

KRAFTON, INC.

Separate Financial Statements

**December 31, 2022 and 2021**

(With Independent Auditors' Report Thereon)

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## **Independent Auditors' Report**

Based on a report originally issued in Korean

To the Board of Directors and Shareholders  
Krafton, Inc.

### **Opinion**

We have audited the separate financial statements of Krafton, Inc. (the "Company"), which comprise the separate statement of financial position as of December 31, 2022, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the Company's Internal Control over Financial Reporting (ICFR) as of December 31, 2022 based on the criteria established in Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 13, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

### **Basis for Opinion**

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' 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 financial statements in Republic of Korea, and we have fulfilled 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 matter that, in our professional judgment, was of most significance in our audit of the separate financial statements as of and for the year ended December 31, 2022. This matter was addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

## ***Impairment Testing of Investment in Subsidiary (The Unknown Worlds Entertainment, Inc.)***

### ***Reasons For the Decision as a Key Audit Matter***

The Company reviews its investments in subsidiaries for indication of impairment every year and performs impairment testing for investments in subsidiaries with indication of impairment. Management's significant judgment is involved in measuring the recoverable amount of investments in subsidiaries with indication of impairment, such as future cash flows, discount rates and growth rates of the subsidiaries.

As described in Note 12 to the separate financial statements, the carrying amount of investment in Unknown Worlds Entertainment, Inc., a subsidiary, in the Company's separate financial statements is KRW 733,530 million, which is significant at 84.69% of total investments in subsidiaries. In addition, the recoverable amount of the investment in subsidiary varies significantly depending on how management determines the valuation model and unobservable input variables. We determined the impairment testing of the Unknown Worlds Entertainment, Inc. as a key audit matter considering the uncertainty of these accounting estimates and the significance of Unknown Worlds Entertainment, Inc.'s carrying amount.

### ***How the Key Audit Matter Was Addressed in the Audit***

We performed audit procedures including the followings to address the key audit matter.:

- Understanding of the Company's policies, processes, and internal controls for identifying indication of impairment and accounting for investments in subsidiaries
- Evaluating the qualifications and independence of external experts engaged by the Company
- Testing the internal controls over management's review and approval of future cash flows estimates and evaluations for impairment testing.
- Evaluating the appropriateness of the valuation model used by management to estimate value in use.
- Evaluating the reasonableness of major assumptions such as future cash flows, discount rates and growth rates used by management in estimating value in use.
- Evaluating whether there is bias in the estimate by comparing the cash flows used in the estimate with actual performance and performing a retrospective review.

### ***Other Matters***

The separate financial statements of the Company for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on thereon on March 14, 2022.

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 in the preparation of the separate financial statements 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 auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chang-Bum Ahn.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 13, 2023

This report is effective as of March 13, 2023, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

**KRAFTON, Inc.****Separate Statements of Financial Position****As of December 31, 2022 and December 31, 2021***(in thousands of Korean Won)*

(In thousands of Korean Won)	Notes	December 31, 2022		December 31, 2021	
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5,6	₩	430,809,069	₩	2,832,057,949
Current portion of financial assets at fair value through profit or loss	5,6,10		2,450,603,157		-
Trade receivables	4,5,6,7		523,426,839		525,942,930
Other current financial assets	5,6,7,8,13		205,723,551		70,171,032
Other current assets	7		42,444,802		38,716,445
			<u>3,653,007,418</u>		<u>3,466,888,356</u>
<b>Non-current assets</b>					
Investments in subsidiaries and associates	12		1,320,163,045		1,304,761,957
Financial assets at fair value through profit or loss	5,6,10		143,591,695		88,809,217
Financial assets at fair value through other comprehensive income	4,5,6,11		83,079,911		109,880,530
Property and equipment	13		177,347,687		201,143,474
Intangible assets	14		9,058,975		10,801,730
Investment properties	15		202,173,260		183,259,225
Other non-current financial assets	5,6,7,8,13		82,713,298		42,012,852
Other non-current assets	7		27,319,649		4,658,866
Deferred tax assets	25		74,253,160		78,509,214
Derivative assets	5,6		1,757,481		844,177
			<u>2,121,458,161</u>		<u>2,024,681,242</u>
<b>Total assets</b>		₩	<u>5,774,465,579</u>	₩	<u>5,491,569,598</u>

(continued)

**KRAFTON, Inc.****Separate Statements of Financial Position, (Cont'd)****As of December 31, 2022 and December 31, 2021***(in thousands of Korean Won)*

	Notes	December 31, 2022	December 31, 2021
<b>Liabilities</b>			
<b>Current liabilities</b>			
Other current financial liabilities	4,5,6,9	217,134,923	328,791,361
Other current liabilities	9,21	74,732,134	73,385,230
Current provisions	17	2,902,828	37,529,676
Current tax liabilities		37,907,683	111,200,406
		<u>332,677,568</u>	<u>550,906,673</u>
<b>Non-current liabilities</b>			
Financial liabilities at fair value through profit or loss	4,5,6	201,143,514	205,865,216
Net defined benefit liability	16	7,659,997	10,772,823
Provisions	17	13,364,010	12,127,609
Other non-current financial liabilities	4,5,6,9	161,452,422	114,690,746
Derivative liabilities	4,5,6	15,863,801	5,127,343
		<u>399,483,744</u>	<u>348,583,737</u>
<b>Total liabilities</b>		<u>732,161,312</u>	<u>899,490,410</u>
<b>Equity</b>			
Share capital	19	4,908,155	4,896,705
Capital surplus	19	2,481,010,220	4,861,995,661
Other components of equity	19,20	69,243,284	134,804,394
Retained earnings (Accumulated deficits)	19	2,487,142,608	(409,617,572)
<b>Total equity</b>		<u>5,042,304,267</u>	<u>4,592,079,188</u>
<b>Total liabilities and equity</b>		<u>₩ 5,774,465,579</u>	<u>₩ 5,491,569,598</u>

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

**KRAFTON, Inc.**  
**Separate Statements of Comprehensive Income**  
**Years Ended December 31, 2022 and 2021**

(in thousands of Korean Won)

	Notes	December 31, 2022	December 31, 2021
<b>Revenue</b>	21	₩ 1,767,775,811	₩ 1,828,373,788
<b>Operating costs</b>	22	<u>1,029,953,898</u>	<u>1,131,998,343</u>
<b>Operating profit</b>		737,821,913	696,375,445
Other income	23	283,725,510	146,011,673
Other expenses	23	382,138,285	68,783,697
Finance income	24	32,993,011	11,720,851
Finance costs	24	<u>6,148,544</u>	<u>5,848,123</u>
<b>Profit before income tax</b>		666,253,605	779,476,149
<b>Income tax expense</b>	25	<u>179,110,997</u>	<u>237,273,898</u>
<b>Profit for the year</b>		<u>₩ 487,142,608</u>	<u>₩ 542,202,251</u>
<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		(45,707,882)	22,657,183
Remeasurements of net defined benefit liability	16	4,585,201	(2,367,547)
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(28,935)	(8,873)
<b>Other comprehensive income (loss) for the year, net of tax</b>		<u>₩ (41,151,616)</u>	<u>₩ 20,280,763</u>
<b>Total comprehensive income for the year</b>		<u>₩ 445,990,992</u>	<u>₩ 562,483,014</u>
<b>Earnings per share (in Korean Won)</b>	26		
Basic earnings per share		₩ 10,388	₩ 12,538
Diluted earnings per share		10,301	12,287

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



**KRAFTON, Inc.**  
**Separate Statements of Changes in Equity**  
**Years Ended December 31, 2022 and 2021**

<i>(in thousands of Korean Won)</i>	<b>Share Capital</b>	<b>Capital surplus</b>	<b>Other Components of Equity</b>	<b>Accumulated Deficits</b>	<b>Total</b>
<b>Balance at January 1, 2021</b>	<u>₩ 4,278,519</u>	<u>₩ 2,026,668,321</u>	<u>₩ 121,675,683</u>	<u>₩ (951,819,823)</u>	<u>₩ 1,200,802,700</u>
<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	57,233,631	(56,524,681)	-	764,736
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
Gain on 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	-	-	33,710,386	-	33,710,386
<b>Balance at December 31, 2021</b>	<u>₩ 4,896,705</u>	<u>₩ 4,861,995,661</u>	<u>₩ 134,804,395</u>	<u>₩ (409,617,572)</u>	<u>₩ 4,592,079,189</u>

(continued)

# KRAFTON, Inc.

## Separate Statements of Changes in Equity, (Cont'd)

Years Ended December 31, 2022 and 2021

<i>(in thousands of Korean Won)</i>	Share Capital	Capital surplus	Other Components of Equity	Retained earnings (Accumulated deficits)	Total
<b>Balance at January 1, 2022</b>	₩ 4,896,705	₩ 4,861,995,661	₩ 134,804,395	₩ (409,617,572)	₩ 4,592,079,189
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	487,142,608	487,142,608
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	(45,707,882)	-	(45,707,882)
Remeasurements of net defined benefit liability	-	-	4,585,201	-	4,585,201
Exchange differences on translation of foreign operations	-	-	(28,935)	-	(28,935)
<b>Transactions with shareholders recognized directly to equity</b>					
Exercise and forfeiture of share options	11,450	2,907,876	(2,806,340)	-	112,986
Share-based payment expenses	-	-	10,186,062	-	10,186,062
Grant of stock options, etc. to executives and employees of subsidiaries	-	-	1,921,169	-	1,921,169
Gift of shares	-	25,724,255	(33,710,386)	-	(7,986,131)
Transfer to Capital Reserve	-	(2,409,617,572)	-	2,409,617,572	-
<b>Balance at December 31, 2022</b>	₩ 4,908,155	₩ 2,481,010,220	₩ 69,243,284	₩ 2,487,142,608	₩ 5,042,304,267

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

# KRAFTON, Inc.

## Separate Statements of Cash Flows

Years Ended December 31, 2022 and 2021

(in thousands of Korean Won)

	Note	December 31, 2022	December 31, 2021
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	₩ 745,654,618	₩ 871,837,645
Interest received		30,981,849	10,777,611
Interest paid		(5,559,440)	(5,307,912)
Dividends received		6,844,857	570,827
Income taxes paid		(233,261,492)	(201,062,664)
<b>Net cash flows provided by operating activities</b>		<b>544,660,392</b>	<b>676,815,507</b>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments	₩	28,200,958	₩ 11,960,000
Collection of short-term loans		16,838,815	11,554,160
Disposal of financial assets at fair value through profit or loss		3,932,785,883	14,708,686
Disposal of investments in subsidiaries		2,845,639	-
Collection of long-term loans		579,711	2,948,290
Disposal of property and equipment		137,264	264,480
Decrease in deposits		88,847	2,546,237
Decrease in long-term advanced payments		-	77,208
Collection of lease receivables		4,721,632	1,627,010
Receipt of government subsidies		-	360,000
Increase in short-term loans		(55,467,025)	(8,268,560)
Increase in long-term financial instruments		(35,578,034)	(1,787,649)
Acquisition of financial assets at fair value through profit or loss		(6,510,453,505)	(44,299,585)
Acquisition of financial assets at fair value through other comprehensive income		(36,549,117)	(6,132,399)
Increase in long-term loans		(98,335,825)	(25,810,929)
Increase in advanced payments		(20,856,255)	(68,833)
Acquisition of property and equipment		(15,629,671)	(53,954,884)
Acquisition of intangible assets		(1,071,226)	(3,978,113)
Acquisition of investment properties		(7,116,998)	(106,803,541)
Return of government subsidies		(902,950)	-
Increase in deposits		(2,779,063)	(19,310,585)
Acquisition of investments in associates		(54,595,070)	(378,798,523)
Acquisition of investments in subsidiaries		(112,249,112)	(696,878,017)
Decrease in derivative liabilities		-	(520,159)
<b>Net cash flows used in investing activities</b>	₩	<b>(2,965,385,102)</b>	₩ <b>(1,300,565,706)</b>

(continued)

**KRAFTON, Inc.****Separate Statements of Cash Flows, (Cont'd)****Years Ended December 31, 2022 and 2021***(in thousands of Korean Won)*

	Note	December 31, 2022	December 31, 2021
<b>Cash flows from financing activities</b>			
Increase in leasehold deposits received	₩	5,701,862	₩ 2,339,819
Increase in paid-in capital		-	2,772,203,492
Exercise of share options		112,986	764,736
Repayments of lease liabilities		(42,893,640)	(30,086,125)
Decrease in leasehold deposits received		<u>(4,490,958)</u>	<u>(30,780)</u>
<b>Net cash flows provided by(used in) financing activities</b>		<u>(41,569,750)</u>	<u>2,745,191,142</u>
<b>Net increase(decrease) in cash and cash equivalents</b>		(2,462,294,460)	2,121,440,943
Cash and cash equivalents at the beginning of the year		2,832,057,949	661,654,353
Effects of exchange rate changes on cash and cash equivalents		<u>61,045,580</u>	<u>48,962,653</u>
<b>Cash and cash equivalents at the end of the year</b>	₩	<u>430,809,069</u>	₩ <u>2,832,057,949</u>

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

# KRAFTON, Inc.

## Notes to the Separate Financial Statements

### December 31, 2022 and 2021

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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.

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

As of December 31, 2022, the Company’s share capital amounts to ordinary shares of ₩4,908 million, through number of share option exercises, increase in paid-in capital and 5-for-1 share split effective on May 4, 2021. As of December 31, 2022, the Company’s shareholders are as follows:

<i>(in Shares)</i>	<b>Number of shares</b>	<b>Percentage of ownership</b>
Byung-gyu Chang	7,133,651	14.53%
Image Frame Investment (HK) Limited	6,641,640	13.53%
National Pension Service (NPS)	3,087,545	6.29%
Treasury shares	2,167,418	4.42%
Others	30,051,291	61.23%
	<b>49,081,545</b>	<b>100.00%</b>

#### 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 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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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**2.1 Basis of Preparation, (cont'd)**

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, 2022.

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

The application scope 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 application of amendments does not have a significant impact on The Company's separate financial statements.

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

The amendments were updated so that it refers to the amended conceptual framework for financial reporting for assets and liabilities recognized upon business combination. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of KIFRS 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 application of amendments does not have a significant impact on The Company's separate financial statements.

*(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.

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

of producing those items, in profit or loss. The application of amendments does not have a significant impact on The Company's 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 cost of fulfilling a contract comprises the costs that relate directly to the contract, and that costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The application of amendments does not have a significant impact on The Company's separate financial statements.

### *(e) 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 amendment does not have a significant impact on the separate financial statements.

- KIFRS 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters
- KIFRS 1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities
- KIFRS 1041 Agriculture – Measuring fair value

#### *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) 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, 2024, and earlier application is permitted. The Company is assessing the impact of these amendments on the separate financial statements

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

*(b) 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 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

*(c) 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. The Company does not expect these amendments to have a significant impact on the separate financial statements

*(d) 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. The Company does not expect these amendments to have a significant impact on the separate financial statements

*(e) 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. The Company does not expect these amendments to have a significant impact on the separate financial statements

Under the revisions to the standards, companies applying K-IFRS 1117 for the first time can apply optional classification adjustments ('overlay') to comparative periods. Such classification adjustments can be applied to all financial assets, including those without a connection to contracts within the scope of K-IFRS 1117. Companies applying classification adjustments to financial assets should present comparative information as if they had applied the classification and measurement



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

requirements of K-IFRS 1109 to those assets, and such classification adjustments can be applied on an item-by-item basis.

*(f) New Standard: K-IFRS 1001 'Presentation of Financial Statements' - Disclosure of gains and losses on financial liabilities with exercise price adjustment conditions*

For financial instruments, all or part of which are classified as financial liabilities which have conditions that adjust the exercise price depending on the issuer's share price, the standard requires the disclosure of the carrying amount of those financial liabilities and the related gains and losses. The amendment is effective for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company does not expect these amendments to have a significant impact on the separate financial statements.

**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 K-GAAP at the time of transition to K-IFRS 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 method 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'.

## **2.4 Foreign Currency Translation, (cont'd)**

Translation differences from non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. For example, translation differences from 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.

The Company offsets translation gains and losses arising from the conversion of foreign operations' foreign currency financial statements into Korean Won and the consolidation of accounting data between the head office and foreign operations. The resulting balance is recorded as accumulated other comprehensive income (foreign operation translation gains and losses). 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.

