



March 16, 2023

Company Name: Sanrio Company, Ltd.  
President and Chief Executive Officer: Tomokuni Tsuji  
Securities Code: 8136, TSE Prime Section  
Inquiries: Jiro Kishimura, Senior Managing Director  
Tel.: +81-3-3779-8058

### **Notice of Receipt of Special Investigation Committee's Final Report**

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. Sanrio received the final report from the Special Investigation Committee on March 15, 2023.

Please refer to the appended "Investigation Report" (Public Version) for information on the results of the Special Investigation Committee's investigation. Given the need to release the findings while still taking into consideration the privacy of those involved and the need to protect confidential information, Sanrio has partially omitted personal names, company names, and other information.

Sanrio deeply apologizes to its shareholders, business partners, and all other stakeholders for the inconvenience and concern this has caused. The entire company will come together to prevent similar occurrences and to restore trust. We ask for your understanding.

To Sanrio Co., Ltd.

# Investigation Report

March 15, 2023

Sanrio Co., Ltd. Special Investigation Committee

Chair Kazuo Ohashi

Committee Member Yusuke Nakajima

Committee Members Osamu Hamada

[Abbreviated Name, etc.]

Abbreviations used in the report have the meanings given in the following table, unless otherwise defined in the Report. Figures in the Report are rounded down to the indicated unit; therefore, totals may not always agree.

Company	
Abbreviated Name, etc.	Trade Name
Sanrio	Sanrio Co., Ltd.
SFE	Sanrio Far East Co., Ltd.
Sanrio Wave Hong Kong	Sanrio Wave Hong Kong Co., Ltd.
Sanrio Taiwan	Sanrio Taiwan Co., Ltd.
Sanrio Korea	Sanrio Korea Co., Ltd.
Company a	Company a Co., Ltd.
Company b	Company b Co., Ltd.
Company c	Company c Co., Ltd.
Company d	Company d Co., Ltd.
Company e	Company e Co., Ltd.
Company f	Company f Co., Ltd.
Company g	Company g Co., Ltd.
DTEA	Deloitte Tohmatsu Financial Advisory LLC

Officers and Employees	
Abbreviated Name, etc.	Position, Responsibilities
Individual A	Sanrio Group SM in charge of Company a and Company c
Individual B	Sanrio GM of Sales Department A
Individual C	Sanrio Former group member in charge of Company a and Company c
Individual D	Sanrio Former GM of Sales Department A
Individual E	Sanrio Former group section member in charge of Company a and Company c
Individual F	Sanrio Group section staff in charge of Company a and Company c
Individual G	Sanrio Former executive manager, License Business Division
Individual H	Sanrio Former executive manager, Licensing Division
Individual I	Sanrio Executive manager and executive officer, License Business Division

Individual J	Sanrio Executive manager and executive officer, License Business Division and Operations Department
Individual K	Sanrio Executive officer
Individual L	Sanrio Deputy executive manager and executive officer, License Business Division
Individual M	Sanrio Former group member in charge of Company b
Individual N	Sanrio SM, Administration Section, Administration Department
Individual O	Sanrio Formerly of the Commercial Affairs Department
Individual P	Sanrio Former group SM in charge of Company b
Individual Q	Sanrio Former group SM in charge of Company b
Individual R	Sanrio Former group section member in charge of Company a and Company c
Individual S	Sanrio Former group SM in charge of Company e
Individual T	Sanrio Former group SM in charge of Company e
Individual U	Sanrio Former group member in charge of Company e
Individual V	Sanrio Former group member in charge of Company g
Individual W	Sanrio Former group member in charge of Company b
Individual X	Sanrio Former group member in charge of Company b

#### Other

Abbreviated Name, etc.	Definitions
The Incident	The incident in which personnel manipulated the recognition of sales timing with respect to transactions with Company a, Company b, and Company c to arbitrary months by pooling royalties without recording said royalties in the month in which they should have been recorded. This manipulation was conducted using Royalty Reports obtained from the companies in question with calculation periods and entry dates left blank
The Committee	Special Investigation Committee established on February 9, 2023 upon the discovery of the Incident
The Investigation	Investigation conducted by the Committee on behalf of Sanrio
The Report	The Investigation Report
License Business Division	The Sanrio License Business Division (including the License Business Division and its predecessor, the Entertainment Business Division, which was incorporated into the License Business Division after Period

	57) *Includes all organizational entities included in Table 2
Sales Department A	The following sales departments and their predecessors in the License Business Division are referred to collectively as Sales Department A <ul style="list-style-type: none"> <li>· [REDACTED] between the fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2020</li> <li>· [REDACTED] for fiscal years ended March 31, 2021 and later</li> </ul>
Group in Charge of Company a and Company c	The following sections of the License Business Division primarily in charge of transactions with Company a and Company c are referred to collectively as the “group in charge of Company a and Company c.” <ul style="list-style-type: none"> <li>· [REDACTED] between the fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2020</li> <li>· [REDACTED] between the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022</li> <li>· [REDACTED] for the fiscal year ended March 31, 2023</li> <li>· [REDACTED] for the fiscal year ended March 31, 2023</li> </ul>
Group in Charge of Company b	The following sections of the License Business Division primarily in charge of transactions with Company b are referred to collectively as the “group in charge of Company b.” <ul style="list-style-type: none"> <li>· [REDACTED] between the fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2020</li> <li>· [REDACTED] for the fiscal year ended March 31, 2023</li> <li>· [REDACTED] between the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022</li> <li>· [REDACTED] for the fiscal year ended March 31, 2023</li> </ul>
Group in Charge of Company e	The following sections of the License Business Division primarily in charge of transactions with Company e are referred to collectively as the "group in charge of Company e." <ul style="list-style-type: none"> <li>· [REDACTED] between the fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2020</li> <li>· [REDACTED] for the fiscal year ended March 31, 2021</li> <li>· [REDACTED] for the fiscal year ended March 31, 2022</li> <li>· [REDACTED] for the fiscal year ended March 31, 2023</li> </ul>
GM	General manager
SM	Senior manager
License transactions	Transactions in which Sanrio grants a license to merchandise Sanrio

	characters
Royalty/royalties	Consideration paid to Sanrio in a license transaction
Licensed product	Products using copyrighted Sanrio characters
Company a Incident	Transactions with Company a in connection with the Incident
Company b Incident	Transactions with Company b in connection with the Incident
Company c Incident	Transactions with Company c in connection with the Incident
Sanrio characters	Characters for which Sanrio holds copyright
License Management System	A database used by the License Business Division to input and output information related to license transactions (licensee and product registration details, transaction records, etc.)
TC Code	Customer code

## Contents

<b>I.</b>	<b>Investigation Overview</b> .....	11
1.	Events Leading to the Establishment of a Special Investigation Committee.....	11
(1)	Events Leading to the Discovery of the Incident and Launch of Internal Investigation .....	11
(2)	Decision to Establish a Special Investigation Committee and Apply for a Deadline Extension to File Quarterly Report.....	11
(3)	Chronological Timeline .....	12
(4)	Overview of Concerns Regarding Company a Incident and Company b Incident.....	13
2.	Establishment of the Committee .....	14
(1)	Objectives of Establishment .....	14
(2)	Committee Structure.....	14
(3)	Role of the Committee .....	15
3.	Commissioned Matters .....	15
4.	Investigation Structure, Etc. ....	16
<b>II.</b>	<b>Investigation Procedure Overview</b> .....	16
1.	Period of Investigation .....	16
2.	Scope of the Investigation .....	16
3.	Period Covered by the Investigation.....	17
4.	Investigation Methodology.....	17
(1)	Examination and Verification of Relevant Documents .....	17
(2)	Interviews With Relevant Persons.....	17
(3)	Digital Forensics .....	17
(4)	Questionnaire Survey.....	18
(5)	Accounting Data Analysis .....	18
(6)	Investigation of Customer .....	18
5.	Assumptions, Limitations, and Reservations of the Investigation.....	18
<b>III.</b>	<b>Company Profile</b> .....	19
1.	Basic Information and History .....	19
(1)	Basic Information .....	19
(2)	History .....	20
2.	Business Overview .....	21
3.	Organizational Overview and Governance Structure.....	21
(1)	Board of Directors .....	22
(2)	Board of Auditors .....	22
(3)	Nomination and Compensation Advisory Committee .....	23
(4)	Joint Compliance Committee .....	23

(5)	Status of the Risk Management System.....	23
(6)	Status of the Audit .....	24
4.	Key Consolidated Financial Data.....	26
<b>IV.</b>	<b>License Business Division Overview</b> .....	<b>26</b>
1.	License Business Division Operations.....	26
2.	Revenue Recognition Criteria and Process Flow for Each Type of Transaction in the License Business Division.....	27
3.	Budgeting and Forecasting Process in the License Business Division Budgeting and Forecasting Process .....	31
(1)	Budgeting Process .....	31
(2)	Budget vs. Actual Process .....	31
4.	Roles in the License Business Division by Position .....	32
(1)	Roles of General Managers, Deputy General Managers, and Executive Officers.....	32
(2)	Role of the GM .....	33
(3)	Role of the SM.....	33
(4)	Roles of Sales Representatives and Assistants.....	34
(5)	Changes in Individuals Involved in the Incidents .....	34
5.	Major Meeting Bodies in the License Business Division.....	35
6.	Internal Controls and Supervisory Structure in the License Business Division.....	37
(1)	Internal Controls Related to Financial Reporting.....	37
(2)	Audit System of the Internal Auditing Department.....	38
<b>V.</b>	<b>Facts Revealed in the Investigation</b> .....	<b>38</b>
1.	Circumstances Regarding Company a .....	38
(1)	Specific Method Used to Manipulate Sales Timing .....	38
(2)	Events Leading to the Manipulation of Sales Timing.....	39
(3)	Scale of Sales Timing Manipulation.....	42
(4)	Scope of Persons Aware of the Manipulation of Sales Timing .....	43
2.	Circumstances Regarding Company b .....	45
(1)	Specific Method Used to Manipulate Sales Timing .....	45
(2)	Events Leading to the Manipulation of Sales Timing.....	46
(3)	Scale of Sales Timing Manipulation.....	48
(4)	Scope of Persons Aware of the Manipulation of Sales Timing .....	49
3.	Circumstances Regarding Company c .....	50
(1)	Specific Method Used to Manipulate Sales Timing .....	50
(2)	Events Leading to the Manipulation of Sales Timing.....	51
(3)	Scale of Sales Timing Manipulation.....	52



(4)	Scope of Persons Aware of the Manipulation of Sales Timing .....	52
<b>VI.</b>	<b>Other Related Investigations</b> .....	53
1.	Overview of Other Related Investigations .....	53
(1)	Voucher (“Royalty Report”) Investigation .....	53
(2)	Interviews of Sanrio Executives and Employees .....	54
(3)	Questionnaires .....	55
(4)	Digital Forensic Investigation.....	56
(5)	Investigation of Customer .....	エラー! ブックマークが定義されていません。
2.	Findings From Other Related Investigations .....	56
(1)	Cases Identified as Related to the License Report System.....	56
(2)	Sales Timing for the Certificate Stamp License System .....	59
<b>VII.</b>	<b>Impact on Consolidated Financial Statements</b> .....	62
1.	The Incident.....	62
2.	Other Related Investigation .....	63
(1)	Confirmed Case on the License Report System (Company e Incident).....	63
(2)	Suspicious on the Manipulation of Sales Records Regarding the Certificate Stamp License System	64
<b>VIII.</b>	<b>Root-Cause Analysis</b> .....	64
1.	Weaknesses in Internal Controls .....	64
(1)	Issues in Each Sales Department of the License Business Division.....	64
(2)	Issues in the License Business Division Administration Department.....	66
(3)	Internal Audit Issues .....	66
2.	Internal Reporting System Issues .....	67
3.	Organizational Culture and Climate Issues .....	67
(1)	Lack of Awareness Regarding Compliance .....	68
(2)	Budget Formulation Process and Pressure to Achieve Budget in the License Business Division	68
(3)	Pressure to Ensure Budget Accuracy in the License Business Division .....	69
4.	Summary .....	70
<b>IX.</b>	<b>Recommendations on How to Prevent Recurrence</b> .....	71
1.	Strengthen and Improve Internal Controls .....	71
(1)	Change the Department Receiving the Royalty Report .....	71
(2)	Investigate Means of Verifying the Comprehensiveness of the Royalty Report Collection.....	72
(3)	Handling of Backup Data.....	72
(4)	Establishment of Operations Manuals and Education System.....	72
(5)	System Implementation for Internal Controls.....	73
(6)	Personnel Rotation .....	73

(7) Ensuring the Effectiveness of Bookkeeping Investigations of Licensees .....	73
2. Review of the Internal Audit System .....	74
(1) Develop Operations Audit Procedures That Will be Revised in Response to Recurrence Prevention Recommendations .....	74
(2) Identification of Fraud Risks in Audit Procedures Associated With The Incident .....	74
(3) Appropriate Information Sharing with the Administration Department During Bookkeeping Investigations.....	75
3. Review of Internal Reporting System .....	75
4. Efforts to Improve Organizational Culture and Climate .....	75
(1) Review of the Budget Formulation Process in the License Business Division.....	75
(2) Review of How Sales Forecasting Accuracy is Ensured in the License Business Division .....	76
(3) Efforts to Raise Compliance Awareness.....	77
5. Monitoring of the Implementation of Recurrence Prevention Measures by the Organizational Body Responsible for Compliance.....	78
Appendix 1: List of Interviewees.....	80
Appendix 2: Digital Forensic Investigation Overview .....	81
Appendix 3: Status of Sent and Collected Questionnaires.....	83

## **I. Investigation Overview**

### **1. Events Leading to the Establishment of a Special Investigation Committee**

#### **(1) Events Leading to the Discovery of the Incident and Launch of Internal Investigation**

On January 16, 2023, Individual A, the person in charge of the management of specific customers under the License Business Division of Sanrio Co., Ltd. (“Sanrio,” below). Individual A reported at an internal meeting the existence of an unrecorded amount of sales to Company a. This report made Sanrio aware of the possibility of unrecorded sales to Company a in the license transactions with Company a (“Company a Incident,” below).

Subsequent to the discovery of Company a Incident, the License Business Division of Sanrio proceeded to confirm the possibility of the Company a Incident, and concluded that there was a high likelihood that the Company a Incident had actually taken place. On January 24, 2023, a report was made to the director in charge of the division, and promptly thereafter to the chair of the Sanrio Joint Compliance Committee. On the following day, January 25, Sanrio formed an investigation team headed by the chair of the Joint Compliance Committee (“Internal Investigation Team,” below) to clarify the facts of the Company a Incident.

#### **(2) Decision to Establish a Special Investigation Committee and Apply for a Deadline Extension to File Quarterly Report**

In the course of the investigation to clarify the facts of the Company a Incident, the Internal Investigation Team discovered a similar case involving Company b (“Company b Incident,” below). Therefore, Sanrio management determined that it was necessary to investigate the facts of both cases further and ascertain whether other ere similar cases existed. By resolution of the Board of Directors on February 9, 2023, Sanrio established a Special Investigation Committee (“Committee,” below) consisting of outside experts.

In light of the revelation of the Company a Incident and Company b Incident, additional audit procedures, etc., became necessary with respect to the audit of Sanrio consolidated financial statements by EY Ernst & Young ShinNihon LLC, a financial statement auditor. Therefore, Sanrio was unable to submit its quarterly report for the third quarter of the fiscal year ended March 31, 2023 by the submission deadline provided under Article 24, Paragraph 4-7 of the Financial Instruments and Exchange Act. Accordingly, in addition to the establishment of said the Committee, the Sanrio Board of Directors resolved on February 9, 2023, to apply for an extension of submission deadline for said quarterly

report in accordance with Article 17, Section 15-2, Paragraph 1 of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

(3) Chronological Timeline

The table below details the chronological timeline of the events described above.

2023 January 16 (Monday)	At a feedback meeting with the general manager (“GM”) of Sales Department A of the License Business Division, Individual A, a senior manager ("SM") of the License Business Division who manages transactions with Company a, indicated that achieving budget for the period through March 2023 was not likely to happen. Individual A further stated that the department had as-yet unrecorded sales to Company a. As a result of this statement, Individual B, the GM of Sales Department A, understood that there were unaccounted sales to Company a that overlapped fiscal periods.
January 24 (Tuesday)	After confirming the high likelihood of the Company a Incident within the Sales Department A, Individual B shared said information with the director in charge of the License Business Division.
January 24 (Tuesday)	The director in charge of the License Business Division shared said information with the Corporate Management Division. The director in charge of the Corporate Management Division determined that this information required a report to the chair of the Joint Compliance Committee. The director in charge of the License Business Division reported to the chair of the Joint Compliance Committee via telephone.
January 25 (Wednesday)	The chair of the Joint Compliance Committee made the decision to form the Internal Investigation Team.
January 26 (Thursday)	Information was shared with the financial statement auditor, EY Ernst & Young ShinNihon LLC, and discussions began on how to respond to the situation.
January 30 (Monday)	The Internal Investigation Team asked the sales representative in charge of Company a under Individual A if there were any other cases similar to Company a. The individual responded that there were similar transactions with Company b, but no others. When Individual A was asked for the first time at that point whether any other cases existed other than Company a, Individual A made the same confession concerning transactions with Company b as the sales representative, and then indicated that there were no other cases besides the two. The Internal Investigation Team reviewed

	documents, resulting in the discovery of transactions with Company b conducted similarly to the case with Company a. Given the potential that the impact of the discovery of these incidents could spread, the Internal Investigation Team concluded that it was necessary to conduct further investigations, which would require an extension of the deadline for submitting the third quarter report for Period 63 (fiscal year ended March 31, 2023). It was determined that it would be necessary to conduct further investigations of the facts surrounding the Company a Incident and Company b Incident, and to determine whether similar other cases existed. The establishment of the Special Investigation Committee consisting of outside experts was considered for the sake of conducting a fair and appropriate investigation.
February 9 (Thursday)	Sanrio held an extraordinary meeting of the Board of Directors and decided to establish a Special Investigation Committee. Sanrio issued a timely disclosure regarding the establishment of the Special Investigation Committee.
February 13 (Monday)	SANRIO submitted an application to the Kanto Local Finance Bureau for approval of deadline extension for the submission of the quarterly report for the third quarter of Period 63 (October 1, 2022 to December 31, 2022). Sanrio published a timely disclosure regarding the submission of the application.
February 14 (Tuesday)	One day prior, Sanrio received approval from the Kanto Local Finance Bureau for a deadline extension for the submission of a quarterly report. Sanrio published a timely disclosure regarding said approval.

