

KRAFTON, INC. AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2023 and 2022**

(With Independent Auditors' Report Thereon)

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## **Independent Auditors' Report**

Based on a report originally issued in Korean

To the Shareholders and Board of Directors of  
Krafton, Inc.

### **Opinion**

We have audited the consolidated financial statements of Krafton, Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising of material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the Group's Internal Control over Financial Reporting for Consolidation Purposes ("ICFR") as of December 31, 2023 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 11, 2024 expressed an unmodified opinion on the effectiveness of the Group's internal control over financial reporting for consolidation purposes.

### **Basis for Opinion**

We conducted our audits in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements 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.

### **Key Audit Matter**

A key audit matter is matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2023. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### **Impairment Testing of Cash-Generating Units (The Unknown Worlds Entertainment, Inc.)**

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

The Group performs impairment testing of cash-generating units including goodwill at each reporting date. Management's significant judgment is involved in measuring the recoverable amount of cash-generating units including goodwill, such as terminal growth rates, discount rates and revenue growth rates of cash-generating units.

As described in Note 14 to the consolidated financial statements, the carrying amounts of goodwill and other intangible assets for the Unknown Worlds Entertainment, Inc. in the Group's consolidated financial statements are KRW 304,615 million and KRW 226,482 million, respectively. The recoverable amount of this cash-generating units varies significantly depending on how management determines the valuation model and unobservable input variables. We identified the impairment testing of cash-generating units of the Unknown Worlds Entertainment, Inc. as a key audit matter considering the uncertainty of these accounting estimates and the significance of cash-generating units of Unknown Worlds Entertainment, Inc.'s carrying amount.

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

The audit procedures we performed to address this key audit matter included followings:

- Understanding of the Group's policies, processes, and internal controls for accounting for impairment of cash-generating units such as goodwill
- Assessing the qualifications and independence of external experts engaged by the Group
- Testing the internal controls over management's review and approval of future cash flows estimates used in impairment testing.
- Assessing the appropriateness of the valuation model used by management to estimate value in use.
- Assessing the reasonableness of key assumptions such as future cash flows, discount rates and growth rates used by management to estimate value in use.
- Assessing whether there is a bias in the estimate by performing a retrospective review through comparing the cash flows used in the estimate with actual performance.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 consolidated 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yeon-Taek Choi.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 11, 2024

This report is effective as of March 11, 2024, 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 consolidated 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. and its Subsidiaries**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2023 and December 31, 2022**

(in thousands of Korean Won)	Notes	December 31, 2023		December 31, 2022	
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5,6	₩	721,048,786	₩	674,689,124
Current portion of financial assets at fair value through profit or loss	5,6,10		2,340,390,290		2,450,603,157
Trade receivables	4,5,6,7		700,401,193		525,559,384
Other current financial assets	4,5,6,7,8,13		146,958,114		187,186,737
Other current assets	7		48,968,149		49,169,338
Current tax assets			6,650,556		5,356,355
			<u>3,964,417,088</u>		<u>3,892,564,095</u>
<b>Non-current assets</b>					
Investments in associates and joint ventures	12		571,251,701		425,296,870
Financial assets at fair value through profit or loss	5,6,10		167,155,692		142,676,249
Financial assets at fair value through other comprehensive income	4,5,6,11		133,473,399		83,396,737
Property and equipment	13		257,029,139		223,373,574
Intangible assets	14		607,781,864		867,737,480
Investment properties	15		544,483,033		202,173,260
Other non-current financial assets	5,6,7,8,13		69,151,069		74,102,107
Other non-current assets	7		30,116,127		28,483,970
Deferred tax assets	26		93,452,478		96,220,118
Derivative assets	5,6		2,145,030		1,759,509
			<u>2,476,039,532</u>		<u>2,145,219,874</u>
<b>Total assets</b>		₩	<u>6,440,456,620</u>	₩	<u>6,037,783,969</u>

(continued)

**KRAFTON, Inc. and its Subsidiaries**  
**Consolidated Statements of Financial Position (Con'd)**  
**As of December 31, 2023 and December 31, 2022**

<i>(in thousands of Korean Won)</i>	<b>Notes</b>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	4,5,6,16	₩ 7,000,000	₩ 7,000,000
Other current financial liabilities	4,5,6,9,13	281,083,264	271,133,399
Other current liabilities	9,22	92,901,216	88,569,015
Current provisions	18	-	2,902,829
Current tax liabilities		139,706,217	41,854,349
		<u>520,690,697</u>	<u>411,459,592</u>
<b>Non-current liabilities</b>			
Financial liabilities at fair value through profit or loss	4,5,6	83,901,868	234,747,389
Net defined benefit liabilities	17	17,080,991	13,876,873
Provisions	18	14,039,275	13,834,890
Other non-current financial liabilities	4,5,6,9,13	146,304,004	181,254,138
Other non-current liabilities	9,22	49,607,495	-
Deferred tax liabilities	26	50,012,029	66,205,986
		<u>360,945,662</u>	<u>509,919,276</u>
<b>Total liabilities</b>		<u>881,636,359</u>	<u>921,378,868</u>
<b>Equity</b>			
Share capital	20	4,923,729	4,908,155
Consolidated capital surplus	20	1,472,034,191	1,448,604,371
Other components of equity	20,21	182,510,510	190,113,306
Consolidated retained earnings		<u>3,894,954,772</u>	<u>3,467,581,310</u>
<b>Equity attributable to owners of the Parent Company</b>		<u>5,554,423,202</u>	<u>5,111,207,142</u>
<b>Non-controlling Interest</b>		<u>4,397,059</u>	<u>5,197,959</u>
<b>Total equity</b>		<u>5,558,820,261</u>	<u>5,116,405,101</u>
<b>Total liabilities and equity</b>		<u>₩ 6,440,456,620</u>	<u>₩ 6,037,783,969</u>

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

**KRAFTON, Inc. and its Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2023 and 2022**

(in thousands of Korean Won)

	Notes	December 31, 2023	December 31, 2022
<b>Revenue</b>	22	₩ 1,910,576,180	₩ 1,854,016,091
<b>Operating costs</b>	23	<u>1,142,530,571</u>	<u>1,102,409,521</u>
<b>Operating profit</b>		768,045,609	751,606,570
Other income	24	482,969,841	282,902,545
Other expenses	24	406,841,506	341,450,257
Finance income	25	37,537,873	33,720,934
Finance costs	25	8,932,004	7,599,150
Share of net loss of associates and joint ventures accounted for using the equity method	12	<u>(44,164,477)</u>	<u>(35,303,721)</u>
<b>Profit before income tax</b>		828,615,336	683,876,921
<b>Income tax expense</b>	26	<u>234,555,022</u>	<u>168,702,206</u>
<b>Continuing Operations Net Income</b>		594,060,314	515,174,715
<b>Discontinued Operations Net Income</b>		-	(15,020,683)
<b>Profit for the year</b>		<u>₩ 594,060,314</u>	<u>₩ 500,154,032</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		(19,876,378)	(45,707,882)
Equity adjustments of investments in associates and joint ventures	12	11,070	-
Remeasurements of net defined benefit liability	17	(474,972)	7,247,992
<i>Items that may be subsequently reclassified to profit or loss</i>			
Equity adjustments of investments in associates and joint ventures	12	(1,973,269)	1,847,300
Exchange differences on translation of foreign operations		<u>21,196,870</u>	<u>72,170,325</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>₩ (1,116,679)</u>	<u>₩ 35,557,735</u>
<b>Total comprehensive income for the year</b>		<u>₩ 592,943,635</u>	<u>₩ 535,711,767</u>
<b>Profit for the year is attributable to:</b>			
Owners of the Parent Company			
Continuing Profit for the year		₩ 595,361,538	₩ 515,174,716
Discontinuing Loss for the year		-	(15,020,683)
Profit for the year attributable to owners of the Parent Company		<u>₩ 595,361,538</u>	<u>₩ 500,154,033</u>
Non-controlling interests			
Continuing Loss for the year		₩ (1,301,224)	₩ (1)
Discontinuing Loss for the year		-	-
Loss for the year attributable to owners of the Non- controlling interests		<u>₩ (1,301,224)</u>	<u>₩ (1)</u>
		<u>₩ 594,060,314</u>	<u>₩ 500,154,032</u>
<b>Total comprehensive income for the year is attributable to:</b>			
Owners of the Parent Company		₩ 594,010,005	₩ 535,938,196
Non-controlling interests		<u>(1,066,370)</u>	<u>(226,429)</u>
		<u>₩ 592,943,635</u>	<u>₩ 535,711,767</u>
<b>Earnings per share (in Korean Won)</b>	27		
Basic earnings per share			
Continuing Basic earnings per share		₩ 12,812	₩ 10,986
Discontinuing Basic loss per share		-	(320)
Basic earnings per share		<u>₩ 12,812</u>	<u>₩ 10,666</u>
Diluted earnings per share			
Continuing Diluted earnings per share		₩ 12,750	₩ 10,893
Discontinuing Diluted loss per share		-	(317)
Diluted earnings per share		<u>₩ 12,750</u>	<u>₩ 10,576</u>

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



**KRAFTON, Inc. and its Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2023 and 2022**

	Equity attributable to owners of the Parent Company					Non-controlling Interest	Total
	Share Capital	Consolidated Capital surplus	Other Components of Equity	Consolidated Retained earnings	Subtotal		
<i>(in thousands of Korean Won)</i>							
<b>Balance at January 1, 2022</b>	₩ 4,896,705	₩ 3,839,098,492	₩ 206,327,037	₩ 557,809,705	₩ 4,608,131,938	₩ 112,370	₩ 4,608,244,309
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	500,154,034	500,154,034	(1)	500,154,033
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	(45,707,882)	-	(45,707,882)	-	(45,707,882)
Remeasurements of net defined benefit liability	-	-	7,247,992	-	7,247,992	-	7,247,992
Equity adjustments of investments in associates and joint ventures	-	-	1,847,300	-	1,847,300	-	1,847,300
Exchange differences on translation of foreign operations	-	-	72,396,753	-	72,396,753	(226,428)	72,170,325
<b>Transactions with shareholders recognized directly to equity</b>							
Acquisition of Subsidiaries	-	(28,468,465)	-	-	(28,468,465)	5,216,616	(23,251,849)
Paid-in capital increase of Subsidiaries	-	(11)	-	-	(11)	11	-
Transactions with non-controlling interests	-	845,770	-	-	845,770	-	845,770
Share-based payment transactions	11,449	(3,575,249)	9,300,891	-	5,737,092	95,391	5,832,482
Gift of shares	-	50,321,406	(61,298,785)	-	(10,977,379)	-	(10,977,379)
Transfer to Capital Reserve	-	(2,409,617,572)	-	2,409,617,572	-	-	-
<b>Balance at December 31, 2022</b>	₩ 4,908,154	₩ 1,448,604,371	₩ 190,113,306	₩ 3,467,581,311	₩ 5,111,207,142	₩ 5,197,959	₩ 5,116,405,101

(Continued)

**KRAFTON, Inc. and its Subsidiaries**  
**Consolidated Statements of Changes in Equity, (Cont'd)**  
**Years Ended December 31, 2023 and 2022**

	Equity attributable to owners of the Parent Company					Non-controlling Interest	Total
	Share Capital	Consolidated Capital surplus	Other Components of Equity	Consolidated Retained earnings	Subtotal		
<i>(in thousands of Korean Won)</i>							
<b>Balance at January 1, 2023</b>	₩ 4,908,154	₩ 1,448,604,371	₩ 190,113,306	₩ 3,467,581,311	₩ 5,111,207,142	₩ 5,197,959	₩ 5,116,405,101
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	595,361,538	595,361,538	(1,301,224)	594,060,314
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	(19,876,378)	-	(19,876,378)	-	(19,876,378)
Remeasurements of net defined benefit liability	-	-	(474,972)	-	(474,972)	-	(474,972)
Equity adjustments of investments in associates and joint ventures	-	-	(1,962,198)	-	(1,962,198)	-	(1,962,198)
Exchange differences on translation of foreign operations	-	-	20,962,016	-	20,962,016	234,854	21,196,870
<b>Transactions with shareholders recognized directly to equity</b>							
Paid-in capital increase of							
Subsidiaries	-	269,635	-	-	269,635	(253,426)	16,209
Transactions with non-controlling interests	-	635,439	-	-	635,439	-	635,439
Reclassification equity adjustments of investments in associates and joint ventures	-	(11,070)	-	-	(11,070)	-	(11,070)
Share-based payment transactions	15,575	22,535,816	(6,251,264)	-	16,300,127	518,896	16,819,023
Gift of shares	-	-	-	-	-	-	-
Acquisition of treasury stock	-	-	(167,988,077)	-	(167,988,077)	-	(167,988,077)
Retirement of treasury stock	-	-	167,988,077	(167,988,077)	-	-	-
<b>Balance at December 31, 2023</b>	₩ 4,923,729	₩ 1,472,034,191	₩ 182,510,510	₩ 3,894,954,772	₩ 5,554,423,202	₩ 4,397,059	₩ 5,558,820,261

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

**KRAFTON, Inc. and its Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2023 and 2022**

(in thousands of Korean Won)

	Note	December 31, 2023	December 31, 2022
<b>Cash flows from operating activities</b>			
Profit for the year		₩ 594,060,314	₩ 500,154,032
Adjustment for profit for the year	28	324,467,914	360,472,640
Changes in assets and liabilities from operating activities	28	(139,464,052)	(134,358,625)
Interest received		36,335,931	32,121,549
Interest paid		(8,443,960)	(1,495,946)
Dividends received		984,734	388,196
Income taxes paid		(145,594,643)	(244,579,322)
<b>activities</b>		<u>₩ 662,346,238</u>	<u>₩ 512,702,524</u>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments		52,857,165	52,700,774
Collection of short-term loans		14,041,719	14,083,064
Decrease in long-term financial instruments		60,404	45,242
Collection of long-term loans		498,694	694,759
Disposal of financial assets at fair value through profit or loss		14,020,936,233	3,933,438,835
Disposal of investments in associates		6,484,610	-
Decrease in deposits		1,175,231	544,461
Collection of lease receivables		10,613,532	4,500,492
Disposal of property and equipment		791,483	193,793
Disposal of intangible assets		25,846,625	6,788,107
Increase in short-term financial instruments		(41,119,463)	(42,689,598)
Increase in short-term loans		(1,201,444)	(740,000)
Increase in long-term financial instruments		(193,572)	(35,842,445)
Increase in long-term loans		(2,276,694)	(98,335,825)
Acquisition of financial assets at fair value through profit or loss		(13,803,939,050)	(6,500,426,043)
Acquisition of financial assets at fair value through other comprehensive income		(75,524,113)	(36,872,105)
Increase in deposits		(3,660,648)	(5,729,728)
Termination of lease contract		-	(129,193)
Acquisition of property and equipment		(34,365,898)	(26,583,974)
Acquisition of intangible assets		(1,194,601)	(1,972,471)
Acquisition of investment properties		(343,531,810)	(7,116,998)
Return of government grants		-	(902,950)
Acquisition of investments in associates and joint ventures		(194,332,440)	(54,595,070)
Cash outflow due to business combination		(1,576,079)	(43,667,488)
Increase in long-term advance payments		(24,597,086)	(20,337,208)
Increase in derivative assets		-	(2,067)
<b>Net cash flows used in investing activities</b>		<u>₩ (394,207,202)</u>	<u>₩ (2,862,953,636)</u>

(continued)

**KRAFTON, Inc. and its Subsidiaries**  
**Consolidated Statements of Cash Flows, (Cont'd)**  
**Years Ended December 31, 2023 and 2022**

(in thousands of Korean Won)

	Note	December 31, 2023	December 31, 2022
<b>Cash flows from financing activities</b>			
Increase in leasehold deposits received	₩	-	₩ 5,621,862
Increase in short-term borrowings		-	7,000,000
Exercise of share options		219,765	112,986
Increase in non-controlling interests		16,210	-
Repayment of short-term borrowings		-	(400,000)
Repayment of current portion of long-term borrowings		-	(135,232)
Repayment of long-term borrowings		-	(553,617)
Decrease in leasehold deposits received		(700,147)	(4,490,958)
Repayment of financial liabilities at fair value through profit or loss		-	(11,642,400)
Repayment of lease liabilities		(56,855,967)	(51,605,836)
Acquisition of treasury stock		(167,988,077)	-
<b>Net cash flows used in financing activities</b>	₩	<u>(225,308,216)</u>	₩ <u>(56,093,195)</u>
<b>Net increase(decrease) in cash and cash equivalents</b>		42,830,820	(2,406,344,307)
Cash and cash equivalents at the beginning of the year		674,689,124	3,019,311,210
Effects of exchange rate changes on cash and cash equivalents		<u>3,528,842</u>	<u>61,722,221</u>
<b>Cash and cash equivalents at the end of the year</b>	₩	<u>721,048,786</u>	₩ <u>674,689,124</u>

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

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

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#### 1. General Information

These consolidated financial statements are prepared in accordance with Korean International Financial Reporting Standards (“KIFRS”) 1110, Consolidated Financial Statements. Krafton, Inc. (the “Company” or the “Parent Company”) consolidates its 31 subsidiaries (collectively referred to as the “Group”).

##### 1.1 The Company

The Group was incorporated in the Republic of Korea on March 26, 2007 to engage in software development and related subsidiary businesses. The Group’s headquarters is located in 231, Teheran-ro, Gangnam-gu, Seoul. 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, 2023, the Company’s share capital amounts to ordinary shares of ₩ 4,924 million, through number of exercise of share options, increase in paid-in capital and 5-for-1 share split effective from May 4, 2021. As of December 31, 2023, 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	14.75%
Image Frame Investment (HK) Limited	6,641,640	13.73%
National Pension Service (NPS)	3,009,864	6.22%
Treasury shares	2,150,621	4.45%
Others	29,426,967	60.85%
	<b>48,362,743</b>	<b>100.00%</b>

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

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#### 1.2 Subsidiaries

Details of the consolidated subsidiaries as of December 31, 2023 and 2022, are as follows:

Investing Companies	Subsidiaries	Location	Percentage of ownership held by the Group (%) <sup>1</sup>		Closing month	Main business
			December 31, 2023	December 31, 2022		
Krafton, Inc.	Bluehole Studio, Inc.	Korea	100	100	December	Development and distribution of software
	En Masse Entertainment, Inc.	U.S.A.	100	100	December	Distribution of game software
	Rising Wings, Inc.	Korea	100	100	December	Development and distribution of mobile game and application
	Krafton Americas, Inc. <sup>2</sup>	U.S.A.	100	100	December	Development and distribution of game software
	KRAFTON EUROPE B.V. <sup>3</sup>	Netherland	100	100	December	Development and distribution of game software
	KRAFTON CHINA <sup>4</sup>	China	100	100	December	Development and distribution of game
	KP PTE. LTD.	Singapore	100	100	December	Consulting advisory and investment
	Striking Distance Studios, Inc.	U.S.A.	100	100	December	Development of software
	KRAFTON JAPAN, Inc. <sup>5</sup>	Japan	100	100	December	Development and services of game
	Striking Distance Studios Spain, S.L.	Spain	100	100	December	Development of game software
	KRAFTON Ventures, Inc.	U.S.A.	100	100	December	Investment
	PUBG Entertainment, Inc.	U.S.A.	100	100	December	Production of video contents
	KRAFTON INDIA PRIVATE LIMITED <sup>6</sup>	India	99.9	99.9	March	Development and distribution of game software
	SDS Interactive Canada Inc.	Canada	100	100	December	Development of game software
	DreaMotion, Inc.	Korea	100	100	December	Development and distribution of software
	Thingsflow Inc.	Korea	89.6	89.8	December	Development and distribution of software
	Tiptoe Games, Inc.	Korea	100	100	December	Development and sales of software
	Krafton Global GP, LLC	U.S.A.	100	100	December	Investment
	Krafton Global, LP	U.S.A.	100	100	December	Investment
	Unknown Worlds Entertainment, Inc.	U.S.A.	100	100	December	Development of game software
	5minlab Corp.	Korea	100	100	December	Development and distribution of software
	Neon Giant AB	Sweden	72.3	72.9	December	Development of game software
	KRAFTON MONTREAL STUDIO, INC.	Canada	100	100	December	Development of game software

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

Investing Companies	Subsidiaries	Location	Percentage of ownership held by the Group (%) <sup>1</sup>		Closing month	Main business
			December 31, 2023	December 31, 2022		
	VECTOR NORTH s.r.o. <sup>7</sup>	Czech	100	-	December	Development of game software
	ReLU Games, Inc. <sup>7</sup>	Korea	100	-	December	Development and distribution of software
	Flyway Games, Inc. <sup>7</sup>	Korea	100	-	December	Development and distribution of software
Krafton Americas, Inc. <sup>2</sup>	PUBG Mad Glory, LLC	U.S.A.	100	100	December	Development and distribution of software
KRAFTON Ventures, Inc.	Krafton Ventures, L.L.C.	U.S.A.	100	100	December	Investment
	Krafton Ventures Fund, L.P.	U.S.A.	99	99	December	Investment
Krafton Ventures, L.L.C.	Krafton Ventures Fund, L.P.	U.S.A.	1	1	December	Investment
En Masse Entertainment, Inc.	En Masse Entertainment Texas, Inc. <sup>8</sup>	U.S.A.	100	100	December	Development of game software
PUBG Entertainment, Inc.	Indestructible Frying Pan, LLC <sup>9</sup>	U.S.A.	-	100	December	Production of video contents
Thingsflow Inc.	Thingsflow Inc.(Japan)	Japan	100	100	December	Development and sales of mobile application
Unknown Worlds Entertainment, Inc.	Unknown Worlds Entertainment, Ltd (UK) <sup>9</sup>	U.K.	-	100	December	Development of game software

<sup>1</sup> Means the simple combined share rate of the shares held by the Group and its Subsidiaries.

<sup>2</sup> During the year ended December 31, 2023, PUBG Santa Monica, Inc. was renamed to Krafton Americas, Inc.

<sup>3</sup> During the year ended December 31, 2023, PUBG Amsterdam B.V. was renamed to KRAFTON EUROPE B.V.

<sup>4</sup> During the year ended December 31, 2023, PUBG Shanghai was renamed to KRAFTON CHINA

<sup>5</sup> During the year ended December 31, 2023, PUBG JAPAN Corporation was renamed to KRAFTON JAPAN, Inc.

<sup>6</sup> During the year ended December 31, 2023, PUBG INDIA PRIVATE LIMITED was renamed to KRAFTON INDIA PRIVATE LIMITED

<sup>7</sup> During the year ended December 31, 2023, it was included in the consolidation scope due to new investments entered into by the group.

<sup>8</sup> During the year ended December 31, 2022, Bonus XP, Inc. was renamed to En Masse Entertainment Texas, Inc.

<sup>9</sup> During the year ended December 31, 2023, it was dissolved due to liquidation.

