

KRAFTON, INC.

Separate 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 separate financial statements of Krafton, Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2023 and 2022, the separate 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 separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the Company's Internal Control over Financial Reporting ("ICFR") as of December 31, 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 Company's internal control over financial reporting.

Basis for Opinion

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Republic of Korea, and we have fulfilled 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 separate financial statements as of and for the year ended December 31, 2023. This matter was addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

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

Reasons For the Decision as a Key Audit Matter

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

As described in Note 12 to the separate financial statements, the carrying amount of investment in Unknown Worlds Entertainment, Inc., a subsidiary, in the Company's separate financial statements is KRW 609,500 million, which is significant at 79.61 % of total investments in subsidiaries. In addition, the recoverable amount of the investment in subsidiary varies significantly depending on how management determines the valuation model and unobservable input variables. We identified the impairment testing of the Unknown Worlds Entertainment, Inc. as a key audit matter considering the uncertainty of these accounting estimates and the significance of Unknown Worlds Entertainment, Inc.'s carrying amount.

How the Key Audit Matter Was Addressed in the Audit

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

- Understanding of the Company's policies, processes, and internal controls for identifying indication of impairment and accounting for investments in subsidiaries
- Assessing the qualifications and independence of external experts engaged by the Company
- Testing the internal controls over management's review and approval of future cash flows estimates 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 Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used in the preparation of the separate financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is 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 separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any

KRAFTON, Inc.
Separate Statements of Financial Position
As of December 31, 2023 and December 31, 2022

<i>(in thousands of Korean Won)</i>	Notes	December 31, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	5,6	₩ 511,490,896	₩ 430,809,069
Current portion of financial assets at fair value through profit or loss	5,6,10	2,335,113,370	2,450,603,157
Trade receivables	4,5,6,7	693,578,021	523,426,839
Other current financial assets	4,5,6,7,8,13	117,469,046	205,723,551
Other current assets	7	39,212,155	42,444,802
		<u>3,696,863,488</u>	<u>3,653,007,418</u>
Non-current assets			
Investments in subsidiaries, associates, and joint ventures	12	1,406,369,589	1,320,163,045
Financial assets at fair value through profit or loss	5,6,10	164,383,508	143,591,695
Financial assets at fair value through other comprehensive income	4,5,6,11	133,473,399	83,079,911
Property and equipment	13	190,373,999	177,347,687
Intangible assets	14	11,601,900	9,058,975
Investment properties	15	547,341,420	202,173,260
Other non-current financial assets	5,6,7,8,13	68,863,231	82,713,298
Other non-current assets	7	37,020,864	27,319,649
Deferred tax assets	25	75,637,682	74,253,160
Derivative assets	5,6	2,142,967	1,757,481
		<u>2,637,208,559</u>	<u>2,121,458,161</u>
Total assets		<u>₩ 6,334,072,047</u>	<u>₩ 5,774,465,579</u>

(continued)

KRAFTON, Inc.**Separate Statements of Financial Position, (Cont'd)****As of December 31, 2023 and December 31, 2022**

<i>(in thousands of Korean Won)</i>	Notes	December 31, 2023	December 31, 2022
Liabilities			
Current liabilities			
Other current financial liabilities	4,5,6,9,13	265,708,857	217,134,923
Other current liabilities	9,21	85,066,525	74,732,134
Current provisions	17	-	2,902,828
Current tax liabilities		137,347,614	37,907,683
		<u>488,122,996</u>	<u>332,677,568</u>
Non-current liabilities			
Financial liabilities at fair value through profit or loss	4,5,6	51,837,885	201,143,514
Net defined benefit liability	16	9,600,741	7,659,997
Provisions	17	13,522,929	13,364,010
Other non-current financial liabilities	4,5,6,9,13	115,133,889	161,452,422
Other non-current liabilities	9,21	49,607,495	-
Derivative liabilities	4,5,6	14,209,825	15,863,801
		<u>253,912,764</u>	<u>399,483,744</u>
Total liabilities		<u>742,035,760</u>	<u>732,161,312</u>
Equity			
Share capital	19	4,923,729	4,908,155
Capital surplus	19	2,497,344,361	2,481,010,220
Other components of equity	19,20	42,536,485	69,243,284
Retained earnings	19	3,047,231,712	2,487,142,608
Total equity		<u>5,592,036,287</u>	<u>5,042,304,267</u>
Total liabilities and equity		<u>₩ 6,334,072,047</u>	<u>₩ 5,774,465,579</u>

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

KRAFTON, Inc.
Separate Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

(in thousands of Korean Won)

	Notes	December 31, 2023	December 31, 2022
Revenue	21	₩ 1,838,445,665	₩ 1,767,775,811
Operating costs	22	<u>1,026,825,303</u>	<u>1,029,953,898</u>
Operating profit		811,620,362	737,821,913
Other income	23	476,347,912	283,725,510
Other expenses	23	338,025,269	382,138,285
Finance income	24	31,133,256	32,993,011
Finance costs	24	<u>7,005,620</u>	<u>6,148,544</u>
Profit before income tax		974,070,641	666,253,605
Income tax expense	25	<u>245,993,460</u>	<u>179,110,997</u>
Profit for the year		<u>₩ 728,077,181</u>	<u>₩ 487,142,608</u>
Other comprehensive income (loss)			
<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)
Remeasurements of net defined benefit liability	16	(533,634)	4,585,201
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(1,024)	(28,935)
Other comprehensive income (loss) for the year, net of tax		<u>₩ (20,411,036)</u>	<u>₩ (41,151,616)</u>
Total comprehensive income for the year		<u>₩ 707,666,145</u>	<u>₩ 445,990,992</u>
Earnings per share (in Korean Won)	26		
Basic earnings per share		₩ 15,668	₩ 10,388
Diluted earnings per share		15,592	10,301

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

KRAFTON, Inc.
Separate Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

<i>(in thousands of Korean Won)</i>	Share Capital	Capital surplus	Other Components of Equity	Retained earnings (Accumulated Deficits)	Total
Balance at January 1, 2022	₩ 4,896,705	₩ 4,861,995,661	₩ 134,804,395	₩ (409,617,572)	₩ 4,592,079,189
Total comprehensive income					
Profit for the year	-	-	-	487,142,608	487,142,608
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	(45,707,882)	-	(45,707,882)
Remeasurements of net defined benefit liability	-	-	4,585,201	-	4,585,201
Exchange differences on translation of foreign operations	-	-	(28,935)	-	(28,935)
Transactions with shareholders recognized directly to equity					
Stock-based compensation transactions	11,450	2,907,876	9,300,891	-	12,220,217
Gift of shares	-	25,724,255	(33,710,386)	-	(7,986,131)
Transfer to Capital Reserve	-	(2,409,617,572)	-	2,409,617,572	-
Balance at December 31, 2022	₩ 4,908,155	₩ 2,481,010,220	₩ 69,243,284	₩ 2,487,142,608	₩ 5,042,304,267

(continued)

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

<i>(in thousands of Korean Won)</i>	Share Capital	Capital surplus	Other Components of Equity	Retained earnings	Total
Balance at January 1, 2023	₩ 4,908,155	₩ 2,481,010,220	₩ 69,243,284	₩ 2,487,142,608	₩ 5,042,304,267
Total comprehensive income					
Profit for the year	-	-	-	728,077,181	728,077,181
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	(19,876,378)	-	(19,876,378)
Remeasurements of net defined benefit liability	-	-	(533,634)	-	(533,634)
Exchange differences on translation of foreign operations	-	-	(1,024)	-	(1,024)
Transactions with shareholders recognized directly to equity					
Stock-based compensation transactions	15,574	22,535,817	(6,295,763)	-	16,255,628
Acquisition of treasury stock	-	-	(167,988,077)	-	(167,988,077)
Retirement of treasury stock	-	-	167,988,077	(167,988,077)	-
Business Transfer	-	(6,201,676)	-	-	(6,201,676)
Balance at December 31, 2023	₩ 4,923,729	₩ 2,497,344,361	₩ 42,536,485	₩ 3,047,231,712	₩ 5,592,036,287

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

KRAFTON, Inc.
Separate Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(in thousands of Korean Won)

	Note	December 31, 2023	December 31, 2022
Cash flows from operating activities			
Profit for the year		₩ 728,077,181	₩ 487,142,607
Adjustment for profit for the year	27	176,831,930	335,464,950
Changes in assets and liabilities from operating activities	27	(96,069,625)	(76,952,939)
Interest received		30,161,202	30,981,849
Interest paid		(6,544,751)	(5,559,440)
Dividends received		984,734	6,844,857
Income taxes paid		(140,543,952)	(233,261,492)
Net cash flows provided by operating activities		692,896,719	544,660,392
Cash flows from investing activities			
Decrease in short-term financial instruments		₩ 30,000,000	₩ 28,200,958
Collection of short-term loans		68,930,603	16,838,815
Disposal of financial assets at fair value through profit or loss		14,020,936,233	3,932,785,883
Disposal of investments in associates		6,484,610	-
Disposal of investments in subsidiaries		-	2,845,639
Collection of long-term loans		9,683,884	579,711
Disposal of property and equipment		549,282	137,264
Disposal of intangible assets		25,793,661	-
Decrease in deposits		830,281	88,847
Collection of lease receivables		11,026,952	4,721,632
Increase in short-term loans		(6,704,000)	(55,467,025)
Increase in long-term financial instruments		-	(35,578,034)
Acquisition of financial assets at fair value through profit or loss		(13,798,772,017)	(6,510,453,505)
Acquisition of financial assets at fair value through other comprehensive income		(75,524,113)	(36,549,117)
Increase in long-term loans		(6,127,794)	(98,335,825)
Increase in advanced payments		(32,321,157)	(20,856,255)
Acquisition of property and equipment		(27,513,521)	(15,629,671)
Acquisition of intangible assets		(2,830,506)	(1,071,226)
Acquisition of investment properties		(343,531,810)	(7,116,998)
Return of government grants		-	(902,950)
Increase in deposits		(1,737,878)	(2,779,063)
Acquisition of investments in associates and joint ventures		(194,332,440)	(54,595,070)
Acquisition of investments in subsidiaries		(76,996,233)	(112,249,112)
Cashflow from business transfer		(4,305,000)	-
Net cash flows used in investing activities		₩ (396,460,963)	₩ (2,965,385,102)

(continued)

KRAFTON, Inc.
Separate 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
Cash flows from financing activities			
Increase in leasehold deposits received	₩	-	₩ 5,701,862
Exercise of share options		219,765	112,986
Repayments of lease liabilities		(45,653,716)	(42,893,640)
Decrease in leasehold deposits received		(588,828)	(4,490,958)
Acquisition of treasury stock		(167,988,077)	-
Net cash flows used in financing activities		<u>(214,010,856)</u>	<u>(41,569,750)</u>
 Net increase(decrease) in cash and cash equivalents		 82,424,900	 (2,462,294,460)
Cash and cash equivalents at the beginning of the year		430,809,069	2,832,057,949
Effects of exchange rate changes on cash and cash equivalents		<u>(1,743,073)</u>	<u>61,045,580</u>
Cash and cash equivalents at the end of the year	₩	<u>511,490,896</u>	₩ <u>430,809,069</u>

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

KRAFTON, Inc.

Notes to the Separate Financial Statements

December 31, 2023 and 2022

1. General Information

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

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

As of December 31, 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 on May 4, 2021. As of December 31, 2023, the Company’s shareholders are as follows:

<i>(in Shares)</i>	Number of shares	Percentage of ownership
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%
	48,362,743	100.00%

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with Korean International Financial Reporting Standards (“KIFRS”). The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. In the event of any differences in interpreting the separate financial statements or the independent auditor’s report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

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

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

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

2.1 Basis of Preparation, (cont'd)

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

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

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

2.2 Changes in Accounting Policy and Disclosures

2.2.1 New and amended standards and interpretations adopted by the Company

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

(a) KIFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

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 Company's separate financial statements.

(b) KIFRS 1001 Presentation of Financial Statements – Disclosure of Fair Value 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 Company's separate 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 Company's separate financial statements.

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

(d) KIFRS 1012 Income Taxes - 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 Company's separate 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 Company's separate financial statements.

(f) KIFRS 1012 Income Taxes - 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 Company's separate financial statements.

2.2.2 New standards and interpretations not yet adopted by the Company

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

(a) Amendments to KIFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current, 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

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

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 Company is assessing the impact of these amendments on the separate 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 Company is assessing the impact of these amendments on the separate financial statements.

(c) Amendments to KIFRS 1116 Lease – Lease Liabilities 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 Company is assessing the impact of these amendments on the separate 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 Company is assessing the impact of these amendments on the separate financial statements.

2.3 Subsidiaries, Joint Ventures, and Associates

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

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2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

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

Foreign currency transactions are translated into the functional currency using the exchange rate at the dates of the transactions or, if they are remeasured items, using the exchange rate at the dates of the revaluation date. 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 and borrowings and others are presented in the statement of comprehensive income within other income or other expenses.

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 Company. Assets and liabilities of each foreign operation's statement of financial position presented are translated at the closing rate at the end of the reporting date, and income and expenses for each statement of comprehensive income are translated at average exchange rates.

The Company offsets translation gains and losses arising from the conversion of foreign operations' foreign currency financial statements into Korean Won and the consolidation of accounting data between the head office and foreign operations. The resulting balance is recorded as accumulated other comprehensive income (foreign operation translation gains and losses). When a foreign operation is partially disposed of or sold, the exchange differences that were recorded in equity are recognized in the statement of profit or loss.

(c) Presentation of Integrated Foreign Exchange Differences

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

2.5 Cash and Cash Equivalents

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

2.6 Revenue Recognition

(a) Identification of Performance Obligation

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

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

(b) A performance obligation satisfied over time

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

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

(c) Costs incurred to fulfill a contract

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

(d) Contract assets and contract liabilities

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

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2.7 Financial Assets

(a) Classification

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

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

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

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt 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 Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The fair value changes of investments in equity instruments not designated are recognized in profit or loss.

(b) Measurement

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

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

A. Debt instruments

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

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

2.7 Financial Assets, (cont'd)

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

B. Equity instruments

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

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

(c) Impairment

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

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

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

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

(e) Offsetting

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

2.8 Derivative Instruments

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

2.9 Trade Receivables

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

2.10 Property and Equipment

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

Depreciation of all property and equipment 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)

	Estimated Useful lives
Fixtures	5 years
Facilities	5 - 7 years

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

2.11 Government Grants

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

2.12 Intangible Assets

Intangible assets are 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 Company 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 Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods.

	Estimated Useful lives
Industrial property rights	5 - 10 years
Software	5 years
Membership rights	The Period of membership
Other intangible assets	5 years, Service Contract Period

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.

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. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Company depreciates investment properties, except for land, using the straight-line method over their estimated useful lives of 40 years.

2.14 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, for intangible assets with indefinite useful lives, such as goodwill, the Company performs impairment tests annually. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.15 Financial Liabilities

(a) Classification and measurement

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

Financial liabilities are classified at fair value through profit or loss when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination, or held for short-term 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 company 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
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and KIFRS 1109 *Financial Instruments: Recognition and Measurement* permits the entire hybrid contract to be designated at fair value through profit or loss.

