klaytn x Finschia

PROJECT DRAGON

Finschia x Klaytn Chain Merge
Supplementary Data and Insights
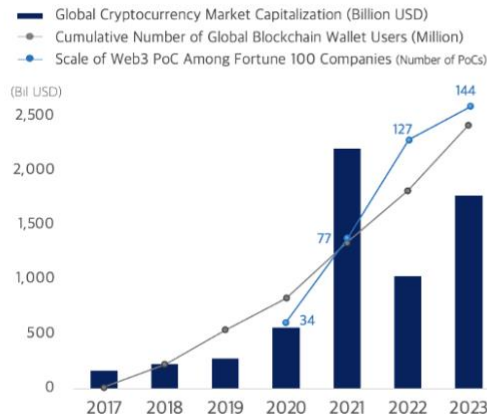
February, 2024

ENGLISH

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1) Past Market Conditions

Blockchain Market Trend

* Source: Coinbase Research, CoinmarketCap, Etherscan

Bitcoin Dominance

* Source: theblock

The existing blockchain market has been characterized as being in the "early stages of a technology transformation," meaning that initial capital inflows are occurring before mass and institutional demand takes hold, while proof of concepts (PoCs) for technology adoption in various industries are taking place. In 2018, capital inflows began with spot trading by global retail investors, and in the three years since 2020, blockchain sector PoCs by Fortune 100 companies have grown by more than 300%, setting the stage for widespread adoption across industries. As a result, the market share of BTC as a simple store of value has been gradually shrinking, and the market capitalization of altcoins that directly or indirectly capture the value of real businesses, services, and physical assets has been steadily increasing.

Value Locked by Category

* Source: theblock

NFT Market Capitalization
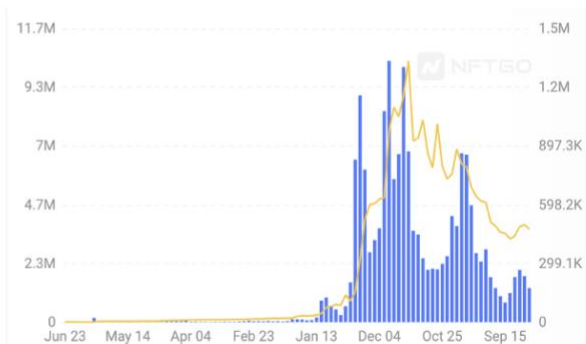
* Source: NFTGo

On the other hand, in January this year, the US SEC finally approved the Bitcoin Spot ETF, which had been expected by the market since the second half of last year. Due to the return of some investors, the market capitalization of Bitcoin recovered 74% from its 2022 peak. Currently, after

the January approval, the response policy of major national financial institutions is still being discussed, and the system and infrastructure are being created before the full-scale capital inflow of institutional investors. In addition, PoCs for the acceptance of technology in industry are also underway, and it can be said that the capital of public companies and users is not yet reflected in the market. As a result, TVL (Total Value Locked) and NFT (Non-Fungible Token) market indicators, which can estimate the size of the financial and commodity markets in the blockchain industry, have only recovered 25% and 20%, respectively, from their all-time highs in 2022.

Thus far, the blockchain market has been in the early stages of technological transformation, first gaining attention as an asset market with capital inflows from global retail investors, and various PoCs for mass adoption in the industry. With the recent approval of the Bitcoin Spot ETF, its resilience as an asset market has been proven, and institutions and infrastructure are being created to accommodate the demand of new global institutional investors. In particular, the influx of new mass users is on the horizon as a result of the industry's PoCs over the past few years. In other words, blockchain has passed the initial stage of technological transformation and is in the early stages of entering a period of technology diffusion and maturity.

2) Ecosystem History & Context

Ecosystem Historical Timeline

Finschia and Klaytn were launched in 2018 and 2019, respectively, as a blockchain layer1 and a smart contract platform for various businesses and services in the nascent blockchain market.

Finschia was first launched as a private blockchain in September 2018, by LINE Tech Plus, LINE's blockchain subsidiary, serving as the issuer and operator. In 2023, we transitioned to a public blockchain to overcome the limitations of a private blockchain and create sustainable tokenomics. We established the Finschia Foundation in Abu Dhabi and partnered with 15 companies, including SoftBank and LINE, to build a new operating system with PoS-based governance. In 2023, we overhauled our tokenomics policy and made changes to make tokenomics more transparent and sustainable, including removing the zero reserve policy and the 1 billion maximum issuance policy.

Klaytn was first launched as a public blockchain in June 2019, with Kakao's blockchain subsidiary GroundX serving as the initial operator. In order to separate mainnet operations from wallet and service operations, Klaytn's operator changed to Krust Universe, GroundX's parent company and Kakao's Web3 investment and incubation company, in the second half of 2021. Since its inception as a public blockchain, it has worked with more than 30 companies, including Kakao and Netmarble, to build PoS-based governance and create competitiveness and assets as a public chain. And in 2023, in order to create greater growth and sustainability as a public blockchain, the Singapore-based Klaytn Foundation, rather than Krust, was changed as the operating entity, and the system was completely reorganized with new strategies, policies, and organizations under the new management. Accordingly, we have been operating for the past year by burning 5.3 billion existing tokens and establishing a new Tokenomics amendment that establishes a transparent operating system based on governance approval.

3) Common Goals, Different Assets

Klaytn and Finschia have the same goal: to become Asia's No. 1 Layer 1 and to democratize blockchain. First, both projects are Layer 1 projects. Layer 1 is not just value storage, but a platform for various services, assets, and businesses based on a smart contract platform. The two projects also have similar assets and narratives in that they involve Line and Kakao, which have large services, IP, and user bases in Asia. Both projects are also focused on the Asian market, which will be a huge competitive advantage as blockchain moves into the mass adoption phase. Both Klaytn and Finschia have so far secured more than 300 and 180 DApps and partners, respectively, in major Asian countries such as South Korea, Japan, Taiwan, Thailand, and Vietnam, and have a total of more than 30 million Asia-focused wallet users. As such, both projects have the same goals and target markets, and at the same time, they also have a strong and common strength: the participation of large Asian messenger operators.

On the other hand, there are very big differences in the existing strategies and assets of the two projects. While Finschia has focused on a mass-market strategy and products that connect users to the mainnet, Klaytn has focused on a public infrastructure and Web3-native strategy. The fact that Klaytn already launched its public blockchain five years ago, while Finschia switched to a public blockchain at the end of 2023, also means that the two projects have taken very different approaches to the same market and have built up different strategies and assets.

Since the end of 2018, when we launched our private blockchain, we have been focusing on creating the infrastructure and services necessary for general services and users to enter the blockchain and web3 world. We have listed Finschia tokens (formerly known as LINK) on a brokerage connected to Japan's Line messenger, and a PoC service that allows users to make payments and rewards based on Finschia tokens at LinePay merchants across Japan. We have also built an on-ramp for Finschia based NFTs to be paid with NAVER Pay, LINE Pay, and Apple Pay, and created an infrastructure that enables users to on-chain multiple web2 services at scale, including NFT trading of Line Stamp, SEGA, and USJ onboarding.

For example, LineNext DOSI, which is based on Finschia, is also expanding its business with a strategy to on-chain Web2 items, memberships, tickets, etc. as digital commerce rather than NFTs, and has secured more than 150 partners in Japan and Korea in about a year. We are also

preparing aggressive projects for mass adoption, such as games based on Line Friends IP and new AI social apps. In recognition of these strategies and assets, LineNext received the largest investment in Asia at the end of 2023. From a technology perspective, we have been focusing more on creating an infrastructure that enables individual games and services to be scalable by adopting Cosmos-based technology and utilizing AppChain or IBC.

Meanwhile, Klaytn has been building "Asia's largest Web3-native strategy and assets" since 2019, when it launched its public blockchain. As a public blockchain, various organizations and users have joined the ecosystem since its inception, and it has been co-operated by more than 30 global governance participants since five years ago. While continuing to build the foundation for mass adoption, such as the Klip wallet and FT/NFT transfer and trading capabilities based on South Korea's Kakao Messenger, we have also implemented strategies to build our brand and presence in the Asian crypto market.

For example, it has built a track record by being one of the first Asian Layer 1 projects to build large-scale De-fi and Web3 infrastructure. With a cumulative track record of $356B+ in on-chain transactions and $1B+ in TVL, we positioned ourselves as the project with the largest on-chain assets and capabilities in Asia. Recently, we've been onboarding a variety of network-exclusive on-chain assets and RWAs. We have partnered with RWA tokenization company Tokeny and joined the ERC3643 RWA Token Association, launched the Gold token, developed ship tokenization products, and tokenized accounts receivable and US Treasury bonds through Elysia. From an infrastructure level, we have built the foundational core features to realize mass adoption, such as Account Abstraction technology. From a technology perspective, we have adopted EVM-based technology that ensures the greatest liquidity and accessibility in the crypto market, securing a rapid position in the layer 1 asset market while building the openness and accessibility that is essential for many startups and DApp developers.

As a result, the two projects have very different assets despite having the same goals and target market. For example, from the perspective of infrastructure and business partnerships, Klaytn has a strong network and various business partnerships with companies that have exploded in the Web3 and crypto markets, such as Binance, Jump Crypto, and the Animoca brand. Finschia has a strong network with operators with assets in traditional industries that are trying to transition from the Web2 market to popularize Web3, such as NAVER, CJ ENM, SEGA, and USJ.

From an organizational perspective, the Finschia Foundation also has a relatively large number of professional staff with the industry-specific expertise and know-how needed to onboard existing Web2 operators and users to Web3 infrastructure and products. There are organizations that have been developing joint businesses or products with core belly data, including LINE, for a long time, and they have the expertise and organizational responsiveness to work with large operators in various industries such as internet, social, content, and finance.

On the other hand, the Klaytn Foundation has a relatively Web3-native strategy and an organizational structure and culture that specializes in fast execution. As a hybrid organization with members based in Singapore, where the foundation is located, and members from various countries contributing to the project, we have built an organizational system and operational know-how that is more specific to the crypto industry, where quick response and execution are essential. Especially when we separated from Crust in 2023 and built the new system of Klaytn Foundation, we have created an organization and culture that is essential to respond to the market in the future.

While these two projects share the goal of becoming Asia's No. 1 Layer 1 and a network with large messenger operators, they have operated with very different strategies from both business, technology, and organizational perspectives, and as a result, they have accumulated different assets and capabilities over the past six years. If the two projects need the different assets and capabilities they have accumulated to survive and create greater growth in the blockchain market in the future, they can use the integration of the two projects as an opportunity.

2. Seven Predictions for the Layer 1 Market

1) The Layer 1 Landscape

If the blockchain or Layer 1 market were already a solid oligopoly and no more new players could be created, the effectiveness of new strategies, including consolidation, would fade. However, the current market is still in the early stages of technological transformation, with a highly fragmented infrastructure and very fluid project growth and rankings.
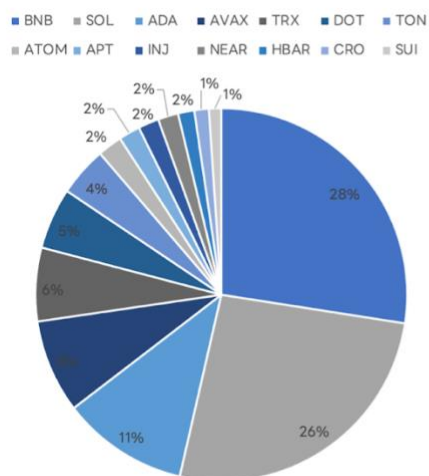
More than 100 Layer 1 projects have launched since 2015, when Ethereum first unveiled smart contracts, and excluding Ethereum, 15 projects currently account for 83% of the total Layer 1 market cap share, with no single project holding more than 30%.

Notably, most of the Layer 1 projects in the Top15 - Sui, Aptos, Asta, Avalanche, Tone, etc. - came to prominence in just 6 to 24 months, with Solana in particular driving a nearly 10x market cap increase in 12 months after the FTX event based on its on-chain growth and ETF narrative, creating a 26% share capture from a 2.5% share. The total market cap of the crypto market is currently around $1. 7T, and BCG and the World Economic Forum estimate that roughly 10% of global GDP (roughly $16T) will be on the blockchain between 2027 and 2030. This means that the current market is still in the early stages of institutional and mass demand, and its growth and ranking in the Layer 1 market could change dramatically depending on its strategy and response going forward.

However, we believe that this market shape and opportunity will not last long, and that the influx of institutional and public capital starting this year will quickly create a mature, sticky market unlike any we have seen in the past. Furthermore, we expect to see the usual provider overshadowing and dominating major providers as the market matures. As a result, layer one tokens that seize the last open market entry opportunities and quickly establish themselves as major league assets

in the market will benefit from rapid growth, while tokens that fail to jump on the bandwagon will find it difficult to create growth momentum and the cost of market entry will become very high.

2) Institutional Demand-Driven Capital Inflows

Until 2023, the blockchain market was primarily a market for global retail investors. The nature of the market, which is internet-based and open to the world 24/7, overwhelmingly favored retail investors, so unlike other technological revolutions where institutional capital inflows occurred first, we have seen capital inflows from retail investors first.

But in the end, the big capital inflows and growth are coming from institutional investors. According to statistics from Bloomberg, institutional investors account for more than 80% of the trading volume in the traditional capital markets. Given the various regulations and restrictions that apply to institutional investors, their share of trading within the same asset class tends to be even higher. Furthermore, the institutional and technical infrastructure for institutional investors is essential for them to be able to actively trade assets in earnest.

That's why the SEC's approval of a Bitcoin spot ETF in the US this year is a major milestone for this market. The approval of an ETF, which has been denied for years due to various risks and market correction potential, means that the entire cryptocurrency market has a new asset class and growth potential. In response, the industry is moving quickly. For example, BlackRock has already filed an Ethereum ETF filing, stating that it is positive about an Ethereum ETF, second only to Bitcoin. We are also already seeing moves by major altcoins to prepare for future ETF inclusion.

Thinking about the next three years, do you anticipate the percentage of your assets invested in cryptocurrency to increase, decrease, or stay the same?