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**1.3 Summarized Financial Information of Subsidiaries**

Summarized financial information of subsidiaries as of December 31, 2023 and 2022, are as follows:

(in thousands of  
Korean won)

<i>Korean won)</i>	December 31, 2023 <sup>1</sup>									
Subsidiary	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profits(loss) from	Profits(loss) from	Other	Total	
						Continuing Operation	Discontinued Operation	Comprehensive Income	e Income for the year	
Bluehole Studio, Inc.	₩ 13,860,892	₩ 3,589,202	₩ 4,220,182	₩ 4,081,912	₩ 13,246,086	₩ (8,353,839)	₩ -	₩ 143,399	₩ (8,210,440)	
En Masse Entertainment, Inc.	59,285	10,368,222	55,967,992	-	-	(1,754,584)	-	(907,038)	(2,661,622)	
Rising Wings, Inc.	4,287,947	4,509,183	42,295,213	10,109,839	10,427,535	(12,050,466)	-	(4,449)	(12,054,915)	
Krafton Americas, Inc. <sub>2</sub>	22,496,338	5,260,553	6,670,798	38,869	53,281,627	4,496,900	-	227,572	4,724,472	
KRAFTON EUROPE B.V. <sub>3</sub>	23,162,719	22,271,678	19,038,014	13,325,791	43,093,393	1,809,984	-	603,316	2,413,300	
KRAFTON CHINA <sub>4</sub>	9,982,932	1,343,120	5,696,375	51,456	15,597,351	(209,514)	-	(19,308)	(228,822)	
PUBG Mad Glory, LLC	11,350,641	6,988,324	3,695,725	5,648,962	21,237,808	1,600,186	-	108,503	1,708,689	
KP PTE. LTD.	3,479,420	2,623,950	14,129	-	-	14,374	-	103,948	118,322	
Striking Distance Studios, Inc.	37,659,026	11,555,025	2,504,702	4,834,119	70,650,865	127,773	-	689,298	817,071	
KRAFTON JAPAN, Inc. <sub>5</sub>	4,163,240	2,493,529	4,185,252	443,547	7,943,016	495,467	-	(78,439)	417,028	
Striking Distance Studios Spain, S.L.	1,867,301	1,445,845	813,682	725,852	3,578,227	151,322	-	87,176	238,498	
KRAFTON Ventures, Inc.	187,867	2,423,311	4,574	-	-	777,329	-	(19,441)	757,888	



**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

(in thousands of  
Korean won)

December 31, 2023<sup>1</sup>

Subsidiary	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profits(loss) from	Profits(loss) from	Other	Total
						Continuing Operation	Discontinued Operation	Comprehensive Income	Comprehensive Income for the year
Krafton Ventures, L.L.C.	51,942	23,549	-	-	-	(3,600)	-	995	(2,605)
Krafton Ventures Fund, L.P.	3,066,284	967,024	-	-	2,187	30,443	-	90,991	121,434
En Masse Entertainment Texas, Inc. <sup>6</sup>	26,559	-	26,019,064	-	-	(1,516,449)	-	(401,234)	(1,917,683)
PUBG Entertainment, Inc.	205,007	191,558	1,115,753	-	58,745	198,154	-	(18,112)	180,042
Indestructible Frying Pan, LLC <sup>7</sup>	-	-	-	-	-	27,136	-	(792)	26,344
PUBG INDIA PRIVATE LIMITED <sup>8</sup>	5,497,579	4,678,501	3,741,952	2,908,065	8,825,385	(503,918)	-	51,615	(452,303)
SDS Interactive Canada Inc.	943,975	7,171	7,088	-	3,218,637	92,953	-	34,953	127,906
DreaMotion, Inc.	8,524,354	427,234	930,187	226,230	3,358,083	473,467	-	33,440	506,907
Thingsflow Inc.	2,719,093	2,291,139	17,508,605	2,513,909	15,714,080	(6,297,210)	-	63,274	(6,233,936)
Tiptoe Games, Inc.	22,181	6,827	5,972	2,088	15	(23,041)	-	-	(23,041)
Krafton Global GP, LLC	256,245	-	-	-	-	36	-	4,391	4,427
Krafton Global, LP	1,366,198	-	-	-	-	(297,776)	-	32,110	(265,666)
Thingsflow Inc.(Japan)	73,752	-	24	-	-	(86,035)	-	(5,300)	(91,335)
Unknown Worlds Entertainment, Inc.	102,240,414	7,387,584	5,015,742	-	37,140,405	16,905,729	-	1,239,860	18,145,589

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

(in thousands of  
Korean won)

December 31, 2023<sup>1</sup>

Subsidiary	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profits(loss) from Continuing Operation	Profits(loss) from Discontinued Operation	Other Comprehensive Income	Total Comprehensive Income for the year
Unknown Worlds Entertainment, Ltd (UK) <sup>7</sup>	-	-	-	-	-	-	-	-	-
5minlab Corp.	14,394,057	2,594,765	3,165,463	1,145,669	4,101,543	(6,874,289)	-	-	(6,874,289)
Neon Giant AB	7,158,289	829,551	9,316,721	500,255	1,760,599	(3,972,894)	-	15,238	(3,957,656)
KRAFTON									
MONTREAL STUDIO, INC.	6,125,868	2,885,987	1,467,015	1,241,580	5,771,491	496,925	-	237,467	734,392
VECTOR NORTH s.r.o. <sup>9</sup>	2,608,271	1,308,128	650,104	467,170	2,705,103	70,715	-	(244,275)	(173,560)
ReLU Games, Inc. <sup>9</sup>	12,631,128	605,791	371,318	351,469	622	(2,242,085)	-	-	(2,242,085)
Flyway Games, Inc. <sup>9</sup>	29,825,873	2,093,947	1,319,682	1,085,678	7,925	(1,394,806)	-	-	(1,394,806)

<sup>1</sup> Intercompany transactions have not been eliminated in the summarized financial information above.

<sup>2</sup> During the year ended December 31, 2023, PUBG Santa Monica, Inc. was renamed to Krafton Americas, Inc.

<sup>3</sup> During the year ended December 31, 2023, PUBG Amsterdam B.V. was renamed to KRAFTON EUROPE B.V.

<sup>4</sup> During the year ended December 31, 2023, PUBG Shanghai was renamed to KRAFTON CHINA

<sup>5</sup> During the year ended December 31, 2023, PUBG JAPAN Corporation was renamed to KRAFTON JAPAN, Inc.

<sup>6</sup> During the year ended December 31, 2022, Bonus XP, Inc. was renamed to En Masse Entertainment Texas, Inc.

<sup>7</sup> During the year ended December 31, 2023, it was dissolved due to liquidation and the financial information shown herein is the financial information included in the consolidated financial statements prior to exclusion from the consolidation scope.

<sup>8</sup> During the year ended December 31, 2023, PUBG INDIA PRIVATE LIMITED was renamed to KRAFTON INDIA PRIVATE LIMITED

<sup>9</sup> During the year ended December 31, 2023, it was included in the consolidation scope due to new investments entered into by the Group.

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**1.3 Summarized Financial Information of Subsidiaries, (cont'd)**

(in thousands of  
Korean won)

Subsidiary	December 31, 2022 <sup>1</sup>								
	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profits(loss) from Continuing Operation	Profits(loss) from Discontinued Operation	Other Comprehensive Income	Total Comprehensive Income for the year
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)
PUBG Mad Glory, LLC	5,974,428	6,027,814	2,617,778	2,107,827	22,130,838	1,686,214	-	290,146	1,976,360
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 Ventures, L.L.C.	54,783	23,549	237	-	-	(2,390)	-	3,718	1,328

**KRAFTON, Inc. and its Subsidiaries**  
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(in thousands of  
Korean won)

Subsidiary	December 31, 2022 <sup>1</sup>								
	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profits(loss) from Continuing Operation	Profits(loss) from Discontinued Operation	Other Comprehensive Income	Total Comprehensive Income for the year
Krafton Ventures Fund, L.P.	3,775,842	792,581	148	-	2,248,192	2,246,948	-	109,730	2,356,678
En Masse Entertainment Texas, Inc. <sup>4</sup>	381,003	-	24,455,824	-	-	-	(13,372,671)	(432,427)	(13,805,098)
PUBG Entertainment, Inc.	196,138	-	1,095,366	-	302,261	20,323	-	(59,717)	(39,394)
Indestructible Frying Pan, LLC	-	-	26,344	-	-	(2,791)	-	(1,470)	(4,261)
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. <sup>2</sup>	-	-	-	-	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)
Thingsflow Inc.(Japan)	174,500	-	9,436	-	-	(124,719)	-	(19,280)	(143,999)
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

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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(in thousands of  
Korean won)

Subsidiary	December 31, 2022 <sup>1</sup>								
	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profits(loss) from Continuing Operation	Profits(loss) from Discontinued Operation	Other Comprehensive Income	Total Comprehensive Income for the year
Unknown Worlds Entertainment, Ltd (UK)	-	-	-	-	-	-	-	-	-
5minlab Corp. <sup>3</sup>	20,799,238	3,018,578	2,066,111	2,018,717	1,172,283	(6,114,634)	-	-	(6,114,634)
740Games Inc. <sup>2, 3</sup>	7,354	-	-	-	-	(471)	-	-	(471)
Neon Giant AB <sup>3</sup>	2,564,060	1,415,299	630,488	520,435	-	-	-	(144,258)	(144,258)
KRAFTON MONTREAL STUDIO, INC. <sup>3</sup>	5,612,264	-	43,397	-	-	(46,032)	-	(28,701)	(74,733)

<sup>1</sup> Intercompany transactions have not been eliminated in the summarized financial information above.

<sup>2</sup> The financial information shown herein is the financial information included in the consolidated financial statements prior to exclusion from the consolidation scope.

<sup>3</sup> During the year ended December 31, 2022, it was included in the consolidation scope due to new investments entered into by the Group.

<sup>4</sup> During the year ended December 31, 2022, Bonus XP, Inc. was renamed to En Masse Entertainment Texas, Inc.

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

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#### 1.4 Changes in Scope for Consolidation

Subsidiaries newly included or excluded in the consolidation scope for the years ended December 31, 2023 and 2022, are as follows:

December 31, 2023		
	Subsidiary	Reason
Included	VECTOR NORTH s.r.o.	Newly established
	ReLU Games, Inc.	Newly established
	Flyway Games, Inc.	Newly established
Excluded	Unknown Worlds Entertainment, Ltd (UK)	Liquidation
	Indestructible Frying Pan, LLC	Liquidation
December 31, 2022		
	Subsidiary	Reason
Included	5minlab Corp.	Purchased
	740Games Inc.	Purchased
	Neon Giant AB	Purchased
	KRAFTON MONTREAL STUDIO, INC.	Newly established
Excluded	Between Us Co. Ltd.	Merged
	740Games Inc.	Liquidation

# **KRAFTON, Inc. and its Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2023 and 2022**

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## **2. Significant Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated 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 Group maintains its accounting records in Korean won and prepares statutory consolidated financial statements in the Korean language (Hangul) in accordance with KIFRS. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. In the event of any differences in interpreting the consolidated 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 consolidated financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

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

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

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

#### *2.2.1 New and amended standards and interpretations adopted by the Group*

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

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**2.2 Changes in Accounting Policy and Disclosures, (cont'd)**

*(a) KIFRS 1001 Presentation of Financial Statements – Disclosure of Accounting Policy*

The amendments to KIFRS 1001 define and require entities to disclose their material accounting policies (material accounting policies are those which can influence on the decisions of the primary users of the financial statements, when considered along with other information included in the financial statements). The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

*(b) KIFRS 1001 Presentation of Financial Statements – Disclosure of Valuation Gains and Losses on Financial Liabilities with Exercise Price Adjustment Conditions*

The amendments require disclosures of the carrying amounts and related gains or losses of such financial liabilities when all or part of the financial instruments with conditions that adjust the exercise price depending on fluctuations in the issuer's share price, are classified as financial liabilities. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

*(c) KIFRS 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 adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

*(d) KIFRS 1012 Income Tax – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction*

The amendments add to a condition to the initial recognition exemption that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

*(e) New Standard: KIFRS 1117 Insurance Contract*

KIFRS 1117 Insurance Contracts replaces KIFRS 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. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.



# **KRAFTON, Inc. and its Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2023 and 2022**

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

##### *(f) KIFRS 1012 Income Tax – International Tax Reform – Pillar 2 Model Rules*

The amendments provide a temporary relief from the accounting for deferred taxes arising from legislation enacted to implement the Pillar Two model rules, which aim to reform international corporate taxation for multinational enterprises, and require disclosure of related current tax effects, etc. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

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

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group 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, Non-current liabilities with contractual obligations*

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 also clarify that commitments required to be complied with after the reporting date do not affect the classification of liabilities. However, if a liability that must comply with commitments within 12 months after the reporting period is classified as non-current, the entity discloses information to enable users of financial statements to understand the risk of the liability becoming repayable within 12 months after the reporting period. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Group is assessing the impact of these amendments on the consolidated financial statements.

##### *(b) Amendments to KIFRS 1007 Cash Flow Statement, Amendments to KIFRS 1107 'Disclosure: Financial Instrument' - Disclosure of Supplier Finance Agreement Information*

When applying supplier finance agreements, entities are required to disclose information regarding the agreements to enable financial statement users to assess their impact on the entity's liabilities, cash flows, and liquidity risk exposure. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Group is assessing the impact of these amendments on the consolidated financial statements.

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

##### *(c) Amendments to KIFRS 1116 Leases – Lease Liability Arising from Sale and Leaseback*

When subsequently measuring lease liabilities arising from sale and leaseback, the seller-lessee calculates lease payments or lease modifications without recognizing the profit or loss related to the right of use held by the seller-lessee. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Group is assessing the impact of these amendments on the consolidated financial statements.

##### *(d) Amendments to KIFRS 1001 Presentation of Financial Statements – Disclosure of Virtual Assets*

When holding virtual assets, acting as a custodian for virtual assets on behalf of customers, or issuing virtual assets, additional disclosure requirements are stipulated. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Group is currently assessing the impact of this amendment on the consolidated financial statements.

#### **2.3 Consolidation**

The Group has prepared the consolidated financial statements in accordance with KIFRS 1110 *Consolidated Financial Statements*.

##### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

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#### **2.3 Consolidation, (cont'd)**

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### *(b) Associates*

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

##### *(c) Joint arrangements*

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

#### **2.4 Foreign Currency Translation**

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

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Group's functional and presentation currency.

##### *(b) Foreign currency transactions and translation at the end of the reporting period*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or, if they are remeasured items, using the exchange rates at the revaluation dates. Foreign exchange differences 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.

Foreign exchange differences that relate to cash and cash equivalents, long and short-term financial instruments, loans, borrowings and others are presented in the consolidated statement of profit or loss, within finance income and finance expenses. All other foreign exchange differences are presented in the consolidated statement of profit or loss within other income or other expenses.

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

Foreign exchange differences from non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Foreign exchange 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 Group. 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 Group 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) Translation of financial statements of overseas subsidiaries*

Items on the statements of financial position are translated at the closing rate at the end of the reporting period, except historical exchange rate applied to equity accounts. Items on the statements of comprehensive are translated at average exchange rates. All resulting exchange differences are recognized in other comprehensive income and allocated to equity attributable to owners of the parent and non-controlling interests. Differences allocated to equity attributable to owners of the parent are presented on the consolidated statements of financial position as other component of equity (exchange differences).

*(d) Presentation of Integrated Foreign Exchange Differences*

In accordance with Paragraph 29 of KIFRS 1001, The Group 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.

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#### **2.6 Revenue Recognition**

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

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

##### *(b) A performance obligation 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 Group is required to provide games with updates during the period.

In addition, the group recognizes royalty revenue from providing a license for the Group'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 Group 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 Group can specifically identify; (ii) the costs generate or enhance resources of the Group 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 Group's right to receive consideration for goods or services transferred to a customer, and a contract liability is defined as the Group's obligation to transfer goods or services to the customer in proportion to the consideration received by the Group (or due consideration). The Group offsets the contract assets and contract liabilities arising from one contract and presents them in the consolidated statement of financial position in net terms.

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## **Notes to the Consolidated Financial Statements**

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#### **2.7 Financial Assets**

##### *(a) Classification*

The Group 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 Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt instruments 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 Group 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 Group 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 Group's business model for managing the asset and the cash flow characteristics of the asset. The Group 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.

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

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

*B. Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group'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 Group 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 Group applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

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

##### *(d) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Group 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 Group has transferred substantially all the risks and rewards of ownership.

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

##### *(e) Offsetting*

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 Group 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 excluding land 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:



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

	<b>Estimated useful lives</b>
Fixtures	3 - 7 years
Facilities	5 - 7 years

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

**2.11 Government Grants**

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

**2.12 Intangible Assets**

Intangible assets are recognized at their historical cost and intangible assets with finite useful lives are presented in the carrying amount by deducting the accumulated amortization and accumulated impairment losses from the cost after initial recognition. Software development costs that are directly attributable to internally generated by the Group refer to the aggregate amount of expenditure incurred after the asset recognition 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 with finite useful lives are amortized according to the period of membership, and with 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 Group 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	2 - 5 years
Membership rights	The Period of membership
Other intangible assets	2 - 11 years, The Period of service contract
Goodwill	Indefinite

Goodwill arising from the business combination is measured as the excess of the acquisition cost over the identifiable assets acquired, the liabilities assumed and contingent liabilities in the net 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.

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#### **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. Investment property is carried at cost less accumulated depreciation and impairment losses. The Group 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**

For intangible assets with indefinite useful lives, such as goodwill, the Group performs impairment tests annually, for assets subject to depreciation, impairment tests are conducted when there are indications of impairment. 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 Group 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 a part of a business combination, or held for trading, or it is designated at fair value through profit or loss upon initial recognition.

In cases where the item is not a short-term trading item or when the contingent consideration paid by the acquirer as part of a business combination is not a financial liability, the Group may designate as an item recognized in profit or loss at initial recognition, and once designated, this cannot be reversed.

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

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

- 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 Group'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'.

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 consolidated 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.

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**2.16 Employee Benefits**

*(a) Post-employment benefits*

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

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The contribution is recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. While the Group operates a defined contribution as its primary post-employment benefit plan, the Group pays additional amounts to the employees if each employee's investment results on the contributed amount is less than the payment amount under defined benefit plan, according to the separate agreement with the employees. The Group measures the additional amount payable to the employees in the same manner as the Group measures 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 consolidated 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.

In case of institutional revision, reduction, or settlement, gains or losses resulting from past service cost or settlement are recognized in profit or loss.

*(b) Other long-term employee benefits*

Certain entities within the Group provide long-term employee benefits that are entitled to employees with long-term service. Only for the employees who have provided long-term service for the Group have the rights for this benefit. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits liabilities and remeasurements as profit or loss for the year. These liabilities are valued annually by an independent qualified actuary.

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

##### *(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 Group 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 Group issues new shares. In issuing procedure, excluding any direct transaction costs, are recognized as share capital (nominal value) and Paid-in capital in excess of par value.

The Group 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 share options granted taking into account the terms of service. In addition, the fair value of the liability is remeasured at the end of each reporting period and settlement date until the liability is settled, and changes in fair value are recognized in profit or loss.

#### **2.17 Provisions**

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

#### **2.18 Dividends**

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

#### **2.19 Current and Deferred Tax**

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The 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 Group 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.

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**2.19 Current and Deferred Tax, (cont'd)**

The Group applies the consolidated tax return, where the Parent Company and all domestic subsidiaries on which the Parent Company completely controls over, as a single taxation unit, report and pay income tax based on the total amount of income arising from the entities. The Group evaluates realizability of the temporary differences considering future taxable income of each companies that consist the taxation unit. The changes in deferred tax assets (liabilities) are recognized in income tax expenses (benefits) after excluding the amounts related to accounts directly reflected in equity.

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 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 Group 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 Group 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 Group 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, when the deferred tax balances relate to the same taxation authority, and when the Group intends either to settle on a net basis.

**2.20 Leases**

*(a) Lessor*

Lease income from operating leases where the Group 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 consolidated statement of financial position based on their nature.

*(b) Lessee*

The Group has entered into various lease 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.

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

Contracts may contain both lease and non-lease components. The Group 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 Group is lessee, the Group 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 Group determines the lease term as the non-cancellable period of a lease, together with both (i) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (ii) 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 Group should consider a termination penalty in determining the period for which the contract is enforceable.

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

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

If it is reasonably certain that lessee is about to exercise the lease extension option, lease payments to be made as a result of exercising that option are also included in measuring the lease liability.

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 Group 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.

# **KRAFTON, Inc. and its Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2023 and 2022**

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

Each lease payment is allocated between the lease 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
- estimated 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 Group 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 other leases, across the Group. 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 Group 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 Group presents in the consolidated statement of comprehensive income basic and diluted earnings per share attributable to the ordinary shareholders of the Group. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. When calculating diluted earnings per share, the Group adjusts profit or loss attributable to ordinary shareholders of the Group, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.



# **KRAFTON, Inc. and its Subsidiaries**

## **Notes to the Consolidated Financial Statements**

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#### **2.23 Share Capital**

When the Group 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 Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group 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, the liabilities assumed and contingent liabilities are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities 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 Group 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
- Non-current (or disposal groups) assets that are classified as held for sale in accordance with KIFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

# **KRAFTON, Inc. and its Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2023 and 2022**

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#### **2.26 Discontinued Operations**

The Group classifies business units that have already been disposed or being up for sale and fall under one of the following as discontinued operation.

- Separated major business segments or operating regions
- The part of a single plan to dispose of separated major business segments or operating regions
- The Subsidiaries acquired solely for sale

If there are discontinued operations, the Group restarts the financial statement as if the operation were discontinued from the beginning of the comparative period presented in the total comprehensive income statement.

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

The consolidated financial statements for the year ended December 31, 2023 were approved for issuance by the Board of Directors of the Company on February 8, 2024 and final approval will be obtained from the shareholders at their Annual General Meeting on March 26, 2024.

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

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

The management's judgement that can cause material adjustment to the carrying amounts of assets and liabilities within the next financial year, and estimates and assumptions of significant risk 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 Group 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. and its Subsidiaries**  
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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 Group 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 Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

*(d) Goodwill*

Goodwill is tested for impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 14).

*(e) Net defined benefit liabilities*

The present value of net defined benefit liabilities depends on a number of factors that are determined on an actuarial basis including the changes in discount rate.

*(f) Income taxes*

The Group'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 in accordance with the Tax System For Recirculation of Corporate Income, the Group 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. As the Group's income tax is dependent on the investments, increase in wages, there is an uncertainty measuring the final tax effects.

*(g) 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. The term of extension options (or the term of termination options) are included in the lease term only if the lease is reasonably certain to be extended (or not terminated).

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

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

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Group 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 Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty whether exercising an extension option (or not exercising) is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

#### 4. Financial Risk Management

##### 4.1 Financial Risk Factors

(a) The Group 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 Group establishes and operates financial risk management policy in place to actively manage these risk factors. The Group'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 Group's financial liabilities under financial risk management are composed of trade and other payables, and borrowings.