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2.15 Financial Liabilities, (cont'd)

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

2.16 Employee Benefits

(a) Post-employment benefits

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

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

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

2.16 Employee Benefits, (cont'd)

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

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

(c) Share-based payments

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

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

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

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2.17 Provisions

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

2.18 Dividends

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

2.19 Current and Deferred Tax

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

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

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

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

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

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2.20 Leases

(a) Lessor

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

(b) Lessee

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

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

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

The Company determines the lease term as the non-cancellable period of a lease, together with both (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 Company should consider a termination penalty in determining the period for which the contract is enforceable.

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

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

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2.20 Leases, (cont'd)

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

Each lease payment is allocated between the 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 Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

(c) Extension and termination options

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

2.21 Segment Reporting

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

2.22 Earnings Per Share

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

2.23 Share Capital

When the Company purchases its ordinary shares, the acquisition cost including direct transaction costs are deducted from equity until the redemption or reissuance of treasury shares.

Consideration received on the subsequent or issue of treasury shares is credited to equity.

2.24 Business Combination

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

At the acquisition date, the identifiable assets acquired, the liabilities assumed and the 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 Company entered in to replace share-based payment arrangements of the acquiree are measured in accordance with KIFRS 1102 *Share-based Payment* at the acquisition date; and
- Non-current assets(or disposal groups) 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.

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2.24 Business Transfer, (cont'd)

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

2.25 Business Combination under Common Control

The Company applies the book value method to account for business combination 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 consolidated financial statements are prepared, the assets and liabilities of the acquiree are measured at book value. In addition, the difference between the sum of consolidated book values of the assets and liabilities transferred and accumulated other comprehensive income; and the consideration paid is recognized as capital surplus.

2.26 Approval of Issuance of the Financial Statements

The financial statements for the year ended December 31, 2023 were approved for issuance by the Board of Directors 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 financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The 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 Company estimates the expected period of use by analyzing customer's behavior pattern considering the attributes of the item and game, and it can be changed significantly according to changes of market and customer behavior pattern.

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

(b) Fair value of financial instruments

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

(c) Impairment of financial assets

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

(d) Net defined benefit 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.

(e) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the final tax effects 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 Company is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects. As the Company's income tax is dependent on the investments, increase in wages, there is an uncertainty measuring the final tax effects.

(f) Leases

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. 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).

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

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty 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.

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4. Financial Risk Management

4.1 Financial Risk Factors

(a) The Company is exposed to market risk, credit risk and liquidity risk (market risk refers to foreign exchange risk, interest rate risk and market risk for equity securities). The Company establishes and operates financial risk management policy in place to monitor and actively manage these risk factors. The Company's financial assets that are under financial risk management are composed of cash and cash equivalents, trade receivables, other financial instruments at amortized cost, financial instruments at fair value through other comprehensive income and financial instruments at fair value through profit or loss. The Company's financial liabilities under financial risk management are composed of trade and other payables and others.

(b) Market risk

A. Foreign exchange risk

The Company is exposed to foreign exchange risk arising from international operations and transactions with different foreign currencies. Most widely used foreign currencies are the US Dollar, 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 currencies as of December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>		December 31, 2023			
		USD	CNY	EUR	Others
Financial assets denominated in foreign currency	₩	929,155,904	₩ 14,269,229	₩ 7,494,320	₩ 1,403,893
Financial liabilities denominated in foreign currency		76,392,103	10,529,870	14,194,961	2,704,492

<i>(in thousands of Korean won)</i>		December 31, 2022			
		USD	CNY	EUR	Others
Financial assets denominated in foreign currency	₩	792,693,366	₩ 13,265,996	₩ 3,728,140	₩ 1,602,768
Financial liabilities denominated in foreign currency		46,155,990	3,126,009	371,350	69,146

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

<i>(in thousands of Korean won)</i>		December 31, 2023	
		Strengthened	Weakened
Financial assets denominated in foreign currency	₩	(47,616,167)	₩ 47,616,167
Financial liabilities denominated in foreign currency		5,191,071	(5,191,071)
Net effect	₩	(42,425,096)	₩ 42,425,096

KRAFTON, Inc.
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4.1 Financial Risk Factors, (cont'd)

(in thousands of Korean won)

	December 31, 2022	
	Strengthened	Weakened
Financial assets denominated in foreign currency	₩ (40,564,514)	₩ 40,564,514
Financial liabilities denominated in foreign currency	2,486,125	(2,486,125)
Net effect	₩ (38,078,389)	₩ 38,078,389

B. Interest rate risk

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

There are no financial assets and liabilities exposed to interest rate risk as of December 31, 2023.

C. Price risk

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
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

(c) Credit risk

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

A. Trade receivables

The Company applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses include forward looking information. The loss allowance provision as of December 31, 2023, is determined as follows:

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4.1 Financial Risk Factors, (cont'd)

(in thousands of
Korean won)

December 31, 2023

	Less than 90 days past due and within due	Less than 180 days past due	Less than 270 days past due	Less than 1 year past due	More than 1 year past due	Total
Expected loss rate	0.11%	53.65%	83.38%	100%	100%	
Gross carrying amount	₩ 694,090,487	₩ 291,883	₩ 613,266	₩ 138,418	₩ 292,069	₩ 695,426,123
Loss allowance provision	(749,669)	(156,592)	(511,355)	(138,418)	(292,069)	(1,848,103)

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	₩	(3,302,436)	₩	3,271,519
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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.

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:

(in thousands of Korean won)

December 31, 2023

December 31, 2022

Other expenses	₩	524,312	₩	9,406,313
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(d) Liquidity risk

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

The table below summarizes the details of the Company's financial liabilities classified into relevant maturity groupings based on the remaining period as of December 31, 2023 and 2022, to the contractual maturity date:

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4.1 Financial Risk Factors, (cont'd)

<i>(in thousands of Korean won)</i>	December 31, 2023					
	Book value	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Other payables	₩ 55,533,517	₩ 55,533,517	₩ 55,348,808	₩ 184,709	₩ -	₩ 55,533,517
Accrued expenses	161,019,724	161,019,724	157,618,036	3,401,688	-	161,019,724
Lease liabilities	154,936,905	166,328,933	53,383,573	112,945,360	-	166,328,933
Leasehold deposits received	9,288,470	10,245,369	500,000	9,745,369	-	10,245,369
Financial guarantee liabilities ¹	64,130	4,694,362	4,694,362	-	-	4,694,362
Derivative liabilities	14,209,825	14,209,825	-	3,820,590	10,389,235	14,209,825
Financial liabilities at fair value through profit or loss	51,837,885	61,661,634	-	61,661,634	-	61,661,634
	<u>₩ 446,890,456</u>	<u>₩ 473,693,364</u>	<u>₩ 271,544,779</u>	<u>₩ 191,759,350</u>	<u>₩ 10,389,235</u>	<u>₩ 473,693,364</u>

¹ As financial guarantee contracts can be demanded for immediate payment, the total contract amount is included in the category less than 1 year.

<i>(in thousands of Korean won)</i>	December 31, 2022					
	Book value	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Other payables	₩ 79,248,268	₩ 79,258,716	₩ 79,077,173	₩ 181,543	₩ -	₩ 79,258,716
Accrued expenses	121,684,093	121,684,093	90,134,315	31,549,778	-	121,684,093
Lease liabilities	170,314,902	184,772,858	48,876,405	135,896,453	-	184,772,858
Leasehold deposits received	7,315,523	8,317,197	688,828	7,447,961	180,408	8,317,197
Financial guarantee liabilities(*)	24,559	6,191,551	6,191,551	-	-	6,191,551
Derivative liabilities	15,863,801	15,863,801	-	-	15,863,801	15,863,801
Financial liabilities at fair value through profit or loss	201,143,514	271,119,699	-	271,119,699	-	271,119,699
	<u>₩ 595,594,660</u>	<u>₩ 687,207,915</u>	<u>₩ 224,968,272</u>	<u>₩ 446,195,434</u>	<u>₩ 16,044,209</u>	<u>₩ 687,207,915</u>

¹ As financial guarantee contracts can be demanded for immediate payment, the total contract amount is included in the category less than 1 year.

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Notes to the Separate Financial Statements
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4.2 Capital Risk Management

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

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Debt (A)	₩ 742,035,759	732,161,313
Equity (B)	5,592,036,287	5,042,304,267
Debt-to-equity ratio (A/B)	13.27%	14.52%

5. Fair Value Measurement

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

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value				
Current portion of financial assets at fair value through profit or loss	₩ 2,335,113,370	₩ 2,335,113,370	₩ 2,450,603,157	₩ 2,450,603,157
Financial assets at fair value through profit or loss	164,383,507	164,383,507	143,591,695	143,591,695
Financial assets at fair value through other comprehensive income	133,473,399	133,473,399	83,079,911	83,079,911
Derivative assets	2,142,967	2,142,967	1,757,481	1,757,481
Financial assets measured at amortized cost				
Cash and cash equivalents	511,490,896	511,490,896	430,809,069	430,809,069
Trade receivables	693,578,021	693,578,021	523,426,839	523,426,839
Other current financial assets	105,488,670	105,488,670	193,299,366	193,299,366
Other non-current financial assets	42,565,771	42,565,771	49,034,310	49,034,310
Other financial assets				
Current lease receivables	11,980,376	11,980,376	12,424,186	12,424,186
Non-current lease receivables	26,297,459	26,297,459	33,678,987	33,678,987
	<u>₩ 4,026,514,436</u>	<u>₩ 4,026,514,436</u>	<u>₩ 3,921,705,001</u>	<u>₩ 3,921,705,001</u>

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5. Fair Value Measurement, (cont'd)

(in thousands of Korean won)

	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss	₩ 51,837,885	₩ 51,837,885	₩ 201,143,514	₩ 201,143,514
Derivative liabilities	14,209,825	14,209,825	15,863,801	15,863,801
Financial liabilities measured at amortized cost				
Other current financial liabilities ¹	213,443,406	213,443,406	169,246,935	169,246,935
Other non-current financial liabilities ²	12,462,435	12,462,435	39,025,508	39,025,508
Other financial liabilities				
Current lease liabilities	52,265,451	52,265,451	47,887,988	47,887,988
Non-current lease liabilities	102,671,454	102,671,454	122,426,914	122,426,914
	₩ 446,890,456	₩ 446,890,456	₩ 595,594,660	₩ 595,594,660

¹ The amount includes liabilities related to employee compensation and share-based payment of ₩ 88,702,187 thousand (December 31, 2022: ₩ 59,779,933 thousand)

² The amount includes liabilities related to employee compensation and share-based payment of ₩ 3,401,688 thousand (December 31, 2022: ₩ 31,549,779 thousand)

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

A. Fair value hierarchy and fair value measurement

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

When measuring fair value of assets or liabilities, the company 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

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5. Fair Value Measurement, (cont'd)

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

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

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:

(in thousands of Korean won)	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through profit or loss	₩ -	₩ 2,333,824,126	₩ 165,672,751	₩ 2,499,496,877
Financial assets at fair value through other comprehensive income	65,545,380	-	67,928,019	133,473,399
Derivative assets	-	-	2,142,967	2,142,967
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss	₩ -	₩ -	₩ 51,837,885	₩ 51,837,885
Derivative liabilities	-	-	14,209,825	14,209,825

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5. Fair Value Measurement, (cont'd)

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

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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	
	₩ 2,333,824,126	₩ 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
	-	6,942,193	3	Binomial Model(T-F)		Annualized variability of stock prices(48.35%) and others
	70,840,446	45,982,901	3	Cost-based approach ¹		Acquisition cost
Financial assets at fair value through other comprehensive income	67,928,019	35,222,692	3	Cost-based approach ¹		Acquisition cost
Derivative assets	2,142,967	1,757,481	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	51,837,885	201,143,514	3	Discounted Cash Flow ²		Estimated revenue of the investee company, Discount rate considering credit rating(8.94%~15.11%) and others
	3,820,590	4,119,095	3	Binomial model(T-F)		Annualized variability of stock prices(48.35%) and others
Derivative liabilities	10,389,235	11,744,706	3	Monte-Carlo Simulation		Annualized variability of stock prices(51.99%) and others

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

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

C. Valuation processes for fair value measurements categorized as Level 2 and Level 3

Each finance department of the Company's segments is responsible for fair value measurements, which include fair value measurements categorized as Level 2 and Level 3, for the purpose of financial reporting. The department periodically reports the fair value valuation process and its outcome on reporting schedule at the end of each reporting period.

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5. Fair Value Measurement, (cont'd)

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

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		846,120	-	(867,596)	-
Derivative liabilities		2,686,298	-	(2,948,492)	-

¹ 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	₩	529,292	₩ -	₩ (465,941)	-
Derivative assets		151,911	-	(150,797)	-
Financial liabilities at fair value through profit or loss		5,642,341	-	(5,854,664)	-
Derivative liabilities		2,810,713	-	(3,304,439)	-

¹ 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.

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5. Fair Value Measurement, (cont'd)

The changes in Level 3 classified assets and liabilities measured at fair value during the year ended December 31, 2023 are as follows

<i>(in thousands of Korean won)</i>	Beginning Balance	Acquisition	Disposal	Valuation	Ending Balance
Financial assets at fair value through profit or loss	₩ 143,591,695	₩ 24,107,759	₩ (2,969,852)	₩ 943,149	₩ 165,672,751
Financial assets at fair value through other comprehensive income	35,222,692	31,809,053	-	896,274	67,928,019
Derivative assets	1,757,481	-	-	385,486	2,142,967
Financial liabilities at fair value through profit or loss	201,143,514	-	-	(149,305,629)	51,837,885
Derivative liabilities	15,863,801	-	-	(1,653,976)	14,209,825

(c) Offsetting financial assets and financial liabilities

The Company recognizes both trade receivables from and payables to platform providers, which satisfy the criteria for offsetting described in KIFRS 1032 paragraph 42. Therefore, the trade receivables are presented in net basis in the financial statements of the Company. Trade payables which are offset with trade receivables amount to ₩ 22,999 as of December 31, 2023 million (December 31, 2022: ₩ 22,433 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:

<i>(in thousands of Korean won)</i>	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	₩ 2,335,113,370	₩ 2,450,603,157
Financial assets at fair value through profit or loss	164,383,507	143,591,695
Financial assets at fair value through other comprehensive income	133,473,399	83,079,911
Derivative assets	2,142,967	1,757,481
Financial assets at amortized cost:		
Cash and cash equivalents	511,490,896	430,809,069
Trade receivables	693,578,021	523,426,839
Other current financial assets	105,488,670	193,299,366
Other non-current financial assets	42,565,771	49,034,310
Other financial assets:		
Current lease receivables	11,980,376	12,424,186
Non-current lease receivables	26,297,459	33,678,987
	<u>₩ 4,026,514,436</u>	<u>₩ 3,921,705,001</u>

(in thousands of Korean won) **December 31, 2023** **December 31, 2022**

Financial liabilities

Financial assets at fair value:		
Financial liabilities at fair value through profit or loss	₩ 51,837,885	₩ 201,143,514
Derivative liabilities	14,209,825	15,863,801
Financial liabilities at amortized cost:		
Other current financial liabilities	213,443,406	169,246,935
Other non-current financial liabilities	12,462,435	39,025,508
Other financial liabilities:		
Current lease liabilities	52,265,451	47,887,988
Non-current lease liabilities	102,671,454	122,426,914
	<u>₩ 446,890,456</u>	<u>₩ 595,594,660</u>

