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August 13, 2019

Company Name: COLOPL, Inc.
Representative: Naruatsu Baba, President and CEO
(Securities Code: 3668
Tokyo Stock Exchange First Section)
Inquiries: Yoshiaki Harai, CFO
(TEL: +81-3-6721-7770)

Notice of the Disclosure of an Investigative Report from the Special Investigation Committee

As announced in the news release “Notice of the Establishment of a Special Investigation Committee” dated June 26, 2019, COLOPL, Inc. (the “Company”) has established a Special Investigation Committee, which has investigated an inappropriate transaction by its employees.

Today, the Company received an investigative report from the Special Investigation Committee, the details of which are as follows. Full English Report is following.

1. Results of the investigation

The Special Investigation Committee reported that two of the Company’s employees, including one in a managerial position, were involved in a request made to its client to pay for items in the online game, the Company’s product “Project Babel,” using money taken from the Company with the aim of manipulating its sales rankings, and that the client spent the money (hereinafter referred to as the “Incident”). The Committee also reported that a director of the Company is highly likely to have been aware of the Incident in advance.

The report also says that the Committee identified no transactions of a similar nature carried out in the past.

2. Impact on the Company’s consolidated financial statements

In the financial results for the third quarter of the fiscal year ending September 30, 2019, the Company had offset 8 million yen spent in the Incident and 8 million yen as advertising costs. The Company also posted 2 million yen as platform usage fees generated in the Incident in its consolidated profit and loss statement. The quarterly report for the third quarter of the fiscal year ending September 30, 2019, is scheduled to be submitted today.

3. Punishment of employees involved in the Incident, etc.

1) Punishment of employees involved in the Incident

Kazunori Morisaki, Executive Director and COO of the Company, said that he takes this problem with utmost seriousness and offered his resignation as of August 13. The Company accepted this offer.

The Company took disciplinary action dated August 13 against the two employees who were involved in the Incident.

2) Clarification of management responsibilities

At the Board of Directors meeting held today, the Company decided to cut the pay of its directors as follows to

clarify the responsibility of management for the Incident.

President, CEO and COO	Naruatsu Baba	10% cut of monthly remuneration (for three months)
Executive Director and CSO in charge of Marketing Division	Jun Hasebe	10% cut of monthly remuneration (for three months)

4. Actions to be taken by the Company in response

The Company takes the results of the investigation seriously and will explain the results to related persons. It will also crystallize and carry out measures for preventing a recurrence of the Incident, which were recommended by the Special Investigation Committee.

The Company will promptly disclose matters that should be disclosed as they occur.

5. New organizational structure

At the Board of Directors meeting held today, a resolution was passed to establish the following executive structure.

Position	Name
President, CEO and COO Executive Director in charge of Entertainment Division and White Cat and Black Cat Division	Naruatsu Baba
Executive Director, CSO Head of Marketing Division, Legal & Intellectual Property Center, and Incubation Division	Jun Hasebe
Executive Director, CHRO Head of HR Division	Ryosuke Ishiwatari
Executive Director, CTO Head of Engineering Division and Art Division Head of System Administration Department	Kenta Sugai
Executive Director, CFO Head of Corporate Division	Yoshiaki Harai
Head of Entertainment Division	Yu Sakamoto
Head of White Cat and Black Cat Division	Mie Kumagai

We sincerely apologize for the serious concern this incident has caused to our shareholders and all stakeholders. We are determined to make company-wide efforts to regain your trust. We would highly appreciate your continued support.

**Investigative Report
(Public Edition)**

August 13, 2019

Special Investigation Committee
COLOPL, Inc.

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August 13, 2019

Prepared for: The Board of Directors, COLOPL, Inc.

Special Investigation Committee, COLOPL, Inc.

Chairperson	Tetsuzo Hasegawa
Member	Makoto Shirai
Member	Toshifumi Takaoka

Part 1. Overview of the Investigation Conducted by the Special Investigation Committee

1. Events Leading Up to the Establishment of the Special Investigation Committee

On June 18, 2019, on the basis of information that was provided anonymously, the Company found reason to suspect that two of its employees, including one in a managerial position, were involved in the use of Company funds to request a business partner to spend money on the Company's own game title Project Babel ("the Title," hereafter) for the purpose of manipulating sales rankings, and that business partner had carried out the spending ("the Incident," hereafter).

In response to the Incident, on June 26, 2019, this Special Investigation Committee ("the Committee," hereafter) was established by resolution of the Company's Board of Directors in order to carry out a strict and thorough investigation.

2. Composition of the Special Investigation Committee

As mentioned above, the Committee was established on June 26, 2019 by resolution of the Company's Board of Directors. The composition of the Committee is as follows.

Chairman: Tetsuzo Hasegawa (Full-Time Audit and Supervisory Committee Member)

Member: Makoto Shirai (Attorney, Kohwa Sohgo Law Offices)

Member: Toshifumi Takaoka (CPA, Partner at KPMG FAS Co., Ltd.)

The Committee also appointed the following assistants to have them assist with the investigation ("the Investigation," hereafter).

Affiliation	Names, etc.
Kohwa Sohgo Law Offices	Shunsuke Nohara, Attorney; Norihito Nagai, Attorney; Ryutaro Inoue, Attorney; Hirotaka Sakashita, Attorney; Sho Hashimoto, Attorney; Shun Sakurai, Attorney
KPMG FAS Co., Ltd.	Daisuke Fujita, CPA; Toshinari Kanehara, CPA; five others

3. Purpose of the Investigation

The purpose of the investigation was as follows.

- (1) To confirm the facts and circumstances of the Incident;
- (2) To confirm if there are any similar transactions, including those in previous fiscal years;
- (3) To investigate the cause of the Incident and suggest measures to prevent repeat occurrences.

4. Period and Method of the Investigation

- (1) Period of the Investigation

The Committee conducted the Investigation from June 26, 2019 to August 12, 2019.

- (2) Method of the Investigation

During the course of the Investigation, the Committee held a total of 12 meetings. Furthermore, the members of the Committee conducted the Investigation using the following methods.

- (a) Viewing and consideration of transaction data (including charge data) and related materials, etc.

The Committee viewed and considered transaction data that was potentially related to the Incident and related materials including various evidentiary documents. Additionally, the Committee also viewed and considered related materials including various meeting minutes and internal regulations to the

extent it deemed necessary.

See Appendix 1 for information on the main materials that were investigated.

(b) Conducting interviews

The Committee conducted interviews with a total of 25 individuals including Company officers and other related persons deemed potentially involved with or aware of the Incident. See Appendix 2 for a detailed list of those interviewed.

(c) Implementation digital forensics procedures

The Committee retained and investigated email and text chat data extracted from Company-loaned PCs and servers with respect to a total of 11 of the Company's officers deemed to be potentially involved with or aware of the Incident.

See Appendix 3 for an overview of the digital forensics activities, the keywords used to search for and extract data, and details of those investigated.

(d) Conducting questionnaires

To check whether transactions similar to the Incident had occurred in the past, the Committee conducted a questionnaire for 928 employees excluding seconded employees and those on leave due to illness (as of June 30, 2019) on July 9, 2019, and by July 30, 2019 obtained responses from 926 employees, with the exception of two employees on childcare leave at the time.

Additionally, to confirm whether incidents similar to the Incident had occurred in the past, the Committee distributed a questionnaire on July 19, 2019 to two business partners with whom the Company had entered into similar agreements as the business partner that accepted the request to make purchases as part of the Agreement, and the responses were received from all such companies by August 2, 2019.

(e) Establishing a hotline

On July 9, 2019, the Committee disseminated the fact that it had established a hotline directed to the Committee covering matters related to the Incident and other matters similar to the Incident, separate from the internal reporting system that had already been established and operated by the Company based on its internal reporting regulations, and put out a broad call for all employees belonging to the Company to provide information.

5. Limits of the Investigation

The Investigation was conducted based on the investigation method described in section 4. (2) above, within the time constraints described in section 4. (1), and was subject to certain limitations. Additionally, while the Committee has determined that it obtained a reasonable basis for fulfilling the purpose of the Investigation, it cannot deny that had it been given more time or employed alternate investigative methods, that the results of the Investigation may have produced a different outcome, and thus cannot guarantee that the results of the investigation are definitive.

Also note that the Investigation was conducted at the behest of the Company, and that the Committee assumes no responsibilities with respect to third parties other than the Company.

Part 2. Overview of the Company

1. Overview of the Company

(1) Basic Information

Basic information about the Company (as of September 30, 2018) is as follows.

Company Name	COLOPL, Inc.
Securities Listing	Tokyo Stock Exchange First Section, Securities Code: 3668
Account Closing Date	September 30
Shareholder Composition	Naruatsu Baba (48.60%), Japan Trustee Services Bank, Ltd. (7.29%), Others
Representative	Naruatsu Baba, President and CEO (“President Baba,” hereafter)
Head Office Location	4-20-3 Ebisu, Shibuya-ku, Tokyo
Number of Employees	840 (Group Total: 1,283)
Business Activities	Domestic mobile game services Overseas mobile game services VR (virtual reality) services Other services
Accounting Auditor	Deloitte Touche Tohmatsu LLC

(2) Business Summary

A summary of the Company’s business activities is as follows.

Business Name	Business Activities
Domestic mobile game services	The Company distributes mobile game applications to the domestic market. The main offerings are native applications for smartphones such as “White Cat Project,” “Quiz RPG: The World of Mystic Wiz” and “White Cat Tennis.”
Overseas mobile game services	The Company distributes mobile game applications through two methods, a self-distribution method of where titles are distributed directly, primarily for the English-speaking world and South Asia, and a partner distribution method, where the Company partners with overseas local distribution partners.
VR (virtual reality) services	The Company provides games for VR devices, invests in VR-related companies and distributes 360-degree video content.
Other services	The Company’s other main services are a positional information analysis consulting services mainly for municipalities around Japan and companies such as railway operators, and a research service dedicated to smartphones.

(3) Newly Distributed Mobile Games

The mobile games newly distributed by the Company in the last three fiscal years are as follows.

Release Date	Title
May 23, 2017	Pro Baseball VS
September 28, 2017	PaniPani: Parallelnix Pandoranight [Android Version]
September 29, 2017	PaniPani: Parallelnix Pandoranight [iOS Version]
October 31, 2017	Disney TSUM TSUM LAND
January 22, 2018	Alice Gear Aegis
August 9, 2018	DREAM!ing
October 17, 2018	Bakuretsu Monster

(4) Progression of Business Performance

A summary of the Company's business performance over the last five fiscal years is provided below.