Source: Coinbase

Cryptocurrencies are likely to become an investment vehicle used widely by institutional investors within 3-5 years.
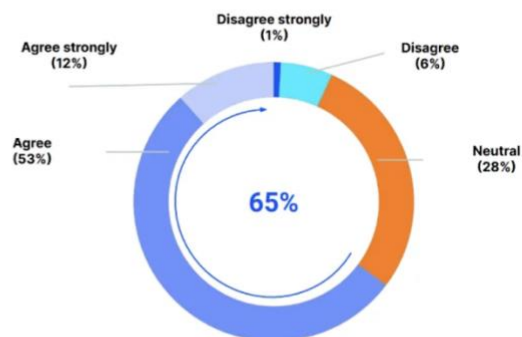
Source: Coinbase

As a result of these changes, global institutional investors are rapidly increasing their interest in cryptocurrencies in general. According to Coinbase's latest survey (November 2023), 45% of institutional investors believe they will increase their allocation to cryptocurrencies in the next three years, and 57% of institutional investors believe the price of cryptocurrencies will increase in the next 12 months - a stark contrast to our 2022 survey, where only 8% of institutional investors sent positive signals. Beyond the investment market, respondents are generally optimistic that blockchain can disrupt real-world industries, including traditional payments and trade settlement markets.

In the Asian market, there is currently a lot of discussion within financial institutions and financial companies following the US SEC's ruling. Considering that the standards for cryptocurrency-related regulations have been set mainly in the United States and Japan since 2016, it can be expected that most countries will make similar responses and build infrastructure for institutional investors to enter the market. In particular, Korea is already the world's leading market for cryptocurrency spot trading, so if the relevant institutions and technical infrastructure are in place, institutional investors can be expected to move quickly and enter the market.

In particular, altcoins with different industrial/technological features other than Bitcoin need to be included in ETFs or to be included in the portfolios of institutions. This is because at this point, the so-called "major league" and "minor league" can be distinguished, and these changes will have a major impact on not only capital inflows, but also recognition, stability, and liquidity, which will have a major impact on the experience from a developer and user perspective in the future. While the criteria are unspecified, based on how license-based exchanges and custodians have operated, we believe that the most important things institutions will look for when considering cryptocurrencies for inclusion in their portfolios will be 1) size and status of the asset, 2) accessibility of the asset, and 3) decentralization and sustainability. As a result, a cryptocurrency's market capitalization and liquidity, its positioning and narrative in the market, its cooperation with various exchanges and custodians, its cooperation with data providers, and the scale and decentralization of its governance will be important, and the future viability and growth of individual cryptocurrencies will depend largely on how and when they meet these criteria.

3) Mass Demand-Based Capital Inflows

Blockchain has so far been primarily an asset and investment market. Since the advent of smart contracts, various dApps and infrastructures have emerged, but there have been few projects that have been maintained as sustainable services and businesses. As a result, the keywords "blockchain" and "Web3" are often used in the media as an industry, but it is difficult to find examples of real-life or general app experiences by ordinary users.

Blockchain technology is not just a UI change, but a technology that improves the underlying economic structure and user behavior of businesses and services, which makes it more time-consuming and expensive to adopt in real life. For example, when a game company adopts blockchain, they need to consider the impact on the game economy, governance, and gamer behavior, as opposed to simply responding to mobile devices. This presents an opportunity to create a different level of gamer engagement and game sustainability, but also requires more research and development and user testing.

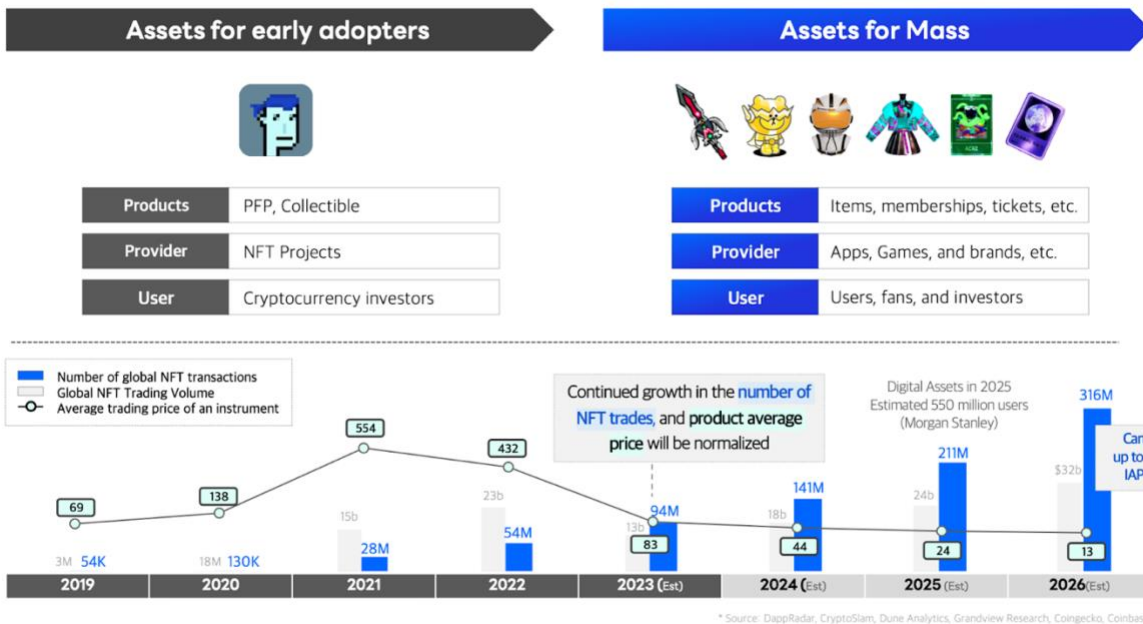## Fortune 100 Web3 Investors by Number of Deals

Note: includes deals from Q1'17 to Q2'23

Source: The Block Pro Research, 2023

In fact, blockchain-based PoCs in industry have been happening for longer than any other technology. In the last three years, 52% of Fortune 100 companies have conducted PoCs on Web3, a number that has recently increased by more than 300%. And these PoCs by existing businesses and service providers are not limited to areas such as gaming or finance, but also include infrastructure, data, marketing, loyalty programs, ticketing, and the service economy.

Within Line and Kakao, we have also been conducting various PoCs based on blockchain and cryptocurrency. In addition to token trading within the messenger, Line has been testing technologies such as trading stamps for NFTs and creating messenger profiles and avatars based on NFTs. It is also developing and patenting an SDK that directly tokenizes assets and items on Web2, giving users ownership and enabling trading. Kakao has also been offering the ability to store and trade FT/NFTs in its messenger-based wallet since 2019, and recently tested an open chat service based on NFT authentication.

	Assets for early adopters
Products	PFP, Collectible
Provider	NFT Projects
User	Cryptocurrency investors

	Assets for Mass
Products	Items, memberships, tickets, etc.
Provider	Apps, Games, and brands, etc.
User	Users, fans, and investors

Legend:
- Number of global NFT transactions
- Global NFT Trading Volume
- Average trading price of an instrument

Continued growth in the number of NFT trades, and product average price will be normalized

Digital Assets in 2025 Estimated 550 million users (Morgan Stanley)

Can grow up to 27% of IAP GMV

2019	2020	2021	2022	2023 (Est)	2024 (Est)	2025 (Est)	2026 (Est)
69	138	554	432	83	44	24	13
3M 54K	18M 130K	28M / 15b	54M / 23b	94M / 13b	141M / 18b	211M / 24b	316M / $32b

* Source: DappRadar, CryptoSlam, Dune Analytics, Grandview Research, Coingecko, Coinbase

The PoCs of these various companies have made a lot of progress over the past three years, and are maturing to the point where they are figuring out the best way to utilize blockchain and cryptocurrency for their respective industries and business attributes, rather than just jumping on investment buzzwords like P2E. For example, Finschia's LINE NEXT has built infrastructure, SDKs, and services to trade digital goods such as game items, memberships, and tickets, not just NFTs, and has attracted partnerships with more than 150 industry-specific operators over the past year. In fact, most web2 operators are not interested in providing investment products based on NFTs, but rather in a new service environment where internet users can own and trade digital goods in the future. From this perspective, we believe that NFTs are a different kind of digital goods and ownership that can grow in the form of a lower unit price but a significant increase in the user base and number of transactions. If it grows as a mass market, the "digital goods and ownership transaction market" captured by NFTs can grow into a transaction market of 27% of the global in-app payment (IAP) within three years.
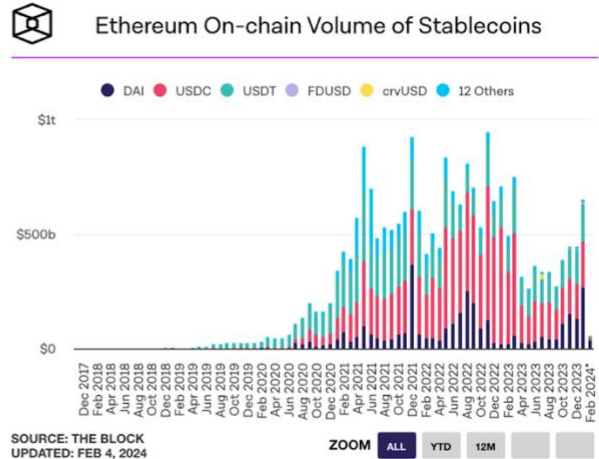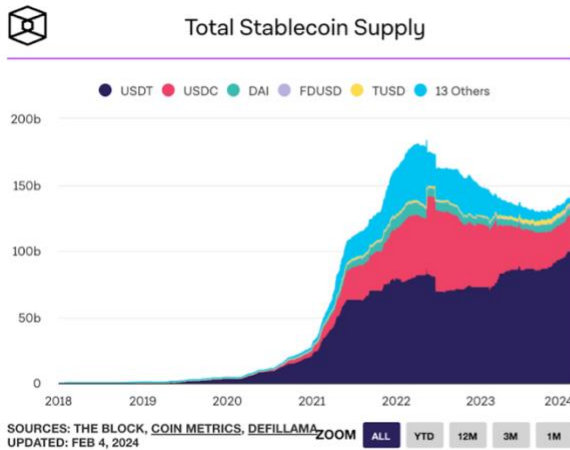
4) Performance Driven Growth Based on On-chain Data
Until now, the market capitalization and price of cryptocurrencies have been influenced more by short-term marketing, such as listings and partnerships, than by performance, and there has been a lack of metrics to measure or compare the fundamentals of cryptocurrencies, including Layer 1. As a result, even retail investors have often traded based on rankings or volatility on exchanges, or relied on information from influencers or communities.

DEX to CEX Spot Trade Volume (%)

SOURCES: THE BLOCK, THE GRAPH, COINGECKO
UPDATED: JAN 26, 2024

Burned ETH after EIP-1559 (Daily)

SOURCE: THE BLOCK
UPDATED: FEB 4, 2024
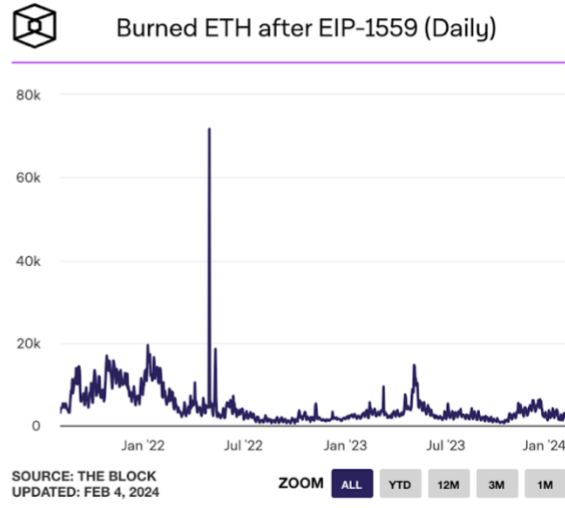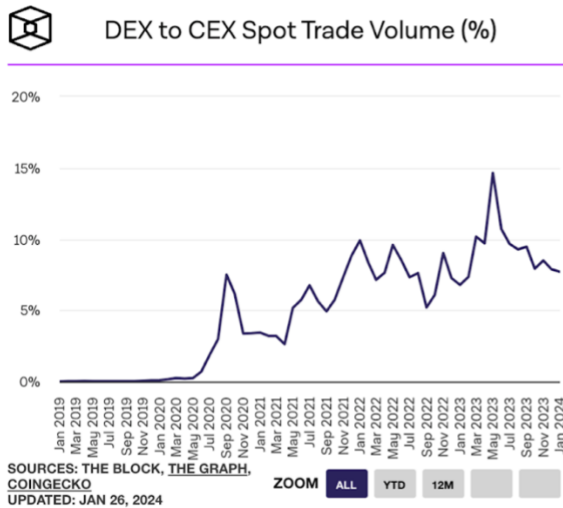
However, starting with the 2022 bear market, the market situation changed quickly and market participants became very sober. Investors began to realize that all cryptocurrencies other than BTC need to prove their worth. Investors began to use valuation models based on on-chain metrics such as TX, TVL, NFTs, and others, including the supply and demand of tokens on the network, with examples of supply burn models starting in EIP 1559. This led to stricter review and standards for token issuance policies, as well as the creation of exchange rules and regulations to oversee issues related to supply that affect token value. This will continue to accelerate, especially with the influx of institutional investors. This is because institutional investors will be dealing with assets that can create economies of scale and prove intrinsic value, rather than experimental tokens with low market capitalization and illiquidity that talk about growth potential through branding or marketing.

This shift represents a transition to a mature marketplace where tokens are valued and ranked based on their past and present performance on-chain, not on off-chain trading volume, branding, or marketing. Starting in early 2023, global exchanges will also begin to emphasize on-chain performance and metrics as a very important part of their underwriting policy, with less emphasis on qualitative underwriting such as off-chain brand and strategy. As a result, the bar for new CEX listings continues to rise, and DEXs are becoming an increasingly important part of crypto trading. We're seeing a sharp decline in the number of projects listing on large exchanges first, unless they're new minting on Launchpad or keying in on a new technical trend like BRC or Inscriptions. And even then, projects that don't have a strong enough on-chain track record and activity aren't seeing the same post-listing performance as in the past. For example, when we analyzed the effect of listing on core exchanges over time, we found that the effect of listing alone on price movements was reduced to about 80% in two years.

Total Stablecoin Supply

Legend: USDT, USDC, DAI, FDUSD, TUSD, 13 Others

SOURCES: THE BLOCK, COIN METRICS, DEFILLAMA
UPDATED: FEB 4, 2024
ZOOM: ALL | YTD | 12M | 3M | 1M

Ethereum On-chain Volume of Stablecoins

Legend: DAI, USDC, USDT, FDUSD, crvUSD, 12 Others

SOURCE: THE BLOCK
UPDATED: FEB 4, 2024
ZOOM: ALL | YTD | 12M

The value of transactions backed by stablecoins is very important, especially among on-chain data. Stablecoins are expected to play a key role as an on-ramp channel for institutional and retail investors in the future, as they show much faster resilience than general cryptocurrency market capitalization. Stablecoins are also indispensable in terms of popularizing cross-border DApps. In this respect, the on-chain transactions of stablecoins tend to create a growth trend much faster even in bear markets, unlike the TVL or trading volume of the entire DEX, and the cooperation, network, and track record of stablecoin issuers are becoming very important for Layer 1 valuation. Therefore, as a Layer 1, building a native stablecoin and securing an on-ramp channel for institutional/individual investors has become an essential requirement for survival. At the same time, the cost of working with major global stablecoin issuers and distributors has been increasing rapidly as their importance and demand in this market has grown, meaning that unless you are a Layer1 with already on-chain assets and a track record or a solid position in the market, you may be forced to wait for a long time, even with large grants.