(4) Overview of Concerns Regarding Company a Incident and Company b Incident

In general, Sanrio conducts license transactions as a licensor in one of two ways: the license report system and the certificate stamp license system. Under the license report system, Sanrio records sales according to the calculation period shown in the Royalty Report obtained from the licensee. The Royalty Report is a four-page carbon copy form, the first page of which is retained by the licensee.

With respect to the Company a Incident and Company b Incident, the person in charge at Sanrio requested that Company a and Company b leave calculation periods and report dates blank. Therefore, royalties were not recorded as sales in the month in which they should have been recorded, but were pooled and kept on hand to be allocated to any given

month by filling in the calculation period and report date later.

2. Establishment of the Committee

(1) Objectives of Establishment

As described in Section I, on January 24, 2023, it was discovered that the attribution of sales to Company a was manipulated by pooling royalties for any given month, instead of recording them in the month in which such sales should have been recorded. On January 30, 2023, the Internal Investigation Team reviewed documents, resulting in the discovery of license transactions with Company b conducted similarly to the case with Company a. Given the potential for increased impact associated with the discovery of these matters, it was determined that it would be necessary to conduct further investigations of the facts surrounding the Company a Incident and Company b Incident, and to determine whether similar other cases existed. The establishment of a Special Investigation Committee consisting of outside experts was considered for the sake of conducting a fair and appropriate investigation.

(2) Committee Structure

The Committee was structured as follows:

Committee Chair	Kazuo Ohashi	Outside Executive Auditor, Sanrio; Certified Public Accountant
Committee Member	Yusuke Nakashima	Certified Public Accountant, Deloitte Tohmatsu Financial Advisory LLC
Committee Members	Osamu Hamada	DT Legal Japan; Attorney at Law and Certified Public Accountant

In conducting the investigation of the matters commissioned in Matter 3, below (“Investigation”), the Committee appointed the following independent and neutral persons from among Sanrio, certified public accountants, etc., of Deloitte Tohmatsu Financial Advisory LLC, and attorneys, etc., of DT Legal Japan to assist in the investigation (“Investigation Assistants”).

Deloitte Tohmatsu Financial Advisory LLC	Kazuyuki Shimizu, U.S. Certified Public Accountant Daisuke Okada, Digital Forensics Specialist Other Fraud Investigators (14 Certified Public Accountants, etc.)
--	---

	Digital Forensic Investigators (14 persons)
DT Legal Japan	Attorney Naoko Sasaki Attorney Yuki Kanemitsu Attorney Yosuke Araki Attorney Tetsuya Okura Attorney Takahiro Suwa Attorney Yusuke Fukase Attorney Yosuke Kimura Attorney Sakiko Kamimura Other Two interview assistants

(3) Role of the Committee

Based on urgency to finalize the Sanrio financial results for the third quarter of Period 63 (fiscal year ended March 31, 2023), the Committee conducted its investigation in consultation with Sanrio and its financial statement auditor, EY Ernst & Young ShinNihon LLC. In addition to weekly meetings with the said audit firm, the Committee communicated information and held meetings with the auditor on a timely basis.

Although the Committee does not comply fully with the *Guidelines for Third-Party Committees in Corporate Misconduct Cases* as provided under the Japan Federation of Bar Associations, the Committee respected the intent of the Guidelines to the maximum extent possible.

3. Commissioned Matters

The matters commissioned to the Committee by Sanrio (“Commissioned Matters”) were as follows:

- (1) Investigate facts related to the Incident
- (2) Investigate the existence or non-existence of cases similar to the Incident and the facts related to the Incident in question
- (3) Investigate the causes of the Incident and recommend measures to prevent recurrence
- (4) Any other matters deemed necessary by the Committee

With respect to the scope of the Incident in (1), above, it became clear during interviews conducted by the Committee with Individual A on February 13, 2023, that Individual A asked Company c to leave calculation periods and report dates blank on Royalty Reports (“Company c Incident,” below). Therefore, the Committee added Company c Incident to the

Investigation in addition to Company a Incident and Company b Incident of which Sanrio had been aware prior to the establishment of the Committee.

4. Investigation Structure, Etc.

As described in 2.(2), the Committee appointed an outside executive auditor qualified as a certified public accountant as Committee chair, and conducted the investigation together with qualified outside certified public accountants and qualified attorneys as Committee members.

After confirming no involvement with the Incident, Sanrio appointed personnel from relevant sections of Sanrio to aid in conducting the investigation: Joint Compliance Committee (one person as investigation supervisor), Internal Auditing Department (one investigation countermeasures deputy, four persons in charge of internal investigation), General Affairs Department (four operation assistants), Personnel Affairs Department (one investigation support staff), Accounting Department (one investigation support staff), License Business Division (one investigation support staff). Sanrio treated the handling of the Investigation by the Committee as a top operational priority, identified clearly the responsibilities and division of roles of the personnel noted above, and cooperated fully with the Committee's investigation by submitting documents and facilitating interviews as requested by the Committee.

## **II. Investigation Procedure Overview**

1. Period of Investigation

After preliminary work, the Committee conducted the Investigation in question from February 10, 2023 to March 15, 2023.

A total of 14 meetings of the Committee were held during the period of the Investigation.

2. Scope of the Investigation

As described in Section I. 3., in addition to the license transactions with Company a and Company b, the Committee added the license transactions with Company c to the scope of the Investigation. In addition, the license transactions with Company e, which were uncovered in the course of investigating other cases, were added to the scope of the Investigation. License transactions with licensees other than the licensees cited were included in the scope of the Investigation, as appropriate, if the Committee determined, based on the results of interviews and other factors, that there was a risk of sales timing manipulation for the license transactions in question.



### 3. Period Covered by the Investigation

The Committee determined that the period covered by the Investigation would be April 1, 2017 to December 31, 2022. The Committee also adopted a policy to investigate back to April 1, 2016 on a licensee-by-licensee basis, if deemed necessary in the course of this and other Investigations. Specifically, the period covered by the Investigation for license transactions related to Company b and Company e was April 1, 2016 to December 31, 2022.

### 4. Investigation Methodology

The specific methodology of the Investigation was as follows.

#### (1) Examination and Verification of Relevant Documents

The Committee examined and verified relevant documents (various minutes, regulations, contracts, reports, data, and other materials) for the Incident in question. The Committee also examined and verified the relevant documents for circumstances similar to the Incident in question.

#### (2) Interviews With Relevant Persons

The Committee conducted interviews with officers and employees and former officers and employees of Sanrio as deemed necessary for the Investigation. Interviews addressed the recognition of facts by individuals related to these and other cases. Certain interviewees were interviewed more than once.

A total of 40 Sanrio officers and employees and former officers and employees were interviewed. The specific interviewees are listed in Exhibit 1.

#### (3) Digital Forensics

The Committee preserved the e-mails, chat histories, PCs and iPhones/iPads loaned to individuals, and departmental file servers of a total of 10 individuals in charge of license transactions with Company a or Company b during the period covered by the Investigation (individuals belonging to groups in charge of Companies a and c and to groups in charge of Company b), SMS of the same group, GMs of Sales Department A, and executive officers of the License Business Division.

The Committee performed data processing on the preserved data, focusing mainly on data related to communications. After uploading the data to a review platform, all

1,833,381 pieces of uploaded data were narrowed down using keywords found in fraud investigations in general, as well as keyword searches related to the Investigation, etc. This narrowed the scope to a total of 156,129 pieces of data for review. The data obtained from the reviews were used as reference for subject interviews and other purposes.

The specific data targets preserved in the digital forensic investigation are shown in Exhibit 2.

(4) Questionnaire Survey

The Committee conducted a survey from February 22 to March 7, 2023, for the purpose of investigating similar incidents to the one in question. The Committee received responses by March 7 from all target respondents, except for those officers and employees who were deemed unable to respond in a practical manner. Exhibit 3 shows when the questionnaires sent, the number of questionnaires sent, and the collection rate for each company.

(5) Accounting Data Analysis

After obtaining the Sanrio accounting data for the period under investigation, the Committee analyzed increases and decreases in license sales of the License Business Division. The Committee then reviewed related documents based on the results of the analysis.

(6) Investigation of Customer

The Committee conducted interviews with licensees (Companies a, b, c, and e) considered necessary from the perspective of confirming facts related to the Investigation. The specific interviewees are listed in Exhibit 1.

5. Assumptions, Limitations, and Reservations of the Investigation

The Investigation was not based on compulsory or investigative authority, but rather on the voluntary cooperation of the parties involved. The Investigation was conducted under time and personnel constraints. It cannot be denied that if more time had been taken or other investigative methods had been employed, a different conclusion from that in the report might have been reached.

In the Investigation, it was assumed that all materials disclosed to the Committee were true and complete originals or exact copies thereof, and that there was no material evidence that

had not been disclosed to the Committee. If the existence of material evidence not disclosed or provided to the Committee, or the information contained in said evidence, is subsequently found to be untrue, the conclusions of the report may be changed.

Although the Committee has made every effort to resolve any suspicious or contradictory matters found in the information obtained through interviews during the Investigation, the possibility cannot be completely ruled out that the information obtained from interviews may be factually incorrect. The Committee does not guarantee the completeness of the investigation, and the conclusions of this report may be altered if information obtained through interviews is found to be false.

The Investigation was conducted solely to the extent necessary to carry out the matters commissioned by the Committee as described in Section I. 3. The Investigation was not conducted with the intention of being used for disciplinary action or pursuit of legal liability toward the parties involved. The Committee shall not be held responsible for the results of such unintended use.

The Investigation was conducted on behalf of Sanrio, and the Committee shall not be liable to any third party other than Sanrio.

### **III. Company Profile**

The following profile is of Sanrio at the time the Committee conducted its investigation.

#### 1. Basic Information and History

##### (1) Basic Information

The basic information of Sanrio as of March 31, 2022, is as follows.

Company Name	Sanrio Company, Ltd.
Established	August, 1960
Capital	10,000 million yen
Listed Market	Tokyo Stock Exchange Prime Market
Fiscal Year End	March 31
Representative	President and Chief Executive Officer, Tomokuni Tsuji
Head Office	1-6-1 Osaki, Shinagawa-ku, Tokyo
Employees	1,181 (Consolidated)

Business Activities	Licensing of character usage, design and sales of gift items, theme park operations, etc.
Financial Statement Auditor	EY ShinNihon LLC

(2) History

August 1960	Current Honorary Chairman Shintaro Tsuji founded the Yamanashi Silk Company and began operations for designing and selling giftware (social communication gift items).
December 1967	The company launched the small picture book series Gift Book and began the planning and sales of various publications.
December 1969	Began planning and sales of greeting cards.
April 1973	The company was renamed Sanrio Company, Ltd.
February 1974	Social communication gift items launched featuring in-house developed characters (designs of animals, humans, etc.)
April 1976	The company began character licensing operations to allow the use of original designs and characters in the products of other companies.
April 1982	Sanrio stock was listed on the second Section of the Tokyo Stock Exchange.
January 1984	Sanrio stock was listed on the first Section of the Tokyo Stock Exchange
January 1887	Head office was relocated to TOC Osaki Building in Osaki, Shinagawa-ku, Tokyo
October 1989	At the 29th Ordinary General Meeting of Shareholders, a resolution was passed to change the fiscal year to April 1 to March 31 of the following year.
April 1990	Sanrio Far East Company, Ltd. (now consolidated subsidiary) was established.
December 1990	Sanrio Puroland opened in Tama city, Tokyo.
April 1991	Harmonyland opened in Hijimachi, Hayami, Oita Prefecture.
May 1992	Established Sanrio Company Ltd., in Taiwan. The company was reorganized from a limited liability company to a joint stock company and renamed Sanrio Corporation as of February 1, 2001. They are currently a consolidated subsidiary.
July 1998	Established Sanrio Korea Co., Ltd. (now consolidated subsidiary) in the Republic of Korea
January 2001	Established Sanrio Wave Hong Kong Co., Ltd. (now consolidated subsidiary) in Hong Kong.
May 2012	Relocated Head Office to Gate City Ohsaki building located in Osaki, Shinagawa-ku, Tokyo

April 2022	Sanrio was relisted on the Prime Market in the Tokyo Stock Exchange due to market restructuring.
------------	--

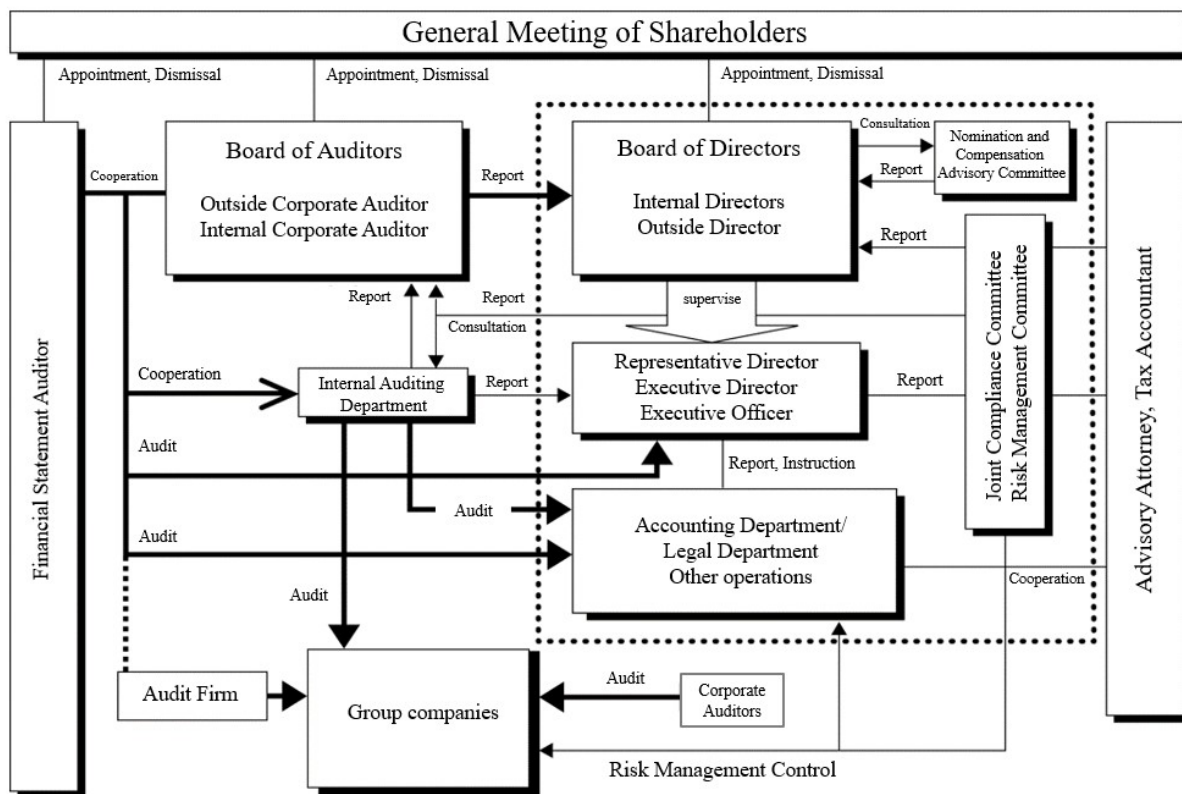
## 2. Business Overview

The Sanrio Group (Sanrio and affiliates) is composed of Sanrio Company, Ltd., and 25 subsidiary companies. The Group mainly engages in character licensing operations, planning and sales of gift items, and theme park operations. The specifics of each of these business activities are as follows.

- Character licensing operations: licensing and management of merchandising rights
- Planning and sales of gifts items: planning and sales of gift items, greeting cards, and publications, as well as production and sales of video software
- Theme park operations: theme park management, planning and performance of musicals, etc.
- Other operations: robot sales and rentals, leasing of automobiles, etc., damage insurance agency services

## 3. Organizational Overview and Governance Structure

Sanrio's organizational overview and governance structure are as follows.



(1) Board of Directors

The board of directors is both the decision making body for business execution, as well as the supervisory body of the representative director. The board consists of nine directors, as of June 24, 2022, the date of submission of the 62nd Annual Securities Report.

Directors make decisions about important management matters and policies and supervise the executive officers regarding such decisions. Executive officers perform their duties in accordance with the management decisions and policies made by the directors.

The board of directors meeting is principally held once a month under the attendance of corporate auditors, and each important matter is discussed or reported.

Candidate nominations for directors are made by the board of directors and elected at the General Meeting of Shareholders. In addition, the remuneration for directors operates within the total quota set by the General Meeting of Shareholders.

(2) Board of Auditors

Sanrio possesses their own board of auditors. And in order to maintain further

transparency and objectivity, two of the three corporate auditors, i.e., the majority, are outside executive auditors (1 lawyer and 1 certified public accountant). This acts as supervisory function for management. The board of auditors is chaired by a full-time executive auditor and consists of three corporate auditors, two of which are outside executive auditors.

(3) Nomination and Compensation Advisory Committee

Sanrio established a voluntary Nomination and Compensation Advisory Committee on June 24, 2021. Their aim is to ensure transparency and objectivity in evaluating and deciding nominations and compensations of directors, strengthen the supervisory function of the board, and to enhance the corporate governance structure. The Nomination and Compensation Advisory Committee is composed of five members (three of which are outside directors.)