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

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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>	December 31, 2023	December 31, 2022
Dividends income:		
Financial assets at fair value through profit or loss	₩ 456,194	₩ 349,946
Interest income/expenses:		
Financial assets at amortized cost	29,176,224	32,076,145
Financial liabilities at amortized cost	(256,853)	(427,881)
Other financial assets	1,920,253	894,272
Other financial liabilities	(6,544,752)	(5,559,440)
Gain(Loss) on disposal:		
Financial assets at fair value through profit or loss	135,176,980	(47,252,211)
Gain (loss) on valuation:		
Financial assets at fair value through profit or loss	(6,126,388)	(12,258,983)
Financial assets at fair value through other comprehensive income	(19,876,378)	(45,707,882)
Financial liabilities at fair value through profit or loss	149,305,629	4,721,702
Derivative assets	385,486	(785,814)
Derivative liabilities	1,653,976	1,827,494
Net impairment loss:		
Trade receivables	3,302,436	(3,271,519)
Financial assets at amortized cost	(524,312)	(9,406,313)
Net gain(loss) on foreign currency translation		
Trade receivables	14,504,955	46,257,380
Financial assets at amortized cost	3,719,566	93,803,258
Financial liabilities at amortized cost	(1,248,926)	(777,720)
	<u>₩ 305,024,090</u>	<u>₩ 54,482,434</u>

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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:

(in thousands of Korean won)

	December 31, 2023			December 31, 2022
	Gross amount	Provision for impairment	Net amount	Net amount
Trade receivables	₩ 695,426,124	₩ (1,848,103)	₩ 693,578,021	₩ 523,426,839
Other current financial assets				
Short-term financial instruments	1,787,649	-	1,787,649	30,000,000
Short-term loans	94,370,023	(11,475,344)	82,894,679	139,940,431
Other receivables	18,633,810	(227,293)	18,406,517	17,640,609
Accrued income	1,316,116	(675,449)	640,667	1,142,811
Deposits	1,759,158	-	1,759,158	4,575,515
Lease receivables	11,980,376	-	11,980,376	12,424,186
	₩ 129,847,132	₩ (12,378,086)	₩ 117,469,046	₩ 205,723,552
Other current assets				
Advance payments	1,612,427	-	1,612,427	11,148,547
Prepaid expenses	37,599,728	-	37,599,728	31,296,255
	₩ 39,212,155	₩ -	₩ 39,212,155	₩ 42,444,802
Other non-current financial assets				
Long-term financial instruments	5,578,034	-	5,578,034	7,365,683
Long-term loans	67,091,750	(62,023,550)	5,068,200	14,047,079
Long-term accrued income	307,058	(5,637)	301,421	229,062
Deposits	31,618,116	-	31,618,116	27,392,486
Long-term lease receivables	26,297,459	-	26,297,459	33,678,987
	₩ 130,892,417	₩ (62,029,187)	₩ 68,863,230	₩ 82,713,297
Other non-current assets				
Long-term advance payments	₩ 37,020,864	₩ -	₩ 37,020,864	₩ 27,319,649
	₩ 1,032,398,692	₩ (76,255,376)	₩ 956,143,316	₩ 881,628,139

(in thousands of Korean won)

	December 31, 2023			December 31, 2022
	Gross amount	Provision for impairment	Net amount	Net amount
Third party receivables	₩ 910,673,695	₩ (2,050,954)	₩ 908,622,741	₩ 782,655,068
Related party receivables	121,724,997	(74,204,422)	47,520,575	98,973,071
	₩ 1,032,398,692	₩ (76,255,376)	₩ 956,143,316	₩ 881,628,139

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

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
Trade receivables	₩ 5,150,538	₩ (3,302,436)	₩ -	₩	1,848,102
Other current financial assets					
Other receivables	227,293	105,702	(105,702)		227,293
Accrued income	675,449	-	-		675,449
Short-term loans	9,475,344	2,000,000	-		11,475,344
Other non-current financial assets					
Long-term accrued income	5,637	-	-		5,637
Long-term loans	63,604,940	(1,581,390)	-		62,023,550
	₩ 79,139,201	₩ (2,778,124)	₩ (105,702)	₩	76,255,375

*(in thousands of
Korean won)*

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

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.

KRAFTON, Inc.
Notes to the Separate 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>		December 31, 2023	December 31, 2022	Restriction
Other current financial assets	Korean Securities and Financial Services	₩ -	₩ 30,000,000	-
	Shinhan Bank	1,787,649	-	Provided as collateral ¹
Other non-current financial assets	Shinhan Bank	-	1,787,649	-
	Woori Bank	5,578,034	5,578,034	Provided as collateral ¹
		<u>₩ 7,365,683</u>	<u>₩ 37,365,683</u>	

¹ Pledged as a collateral for leasehold deposits received (Note 18).

KRAFTON, Inc.
Notes to the Separate Financial Statements
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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)

(in thousands of Korean won)	December 31, 2023		December 31, 2022	
Other current financial liabilities				
Other payables	₩	55,348,808	₩	79,066,725
Accrued expenses ¹		157,618,036		90,134,314
Current portion of leasehold deposits received		472,431		39,043
Lease liabilities		52,265,451		47,887,988
Financial guarantee liabilities		4,131		6,853
	₩	265,708,857	₩	217,134,923
Contract liabilities and other current liabilities:				
Withholdings		6,276,521		7,682,348
Unearned revenue		76,700,940		65,988,455
Advance received		2,089,064		1,061,331
	₩	85,066,525	₩	74,732,134
Other non-current financial liabilities				
Long-term other payable		184,709		181,542
Long-term accrued expenses ²		3,401,688		31,549,779
Leasehold deposits received		8,816,039		7,276,481
Lease liabilities		102,671,454		122,426,914
Financial guarantee liabilities		59,999		17,706
	₩	115,133,889	₩	161,452,422
Contract liabilities and other non-current liabilities:				
Long-term unearned revenue		49,607,495		-
	₩	515,516,766	₩	453,319,479

¹ Includes liabilities related to employee benefit and share-based payment amounting to ₩ 88,702,187 thousand (December 31, 2022: ₩ 59,779,933 thousand).

² Includes liabilities related to employee benefit and share-based payment amounting to ₩ 3,401,688 thousand (December 31, 2022: ₩ 31,549,779 thousand).

KRAFTON, Inc.
Notes to the Separate Financial Statements
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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:

(in thousands of
Korean won)

	December 31, 2023				
	Acquisition cost	Accumulated gain (loss) on valuation	Book value	Current	Non-current
Beneficiary certificates	₩ 2,470,383,825	₩ 10,490,881	₩ 2,480,874,706	₩ 2,333,824,126	₩ 147,050,580
Redeemable convertible preference shares	22,716,876	(8,607,605)	14,109,271	1,289,244	12,820,027
Simple Agreement for Future Equity	4,606,950	(94,050)	4,512,900	-	4,512,900
	<u>₩ 2,497,707,651</u>	<u>₩ 1,789,226</u>	<u>₩ 2,499,496,877</u>	<u>₩ 2,335,113,370</u>	<u>₩ 164,383,507</u>

(in thousands of
Korean won)

	December 31, 2022				
	Acquisition cost	Accumulated gain (loss) on valuation	Book value	Current	Non-current
Beneficiary certificates	₩ 2,558,324,982	₩ 10,235,769	₩ 2,568,560,751	₩ 2,450,603,157	₩ 117,957,594
Redeemable convertible preference shares:	21,446,354	(2,148,753)	19,297,601	-	19,297,601
Simple Agreement for Future Equity	6,507,900	(171,400)	6,336,500	-	6,336,500
	<u>₩ 2,586,279,236</u>	<u>₩ 7,915,616</u>	<u>₩ 2,594,194,852</u>	<u>₩ 2,450,603,157</u>	<u>₩ 143,591,695</u>

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:

(in thousands of
Korean won)

	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>

KRAFTON, Inc.
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11. Financial Assets at Fair Value through Other Comprehensive Income, (cont'd)

(in thousands of
Korean won)

(in thousands of Korean won)	December 31, 2022							
	Acquisition cost		Accumulated gain(loss) on valuation		Book value		Non-current	
Unlisted equity securities	₩	34,189,015	₩	1,033,677	₩	35,222,692	₩	35,222,692
Listed equity securities		30,029,619		17,827,600		47,857,219		47,857,219
	₩	64,218,634	₩	18,861,277	₩	83,079,911	₩	83,079,911

12. Investments in Subsidiaries, Associates and Joint Ventures

Details of investments in subsidiaries, associates, and joint ventures as of December 31, 2023 and 2022, are as follows:

(in thousands of Korean won)

(in thousands of Korean won)	Percentage of ownership	Location	December 31, 2023			December 31, 2022	
			Acquisition cost	Net asset value	Carrying amount	Carrying amount	
Subsidiaries							
Bluehole Studio, Inc.	100%	Korea	₩ 39,491,913	₩ 9,148,000	₩ -	₩ -	
En Masse Entertainment, Inc.	100%	U.S.A.	-	(45,540,485)	-	-	
Rising Wings, Inc.	100%	Korea	23,994,591	(43,607,922)	-	-	
Krafton Americas, Inc. ⁴	100%	U.S.A.	988,515	21,047,224	988,515	918,350	
KRAFTON EUROPE B.V. ⁵	100%	Netherland	13,276,135	13,070,592	250,419	-	
KRAFTON CHINA ⁶	100%	China	2,675,748	5,578,221	2,675,748	2,407,475	
KP PTE. LTD.	100%	Singapore	1	6,089,241	1	1	
Striking Distance Studios, Inc.	100%	U.S.A.	10,007,464	41,875,230	10,007,464	10,007,464	
KRAFTON JAPAN, Inc. ⁷	100%	Japan	49,373	2,027,970	10,011	-	
Striking Distance Studios Spain, S.L.	100%	Spain	1,348,493	1,773,612	1,348,493	1,348,493	
KRAFTON Ventures, Inc.	100%	U.S.A.	2,437,000	2,606,604	2,437,000	2,437,000	
PUBG Entertainment, Inc.	100%	U.S.A.	-	(719,188)	-	-	
KRAFTON INDIA PRIVATE LIMITED ⁸	99.99%	India	4,655,882	3,525,710	4,655,882	4,068,983	
SDS Interactive Canada Inc.	100%	Canada	470,300	944,058	470,300	470,300	
DreaMotion, Inc.	100%	Korea	37,678,073	7,795,171	19,651,628	19,841,212	
Thingsflow Inc.	89.55%	Korea	18,070,904	(13,443,499)	-	6,760,521	
Tiptoe Games, Inc.	100%	Korea	100,000	20,948	100,000	100,000	
Krafton Global GP, LLC	100%	U.S.A.	239,400	256,245	239,400	239,400	
Krafton Global, LP	100%	U.S.A.	1,915,200	1,366,198	1,915,200	1,915,200	

KRAFTON, Inc.
Notes to the Separate Financial Statements
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12. Investments in Subsidiaries, Associates, and Joint Ventures, (cont'd)

Unknown Worlds Entertainment, Inc.	100%	U.S.A.	859,555,163	104,612,256	609,499,668	733,530,021
5min lab Corp.	100%	Korea	53,839,148	12,677,690	27,083,456	32,712,487
Neon Giant AB	72.26%	Sweden	43,704,128	(1,321,734)	29,966,754	43,704,128
KRAFTON MONTREAL STUDIO, INC.	100%	Canada	5,643,600	6,303,260	5,643,600	5,643,600
VECTOR NORTH s.r.o. ¹	100%	Czech	2,972,685	2,799,125	2,972,685	-
ReLU Games, Inc. ¹	100%	Korea	14,755,566	12,514,132	14,755,566	-
Flyway Games, Inc. ¹	100%	Korea	30,951,299	29,514,460	30,951,299	-
Sum of Subsidiaries			1,168,820,581	180,913,119	765,623,089	866,104,635

(in thousands of Korean won)

(in thousands of Korean won)	Ownership interest	Location	December 31, 2023				December 31, 2022
			Acquisition cost	Net asset value		Carrying amount	Carrying amount
Associates							
Shinhan Alpha REIT Co., Ltd. ⁹	-	Korea	₩ -	₩ -	₩ -	₩ 5,620,000	
1Up Ventures, L.P	33.53%	U.S.A.	11,819,250	12,078,815	11,819,250	11,819,250	
Hidden Sequence Co., Ltd. ²	13.57%	Korea	2,022,872	(779,768)	-	2,022,872	
Smart Krafton-BonAngels Fund ³	54.55%	Korea	10,680,000	9,269,137	10,680,000	10,560,000	
Nodwin Gaming Private Limited ²	15.64%	India	34,755,385	8,504,047	34,755,385	25,615,890	
Un Note Co., Ltd. ⁹	-	Korea	-	-	-	1,478	
Loco Interactive Pte Limited ²	11.41%	India	8,307,162	(684,924)	-	-	
Nasadiya Technologies Private Limited ²	18.23%	India	52,238,006	621,848	52,238,006	52,238,006	
Mirae Asset Maps General Private Real Estate Investment Trust 66	42.96%	Korea	290,000,000	264,756,705	290,000,000	290,000,000	
Tamatem Inc. ²	13.61%	Virgin Islands	7,728,554	2,082,289	7,728,554	7,728,554	
Seoul Auction Blue Co., Ltd ²	5.33%	Korea	2,999,945	632,210	2,999,945	2,999,945	
XXBLUE Co., Ltd ²	10.26%	Korea	4,999,772	(10,203)	4,999,772	4,999,772	
Nautilus Mobile App Private Limited	31.91%	India	6,546,036	1,764,893	6,546,036	6,546,036	
Mebigo Labs Private Limited ²	10.70%	India	13,175,608	4,537,540	13,175,608	13,175,608	
Smart KNB Booster Fund ³	75.86%	Korea	11,000,000	8,840,655	11,000,000	11,000,000	
NIRVANANA	33.33%	Korea	5,000,000	(2,105,988)	5,000,000	5,000,000	

KRAFTON, Inc.
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1Up Ventures Fund II, L.P	44.54%	U.S.A.	9,266,332	8,285,104	9,266,331	4,730,999
ANYCAST TECHNOLOGY PRIVATE LIMITED ^{1,2}	9.41%	India	7,899,121	671,137	7,899,121	-
Funnystorm ¹	24.24%	Korea	8,000,900	1,916,612	8,000,900	-
Talent Unlimited Online Services Private Limited ¹	23.19%	India	39,176,463	2,277,775	39,176,463	-
Playgig, Inc. ^{1,2}	16.18%	U.S.A.	26,349,994	4,555,634	26,349,994	-
Gardens Interactive, Inc. ^{1,2}	11.58%	U.S.A.	15,907,211	6,423,046	15,907,211	-
Fast Track Asia Co., Ltd. ¹	27.47%	Korea	22,317,325	5,236,408	22,317,325	-
Kona Venture Fund V ¹	49.00%	Korea	2,450,000	2,414,769	2,450,000	-
DEVSISTERS VENTURES FUND IX ¹	46.67%	Korea	4,200,000	4,133,932	4,200,000	-
Studio Sai, Co. ¹	20.00%	U.S.A.	7,903,813	1,838,038	7,903,813	-
Boundary Inc. ¹	20.00%	Korea	5,000,000	953,018	5,000,000	-
IMM India Fund ¹	44.44%	Korea	1,029,967	1,029,967	1,029,967	-
Sum of Associates			₩ 610,773,716	₩ 349,242,696	₩ 600,443,681	₩ 454,058,410
Joint Venture						
OVERDARE, Inc. ^{1,10}	85.00%	U.S.A.	40,302,819	38,917,646	40,302,819	-
Total Sum			₩ 1,819,897,116	₩ 569,073,461	₩ 1,406,369,589	₩ 1,320,163,045

¹ During the year ended December 31, 2023, the entity was included in the scope of subsidiaries or associates or joint venture due to new investments made by the Company.