We also predict that the Layer 1 burn model, which began with EIP-1559, will become an important standard for proving value in the Layer 1 market in the future. While we are currently testing burn models on transaction fees and governance layers, we believe that in the future we may see a market where the only way to outperform is to create financial performance and token burns within the business model of the blockchain or foundation itself. This will put the burden of scale and proof of value on Layer 1s like never before. If they don't prove their worth, they will be ignored by not only institutional but also mature retail investors.

Web3-native strategies, assets, and execution will be critical to responding quickly to these changes. This is because a strategy that targets Web2 companies and users from a mass-market perspective inevitably means onboarding companies and users who are unfamiliar with crypto and on-chain activities. When companies offer Web3 services to mass users, they often adopt strategies that limit the assets and data they on-chain, and these strategies tend not to lead to on-chain activity in the short term. Therefore, Web3-native strategies, sales, and marketing are more important than Web2 company and mass user acquisition in order to create an on-chain track record, gain market acceptance as a Layer 1, and attract external capital.

For example, as an open public blockchain infrastructure, it is important to attract the participation and contributions of experimental Web3 teams or teams that create a large presence in the trading

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market with new technology keywords. It is also necessary to build a strong network with key global stablecoin issuers, on-chain data providers, and liquidity providers based on the existing track record and status, and quickly expand on-chain assets. Furthermore, it is important to collaborate with web3 marketing companies, liquidity providers, crypto influencers, etc. to further spread these achievements within the blockchain market and promote capital inflows.

Projects that create these on-chain track records and narratives are receiving capital from the market right now, expanding liquidity and strengthening their fundamentals. From this perspective, it is clear that Layer 1 strategies aimed solely at expanding mass adoption and attracting web2 assets are unlikely to prove value in the short term, and strategies that quickly establish a presence within the existing on-chain market and crypto-capital will become increasingly important, especially as on-chain metrics-based analytics and data dissemination become more sophisticated and ubiquitous, and incoming institutional and new retail investors will be more inclined to commit capital based on on-chain metrics.

5) The Birth of Layer 1, Representing Asia
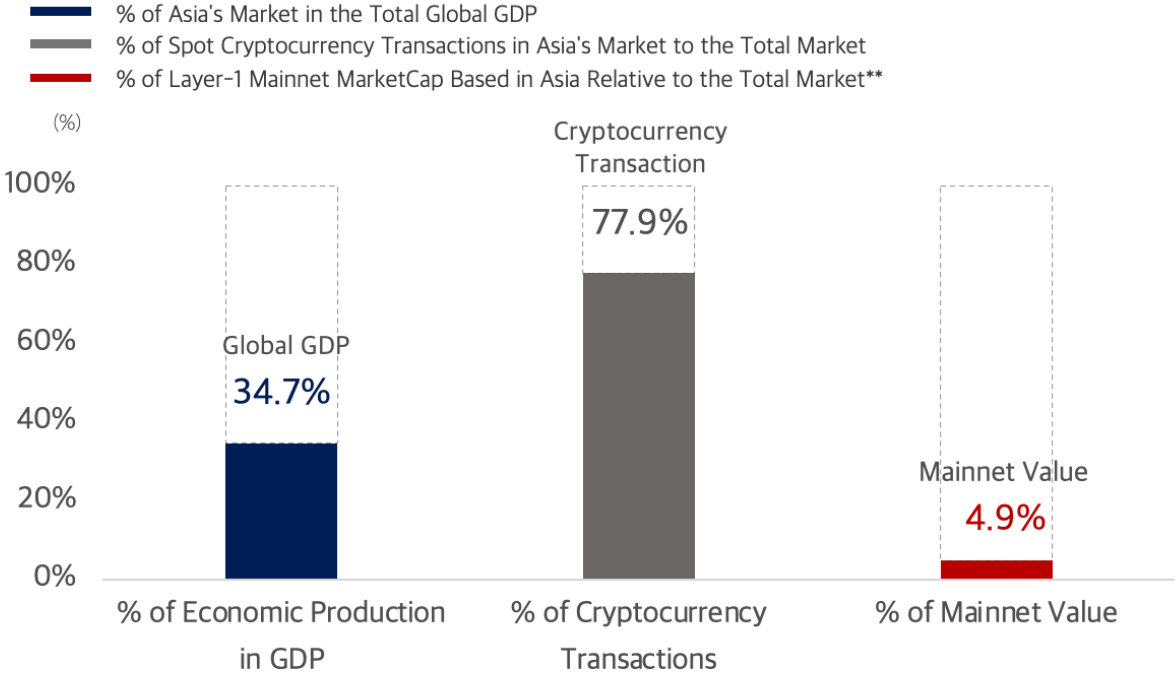
Finschia and Klaytn view Asia, including South Korea and Japan, as a key market, and have built the largest business infrastructure and networks in the region, respectively. We believe that the Asian market has a very special place in the blockchain industry and is expected to have very high growth potential.

First, Asia plays a key role in the global economy, accounting for 34% of the total global gross domestic product. Its presence in the global market is gradually expanding, especially after 2020, as Asian technology, content, and services create demand in global markets, including North America. In particular, the Asian market's position in the cryptocurrency trading market is unique. In terms of cryptocurrency spot trading, 77% of the global total comes from Asian markets, including South Korea and Japan.

On the other hand, the market capitalization of layer 1 blockchains based in Asia or targeting the Asian market is only about 5% of the total global market. This means that much of the liquidity in Asia's huge crypto spot market is not coming from the tokens of Asian-based projects, but rather from projects based in non-Asian regions.

This is partly due to the fact that Asian projects have not shown growth and credibility, and partly due to the fact that the blockchain market, like other tech industries, is dominated by international projects based in North America that were born first and dominate the overall market. It is also due to the fact that the on-chain infrastructure and services that support it, such as MetaMask, Blur, Twitter, and Discord, are built around the North American market, so on-chain metrics created by early adopters, not exchange traders, still favor the non-Asian region.

In fact, from 2020 to the market bull run of 2022, various Layer 1 mainnet competitions took place in Asia, and while many Asian projects were launched with support, most did not survive. While international mainnets have launched initiatives in various Asian countries, including South Korea and Japan, market volatility and challenges due to language and cultural differences have prevented most developers from seeing real results, with the exception of a handful of teams that can only target international users.

Even after that, there was no Layer 1 that established a strong foothold in the Asian market, and countries are still fragmented and competing. In terms of individual countries, Klaytn gained global attention in South Korea during the 2022 bull run, creating the highest market share and on-chain activity in Asia. Due to South Korea's significant influence in the global crypto market, the track record and positioning it established led to collaborations with global top-tier partners such as Binance, Animoca Brand, and JumpCrypto, and it has since maintained its position as a major player in Asia. Finschia's mass adoption strategy in Japan, South Korea, and Southeast Asia resulted in the largest user base in Asia, but it did not translate into capital inflows or performance based on on-chain activity. Since then, individual projects such as Japan's Asta have emerged in the past year or so, but it is still early days and no operator has established a dominant position in the Asian market or generated significant on-chain activity.

Fiat Volume Market Share

KRW ■ USD ■ 10 others
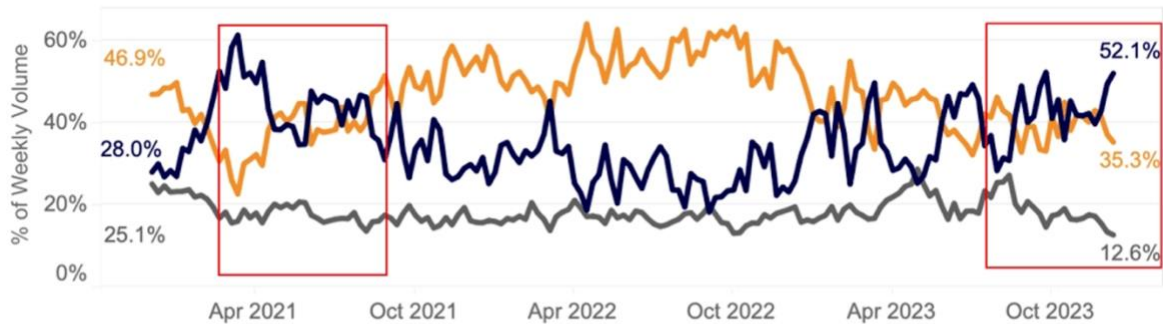
Source: Kaiko Liquidity Asset Metrics. 10 others include: eur,gbp, aud,jpy, brl, chf,rub,uah,mxn,try.

If a Layer 1 operator emerges that builds strong dominance and positioning in Asia, we expect to see very significant growth and a virtuous cycle. In particular, KRW-based cryptocurrency trading and on-ramps in South Korea have grown to become the number one currency globally, and recently became a higher percentage (52.1%) of transactions than USD. South Korea has a higher acceptance of altcoins other than Bitcoin and Ethereum compared to other countries. While BTC and ETH typically account for more than 50% of transactions on Coinbase and spot exchanges in other countries, around 80% of transactions in South Korea come from altcoins, including the new Layer 1.

In addition, although spot trading in other Asian countries such as Japan, Taiwan, and Thailand is not as high as in Korea, the demand for spot trading and investment is increasing compared to the past due to the recent deregulation and fostering policies for the Web3 market. Due to this change in the environment, many global projects are attracted to projects based in Korea and Asia to create new growth engines by building a network of users, investors, and communities in Asia.

Given the specificities of the Asian region, we expect that tokens in layer 1 that create performance and asset status in the Asian market, including Korea, can quickly gain high liquidity and asset status, and build a position that creates demand in the global market. And to realize this in a short period of time, the team that has been creating various infrastructures and performance from a web2 and web3 perspective in various countries in the Asian region will have to challenge with quick execution.

6) New Decentralization Requirements in the Market

In the blockchain market, the criteria or evaluation of decentralization has evolved over time. Initially, it was seen as something to be selected simply from a technical performance perspective, but more recently it has been used in terms of national regulatory responses, including securities, and as an indicator to assess the health and sustainability of a project.

Essentially, decentralization is necessary to remove a centralized authority that controls the network, distribute power to various participants to increase transparency, security, and trust, and minimize the risk of single points of failure. Decentralization can also encourage user participation and increase the diversity and sustainability of a blockchain. And since 2022, how decentralized a network is has emerged as an important criterion in the criteria for identifying securitization, which has been a hot topic. Both Klaytn and Finschia have not conducted public ICOs, and as decentralized blockchains, they have already been thoroughly prepared for this risk, and both blockchains are PoS-based and actually operate a variety of companies and user-delegated governance.

Since the securities controversy became a big topic in the market, there has been a trend of decentralization being viewed as an important consideration by operators that serve as infrastructure for global exchanges or institutions. In particular, there is a consensus that if a project is structured in such a way that a single entity can actually lead the project, and the risks of a single entity can be magnified to the risks of the entire blockchain, it is not sustainable as a blockchain, and this can lead to user harm. There are also cases where certain exchanges are withholding listings based on these internal criteria, although it is not a stated criterion. In other words, this trend is not a law or an explicit regulation, but it is a clear consensus of market participants, and the fact that the major layer 1 blockchains in the market today do not have a neutral foundation, but the actual governance is decentralized to many companies or individuals is a testament to this. In other words, in order to survive and grow in the market in the future, it is essential to have a system and governance that can prove that the risks of a particular company are not transferred to the risks of the blockchain.

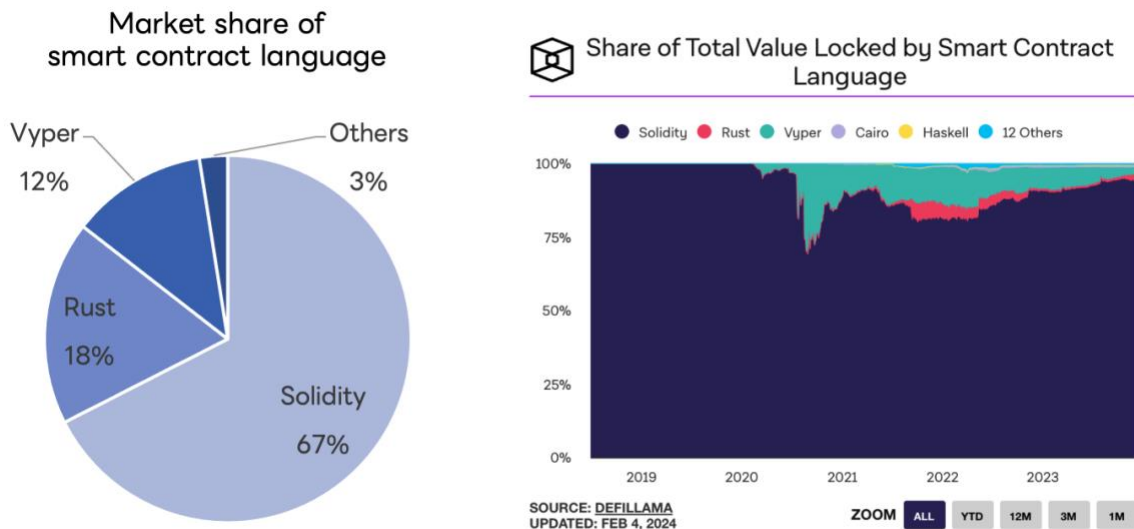| Participants	Case 1	Case 2
Institutions' ratio (%)	100%	0%
Users' ratio (%)	0%	100%
Result	Decentralization Failure	Business Failure

Conversely, there is also a flip side risk of governance being dominated by an unspecified majority, with no institutional or corporate participation. This is because all layer 1 projects, except for Ethereum, which already has a mature global developer and investor community in an open environment, require certain institutions and companies to play a role in building the initial

ecosystem with strong contributions. In the case of Finschia, with its zero reserve-based issuance policy, the combined volume of all governance companies and institutions, including Line, is less than 10%. While this is a very powerful weapon from a decentralized and community-based policy perspective, it structurally creates uncertainty in terms of initial ecosystem building and project growth. This is a very real risk for exchanges and large partnerships, and one that needs to be addressed in terms of future growth.

