

To all related parties:

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### **Report Concerning Improper Accounting Practices at Tomy's Consolidated Subsidiary**

TOMY Company, Ltd. (hereinafter "Tomy") has investigated, through the establishment of an internal investigation committee, the possibility that a consolidated subsidiary of Tomy executed fictitious transactions and carried out improper accounting practices, as announced in "Notice Concerning Discovery of Improper Accounting Practices and Commencement of Investigation by Internal Investigation Committee" dated July 24, 2014. Tomy has received an "Investigation Report" from the internal investigation committee, and hereby provides the details of this report, the steps Tomy will take in reaction to the report, and other relevant matters, as shown below.

Tomy sincerely apologizes for the considerable adversity and concern brought upon our shareholders, business partners and other stakeholders as a result of this incident.

For the "Investigation Report" submitted to Tomy, please refer to the document that has been provided separately (in Japanese only).

#### **1. Events leading up to the investigation**

In June 2014, T-ENTAMEDIA Company, Ltd. (hereinafter "T-Entamedia") received notification from a representative of a company with which it has a business relationship (hereinafter "Company A") that T-Entamedia and Company A had engaged in so-called fictitious circular transactions. In response, Tomy decided to conduct an investigation into relevant facts regarding the transactions and the internal investigation committee commenced this investigation.

#### **2. Summary of facts confirmed in the Investigation Report (for details, please refer to pages 5 to 30 of the Investigation Report)**

At the behest of Company A, T-Entamedia, which is a consolidated subsidiary of Tomy, began acting as an intermediary in transactions between Company A and one of its vendors (hereinafter "Company B") in April 2012. In these transactions, upon receiving orders from Company A, T-Entamedia was also making orders to Company B. Payments for these orders were carried out in such a way that T-Entamedia was making advance payments to Company B prior to receiving payments from Company A (hereinafter these kinds of transactions shall be referred to as "Advance Payment Transactions").

Subsequently, in an internal audit conducted by Tomy in August 2012, it was pointed out that making advance payments to Company B involved considerable risks, among other matters, and it was decided for T-Entamedia to stop the advance payments to Company B and the transactions with Company A.

However, an employee of T-Entamedia who had been in charge of the transactions with Company A and Company B, and a superior of that employee, decided to continue the Advance Payment Transactions following a suggestion from Company A that payments from Company A to T-Entamedia would fall into arrears if the Advance Payment Transactions were stopped immediately. Consequently, the Advance Payment Transactions were in essence continued from January 2013 by the method of having separate companies act as intermediaries in transactions between Company A and T-Entamedia and T-Entamedia and Company B, respectively. As these transactions continued, the number of separate companies acting as intermediaries increased and the amounts of the Advance Payment Transactions rose.

As a result of the investigation by the internal investigation committee, Tomy discovered that a substantial portion of the above-mentioned series of the Advance Payment Transactions involved services and products that were not actually provided, and that proper accounting practices were not employed for them.

For information on the impact of the above-mentioned occurrences on Tomy's earnings, please refer to "Notice Concerning Filing of Corrected Securities Reports and Revisions to Earnings Summaries for Previous Fiscal Years" disclosed separately today.

### **3. Summary of steps to prevent recurrence recommended by internal investigation committee (for details, please refer to pages 37 to 39 of the Investigation Report)**

#### 1) Thorough promotion of compliance awareness

Thoroughly promote compliance awareness including conformity to laws and regulations and internal company regulations to all employees at T-Entamedia including the management class.

In addition to compliance education that is already being carried out for all employees of the Tomy Group, carry out compliance education separately in accordance with the business environments of subsidiaries.

Furthermore, develop a system for providing sufficient education to persons who take office as presidents of subsidiaries to make them sufficiently aware of their responsibilities as leaders of compliance in their respective companies.

#### 2) Strengthening of management structure for group companies

To enable effective monitoring and supervision of subsidiaries by Outside Directors and Outside Audit & Supervisory Board Members assigned from Tomy to the subsidiaries, establish a dedicated division in Tomy that is mainly in charge of the management of subsidiaries and construct a system for coordinating with those assigned to subsidiaries as Outside Directors or Outside Audit & Supervisory Board Members.

#### 3) Further promotion of awareness of whistle-blowing system

Take the opportunity of providing education and training for executives and employees to thoroughly promote awareness of the purpose behind the whistle-blowing system, and promote the spread of correct understanding of the whistle-blowing system.

#### 4) Introduction of measures including personnel rotation

To prevent the occurrence and spread of misconduct due to the entrenchment of personnel, implement personnel rotation or other measures such as personnel exchange.

### **4. Actions going forward**

Tomy will seriously consider the contents of the "Investigation Report" and implement relevant actions and measures to prevent recurrence going forward.

For details, please refer to the press release available at the following URL:  
[http://www.takaratomy.co.jp/release/pdf/i140808\\_10.pdf](http://www.takaratomy.co.jp/release/pdf/i140808_10.pdf)

End of notice