The Nomination and Compensation Advisory Committee consults with, deliberates, and reports to the board of directors on a variety of matters. These include: the election or dismissal of directors, representative director, and directors with executive positions, matters concerning remuneration for directors, and other important management matters deemed necessary by the board of directors.

(4) Joint Compliance Committee

The Joint Compliance Committee is the committee responsible for the compliance of the Sanrio Group. At least one director from Sanrio and each company in Japan in which Sanrio directly or indirectly owns the majority of the outstanding voting shares or ownership interests is elected as a member of the committee. One person among the members is selected as chairperson.

Regular meetings of the Joint Compliance Committee shall be held on an annual basis, and the purpose of its activities is as follows.

- Planning, drafting, decision making, and reviewing compliance program for each Sanrio Group company to implement compliance activities.
- Investigating, considering, and reporting on matters regarding compliance activities in response to inquiries from each Sanrio Group company
- Investigating and making proposals regarding compliance related matters to domestic and international affiliated companies

(5) Status of the Risk Management System

The Risk Management Committee, chaired by the director in charge of general affairs, monitors cross-organizational risk information and takes company-wide actions regarding Sanrio's overall business. This includes compliance, environment, disaster, quality, information security, trade management, and import and export control. The Risk Management Committee partners with the relevant lead departments to respond to risks in accordance with internal rules. This includes the collection and analysis of risk management information in relevant categories. In cases of unforeseen circumstances, the president of the company establishes and leads a task force to deal with the situation.

(6) Status of the Audit

a. Corporate Audit

The board of auditors of Sanrio has three members: two outside executive auditors, a lawyer and a certified public accountant, and one full-time executive auditor experienced in working in financial institutions. Both the full-time corporate auditor and the certified public accountant have expertise in finance, accounting, and banking. The Board of auditors generally meets on a monthly basis, prior to the regular Board of Directors meetings. In addition, the full-time executive auditor and outside executive auditors hold quarterly Q&A sessions and discussions with the financial statement auditor regarding the status of financial results and other matters.

In the most recent fiscal year of 2022, the board of auditors mainly focused on the following key audit items: 1) Compliance with the Revised Companies Act, 2) Compliance with the Corporate Governance Code (Revised Version), 3) The status of the medium-term management plan, and 4) Impact of COVID-19 Infections on Business Operations and Financial Statements

b. Internal Audit

Sanrio established the Internal Auditing Department (6 members) as an independent division. This department shares information with the financial statement auditor and the board of auditors, and investigates if the activities and executions of each division in the Sanrio Group are conducted adequately and efficiently according to laws, articles of incorporation, and internal regulations. The results are reported to both the appropriate director and the board of auditors.



c. Independent Audit

EY ShinNihon LLC has acted as the financial statement auditor for Sanrio since 1980. The audit opinions for the most recent consolidated fiscal year's (FY2022) consolidated financial statements as well as financial statements for the business year are issued as unqualified opinions.

#### 4. Key Consolidated Financial Data

Periods		Period 58	Period 59	Period 60	Period 61	Period 62
Fiscal Year End		March 2018	March 2019	March 2020	March 2021	March 2022
Net Sales	(Millions of yen)	60,220	59,120	55,261	41,053	52,763
Ordinary profit (loss)	(Millions of yen)	6,020	5,836	3,274	(1,731)	3,318
Net Profit and Loss Attributable to Shareholders of the Parent Company	(Millions of yen)	4,928	3,880	191	(3,960)	3,423
Comprehensive Income	(Millions of yen)	6,464	2,193	(1,521)	(1,225)	7,108
Net Assets	(Millions of yen)	52,734	52,396	46,387	37,285	43,800
Total Assets	(Millions of yen)	98,274	95,185	89,515	85,040	83,809
Employees	(No. of employees)	1,321	1,297	1,276	1,208	1,181
(Other, Average Number of Temporary Staff)		[2,388]	[2,466]	[2,342]	[2,135]	[2,068]

#### IV. License Business Division Overview

##### 1. License Business Division Operations

As shown in Table 1 below, the Sanrio License Business Division consists of several sales departments for each area of authority (mainly along client business types). The License Sales Division also includes the Product Planning & Sales Department, Operations Department, and Administration Department to provide support in sales planning, operations, and administration, respectively.

<Table 1>: License Business Division

Department Name	Operations
Sales Department	Organization that licenses and manages merchandising rights for the company's characters Multiple sales departments exist, and each department is responsible for a group of licensees organized along business type
Product Planning & Sales Department	Organization in charge of developing new customers and new business; the Sales Planning Office does not have a budget of its own
Operations Department	Organization in charge of administrative tasks within the License Business Division (For example, the department manages leases of rental equipment for each

	employee, prepares organizational charts, and compiles sales strategy figures within the License Business Division)
Administration Department	Organization responsible for accounting and legal administration related to sales operations (For example, the department manages accounts receivable management, manages product registration, posts sales slips, and conducts contract management)

Each sales department consists of several sections. Each sales department has a GM, who is equivalent to a general manager. Each section also has an SM, who is equivalent to a section manager. Every GM and SM manages day-to-day business operations according to their respective roles (the roles of each position in the License Business Division are described in Section IV. 4.).

The License Business Division has undergone periodic organizational changes in recent years. Table 2, below, shows the changes in the organization during the period covered by the Investigation. The information in Table 2 only reflects the divisions that handle license transactions.

<Table 2>: License Business Division History

Fiscal Period	Organizational Structure
Period 57	Licensing handled by both the Product Planning & Sales Division and Licensing Division
Period 58	Same
Period 59	Same
Period 60	Same
Period 61	The Product Planning & Sales Division and the Licensing Division were reorganized into the Entertainment Business Division and the License Business Division.
Period 62	Same
Period 63	The Entertainment Business Division was absorbed and integrated into the License Business Division.

2. Revenue Recognition Criteria and Process Flow for Each Type of Transaction in the License Business Division

Transactions in the License Business Division fall generally under one of three types: (1) Certificate stamp license system; (2) License report system; and (3) License term system. Table 3, below, shows the amount and composition of each type of transaction for each fiscal year. The composition of sales under each of these systems remained stable, with the certificate stamp license system accounting for 50% to 60% of sales, and the license report system and license term system accounting for about 20% of sales each.

<Table 3>: License Business Division Structure by Transaction Type

(Figures in parentheses indicate the composition ratio for each fiscal year) (Millions of yen)

Fiscal Year		Certificate stamp	License report	Period license	Other	Total
Period 57	Fiscal year ended March 31, 2017	5,636 [60.1%]	2,131 [22.7%]	1,520 [16.2%]	83 [0.9%]	9,372
Period 58	Fiscal year ended March 31, 2018	5,560 [59.5%]	1,950 [20.9%]	1,662 [17.8%]	169 [1.8%]	9,341
Period 59	Fiscal year ended March 31, 2019	5,584 [59.4%]	1,750 [18.6%]	1,850 [19.7%]	213 [2.3%]	9,396
Period 60	Fiscal year ended March 31, 2020	4,712 [55.0%]	1,679 [19.6%]	2,052 [23.9%]	129 [1.5%]	8,572
Period 61	Fiscal year ended March 31, 2021	3,854 [50.9%]	1,672 [22.1%]	1,863 [24.6%]	179 [2.4%]	7,567
Period 62	Fiscal year ended March 31, 2022	4,398 [51.4%]	2,049 [23.9%]	1,958 [22.9%]	159 [1.9%]	8,564
Period 63	Fiscal year ended March 31, 2023 *Nine-month period	3,757 [49.2%]	1,951 [25.6%]	1,572 [20.6%]	353 [4.6%]	7,634

Table 4 below provides an overview of each transaction type: the certificate stamp license system, the license report system and license term system.

<Table 4>: Overview of Transaction Types

Certificate Stamp License System	
Overview	A license type in which Sanrio issues a certificate stamp to be attached directly to the licensed product as proof of license.
Revenue Recognition Criteria	Shipment basis Revenue is recognized based on the actual number of shipments, upon shipment of the relevant certificates stamps.
Revenue Recognition Flow	[Sales Department] Sales representatives check the details of the Certificate Stamp Shipment Request Form from the licensee for omissions, consistency, and appropriateness of the contents, after which, the representative stamps their personal seal.  After the check by the sales representative, the Sales SM checks the details of the Certificate Stamp Shipment Request Form (TC code, customer name, product code, retail price, quantity, royalty rate and consistency of the number of certificate stamps requested, customer company seal, number of certificate

	<p>stamps, and delivery destination). If everything looks appropriate, the SM then stamps an approval seal on the Certificate Stamp Shipment Request Form.</p> <p>[Administration Department]</p> <p>The person in the Administration Department enters information from the Certificate Stamp Shipment Request Form that was approved by the Sales SM into the license management system. The person verifies the input details and then places their seal on the Certificate Stamp Shipment Request Form.</p> <p>After verifying that the credit limit has not been exceeded, the person in the Administration Department stamps their seal on “Deposit Confirmed” or “Guarantee Deposit Confirmed” area of the Certificate Stamp Shipment Request Form.</p> <p>After confirming the necessary items on the Certificate Stamp Shipment Request Form, the person in the Administration Department finalizes the data in the license management system. The person then enters the shipment date on the Certificate Stamp Shipment Request Form and affix his/her seal on the form.</p> <p>The person in charge of certificate stamps in the Administration Department prepares an inventory list of certificate stamps for one day's shipment. The individual checks the inventory list against the data in the license management system, and, after verifying that there are no differences, sends the certificate stamps.</p> <p>After the data in the license management system is confirmed, a person in charge of posting transactions in the Administration Department posts the license management system data to the enterprise system.</p>
License Report System	
Overview	A licensing method in which royalties are accrued based on the reported number of licensed products actually manufactured under a pre-approved plan.
Revenue Recognition Criteria	Revenue is recognized from a calculation based on the number of units produced as stated in the Royalty Report, which is submitted by the licensee. The calculation period (a defined period for which the number of units produced is aggregation) has a monthly closing date for each licensee. When a license is used, Sanrio recognizes revenue in the month in which the license is used. <sup>1</sup> In certain cases, the same licensee may submit Royalty Reports for each licensed product or

<sup>1</sup> Under the license report system, the exact amount of royalties cannot be ascertained without receiving a Royalty Report from the licensee. Due to the relationship with the Sanrio internal monthly closing date, royalties for months other than the last month of each quarter are recorded in the month following the calculation period. In principle, the last month of the quarter includes an adjustment in the financial results for the relevant calculation period. In other words, taking April to June (first quarter) as an example, the April calculation period is recorded as May royalties. The May calculation period is recorded as June royalties. And the June calculation period is recorded as June royalties by making an adjustment in the first quarter financial statements. This method of handling the data does not allow for any back-and-forth between quarters. Some licensees in certain industries continue to report two months later than their contractual obligations, but the 12 months representing a year are recorded and included.

	location, so some licensees may submit multiple reports in one month.
Revenue Recognition Flow	<p>[Sales Department]</p> <p>Sales representatives check the details of the Royalty Report from the licensee for omissions, consistency, and appropriateness of the contents, after which, the representative stamps their personal seal.</p> <p>After the check by the sales representative, the Sales SM checks the details of the Royalty Report (TC code, customer name, product code, retail price, quantity, royalty rate, and consistency of the number of certificate stamps requested, and customer company seal). If everything looks appropriate, the SM then stamps an approval seal on the Royalty Report.</p> <p>[Administration Department]</p> <p>A person in the Administration Department enters information from the Royalty Report that was approved by the Sales SM into the license management system. The person verifies the input details and then places their seal on the Royalty Report.</p> <p>After the data in the license management system is confirmed, a person in charge of posting transactions in the Administration Department posts the license management system data to the enterprise system.</p>
License Term System	
Overview	A licensing method in which Sanrio grants a license to use a character for a certain period of time and receives royalties based on the contract in question.
Revenue Recognition Criteria	Revenue is recognized by dividing the contracted amount proportionally for each month of the contract period.
Revenue Recognition Flow	<p>[Administration Department]</p> <p>The person in charge at the Administration Department prepares a Period Allocation Royalty Check Sheet based on the contract and approval documents. The person in charge at the Administration Department issues a Sales Slip based on the Period Allocation Royalty Check Sheet, and then affixes their seal.</p> <p>The GM of the Administration Department checks the content of the contract and the Period Allocation Royalty Check Sheet on a monthly basis, stamps his/her seal of approval, checks the contents of the Sales Slip (customer name, TC code, department code, and amount) against the Period Allocation Royalty Check Sheet, and then affixes his/her seal of approval on the Sales Slip.</p> <p>The person in charge at the Administration Department enters information from the slip that was approved by the Administration Department GM into the license management system. After the data in the license management system is confirmed, a person in charge of posting transactions in the Administration</p>

Department posts the license management system data to the enterprise system.
---

### 3. Budgeting and Forecasting Process in the License Business Division

#### (1) Budgeting Process

##### 1) Companywide Process

The department responsible for companywide budget creation at Sanrio is the Corporate Planning Department, which formulates the management plan for each fiscal year (synonymous with the terms "budget" and "target" in the Sanrio terminology; "budget," below) based on a schedule developed within the department. The budget is reviewed between mid-February and mid-March of each fiscal year, and approved by the Management Council around the end of March. In March, monthly budgets are prepared for the first half of each fiscal year and a lump-sum budget for the second half. Monthly budgets for the second half of each fiscal year are prepared again around September.

##### 2) License Business Division Process

The budget for the License Business Division is determined by comparing the amount calculated by multiplying a certain growth rate to the results from the previous year with a total figure consisting of numbers provided by each department.

#### (2) Management Process to Compare Budget vs. Actual

##### 1) Companywide Process

A companywide comparison of the budget vs. actual results is conducted on a monthly basis. The Corporate Planning Department sends the actual figures to each division on the fourth business day of each month. Each division summarizes the main reasons for any differences and submits them to the Corporate Planning Department.

##### 2) License Business Division Process

In the License Business Division, the Operations Department serves as the point of contact with the Corporate Planning Department.

Every month, the Operations Department shares results received from the Corporate Planning Department with the License Business Division. Each GM is asked to confirm the figures, while information collected at the weekly GM meeting (see

below) is summarized for a variance analysis within the License Business Division. The results of this analysis are submitted to the Corporate Planning Department.

As another part of the weekly process, a document called a Sales Forecast is shared via groupware to SMs and above in the License Business Division. Each SM updates this document on a continuing basis. In other words, each month, the forecast can be compared to budgeted amounts at any time. The forecast figures are essentially so-called expected results, and the forecast becomes increasingly accurate in the latter half of the month. Ultimately, the “forecast” is replaced by actual results, and provided as data for budget vs. actual analysis. The License Business Division compares the budget with the forecast at the weekly GM meeting to understand and analyze the factors behind the differences.

#### 4. Roles in the License Business Division by Position

##### (1) Roles of Executive Managers, Deputy Executive Managers, and Executive Officers

The executive manager is in charge of all aspects of the division. The executive manager determines the overall direction of the budget for the division in accordance with the short-, medium-, and long-term budget targets and scale of budget for the License Business Division established by upper management. In addition to the sales forecasts submitted by each department on a weekly basis, the executive manager monitors sales via the GM meeting held every Monday, the Chiefs Meeting held on the same Monday, daily sales activities, and communication with staff members.

The deputy executive manager oversees the divisions and departments, assisting the executive manager. The deputy executive manager works with the executive manager to determine the overall direction of the budget for sales departments in accordance with the short-, medium-, and long-term budget targets and scale of budget for the License Business Division established by upper management. In addition to the sales forecasts submitted by each department on a weekly basis, the deputy executive manager monitors sales via the GM meeting held every Monday, the Chiefs Meeting held on the same Monday, daily sales activities, and communication with staff members.

The executive officer oversees the divisions and departments, assisting the executive manager and deputy executive manager. The executive officer guides the direction of the budget for each department after consulting with the GM of the department in charge regarding the overall budget for the department formulated by the executive manager and



deputy executive manager.

(2) Role of the GM

The Sanrio License Business Division has several sales departments, each of which is supervised by a GM. The GM is responsible for all sales activities related to the achievement of the budget of the sales department for which he or she is responsible. As necessary, the GM visits and deals with customers together with sales representatives as part of customer management of the relevant sales department.

The GM also keeps track of sales forecasts and sales results for each sales department and reports weekly to the executive manager and the executive officers as part of revenue management responsibilities during the fiscal term. The GM is responsible for understanding and managing the sales forecasts and performance of each section through the SM. The sales forecasts of the Sanrio License Business Division were expected to be as accurate as possible. Here, the GM receives timely reports from the SM of each section within the sales department to ensure results do not exceed or fall short of sales forecasts significantly. In this way, the GM monitors the sales forecast and results of each section, and in the case of significant fluctuations, confirms the underlying cause, discusses response measures with the SM or the executive officer, as the case may be.

In formulating the budget, the GM determines the budget for each section within the sales department based on the budget allocated to the entire sales department in question.

(3) Role of the SM

Each sales department of the Sanrio License Business Division consists of several sections, each of which is supervised by an SM. The SM is responsible for all sales activities related to the achievement of the budget of the sales section for which he or she is responsible. As necessary, the SM visits and deals with customers together with sales representatives as part of customer management of the relevant section.

The SM also keeps track of sales forecasts and sales results for each customer assigned to the sales representative and reports results to the GM in a timely manner. The sales forecasts of the Sanrio License Business Division were expected to be as accurate as possible. Here, the SM receives timely reports from the sales representatives in their section to ensure results do not exceed or fall short of sales forecasts significantly. In this way, the SM monitors the sales forecast and results of their section, and in the case of

significant fluctuations, confirms the underlying cause, discusses response measures with the GM or the executive officer, as the case may be. When formulating budgets, the SM determines the semi-annual sales amounts and customer development targets for himself or herself and for their sales representatives, based on the policies of upper management. In accordance with the policies of upper management, the SM formulates specific action plans, communicates them clearly to sales representatives, etc., and otherwise manages the department.