In other words, we believe that the most ideal decentralization for the layer 1 market in the future is one where various companies and institutions hold tokens and focus on actively contributing to the ecosystem and creating demand for tokens with a clear incentive alignment, but no single company acts as a de facto operator or is recognized as capable of doing so. In other words, it is important to bring in big companies that can move the market and leverage their assets, but make sure that the blockchain is decentralized enough. In addition, if there is a structure that allows companies to check each other's strategies and execution that are essential to the ecosystem even within various companies based on user delegation, it is expected that the market will recognize it as a community-based project, and healthier and faster growth will be possible.

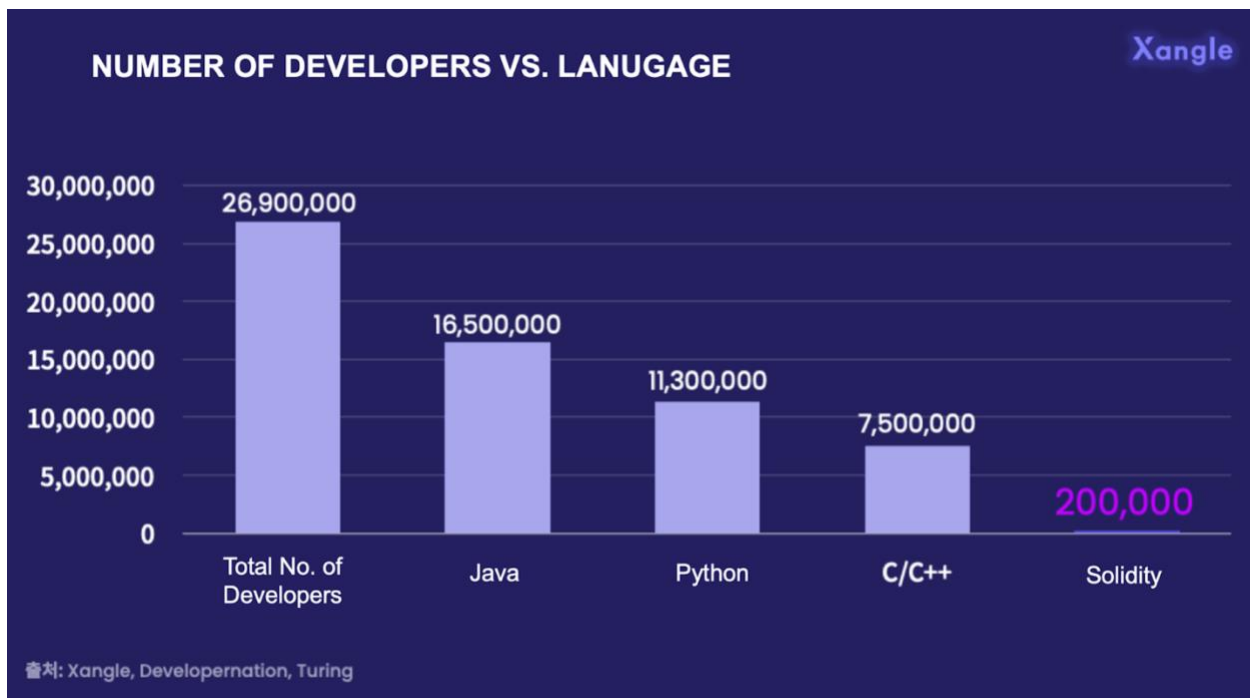## 7) Blockchain Development Language Landscape

Until now, the blockchain market has been characterized by the adoption and development of Ethereum-based virtual machines (EVMs) as the mainstream technology. Since the 'Merge' upgrade, which marked the transition to Ethereum's Proof of Stake (PoS) model in 22, EVMs have been improving through the Ethereum Improvement Proposal (EIP), aiming for higher transaction processing speed, scalability, and efficiency.

Market share of smart contract language

Vyper 12%
Others 3%
Rust 18%
Solidity 67%

Share of Total Value Locked by Smart Contract Language

Solidity · Rust · Vyper · Cairo · Haskell · 12 Others

SOURCE: DEFILLAMA
UPDATED: FEB 4, 2024

Through this initial first-mover advantage and continuous development, Solidity's share has now grown to 67% of the total market, while Ethereum TVL accounts for more than 80% of the total

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blockchain market TVL. Therefore, we believe that the demand for EVM-based decentralized applications (dApps) will continue to exist as the mainstream of the market.

Meanwhile, at the center of the Cosmos ecosystem is CosmWasm. This is a smart contract platform that allows developers to create dApps that can operate on various blockchains based on Cosmos. CosmWasm solves problems caused by imperfections in the EVM and solidity languages (such as reentrancy attacks), providing greater security, and supporting a wider range of general-purpose development languages. Cosmos is especially recognized in the blockchain industry for its flexibility and interoperability, and its user-friendly design and adoption of the Inter Blockchain Communication (IBC) protocol allows it to support connections between different chains. These advantages make it the fastest growing technology with the highest penetration rate after EVM.

In particular, most developers outside the blockchain industry use traditional programming languages such as Go and Rust rather than Solidity, and CosmWasm currently supports Rust, which is a useful development language, and has a roadmap to support additional popular languages such as Go in the future.

As a result, we expect both EVM and CosmWasm to coexist and grow in the market. Early developers are more likely to create various dApps based on EVM, and in the future, as the blockchain itself becomes more popular, incoming developers are more likely to embrace CosmWasm. Therefore, the market will be driven by Layer 1 and blockchain infrastructures that provide compatibility and development environments optimized for these two VM technologies. In particular, we believe that Layer 1, which provides an integrated dApp development environment that is compatible with the EVM and Cosmwasm ecosystems by providing an IBC that enables connectivity with BFT and EVM-based chains, will be able to respond to the broadest technology demand.

3. Finschia and Klaytn, Essential Strategies for New Growth

As shown above, there have been very big changes in the blockchain and cryptocurrency market in the past 1-2 years, and there will be even more radical changes in the next 1-2 years, and Finschia and Klaytn will only be able to grow if they quickly respond to the upcoming market changes and create momentum, even if they are not integrated. In the following, we will discuss in five parts what strategies and actions both blockchains targeting the Asian market must take to survive and create significant growth in the future amidst these market changes. We will also discuss the implications and synergies of integration in the execution of each strategy, given the assets of each blockchain.

Key Market Strategies & Status

Category	Key Market Strategies	Status	
		Finschia	klaytn
1. Building Economies of Scale and Addressing Institutional Demand	1) Asset Scaling and Leadership Positioning: Building asset leadership based on market capitalization, liquidity, and narrative.	X	O
	2) Maximizing Asset Accessibility: Enhancing asset accessibility through CEX/DEX listings, and partnerships with custody/data distribution companies.	X	O
	3) Decentralization and Sustainability: Scaling governance, increasing decentralization, and establishing a stable distribution structure.	O	O
2. Web2/Web3 Two-Track Strategy	1) Providing Web2 Corporate Infrastructure: Building and providing infrastructure for onboarding Web2 institutions (SDK, API).	O	X
	2) Offering Products for Web2 Users: Providing wallet and market services for fiat on-ramp and Web2 users.	O	X
	3) Utilizing Line and Kakao Assets: Linking and integrating Web3 features to existing Web2 infrastructure.	O	O
	4) Onboarding Major Services/IP: Exclusive integration of Line's Web3 businesses and products (Friends game, AI social app, major IPs, etc.).	O	X
	5) Large-scale DeFi Ecosystem: Building large-scale DeFi infrastructure and securing the largest transactions and total value locked (TVL) among Asian Layer 1s.	X	O
	6) Native Stable Coin Infrastructure: Moving forward with the development of stable coin infrastructure.	X	O
	7) Public Goods Infrastructure: Offering public onboarding environment and technical support for global developers.	X	O
	8) New Tokenomics: Establishing sustainable tokenomics based on token burn mechanisms.	X	O
3. Asian Market Preemption and Response Strategies	1) Country-specific Business Development in Asia: Developing businesses and localizations for key countries such as Korea, Japan, Vietnam, Taiwan, Thailand, etc.	O	O
	2) Asian Community Boost: Strengthening community and user onboarding in key Asian countries.	O	O
	3) Korea-specific Initiatives: Strategies and execution to stimulate the demand for spot trading in Korea.	X	O
4. Maximizing Interoperability and Compatibility	1) EVM Infrastructure: Offering compatibility and a foundation based on EVM (Ethereum Virtual Machine) stack.	X	O
	2) CosmWasm Infrastructure: Offering compatibility and a foundation based on CosmWasm stack.	O	X
5. Response to New Decentralization Requirements	1) Decentralization: Strengthening decentralization of governance, validators and chain security.	X	X
	2) Establishing a Foundation for Growth: Securing long-term, tangible partnerships with institutions and users.	X	O
	3) Enhancing Community Participation: Offering governance and new DAO programs centered on user delegation and community participation.	O	X

1) Building Economies of Scale and Addressing Institutional Demand

As analyzed in the market forecast, it is estimated that the blockchain market could contain 10 times the value of the current cryptocurrency market capitalization within three years. It is also estimated that institutional investors who will enter the cryptocurrency market will account for more than 80% of the liquidity in the market. Depending on how and when they can respond to this demand, which will be in full swing from this year, projects will be strictly divided into major and minor leagues. Those categorized as major league cryptocurrencies will continue to experience network effects during the market's growth period and may experience uncharacteristic growth, while those categorized as minor league cryptocurrencies will likely disappear from the market as the cost of creating new changes and growth quickly increases.

Therefore, both Finschia and Klaytn need to build a system that can respond to these changes as soon as possible. First, in terms of the size and status of their assets, since institutions basically run large-scale funds, it is necessary for their investment targets to exceed the minimum standards of market capitalization and liquidity, and it is also essential to be included in many kinds of indexes. For example, to be included in one of the S&P cryptocurrency indices, the S&P Cryptocurrency LargeCap Index, a company must have a market capitalization of at least $1B and a three-month median daily trading value (MDVT) of at least $1M. To be included in the other index, the Bloomberg Galaxy Crypto Index, an asset must be in the top 25 by market capitalization and have a market capitalization weight (relative to the combined market capitalization of the top 25 assets) of at least 1%. Based on these criteria, 12 cryptocurrencies are currently included, ranging from Bitcoin to XLM (Stellar, $3.2 Billion). Several other indexes exist, such as the Nasdaq Crypto Index and the MarketVector Digital Assets Index, which have in common that they are primarily composed of the highest market capitalization crypto assets. If Finschia and Klaytn were to merge, they would build a market capitalization of around $900M+ and quickly meet the above market capitalization and liquidity criteria.
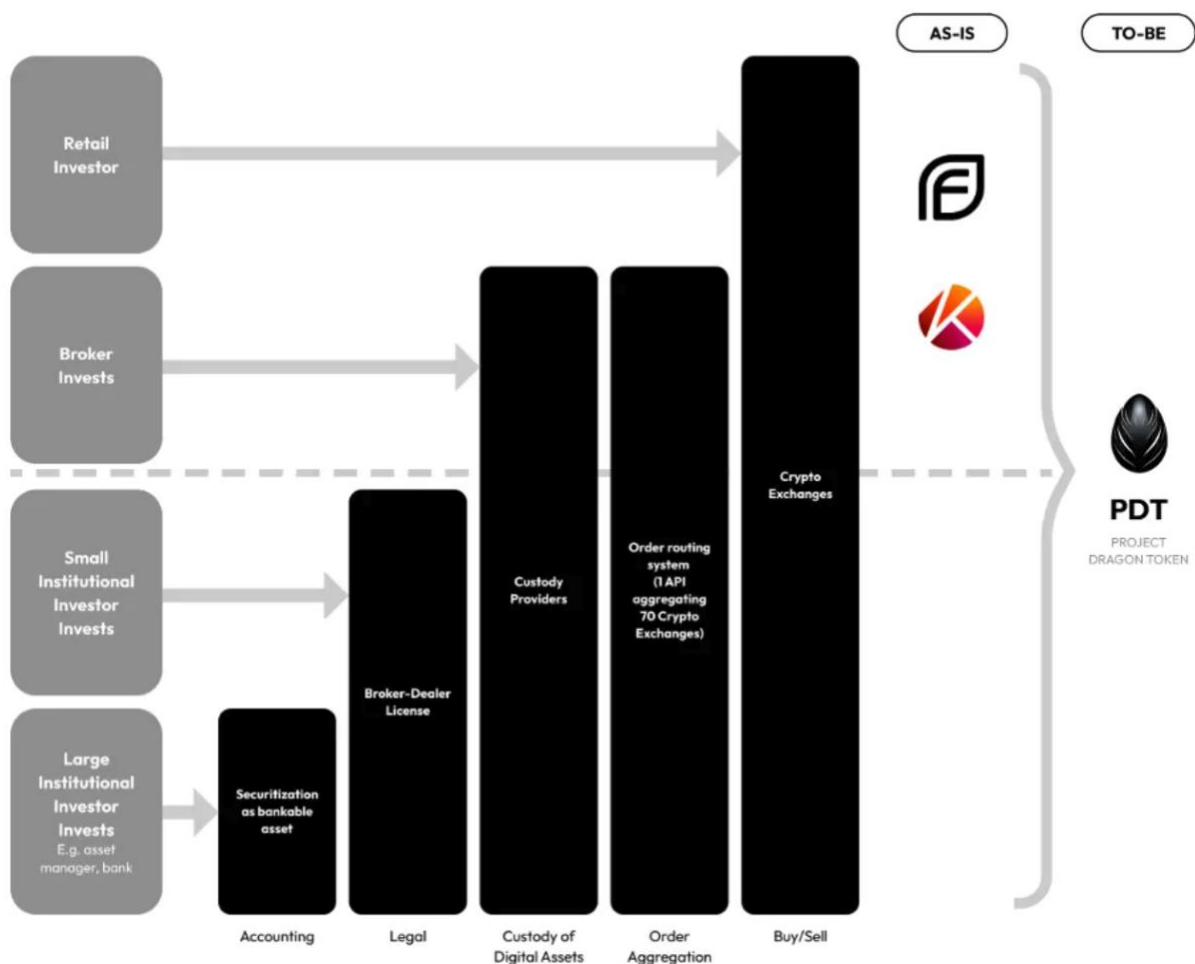
Next, in terms of accessibility of assets, the infrastructure required by institutional investors is not limited to crypto exchanges, but also includes cooperation with various custodians, brokerages, and data providers/distributors.