² Although the Company holds less than 20%, the Company classified the entities as associates, as the Company is considered to have significant influences over the entity as the Company participates in same or similar level of Board of Directors.

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

⁴ During the year ended December 31, 2023, the entity name was changed from PUBG Santa Monica Inc. to Krafton Americas, Inc.

⁵ During the year ended December 31, 2023, the entity name was changed from PUBG Amsterdam B.V. to KRAFTON EUROPE B.V.

⁶ During the year ended December 31, 2023, the entity name was changed from PUBG Shanghai to KRAFTON CHINA.

⁷ During the year ended December 31, 2023, the entity name was changed from PUBG Japan Corporation to KRAFTON JAPAN, Inc.

KRAFTON, Inc.
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12. Investments in Subsidiaries, Associates, and Joint Ventures, (cont'd)

⁸ During the year ended December 31, 2023, the entity name was changed from PUBG INDIA PRIVATE LIMITED to KRAFTON INDIA PRIVATE LIMITED.

⁹ During the year ended December 31, 2023, all shares were sold by the Company.

¹⁰ Although the Company holds more than 50%, due to possessing joint control such as requiring unanimous consent from all investors for decisions regarding related activities, the company classified it as the investment in joint ventures.

Changes in investments in subsidiaries, associates, and joint ventures for the years ended December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
Beginning	₩	1,320,163,045	₩	1,304,761,957
Acquisitions		269,965,522		201,545,725
Disposals		(5,621,478)		(2,845,639)
Grant of share options		3,040,109		1,921,169
Impairment loss and Reversal		(181,177,609)		(185,220,167)
Ending	₩	<u>1,406,369,589</u>	₩	<u>1,320,163,045</u>

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

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

(in thousands of Korean won)

	December 31, 2023							
	Current Assets	Non-Current Assets	Current Liabilities	Non- Current Liabilities	Revenue	Profit(loss) from continuing operations	Other Comprehensive Income	Total Comprehensive Income for the year
Subsidiaries								
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.	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.	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	9,982,932	1,343,120	5,696,375	51,456	15,597,351	(209,514)	(19,308)	(228,822)
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.	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
PUBG Entertainment, Inc.	205,007	191,558	1,115,753	-	58,745	198,154	(18,112)	180,042
KRAFTON INDIA PRIVATE LIMITED	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

KRAFTON, Inc.
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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)
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
5min lab 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	2,608,271	1,308,128	650,104	467,170	2,705,103	70,715	(244,275)	(173,560)
ReLU Games, Inc.	12,631,128	605,791	371,318	351,469	622	(2,242,085)	-	(2,242,085)
Flyway Games, Inc.	29,825,873	2,093,947	1,319,682	1,085,678	7,925	(1,394,806)	-	(1,394,806)
Associates								
1Up Ventures, LP	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)

KRAFTON, Inc.
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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)
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)
IMM India Fund	2,292,394	-	-	-	570	(47,606)	-	(47,606)
Joint Venture								
OVERDARE, Inc.	19,120,094	30,438,594	1,126,811	2,646,410	-	(977,591)	58,548	(919,043)

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

(in thousands of
Korean won)

	December 31, 2022								
	Current Assets	Non-Current Assets	Current Liabilities	Non- Current Liabilities Current Liabilities	Revenue	Profit(loss) from continuing operations	Profit(loss) from discontinued operation, net of tax	Other Comprehensive Income	Total Comprehensive Income for the year
Subsidiaries									
Bluehole Studio, Inc.	₩ 4,252,582	₩ 4,083,745	₩ 10,531,061	₩ 4,590,251	₩ 18,188,319	₩ (7,007,860)	₩ -	₩ 1,140,842	₩ (5,867,018)
En Masse Entertainment, Inc.	259,268	10,368,222	53,506,353	-	-	(20,960)	(238,892)	(3,435,907)	(3,695,759)
Rising Wings, Inc.	5,983,945	4,827,647	45,391,859	5,969,611	11,839,920	1,501,660	-	1,289,258	2,790,918
PUBG Santa Monica, Inc.	21,343,619	7,917,676	12,954,224	45,532	50,183,273	5,052,029	-	584,606	5,636,635
PUBG Amsterdam B.V.	16,622,840	4,740,958	10,936,222	20,702	26,507,405	(742,560)	-	65,099	(677,461)
PUBG Shanghai	13,570,456	2,445,846	9,392,744	1,084,790	6,466,198	(5,404,957)	-	2,386	(5,402,571)
KP PTE. LTD.	4,171,237	2,540,131	106,799	633,650	-	6,131,626	-	(119,811)	6,011,815
Striking Distance Studios, Inc.	123,116,595	21,704,544	84,170,816	19,592,164	190,904,723	27,305,793	-	968,727	28,274,520
PUBG Japan Corporation	4,938,585	3,099,928	2,997,163	3,440,418	8,611,929	403,900	-	(102,052)	301,848
Striking Distance Studios Spain, S.L.	1,192,730	1,802,264	619,319	840,562	2,606,366	(111,259)	-	9,184	(102,075)
KRAFTON Ventures, Inc.	30,934	2,416,830	599,049	-	-	(624,166)	-	14,758	(609,408)
PUBG Entertainment, Inc.	196,138	-	1,095,366	-	302,261	20,323	-	(59,717)	(39,394)
PUBG INDIA PRIVATE LIMITED	4,485,338	5,776,114	2,803,941	4,066,044	6,852,539	(130,305)	-	(157,617)	(287,922)
SDS Interactive Canada Inc.	4,348,100	-	3,531,949	-	3,529,998	216,147	-	(18,475)	197,672

KRAFTON, Inc.
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Between Us Co. Ltd.	-	-	-	-	798,081	(60,755)	-	-	(60,755)
DreaMotion, Inc.	8,026,537	263,825	629,587	182,928	3,949,159	795,378	-	140,051	935,429
Thingsflow Inc.	2,928,611	2,578,621	11,873,511	2,475,976	9,740,269	(6,031,273)	-	159,200	(5,872,073)
Tiptoe Games, Inc.	46,152	9,442	6,712	4,894	-	(48,057)	-	-	(48,057)
Krafton Global GP, LLC	252,579	-	762	-	-	(1,674)	-	14,092	12,418
Krafton Global, LP	1,632,626	-	762	-	-	(296,281)	-	111,343	(184,938)
Unknown Worlds Entertainment, Inc.	108,113,473	2,677,393	26,366,544	-	47,796,599	19,793,458	-	3,691,645	23,485,103
5min lab Corp.	20,799,238	3,018,578	2,066,111	2,018,717	1,172,283	(6,114,634)	-	-	(6,114,634)
Neon Giant AB	2,564,060	1,415,299	630,488	520,435	-	-	-	(144,258)	(144,258)
KRAFTON MONTREAL STUDIO, INC.	5,612,264	-	43,397	-	-	(46,032)	-	(28,701)	(74,733)
Associates									
Shinhan Alpha REIT Co., Ltd. ¹	₩ 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, LP	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.
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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)

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

KRAFTON, Inc.
Notes to the Separate Financial Statements
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12. Investments in Subsidiaries, Associates, and Joint Ventures, (cont'd)

The Company has performed impairment test on its investments in subsidiaries 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 investments in subsidiaries as of December 31, 2023 are as follows.

	Key assumptions	
	Unknown Worlds Entertainment, Inc.	Investments In Other Subsidiaries
Average operating profit rate for estimated period ¹	47.44%	-233.87%~34.27%
Average annual revenue growth rate for estimated period ¹	27.08%	-33.57%~50.01%
Terminal growth rate ²	1.00%	0.00%~1.00%
Discount rate ³	8.94%	9.95%~16.32%

¹ 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.

² 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.

³ The discount rate reflects the unique risks associated with each subsidiary.

As a result of performing impairment assessments on investments in subsidiaries for the year ended December 31, 2023, Unknown Worlds Entertainment, Inc. and other investments' impairment losses of ₩126,072,696 thousand and ₩53,082,042 thousand were recognized, respectively, as the carrying amount exceeded the recoverable amount.

The recoverable amount of investments in subsidiaries varies based on the key assumptions used in the value-in-use calculation. The effects of the changes in the assumptions in the excess of the recoverable amount are as follows.

		Change in discount rate	
		1%p Increase	1%p Decrease
<i>(in thousands of Korean won)</i>			
Variation in Excess of Recoverable Amount	Unknown Worlds Entertainment, Inc. Investments In Other Subsidiaries	₩ 74,046,033 5,275,401	₩ (57,662,334) (4,316,987)

KRAFTON, Inc.
Notes to the Separate 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	Fixtures	Facilities	Right-of-use assets	Construction-in- progress	Total
Acquisition cost	₩ 18,840,145	₩ 43,646,344	₩ 63,406,895	₩ 246,129,318	₩ 5,159,377	₩ 377,182,079
Accumulated depreciation	-	(24,165,447)	(28,449,704)	(131,590,009)	-	(184,205,160)
Accumulated impairment loss	-	-	-	-	(2,344,920)	(2,344,920)
Government grants ¹	-	-	(258,000)	-	-	(258,000)
Carrying amount	₩ 18,840,145	₩ 19,480,897	₩ 34,699,191	₩ 114,539,309	₩ 2,814,457	₩ 190,373,999

¹ 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	₩ 42,669,470	₩ 43,071,878	₩ 218,566,606	₩ 3,911,123	₩ 308,219,077
Accumulated depreciation	(19,428,994)	(18,009,940)	(93,080,456)	-	(130,519,390)
Government grants ¹	-	(352,000)	-	-	(352,000)
Carrying amount	₩ 23,240,476	₩ 24,709,938	₩ 125,486,150	₩ 3,911,123	₩ 177,347,687

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

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	Fixtures	Facilities	Right-of-use assets	Construction- in-progress	Total
Beginning	₩ -	₩ 23,240,476	₩ 24,709,938	₩ 125,486,150	₩ 3,911,123	₩ 177,347,687
Acquisitions	11,529,547	4,733,344	9,799,148	30,931,791	1,248,254	58,242,084
Disposals	-	(821,608)	-	-	-	(821,608)
Depreciation	-	(7,688,775)	(10,345,763)	(38,609,146)	-	(56,643,684)
Impairment Loss	-	-	-	-	(2,344,920)	(2,344,920)
Business Transfer	-	(341,808)	-	-	-	(341,808)
Transfers ¹	7,310,598	359,268	10,535,868	(3,269,486)	-	14,936,248
Ending	₩ 18,840,145	₩ 19,480,897	₩ 34,699,191	₩ 114,539,309	₩ 2,814,457	₩ 190,373,999

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

¹ Long-term advance payments of ₩ 18,205,734 thousand was reclassified to land, fixtures and facilities for the year ended December 31, 2023.

(in thousands of
Korean won)

	December 31, 2022				
	Fixtures	Facilities	Right-of-use assets	Construction-in-progress	Total
Beginning	₩ 20,132,311	₩ 28,231,472	₩ 137,068,473	₩ 15,711,218	₩ 201,143,474
Acquisitions	10,437,869	4,138,754	68,674,022	1,154,518	84,405,163
Disposals	(192,198)	(795,235)	(156,487)	-	(1,143,920)
Depreciation	(7,181,890)	(8,505,299)	(41,225,869)	-	(56,913,058)
Return of government grants	-	799,940	-	-	799,940
Transfers ¹	44,384	840,306	(38,873,989)	(12,954,613)	(50,943,912)
Ending	₩ 23,240,476	₩ 24,709,938	₩ 125,486,150	₩ 3,911,123	₩ 177,347,687

¹ Long-term advance payments of ₩ 503,568 thousand was reclassified to fixtures and facilities, Construction in-progress of ₩ 12,542,402 thousand was reclassified to investment properties, respectively, for the year ended December 31, 2022.

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

(in thousands of Korean won)

	December 31, 2023	December 31, 2022
Right-of-use assets ¹		
Properties	₩ 114,539,309	₩ 125,486,150
Lease receivables ²		
Current	11,980,376	12,424,186
Non-current	26,297,459	33,678,987
	<u>38,277,835</u>	<u>46,103,173</u>
	₩ <u>152,817,144</u>	₩ <u>171,589,323</u>
Lease liabilities ³		
Current	₩ 52,265,451	₩ 47,887,988
Non-current	102,671,454	122,426,914
	<u>₩ 154,936,905</u>	<u>₩ 170,314,902</u>

¹ Included in the 'property and equipment' of the separate statements of financial position.

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

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

KRAFTON, Inc.
Notes to the Separate Financial Statements
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13. Property and Equipment and Leases, (cont'd)

The Company 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 Company is expected to receive, are as follows:

(in thousands of Korean won)

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

December 31, 2022							
Total Contractual cash flows		Less than 1 year		Between 1 and 5 years		Total	
₩	11,940	₩	11,940	₩	-	₩	11,940

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

(in thousands of Korean won)

	December 31, 2023		December 31, 2022	
Revenue from sublease lease (included in revenue)	₩	10,243	₩	5,683,984
Interest income relating to lease receivables (included in finance income)		1,919,705		894,272
Total Revenue	<u>₩</u>	<u>1,929,948</u>	<u>₩</u>	<u>6,578,256</u>
Depreciation of right-of-use assets				
Properties	₩	38,609,146	₩	41,225,869
Interest expense relating to lease liabilities (included in finance costs)		6,544,751		5,559,440
Expense relating to short-term leases (included in operating costs)		970,989		499,917
Expense relating to leases of low-value assets (included in operating costs)		231,719		254,984
Total Costs	<u>₩</u>	<u>46,356,605</u>	<u>₩</u>	<u>47,540,210</u>

The total cash outflow for leases for the year ended December 31, 2023 amounts to ₩ 53,401,176 thousand (2022: ₩ 49,207,981 thousand).