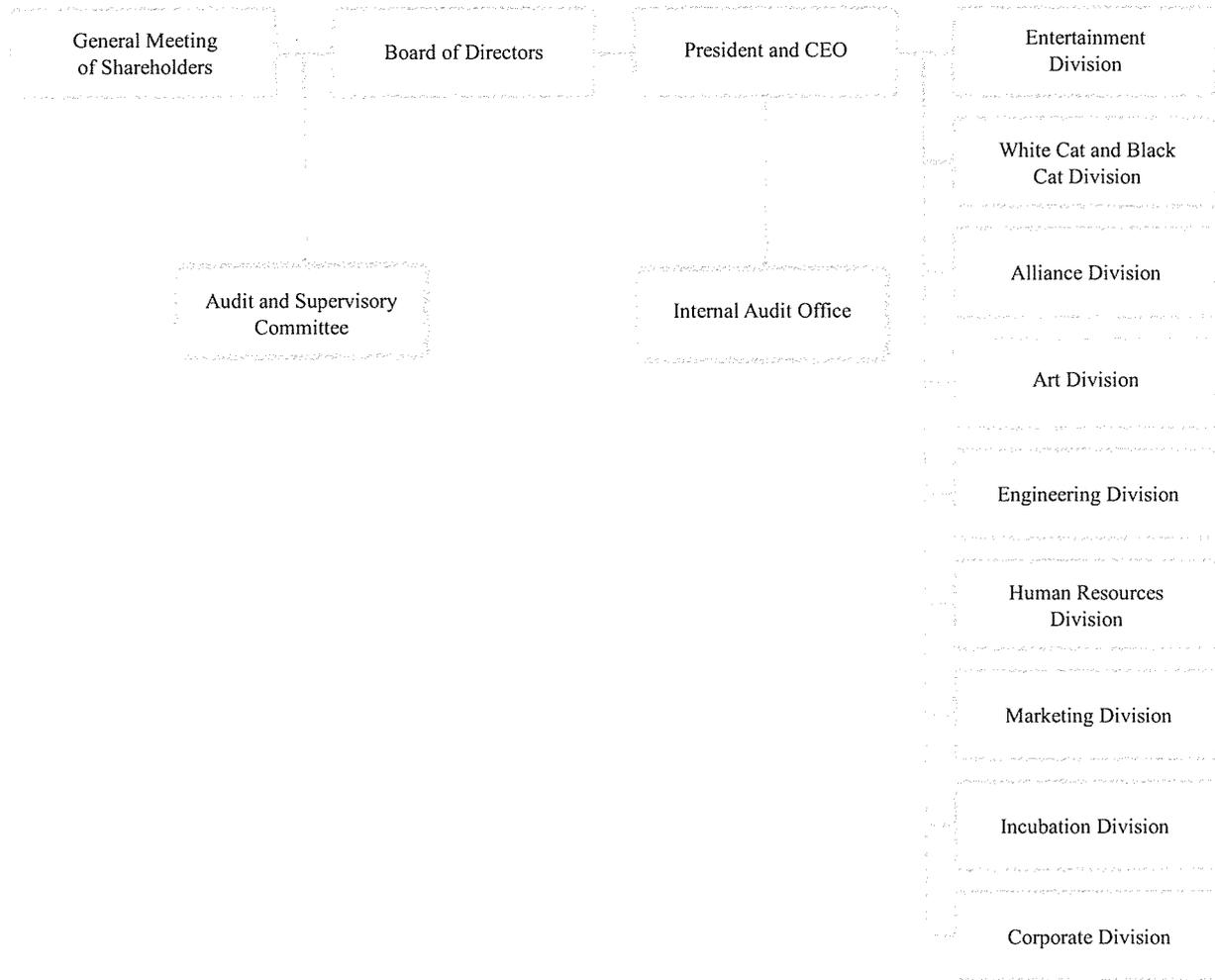
Accounting Year		The 6th fiscal year ended September 30, 2014	The 7th fiscal year ended September 30, 2015	The 8th fiscal year ended September 30, 2016	The 9th fiscal year ended September 30, 2017	The 10th fiscal year ended September 30, 2018
Sales	(million yen)	53,575	72,395	84,009	50,692	43,666
Ordinary Income	(million yen)	23,556	32,363	33,042	14,629	6,422
Net profit	(million yen)	13,024	19,436	22,400	8,634	3,145
Capital	(million yen)	6,274	6,328	6,384	6,433	6,491
Net Assets	(million yen)	30,284	43,594	64,384	71,471	71,483
Total Assets	(million yen)	48,012	59,260	74,416	77,547	77,326
Net Assets Per Share	(yen)	245.07	354.50	517.02	568.67	562.40
Net Income Per Share	(yen)	107.65	157.70	180.54	68.86	24.82
Diluted Net Income Per Share	(yen)	101.29	150.62	174.61	67.35	24.53
Equity Ratio	%	63.1	73.6	86.5	92.2	92.4
Return on Equity	%	68.3	52.6	41.5	12.7	4.4
Price-to-Earnings Ratio	(times)	33.49	12.15	8.67	18.85	29.69

(5) Organizational Structure

The Company's organizational structure as of June 1, 2019 is as follows.

¹ The Company's securities report for the fiscal year ended September 2018 disclosed on December 25, 2018 was referenced.

(a) Main organizational structure

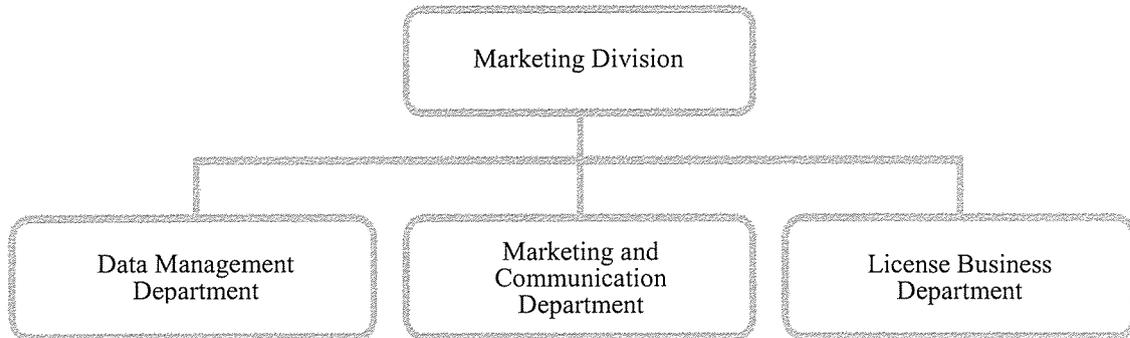


The typical business operations performed by each of the main divisions related to the Incident are given in the following table.

Group Name	Typical Business Operations
Entertainment Division	- Planning, development and progress management of services - Planning related to services, creation of content, supervision, research and analysis, development and verification of new technologies
Alliance Division	- Planning of overseas rollout of services and handling of overseas business operators - Support for coordination between internal divisions, management and adjustment of projects transferred outside the Company
Art Division	- Design related to services
Engineering Division	- Development, verification, operation and maintenance related to services
Marketing Division	- As detailed in sections (b) and (c) below
Incubation Division	- Planning of new business ventures and overall development work

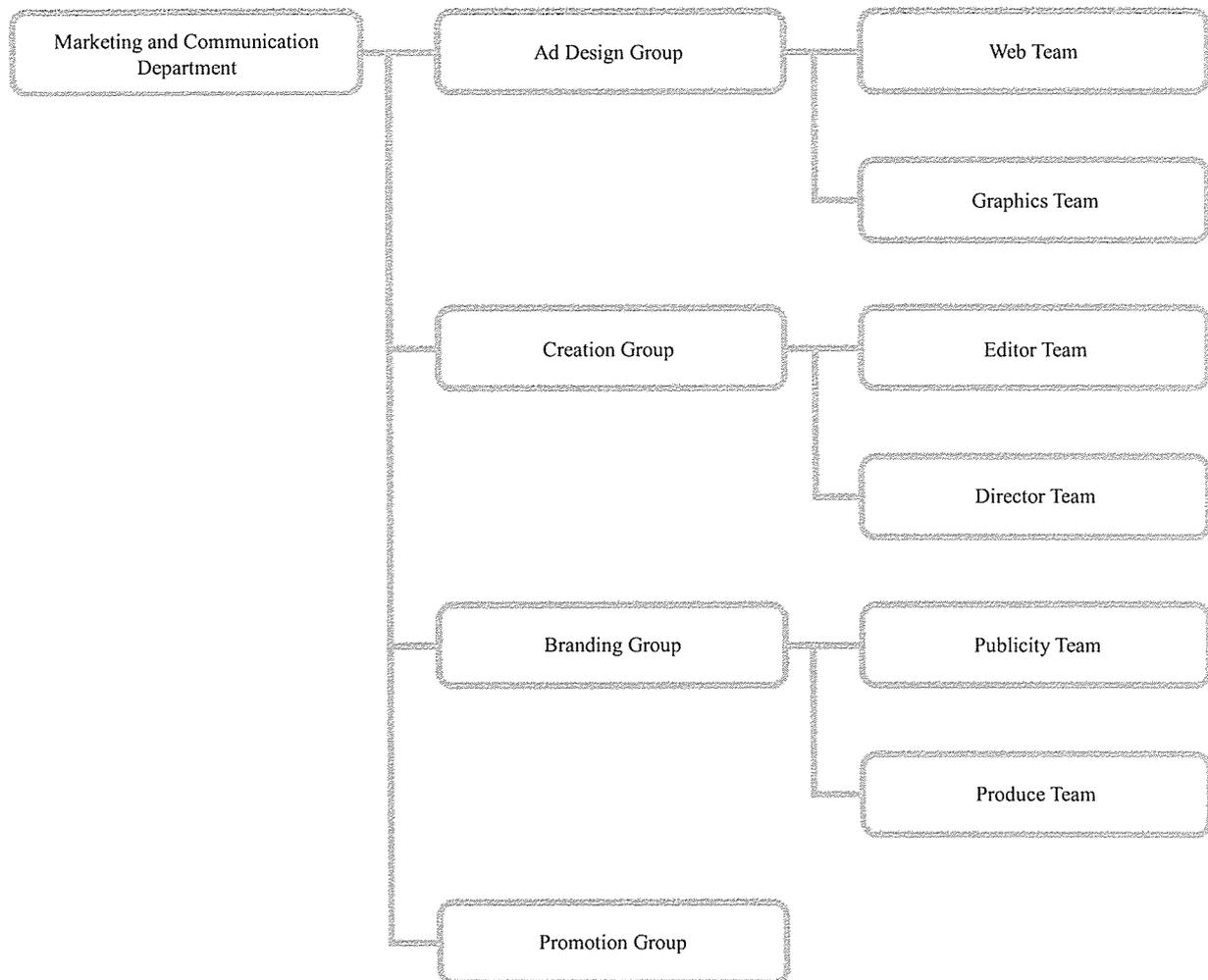
(b) Marketing Division

The organizational structure of the Marketing Division is given below.