##### (b) Market risk

##### A. Foreign exchange risk

The Group 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, Chinese Yuan, Euro and others. The risks of foreign currency exposure to receivables and payables are periodically evaluated, managed and reported.

Monetary financial assets and liabilities denominated in foreign currency as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)

	December 31, 2023			
	USD	CNY	EUR	Others
Financial assets denominated in foreign currency	₩ 923,814,412	₩ 14,269,229	₩ 7,753,214	₩ 2,749,575
Financial liabilities denominated in foreign currency	77,328,775	10,529,870	14,196,516	2,748,496

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**4. Financial Risk Management, (cont'd)**

*(in thousands of Korean won)*

	<b>December 31, 2022</b>			
	<b>USD</b>	<b>CNY</b>	<b>EUR</b>	<b>Others</b>
Financial assets denominated in foreign currency	₩ 797,025,003	₩ 13,265,996	₩ 5,431,320	₩ 2,781,719
Financial liabilities denominated in foreign currency	46,156,073	3,126,009	372,978	69,146

The table below summarizes the impact of weakened/strengthened Korean won on the Group'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.

*(in thousands of Korean won)*

	<b>December 31, 2023</b>	
	<b>Strengthened</b>	<b>Weakened</b>
Financial assets denominated in foreign currency	₩ (47,429,322)	₩ 47,429,322
Financial liabilities denominated in foreign currency	5,240,183	(5,240,183)
Net effect	₩ (42,189,139)	₩ 42,189,139

*(in thousands of Korean won)*

	<b>December 31, 2022</b>	
	<b>Strengthened</b>	<b>Weakened</b>
Financial assets denominated in foreign currency	₩ (40,925,202)	₩ 40,925,202
Financial liabilities denominated in foreign currency	2,486,210	(2,486,210)
Net effect	₩ (38,438,992)	₩ 38,438,992

**B. Interest rate risk**

The Group 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, 2023.

**C. Price risk**

The effects on the consolidated statement of comprehensive income when price per share of listed share fluctuates by approximately 1% as of December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Changes in other comprehensive income when price per share of listed shares fluctuates by approximately 1% (after deduction of tax effects)	₩ 482,414	₩ 346,965

**KRAFTON, Inc. and its Subsidiaries**  
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**4. Financial Risk Management, (cont'd)**

*(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 Group 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 Group 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, 2023, is determined as follows:

*(in thousands of  
Korean won)*

	December 31, 2023						Total
	Less than 90 days past due and within due	Less than 180 days past due	Less than 270 days past due	Less than 1 year past due	More than 1 year past due	Impaired receivables	
Expected loss rate	0.11%	52.10%	83.38%	97.63%	100.00%	100.00%	
Gross carrying amount	₩ 700,901,612	₩ 300,570	₩ 613,272	₩ 141,773	₩ 292,069	₩ 259	₩ 702,249,555
Loss allowance provision	(749,669)	(156,592)	(511,355)	(138,418)	(292,069)	(259)	(1,848,362)

The amounts recognized in profit or loss within 'impairment loss' in relation to the impairment of trade receivables for the years ended December 31, 2023 and 2022, are as follows:

*(in thousands of Korean won)*

	December 31, 2023	December 31, 2022
Operating costs	₩ (3,283,475)	₩ 3,271,519

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

All of the 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 credit 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.

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

#### 4. Financial Risk Management, (cont'd)

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, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
Other Expenses(Incomes)	₩	123,293	₩	(10,742)

#### *(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 Group 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 Group's financial liabilities classified into relevant maturity groupings based on the remaining period as of December 31, 2023 and 2022, to the contractual maturity date:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>					
	<b>Book value</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Borrowings	₩ 7,000,000	₩ 7,000,000	₩ 7,000,000	₩ -	₩ -	₩ 7,000,000
Account payable	206,518	206,518	206,518	-	-	206,518
Other payables	35,110,688	35,110,688	34,925,979	184,709	-	35,110,688
Accrued expenses	186,257,405	186,257,405	179,725,794	6,421,470	110,141	186,257,405
Lease liabilities	196,761,519	212,242,534	67,234,846	144,452,623	555,065	212,242,534
Leasehold deposits received	9,051,138	9,982,683	500,000	9,482,683	-	9,982,683
Financial liabilities at fair value through profit or loss	83,901,868	103,448,337	-	84,855,525	18,592,812	103,448,337
	<u>₩ 518,289,136</u>	<u>₩ 554,248,165</u>	<u>₩ 289,593,137</u>	<u>₩ 245,397,010</u>	<u>₩ 19,258,018</u>	<u>₩ 554,248,165</u>

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**4. Financial Risk Management, (cont'd)**

(in thousands of Korean won)	December 31, 2022					
	Book value	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Borrowings	₩ 7,000,000	₩ 7,000,000	₩ 7,000,000	₩ -	₩ -	₩ 7,000,000
Account payable	35,101	35,101	35,101	-	-	35,101
Other payables	94,012,394	94,022,842	93,841,299	181,543	-	94,022,842
Accrued expenses	154,048,273	154,048,273	119,874,076	34,126,174	48,023	154,048,273
Lease liabilities	197,117,650	214,175,935	65,338,897	148,324,731	512,307	214,175,935
Leasehold deposits received	7,174,118	8,162,580	776,711	7,211,196	174,673	8,162,580
Financial liabilities at fair value through profit or loss	234,747,389	317,500,045	-	291,319,724	26,180,321	317,500,045
	₩ 694,134,925	₩ 794,944,776	₩ 286,866,084	₩ 481,163,368	₩ 26,915,324	₩ 794,944,776

**4.2 Capital Risk Management**

The Group's objectives when managing capital are to maintain a sound capital structure. The Group considers the debt ratio as a capital management indicator, and it is calculated by dividing the Group's total liabilities by its total equity presented in the consolidated financial statements.

Debt-to-equity ratios as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)	December 31, 2023	December 31, 2022
Debt (A)	₩ 881,636,359	₩ 921,378,866
Equity (B)	5,558,820,261	5,116,405,100
Debt-to-equity ratio (A/B)	15.86%	18.01%



**KRAFTON, Inc. and its Subsidiaries**  
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**5. Fair Value Measurement**

(a) The carrying amount and fair value of financial assets and liabilities as of December 31, 2023 and December 31, 2022, are as follows:

(in thousands of Korean won)	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets measured at fair value</b>				
Current portion of financial assets at fair value through profit or loss	₩ 2,340,390,290	₩ 2,340,390,290	₩ 2,450,603,157	₩ 2,450,603,157
Financial assets at fair value through profit or loss	167,155,692	167,155,692	142,676,249	142,676,249
Financial assets at fair value through other comprehensive income	133,473,399	133,473,399	83,396,737	83,396,737
Derivative assets	2,145,030	2,145,030	1,759,509	1,759,509
<b>Financial assets measured at amortized cost</b>				
Cash and cash equivalents	721,048,786	721,048,786	674,689,124	674,689,124
Trade receivables	700,401,193	700,401,193	525,559,384	525,559,384
Other current financial assets	135,793,431	135,793,431	175,141,725	175,141,725
Other non-current financial assets	45,064,726	45,064,726	40,288,565	40,288,565
<b>Other financial assets</b>				
Current lease receivables	11,164,683	11,164,683	12,045,012	12,045,012
Non-current lease receivables	24,086,343	24,086,343	33,813,542	33,813,542
	<u>₩ 4,280,723,573</u>	<u>₩ 4,280,723,573</u>	<u>₩ 4,139,973,004</u>	<u>₩ 4,139,973,004</u>

(in thousands of Korean won)	December 31, 2023		December 31, 2022	
	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	₩ 83,901,868	₩ 83,901,868	₩ 234,747,389	₩ 234,747,389
<b>Financial liabilities measured at amortized cost</b>				
Current portion of long-term borrowings	7,000,000	7,000,000	7,000,000	7,000,000
Other current financial liabilities <sup>1</sup>	215,333,268	215,333,268	213,889,685	213,889,685
Other non-current financial liabilities <sup>2</sup>	15,292,480	15,292,480	41,380,200	41,380,200
<b>Other financial liabilities</b>				
Current lease liabilities	65,749,996	65,749,996	57,243,713	57,243,713
Non-current lease liabilities	131,011,524	131,011,524	139,873,938	139,873,938
	<u>₩ 518,289,136</u>	<u>₩ 518,289,136</u>	<u>₩ 694,134,925</u>	<u>₩ 694,134,925</u>

<sup>1</sup> The amount includes liabilities related to employee compensation and share-based payment of ₩118,131,478 thousand (December 31, 2022: ₩ 81,434,321 thousand).

<sup>2</sup> The amount includes liabilities related to employee compensation and share-based payment of ₩5,848,090 thousand (December 31, 2022: ₩ 33,502,392 thousand).

# **KRAFTON, Inc. and its Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2023 and 2022**

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

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

###### **A. Fair value hierarchy and fair value measurement**

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

When measuring fair value of assets or liabilities, the Group utilizes observable input variables in the market to the maximum extent possible. Fair value is classified within the fair value hierarchy based on the input variables used in valuation techniques, 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

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 Group 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 Group or by an independent external pricing service. The Group 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 measure the fair value of 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.

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

B. Financial assets and liabilities measured at fair value

Fair value hierarchy classifications of the financial assets and liabilities that are measured at fair value as of December 31, 2023 and 2022, are as follows:

		December 31, 2023			
(in thousands of Korean won)		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Financial assets at fair value through profit or loss	₩	-	₩ 2,339,101,046	₩ 168,444,936	₩ 2,507,545,982
Financial assets at fair value through other comprehensive income		65,545,380	-	67,928,019	133,473,399
Derivative assets		-	-	2,145,030	2,145,030
<b>Financial liabilities measured at fair value</b>					
Financial liabilities at fair value through profit or loss	₩	-	₩	- ₩ 83,901,868	₩ 83,901,868

		December 31, 2022			
(in thousands of Korean won)		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	₩ 142,676,249	₩ 2,593,279,406
Financial assets at fair value through other comprehensive income		47,857,220	-	35,539,517	83,396,737
Derivative assets		-	-	1,759,509	1,759,509
<b>Financial liabilities measured at fair value</b>					
Financial liabilities at fair value through profit or loss	₩	-	₩	- ₩ 234,747,389	₩ 234,747,389

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

#### 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, 2023 and 2022, are as follows:

(in thousands of Korean won)	Fair value		Level	Valuation techniques		Inputs
	December 31, 2023	December 31, 2022		December 31, 2023	December 31, 2022	
	₩2,339,101,046	₩ 2,450,603,157	2	Discounted cash flow		Discount rate considering credit rating
Financial assets at fair value through profit or loss	94,832,305	90,666,601	3	Net asset valuation model		Fair value of the investee's assets
	-	3,808,972	3	Binomial model(T-F)		Annualized variability of stock prices(48.35%) and others
	73,612,631	48,200,676	3	Cost-based approach <sup>1</sup>		Acquisition cost
Financial assets at fair value through other comprehensive income	67,928,019	35,539,517	3	Cost-based approach <sup>1</sup>		Acquisition cost
Derivative assets	2,145,030	1,759,509	3	Binomial model (T-F)		Annualized variability of stock prices(48.35%~51.99%) and others
Financial liabilities at fair value through profit or loss	83,901,868	234,747,389	3	Discounted cash flow <sup>2</sup>		Estimated revenue of the investee company, Discount rate considering credit rating(5.28%~16.05%) and others

<sup>1</sup> For financial assets at fair value through profit or loss held by the Group, the costs are deemed the best estimate of the fair value, since (i) the Group 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 Group'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.

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

**KRAFTON, Inc. and its Subsidiaries**  
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**5. Fair Value Measurement, (cont'd)**

Excluding financial instruments valued through cost-based approach and net asset valuation model, 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, 2023 and 2022, are as follows:

*(in thousands of Korean won)*

	December 31, 2023			
	Favorable changes		Unfavorable changes	
	Profit (loss)	Equity	Profit (loss)	Equity
Derivative assets	₩ 80,447	-	₩ (88,444)	₩ -
Financial liabilities at fair value through profit or loss	1,005,207	1,240,017	(1,036,119)	(1,304,752)

<sup>1</sup> The effects of a 10% increase or decrease in key unobservable input variables such as stock price volatility and discount rate on fair value were calculated.

*(in thousands of Korean won)*

	December 31, 2022			
	Favorable changes		Unfavorable changes	
	Profit (loss)	Equity	Profit (loss)	Equity
Financial assets at fair value through profit or loss	₩ 240,187	₩ -	₩ (190,486)	₩ -
Derivative assets	151,911	-	(150,797)	-
Financial liabilities at fair value through profit or loss	5,872,212	1,397,227	(6,099,896)	(1,480,241)

<sup>1</sup> The effects of a 10% increase or decrease in key unobservable input variables such as stock price volatility and discount rate on fair value were calculated.

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

#### 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, 2023 are as follows

<i>(in thousands of Korean won)</i>	Beginning Balance	Acquisition	Disposal	Valuation	Exchange rate differences	Ending Balance
Financial assets at fair value through profit or loss	₩ 142,676,249	₩ 24,623,494	₩ (2,969,852)	₩ 4,076,370	₩ 38,675	₩ 168,444,936
Financial assets at fair value through other comprehensive income	35,539,517	31,486,702	-	896,275	5,525	67,928,019
Derivative assets	1,759,509	-	-	385,486	35	2,145,030
Financial liabilities at fair value through profit or loss	234,747,389	-	-	(150,845,521)	-	83,901,868

#### *(c) Offsetting financial assets and financial liabilities*

The Group 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 consolidated financial statements of the Group. Trade payables which are offset with trade receivables amount to ₩ 24,075 million as of December 31, 2023(December 31, 2022: ₩ 23,718 million).

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**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, 2023 and 2022, are as follows:

(in thousands of Korean won)	December 31, 2023		December 31, 2022	
Financial assets				
Financial assets at fair value:				
Current portion of financial assets at fair value through profit or loss	₩	2,340,390,290	₩	2,450,603,157
Financial assets at fair value through profit or loss		167,155,692		142,676,249
Financial assets at fair value through other comprehensive income		133,473,399		83,396,737
Derivative assets		2,145,030		1,759,509
Financial assets at amortized cost:				
Cash and cash equivalents		721,048,786		674,689,124
Trade receivables		700,401,193		525,559,384
Other current financial assets		135,793,431		175,141,725
Other non-current financial assets		45,064,726		40,288,565
Other financial assets:				
Current lease receivables		11,164,683		12,045,012
Non-current lease receivables		24,086,343		33,813,542
	₩	4,280,723,573	₩	4,139,973,004

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
<b>Financial liabilities</b>				
Financial liabilities at fair value:				
Financial liabilities at fair value through profit or loss	₩	83,901,868	₩	234,747,389
Financial liabilities at amortized cost:				
Short-term borrowings		7,000,000		7,000,000
Other current financial liabilities		215,333,268		213,889,685
Other non-current financial liabilities		15,292,480		41,380,200
Other financial liabilities:				
Current lease liabilities		65,749,996		57,243,713
Non-current lease liabilities		131,011,524		139,873,938
	₩	518,289,136	₩	694,134,925

Fair value of financial instruments is equal to the carrying amounts, 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. and its Subsidiaries**  
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**6.2 Net Gains or Losses by Category of Financial Instruments**

Net gains or losses on each category of financial instruments for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Dividend income:		
Financial assets at fair value through profit or loss	₩ 456,194	₩ 349,946
Interest income/expenses: <sup>1</sup>		
Financial assets at amortized cost	10,599,952	32,849,846
Financial liabilities at amortized cost	(537,519)	(472,104)
Other financial assets	1,866,091	871,749
Other financial liabilities	(8,125,573)	(6,982,937)
Gain (loss) on disposal:		
Financial assets at amortized costs	14,457	12,566
Financial assets at fair value through profit or loss	135,176,980	(47,252,211)
Financial liabilities at fair value through profit or loss	-	(3,166,305)
Gain (loss) on valuation:		
Financial assets at fair value through profit or loss	(2,686,129)	(10,242,090)
Financial assets at fair value through other comprehensive income	(19,876,378)	(45,707,882)
Financial liabilities at fair value through profit or loss	150,210,081	2,399,315
Derivative assets	385,486	(785,814)
Net impairment loss:		
Trade receivables	3,283,474	(3,271,519)
Financial assets at amortized cost	(105,702)	10,742
Net gain (loss) on foreign currency translation		
Trade receivables	15,484,924	46,244,865
Financial assets at amortized costs	2,996,829	94,369,357
Financial liabilities at amortized costs	(275,359)	(856,422)
	₩ 288,867,808	₩ 58,371,102

<sup>1</sup> Includes net gains or losses classified as discontinued operations ₩44,101 thousand for the year ended December 31, 2022.



**KRAFTON, Inc. and its Subsidiaries**  
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**7. Trade Receivables, Other Financial Assets and Other Assets**

Details of trade receivables, other financial assets and other assets as of December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>			<b>December 31, 2022</b>
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Net amount</b>	<b>Net amount</b>
<b>Trade receivables</b>	₩ 702,249,555	₩ (1,848,362)	₩ 700,401,193	₩ 525,559,384
<b>Other current financial assets</b>				-
Short-term financial instruments	42,174,929	-	42,174,929	52,085,285
Short-term loans	73,126,657	(22,000)	73,104,657	84,382,081
Other receivables	16,939,116	(689,989)	16,249,127	31,397,084
Accrued income	800,398	-	800,398	1,186,966
Deposits	3,464,320	-	3,464,320	6,090,309
Lease receivables	11,164,683	-	11,164,683	12,045,012
	₩ 147,670,103	₩ (711,989)	₩ 146,958,114	₩ 187,186,737
<b>Other current assets</b>				-
Advance payments	2,294,924	(17,590)	2,277,334	11,715,938
Prepaid expenses	45,609,324	-	45,609,324	36,531,054
Others	1,081,491	-	1,081,491	922,346
	₩ 48,985,739	₩ (17,590)	₩ 48,968,149	₩ 49,169,338
<b>Other non-current financial assets</b>				
Long-term trade receivables	-	-	-	32,201
Long-term loans	1,200,000	-	1,200,000	982,375
Long-term other receivables	602,329	-	602,329	-
Long-term accrued income	305,241	-	305,241	121,333
Long-term financial instruments	6,210,272	-	6,210,272	7,869,060
Deposits	36,746,885	-	36,746,885	31,283,596
Long-term Lease receivables	24,086,342	-	24,086,342	33,813,542
	₩ 69,151,069	₩ -	₩ 69,151,069	₩ 74,102,107
<b>Other non-current assets</b>				
Long-term advance payments	₩ 30,116,127	₩ -	₩ 30,116,127	₩ 28,483,970
	₩ 998,172,593	₩ (2,577,941)	₩ 995,594,652	₩ 864,501,536

  

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>			<b>December 31, 2022</b>
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Net amount</b>	<b>Net amount</b>
Third party receivables	₩ 985,135,881	₩ (2,577,941)	₩ 982,557,940	₩ 859,860,072
Related party receivables	13,036,712	-	13,036,712	4,641,464
	₩ 998,172,593	₩ (2,577,941)	₩ 995,594,652	₩ 864,501,536

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

Changes in the provision for impairment for the years ended December 31, 2023 and 2022, are as follows:

(in thousands of  
Korean won)

	December 31, 2023			
	Beginning	Provision (reversal)	Write-off	Ending
<b>Trade receivables</b>	₩ 5,150,797	₩ (3,283,474)	₩ (18,962)	₩ 1,848,361
<b>Other current financial assets</b>				
Short-term loans	22,000	-	-	22,000
Other receivables	689,989	105,702	(105,702)	689,989
<b>Other current assets</b>				
Advance payments	-	17,591	-	17,591
	<u>₩ 5,862,786</u>	<u>₩ (3,160,181)</u>	<u>₩ (124,664)</u>	<u>₩ 2,577,941</u>

(in thousands of  
Korean won)

	December 31, 2022				
	Beginning	Provision (reversal)	Write-off	Changes in scope of consolidation	Ending
<b>Trade receivables</b>	₩ 1,937,792	₩ 3,271,519	₩ (58,771)	₩ 257	₩ 5,150,797
<b>Other current financial assets</b>					
Short-term loans	-	-	-	22,000	22,000
Other receivables	1,159,957	1,073	(471,041)	-	689,989
Accrued income	1,341,081	57,216	(1,398,297)	-	-
<b>Other non-current financial assets</b>					
Long-term loans	15,220,000	(69,031)	(15,150,969)	-	-
	<u>₩ 19,658,830</u>	<u>₩ 3,260,777</u>	<u>₩ (17,079,078)</u>	<u>₩ 22,257</u>	<u>₩ 5,862,786</u>

As of December 31, 2023 and 2022, 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.

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**Notes to the Consolidated Financial Statements**  
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**8. Restricted Financial Instruments**

Financial instruments which are restricted in use as of December 31, 2023 and 2022 are summarized as follows:

<i>(in thousands of Korean won)</i>		<b>December 31, 2023</b>	<b>December 31, 2022</b>	<b>Restriction</b>
<b>Other current financial assets</b>	Korean Securities and Financial Services	₩ -	₩ 30,000,000	-
	INDUSTRIAL BANK OF KOREA	50,000	200,000	Provided as collateral <sup>1</sup>
	Shinhan Bank	1,787,649	-	Provided as collateral <sup>2</sup>
	Royal Bank of Canada	112,059	-	Provided as collateral <sup>2</sup>
<b>Other non-current financial assets</b>	Shinhan Bank	-	1,787,649	-
	Woori Bank	5,578,034	5,578,034	Provided as collateral <sup>2</sup>
	Woori Bank	100,000	100,000	Provided as collateral <sup>1</sup>
	Royal Bank of Canada	48,732	-	Provided as collateral <sup>1</sup>
		<u>₩ 7,676,474</u>	<u>₩ 37,665,683</u>	

<sup>1</sup> Pledged as a collateral for company credit card limit (Note 19).

<sup>2</sup> Pledged as a collateral for leasehold deposits received (Note 19).

**KRAFTON, Inc. and its Subsidiaries**  
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**9. Other Liabilities**

Details of other liabilities as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Other current financial liabilities:</b>		
Account payables	₩ 206,518	₩ 35,101
Other payables	34,925,979	93,830,850
Accrued expenses <sup>1</sup>	179,725,794	119,874,076
Lease liabilities	65,749,996	57,243,713
Current portion of leasehold deposits received	474,977	149,658
	<u>₩ 281,083,264</u>	<u>₩ 271,133,398</u>
<b>Contract liabilities and other current liabilities:</b>		
Withholdings	8,277,215	9,238,922
Unearned revenue	80,744,909	74,815,028
Advance received	3,246,129	3,702,505
Others	632,963	812,559
	<u>₩ 92,901,216</u>	<u>₩ 88,569,014</u>
<b>Other non-current financial liabilities:</b>		
Long-term other payables	184,708	181,543
Long-term accrued expenses <sup>2</sup>	6,531,611	34,174,197
Leasehold deposits received	8,576,161	7,024,460
Lease liabilities	131,011,524	139,873,938
	<u>₩ 146,304,004</u>	<u>₩ 181,254,138</u>
<b>Contract liabilities and other non-current liabilities:</b>		
Long-term unearned revenue	49,607,495	-
	<u>₩ 569,895,979</u>	<u>₩ 540,956,550</u>

<sup>1</sup> Includes liabilities related to employee benefit and share-based payment amounting to ₩ 118,131,478 thousand (December 31, 2022: ₩ 81,434,321 thousand).