KRAFTON, Inc.
Notes to the Separate Financial Statements
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14. Intangible Assets

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

(in thousands of Korean won)

		December 31, 2023		
		Acquisition cost	Accumulated amortization/impairment loss	Book value
Software	₩	28,266,013	₩ (23,752,526)	₩ 4,513,487
Industrial property rights		1,655,161	(1,145,867)	509,294
Membership rights		1,373,669	(173,586)	1,200,083
Other intangible assets		6,554,670	(1,175,634)	5,379,036
	₩	37,849,513	₩ (26,247,613)	₩ 11,601,900

(in thousands of Korean won)

		December 31, 2022		
		Acquisition cost	Accumulated amortization/impairment loss	Book value
Software	₩	27,963,590	₩ (21,441,417)	₩ 6,522,173
Industrial property rights		1,522,380	(886,731)	635,649
Membership rights		1,373,669	(104,152)	1,269,517
Other intangible assets		1,054,670	(423,034)	631,636
	₩	31,914,309	₩ (22,855,334)	₩ 9,058,975

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

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>		December 31, 2023				
		Software	Industrial property rights	Membership rights	Other intangible assets	Total
Beginning balance	₩	6,522,173	₩ 635,649	₩ 1,269,517	₩ 631,636	₩ 9,058,975
Acquisitions		322,294	3,622	-	2,500,000	2,825,916
Amortization		(2,318,290)	(259,135)	(69,434)	(752,600)	(3,399,459)
Business Transfer		(5,132)	-	-	-	(5,132)
Transfers ¹		-	129,158	-	3,011,881	3,141,039
Disposals		(7,558)	-	-	(11,881)	(19,439)
Ending balance	₩	<u>4,513,487</u>	₩ <u>509,294</u>	₩ <u>1,200,083</u>	₩ <u>5,379,036</u>	₩ <u>11,601,900</u>

¹ Long-term advance payments of ₩ 3,141,039 thousand was reclassified to industrial property rights and other intangible assets for the year ended December 31, 2023.

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

¹ Long-term advance payments of ₩ 130,109 thousand was reclassified to industrial property rights for the year ended December 31, 2022.

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

15. Investment Properties

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

(in thousands of Korean won)

	December 31, 2023		
	Acquisition Cost	Accumulated depreciation	Book value
Land	₩ 476,977,673	₩ -	₩ 476,977,673
Buildings	72,632,189	(2,268,442)	70,363,747
	<u>₩ 549,609,862</u>	<u>₩ (2,268,442)</u>	<u>₩ 547,341,420</u>

(in thousands of Korean won)

	December 31, 2022		
	Acquisition Cost	Accumulated depreciation	Book value
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)

	December 31, 2023		
	Land	Buildings	Total
Beginning balance	₩ 173,699,223	₩ 28,474,037	₩ 202,173,260
Acquisitions	303,278,450	42,770,359	346,048,809
Depreciation	-	(880,649)	(880,649)
Ending balance	<u>₩ 476,977,673</u>	<u>₩ 70,363,747</u>	<u>₩ 547,341,420</u>

KRAFTON, Inc.
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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 ¹	11,190,074	1,352,328	12,542,402
Ending balance	₩ 173,699,223	₩ 28,474,037	₩ 202,173,260

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

During the year, rental income earned from operating leases of investment property is ₩ 639 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 ₩ 601,093 million (December 31, 2022: ₩ 277,469 million). The valuation of investment properties is performed by an independent valuer.

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16. Net Defined Benefit Liabilities

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Present value of defined benefit liabilities	₩ 9,600,741	₩ 7,659,997

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Beginning	₩ 7,659,997	₩ 10,772,823
Current service cost	2,159,041	3,576,300
Interest expense	387,906	302,717
Business transfer	(349,419)	-
Transfer-in(out)	(260,147)	108,266
Benefit payments	(721,683)	(775,694)
Remeasurements:		
Actuarial gain(loss) from change in financial assumptions	(266,110)	(5,790,734)
Actuarial gain(loss) from experience adjustments	991,156	(533,681)
Ending	<u>₩ 9,600,741</u>	<u>₩ 7,659,997</u>

The amounts recognized in the 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>	December 31, 2023	December 31, 2022
Current service cost	₩ 2,159,041	₩ 3,576,300
Interest expense	387,906	302,717
	<u>₩ 2,546,947</u>	<u>₩ 3,879,017</u>

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

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

<i>(in percentage)</i>	December 31, 2023	December 31, 2022
Discount rate	4.41%	5.31%
Future salary growth rate	6.90%	8.07%

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>	1%p increase	1%p decrease
Changes in discount rate	₩ (2,700,257)	₩ 1,872,347
Changes in salary growth rate	1,791,716	(2,672,632)

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>	December 31, 2023	December 31, 2022
Remeasurements of net defined benefit liability	₩ (725,046)	₩ 6,324,415
Income tax effect	191,412	(1,739,214)
Remeasurements of net defined benefit liability, after tax	<u>₩ (533,634)</u>	<u>₩ 4,585,201</u>

The weighted average duration of the defined benefit obligation is 6.39 years. The expected maturity analysis of undiscounted pension benefits as of December 31, 2023, is as follows:

<i>(in thousands of Korean won)</i>	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits	₩ 749,290	₩ 722,949	₩ 2,729,048	₩ 7,978,158	₩ 12,179,445

The operating costs recognized in the current year in relation to the defined contribution plan amounted to ₩ 12,693,396 thousand (2022: ₩ 10,810,180 thousand).

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

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17. Provisions

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

(in thousands of Korean won)

	December 31, 2023	
	Provision for restoration costs	Other provisions
Beginning	₩ 13,364,010	₩ 2,902,828
Addition	158,919	1,848,648
Used	-	(3,374,045)
Reversal	-	(1,377,431)
Ending	₩ 13,522,929	₩ -
Current portion	-	-
Non-current portion	₩ 13,522,929	₩ -

(in thousands of Korean won)

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

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18. Contingencies and Commitments

As of December 31, 2023, the Company 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	Worldwide
	Epic Games, Inc.	
The Callisto Protocol (Console)	Skybound Interactive, LLC	
PLAYERUNKNOWN'S BATTLEGROUNDS (Mobile)	Google	Korea, Japan, India
	Apple	
	Samsung Electronics	Korea
PUBG NEW STATE (Mobile)	Google	Worldwide
	Apple	
	Samsung Electronics	
Road To Valor: Empires(Mobile)	Google	India
	Apple	
	UniPin (Labuan) Limited	
Defense Derby(Mobile)	Google	Worldwide
	Apple	
	Samsung Electronics	

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

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

Game	Counterparty	Service region
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
	Microsoft Corporation	Worldwide
The Callisto Protocol (Console)	Sony Interactive Entertainment LLC	

KRAFTON, Inc.
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18. Contingencies and Commitments, (cont'd)

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

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

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

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

As of December 31, 2023, the Company has been provided guarantees up to ₩3,444 million from Seoul Guarantee Insurance Co., Ltd. in connection with the repayment of contributions for supporting the workplace nursery installation.

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. Also, ₩4,800 million of seller's financial instruments are provided to the Company for potential penalty claims from the successor lessee of the purchased real estate.

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

As of December 31, 2023, the Company has an obligation for additional capital contributions to Smart KNB Booster Fund and others according to agreements. The Company 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.

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18. Contingencies and Commitments, (cont'd)

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

Type	Contents
Put option	Existing shareholders can request the purchase of all the remaining shares within 3 months from the expiration date of the sale if the IPO is not completed by the deadline for the sale, or if the existing shareholders are unable to sell 50% or more of the shares held to a third party.
Call option	During the exercise period of the put option, the Company's call option contract allows the sale of all shares held by the existing shareholders at an amount equivalent to 120% of the put option exercise price.
Others	<ul style="list-style-type: none"> - Existing shareholders cannot sell, transfer, set up as collateral, or other dispositions without prior written consent within the disposition restriction period. - The Company retains the preferred right to purchase all or part of the shares held by the existing shareholders even after the existing shareholders have obtained prior signed consent or after the disposition restriction period has expired.

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

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 option and call option	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	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.

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Type	Contents
	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.
Call option	After the second put option expires, the Company holds a call option that allows the Company to purchase existing shareholders' stocks at a value obtained by applying a specific multiple to the annual performance indicator.
Back-up call option	If an existing shareholder voluntarily resigns or resigns for legitimate reasons, the above-mentioned put option will expire, and the Company holds a call option that allows the Company to purchase all remaining shares of the existing shareholders at a value obtained by applying a specific multiple to the performance indicators for the 12 months prior to the exercise of the backup call option.
<p>The Company entered into a contract for contingent consideration to be paid in conjunction with the performance after the acquisition while acquiring a subsidiary Unknown Worlds Entertainment, Inc. and 5minlab Corp. The contingent consideration recognized as of December 31, 2023 is ₩ 48,902,559 thousand and ₩ 2,935,326 thousand, respectively.</p> <p>The Company has entered into an agreement with the associate, Mirae Asset Maps General Private Equity Investment Trust No.66, regarding the business facilities and living facilities to be developed by the associate on 333-16 Seongsu-dong 2-ga, Seongdong-gu, Seoul, and 4 lots of land. Under the agreement, the Company has entered into responsible lease agreement for 10 years from completion of construction, and have the pre-emptive purchase right at the appraised value at a specific time.</p> <p>Under the joint venture investment agreement with OVERDARE, Inc., the Company 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.</p>	

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19. Equity

(a) Share capital

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

(in Korean won and in shares)

	December 31, 2023	December 31, 2022
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

KRAFTON, Inc.
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19. Equity, (cont'd)

(b) Changes in share capital and capital surplus

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

(in thousands of Korean won)

	Share capital¹
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

¹ 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.

<i>(in thousands of Korean won)</i>	Capital surplus			
	Share premium	Other capital surplus	Gain on disposal of treasury shares	Total
Balance at January 1, 2022	₩ 3,830,569,170	₩ 1,024,973,874	₩ 6,452,617	₩ 4,861,995,661
Share-based payment transactions	2,338,585	569,291	-	2,907,876
Gift of shares	-	25,724,255	-	25,724,255
Transfer of capital reserve	(2,409,617,572)	-	-	(2,409,617,572)
Balance at December 31, 2022	₩ 1,423,290,183	₩ 1,051,267,420	₩ 6,452,617	₩ 2,481,010,220
Balance at January 1, 2023	₩ 1,423,290,183	₩ 1,051,267,420	₩ 6,452,617	₩ 2,481,010,220
Share-based payment transactions	18,807,732	517,287	3,210,797	22,535,816
Business transfer	-	(6,201,676)	-	(6,201,676)
Balance at December 31, 2023	₩ 1,442,097,915	₩ 1,045,583,031	₩ 9,663,414	₩ 2,497,344,360

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19. Equity, (cont'd)

(c) Other components of equity

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Treasury shares ¹	₩ -	₩ -
Share-based payments (Note 20)	49,841,312	56,137,075
Gain(Loss) on valuation of financial assets at fair value through other comprehensive income(Note 11)	(6,013,340)	13,863,039
Remeasurements of net defined benefit liability (Note 16)	(1,222,838)	(689,205)
Exchange differences on translation of foreign operations	(68,649)	(67,625)
	<u>₩ 42,536,485</u>	<u>₩ 69,243,284</u>

¹ The acquisition cost of treasury shares is ₩0.

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

The appropriation of retained earnings(disposition of accumulated deficit) for the year ended December 31, 2023, is expected to be disposed at the shareholders' meeting on March 26, 2024. The disposition date for the year ended December 31, 2022, was March 28, 2023.

The appropriation of retained earnings(disposition of accumulated deficit) for the years ended December 31, 2023 and 2022, are as follows:

<i>(in Korean won)</i>	December 31, 2023	December 31, 2022
Unappropriated retained earnings		
Unappropriated retained earnings carried over from prior year	₩ 2,487,142,607,927	₩ 2,000,000,000,000
Retirement of Treasury Shares	(167,988,076,970)	-
Profit for the year	<u>728,077,181,282</u>	<u>487,142,607,927</u>
Retained earnings available for appropriation	3,047,231,712,239	2,487,142,607,927
Appropriation of retained earnings		
Unappropriated retained earnings to be carried forward	<u>₩ 3,047,231,712,239</u>	<u>₩ 2,487,142,607,927</u>

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20. Share-based Payments

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

(in Korean won, except
number of shares)

	19 th -2	19 th -3	23 rd	24 th
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 th	26 th	27 th	28 th
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 satisfy the period of Continued service and upon 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%)	
Date of expiration	Mar. 30, 2028	Mar. 30, 2025(70%) Mar. 30, 2027(30%)	Mar. 30, 2029	Mar. 27, 2033

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

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20. 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)*

	2nd	3rd-0	3rd-1	3rd-2
Date of grant	Oct. 31, 2017	Dec. 22, 2017	Dec. 22, 2017	Feb. 1, 2018
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation
No. of shares granted	15,750	28,000	26,188	3,750
Outstanding shares as of December 31, 2023	-	-	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)*

	4th-1	4th-2	5th-1	5th-2
Date of grant	Mar. 31, 2018	Mar. 31, 2018	Jun. 30, 2018	Jun. 30, 2018
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation
No. of shares granted	34,000	40,750	6,250	7,500
Outstanding shares as of December 31, 2023	7,500	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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20. Share-based Payments, (cont'd)

(in Korean won, except
number of shares)

	6 th -2	7 th	8 th	9 th
Date of grant	Aug. 1, 2018	Aug. 31, 2018	Sep. 30, 2018	Nov. 12, 2018
Type of arrangement	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation	Equity-linked Cash Compensation
No. of shares granted	5,000	25,000	6,250	7,500
Outstanding shares as of December 31, 2023	1,500	2,500	4,500	2,250
Exercise price	₩ 58,000	₩ 44,000	₩ 44,000	₩ 78,000
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
Type of arrangement	Cash	Cash	Cash	Cash
Date of vesting	Aug. 2, 2020(35%) Aug. 2, 2021(35%) Aug. 2, 2022(30%)	Sep. 1, 2020(35%) Sep. 1, 2021(35%) Sep. 1, 2022(30%)	Oct. 1, 2020(35%) Oct. 1, 2021(35%) Oct. 1, 2022(30%)	Nov. 13, 2020(35%) Nov. 13, 2021(35%) Nov. 13, 2022(30%)
Date of expiration	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting	4 years from date of vesting

(in Korean won, except
number of shares)

	13 th -1
Date of grant	Jan. 2, 2020
Type of arrangement	Equity-linked Cash Compensation
No. of shares granted	6,500
Outstanding shares as of December 31, 2023	2,500
Exercise price	₩ 1,452
Vesting conditions	Provision of services to the date of vesting
Type of arrangement	Cash
Date of vesting	Dec. 23, 2020(54%) Dec. 23, 2021(46%)
Date of expiration	4 years from date of vesting

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

² According to the terms of the performance-based incentives granted by the Company 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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20. Share-based Payments, (cont'd)

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

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

	1 st	3 rd	4 th -1
Date of grant	Apr. 1, 2022	May. 2, 2022	Jun. 1, 2022
Type of arrangement	Equity-settled	Equity-settled	Equity-settled
No. of shares granted	1,000	1,000	35,540
Outstanding shares as of December 31, 2023	650	650	19,130
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting
Type of arrangement	Stock	Stock	Stock
Date of vesting	Apr. 1, 2023(35%) Apr. 1, 2024(35%) Apr. 1, 2025(30%)	May. 2, 2023 (35%) May. 2, 2024 (35%) May. 2, 2025 (30%)	Jun. 1, 2023(35%) Jun. 1, 2024(35%) Jun. 1, 2025(30%)
Date of expiration	-	-	-