(c) Marketing and Communication Department

The organizational structure of the Marketing and Communication Department is as follows.



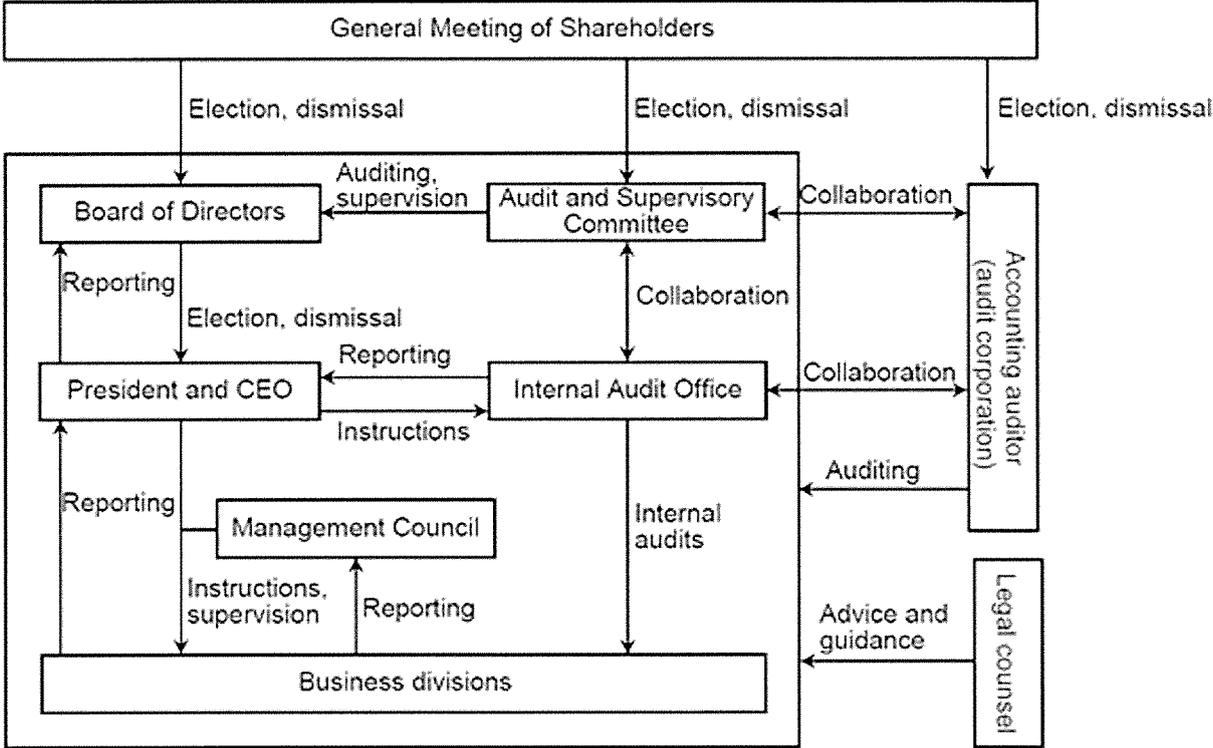
The main tasks handled by each group in the Marketing and Communications Department are as follows.

Group Name	Main Tasks
Ad Design Group	- Planning and production related to attracting customers to services and PR activities
Creation Group	- Planning and production of video content related to attracting customers to

	services and PR activities
Branding Group	<ul style="list-style-type: none"> - Planning and progress management in efforts to attract customers to existing services - PR activities for existing services
Promotion Group	<ul style="list-style-type: none"> - Planning and progress management in efforts to attract customers to new services - PR activities for new services - Development recommendations and support for decision-making based on marketing analysis related to new services - Negotiations with platform holders

2. Governance Structure

A summary of the Company’s governance structure is given in the following table.



Part 3. Facts Determined through the Investigation

1. Events Leading up to the Incident

(1) State of sale prior to release of the Title

The Company's online game applications such as "Quiz RPG: The World of Mystic Wiz" which was released in March 2013 and "White Cat Project" which was released in July 2014 were favorably received and generated solid sales, but the Company was not able to achieve the expected sales with new titles released thereafter, and sales generated by the two aforementioned titles were gradually declining.

After peaking in the financial year ended September 2016, the Company's net sales began to decline, and the creation of a new flagship title was eagerly awaited thereafter.

(2) Reorganization in January 2019

The Company undertook a reorganization in January 2019, with the Corporate Department restructured into the Corporate Division and Marketing Division.

In connection with the reorganization, Person A, who had been general manager of the Marketing and Communication Department, was appointed general manager of the Marketing Division, while Person B, who had been team leader of the Promotion Group Planning Team in the Marketing and Communication Department was appointed group manager of the Promotion Group.

Additionally, other reorganization took place in March 2019, including restructuring of the Entertainment Division into the Entertainment Division, the Alliance Division and the Art Division.

(3) Overview of the Title

(a) Production background

The Title is a single player-only role-playing game (RPG) that supports iOS and Android, which are base operating systems (OS) for smartphones.

In May 2017, a project team was established under control of the Kuma the Bear Division (now under control of the Alliance Division), and Person C, who is a director of the Company, was appointed as producer of the Title.

A producer is a kind of supervisor who performs project management in game development, supervises the development of plans and the design of specifications, manages game progress, carries out schedule and cost management, implements quality control, manages outsourcing, and so on. While the position of "producer" and the authority granted therein are not clearly stipulated in the Company's Organizational Rules or other internal regulations, the name is commonly used within the Company, and within game development the producer has a central role and possesses strong influence in practical terms.

The Title exhibited the game elements of a JRPG (a genre of game that includes characteristics common to Japanese RPGs), and based on the concept of a in-app purchase system most appropriate for a JRPG and renowned staff² befitting a JRPG, ██████████³ was tasked with development and production of the Title proceeded.

² Renowned creators were hired to develop the scenario and sound.

Acceptance of pre-registration⁴ for the Title was started on December 15, 2018, and pre-downloads (at this point the game application could be downloaded but the game could not be played) commenced on June 11, 2019. Only June 12, 2019, full-scale distribution of the Title (at this point the game application could be downloaded and was in a playable state) was started.

(b)Promotion

Promotional activities for the Title were carried out through web advertisements, social media platforms such as Twitter, the video sharing site YouTube, gaming magazines and so on. The Title primarily targeted users in their 30s to 40s as a good-old, classic RPG, leveraging the catch phrase “the ultimate adventure for gamers who grew up with RPGs.” For this reason, promotion also focused on magazine media rather than web-based media alone.

The pre-registration period for the title ran from December 15, 2018 to June 11, 2019, the day before launch, but since the number of pre-registrations had reached a cumulative [REDACTED] at the point this day passed, downloads of between [REDACTED] and [REDACTED] were expected on launch date. On the launch date of July 12, 2019, the actual number of downloads was [REDACTED].

(c)In-app purchase and sales system

While the Title is free to download and play, it employs a system that allows in-game items to be purchased. In order to obtain additional content such as items that will be beneficial when proceeding through the story during gameplay, users need to buy (through in-app purchases) “Spirit Stones⁵,” the Title’s virtual currency, which are spent through a loot box service (common term) known as “Tansa,” where items, etc. are provided at random⁶. Payments for these in-app purchases are processed by the App Store, through which Apple provides apps for iOS, and by Google Play, through which Google provides apps for Android.

The following table shows the sales prices for the Spirit Stones.

3 [REDACTED]

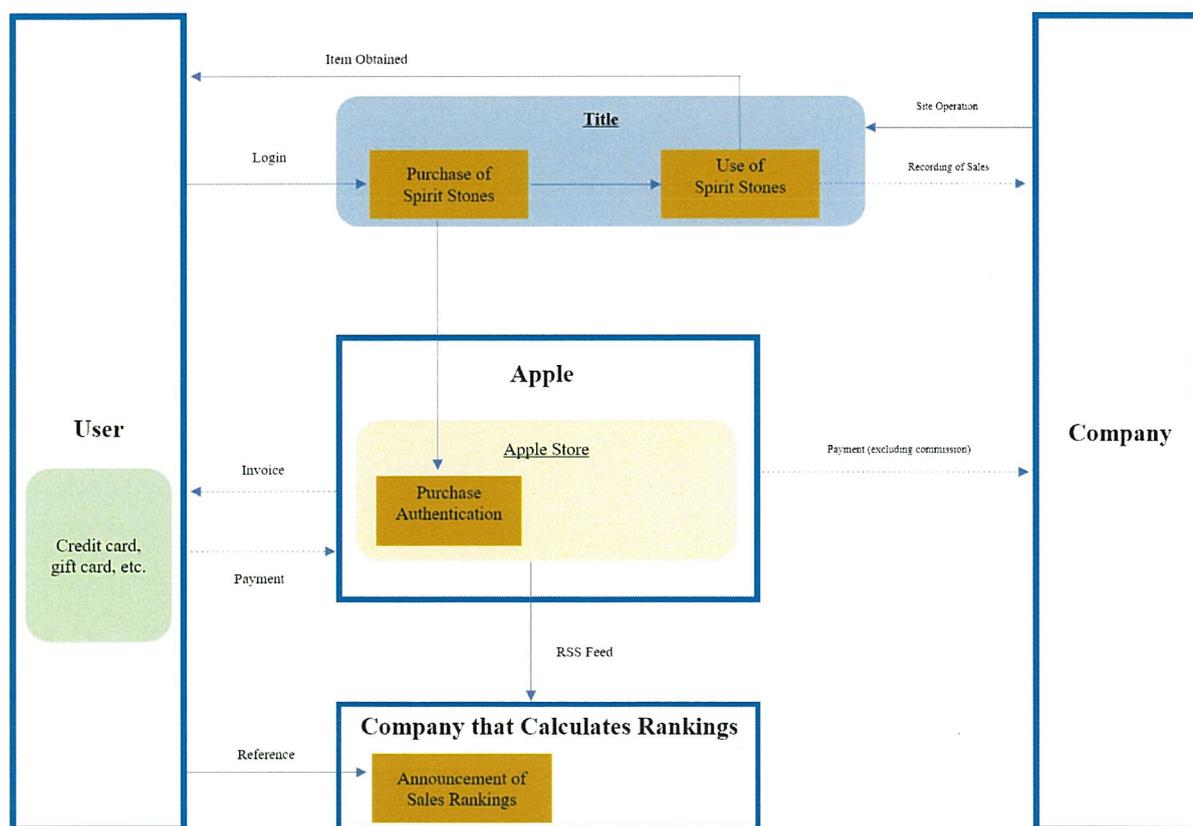
⁴ Pre-registration is carried out by registering an email address through a website, adding the official LINE account of the Title as a friend, by following the Title’s official Twitter account, or through other means.