<sup>2</sup> Includes liabilities related to employee benefit and share-based payment amounting to ₩ 5,848,090 thousand (December 31, 2022: ₩ 33,502,392 thousand).

**KRAFTON, Inc. and its Subsidiaries**  
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**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, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	December 31, 2023				
	Acquisition cost	Accumulated gain (loss) on valuation	Book value	Current	Non-current
Beneficiary certificates	₩ 2,476,260,053	₩ 10,794,153	₩ 2,487,054,206	₩ 2,339,101,046	₩ 147,953,160
Redeemable convertible preference shares	23,232,611	(8,607,605)	14,625,006	1,289,244	13,335,762
Simple Agreement for Future Equity	5,960,820	(94,050)	5,866,770	-	5,866,770
	<u>₩ 2,505,453,484</u>	<u>₩ 2,092,498</u>	<u>₩ 2,507,545,982</u>	<u>₩ 2,340,390,290</u>	<u>₩ 167,155,692</u>

<i>(in thousands of Korean won)</i>	December 31, 2022				
	Acquisition cost	Accumulated gain (loss) on valuation	Book value	Current	Non-current
Beneficiary certificates	₩ 2,559,212,092	₩ 10,235,769	₩ 2,569,447,861	₩ 2,450,603,157	₩ 118,844,704
Redeemable convertible preference shares	15,551,429	612,951	16,164,380	-	16,164,380
Simple Agreement for Future Equity	7,838,565	(171,400)	7,667,165	-	7,667,165
	<u>₩ 2,582,602,086</u>	<u>₩ 10,677,320</u>	<u>₩ 2,593,279,406</u>	<u>₩ 2,450,603,157</u>	<u>₩ 142,676,249</u>

**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, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	December 31, 2023			
	Acquisition cost	Accumulated gain(loss) on valuation	Book value	Non-current
Unlisted equity securities	₩ 65,998,068	₩ 1,929,951	₩ 67,928,019	₩ 67,928,019
Listed equity securities	75,645,630	(10,100,250)	65,545,380	65,545,380
	<u>₩ 141,643,698</u>	<u>₩ (8,170,299)</u>	<u>₩ 133,473,399</u>	<u>₩ 133,473,399</u>

<i>(in thousands of Korean won)</i>	December 31, 2022			
	Acquisition cost	Accumulated gain(loss) on valuation	Book value	Non-current
Unlisted equity securities	₩ 34,505,840	₩ 1,033,677	₩ 35,539,517	₩ 35,539,517
Listed equity securities	30,029,619	17,827,601	47,857,220	47,857,220
	<u>₩ 64,535,459</u>	<u>₩ 18,861,278</u>	<u>₩ 83,396,737</u>	<u>₩ 83,396,737</u>

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

#### 12. Investments in Associates and Joint ventures

Details of the associates and joint ventures of the Group as of December 31, 2023 and 2022, are as follows:

	Percentage of ownership		Location	Date of financial statements
	December 31, 2023	December 31, 2022		
1Up Ventures, L.P.	33.53%	33.53%	U.S.A.	31-Dec
Hidden Sequence Co., Ltd. <sup>1</sup>	13.57%	13.57%	Korea	31-Dec
Smart Krafton-BonAngels Fund <sup>2</sup>	54.55%	54.55%	Korea	31-Dec
Nodwin Gaming Private Limited <sup>1</sup>	15.64%	15.00%	India	31-Dec
Loco Interactive Pte Limited <sup>1</sup>	11.41%	11.41%	India	31-Dec
Nasadiya Technologies Private Limited <sup>1</sup>	18.23%	18.53%	India	31-Dec
Mirae Asset Maps General Private Real Estate Investment Trust 66	42.96%	42.96%	Korea	31-Dec
Tamatem Inc. <sup>1</sup>	13.61%	13.61%	Virgin Islands	31-Dec
Seoul Auction Blue Co., Ltd <sup>1</sup>	5.33%	5.33%	Korea	31-Dec
XXBLUE Co., Ltd <sup>1</sup>	10.26%	10.26%	Korea	31-Dec
Nautilus Mobile App Private Limited	31.91%	31.91%	India	31-Dec
Mebigo Labs Private Limited <sup>1</sup>	10.70%	12.20%	India	31-Dec
Smart KNB Booster Fund <sup>2</sup>	75.86%	75.86%	Korea	31-Dec
NIRVANANA	33.33%	33.33%	Korea	31-Dec
1Up Ventures Fund II, L.P	44.54%	47.51%	U.S.A.	31-Dec
ANYCAST TECHNOLOGY PRIVATE LIMITED <sup>1,4</sup>	9.41%	-	India	31-Dec
Funnystorm <sup>4</sup>	24.24%	-	Korea	31-Dec
Talent Unlimited Online Services Private Limited <sup>4</sup>	23.19%	-	India	31-Dec
Playgig, Inc. <sup>1,4</sup>	16.18%	-	U.S.A.	31-Dec
Gardens Interactive, Inc. <sup>1,4</sup>	11.58%	-	U.S.A.	31-Dec
Fast Track Asia Co., Ltd. <sup>4</sup>	27.47%	-	Korea	31-Dec
Kona Venture Fund V <sup>4</sup>	49.00%	-	Korea	31-Dec
DEVSISTERS VENTURES FUND IX <sup>4</sup>	46.67%	-	Korea	31-Dec
Studio Sai, Co. <sup>4</sup>	20.00%	-	U.S.A.	31-Dec
Boundary Inc. <sup>4</sup>	20.00%	-	Korea	31-Dec
OVERDARE, Inc. <sup>3,4</sup>	85.00%	-	U.S.A.	31-Dec
IMM India Fund <sup>4</sup>	44.44%	-	Korea	31-Dec
Shinhan Alpha REIT Co., Ltd. <sup>5</sup>	-	1.35%	Korea	31-Dec
Un Note Co., Ltd. <sup>5</sup>	-	8.75%	Korea	31-Dec

<sup>1</sup> Although the Group holds less than 20%, the Group classified the entities as associates, as the Group is considered to have significant influences over the entity as the Group participates in same or similar level of Board of Directors.

<sup>2</sup> Although the Group 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 Group classified it as investments in associates, as the Group is able to exercise significant influence over the entity.

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

<sup>3</sup> Although the Group holds more than 50%, due to possessing joint control such as requiring unanimous consent from all investors for decisions regarding the relevant activities, the Group classified it as the investment in joint ventures.

<sup>4</sup> During the year ended December 31, 2023, the entity was included in the scope of associates or joint venture due to new investments made by the Group.

<sup>5</sup> During the year ended December 31, 2023, all shares were sold by the Group.

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

Details of valuation of investments in associates and joint ventures that are accounted for using the equity method for the years ended December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)

	December 31, 2023							
	Beginning	Acquisition	Dividend	Share of profit (loss) of associates and joint ventures	Share of other comprehensive income (loss) of associates and joint ventures	Disposals	Impairment loss	Ending
Shinhan Alpha REIT Co., Ltd.	₩ 4,744,221	₩ -	₩ (190,000)	₩ 115,520	₩ -	₩ (4,669,741)	₩ -	₩ -
1Up Ventures, L.P.	13,829,378	-	-	(487,928)	(1,263,216)	-	-	12,078,234
Hidden Sequence Co., Ltd.	1,679,133	-	-	(69,190)	-	-	(1,609,943)	-
Smart Krafton-BonAngels Fund	9,420,223	120,000	-	(236,085)	(35,001)	-	-	9,269,137
Nodwin Gaming Private Limited	26,384,123	9,139,494	-	(88,271)	(515,516)	-	-	34,919,830
Un Note Co., Ltd.	616,163	-	-	(255,497)	-	(360,666)	-	-
Loco Interactive Pte Limited	-	-	-	-	-	-	-	-
Nasadiya Technologies Private Limited	45,150,044	-	-	(2,411,318)	79,671	(17,481)	-	42,800,916
Mirae Asset Maps General Private Real Estate Investment Trust 66	270,393,580	-	-	(5,636,875)	-	-	-	264,756,705
Tamatem Inc.	7,735,343	-	-	(488,254)	(64,953)	-	-	7,182,136
Seoul Auction Blue Co., Ltd	2,867,156	-	-	(401,502)	(16,659)	-	-	2,448,995
XXBLUE Co., Ltd	5,251,070	-	-	(375,923)	(1,586)	-	-	4,873,561
Nautilus Mobile App Private Limited	6,524,769	-	-	(428,394)	14,038	-	-	6,110,413
Mebigo Labs Private Limited	11,650,557	-	-	(1,504,755)	(812)	2,566,051	-	12,711,041
Smart KNB Booster Fund	10,262,298	-	-	(1,421,643)	-	-	-	8,840,655
NIRVANANA	4,564,479	-	-	(2,398,416)	-	-	-	2,166,063
1Up Ventures Fund II, L.P	4,224,333	4,535,333	-	(329,062)	76,450	15,385	-	8,522,439
ANYCAST TECHNOLOGY	-	7,899,121	-	(162,246)	(19,145)	117,999	-	7,835,729



**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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(in thousands of Korean won)

	December 31, 2023							
	Beginning	Acquisition	Dividend	Share of profit (loss) of associates and joint ventures	Share of other comprehensive income (loss) of associates and joint ventures	Disposals	Impairment loss	Ending
PRIVATE LIMITED								
Funnystorm	-	8,000,900	-	(188,016)	-	-	-	7,812,884
Talent Unlimited Online Services Private Limited	-	39,176,463	-	(937,219)	(93,793)	-	-	38,145,451
Playgig, Inc.	-	26,349,994	-	(1,619,423)	854,849	201,067	-	25,786,487
Gardens Interactive, Inc.	-	15,907,211	-	(383,966)	(138,745)	97,522	-	15,482,022
Fast Track Asia Co., Ltd.	-	22,317,325	-	126,572	(348,909)	-	-	22,094,988
Kona Venture Fund V	-	2,450,000	-	(35,231)	-	-	-	2,414,769
DEVSISTERS VENTURES FUND IX	-	4,200,000	-	(66,068)	-	-	-	4,133,932
Studio Sai, Co.	-	7,903,813	-	63,200	(77,085)	-	-	7,889,928
Boundary Inc.	-	5,000,000	-	(64,227)	-	-	-	4,935,773
OVERDARE, Inc.	-	40,302,819	-	(22,870,314)	(422,859)	-	-	17,009,646
IMM India Fund	-	1,029,967	-	-	-	-	-	1,029,967
	<u>₩ 425,296,870</u>	<u>₩ 194,332,440</u>	<u>₩ (190,000)</u>	<u>₩ (42,554,531)</u>	<u>₩ (1,973,271)</u>	<u>₩ (2,049,864)</u>	<u>₩ (1,609,943)</u>	<u>₩ 571,251,701</u>

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

(in thousands of Korean won)

	December 31, 2022							
	Beginning	Acquisition	Transfer	Dividend	Share of profit (loss) of associates	Share of other comprehensive income (loss) of associates	Impairment loss	Ending
Shinhan Alpha REIT Co., Ltd.	₩ 4,073,869	₩ -	₩ -	₩ (387,398)	₩ 1,058,502	₩ (752)	₩ -	₩ 4,744,221
1Up Ventures, L.P.	8,193,813	3,080,000	-	-	289,805	2,265,760	-	13,829,378
Hidden Sequence Co., Ltd.	1,886,734	-	-	-	(207,601)	-	-	1,679,133
Smart Krafton-BonAngels Fund	10,010,521	360,000	-	-	(128,622)	(821,676)	-	9,420,223
Nodwin Gaming Private Limited	25,589,477	-	-	-	183,147	611,499	-	26,384,123
Un Note Co., Ltd.	1,414,377	-	-	-	(797,502)	(712)	-	616,163
Loco Interactive Pte Limited	2,798,966	4,097,888	801,874	-	(1,437,877)	229,752	(6,490,603)	-
Nasadiya Technologies Private Limited	50,828,553	-	-	-	(5,764,027)	85,518	-	45,150,044
Mirae Asset Maps General Private Real Estate Investment Trust 66	289,823,703	-	-	-	(19,430,123)	-	-	270,393,580
Tamatem Inc.	-	604,822	7,123,732	-	(400,711)	407,500	-	7,735,343
Seoul Auction Blue Co., Ltd	-	2,999,945	-	-	(231,776)	98,987	-	2,867,156
XXBLUE Co., Ltd	-	4,999,772	-	-	251,298	-	-	5,251,070
Nautilus Mobile App Private Limited	-	6,546,036	-	-	73,346	(94,613)	-	6,524,769
Mebigo Labs Private Limited	-	13,175,608	-	-	(1,097,754)	(427,297)	-	11,650,557
Smart KNB Booster Fund	-	11,000,000	-	-	(737,702)	-	-	10,262,298
NIRVANANA	-	3,000,000	2,000,000	-	(435,521)	-	-	4,564,479
1Up Ventures Fund II, L.P	-	4,731,000	-	-	-	(506,667)	-	4,224,333
	<u>₩ 394,620,013</u>	<u>₩ 54,595,071</u>	<u>₩ 9,925,606</u>	<u>₩ (387,398)</u>	<u>₩ (28,813,118)</u>	<u>₩ 1,847,299</u>	<u>₩ (6,490,603)</u>	<u>₩ 425,296,870</u>

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

The summarized financial information of the associates and joint ventures as of and for the years ended December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)

(in thousands of Korean won)		December 31, 2023								
		Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profit (loss) from Continuing Operation	Profit (loss) from Discontinued Operation	Other Comprehensive Income	Total Comprehensive Income
1Up Ventures, L.P.	₩	4,037,902 ₩	32,008,456 ₩	22,452 ₩	- ₩	- ₩	(1,455,197) ₩	- ₩	4,065,193 ₩	2,609,996
Hidden Sequence Co., Ltd.		11,133,046	2,179,968	10,514,801	8,328,096	786,151	(749,306)	-	-	(749,306)
Smart Krafton-BonAngels Fund		162,670	16,930,159	99,411	-	6,324	(432,823)	-	(64,168)	(496,991)
Nodwin Gaming Private Limited		66,720,680	20,737,915	28,986,085	2,203,790	64,749,734	(1,334,562)	-	(3,510,945)	(4,845,507)
Loco Interactive Pte Limited		10,661,173	93,757	2,587,087	12,502,427	364,550	(19,507,076)	-	3,666,741	(15,840,335)
Nasadiya Technologies Private Limited		4,374,800	12,011,830	3,820,512	3,431,700	8,898,031	(10,113,470)	-	423,269	(9,690,201)
Mirae Asset Maps General Private Real Estate Investment Trust 66		12,389,239	1,336,694,396	732,839,581	-	956,207	(13,120,314)	-	-	(13,120,314)
Tamatem Inc.		12,480,223	4,697,291	1,175,710	703,865	16,269,161	(5,283,071)	-	(477,188)	(5,760,259)
Seoul Auction Blue Co., Ltd		12,324,625	2,318,733	1,512,725	343,940	15,699,484	(6,072,124)	-	(318,110)	(6,390,234)
XXBLUE Co., Ltd		1,492,181	1,054,867	2,552,859	20,211	1,039,816	(2,656,797)	-	(15,468)	(2,672,265)
Nautilus Mobile App Private Limited		7,466,814	416,615	714,982	312,804	4,660,328	(2,226,355)	-	43,987	(2,182,368)
Mebigo Labs Private Limited		47,415,795	1,196,921	6,078,433	127,375	14,635,973	(12,980,684)	-	(204,845)	(13,185,529)
Smart KNB Booster Fund		10,236,713	1,998,486	581,608	-	451,104	(1,879,346)	-	-	(1,879,346)
NIRVANANA		5,930,278	1,027,781	13,076,654	200,000	-	(7,196,106)	-	-	(7,196,106)
1Up Ventures Fund II, L.P		9,541,677	9,069,825	11,441	-	-	(520,468)	-	147,380	(373,088)
ANYCAST TECHNOLOGY PRIVATE LIMITED		7,807,304	690,556	1,201,994	163,696	1,950,040	(1,579,621)	-	(217,324)	(1,796,945)
Funnystorm		7,872,879	78,521	45,991	60	-	(1,234,718)	-	-	(1,234,718)
Talent Unlimited Online Services Private Limited		3,769,448	14,005,553	4,742,496	1,679,167	2,772,746	(5,361,987)	-	(428,640)	(5,790,627)
Playgig, Inc.		27,970,667	234,373	49,078	-	-	(6,025,121)	-	5,272,172	(752,949)

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

(in thousands of Korean won)

**December 31, 2023**

	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profit (loss) from Continuing Operation	Profit (loss) from Discontinued Operation	Other Comprehensive Income	Total Comprehensive Income
Gardens Interactive, Inc.	35,865,916	19,639,893	39,095	-	-	(5,908,773)	-	(1,074,468)	(6,983,241)
Fast Track Asia Co., Ltd.	21,939,891	2,783,531	4,410,913	827,551	884,061	868,888	-	(1,930)	866,958
Kona Venture Fund V	4,935,396	-	7,296	-	49,350	(71,900)	-	-	(71,900)
DEVSISTERS VENTURES FUND IX	2,893,928	6,079,294	114,796	-	18,784	(141,573)	-	-	(141,573)
Studio Sai, Co.	9,268,812	-	78,620	-	1,059,187	316,000	-	(384,388)	(68,388)
Boundary Inc.	4,008,509	806,318	49,736	-	-	(334,910)	-	-	(334,910)
OVERDARE, Inc.	19,120,094	30,438,594	1,126,811	2,646,410	-	(977,591)	-	58,548	(919,043)
IMM India Fund	2,292,394	-	-	-	570	(47,606)	-	-	(47,606)

**December 31, 2022**

(in thousands of Korean won)

	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Revenue	Profit (loss) from Continuing Operation	Profit (loss) from Discontinued Operation	Other Comprehensive Income	Total Comprehensive Income
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)
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)

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

(in thousands of Korean won)

	December 31, 2022								
	Current	Non-current	Current	Non-current		Profit (loss)	Profit (loss)	Other	Total
	Assets	Assets	Liabilities	Liabilities	Revenue	from Continuing Operation	from Discontinued Operation	Comprehensive Income	Comprehensive Income
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. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

The reconciliation of the summarized financial information presented to the carrying amount of its interest in the associate and joint ventures as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)

	December 31, 2023					
	Net assets attributable to ordinary shares	Percentage of ownership	Equity accounted interest	Investment difference	Internal transactions	Book amount
1Up Ventures, L.P.	₩ 36,023,906	33.53%	₩ 12,078,815	₩ (581)	₩ -	₩ 12,078,234
Hidden Sequence Co., Ltd.	(5,746,536)	13.57%	(779,768)	2,351,494	-	-
Smart Krafton-BonAngels Fund	16,993,418	54.55%	9,269,137	-	-	9,269,137
Nodwin Gaming Private Limited	54,373,707	15.64%	8,504,047	26,415,782	-	34,919,829
Loco Interactive Pte Limited	(6,002,762)	11.41%	(684,924)	2,743,205	-	-
Nasadiya Technologies Private Limited	3,411,121	18.23%	621,848	42,179,069	-	42,800,917
Mirae Asset Maps General Private Real Estate Investment Trust 66	616,244,054	42.96%	264,756,705	-	-	264,756,705
Tamatem Inc.	15,297,938	13.61%	2,082,289	5,099,846	-	7,182,135
Seoul Auction Blue Co., Ltd	11,854,133	5.33%	632,210	1,816,785	-	2,448,995
XXBLUE Co., Ltd	(99,478)	10.26%	(10,203)	4,883,764	-	4,873,561
Nautilus Mobile App Private Limited	5,529,998	31.91%	1,764,893	4,345,520	-	6,110,413
Mebigo Labs Private Limited	42,406,908	10.70%	4,537,540	8,173,502	-	12,711,042
Smart KNB Booster Fund	11,653,591	75.86%	8,840,655	-	-	8,840,655
NIRVANANA	(6,318,595)	33.33%	(2,105,988)	4,272,051	-	2,166,063
1Up Ventures Fund II, L.P	18,600,062	44.54%	8,285,104	237,334	-	8,522,438

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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*(in thousands of Korean won)*

	<b>December 31, 2023</b>					
	<b>Net assets attributable to ordinary shares</b>	<b>Percentage of ownership</b>	<b>Equity accounted interest</b>	<b>Investment difference</b>	<b>Internal transactions</b>	<b>Book amount</b>
ANYCAST TECHNOLOGY PRIVATE LIMITED	7,132,170	9.41%	671,137	7,164,592	-	7,835,729
Funnystorm	7,905,350	24.24%	1,916,612	5,896,272	-	7,812,884
Talent Unlimited Online Services Private Limited	9,822,175	23.19%	2,277,775	35,867,676	-	38,145,451
Playgig, Inc.	28,155,961	16.18%	4,555,634	21,230,853	-	25,786,487
Gardens Interactive, Inc.	55,466,714	11.58%	6,423,046	9,058,977	-	15,482,023
Fast Track Asia Co., Ltd.	19,064,715	27.47%	5,236,408	16,858,580	-	22,094,988
Kona Venture Fund V	4,928,100	49.00%	2,414,769	-	-	2,414,769
DEVSISTERS VENTURES FUND IX	8,858,427	46.67%	4,133,932	-	-	4,133,932
Studio Sai, Co.	9,190,192	20.00%	1,838,038	6,051,890	-	7,889,928
Boundary Inc.	4,765,090	20.00%	953,018	3,982,755	-	4,935,773
OVERDARE, Inc.	45,785,467	85.00%	38,917,646	-	(21,908,000)	17,009,646
IMM India Fund	2,292,394	44.44%	1,029,967	-	-	1,029,967

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

*(in thousands of Korean won)*

					<b>December 31, 2022</b>			
	<b>Net assets attributable to ordinary shares</b>		<b>Percentage of ownership</b>		<b>Equity accounted interest</b>		<b>Investment difference</b>	
								<b>Book amount</b>
Shinhan Alpha REIT Co., Ltd.	₩	350,266,406	1.35%	₩	4,744,221	₩	-	₩ 4,744,221
1Up Ventures, L.P.		41,246,524	33.53%		13,829,959		(581)	13,829,378
Hidden Sequence Co., Ltd.		(4,954,993)	13.57%		(672,361)		2,351,494	1,679,133
Smart Krafton-BonAngels Fund		17,270,409	54.55%		9,420,223		-	9,420,223
Nodwin Gaming Private Limited		28,961,668	15.00%		4,344,780		22,039,343	26,384,123
Un Note Co., Ltd.		7,039,707	8.75%		616,163		-	616,163
Loco Interactive Pte Limited		32,842,658	11.41%		3,747,398		2,743,205	-
Nasadiya Technologies Private Limited		12,831,135	18.53%		2,194,167		42,955,877	45,150,044
Mirae Asset Maps General Private Real Estate Investment Trust 66		629,364,368	42.96%		270,393,580		-	270,393,580
Tamatem Inc.		19,362,181	13.61%		2,635,497		5,099,846	7,735,343
Seoul Auction Blue Co., Ltd		19,694,790	5.33%		1,050,371		1,816,785	2,867,156
XXBLUE Co., Ltd		3,581,373	10.26%		367,306		4,883,764	5,251,070
Nautilus Mobile App Private Limited		6,828,314	31.91%		2,179,249		4,345,520	6,524,769
Mebigo Labs Private Limited		28,505,549	12.20%		3,477,055		8,173,502	11,650,557
Smart KNB Booster Fund		13,527,575	75.86%		10,262,298		-	10,262,298
NIRVANANA		877,374	33.33%		292,428		4,272,051	4,564,479
1Up Ventures Fund II, L.P		8,892,221	47.51%		4,224,333		-	4,224,333



**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

**13. Property and Equipment and Leases**

Details of property and equipment as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)	December 31, 2023													
	Land		Buildings		Fixtures		Facilities		Right-of-use assets		Construction-in-progress		Total	
Acquisition cost	₩	18,840,145	₩	2,976,238	₩	70,471,033	₩	79,805,029	₩	317,531,472	₩	6,084,845	₩	495,708,762
Accumulated depreciation		-		(117,851)		(38,467,416)		(36,755,142)		(160,709,871)		-		(236,050,280)
Accumulated impairment loss		-		-		(26,423)		-		-		(2,344,920)		(2,371,343)
Government grants <sup>1</sup>		-		-		-		(258,000)		-		-		(258,000)
	₩	18,840,145	₩	2,858,387	₩	31,977,194	₩	42,791,887	₩	156,821,601	₩	3,739,925	₩	257,029,139

<sup>1</sup> There are no unfulfilled conditions or other contingencies related to the government grants as of December 31, 2023.