	4 th -2	4 th -3	4 th -3 (Market performance conditions added)	5 th
Date of grant	Jun. 1, 2022	Jun. 1, 2022	Jun. 1, 2022	Oct. 10, 2022
Type of arrangement	Cash-settled	Equity-settled	Equity-settled	Cash-settled
No. of shares granted	430	27,000	18,000	2,000
Outstanding shares as of December 31, 2022	280	16,770	17,200	-
Vesting conditions	Provision of services to the date of vesting	Provision of services to the date of vesting	Provision of services to the date of vesting and achievement of the target share price	Provision of services to the date of vesting
Type of arrangement	Cash	Stock	Stock	Cash
Date of vesting	Jun. 1, 2023(35%) Jun. 1, 2024(35%) Jun. 1, 2025(30%)	Jun. 1, 2023(35%) Jun. 1, 2024(35%) Jun. 1, 2025(30%)	satisfy the period of continued service and upon achievement of the target share price May. 31, 2025(35%) May. 31, 2026(35%) May. 31, 2027(30%)	Oct.10, 2023(35%) Oct.10, 2024(35%) Oct.10, 2025(30%)
Date of expiration	-	-	-	-

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Notes to the Separate Financial Statements
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20. Share-based Payments, (cont'd)

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

	7th-1	7th-2	9th
Date of grant	Jun. 1, 2023	Jun. 1, 2023	Dec. 15, 2023
Type of arrangement	Equity-settled	Cash-settled	Equity-settled
No. of shares granted	80,850	330	5,000
Outstanding shares as of December 31, 2022	78,790	330	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
Type of arrangement	Stock	Cash	Stock
	Jun. 1, 2024(35%)	Jun. 1, 2024(35%)	Dec.15, 2024(35%)
Date of vesting	Jun. 1, 2025(35%)	Jun. 1, 2025(35%)	Dec.15, 2025(35%)
	Jun. 1, 2026(30%)	Jun. 1, 2026(30%)	Dec.15, 2026(30%)
Date of expiration	-	-	-

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

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

	December 31, 2023		December 31, 2022	
	Granted number	Weighted average exercise price	Granted number	Weighted average exercise price
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>

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

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

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, except number of shares)</i>	December 31, 2023		December 31, 2022	
	Granted number	Weighted average exercise price	Granted number	Weighted average exercise price
Beginning	68,115	₩ 26,274	144,455	₩ 24,819
Forfeit / Expired	(11,000)	14,990	-	-
Exercise	(9,200)	1,793	(76,340)	23,520
Ending	47,915	₩ 33,565	68,115	₩ 26,274

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

<i>(in shares)</i>	December 31, 2023	December 31, 2022
Beginning	84,610	-
Grant	86,180	84,970
Forfeit / Expired	(10,746)	(360)
Exercise	(21,245)	-
Ending	138,799	84,610

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>	Number of Shares/Compensations Exercisable	Weighted average exercise price
Share options	255,570	₩ 59,577
performance-based incentives	47,915	33,565
Restricted stock unit	-	-

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

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

The Company measured the cost of the share options granted for the years ended December 31, 2023 and 2022, by fair value using 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>		<u>December 31, 2023</u>		<u>December 31, 2022</u>
Weighted average fair value of share options	₩	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 Company measured the cost of the share options granted 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>		<u>December 31, 2023</u>		<u>December 31, 2022</u>
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%

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

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

The Company 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 the share options granted are as follows:

<i>(in Korean won)</i>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Weighted average fair value of share options	₩ 160,583	₩ 144,491
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 Company 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>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
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 Company measured the cost of the 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 the restricted stock units granted are as follows:

<i>(in Korean won)</i>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Weighted average fair value of share options	₩ 191,178	₩ 163,576
Weighted average share price at grant date	₩ 193,600	₩ 168,000
Price volatility	37.28%	53.22%
Risk-free interest rate	3.18%~3.46%	3.71%~3.78%

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

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

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

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
Operating costs ¹	₩	19,896,868	₩	(53,568,297)
Investments in subsidiaries		3,040,109		1,921,169
	₩	<u>22,936,977</u>	₩	<u>(51,647,128)</u>

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

KRAFTON, Inc.
Notes to the Separate Financial Statements
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21. 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:

(in thousands of Korean won)

	December 31, 2023		December 31, 2022	
Revenue from contracts with customers	₩	1,837,796,252	₩	1,761,946,627
Revenue from other sources		649,413		5,829,184
	₩	1,838,445,665	₩	1,767,775,811

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

(in thousands of Korean won)

	December 31, 2023		December 31, 2022	
Main Services				
PC	₩	555,926,911	₩	428,079,093
Mobile		1,232,241,739		1,239,552,586
Console		40,596,115		76,130,833
Others		9,031,487		18,184,115
Total	₩	1,837,796,252	₩	1,761,946,627
Revenue recognition				
Transfer over time		1,810,453,901		1,691,702,596
Transfer at a point in time		27,342,351		70,244,031
Total	₩	1,837,796,252	₩	1,761,946,627

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

(in thousands of Korean won)

	December 31, 2023		December 31, 2022	
	Revenue	Ratio	Revenue	Ratio
Asia	₩ 1,601,004,481	87.12%	₩ 1,474,693,239	83.70%
Korea	87,604,692	4.77%	86,323,177	4.90%
America / Europe	138,376,912	7.53%	189,434,731	10.75%
Others	10,810,167	0.58%	11,495,480	0.65%
	₩ 1,837,796,252	100.00%	₩ 1,761,946,627	100.00%

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

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

(b) Contract liabilities

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

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
Contract liabilities (unearned revenue)	₩	126,057,768	₩	65,988,455

(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>	December 31, 2023		December 31, 2022	
Revenue recognized that was included in the contract liability balance at the beginning of the year	₩	63,960,904	₩	59,981,570

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

22. Operating Costs

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

(in thousands of Korean won)

	December 31, 2023		December 31, 2022	
Application fees / Cost of sales	₩	216,935,619	₩	197,670,163
Salaries and bonuses		175,923,618		138,144,705
Post-employment benefits		15,240,343		14,689,197
Employee benefits		31,759,029		30,583,354
Travel		4,473,533		4,886,438
Depreciation		56,643,684		56,913,058
Depreciation – Investment properties		880,649		745,365
Amortization		3,399,460		2,949,507
Insurance		6,311,250		7,487,489
Supplies		950,966		1,763,167
Commissions and fees		447,027,840		573,336,516
Advertising		41,405,446		45,445,107
Share-based payment expenses		19,896,868		(53,568,297)
Bad debts expense(reversal)		(3,302,436)		3,271,519
Others		9,279,434		5,636,610
	₩	<u>1,026,825,303</u>	₩	<u>1,029,953,898</u>

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

23. Other Income and Expenses

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Other income		
Gain on foreign exchange	₩ 67,795,128	₩ 195,086,614
Commission income	-	451,482
Gain on disposal of investments in associates	863,132	-
Gain on disposal of property and equipment	229	107,775
Gain on derivatives	2,208,618	1,827,494
Gain on disposal of leases	18,286	3,787,063
Gain on disposal of intangible assets	25,774,119	-
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	25,181,436	43,185,227
Gain on valuation of financial liabilities at fair value through profit or loss	149,305,629	12,373,852
Dividend income	646,194	7,194,005
Others	6,878,654	618,133
	<u>₩ 476,347,912</u>	<u>₩ 283,725,510</u>
Other expenses		
Loss on foreign exchange	₩ 51,189,917	₩ 55,803,696
Loss on impairment of investments in subsidiaries	179,154,738	176,913,004
Loss on impairment of investments in associates	2,022,872	8,307,162
Loss on impairment of property and equipment	2,344,920	-
Loss on disposal of property and equipment	125,268	1,056,412
Loss on derivatives	169,156	785,814
Loss on disposal of leases	67,872	20,058
Loss on disposal of financial assets at fair value through profit or loss	62,499,507	66,346,075
Loss on valuation of financial assets at fair value through profit or loss	31,307,824	55,444,210
Loss on valuation of financial liabilities at fair value through profit or loss	-	7,652,150
Donations	2,568,452	298,200
Other bad debt expenses	524,312	9,406,313
Others	6,050,431	105,191
	<u>₩ 338,025,269</u>	<u>₩ 382,138,285</u>

KRAFTON, Inc.
Notes to the Separate Financial Statements
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24. 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>	December 31, 2023	December 31, 2022
Finance income		
Interest income	₩ 31,096,477	₩ 32,970,417
Financial guarantee income	36,779	22,594
	<u>₩ 31,133,256</u>	<u>₩ 32,993,011</u>
Finance costs		
Interest expenses	₩ 7,005,620	₩ 6,148,544
	<u>₩ 7,005,620</u>	<u>₩ 6,148,544</u>

25. Income Tax Expense

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Current tax	₩ 241,182,703	₩ 160,941,329
Deferred tax due to temporary differences	(1,384,521)	4,256,054
Income tax expense charged directly to equity	6,195,278	13,913,614
Income tax expense	<u>₩ 245,993,460</u>	<u>₩ 179,110,997</u>

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>	December 31, 2023	December 31, 2022
Net profit before income tax	₩ 974,070,641	₩ 666,253,605
Income tax based on statutory tax rate	246,792,649	172,857,741
Adjustments:		
Non-taxable income	(1,646,434)	(2,203,260)
Non-deductible expenses	5,388,572	8,978,478
Foreign tax credit	(2,209,528)	(2,799,810)
Effect of consolidated tax expense	(11,443,865)	(7,444,749)
Changes in unrecognized deferred tax asset	25,361,490	11,196,889
Change in temporary differences at beginning	(1,755,803)	-
Effects of the tax system for recirculation of corporate income	(4,870,000)	(373,268)
Claim for rectification	(9,440,123)	(1,617,585)
Others	(183,498)	516,561
Income tax expense	<u>₩ 245,993,460</u>	<u>179,110,997</u>
Effective tax rate	25.25%	26.88%

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

25. 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	Beginning	Increase(decrease)	Ending
Unearned revenue	₩ 4,195,395	₩ (2,190,955)	₩ 2,004,440	₩ 1,111,780	₩ (582,608)	₩ 529,172			
Depreciation	3,518	332,439	335,957	932	87,761	88,693			
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)			
Amortization	103,476	(96,815)	6,661	27,421	(25,663)	1,758			
Loss on impairment of intangible assets	176,559	(176,559)	-	46,788	(46,788)	-			
Accrued expenses	84,806,497	2,995,212	87,801,709	22,473,722	705,929	23,179,651			
Investments in subsidiaries	(91,437,393)	190,546,398	99,109,005	(24,230,909)	50,395,686	26,164,777			
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			
Bad debt expenses	119,265	105,703	224,968	31,605	27,786	59,391			
Provision for impairment	73,761,371	418,610	74,179,981	19,546,763	36,753	19,583,516			
Post-employment benefit obligation	7,659,997	1,940,744	9,600,741	2,029,899	504,697	2,534,596			
Accrued income	(950,017)	(16,740)	(966,757)	(251,754)	(3,470)	(255,224)			
Provision for restoration costs	13,364,010	158,919	13,522,929	3,541,463	28,590	3,570,053			
Facilities	(367,678)	139,439	(228,239)	(97,435)	37,180	(60,255)			

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

25. Income Tax Expense, (cont'd)

(in thousands of
Korean won)

	December 31, 2023					
	Temporary differences and others			Deferred tax assets (liabilities)		
	Beginning	Increase(decrease)	Ending	Beginning	Increase(decrease)	Ending
Present value discounts	₩ 3,940,975	₩ (456,098)	₩ 3,484,877	₩ 1,044,358	₩ (124,351)	₩ 920,007
Right-of-use assets	(125,486,150)	10,946,841	(114,539,309)	(33,253,830)	3,015,453	(30,238,377)
Lease liabilities	170,314,902	(15,377,997)	154,936,905	45,133,449	(4,230,106)	40,903,343
Lease receivables	(46,103,173)	7,825,338	(38,277,835)	(12,217,341)	2,111,992	(10,105,349)
Other receivables	(147,429)	-	(147,429)	(39,069)	148	(38,921)
Unearned revenue (deferred revenue)	61,769,949	62,283,378	124,053,327	16,369,037	16,381,041	32,750,078
Prepaid expenses (deferred expenses)	(15,467,186)	(3,149,058)	(18,616,244)	(4,098,804)	(815,884)	(4,914,688)
Derivative instruments	14,106,320	(2,039,462)	12,066,858	3,738,175	(552,524)	3,185,651
Commissions	147,490	-	147,490	39,085	(148)	38,937
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
Share-based payment expenses	28,781,273	3,717,725	32,498,998	7,627,037	952,699	8,579,736
Membership rights	37,718	(4,437)	33,281	9,995	(1,209)	8,786
Exchange differences on translation of foreign operations	81,965	1,392	83,357	21,721	285	22,006
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
Investments in associates	8,307,162	2,022,872	10,330,034	2,201,398	525,731	2,727,129
Deemed depreciation	-	782,855	782,855	-	206,674	206,674
Loss on impairment of construction-in-progress	-	2,344,920	2,344,920	-	619,059	619,059
Goodwill	-	4,961,341	4,961,341	-	1,309,794	1,309,794
Tax losses	95,723,576	312,329	96,035,905	25,366,748	(13,269)	25,353,479
Tax credits	5,361,192	(1,764,980)	3,596,212	5,361,192	(1,764,980)	3,596,212
	₩ <u>465,097,532</u>	₩ <u>107,922,366</u>	₩ <u>573,019,898</u>	₩ <u>127,191,322</u>	₩ <u>26,732,743</u>	₩ <u>153,924,065</u>
Unrecognized deferred assets				₩ <u>(52,938,162)</u>	₩ <u>(25,348,221)</u>	₩ <u>(78,286,383)</u>
				₩ <u>74,253,160</u>	₩ <u>1,384,522</u>	₩ <u>75,637,682</u>

KRAFTON, Inc.
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December 31, 2023 and 2022

25. Income Tax Expense, (cont'd)

(in thousands of
Korean won)

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

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

25. Income Tax Expense, (cont'd)

(in thousands of
Korean won)

	December 31, 2022					
	Temporary differences and others			Deferred tax assets (liabilities)		
	Beginning	Increase(decrease)	Ending	Beginning	Increase(decrease)	Ending
Present value discounts	₩ 5,371,689	₩ (1,430,714)	₩ 3,940,975	₩ 1,477,214	₩ (432,856)	₩ 1,044,358
Right-of-use assets	(137,068,473)	11,582,323	(125,486,150)	(37,693,830)	4,440,000	(33,253,830)
Lease liabilities	148,304,121	22,010,781	170,314,902	40,783,633	4,349,816	45,133,449
Lease receivables	(9,273,955)	(36,829,218)	(46,103,173)	(2,550,337)	(9,667,004)	(12,217,341)
Bonus	33,091	(33,091)	-	9,100	(9,100)	-
Other receivables	(147,429)	-	(147,429)	(40,543)	1,474	(39,069)
Unearned revenue (deferred revenue)	58,406,206	3,363,743	61,769,949	16,061,707	307,330	16,369,037
Prepaid expenses (deferred expenses)	(12,672,693)	(2,794,493)	(15,467,186)	(3,484,991)	(613,813)	(4,098,804)
Derivative instruments	4,283,165	9,823,155	14,106,320	1,177,870	2,560,305	3,738,175
Commissions	147,490	-	147,490	40,560	(1,475)	39,085
Other provisions	37,529,676	(34,626,848)	2,902,828	10,320,661	(9,551,412)	769,249
Financial guarantee liabilities	12,893	11,666	24,559	3,546	2,962	6,508
Share-based payment expenses	59,650,111	(30,868,838)	28,781,273	16,403,781	(8,776,744)	7,627,037
Membership rights	42,155	(4,437)	37,718	11,593	(1,598)	9,995
Exchange differences on translation of foreign operations	42,056	39,909	81,965	11,565	10,156	21,721
Financial liabilities at fair value through profit or loss	-	201,143,514	201,143,514	-	53,303,031	53,303,031
Investments in associates	-	8,307,162	8,307,162	-	2,201,398	2,201,398
Tax losses	95,723,576	-	95,723,576	26,323,982	(957,234)	25,366,748
Tax credits	5,634,466	(273,274)	5,361,192	5,634,466	(273,274)	5,361,192
	₩ 422,961,511	₩ 42,136,021	₩ 465,097,532	₩ 120,399,404	₩ 6,791,918	₩ 127,191,322
Unrecognized deferred assets				₩ (41,890,190)	₩ (11,047,972)	₩ (52,938,162)
				₩ 78,509,214	₩ (4,256,054)	₩ 74,253,160

