



March 16, 2023

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### **Notice of establishment of measures to prevent recurrence and future response policies**

As reported in the “Notice of Establishment of Special Investigation Committee,” a press release issued on February 9, 2023, Sanrio set up a Special Investigation Committee on the same day that it learned that sales had been manipulated by pooling royalties and intentionally recording them in the wrong month in the Domestic License Business (hereinafter referred to as the “Case”). An investigation into the facts behind this Case and whether there were similar situations was carried out.

In parallel with the Special Investigation Committee’s investigation, the Company has thus far considered measures to prevent recurrence and has already implemented some of these measures. The entire Group will need to come together to establish and implement additional preventive measures, and for this reason, on the order of President and Chief Executive Officer Tomokuni Tsuji, a Compliance Reinforcement Committee was formed, and Kosho Nomura, Senior Managing Director, was appointed as chair. This Committee will devise measures and responses to this Case that cut across the Group.

As we reported in the March 16, 2023 press release “Notice of Receipt of Special Investigation Committee’s Final Report”, we received the final report from the Special Investigation Committee on March 15, 2023. We take the results of this investigation and the Committee’s recommendations very seriously, and resolved to establish preventive measures, as described below, at the Board of Directors meeting held today.

We will promptly implement measures to prevent recurrence, and the entire company will come together to restore the trust of our shareholders, business partners, and all other stakeholders. We ask for your understanding.

#### 1. Company’s initiatives thus far

This Case made it clear that, in the event that a sales department manipulates the attribution of the sales period, as in this Case, there is no department or person able to detect this kind of

fraud. For this reason, we considered preventive measures we could take in the process of recording license sales and in control. In addition, in the previous operation flow, the sales staff in the sales department received the royalty report from the licensee. We have changed this, effective March 1, 2023, so that the Administration Department receives this royalty report, confirms that the data entered is complete, and then sends it to the sales staff in the sales department for verification of the accuracy of the entries.

## 2. Establishment of Compliance Reinforcement Committee

When responding to this case, we not only considered recommendations from the Special Investigation Committee, but determined that initiatives cutting across divisions were also needed, as we needed to reform awareness and initiatives on compliance and other issues and respond to stakeholders on this Case. Accordingly, on the order of President and Chief Executive Officer Tomokuni Tsuji, a Compliance Reinforcement Committee (hereinafter referred to as "Reinforcement Committee") was formed. The Committee's formation was also approved at the Board of Directors meeting held on March 16. In appointing the chair of the Reinforcement Committee, the attributes and scale of the Case were considered, and Kosho Nomura, the Senior Managing Director responsible for the Group's General Affairs Division, was deemed the right person for this task and was appointed as chair.

The Reinforcement Committee will address the following issues sequentially:

- Make various responses ahead of the submission of the internal control report within the current fiscal year, with a record date of March 31, 2023;
- Establish preventive measures based on an analysis of the factors causing this Case, and build an implementation system; and
- Consider responsibility and dispositions in this Case, based on the recommendations of the Special Investigation Committee and the Company's regulations.

## 3. Overview of preventive measures

### (1) Strengthening and improving internal controls

The Special Investigation Committee pointed out that this Case can be blamed in part on the vagueness of the operation manuals and related regulations within the sales departments and the administration department in the License Business Division. For this reason, we will revise the division of duties and establish operation manuals and related regulations, as well as holding training to ensure that employees are familiar with their content and regular training on the accounting standards for revenue recognition, among others.

To ensure the effectiveness of ledger sheet reviews, operation manuals will be prepared to clearly lay out the rules on ledger sheet reviews, including the selection criteria that had not previously been written out.

The Special Investigation Committee pointed out that the License Business Division had not set rotation rules on the regular transfer of the employees in charge, which allowed this Case to be carried out over a long period. As a result, regular rotation rules will be established at each

job grade.

(2) Review of internal control system

The Company will review internal audit procedures in accordance with the relevant rules and regulations that have been changed or added based on the aforementioned "(1) Strengthening and Improving Internal Controls." We will also update related materials, review the risk of fraud and make additions to corresponding audit procedures, as well as revise the audit processes for ledger sheet reviews.

(3) Review of internal reporting system

The Special Investigation Committee pointed out that this Case was also due to the failure of the internal reporting system to function effectively. Accordingly, we will set up mechanisms in which outside directors and corporate auditors are involved to introduce an internal reporting system that is highly independent and transparent, and work to familiarize employees with this internal reporting system.

(4) Initiatives aimed at improving organizational culture and climate

The Special Investigation Committee's survey also showed that pressure to achieve sales and ensure the accuracy of sales forecasts was also a factor in this Case. Accordingly, we will take the following preventive measures:

- Revise the process of setting appropriate forecasts;
- Set up mechanisms that prevent employees from feeling excessive pressure to ensure the accuracy of sales forecasts through 360-degree evaluations of managers and/or questionnaires given to employees; and
- Implement initiatives to improve compliance awareness such as compliance training for managers, compliance education and training for employees, and measures that incorporate adherence to compliance rules in the HR evaluation criteria.

(5) Reinforcement of compliance functions

A new division in charge of compliance will be established to take measures aimed at reinforcing compliance. In conjunction with this, the members of the Joint Compliance Committee, which was previously set up, will be reviewed, roles and authority will be strengthened, and monitoring will be carried out to ensure that preventive measures are appropriately implemented.