -	₩ 395,595	₩ 341,000	₩ 2,281,691	₩ 1,726,717	₩ -
<b>Other Related Parties</b>						
Voyager X, Inc	₩ -	₩ -	₩ -	₩ 670,100	₩ -	₩ -
Total	₩ 3,237,461	₩ 1,094,005	₩ 3,280,824	₩ 179,787,386	₩ 1,737,697	₩ 5,891

<sup>1</sup> Includes lease related profit or loss.

<sup>2</sup> Includes transactions prior to expiration of related parties during the year ended December 31, 2021.

<sup>3</sup> When the Company purchases fixtures, licenses, etc. from a third party, the Company provides purchasing agency services for group purchases to the subsidiaries and does not receive any consideration for the agency purchasing services from the subsidiaries.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**28. Related Party Transactions, (cont'd)**

(in thousands of  
Korean won)

	December 31, 2020					
	Revenue	Finance income <sup>1</sup>	Other income	Operating costs	Finance costs <sup>1</sup>	Other expenses
<b>Subsidiaries</b>						
PUBG Corporation <sup>3,4</sup>	₩ -	₩ 139,000,000	₩ 2,754,556	₩ -	₩ 1,680,640	₩ -
En Masse Entertainment, Inc.	2,143,330	108,562	199,458	8,230,149	-	-
Squall, Inc	67,767	-	8,391	10,000	-	-
Rising Wings, Inc. <sup>3</sup>	-	1,143	6,431	-	149	-
Red Sahara Studio Co., Ltd <sup>3</sup>	380,834	-	360,559	-	1,180	-
Delusion Studio Inc. <sup>3</sup>	-	14,302	51,397	-	1,531	-
PUBG Santa Monica, Inc.	-	100,890	855	2,892,097	-	-
PUBG Amsterdam B.V.	-	12,649	74,801	2,014,793	-	-
PUBG MadGlory, LLC	-	-	44	2,021,838	-	-
PUBG Labs <sup>3</sup>	-	-	-	-	-	16
PUBG Shanghai	-	-	-	1,188,629	-	-
KP PTE. LTD.	-	1,402	685	-	-	-
Striking Distance Studios, Inc.	-	12,933	1,112	5,409,770	-	-
PUBG JAPAN Corporation	-	1,103	-	825,342	-	-
Striking Distance Studios Spain, S.L.	-	-	-	655,181	-	-
Bonus XP, Inc.	-	5,716	-	-	-	-
Bluehole Studio, Inc. <sup>2,3</sup>	534,170	7,972	367,999	-	289	-
Sub Total	₩ 3,126,101	₩ 139,266,672	₩ 3,826,288	₩ 23,247,799	₩ 1,683,789	₩ 16
<b>Associates</b>						
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ 669,234	₩ -	₩ 330,569	₩ 2,909,851	₩ -
<b>Other Related Parties</b>						
Voyager X, Inc	₩ -	₩ -	₩ -	₩ 113,400,000	₩ -	₩ -
Total	₩ 3,126,101	₩ 139,935,906	₩ 3,826,288	₩ 136,978,368	₩ 4,593,640	₩ 16

<sup>1</sup> Includes lease related profit or loss.

<sup>2</sup> Only includes transactions after share-split.

<sup>3</sup> When the Company purchases fixtures, licenses, etc. from a third party, the Company provides purchasing agency services for group purchases to the subsidiaries and does not receive any consideration for the agency purchasing services from the subsidiaries.

<sup>4</sup> Includes transactions prior to expiration of related parties during the year ended December 31, 2020.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**28. Related Party Transactions, (cont'd)**

Outstanding balances arising from sales/purchases of goods and services as of December 31, 2021 and December 31, 2020, are as follows:

(in thousands of Korean won)	December 31, 2021									
	Account Receivables <sup>1</sup>		Loans <sup>1</sup>	Other Receivables <sup>1,2</sup>		Account Payables	Other Payables <sup>2</sup>			
<b>Subsidiaries</b>										
Bluehole Studio, Inc.	₩	568,859	₩	-	₩	1,579,429	₩	367,214	₩	180,337
Rising Wings, Inc.		227,900		20,300,000		273,482		24		
PUBG Santa Monica, Inc.		-		8,266,164		1,134,401		6,043,941		5,573
PUBG Amsterdam B.V.		-		-		922,638		3,746,295		2,911,629
PUBG Mad Glory, LLC		-		-		153,071		2,807,534		23,234
PUBG Shanghai		448,955		-		269,934		3,210,684		-
KP PTE. LTD		-		612,748		72,661		-		-
Striking Distance Studios, Inc		-		12,761,228		120,344		6,936,896		7,042
PUBG Japan Corporation		-		2,635,650		9,350		1,372,810		-
Striking Distance Studios Spain, S.L.		-		-		451		316,950		-
Bonus XP, Inc.		-		14,772,988		5,637		-		-
PUBG INDIA PRIVATE LIMITED		-		-		1,022		537,992		-
Between US Co. Ltd.		2,609		-		75,962		2,445		15,397
Dream Motion, Inc.		3,760		-		1,484		-		-
Thingsflow Inc.		-		5,500,000		513,781		-		87,243
Tiptoe Games Inc.		-		-		11,076		2		2,276
En Masse Entertainment, Inc.		-		25,896,303		440,614		-		-
Sub Total	₩	1,252,083	₩	90,745,081	₩	5,585,337	₩	25,342,787	₩	3,232,731
<b>Associates</b>										
Shinhan Alpha REIT Co., Ltd.	₩	-	₩	-	₩	4,040,999	₩	-	₩	43,779,530
Sub Total	₩	-	₩	-	₩	4,040,999	₩	-	₩	43,779,530
Total	₩	1,252,083	₩	90,745,081	₩	9,626,336	₩	25,342,787	₩	47,012,261

<sup>1</sup>Receivables are before loss provisions, and provisions for receivables are ₩ 64,310,468 thousand. In addition, the total amount of bad debt expenses recognized for the year ₩ 20,859,977 thousand, and the total amount of reversal of allowance for bad debts was ₩ 11,246 thousand.

<sup>2</sup> Includes lease related receivables or payables

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**28. Related Party Transactions, (cont'd)**

(in thousands of  
Korean won)

	December 31, 2020					
	Account Receivables <sup>1</sup>	Loans <sup>1</sup>	Other Receivables <sup>1,2</sup>	Account Payables	Other Payables <sup>2</sup>	
<b>Subsidiaries</b>						
En Masse Entertainment, Inc	₩ -	₩ 25,896,303	₩ 431,693	₩ 427,296	₩ -	
Squall, Inc	128,651	6,200,000	299,797	1,345	-	
Rising Wings, Inc.	-	10,200,000	524,613	3,557	23,355	
Red Sahara Studio Co., Ltd	56,410	17,870,000	452,276	216	35,254	
PUBG Santa Monica, Inc.	-	12,853,023	1,324,190	5,391,247	5,517	
PUBG Amsterdam B.V.	-	3,345,600	1,035,584	3,940,343	3,809,239	
PUBG MadGlory, LLC	-	-	128,974	3,680,366	255	
PUBG Shanghai	4,421,800	-	271,667	1,439,657	-	
KP PTE. LTD.	-	569,782	41,749	-	-	
Striking Distance Studios, Inc.	-	7,580,790	90,295	5,898,837	6,465	
PUBG JAPAN Corporation	-	2,635,650	11,907	1,302,809	-	
Striking Distance Studios Spain, S.L.	-	-	-	655,181	-	
Bonus XP, Inc.	-	4,352,000	5,637	-	-	
Bluehole Studio, Inc.	866,427	-	3,229,012	2,774,040	180,400	
Sub Total	₩ 5,473,288	₩ 91,503,148	₩ 7,847,394	₩ 25,514,894	₩ 4,060,485	
<b>Associates</b>						
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ -	₩ 3,950,823	₩ -	₩ 41,246,255	
Sub Total	₩ -	₩ -	₩ 3,950,823	₩ -	₩ 41,246,255	
Total	₩ 5,473,288	₩ 91,503,148	₩ 11,798,217	₩ 25,514,894	₩ 45,306,740	

<sup>1</sup>Receivables are before loss provisions, and provisions for receivables are ₩ 65,883,491 thousand. In addition, the total amount of bad debt expenses recognized for the period ₩ 35,937,971 thousand, and the total amount of reversal of allowance for bad debts was ₩ 6,585,328 thousand.

<sup>2</sup> Includes lease related receivables or payables

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**28. Related Party Transactions, (cont'd)**

Financing transactions with related parties for the years ended December 31, 2021 and 2020, are as follows:

(in thousands of  
Korean won)