First, collaboration with custodians is necessary because there are many constraints, including security and financial issues, that prevent institutional investors from storing and managing cryptocurrencies on their own. Second, custodians are similar to exchange listings in terms of accessibility because institutions often make investment decisions based on the list of assets managed by custodians. In fact, since the approval of the ETF, we can observe that new custodians are acquiring various security and audit licenses (ISO, SOC, etc.) to meet the demand and high standards of institutional investors.

In addition to the S&P Cryptocurrency Index mentioned above, there are many examples of trusted global custodians such as Bitwise and BlackRock that have integrated chains, and conversely, since these custodians only handle selected assets with limited resources, such as exchanges, they need to be prepared in terms of 1) market capitalization and market position, 2) universality of technology, and 3) decentralization and stability. Institutional investors often buy

and sell in large units through intermediaries, so they also need a brokerage to do so. LINE has a brokerage business, but brokerage operators screen assets with the same criteria as exchanges and custodians, and in most cases, those with few on-chain metrics or small market capitalization are not eligible.

Finally, we also need to work with various global crypto data providers/distributors. The trading price and liquidity data for our indexes are provided by specific data providers, who also rely on listings, prices, and volumes from major exchanges. For example, the S&P uses data from Lukka Inc. which includes exchanges such as Binance, Coinbase Pro, Crypto.com, Gemini, Huobi, Kraken, and OKX as supported exchanges.

Both Finschia and Klaytn will need to accelerate business development and strategic alliances to address this institutional demand regardless of integration, and Klaytn can build on the partnerships and pipeline it has already created as a public chain to rapidly expand its infrastructure, including custody and brokerage. This is because Klaytn has been investing heavily in infrastructure since the beginning of the market and has been listed on more than 100 CEX/DEX, and is connected to most wallet providers including MetaMask and major data providers/distributors such as Messari. In addition, business development with various brokerages and custody companies is already actively underway.

In the case of Finschia, there are service assets and networks that have been created through cooperation with global fintech and financial companies including LinePay, which are important assets for establishing partnerships with custodians and brokerage companies in terms of new products or services. However, from the perspective of incorporating Finschia tokens in custody and brokerage for institutional response at the stage of opening the public chain recently, it is a situation that requires time and investment in the future. In addition, custody, brokerage, and data analytics businesses have infrastructure attributes and are generally conservative and quantitative in their cooperation. Therefore, building a large-scale infrastructure and network requires cooperation based on our position in the on-chain market, not just grants or sales. Therefore, we believe that it will take at least a year and a large investment to internalize all of these assets and networks.

If integrated, we believe that Finschia and Klaytn can leverage their respective assets to jointly execute a strategy to address these institutions without additional cost and time. We believe that Klaytn will be able to leverage the infrastructure and network it has built over the years as a public chain, and Finschia will be able to leverage the assets it has built through its collaboration with fintech services such as LinePay, giving it a more favorable head start in responding to institutions.

In addition, the positioning and narrative of the project in the marketplace is also crucial to addressing institutional investors and partnering with relevant infrastructure companies. Currently, most major blockchains have a solid narrative with a very clear target market and features, and they are constantly strengthening their positioning from an industry and community perspective. Finschia and Klaytn have been positioned primarily as projects of a single messenger operator, but that doesn't imply a target market or feature set, so their growth narrative has limitations. In particular, we believe that institutional investors may view the value of individual companies as limiting the upside of the blockchain, or that the risks of individual companies may be transferable

to the blockchain as a whole. Therefore, we believe that a standalone strategy has its limitations and that it is more advantageous to integrate and establish its status and positioning as "a blockchain driven by the largest corporate and user governance in Asia, including Line and Kakao".

In addition, if consolidated, we would like to expand the number of participants from 45 corporate governance to 100 from a governance perspective, and create a more decentralized blockchain based on user delegation to create the most advantageous position in Asia in terms of responding to institutional demand.

2) Web2/Web3 Two-Track Strategy
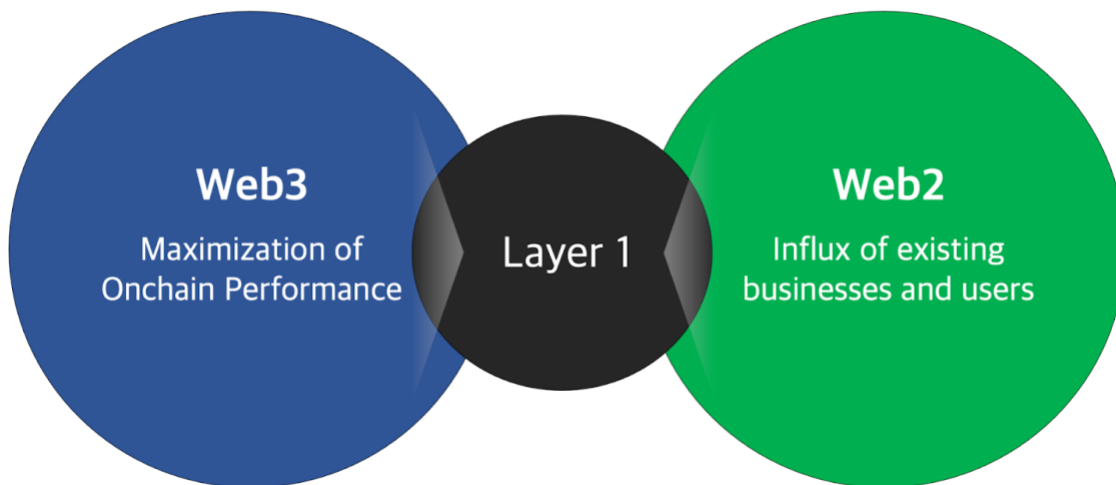
In order to generate significant growth and be properly valued in the crypto market going forward, it will be necessary to achieve both of these goals: 1) performance based on on-chain metrics, and 2) scalability, including mass adoption. The clearest and strongest driver of capital and liquidity in the crypto market right now is on-chain activity metrics, and this will be a top priority when institutional and retail investors come on board. At the same time, it's imperative to have a track record from a democratization perspective, which the existing layer 1s have not achieved. This is because there is a consensus in the market that on-chain metrics alone do not tell us how much Layer 1 is creating popular products, user acquisition, and off-chain economic value. For example, if an app with 10 million users has 100,000 on-chain users and a sustainable business model, it's hard to say that the off-chain value it creates is lower than an app with 300,000 on-chain users out of 500,000 total users and a highly uncertain business model. From this perspective, Finschia and Klaytn should move their goals to rapid growth and positioning in the Web2 and Web3 areas regardless of integration, so that they can not only survive, but also move to major league projects in the future and generate significant growth.

This on-chain metrics-based performance and growth in terms of popularization can be explained by separating the Web3 strategy and Web2 strategy, respectively. A Web3 strategy means following the success equation that already exists in the crypto market to bring key on-chain metrics such as TX, TVL, and NFTs to scale, and building a strong network and collaboration with Web3 operators that can facilitate this. This strategy goes beyond just listing on CEXs and DEXs and includes partnerships to facilitate liquidity, partnerships with major stablecoin operators, partnerships with infrastructure providers such as wallets and custodians, partnerships with leading players in the crypto space such as NFTs, RWA, and Oracle, and partnerships with chain data analytics platforms. Meanwhile, the Web2 strategy goes beyond maximizing capital inflows and liquidity in the crypto market to onboarding assets and capital from existing Web2 businesses and users onto the chain. This requires middleware and products that can be used not only by the mainnet, but also by general Web2 businesses and users. These strategies include providing a different wallet and UI, providing easy-to-use SDKs and APIs for non-blockchain businesses, providing applications and account abstraction technology for integration with existing businesses, cross-border cash transaction and settlement infrastructure, mass-targeted marketing support packages, and strategic partnerships with large IPs.

As for the Web3 strategy, Klaytn has already built up a significant global network and assets. It has the largest TX, TVL, and NFT on-chain track record in Asia, and its presence in the global crypto market is clear: it has a large retail investor base in South Korea and the largest general purpose layer1 in the country, which opens up many opportunities for collaboration. Specifically, Klaytn already has more than 90 DApps and infrastructure services onboarded in the Web3 space, and many of the leading Web3 teams such as Binance, JumpCrypto, and the Animoca brand are included in our governance partners. We are also listed on more than 100 CEXs and DEXs, and we are ready to cooperate with promising global exchanges that are being established in the process of moving into the crypto system. We are also preparing to launch in the area of native stablecoins and large-scale De-fi deployment, with plans and business development already well advanced. The business development of wallets, custody providers, infrastructure, data analytics, and other businesses required to attract institutional investors and activate on-chain indicators is also largely complete. These are assets that Klaytn has already built a public blockchain and invested heavily in five years ago.

If Klaytn's web3 assets are connected to the Finschia ecosystem, the existing Finschia ecosystem operators and users can also benefit. For example, dApps can quickly onboard and develop using the infrastructure that Klaytn already has through past investments (Oracle, Node API service, global bridges such as Wormhole / Layerzero, various development tools, analytics services, etc. In addition, since Klaytn already has services such as Superwalk and Defi Kingdom, as well as various Defi protocols native to Klaytn, various dApps can interoperate. For example, a new DeFi that is onboarded to the integrated chain can offer benefits to DOSI's users, such as swapping at a discounted fee or staking at a higher rate. In terms of assets as well as services, the Klaytn blockchain is diversifying and onboarding a number of proprietary on-chain assets and RWAs to the network. It has partnered with RWA tokenization company Tokeny, joined the ERC3643 RWA Token Association, launched the Gold token, developed ship tokenization products, and tokenized accounts receivable and U.S. Treasury bonds with Elysia. These assets can also be used as new opportunities for both developers and users in the Finschia ecosystem.

Meanwhile, in terms of our Web2 strategy, we have already accumulated many assets in the Finschia ecosystem. Since 2018, we have implemented various functions related to token trading, FT, and NFT based on Line Messenger. We have provided online and offline merchant crypto payment and reward services based on Line Pay, and we have also launched a new service that

connects NFTs with profile avatars in Messenger. In particular, based on DOSI, which is strongly integrated with Finschia, we have built platforms and products that make it easy for web2 business operators in various areas such as games, content, tickets, and memberships to create and distribute digital goods. We have completed on-ramp implementation based on Apple Pay, Line Pay, and Naver Pay, and were the first in Asia to implement a service for cross-border payment and settlement of blockchain assets between users based on cash. Based on these middleware and products, Finschia has secured more than 150 web2-centric partners in Japan, Korea, Taiwan, Thailand, and the United States in about a year. In recognition of these assets, LINE Next attracted KRW 180 billion in investment, the largest in Asia as of last year. As reported, LINE is also preparing aggressive products and projects for mass adoption in the future, such as Web3 games based on LINE Friends IP, new AI social dApps, and Web3 games from SEGA. The platform and product assets for onboarding these large web2 companies and users is a strategy to onboard capital from external companies and mass users, which is difficult to secure in the existing on-chain market, and is an essential asset to generate significant growth in the future.

If Klaytn and Finschia are integrated, these assets that Finschia has can be utilized by various developers and users in the Klaytn ecosystem. Based on DOSI, developers and project teams in the Klaytn ecosystem can conduct various businesses and marketing targeting general users in Asian countries including Japan. For example, they can collaborate with affiliates in Japan to create line stamp collections and facilitate transactions with NFTs. In particular, the DOSI SDK is a platform that allows not only web3 companies, but also general game companies, brands, ticket operators, etc. to easily assign ownership to digital goods in existing databases and enable users to transfer and trade them, and we expect that it will enable web2 companies in the Klaytn ecosystem to more actively adopt blockchain. Considering that the number of companies and investments providing blockchain infrastructure or products for web2 companies and users has decreased dramatically since 2022, the assets for Finschia's web2 strategy are highly valuable in the current market, and it would take a very long time and investment to acquire these assets and competitiveness from scratch.

			Finschia	klaytn
Lunched	Governance	Web 2	5	6
		Web 3	11	30
	Dapps	Web 2	150+	20+
		Web 3	3	150+
	Liquidity	CEX	7	50+
		DEX	0	13+
		Partner	2	2
	Wallet & Custody		3	25+
	Data & Analytics		2	10+
	SUM		**183+**	**300+**
On-going Pipelines	Governance	Web 2	2+	0
		Web 3	4+	5+
	Dapps	Web 2	50+	0
		Web 3	2+	50+
	Liquidity	CEX	5+	5+
		DEX	2+	10+
		Partner	1+	2+
	Wallet & Custody		0	3+
	Data & Analytics		0	3+
	SUM		**66+**	**80+**

The differences between Finschia and Klaytn's existing ecosystem dapps, infrastructure, and assets, as well as the current pipeline of onboarding and business development projects, are even more stark. Finschia is highly streamlined for web2-based mass adoption, while Klaytn is highly specialized for business development with web3-native teams.

As such, a Web2 and Web3 two-track strategy is essential to be recognized for both current and future value in the market, and a lack of either as a Layer 1 requires a very long period of new investment. In fact, most executives of Layer 1s that have grown over the past year or so are considering a strategy of building assets through Web3 plays and mass-marketing through Web2 plays.   We believe that Finschia and Klaytn have the largest track record and assets in the Asian market in the web2 and web3 space respectively, and if each blockchain were to acquire these assets as a standalone strategy, it would be very costly and time-consuming, which could result in missing very important market timing. Therefore, we believe that Finschia and Klaytn need to integrate to dramatically reduce the amount of time and money they need to spend and to be able to respond quickly to future markets.

3) Asian Market Preemption and Response Strategies

As mentioned earlier in the market situation, the current Asian blockchain market has great specificity and growth potential. Since 2022, overseas Layer 1s have made a lot of business development and investment in the Asian market, but it is still fragmented. There are an increasing number of cases where Asian companies that signed contracts with overseas Layer 1 operators in 2022 have been unable to overcome cultural and market specificity barriers and have terminated the cooperation. At the same time, we believe that creating a meaningful track record and presence in the Korean and Asian markets, which drive more than 70% of global cryptocurrency spot trading, can create greater growth potential than other regions. This includes not only activation in the Asian market, but also the effect of attention and capital inflow in crypto markets in North America, Europe, etc. based on their presence in the Asian market.

Therefore, it is time for both Finschia and Klaytn to go all out to create a strong positioning within these Asian markets in the short term, regardless of integration. There are already flares to build new ecosystems in different Asian countries, and we believe that these flares have not yet overtaken Klaytn and Finschia's existing track records, assets, and networks. However, given the current market conditions, where cryptocurrency rankings are becoming more volatile and institutional investors are making moves, it is necessary to create a solid presence in the Asian market and create a network effect as soon as possible.