(in thousands of Korean won)	December 31, 2022				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Acquisition cost	₩ 66,398,922	₩ 57,413,791	₩ 266,143,047	₩ 5,386,218	₩ 395,341,978
Accumulated depreciation	(31,109,249)	(23,897,796)	(116,365,583)	-	(171,372,628)
Accumulated impairment loss	(26,424)	-	(217,352)	-	(243,776)
Government grants <sup>1</sup>	-	(352,000)	-	-	(352,000)
	₩ 35,263,249	₩ 33,163,995	₩ 149,560,112	₩ 5,386,218	₩ 223,373,574

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

**KRAFTON, Inc. and its Subsidiaries**  
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**13. Property and Equipment and Leases, (cont'd)**

Changes in property and equipment for the years ended December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)	December 31, 2023													
	Land		Buildings		Fixtures		Facilities		Right-of-use assets		Construction-in- progress		Total	
Beginning	₩	-	₩	-	₩	35,263,249	₩	33,163,995	₩	149,560,112	₩	5,386,218	₩	223,373,574
Acquisitions		11,529,547		-		8,349,556		10,498,934		57,089,192		4,014,201		91,481,430
Disposals		-		-		(1,088,687)		-		(30,883)		(7,204)		(1,126,774)
Depreciation		-		(74,432)		(13,338,775)		(12,681,406)		(50,318,538)		-		(76,413,151)
Transfers <sup>1</sup>		7,310,598		2,932,819		2,562,393		11,646,910		-		(3,350,312)		21,102,408
Impairment loss		-		-		-		-		-		(2,344,920)		(2,344,920)
Exchange fluctuations		-		-		229,458		163,454		521,718		41,942		956,572
Ending	₩	18,840,145	₩	2,858,387	₩	31,977,194	₩	42,791,887	₩	156,821,601	₩	3,739,925	₩	257,029,139

<sup>1</sup> Long-term advance payments of ₩ 18,205,734 thousand is reclassified to land, fixtures and facilities, Investment properties of ₩ 2,932,819 thousand is reclassified to buildings for the year ended December 31, 2023.

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

*(in thousands of  
Korean won)*

	<b>December 31, 2022</b>					
	<b>Fixtures</b>	<b>Facilities</b>	<b>Right-of-use assets</b>	<b>Construction-in-progress</b>	<b>Total</b>	
Beginning	₩ 30,164,986	₩ 36,221,298	₩ 161,438,528	₩ 15,924,670	₩ 243,749,482	
Acquisitions	15,522,347	7,013,111	80,020,425	4,329,970	106,885,853	
Disposals	(645,555)	(1,528,031)	(1,690,944)	(7,212)	(3,871,742)	
Depreciation	(12,051,619)	(10,952,702)	(51,868,399)	-	(74,872,720)	
Return of government subsidies	-	799,940	-	-	799,940	
Transfers <sup>1</sup>	1,687,053	1,213,309	(39,261,176)	(14,940,511)	(51,301,325)	
Increase due to business combination	135,272	12,523	520,522	90,630	758,947	
Impairment loss	(26,424)	-	-	-	(26,424)	
Exchange fluctuations	477,189	384,547	401,156	(11,329)	1,251,563	
Ending	₩ 35,263,249	₩ 33,163,995	₩ 149,560,112	₩ 5,386,218	₩ 223,373,574	

<sup>1</sup> Long-term advance payments of ₩ 503,568 thousand is reclassified to fixtures and facilities, Construction in-progress of ₩ 618 thousand and ₩ 12,542,402 thousand is reclassified to intangible assets and investment properties, respectively, for the year ended December 31, 2022.

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

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

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Right-of-use assets <sup>1</sup>		
Properties	₩ 156,726,092	₩ 149,406,662
Vehicles	95,509	153,450
	<u>156,821,601</u>	<u>149,560,112</u>
Lease receivables <sup>2</sup>		
Current	11,164,683	12,045,012
Non-current	24,086,343	33,813,542
	<u>35,251,026</u>	<u>45,858,554</u>
	<u>₩ 192,072,627</u>	<u>₩ 195,418,666</u>
Lease liabilities <sup>3</sup>		
Current	₩ 65,749,996	₩ 57,243,713
Non-current	131,011,524	139,873,938
	<u>₩ 196,761,520</u>	<u>₩ 197,117,651</u>

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

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

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

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

The Group has classified certain contracts of the right-of-use assets, for which sublease agreements were entered into, as operating lease. The future lease payments that the Group is expected to receive, are as follows:

*(in thousands of Korean won)*

<b>December 31, 2023</b>							
<b>Total contractual cash flows</b>		<b>Less than 1 years</b>		<b>Between 1 and 5 years</b>		<b>Total</b>	
₩	33,500	₩	29,600	₩	3,900	₩	33,500

  

<b>December 31, 2022</b>							
<b>Total Contractual cash flows</b>		<b>Less than 1 years</b>		<b>Between 1 and 5 years</b>		<b>Total</b>	
₩	11,940	₩	11,940	₩	-	₩	11,940

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

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
Revenue from sublease (included in revenue)	₩	10,243	₩	5,683,984
Interest income relating to lease receivables (included in finance income)		1,865,543		871,749
<b>Total Revenue</b>	₩	<b>1,875,786</b>	₩	<b>6,555,733</b>
Depreciation of right-of-use assets				
Properties	₩	50,260,598	₩	51,824,943
Vehicles		57,940		43,455
Interest expense relating to lease liabilities (included in finance costs)		8,120,965		6,982,978
Expense relating to short-term leases (included in operating costs)		1,197,302		728,976
Expense relating to leases of low-value assets (included in operating costs)		249,311		244,443
<b>Total Costs</b>	₩	<b>59,886,116</b>	₩	<b>59,824,795</b>

The total cash outflow for leases for the year ended December 31, 2023 amounts to ₩66,423,545 thousand (December 31, 2022: ₩59,562,234 thousand).

**KRAFTON, Inc. and its Subsidiaries**  
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**14. Intangible Assets**

Intangible assets as of December 31, 2023 and 2022, consist of:

*(in thousands of Korean won)*

		<b>December 31, 2023</b>		
		<b>Accumulated</b>		
	<b>Acquisition cost</b>	<b>amortization/impairment loss</b>	<b>Book value</b>	
Software	₩ 30,198,200	₩ (24,515,577)	₩ 5,682,623	
Industrial property rights	1,748,476	(1,210,311)	538,165	
Membership rights	1,373,669	(173,586)	1,200,083	
Goodwill	693,169,895	(340,934,911)	352,234,984	
Other intangible assets	430,952,490	(182,826,481)	248,126,009	
	<u>₩ 1,157,442,730</u>	<u>₩ (549,660,866)</u>	<u>₩ 607,781,864</u>	

*(in thousands of Korean won)*

		<b>December 31, 2022</b>		
		<b>Accumulated</b>		
	<b>Acquisition cost</b>	<b>amortization/impairment loss</b>	<b>Book value</b>	
Software	₩ 29,131,316	₩ (21,700,914)	₩ 7,430,402	
Industrial property rights	1,622,613	(945,044)	677,569	
Membership rights	1,373,669	(104,152)	1,269,517	
Goodwill	681,249,204	(150,844,212)	530,404,992	
Other intangible assets	422,276,064	(94,321,064)	327,955,000	
	<u>₩ 1,135,652,866</u>	<u>₩ (267,915,386)</u>	<u>₩ 867,737,480</u>	

**KRAFTON, Inc. and its Subsidiaries**  
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**14. Intangible Assets, (cont'd)**

Changes in intangible assets for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>					
	<b>Software</b>	<b>Industrial property rights</b>	<b>Membership rights</b>	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
Beginning balance	₩ 7,430,402	₩ 677,569	₩ 1,269,517	₩ 530,404,992	₩ 327,955,000	₩ 867,737,480
Acquisitions	837,796	5,545	-	-	346,670	1,190,011
Disposals	(7,558)	(6)	-	-	(28,075)	(35,639)
Amortization	(2,723,789)	(274,100)	(69,434)	-	(27,729,268)	(30,796,591)
Impairment loss	-	-	-	(190,090,700)	(60,097,616)	(250,188,316)
Transfers <sup>1</sup>	123,658	129,157	-	-	259,933	512,748
Exchange rate differences	22,114	-	-	11,920,692	7,419,365	19,362,171
Ending balance	₩ 5,682,623	₩ 538,165	₩ 1,200,083	₩ 352,234,984	₩ 248,126,009	₩ 607,781,864

<sup>1</sup> Construction in-progress of ₩ 10,707 thousand was reclassified to software and long-term advance payments of ₩ 501,991 thousand was reclassified to industrial property rights and other intangible assets during the year ended December 31, 2023.

<i>(in thousands of Korean won)</i>	<b>December 31, 2022</b>					
	<b>Software</b>	<b>Industrial property rights</b>	<b>Membership rights</b>	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
Beginning balance	₩ 8,735,823	₩ 788,016	₩ 1,338,951	₩ 531,300,955	₩ 369,213,851	₩ 911,377,596
Acquisitions	1,327,478	23,598	-	-	90,507	1,441,583
Disposals	(4)	-	-	-	(580,504)	(580,508)
Amortization	(2,791,238)	(270,450)	(69,434)	-	(28,684,226)	(31,815,348)
Impairment loss	(10,180)	-	-	(88,069,254)	(61,074,760)	(149,154,194)
Transfers <sup>1</sup>	81,125	130,109	-	-	(80,507)	130,727
Increase due to business combination	64,349	6,296	-	46,440,940	20,350,910	66,862,495
Exchange rate differences	23,049	-	-	40,732,351	28,719,729	69,475,129
Ending balance	₩ 7,430,402	₩ 677,569	₩ 1,269,517	₩ 530,404,992	₩ 327,955,000	₩ 867,737,480

<sup>1</sup> Construction in-progress of ₩ 618 thousand was reclassified to software and long-term advance payments of ₩ 130,109 thousand was reclassified to industrial property rights during the year ended December 31, 2022.

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

*Impairment Tests for Goodwill*

The Group has performed impairment test on Cash-Generating Units ("CGUs") including goodwill at the end of the year. The recoverable amount of the investments in subsidiaries was based on value-in-use calculations. These calculations were 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 CGUs as of December 31, 2023 are as follows.

	<b>Key assumptions</b>	
	Unknown Worlds Entertainment, Inc.	Others
Average operating profit rate for estimated period <sup>1</sup>	47.44%	-0.28%~34.27%
Average annual revenue growth rate for estimated period <sup>1</sup>	27.08%	12.55%~64.42%
Terminal growth rate <sup>2</sup>	1.00%	1.00%
discount rate <sup>3</sup>	8.94%	9.95%~16.32%

<sup>1</sup> The average revenue growth rate and average operating profit rate, 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 rates used are reflect specific risks relating to the relevant operating segments.

As a result of performing impairment assessments on CGUs for the year ended December 31, 2023 Unknown Worlds Entertainment, Inc. and other CGUs impairment losses of ₩ 244,499,567 thousand and ₩ 5,675,879 thousand were recognized, respectively, as the carrying amount exceeded the recoverable amount.

The recoverable amount of the CGUs of the Group varies based on the key assumptions used in the CGUs impairment test. The effects of the changes in the assumptions in excess of the carrying amount are as follows:

<i>(in thousands of Korean won)</i>	<b>Change in discount rate</b>			
		<b>1%p Increase</b>		<b>1%p Decrease</b>
Excess portion of goodwill's recoverable amount				
Unknown Worlds Entertainment, Inc.	₩	55,972,166	₩	(71,878,347)
Others		2,233,719		(949,349)



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**15. Investment Properties**

Details of investment properties as of December 31, 2023 and 2022, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2023</b>		
	<b>Acquisition Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Land	₩ 476,977,673	₩ -	₩ 476,977,673
Buildings	69,655,951	(2,150,591)	67,505,360
	<u>₩ 546,633,624</u>	<u>₩ (2,150,591)</u>	<u>₩ 544,483,033</u>

*(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>

Changes in investment properties for the years ended December 31, 2023 and 2022, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2023</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 173,699,223	₩ 28,474,037	₩ 202,173,260
Acquisitions	303,278,450	42,770,359	346,048,809
Depreciation	-	(806,217)	(806,217)
Transfers <sup>1</sup>	-	(2,932,819)	(2,932,819)
Ending balance	<u>₩ 476,977,673</u>	<u>₩ 67,505,360</u>	<u>₩ 544,483,033</u>

<sup>1</sup> Investment properties of ₩2,932,819 thousand was reclassified to buildings during the year ended December 31, 2023.

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

(in thousands of Korean won)

	December 31, 2022		
	Land	Buildings	Total
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	₩ 173,699,223	₩ 28,474,037	₩ 202,173,260

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

During the year, rental income earned from operating leases of investment property is ₩ 203 million. (December 31, 2022: ₩ 145 million), and direct operating expenses from investment property that generated rental income is ₩ 555 million. Direct operating expenses (including repairs and maintenance) from investment property that did not generate rental income are ₩ 58 million. (December 31, 2022: ₩ 377 million)

Fair value of investment properties as at December 31, 2023, is ₩ 599,711 million (December 31, 2022: ₩ 277,469 million). The valuation of investment properties is performed by an independent valuer.

**16. Short-term Borrowings**

Details of Short-term borrowings as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)	Creditor	Interest rate(%)	Due date	December 31, 2023	December 31, 2022
Working capital	CEO of Rising Wings	4.60	2024-06-02	₩ 1,000,000	₩ 1,000,000
		4.60	2024-07-06	1,000,000	1,000,000
		4.60	2024-08-07	1,000,000	1,000,000
		4.60	2024-09-06	1,000,000	1,000,000
		4.60	2024-10-12	1,000,000	1,000,000
		4.60	2024-11-03	1,000,000	1,000,000
		4.60	2024-12-12	1,000,000	1,000,000
				<u>₩ 7,000,000</u>	<u>₩ 7,000,000</u>

**KRAFTON, Inc. and its Subsidiaries**  
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**17. Net Defined Benefit Liabilities**

Details of net defined benefit liabilities recognized in the statements of financial position as of December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
Present value of defined benefit obligations	₩	19,313,839	₩	15,185,450
Fair value of plan assets		(2,232,848)		(1,308,577)
Net defined benefit liabilities		17,080,991		13,876,873

Changes in the defined benefit obligations for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
Beginning	₩	15,185,450	₩	17,755,435
Changes in the scope of consolidation		-		1,874,020
Current service cost		4,632,219		6,498,281
Interest expense		733,848		464,732
Benefit payments		(1,885,312)		(1,699,530)
Remeasurements:				
Actuarial gain(loss) from change in financial assumptions		(254,179)		(8,482,972)
Actuarial gain(loss) from experience adjustments		910,167		(1,247,084)
Actuarial gain(loss) from change in demographic assumptions		-		35,397
Others		(8,354)		(12,829)
Ending	₩	<u>19,313,839</u>	₩	<u>15,185,450</u>

Changes in the Fair value of plan assets for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
Beginning	₩	1,308,577	₩	-
Increase due to business combination		-		542,850
Interest income		79,832		25,182
Retirement benefit payment		(207,293)		(168,385)
User's contribution		1,067,776		921,911
Remeasurements:				
Income from plan assets (excluding the amount included in interest income)		(16,044)		(12,981)
Ending	₩	<u>2,232,848</u>	₩	<u>1,308,577</u>

**KRAFTON, Inc. and its Subsidiaries**  
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**17. Net Defined Benefit Liabilities, (cont'd)**

The amounts recognized in the consolidated statements of comprehensive income related to defined benefit plan for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current service cost	₩ 4,632,219	₩ 6,498,281
Net interest expense	654,016	439,550
	<u>₩ 5,286,235</u>	<u>₩ 6,937,831</u>

The significant actuarial assumptions as of December 31, 2023 and 2022, are as follows:

<i>(in percentage)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Discount rate	4.06% - 7.11%	5.25% - 7.31%
Future salary growth rate	3.80% - 10.00%	3.78% - 10.00%

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 net defined benefit liabilities to changes in the principal assumptions is:

<i>(in thousands of Korean won)</i>	<b>1%p increase</b>	<b>1%p decrease</b>
Changes in discount rate	₩ (3,845,002)	₩ 3,172,730
Changes in salary growth rate	3,049,256	(3,804,562)

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

Details of remeasurements incurred related to defined benefit plan for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Remeasurements of defined benefit obligations	₩ (655,988)	₩ 9,694,659
Remeasurement factors of plan assets	(16,044)	(12,982)
Income tax effect	197,060	(2,433,685)
Remeasurements of net defined benefit liabilities, after tax	<u>₩ (474,972)</u>	<u>₩ 7,247,992</u>

The weighted average duration of the defined benefit obligation is 5.01 ~ 12.34 years. The expected maturity analysis of undiscounted pension benefits as of December 31, 2023, 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	₩ 2,031,188	₩ 1,365,407	₩ 4,533,084	₩ 17,353,261	₩ 25,282,940

The operating costs recognized in the current year in relation to the defined contribution plan amounted to ₩24,156,483 thousand(2022: ₩16,120,822 thousand).

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

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**18. Provisions**

Changes in provisions for restoration for the years ended December 31, 2023 and 2022, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2023</b>			
	<b>Provision for restoration costs</b>		<b>Other provisions</b>	
Beginning	₩	13,834,890	₩	2,902,828
Additions		212,681		1,976,578
Used		-		(3,501,975)
Reversal		-		(1,377,431)
Exchange rate differences		(8,296)		-
Ending	₩	14,039,275	₩	-
Current portion	₩	-	₩	-
Non-current portion		14,039,275		-

*(in thousands of Korean won)*

	<b>December 31, 2022</b>			
	<b>Provision for restoration costs</b>		<b>Other provisions</b>	
Beginning	₩	12,607,875	₩	37,529,676
Additions		1,242,733		3,379,732
Reversal		-		(38,006,580)
Exchange rate differences		(15,718)		-
Ending	₩	13,834,890	₩	2,902,828
Current portion	₩	-	₩	2,902,828
Non-current portion		13,834,890		-

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**19. Contingencies and Commitments**

As of December 31, 2023, the Group is providing game services to end-users through contracts with the following major platform operators:

Game	Counterparty	Service region
PLAYERUNKNOWN'S BATTLEGROUNDS (PC)	Valve Corporation	Worldwide
	Epic Games, Inc.	
	Hangzhou Shunwang Technology Co., Ltd.	China (except for Hong Kong, Macau and Taiwan)
	Qingfeng(Beijing) Technology Co.,Ltd.	
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	Korea, Japan, India
	Apple	
	Samsung Electronics	Korea
PUBG NEW STATE (Mobile)	Google	
	Apple	Worldwide
	Samsung Electronics	
Road To Valor : Empires(Mobile)	Google	Worldwide
	Apple	
	UniPin (Labuan) Limited	India
Defense Derby(Mobile)	Google	
	Apple	Worldwide
	Samsung Electronics	
Subnautica,	Valve Corporation	
Subnautica: Below Zero(PC)	Epic Games, Inc	Worldwide

The Group 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.

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

Major publishing contracts of the Group as of December 31, 2023, are as follows:

<b>Game</b>	<b>Counterparty</b>	<b>Service region</b>
PLAYERUNKNOWN'S BATTLEGROUNDS (Console)	Microsoft Corporation	Worldwide
	Sony Interactive Entertainment LLC	
PLAYERUNKNOWN'S BATTLEGROUNDS(PC)	Kakao Games Corp.	Korea
PLAYERUNKNOWN'S BATTLEGROUNDS (Mobile)	Tencent Technology (Shenzhen) Company Limited	China
	Proxima Beta Pte. Limited	Worldwide
The Callisto Protocol (Console)	Microsoft Corporation	Worldwide
	Sony Interactive Entertainment LLC	
	Microsoft Corporation	
Subnautica, Subnautica: Below Zero(Console)	Sony Interactive Entertainment LLC	Worldwide
	Nintendo Co., Ltd.	
	Bandai Namco Entertainment America INC.	

Major other contracts of the Group as of December 31, 2023, are as follows:

<b>Game</b>	<b>Counterparty</b>	<b>Service region</b>
PLAYERUNKNOWN'S BATTLEGROUNDS	Guangzhou Huya Information Technology Ltd	China
	Wuhan Ouyue Online TV Co., Ltd	
	SHANGHAI KUANYU DIGITAL TECHNOLOGY CO., LTD.	

The Group has entered into a license agreement with Epic Games Commerce GmbH for the "Unreal Engine" required to drive the game, which the Group is obliged to pay a certain percentage of revenue.