### *(c) Presentation of Integrated Foreign Exchange Differences*

In accordance with Paragraph 29 of K-IFRS 1001, The Company presents foreign exchange differences, including those recognized in other gains or losses and foreign currency translation differences, as integrated foreign exchange gains or losses.

## **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.

## **2.6 Revenue Recognition, (cont'd)**

### *(b) A performance obligation 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.

## **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.

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

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. The fair value changes of investments in equity instruments not designated are recognized in profit or loss.

*(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.
- **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'.

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

- 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, 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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
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**2.7 Financial Assets, (cont'd)**

*(e) Offsetting*

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(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:

	<b>Estimated 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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
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**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.

	<b>Estimated Useful lives</b>
Industrial property rights	5 - 10 years
Software	5 years
Membership rights	The Period of membership
Other intangible assets	5 years

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.

**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 losses. The Company depreciates investment properties, except for land, using the straight-line method over their estimated 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, 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'.



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

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 Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. 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 period in which they occur, directly in other comprehensive income.

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

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.

*(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 over the vesting period is determined based on the fair value of the stock 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.

**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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
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**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 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.

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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

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

- 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 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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred 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, 2022 were approved for issuance by the Board of Directors on February 7, 2023 and final approval will be obtained from the shareholders at their Annual General Meeting on March 28, 2023.

**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, (Cont'd)**  
**December 31, 2022 and 2021**

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**3. Critical Accounting Estimates and Assumptions, (cont'd)**

*(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.

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

*(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.



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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 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 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, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>		<b>December 31, 2022</b>			
		<b>USD</b>	<b>EUR</b>	<b>JPY</b>	<b>Others</b>
Financial assets denominated in foreign currency	₩	792,693,366	₩ 3,728,140	₩ 981,837	₩ 13,886,927
Financial liabilities denominated in foreign currency		46,155,990	371,350	49,565	3,145,590

<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 denominated in foreign currency	₩	1,094,247,616	₩ 2,810,642	₩ 1,871,151	₩ 14,968,364
Financial liabilities denominated in foreign currency		54,828,985	4,093,297	204,882	5,713,728

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, 2022</b>	
		<b>Strengthened</b>	<b>Weakened</b>
Assets denominated in foreign currency	₩	(40,564,514)	₩ 40,564,514
Liabilities denominated in foreign currency		2,486,125	(2,486,125)
Net effect	₩	(38,078,389)	₩ 38,078,389

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

*(in thousands of Korean won)*

	<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	<u>₩ (52,452,844)</u>	<u>₩ 52,452,844</u>

**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, 2022.

**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, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Changes in other comprehensive income when price per share of listed shares fluctuates by approximately 1% (after deduction of tax effects)	₩ 346,965	₩ 724,071

**(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, 2022, is determined as follows:

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of  
Korean won)

**December 31, 2022**

	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	Total
Expected loss rate	0.49%	85.60%	100%	100%	100%	
Gross carrying amount	₩ 525,967,403	₩ 198,249	₩ 127,144	₩ 521,688	₩ 1,762,894	₩ 528,577,378
Loss allowance provision	(2,569,114)	(169,698)	(127,144)	(521,688)	(1,762,894)	(5,150,538)

The amounts recognized in profit or loss within 'impairment loss' in relation to the impairment of trade receivables for the years ended December 31, 2022 and 2021, are as follows:

(in thousands of Korean won)

**December 31, 2022**

**December 31, 2021**

Operating costs	₩	3,271,519	₩	964,174
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**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, 2022 and 2021, are as follows:

(in thousands of Korean won)

**December 31, 2022**

**December 31, 2021**

Other expenses	₩	9,406,313	₩	20,555,462
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**(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, 2022 and 2021, to the contractual maturity date:

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

<i>(in thousands of Korean won)</i>	December 31, 2022					
	Book value	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Other payables	₩ 79,248,268	₩ 79,258,716	₩ 79,077,173	₩ 181,543	₩ -	₩ 79,258,716
Accrued expenses	121,684,093	121,684,093	90,134,315	31,549,778	-	121,684,093
Lease liabilities	170,314,902	184,772,858	48,876,405	135,896,453	-	184,772,858
Leasehold deposits received	7,315,524	8,317,197	688,828	7,447,961	180,408	8,317,197
Financial guarantee liabilities(*)	24,559	6,191,551	6,191,551	-	-	6,191,551
Derivative liabilities	15,863,801	15,863,801	-	-	15,863,801	15,863,801
Financial liabilities at fair value through profit or loss	201,143,514	271,119,699	-	271,119,699	-	271,119,699
	<u>₩ 595,594,661</u>	<u>₩ 687,207,915</u>	<u>₩ 224,968,272</u>	<u>₩ 446,195,434</u>	<u>₩ 16,044,209</u>	<u>₩ 687,207,915</u>

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

<i>(in thousands of Korean won)</i>	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	6,236,755	6,236,755	-	-	6,236,755
Derivative liabilities	5,127,343	5,127,343	-	-	5,127,343	5,127,343
Financial liabilities at fair value through profit or loss	205,865,216	296,375,000	-	296,375,000	-	296,375,000
	<u>₩ 654,474,667</u>	<u>₩ 762,058,082</u>	<u>₩ 336,126,159</u>	<u>₩ 419,608,763</u>	<u>₩ 6,323,160</u>	<u>₩ 762,058,082</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, (Cont'd)**  
**December 31, 2022 and 2021**

**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 total equity presented in the separate financial statements.

Debt-to-equity ratios as of December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Debt (A)	₩ 732,161,313	899,490,410
Equity (B)	5,042,304,267	4,592,079,188
Debt-to-equity ratio (A/B)	14.52%	19.59%

**5. Fair Value Measurement**

(a) The carrying amount and fair value of financial assets and liabilities as of December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
<b>Financial assets measured at fair value</b>				
Current portion of financial assets at fair value through profit or loss	₩ 2,450,603,157	₩ 2,450,603,157	₩ -	₩ -
Financial assets at fair value through profit or loss	143,591,695	143,591,695	88,809,217	88,809,217
Financial assets at fair value through other comprehensive income	83,079,911	83,079,911	109,880,530	109,880,530
Derivative assets	1,757,481	1,757,481	844,177	844,177
<b>Financial assets measured at amortized cost</b>				
Cash and cash equivalents	430,809,069	430,809,069	2,832,057,949	2,832,057,949
Trade receivables	523,426,839	523,426,839	525,942,930	525,942,930
Other current financial assets	193,299,366	193,299,366	66,484,552	66,484,552
Other non-current financial assets	49,034,310	49,034,310	36,425,377	36,425,377
<b>Other financial assets</b>				
Current lease receivables	12,424,186	12,424,186	3,686,480	3,686,480
Non-current lease receivables	33,678,987	33,678,987	5,587,475	5,587,475
	<u>₩ 3,921,705,001</u>	<u>₩ 3,921,705,001</u>	<u>₩ 3,669,718,687</u>	<u>₩ 3,669,718,687</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of Korean won)

	December 31, 2022		December 31, 2021	
	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	₩ 201,143,514	₩ 201,143,514	₩ 205,865,216	₩ 205,865,216
Derivative liabilities	15,863,801	15,863,801	5,127,343	5,127,343
<b>Financial liabilities measured at amortized cost</b>				
Other current financial liabilities <sup>1</sup>	169,246,936	169,246,936	282,466,385	282,466,385
Other non-current financial liabilities <sup>2</sup>	39,025,508	39,025,508	12,711,601	12,711,601
<b>Other financial liabilities</b>				
Current lease liabilities	47,887,988	47,887,988	46,324,976	46,324,976
Non-current lease liabilities	122,426,914	122,426,914	101,979,145	101,979,145
	₩ 595,594,661	₩ 595,594,661	₩ 654,474,666	₩ 654,474,666

<sup>1</sup> The amount includes liabilities related to employee compensation and share-based payment of 59,779,933 thousand (December 31, 2021: 163,847,735 thousand)

<sup>2</sup> The amount includes liabilities related to employee compensation and share-based payment of 31,549,779 thousand (December 31, 2021: 9,145,287 thousand)

*(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:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities accessible at the measurement date
- Level 2: Inputs other than quoted prices included within Level 1 that are directly or indirectly observable for the asset or liability
- Level 3: Unobservable inputs for the asset or liability

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

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.

**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, 2022 and 2021, are as follows:

(in thousands of Korean won)	December 31, 2022			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss	₩ -	₩ 2,450,603,157	₩ 143,591,695	₩ 2,594,194,852
Financial assets at fair value through other comprehensive income	47,857,219	-	35,222,692	83,079,911
Derivative assets	-	-	1,757,481	1,757,481
<b>Financial liabilities measured at fair value</b>				
Financial liabilities at fair value through profit or loss	₩ -	₩ -	₩ 201,143,514	₩ 201,143,514
Derivative liabilities	-	-	15,863,801	15,863,801

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(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	₩ -	₩ -	₩ 205,865,216	₩ 205,865,216
Derivative liabilities	-	-	5,127,343	5,127,343



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Valuation techniques and inputs used in the fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy as of December 31, 2022 and 2021, are as follows:

(in thousands of Korean won)	Fair Value		Level	Valuation Techniques		Inputs
	December 31, 2022	December 31, 2021		December 31, 2022	December 31, 2021	
	₩ 2,450,603,157	₩ -	2	Discounted Cash Flow	-	Discount rate considering credit rating
Financial assets at fair value through profit or loss	90,666,601	54,311,032	3	Net asset valuation model		Fair value of the investee's assets
	6,942,193	10,514,608	3	Binomial Model(T-F)		Annualized variability of stock prices(54.10%~63.38%) and others
	45,982,901	23,983,577	3	Cost-based approach <sup>1</sup>		Acquisition cost
Financial assets at fair value through other comprehensive	35,222,692	10,008,632	3	Cost-based approach <sup>1</sup>		Acquisition cost
Derivative assets	1,757,481	844,177	3	Binomial model(T-F)		Annualized variability of stock prices(56.41%~63.38%) and others
Financial liabilities at fair value through profit or loss	201,143,514	205,865,216	3	Discounted Cash Flow <sup>2</sup>		Estimated revenue of the investee company, Discount rate considering credit rating(8.80%~16.05%) and others
	4,119,095	5,127,343	3	Binomial model(T-F)		Annualized variability of stock prices(63.38%) and others
Derivative liabilities	11,744,706	-		Monte-Carlo Simulation		Annualized variability of stock prices (56.41%) 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 2 and Level 3**

Each finance department of the Company's segments is responsible for fair value measurements, which include fair value measurements categorized as Level 2 and 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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

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.

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, 2022, and 2021 are as follows:

		December 31, 2022			
		Favorable changes		Unfavorable changes	
		Profit (loss)	Equity	Profit (loss)	Equity
Financial assets at fair value through profit or loss	₩	529,292	₩	-	₩ (465,941)
Derivative assets		151,911		-	(150,797)
Financial liabilities at fair value through profit or loss		5,642,341		-	(5,854,664)
Derivative liabilities		2,810,713		-	(3,304,439)

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

		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		7,092,918		-	(7,329,674)
Derivative liabilities		145,536		-	(147,319)

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

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

The changes in Level 3 classified assets and liabilities measured at fair value during the year ended December 31, 2022 are as follows

<i>(in thousands of Korean won)</i>	Beginning Balance	Acquisition	Disposal	Valuation	Ending Balance
Financial assets at fair value through profit or loss	₩ 88,809,217	₩ 37,797,092	₩ (1,814,638)	₩ 18,800,024	₩ 143,591,695
Financial assets at fair value through other comprehensive	10,008,632	24,549,116	-	664,944	35,222,692
Derivative assets	844,177	1,699,118	-	(785,814)	1,757,481
Financial liabilities at fair value through profit or loss	205,865,216	-	-	(4,721,702)	201,143,514
Derivative liabilities	5,127,343	12,563,953	-	(1,827,495)	15,863,801

*(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 ₩ 22,433 million (December 31, 2021: ₩ 13,933 million) as of December 31, 2022.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

(in thousands of Korean won)	December 31, 2022		December 31, 2021	
<b>Financial assets</b>				
Financial assets at fair value:				
Current financial assets at fair value through profit or loss	₩	2,450,603,157	₩	-
Financial assets at fair value through profit or loss		143,591,695		88,809,217
Financial assets at fair value through other comprehensive income		83,079,911		109,880,530
Derivative assets		1,757,481		844,177
Financial assets at amortized cost:				
Cash and cash equivalents		430,809,069		2,832,057,949
Trade receivables		523,426,839		525,942,930
Other current financial assets		193,299,366		66,484,552
Other non-current financial assets		49,034,310		36,425,377
Other financial assets:				
Current lease receivables		12,424,186		3,686,480
Non-current lease receivables		33,678,987		5,587,475
	₩	3,921,705,001	₩	3,669,718,687

(in thousands of Korean won)	December 31, 2022		December 31, 2021	
<b>Financial liabilities</b>				
Financial assets at fair value:				
Financial liabilities at fair value through profit or loss	₩	201,143,514	₩	205,865,216
Derivative liabilities		15,863,801		5,127,343
Financial liabilities at amortized cost:				
Other current financial liabilities		169,246,935		282,466,385
Other non-current financial liabilities		39,025,508		12,711,601
Other financial liabilities:				
Current lease liabilities		47,887,988		46,324,976
Non-current lease liabilities		122,426,914		101,979,145
	₩	595,594,660	₩	654,474,666

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, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Dividends income:		
Financial assets at fair value through profit or loss	₩ 349,946	₩ 229,827
Interest income/expenses:		
Financial assets at amortized cost	32,076,145	11,486,266
Financial liabilities at amortized cost	(427,881)	(406,874)
Other financial assets	894,272	210,922
Other financial liabilities	(5,559,440)	(5,307,912)
Gain on disposal:		
Financial assets at fair value through profit or loss	(47,252,211)	891,732
Current derivative assets	-	253,841
Gain (loss) on valuation:		
Financial assets at fair value through profit or loss	(12,258,983)	20,226,300
Financial assets at fair value through other comprehensive income	(45,707,882)	22,657,183
Financial liabilities at fair value through profit or loss	4,721,702	(1,499,524)
Derivative assets	(785,814)	(234,972)
Derivative liabilities	1,827,494	(436,042)
Net impairment loss:		
Trade receivables	(3,271,519)	(964,174)
Financial assets at amortized cost	(9,406,313)	(20,555,462)
Net gain(loss) on foreign currency translation		
Trade Receivables	46,257,380	58,337,024
Financial assets at amortized cost	93,803,258	49,912,841
Financial liabilities at amortized cost	(777,720)	(3,907,279)
	<u>₩ 54,482,434</u>	<u>₩ 130,893,697</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Details of trade receivables, other financial assets and other assets as of December 31, 2022 and 2021, are as follows:

	December 31, 2022			December 31, 2021
	Gross amount	Provision for impairment	Net amount	Net amount
<i>(in thousands of Korean won)</i>				
<b>Trade receivables</b>	₩ 528,577,378	₩ (5,150,538)	₩ 523,426,840	₩ 525,942,930
<b>Other current financial assets</b>				
Short-term financial instruments	30,000,000	-	30,000,000	28,200,958
Short-term loans	149,415,775	(9,475,344)	139,940,431	18,536,622
Other receivables	17,867,902	(227,293)	17,640,609	13,646,668
Accrued income	1,818,260	(675,449)	1,142,811	809,426
Deposits	4,575,514	-	4,575,514	5,290,878
Lease receivables	12,424,186	-	12,424,186	3,686,480
	216,101,637	(10,378,086)	205,723,551	70,171,032
<b>Other current assets</b>				
Advanced payments	11,148,547	-	11,148,547	7,493,215
Prepaid expenses	31,296,255	-	31,296,255	31,223,230
	42,444,802	-	42,444,802	38,716,445
	258,546,439	(10,378,086)	248,168,353	108,887,477
<b>Other non-current financial assets</b>				
Long-term financial instruments	7,365,683	-	7,365,683	1,787,649
Long-term loans	77,652,019	(63,604,940)	14,047,079	9,403,518
Long-term accrued income	234,699	(5,637)	229,062	-
Deposits	27,392,487	-	27,392,487	25,234,210
Lease receivables	33,678,987	-	33,678,987	5,587,475
	146,323,875	(63,610,577)	82,713,298	42,012,852
<b>Other non-current assets</b>				
Advanced payments	27,319,649	-	27,319,649	4,658,866
	173,643,524	(63,610,577)	110,032,947	46,671,718
	₩ 960,767,341	₩ (79,139,201)	₩ 881,628,140	₩ 681,502,125