⁵ Spirit Stones may also be awarded for free in the course of proceeding through the game.

⁶ In-app purchases are enabled once the game’s tutorial (a section at the beginning of the game to learn the controls) has been finished.

Purchased Item Pack	Price
20 Spirit Stones (of which none are free)	120 yen
100 Spirit Stones (of which none are free)	600 yen
170 Spirit Stones (of which 10 are free)	960 yen
320 Spirit Stones (of which 20 are free)	1,800 yen
510 Spirit Stones (of which 43 are free)	2,800 yen
770 Spirit Stones (of which 70 are free)	4,200 yen
1,070 Spirit Stones (of which 103 are free)	5,800 yen
1,820 Spirit Stones (of which 186 are free)	9,800 yen

Based on the Company’s accounting practices, at the point an in-app purchase is made, it is processed as an advanced received, and at the point a Spirit Stone is used, it is recorded as a sale. Additionally, while it is believed that Apple and Google determine rankings based on metrics such as download counts and reviews on the App Store and Google Play respectively, no specific criteria for evaluating rankings have been publicly announced. In the case of an iOS app, the flow from an in-app purchase to when a sale is recorded is illustrated in the following table.



(4) Transactions with Company D

While Company D is a company whose business activities involve web advertising and the like, Person A of the Company met Person E, an officer of Company D, at a marketing exchange event held by Company D at the beginning of 2016, and this led to the two people beginning an exchange.

When a new game from the Company, “PaniPani: Parallelnix Pandorarnight” was released in September 2017, the Company entering into a non-disclosure agreement with Company D on September 4, 2017, after which it placed an order with Company D for promotional services. Since then, the Company has continued to request promotional services including blanket media coverage from Company D when releasing new titles. Also note that nothing like a

basic transaction agreement has been executed between the two companies. Instead, agreements are executed for each individual transaction, such as where the Company sending a purchase order by email to Company D and Company D returns a reply email indicating its acceptance.

(5) Order placement and payment flow for outsourced services

(a) Order placement flow

a) *Ringi* (request for managerial decision) procedures according to internal regulations

According to the Company's internal regulations, *Ringi* procedures are required when placing an order for outsourced services. The people provide approval are categorized based on the amount of the order to be placed. For amounts of at least 10 million yen and less than 50 million yen, a director provides approval. For amounts of at least five million yen and less than 10 million yen⁷, a general manager provides approval. Additionally, as a general rule, a *Ringi* request is made in writing or over email in a way that allows the funds of the order placement to be confirmed.

b) Handling related to orders for outsourced advertising services

However, orders for outsourced advertising services are treated as exceptions due to past approval by the Management Council, and such orders were placed by obtaining approval from a single manager without going through such *Ringi* procedures.

Specifically, with regard to the handling of outside orders placed for advertising expenses, provided that the expenses fell within the total budgeted amount for advertising expenses approved (approved by resolution of the Management Council) on a quarterly basis, *Ringi* procedures did not need to be followed for individual outside order placements, and such orders could be placed provided approval was obtained from a single supervisor, regardless of the monetary amount of the order concerned. A supervisor in this context only needed to be a person ranked above the person seeking to place the order in question, and in fact, even order placements 10 million yen and higher were placed by approval of supervisors in positions even lower than director or general manager.

(b) Payment flow

When an invoice has been received from a business partner, the person responsible for placing the order associated with the payment in question prepares an Expense Recording and Payment Application, and submits the application along with the invoice to the Accounting Department once it has been approved by a supervisor related to the payment application. In the case of the advertising expenses handled in the Marketing Division, a summary of invoice information was created in an Excel file titled "Budgetary Control List"⁹, and after obtaining approval from the general manager and the director in charge, this was submitted to the Accounting Department. Thereafter, the Accounting Department would check each submitted document and execute each individual payment.

⁷ According to Article 5 of the *Ringi* (Request for Managerial Approval) Regulations, as a general rule approved amounts are inclusive of tax.

⁸ In interviews, this file was referred to as a "List of Advertising Expenses."

⁹ This was handled by Person F and Person G in the Marketing Division.

2. Occurrence of the Incident

(1) Overview of the Incident

The Incident refers to the events in which Person A and Person B placed an order with Company D to make in-app purchases in the Title using Company funds (“the Purchases,” hereafter) for the purpose of raising the sales ranking (in the App Store on iOS devices, a download ranking is currently displayed, but no sales ranking is shown. However, as there are multiple websites that summarize information, etc. provided from Apple through RSS feeds, such websites and other information sources make it possible to view a sales ranking. Therefore, unless otherwise specifically noted, hereafter “sales ranking” shall refer to the sales ranking of a title on the App Store within this broad definition) of the Title on the App Store by as much as possible immediately following the date of its release, and in which Company D implemented the Purchases to a total of 8,478,000 yen on June 13, 2019.

Additionally, while Person A and Person B have stated that Person A consulted in advance with Person C regarding the Purchases, as noted in (5) below, Person C does not admit to being aware the specific methods and details of the Purchases, but does acknowledge the strong likelihood that they were aware in advance that the Purchases would be implemented as a promotional measure for the Title.

On the other hand, as shown in (6) below, among the officers and employees other than Person A, Person B and Person C, no others have been found to have been aware that the Purchases would take place or had taken place prior to the Incident being revealed on June 18, 2019 through the anonymous provision of information.

(2) Intention Behind the Purchases by Person A

Around 2016, Person A heard rumors that the practice of a publisher (businesses providing apps through the App Store or Google Play, etc.) engaging in in-app purchasing at their own expense in a bid to increase sales rankings (so-called “purchase boosting”) was routinely taking place for overseas game titles from other companies, and thought about trying to implement this purchase boosting himself if given the opportunity. Thereafter, since there were no game titles (specifically, game titles targeting core game users focused on sales rankings) that seemed to correspond to the purchase boosting cost effectiveness (the effect that could be gained by raising the sales ranking in relation to the costs required for purchase boosting), Person A did not even consider making concrete moves to implement purchase boosting.

However, with respect to the Title, Person A thought that it was easy for the sales ranking immediately after release to attract attention and believed that purchase boosting could be expected to have a measure of effectiveness on promotion. In other words, under circumstances in which the new title was not proving to be a big hit as illustrated in section 1 (1) above, Person A thought that if the Title achieved a high sales ranking immediately after the launch date, it would be easier for it to attract attention and become topical due to being covered by the game media, and expected that the number of downloads would increase and more early adopters (users who start playing a game by paying attention to sales rankings immediately after release) would be won over.

Given this, under circumstances in which the company had repeatedly engaged in business dealings with Company D since first placing an order for advertising services in September 2017, Person A decided to boost the sales ranking of the Title as much as possible by engaging in purchase boosting through Company D.

While it was possible that placing an order with Company D for in-app purchasing itself would infringe Apple’s terms, Person A thought if he placed an order for a game walk-through for the Title as part of advertising activities and paid an amount equivalent to the in-app purchases made when the contractor carried out the in-app purchases and used the “Tansa” loot box service as a support fee to help with the walk-through, no clear problems would arise due to the existence of services being provided on the part of Company D. However, even in that case, Person A was aware that it was not a measure that could be divulged outside the

Company.

(3) Planning and Order Placement of the Purchases

(a) Requesting Company D to carry out the Purchases

While having lunch with Person E at some point in February or March 2019, Person A told to Person E that the Company's new titles had repeatedly failed to become big hits. At the time and at a later date, when Person A told Person E that they wanted to request purchase boosting, he received a positive response from Person E asking for more details.¹⁰

Given this, at some point in March or April 2019, Person A approached Person B with the idea of the Purchases, and Person B agreed to it as an instruction from Person A, who was their supervisor. In response, Person A reached a shared understanding with Person B regarding the Purchases, including that the budget would be set at 10 million yen, that it would target the App Store (iOS) for which sales rankings are updated on a daily basis¹¹, that multiple devices would be used to disperse the purchase amounts, that the purchases would be carried the day following the Title's release date, and that Company D would be made to submit details on the in-app purchases made. Person B was entrusted with contacting Company D from then on.

In response, on April 18, 2019, Person B held a meeting regarding the Purchases in a Company meeting room with Person E and with Person H, who is a director of Company D¹², setting a budget of 10 million yen, and making requests such as that the day following the release date of the Title, between 700 and 1,000 iOS devices (iPhones) should be used to perform actions in a way that resembled regular users and that the per-device in-app purchase amounts be dispersed among the devices to avoid suspicion.

(b) Placing the order for the Purchases with Company D

On May 16, 2019, Person B send an email with an attached purchase order titled "Project Babel Special Plan" to Person E and Person H, and in so doing placed the order with Company D. Also note that usually when orders were placed via email, it would be standard practice to include the addresses of the persons associated with creating the title and mailing lists into the CC field, (see section 4-4-(3) below), but only the address of Person A was present in the CC field of the above email.

¹⁰ While it was not possible to clearly identify the day on which Person A and Person E discussed the Purchases, according to the Company scheduler, the two people met on March 1, 2019 and March 12, 2019.

¹¹ While neither the App Store (iOS) or Google Play (Android) disclose the criteria for evaluating rankings, according to interviews with Person A, Person B and others, it is estimated that Google Play determines rankings based on more long-term evaluations compared with the App Store.