As of December 31, 2023, there are five litigation cases filed against the Group (relating to claim for damages related to stock options, lawsuits related to India services, lawsuits related to incentives, lawsuits related to delivery refusal and lawsuits related to gender discrimination) and three litigations (relating to copyright and others) filed by the Group. The Group's management believes that the ultimate results of these cases will not have a significant impact on the consolidated financial statements of the Group and the results of the cases cannot be reliably estimated as of December 31, 2023.



# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

#### 19. Contingencies and Commitments, (cont'd)

As of December 31, 2023, the Group has been provided guarantees up to ₩ 3,819 million from Seoul Guarantee Insurance Co., Ltd. In connection with the repayment of contributions for supporting the workplace nursery installation and up to USD 2,090 thousand from Citibank N.A and CAD 115 thousand from Royal Bank of Canada in connection with the office rent payment.

As of December 31, 2023, the payment guarantees and collateral provided by the Group are as follows.

(in USD)				
Guarantor	Beneficiary of guarantee	Currency	Guaranteed amount	Description
Krafton, Inc.	Sunset Building Company, LLC	USD	2,280,000	Payment guarantee related to rent
Krafton, Inc.	2121 Park Place Fee Owner CA, LLC	USD	294,538	
Krafton, Inc.	25 WEST MAIN OFFICE LLC	USD	1,495,285	

As of December 31, 2023, ₩7,366 million of financial instruments are provided as collateral related to leasehold deposits received from sublessee of Greits Pangyo, CAD 115 thousand of financial instruments are provide as collateral related to the office rent payment and ₩150 million and CAD 50 thousand of financial instruments are provided as collateral related to corporate cards. Also, ₩4,800 million of seller's financial instruments are provided to the Group for potential penalty claims from the successor lessee of the purchased real estate.

The Group 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 Group's long-term growth.

As of December 31, 2023, the Group has an obligation for additional capital contributions to Smart KNB Booster Fund and others according to agreements. The Group plans to make further contributions totaling KRW 135,230 million, USD 38,999 thousand, EUR 250 thousand, and INR 94 million through future capital calls.

On June 25, 2021, the Group 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 conditions of the contract are summarized as follows:

Type	Contents
Put option	Existing shareholders can request the purchase of all the remaining shares within 3 months from the expiration date of the sale if the IPO is not completed by the deadline for the sale, or if the existing shareholders are unable to sell 50% or more of the shares held to a third party.
Call option	During the exercise period of the put option, the Group'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.

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Type	Contents
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- |        |   |
|--------|---|
| Others | <ul style="list-style-type: none"> <li>- Existing shareholders cannot sell, transfer, set up as collateral, or other dispositions without prior written consent within the disposition restriction period.</li> <li>- The Group 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.</li> </ul> |
|--------|---|

On November 23, 2022, the Group 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:

Type	Contents
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 investee company shares, other shareholders shall have the right to participate in the sale of their shares at the same price.
Put and Call Options	Employees who have stock options have a put 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 call option that grants it to purchase the shares of the employees who have the stock options under the same condition.
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.
Backup 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 Group 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 Group 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.

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

Under the joint venture investment agreement with OVERDARE, Inc., the Group has the right, at its discretion, to acquire shares of the joint venture company owned by the joint participants at fair market value if deadlock arises on certain resolution matters requiring unanimous consent and agreement cannot be reached within the period of negotiation.

## 20. Equity

### (a) Share capital

Details of share capital as of December 31, 2023 and 2022, are as follows:

<i>(in Korean won and in shares)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</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	48,362,743	49,081,545

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

Changes in share capital and capital surplus for the years ended December 31, 2023 and 2022, are as follows:

*(in thousands of Korean won)*

	<b>Share capital <sup>1</sup></b>
Balance at January 1, 2022	₩ 4,896,705
Share-based payment transactions	11,450
Balance at December 31, 2022	₩ 4,908,155
Balance at January 1, 2023	₩ 4,908,155
Share-based payment transactions	15,574
Balance at December 31, 2023	₩ 4,923,729

<sup>1</sup> The total par value of issued shares amounts to KRW 4,836,274 thousand, which differs from the paid-in capital due to retirement of treasury shares by appropriating retained earnings.

**KRAFTON, Inc. and its Subsidiaries**  
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**20. Equity, (cont'd)**

(in thousands of Korean won)

	Capital surplus			
	Share premium	Other capital surplus	Gain on disposal of treasury shares	Total
Balance at January 1, 2022	₩ 3,830,569,171	₩ 2,076,705	₩ 6,452,617	₩ 3,839,098,493
Acquisition of subsidiaries	-	(28,468,465)	-	(28,468,465)
Paid-in capital increase of subsidiaries	-	(12)	-	(12)
Share-based payment transactions	2,338,585	(5,913,834)	-	(3,575,249)
Gift of shares	-	50,321,406	-	50,321,406
Transfer of capital reserve	(2,409,617,572)	-	-	(2,409,617,572)
Transactions with non-controlling interests	-	845,771	-	845,771
Balance at December 31, 2022	₩ 1,423,290,184	₩ 18,861,571	₩ 6,452,617	₩ 1,448,604,372
Balance at January 1, 2023	₩ 1,423,290,184	₩ 18,861,571	₩ 6,452,617	₩ 1,448,604,372
Share-based payment transactions	18,807,732	517,286	3,210,797	22,535,815
Share of other comprehensive income of associates and joint ventures accounted for using equity method, net of tax	-	(11,070)	-	(11,070)
Paid-in capital increase of subsidiaries	-	269,635	-	269,635
Transactions with non-controlling interests	-	635,439	-	635,439
Balance at December 31, 2023	₩ 1,442,097,916	₩ 20,272,861	₩ 9,663,414	₩ 1,472,034,191

(c) Other components of equity

Other components of equity as of December 31, 2023 and 2022, consist of:

(in thousands of Korean won)

	December 31, 2023	December 31, 2022
Treasury shares <sup>1</sup>	₩ -	₩ -
Share-based payments (Note 21)	49,885,811	56,137,075
Other capital adjustments	47,444,118	47,444,118
Gain (Loss) on valuation of financial assets at fair value through other comprehensive income (Note 11)	(5,927,608)	13,948,770
Remeasurements of net defined benefit liability (Note 17)	(2,677,751)	(2,202,779)
Equity adjustments of investments in associates and joint ventures	(305,370)	1,656,829
Exchange differences on translation of foreign operations	94,091,310	73,129,293
	₩ 182,510,510	₩ 190,113,306

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

# KRAFTON, Inc. and its Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2023 and 2022

#### 21. Share-based Payments

The terms and conditions of share options granted by Krafton, Inc. as of December 31, 2023, are as follows:

(in Korean won, except  
number of shares)

	19 <sup>th</sup> -2	19 <sup>th</sup> -3	23 <sup>rd</sup>	24 <sup>th</sup>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled Cash-settled	Equity-settled Cash-settled
Grantee	Employees	Employees	Employees	Employees
Date of grant	Oct. 20, 2017	Oct. 20, 2017	Nov. 5, 2020	Nov. 5, 2020
No. of shares granted	354,375	303,750	50,000	650,000
Outstanding shares as of December 31, 2022	20,240	303,750	50,000	650,000
No. of shares exercised during the year	5,745	150,000	-	-
Outstanding shares as of December 31, 2023	14,495	153,750	50,000	650,000
Exercise price	₩ 1,452	₩ 1,452	₩ 144,000	₩ 144,000
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 Nov. 5, 2022(35%) Nov. 5, 2023(35%) Nov. 5, 2024(30%)	Achievement of the target share price after IPO 25% each upon achievement of the target share price after IPO
Date of vesting	Oct. 20, 2020	Oct. 20, 2021		
Date of expiration	Oct. 19, 2026	Oct. 19, 2026	Nov. 4, 2032	Nov. 4, 2032

(in Korean won, except  
number of shares)

	25 <sup>th</sup>	26 <sup>th</sup>	27 <sup>th</sup>	28 <sup>th</sup>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled Cash-settled
Grantee	Employees	Employees	Employees	Employees
Date of grant	Mar. 31, 2021	Mar. 31, 2021	Mar. 31, 2022	Mar. 28, 2023
No. of shares granted	178,750	2,500	60,000	100,000
Outstanding shares as of December 31, 2022	152,000	2,500	60,000	-
No. of shares granted during the year	-	-	-	100,000
No. of shares cancelled during the year	23,588	-	-	-
Outstanding shares as of December 31, 2023	128,412	2,500	60,000	100,000
Exercise price	₩ 190,000	₩ 190,000	₩ 279,310	₩ 172,270
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/ Achievement of the target market capitalization
Date of vesting	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%)	Satisfy the period of continued service and upon achievement of the target market capitalization
Date of expiration	Mar. 30, 2028	Mar. 30, 2025(70%) Mar. 30, 2027(30%)	Mar. 30, 2029	Mar. 27, 2033

<sup>1</sup> The Parent 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 share options have been adjusted.

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

The terms and conditions of share options granted by Thingsflow Inc. as of December 31, 2023, are as follows:

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

	<b>3<sup>rd</sup>-1</b>	<b>3<sup>rd</sup>-2</b>	<b>3<sup>rd</sup>-3</b>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Employees	Employees
Date of grant	Nov. 1, 2020	Nov. 1, 2020	Nov. 1, 2020
No. of shares granted	90	500	320
Outstanding shares as of December 31, 2022	60	500	290
No. of shares exercised during the year	60	-	100
No. of shares cancelled during the year	-	-	60
Outstanding shares as of December 31, 2023	-	500	130
Exercise price	₩ 99,174	₩ 99,174	₩ 99,174
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
Date of vesting	Nov. 1, 2022	Jan. 1, 2023	Jun. 1, 2023
Date of expiration	Nov. 1, 2024	Jan. 1, 2025	Jun. 1, 2025

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

	<b>4<sup>th</sup>-1</b>	<b>4<sup>th</sup>-2</b>	<b>4<sup>th</sup>-3</b>	<b>4<sup>th</sup>-4</b>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Employees	Employees	Employees
Date of grant	Jun. 14, 2023	Jun. 14, 2023	Jun. 14, 2023	Jun. 14, 2023
No. of shares granted	1,815	1,265	330	2,326
No. of shares cancelled during the year	655	395	165	-
Outstanding shares as of December 31, 2023	1,160	870	165	2,326
Exercise price	₩ 313,162	₩ 313,162	₩ 313,162	₩ 313,162
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	Jun. 14, 2025	Jun. 14, 2026	Jun. 14, 2027	Jun. 14, 2028
Date of expiration	Jun. 14, 2030	Jun. 14, 2031	Jun. 14, 2032	Jun. 14, 2033

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

The terms and conditions of share options granted by Neon Giant AB as of December 31, 2023, are as follows:

*(in Swedish Krona, except  
number of shares)*

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Employees	Employees	Employees
Date of grant	Aug. 22, 2019	Aug. 23, 2019	Jan. 4, 2021	May. 31, 2021
No. of shares granted	333	2,350	300	500
Outstanding shares as of December 31, 2022	333	2,350	300	500
No. of shares exercised during the year	333	2,350	-	-
Outstanding shares as of December 31, 2023	-	-	300	500
Exercise price	1SEK	1SEK	1SEK	1SEK
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	Aug. 22, 2022	Aug. 23, 2022	Jan. 4, 2024	May. 31, 2024
Date of expiration	Aug. 22, 2024	Aug. 23, 2024	Jan. 4, 2026	May. 31, 2026

*(in Swedish Krona, except  
number of shares)*

	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>
Type of arrangement	Equity-settled	Equity-settled	Equity-settled	Equity-settled
Grantee	Employees	Employees	Employees	Employees
Date of grant	Aug. 24, 2022	Nov. 1, 2022	May. 2, 2023	Dec. 20, 2023
No. of shares granted	150	1,500	850	1,200
Outstanding shares as of December 31, 2022	-	-	-	-
No. of shares granted during the year	150	1,500	850	1,200
Outstanding shares as of December 31, 2023	150	1,500	850	1,200
Exercise price	1SEK	1SEK	1SEK	1SEK
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	Aug. 22, 2022	Aug. 23, 2022	Jan. 4, 2024	May. 31, 2024
Date of expiration	Aug. 22, 2024	Aug. 23, 2024	Jan. 4, 2026	May. 31, 2026

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

The terms and conditions of performance-based incentives as of December 31, 2023, 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 performance-based incentives granted	23,063	28,000	26,188	3,750
Outstanding shares as of December 31, 2023	1,500	-	6,540	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 performance-based incentives granted	56,500	48,250	6,250	7,500
Outstanding shares as of December 31, 2023	19,000	10,500	1,500	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



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

<i>(in Korean won, except number of shares)</i>	<b>6<sup>th</sup>-1</b>	<b>6<sup>th</sup>-2</b>	<b>7<sup>th</sup></b>	<b>8<sup>th</sup></b>
Date of grant	Aug. 1, 2018	Aug. 1, 2018	Aug. 31, 2018	Sep. 30, 2018
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation
No. of performance-based incentives granted	55,725	5,000	25,000	6,250
Outstanding shares as of December 31, 2023	43,725	1,500	2,500	4,500
Exercise price	₩ 44,000	₩ 58,000	₩ 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
Type of arrangement	Cash	Cash	Cash	Cash
Date of vesting	Aug. 2, 2020(20%) Aug. 2, 2021(30%) Aug. 2, 2022(20%) Aug. 2, 2023(30%)	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%)
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
<i>(in Korean won, except number of shares)</i>	<b>9<sup>th</sup></b>	<b>13<sup>th</sup>-1</b>		
Date of grant	Nov. 12, 2018	Jan. 2, 2020		
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation		
No. of performance-based incentives granted	7,500	6,500		
Outstanding shares as of December 31, 2023	2,250	2,500		
Exercise price	₩ 78,000	₩ 1,452		
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting		
Type of arrangement	Cash	Cash		
Date of vesting	Nov. 13, 2020(35%) Nov. 13, 2021(35%) Nov. 13, 2022(30%)	Dec. 23, 2020(54%) Dec. 23, 2021(46%)		
Date of expiration	4 years from date of vesting	4 years from date of vesting		

<sup>1</sup> The Parent 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 terms of the performance-based incentives granted by the Group to its executives and employees, the compensation has been changed to be granted in accordance with the stock price at the time of exercise after the listing.

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

The terms and conditions of restricted stock units as of December 31, 2023, are as follows:

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

	1 <sup>st</sup>	2 <sup>nd</sup> -1	2 <sup>nd</sup> -2	2 <sup>nd</sup> -3	2 <sup>nd</sup> -4
Date of grant	Apr. 1, 2022	Apr. 1, 2022	Apr. 1, 2022	Apr. 1, 2022	Apr. 1, 2022
Type of arrangement	Equity-settled	Cash-settled	Cash-settled	Cash-settled	Cash-settled
No. of shares granted	1,000	24,375	19,175	4,225	6,500
Outstanding shares as of December 31, 2023	650	-	-	-	4,225
Exercise price	-	₩ 44,000	₩ 44,000	₩ 44,000	₩ 190,000
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
Type of arrangement	Stock	Cash	Cash	Cash	Cash
Date of vesting	Apr.1,2023 (35%) Apr.1,2024 (35%) Apr.1,2025 (30%)	Jun.30,2022 (54%) Jun.30,2023 (46%)	Jul.31,2022 (54%) Jul.31,2023 (46%)	Sep.30,2022 (54%) Sep.30,2023 (46%)	Apr.1, 2023 (35%) Apr.1, 2024 (35%) Apr.1, 2025 (30%)
Date of expiration	-	-	-	-	-

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

	3 <sup>rd</sup>	4 <sup>th</sup> -1	4 <sup>th</sup> -1	4 <sup>th</sup> -2
Date of grant	May. 2, 2022	Jun. 1, 2022	Jun. 1, 2022	Jun. 1, 2022
Type of arrangement	Equity-settled	Equity-settled	Cash-settled	Cash-settled
No. of shares granted	1,000	32,780	2,760	6,990
Outstanding shares as of December 31, 2023	650	19,130	1,794	2,801
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	Stock	Stock	Cash	Cash
Date of vesting	May.2,2023 (35%) May.2,2024 (35%) May.2,2025 (30%)	Jun.1,2023 (35%) Jun.1,2024 (35%) Jun.1,2025 (30%)	Jun.1,2023 (35%) Jun.1,2024 (35%) Jun.1,2025 (30%)	Jun.1,2023 (35%) Jun.1,2024 (35%) Jun.1,2025 (30%)
Date of expiration	-	-	-	-

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

(in Korean won, except number of shares)	4 <sup>th</sup> -3 (Market performance conditions added)			
	4 <sup>th</sup> -3	5 <sup>th</sup>	6 <sup>th</sup>	
Date of grant	Jun. 1, 2022	Jun. 1, 2022	Oct. 10, 2022	Jan. 1, 2023
Type of arrangement	Equity-settled	Equity-settled	Cash-settled	Cash-settled
No. of shares granted	27,000	18,000	2,000	2,000
Outstanding shares as of December 31, 2023	16,770	17,200	-	1,300
Vesting conditions	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	Provision of services to the date of vesting
Type of arrangement	Stock	Stock	Cash	Cash
Date of vesting	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 Jun.1, 2025 (35%) Jun.1, 2026 (35%) Jun.1, 2027 (30%)	Oct.10,2023 (35%) Oct.10,2024 (35%) Oct.10,2025 (30%)	Oct.10,2023 (35%) Oct.10,2024 (35%) Oct.10,2025 (30%)
Date of expiration	-	-	-	-
(in Korean won, except number of shares)	7 <sup>th</sup> -1      7 <sup>th</sup> -2      8 <sup>th</sup> 9 <sup>th</sup>			
	7 <sup>th</sup> -1	7 <sup>th</sup> -2	8 <sup>th</sup>	9 <sup>th</sup>
Date of grant	Jun. 1, 2023	Jun. 1, 2023	Jul. 1, 2023	Dec. 15, 2023
Type of arrangement	Equity-settled	Cash-settled	Cash-settled	Equity-settled
No. of shares granted	80,850	23,810	2,500	5,000
Outstanding shares as of December 31, 2023	78,790	10,010	2,500	5,000
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	Stock	Cash	Cash	Stock
Date of vesting	Jun.1,2024 (35%) Jun.1,2025 (35%) Jun.1,2026 (30%)	Jun.1,2024 (35%) Jun.1,2025 (35%) Jun.1,2026 (30%)	Jun.1,2024 (35%) Jun.1,2025 (35%) Jun.1,2026 (30%)	Dec.15,2024 (35%) Dec.15,2025 (35%) Dec.15,2026 (30%)
Date of expiration	-	-	-	-

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

Changes in the number of share options(Krafton, Inc.) granted and weighted average exercise price for the years ended December 31, 2023 and 2022, are as follows:

<i>(in Korean won, except number of shares)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	1,238,490	₩ 119,003	1,389,390	₩ 99,573
Grant	100,000	172,270	60,000	279,310
Forfeit / Expired	(23,588)	190,000	(96,400)	78,834
Exercise	(155,745)	1,452	(114,500)	1,060
Ending	<u>1,159,157</u>	<u>₩ 137,948</u>	<u>1,238,490</u>	<u>₩ 119,003</u>

Changes in the number of share options(Thingsflow Inc.) granted and weighted average exercise price for the years ended December 31, 2023 and 2022, are as follows:

<i>(in Korean won, except number of shares)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	850	₩ 99,174	850	₩ 99,174
Grant	5,736	313,162	-	-
Forfeit / Expired	(1,275)	303,092	-	-
Exercise	(160)	99,174	-	-
Ending	<u>5,151</u>	<u>₩ 286,990</u>	<u>850</u>	<u>₩ 99,174</u>

**KRAFTON, Inc. and its Subsidiaries**  
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**21. Share-based Payments, (cont'd)**

Changes in the number of share options(Neon Giant AB) granted and weighted average exercise price for the years ended December 31, 2023 and 2022, are as follows:

<i>(in Swedish Krona, except number of shares</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	3,483	1	-	-
Increased by business combination	-	-	3,483	1
Grant	3,700	1	-	-
Exercise	(2,683)	1	-	-
Ending	4,500	1	3,483	1

Changes in the number of performance-based incentives granted and weighted average exercise price for the years ended December 31, 2023 and 2022, are as follows:

<i>(in Korean won, performance-based incentives granted)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	132,590 ₩	31,754	224,930 ₩	27,821
Forfeit / Expired	(11,000)	14,990	-	-
Exercise	(16,950)	20,649	(92,340)	22,173
Ending	104,640 ₩	35,315	132,590 ₩	31,754

Changes in the number of restricted stock units for the years ended December 31, 2023 and 2022, are as follows:

<i>(in Korean won, except number of shares)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Granted number</b>	<b>Weighted average exercise price</b>	<b>Granted number</b>	<b>Weighted average exercise price</b>
Beginning	117,040 ₩	18,841	- ₩	-
Grant	114,160	-	145,805	22,887
Forfeit / Expired	(26,011)	19,917	(3,040)	-
Exercise	(44,369)	19,933	(25,725)	44,000
Ending	160,820 ₩	4,992	117,040 ₩	18,841

**KRAFTON, Inc. and its Subsidiaries**  
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**21. Share-based Payments, (cont'd)**

Number of shares/compensations exercisable and others as of December 31, 2023, are as follows:

<i>(in Korean won, except number of shares/compensations)</i>	<b>Number of Shares/Compensations Exercisable</b>		<b>Weighted average exercise price</b>
Share options(Krafton, inc.)	255,570	₩	59,577
Share options(Thingsflow Inc.)	630		99,174
Share options(Neon Giant AB)	-		-
Performance-based incentives	104,640		35,315
Restricted stock units	-		-

The Group measured the cost of the share options granted by Krafton, inc. for December 31, 2023 and 2022, by fair value using the binomial model and Monte-Carlo method. The related assumptions and variables to measure the cost of the share options granted are as follows:

<i>(in Korean won)</i>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Weighted average fair value of share options granted during the year	₩	93,833	₩	96,894
Weighted average share price at grant date	₩	179,500	₩	275,500
Price volatility		48.76%		50.17%
Risk-free interest rate		3.26%~3.30%		2.36%~2.85%

The Group measured the cost of the share options granted by Krafton, as of December 31, 2023 and 2022, by fair value using the binomial model and Monte Carlo method. The related assumptions and variables to measure the cost of the share options granted are as follows:

<i>(in Korean won)</i>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Weighted average fair value of share options	₩	58,158	₩	75,310
Weighted average share price at grant date	₩	193,600	₩	168,000
Price volatility		37.28%		53.22%
Risk-free interest rate		3.14%~3.48%		3.73%~3.80%

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

The Group measured the cost of the performance-based incentives granted as of December 31, 2023 and 2022, by fair value using the Monte Carlo method. The related assumptions and variables to measure the cost of performance-based incentives granted are as follows:

<i>(in Korean won)</i>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Weighted average fair value of share options	₩	159,822	₩	136,977
Weighted average share price at grant date	₩	193,600	₩	168,000
Price volatility		37.28%		53.22%
Risk-free interest rate		3.33%~3.39%		3.66%~3.79%

The Group measured the cost of the restricted stock units granted for the years ended December 31, 2023 and 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>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Weighted average fair value of share options	₩	190,512	₩	239,080
Weighted average share price at grant date	₩	190,512	₩	259,627
Price volatility		33.35%~45.35%		48.70%~50.19%
Risk-free interest rate		3.27%~3.58%		1.84%~3.85%

The Group measured the cost of restricted stock units granted as of December 31, 2023 and 2022, by fair value using the binomial model. The related assumptions and variables to measure the cost of restricted stock units granted are as follows:

<i>(in Korean won)</i>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Weighted average fair value of share options	₩	160,169	₩	113,630
Weighted average share price at grant date	₩	193,600	₩	168,000
Price volatility		37.28%		53.22%
Risk-free interest rate		3.18%~3.48%		3.71%~3.78%

**KRAFTON, Inc. and its Subsidiaries**  
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**21. Share-based Payments, (cont'd)**

Details of the expenses in relation to the share-based payments granted to employees of the Group for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Total share-based payment expenses		
Operating costs <sup>1</sup>	₩ 27,642,127	₩ (63,555,367)

<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 Group applied share-based payment accounting, and recognized ₩(-)11,077,720 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. and its Subsidiaries**  
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**22. Revenue from Contracts with Customers and Contract Assets and Liabilities**

*(a) Revenue from contracts with customers*

Revenue for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Revenue from contracts with customers	₩ 1,910,365,763	₩ 1,848,186,907
Revenue from other sources	210,417	5,829,184
	<u>₩ 1,910,576,180</u>	<u>₩ 1,854,016,091</u>

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

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Main Services		
PC	₩ 583,895,594	₩ 464,978,152
Mobile	1,244,818,528	1,252,772,882
Console	55,673,426	104,081,201
Others	25,978,215	26,354,672
Total	<u>₩ 1,910,365,763</u>	<u>₩ 1,848,186,907</u>
Revenue recognition		
Transfer over time	₩ 1,832,360,135	₩ 1,733,874,055
Transfer at a point in time	78,005,628	114,312,852
Total	<u>₩ 1,910,365,763</u>	<u>₩ 1,848,186,907</u>

Details of the Group's revenue by geographic areas for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Revenue</b>	<b>Ratio</b>	<b>Revenue</b>	<b>Ratio</b>
Asia	₩ 1,613,272,877	84.45%	₩ 1,485,121,336	80.36%
Korea	104,876,232	5.49%	97,208,519	5.26%
America / Europe	179,086,142	9.37%	251,885,758	13.63%
Others	13,130,512	0.69%	13,971,294	0.75%
	<u>₩ 1,910,365,763</u>	<u>100.00%</u>	<u>₩ 1,848,186,907</u>	<u>100.00%</u>

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

*(b) Contract liabilities*

Assets and liabilities related to contracts with customers the Group has recognized for the years ended December 31, 2023 and 2022 are as follows:

<i>(in thousands of Korean won)</i>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Contract liabilities (unearned revenue)	₩	130,101,737	₩	74,815,028

*(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*

Revenue recognized in relation of contract liabilities carried over from the previous reporting period for the years ended December 31, 2023 and 2022 are as follows.