	December 31, 2021					
	Loans	Collection	Payment of lease liabilities	Collection of lease receivables	Payment of Capital	
<b>Subsidiaries</b>						
Bluehole Studio, Inc.	₩ -	₩ -	₩ -	₩ 565,280	₩ -	
Rising Wings, Inc.	10,100,000	-	-	53,783	-	
PUBG Santa Monica, Inc.	-	5,440,000	-	-	-	
PUBG Amsterdam B.V.	2,768,560	6,114,160	-	-	-	
Striking Distance Studios, Inc.	4,485,600	-	-	-	1,125,500	
Bonus XP, Inc.	10,425,329	-	-	-	-	
PUBG INDIA PRIVATE LIMITED	-	-	-	-	2,289,004	
Red Sahara Studio Co., Ltd	-	2,650,000	-	-	-	
Between US Co. Ltd.	-	-	-	15,152	-	
Thingsflow Inc.	5,500,000	-	-	27,471	-	
Tiptoe Games Inc.	-	-	-	806	100,000	
Sub Total	₩ 33,279,489	₩ 14,204,160	₩ -	₩ 662,492	₩ 3,514,504	
<b>Associates</b>						
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ -	₩ 15,875,229	₩ -	₩ -	
1Up Ventures, L.P	-	-	-	-	935,750	
Smart Krafton- BonAngels Fund	-	-	-	-	6,600,000	
Nodwin Gaming Private Limited	-	-	-	-	25,615,890	
Un Note Co., Ltd.	-	-	-	-	1,478	
Loco Interactive Pte Limited	-	-	-	-	3,407,400	
Nasadiya Technologies Private Limited	-	-	-	-	52,238,006	
Mirae Asset Maps General Private Real Estate Investment Trust 66	-	-	-	-	290,000,000	
Sub Total	₩ -	₩ -	₩ 15,875,229	₩ -	₩ 378,798,524	
Total	₩ 33,279,489	₩ 14,204,160	₩ 15,875,229	₩ 662,492	₩ 382,313,028	

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**28. Related Party Transactions, (cont'd)**

(in thousands of  
Korean won)

	December 31, 2020					
	Loans	Collection	Payment of borrowings	Payment of lease liabilities	Collection of lease receivables	Payment of Capital
<b>Subsidiaries</b>						
PUBG Corporation	₩ -	₩ -	₩ 53,000,000	₩ -	₩ -	₩ -
En Masse Entertainment, Inc.	20,683,830	3,508,470	-	-	-	-
Rising Wings, Inc.	1,600,000	-	-	-	79,662	-
Red Sahara Studio Co., Ltd	5,910,000	-	-	-	-	-
Delusion Studio Inc.	800,000	-	-	-	-	-
KRAFTON Ventures, Inc.	-	-	-	-	-	2,437,000
Bonus XP, Inc.	4,527,020	-	-	-	-	-
Bluehole Studio, Inc.	-	-	-	-	43,577	-
Sub Total	₩ 33,520,850	₩ 3,508,470	₩ 53,000,000	₩ -	₩ 123,239	₩ 2,437,000
<b>Associates</b>						
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ -	₩ -	₩ 14,242,702	₩ -	₩ -
Smart Krafton- BonAngels Fund	-	-	-	-	-	3,600,000
Sub Total	₩ -	₩ -	₩ -	₩ 14,242,702	₩ -	₩ 3,600,000
Total	₩ 33,520,850	₩ 3,508,470	₩ 53,000,000	₩ 14,242,702	₩ 123,239	₩ 6,037,000

Details of payment guarantee and collateral provided by the Company to the related parties as of December 31, 2021, are as follows:

	Description	Financial institution	Currency	Guaranteed amount
Striking Distance Studios, Inc.	Rent	Sunset Building Company, LLC	USD	2,280,000
PUBG Santa Monica, Inc.	Rent	Water Garden Realty Holdings LLC and others	USD	900,000
PUBG Santa Monica, Inc., PUBG Madglory LLC, Striking Distance Studios, Inc.	Corporate card issuance	Citibank N.A.	USD	600,000
PUBG Mad Glory, LLC	Rent	25 West Main Office LLC	USD	2,110,865

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**28. Related Party Transactions, (cont'd)**

Key management includes registered directors and the executives who have significant authority and responsibility in respect to planning, operating and controlling of the Company's business activities. Compensation for key management for the years ended December 31, 2021 and 2020, consists of:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Salaries	₩ 2,382,411	₩ 672,922
Share-based payment expenses	64,200,320	2,183,651
Incentives	-	3,878,152
Post-employment benefits	86,567	70,138
	<u>₩ 66,669,298</u>	<u>₩ 6,804,863</u>

In the event when Shinhan Alpha REIT Co., Ltd., a related party, proposes to sell Pangyo Krafton Tower to a third party, the Company has a preemption right to purchase the real estate.