Countries such as South Korea, Japan, Vietnam, Thailand, Singapore, and Taiwan are important in the Asian web3 market. South Korea, in particular, is a leader in spot trading, and we believe it will have a significant impact on the crypto market going forward. Japan, while not yet having much retail spot trading, has a lot of value to offer Web2 companies and industries in line with its blockchain-friendly government. However, Japan has been leading the way in cryptocurrency regulation since 2018 and has a culture of cautious adoption of new technologies, so there is a possibility that adoption cases will come from a popularization perspective rather than a strategy to attract capital from existing global markets based on on-chain performance. Vietnam, Thailand, and Taiwan are also fast-growing markets that are considered important for building strong communities and on-chain activity in Web3 markets. Singapore is becoming a hub for Asian crypto businesses, and the consensus in the industry is that the bases and networks in Singapore and Abu Dhabi will continue to drive the Web3 space.

We believe that if Finschia and Klaytn combine their existing coverage in these countries, they will be able to cover all of these key Asian countries. Klaytn has an overwhelmingly strong presence in South Korea from a corporate and retail investor perspective. Klaytn has also invested heavily in Vietnam and Singapore. It has a significant amount of business development with the Vietnamese community and local operators, and has had a local team in Singapore for over a year, building up a lot of network and operational capabilities. Finschia, on the other hand, has experience and assets in Japan, Taiwan, Thailand, and Abu Dhabi. We have a local Web3 team in Japan, and we have an organization and internal assets that have been working with Line affiliates on Web3 for a long time. We also have a good understanding of regulations and markets through our consultations with local entities in Taiwan and Thailand, and we have been building up various networks with local crypto communities based in Southeast Asia over the past year.

We also established the Abu Dhabi Foundation last year, so we have a network of institutions and know the latest regulatory and market conditions. This is why we chose to base our foundation in Abu Dhabi when we integrated.

Finschia and Klaytn have built up different assets in these important countries, and if we were to follow our own strategies to build new assets, networks, and business development in these countries, it would require a new investment period. Therefore, if Finschia and Klaytn integrate, we believe that business development within these key Asian countries can be shared and carried out very efficiently, and as a result, we can build an aggressive business development system that generates results in multiple countries very quickly. In addition, since many companies in Asia target the Asian market cross-border, increasing the number of base and target countries within an organization inevitably creates synergies within it. For example, Korean companies want to enter Japan and Southeast Asia, and many Japanese companies also want to do business or build communities in Korea. The rapidly growing presence of the Korean market in the digital marketplace, especially through the effect of the Korean Wave, is creating a cross-border economic zone centered on Korea.

Furthermore, Klaytn has experience participating as a CBDC operator in Korea, and Finschia has experience collaborating with global fintech companies such as LinePay. Currently, the limitation of the existing fintech industry or CBDCs is that no cross-border protocols or networks are emerging. Assuming that a blockchain-based cross-border financial infrastructure will be established in the Asian market in the future, and that various fintech companies and blockchains will participate in it, we expect that there will be new opportunities for integrated blockchains.

In addition, if Finschia and Klaytn are integrated, we plan to not only increase the coverage of business development in each country, but also run a boost-up program to onboard crypto communities and users in each country. Currently, the communities in Asian countries are mostly dispersed, and only a few people participate in the web3 community centered in North America due to language and cultural barriers. We believe that by utilizing the existing networks of Finschia and Klaytn in each country, we can build a cross-border Web3 community in Asia, including Korea, Japan, Vietnam, Taiwan, and Thailand. We believe this can be an asset that not only strengthens the integrated blockchain community, but also creates very strong demand in the Web3 market as a whole. We also plan to leverage the brand presence and influence that Klaytn and Finschia have in the Korean market to create new initiatives to increase spot demand in Korea. We expect South Korea to continue to lead the crypto trading market, and we plan to use different strategies and operations to gain a higher share and position in the South Korean spot market.

As both blockchains have different base countries and expertise, we believe that if we share our assets, networks, and pipelines, we can not only have business coverage in all major countries in Asia, but also build new business synergies and community assets.

4) Maximizing Interoperability and Compatibility

As mentioned in the market analysis, EVM (Solidity) is still the development language of choice for the blockchain market, and CosmWasm is growing and becoming more accessible to non-blockchain developers.

The mainnet and smart contract markets are still very much in flux. For example, Ethereum's market share is actually declining, as it's only used by about 3% of the internet population. One reason for this is that mainnet ecosystem participants and users all have different cultures, languages, and value systems. Ethereum, for example, has an extreme libertarian focus on decentralization. However, it is unlikely that these values will convince companies and people in many Asian countries in the short term, so Layer 1 will need to be very flexible in responding to the market going forward.

To summarize, the current smart contract market is an EVM-centric oligopoly, with CosmWasm growing by targeting a larger mass market, and we believe these two technologies will coexist. EVM can be utilized as an advantageous technology to create liquidity and performance today, and CosmWasm can be utilized as an advantageous technology to create a little longer and bigger growth. Therefore, there are already cases in the market that not only EVM affiliated chains, but also CosmWasm based networks are trying to build compatibility and collaborate with both ecosystems or make technical connections (e.g. IBC).

In this situation, Finschia and Klaytn need to internalize assets for both technologies and respond to the market regardless of integration. Finschia and Klaytn have already been doing a lot of research and development on the compatibility of both technologies based on their respective mainnets, as there is a risk of being left behind depending on when and how market demand changes.

The integration of Finschia and Klaytn will allow both development teams to utilize their existing assets to implement EVM and CosmWasm compatible mainnets in the most efficient way. For example, issuing base tokens and broadening the base on EVM, which has favorable liquidity, first, and then encouraging onboarding on Finschia's already-ready CosmWasm base when targeting larger dApps or enterprises, can be done in the most efficient way to respond to market demand. In addition to providing compatibility within one chain, there are also cases in the market today where different mainnets are operating to respond to market demand. Therefore, we believe that integrated blockchains can provide compatibility in a way that can have the greatest impact at the lowest cost, taking into account existing technical assets, market practices, and the situation of dApps that are scheduled to be onboarded on each blockchain this year.

If Finschia and Klaytn were to provide this compatibility on their own, it would require a significant development period and investment to internalize and deliver both technologies, and since each development team has been working on their respective technologies for the past 5+ years, we believe it would require a very large investment to acquire new technology assets. These costs include not only the cost of development, but also the cost of specialized business development and marketing based on a specific smart contract language, and the cost of building a network in the market. In addition, there are practical difficulties such as the inefficiency of handling both

technologies within one development team, and the prioritization of technology investment in favor of more immediate business development tasks. Therefore, we believe that the integration of the two blockchains and the simultaneous internalization of the technology assets of both blockchains is the strategy that will provide the lowest cost organization and capability to respond most agilely to market demand for smart contracts in Asia.

5) Response to New Decentralization Requirements

As we've analyzed in the market context, the market now has different requirements for layer 1 decentralization than in the past, meaning that decentralization and governance strategies must be executed as a core strategy in terms of country regulation, exchange listings, partnerships with large corporations, attracting institutional investors, and enabling nascent ecosystems, rather than simply for technical performance.

And as analyzed earlier, a form of governance that meets the multiple requirements of the current market must be

1. Be led by a single company to ensure that the risks of the company do not become the risks of the blockchain.
2. Realization of sufficient decentralization, including multiple users and enterprises
3. Aligning the incentives of core enterprises and institutional participants and encouraging their active participation and utilization of their assets.

Finschia and Klaytn believe that even independent of integration, policy adjustments and improvements must be made to meet the requirements and standards of these new markets, and only then can the foundation for removing structural limitations and achieving greater growth as a Layer 1 be created. In particular, responding to these governance requirements is not a future task, but an immediate task that needs to be executed. As described in the previous section on market changes, recent partnerships with large global IP companies and negotiations for listing on certain exchanges have already caused these governance issues, which are a major obstacle to growth as a Layer 1.

Finschia is currently in need of structural changes that will allow key institutions and companies to more strongly drive the growth of the ecosystem, and utilize their assets and capabilities to revitalize the ecosystem. Klaytn, on the other hand, needs a strategy for achieving a higher level of community-driven decentralization through things like user delegation. While it is physically possible for each blockchain to do this separately, we believe that there may be many procedural difficulties. There is a risk that the ecosystem will eventually fail to reach consensus and remain stuck in limbo for a long period of time, resulting in very high opportunity costs in the market. This is evidenced by the fact that many layers1 have structural limitations in governance that cannot be easily addressed in the short term. Therefore, we believe that a strategy to move forward with the very fundamental and important task of improving the governance of blockchain is to create great momentum in the ecosystem, removing legacy in one step while creating greater competitiveness and growth.

Predictions for circulation and voting power by market participants

Participants		PDT(MM)	Ratio(%)
Governance	**Kakao Affiliates**	573	10.7%
	LINE Affiliates	330	6.2%
	Other Institutions	849	15.9%
Holders		3,216	60.3%
Ecosystem Fund		170	3.2%
Infra Fund		200	3.7%
SUM		**5,338**	**100%**

* The numbers are estimated based on the date the proposal materials were distributed, and some figures may differ at the time of integration due to inflation or other factors within each blockchain.
* To aid understanding, the figure excludes the 360,000 FNSA that LINE subsidiaries had previously deposited in Finschia governance. The use of this quantity, aside from Staking, has not been determined.

If the two chains are integrated, we will be able to realize a stable contribution structure for the revitalization of the new ecosystem by more than 45 companies and institutions leading the Web2 and Web3 fields, such as Line, Kakao, SEGA, Binance, and Jump Crypto. We also believe that if wallet users, who still hold more than 60% of the circulating volume, participate in governance through delegation, we will be able to realize a very sound governance that can keep certain companies or foundations in check without any problems as in the existing Finschia. Moreover, the integrated blockchain has declared a policy of providing weighted user delegations. This will allow for even greater decentralization and soundness than before.

In particular, if it is integrated, there is no longer a Finschia governance and Klaytn governance, but one governance and one ecosystem for the development of tokenomics. There will be no competition between the two ecosystems, and a single PoS based on the tokens of 45 companies/institutions and the tokens of users will be realized, and it will be the largest web3 governance with the largest number of institutions and users in the current Asian market.

The two foundations have a long history of agreeing on the importance of user delegation and community participation. Finschia has been working to create a user-delegated ecosystem since the beginning of its public governance operations, encouraging DAOs and community-based projects to represent users. Klaytn also had a clear plan for user- and community-driven DAOs and governance participation in the roadmap announced by the Klaytn Foundation system. In the

Integrated Governance, they declared their strategy to activate and weight user delegation, and in the revision, they explained their support for existing communities. In this context, the integrated Foundation has plans to establish a new community DAO program where communities can directly participate and operate within the 20% limit of the DEF (Dragon Ecosystem Fund).

Through this integration, Finschia and Klaytn will be able to overcome all the governance limitations and shortcomings of the two existing blockchains and build the most ideal governance in terms of 1) ecosystem growth and 2) community-driven decentralization. We are also confident that by building the largest Web3 governance in Asia, we will be able to proceed much more efficiently and effectively with all the mentioned projects.

4. Reactions from Key Ecosystem and Industry Players

Since the release of the integration proposal, both foundations have received positive messages and inquiries about new collaborations from a variety of organizations and companies, both internal and external. Please refer to the comments from key ecosystem participants that are publicly available.

LINE Yahoo Corporation

Communication Company CEO

본 통합을 통한 핀시아가 규모의 경제와 기술력 향상을 이루어내고, 다양한 아시아의 개발사들의 활발한 참가가 가능할 것으로 기대하고 있습니다. LINE 관점에서도 다양한 웹3 서비스와 사업을 더 적극적으로 전개할 수 있기를 기대하고 있습니다.

"We anticipate that this integration will enable economies of scale, enhance technological capabilities, and secure a variety of developers from Asia. From LINE's perspective, we also hope to more actively expand various Web3 services and businesses."

Softbank

프로젝트 드래곤 통합 블록체인을 통해 새로운 규모의 경제를 구축할 수 있을 것으로 기대하고 있습니다. 통합 프로포절의 투표에서 시장의 이번 판단이 매우 중요하다고 생각하고 있습니다.

"We anticipate that this blockchain integration will enable the creation of a new economy of scale. We believe that the market's judgment in the voting on the integration proposal is very important."

CIRCLE

VP, Asia Pacific & CEO Singapore at Circle

두 거대 프로젝트의 통합은 매우 흥미진진하며, 앞으로 어떤 결과를 가져오게 될지 매우 기대됩니다.

"This a super exciting merger of giants, fascinated to see where this could lead!"

Animoca

Animoca Digital Research

클레이튼과 핀시아 간의 통합 제안은 대규모 시너지 기회를 창출하여 아시아 웹3 산업의 성장을 가속화할 수 있는 잠재력을 지니고 있으며, 애니모카 브랜드 및 파트너들은 아시아 웹3 산업에 함께 기여할 수 있는 좋은 위치에 있다고 생각합니다.

"The proposed merger between Klaytn & Finschia has potential to expedite growth of the Asian Web3 industry through creating massive synergistic opportunities, and Animoca Brands & partners are well positioned to contribute to the booming Asia Web3 industry together."

SEGA

Singapore Managing Director

본 통합으로 기술 개선과 규모의 경제 구축이 모두 가능할 것으로 생각합니다. 또한 아시아의 많은 게임 및 개발 회사들이 웹3 서비스 및 사업을 더 적극적으로 전개할 수 있다고 기대하고 있습니다.

"We believe that this integration will enable both technological improvements and the creation of economies of scale. Additionally, we anticipate that many development companies in Asia will be able to more actively deploy Web3 services and businesses."

Ground X

CEO

그라운드엑스는 블록체인 기술 발전과 글로벌 비즈니스 강화 등을 위한 진화의 여정을 클레이튼 메인넷과 함께 해왔습니다. 그라운드엑스는 핀시아와 클레이튼이 추진 중인 메인넷 통합 프로젝트에 높은 기대감을 가지고 있습니다. 아시아 최고의 사용자 접점 프로젝트의 개발 및 발굴, 실제 서비스 제공을 위해 협업할 수 있기를 희망합니다. 그라운드엑스는 사용자 친화적 서비스들을 클립(KLIP) 지갑에 연동하는 등 다양한 사업적 모델을 구상하도록 하겠습니다.

Ground X has been on a journey of evolution with the Klaytn mainnet for the advancement of blockchain technology, decentralization, and the strengthening of global business. Ground X holds high expectations for the mainnet integration project being pursued by Finschia and Klaytn. We hope to collaborate on the development and discovery of Asia's top user touchpoint projects and the provision of actual services. Ground X will plan various business models, such as integrating user-friendly services into the KLIP digital wallet platform.