<i>(in thousands of Korean won)</i>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Revenue recognized that was included in the contract liability balance at the beginning of the year	₩	67,192,068	₩	69,286,211

**KRAFTON, Inc. and its Subsidiaries**  
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**23. Operating Costs**

Operating costs for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
Application fees / Cost of sales	₩	226,754,111	₩	207,130,496
Salaries and bonuses		329,278,631		282,922,754
Post-employment benefits		29,442,717		23,058,654
Employee benefits		68,579,807		58,831,686
Travel		6,778,361		7,977,365
Depreciation		76,413,151		74,241,864
Depreciation – Investment properties		806,217		745,365
Amortization		30,796,591		29,632,116
Insurance		7,780,325		9,109,810
Supplies		1,356,117		2,238,389
Commissions and fees		258,894,433		325,252,471
Advertising		66,050,538		129,652,967
Share-based payment expenses		27,642,127		(63,555,367)
Bad debts expense(reversal)		(3,283,475)		3,271,519
Others		15,240,920		11,899,432
	₩	<u>1,142,530,571</u>	₩	<u>1,102,409,521</u>

**KRAFTON, Inc. and its Subsidiaries**  
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**24. Other Income and Expenses**

Other income and expenses for the years ended December 31, 2023 and 2022, are as follows:

*(in thousands of Korean won)*

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Other income</b>		
Gain on foreign exchange	₩ 70,742,953	₩ 196,604,362
Gains on disposal of investments in associates	4,434,747	-
Gain on disposal of property and equipment	11,106	112,761
Gain on disposal of leases	583	3,778,585
Gain on disposal of intangible assets	25,814,133	6,207,603
Gain on disposal of other financial assets	14,583	12,566
Gain on disposal of financial assets at fair value through profit or loss	197,676,487	19,093,865
Gain on valuation of financial assets at fair value through profit or loss	25,488,865	43,185,227
Gain on valuation of financial liabilities at fair value through profit or loss	150,210,081	12,373,852
Gain on derivatives	554,642	-
Dividend income	456,194	349,946
Others	7,565,467	1,183,778
	<u>₩ 482,969,841</u>	<u>₩ 282,902,545</u>
<b>Other expenses</b>		
Loss on foreign exchange	₩ 52,888,051	₩ 56,846,563
Loss on disposal of property and equipment	209,160	1,193,802
Loss on impairment of property and equipment	2,344,920	26,424
Loss on disposal of leases	-	117,181
Loss on impairment of intangible assets	250,188,315	149,154,193
Loss on disposal of intangible assets	3,146	4
Other bad debt expenses	123,293	(10,742)
Loss on valuation of financial assets at fair value through profit or loss	28,174,994	53,427,317
Loss on disposal of financial assets at fair value through profit or loss	62,499,507	66,346,075
Loss on valuation of financial liabilities at fair value through profit or loss	-	9,974,538
Loss on disposal of financial liabilities at fair value through profit or loss	-	3,166,305
Loss on derivatives	169,156	785,814
Loss on disposal of other financial assets	127	-
Donations	3,116,333	302,786
Others	7,124,504	119,997
	<u>₩ 406,841,506</u>	<u>₩ 341,450,257</u>

**KRAFTON, Inc. and its Subsidiaries**  
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**25. Finance Income and Costs**

Finance income and finance costs for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Finance income</b>		
Interest income	₩ 37,537,873	₩ 33,720,563
Financial guarantee income	-	370
	<u>₩ 37,537,873</u>	<u>₩ 33,720,933</u>
<b>Finance costs</b>		
Interest expenses	₩ 8,910,260	₩ 7,577,465
Financial guarantee expenses	21,744	21,685
	<u>₩ 8,932,004</u>	<u>₩ 7,599,150</u>

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**26. Income Tax Expense**

Income tax expense for the years ended December 31, 2023 and 2022, consists of:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current tax	₩ 241,164,113	₩ 174,003,856
Deferred tax due to temporary differences	(14,644,121)	(18,979,272)
Income tax expense charged directly to equity	8,035,029	13,219,143
Income tax expense	₩ 234,555,021	₩ 168,243,727
Income tax expense for continuing operations	234,555,021	168,702,206
Income tax expense for discontinued operations	-	(458,479)

Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Net profit before income tax in continuing operations	₩ 828,615,336	₩ 683,876,920
Net loss before income tax expense from discontinued operations	-	(15,479,161)
Net profit before income tax	828,615,336	668,397,759
Income tax based on statutory tax rate	208,392,449	173,447,384
Adjustments:		
Non-taxable income	(5,603,893)	(2,203,260)
Non-deductible expenses	7,599,600	9,494,564
Tax credit and others	(1,547,867)	(11,090,757)
Foreign tax credit	(2,072,888)	1,381,144
Claim for rectification	(9,432,883)	(2,378,394)
Changes in unrecognized deferred tax asset	27,843,829	9,077,620
Effects of the tax system for recirculation of corporate income	(4,870,000)	(373,268)
Others	14,246,674	(9,111,306)
Income tax expense	₩ 234,555,021	₩ 168,243,727
Effective tax rate	28.31%	25.17%

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

Changes in the temporary differences and related deferred tax assets and liabilities for the years ended December 31, 2023 and 2022, are as follows:

(in thousands of  
Korean won)

	December 31, 2023					
	Temporary differences and others			Deferred tax assets (liabilities)		
	Beginning	Increase (decrease)	Ending	Beginning	Increase (decrease)	Ending
Post-employment benefit obligation	₩ 15,942,456	₩ 3,074,545	₩ 19,017,001	₩ 4,210,101	₩ 769,409	₩ 4,979,510
Plan assets	(1,308,577)	(924,271)	(2,232,848)	(359,859)	(229,613)	(589,472)
Accrued income	(953,174)	(11,078,377)	(12,031,551)	(252,449)	(2,923,873)	(3,176,322)
Unearned revenue	69,516,013	64,562,509	134,078,522	18,380,677	16,947,595	35,328,272
Prepaid expenses	(15,643,684)	(3,380,734)	(19,024,418)	(4,146,287)	(876,159)	(5,022,446)
Accrued expenses	98,513,854	3,666,602	102,180,456	26,102,893	865,950	26,968,843
Right-of-use assets	(135,512,258)	11,195,788	(124,316,470)	(35,846,212)	3,087,018	(32,759,194)
Lease liabilities	180,734,521	(15,752,364)	164,982,157	47,828,983	(4,337,258)	43,491,725
Lease receivables	(46,103,173)	7,825,338	(38,277,835)	(12,217,341)	2,111,992	(10,105,349)
Present value discounts	3,846,145	18,180	3,864,325	1,018,989	459	1,019,448
Provision for impairment	89,294,509	345,731	89,640,240	23,663,245	1,778	23,665,023
Depreciation	7,710,612	(862,023)	6,848,589	1,697,306	(139,594)	1,557,712
Amortization	(320,256,045)	77,782,766	(242,473,279)	(63,970,539)	15,485,498	(48,485,041)
Government grants	352,000	(94,000)	258,000	93,280	(25,168)	68,112
Allowance for depreciation	(352,000)	94,000	(258,000)	(93,280)	25,168	(68,112)
Facilities	(311,714)	137,605	(174,109)	(83,891)	36,735	(47,156)
Loss on impairment of construction in progress	-	2,344,920	2,344,920	-	619,059	619,059
Bad debt expenses	119,265	105,703	224,968	31,605	27,786	59,391
Financial assets at fair value through profit or loss	(16,474,076)	(34,203,677)	(50,677,753)	(4,365,630)	(9,013,297)	(13,378,927)
Financial assets at fair value through other comprehensive income	(15,302,877)	27,731,575	12,428,698	(4,055,262)	7,336,438	3,281,176

**KRAFTON, Inc. and its Subsidiaries**  
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(in thousands of  
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	December 31, 2023					
	Temporary differences and others			Deferred tax assets (liabilities)		
	Beginning	Increase (decrease)	Ending	Beginning	Increase (decrease)	Ending
Investments in subsidiaries	₩ (91,437,393)	₩ 190,546,398	₩ 99,109,005	₩ (24,230,909)	₩ 50,395,686	₩ 26,164,777
Investments in associates	7,851,730	2,329,044	10,180,774	2,080,709	607,015	2,687,724
Provision for restoration costs	13,638,639	213,422	13,852,061	3,614,239	42,705	3,656,944
Other provisions	2,902,828	(2,902,828)	-	769,249	(769,249)	-
Financial guarantee liabilities	24,559	39,571	64,130	6,508	10,422	16,930
Financial liabilities at fair value through profit or loss	201,143,514	(149,305,629)	51,837,885	53,303,031	(39,617,829)	13,685,202
Derivative instruments	15,885,014	(3,818,156)	12,066,858	4,129,488	(943,837)	3,185,651
Loss on impairment of intangible assets	176,559	(165,854)	10,705	46,788	(43,962)	2,826
Other receivables	(147,429)	-	(147,429)	(39,069)	148	(38,921)
Commissions	147,490	-	147,490	39,085	(148)	38,937
Long-term accrued expenses	1,044,595	(58,860)	985,735	257,950	(25,053)	232,897
Share-based payment expenses	28,781,273	3,717,725	32,498,998	7,627,037	952,699	8,579,736
Accounts payable	339,868	(235,505)	104,363	90,065	(62,513)	27,552
Development costs	188,348	(188,348)	-	50,860	(50,860)	-
Membership rights	37,718	(4,437)	33,281	9,995	(1,209)	8,786
Convertible redeemable preferred stock	1,326,725	327,325	1,654,050	291,879	72,012	363,891
Others	145,288,168	(68,977,913)	76,310,255	13,151,662	(4,782,029)	8,369,633
Tax losses	134,860,157	312,329	135,172,486	35,064,953	(187,103)	34,877,850
Tax credits	10,941,386	5,130,570	16,071,956	10,221,881	5,850,075	16,071,956
	₩ 386,805,546	₩ 109,548,670	₩ 496,354,216	104,121,730	41,216,893	145,338,623
Unrecognized deferred assets				(74,107,598)	(27,790,576)	(101,898,174)
				₩ 30,014,132	₩ 13,426,317	₩ 43,440,449



**KRAFTON, Inc. and its Subsidiaries**  
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**26. Income Tax Expense, (cont'd)**

(in thousands of  
Korean won)

	December 31, 2022							
	Temporary differences and others				Deferred tax assets (liabilities)			
	Beginning	Increase or decrease due to business combination	Increase (decrease)	Ending	Beginning	Increase or decrease due to business combination	Increase (decrease)	Ending
Post-employment benefit obligation	₩ 17,184,697	₩ 1,898,032	₩ (3,140,273)	₩ 15,942,456	₩ 4,725,792	₩ 521,959	₩ (1,037,650)	₩ 4,210,101
Plan assets	-	(530,097)	(778,480)	(1,308,577)	-	(145,777)	(214,082)	(359,859)
Accrued income	(878,811)	-	(74,363)	(953,174)	(241,673)	-	(10,776)	(252,449)
Unearned revenue	69,465,164	-	50,849	69,516,013	19,102,920	-	(722,243)	18,380,677
Prepaid expenses	(12,741,386)	-	(2,902,298)	(15,643,684)	(3,503,881)	-	(642,406)	(4,146,287)
Accrued expenses	154,584,015	597,675	(56,667,836)	98,513,854	42,510,604	163,056	(16,570,767)	26,102,893
Right-of-use assets	(144,932,096)	(264,984)	9,684,822	(135,512,258)	(39,856,326)	(69,832)	4,079,946	(35,846,212)
Lease liabilities	155,730,697	2,110,991	22,892,833	180,734,521	42,825,942	475,319	4,527,722	47,828,983
Lease receivables	(9,273,955)	-	(36,829,218)	(46,103,173)	(2,550,338)	-	(9,667,003)	(12,217,341)
Present value discounts	5,721,735	5,141	(1,880,731)	3,846,145	1,573,477	1,131	(555,619)	1,018,989
Provision for impairment	94,750,422	476	(5,456,389)	89,294,509	26,056,366	131	(2,393,252)	23,663,245
Depreciation	21,001	30,287	7,659,324	7,710,612	5,775	8,329	1,683,202	1,697,306
Amortization	(353,272,715)	(20,350,910)	53,367,580	(320,256,045)	(70,367,604)	(4,198,733)	10,595,798	(63,970,539)
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)
Accumulated depreciation	(3,250)	-	3,250	-	(894)	-	894	-
Facilities	(624,286)	-	312,572	(311,714)	(171,679)	-	87,788	(83,891)
Bad debt expenses	119,265	21,814	(21,814)	119,265	32,798	5,999	(7,192)	31,605
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)	(21,079,469)	-	17,024,207	(4,055,262)

**KRAFTON, Inc. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

(in thousands of  
Korean won)

	December 31, 2022							
	Temporary differences and others				Deferred tax assets (liabilities)			
	Beginning	Increase or decrease due to business combination	Increase (decrease)	Ending	Beginning	Increase or decrease due to business combination	Increase (decrease)	Ending
Investments in subsidiaries	₩ 51,040,728	₩ 1,907	₩ (142,480,028)	₩ (91,437,393)	₩ 14,036,200	₩ 524	₩ (38,267,633)	₩ (24,230,909)
Investments in associates	(33,776,449)	-	41,628,179	7,851,730	(9,288,523)	-	11,369,232	2,080,709
Provision for restoration costs	12,398,018	-	1,240,621	13,638,639	3,409,455	-	204,784	3,614,239
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
Financial liabilities at fair value through profit or loss	-	-	201,143,514	201,143,514	-	-	53,303,031	53,303,031
Derivative instruments	5,127,343	11,779,683	(1,022,012)	15,885,014	1,410,019	3,239,413	(519,944)	4,129,488
Loss on impairment of intangible assets	425,618	4,164	(253,223)	176,559	117,045	1,145	(71,402)	46,788
Bonuses	33,091	-	(33,091)	-	9,100	-	(9,100)	-
Other receivables	(147,429)	-	-	(147,429)	(40,543)	-	1,474	(39,069)
Commissions	147,490	-	-	147,490	40,560	-	(1,475)	39,085
Long-term accrued expenses	5,326,466	-	(4,281,871)	1,044,595	1,464,778	-	(1,206,828)	257,950
Share-based payment expenses	59,650,111	-	(30,868,838)	28,781,273	16,403,781	-	(8,776,744)	7,627,037
Accounts payable	523,413	-	(183,545)	339,868	143,939	-	(53,874)	90,065
Development costs	187,117	189,578	(188,347)	188,348	51,457	52,134	(52,731)	50,860
Membership rights	42,155	-	(4,437)	37,718	11,593	-	(1,598)	9,995
Unpaid interest	317,152	-	(317,152)	-	87,217	-	(87,217)	-
Convertible redeemable preferred stock	-	-	1,326,725	1,326,725	-	-	291,879	291,879
Others	17,601,338	(723,358)	128,410,188	145,288,168	4,840,368	(149,012)	8,460,306	13,151,662
Tax losses	119,554,705	15,305,452	-	134,860,157	31,867,935	4,208,999	(1,011,981)	35,064,953
Tax credits	9,796,052	-	1,145,334	10,941,386	9,796,052	-	425,829	10,221,881
	₩ 167,243,422	₩ 10,075,851	₩ 209,486,273	₩ 386,805,546	78,866,864	4,114,785	21,140,081	104,121,730
Unrecognized deferred assets					(57,844,719)	(8,462,916)	(7,799,963)	(74,107,598)
					₩ 21,022,145	₩ (4,348,131)	₩ 13,340,118	₩ 30,014,132

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

The analysis of offset deferred tax assets and liabilities as of December 31, 2023 and 2022, is as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered within 12 months	₩ 111,649,934	₩ 139,927,782
Deferred tax asset to be recovered after more than 12 months	147,359,629	113,854,676
<b>Deferred tax liabilities</b>	-	-
Deferred tax liability to be recovered within 12 months	(8,237,689)	(4,437,805)
Deferred tax liability to be recovered after more than 12 months	(207,331,425)	(219,330,521)
Deferred tax assets, net	<u>₩ 43,440,449</u>	<u>₩ 30,014,132</u>

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**26. Income Tax Expense, (cont'd)**

The tax effect that is charged or credited directly to other comprehensive income (expenses) for the years ended December 31, 2023 and 2022, is as follows:

*(in thousands of Korean won)*

	December 31, 2023			December 31, 2022		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liability	₩ (672,033)	₩ 197,061	₩ (474,972)	₩ 9,681,677	₩ (2,433,685)	₩ 7,247,992
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	(27,031,575)	7,155,197	(19,876,378)	(61,349,735)	15,641,853	(45,707,882)
Gain on disposal of treasury shares	4,362,497	(1,151,699)	3,210,798	-	-	-
Exchange differences on translation of foreign operations	(6,948,749)	1,834,470	(5,114,279)	(39,910)	10,975	(28,935)
	<u>₩ (30,289,860)</u>	<u>₩ 8,035,029</u>	<u>₩ (22,254,831)</u>	<u>₩ (51,707,968)</u>	<u>₩ 13,219,143</u>	<u>₩ (38,488,825)</u>

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**26. Income Tax Expense, (cont'd)**

Details of deductible temporary differences unrecognized as deferred tax assets as of December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Deductible temporary differences	₩ 243,708,340	₩ 141,973,262
Tax losses	135,172,486	134,860,157
Tax credits	9,304,279	10,941,385

As of December 31, 2023 and 2022, the Group 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.

The maturity of unused tax losses and tax credits as of December 31, 2023 and 2022, is as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	
	<b>Tax losses</b>	<b>Tax credits</b>
Less than 1 year	₩ 226,293	₩ -
Between 1 and 2 years	397,454	264,599
Between 2 and 3 years	8,363,136	539,502
Between 3 and 4 years	3,185,434	508,629
Between 4 and 5 years	40,366,686	717,261
Between 5 and 6 years	49,057,919	697,047
Between 6 and 7 years	716,952	499,581
Between 7 and 8 years	-	1,888,403
Between 8 and 9 years	-	985,701
Between 9 and 10 years	-	3,203,556
Between 10 and 11 years	-	-
Between 11 and 12 years	-	-
Between 12 and 13 years	3,075,889	-
Between 13 and 14 years	6,539,496	-
Between 14 and 15 years	14,567,510	-
Between 15 and 16 years	8,675,717	-
	₩ 135,172,486	₩ 9,304,279

**KRAFTON, Inc.**  
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**26. Income Tax Expense, (cont'd)**

(in thousands of Korean won)

	<b>December 31, 2022</b>	
	<b>Tax losses</b>	<b>Tax credits</b>
Less than 1 year	₩ -	₩ -
Between 1 and 2 years	226,293	-
Between 2 and 3 years	397,454	-
Between 3 and 4 years	8,363,136	1,249,249
Between 4 and 5 years	3,185,434	2,023,967
Between 5 and 6 years	40,366,686	1,052,161
Between 6 and 7 years	48,745,590	1,213,146
Between 7 and 8 years	716,952	535,354
Between 8 and 9 years	-	396,314
Between 9 and 10 years	-	1,651,039
Between 10 and 11 years	-	2,820,155
Between 11 and 12 years	-	-
Between 12 and 13 years	-	-
Between 13 and 14 years	3,075,889	-
Between 14 and 15 years	6,539,496	-
Between 15 and 16 years	14,567,510	-
Between 16 and 17 years	8,675,717	-
	₩ 134,860,157	₩ 10,941,385

The consolidated financial statements for 2021 and 2022 show revenues exceeding EUR 750 million, and there are no subsidiaries domiciled in countries with a statutory tax rate of less than 15%. Krafton Americas, Inc., Striking Distance Studios, Inc., Unknown Worlds Entertainment, Inc., and PUBG Mad Glory, LLC, all located in the United States, receive tax deductions from the government. The Group is currently assessing the impact of the Pillar 2 on the consolidated financial statements.