For the year ended December 31, 2021, the Company recognized revenue of ₩ 1,095,781,823 thousand (₩ 41,893,275 thousand for the year ended December 31, 2020) and operating costs of ₩ 43,411,154 thousand (₩ 5,312,125 thousand for the year ended December 31, 2020) related to the transactions with Tencent Technology (Shenzhen) Company Limited and its subsidiaries. In addition, the related receivables of ₩ 416,317,087 and payables of ₩ 48,940,601 were recognized as of December 31, 2020. Meanwhile, on September 11, 2020, there was a change in the shareholder agreement with the largest shareholder and Tencent, and after the date of the change in the shareholder agreement, the Company recognized revenue of ₩ 41,893,275 thousand and operating costs of ₩ 5,312,125 thousand.

The Company purchased 3,433 convertible redeemable preferred stocks held by BonAngels Pacemaker Fund 2, a related party, at ₩ 1,280,001 thousand during the year ended December 31, 2021.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**29. Operating Segment**

The Company has a single operating segment. The financial information reported to the Chief Executive Officer is identical to the disclosed financial statements.

Revenue per revenue stream for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
PC	₩	380,081,318	₩	22,234,955
Mobile		1,399,667,288		56,167,816
Console		14,260,047		3,011,582
Others		34,365,135		14,022,678
	₩	<u>1,828,373,788</u>	₩	<u>95,437,031</u>

Revenue by geographical area for the years ended December 31, 2021 and 2020, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Revenue</b>	<b>Ratio</b>	<b>Revenue</b>	<b>Ratio</b>
Asia	₩ 1,618,649,357	% 88.53	₩ 64,701,226	% 67.79
Korea	105,115,796	5.75	19,276,310	20.20
America / Europe	81,857,677	4.48	9,917,863	10.39
Other area	22,750,958	1.24	1,541,632	1.62
Total	<u>₩ 1,828,373,788</u>	<u>% 100.00</u>	<u>₩ 95,437,031</u>	<u>% 100.00</u>

Revenue amounting to ₩ 1,178,710,320 thousand (₩ 41,893,275 thousand for the year ended December 31, 2020), accounting for more than 10% of the Company's revenue, are derived from a single external customer (Customer A) for the year ended December 31, 2021.

**30. Uncertainties Arising from COVID-19**

In order to contain the spread of Coronavirus disease 2019 ("COVID-19"), various preventive and regulatory measures have been implemented globally, including restrictions on travel. As a result, the global economy has been impacted extensively. In addition, governments have announced various policies to aid and provide relief from the impact of COVID-19.

The Company's business is mainly accessible by customers through personal computers and mobile platforms. Potential areas which might be impacted by COVID-19 include recoverability of trade receivables, impairment of tangible and intangible assets, and others. The Company has reasonably estimated the impact of COVID-19 in preparing the separate financial statements.

However, at this stage, significant uncertainties exist in estimating the duration and severity of COVID-19 as well as the ultimate impact of COVID-19 on the Company's separate financial statements.



## **Independent auditor's report on internal control over financial reporting**

**The Shareholders and Board of Directors  
Krafton, Inc.**

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

We have audited Krafton, Inc. (the "Company")'s internal control over financial reporting("ICFR") as of December 31, 2021, based on the criteria established in Internal Control – Design and Operation Integrated Framework issued by the Committee of Internal Control Operations.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the criteria established in Internal Control – Design and Operation Integrated Framework issued by the Committee of Internal Control Operations.

We also have audited, in accordance with Korean Standards on Auditing ("KGAAS"), the separate financial statements of the Company, which comprise the separate statement of financial position as of December 31, 2021, the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 14, 2022 expressed an unqualified opinion thereon.

### **Basis of Opinion**

We conducted our audit in accordance with Korean Standards on Auditing ("KGAAS"). Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying 'ICFR Operating Status Report'.

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

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

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

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

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

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 partner in charge of the audit resulting in this independent auditor's report is Jong Seok Lee.



March 14, 2022

This audit report is effective as of March 14, 2022, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

# KRAFTON

## **Report on the Effectiveness of Internal Control over Financial Reporting**

(English Translation of a Report Originally Issued in Korean)

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

We, as the Chief Executive Officer (CEO) and the Internal Control over Financial Reporting Officer of KRAFTON, Inc. (the Company), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting (ICFR) for the year ended December 31, 2021.

The Company'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 Company's ICFR, as at December 31, 2021, is designed and operating effectively, in all material respects, in accordance with Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

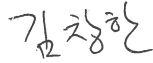
We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein.

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.

# KRAFTON

February 10, 2022

Chang Han Kim,  
Chief Executive Officer

Handwritten signature of Chang Han Kim in black ink.

Dong Keun Bae,  
Internal Control over Financial Reporting Officer

Handwritten signature of Dong Keun Bae in black ink.