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

25. 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>	December 31, 2023	December 31, 2022
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	₩ 59,132,311	₩ 39,961,046
Deferred tax asset to be recovered after more than 12 months	75,526,304	122,726,271
Deferred tax liabilities		
Deferred tax liability to be recovered within 12 months	(5,169,913)	(4,350,559)
Deferred tax liability to be recovered after more than 12 months	(53,851,020)	(84,083,598)
Deferred tax assets, net	<u>₩ 75,637,682</u>	<u>₩ 74,253,160</u>

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:

<i>(in thousands of Korean won)</i>	December 31, 2023			December 31, 2022		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liability	₩ (725,046)	₩ 191,412	₩ (533,634)	₩ 6,324,415	₩ (1,739,214)	₩ 4,585,201
Gain on disposal of treasury shares	4,362,497	(1,151,699)	3,210,798	-	-	-
Exchange differences on translation of foreign operations	(1,392)	368	(1,024)	(39,910)	10,975	(28,935)
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)
	<u>₩ (23,395,516)</u>	<u>₩ 6,195,278</u>	<u>₩ (17,200,238)</u>	<u>₩ (55,065,230)</u>	<u>₩ 13,913,614</u>	<u>₩ (41,151,616)</u>

Details of deductible temporary differences not recognized as deferred tax assets as of December 31, 2023 and 2022, are as follows:

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Deductible temporary differences	₩ 200,503,424	₩ 104,043,074
Tax losses	96,035,905	95,723,576

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

25. Income Tax Expense, (cont'd)

As of December 31, 2023 and 2022, the Company recognized deferred tax assets only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized and the deferred tax deduction effect will be realized in the foreseeable future. Also, the Company did not recognize deferred tax assets arising from the certain deductible (taxable) temporary differences associated with investments in subsidiaries and provision for impairment since it is probable that the temporary differences will not reverse in the foreseeable future. In addition, deferred tax assets were not recognized for tax losses.

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

*(in thousands of
Korean won)*

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Less than 1 year	₩ 226,293	₩ -
Between 1 and 2 years	355,429	226,293
Between 2 and 3 years	5,628,077	355,429
Between 3 and 4 years	2,661,737	5,628,077
Between 4 and 5 years	39,576,647	2,661,737
Between 5 and 6 years	47,587,722	39,576,647
Between 6 and 7 years	-	47,275,393
	<u>₩ 96,035,905</u>	<u>₩ 95,723,576</u>

26. Earnings per Share

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

(a) Basic earnings per share

<i>(in Korean won, in shares)</i>	December 31, 2023	December 31, 2022
Profit attributable to the ordinary equity holders of the Company	₩ 728,077,181,282	₩ 487,142,607,927
Weighted average number of ordinary shares outstanding	46,470,185	46,894,298
Basic earnings per share	<u>₩ 15,668</u>	<u>₩ 10,388</u>

KRAFTON, Inc.
Notes to the Separate Financial Statements
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26. Earnings per Share, (cont'd)

(b) Diluted earnings per share

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

<i>(in Korean won, in shares)</i>	December 31, 2023	December 31, 2022
Profit attributable to the ordinary equity holders of the Company	<u>₩ 728,077,181,282</u>	<u>₩ 487,142,607,927</u>
<i>(in shares)</i>		
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>
<i>(in Korean won)</i>		
Diluted earnings per share:	<u>₩ 15,592</u>	<u>₩ 10,301</u>

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

26. Earnings per Share, (cont'd)

(c) Weighted average number of ordinary shares outstanding

Details of weighted average number of ordinary shares outstanding calculation for the years ended December 31, 2023 and 2022, are as follows:

<i>(in days, shares)</i>	December 31, 2023	December 31, 2022
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	<u>(1,011,750,098)</u>	<u>(791,107,570)</u>
	16,961,617,520	17,116,418,855
Weight	<u>365</u>	<u>365</u>
Weighted average number of ordinary shares outstanding	<u>46,470,185</u>	<u>46,894,298</u>

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

27. Statements of Cash Flows

(a) Cash generated from operations

(in thousands of Korean won)	December 31, 2023	December 31, 2022
Profit for the year	₩ 728,077,181	₩ 487,142,608
Addition or subtraction for net profit adjustment :	176,831,930	335,464,950
Performance-based incentive	1,097,608	(1,659,226)
Post-employment benefits	2,546,947	3,879,017
Depreciation	56,643,684	56,913,058
Depreciation – investment properties	880,649	745,365
Amortization	3,399,460	2,949,507
Share-based payment expenses	19,896,868	(53,568,297)
Bad debts expense(reversal)	(3,302,436)	3,271,519
Loss on Foreign exchange	24,590,528	35,527,789
Other Bad debts expense	524,312	9,406,313
Loss on impairment of investments in subsidiaries	179,154,738	176,913,004
Loss on impairment of investments in associates	2,022,872	8,307,162
Loss on impairment of property and equipment	2,344,920	-
Loss on valuation of financial assets at fair value through profit or loss	31,307,824	55,444,210
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	-	7,652,150
Loss on derivatives	169,156	785,814
Loss on disposal of property and equipment	125,268	1,056,412
Loss on disposal of leases	67,872	20,058
Interest expenses	7,005,620	6,148,544
Other expense	4,767,805	(34,620,170)
Income tax expense	245,993,460	179,110,997
Gain on Foreign Exchange	(30,711,741)	(68,564,071)
Gain on valuation of financial assets at fair value through profit or loss	(25,181,436)	(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	(149,305,629)	(12,373,852)
Gain on disposal of investments in associates	(863,132)	-
Gain on derivatives	(2,208,618)	(1,827,494)
Gain on disposal of property and equipment	(229)	(107,775)
Gain on disposal of intangible assets	(25,774,119)	-
Gain on disposal of leases	(18,286)	(3,787,063)
Interest income	(31,096,477)	(32,970,418)
Dividend income	(646,194)	(7,194,005)
Financial guarantee income	(36,779)	(22,593)
Other income	(1,385,605)	(37,988)

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

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

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Change in operating assets and liabilities:	(96,069,624)	(76,952,939)
Trade receivables	(159,010,276)	(30,403,277)
Other receivables	(1,882,065)	(3,034,422)
Advance payments	7,288,764	(9,587,632)
Prepaid expenses	(15,252,128)	(7,625,654)
Long-term advance payments	299,426	(3,629,637)
Other payables	(22,984,549)	16,478,785
Accrued expenses	34,878,966	(49,398,385)
Withholdings	3,934,973	5,043,203
Advance received	1,027,733	242,606
Unearned revenue	60,136,634	3,732,396
Other provisions	(3,374,045)	-
Long-term accrued expenses	(151,227)	2,004,772
Payments of net defined benefit liability	(981,830)	(775,694)
Cash generated from operations	<u>₩ 808,839,487</u>	<u>₩ 745,654,619</u>

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

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

(b) Non-cash transactions

<i>(in thousands of Korean won)</i>	December 31, 2023	December 31, 2022
Current portion of long-term loan	₩ 7,180,850	₩ 101,281,645
Current portion of long-term financial instruments	1,787,649	30,000,000
Reclassification from construction-in-progress	-	12,954,613
Increase in right-of-use assets	30,931,791	68,674,022
Reclassification to lease receivables from right-of-use assets	3,219,900	42,517,341
Current portion of lease receivables	10,583,141	13,459,339
Current portion of lease liabilities	50,030,401	40,471,439
Reclassification to investment in associates from advance payment	-	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	203,228	101,472
Change in other payables related to acquisition of intangible assets	4,590	5,417
Reclassification to intangible assets from long-term advance payments	21,346,772	633,677
Change in other payables related to acquisition of investments in subsidiaries	1,576,079	2,268,702
Increase in net derivative liabilities related to acquisition of investments in subsidiaries	-	10,864,835
Reclassification to investment in subsidiaries from financial assets at fair value through profit or loss	-	11,642,400
Reclassification to investment in associates from financial assets at fair value through profit or loss	-	801,875
Reclassification to investment in associates from financial assets at fair value through other comprehensive income	-	2,000,000
Reclassification to financial assets at fair value through other comprehensive income from financial assets at fair value through profit or loss	1,900,950	-

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

(c) Changes in liabilities arising from financing activities

Changes in liabilities arising from financial activities for the years ended December 31, 2023 and 2022, are as follows:

*(in thousands of
Korean won)*

		December 31, 2023									
		Cash flows from financing activities		Non-cash flows							
Beginning				New lease		Others		Ending			
Leasehold deposits received		₩	7,315,523	₩	(588,828)	₩	2,315,369	₩	246,407	₩	9,288,471
Lease liabilities		170,314,902		(45,653,716)		16,499,972		13,775,747		154,936,905	
		₩	177,630,425	₩	(46,242,544)	₩	18,815,341	₩	14,022,154	₩	164,225,376

*(in thousands of
Korean won)*

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

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

28. Related Party Transactions

As of December 31, 2023 and 2022, the subsidiaries, associate and other important related parties of the Company are as follows:

Type	December 31, 2023	December 31, 2022
Subsidiaries	Bluehole Studio, Inc.	Bluehole Studio, Inc.
	Rising Wings, Inc.	Rising Wings, Inc.
	Krafton Americas, Inc. ¹	Krafton Americas, Inc. ¹
	KRAFTON EUROPE B.V. ²	KRAFTON EUROPE B.V. ²
	PUBG Mad Glory, LLC	PUBG Mad Glory, LLC
	KRAFTON CHINA ³	KRAFTON CHINA ³
	KP PTE. LTD.	KP PTE. LTD.
	Striking Distance Studios, Inc.	Striking Distance Studios, Inc.
	KRAFTON JAPAN, Inc. ⁴	KRAFTON JAPAN, Inc. ⁴
	Krafton Ventures, L.L.C.	Krafton Ventures, L.L.C.
	Krafton Ventures Fund, L.P.	Krafton Ventures Fund, L.P.
	KRAFTON Ventures, Inc.	KRAFTON Ventures, Inc.
	PUBG Entertainment, Inc.	PUBG Entertainment, Inc.
	Striking Distance Studios Spain, S.L.	Striking Distance Studios Spain, S.L.
	En Masse Entertainment Texas, Inc.	En Masse Entertainment Texas, Inc.
	KRAFTON INDIA PRIVATE LIMITED ⁵	PUBG INDIA PRIVATE LIMITED ⁵
	DreaMotion, Inc.	DreaMotion, Inc.
	Thingsflow Inc.	Thingsflow Inc.
	Tiptoe Games Inc.	Tiptoe Games Inc.
	Krafton Global GP, LLC	Krafton Global GP, LLC
	Krafton Global, LP	Krafton Global, LP
	Thingsflow Inc.(Japan)	Thingsflow Inc.(Japan)
	Unknown Worlds Entertainment, Inc.	Unknown Worlds Entertainment, Inc.
	SDS Interactive Canada Inc.	SDS Interactive Canada Inc.
	5minlab Corp.	5minlab Corp.
	Neon Giant AB	Neon Giant AB
	KRAFTON MONTREAL STUDIO, INC.	KRAFTON MONTREAL STUDIO, INC.
	En Masse Entertainment, Inc.	En Masse Entertainment, Inc.
	VECTOR NORTH s.r.o.	-
	ReLU Games, Inc.	-
	Flyway Games, Inc.	-
	-	Unknown Worlds Entertainment, Ltd(UK) ⁶
	-	Indestructible Frying Pan, LLC ⁶
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

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	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. ⁷
	-	Un Note Co., Ltd. ⁷
Other Related Parties	Voyager X, Inc	Voyager X, 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.	-

¹ During the year ended December 31, 2023, PUBG Santa Monica, Inc. changed its name to Krafton Americas, Inc.

² During the year ended December 31, 2023, PUBG Amsterdam B.V. changed its name to KRAFTON EUROPE B.V.

³ During the year ended December 31, 2023, PUBG Shanghai changed its name to KRAFTON CHINA.

⁴ During the year ended December 31, 2023, PUBG Japan Corporation changed its name to KRAFTON JAPAN, Inc.

⁵ During the year ended December 31, 2023, PUBG INDIA PRIVATE LIMITED changed its name to KRAFTON INDIA PRIVATE LIMITED.

⁶ Excluded from the Company's subsidiary due to liquidation during the year ended December 31, 2023.

⁷ Excluded from the Company's associate due to the Company's sales of all shares during the year ended December 31, 2023.

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

28. 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			Business transfer and others ³	
	Operating revenue	Finance income ¹	Other income	Operating costs	Finance costs ¹	Other expenses ²	Acquisition and others	Transfer and others
Subsidiaries								
Bluehole Studio, Inc.	₩ 1,126,147	₩ 57,093	₩ 18,286	₩ 9,202,551	₩ 3,707	₩ 67,872	₩ 6,000,000	₩ -
Rising Wings, Inc.	198,546	-	-	1,650,427	-	-	5,000,000	-
Krafton Americas, Inc.	-	25,198	1,193	52,936,317	-	-	-	-
KRAFTON EUROPE B.V.	224,402	-	-	43,112,715	-	-	-	-
PUBG Mad Glory, LLC	-	230,208	30,939	21,169,586	-	-	-	7,304
KRAFTON CHINA	-	-	-	16,469,095	-	-	-	-
KP PTE. LTD	-	18,528	11,166	-	-	-	-	-
Striking Distance Studios, Inc	-	1,231,311	4,647	70,573,573	-	-	-	-
KRAFTON JAPAN, Inc.	-	6,243	-	7,873,646	-	(1,581,390)	-	-
PUBG Entertainment, Inc.	-	-	-	58,698	-	-	-	-
Striking Distance Studios Spain, S.L.	-	-	-	3,612,115	-	-	-	-
KRAFTON INDIA PRIVATE LIMITED	-	-	-	9,472,191	-	-	-	-
DreaMotion, Inc.	30,453	-	-	71,555	-	-	500,000	-
Thingsflow Inc.	528,098	513,149	-	-	2,380	2,000,000	-	-
Tiptoe Games Inc.	-	256	-	-	55	-	-	-
Unknown Worlds Entertainment, Inc.	-	-	-	198,415	-	-	-	-
SDS Interactive Canada Inc.	-	-	-	3,225,575	-	-	-	-
5minlab Corp.	91,412	-	-	-	-	-	-	-
KRAFTON MONTREAL STUDIO, INC.	-	-	-	5,693,496	-	-	-	-
VECTOR NORTH s.r.o.	-	-	-	2,714,843	-	-	-	-
ReLU Games, Inc.	16,581	-	229	-	-	10	-	11,224,713
Flyway Games, Inc.	39,206	-	-	7,925	-	-	-	3,292,839
Sub Total	₩ 2,254,845	₩ 2,081,986	₩ 66,460	₩ 248,042,723	₩ 6,142	₩ 486,492	₩ 11,500,000	₩ 14,524,856
Associates and Joint Ventures								
Shinhan Alpha REIT Co., Ltd. ⁴	₩ -	₩ 251,380	₩ 190,000	₩ 174,646	₩ 1,538,558	₩ -	₩ -	₩ -
Nodwin Gaming Private Limited	-	-	-	828,814	-	-	-	-

KRAFTON, Inc.
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NIRVANANA	-	4,741	-	-	-	-	-	-	-
ANYCAST TECHNOLOGY PRIVATELIMITED	-	-	-	12,867	-	-	-	-	-
OVERDARE, Inc.	-	-	-	-	-	-	-	-	25,786,000
Sub Total	₩ -	₩ 256,121	₩ 190,000	₩ 1,016,327	₩ 1,538,558	₩ -	₩ -	₩ -	₩ 25,786,000
Other Related Parties									
Stoughton Street Tech Labs Private Limited	₩ 210,767	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	-
Overdare Korea, Inc.	48,603	-	-	-	-	-	-	-	2,179,200
Sub Total	₩ 259,370	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 2,179,200
Total	₩ 2,514,215	₩ 2,338,107	₩ 256,460	₩ 249,059,050	₩ 1,544,700	₩ 486,492	₩ 11,500,000	₩ -	₩ 42,490,056

¹ Includes lease related profit or loss.