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**27. Earnings per Share**

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

*(a) Basic earnings per share*

<i>(in Korean won, in shares)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Continuing operating profit of company holders	₩ 595,361,538,227	₩ 515,174,715,858
Loss from discontinued operations of company holders	-	(15,020,682,339)
Profit attributable to the owners of the Company	<u>₩ 595,361,538,227</u>	<u>₩ 500,154,033,519</u>
Weighted average number of ordinary shares outstanding	<u>46,470,185</u>	<u>46,894,298</u>
Basic earnings per share from continuing operations	12,812	10,986
Basic loss per share from discontinued operations	-	(320)
Basic earnings per share	<u>₩ 12,812</u>	<u>₩ 10,666</u>

**KRAFTON, Inc.**  
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**27. 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 Group 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 Korean won, in shares)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Continuing operating profit of company holders	₩ 595,361,538,227	₩ 515,174,715,858
Loss from discontinued operations of company holders	-	(15,020,682,339)
Profit attributable to the owners of the Company	<u>₩ 595,361,538,227</u>	<u>₩ 500,154,033,519</u>
Weighted average number of ordinary shares in issue	46,470,185	46,894,298
Adjustment for:		
Share options	<u>225,058</u>	<u>398,033</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>46,695,243</u>	<u>47,292,331</u>
Basic earnings per share from continuing operations	12,750	10,893
Basic loss per share from discontinued operations	-	(317)
Diluted earnings per share	<u>₩ 12,750</u>	<u>₩ 10,576</u>



**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**27. 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, 2023 and 2022, are as follows:

<i>(in days, shares)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Number of ordinary shares outstanding multiplied by weight factor	17,973,367,618	17,907,526,425
Number of treasury shares multiplied by weight factor	(1,011,750,098)	(791,107,570)
	<hr/> 16,961,617,520	<hr/> 17,116,418,855
Weight	<hr/> 365	<hr/> 365
Weighted average number of ordinary shares outstanding	<hr/> 46,470,185	<hr/> 46,894,298

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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**28. Statements of Cash Flows**

*(a) Cash generated from operations*

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Profit for the year	₩ 594,060,314	₩ 500,154,032
Addition or subtraction for net profit adjustment :	324,467,914	360,472,639
Performance-based incentive	1,972,008	(3,422,067)
Post-employment benefits	5,286,234	6,937,832
Depreciation	76,413,151	74,872,719
Depreciation – investment properties	806,217	745,365
Amortization	30,796,591	31,815,348
Share-based payment expenses	27,642,127	(63,555,367)
Bad debts expense(reversal)	(3,283,475)	3,271,519
Loss on foreign exchange	24,790,784	35,840,551
Other Bad debts expense	123,293	(10,742)
Loss on impairment of investment in associates	1,609,943	6,490,603
Loss on valuation of financial assets at fair value through profit or loss	28,174,994	53,427,317
Loss on disposal of financial assets at fair value through profit or loss	62,499,507	66,346,075
Loss on valuation of financial liabilities at fair value through profit or loss	-	9,974,538
Loss on disposal of financial liabilities at fair value through profit or loss	-	3,166,305
Loss on derivatives	169,156	785,814
Loss on disposal of property and equipment	209,160	2,202,777
Loss on impairment of property and equipment	2,344,920	26,424
Loss on disposal of intangible assets	3,146	568,991
Loss on impairment of intangible assets	250,188,315	149,154,193
Loss on disposal of leases	-	117,181
Interest expenses	8,910,261	7,622,598
Financial guarantee expenses	21,744	21,685
Loss on equity method	43,035,472	30,669,216
Other expense	4,844,447	(34,626,848)
Income tax expense	234,555,021	168,243,727
Gain on foreign exchange	(32,604,471)	(69,447,048)
Gain on valuation of financial assets at fair value through profit or loss	(25,488,865)	(43,185,227)
Gain on disposal of financial assets at fair value through profit or loss	(197,676,487)	(19,093,865)
Gain on valuation of financial liabilities at fair value through profit or loss	(150,210,081)	(12,373,852)
Gain on derivatives	(554,642)	-

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
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<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Gain on disposal of property and equipment	(11,106)	(112,761)
Gain on disposal of intangible assets	(25,814,133)	(6,207,603)
Gain on disposal of leases	(583)	(3,815,550)
Interest income	(37,537,873)	(33,720,563)
Dividend income	(456,194)	(349,946)
Gain on disposal of investment in associates	(4,434,747)	-
Gain on equity method	(480,939)	(1,856,099)
Other income	(1,374,981)	(50,601)
Change in operating assets and liabilities:	(139,464,052)	(134,358,624)
Trade receivables	(162,899,157)	(27,624,586)
Other receivables	15,867,831	(14,623,803)
Advance payments	9,421,014	(11,202,781)
Prepaid expenses	(14,893,130)	(6,856,854)
Long-term trade receivables	-	(32,201)
Long-term receivables	(602,328)	-
Long-term advance payments	313,193	(3,629,637)
Other assets	(313,355)	(244,580)
Trade payables	171,418	34,302
Other payables	(61,933,223)	27,951,068
Accrued expenses	22,642,077	(56,921,504)
Withholdings	4,379,079	4,528,193
Advance received	(456,376)	1,906,884
Unearned revenue	55,354,030	(14,663,959)
Long-term payables	-	(19,750,173)
Long-term accrued expenses	(267,355)	(10,780,065)
Other provisions	(3,501,975)	-
Payments of net defined benefit liability	(2,745,795)	(2,448,928)
Cash generated from operations	<u>₩ 779,064,176</u>	<u>₩ 726,268,047</u>

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

*(b) Non-cash transactions*

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current portion of long-term financial instruments	₩ 1,787,649	₩ 30,000,000
Reclassification from construction-in-progress	3,350,312	14,970,904
Increase in right-of-use assets	57,089,192	80,051,514
Reclassification to lease receivables from right-of-use assets	-	5,479,927
Current portion of lease receivables	9,733,203	8,708,059
Current portion of lease liabilities	65,361,620	2,503,848
Reclassification to investment in associates from advance payments	-	7,123,732
Change in other receivables related to disposal of property and equipment	106,354	-
Change in other payables related to acquisition of property and equipment	26,341	422,792
Change in other payables related to acquisition of intangible assets	4,590	5,417
Reclassification to intangible assets from long-term advance payments	18,707,726	633,677
Increase in financial liabilities at fair value through profit or loss related to acquisition of investments in subsidiaries	-	30,513,796
Increase in other payables related to acquisition of investments in subsidiaries	1,576,079	3,031,545
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
Reclassification to financial assets at fair value through other comprehensive income from financial assets at fair value through profit or loss	1,578,600	-

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

**28. 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, 2023 and 2022, are as follows:

*(in thousands of  
Korean won)*

	December 31, 2023				
	Beginning	Cash flows from financing activities	Non-cash flows		Ending
			New lease	Others	
Short-term borrowings	₩ 7,000,000	₩ -	₩ -	₩ -	₩ 7,000,000
Leasehold deposits received	7,174,118	(700,147)	2,333,654	243,513	9,051,138
Lease liabilities	196,823,999	(56,855,967)	40,633,580	16,159,907	196,761,519
	<u>₩ 210,998,117</u>	<u>(57,556,114)</u>	<u>42,967,234</u>	<u>16,403,420</u>	<u>212,812,657</u>

*(in thousands of  
Korean won)*

	December 31, 2022				
	Beginning	Cash flows from financing activities	Non-cash flows		Ending
			New lease	Others	
Short-term borrowings	₩ -	₩ 6,600,000	₩ -	₩ 400,000	₩ 7,000,000
Leasehold deposits received	6,651,895	1,130,904	-	(608,681)	7,174,118
Lease liabilities	173,203,471	(51,605,836)	15,403,949	59,822,415	196,823,999
	<u>₩ 179,855,366</u>	<u>(43,874,932)</u>	<u>15,403,949</u>	<u>59,613,734</u>	<u>210,998,117</u>

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

**29. Related Party Transactions**

As of December 31, 2023 and 2022, the related parties of the Group are as follows:

Type	December 31, 2023	December 31, 2022
Associates and Joint Ventures	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
	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.	Seoul Auction Blue Co., Ltd.
	XXBLUE Co., Ltd.	XXBLUE Co., Ltd.
	Tamatem Inc.	Tamatem Inc.
	Nautilus Mobile App Private Limited	Nautilus Mobile App Private Limited
	Mebigo Labs Private Limited	Mebigo Labs Private Limited
	Smart KNB Booster Fund	Smart KNB Booster Fund
	NIRVANANA	NIRVANANA
	1Up Ventures Fund II	1Up Ventures Fund II
	Funnystorm	-
	ANYCAST TECHNOLOGY PRIVATE LIMITED	-
	Talent Unlimited Online Services Private Limited	-
	Playgig, Inc.	-
	Gardens Interactive, Inc.	-
	Fast Track Asia Co., Ltd.	-
	Kona Venture Fund V	-
	DEVSISTERS VENTURES FUND IX	-
	Studio Sai, Co.	-
	Boundary Inc.	-
	IMM India Fund	-
	OVERDARE, Inc.	-
	-	Shinhan Alpha REIT Co., Ltd. <sup>1</sup>
	-	Un Note Co., Ltd <sup>1</sup>
Other related parties	VoyagerX, Inc	VoyagerX, Inc
	BonAngels Pacemaker Fund 2	BonAngels Pacemaker Fund 2
	Chicken Dinner Industries, LLC	Chicken Dinner Industries, LLC
	Stoughton Street Tech Labs Private Limited	Stoughton Street Tech Labs Private Limited
	Overdare Korea, Inc.	-

<sup>1</sup> Excluded from the Group's associate due to the Group's sales of all shares during the year ended December 31, 2023.

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

Significant transactions with related parties for the years ended December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)	December 31, 2023											
	Revenue				Expenses <sup>2</sup>				Disposal of property and equipment and intangible assets			
	Operating revenue		Finance income <sup>1</sup>		Operating costs		Finance costs <sup>1</sup>				Dividends	
<b>Associates and Joint ventures</b>												
Shinhan Alpha REIT Co., Ltd. <sup>3</sup>	₩	-	₩	251,380	₩	174,646	₩	1,538,558	₩	190,000	₩	-
Nodwin Gaming Private Limited		-		-		828,814		-		-		-
NIRVANANA		-		4,741		-		-		-		-
ANYCAST TECHNOLOGY PRIVATE LIMITED		-		-		12,867		-		-		-
OVERDARE, Inc.		-		-		-		-		-		25,786,000
Sub Total	₩	-	₩	256,121	₩	1,016,327	₩	1,538,558	₩	190,000	₩	25,786,000
<b>Other Related Parties</b>												
Stoughton Street Tech Labs Private Limited	₩	210,767	₩	-	₩	-	₩	-	₩	-	₩	-
Overdar Korea, Inc.		48,603		-		-		-		-		2,184,462
Sub Total	₩	259,370	₩	-	₩	-	₩	-	₩	-	₩	2,184,462
Total	₩	259,370	₩	256,121	₩	1,016,327	₩	1,538,558	₩	190,000	₩	27,970,462

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

<sup>2</sup> There is no bad debt expense recognized for the year ended December 31, 2023.

<sup>3</sup> Transaction amount up to the date of exclusion from the related party is presented.

<sup>4</sup> Group's purchasing agency services for group purchases to the related party are not included.

(in thousands of Korean won)	December 31, 2022				
	Revenue	Expenses <sup>2</sup>		Dividends	
	Finance income <sup>1</sup>	Operating costs	Finance costs <sup>1</sup>		
<b>Associates</b>					
Shinhan Alpha REIT Co., Ltd.	₩ 389,756	₩ 254,023	₩ 1,651,400	₩ 387,398	
Nodwin Gaming Private Limited	-	361,630	-	-	
Tamatem Inc.	-	15,756	-	-	
NIRVANANA	1,389	-	-	-	
Sub Total	₩ 391,145	₩ 631,409	₩ 1,651,400	₩ 387,398	
<b>Other Related Parties</b>					
Voyager X, Inc	₩ -	₩ 88,000	₩ -	₩ -	
Total	₩ 391,145	₩ 719,409	₩ 1,651,400	₩ 387,398	

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

<sup>2</sup> There is no bad debt expense recognized for the year ended December 31, 2022.

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

Outstanding balances arising from sales/purchases of goods and services as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)

	December 31, 2023			
	Receivables <sup>1</sup>		Payables	
	Trade receivables	Other Receivables	Account Payables	Other Payables
<b>Associates</b>				
Nodwin Gaming Private Limited	₩ -	₩ -	₩ -	₩ 12,894
Loco Interactive Pte Limited	-	1,289,244	-	-
NIRVANANA	-	12,500,000	-	-
ANYCAST TECHNOLOGY PRIVATE LIMITED	-	-	6,446	-
Sub Total	₩ -	₩ 13,789,244	₩ 6,446	₩ 12,894
<b>Other Related Parties</b>				
Chicken Dinnerndustries, LLC	-	135,286	-	-
Overdar Korea, Inc.	53,463	347,963	274,088	-
Sub Total	53,463	483,249	274,088	-
Total	₩ 53,463	₩ 14,272,493	₩ 280,534	₩ 12,894

<sup>1</sup> Receivables are the amount before deduction of allowance for bad debts, and there is no allowance for bad debts for receivables.

(in thousands of Korean won)

	December 31, 2022			
	Receivables <sup>1</sup>		Payables	
	Loans	Other Receivables <sup>2</sup>	Other Payables <sup>2</sup>	
<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	
<b>Other Related Parties</b>				
Chicken Dinnerndustries, LLC	₩ -	₩ 114,198	₩ -	
Total	₩ 640,000	₩ 4,001,463	₩ 61,956,634	

<sup>1</sup> Receivables are the amount before deduction of allowance for bad debts, and there is no allowance for bad debts for receivables.

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



**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

Financing transactions with related parties for the years ended December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)	December 31, 2023									
	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>Associates</b>										
Shinhan Alpha REIT Co., Ltd. <sup>1</sup>	₩	-	₩	-	₩	9,941,859	₩	-	₩	-
Smart Krafton-BonAngels Fund		-		-		-		-	120,000	-
Nodwin Gaming Private Limited		-		-		-		-	9,139,494	-
Loco Interactive Pte Limited		-		-		-		-	-	1,324,140
NIRVANANA		-		640,000		-		-	-	-
1Up Ventures Fund II		-		-		-		-	4,535,333	-
DEVSISTERS VENTURES FUND IX		-		-		-		-	2,800,000	-
Total	₩	-	₩	640,000	₩	9,941,859	₩	-	₩	16,594,827
									₩	1,324,140

<sup>1</sup> Transaction amount up to the date of exclusion from the related party is presented.

(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		Return of Capital		Acquisition of Convertible bonds	
<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		-		-
NIRVANANA		640,000		-		-		-		-		-		-
Total	₩	640,000	₩	-	₩	16,329,206	₩	-	₩	12,282,010		-	₩	801,875

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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

Key management includes registered directors and the executives who have significant authority and responsibility in respect to planning, operating and controlling of the Group's business activities. Compensation for key management for the years ended December 31, 2023 and 2022, consists of:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
Salaries and bonuses	₩	3,566,212	₩	1,460,286
Share-based payment expenses		7,016,795		(29,448,623)
Post-employment benefits		179,214		179,833
	₩	<u>10,762,221</u>	₩	<u>(27,808,504)</u>

**30. Operating Segment**

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

Revenue per revenue stream for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
PC	₩	583,895,594	₩	464,978,152
Mobile		1,244,818,528		1,252,772,882
Console		55,673,426		104,081,201
Others		26,188,632		32,183,856
	₩	<u>1,910,576,180</u>	₩	<u>1,854,016,091</u>

Revenue by geographical area for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Revenue</b>	<b>Ratio</b>	<b>Revenue</b>	<b>Ratio</b>
Asia	₩ 1,613,272,877	84.44%	₩ 1,485,121,336	80.10%
Korea	105,086,650	5.50%	103,037,703	5.56%
America / Europe	179,086,142	9.37%	251,885,758	13.59%
Others	13,130,511	0.69%	13,971,294	0.75%
	<u>₩ 1,910,576,180</u>	<u>100.00%</u>	<u>₩ 1,854,016,091</u>	<u>100.00%</u>

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

**30. Operating Segment, (cont'd)**

Revenue derived from major external customer contributing more than 10% of the Group's revenue for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>		<b>December 31, 2023</b>		<b>December 31, 2022</b>
Major customer(A)	₩	1,029,926,853	₩	1,032,965,613

**31. Business Combinations**

The Group acquired Neon Giant AB on November 23, 2022, and attempted to evaluate the fair value of acquired assets, assumed liabilities, and purchase consideration of Neon Giant AB as of the acquisition date through an independent agency. The performance could not be completed by the end of the previous year.

For the financial year ended December 31, 2023, the Group completed an independent assessment of Neon Giant AB 's fair value of assets acquired, liabilities acquired and purchase consideration. Items adjusted in accordance with KIFRS 1103, paragraph 45 are as follows:

<i>(in thousands of Korean won)</i>		<b>Amount before adjustment</b>		<b>adjustment amount</b>		<b>Amount after adjustment</b>
I. Purchase consideration	₩	31,993,523	₩	845,770	₩	32,839,293
Cash		31,993,523		-		31,993,523
Financial liabilities		-		845,770		845,770
II. Non-controlling interest		804,916		4,411,700		5,216,616
III. Recognition of assets acquired and liabilities assumed		2,972,695		14,591,480		17,564,175
Cash and cash equivalents		1,926,839		-		1,926,839
Other current financial assets		729,426		(43,892)		685,534
Other current assets		38,569		-		38,569
Property and equipment		37,802		311,716		349,518
Intangible assets		1,449,682		18,440,815		19,890,497
Other financial liabilities		(202,075)		(308,629)		(510,704)
Other current liabilities		(104,635)		-		(104,635)
Current tax liabilities		(355,935)		(109,054)		(464,989)
Deferred tax liabilities		(546,978)		(3,699,476)		(4,246,454)
IV. Goodwill(I+ II - III)	₩	29,825,744	₩	(9,334,010)	₩	20,491,734

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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**31. Business Combinations, (cont'd)**

As acquired assets, assumed liabilities and purchase consideration are adjusted, the reconciliation of differences in the statement of financial position as of December 31, 2022 is as follows.

<i>(in thousands of Korean won)</i>	<b>Amount before adjustment</b>	<b>adjustment amount</b>	<b>Amount after adjustment</b>
I. Current assets	₩ 3,892,605,856	₩ (41,762)	₩ 3,892,564,094
II. Non-Current Assets	2,137,705,785	7,514,087	2,145,219,872
Total assets	₩ 6,030,311,641	₩ 7,472,325	₩ 6,037,783,966
I. Current liabilities	411,184,964	274,625	411,459,589
II. Non-Current Liabilities	506,276,539	3,642,738	509,919,277
Total liabilities	₩ 917,461,503	₩ 3,917,363	₩ 921,378,866
Total equity	₩ 5,112,850,138	₩ 3,554,962	₩ 5,116,405,100
Total Liabilities and Equity	₩ 6,030,311,641	₩ 7,472,325	₩ 6,037,783,966

The Group entered into a contract for contingent consideration to be paid in conjunction with the performance after the acquisition while acquiring a subsidiary 5minlab Corp. and Unknown Worlds Entertainment, Inc. The contingent consideration recognized is ₩ 48,902,559 and ₩ 2,935,326 thousand.

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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**32. Discontinued Operation**

The Group sold the game development business of En Masse Entertainment Texas, Inc. (formerly Bonus XP, Inc.), one of its subsidiaries, and classified the profit and loss and cash flow of the business as discontinued operations during the financial years ended December 31, 2022.

For the financial years ended December 31, 2022, Loss from discontinued operations are as follows:

<i>(in thousands of Korean won)</i>		<b>Amount</b>
Profit or loss from discontinued operations due to business performance in discontinued operations:		
Revenue	₩	218,434
Operating Expenses		14,141,668
Operating Loss	₩	(13,923,234)
Other income		32,299
Other Expenses		3,127
Financial profit		1,031
Financial cost		45,132
Net loss before tax expense	₩	(13,938,163)
Corporate tax revenue		(458,479)
Loss from discontinued operations after tax	₩	(13,479,684)
Profit or loss from discontinued operations on disposal of discontinued operating segments:		
Other costs		1,540,997
Loss from discontinued operations after tax	₩	(15,020,681)

For the financial year ended December 31, 2022, Net cash flow related to discontinued operations is as follows:

<i>(in thousands of Korean won)</i>		<b>Amount</b>
Cash flow from operating activities	₩	(11,229,877)
Cash flow from investing activities		(748,337)
Cash flow from financing activities		(383,776)
Net cash flow from discontinued operations	₩	(12,361,990)

**KRAFTON, Inc.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2023 and 2022**

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**32. Discontinued Operation, (cont'd)**

For the financial year ended December 31, 2022, Changes in the financial position of the Group due to the disposition of discontinued operations are as follows.

*(in thousands of Korean won)*

	<b>Amount</b>
Cash and Cash Equivalents	₩ 922,590
Property and equipment	2,401,771
Other non-current financial assets	30,051
Other current liabilities	(377,254)
Other non-current liabilities	(1,047,871)
Decrease in net worth	₩ 1,929,287
Disposal price	387,585
Disposal of Cash and Cash Equivalents	922,590
Net cash outflow	₩ (535,005)



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

Based on a report originally issued in Korean

To the Shareholders and Board of Directors of  
Krafton, Inc.

### ***Opinion on Internal Control over Financial Reporting for Consolidation Purposes***

We have audited Krafton, Inc. and its subsidiaries (the "Group") internal control over financial reporting for consolidation purposes ("ICFR") as of December 31, 2023 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 Group maintained, in all material respects, effective internal control over financial reporting for consolidation purposes as of December 31, 2023, based on ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the consolidated financial statements of the Group, which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policy information and other explanatory information, and our report dated March 11, 2024 expressed an unmodified opinion on those consolidated financial statements.

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

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 for Consolidation Purposes* section of our report. We are independent of the Group 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 for Consolidation Purposes***

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

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

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

Our responsibility is to express an opinion on the Group's internal control over financial reporting for consolidation purposes 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 for consolidation purposes was maintained in all material respects.

Our audit of internal control over financial reporting for consolidation purposes included obtaining an understanding of internal control over financial reporting for consolidation purposes, 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 for Consolidation Purposes**

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

Because of its inherent limitations, internal control over financial reporting for consolidation purposes may not prevent or detect misstatements in the consolidated financial statements. 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 Yeon-Taek Choi.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 11, 2024

*This report is effective as of March 11, 2024, 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 for consolidation purposes. 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 for Consolidated Financial Statements**

(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 for Consolidated Financial Statements (ICFR) for the year ended December 31, 2023.

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 of December 31, 2023, is designed and operating effectively, in all material respects, in accordance with Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

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

# KRAFTON

We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

February 8, 2024



Chang Han Kim,  
Chief Executive Officer



Dong Keun Bae,  
Internal Control over Financial Reporting Officer