(4) Roles of Sales Representatives and Assistants

The sales representative is responsible for all sales activities related to the achievement of the budget of the customers for which he or she is responsible. The sales representative also serves as the point of contact for communication with licensees regarding the conclusion of licensing agreements and payment of royalties. Each sales representative has a semi-annual target for royalty sales in terms of sales amount and customer acquisition. While focused on achieving individual targets, the sales representative reports to the SM and other staff members at section sales meeting (section meetings), described below, if a significant variance from sales targets or sales forecasts occurs or is expected to occur.

Sales administration staff (assistants) are responsible for input management of sales figures (input management of sales management charts for each section), the management and compilation of daily reports, etc.

(5) Changes in Individuals Involved in the Incidents

Table 5, below, provides information on the individuals in charge of Company b, Company a, and Company c in connection with the Incident during the period of the Investigation, as well as the number of senior managers in each department during the periods in question.

<Table 5> : Changes in Individuals Involved in the Incidents

Fiscal Period	Customer	Person in Charge	SM	GM	Executive Officer	Deputy Executive manager	Executive manager
Period 57	Company b	IndividualP	IndividualN	IndividualD		—	Individual H
Period 58	Company b	IndividualP	Individual Q	Individual D	Individual K	—	Individual H
Period 59	Company b	Individual P	Individual Q	Individual D	Individual K	—	Individual H
Period 60	Company b	Individual W	Individual P	Individual D	Individual K	—	Individual H

Fiscal Period	Customer	Person in Charge	SM	GM	Executive Officer	Deputy Executive manager	Executive manager
	Company a	Individual C	Individual A				
Period 61	Company b	Individual W	Individual P	Individual D	Individual J	Individual I	Individual G
	Company a	Individual E	Individual A				
Period 62	Company b	Individual X	Individual P	Individual D	Individual J	Individual I	Individual G
	Company a	Individual E	Individual A				
	Company c	Individual R					
Period 63	Company b	Individual F	Individual A	Individual B	Individual L	Individual L	Individual I
	Company a						
	Company c	Individual R Individual C					

#### 5. Major Meeting Bodies in the License Business Division

The License Business Division holds several meetings where subordinates report to superiors regarding sales and shared matters for each week. These meetings include the following: (1) Executive Committee Meeting, in which the chair, directors, and executive officers participate; (2) Management Council, in which directors and executive officers participate; (3) KPI Meeting, in which directors and executive officers participate to formulate KPIs; (4) Budget Meeting, in which directors and executive officers participate to formulate budgets; (5) GM Meeting, in which executive officers and each GM of the License Business Division participate; (6) Feedback meeting by GMs to SMs in Sales Department A, in which GMs and SMs of the Sales Division A shared feedback after the GM meeting; (7) Chiefs Meeting, which is held by adding each SM of the License Business Division to the members of GM Meeting, and (8) Section Meeting, which is held by each section with the participation of SMs and their section members. Table 6, below, summarizes the frequency, attendees, major decisions, and reports for the Executive Committee, Management Council, KPI Meeting, Budget Meeting, feedback meeting for Sales Department A (GM feedback to SMs), Chiefs Meeting, and Section Meeting.

The Report focuses on Sales Department A, which was particularly problematic in connection with the Incident.

<Table 6>: Meeting Bodies and Attendees

Meeting Body (Frequency)	Principal Attendees (Period 63 used as an example)	Major Decisions and Reports
Executive Committee Meeting (Monthly; Mondays at 1:00 p.m.)	[Directors, etc.] Chairman emeritus, president and CEO, senior managing directors, managing directors, full-time executive auditors [Executive Officers] Managing executive officers, executive officers [Other] GMs from specific divisions (Sales, Legal, General Administration, Personnel Affairs), employees of divisions in charge of meetings (Sales, Office to the President), officers from affiliated companies	Meeting in which directors and executive officers from each division report on sales to the chairman and president; receive reports from other divisions.
Management Council (Twice monthly; every other Monday at 12:00 p.m.)	[Directors, etc.] Representative director, internal directors, and full-time executive auditors [Executive Officers] Managing executive officers, executive officers [Other] GMs from specific divisions (Sales, General Administration, Overseas)	Meetings for discussion, resolution, and reporting on important matters as stipulated in the Management Committee agenda standards.
KPI Meeting (Quarterly)	[Directors, etc.] Representative director, internal directors, and full-time executive auditors [Executive Officers] Managing executive officers, executive officers [Other] GMs from specific divisions (Sales, General Administration, Overseas)	Meeting to confirm the progress of KPIs in the medium-term management plan and KPIs of each division, as well as to discuss next actions.
Budget Meeting (Semiannually)	[Directors, etc.] Representative director, internal directors, and full-time executive auditors [Executive Officers] Managing executive officers, executive officers [Others] GMs from specific departments (Personnel Affairs, General Administration, Overseas, Legal, Internal Audit, IR); departments in charge of budget planning (Corporate Planning)	Meeting to approve budget plans
GM Meeting (Mondays at 10:15 a.m.)	[Directors] Managing Director (1) [Executive Officers]	Sales meeting at which the GM from each department reports the sales forecast for

Meeting Body (Frequency)	Principal Attendees (Period 63 used as an example)	Major Decisions and Reports
	Managing executive officers (2), executive officer (1) [Sales Departments] GM from each sales department [Administration Department] Administration Department GMs [Operations Department] Operations Department GMs, SMs Product Planning & Sales Department Product Planning & Sales Department SMs	each section to executive officers. The current sales forecast to be presented at the Executive Committee meeting is determined in this meeting.
Feedback meeting from Sales Department A GM to SMs (Mondays at 11:00 a.m.)	Sales Department A GM and Sales Department A SMs	A Meeting in which Sales Department A GM gives feedback to the SMs regarding the GM Meeting.
Chiefs Meeting (Mondays at 15:30)	All executive officers of the License Business Division, all GMs, all SMs [Attendees From Sales Department A] Sales Department A GMs, Sales Department A SMs	Meeting to share internal matters.
Section Meeting	SMs and sales representatives of each section	Meeting to discuss sales progress and internal matters. Meetings, meeting frequencies, and details vary by section. Depending on the meeting, certain sections may report important matters regarding sales, while others may simply report on matters of concern.

## 6. Internal Controls and Supervisory Structure in the License Business Division

### (1) Internal Controls Related to Financial Reporting

The most recent assessment of internal controls over financial reporting was conducted using a basis date of March 31, 2022, the end of the most recent fiscal year. The scope of this assessment is determined as necessary based on the materiality of the impact of the company and its consolidated subsidiaries on the reliability of financial reporting. Here, the scope of the internal controls evaluation related to business processes covers the processes from sales to accounts receivable and inventories, representing accounts that

are related significantly to the company's business objectives.

With respect to the sales process, the company has in place a flowchart, business description sheet, and risk control matrix (RCM) necessary for assessing internal controls over financial reporting. The basic concept of internal controls over sales operations in the License Business Division is that each sales representative prepares or receives the necessary documents to record sales (Royalty Report in the case of the license report system). After receiving approval from his/her superior, the sales representative forwards the documents to the Administration Department within the same division to record the sales (see Section IV. 2. for details).

(2) Audit System of the Internal Auditing Department

In addition to assessing internal controls over financial reporting, the Internal Auditing Department conducts audits of internal departments, subsidiaries, and affiliates on an ongoing basis to ensure that management activities are conducted legally, rationally, and efficiently in compliance with laws, management policies, and regulations.

With respect to the License Business Division, the Internal Auditing Department mainly checks the status of royalty payments (royalties paid by Sanrio) and compliance with the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors.

For Period 62, the Internal Auditing Department made two suggestions to improve the status of compliance with the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors. Later follow-up audits confirmed that the two suggested improvements had been implemented.

**V. Facts Revealed in the Investigation**

1. Circumstances Regarding Company a

(1) Specific Method Used to Manipulate Sales Timing

Sanrio licenses Company a to manufacture and sell Licensed Products, and Company a agrees to pay royalties to Sanrio based on the number of Licensed Products manufactured by Company a.

Under the license report system, as shown in the work flow described in Section IV. 2. (Table 4), the licensee sends a Royalty Report to Sanrio stating the number of licensed products manufactured and the amount of royalties payable. Based on the Royalty Report, Sanrio issues a royalty payment invoice to the licensee.

In the license transactions with Company a, the Royalty Report was manipulated in such a way that the calculation periods and report dates on the report were left blank in an agreement between the Sanrio sales representatives and representatives of Company a. After receiving a report from Company a with blank calculation periods and report dates, the Sanrio sales representative would keep the report in their possession without immediately submitting all or part of the report for invoicing. The Sanrio sales representative then entered calculation periods and report dates according to when they wanted to record royalties as sales, manipulating the attribution of sales to different periods.

Using the Royalty Reports retained, the Sanrio sales representative compiled “royalty report” numbers and “royalty report” figures on a control sheet using spreadsheet software, allowing reference to the information at a glance<sup>2</sup>. This control sheet was accessible to anyone within the Sales Division.

Upon receiving directions from their superior SM, to record sales on the report, the Sanrio sales representative would select the Royalty Report with blank calculation periods and report dates that contained sales amounts close to the amount directed by the SM. This Royalty Report would then be submitted to the Administration Department. When sending the Royalty Reports in question to the Administration Department, the Sanrio sales representative filled in calculation periods and report dates on the blank Royalty Report with calculation periods<sup>3</sup> and entry dates that would not seem out of the ordinary.<sup>4</sup>

## (2) Events Leading to the Manipulation of Sales Timing

### a. Events Leading to the Switch to a License Report System

The license transactions with Company a were initially conducted under the certificate stamp license system. However, beginning in or around 2016, Company a began approaching Individual C, who was in charge of license transactions with Company a at Sanrio, about switching to the license report system. Company a claimed that the task of affixing certificate stamps for

---

<sup>2</sup>The practice of submitting Royalty Reports with blank calculation periods and report dates for license transactions with Company a began with Sanrio sales representative Individual C. However, the control sheet in question was created by sales representative Individual E, and then handed over to the next sales representative, Individual F.

<sup>3</sup> Since the Royalty Report contained information for one month's worth of production, the calculation period (left blank originally) was written as the period from the first day of the month to the last day of the month (e.g., from April 1 to April 30).

<sup>4</sup>The Royalty Report sent by Company a was in carbon copy form, and Company a kept the first copy for their records before sending the Royalty Report to Sanrio. Sanrio received the second and subsequent copies of the carbon copy form. In some cases, the calculation periods and report dates were entered directly by the sales representative, while in other cases, the carbon copy form was placed on top of the Royalty Report, where the calculation periods and report dates were then entered.

licensed products was burdensome.<sup>5</sup> Due to the potential of suspending license transactions with Company a if the company's request was not accepted, Sanrio made internal adjustments toward accepting Company a's request to switch to the license report system.

At around that time in 2018, the Sanrio License Business Division was manipulating the attribution of sales to other periods by having Company b issue Royalty Reports with blank calculation periods and report dates (see Section V. 2.). As described in (3) below, Individual A, who was SM in the group in charge of Company a and Company c, also had experience in charge of Company b as a sales representative and as an SM in the past. Based on this experience, the individual was aware of this method of manipulating the timing sales by having a Royalty Reports issued with the calculation periods and report dates left blank, and entering calculation periods and report dates later by the individual themselves. Individual A and Individual C believed that switching Company a to the license report system would make it possible to manipulate the timing of sales by requesting the Royalty Reports with calculation periods and entry dates left blank, as was the case for license transactions with Company b.

After being approached by Company a, Individual C began consulting with his superiors sometime in July or August 2018 about switching to the license report system. Subsequently, in the process of negotiating with Company a regarding the switch to the license report system, a request was made to the person in charge at Company a to leave the calculation periods and report dates of the Royalty Report blank. The meeting in question was attended by Individual A and Individual C. Finally, on October 31, 2019, Sanrio completed internal approvals, and license transactions with Company a under the license report system began with the January 2020 production run.<sup>6</sup>

After the start of license transactions under the license report system, Company a sent the Royalty Report for January and February production to Sanrio with the calculation period and the report date entered. Therefore, Individual C again requested to the representative of Company a that the calculation periods and report dates be left blank. In response to this request, Company a began sending Royalty Reports to Sanrio with the calculation periods and report dates left blank. The first report under this practice was for March 2020 production.

The person in charge of license transactions at Company a changed several times since the beginning of license transactions reported under the license report system. Certain individuals in charge made inquiries to Sanrio verbally

---

<sup>5</sup>An internal Sanrio document titled Company a Reported Royalties, prepared by Individual C and dated January 16, 2018, indicated that Sanrio had been approached by Company a on an ongoing basis to switch to the license report system.

<sup>6</sup>A merchandising rights license agreement between Sanrio and Company a, which changed the reporting system to the license report system, was concluded on February 15, 2020. The effective term of the agreement was November 1, 2019 to October 31, 2020, and transactions were conducted under the license report system beginning January 2020, prior to the conclusion of the agreement.



or by e-mail to the effect that they had not received invoices. However, the Sanrio practice of making royalty payment requests at arbitrary times was never rectified.

b. Purpose of Sales Manipulation

Royalty payments for license transactions tend to fluctuate widely from month to month. These fluctuations depend on the planned and actual number of licensed products manufactured by the licensee. Meanwhile, the License Business Division tracked forecasts and actuals on a monthly basis. If all or part of sales in one month that exceeded budget could be pooled and recorded as sales for another month that might be in danger of falling short of budget, then the License Business Division could achieve or draw closer to the budget for more months out of the year.<sup>7</sup> Individual C, who was in charge of Company a at the time, stated in an interview with the Committee that they were required to meet the budget on a monthly basis, but that sales performance targets were so challenging, the individual wished they could work with at least one company willing to make arrangements.<sup>8</sup>

The SMs and several sales representatives of the Sales Department A where Individual D was in charge were interviewed by the Committee during the Investigation. Statements indicated that Individual D reprimanded License Business Division SMs not only when they fell short of the monthly forecasts, but also when they exceeded monthly forecasts, and that every SM was pressured to deliver results that were close to forecasts. Statements also indicated that each SM had taken pains to ensure that actual sales for each month were close to the forecast for each month in order to meet Individual D's demands. According to the interview, the pressure to meet the budget had eased considerably since the fiscal year ended March 31, 2021, since previous-year results were no longer used as a reference due to the COVID-19 pandemic. Also, the sales performance of the group in charge of Company a and Company c itself had improved beginning in the second half of 2020. Still, the pressure to match actual sales with forecasts continued.

Here, the Committee received a disclosure of monthly sales forecasts and actual sales data for each sales department within the License Business Division for the fiscal year ended March 2022, in which license transactions with Company a were conducted for the full year. The committee confirmed the rate of agreement between forecast and actual results. It was found that the variance between sales forecasts<sup>9</sup> and actual sales was noticeably smaller in

---

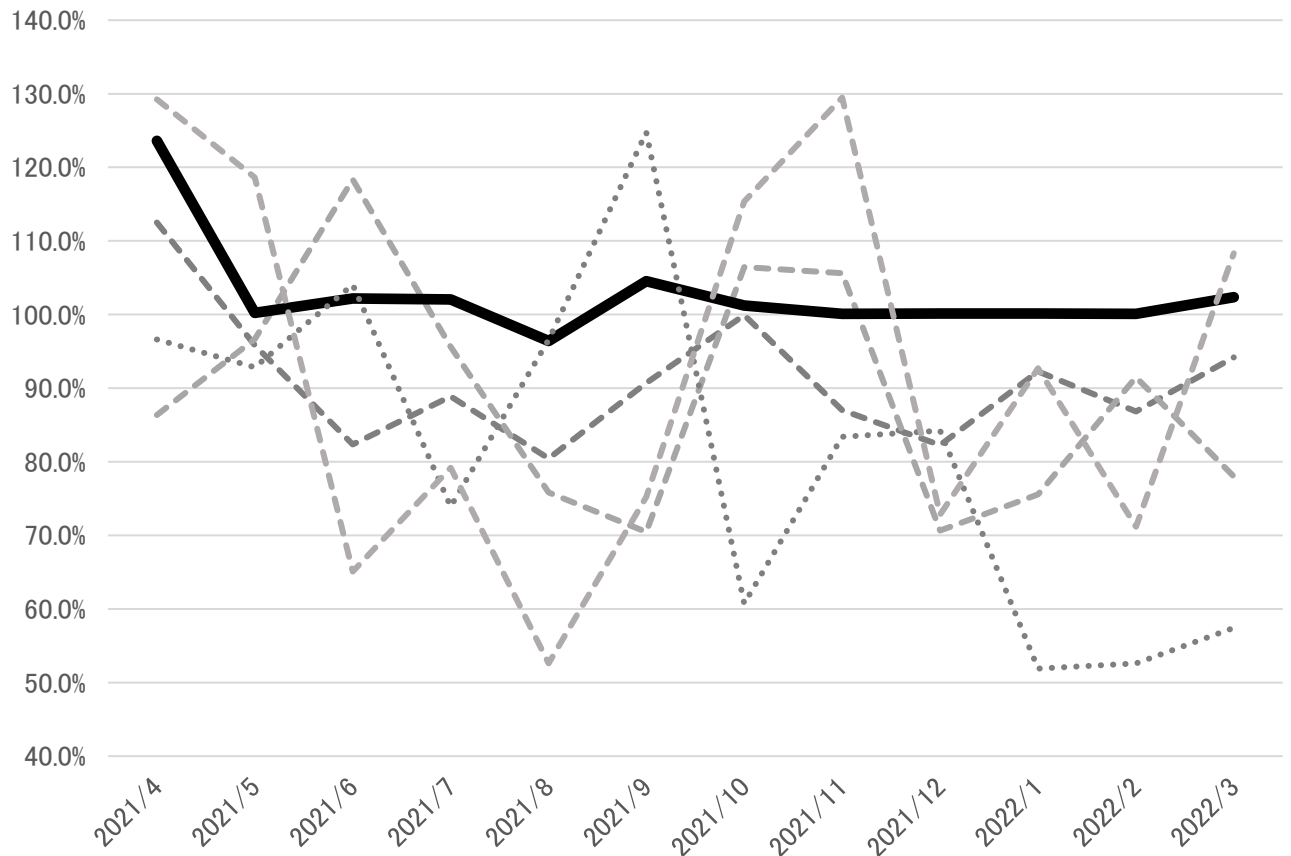
<sup>7</sup> In the context of Company b, there were cases in which the timing of sales was manipulated on the order of several tens of thousands of yen. When asked why, the SM in charge responded that the budget would not be considered achieved, even short by only several tens of thousands of yen. This is why he manipulated the timing of sales attribution.