MarbleX

CEO

클레이튼과 핀시아 거버넌스 위원회의 핵심 멤버로서, 저희는 두 메인넷의 통합을 진심으로 환영합니다. 해당 전략적 협력은 아시아 웹3 시장을 강화할 뿐만 아니라, 마블엑스 커뮤니티를 위한 혁신적인 솔루션과 독보적인 기회를 위한 길을 열어줄 것입니다.

"Being a key player in the Klaytn Governance Council, we wholeheartedly welcome the integration of Klaytn with Finschia. This strategic collaboration not only strengthens the Web3 landscape in Asia but also paves the way for innovative solutions and unparalleled opportunities for the MARBLEX community."

Blockchain Association Singapore (BAS)

Executive Director

싱가포르 블록체인 협회는 경제의 규모의 힘을 잘 알고 있으며, 이번 통합 제안은 바로 그 역할을 할 것입니다. 아시아 최대 규모의 웹3 생태계를 구축함으로써, 우리는 통합 재단과 협력해 웹3 채택을 촉진할 수 있을 것이라고 믿습니다. 이 전례 없는 움직임이 아시아 웹3 입지를 강화하고, 협회의 구성원들에게 매우 큰 가치를 창출할 것이라고 확신합니다.

"As an ecosystem builder, Blockchain Association Singapore is all too aware of the strength of numbers, and this proposed merger will do just that. Through the creation of the largest Web3 ecosystem in Asia, we believe that the merged entity will be able to drive faster and better mainstream Web3 adoption through an improved and more efficient network. We are confident that this unprecedented move will produce a better, stronger Asian presence on the global Web3 scene and create exponential value for the members of our association's ecosystem."

Chilliz

Founder & CEO of Chilliz and Socios

클레이튼과 핀시아 합병 제안의 열렬한 팬입니다. 클레이튼과 핀시아가 정말 놀라운 일을 해냈다고 생각합니다. 이번 통합건은 블록체인 생태계 M&A의 미래입니다. 그 길을 선도해 나가는 두 생태계에 기대와 찬사를 보냅니다.

"I'm a big fan of this merge proposal. I think that Klaytn & Finschia did an amazing job. This is the future of M&A in blockchain ecosystems. Kudos to them to lead the way."

Hashkey

서로 다른 지역을 중심으로 활동하고 있는 두 체인의 결합을 통해 웹3 산업 전체가 다음 단계로 나아갈 수 있을 것이라고 생각합니다. 해시키그룹은 클레이튼과 핀시아의 제안을 결합에 대한 제안을 지지하며 이 혁신적인 변화를 통해 더 많은 기회를 만들어 낼 수 있도록 최선을 다 할 예정입니다.

"Hashkey, as a Klaytn Governance Council member, believes that the Merger of the two major chains in different regions will elevate the Web3 industry to the next level. We endorse the proposal and will do our best to generate more opportunities from the innovation."

Keplr

네트워크 효과(Network Effect)와 규모의 경제는 블록체인 생태계 성공의 가장 근본적인 요소입니다. 기존에 파편화되었던 '아시아 주요 블록체인' 생태계가 통합한다는 점에서 네트워크 효과 증가를 기대할 수 있을 것으로 보입니다

"The network effect and economies of scale are the most fundamental elements for the success of the blockchain ecosystem. The integration of the previously fragmented 'Asian blockchain' ecosystem is expected to increase the network effect."

neopin

CEO

클레이튼은 암호화폐 거래와 유동성 인프라가 장점이고, 핀시아는 대중화 확장성이라는 성장 잠재력이 매우 크다고 판단합니다. 양 생태계가 각자의 특성을 잘 살려 병합된다면 블록체인 시장 내 영향력을 더욱 강화할 수 있을 것으로 기대합니다.

"Klaytn is known for its advantages in digital asset transactions and liquidity infrastructure, while Finschia is evaluated to have significant growth potential in terms of mass-market scalability. If the two ecosystems can successfully merge while leveraging their respective strengths, it is expected that their influence within the blockchain market will be further strengthened."

5. Post-Merge Roadmap

1) Chain Merge Key Milestones & Roadmap

**CHAIN MERGE ROADMAP & KEY MILESTONES**
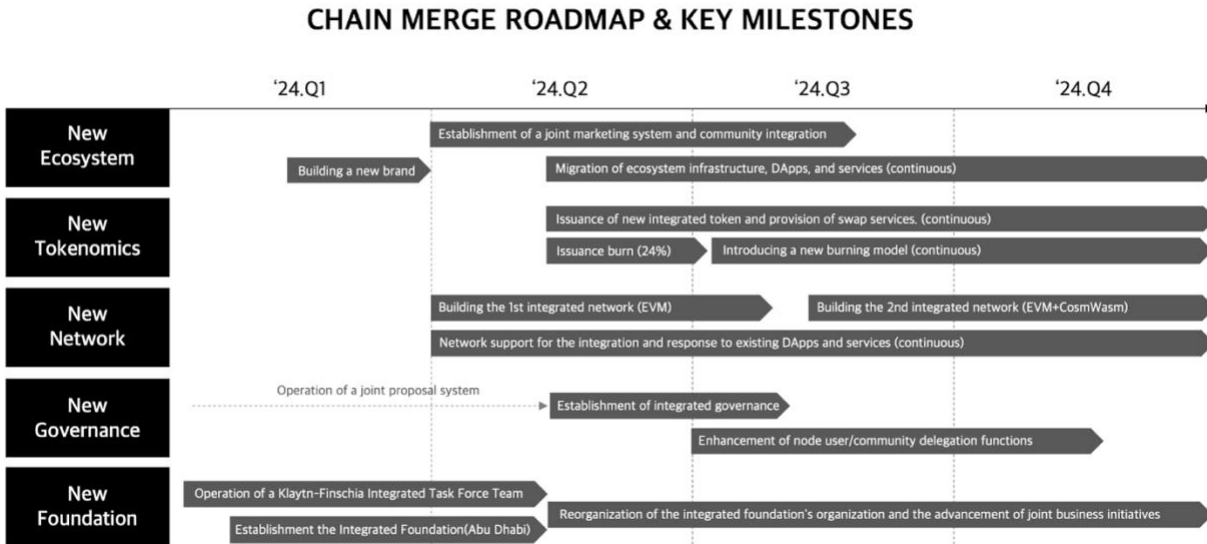
As previously announced, the blockchain integration will be conducted in the most efficient form by utilizing assets from each blockchain. The integration will be carried out within the goal of issuing the integrated token and launching governance within the second quarter. In addition, the integrated token will be issued and swapped based on Klaytn's EVM chain, which is advantageous from an initial liquidity and capital inflow perspective. We aim to implement the integration in the shortest period of time in a form that makes full use of existing assets without any impact on the market, and we plan to thoroughly manage it so that neither blockchain nor the foundation incurs any opportunity costs in the market.

In particular, the integration work will be carried out by forming a separate integration TF, and the business development and ecosystem expansion work that both blockchains have been promoting will be carried out separately. In particular, both foundations have been contacted by various global partners since the announcement of the integration proposal, and they believe that this is the effect of the momentum of the integration. Therefore, if the integration is confirmed, they plan to leverage the integration in a short period of time to establish partnerships with key participants in the ecosystem early.

2) Roadmap for Ecosystem Growth

Merged Ecosystem Growth Roadmap
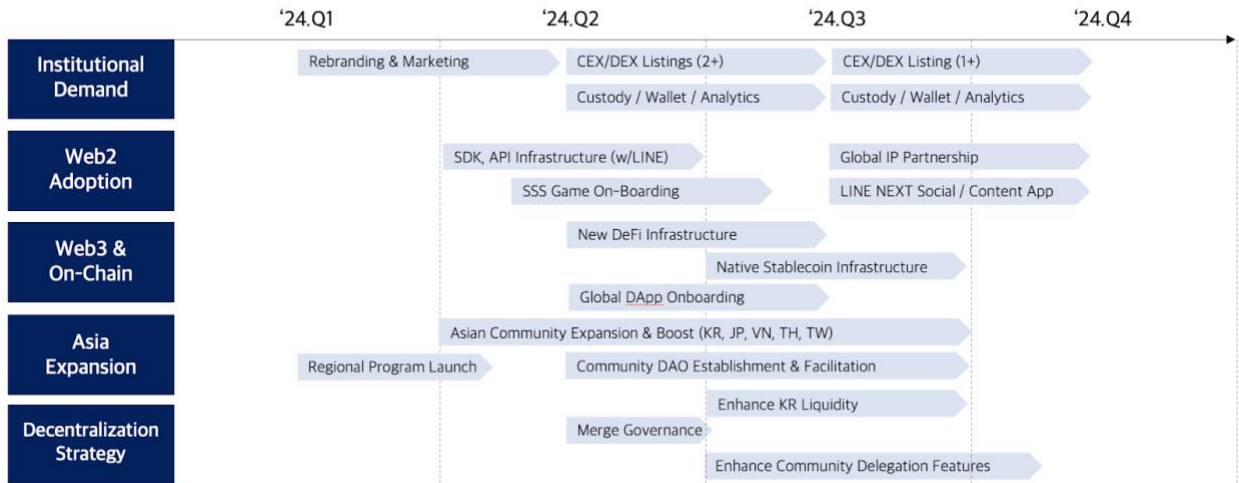
Regardless of the integration work, both foundations will execute key strategies and initiatives to promote an integrated ecosystem. Dedicated teams will be created for each country and work area, and since there are already significant differences in the strategies and asset business development pipelines of each blockchain, we believe there will be no inefficiencies such as duplication of effort. Even before we establish a merged foundation or complete the rebranding, we want to move forward with key divisional work and aggressively pursue business development, especially within the second quarter, capitalizing on the integration momentum.

First, from an institutional demand response perspective, we plan to create new narratives and materials for IR, and promote listing and liquidity expansion within the new CEX/DEX in Q2 and Q3. This plan includes business development for the new exchange, which is of great significance within the institutional system. We also plan to ensure that the integrated token has a solid presence in the crypto market through partnerships with custody/wallet/data analytics providers, which are essential for institutional response.

Next, from a Web2 popularization strategy perspective, we plan to provide infrastructure and products for large-scale onboarding of Web2 companies and users through a strong combination with Line's Web3 business. We will provide an environment where goods such as game items, memberships, and tickets can be easily on-chain and traded, and users will be able to experience wallets and markets with a different UI. In particular, we plan to strengthen our market presence in the global market by onboarding large IPs such as SEGA and games based on the Friends IP.

In terms of Web3 on-chain strategy, we plan to unveil new DeFi infrastructure in Q2, and infrastructure for native stablecoins in Q3. We also plan to leverage the momentum of integration to provide a dApp onboarding program for global EVM/CosmWasm based dApps to onboard initially.

Next, in order to quickly establish the asset's presence in various major Asian countries, we plan to establish a country-specific business development and localization system immediately after the integration. In addition, to activate the Asian community, we plan to launch a community-based DAO program in Q2 and enable new forms of community participation. We also plan to implement new measures to activate liquidity in the Korean market, which is the market leader in spot trading, in Q3 to create new growth momentum.

Finally, in terms of responding to decentralization requirements, in line with our integration plan, we plan to launch integrated governance in Q2 to complete the basic requirements response, followed by an update to provide user and community delegation and weighting to further strengthen decentralization.

In particular, as mentioned above, we believe that a lot of momentum will be gained before and after the unification event, so we plan to focus on the first quarter to maximize short-term momentum through global partnerships and events that each blockchain could not realize on its own.

6. Conclusion

Both Finschia and Klaytn started their projects in 2018, when the blockchain market was in its infancy, and as you can see from the contents of this document, each project has built different assets and capabilities with the same goal. And for six years, we have experienced many trials and errors within different organizations. But we have come this far thanks to the community members and ecosystem participants who have believed in each project for a long time.

As we've outlined in this article, the blockchain market and each project are at a crossroads. There will be an explosion of institutional and mass demand in the market, and we need momentum to ride it, and we need bold decisions and fast execution to create that momentum and make a difference.

If we can make this change and successfully respond to this new market, I think it will be more than just an integration project or a market capitalization growth, it will be a big change in the digital industry in Asia. We have a strong will and confidence to make this change, and we want to make this change and growth together with all the community participants and participants who have been participating in Yangtze Blockchain.

We will do our best to make sure that the community and participants are part of this change.

Thank you.

Appendix) FAQ

1. Consolidation increases market capitalization, but doesn't it limit growth?

As stated in this article, we need to consider 2 things.

1) First, the current Layer 1 market is still very fragmented, with rankings and terrain changing every year. Excluding Ethereum, 15 projects currently account for 83% of the total Layer 1 market cap share, with no single project having more than 30%.

Notably, most of the Layer 1 projects in the Top15 - Sui, Aptos, Asta, Avalanche, Tone, etc. - have risen through the ranks in just 6 to 24 months, and Solana in particular has driven a nearly 10x market cap increase in the 12 months since the FTX incident based on its on-chain growth and ETF narrative, creating a 26% share capture from a 2.5% share. The total market cap of the crypto market is currently around $1. 7T, and BCG and the World Economic Forum estimate that roughly 10% of global GDP (roughly $16T) will be on blockchain between 2027 and 2030. This means that the current market is still in the early stages of institutional and mass demand, and its growth and ranking in the Layer 1 market could change dramatically depending on its strategy and response going forward.

2) Secondly, I think we need to see and judge whether integrated blockchains can grow in the market in the future. As stated in this article, the Yang Foundation predicts that there will be seven major changes in the layer 1 market starting this year. We believe that those who respond to these changes will be able to grow like never before, and those who fail to respond will be eliminated. And we believe that Finschia and Klaytn, if integrated, can be the best layer 1 in Asia to respond to these changes.

Therefore, I would like to ask you to make a judgment based on the future market changes and the assets and performance that each blockchain can have if they proceed independently, and the assets and performance that they can have if they proceed together, rather than just the current market capitalization.

2. What is the reasonableness and expert opinion on the exchange fee calculation?

The two foundations have been discussing for a long time to set a standard that is as reasonable and protective of investors as possible, and have consulted with experts in the fields of crypto, investment, and law to calculate the exchange fee based on the "latest market price." We have also consulted with law firms and gathered opinions from major companies in the crypto industry on the feasibility of this method. We would like to refer to the following points for consideration.

1) The capital market laws of most countries require the merger of two assets to be based on the 'market price' immediately prior to the announcement. This is because the market price is universally recognized as an indicator that reflects all past, present, and future values based on publicly available information. For example, the past negative news and future value of Klaytn and the roadmap and future value of Finschia are all already publicly available information, so it is the general view in the asset market that they are reflected in the market value.