	December 31, 2022			December 31, 2021
	Gross amount	Provision for impairment	Net amount	Net amount
<i>(in thousands of Korean won)</i>				
Third party receivables	₩ 788,008,457	₩ (5,353,389)	₩ 782,655,068	₩ 644,189,093
Related party receivables	172,758,884	(73,785,812)	98,973,072	37,313,032
	₩ 960,767,341	₩ (79,139,201)	₩ 881,628,140	₩ 681,502,125

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Changes in the provision for impairment for the years ended December 31, 2022 and 2021, are as follows:

(in thousands of  
Korean won)

	December 31, 2022				
	Beginning	Provision (reversal)	Write-off	Other	Ending
<b>Trade receivables</b>	₩ 1,937,790	₩ 3,271,519	₩ (58,771)	₩ -	₩ 5,150,538
<b>Other assets (current)</b>					
Financial assets:					
Other receivables	698,335	-	(471,042)	-	227,293
Accrued income	738,303	-	(57,217)	(5,637)	675,449
Short-term loans	-	9,475,344	-	-	9,475,344
<b>Other assets (non-current)</b>					
Financial assets:					
Long-term accrued income	-	-	-	5,637	5,637
Long-term loans	78,824,941	(69,031)	(15,150,970)	-	63,604,940
	<u>₩ 82,199,369</u>	<u>12,677,832</u>	<u>₩ (15,738,000)</u>	<u>₩ -</u>	<u>₩ 79,139,201</u>

(in thousands of  
Korean won)

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

As of December 31, 2022 and 2021, 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, (Cont'd)**  
**December 31, 2022 and 2021**

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**8. Restricted Financial Instruments**

Financial instruments which are restricted in use as of December 31, 2022 and 2021, are summarized as follows:

<i>(in thousands of Korean won)</i>		<b>December 31, 2022</b>	<b>December 31, 2021</b>	<b>Restriction</b>
<b>Short-term financial instruments</b>	Korean Securities and Financial Services	₩ 30,000,000	₩ -	Provided as collateral <sup>1</sup>
	Woori Bank	-	4,490,958	
<b>Long-term financial instruments</b>	Woori Bank	5,578,034	-	Provided as collateral <sup>2</sup>
	Shinhan Bank	1,787,649	1,787,649	
		<u>₩ 37,365,683</u>	<u>₩ 6,278,607</u>	

<sup>1</sup> Pledged as a collateral for ESOP Loans (Note 18).

<sup>2</sup> Pledged as a collateral for leasehold deposits received (Note 18).



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**9. Other Liabilities**

Details of other liabilities as of December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

(in thousands of Korean won)

	December 31, 2022		December 31, 2021	
<b>Other liabilities (current)</b>				
Financial liabilities:				
Other payables	₩	79,066,725	₩	59,889,460
Accrued expenses <sup>1</sup>		90,134,314		218,337,681
Current portion of leasehold deposits received		6,853		12,892
Lease liabilities		39,043		4,226,352
Financial guarantee liabilities		47,887,988		46,324,976
		<hr/> 217,134,923		<hr/> 328,791,361
Contract liabilities and other liabilities:				
Withholdings		7,682,348		10,219,857
Unearned revenue		65,988,455		62,346,648
Advance receipts		1,061,331		818,725
		<hr/> 74,732,134		<hr/> 73,385,230
<b>Other liabilities (non-current)</b>				
Financial liabilities:				
Long-term other payable		181,543		950,056
Long-term accrued expenses <sup>2</sup>		31,549,778		9,145,287
Leasehold deposits received		7,276,481		2,593,302
Lease liabilities		122,426,914		101,979,145
Financial guarantee liabilities		17,706		22,956
		<hr/> 161,452,422		<hr/> 114,690,746
	₩	453,319,479	₩	516,867,337

<sup>1</sup> Includes liabilities related to employee benefit and share-based payment amounting to ₩ 59,779,933 thousand (2021: ₩ 163,847,735 thousand).

<sup>2</sup> Includes liabilities related to employee benefit and share-based payment amounting to ₩ 31,549,779 thousand (2021: ₩ 9,145,287 thousand).

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>				
	<b>Acquisition cost</b>	<b>Accumulated gain (loss) on valuation</b>	<b>Book value</b>	<b>Current</b>	<b>Non-current</b>
Beneficiary certificates:					
BITKRAFT Esports Ventures Fund I, LP	₩ 1,159,002	₩ (16,783)	₩ 1,142,219	₩ -	₩ 1,142,219
MAKERS FUND LP	2,979,747	23,621,595	26,601,342	-	26,601,342
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	10,148,443	15,026,667	-	15,026,667
KJ& The 1 <sup>st</sup> Game Fund	1,000,000	-	1,000,000	-	1,000,000
Kowloon Nights Fund LP	5,207,527	2,036,459	7,243,986	-	7,243,986
Lumikai Fund I	1,547,283	67,022	1,614,305	-	1,614,305
Progression Fund I, L.P.	512,756	41,688	554,444	-	554,444
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	1,727,053	2,069,541	3,796,594	-	3,796,594
Future Innovation Private Equity Joint Venture Company 3	18,106,400	1,027,739	19,134,139	-	19,134,139
Impact Collective Korea Fund	500,000	-	500,000	-	500,000
BITKRAFT Ventures Fund II, L.P.	1,334,430	59,600	1,394,030	-	1,394,030
Hashed Venture Fund 2	1,400,000	-	1,400,000	-	1,400,000
Intudo Ventures III, LP	1,434,850	70,069	1,504,919	-	1,504,919
China Ventures Fund II, L.P.	16,086,357	2,777,516	18,863,873	-	18,863,873
3one4 Capital – Fund III	3,910,264	20,708	3,930,972	-	3,930,972
Griffin Gaming Partners II, L.P.	952,068	36,426	988,494	-	988,494
Progression Fund 2	194,760	(4,665)	190,095	-	190,095
Venture Reality Fund II LP	745,020	15,360	760,380	-	760,380
Pantera Blockchain Offshore Fund LP	1,324,760	(57,460)	1,267,300	-	1,267,300
Hiro Capital II SCSp	735,165	7,995	743,160	-	743,160
GALAXY INTERACTIVE FUND II, LP	1,309,600	(42,300)	1,267,300	-	1,267,300
Lifelike Capital Fund LP	1,320,300	(53,000)	1,267,300	-	1,267,300
TBT Global Growth No.3 Investment Association	1,500,000	-	1,500,000	-	1,500,000
SISU VENTURES III LP	777,600	(17,220)	760,380	-	760,380

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of  
Korean won)

	December 31, 2022				
	Acquisition cost	Accumulated gain (loss) on valuation	Book value	Current	Non-current
Discretionary Investment service agreement	2,481,662,163	(31,059,006)	2,450,603,157	2,450,603,157	-
Redeemable convertible preference shares:					
Super Awesome Inc.	500,000	(500,000)	-	-	-
Hidden Sequence Co., Ltd.	2,976,787	832,185	3,808,972	-	3,808,972
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	(2,761,704)	3,133,221	-	3,133,221
CINAMON, Inc.	3,999,984	-	3,999,984	-	3,999,984
Cold Brew Tech Private Limited	6,074,646	-	6,074,646	-	6,074,646
Simple Agreement for Future Equity:					
Unplay Inc.	4,401,600	33,950	4,435,550	-	4,435,550
Trioscope Inc	2,106,300	(205,350)	1,900,950	-	1,900,950
	<u>₩ 2,586,279,236</u>	<u>₩ 7,915,616</u>	<u>₩ 2,594,194,852</u>	<u>₩ 2,450,603,157</u>	<u>₩ 143,591,695</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(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, (Cont'd)**  
**December 31, 2022 and 2021**

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

Details of financial assets at fair value through other comprehensive income as of December 31, 2022 and 2021, are as follows:

(in thousands of  
Korean won)

		December 31, 2022			
		Acquisition cost	Accumulated loss on valuation	Book value	Non-current
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	134,900	1,267,299	1,267,299
SVA ZEPETO		5,000,000	598,604	5,598,604	5,598,604
METaverse I PTE. LTD					
Moloco Inc.		1,107,100	160,200	1,267,300	1,267,300
PLAYERUNKNOWN PRODUCTIONS B.V		5,117,432	(48,394)	5,069,038	5,069,038
Covenant.dev		2,225,089	(30,408)	2,194,681	2,194,681
LILA GAMES INC.		1,212,598	54,700	1,267,298	1,267,298
Mythos Studios LLC		13,909,500	347,625	14,257,125	14,257,125
AMAZEVR INC		1,436,497	(169,200)	1,267,297	1,267,297
Sword and Wand Inc.		648,000	(14,350)	633,650	633,650
Listed equity securities:					
Kakao Games Corp.		10,000,121	18,739,744	28,739,865	28,739,865
Neptune Company		10,029,497	5,457,226	15,486,723	15,486,723
Blitzway Co.,Ltd.		10,000,001	(6,369,370)	3,630,631	3,630,631
	₩	64,218,634	₩ 18,861,277	₩ 83,079,911	₩ 83,079,911

(in thousands of  
Korean won)

		December 31, 2021			
		Acquisition cost	Accumulated loss on valuation	Book value	Non-current
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		5,000,000	237,233	5,237,233	5,237,233
METaverse I PTE. LTD					
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
	₩	29,669,517	₩ 80,211,013	₩ 109,880,530	₩ 109,880,530

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**12. Investments in Subsidiaries and Associates**

Details of investments in subsidiaries and associates as of December 31, 2022 and 2021, are as follows:

(in thousands of Korean won)

(in thousands of Korean won)	Percentage of ownership	Location	December 31, 2022			December 31, 2021
			Acquisition cost	Net asset value	Carrying amount	Carrying amount
Subsidiaries						
Bluehole Studio, Inc.	100%	Korea	₩ 21,536,646	₩ (6,784,985)	₩ -	₩ -
En Masse Entertainment, Inc.	100%	U.S.A	-	(42,878,863)	-	-
Rising Wings, Inc.	100%	Korea	14,994,742	(40,549,878)	-	-
PUBG Santa Monica, Inc.	100%	U.S.A	918,350	16,261,539	918,350	1,131,658
PUBG Amsterdam B.V.	100%	Netherland	13,025,716	10,406,874	-	-
PUBG Shanghai	100%	China	2,407,475	5,538,768	2,407,475	2,229,940
KP PTE. LTD.	100%	Singapore	1	5,970,919	1	1
Striking Distance Studios, Inc.	100%	U.S.A	10,007,464	41,058,159	10,007,464	10,901,762
PUBG Japan Corporation	100%	Japan	39,363	1,600,932	-	-
Striking Distance Studios Spain, S.L.	100%	Spain	1,348,493	1,535,113	1,348,493	1,348,493
KRAFTON Ventures, Inc.	100%	U.S.A	2,437,000	1,848,715	2,437,000	2,437,000
PUBG Entertainment, Inc.	100%	U.S.A	-	(899,228)	-	-
PUBG INDIA PRIVATE LIMITED	99.99%	India	4,068,983	3,391,128	4,068,983	2,435,256
SDS Interactive Canada Inc.	100%	Canada	470,300	816,151	470,300	-
Between Us Co. Ltd. <sup>4</sup>	-	Korea	-	-	-	2,845,639
Dreamotion, Inc.	100%	Korea	37,867,657	7,477,847	19,841,212	19,651,628
Thingsflow Inc.	89.77%	Korea	18,070,904	(7,937,692)	6,760,521	8,649,651
Tiptoe Games, Inc.	100%	Korea	100,000	43,988	100,000	100,000
Krafton Global GP, LLC	100%	U.S.A	239,400	251,817	239,400	-
Krafton Global, LP	100%	U.S.A	1,915,200	1,631,864	1,915,200	-
Unknown Worlds Entertainment, Inc.	100%	U.S.A	857,512,819	84,424,322	733,530,021	855,186,033
5min lab Corp. <sup>1</sup>	100%	Korea	53,839,148	19,732,988	32,712,487	-
Neon Giant AB <sup>1</sup>	72.92%	Sweden	43,704,128	2,062,568	43,704,128	-
KRAFTON MONTREAL STUDIO, INC. <sup>1</sup>	100%	Canada	5,643,600	5,568,867	5,643,600	-
Sum of Subdiidaries			1,090,147,389	110,571,913	866,104,635	906,917,061

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of Korean won)

(in thousands of Korean won)			December 31, 2022			December 31, 2021		
	Ownership interest	Location	Acquisition cost		Net asset value	Carrying amount	Carrying amount	
<b>Associates</b>								
Shinhan Alpha REIT Co., Ltd. <sup>2</sup>	1.35%	Korea	₩	5,620,000	₩	4,744,221	₩	5,620,000
1Up Ventures, L.P	33.53%	U.S.A		11,819,250		13,829,959		11,819,250
Hidden Sequence Co., Ltd. <sup>2</sup>	13.57%	Korea		2,022,872		(672,361)		2,022,872
Smart Krafton-BonAngels Fund <sup>3</sup>	54.55%	Korea		10,560,000		9,420,223		10,560,000
Nodwin Gaming Private Limited <sup>2</sup>	15.00%	India		25,615,890		4,344,780		25,615,890
Un Note Co., Ltd. <sup>2</sup>	8.75%	Korea		1,478		616,163		1,478
Loco Interactive Pte Limited <sup>2</sup>	11.41%	India		8,307,162		3,747,398		-
Nasadiya Technologies Private Limited <sup>2</sup>	18.53%	India		52,238,006		2,194,167		52,238,006
Mirae Asset Maps General Private Real Estate Investment Trust 66	42.96%	Korea		290,000,000		270,393,580		290,000,000
Tamatem Inc. <sup>1,2</sup>	13.61%	Virgin Islands		7,728,554		2,635,497		7,728,554
Seoul Auction Blue Co., Ltd <sup>1,2</sup>	5.33%	Korea		2,999,945		1,050,371		2,999,945
XXBLUE Co., Ltd <sup>1,2</sup>	10.26%	Korea		4,999,772		367,306		4,999,772
Nautilus Mobile App Private Limited <sup>1</sup>	31.91%	India		6,546,036		2,179,249		6,546,036
Mebigo Labs Private Limited <sup>1,2</sup>	12.20%	India		13,175,608		3,477,055		13,175,608
Smart KNB Booster Fund <sup>1,3</sup>	75.86%	Korea		11,000,000		10,262,298		11,000,000
NIRVANANA <sup>1</sup>	33.33%	Korea		5,000,000		292,428		5,000,000
1Up Ventures Fund II, L.P <sup>1</sup>	47.51%	U.S.A		4,730,999		4,224,333		4,730,999
<b>Sum of Associates</b>				<b>462,365,572</b>		<b>333,106,667</b>		<b>454,058,410</b>
<b>Total Sum</b>				<b>₩ 1,552,512,961</b>		<b>₩ 443,678,580</b>		<b>₩ 1,320,163,045</b>
								<b>₩ 1,304,761,957</b>

<sup>1</sup> During the years ended December 31, 2022, the entity was included in the scope of subsidiaries or associates 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 considered to have significant influences over the entity as the Company participates in same or similar level of Board of Directors.

<sup>3</sup> Although the Company holds more than 50%, due to legal and contractual restrictions on the investor's rights, the conditions for having control are not met. However, the Company classified it as investments in associates, as the Company is able to exercise significant influence over the entity.