<sup>8</sup> At that time, the sales performance of Sales Department A continued to fall short of the budget. For example, in the fiscal years ended March 31, 2019 and 2020, the actual sales of Sales Department A exceeded the budget in only three of the 24 months.

<sup>9</sup>In Sales Department A, where Individual D was in charge, sales forecasts were determined based on budgeted totals. In effect, sales forecasts matched budgets.

Sales Department A, under the management of Individual D, than in the other sales departments (see Figure 1). This data is consistent with Individual D's testimony that he strongly pressured each SM to ensure that actual sales results were close to forecast.

Figure 1: Sales vs. budget analysis for each sales department within the License Business Division for the fiscal year ended March 31, 2022 (bold line indicates Sales Department A)



Given the preceding, we can conclude that the manipulation of sales timing for royalty sales in connection with license transactions for Company a was initiated mainly to be a security valve for achieving monthly budgets. Even after the pressure to achieve monthly budgets eased, the manipulation of sales to other months is considered to have continued in response to ongoing pressure from Individual D to ensure the accuracy of forecasts.

(3) Scale of Sales Timing Manipulation

Table 7 below shows the impact of the manipulation of sales timing for each fiscal year in the case of Company a. Positive values in the "Difference" column indicate that the amount of sales recorded for the same period was understated, while negative values

indicate that the amount of sales recorded for the same period was overstated. The cumulative amount of 90 million yen shown in the Difference column is the amount of unrecognized sales as of December 31, 2022, as revealed by the Investigation.

<Table 7> Company a - Sales Impact (Millions of Yen)

Fiscal Period		Amount recorded (A)	Correct amount (B)	Difference (B-A)
Period 60	Fiscal year ended March 2020	5	17	11
Period 61	Fiscal year ended March 2021	19	87	68
Period 62	Fiscal year ended March 2022	79	130	51
Period 63	Fiscal year ended March 2023	98	57	-41
Total		203	293	90

(4) Scope of Persons Aware of the Manipulation of Sales Timing

a. General

After the license transactions with Company a were switched to the license report system, the sales representatives of the group in charge of Companies a and c were Individual C (Period 60: Fiscal 2019), Individual E (Periods 61-62: Fiscal 2020-2021) and Individual F (Period 63: Fiscal 2022). In all cases, Individual A was the SM of the group in charge of Company a and Company c.

Individual A, Individual C, Individual E, and Individual F all admitted that they had manipulated the timing of license transaction sales for Company a.

In addition, Individual G, Individual H<sup>10</sup>, Individual I, Individual J, Individual K<sup>11</sup>, and Individual L served as executive manager, deputy executive manager, or executive officer of the License Business Division after the switch to the license report system for license transactions with Company a. The interview did not reveal any objective evidence to support a finding that these individuals were aware that sales related to license transactions with Company a were assigned to different periods.

b. About Individual D

Individual D was the GM of the group in charge of Company a and Company c

<sup>10</sup> In the interview, there was testimony that when switching from the certificate stamp license system to the license report system for Company a, Individual H, who was the general manager at the time, was told that "the dates on the reports would be left blank." However, Individual H himself denied knowledge of this. Besides this testimony, no objective evidence was found during the Investigation to indicate that Individual H was aware of the situation with Company a.

<sup>11</sup> Individual A testified in his interview that he informed Individual K of the balance of sales from license transactions with Company a prior to 2022, but Individual K himself denied any knowledge of this. In addition to this testimony, no other objective evidence was found during this Investigation to indicate that Individual K was aware of the situation with Company a.

at the time when the license transactions with Company a were switched to the license report system. However, Individual D stated that he was not aware of any manipulation of sales timing related to license transactions with Company a. On the other hand, the Investigation confirmed circumstances that suggest Individual D may have been aware of the manipulation of sales timing with respect to license transactions with Company a. For this reason, we included a particular description below regarding Individual D's awareness of the situation.

First, the digital forensic investigation uncovered e-mails and messages between Individual D and his subordinates.

In these messages, for example, a subordinate said to Individual D, "I am really struggling for December results. Even if we use Company a, it's unclear whether we [we will reach forecast]." On the same day, Individual D replied, "It seems like we'll have to pack a lot into December." There was no particular doubt concerning the message from the subordinate regarding the "use" of their business partner. In response to a message from his subordinate in a chat room, Individual D was told by said subordinate, "We made up for it by using Company a's overseas [results]." To this, Individual D replied, "You mean a plus?" Here, too, there seems Individual D voiced no particular doubts.

In addition, as described in 2 below, in license transactions with Company b, Sales Department A also manipulated the attribution of sales to other periods by using Royalty Reports with blank calculation periods and report dates. During the period when Individual D served as GM of Sales Department A, an email exchange including Individual D in the CC stated, "We made the adjustment using Company b." Another message from Individual D to a subordinate stated, "After including the balance from Company b, did it go negative?"

In an interview with the Committee, subordinates of Individual D admitted that these exchanges were all for the purpose of manipulating the timing of royalty income from the licensee in question to different sales periods. In addition, several of Individual D's subordinates stated that they reported to Individual D how much of the unrecorded royalty income from certain licensees should be attributed to sales.

In response, Individual D stated in an interview with the Committee that he was not aware of any manipulation of the timing of sales to different time periods. He also stated that he was aware that in a license report system, sales are recorded as soon as the Royalty Report is received, and that it should not be possible to delay the timing of sales recognition.

However, when the Committee presented the above messages to Individual D and asked him to explain the purpose of the exchanges regarding the terms

"made up for it," "use," "adjustment," and "balance" in messages regarding the other party in the transactions under the license report system, Individual D was generally vague in his responses. In general, Individual D stated that he was simply aware that he could not pool sales, and that the license transaction with Company b was intended to delay the timing of the approval of new products. However, Individual D simply denied knowing anything of the former, and no one other than Individual D mentioned the latter in interviews. Assuming Individual D adjusted the timing of the recording of sales to accelerate or delay decisions related to new products, sales representatives or SMs would have naturally been aware of the circumstances. It is unthinkable that no one else would have mentioned this detail. Therefore, Individual D's explanation as detailed above cannot be considered rational.

Accordingly, there is a considerable possibility that Individual D was aware in some way of the manipulation of sales timing with respect to the license transactions with Company a.

The Investigation did not find any positive objective evidence indicating that Individual D was aware of a specific method of manipulating sales timing, including having Company a issue Royalty Reports with the calculation period and report dates left blank, allowing for the arbitrary entry of calculation periods and report dates on the report.

## 2. Circumstances Regarding Company b

### (1) Specific Method Used to Manipulate Sales Timing

The method of sales timing manipulation in the license transactions with Company b is essentially the same as was the case for Company a.

Company b and Sanrio agreed that Sanrio would license Company b to manufacture and sell licensed products, and that Company b would pay royalty in proportion to the number of licensed products manufactured by Company b under said license. When paying royalties, as in the case of Company a, Company b sends a Royalty Report to Sanrio stating the quantity of the licensed products manufactured and sold, as well as the amount of royalties to be paid. Sanrio would issue an invoice to Company b based on this Royalty Report, and Company b would pay royalties to Sanrio in the amounts stated in the invoice after receiving said invoice.

Although the specific circumstances of this practice were not determined conclusively, as described in (2) below, as part of the procedures for royalty payments to Sanrio, Company b sent the Royalty Report to Sanrio sales representatives, leaving the

calculation periods and report dates blank.<sup>12</sup> After receiving the Royalty Report with the calculation period and report date left blank, the person in charge of license transactions with Company b within the group in charge of Company b entered any date for calculation period and report date, according to when they wanted to record royalties as sales, thereby manipulating the attribution of sales to different periods.

The person in charge of license transactions with Company b in the group in charge of Company b used spreadsheet software to create a control sheet titled, Company b Royalty Report Balance. This control sheet tracked the balance of sales remaining from Company b Royalty Reports on hand. The Company b Royalty Report Balance was prepared in such a way as to list the number of the Royalty Report received each month, the amounts stated in the Royalty Report, and the month in which the royalty payments stated in the Royalty Report were recorded as sales. The Company b Royalty Report Balance was stored in a folder in the License Business Division, and was accessible to anyone within the division.

The amount of unrecorded Royalty Reports pooled by the above-mentioned method was shared at certain department meetings of the group in charge of Company b. Approximately every month, the SM of the department instructed the person in charge of the license transactions with Company b in the amount of money that should be recorded as sales from the license transactions with Company b for that month. When receiving instructions from the SM, the person in charge selected a Royalty Report containing sales amounts close to the amount directed by the SM, filled in the blanks with a calculation period and date that would not seem out of the ordinary, and then submitted the report to the Administration Department.<sup>13</sup>

## (2) Events Leading to the Manipulation of Sales Timing

The manipulation of the attribution of sales period in the case of Company b had been going on for more than 15 years at the group in charge of Company b. Although the Investigation determined the beginnings of this practice to a considerable extent as

---

<sup>12</sup> The Royalty Report is a four-page carbon copy form. The first page is intended as a copy for the licensee to retain. In the case of Company b, however, the Royalty Report, including the first page, was sent to Sanrio. The person in charge at Sanrio returned the first page to Company b with dates entered.

<sup>13</sup> Under the license report system, sales for a given month would be reported at the end of the month and recorded as sales in the following month. However, License Business Division sales could be reported as sales for the same month in question if submitted to the Administration Department by the second business day of the following month (actually the third business day of the month in the method; however, as a rule, the closing date for licensing sales was the second business day of the month). According to an interview, transactions with Company b served as a last security valve to adjust sales for each month, and the amount of sales recorded for the transaction with Company b was determined at the end of each month by the department in charge of the transaction with Company b. The sales in question were included in the sales for the current month by submitting them on the first or second business day of the following month.

described below, the specific circumstances as to the beginnings of the practice were not confirmed.

The Investigation did confirm that the earliest contract concluded with Company b was dated May 1, 1976. In the said contract, the license transaction with Company b was based on the certificate stamp license system. However, the process switched to the license report system under the contract dated July 28, 1998 ("1998 Contract with Company b", below).

In past contracts between Company b and Sanrio, the name of the person presumably in charge at the time was sometimes written in the upper right corner. In the 1998 Contract with Company b, the words "Commercial Affairs M"<sup>14</sup> could be confirmed. According to an interview with Individual M, prior to the execution of the 1998 Contract with Company b, transactions were conducted in the form of Sanrio receiving orders from Company b, and then manufacturing the relevant products which were sold to Company b. However, due to the heavy work involved in reconciling purchases and sales under this product sales format, the parties switched to the license report system. According to Individual M, when he was in charge of the license transactions with Company b, he had no recollection of leaving the calculation period and entry date on the Royalty Report blank, and he stated that he must have recorded sales without manipulating the calculation periods and report dates. Thereafter, the responsibility for the license transactions with Company b was transferred to another department. At that point, the responsibility for the license transactions with Company b left Individual M's hands.

A license agreement ("2000 Contract with Company b", below) was also concluded between Company b and Sanrio on May 8, 2000. In the 2000 Contract with Company b, it was agreed that license transactions would be conducted under the license report system. In the upper right-hand corner of the contract, the words "Commercial Affairs A" are legible. According to Individual A's explanation, he was in charge of license transactions with Company b for the group in charge of Company b when the 2000 Contract with Company b was executed. He took over the responsibility when Company b was transferred to his department.<sup>15</sup> At some point during the period when Individual A was in charge of license transactions with Company b or served as SM of the group<sup>16</sup> in

---

<sup>14</sup> The Commercial Affairs Department is one of the predecessor departments of the current License Business Division.

<sup>15</sup> Individual A's memory was vague, and he had no recollection of the circumstances surrounding the signing of the 2000 Contract with Company b.

<sup>16</sup> Individual A also stated that he was promoted from sales representative to SM when the previous SM retired.

charge of Company b, he began to receive Royalty Reports with blank calculation periods and report dates. He used these reports to attribute sales to different periods. However, Individual A could not answer the question as to when and for what specific reason he began receiving Royalty Reports with blank calculation periods and report dates. He did not answer in what manner he began using said reports to manipulate the timing of sales periods, beyond saying that he had no recollection.

In addition, Individual N, whose name appears in the upper right corner of an agreement dated June 28, 2002, between Company b and Sanrio, also admitted in the interview that he was in charge of license transactions with Company b in the early 2000s for the group in charge of Company b. Further, he stated that when he took over the responsibility for the license transactions with Company b, he received Royalty Reports with the calculation periods and report dates left blank, and that he used the Royalty Reports with the calculation periods and report dates left blank to manipulate the timing of sales to different periods.<sup>17</sup> He stated that Individual A was the SM during this period. However, he could not remember whether he had received any detailed explanation from his predecessor regarding the practice manipulating sales timing for license transactions with Company b.

According to the preceding, although the specific are not clear, it is highly likely that somewhere between 2000 and 2002, when Individual A was in charge of Company b or was the SM of the group in charge of Company b, Company b began to send Royalty Reports with blank calculation periods and report dates. Individual A then began to use these reports to manipulate the attribution of sales to different periods.

### (3) Scale of Sales Timing Manipulation

The impact of the manipulation of sales timing for Company b transactions for each fiscal year is shown in Table 8 below. Positive values in the "Difference" column indicate that the amount of sales recorded for the same period was understated, while negative values indicate that the amount of sales recorded for the same period was overstated. The cumulative amount of 11 million yen shown in the Difference column is the amount of unrecognized sales as of December 31, 2022, as revealed by the Investigation. The results of the Investigation revealed that unrecorded sales to Company b amounted to 9 million yen as of the end of Period 56 (fiscal year ended March 31, 2016), and only information

---

<sup>17</sup> According to Individual N, the predecessor was Individual O (who has since retired). Individual A also stated that he may have taken over the responsibility from Individual O, although his memory was not clear.



as of the end of Period 56 is shown.

<Table 8> Company b - Sales Impact (Millions of Yen)

Fiscal Period		Amount recorded (A)	Correct amount (B)	Difference (B-A)
Period 56	Fiscal year ended March 2016 End of period		9	9
Period 57	Fiscal year ended March 2017	71	78	7
Period 58	Fiscal year ended March 2018	71	68	-2
Period 59	Fiscal year ended March 2019	58	47	-10
Period 60	Fiscal year ended March 2020	48	49	0
Period 61	Fiscal year ended March 2021	35	39	3
Period 62	Fiscal year ended March 2022	36	35	-1
Period 63	Fiscal year ended March 2023	25	30	4
Total		347	358	11

(4) Scope of Persons Aware of the Manipulation of Sales Timing

Each person in charge of Company b and each SM of the group<sup>18</sup> in charge of Company b during the period under investigation admitted in interviews that they had manipulated the attribution of sales from license transactions with Company b to different periods.

On the other hand, there is no objective evidence sufficient to find that either Individual B, the GM of Sales Department A for the fiscal year ended March 31, 2023, or Messrs. G, I, J, K, and L, the executive manager, deputy executive manager, or executive officer of the License Business Division during the period under investigation, were aware of the manipulation of the timing of recorded sales related to license transactions with Company b. There is no objective evidence to support that Individual B, who is in the same position as Individual D, was aware of the circumstances as described above, and Individual A stated in an interview that he did not report the circumstances of Company b to Individual B.

<sup>18</sup> Individual Q, who was the SM in charge of Company b prior to Individual P, admitted in an interview that he was aware he could manipulate the timing of Company b sales, and that he had instructed subordinates to do so, but he was not aware of the specific method of using a Royalty Report with blank calculation periods and report dates.

On the other hand, Individual D, who was the GM of Sales Department A during the period under investigation (except for the period after April 2022), stated in an interview with the Committee that he was not aware of any manipulation of attribution of sales to different periods with respect to license transactions with Company b. However, for the same reasons described above in Section I. 1.(4), there is a considerable possibility that Individual D was aware in some way of the manipulation of sales timing with respect to the license transactions with Company b.<sup>19</sup>

### 3. Circumstances Regarding Company c

#### (1) Specific Method Used to Manipulate Sales Timing

The method of sales timing manipulation in the license transactions with Company c is essentially the same as was the case for Company a. In other words, Company c and Sanrio agreed that Sanrio would license Company c to manufacture and sell licensed products, and that Company c would pay royalty in proportion to the number of licensed products manufactured by Company c under said license. When paying royalties, Company c would send a Royalty Report to Sanrio stating the quantity of the licensed products manufactured and sold, as well as the amount of royalties to be paid. Sanrio would then issue an invoice to Company c based on this Royalty Report, and Company c would pay royalties to Sanrio in the amounts stated in the invoice after receiving the invoice.

In the course of royalty payment procedures based on the contract in place, Company c was responsible for sending Royalty Reports with calculation periods and report dates filled in. However, in response to a request from the Sanrio sales representative, Company c submitted Royalty Reports with calculation period and report date column left blank. The Royalty Report consisted of a four-page carbon copy form. The person in charge at Company c provided the necessary information, excluding royalty calculation periods and report dates, on the cover sheet of the report, retaining the cover sheet while sending the second and subsequent sheets to the Sanrio sales representative.