² Includes ₩ 2,000,000 thousand of bad debt expense and ₩1,581,390 thousand of reversal of bad debt expense.

³ Includes acquisition and disposal of property and equipments and intangible assets.

⁴ Transaction amount up to the date of exclusion from the related party is presented.

⁵ Company's purchasing agency services for group purchases to the related party are not included.

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

28. Related Party Transactions, (cont'd)

(in thousands of Korean won)

(in thousands of Korean won)

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

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

Nodwin Gaming Private Limited	-	-	-	361,630	-	-
Tamatem Inc.	-	-	-	15,756	-	-
NIRVANANA	-	1,389	-	-	-	-
Sub Total	₩ -	₩ 391,145	₩ 387,398	₩ 631,409	₩ 1,651,400	₩ -
Other Related Parties						
Voyager X, Inc	₩ -	₩ -	₩ -	₩ 88,000	₩ -	₩ -
Total	₩ 10,363,801	₩ 1,577,900	₩ 7,432,445	₩ 324,686,366	₩ 1,657,591	₩ 9,495,402

¹ Includes lease related profit or loss.

² Includes ₩ 9,475,344 thousand of bad debt expense.

³ Includes ₩ 6,456,661 thousand of other income which is recognized by selling 100% shares of Between Us Co. Ltd.

⁴ Transaction amount up to the date of exclusion from the related party is presented.

⁵ Company's purchasing agency services for group purchases to the related party are not included.

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

28. Related Party Transactions, (cont'd)

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

(in thousands of Korean won)

	December 31, 2023					
	Receivables			Payables		
	Trade Receivables ¹	Loans ¹	Other Receivables ^{1,2}	Account Payables	Other Payables ²	
Subsidiaries						
Bluehole Studio, Inc.	₩ 110,697	₩ -	₩ 3,155,460	₩ 331,520	₩ 9,111,470	
Rising Wings, Inc.	16,123	21,300,000	312,109	272,972	95,815	
Krafton Americas, Inc.	-	-	1,269,611	6,726,969	450,198	
KRAFTON EUROPE B.V.	-	-	6,451,931	13,423,325	2,300,719	
PUBG Mad Glory, LLC	-	3,868,200	473,895	2,753,750	239,164	
KRAFTON CHINA	486,278	-	290,814	5,293,795	90,007	
Striking Distance Studios, Inc	-	-	12,482	3,821,067	3,634	
KRAFTON JAPAN, Inc.	-	1,054,260	4,633	1,646,438	115,332	
Striking Distance Studios Spain, S.L.	-	-	36	399,452	-	
En Masse Entertainment Texas, Inc.	-	21,741,443	5,637	-	-	
KRAFTON INDIA PRIVATE LIMITED	-	-	19,921	1,461,706	151,576	
DreaMotion, Inc.	3,022	-	140	23,704	9,773	
Thingsflow Inc.	4,883	12,000,000	412,976	-	79,778	
Tiptoe Games Inc.	-	-	5,694	-	2,178	
Thingsflow Inc.(Japan)	-	-	36	12	-	
Unknown Worlds Entertainment, Inc.	-	-	1,915	3,042	7,078	
SDS Interactive Canada Inc.	-	-	158	97,009	-	
5minlab Corp.	9,650	-	403	131,554	-	
Neon Giant AB	-	-	7,822,800	-	-	
KRAFTON MONTREAL STUDIO, INC.	-	-	9,873	752,676	-	
En Masse Entertainment, Inc.	-	27,403,192	440,614	-	-	
VECTOR NORTH s.r.o.	-	-	1,412	311,924	-	
ReLU Games, Inc.	2,703	-	1,655	22,838	-	
Flyway Games, Inc.	19,272	-	89,980	16,808	-	
Sub Total	₩ 652,628	₩ 87,367,095	₩ 20,784,185	₩ 37,490,561	₩ 12,656,722	
Associates						
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	
Other Related Parties						
Overdare Korea, Inc.	53,463	-	367,627	226,915	-	
Total	₩ 706,091	₩ 87,367,095	₩ 34,941,056	₩ 37,723,922	₩ 12,669,616	

¹ Receivables are the amount before deduction of allowance for bad debts, and allowance for bad debts for receivables are ₩ 74,204,422 thousand.

² Includes lease related receivables or payables.

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

28. Related Party Transactions, (cont'd)

(in thousands of
Korean won)

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

¹ Receivables are the amount before deduction of allowance for bad debts, and allowance for bad debts for receivables are ₩ 73,785,812 thousand.

² Includes lease related receivables or payables.

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

28. 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
Subsidiaries						
Bluehole Studio, Inc.	₩ -	₩ -	₩ -	₩ 616,165	₩ 18,000,000	₩ -
Rising Wings, Inc.	-	-	-	-	8,999,849	-
Krafton Americas, Inc.	-	5,702,850	-	-	-	-
PUBG Mad Glory, LLC	3,851,100	-	-	-	-	-
KP PTE. LTD.	-	633,650	-	-	-	-
Striking Distance Studios, Inc.	-	57,028,500	-	-	-	-
KRAFTON JAPAN, Inc.	-	1,581,390	-	-	-	-
Thingsflow Inc.	6,500,000	-	-	-	-	-
Tiptoe Games Inc.	-	-	-	2,901	-	-
VECTOR NORTH s.r.o.	-	-	-	-	2,972,685	-
Flyway Games, Inc.	-	-	-	-	33,732,030	-
Sub Total	₩ 10,351,100	₩ 64,946,390	₩ -	₩ 619,066	₩ 63,704,564	-
Associates						
Shinhan Alpha REIT Co., Ltd. ¹	₩ -	₩ -	₩ 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	-	-	-	-	2,800,000	-
VENTURES FUND IX	-	-	-	-	-	-
Sub Total	₩ -	₩ 640,000	₩ 9,941,859	₩ -	₩ 16,594,827	₩ 1,324,140
Total	₩ 10,351,100	₩ 65,586,390	₩ 9,941,859	₩ 619,066	₩ 80,299,391	₩ 1,324,140

¹ Transaction amount up to the date of exclusion from the related party is presented.

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

28. Related Party Transactions, (cont'd)

(in thousands of
Korean won)

(in thousands of Korean won)	December 31, 2022											
	Loan transactions				Lease transactions			Contributions in cash				
	Loans		Collection		Payment of lease liabilities		Collection of lease receivables		Payment of Capital		Acquisition of Convertible bonds	
Subsidiaries												
Bluehole Studio, Inc.	₩	-	₩	-	₩	-	₩	613,909	₩	20,000,000	₩	-
Rising Wings, Inc.		1,000,000		-		-		-		-		-
PUBG Santa Monica, Inc.		-		2,855,750		-		-		-		-
Striking Distance Studios, Inc.		45,359,400		-		-		-		-		-
En Masse Entertainment Texas, Inc.		6,951,645		-		-		-		-		-
PUBG INDIA PRIVATE LIMITED		-		-		-		-		1,123,034		-
Between Us Co. Ltd. ¹		-		-		-		7,954		-		-
Thingsflow Inc.		-		-		-		51,965		9,302,205		-
Tiptoe Games Inc.		-		-		-		2,508		-		-
Krafton Global GP, LLC		-		-		-		-		239,400		-
Krafton Global, LP		-		-		-		-		1,915,200		-
SDS Interactive Canada Inc.		-		-		-		-		470,299		-
5minlab Corp.		-		-		-		-		29,999,948		-
En Masse Entertainment, Inc.		1,515,980		-		-		-		-		-
Sub Total	₩	54,827,025	₩	2,855,750	₩	-	₩	676,336	₩	63,050,086		-
Associates												
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		-		-		-		-		-
Sub Total	₩	640,000	₩	-	₩	16,329,206	₩	-	₩	12,282,010	₩	801,875
Total	₩	55,467,025	₩	2,855,750	₩	16,329,206	₩	676,336	₩	75,332,096	₩	801,875

¹ Transaction amount up to the date of exclusion from the related party is presented.

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

28. Related Party Transactions, (cont'd)

Details of payment guarantee and collateral provided by the Company to the related parties as of December 31, 2023, are as follows:

<i>(in USD)</i>	Description	Beneficiary of guarantee	Currency	Guaranteed amount
Subsidiaries				
Striking Distance Studios, Inc.	Payment guarantee related to rent	Sunset Building Company, LLC	USD	2,280,000
Krafton Americas, Inc.	Payment guarantee related to rent	2121 Park Place Fee Owner CA, LLC	USD	294,538
PUBG Mad Glory, LLC	Office Rent Guarantee	25 West Main Office LLC	USD	1,495,285

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

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
Salaries and bonuses	₩	3,230,313	₩	1,416,079
Share-based payment expenses		7,016,795		(29,448,623)
Post-employment benefits		179,214		179,833
	₩	10,426,322	₩	(27,852,711)

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

29. Operating Segment

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

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

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
PC	₩	555,926,911	₩	428,079,093
Mobile		1,232,241,739		1,239,552,586
Console		40,596,115		76,130,833
Others		9,680,900		24,013,299
	₩	<u>1,838,445,665</u>	₩	<u>1,767,775,811</u>

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

<i>(in thousands of Korean won)</i>	December 31, 2023				December 31, 2022			
	Revenue		Ratio		Revenue		Ratio	
Region								
Asia	₩	1,601,004,481	%	87.08	₩	1,474,693,239	%	83.42
Korea		88,254,105		4.80		92,152,361		5.21
America / Europe		138,376,912		7.53		189,434,731		10.72
Others		10,810,167		0.59		11,495,480		0.65
	₩	<u>1,838,445,665</u>	%	<u>100.00</u>	₩	<u>1,767,775,811</u>	%	<u>100.00</u>

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

<i>(in thousands of Korean won)</i>	December 31, 2023		December 31, 2022	
Major Customer A	₩	1,029,646,403	₩	1,031,843,813

30. Business Transfer

As of January 2, 2023, the Company acquired all business related to the production of the game "Project Blue" and its related operations from the subsidiary Bluehole Studio, Inc. for ₩ 6,000 million. Additionally, as of June 30, 2023, the Company transferred all business related to "Special Project 2" to subsidiary ReLU Games, Inc. for ₩11,222 million. Furthermore, as of October 31, 2023, the Company transferred game production business and its related operations of certain business units to the subsidiary Flyway Games, Inc. for ₩3,293 million. Since these business transfers are the business combination involving entities or businesses under common control, the Company accounted for the business transfers using the book value method.

The consideration transferred for the business related to the production of the game "Project Blue" and its related operations of the subsidiary Bluehole Studio, Inc., and the assets and liabilities acquired on the acquisition date are as follows:

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

30. Business Transfer, (cont'd)

<i>(in thousands of Korean won)</i>		Amount
Consideration transferred		
Cash transferred	₩	6,000,000
Total consideration transferred	₩	6,000,000
Amount of assets and liabilities acquired		
Property and equipment	₩	44,173
Other current financial liabilities		(99,005)
Other non-current financial liabilities		(73,261)
Net defined benefit liability		(73,583)
The book value of the net assets acquired	₩	(201,676)
Investment difference (capital surplus)		6,201,676
Total	₩	6,000,000

The consideration transferred from the subsidiary ReLU Games, Inc. for transferring all business related to "Special Project 2", and the assets and liabilities transferred on the disposal date are as follows:

<i>(in thousands of Korean won)</i>		Amount
Consideration transferred		
Cash transferred	₩	11,221,571
Total consideration transferred	₩	11,221,571
Amount of assets and liabilities transferred		
Other current assets	₩	35,848
Property and equipment		122,849
Intangible assets		480
Other non-current assets		5,230
Other non-current financial liabilities		(91,238)
Net defined benefit liability		(135,257)
The book value of the net assets transferred	₩	(62,088)
Investment difference (subsidiaries) ¹		11,283,659
Total	₩	11,221,571

¹ The Company established ReLU Games, Inc. on June 1, 2023, and transferred all business related to "Special Project 2" on June 30, 2023. The Company deducted the investment difference from the acquisition amount of the investment in subsidiary since it identified the equity contributions in cash and the business transfer agreement as a single unit of account.

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

30. Business Transfer, (cont'd)

The consideration transferred from the subsidiary Flyway Games, Inc. for transferring the game production business and its related operations of certain business units, and the assets and liabilities transferred on the disposal date are as follows:

<i>(in thousands of Korean won)</i>		Amount
Consideration transferred		
Cash transferred	₩	3,292,839
Total consideration transferred	₩	3,292,839
Amount of assets and liabilities transferred		
Other current assets	₩	518,186
Property and equipment		263,132
Intangible assets		4,652
Other non-current assets		124
Other current financial liabilities		(68,576)
Other non-current financial liabilities		(154,755)
Net defined benefit liability		(287,746)
Identifiable assets and liabilities transferred	₩	275,017
Investment difference (subsidiaries) ¹		3,017,822
Total	₩	3,292,839

¹ The Company established Flyway Games, Inc. on September 12, 2023, and transferred the game production business and its related operations of certain business units on October 31, 2023. The Company deducted the investment difference from the acquisition amount of the investment in subsidiary since it identified the equity contributions in cash and the business transfer agreement as a single unit of account.



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Independent Auditors' Report on Internal Control over Financial Reporting

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

We have audited Krafton, Inc.'s (the "Company") internal control over financial reporting ("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 Company maintained, in all material respects, effective internal control over financial reporting 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 separate financial statements of the Company, which comprise the separate statements of financial position as of December 31, 2023 and 2022, the separate 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 separate financial statements.

Basis for Opinion on Internal Control over Financial Reporting

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

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

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

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

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements in the 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. 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.

Report on the Effectiveness of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

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

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

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

KRAFTON

February 8, 2024



Chang Han Kim,
Chief Executive Officer



Dong Keun Bae,
Internal Control over Financial Reporting Officer