<sup>4</sup> During the years ended December 31, 2022, the entity was sold by the Company.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Changes in investments in subsidiaries and associates for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Beginning	₩	1,304,761,957	₩	35,876,845
Acquisitions		201,545,725		1,294,453,407
Disposals		(2,845,639)		-
Grant of share options		1,921,169		1,491,680
Impairment loss <sup>1</sup>		(185,220,167)		(27,059,975)
Ending	₩	<u>1,320,163,045</u>	₩	<u>1,304,761,957</u>

<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, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

*(in thousands of  
Korean won)*

(in thousands of Korean won)	December 31, 2022									
	Current Assets	Non-Current Assets	Current Liabilities	Non- Current Liabilities Current Liabilities	Revenue	Profit(loss) from continuing operations	Profit(loss) from discontinu ed operation, net of tax	Other Comprehen sive Income	Total Comprehen sive Income for the year	
<b>Subsidiaries</b>										
Bluehole Studio, Inc.	₩ 4,252,582	₩ 4,083,745	₩ 10,531,061	₩ 4,590,251	₩ 18,188,319	₩ (7,007,860)	₩ -	₩ 1,140,842	₩ (5,867,018)	
En Masse Entertainment, Inc.	259,268	10,368,222	53,506,353	-	-	(20,960)	(238,892)	(3,435,907)	(3,695,759)	
Rising Wings, Inc.	5,983,945	4,827,647	45,391,859	5,969,611	11,839,920	1,501,660	-	1,289,258	2,790,918	
PUBG Santa Monica, Inc.	21,343,619	7,917,676	12,954,224	45,532	50,183,273	5,052,029	-	584,606	5,636,635	
PUBG Amsterdam B.V.	16,622,840	4,740,958	10,936,222	20,702	26,507,405	(742,560)	-	65,099	(677,461)	
PUBG Shanghai	13,570,456	2,445,846	9,392,744	1,084,790	6,466,198	(5,404,957)	-	2,386	(5,402,571)	
KP PTE. LTD.	4,171,237	2,540,131	106,799	633,650	-	6,131,626	-	(119,811)	6,011,815	
Striking Distance Studios, Inc.	123,116,595	21,704,544	84,170,816	19,592,164	190,904,723	27,305,793	-	968,727	28,274,520	
PUBG Japan Corporation	4,938,585	3,099,928	2,997,163	3,440,418	8,611,929	403,900	-	(102,052)	301,848	
Striking Distance Studios Spain, S.L.	1,192,730	1,802,264	619,319	840,562	2,606,366	(111,259)	-	9,184	(102,075)	
KRAFTON Ventures, Inc.	30,934	2,416,830	599,049	-	-	(624,166)	-	14,758	(609,408)	

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

PUBG Entertainment, Inc.	196,138	-	1,095,366	-	302,261	20,323	-	(59,717)	(39,394)
PUBG INDIA PRIVATE LIMITED	4,485,338	5,776,114	2,803,941	4,066,044	6,852,539	(130,305)	-	(157,617)	(287,922)
SDS Interactive Canada Inc.	4,348,100	-	3,531,949	-	3,529,998	216,147	-	(18,475)	197,672
Between Us Co. Ltd.	-	-	-	-	798,081	(60,755)	-	-	(60,755)
Dreamotion, Inc.	8,026,537	263,825	629,587	182,928	3,949,159	795,378	-	140,051	935,429
Thingsflow Inc.	2,928,611	2,578,621	11,873,511	2,475,976	9,740,269	(6,031,273)	-	159,200	(5,872,073)
Tiptoe Games, Inc.	46,152	9,442	6,712	4,894	-	(48,057)	-	-	(48,057)
Krafton Global GP, LLC	252,579	-	762	-	-	(1,674)	-	14,092	12,418
Krafton Global, LP	1,632,626	-	762	-	-	(296,281)	-	111,343	(184,938)
Unknown Worlds Entertainment, Inc.	108,113,473	2,677,393	26,366,544	-	47,796,599	19,793,458	-	3,691,645	23,485,103
5min lab Corp.	20,799,238	3,018,578	2,066,111	2,018,717	1,172,283	(6,114,634)	-	-	(6,114,634)
Neon Giant AB	2,564,060	1,415,299	630,488	520,435	-	-	-	(144,258)	(144,258)
KRAFTON MONTREAL STUDIO, INC.	5,612,264	-	43,397	-	-	(46,032)	-	(28,701)	(74,733)
<b>Associates</b>									
Shinhan Alpha REIT Co., Ltd. <sup>1</sup>	₩ 38,273,032	₩ 1,874,589,003	₩ 411,625,117	₩ 1,031,515,919	₩ 74,616,104	₩ 8,927,257	₩ -	₩ -	₩ 8,927,257
1Up Ventures, L.P	5,391,402	35,855,166	43	-	-	1,070,288	-	6,244,113	7,314,401
Hidden Sequence Co., Ltd.	13,173,305	2,277,122	12,177,922	8,060,842	13,698,836	(1,463,260)	-	-	(1,463,260)
Smart Krafton-BonAngels Fund	392,136	16,994,327	116,054	-	6,190	(235,808)	-	(1,506,405)	(1,742,213)
Nodwin Gaming Private Limited	40,023,832	21,525,407	25,505,444	5,401,691	40,841,403	209,734	-	3,310,740	3,520,474
Un Note Co., Ltd.	1,436,471	10,556,312	4,914,573	38,503	333,457	(6,255,601)	-	-	(6,255,601)
Loco Interactive Pte Limited	31,693,578	2,941,415	4,603,595	2,652,602	117,248	(30,227,952)	-	(7,932,389)	(38,160,341)

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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Nasadiya Technologies Private Limited	13,757,246	11,256,893	1,796,200	4,663,507	6,679,053	(33,556,643)	-	409,664	(33,146,979)
Mirae Asset Maps General Private Real Estate Investment Trust 66	41,454,564	1,304,439,262	16,529,459	700,000,000	2,355,117	(35,942,790)	-	-	(35,942,790)
Tamatem Inc.	21,064,295	533,727	1,604,122	631,720	28,809,149	(3,522,018)	-	2,912,373	(609,645)
Seoul Auction Blue Co., Ltd	25,390,717	2,769,565	7,712,688	(68,405)	13,043,602	(4,791,168)	-	-	(4,791,168)
XXBLUE Co., Ltd	6,231,701	934,334	3,700,541	(115,879)	1,900,885	(2,783,600)	-	-	(2,783,600)
Nautilus Mobile App Private Limited	7,552,854	159,015	750,652	132,903	4,209,531	55,296	-	(296,455)	(241,159)
Mebigo Labs Private Limited	33,519,415	572,230	5,521,646	64,450	5,393,994	(18,765,005)	-	(3,511,086)	(22,276,091)
Smart KNB Booster Fund	14,113,985	-	586,410	-	156,239	(972,425)	-	-	(972,425)
NIRVANANA	606,547	1,223,594	752,767	200,000	5,000	(4,123,626)	-	-	(4,123,626)
1Up Ventures Fund II, L.P	8,892,221	-	-	-	-	-	-	(1,066,533)	(1,066,533)

<sup>1</sup> The amount of profit and loss-related information of Shinhan Alpha REIT Co., Ltd., is adjusted from January 1, 2022 to December 31, 2022

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

<i>(in thousands of Korean won)</i>	December 31, 2021									
	Current Assets	Non-Current Assets	Current Liabilities	Non- Current Liabilities Current Liabilities	Revenue	Profit(loss) from continuing operations	Other Comprehe nsive Income	Total Comprehen sive Income for the year		
<b>Subsidiaries</b>										
Bluehole Studio, Inc.	₩ 8,436,551	₩ 4,897,785	₩ 26,971,879	₩ 6,223,638	₩ 19,724,992	₩ (25,486,435)	₩ (1,728,833)	₩ (27,215,268)		
En Masse Entertainment, Inc.	483,507	10,368,222	50,252,251	-	(2,473)	(4,281,723)	(5,800,078)	(10,081,801)		
RisingWings Inc.	3,854,327	5,950,067	40,838,157	11,602,042	18,585,468	(24,812,697)	(537)	(24,813,234)		
KRAFTON Venture, Inc.	17,624,015	11,106,333	13,800,392	4,323,399	32,920,220	2,900,707	1,584,293	4,485,000		
PUBG Santa Monica, Inc.	20,369,014	3,366,864	12,017,895	1,046,230	24,296,089	6,900,749	(76,984)	6,823,765		
PUBG Amsterdam B.V.	14,009,723	3,661,846	4,285,052	2,219,651	15,742,019	3,563,027	1,614,912	5,177,939		
PUBG Shanghai	32,654	591,861	72,661	592,750	-	12,136	(7,923)	4,213		
KP PTE. LTD.	31,433,033	14,633,701	6,314,967	19,687,949	76,528,307	636,358	2,943,617	3,579,975		
Striking Distance Studios, Inc.	4,025,107	2,445,604	1,815,435	2,941,666	8,111,904	(1,121,152)	(39,313)	(1,160,465)		
PUBG Japan Corporation	2,748,058	1,174,821	943,208	1,282,482	2,740,525	(132,407)	11,225	(121,182)		
Striking Distance Studios Spain, S.L.	41,293	2,416,830	-	-	-	(9,261)	598,165	588,904		
PUBG Entertainment, Inc.	948	-	860,783	-	-	(532,403)	(88,937)	(621,340)		
PUBG INDIA PRIVATE LIMITED	2,925,385	72,627	807,584	-	2,923,982	(808,565)	96,803	(711,762)		

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

SDS Interactive Canada Inc.	534,376	-	485,797	-	534,376	48,580	-	48,580
Between Us Co. Ltd.	1,601,978	2,367,963	1,074,159	99,811	1,525,837	(7,796,281)	-	(7,796,281)
Dreamotion, Inc.	7,952,114	420,958	1,683,563	309,034	4,776,066	859,845	39,575	899,420
Thingsflow Inc.	5,631,325	832,082	10,446,055	1,753,778	2,631,610	(1,035,050)	(93,044)	(1,128,094)
Tiptoe Games, Inc.	90,488	12,069	3,078	7,433	-	(7,954)	-	(7,954)
Krafton Global GP, LLC	-	-	-	-	-	-	-	-
Krafton Global, LP	1,576,787	-	1,675,186	-	-	(94,989)	(6,819)	(101,808)
Unknown Worlds Entertainment, Inc.	111,137,576	261,850	32,248,786	19,750,173	6,361,014	2,967,719	(537,642)	2,430,077
<b>Associates</b>								
Shinhan Alpha REIT Co., Ltd. <sup>1</sup>	52,792,035	1,852,725,440	178,571,390	1,383,119,294	62,105,548	7,038,375	-	7,038,375
1Up Ventures, L.P	3,202,821	21,326,137	11,262	-	-	(986,133)	1,690,817	704,684
Hidden Sequence Co., Ltd.	9,661,229	1,312,402	6,648,728	7,649,979	18,657,593	(406,615)	-	(406,615)
Smart Krafton-BonAngels Fund	3,614,309	14,852,917	114,605	-	-	(329,842)	-	(329,842)
Nodwin Gaming Private Limited	20,517,300	14,303,228	11,003,243	152,609	11,261,080	194,351	(370,414)	(176,063)
Un Note Co., Ltd.	4,648,369	10,866,609	4,189,950	71,371	9,679,601	8,778,745	-	8,778,745
Loco Interactive Pte Limited	7,425,839	2,965,670	1,855,678	7,008,272	37,966	(5,451,525)	(3,651,798)	(9,103,323)
Nasadiya Technologies Private Limited	45,479,473	7,164,767	1,924,681	2,858,852	495,614	(7,942,534)	(299,718)	(8,242,252)
Mirae Asset Maps General Private Real Estate Investment Trust	24,009,785	366,014,550	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

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

The Company has acquired subsidiary Unknown Worlds Entertainment, Inc. on December 9, 2021 and was about to value fair value of contingent consideration via an independent valuer but have not completed the valuation until December 31, 2021. Therefore, fair value of contingent consideration valuation was completed via an independent valuer during the year ended December 31, 2022 and financial statement as of December 31, 2021 which is shown as the comparative information to financial statements as of December 31, 2022, have been retrospectively adjusted in accordance with paragraph 45 of KIFRS 1103 are as follows.

<i>(in thousands of Korean won)</i>	<b>Financial Statement December 31, 2021 (Before Adjustments)</b>		<b>Adjustments</b>	<b>Financial Statement December 31, 2021 (After Adjustments)</b>	
I. Current Assets	₩	3,466,888,355	₩	-	₩ 3,466,888,355
II. Non-Current Assets		2,014,166,067		10,515,176	2,024,681,243
Subsidiaries and Associates		1,294,246,781		10,515,176	1,304,761,957
Total Assets		5,481,054,422		10,515,176	5,491,569,598
I. Current Liabilities		550,906,673		-	550,906,673
II. Non-Current Liabilities		338,068,561		10,515,176	348,583,737
Financial Liabilities at Fair Value through Profit or Loss		195,350,040		10,515,176	205,865,216
Total Liabilities		888,975,234		10,515,176	899,490,410
Total Equities		4,592,079,188		-	4,592,079,188
Total Liabilities and Equities		5,481,054,422		10,515,176	5,491,569,598

The Company has performed impairment assessments on its investments in subsidiaries as of December 31, 2022. The recoverable amount of the investments in subsidiaries was based on their value in use, and the value in use calculation was based on estimated cash flows derived from the 5-year business plan approved by management. The key assumptions used in the value in use calculation for the major investments in subsidiaries as of December 31, 2022 are as follows.

	<b>Unknown Worlds Entertainment, Inc.</b>	<b>Investments In Other Subsidiaries</b>
Average operating profit rate for estimated period <sup>1</sup>	41.19%	-13.68%~33.72%
Average annual growth rate for estimated period <sup>1</sup>	30.23%	-1.57%~87.55%
Perpetual growth rate <sup>2</sup>	1.00%	0.00%~1.00%
Discount Rate <sup>3</sup>	8.80%	12.73%~16.17%

<sup>1</sup> The average revenue growth rate and average operating profit margin, used for determining the projected cash flows for the next 5 years, were calculated based on the expected levels of future revenue and operating profit.

<sup>2</sup> The long-term growth rate is the weighted average growth rate used to estimate cash flows beyond the forecast period and does not exceed the anticipated growth rate from industry reports.

<sup>3</sup> The discount rate reflects the unique risks associated with each subsidiary.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

As a result of performing impairment assessments on investments in subsidiaries during the year ended December 31, 2022, it was recognized that the carrying amounts of Unknown Worlds Entertainment, Inc. and other investments in subsidiaries exceeded their recoverable amounts, resulting in impairment losses of 123,982,798 thousand and 52,930,207 thousand, respectively.

Meanwhile, the recoverable amount of investments in subsidiaries varies according to the assumptions made for the key assumptions used in the value in use calculation, and the effects of changes in these assumptions on the excess of the recoverable amount are as follows.

(in thousands of Korean won)		1%p Increase in Discount Rate		1%p Decrease in Discount Rate	
Variation in Excess of Recoverable Amount	Unknown Worlds Entertainment, Inc. Investments In Other Subsidiaries	₩	108,370,125	₩	(83,366,390)
			2,080,364		(2,011,579)

**13. Property and Equipment and Leases**

Details of property and equipment as of December 31, 2022 and 2021, are as follows:

(in thousands of Korean won)	December 31, 2022				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Acquisition cost	₩ 42,669,470	₩ 43,071,878	₩ 218,566,606	₩ 3,911,123	₩ 308,219,077
Accumulated depreciation	(19,428,994)	(18,009,940)	(93,080,456)	-	(130,519,390)
Government grants <sup>1</sup>	-	(352,000)	-	-	(352,000)
	₩ 23,240,476	₩ 24,709,938	₩ 125,486,150	₩ 3,911,123	₩ 177,347,687

<sup>1</sup> There are no unfulfilled conditions or other contingencies related to the government grants as of December 31, 2022.

(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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Changes in property and equipment for the years ended December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	December 31, 2022				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Beginning	₩ 20,132,311	₩ 28,231,471	₩ 137,068,473	₩ 15,711,217	₩ 201,143,472
Acquisitions	10,437,869	4,138,755	68,674,022	1,154,519	84,405,165
Disposals	(192,198)	(795,235)	(156,487)	-	(1,143,920)
Depreciation	(7,181,890)	(8,505,299)	(41,225,869)	-	(56,913,058)
Return of government subsidies	-	799,940	-	-	799,940
Transfers <sup>1</sup>	44,384	840,306	(38,873,989)	(12,954,613)	(50,943,912)
Ending	₩ 23,240,476	₩ 24,709,938	₩ 125,486,150	₩ 3,911,123	₩ 177,347,687

<sup>1</sup> Long-term advanced payments of ₩ 503,568 thousand is reclassified to fixtures and facilities, Construction in-progress of ₩ 12,542,402 thousand is reclassified to investment properties, respectively, for the years ended December 31, 2022.

*(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
Disposals	(276,376)	(1,567,944)	(18,690)	-	(1,863,010)
Depreciation	(5,019,985)	(5,507,961)	(39,452,347)	-	(49,980,293)
Transfers <sup>1</sup>	-	174,000	8,668,000	(10,348,917)	(1,506,917)
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 are reclassified to facilities, intangible assets and investment properties, respectively, for the years ended December 31, 2021.