After receiving the Royalty Report with the royalty calculation period and date left blank, the Sanrio sales representative essentially would enter a date prior to the actual date of receipt in the date column, enter the dates of the months for which sales should be

---

<sup>19</sup> With regard to the license transactions with Company b, no concrete evidence was found to indicate that Individual D was aware of the specific method of manipulating the timing of sales to different periods, such as leaving the calculation period and entry date on the Royalty Report blank.

correctly recorded in the calculation period column, and then send the Royalty Report on to the Administration Section. However, in accordance with instructions from the SM, Individual A, certain Royalty Reports were not submitted to the Administration Department in a timely manner. Instead, the timing of royalty sales was manipulated by placing a different carbon copy form over the second page of the Royalty Report, with the calculation period report dates were entered before submission. Alternately, arbitrary calculation periods and report dates would be written directly on the second page of the Royalty Report and then submitted to the Administration Department for sales recognition.

The merchandising rights license agreement between Company c and Sanrio stipulated that Company c would send Sanrio vouchers such as computerized data (“Backup Data,” below) that would support the number of units indicated in the Royalty Report. However, in practice, Sanrio did not request that Company c send the Backup Data, and Company c did not send the Backup Data to Sanrio. Therefore, the calculation periods and report dates in the Royalty Report were not checked against the dates of the Backup Data.

(2) Events Leading to the Manipulation of Sales Timing

a. Opportunities to the Switch From the Certificate Stamp License System to the License Report System

After assuming the position of Executive Manager of License Business Division in April 2020, Individual G instructed the Sanrio License Business Division to proceed with the switch from the previously mainstream certificate stamp license system to the license report system. The main reason for the switch was that the certificate stamp license system required suppliers to affix the certificate stamps to their reports. Sanrio was in the position of having to send certificate stamps to the supplier. Both parties incurred labor costs, etc., in the process. Switching to the license report system would eliminate the need for such labor, thereby reducing costs.

b. Adopting Company a’s Fraudulent Practices

In response to the policy to switch to the license report system, Sanrio sales representatives discussed with Company c representatives. The two parties agreed to switch to the license report system on February 1, 2022, when the merchandising rights license contract was to be renewed. At that time, it was agreed that Company c would follow the conditions and methods of license transactions between Company a and Sanrio, since Company a, handled by the same group handling Company c, had already been practicing license transactions under the license report system.

In January 2022, just prior to Company c’s switch to the license report system,

Individual R and his superior, Individual A, met with Company c regarding merchandising plans. At the meeting, a representative from Sanrio requested that the Company c person in charge submit Royalty Reports to Sanrio with the calculation periods and report dates left blank. In accordance with this request, the person in charge of Company c began submitting Royalty Reports to Sanrio, leaving calculation periods and report dates blank. Since Individual R had been in charge of licensees under the certificate stamp license system and Company c was the first company for whom he used the license report system, Individual R received an orientation on Royalty Report management from Individual E, who was in charge of license transactions with Company a at the time. Individual R then proceeded to adopt the practices used with Company a with Company c.

(3) Scale of Sales Timing Manipulation

The impact of the manipulation of sales timing for Company c transactions for each fiscal year when the proper timing is reflected is shown in Table 9 below. Positive values in the "Difference" column indicate that the amount of sales recorded for the same period was understated, while negative values indicate that the amount of sales recorded for the same period was overstated. As a result of the Investigation, there were no unrecognized sales as of December 31, 2022 for Company c license transactions.

<Table 9> Company c - Sales Impact (Millions of Yen)

Fiscal Period		Amount recorded (A)	Correct amount (B)	Difference (B-A)
Period 62	Fiscal year ended March 2022	-	8	8
Period 63	Fiscal year ended March 2023	44	35	-8
Total		44	44	-

(4) Scope of Persons Aware of the Manipulation of Sales Timing

Since the beginning of reporting license transactions with Company c, Individual R and Individual C have been in charge of license transactions with Company c. At all times, Individual A was the SM of the group in charge of Company a and Company c. Both of these individuals admitted that they were aware of the manipulation of the attribution of sales to different periods for license transactions with Company c.

In addition, there is no objective evidence finding that Individual G, Individual I, Individual J, Individual K, and Individual L, who served as executive manager, deputy executive manager, or executive officer of the License Business Division, were aware of the manipulation of sales timing for the license transactions with Company c after the switch to the license report system.

Furthermore, there is no objective evidence sufficient to find that Individual D and Individual B, the GMs in charge of Company a and Company c, were aware of the sales timing manipulation related to license transactions with Company c.

## **VI. Other Related Investigations**

### **1. Overview of Other Related Investigations**

In each case described in Section V., Sanrio requested and had licensees send Royalty Reports with blank calculation periods and report dates during license transactions through the license report system. Then, Sanrio sales representatives manipulated the timing of sales by entering alternative calculation periods and report dates in the applicable blank spaces. The purpose of sales timing manipulation was to respond to pressure to achieve monthly budgets and ensure the accuracy of sales forecasts.

The Committee recognized that there may be a motive behind manipulating the sales timing in the license report system. Based on this, we have decided to include the entire sales of the License Business Division and the license sales of other divisions and subsidiaries in the scope of the investigation under certain criteria, rather than limiting the investigation to the license report system transactions.

During this investigation, we conducted (1) voucher investigations; (2) interviews with Sanrio executives and employees; (3) questionnaires; (4) digital forensics; and (5) investigation of customer.

#### **(1) Voucher (“Royalty Report”) Investigation**

##### **a. Investigation Method**

The Committee examined Royalty Reports based on sales slip data extracted from the license management system. These Royalty Reports serve as voucher evidence in accounting for sales slips. We extracted reports where either (1) the handwriting of the calculation period and report date was clearly different from that of the portions that state the name and quantity of the product, or (2) the Royalty Report entry was filled in directly with a ballpoint pen, when normally it would contain transcriptions through photocopying. Then, we compared the data to the Backup Data on which the applicable report was based.

##### **b. Voucher (Royalty Reports) Investigation Targets in the License Business Division**

There are concerns that the timing of sales was manipulated in license transactions through the license report system using the same method in each case as described in Section V. Therefore, the Committee deemed it necessary to investigate other related cases, targeting all license transactions made through the license report system in the License Business Division. Out of all the license transactions made through the license report system in the License Business Division between April 2017 to December 2022, we conducted voucher investigations on licensees with annual transactions over 20 million yen (over 15 million yen during the nine-month period ended December for the fiscal year ended March 31, 2023). Transaction sales that were the target of the Investigation were 6,309 million yen (including Company a, Company b, Company c, and (c) described below) which makes up 57.1% of the 11,052

million yen sales made through the license report system in the License Business Division during the period under investigation.

c. Voucher (Royalty Reports) Investigation Targets in Divisions Involved in the Incident

Taking into account the methods used in the Incident were possibly shared across departments in charge of license transactions with the three licensees relevant to this case (Company a, Company b, and Company c), there are concerns that sales timing was manipulated in the same manner for other licensees in the departments in question. Therefore, out of the license transactions made through the license report system between both groups between April 2017 to December 2022, the Committee conducted voucher investigations on licensees with annual transactions of 10 million yen or more (7.5 million yen or more during the nine-month period ended December for the fiscal year ended March 31, 2023). Transaction sales subject to investigation amounted to 693 million yen (including Company a, Company b, and Company c), which makes up 90.7% of the 764 million yen in sales recorded in the license report system for both groups during the period under investigation.

d. Results of the Voucher Investigation

A total of 28 cases were detected where the handwriting of the period and report date was clearly different from that of the portions that state the name and quantity of the product, and 15 cases were detected where the Royalty Report entry was filled in directly with a ballpoint pen, when normally it would contain transcriptions through photocopying.

As a result of comparing each sales slip with the Backup Data based on accounting, no transactions were found where the calculation period and the actual month recorded were in different quarters, with the exception of one sales slip.

<p>May 2021 Sales Slip 97793</p>	<p>Sales Slip 97793 (4.8 million yen royalty) recorded as a May 2021 transaction with Company d was found to be the amount for February 2021 production based on the production number summary data provided by Sanrio. However, upon searching the sales representative’s mail history, investigators confirmed that the report from Company d on the confirmed production quantities was first received on May 7, 2021. The Committee therefore ruled this as an operational mistake, rather than a willful manipulation of sales timing, and did not include this transaction in the findings related to the Investigation.</p>
--------------------------------------	--

(2) Interviews of Sanrio Executives and Employees

a. Interview Targets

The Committee conducted interviews with officers and employees and former officers and employees of Sanrio deemed necessary, asking about their awareness of the facts related to the Incident and other related cases. We conducted multiple interviews for certain interviewees.

A total of 40 officers and employees and former officers and employees of Sanrio were subject to the interviews. Further details on interviewees can be found in Appendix 1.

b. Findings From Interviews

Two testimonies were detected in the interviews: (1) a testimony related to Company e, and (2) a testimony regarding the excess issuance of certificate stamps. Each testimony is described in detail in 2. Findings From Other Related Investigations.

(3) Questionnaires

The Committee conducted questionnaires with the following companies and departments about the existence of transactions where sales timing was manipulated under the license report system and/or where other improperly recorded sales occurred.

- Executives and employees belonging to certain sections that handle licensing transactions from Sanrio License Business Division and Product Sales Division
- Executives and employees belonging to the Copyright Sales Department of SFE
- Executives and employees belonging to the Licensing Department of Sanrio Wave Hong Kong
- Executives and employees belonging to the License Sales Department of Sanrio Taiwan
- Executives and employees belonging to the Licensing Sales Department of Sanrio Korea

The following criteria were used to select the companies to which the questionnaires were sent, after consideration of information collected in the course of the Investigation. Questionnaires were sent to consolidated subsidiaries of Sanrio that met one of the following criteria.

- Companies with opportunities to manipulate sales timing, and whose internal controls were similar to those of the Sanrio License Business Division related to royalty sales under the license report system
- Companies with a large percentage of total royalty sales conducted through the certificate stamp license system

Questionnaires were sent out to a total of 203 employees, of which 196 responded. The seven respondents who did not respond had reasonable grounds, such as being on home leave or on childcare leave. Therefore, we can state that we received responses from all executives and employees able to respond. See Appendix 3. for details.

One questionnaire response stated that the individual had received instructions to cite specific departments and division and create month-to-month discrepancies. They also stated they had seen Royalty Reports with blank dates on several occasions. When

interviewed, the respondent explained that they could not tell if a manipulation of monthly sales was actually performed, and that they could not even tell whether the blank dates were intended for manipulation. The Committee decided to include the responses to the questionnaire in the relevant proceedings, in light of the adequate coverage under Section I 1.(1)(b) Voucher (“Royalty Report”) Investigation related to the License Business Division as a whole.

We also interviewed certain respondents, as responses suggested the possibility that sales timing was manipulated. Since there were not any events that amounted to concrete evidence, and the monetary amounts were considered minor, the Committee did not find any fraud and did not implement additional special procedures.

(4) Digital Forensic Investigation

The Committee conducted a digital forensic investigation on the e-mail data, etc., of the targets listed in Appendix 2. We extracted e-mails containing keywords that generally suggested fraud, while keeping an eye out for other Incidents of fraud during the search.

We confirmed the content of the extracted e-mail data with the targets, as well as with the recipients and employees included CC references as needed. However, no concrete evidence was detected that would lead to the discovery of new fraud.

(5) Interviews With Customers

The Committee interviewed licensee Company e, deemed necessary to verify facts in the investigation of other related cases. Further details on interviewees can be found in Appendix 1.

2. Findings From Other Related Investigations

(1) Cases Identified as Related to the License Report System

We received testimony in interviews conducted in the course of this Investigation that a representative from Sanrio asked Company e to submit Royalty Reports with listed quantities less than the actual quantities on the report of licensed products shipped during license transactions. The representative then manipulated the timing of the sales recognition ( “Company e Incident,” below).

We conducted additional interviews regarding the manipulation of the sales timing in license transactions with Company e. The following facts were revealed through these interviews and related voucher investigations.



a. Specific Method Used to Manipulate Sales Timing

The license transactions<sup>20</sup> with Company e were conducted under the license report system. However, whereas royalties were usually calculated based on the quantity of licensed products manufactured under the license report system at Sanrio, royalties for Company e were calculated based on the quantity of license products shipped.

During license transactions with Company e, a representative from the company would share a copy of the relevant report Backup Data through e-mail or in person with the Sanrio sales representative in advanced before mailing the Royalty Report to Sanrio.

The Sanrio sales representative, upon receiving said copy from Company e, would confirm the quantity of licensed products shipped. The sales representative would then delete parts of the listed quantity of licensed products shipped from the Royalty Report and Backup Data for the month in question, requesting the employee at Company e to add the products to quantities under subsequent months.

Having received the request from the Sanrio sales representative, the employee at Company e would then submit a Royalty Report to Sanrio after rewriting the quantity of licensed products shipped and royalty payments. The employee at Company e would then list royalty payments for the partial quantity of shipped licensed products on the Royalty Reports in subsequent months, rather than for the correct month.

b. Events Leading to the Manipulation of Sales Timing

Individual S who had been in charge of license transactions with Company e since 2013, was urged to match sales to forecasts by Individual D, who was the GM of Sales Department A of the group in charge of Company e at the time. As a way to adjust monthly sales, Individual S chose the license transactions with Company e, as they had relatively large sales with room for adjustment.

After consulting with the representative of Company e, Individual S then began requesting the employee at Company e to add a part of the licensed products listed in the Backup Data to the following months reports. The employee at Company e, having thought the request was related to the Sanrio budget, responded to the request without questioning the Sanrio representative as to why.

This method of manipulating of the timing of relevant Company e sales was continued by Individual T who succeeded Individual S in Period 55. However,

---

<sup>20</sup>License transactions with Company e began in 2009, and were initially conducted under the license report system.

the manipulation was not continued by Individual U who succeeded Individual T in Period 58<sup>21</sup>.

c. Scale of Sales Timing Manipulation (Amounts, Targets, Periods)

Table 10 below shows the impact of the manipulation of sales timing for each fiscal year in the case of Company e. In Table 10 below, the actual amount recorded (A) is the amount of royalty income from the license management system, and estimated amount (B) is the amount of royalty income calculated based on shipment data (quantity before manipulations) obtained directly from Company e based on retail prices and royalty rates. The difference (B-A) is estimated as the impact amount.

Positive impact values listed under impact indicate understated sales recorded for the same period, while negative values indicate overstated sales recorded. The results of the Investigation showed that there were no unrecognized sales as of December 31, 2022 for Company c license transactions.

<Table 10> Company e Incident - Sales Impact (Millions of Yen)

Fiscal Period		Amount Recorded (A)	Estimated Amount (B)	Difference (B-A)
Period 55	Fiscal year ended March 2015	10	10	0
Period 56	Fiscal year ended March 2016	36	43	6
Period 57	Fiscal year ended March 2017	32	29	(3)
Period 58	Fiscal year ended March 2018	17	13	(3)
Period 59	Fiscal year ended March 2019	9	9	(0)
Period 60	Fiscal year ended March 2020	11	12	1
Period 61	Fiscal year ended March 2021	5	3	(1)
Period 62	Fiscal year ended March 2022	12	12	0
Period 63	Fiscal year ended March 2023	14	14	0
Total		150	150	-

<sup>21</sup> Individual T took over royalty operations after Individual U became the sales representative for Company e in Period 58, since Individual U was only in charge of sales planning. Individual U took maternity leave halfway through Period 60, but was later put in charge of all operations, including royalties, after they returned in Period 62. However, Individual U did not continue the method of sales timing manipulation from Individual T on that occasion.

(Note) In Period 63, additional royalties from a bookkeeping investigation conducted for the licensee during the same period were posted. However, these royalties were excluded from the relevant figures in the table above (actual amount recorded (A)) as they were a one-time factor.

- d. Scope of Persons Aware of the Manipulation of Sales Timing  
Individual S and Individual T, who were in charge of license transactions with Company e, both admitted to manipulating the timing of sales in licensing transactions within the group responsible for Company e.

Testimony was received that Individual D, the former GM of Sales Department A of the group in charge of Company e, instructed Individual S at GM and SM meetings to adjust sales to match forecasts. In addition, Individual D was found to have instructed his subordinates to manipulate the timing of sales in each of the incidents discussed in Section V. In light of these circumstances, it is within reason to find that Individual D was similarly directing the manipulation of sales timing for license transactions with Company e.

On the other hand, we have found no objective evidence to support that Individual G of the License Business Division was aware of the manipulation of sales timing for the license transactions with Company e at the time of the transactions.

## (2) Sales Timing for the Certificate Stamp License System

### a. Overview

The term "adjust" was used frequently during the interviews conducted by the Committee with the involved parties. This term was also used several times in certificate stamp license system transactions in addition to its use in the sales timing manipulation related to Royalty Reports with blank calculation periods and report dates in the Incident. However, in the case of certificate stamp license system, revenue is recognized at the point of certificate stamp shipment, as stated in Section IV. 2. As certificate stamps are under the control of the Administration Department, the licensee must submit the Certificate Stamp Shipping Request Form, which is confirmed by the Administration Department as a prerequisite of the certificate stamp license system. After verifying facts for each incident through interviews, we concluded that the use of the term "adjust" was not for the purpose of manipulating sales timing, but rather used within the scope related to sales efforts.

In terms of specific transactions, we confirmed cases in which, when first receiving a Certificate Stamp Request Form from the licensee, the sales representative would ask the licensee to divide a portion of sales to the following month, if such amounts were not urgent. We also confirmed cases in which certificate stamp requests scheduled originally for the following month or later were shifted to the current month. In these cases, we consider the

timing of transactions here to be based on agreements with the licensee, and not manipulations of sales timing.

In addition, there were cases where licensees tried to secure certificate stamps in advance, in anticipation of decisions on new product planning and future increases in production. Among these cases, there were cases where Sanrio encouraged the licensee to secure certificate stamps, and the licensee complied. However, in each case, the purchase and sale of the certificate stamps was based on agreements with the licensee, and we did not consider these cases to be manipulations of sales timing.