¹² Note that Person E consulted over the Purchases with Person I, a representative director of Company D, and received their approval.

The details of the purchase order that was attached are as follows.¹³

Date:	May 16, 2019
Subject:	Project Babel Package Plan
Period:	June 11, 2019 to June 12, 2019
Total Amount:	10,800,000 yen (including tax)
(Contact):	Person B, Marketing and Communication Department

Person H replied to the email, writing “Thank you for your order! I would appreciate it if you could contact me separately regarding the measures.”

As can be seen above, since the order amount regarding the Purchases is 10,800,000 yen including tax, according to internal regulations (*Ringi* (Request for Managerial Approval) Regulations), it appears that it was necessary to follow prior *Ringi* procedures for approval by a director. However, for order placements associated with advertising expenditures, as long as the advertising expenses fall within the total budgeted amount approved by resolution each quarter, there was no need to follow *Ringi* procedures for each individual order placed outside the Company, and as described in section 1-(5) (a) b) above, in the Marketing Division such orders could be placed provided approval was obtained from a single supervisor regardless of the monetary amount of the order concerned. For this reason, Person B did not undertake such procedures and only obtained approval for the order placement from their immediate supervisor Person A.

(c) Other Meetings and the state of preparations, etc.

In addition to the events described in (a) and (b) above, while the precise timing is unknown¹⁴, from around March 2019 to execution of the Purchases, Person A, Person B, Person E and Person H successively confirmed the following matters concerning the specific methods and details of the Purchases.

- That Company D’s commission regarding the Purchases would be 8% of the 10 million yen budget (800,000 yen)
- Various types of Sprit Stone item packs should be purchased, as only purchasing the most expensive item pack (9,800 yen) would be unnatural.
- For each smartphone device, a single Apple ID (User ID used for logging in to the App Store) would be used
- Company D would submit evidence of the Purchases to the Company

Additionally, the following more specific advance preparations related to the Purchases were carried out by Company D.

- Regarding the people who would actually be carrying out the Purchases, Person E and Person H selected 8 people from among the employees of Company D who they believed would not leak information about the Purchases (ten people in total, including Person E and Person H).

¹³ This purchase order has neither the order number description, a company seal to the side of the company name, a space for order placement, the order placement seal of the person in charge of the order placement, nor the seal of approval of a supervisor.

¹⁴ On the Company’s scheduler, it can be confirmed that Person B had a meeting with Company D on May 15, 2019.

- To arrange for the devices that would be used to conduct the Purchases, Person H contacted several rental providers, but since it was deemed difficult to secure 700 to 1,000 devices, with the approval of Person B, 200 devices were rented.
- Person H confirmed in advance with Person B that to ensure that no evidence was left regarding the expected amount of in-app purchases carried out on each device, the information should be provided in writing, and the information was actually provided to Person B in writing.
- Person H created a manual detailing the procedures for the Purchases.
- The domain owned by Company D was used for the email addresses needed to register Apple IDs.

(d) Execution of the Purchases

From June 11, 2019 when pre-downloading of the Title commenced until June 13, 2019, Company D downloaded the Title on the devices, proceeded with the game on the devices until the tutorial at the beginning of the game had been completed in advance, and enabled in-app purchases on the devices. Having done so, 10 employees of Company D including Person E and Person H began the Purchases from around 2:00 p.m. on June 13, 2019, making purchases totaling 8,478,000 yen in the course of that day.

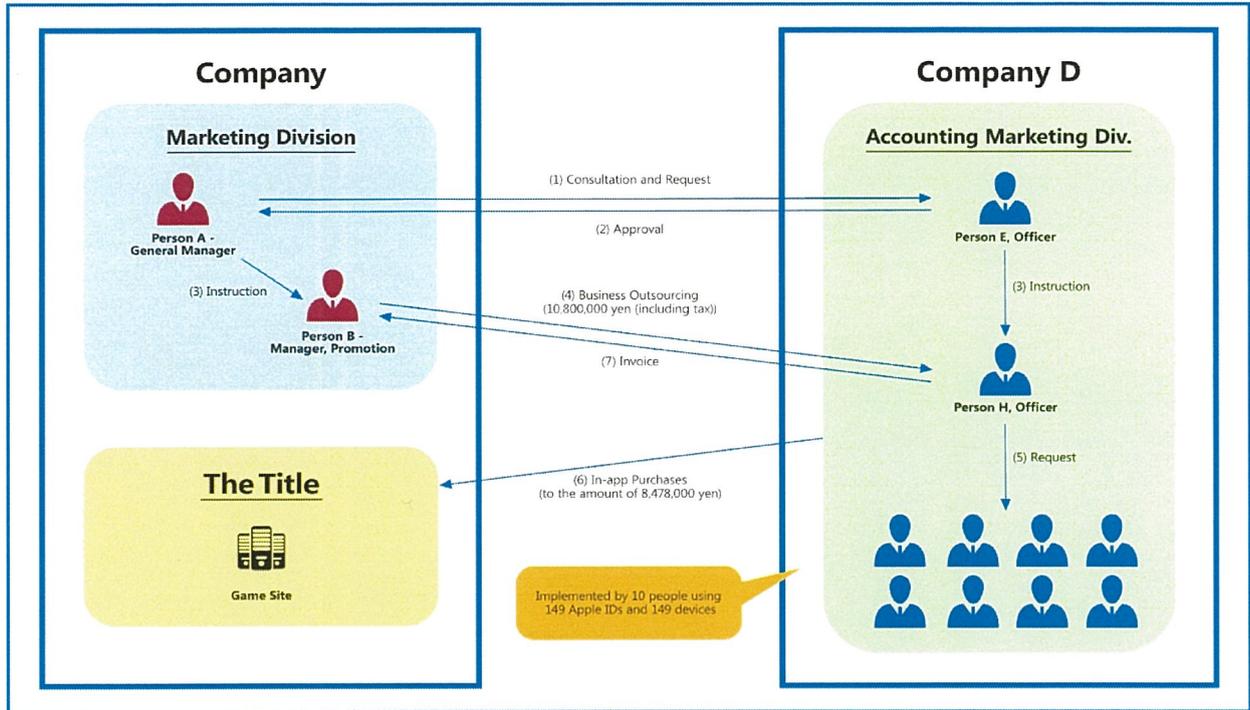
When implementing the Purchases, since 65 of the 200 rental devices had registered Apple IDs in the past and did not allow the additional registration of new IDs, only the remaining 135 devices were used. In addition, devices owned by Company D and personal devices of Company D officers and employees were used, bringing the total to 149 devices.

Additionally, Person A had communicated to Person B in advance that to avoid the Purchases from being discovered, Company D needed to use the Spirit Stones while proceeding through the game rather than simple executing the Purchases, and Person B informed Person H to this effect on the day of June 13, 2019, when the Purchases had been executed. Person H responded that since it was a sudden request, they would accommodate it to the extent that was possible, and in fact, although the Spirit Stones had been used on their personal devices, only in-app purchases had been made with the 135 rental devices and the company-owned devices, with no Spirit Stones being used due to time limitations. When Person H reported this fact to Person B, Person H has not been blamed by Person B.

Regarding the implementation status of the Purchases, Person H reported Person B by telephone, and Person B passed on the information to Person A.¹⁵

The following diagram depicts the series of events associated with execution of the Purchases mentioned above.

¹⁵ Also note that screenshots showing the history of the Purchases were submitted by Company D.



(e) Effects of the Purchases

The change in the amount of in-app purchases for the Title and its sales ranking (referring to the sales ranking based on data of [REDACTED]¹⁶) are shown in the following table.

	June 12	June 13	June 14	June 15	June 16	June 17	June 18	June 19	June 20	June 21
Number of Users										
Number of Users Making In-app Purchases										
Amount of In-app Purchases (yen, excluding tax)										
Amount of In-app Purchases (yen, excluding tax)										
Average In-app Purchases Amount (yen)										
Sales Ranking	Overall									
	Game									
	RPG									
Events	Launch Date	Implementation of the Purchases								

The sales ranking (based on data from [REDACTED] as of July 2, 2019) of the title on June 13, 2019 when the Purchases were executed was [REDACTED] in the game category, and while the in-app purchase amount (sales amount) including tax was [REDACTED] yen according to the Company's internal materials, since 8,478,000 yen of that was due to the Purchases, it can be inferred that the sales ranking of the Title on that day was boosted to some extent by the Purchases¹⁷.

¹⁶ [REDACTED] is an app research firm based in the United States that provides market data and analysis tools for apps.

¹⁷ Also note that since rankings and in-app purchase amounts for other apps are not disclosed by Apple and the accuracy of these figures cannot be guaranteed, it is not possible to rigorously verify what the Title's sales ranking would have been had the Purchases not been implemented.

(4) Events after the Purchases

On June 18, 2019, information was provided anonymously to the Company. The information included the facts of the Purchases and that Person A and Person B were involved with the Purchases.

When the Company interviewed Person A and Person B on that same day, both persons admitted to being involved with the Purchases. Accordingly, from June 20, 2019 both persons were subject to disciplinary action in the form of being ordered to stay at home, and the next day on June 21, 2019, the Company made a timely disclosure regarding the Purchases.

Also note that Company D has not sent an invoice to the Company regarding the transactions related to the Purchases, and the Company has not completed payment.

Additionally, as of the submission date of this Investigative Report, the Title continues to be distributed. On June 25, 2019 a report and apology concerning the Purchases was posted, and from July 5, 2019 onwards, 2,000 Spirit Stones were distributed to users as a token of apology.

(5) Awareness of Person C

(a) Statements by Person C

Person A has stated that he consulted in advance with Person C regarding the Purchases, informed Person C that the Purchases would be executed on the day following the Title's release date, and also reported on the matter after the Purchases had been executed. Additionally, Person B stated that when he was instructed by Person A to handle materials related to the Purchases, he heard that approval had been received from Person C.

With respect to these statements, Person C denies receiving reports from Person A on the specific methods and details of the Purchases, but states that he cannot definitively eliminate that possibility that he received reports that the Purchases would be implemented as a promotional measure for the Title.

On this point, in light of the following circumstances, it is deemed highly likely that Person C was aware in advance that the Purchases would be implemented.

(b) Exchanges over text messaging

Regarding events that occurred between June 12 and 17, in a text messaging conversation that took place over two minutes from 10:27 a.m. on June 12, 2019, Person C asked Person A "When do the measures begin?" and Person A responded that they would begin from noon on June 13, 2019.