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

*Leases*

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

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Right-of-use assets <sup>1</sup>				
Properties	₩	125,486,150	₩	137,068,473
Lease receivables <sup>2</sup>				
Current		12,424,186		3,686,480
Non-current		33,678,987		5,587,475
		<u>46,103,173</u>		<u>9,273,955</u>
	₩	<u>171,589,323</u>	₩	<u>146,342,428</u>
Lease liabilities <sup>3</sup>				
Current	₩	47,887,988	₩	46,324,976
Non-current		122,426,914		101,979,145
	₩	<u>170,314,902</u>	₩	<u>148,304,121</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, 2022 amounts to ₩ 68,674,022 thousand (December 31, 2021: ₩ 105,925,814 thousand).

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022</b>							
<b>Total contractual cash flows</b>		<b>Less than 1 year</b>		<b>Between 1 and 5 years</b>		<b>Total</b>	
₩	11,940	₩	11,940	₩	-	₩	11,940

  

<b>December 31, 2021</b>							
<b>Total Contractual cash flows</b>		<b>Less than 1 year</b>		<b>Between 1 and 5 years</b>		<b>Total</b>	
₩	5,447,194	₩	5,429,154	₩	18,040	₩	5,447,194

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

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Revenue from sublease lease (included in revenue)	₩	5,683,984	₩	8,134,905
Interest income relating to lease receivables (included in finance income)		894,272		210,898
<b>Total Revenue</b>		<b>6,578,256</b>		<b>8,345,803</b>
Depreciation of right-of-use assets				
Properties	₩	(41,225,869)	₩	(39,452,347)
Interest expense relating to lease liabilities (included in finance costs)		(5,559,440)		(5,307,912)
Expense relating to short-term leases (included in operating costs)		(499,917)		(439,224)
Expense relating to leases of low-value assets (included in operating costs)		(254,984)		(224,573)
<b>Total Costs</b>		<b>(47,540,210)</b>		<b>(45,424,056)</b>

The total cash outflow for leases for the years ended December 31, 2022 amounts to ₩ 49,207,981 thousand (December 31, 2021: ₩ 36,057,835 thousand).

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**14. Intangible Assets**

Intangible assets as of December 31, 2022 and 2021, consist of:

<i>(in thousands of Korean won)</i>		<b>December 31, 2022</b>			
		<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Software	₩	27,963,590	₩ (20,099,584)	₩ (1,341,833)	₩ 6,522,173
Industrial property rights		1,522,380	(886,731)	-	635,649
Membership rights		1,373,669	(104,152)	-	1,269,517
Other intangible assets		1,054,670	(423,034)	-	631,636
	₩	<u>31,914,309</u>	₩ <u>(21,513,501)</u>	₩ <u>(1,341,833)</u>	₩ <u>9,058,975</u>

<i>(in thousands of Korean won)</i>		<b>December 31, 2021</b>			
		<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Software	₩	26,901,208	₩ (17,686,741)	₩ (1,341,833)	₩ 7,872,634
Industrial property rights		1,378,009	(630,435)	-	747,574
Membership rights		1,373,669	(34,717)	-	1,338,952
Other intangible assets		1,054,670	(212,100)	-	842,570
	₩	<u>30,707,556</u>	₩ <u>(18,563,993)</u>	₩ <u>(1,341,833)</u>	₩ <u>10,801,730</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Changes in intangible assets for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands</i>		<b>December 31, 2022</b>				
<i>of Korean won)</i>						
	<b>Software</b>	<b>Industrial property rights</b>	<b>Membership rights</b>	<b>Other intangible assets</b>	<b>Total</b>	
Beginning balance	₩ 7,872,633	₩ 747,575	₩ 1,338,952	₩ 842,570	₩ 10,801,730	
Acquisitions	1,062,382	14,261	-	-	1,076,643	
Amortization	(2,412,842)	(256,296)	(69,435)	(210,934)	(2,949,507)	
Transfers <sup>1</sup>	-	130,109	-	-	130,109	
Ending balance	<u>₩ 6,522,173</u>	<u>₩ 635,649</u>	<u>₩ 1,269,517</u>	<u>₩ 631,636</u>	<u>₩ 9,058,975</u>	

<sup>1</sup> Long-term advanced payments of ₩ 130,109 thousand was reclassified to industrial property rights for the years ended December 31, 2022.

<i>(in thousands</i>		<b>December 31, 2021</b>				
<i>of Korean won)</i>						
	<b>Software</b>	<b>Industrial property rights</b>	<b>Membership rights</b>	<b>Other intangible assets</b>	<b>Total</b>	
Beginning balance	₩ 5,529,329	₩ 678,049	₩ 679,323	₩ 33,833	₩ 6,920,534	
Acquisitions	2,859,499	98,944	694,345	1,019,670	4,672,458	
Amortization	(2,291,757)	(223,553)	(34,717)	(210,934)	(2,760,961)	
Transfers <sup>1</sup>	1,775,563	194,135	-	-	1,969,698	
Ending balance	<u>₩ 7,872,633</u>	<u>₩ 747,576</u>	<u>₩ 1,338,952</u>	<u>₩ 842,570</u>	<u>₩ 10,801,730</u>	

<sup>1</sup> Construction in-progress of ₩ 1,775,563 thousand was 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.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**15. Investment Properties**

Details of investment properties as of December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2022</b>		
	<b>Acquisition Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Land	₩ 173,699,223	₩ -	₩ 173,699,223
Buildings	29,861,829	(1,387,792)	28,474,037
	<u>₩ 203,561,052</u>	<u>₩ (1,387,792)</u>	<u>₩ 202,173,260</u>

*(in thousands of Korean won)*

	<b>December 31, 2021</b>		
	<b>Acquisition 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>

Changes in investment properties for the years ended December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2022</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 156,224,557	₩ 27,034,668	₩ 183,259,225
Acquisitions	6,284,592	832,406	7,116,998
Depreciation	-	(745,365)	(745,365)
Transfers <sup>1</sup>	11,190,074	1,352,328	12,542,402
Ending balance	<u>₩ 173,699,223</u>	<u>₩ 28,474,037</u>	<u>₩ 202,173,260</u>

<sup>1</sup> Construction in-progress of ₩ 12,542,402 thousand was reclassified to investment properties for the years ended December 31, 2022.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

*(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
Depreciation	-	(622,801)	(622,801)
Transfers <sup>1</sup>	7,607,340	792,014	8,399,354
Ending balance	₩ 156,224,557	₩ 27,034,668	₩ 183,259,225

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

During the year, rental income earned from operating leases of investment property is ₩ 145 million (2021: ₩ 48 million), and there are no direct operating expenses (including repairs and maintenance) from property that generated rental income. Direct operating expenses (including repairs and maintenance) from property that did not generate rental income are ₩ 377 million (2021: ₩ 82 million).

Fair value of investment properties as at December 31, 2022, is ₩ 277,469 million (2021: ₩ 167,105 million). The valuation of investment properties is performed by an independent valuer.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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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, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Present value of defined benefit obligations	₩ 7,659,997	₩ 10,772,823

Changes in the defined benefit obligations for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Beginning	₩ 10,772,823	₩ 6,604,271
Current service cost	3,576,300	1,779,287
Interest expense	302,717	139,790
Transfer-in(out)	108,266	310,462
Benefit payments	(775,694)	(1,326,569)
Remeasurements:		
Actuarial gain(loss) from change in financial assumptions	(5,790,734)	(816,194)
Actuarial gain(loss) from experience adjustments	(533,681)	2,528,068
Actuarial gain(loss) from change in demographic assumptions	-	1,553,708
Ending	<u>₩ 7,659,997</u>	<u>₩ 10,772,823</u>

The amounts recognized in the statements of comprehensive income related to defined benefit plan for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Current service cost	₩ 3,576,300	₩ 1,779,287
Interest expense	302,717	139,790
	<u>₩ 3,879,017</u>	<u>₩ 1,919,077</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

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

<i>(in percentage, %)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Discount rate	5.31%	2.89%
Salary growth rate	8.07%	8.05%

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	₩ (1,986,724)	₩ 1,825,468
Salary growth rate	1,768,423	(1,969,453)

Details of remeasurements incurred related to defined benefit plan for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Remeasurements of net defined benefit liability	₩ (6,324,415)	₩ 3,265,582
Income tax effect	1,739,214	(898,035)
Remeasurements of net defined benefit liability, after tax	<u>₩ (4,585,201)</u>	<u>₩ 2,367,547</u>

The weighted average duration of the defined benefit obligation is 6.39 years. The expected maturity analysis of undiscounted pension benefits as of December 31, 2022, 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	₩ 647,536	₩ 622,457	₩ 2,024,579	₩ 7,680,307	₩ 10,974,879

The expense recognized in the current year in relation to the defined contribution plan amounted to ₩ 10,810,180 thousand (2021: ₩ 8,397,503 thousand).

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



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**17. Provisions**

Changes in provisions for restoration for the years ended December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2022</b>	
	<b>Provision for restoration costs</b>	<b>Other provisions</b>
Beginning	₩ 12,127,609	₩ 37,529,676
Additions <sup>1</sup>	1,236,401	3,379,732
Reversal	-	(38,006,580)
Others <sup>1</sup>	-	-
Ending	₩ 13,364,010	₩ 2,902,828
Current portion	-	2,902,828
Non-current portion	13,364,010	-

<sup>1</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, 2021</b>	
	<b>Provision for restoration costs</b>	<b>Other provisions</b>
Beginning	₩ 5,000,534	₩ 44,762,724
Addition	7,948,453	3,955,347
Reversal	-	(11,188,395)
Others <sup>1</sup>	(821,378)	-
Ending	₩ 12,127,609	₩ 37,529,676
Current portion	-	37,529,676
Non-current portion	12,127,609	-

<sup>1</sup> Includes the reduction in the obligation for restoration at the end of the lease period due to the new sub-lease contract.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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**18. Contingencies and Commitments**

As of December 31, 2022, 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 Epic Games, Inc. Hangzhou Shunwang Technology Co., Ltd. Qingfeng(Beijing) Technology Co.,Ltd.	Worldwide  China (except for Hong Kong, Macau and Taiwan)
Thunder Tier One (PC)	Valve Corporation	Worldwide
MOONBREAKER (PC)	Valve Corporation	Worldwide
The Callisto Protocol (PC)	Valve Corporation Epic Games, Inc.	Worldwide
The Callisto Protocol (Console)	Skybound Interactive, LLC	
PLAYERUNKNOWN'S BATTLEGROUNDS (Mobile)	Google Apple Samsung Electronics Coda Payments Pte.Ltd	Korea, Japan, India Korea India
PUBG NEW STATE (Mobile)	Google Apple Samsung Electronics	Worldwide
PLAYERUNKNOWN'S BATTLEGROUNDS (Stadia)	Google	Part of Europe and U.S.A

The Company has contracts with more than 10 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, 2022, 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
The Callisto Protocol (Console)	Microsoft Corporation Sony Interactive Entertainment LLC	Worldwide Worldwide

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Major other contracts of the Company as of December 31, 2022, are as follows:

<b>Game</b>	<b>Counterparty</b>	<b>Service region</b>
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, 2022, there are five litigation cases filed against the Company (relating to claim for damages related to stock options, lawsuits related to India services, lawsuits related to incentives, lawsuits related to real estate registration, lawsuits related to delivery refusal) and six 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, 2022.

As of December 31, 2022, the Company has been provided guarantees up to ₩1,775 million from Seoul Guarantee Insurance Co., Ltd. in connection with the repayment of contributions for supporting the workplace nursery installation.

As of December 31, 2022, ₩7,366 million of financial instruments are provided as collateral related to leasehold deposits received from sublessee of Greits Pangyo(formerly, Krafton Tower). Also, ₩30,000 million of financial instruments are provided as collateral related to loan for Employee Stock Ownership Plan (ESOP).

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, (Cont'd)**  
**December 31, 2022 and 2021**

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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:

<b>Type</b>	<b>Contents</b>
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.

On November 23, 2022, the Company entered into a shareholder agreement with existing shareholders including employees holding stock options in relation to the acquisition of preferred stock and common stock of Neon Giant AB. The main terms and conditions of the contract are summarized as follows:

<b>Type</b>	<b>Contents</b>
Drag along right	After 2 years after the date the contract is entered into, if the Company disposes its entire shares to a third-party purchaser, the Company shall have the right to require other shareholders to sell its shares to such third-party purchaser.
Tag along right	After 5 years after the date the contract is entered into, if a one or more than one shareholder desires to sell 60% of its shares, other shareholders shall have the right to participate in the sale of their shares at the same price.
Put option and call option	Employees who have stock options have a call option that grants them to sell 50% of their shares after full vesting and exercise, at the per-share acquisition price of the original share purchase agreement. Also, the Company has a put option that grants it to purchase the shares of the employees who have the stock options under the same condition.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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Type	Contents
Put option	<p>The First put option : Existing shareholders hold a put option that allows them to sell up to 50% of their shares at a value obtained by applying a specific multiple to the performance index for one year after the release of a specific game.</p> <p>The second put option : Existing shareholders hold a put option that allows them to sell up to 100% of their remaining shares after exercising the first put option at a value obtained by applying a specific multiple to the maximum value of 12 months of performance indicators from 2023 to 2029.</p>
call option	After the second put option expires, the Company holds a call option that allows the Company to purchase existing shareholders' stocks at a value obtained by applying a specific multiple to the annual performance indicator.
Back-up call option	If an existing shareholder voluntarily resigns or resigns for legitimate reasons, the above-mentioned put option will expire, and the Company holds a call option that allows the Company to purchase all remaining shares of the existing shareholders at a value obtained by applying a specific multiple to the performance indicators for the 12 months prior to the exercise of the backup call option.

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. and 5minlab Corp. The contingent consideration recognized as of December 31, 2022 is ₩193,491,364 thousand and ₩7,652,150 thousand, respectively.

The Company has entered into an agreement with the associate, Mirae Asset Maps General Private Equity Investment Trust No.66, regarding 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. Under the agreement, the Company has entered into responsible lease agreement for 10 years from completion of construction, and have the pre-emptive purchase right at the appraised value at a specific time.

## **19. Equity**

### *(a) Share capital*

Details of share capital as of December 31, 2022 and December 31, 2021, are as follows:

<i>(in Korean won and in shares)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Authorized number of shares	300,000,000	300,000,000
Par value in Korean won	₩ 100	₩ 100
Issued and outstanding number of shares		
Ordinary shares	49,081,545	48,967,045

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	<b>Share capital</b>
Balance at January 1, 2021	₩ 4,278,519
Exercise of share options and others	55,786
Paid-in capital increase	562,400
Balance at December 31, 2021	₩ 4,896,705
Balance at January 1, 2022	₩ 4,896,705
Exercise of share options and others	11,450
Balance at December 31, 2022	₩ 4,908,155

	<b>Capital surplus</b>			
<i>(in thousands of Korean won)</i>	<b>Share premium</b>	<b>Other capital surplus</b>	<b>Gain on disposal of treasury shares</b>	<b>Total</b>
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
Balance at January 1, 2022	₩ 3,830,569,170	₩ 1,024,973,874	₩ 6,452,617	₩ 4,861,995,661
Exercise of share options and others	2,338,585	569,291	-	2,907,876
Gift of shares <sup>1</sup>	-	25,724,255	-	25,724,255
Transfer of capital reserve	(2,409,617,572)	-	-	(2,409,617,572)
Balance at December 31, 2022	₩ 1,423,290,183	₩ 1,051,267,420	₩ 6,452,617	₩ 2,481,010,220

<sup>1</sup> During the year ended December 31, 2022, a shareholder of the Company has donated the Company's shares to executives and employees free of charge. Accordingly, the Company applied share-based payment accounting, and reclassified the ₩ 25,724,255 thousand of other capital which had been recognized during vesting period to other capital surplus at the completion of the donation.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

*(c) Other components of equity*

Other components of equity as of December 31, 2022 and 2021, consist of:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Treasury shares <sup>1</sup>	₩ -	₩ -
Share-based payments (Note 20)	56,137,075	46,836,184
Other capital adjustments	-	33,710,386
Gain on valuation of financial assets at fair value through other comprehensive income (Note 11)	13,863,039	59,570,920
Remeasurements of net defined benefit liability (Note 16)	(689,205)	(5,274,406)
Exchange differences on translation of foreign operations	(67,625)	(38,690)
	<u>₩ 69,243,284</u>	<u>₩ 134,804,394</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, 2022, is expected to be disposed at the shareholders' meeting on March 28, 2023. The disposition date for the year ended December 31, 2021, was March 31, 2022.