2) Therefore, it is also a common view that setting the exchange price outside the market price provides biased benefits to one shareholder and dilutes the current asset value of the other shareholder. Therefore, the Capital Market Act requires the consent of the dissenting shareholder in the case of a surcharge outside the market price, and even this is capped by law.

3) In addition, it is common for regulatory agencies to disapprove mergers if surcharges are recognized in the process of merger and exchange ratio calculation that are not agreed upon or are not reasonable. Therefore, when companies with different enterprise values in the stock market want to merge to have the same or similar value and voting rights, it is common for shareholders of both companies who have the necessity and justification to do so to tender shares of each company and merge in the same ratio.

4) We consulted with a law firm regarding the existing method of calculating the exchange ratio, and received a response that 'when merging between virtual assets, it is reasonable and substantial to determine the exchange ratio by calculating the average daily value or closing price over a certain period of time based on the price of the market or integration site where each virtual asset is mainly traded, and then viewing it as the fair value of each virtual asset, depending on the circumstances of each virtual asset'.

5) Furthermore, many cryptocurrency exchanges have regulations that impose sanctions, such as delisting, for "behavior that unfairly affects the market price." We have heard from certain exchanges that "adjusting the exchange fee may be problematic if it results in dilution of the current value of certain cryptocurrencies." We have also heard from certain research firms prominent in the cryptocurrency market and executives of certain crypto managers.

As for the reasonableness of the time period for calculating the exchange rate, calculating the exchange rate based on the capital market law time period or arithmetic average, or calculating the exchange rate based on the historical time period from 2018 and 2019 when KLAY and FNSA had market prices, would result in an exchange rate that is more unfavorable to FNSA. The two foundations fully recognize that the community has strong opinions about the growth of each project.

However, we would like you to understand that both the exchange fee calculation method and the revised airdrop policy have been painstakingly reconciled with market rationality, regulations, and the opinions of each blockchain participant to reach a consensus. In particular, the process of making the revisions involved many participants who play a large role in the revitalization of both ecosystems, so it is not possible to revise the policy to provide benefits to specific users, such as new exchange fees, in the future. It is also true that the amendment has already caused criticism from the opposite side and difficulties in the coordination process, so we ask you to understand

that further adjustments and changes would be very disruptive and risky from the perspective of the entire ecosystem, and we promise to do our best to provide more information and explain the rationale and strategy for the integration other than the amendment.

3. Doesn't the difference in market capitalization reduce my voting rights and authority?

If Finschia and Klaytn are integrated, the separate governance of Finschia and Klaytn will be integrated into one governance and become one ecosystem for the development of tokenomics. There will be no competition between the two ecosystems, and a single PoS based on the tokens of more than 45 companies/institutions and the tokens of users will be realized. Currently, we are in a pre-integration state, so we each have our own opinions, but after the integration, we will all represent the interests of the ecosystem within one token economy. And both foundations will make every effort to do so.

In particular, after the integration, we will be able to realize a stable contribution structure for the revitalization of the new ecosystem from more than 45 companies and institutions leading the Web2 and Web3 fields, such as Line, Kakao, SEGA, Binance, and Jump Crypto. At the same time, if the wallet users who still hold more than 60% of the circulating volume participate in governance through delegation, we will be able to realize a very sound and transparent governance that can keep certain companies or foundations in check without any problems as in the existing Finschia. Moreover, the integrated blockchain has declared a policy of providing weight to user delegations. This is expected to ensure greater decentralization and soundness than before.

Both foundations have a long history of agreeing on the value of user delegation and community participation. Finschia has been working to create a user-delegated ecosystem since its public governance days, and has made efforts to encourage DAOs and community-based projects that represent users. Klaytn also had a clear plan for user- and community-driven DAOs and governance participation in the roadmap announced by the Klaytn Foundation.

In this regard, the integrated governance declared a strategy to activate and weight user delegation, and the revision also outlined separate support measures for the existing community of Finschia. In this context, the integrated foundation also has plans to establish a new community DAO program that the community can directly participate in and operate within the 20% limit of the DEF (Dragon Ecosystem Fund).

4. How does LINE view this integration?

As stated in the "Opinions of Major Ecosystem Participants" section of this document, LINE is basically in favor of this integration. We believe that the different strategies and assets that Finschia and Klaytn have developed over the years can be synergized, especially given the current layer 1 market conditions.

In addition, LINE will aggressively pursue Web3 product businesses through LINE NEXT and has attracted large-scale investments to do so. These businesses include platforms, games, social apps, etc. for connecting internal and external services and popularizing Web3. To facilitate these businesses, we need a more stable structure for participation and contribution, as well as the use of Layer 1, which we believe is a larger and higher-growth market.

Therefore, we believe this integration is a necessary strategy not only to create new momentum for Finschia, but also to revitalize LINE's product-based ecosystem.

5. What happens to the organization and governance of the integration?

Upon integration, both the existing Finschia Foundation and Klaytn Foundation organizations will be moved to the Abu Dhabi-based integrated Foundation, and all tasks previously performed by each foundation will also be transferred to the integrated Foundation. Therefore, the integrated Foundation will be responsible for the ecosystem activation duties of the integrated Chain going forward, and we will also communicate with each of our governance partners, Line and Kakao, through the integrated Foundation. In addition, the management staff of the existing Finschia and Klaytn Foundations will participate in the integrated Foundation with the same number of seats to ensure that there are no issues with the stable integration of the two ecosystems.

For governance, the existing governance partners of Finschia and Klaytn will combine to form the governance of the integrated chain. In the case of governance voting, similar to the Finschia governance scheme, holders can express their will by delegating their voting rights to governance partners (validators). By default, all validators will be eligible for delegation.

However, in order to enable the community-based governance mentioned in the enhancements, additional voting rights may be granted to validators with large user delegation volumes. For this purpose, an additional 40 million PDT will be delegated by the Foundation to three validators with large community delegation volumes. In addition to this, additional governance policies for community-based governance may be determined in the integration chain.

6. What is the transparency protocol?

The Transparency Protocol is a set of transparency principles, including a new disclosure and reporting regime, for the operation of the Dragon Infrastructure Fund (DIF) and the Dragon Ecosystem Fund (DEF). Both foundations strongly agree that transparent operations are crucial for the future integrated foundation, and we aim to create new standards and best practices for blockchain based on the experiences and trials and errors of both blockchains. In addition to the parts described in this article, specific policies (such as internal control systems) of the Transparency Protocol will be determined through practical feasibility studies after the integrated foundation is launched, while respecting local regulatory systems.

The DIF will be used for core infrastructure, foundation operations, and marketing for the integrated chain. All expenditures will be disclosed in real-time and published in a quarterly transparency report. The disclosure report will include how much was spent in which category and on which counterparty, and will also disclose the decision-making principles of the integrated foundation board and the internal control system. However, please understand that in cases where confidentiality clauses with counterparties must be observed, or where there may be issues such as market disruption if the information is disclosed, only the amount may be disclosed so that the counterparty is not identified in the disclosure. For DEFs, disbursements are made through monthly governance resolutions. For communities, voting is done through delegation to the initial governance validator. Proposals seeking support from the DEF for that month will be posted on the forums and fully discussed. Proposals can be made by a variety of ecosystem projects, including foundations. The DEF will also be open to spending in real-time and will be published quarterly with the DIF, including where and how much was spent.

7. How do you plan to use the Dragon Ecosystem Fund (DEF)?

DEF is a fund for building and growing the ecosystem and community of the integrated mainnet. It will be used primarily to support the onboarding of new DApps and partners, invest in the core infrastructure of the ecosystem, activate the community, and run DAO programs. First, as revealed in the integration plan, 330 million PDT of the total amount (excluding the 20 million ecosystem return announced in the revised plan) will be entrusted by the Integration Foundation to the initial governance participation wallet of LINE NEXT, LINE's web3 company, and will be paid out in nominal installments over five years for 1) mass migration, and 2) ecosystem exclusive contributions.

As a key participant in the existing Finschia ecosystem, LINE NEXT will undergo a large-scale migration and technical response following the integration. This includes all of the blockchain-related services that we have been working on for the past six years. For example, it includes FT/NFT-related features built into LINE Messenger, blockchain-related features built into LINE Stamp, LINE Pay, and more, as well as product migration and technical support for more than 200 third-party partners in Japan, Korea, and the U.S. In addition, LINE NEXT has recently attracted large-scale investment and plans to develop various platform and product-based businesses to popularize Web3. As such, LINE NEXT will play a pivotal role in the "large-scale onboarding strategy for Web2 enterprises and users" described in this document. Therefore, during the mandate period, we will enter into an exclusive business agreement with LINE NEXT to proceed exclusively on the basis of the integrated blockchain. Exclusive business rights based on such large-scale Web3 products are currently highly valued even in the Layer 1 market, and there is a trend for many Layer 1s to competitively bid for them.

In addition, if LINE NEXT is unable to participate in the governance of the integrated Mainnet from the beginning, it will be difficult to proceed with the large-scale Web3 product business on the basis of the integrated Mainnet, so it will be delegated to the integrated Foundation and paid in installments over five years. For reference, this revision includes a plan to return 25 million of the initially calculated 350 million PDT delegated to LINE NEXT (including staking interest) to Finschia dApps and on-chain users.

An additional DEF use case that is not in the integrated proposal document, but is a program that both foundations have confirmed will move forward, is the Community Grant DAO Program. This is a grant DAO program aimed at enabling community-driven ecosystems on integrated blockchains. It aims to build a healthier and more sustainable ecosystem by transferring some of the power of foundation and governance to the community. The budget will be set within a limit of 20% of DEF's resources, and the program will be operated by DAO operators and community users to provide grants to developers who want to participate in the ecosystem. Operators will be selected based on criteria such as their history with DAOs and communities, their track record of community delegation, and the capabilities of their teams. After the establishment of the integrated foundation, the two foundations plan to operate the program by registering proposals, including a Request For Proposal (RFP).

Both foundations agree that the values of user delegation and community participation are very important. Finschia has been working to create a user-delegated ecosystem since its public governance days, and has made efforts to encourage DAOs and community-based projects that can speak for their users. Klaytn also had a clear plan for user- and community-driven DAOs and governance participation in the roadmap announced by the Klaytn Foundation.

In the integrated Governance, we declared our strategy to activate and weight user delegation, and in the revision, we explained our support for existing communities. In this context, we plan to promote a new DAO program, and through this, we hope to build an ecosystem that can grow around the community.

Other unspecified financial resources will be used for the purpose of revitalizing the ecosystem of integrated blockchains within the scope of future governance and decision-making by delegated users.

8. Why wasn't this shared with governance or the community in advance?

In the market, there are cases where important proposals are shared with governance participants in advance, and information is leaked during the consultation process, causing market disruption and harm to users. In addition, if we disclose the proposal after reaching an agreement with all governance participants in advance, there may be a controversy about fairness. Therefore, we decided that the same information should be provided to all ecosystem participants at the same time, even though it is an important proposal.

However, as pointed out by the community, both foundations agree that the explanation period should be longer depending on the importance of the agenda, or that each governance company should be encouraged to make its position visible in advance to increase market predictability. This is something we will work to improve in the future.

Once again, we apologize for any issues that we were unable to share with governance or the community in advance.

9. You've emphasized community a lot and I'm curious about your strategy to support community activation.

Whether you agree or disagree, the vigorous discussions within the Finschia community during the integration process, as well as the DAO, have been exemplary in the blockchain market. This was possible because Finschia built user delegation into its governance from the beginning, and onboarded teams that were capable of community-driven business. Of course, there are pros and cons to maximizing community-driven governance and DAOs, especially when the ecosystem, including developers and investors, is already sufficiently decentralized, such as Ethereum, but for blockchains that require initial strong ecosystem activation and drive, the contributions and roles of participating institutions and companies are also important.

Nevertheless, both foundations share the same philosophy and a deep appreciation for the value of user delegation and community participation. Finschia has been working to create an ecosystem of user delegation since the beginning of its public governance operations, and has made efforts to encourage DAOs and community-based projects that can represent users. Klaytn also had a clear plan for user- and community-driven DAOs and governance participation in the roadmap announced by the Klaytn Foundation.

In the integrated Governance, we declared our strategy to activate and give weight to user delegation, and in the revision, we described various support measures for existing communities. In this context, we also plan to actively promote the new community-based DAO program described in FAQ #7. Both foundations will work to ensure that the integrated blockchain makes good use of the contributions and assets of key institutions and companies, while allowing user volume to check and drive overall governance.

10. What is the snapshot criteria for on-chain staking rewards?

On-chain contribution rewards are a resource for rewarding early on-chain contributors as described in the amendment, and the eligible participants are users who participated in the voting for the integrated proposal. Since giving some benefits to users who contributed to the chain for a longer period aligns with the original intent of 'rewards for early on-chain contributors,' 40 million out of the 80 million will proceed with the snapshot criteria being the 'end date of the integrated proposal voting (February 15, 14:00 KST),' and the remaining 40 million will cover the period from 'April 2023, which is 10 months before the integrated proposal voting, to 3 months after the issuance of the integrated token.' More specific guidance, including the timing of payment, will be provided considering the issuance timing of the integrated token, assuming the integrated proposal (FGP-23, KGP-25) is approved.

11. What are the conditions for DApp migration support?

DApp migration rewards target companies affected by service delays and migration due to the integrated token being issued on an EVM basis, among DApps confirmed to be released within the first quarter of 2024. At least 70% of the support funds will be paid to users who 1) participated in the voting for the integrated proposal or 2) meet new criteria set by the developer. The support funds will be paid based on a contract that includes sufficient rationality from a business/legal/financial/tokenomics perspective and content on sanctions/recovery measures in case of issues. Milestones such as migration completion, service launch, continuous DApp activation, and marketing conditions will be set, and upon meeting these conditions, the funds will be distributed in six installments over three months. Monitoring will continue after the funds are distributed, and contracts will include sanctions or recovery clauses in case of violations.

12. Who will be eligible for governance staking delegation support funds, and what is the criteria for payment?

The top three companies will be selected based on the average amount of delegation during the 7-day voting period for the integrated proposal, and the support delegation amount will be distributed according to the ratio of delegation amount. The staking delegation support will also sign a contract that includes sufficient rationality from a business/legal/financial/tokenomics perspective and content on sanctions/recovery measures in case of issues. Support will be suspended if the 'ratio of user delegation to own capital' remains below a tenfold lower state for more than three months or if the participating governance companies fail to fulfill the roles and responsibilities required by the contract. Monitoring will continue after delegation, and contracts will include sanctions or recovery clauses in case of violations.

End of Document