Actually, in light of the fact that (1) the Purchases had been executed at 2:00 p.m. on that day, (2) there are deemed to have been no promotional measures related to the Title scheduled to be implemented at a specific start time on that day other than the Purchases, and (3) that Person A, one of the parties to the exchange, has stated that he understood "the measures" to be referring to the Purchases, it is reasonable to think that "the measures" Person C asked about referred to the Purchases.

With respect to this, Person C has stated that "the measures" refers to other promotional measures. However, consideration of those other promotional measures was first started at around noon on June 13, 2019, and "the measures" whose starting time Person C asked Person A on the premise of something whose implementation had already been decided on as of June 12 cannot be deemed to refer to the other promotional measures, and Person C's statement's regarding this point do not match the chronological order of events.

(c) Statements by Person A and Person B

Person A has stated that he consulted in advance with Person C, the producer of the Title, several times regarding the Purchases as a promotional measure that was scheduled to be implemented, that he communicated to Person C that the Purchases would be executed on the day after the release date of the Title, and that he reported to Person C after execution of the Purchases.

In addition, Person B has stated that when he was instructed by Person A to handle matters related to the Purchases, he heard that approval had been obtained from Person C.

On this point, it is not thought that both Person A and Person B, who have fully admitted to executing the Purchases from the outset, would have a motive to issue statements contrary to fact. Even if both persons gave statements contrary to fact in order to shift the responsibility to Person C and reduce their own responsibility, they would conceivably even state that they were ordered by Person C to execute the Purchases, but the above statements by Person A and Person B limit Person C's involvement to consultation and receiving reports, making it difficult to entertain the notion that Person A or Person B made false statements to shift or lighten the blame.

(d) Meeting with President Baba

On June 18, 2019 when information about the Purchases was provided anonymously, Person A and Person B were interviewed. Since they stated that Person C was also involved, the next day on June 19, 2019, President Baba held an interview with Person C.

When President Baba confirmed with Person C that he was aware of the Purchases, Person C stated that "I would have to say that I knew," that "In my position as a director I should have stopped it," and that "I don't know about the detailed methods," effectively stating that he had been aware of the Purchases in advance.

Further, during an interview conducted by President Baba on June 24, 2019, although Person C amended his statement to say, "I would probably have to say that I knew about it, but it was beyond my recognition, and even now I can't think of when would have been the best time to stop it," but even at this point, he has not denied the possibility that he had received reports that the Purchasing would be implemented.

(e) The fact that Person C was in a position to be consulted on matters by Person A

Based on the organizational regulations, Person C indeed did not hold a position as the supervisor of Person A.

However, as the Title's producer, Person C did hold a supervisory position that extended to planning, development and title release, and in practical terms, the producer is in a position to be consulted on and to approve promotional measures. Also note that for titles other than the Title at issue, it has been shown that producers have been consulted over promotional measures and provided de facto approval for them.

(f) Summary

Based on the above, it is reasonable to determine that Person C was highly likely to have been consulted in advance about implementing the Purchases as a promotional measure for the Title.

(6) Awareness of other Officers and Employees

Person A and Person B have stated that apart from themselves and Person C, information concerning the Purchases had not been provided to other officers and employees of the Company. Furthermore, Person C denied from the outset that he had received reports from Person A about the specific measures and details of the Purchases, and has not made any statements suggesting that other officers or employees were aware of information related to the Purchases.

Moreover, in objective materials such as the interviews and questionnaires given to Company officers and employees and meeting minutes recorded in relation to the Title, as well as information such as the email data extracted through digital forensics, apart from these three people, no officers or employees of the Company admitted to or raised suspicions of having been aware of the Purchases in advance.

Similarly, Director Hasebe, who is the director in charge of the Marketing Division, is also deemed to have had no such awareness of the Purchases. This is because as described in section 1-(5) (a) b), outside orders placed for advertising services went through as long as approval had been obtained from a single supervisor without having to follow *Ringi* procedures, and without being informed of an order placement related to the Purchases through the *Ringi* procedures, no facts leading to the suspicion that Director Hasebe had been aware of information related to the Purchases through other opportunities were confirmed.

Therefore, it was confirmed that apart from three persons, namely Person A, Person B and Person C, no other Company officers or employees were aware in advance that the Purchases would be implemented or had been implemented.

(7) Legal assessment of the Purchases

Article 5, Paragraph 1 of the Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962; “Truth in Advertising Law”) stipulates that businesses are prohibited from making representations in connection with transactions of goods or services they supply when (1) the quality, standard or other particulars related to those goods or services are portrayed to general consumers as being much better than the actual goods or services, or (2) contrary to fact, portrayed as being much better than those of competing business operators, thereby having a tendency to induce customers unjustly and to interfere with general consumers’ voluntary and rational choices. (prohibition on misleading representation).

On this point, even if it were possible to confirm that the sales ranking of the Title on June 13, 2019 rose a certain degree due to the Purchases that were carried out, considering that the ranking ended up at around [REDACTED] as described above, that the degree of the rise in rank is unclear, and that without the sales ranking being displayed on the App Store it would not be possible to obtain sales ranking information without checking separate websites that post sales ranking information, one would be reasonably hesitant to assess their having been a misleading representation rising to the level of portraying the title as “much better” than it was due to the Purchases.

However, the point that the Purchases could have misled general consumers who were unaware that the Purchases had taken place into believing that the Title was regarded more favorably than it actually was cannot be denied, and undeniably runs counter to the spirit of the Truth in Advertising Law in its prohibition against misleading representations.

Additionally Apple, a business partner of the Company, stipulates in its guidelines that “if a developer is found to have falsified customer reviews, solicited feedback in exchange for money or compensation, misused only some feedback or posted fake feedback to increase chart rankings, or cooperated with other companies providing such services, Apple may take steps to maintain the credibility of the App Store and expel the developer from the Developer Program,” and in light of the fact that such conduct is prohibited, regardless of whether the Purchases directly violate Apple’s terms, they should at least be evaluated as inappropriate conduct.

¹⁸ Also note that the main reasons Person C did not stop Person A and others from implementing the Purchases are presumed to be (1) that as the Title’s producer, he was in a position making him practically responsible for it being a hit, and (2) he did not give careful consideration to the Purchases in terms of compliance.

3. Confirming the Presence of Similar Transactions in Previous Fiscal Years

The Committee conducted investigations of (1) through (5) below to confirm whether there were any similar transactions, including in previous fiscal years.

(1) Analysis of Users with Heavy In-app Purchases

The Committee analyzed the characteristics of user in-app purchase data for the Title, and conducted an investigation of newly released game titles over the past three fiscal years (from October 1, 2016 onwards) to confirm that there were no events similar to the Incident.

The details of that investigation are given below.

(a) User in-app purchase data subject to investigation

The Committee first obtained daily user in-app purchase data for the Title. The data was obtained by receiving a file that Company information systems personnel extracted from the cloud (BigQuery). The targeted period was June 12, 2019 (the release data of the title) to July 2, 2019, and the total number of records obtained was [REDACTED].

The received user in-app purchase data fields and details are as follows.

Field	Contains
Date	Date
Userid	User ID for the game title
buy price	Monetary amount of in-app purchases (excluding tax)
get_paid_hc	Number of Spirit Stones added through in-app purchases
get_free_hc	Number of Spirit Stones added through non-purchase means (login bonus, etc.)
used_hc	Number of Spirit Stones used
deposit_hc	Change in number of Spirit Stones on the date in question

The Committee also received user in-app purchase data for a period of one month from release date for the following six game titles ("**Six Similar Titles under Investigation**," hereafter) from Company information system personnel.

The total number of records of user in-app purchase data for the Six Similar Titles under Investigation is as follows.

Game Title	Release Date	No. of Data Records
Pro Baseball VS	May 23, 2017	[REDACTED]
PaniPani: Parallelnix Pandoranight	September 28, 2017	[REDACTED]
Disney TSUM TSUM LAND	October 31, 2017	[REDACTED]
Alice Gear Aegis	January 22, 2018	[REDACTED]
DREAM!ing	August 9, 2018	[REDACTED]
Bakuretsu Monster	October 17, 2018	[REDACTED]

(b) Identifying purchase boosting users in the Title

The Committee obtained a list collating the Apple IDs of 149 purchase boosting users and the total 8,478,000 yen they spent on in-app purchases ("**Apple ID List**," hereafter) from Company D, which was asked by the Company to perform the Purchases, and checked it against the screenshots of App Store in-app purchase invoices for each user, to confirm that the details matched. Additionally, when the Committee tried sorting the Apple ID List and the user in-app purchase data for the Title by date and monetary amount

to match the same IDs, it was possible to identify the users that carried out the purchase boosting.

(c) Analyzing the characteristics of purchase boosting users in the Title

Based on the in-app purchase data that had been received and the information on the 149 users that had carried out purchase boosting with the aim of manipulating sales rankings, data from June 12, 2019 to June 21, 2019¹⁹ was analyzed.

As a result of the analysis, purchase boosting users were confirmed to exhibit the following characteristics.

¹⁹ As the Company made a timely disclosure regarding the Purchases on June 21, 2019, the analysis period was set up to this date.

Category	Details of Analysis	Characteristics of Purchase Boosting Users
Analysis of users with heavy in-app purchases	The tendencies of purchase boosting users and regular users among the top 20 users with heavy in-app purchases was analyzed with reference to the following information. <ul style="list-style-type: none"> - Number of in-app purchases (number of days) - Average monetary amount of in-app purchases per day - Number of Spirit Stones used (number of days) - Number of days played 	<ul style="list-style-type: none"> - Number of in-app purchases (number of days) is 1. - Users don't use up the Spirit Stones they have purchased on the in-app purchase date (Spirit Stones are used the next day or over several days).
Analysis of users with un-used Spirit Stones	The tendencies of purchase boosting users and regular users among the in-app purchases users in period was analyzed with reference to the following information. <ul style="list-style-type: none"> - Number of in-app purchases (number of days) - The total monetary amount of in-app purchases - Number of days played - Number of target users by day 	<ul style="list-style-type: none"> - Number of in-app purchases (number of days) is 1. - Users making in-app purchases is concentrated on a specific date. - The total monetary amount of in-app purchases exceeds a certain amount (the largest being 18,000 yen). - The number of days played is 1.