The appropriation of retained earnings (disposition of accumulated deficit) for the years ended December 31, 2022 and 2021, are as follows:

<i>(in Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Undisposed accumulated deficit		
Undisposed accumulated deficit carried over from prior year	₩ 2,000,000,000,000	₩ (951,819,823,460)
Profit for the year	487,142,607,927	542,202,251,423
Accumulated deficit available for disposition	2,487,142,607,927	(409,617,572,037)
Disposition of accumulated deficit		
Transfer of capital reserve	-	2,409,617,572,037
Undisposed accumulated retained earnings (deficit) to be carried forward	<u>₩ 2,487,142,607,927</u>	<u>₩ 2,000,000,000,000</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**20. Share-based Payments**

The terms and conditions of stock options granted as of December 31, 2022, are as follows:

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

	<b>18<sup>th</sup>-1</b>	<b>18<sup>th</sup>-2</b>	<b>18<sup>th</sup>-3</b>	<b>19<sup>th</sup>-2</b>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Employees	Employees	Employees
Date of grant	Mar. 30, 2017	Mar. 30, 2017	Mar. 30, 2017	Oct. 20, 2017
No. of shares granted	158,815	158,810	136,125	354,375
Outstanding shares as of December 31, 2021	35,000	35,000	30,000	20,240
No. of shares exercised during the year	35,000	35,000	30,000	-
Outstanding shares as of December 31, 2022	-	-	-	20,240
Exercise price	₩ 1,003	₩ 1,003	₩ 1,003	₩ 1,452
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
Date of vesting	Apr. 1, 2019	Apr. 1, 2020	Apr. 1, 2021	Oct. 20, 2020
Date of expiration	Mar. 31, 2026	Mar. 31, 2026	Mar. 31, 2026	Oct. 19, 2026

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

	<b>19<sup>th</sup>-3</b>	<b>19<sup>th</sup>-5</b>	<b>20<sup>th</sup></b>	<b>21<sup>st</sup></b>	<b>22<sup>nd</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	Jul. 1, 2019	Aug. 1, 2019	Oct. 1, 2019
No. of shares granted	303,750	150,000	37,500	29,500	6,500
Outstanding shares as of December 31, 2021	303,750	14,500	37,500	29,400	6,500
No. of shares exercised during the year	-	14,500	-	-	-
No. of shares cancelled during the year	-	-	37,500	29,400	6,500
Outstanding shares as of December 31, 2022	303,750	-	-	-	-
Exercise price	₩ 1,452	₩ 1,452	₩ 44,000	₩ 44,000	₩ 44,000
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
Date of vesting	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%)	Sept. 30, 2021(35%) Sept. 30, 2022(35%) Sept. 30, 2023(30%)
Date of expiration	Oct. 19, 2026	Oct. 19, 2025	Jun. 30, 2028	Jul. 31, 2028	Sept. 30, 2028



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in Korean won,  
except number of  
shares)

	23 <sup>rd</sup>	24 <sup>th</sup>	25 <sup>th</sup>	26 <sup>th</sup>	27 <sup>th</sup>
Type of arrangement	Equity-settled Cash-settled	Equity-settled Cash-settled	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Employees	Employees	Employees	Employees
Date of grant	Nov. 5, 2020	Nov. 5, 2020	Mar. 31, 2021	Mar. 31, 2021	Mar. 31, 2022
No. of shares granted	50,000	650,000	178,750	2,500	60,000
Outstanding shares as of December 31, 2021	50,000	650,000	175,000	2,500	-
No. of shares granted during the year	-	-	-	-	60,000
No. of shares cancelled during the year	-	-	23,000	-	-
Outstanding shares as of December 31, 2022	50,000	650,000	152,000	2,500	60,000
Exercise price	₩ 144,000	₩ 144,000	₩ 190,000	₩ 190,000	₩ 279,310
Vesting conditions	Provision of services to the date of vesting	Achievement of the target share price after IPO	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
Date of vesting	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%)	Mar. 31, 2024(35%) Mar. 31, 2025(35%) Mar. 31, 2026(30%)
Date of expiration	Nov. 4, 2032	Nov. 4, 2032	Mar. 30, 2028	Mar. 30, 2025(70%) Mar. 30, 2027(30%)	Mar. 30, 2029

<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, (Cont'd)**  
**December 31, 2022 and 2021**

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

The terms and conditions of performance-based incentives as of December 31, 2022, 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, 2022	7,500	6,000	7,490	1,125
Exercise price	₩ 1,452	₩ 1,452	₩ 1,452	₩ 1,452
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
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, 2022	7,500	14,000	1,750	7,500
Exercise price	₩ 14,000	₩ 44,000	₩ 14,000	₩ 58,000
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
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, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022	1,500	2,500	4,500	2,250
Exercise price	₩ 58,000	₩ 44,000	₩ 44,000	₩ 78,000
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
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, 2022	4,500
Exercise price	₩ 1,452
Vesting conditions	Provision of services to the date of vesting
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, (Cont'd)**  
**December 31, 2022 and 2021**

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

The terms and conditions of restricted stock unit as of December 31, 2022, are as follows:

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

	1 <sup>st</sup>	3 <sup>rd</sup>	4 <sup>th</sup> -1
Date of grant	Apr. 1, 2022	May. 2, 2022	Jun. 1, 2022
Type of arrangement	Equity-settled	Equity-settled	Equity-settled
No. of shares granted	1,000	1,000	35,540
Outstanding shares as of December 31, 2022	1,000	1,000	35,180
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
Type of arrangement	Stock	Stock	Stock
Date of vesting	Apr. 1, 2023(35%) Apr. 1, 2024(35%) Apr. 1, 2025(30%)	May. 2, 2023 (35%) May. 2, 2024 (35%) May. 2, 2025 (30%)	Jun. 1, 2023(35%) Jun. 1, 2024(35%) Jun. 1, 2025(30%)
Date of expiration	-	-	-

	4 <sup>th</sup> -2	4 <sup>th</sup> -3	4 <sup>th</sup> -3 (Market performance conditions added)	5 <sup>th</sup>
Date of grant	Jun. 1, 2022	Jun. 1, 2022	Jun. 1, 2022	Oct. 10, 2022
Type of arrangement	Cash-settled	Equity-settled	Equity-settled	Cash-settled
No. of shares granted	430	27,000	18,000	2,000
Outstanding shares as of December 31, 2021	430	27,000	18,000	2,000
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting and achievement of the target share price	Provision of services to the date of vesting
Type of arrangement	Cash	Stock	Stock	Cash
Date of vesting	Jun. 1, 2023(35%) Jun. 1, 2024(35%) Jun. 1, 2025(30%)	Jun. 1, 2023(35%) Jun. 1, 2024(35%) Jun. 1, 2025(30%)	satisfy the period of continued service and upon achievement of the target share price May. 31, 2025(35%) May. 31, 2026(35%) May. 31, 2027(30%)	Oct.10, 2023(35%) Oct.10, 2024(35%) Oct.10, 2025(30%)
Date of expiration	-	-	-	-

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

<i>(in Korean won, except number of shares)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	1,389,390	₩ 99,573	1,769,750	₩ 59,554
Grant	60,000	279,310	181,250	190,000
Forfeit / Expired	(96,400)	78,834	(3,750)	190,000
Exercise	(114,500)	1,060	(557,860)	1,389
Ending	<u>1,238,490</u>	<u>₩ 119,003</u>	<u>1,389,390</u>	<u>₩ 99,573</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, 2022 and 2021 are as follows:

<i>(in Korean won, except number of shares)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	144,455	₩ 24,819	194,320	₩ 25,281
Exercise	(76,340)	23,520	(47,865)	27,148
Transfer	-	-	(2,000)	14,000
Ending	<u>68,115</u>	<u>₩ 26,274</u>	<u>144,455</u>	<u>₩ 24,819</u>

Changes in the number of restricted stock unit for the year ended December 31, 2022 are as follows:

<i>(in shares)</i>	<b>Granted number</b>
Beginning	-
Grant	84,970
Transfer	(360)
Ending	<u>84,610</u>

As of December 31, 2022, 341,490 of share options are exercisable and the weighted average exercise price is ₩ 8,757.

As of December 31, 2022, 68,115 of equity-linked cash compensation are exercisable and the weighted average exercise price is ₩ 26,274.

As of December 31, 2022, there is no exercisable restricted stock unit.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

The Company measured the cost of the share options granted for the years ended December 31, 2022 and 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>	<u><b>December 31, 2022</b></u>	<u><b>December 31, 2021</b></u>
Weighted average fair value of share options granted during the year	₩ 96,894	₩ 92,629
Weighted average share price at grant date	₩ 275,500	₩ 241,811
Price volatility	50.17%	41.90%
Risk-free interest rate	2.36%~2.85%	0.92%~1.46%

The Company measured the cost of the share options granted as of December 31, 2022 and 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>	<u><b>December 31, 2022</b></u>	<u><b>December 31, 2021</b></u>
Weighted average fair value of share options granted during the year	₩ 75,310	₩ 153,904
Weighted average share price at grant date	₩ 168,000	₩ 460,000
Price volatility	53.22%	57.22%
Risk-free interest rate	3.73%~3.80%	0.97%~2.21%

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

The Company measured the cost of the performance-based incentives granted as of December 31, 2022 and 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>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Weighted average fair value of share options granted during the year	₩ 144,491	₩ 444,810
Weighted average share price at grant date	₩ 168,000	₩ 460,000
Price volatility	53.22%	57.22%
Risk-free interest rate	3.66%~3.79%	0.97%~1.65%

The Company measured the cost of the restricted stock units granted for the year ended December 31, 2022 by fair value using the binomial model and Monte Carlo method. The related assumptions and variables to measure the cost of the restricted stock units granted are as follows:

<i>(in Korean won)</i>	<u>December 31, 2022</u>
Weighted average fair value of share options granted during the year	₩ 239,080
Weighted average share price at grant date	₩ 259,627
Price volatility	48.70%~50.19%
Risk-free interest rate	1.84%~3.85%

The Company measured the cost of the restricted stock units granted as of December 31, 2022 by fair value using the binomial model. The related assumptions and variables to measure the cost of the restricted stock units granted are as follows:

<i>(in Korean won)</i>	<u>December 31, 2022</u>
Weighted average fair value of share options granted during the year	₩ 163,576
Weighted average share price at grant date	₩ 168,000
Price volatility	53.22%
Risk-free interest rate	3.71%~3.78%

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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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, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<u><b>December 31, 2022</b></u>	<u><b>December 31, 2021</b></u>
Total share-based payment expenses		
Operating costs <sup>1</sup>	₩ (53,568,297)	₩ 125,599,572
Investments in subsidiaries	<u>1,921,169</u>	<u>1,491,680</u>
	<u>₩ (51,647,128)</u>	<u>₩ 127,091,252</u>

<sup>1</sup>During the year ended December 31, 2022, a shareholder of the Company has donated the Company's shares to executives and employees free of charge. Accordingly, the Company applied share-based payment accounting, and recognized ₩(-)7,986,131 thousand in share-based payment expenses which was caused from changes in the fair value of the shares and the elapsed vesting period during the year ended December 31, 2022.



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**21. Revenue from Contracts with Customers and Contract Assets and Liabilities**

*(a) Revenue from contracts with customers*

Revenue for the years ended December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Revenue from contracts with customers	₩	1,761,946,627	₩	1,820,190,883
Revenue from other sources		5,829,184		8,182,905
	₩	<u>1,767,775,811</u>	₩	<u>1,828,373,788</u>

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

*(in thousands of Korean won)*

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Transfer over time				
PC	₩	416,417,340	₩	380,081,318
Mobile		1,239,552,586		1,399,667,288
Console		17,548,555		14,260,047
Others		24,013,299		34,365,135
Transfer at a point in time				
PC		11,661,753		-
Console		58,582,278		-
	₩	<u>1,767,775,811</u>	₩	<u>1,828,373,788</u>

Details of the Company's revenue by geographic areas for the years ended December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Revenue</b>	<b>Ratio</b>	<b>Revenue</b>	<b>Ratio</b>
Asia	₩ 1,474,693,239	₩ 83.42%	₩ 1,618,649,357	₩ 88.53%
Korea	92,152,361	5.21%	105,115,796	5.75%
America / Europe	189,434,731	10.72%	81,857,677	4.48%
Others	11,495,480	0.65%	22,750,958	1.24%
	<u>₩ 1,767,775,811</u>	<u>₩ 100.00%</u>	<u>₩ 1,828,373,788</u>	<u>₩ 100.00%</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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**21. Revenue from Contracts with Customers and Contract Assets and Liabilities, (cont'd)**

*(b) Contract liabilities*

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

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Contracts liabilities (unearned revenue)	₩	65,988,455	₩	62,346,648

*(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, 2022</b>		<b>December 31, 2021</b>	
Revenue recognized that was included in the contract liability balance	₩	59,981,570	₩	67,361,142

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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**22. Operating Costs**

Operating costs for the years ended December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Application fees / Cost of sales	₩	197,670,163	₩	186,721,161
Salaries and bonuses		138,144,705		175,844,583
Post-employment benefits		14,689,197		10,316,580
Employee benefits		30,583,354		23,001,429
Travel		4,886,438		2,196,433
Depreciation		56,913,058		49,980,293
Depreciation – Investment properties		745,365		622,801
Amortization		2,949,507		2,760,961
Insurance		7,487,489		2,853,966
Supplies		1,763,167		2,410,142
Commissions and fees		573,336,516		487,399,905
Advertising		45,445,107		57,124,175
Share-based payment expenses		(53,568,297)		125,599,571
Bad debts expense		3,271,519		964,174
Others		5,636,610		4,202,169
	₩	<u>1,029,953,898</u>	₩	<u>1,131,998,343</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**23. Other Income and Expenses**

Other income and expenses for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
<b>Other income</b>		
Gain on foreign exchange	₩ 195,086,614	₩ 116,994,595
Commission income	451,482	2,927,320
Gain on disposal of property and equipment	107,775	10,873
Gain on transactions of derivatives	1,827,494	253,841
Gain on disposal of leases	3,787,063	886,326
Gain on disposal of financial assets at fair value through profit or loss	19,093,865	891,732
Gain on valuation of financial assets at fair value through profit or loss	43,185,227	21,058,286
Gain on valuation of financial liabilities at fair value through profit or loss	12,373,852	-
Dividends income	7,194,005	570,827
Others	618,133	2,417,873
	<u>₩ 283,725,510</u>	<u>₩ 146,011,673</u>
<b>Other expenses</b>		
Loss on foreign exchange	₩ 55,803,696	₩ 12,652,009
Impairment loss on investments in subsidiaries	176,913,004	27,059,975
Impairment loss on investments in associates	8,307,162	-
Loss on disposal of property and equipment	1,056,412	769,334
Loss on valuation of derivative instruments	785,814	671,015
Loss on disposal of leases	20,058	11,254
Loss on disposal of financial assets at fair value through profit or loss	66,346,075	-
Loss on valuation of financial assets at fair value through profit or loss	55,444,210	831,986
Loss on valuation of financial liabilities at fair value through profit or loss	7,652,150	1,499,524
Donations	298,200	3,844,000
Other impairment loss	9,406,313	20,555,462
Others	105,191	889,138
	<u>₩ 382,138,285</u>	<u>₩ 68,783,697</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**24. Finance Income and Costs**

Finance income and finance costs for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
<b>Finance income</b>		
Interest income	₩ 32,970,417	₩ 11,697,187
Financial guarantee income	22,594	23,664
	<u>₩ 32,993,011</u>	<u>₩ 11,720,851</u>
<b>Finance costs</b>		
Interest expenses	₩ 6,148,544	₩ 5,848,123

**25. Income Tax Expense**

Income tax expense for the years ended December 31, 2022 and 2021, consists of:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Current tax	₩ 160,941,329	₩ 264,829,660
Deferred tax due to temporary differences	4,256,054	(17,415,515)
Income tax expense charged directly to equity	13,913,614	(10,140,247)
Income tax expense(benefit)	<u>₩ 179,110,997</u>	<u>₩ 237,273,898</u>