In other transactions where a minimum transaction guarantee (“Minimum Guarantee”) had been agreed with the licensee, there were cases where the licensee submitted requests for enough certificate stamps to reach ¥the annual amount of certificate stamp transactions in line with the Minimum Guarantee. This case is not considered to fall under sales timing manipulation, as the certificate stamps were acquired to fulfill contractual obligations to purchase certificate stamps, even if the licensee had no plans to manufacture the licensed products.

- b. Cases in Which Certificate Stamp License Sales are Subject to Returns  
Unlike the cases discussed in the previous section, certificate stamp licenses sold under the premise of returning them fall outside the scope of sales effort, but are rather considered to fall under the manipulation of sales timing. Therefore, the Committee carried out investigation procedures as part of the investigation of other related cases to determine whether any of certificate stamp license sales were transactions conducted under the assumption of a return of said stamps.

Approval from the GM of the sales department in question is required to perform a negative transaction for certificate stamps, as is approval from the Administration Department when performing any manner of negative transaction. Written approvals such as the “Request for Product Registration and Correction” and the “Statement of Reason for Return” (i.e. a statement of circumstances or other documents for submission, which differ depending on the customer) are implemented in such cases. Reasons for negative transactions (red sales slips) for certificate stamps include circumstances in which data has been modified (changes in product codes, unit prices, etc.), or when changes have been made to certificate stamps.

The Committee conducted voucher investigations on negative transaction (red sales slips) of certificate stamp license sales across the entire License Business Division for the period under Investigation period that were larger than -1 million yen based on sales slips. A total of -146 million yen was investigated, which accounted for 57.7% of the total -254 million yen in negative

transactions of certificate stamp license sales across the entire License Business Division during the investigation period covered.

c. Results of Voucher Investigation

A total of 52 sales slips were identified in the previous section, and it was confirmed that approval for each of them were obtained from the Administration Department through documents such as the Request for Product Registration and Correction and the Statement of Reason for Return. In addition, we individually confirmed the state of transactions with Company f and Company g, both of which had testified in their interviews to having made adjustments.

i. Company f

It was revealed through the testimonies from Individual A and Individual C that they requested Company f order approximately 15 million yen in certificate stamps in January 2020, regardless of the Minimum Guarantee specification. A Minimum Guarantee was stipulated in the licensing agreement with Company f. However, from what we have been able to confirm, between Period 57 (fiscal year ended March 31, 2017) and Period 59 (fiscal year ended March 31, 2019), Company f accomplished few of its planned projects, and produced fewer licensed products than the Minimum Guarantee. As listed in Table 11, Sanrio received a certificate stamp request from Company f for an amount bringing them up to the Minimum Guarantee, and Sanrio sold the certificate stamps to Company f. One sales representative testified that, although the time period was unknown, Company f had a stock of up to 250 million yen in certificate stamps, including past accumulated stock. In addition, in January 2020 (Period 60), Company f made a one-time request for approximately 15 million yen in certificate stamps unrelated to the Minimum Guarantee at the urging of Individual D. However, there was no agreement with Company f to accept future certificate stamp returns at the time of said request.

The relationship between transaction amounts and the Minimum Guarantee with Company f is shown in Table 11 below. The transaction amounts were nearly in line with Minimum Guarantee amounts between Period 57 and Period 59. These figures suggest that certificate stamp requests exceeding the Minimum Guarantee in transactions with Company f were not a regular occurrence, but a one-time occurrence in January 2020.

(Table 11): Company f Transaction Amounts and Minimum Guarantees (Millions of yen)

	Period 57	Period 58	Period 59	Period 60	Period 61	Period 62	Period 63
Amount Recorded	119	102	102	35	7	11	33
Minimum Guarantee	120	100	100	-	-	-	-

Company f thereafter submitted a Statement of Circumstances in both August 2020 and December 2020, requesting a refund of certificate stamps for approximately 13 million yen (approximately 4.5 million yen in August 2020 and approximately 8 million yen in December 2020), ostensibly due to orders being canceled due to impact of COVID-19. Sanrio received this request and is refunding the certificate stamps. There is a possibility that Company f had a stock of up to 250 million yen of certificate stamps, although the time period is unknown. However, this stock has now been eliminated. Based on the preceding, it is reasonable to assume that in January 2020, when the impact of the COVID-19 pandemic was as yet unforeseen, both parties recognized that 15 million yen of certificate stamps was within a reasonable scope for Company f, and the sale and purchase of the certificate stamps took place within the scope of business negotiations. It would not be entirely appropriate to judge that the January 2020 transaction was not reasonable, as the reimbursement was made to Company f after August 2020 for COVID-19 pandemic-related reasons, considering that at the time in January 2020, it would have been difficult to accurately predict the spread of the COVID-19 pandemic.

ii. Company g

It was revealed through the testimonies from Individual A and Individual C that they requested Company g order approximately 20 million yen in certificate stamps in January 2020, regardless of the Minimum Guarantee specification. However, according to Individual A, this transaction was an advance purchase of a repeat product. Upon verifying sales slips of negative certificate stamp transactions related to Company g, we confirmed that the company had a total of only 0.8 million yen in negative sales slips between January 2020 and December 2022. These transaction were due to changes in retail prices, or TC code, and did not involve the actual return of certificate stamps. In response to Individual A and Individual V, the current sales representative over license transactions with Company g, Company g responded that its stock of certificate stamps had been eliminated. Based on the preceding, we believe the issuance of 20 million yen in certificate stamps was a transaction within the scope of actual demand.

## **VII. Impact on Consolidated Financial Statements**

1. The Incident

The Investigation found that the timing of earnings were manipulated during certain license transactions with companies a, b, and c.

The following depicts the impact on sales and operating profit after being properly adjusted in each fiscal year. Positive values listed under Impact indicate understated sales and operating profit recorded during the same period, while negative values indicate overstated amounts recorded.

<Table 12> Impact on Consolidated Financial Statements by Fiscal Year (Millions of yen)

Fiscal Period		Impact on Non-consolidated and Consolidated Sales	Impact on Non-consolidated Profit	Impact on Consolidated Profit
Period 56	Fiscal year ended March 2016 <sup>22</sup>	9	8	8
Period 57	Fiscal year ended March 2017	7	7	7
Period 58	Fiscal year ended March 2018	(2)	(1)	(1)
Period 59	Fiscal year ended March 2019	(10)	(10)	(10)
Period 60	Fiscal year ended March 2020	12	9	12
Period 61	Fiscal year ended March 2021	72	62	72
Period 62	Fiscal year ended March 2022	59	44	58
Period 63	Fiscal year ended March 2023	(45)	(36)	(45)
Total (Unrecognized sales as of December 31, 2022)		101	83	101

## 2. Other Related Investigation

### (1) Confirmed Case on the License Report System (Company e Incident)

The timings of certain license transactions earnings with Company e were manipulated, as also seen in the Incident. However, due to difficulties linking the individual sales slips to applicable adjusted transactions during the term, only the impact on sales is calculated as an estimated value, as described in Section VI. 2.(1). Positive values indicate positive sales for impact amount listed below in Table 13. There are no unrecognized sales as of December 31, 2022.

<Table 13> Impact on Consolidated Financial Statements by Fiscal Year (Millions of yen)

Fiscal Period		Estimated Impact on Non-consolidated and Consolidated Sales
Period 55	Fiscal year ended March 2015	0
Period 56	Fiscal year ended March 2016	6
Period 57	Fiscal year ended March 2017	(3)

<sup>22</sup> The impact shown for Period 56 depicts the effects of unrecognized sales as of the end of Period 56.

Period 58	Fiscal year ended March 2018	(3)
Period 59	Fiscal year ended March 2019	(0)
Period 60	Fiscal year ended March 2020	1
Period 61	Fiscal year ended March 2021	(1)
Period 62	Fiscal year ended March 2022	0
Period 63	Fiscal year ended March 2023	0
Total (unrecognized sales as of December 31, 2022)		-

(2) Suspicions on the Manipulation of Sales Records Regarding the Certificate Stamp License System

Events requiring adjustments to consolidated financial statements were not identified.

**VIII. Root-Cause Analysis**

1. Weaknesses in Internal Controls

(1) Issues in Each Sales Department of the License Business Division

a. Issues Related to the Design of Internal Controls

As described in Section IV. 2., under the license report system, sales are accounted for based on the Royalty Reports sent directly from licensees to the sales representatives. The workflow in question had the following internal control design deficiencies which created an opportunity to address this matter.

First, since the recipients of the Royalty Report were sales representatives, there was a possibility that the reports would, either intentionally or inadvertently, not be circulated to the Administration Department and that the sales would not be recorded at the appropriate time. Furthermore, the segregation of duties was not appropriate. In addition, as discussed below, Backup Data was not required to be attached to a Royalty Report when it was circulated to the Administration Department, and there was no control action performed by a third party other than the sales representative to confirm that information in a Royalty Report had been recorded in the proper period. Furthermore, the Royalty Report were compiled in a handwritten format, giving the sales representatives opportunities to manipulate the content.

One of the factors that led to the neglect of such internal control design deficiencies was that Sanrio focused on fictitious entries and early recording of sales as fraud risks in the sales recording process but did not recognize the fraud risk posed by postponing the recording of sales, as in the Incident in question.

b. Absence of Manuals Regarding Sales Recording Practices

In the License Business Division, transactions are structured using different methods, such as the certificate stamp license system, license report system,



and the license term system. The process from negotiation to sales recording is different for each, and there are multiple formats designated by the company for documenting those processes, such as the Certificate Stamp Shipment Request Form and the Royalty Report.

However, there were no employee manuals outlining the rules governing these processes and formats or instructions on their use. Sales representatives newly engaged in the licensing business, were expected to take over sales recording practices from their predecessors through on-the-job training. In particular, there used to be few licensees who used the licensing report system, and a sales representative who was involved in the Incident testified that they did not know how to implement it when they were first put in charge.

For example, in the License Business Division, if a Royalty Report was submitted to the Administration Department by the second business day of each month, those sales were attributed to the previous month. However, since this operation was not clearly stated in the manuals and other documents, sales representatives were forced to rely on and follow the explanations and instructions provided by their predecessors and superiors without any means to confirm the accuracy and appropriateness thereof.

As a result, several instances were discovered in which sales representatives involved in the Incident performed their duties without any sense of impropriety or even awareness that the manipulation of sales attribution timing was problematic. There were also multiple instances of sales representatives passing on this mindset and these work methods to their successors. One of the reasons that this situation continued for a long period of time was that a significant number of sales representatives did not have sufficient basic awareness and understanding of the revenue recognition criteria because manuals that provided specific and plain descriptions of the principle and methods for recording sales were not available, and sales representatives were not given educational and training opportunities regarding these topics.

c. **Reduced Normative Awareness of Sales Recording Practices**

There are at least 10 current employees who were directly involved in the improper accounting treatment relating to the Incident. In addition, in the case of Company b, the improper treatment occurred over a period of more than 15 years, and it appears that many employees, although not directly involved in the case, knew about the manipulation of sales attribution timing. And while it is recognized that a significant number of the employees interviewed in the Investigation were not directly involved in the improper accounting treatment, they knew that their colleagues were involved and did not try to stop it or have it stopped by reporting it to their superiors, or the Administration Department, etc. On the other hand, when asked again, several interviewees in the Incident testified that they thought these actions were improper. It has also been

recognized that some employees had not been transferred from one department or section for a long period of time and had little opportunity to receive advice from others. These circumstances suggest that in some departments and sections of the License Business Division, there was no sense of impropriety or uncertainty among employees regarding the improper accounting procedures. The environment became one in which the timing of sales attribution was routinely manipulated, reducing the employees' normative awareness that improper accounting procedures should not be implemented.

(2) Issues in the License Business Division Administration Department

a. Failure to Obtain Backup Data

One of the reasons for the manipulation of sales attribution timing in the Incident was that the practice of requiring licensees to provide Backup Data was not thoroughly implemented. Because the design of the internal controls did not require the provision of Backup Data, the interviewees testified that when sales representatives circulated the Royalty Report to the Administration Department, the Administration Department did not point out that the Backup Data was not attached to the report. These routine operations may have provided sales representatives with opportunities to commit fraud. In fact, in some instances in the Incident, the licensees sent Backup Data to Sanrio, but this data was not circulated to the Administration Department, and thus the fact that the revenue was recorded at the wrong time was not discovered.

b. Effect of the Bookkeeping Investigation on Licensees

In the Investigation, we reviewed the licensing agreements between Sanrio and the 20 companies that had the highest licensing sales to determine whether they have the right to require licensees to provide Backup Data. The license agreements with these top 20 companies stipulate that Sanrio, has the authority to examine the bookkeeping, etc. of the licensees during bookkeeping investigations to confirm that royalty payments are being made appropriately in accordance with the agreements. However, in the past five years, only two bookkeeping investigations were actually conducted in accordance with the provisions of the agreements. In addition, the selection of investigation targets was to be based on the number of years of continuous business and sales, taking risk into consideration. In reality, however, emphasis was placed on the relationship with the company and whether they would be willing to cooperate with an investigation. In light of these circumstances, it cannot be said that the Sales Department was functioning sufficiently as a system of checks and balances against improper accounting treatment such as that discovered in the matter at hand.

(3) Internal Audit Issues

a. Failure to Thoroughly Evaluate the Design of Internal Controls

An internal audit conducted by the Internal Auditing Depart did not identify any of the internal control weaknesses mentioned above. The following was

also not indicated in the Internal Auditing Department audit: the fact that the personnel in charge of the License Business Division did not fully understand the internal controls described in the so-called J-SOX 3-Point Set, which describes matters such as the flow of operations and accompanying explanations, and the correspondence between risks and controls; and the fact that the business manuals and regulations, which are the premise for the design of these internal controls, were not properly maintained.

b. **Absence of Bookkeeping Investigation Involvement and Results-Sharing Mechanisms**

The Internal Auditing Department did not receive sufficient sharing of information regarding how to select licensees for the bookkeeping investigation, or the procedures and results of bookkeeping investigations when conducting the bookkeeping investigations<sup>23</sup> of the licensees described in (2).

2. **Internal Reporting System Issues**

As discussed above in Section V. 2. above, the Sanrio License Business Division has been manipulating the sales attribution timing in its transactions with Company b for over 15 years by using Royalty Report with blank entries for calculation periods and entry dates. In addition, a significant number of employees in the group in charge of Company b were aware of it. In the case of Company a and Company c, irregular changes in sales forecasts were reported at the section meetings, and several persons were involved in the manipulation of sales attribution timing. According to the interviewees, some of those involved had misgivings about the manipulation of the sales attribution timing.

Despite these circumstances, until the Incident came to light in January 2023, no report of sales attribution timing manipulation was ever made via the Sanrio internal reporting system.

It should be noted that the independence of the Sanrio internal reporting system from management, especially from Sanrio executives, is ensured to a certain degree under a system that utilizes multiple contact points, including an outside business that acts as a receptionist. The internal reporting system is used to a certain extent within Sanrio, with dozens of reports received annually.

However, as stated above, the fact that none of the Sanrio personnel involved reported the matter internally over a long period of time has been acknowledged. The reason for this may be that they did not recognize that the Incident constituted an important issue that should be reported internally, due to insufficient knowledge of sales recording practices and a reduced normative awareness.

3. **Organizational Culture and Climate Issues**

---

<sup>23</sup> The lead department is the Administration Department of the License Business Division, and the implementation of bookkeeping investigations has been outsourced to an outside specialist.

(1) Lack of Awareness Regarding Compliance

At Sanrio, as described above, inappropriate accounting methods were used over a long period of time with the involvement of a considerable number of employees. The fact that these employees were involved in or aware of the manipulation of sales attribution timing for a long period of time, but did not see it as a problem and did not attempt to remedy it, indicates that the culture of the License Business Division was lacking in compliance awareness.

In addition, among management at the SM-level and above in the License Business Division, there are individuals who were in a position to manage and supervise employees who had committed inappropriate acts, and they are suspected of having tacitly approved those inappropriate acts in order to achieve the budget of the department or section under his/her control or to prevent a deviation from the sales forecast. There are also individuals who are suspected of not confirming the details of reports they received in which improper behavior was suggested, although it remains unclear whether those individuals clearly recognized the improper behavior. Thus, it is believed that in the License Business Division, there was a lack of awareness of compliance even among managers.

Although compliance training was conducted at Sanrio, especially for managers, the main focus was on prevention of harassment. The content of the training may not have been sufficient to foster compliance awareness. This includes a lack of information regarding legal violations. Therefore, it appears that Sanrio employees did not necessarily share the awareness that compliance is essential for a company to provide value to society and increase its corporate value.

(2) Budget Formulation Process and Pressure to Achieve Budget in the License Business Division

Sanrio's history of growth in its inherited retail business created an organizational culture that emphasizes sales management based on the previous year's results. Annual budgets were established each year, and monthly budgets were established to achieve those numbers. Against this backdrop, until around 2020, annual budgets were essentially defined as an amount based on the previous year's actual sales multiplied by a certain growth rate.

In the budget formulation process, the amount based on the actual sales from the previous year and the accumulated amounts reported by each section were combined to reach a

decision. However, the amount of the accumulation reported by each section was not always taken into account, and in many cases, the amount was basically determined in a top-down fashion by multiplying the previous year's actual sales by a certain growth rate. In addition, several interviewees testified that there were times when the budget was difficult to achieve due to the weak competitiveness of Sanrio characters in the market until around 2020 as well as the impact of the COVID-19 pandemic. Even during such periods, budgets were set without necessarily giving proper consideration to the circumstances of individual business units. To make matters worse, effective measures and business plans aimed at achieving the budgets were almost never presented. The interviewees indicated that during the period of weak performance from 2017 to 2019, the then president (now honorary chairman), under his policy of emphasizing operating margin rather than sales, paid particular attention to the growth of the license business, which had a high operating margin and contributed significantly to profits, insisting that the License Business Division make best efforts to achieve the budget by repeatedly reviewing and verifying its progress toward that goal.