(d) Investigating similar conduct in previously-released titles

The user in-app purchase data for the Six Similar Titles under Investigation was analyzed from the perspective of determining whether there was data with characteristics similar to the characteristics of the purchase boosting users from the Title. The in-app purchase data targeted for analysis was for the 30 days following release.

The perspectives of the analysis are given below.

Category	The Perspectives of the Analysis
Analysis of users with heavy in-app purchases	For the top 20 users by monetary amount of in-app purchases over the relevant period, data corresponding to the following was extracted <ul style="list-style-type: none"> - Number of in-app purchases (number of days) is 1. - The Spirit Stones purchased are not used up on the date of purchase.
Analysis of users with un-used Spirit Stones	For users who made in-app purchases over the relevant period but had not used the purchased Spirit Stones, data corresponding to the following was extracted. <ul style="list-style-type: none"> - Number of in-app purchases (number of days) is 1. - Users making in-app purchases is concentrated on a specific date. - The total monetary amount of in-app purchases exceeds a certain amount (the largest being 18,000 yen). - The number of days played is 1.

As a result of the above analysis, no user in-app purchasing data with characteristics similar to the characteristics of purchase boosting users was observed among the Six Similar Titles under Investigation.

(2) Interviews

None of the persons interviewed had determined the existence of similar transactions or inappropriate promotions.

Also note that Person E and Person H did not have experience receiving orders for services similar to purchase boosting in the past at Company D, and had not been requested by the Company to undertake other inappropriate promotions.

(3) Digital Forensics

The Committee conducted an investigation and analysis of email data and text messaging data extracted from Company-loaned PCs, Company email servers and email archives for a total of 11 Company officers and employees who were potentially involved with or aware of the facts of the Incident (an outline of the digital forensics procedures that were conducted are given in Appendix 3). As a result, a search for exchanges or other information sufficient to determine the existence of similar transactions produced no relevant hits.

(4) Questionnaires

(a) Employee questionnaire

a) Questions in the questionnaire and the results of responses

The questions appearing in the questionnaire were set with the aim of confirming the existence of the Incident and transactions similar to the incident on a company-wide basis. The questions and the results of responses are given below.

Question	Number of “Yes” Responses
Up until now, have you been aware of conduct or other events that correspond to <examples> taking place inside the Company? ²⁰ <Examples> - Conduct involving asking a business partner to use Company funds to make in-app purchases in the Company’s own game for the purpose of manipulating sales rankings - Placing fictitious orders or concluding fictitious contracts not grounded in fact - Making payments, etc. for items that differ from the actual details of transactions - Making payments, etc. of consideration which is of an inappropriate or considerably disproportionate amount as regular consideration for a transaction - Any other conduct similar or related to the above, or other compliance issues, doubts, etc.	6

²⁰ Respondents who answered “Yes” to this question in the questionnaire were asked to provide details.

b) Consideration of the response results

For the six responses of “Yes” in (a) above, the specific details provided are as follows. Also note that the following “responses about the Incident” relate to respondents learning a summary of the Incident on Internet news after it was announced by the Company, and were deemed to not require further investigation.

- Responses about the incident: 4
- Responses that do not apply to the Incident or similar transactions: 2

(b) Business partner questionnaire

a) Questions in the questionnaire and the results of responses

The questions appearing in the questionnaire were set with the aim of confirming the existence of the Incident and transactions similar to the incident on a company-wide basis. The questions and the results of responses are given below.

Question	Number of “Yes” Responses
Q1: Have you ever been ask by an employee, including an employee in a managerial position, to make in-app purchases in a Company game using Company funds for the purpose of manipulating sales rankings?	0
Q1-2: If you answered “Yes” to Q1, did you ever agree to the request to make in-app purchases in the Company game using Company funds?	0
Q1-3: If you answered “Yes” to Q1, please provide the name of the Company officer or employee who made the request (or describe their attributes if unsure), when the request was made, the details of the transaction and the exact form of the request.	0
Q2: In addition to the above, in transactions conducted with the Company, if you were ever asked to (1) receive a fictitious order or conclude a fictitious contract not grounded in fact; (2) receive orders, etc. for payments that differ from the actual details of transactions; (3) receive payments, etc. of consideration which is of an inappropriate or considerably disproportionate amount as regular consideration for a transaction; or (4) otherwise asked to engage in conduct that the Company recognized as questionable in terms of improper conduct or be party to a mysterious transaction, etc., please provide the name of the Company officer or employee who made the request (or describe their attributes if unsure), when the request was made, the details of the transaction and the exact form of the request.	0

b) Consideration of the response results

As shown in a) above, as there were no responses of “Yes,” it was determined that no additional investigation was required.

(5) Hotline

The Committee was provided information on three occasions through a hotline (in each case the information was provided by the same individual), but no information suggesting the existence of similar transactions was provided.

Part 4. Analysis of the Cause of the Incident

1. Motivation Behind the Purchases

(1) Interest in Purchase Boosting

Around 2016, Person A heard rumors that the practice of a publisher engaging in in-app purchasing at their own expense in a bid to increase sales rankings was routinely taking place for overseas game titles from other companies, and developed an interest in implementing purchase boosting himself if given the opportunity. Under circumstances where the Company's new titles were not proving to be big hits, Person A thought that if the Title achieved a high sales ranking immediately after the launch date, it would be easier for it to attract attention and become topical due to being covered by the game media, and expected that the number of downloads would increase and more early adopters (users who start playing a game by paying attention to sales rankings immediately after release) would be won over. Based on this belief, Person A began to actively consider methods that use purchase boosting.

(2) The idea for the Purchases

Person A believed that unlike other games the Company had recently released, for the Title it would be easy to assign an order placed with Company D for the launch of a game walk-through site for the Title as part of advertising services. This led to Person A thinking that in this case, if the method employed was for the Company to pay Company D the equivalent amount of in-app purchases as a support fee for Company D to make in-app purchases and use the "Tansa" loot box service in order to create the game walk-through, the provision of services on the side of Company D would exist, therefore the Purchases would not be discovered, or even if they were, it would not be a serious problem.

2. Presence of Cooperators for the Purchases

(1) Cooperation by Person B

In June 2015, Person B, who later engaged in various negotiations with Company D regarding the Purchases, was hired as a mid-career employee as a member of the Promotion Group, and worked together continuously with Person A, who was manager of the Promotion Group during that time. Even during the time the Purchases took place, Person A was general manager of the Marketing Division and Person B was group manager of the Promotion Group under that division, maintaining that Superior-Subordinate relationship, and in addition, Person B was in a position that made it difficult to effectively refuse instructions from Person A, his superior. For this reason, Person A was able to secure the internal personnel needed to implement the Purchases.

(2) Cooperation by Company D

Person A maintained a relationship with Person E from Company D that extended to their having private meals together, and Person E was cooperative towards Person A's request for Company D to carry out the Purchases. In addition, after placement of the order for the Purchases, Person E and Person H, also of Company D, undertook tasks to ensure the success of the Purchases such as renting devices and arranging personnel, indicating that Person A was in an environment allowing the Purchases to be carried out through Company D.

3. The Lack of Adequate Awareness Regarding Compliance

While Person A and Person B were aware that the Purchases were inappropriate in general and even within the industry, they ended up implementing the Purchases based on the determination that they would not result in significant issues. In terms of internal evaluations, both were assessed and seen as persons who were careful and had sufficient awareness of compliance, but in light of the result where the Purchases were carried out, there can be no other conclusion than that there was insufficient awareness of compliance and risk assessment.

Additionally, while it is highly likely that Person C, as a director and as producer of the Title, was consulted in advance by Person A over the fact that the Purchases would be implemented as promotional measures for the Title,

Person C failed to confirm or point out the inappropriateness of the Purchases in any way or seek to halt implementation of the Purchases, and this attitude can only be assessed to be grounded in an inadequate awareness of compliance on the part of Person C.

4. Inadequacy of Check-and-Balance Functions between Officers and Employees

(1) Weakness of *Ringi* (Request for Managerial Decision) Procedures

According to internal Company regulations, *Ringi* procedures are required when placing an order for outsourced services. The people who provide approval are categorized based on the amount of the order to be placed. For amounts of at least 10 million yen and less than 50 million yen, a director provides approval. For amounts of at least five million yen and less than 10 million yen, a general manager provides approval.

However, in the interests of allowing a large number of orders to be placed efficiently, these general rules do not apply to advertising expenses, and these orders can be placed without going through *Ringi* procedures if approval is obtained from a single supervisor regardless of the monetary amount of the order concerned, as long as the expenses fall within the total budgeted amount for advertising expenses approved by resolution on a quarterly basis. The events surrounding the Incident were carried out in line with these operational practices. For this reason, Person A and Person B were in an environment allowing them to place orders for outsourced services in amounts exceeding the approval criteria afforded them according to the matrix of official authority provided the order placements were advertising expenditures. In this way, the fact that the check-and-balance functions of the *Ringi* procedures are not always sufficient for individual order placements concerning advertising expenses is deemed to be one of the causes of the Incident.

(2) Environment Making it Difficult for Non-assigned Members to See How Advertising Expenses are Actually Used

While advertising expense budgets after total budgets have been approved are allocated to each group at budget meetings²¹ held internally in the Marketing Division, the units of allocated budget items do not go into detail. For example, the allocations may be broad units such as “web operation,” “TV spots” and “other.” Therefore, while the details of promotions and schedules for the titles being handled are shared at the regulation meets held by each group, the authority to place orders, including which companies to place orders with and the monetary amounts involved are largely left to the discretion of managers, and even though summaries of the order placements are shared on an order placement management sheet, there is no mechanism for sharing the details of those orders within the division. For this reason, it is difficult for non-assigned members to see how advertising expenses related to titles to which they are not assigned are being used, creating an environment in which it is easy for personnel to place inappropriate orders. For the Title in particular, as a large number of orders were placed as web operating expenses, it was difficult to understand the details of orders from the perspective of non-assigned members, arguably making it even more difficult for checks-and-balances against inappropriate order placements to have an effect.

(3) Order Placements Not Following the Process in Documents Describing Business Operations

Orders for advertising expenses are placed with business partners by sending an email with an attached purchase order. According to the process in documents describing business operations regarding advertising expenses, related persons in the Marketing Division are included in the CC field when such emails are sent, creating a system where there is some degree of checks-and-balances in the division regarding inappropriate order placements. However, in this case since Person B did not include related persons in the Marketing Division in the CC field when placing the order with Company D, other divisional members were not aware of the matter. When related persons are not included in the CC field of an order placement email, it is difficult to

²¹ The official name for this meeting is Budget and MAU Meeting.

ascertain actions that involve placing orders in a timely fashion, placing certain limits on these check-and-balance functions.