Reconciliation between profit(loss) before income tax and income tax expense (benefit) for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Profit (loss) before income tax	₩ 666,253,605	₩ 779,476,150
Income tax based on statutory tax rate	172,857,741	203,993,941
Adjustments:		
Income not subject to tax and others	6,775,218	12,481,958
Foreign tax credit	(2,799,810)	29,138,564
Effect of consolidated tax expense	(7,444,749)	(7,647,883)
Recognition of previously unrecognized deferred taxes	11,196,889	8,081,437
Additional tax on corporate income	(373,268)	5,243,268
Claim for rectification	(1,617,585)	6,056,749
Others	516,561	(20,074,136)
Income tax expense (benefit)	<u>₩ 179,110,997</u>	<u>237,273,898</u>
Effective tax rate	26.88%	30.44%

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Changes in the temporary differences and related deferred tax assets and liabilities for the years ended December 31, 2022 and 2021, are as follows:

(in thousands of Korean won)	December 31, 2022					
	Temporary differences and others			Deferred tax assets (liabilities)		
	Beginning	Increase (decrease)	Ending	Beginning	Increase (decrease)	Ending
Unearned revenue	₩ 3,525,224	₩ 670,171	₩ 4,195,395	₩ 969,437	₩ 142,343	₩ 1,111,780
Depreciation	11,663	(8,145)	3,518	3,207	(2,275)	932
Government grants	1,279,581	(927,581)	352,000	351,885	(258,605)	93,280
Allowance for depreciation	(1,279,581)	927,581	(352,000)	(351,885)	258,605	(93,280)
Amortization	268,477	(165,001)	103,476	73,831	(46,410)	27,421
Impairment loss on intangible assets	425,618	(249,059)	176,559	117,045	(70,257)	46,788
Accrued expenses	145,582,835	(60,776,338)	84,806,497	40,035,280	(17,561,558)	22,473,722
Investments in subsidiaries	10,446,268	(101,883,661)	(91,437,393)	2,872,724	(27,103,633)	(24,230,909)
Financial assets at fair value through profit or loss	(17,743,950)	1,269,874	(16,474,076)	(4,879,586)	513,956	(4,365,630)
Financial assets at fair value through other comprehensive income	(76,652,613)	61,349,736	(15,302,877)	(21,079,468)	17,024,206	(4,055,262)
Bad debt expenses	119,265	-	119,265	32,798	(1,193)	31,605
Provision for impairment	79,563,244	(5,801,873)	73,761,371	21,879,892	(2,333,129)	19,546,763
Post-employment benefit obligation	10,772,823	(3,112,826)	7,659,997	2,962,526	(932,627)	2,029,899
Accrued income	(878,811)	(71,206)	(950,017)	(241,673)	(10,081)	(251,754)
Provision for restoring costs	12,127,609	1,236,401	13,364,010	3,335,093	206,370	3,541,463
Facilities	(624,286)	256,608	(367,678)	(171,679)	74,244	(97,435)

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of  
Korean won)

	December 31, 2022					
	Temporary differences and others			Deferred tax assets (liabilities)		
	Beginning	Increase (decrease)	Ending	Beginning	Increase (decrease)	Ending
Present value discounts	₩ 5,371,689	₩ (1,430,714)	₩ 3,940,975	₩ 1,477,214	₩ (432,856)	₩ 1,044,358
Right-of-use assets	(137,068,473)	11,582,323	(125,486,150)	(37,693,830)	4,440,000	(33,253,830)
Lease liabilities	148,304,121	22,010,781	170,314,902	40,783,633	4,349,816	45,133,449
Lease receivables	(9,273,955)	(36,829,218)	(46,103,173)	(2,550,337)	(9,667,004)	(12,217,341)
Bonus	33,091	(33,091)	-	9,100	(9,100)	-
Other receivables	(147,429)	-	(147,429)	(40,543)	1,474	(39,069)
Accrued income (deferred revenue)	58,406,206	3,363,743	61,769,949	16,061,707	307,330	16,369,037
Prepaid expenses (deferred expenses)	(12,672,693)	(2,794,493)	(15,467,186)	(3,484,991)	(613,813)	(4,098,804)
Derivative instruments	4,283,165	9,823,155	14,106,320	1,177,870	2,560,305	3,738,175
Commissions	147,490	-	147,490	40,560	(1,475)	39,085
Other provisions	37,529,676	(34,626,848)	2,902,828	10,320,661	(9,551,412)	769,249
Financial guarantee liabilities	12,893	11,666	24,559	3,546	2,962	6,508
Share-based payment expenses	59,650,111	(30,868,838)	28,781,273	16,403,781	(8,776,744)	7,627,037
Membership rights	42,155	(4,437)	37,718	11,593	(1,598)	9,995
Exchange differences on translation of foreign operations	42,056	39,909	81,965	11,565	10,156	21,721
Financial liabilities at fair value through profit or loss	-	201,143,514	201,143,514	-	53,303,031	53,303,031
Investments in associates	-	8,307,162	8,307,162	-	2,201,398	2,201,398
Tax losses	80,832,013	-	80,832,013	22,228,804	(808,320)	21,420,484
Tax credits	5,634,466	(273,274)	5,361,192	5,634,466	(273,274)	5,361,192
	₩ 408,069,948	₩ 42,136,021	₩ 450,205,969	₩ 116,304,226	₩ 6,940,832	₩ 123,245,058
Unrecognized deferred assets				₩ (37,795,012)	₩ (11,196,886)	₩ (48,991,898)
				₩ 78,509,214	₩ (4,256,054)	₩ 74,253,160

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of  
Korean won)

	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, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of  
Korean won)

	December 31, 2021					
	Temporary differences and others			Deferred tax assets (liabilities)		
	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
Unrecognized deferred assets				₩ (27,574,366)	₩ (10,220,646)	₩ (37,795,012)
				₩ 61,093,699	₩ 17,415,515	₩ 78,509,214

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

The analysis of deferred tax assets and liabilities as of December 31, 2022 and 2021, is as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered within 12 months	₩ 39,961,046	₩ 57,328,062
Deferred tax asset to be recovered after more than 12 months	122,726,271	91,675,145
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered within 12 months	(4,350,559)	(3,767,207)
Deferred tax liability to be recovered after more than 12 months	(84,083,598)	(66,726,786)
Deferred tax assets, net	<u>₩ 74,253,160</u>	<u>₩ 78,509,214</u>

The tax effect that is charged or credited directly to other comprehensive income (expenses) for the years ended December 31, 2022 and 2021, is as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>			<b>December 31, 2021</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	₩ 6,324,415	₩ (1,739,214)	₩ 4,585,201	₩ (3,265,582)	₩ 898,035	₩ (2,367,547)
Gain on disposal of treasury shares	-	-	-	8,900,161	(2,447,544)	6,452,617
Exchange differences on translation of foreign operations	(39,910)	10,975	(28,935)	(12,239)	3,366	(8,873)
Gain on valuation of financial assets at fair value through other comprehensive income	(61,349,735)	15,641,853	(45,707,882)	31,251,286	(8,594,104)	22,657,182
	<u>₩ (55,065,230)</u>	<u>₩ 13,913,614</u>	<u>₩ (41,151,616)</u>	<u>₩ 36,873,626</u>	<u>₩ (10,140,247)</u>	<u>₩ 26,733,379</u>

Details of deductible temporary differences not recognized as deferred tax assets as of December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Deductible(taxable) temporary differences	₩ 104,043,074	₩ 56,604,384
Tax losses	80,832,013	80,832,013

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

As of December 31, 2022 and 2021, 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, 2022, the Company did not recognize deferred tax assets arising from the certain deductible (taxable) temporary differences associated with investments in subsidiaries amounting to ₩ 104,043,074 thousand, since it is probable that the temporary differences will not reverse in the foreseeable future.

The maturity of unused tax losses as of December 31, 2022 and 2021, is as follows:

*(in thousands of  
Korean won)*

	December 31, 2022		December 31, 2021	
	Amount	Maturity	Amount	Maturity
2017	37,611,924	2027	37,611,924	2027
2018	43,220,089	2028	43,220,089	2028
	<u>₩ 80,832,013</u>		<u>₩ 80,832,013</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, 2022		December 31, 2021	
Profit attributable to the ordinary equity holders of the Company	₩	487,142,608	₩	542,202,251
Weighted average number of ordinary shares outstanding		46,894,298 shares		43,245,333 shares
Basic earnings per share <i>(in Korean won)</i>	₩	<u>10,388</u>	₩	<u>12,538</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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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(including restricted stock units). 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 year) based on the monetary value of the subscription rights attached to outstanding share options.

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2022</b>
Profit attributable to ordinary equity holders	₩ 487,142,608	₩ 542,202,251
<i>(in shares)</i>		
Weighted average number of ordinary shares in issue	46,894,298	43,245,333
Adjustment for:		
Share options	398,033	881,545
Weighted average number of ordinary shares for diluted earnings per share	47,292,331	44,126,877
<i>(in Korean won)</i>		
Diluted earnings per share:	₩ 10,301	₩ 12,287

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

<i>(in shares)</i>	<b>December 31, 2022</b>		
	<b>Shares</b>	<b>Weight (Days)</b>	<b>Multiple</b>
Beginning	48,967,045	365	17,872,971,425
Acquisition of treasury shares	(2,167,418)	365	(791,107,570)
Exercise of share options	5,000	353	1,765,000
Exercise of share options	100,000	326	32,600,000
Exercise of share options	9,500	20	190,000
			<u>17,116,418,855</u>
Days			<u>365</u>
Weighted average number of ordinary shares outstanding			<u>46,894,298</u>

<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			<u>43,245,333</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**27. Statements of Cash Flows**

*(a) Cash generated from operations*

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Profit for the year	₩ 487,142,608	₩ 542,202,251
Adjustments for:		
Addition of expenses, etc. without cash outflow	524,629,301	511,218,158
Performance-based incentive	(1,659,226)	33,226,000
Post-employment benefits	3,879,017	1,919,076
Depreciation	56,913,058	49,980,293
Depreciation – investment properties	745,365	622,801
Amortization	2,949,507	2,760,961
Share-based payment expenses	(53,568,297)	125,599,571
Impairment loss	3,271,519	964,174
Loss on Foreign exchange	35,527,789	1,624,711
Other impairment loss	9,406,313	20,555,462
Impairment loss on investments in subsidiaries	176,913,004	27,059,975
Impairment loss on investments in associates	8,307,162	-
Loss on valuation of financial assets at fair value through profit or loss	55,444,210	831,986
Loss on disposal of financial assets at fair value through profit or loss	66,346,075	-
Loss on valuation of financial liabilities at fair value through profit or loss	7,652,150	1,499,524
Loss on valuation of derivative instruments	785,814	671,015
Loss on disposal of property and equipment	1,056,412	769,334
Loss on disposal of leases	20,058	11,254
Interest expenses	6,148,544	5,848,123
Other expense	(34,620,170)	-
Income tax expense	179,110,997	237,273,898
Deduction of income, etc. without cash inflow	(189,164,351)	(100,104,755)
Gain on Foreign Exchange	(68,564,071)	(61,953,150)
Gain on valuation of financial assets at fair value through profit or loss	(43,185,227)	(21,058,286)
Gain on disposal of financial assets at fair value through profit or loss	(19,093,865)	(891,732)
Gain on valuation of financial liabilities at fair value through profit or loss	(12,373,852)	-
Gain on transactions of derivative instruments	(1,827,494)	(253,841)
Gain on disposal of property and equipment	(107,775)	(10,873)
Gain on disposal of leases	(3,787,063)	(886,326)
Interest income	(32,970,418)	(11,697,188)
Dividend income	(7,194,005)	(570,827)
Financial guarantee income	(22,593)	(23,664)
Other income	(37,988)	(2,758,868)

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Change in operating assets and liabilities:	(76,952,940)	(81,478,009)
Trade receivables	(30,403,278)	(58,386,936)
Other receivables	(3,034,422)	(1,001,840)
Advance payment	(9,587,632)	(663,105)
Prepaid expenses	(7,625,654)	270,265
Long-term advance payment	(3,629,637)	-
Other payables	16,478,785	19,907,810
Accrued expenses	(49,398,385)	(26,065,028)
Withholdings	5,043,203	(282,006)
Advance receipts	242,606	541,617
Unearned revenue	3,732,396	(7,950,131)
Other provisions	-	(4,474,180)
Long-term accrued expenses	2,004,772	(2,047,906)
Payments of net defined benefit liability	(775,694)	(1,326,569)
Cash provided by(used in) operations	<u>₩ 745,654,618</u>	<u>₩ 871,837,645</u>

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

*(b) Non-cash transactions*

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Current portion of long-term loan	₩ 101,281,645	₩ 6,528,000
Current portion of long-term financial instruments	30,000,000	-
Reclassification from construction-in-progress	12,954,613	10,348,917
Increase in right-of-use assets	68,674,022	105,925,814
Reclassification to lease receivables from right-of-use assets	42,517,341	-
Current portion of lease receivables	13,459,339	2,968,431
Current portion of lease liabilities	40,471,439	21,328,911
Reclassification to investment in associates from advance payment	7,123,732	-
Change in other payables related to acquisition of property and equipment	101,472	262,771
Change in other payables related to acquisition of intangible assets	5,417	-
Reclassification to intangible assets from long-term advanced payments	633,677	194,135
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	-	204,365,692
Change in other payables related to acquisition of investments in subsidiaries	2,268,702	1,898,863
Increase in net derivative liabilities related to acquisition of investments in subsidiaries	10,864,835	3,612,150
Reclassification to investment in subsidiaries from financial assets at fair value through profit or loss	11,642,400	-
Reclassification to investment in associates from financial assets at fair value through profit or loss	801,875	-
Reclassification to investment in associates from financial assets at fair value through other comprehensive income	2,000,000	-



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

*(in thousands of  
Korean won)*

		December 31, 2022				
		Cash flows from financing activities		Non-cash flows		Ending
	Beginning			New lease	Others	
Leasehold deposits received	₩ 6,819,653	₩ 1,210,904	₩ -	₩ (715,034)	₩ 7,315,523	
Lease liabilities	148,304,121	(42,893,640)	4,367,476	60,536,945	170,314,902	
	₩ 155,123,774	₩ (41,682,736)	₩ 4,367,476	₩ 59,821,911	₩ 177,630,425	

*(in thousands of  
Korean won)*

		December 31, 2021				
		Cash flows from financing activities		Non-cash flows		Ending
	Beginning			New lease	Others	
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	

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

**28. Related Party Transactions**

As of December 31, 2022 and 2021, the subsidiaries, associate and other important related parties of the Company are as follows:

Type	December 31, 2022	December 31, 2021
Subsidiaries	Bluehole Studio, Inc.	Bluehole Studio, Inc.
	Rising Wings, Inc.	Rising Wings, Inc.
	PUBG Santa Monica, Inc.	PUBG Santa Monica, Inc.
	PUBG Amsterdam B.V.	PUBG Amsterdam B.V.
	PUBG Mad Glory, LLC	PUBG Mad Glory, LLC
	PUBG Shanghai	PUBG Shanghai
	KP PTE. LTD.	KP PTE. LTD.
	Striking Distance Studios, Inc.	Striking Distance Studios, Inc.
	PUBG JAPAN Corporation	PUBG JAPAN Corporation
	Krafton Ventures, L.L.C.	Krafton Ventures, L.L.C.
	Krafton Ventures Fund, L.P.	Krafton Ventures Fund, L.P.
	KRAFTON Ventures, Inc.	KRAFTON Ventures, Inc.
	PUBG Entertainment, Inc.	PUBG Entertainment, Inc.
	Indestructible Frying Pan, LLC	Indestructible Frying Pan, LLC
	Striking Distance Studios Spain, S.L.	Striking Distance Studios Spain, S.L.
	En Masse Entertainment Texas, Inc. <sup>1</sup>	En Masse Entertainment Texas, Inc. <sup>1</sup>
	PUBG INDIA PRIVATE LIMITED	PUBG INDIA PRIVATE LIMITED
	SDS Interactive Canada Inc.	SDS Interactive Canada Inc.
	Dream Motion, Inc.	Dream Motion, Inc.
	Thingsflow Inc.(Domestic)	Thingsflow Inc.(Domestic)
	Tiptoe Games Inc.	Tiptoe Games Inc.
	Krafton Global GP, LLC	Krafton Global GP, LLC
	Krafton Global, LP	Krafton Global, LP
	Thingsflow Inc.	Thingsflow Inc.
	Unknown Worlds Entertainment, Inc.	Unknown Worlds Entertainment, Inc.
	Unknown Worlds Entertainment,Ltd(UK)	Unknown Worlds Entertainment,Ltd(UK)
	En Masse Entertainment, Inc.	En Masse Entertainment, Inc.
	5minlab Corp.	Between Us Co. Ltd. <sup>2</sup>
	Neon Giant AB	
	KRAFTON MONTREAL STUDIO, INC.	
Associates	Shinhan Alpha REIT Co., Ltd.	Shinhan Alpha REIT Co., Ltd.
	Hidden Sequence Co., Ltd.	Hidden Sequence Co., Ltd.
	1Up Ventures, L.P.	1Up Ventures, L.P.
	Smart Krafton-BonAngels Fund	Smart Krafton-BonAngels Fund
	Nodwin Gaming Private Limited	Nodwin Gaming Private Limited
	Un Note Co., Ltd.	Un Note Co., Ltd.
	Loco Interactive Pte Limited	Loco Interactive Pte Limited
	Nasadiya Technologies Private Limited	Nasadiya Technologies Private Limited
	Mirae Asset Maps General Private Real Estate Investment Trust 66	Mirae Asset Maps General Private Real Estate Investment Trust 66
	Seoul Auction Blue Co., Ltd.	-

**KRAFTON, Inc.****Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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	XXBLUE Co., Ltd.	-
	Tamatem Inc.	-
	Nautilus Mobile App Private Limited	-
	Mebigo Labs Private Limited	-
	Smart KNB Booster Fund	-
	NIRVANANA	-
	1Up Ventures Fund II	-
Other Related	Chicken Dinner Industries, LLC <sup>3</sup>	Chicken Dinner Industries, LLC <sup>3</sup>
Parties	Voyager X, Inc	Voyager X, Inc
	BonAngels Pacemaker Fund 2	BonAngels Pacemaker Fund 2

<sup>1</sup> During the years ended December 31, 2022, Bonus XP, Inc. changed its name to En Masse Entertainment Texas, Inc.

<sup>2</sup> During the years ended December 31, 2022, the entity was Merged with Thingsflow Inc. and ceased to exist during the period

<sup>3</sup> During the years ended December 31, 2022, Spetznaiz Helmet, LLC changed its name to Chicken Dinner Industries, LLC.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Significant transactions with related parties for the years ended December 31, 2022 and 2021, are as follows:

(in thousands of Korean won)

	December 31, 2022					
	Revenue			Expenses		
	Revenue	Finance income <sup>1</sup>	Other income	Operating costs	Finance costs <sup>1</sup>	Other expenses <sup>2</sup>
<b>Subsidiaries<sup>3</sup></b>						
Bluehole Studio, Inc.	₩ 2,604,210	₩ 42,928	₩ 394,270	₩ -	₩ 3,757	₩ -
Rising Wings, Inc.	211,108	-	44,139	-	-	1,000,000
PUBG Santa Monica, Inc.	-	119,107	6,463	49,883,215	-	-
PUBG Amsterdam B.V.	897,609	-	-	25,383,788	-	-
PUBG Mad Glory, LLC	-	-	7,588	21,586,857	-	-
PUBG Shanghai	5,667,020	-	-	12,993,574	-	-
KP PTE. LTD	-	21,889	7,882	-	-	-
Striking Distance Studios, Inc	510,172	732,037	8,543	191,457,741	-	-
PUBG Japan Corporation	-	10,121	-	8,585,686	-	-
PUBG Entertainment, Inc.	-	-	-	299,079	-	-
Striking Distance Studios Spain, S.L.	-	-	-	2,610,218	-	-
En Masse Entertainment Texas, Inc.	-	-	-	-	-	6,968,455
PUBG INDIA PRIVATE LIMITED	-	-	-	7,607,927	-	-
Between Us Co. Ltd.	8,357	1,030	107,919	-	149	1,351
Dream Motion, Inc.	40,662	-	7,973	60,000	-	-
Thingsflow Inc. <sup>4</sup>	276,918	259,287	6,460,270	-	2,231	18,707
Tiptoe Games Inc.	23	356	-	-	54	-
SDS Interactive Canada Inc.	-	-	-	3,498,872	-	-
5minlab Corp.	147,722	-	-	-	-	-
En Masse Entertainment, Inc.	-	-	-	-	-	1,506,889
Sub Total	₩ 10,363,801	₩ 1,186,755	₩ 7,045,047	₩ 323,966,957	₩ 6,191	₩ 9,495,402
<b>Associates</b>						
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ 389,756	₩ 387,398	₩ 254,023	₩ 1,651,400	₩ -
Nodwin Gaming Private Limited	-	-	-	361,630	-	-
Tamatem Inc.	-	-	-	15,756	-	-
NIRVANANA	-	1,389	-	-	-	-
Sub Total	₩ -	₩ 391,145	₩ 387,398	₩ 631,409	₩ 1,651,400	₩ -
<b>Other Related Parties</b>						
Voyager X, Inc	₩ -	₩ -	₩ -	₩ 88,000	₩ -	₩ -
Total	₩ 10,363,801	₩ 1,577,900	₩ 7,432,445	₩ 324,686,366	₩ 1,657,591	₩ 9,495,402

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

<sup>2</sup> Includes ₩ 9,475,344 thousand of bad debt expense.

<sup>3</sup> Company's purchasing agency services for group purchases to the subsidiaries are not included.

<sup>4</sup> Includes ₩ 6,456,661 thousand of other income which is recognized by selling 100% shares of Between Us Co. Ltd.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of Korean won)

	December 31, 2021						
	Revenue			Expenses			
	Revenue	Finance income <sup>1</sup>	Other Income <sup>2</sup>	Operating costs	Finance costs <sup>1</sup>	Other expenses <sup>2</sup>	
<b>Subsidiaries<sup>3</sup></b>							
Bluehole Studio, Inc.	₩ 2,336,815	₩ 75,537	₩ 2,651,537	₩ -	₩ 3,678	₩ -	
Rising Wings, Inc.	-	5,063	240,183	-	5,555	-	
PUBG Santa Monica, Inc.	-	146,342	-	32,992,968	-	-	
PUBG Amsterdam B.V.	897,609	132,058	-	23,168,261	-	-	
PUBG Mad Glory, LLC	-	8,847	-	19,493,386	-	-	
PUBG Shanghai	-	-	-	10,471,361	-	-	
KP PTE. LTD	-	25,134	-	-	-	-	
Striking Distance Studios, Inc	-	221,004	-	76,807,359	-	-	
PUBG Japan Corporation	-	11,309	-	8,119,417	-	-	
Striking Distance Studios Spain, S.L.	-	-	-	2,738,679	-	-	
PUBG INDIA PRIVATE LIMITED	-	-	-	2,941,344	-	-	
Red Sahara Studio Co., Ltd	1,992	-	-	-	897	-	
Between Us Co. Ltd.	157	2,133	15,089	102,820	149	2,126	
Dream Motion, Inc.	-	-	20,511	-	-	-	
Thingsflow Inc.	721	70,807	12,073	-	688	3,765	
Tiptoe Games Inc.	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 ₩ 14,555,710 thousand of bad debt expense, and ₩ 11,246 thousand of reversal of allowance for bad debts.

<sup>3</sup> Company's purchasing agency services for group purchases to the subsidiaries are not included.

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Outstanding balances arising from sales/purchases of goods and services as of December 31, 2022 and December 31, 2021, are as follows:

(in thousands of  
Korean won)

	December 31, 2022					
	Receivables			Payables		
	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.	₩ 444,133	₩ -	₩ 2,375,677	₩ 50,104	₩ 178,246	
Rising Wings, Inc.	226,575	21,300,000	3,260,123	194	-	
PUBG Santa Monica, Inc.	-	5,697,193	1,347,775	4,900,681	73,155	
PUBG Amsterdam B.V.	-	-	938,046	3,663,075	2,225,519	
PUBG Mad Glory, LLC	-	-	179,334	1,726,366	(470,712)	
PUBG Shanghai	6,056,696	-	467,429	3,056,543	(137,738)	
KP PTE. LTD	-	646,108	106,799	-	-	
Striking Distance Studios, Inc	510,172	56,862,129	9,687,076	35,848,695	3,936	
PUBG Japan Corporation	-	2,635,650	25,377	1,083,265	(173,260)	
Krafton Ventures, L.L.C.	-	-	41	-	-	
Krafton Ventures Fund, L.P.	-	-	50	-	-	
KRAFTON Ventures, Inc.	-	-	41	-	-	
PUBG Entertainment, Inc.	-	-	50	31,535	-	
Striking Distance Studios Spain, S.L.	-	-	340	-	-	
En Masse Entertainment Texas, Inc.	-	21,741,443	5,637	-	-	
PUBG INDIA PRIVATE LIMITED	-	-	6,742	762,839	(10,525)	
Dream Motion, Inc.	2,924	-	105,515	-	-	
Thingsflow Inc.	20,270	5,500,000	152,734	-	79,899	
Tiptoe Games Inc.	-	-	8,580	4	2,122	
Unknown Worlds Entertainment, Inc.	-	-	15,055	167,741	21,642	
SDS Interactive Canada Inc.	-	-	7,969	493,881	-	
5minlab Corp.	9,371	-	1,363	-	-	
KRAFTON MONTREAL STUDIO, INC.	-	-	43,397	-	-	
En Masse Entertainment, Inc.	-	27,403,192	440,614	-	-	
Sub Total	₩ 7,270,141	₩ 141,785,715	₩ 19,175,764	₩ 51,784,923	₩ 1,792,284	
<b>Associates</b>						
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ -	₩ 3,771,819	₩ -	₩ 61,956,634	
Tamatem Inc.	-	-	114,057	-	-	
NIRVANANA	-	640,000	1,389	-	-	
Sub Total	₩ -	₩ 640,000	₩ 3,887,265	₩ -	₩ 61,956,634	
Total	₩ 7,270,141	₩ 142,425,715	₩ 23,063,029	₩ 51,784,923	₩ 63,748,918	

<sup>1</sup>Receivables are before loss provisions, and provisions for receivables are ₩ 73,785,812 thousand.

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

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of  
Korean won)

	December 31, 2021					
	Receivables			Payables		
	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	-	
En Masse Entertainment Texas, 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.

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

**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

Financing transactions with related parties for the years ended December 31, 2022 and 2021, are as follows:

(in thousands of  
Korean won)

	December 31, 2022						
	Loan transactions		Lease transactions		Contributions in cash		
	Loans	Collection	Payment of lease liabilities	Collection of lease receivables	Payment of Capital	Acquisition of Convertible bonds	
<b>Subsidiaries</b>							
Bluehole Studio, Inc.	₩ -	₩ -	₩ -	₩ 613,909	₩ 20,000,000	₩ -	-
Rising Wings, Inc.	1,000,000	-	-	-	-	-	-
PUBG Santa Monica, Inc.	-	2,855,750	-	-	-	-	-
Striking Distance Studios, Inc.	45,359,400	-	-	-	-	-	-
En Masse Entertainment Texas, Inc.	6,951,645	-	-	-	-	-	-
PUBG INDIA PRIVATE LIMITED	-	-	-	-	1,123,034	-	-
Between Us Co. Ltd.	-	-	-	7,954	-	-	-
Thingsflow Inc.	-	-	-	51,965	9,302,205	-	-
Tiptoe Games Inc.	-	-	-	2,508	-	-	-
Krafton Global GP, LLC	-	-	-	-	239,400	-	-
Krafton Global, LP	-	-	-	-	1,915,200	-	-
SDS Interactive Canada Inc.	-	-	-	-	470,299	-	-
5minlab Corp.	-	-	-	-	29,999,948	-	-
En Masse Entertainment, Inc.	1,515,980	-	-	-	-	-	-
Sub Total	₩ 54,827,025	₩ 2,855,750	₩ -	₩ 676,336	₩ 63,050,086	-	-
<b>Associates</b>							
Shinhan Alpha REIT Co., Ltd.	₩ -	₩ -	₩ 16,329,206	₩ -	₩ -	₩ -	-
1Up Ventures, L.P	-	-	-	-	3,080,000	-	-
Smart Krafton-BonAngels Fund	-	-	-	-	360,000	-	-
Loco Interactive Pte Limited	-	-	-	-	4,097,888	801,875	-
Mebigo Labs Private Limited	-	-	-	-	4,744,122	-	-
30,000	640,000	-	-	-	-	-	-
Sub Total	₩ 640,000	₩ -	₩ 16,329,206	₩ -	₩ 12,282,010	₩ 801,875	-
Total	₩ 55,467,025	₩ 2,855,750	₩ 16,329,206	₩ 676,336	₩ 75,332,096	₩ 801,875	-



**KRAFTON, Inc.**  
**Notes to the Separate Financial Statements, (Cont'd)**  
**December 31, 2022 and 2021**

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

(in thousands of  
Korean won)

	December 31, 2021					
	Loan transactions		Lease transactions		Contributions in cash	
	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	
En Masse Entertainment Texas, 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, (Cont'd)**  
**December 31, 2022 and 2021**

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

Details of payment guarantee and collateral provided by the Company to the related parties as of December 31, 2022, are as follows:

<i>(in USD)</i>	Description	Beneficiary of guarantee	Currency	Guaranteed amount
Subsidiaries				
Striking Distance Studios, Inc.	Payment guarantee related to rent	Sunset Building Company, LLC	USD	2,280,000
PUBG Santa Monica, Inc.	Payment guarantee related to rent	Water Garden Realty Holdings LLC and others	USD	813,600
PUBG Santa Monica, Inc., PUBG Mad Glory LLC, Striking Distance Studios, Inc.	Corporate card issuance guarantee	Citibank N.A.	USD	600,000
PUBG Mad Glory, LLC	Office Rent Guarantee	25 West Main Office LLC	USD	1,807,624

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, 2022 and 2021, consists of:

<i>(in thousands of Korean won)</i>	December 31, 2022	December 31, 2021
Salaries and bonuses	₩ 1,416,079	₩ 2,382,411
Share-based payment expenses	(29,448,623)	64,200,320
Post-employment benefits	179,833	86,567
	<u>₩ (27,852,711)</u>	<u>₩ 66,669,298</u>

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

Tencent Technology (Shenzhen) Company Limited.(including subsidiaries) has been excluded from related parties during the year ended December 31, 2021. The Company recognized revenue and operating costs amounting to ₩ 1,095,781,823 thousand and ₩ 43,411,154 thousand respectively, from transactions with Tencent for the year ended December 31, 2021.

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, (Cont'd)**  
**December 31, 2022 and 2021**

**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, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
PC	₩	428,079,093	₩	380,081,318
Mobile		1,239,552,586		1,399,667,288
Console		76,130,833		14,260,047
Others		24,013,299		34,365,135
	₩	<u>1,767,775,811</u>	₩	<u>1,828,373,788</u>

Revenue by geographical area for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Revenue</b>	<b>Ratio</b>	<b>Revenue</b>	<b>Ratio</b>
Asia	₩ 1,474,693,239	% 83.42	₩ 1,618,649,357	% 88.53
Korea	92,152,361	5.21	105,115,796	5.75
America / Europe	189,434,731	10.72	81,857,677	4.48
Other area	11,495,480	0.65	22,750,958	1.24
Total	<u>₩ 1,767,775,811</u>	<u>% 100.00</u>	<u>₩ 1,828,373,788</u>	<u>% 100.00</u>

Revenue derived from major external customer contributing more than 10% of the Company's revenue for the years ended December 31, 2022 and 2021, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
Major Customer A	₩	1,031,843,813	₩	1,178,710,320

**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.



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

Based on a report originally issued in Korean

To the Board of Directors and Shareholders  
Krafton, Inc.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the separate financial statements of the Company, which comprise the separate statement of financial position as of December 31, 2022, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, and our report dated March 13, 2023 expressed an unmodified opinion on those separate financial statements.

### ***Basis for Opinion***

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the internal control over financial reporting in 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***

The Company's management is responsible for designing, operating and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on the Effectiveness of Internal Control over Financial Reporting.

Those charged with governance are responsible for overseeing the Company's internal control over financial reporting.

**Auditors' Responsibilities for the Audit of the 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 our audit in accordance with KSAs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.

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

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards (K-IFRS). 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 K-IFRS, 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 engagement partner on the audit resulting in this independent auditors' report is Chang-Bum Ahn.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 13, 2023

*This report is effective as of March 13, 2023, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the internal control over financial reporting. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.*

# 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, 2022.

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, 2022, 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 7, 2023



Chang Han Kim,  
Chief Executive Officer



Dong Keun Bae,  
Internal Control over Financial Reporting Officer