Part 5. Recommendations of Measures to Prevent Repeat Occurrences

In light of analyses and other consideration regarding the causes for the Incident that were identified above, the Committee wishes to make the following recommendations of measures to prevent repeat occurrences to the Company.

1. Sharing a Vision for Thorough Compliance Across the Company

In the Company's basic policy on compliance, it is clearly stated that the "laws and regulations, etc." to be followed also include "corporate ethics," and it is specifically noted that prohibited conduct by officers and employees not only includes officers and employees violating laws and regulations, etc. or compelling others to do so, but also tolerating such conduct. Additionally, President Baba has adopted a policy of regularly refusing to engage in business activities that blur the lines of what is acceptable in terms of social norms, and this was through to have taken root among other officers to a certain extent.

On the other hand, in the management philosophy, vision, values and code of conduct published on the Company website, the importance of compliance is not necessarily clearly stated.

Given this, in order to ensure that policies such as those above that emphasize compliance among top management take root among both officers and employees, that sort of vision as a company needs to be formulated in a clearly way.

2. Compliance Education

Ongoing compliance education is essential to enable the Company's officers and employees to make appropriate decisions on right and wrong when encountering a range of issues.

Additionally, considering the Company's business is dependent on the contractual relationships with platform holders Apple and Google, to avoid the risk of service shutdowns stemming from contractual violations, etc. with these companies, it is necessary to appropriately share information about the contractual terms and prohibited items, etc. agreed to with those companies, and on that basis provide the necessary training to related departments to ensure compliance with the contractual terms.

3. Reviewing the *Ringi* (Request for Managerial Decision) System

While the Company has by and large developed a set of internal regulations as a publicly traded company, it will be necessary to review the *Ringi* procedures and business flow related to the outsourcing of advertising to bring them more into line with the official authority stipulated by organizational regulations and with the *Ringi* regulations themselves.

More specifically, regarding the handling of advertising costs in the Marketing Division, there is a situation where broad discretion is granted to the general manager of the Marketing Division within the budget for advertising costs approved by resolution on a quarterly basis, and with regard to order placements in particular, the carrying out of prior *Ringi* procedures based on the matrix of official authority is skipped. For these reasons and in light of the Incident, it will be necessary to incorporate measures that ensure business efficiency while still covering check-and-balance functions through individual *Ringi* procedures based on the matrix of official authority in a way that achieves appropriate management and supervisory functions.

4. Improved Monitoring

(1) Enhanced monitoring by the Internal Audit Office and director in charge

Monitoring functions need to be improved so that when improper conduct occurs within the Company it is quickly discovered. On the premise of improvements being made to item 3. above, it would be advisable for the Internal Audit Office and director in charge to prioritize verifying whether such *Ringi* procedures are being carried out appropriately in business audits, to enhance mutual coordination between Audit and Supervisory Committee members and auditing firms, and to establish a more enhanced monitoring system.

(2) Stronger monitoring in business flows

In payment flows, the details of *Ringi* procedures are currently not verified in advance, but for outsourcing transactions, the incorporation of mechanisms allowing the presence of *Ringi* procedures and their details to be confirmed after the fact would be preferable.

In addition, particularly with regard to web-based media promotions in the area of advertising, the deliverables are not always clear, making it difficult to verify the results of outsourced expenditures after the fact. For this reason, it would be advisable to develop systems to confirm after the fact that web-based media promotions have been properly carried out (such as requiring contractors to submit result reports).

(3) Improved monitoring through IT systems

In addition, to ensure that inappropriate billing actions similar to the Purchases can be quickly discovered, it would be advisable to develop IT systems capable of ascertaining abnormal values in figures such as billing actions, and monitoring for signs of other improper transactions.

Summary of the Investigated Materials

1. General Materials related to the Company
 - Articles of Incorporation, internal regulations, organizational chart
 - Meeting minutes
 - *Ringi* (request for managerial decision) forms, purchase orders, contractual documents
 - Advertising budgetary control list
 - Business descriptions, business flow diagrams, risk control matrix
 - Accounting documents
 - Documents concerning Group companies

2. Materials related to Company Titles
 - Sales and change in ranking by title, profit and loss statements
 - List of release dates by title
 - Advertising budgetary control table by title
 - Number of pre-registration users by title
 - Change in sales amount, download ranking and sales ranking, etc. for the Title
 - Planning documents related to the Title

3. Materials related to Company Officers and Employees
 - List of career histories related to Marketing Division employees, seating chart
 - List of Slack IDs of Company officers and employees
 - Contents of PC recycle bins

4. Materials related to the Purchases
 - Materials with the information provided anonymously
 - Materials submitted by Company D (screenshots of in-app purchasing amounts for each account, etc.)
 - Company investigative materials (in-app purchasing amounts and Spirit Stone balances, etc. for each user account)

List of Interviewees

Name (Honorifics Omitted)	Position / Department
Naruatsu Baba	President, CEO and COO
Jun Hasebe	Executive Director, CSO, General Manager of the Incubation Division, Director of the Legal Affairs and Intellectual Property Center
Ryosuke Ishiwatari	Executive Director, General Manager of the Human Resources Division
Kazunori Morisaki	Executive Director, CCO, General Manager of the Alliance Division
Kenta Sugai	Executive Director, CTO, General Manager of the Engineering Division
Yoshiaki Harai	Executive Director, CFO, General Manager of the Corporate Division
Shinsuke Ishiwatari	Executive Director (Part-time)
Koji Yanagisawa	Outside Director (Part-time)
Dai Tamesue	Outside Director (Part-time)
Ryogo Tsukioka	Audit and Supervisory Committee member (Part-time)
Koichiro Iida	Audit and Supervisory Committee member (Part-time)
A	General Manager, Marketing Division
B	Manager, Promotion Group, Marketing and Communication Department, Marketing Division
F	Promotion Group, Marketing and Communication Department, Marketing Division
G	Promotion Group, Marketing and Communication Department, Marketing Division
J	Promotion Group, Marketing and Communication Department, Marketing Division
K	Promotion Group, Marketing and Communication Department, Marketing Division
L	Manager, Marketing and Communication Department, Marketing Division
M	Promotion Group, Marketing and Communication Department, Marketing Division
N	Produce Team, Branding Group, Marketing and communication Department, Marketing Division
O	Publicity Team, Branding Group, Marketing and communication Department, Marketing Division
P	Manager, Data Management Department, Marketing Division
Q	Manager, Internal Audit Office
E	Officer, Company D
H	Officer, Company D

Summary of Digital Forensics Procedures

A summary of the digital forensics procedures implemented is as follows.

1. Preservation and Receipt of Investigated Devices and Electronic Data

The Committee preserved the PCs used for business purposes and the email data, schedule data and text messaging data (Workplace, Slack) saved to the cloud of Persons A, B, L, K, F, J, G, M, O, N and C, who all belong to the Marketing Division.

The devices and data that were preserved and the methods of preservation are as follows.

Devices and Data	Method of Preservation
Laptop PCs	Preserved by the Committee
Desktop PCs ¹	Preserved by the Committee
Email / Schedule Data (G Suite) ²	Committee received and preserved cloud archives and restored data extracted by Company information system personnel
Text Messaging Data (Workplace) ³	Committee received and preserved cloud archives and restored data extracted by Company information system personnel
Text Messaging Data (Slack) ⁴	Committee received and preserved cloud archives and restored data extracted by Company information system personnel

2. Handling of PCs, Email and Text Messaging Data

For the preserved PC data, erased data was recovered whenever possible. Thereafter, all of the preserved and received data was processed into a database, and the items deemed necessary by the Committee were uploaded to a review platform for investigation. For the email server data and text messaging data, as restored data was received it was directly processed into a database and uploaded.

¹ Person A, Person B, Person O and Person K were in possession of desktop PCs.

² This is a suite of cloud services provided by Google that includes email and groupware, etc.

³ This is a collaboration tool provided by Facebook for enterprises. The period of use at the Company was from February 2017 to June 2018.

⁴ This is a collaboration tool focused on text messaging for businesses provided by Slack. The period of use at the Company is from July 2018 onwards. Due to the tool specifications, the data for all employees was preserved.

3. Data Review

The total electronic data record count for the PC, email and text messaging data uploaded to the review platform for investigation was 2,471,503 records. This number was narrowed down to 18,194 records deemed necessary by the Committee through keywords, etc., and a review of these records was undertaken. Also note that the period under review was from October 1, 2016 to the point when the preservation tasks were implemented.

The conditions used to narrow down each type of data are as follows.

Data Type	Classification	Conditions Used to Narrow Down Data	Number of Records
Slack	Individual Chat	All individual chats of the 11 related persons	45 ⁵
	Group Chat	Group chats within the Marketing Division	9
		Group chats between the Company and Company D	1
		Group chats containing the text “sales ranking” and “boost”	21
Workplace	—	Keywords listed in section 4. below	234
Email Data	—	Keywords listed in section 4. below	14,162
PC Data	—	All email data	3,722

4. Keywords

The keywords used as conditions to narrow down the data are as follows.

Keywords	AND				
██████████					
██████████					
██████████	Sales ranking	Sales ranking (abbreviated version)	Special plan	Special package	
██████████	Ranking	Special	Package		
Boost	Sales ranking	Sales ranking (abbreviated version)	Number of Users	Number of Users	In-app Purchase
Booster					
Babel	Ranking	Special	Package		
White Cat	Sales ranking	Sales ranking (abbreviated version)	Special plan	Special package	
██████████	Ranking	Special	Package		
Sales	Insufficient	Not enough	Achieve	Not achieved	
Ranking	Want to raise	Low	Achieve	Not achieved	Manipulation
Sales Ranking (abbreviated version)	Want to raise	Low	Achieve	Not achieved	Manipulation
In-app Purchase	Rental	Special plan	Special package		
Review	Good review	High review			
Falsification					

Fabrication					
Come to light					
Not come to light					
Unavoidable					
Private Tell no one					
Pressure					
Secret					
Illegitimate					
Unavoidable (variation)					
Unavoidable (variation)					

⁵ Of the 55 records containing a combination of the 11 related persons, 45 records were individual chats.