Several interviewees testified that this rigid budget formulation process and the pressure to meet the budget may have created an incentive to make it easier to meet the budget in the next fiscal term by postponing the entry of some sales that should have been recorded in the current term to the following fiscal term.

Furthermore, the interviews indicate that when Sanrio formulated its New Vision, Mission, and Values in its medium-term management plan in 2021, it not only revised its budgeting method of multiplying the previous year's actual results by a certain growth rate, but also aimed to enhance its internal structure by reaching out to outside personnel with expertise in promoting reforms rather than relying on the skills of individuals to achieve the budget. Despite this, the fact that the manipulation of sales attribution timing continued after 2021, as in the Incident, suggests that the above policy may not necessarily have been sufficiently disseminated throughout the company.

### (3) Pressure to Ensure Budget Accuracy in the License Business Division

According to the interviewees, since the reorganization of the License Business Division in April 2020, the pressure felt by sales representatives to meet the budget has eased significantly, partly due to the COVID-19 pandemic occurring in the same period. In this sense, the pressure to achieve the budget was not necessarily applied in all of the periods in which sales attribution timing was manipulated.

On the other hand, after 2020, while pressure to meet budgets decreased, pressure to improve the accuracy of sales forecasts continued to rise. According to the interviewees, each sales representative in the License Business Division was required to set a monthly budget based on the annual budget, forecast as necessary the likelihood of achieving the budget, and update the forecast toward the end of the month in line with actual results. At the same time, they were required to monitor customer trends to avoid unexpectedly large fluctuations between sales forecasts and actual sales.<sup>24</sup> Since it was relatively easy to predict the current year's results from the previous year's results in Sanrio's inherited retail business, this normative awareness must have been fostered in the License Business Division.

However, Sanrio License Business Division sales were dependent on the manufacturing performance of licensees and other factors, and changes in licensee production plan schedules could easily cause monthly sales results to fluctuate significantly from forecasts. For licensing transactions with these characteristics, requiring each sales representative to maintain the same level of accuracy seen in the retail business and avoid large fluctuations between forecasted and actual sales on a monthly basis could exert significant pressure on those representatives and the SMs.

According to the interviewees, Sanrio's current company-wide policy on sales management is to not require each sales representative to ensure the accuracy of monthly sales forecasts for the projects for which he/she is responsible, but to have the entire organization ensure the accuracy of forecasts by having each sales representative report on expected projects and the expected order volume for those projects. However, the fact that the manipulation of sales attribution timing continued after 2020, as in the Incident, suggests that excessive pressure to ensure the accuracy of sales forecasts may remain in the License Business Division.

#### 4. Summary

Taking into account the above, the Committee considered the three components of the fraud triangle in the License Business Division to be as follows:

First, there was incentive to manipulate the sales attribution timing in the License

---

<sup>24</sup> Several interviewees testified that it was only natural that a sales representative keep track of the trends of their business partners. This suggests that the norm of ensuring the accuracy of forecasts was widely shared in Sanrio's License Business Division.

Business Division in response to pressure to meet budgets and improve the accuracy of sales forecasts. In addition, under rigid budget formulation policies, a better-than-budgeted performance in the current term could increase the budget for the following term, and there was an incentive to manipulate the sales attribution timing to avoid such a situation.

Second, the following opportunities to manipulate sales attribution timing were recognized due to inadequate segregation of duties and control procedures: it was possible to not circulate Royalty Report to the Administration Department in a timely manner because they were received by sales representatives; there was no way to verify the proper timing of the recording of the Royalty Report because Backup Data was not required to be submitted to the Administration Department; and, the Royalty Report were compiled in handwritten format, etc.

Finally, sales representatives lacked basic awareness and understanding of the revenue recognition criteria. This was due to the fact that the License Business Division did not have manuals that specifically and plainly described the revenue recognition criteria and methods for the recording of sales, and did not provide sufficient training opportunities to its employees. For these reasons, sales representatives lacked the level of awareness needed to question improper accounting treatment, and in some departments and sections, the manipulation of sales attribution timing was routinely practiced. This created a climate in which improper accounting treatment was justified.

Thus, all three components of the fraud triangle were observed in the matter at hand.

## **IX. Recommendations on How to Prevent Recurrence**

### **1. Strengthen and Improve Internal Controls**

Within the License Business Division, each Sales Department and the Administration Department should make the following improvements in response to the issues listed in Section VIII. 1. (1) and (2).

#### **(1) Change the Department Receiving the Royalty Report**

Under the current workflow for the license report system, Sanrio sales representatives receive Royalty Report from licensees. This is because, when designing internal controls, it was deemed desirable to require sales representatives, who have the best grasp of the status of the entries in the Royalty Report, to confirm their accuracy and comprehensiveness. However, when fraud is attempted in every Sales Department, as in

the Incident, there is no one department or person capable of detecting it. In order to remedy this situation, it will be necessary to separate the accuracy review and the comprehensiveness review. In other words, it will be necessary to revise the workflow, including a change in which department receives the report: the Administration Department will first receive the Royalty Report, check the completeness of the entries, and then forward them to the sales representatives to check their accuracy.

(2) Investigate Means of Verifying the Comprehensiveness of the Royalty Report Collection

Although the Administration Department has controls in place to verify the comprehensiveness of the Royalty Report collection, it is currently difficult to detect when a sales representative intentionally or inadvertently fails to forward the report to the Administration Department. From the viewpoint of ensuring the effectiveness of such control actions, it is desirable to consider redesigning the internal controls. For example: (1) Use the sequential numbers on the Royalty Report to verify the comprehensiveness of collections, including missing entries; (2) Establish an estimated posting period based on the approximate manufacturing and sales period at the planning and review stages, and compare the actual collection status with the estimated posting period to ascertain the comprehensiveness of collection, etc.

(3) Handling of Backup Data

In the License Business Division, as described in Section VIII. 1. (2) (a), the method used for obtaining and storing Backup Data was left to the discretion of the sales representative, and controls on obtaining Backup Data were not incorporated into the workflow. Backup Data consists of supporting materials for the Royalty Report, and obtaining Backup Data is essential in order to verify the comprehensiveness and accuracy of the Royalty Report received from the licensees and to minimize opportunities for manipulation. Therefore, it is necessary to require licensees to submit Backup Data on a regular basis in the contract, clearly state the rules for obtaining Backup Data and the method for storing it within the License Business Division, and include verification of the Backup Data in the Administration Department's confirmation operations. Furthermore, the information required for Backup Data should be redefined in order to make it verifiable when a third party checks it after the fact.

(4) Establishment of Operations Manuals and Education System

As described in Section VIII. 1. (1) (a), although Sanrio accounting rules included a description of the revenue recognition criteria, the License Business Division did not prepare manuals that specifically and plainly described the revenue recognition criteria



and methods of recording and processing sales, and did not provide sufficient training opportunities to its employees. As a result, not all sales representatives possessed accurate knowledge of sales recording practices and that is considered to be one of the contributing factors in the Incident. Therefore, from the viewpoint of preventing a recurrence of this incident, it will be necessary to prepare an operational manual that describes the division of duties by position, the purpose of control, and the practical level of who should confirm what from which perspective. In order to familiarize the staff with the contents of the manual, it will be necessary to establish an educational system, including training for newly appointed staff and periodic training sessions on the revenue recognition criteria.

(5) System Implementation for Internal Controls

The Incident is also due in part to the fact that the business was operated through handwritten Royalty Report. From the perspective of thoroughly preventing the recurrence of this incident, one option would be, for example, to set up EDI (Electronic Data Interchange, a system for exchanging information on business transactions, such as placing and receiving orders, between companies electronically) with the licensees and establish a system under which the input content cannot be manipulated by Sanrio. The introduction of this measure would at least eliminate the opportunity for manipulation of sales attribution timing by the Sales Department. Even if collusion between the Sales Department and the licensee is assumed, checks and balances against both the Sales Department and the licensee may be implemented by increasing the effectiveness of bookkeeping investigations, as discussed below.

(6) Personnel Rotation

The Incident came to light when a GM was reassigned. However, there are no rules for rotation in the License Business Division regarding periodic transfers to different areas of responsibility. In fact, Individual D, Individual A, and Individual P, who were involved in the Incident, had been in charge of the groups in charge of business with Company a and c, and the group in charge of business with Company b, respectively, for many years. Furthermore, Individual S and Individual T, whose actions were detected through other investigations, were involved in transactions with Company e for a long period of time. Keeping in mind the goal of preventing a recurrence of this incident, rules should be established regarding the periodic rotation of sales representatives, as well as the SM, and GM positions.

(7) Ensuring the Effectiveness of Bookkeeping Investigations of Licensees

As stated in Section VIII. 1. (2) (b), when selecting licensees for bookkeeping investigations, risk was to be considered based on the number of years of continuous business and sales volume. However, the rules for bookkeeping investigations, including the relevant selection criteria, were not clearly stated within Sanrio, and in reality, the selection was based on the relationship with the company and whether they would cooperate with an investigation. From the viewpoint of ensuring the effectiveness of bookkeeping investigations of licensees, measures should be taken to prevent the licensee selection process from becoming a black box. An operational manual should also be created in order to clearly state the overall implementation methods, including the selection of bookkeeping investigation subjects, and allow for subsequent verification by a third party.

In addition, leaving aside the impact of the COVID-19 pandemic, only two bookkeeping investigations have been conducted in the past five years, and it is questionable whether sufficient checks and balances were exercised on either the Sales Department or the licensees. In this regard, the number of investigations should increase to the extent that checks-and-balance can be expected to function properly, and at the very least, operational manuals should be created to clarify matters and ensure implementation. In addition, it is advisable to consider incorporating this into internal controls from the perspective of having licensees report accurate royalty payments.

## 2. Review of the Internal Audit System

Internal audits should consider the following improvements associated with the issues listed in Section VIII. 1. (3)

### (1) Develop Operations Audit Procedures That Will be Revised in Response to Recurrence Prevention Recommendations

It will be necessary to review the ineffective assessment procedures for the design evaluation of internal inspection controls corresponding to the new workflow and segregation of duties recommended above as measures to prevent recurrence.

In particular, it will be necessary to ensure that departmental rules and manuals, used by operational personnel and consistent with the J-SOX 3-Point Set, are appropriately prepared, understood, and put into practice by operational personnel.

### (2) Identification of Fraud Risks in Audit Procedures Associated With The Incident

If the current practice is to be continued, whereby vouchers submitted by licensees in the license report system are compiled on paper or in the form of Excel data prepared by the licensee's staff, fraud risks from the perspectives of the existence, completeness, and appropriateness of attribution timing of sales, as well as the accuracy of sales amounts,

similar to the Incident in question, should be identified, and new audit procedures corresponding to such risks should be developed.

In particular, it will be important to understand the process and details behind the creation and acquirement of the Backup Data sent by the licensee, and to examine whether there is any risk of falsification by the licensee or sales representatives in the License Business Division. Once that has been accomplished, an audit should be conducted using not only the Royalty Report but also the Backup Data as evidence.

(3) Appropriate Information Sharing with the Administration Department During Bookkeeping Investigations

In the bookkeeping investigation conducted by the License Business Division Administration Department, it should be expected that the selection criteria applied to the subject licensee, implementation procedures, and matters detected will be shared in a timely and appropriate manner.

Among other things, the following coordination efforts are encouraged: encouragement of the Administration Department to raise the priority of licensees who are not properly submitting Backup Data; and joint investigations into whether there is any manipulation of sales attribution timing when differences exist between the licensee's and Sanrio's recognized reporting amounts.

3. Review of Internal Reporting System

As described in Section VIII. 1., Sanrio had an independent internal reporting system that included outside entities. However, even those employees who had misgivings about the Incident did not use the internal reporting system.

From the viewpoint of preventing the recurrence of improper accounting treatment such as that used in the Incident in question through the use of the internal reporting system, efforts should be made to raise awareness within the company by educating employees on the use of the internal reporting system by clarifying that the potential subject matter includes accounting irregularities and other legal violations, etc.

4. Efforts to Improve Organizational Culture and Climate

(1) Review of the Budget Formulation Process in the License Business Division

As described in Section VIII. 3. (3) above, the License Business Division set the budget by multiplying the previous year's results by a certain growth rate.

As a for-profit company, the orientation toward continued growth is in itself a sound attitude. And doing one's best to achieve the budget is part of fulfilling obligations to investors. However, if growth compared to the previous year's performance is always set as the target, employees feel pressure to achieve that target even when the business environment is difficult. At the same time, the desire to lower the standard for setting the

following year's sales target may create an incentive to underreport sales that exceed the budget in order to make the achievement of the following year's target more feasible.

As mentioned in Section VIII. 3. (2), when Sanrio formulated its New Vision, Mission, and Values in its medium-term management plan in 2021, the company revised its budget formulation method, which was to multiply the previous year's actual results by a certain growth rate, setting the budget based on a rational business plan instead of using the previous year's results as a starting point. They also worked to improve organizational support, rather than leaving the achievement of the budget to the sales representative in question. In order for Sanrio to achieve further growth and prevent the recurrence of similar incidents, the current sales management policy should be fully disseminated throughout the company, including the License Business Division, and systematic efforts should be made to achieve the budget.

As part of this process, measures currently being introduced, such as 360-degree evaluations of upper management, questionnaires administered to employees, and other means, should be used to periodically verify whether excessive pressure is being exerted to achieve the budget.

- (2) Review of How Sales Forecasting Accuracy is Ensured in the License Business Division
- Listed companies are required to immediately announce revisions to their earnings forecasts if it becomes clear that certain deviations from the forecasts announced at the beginning of the fiscal year will occur.<sup>25</sup> In order to fulfill this obligation, it is necessary to continuously monitor and update sales forecasts throughout the period.

Accurate sales forecasting is also a prerequisite for making timely decisions such as additional investment of management resources to achieve budgets.

However, in licensing transactions, it is inevitable that monthly sales results will ultimately not match forecasts due to changes in the licensee's production plan schedule and other factors. In such situations, if excessive demands are made of employees to ensure the accuracy of sales forecasts, which in turn motivates them to manipulate sales

---

<sup>25</sup> Article 405, Paragraph 1 of the Tokyo Stock Exchange Listing Regulations stipulates the following: A listed company shall immediately disclose any differences (only those that meet the criteria specified in the Enforcement Rules as having a significant impact on investors' investment decisions) in sales, operating income, ordinary income, or net income (if the listed company is a voluntary adopter of IFRS, net sales, operating income, income before income taxes, net income or net income attributable to owners of the parent) of the corporate group to which the listed company belongs, if any, in the newly calculated forecast (in the absence of such forecast, the actual results for the previous fiscal year in which the announcement was made) by the listed company or in the financial results for the current fiscal year compared to the most recent forecast that has been made public.

attribution timing, the original purpose of sales forecasting may be undermined.

According to the interviewees, Sanrio current company-wide policy on sales management is to not require monthly sales forecasts to be accurate, but to allow for deviations in forecasts within a certain period of time. In the future, it is expected that this policy will be fully disseminated throughout the company to create a culture in which each person in charge does not feel undue pressure to ensure the accuracy of monthly forecasts.

In addition, measures currently being introduced, such as 360-degree evaluations of upper management, questionnaires administered to employees, and other means, should be used to periodically verify whether the instructions given to employees regarding the guarantee of sales forecast accuracy are causing undue pressure.

### (3) Efforts to Raise Compliance Awareness

#### a. Message From Top Management

For a listed company to properly conduct its business, it is essential that its employees have an established awareness of compliance. In order for Sanrio to regain the trust of the capital markets, it is essential that the company understands the importance of proper accounting practices, including the proper recording of sales, and puts them into practice in its daily operations.

Sanrio top management, well aware of the importance of compliance in a listed company, should clearly communicate and personally practice the following as corporate policy: compliance must be observed in conducting corporate activities; and any instruction or action that constitutes a compliance violation will not be permitted, no matter who issues the instruction.

#### b. Add a Section on Compliance to the Personnel Evaluation Criteria.

In its personnel evaluations, Sanrio evaluates adherence to compliance standards as an awareness under capabilities for regular employees, and as an evaluation item that plays a part in a multi-faceted evaluation for managerial employees. However, as noted above, awareness of the need for compliance is not firmly established among Sanrio executives and employees, and may not be recognized as important for personnel evaluation purposes.

From the perspective of preventing the recurrence of improper accounting practices such as those at issue in the Incident at Sanrio, more emphasis should be placed on compliance in the evaluation items used in the personnel evaluation standards. It should be clearly stated that executives and employees who do not strictly adhere to compliance standards will not be evaluated.

#### c. Compliance Education and Training

Although the compliance education and training provided at Sanrio covered such topics as anti-harassment measures, it appears that the content was not always sufficient to foster compliance awareness, including the acquisition of knowledge regarding legal compliance.

From the perspective of thoroughly preventing the recurrence of the incident at Sanrio, one option would be to foster a company-wide awareness of accounting compliance by, for example, conducting regular and continuous training on accounting procedures. In doing so, the content of the training could include the following topics to be considered and understood: which internal and external rules regarding accounting procedures are relevant; what action should be taken when faced with the Incident similar to this one; and, why it is important to, using timely accounting procedures, disclose to shareholders the true state of the company as of the end of the fiscal year/quarter.

The compliance required of listed companies is wide-ranging and not limited to accounting issues such as this one. Considering that Sanrio has not been able to adequately develop compliance education and training in the past, there is a concern about the lack of expertise in implementing such initiatives in-house. One option would be to seek advice and cooperation from third-party compliance experts as appropriate.

5. Monitoring of the Implementation of Recurrence Prevention Measures by the Organizational Body Responsible for Compliance

Sanrio had established the Sanrio Joint Compliance Committee. The committee was chaired by a Sanrio director and included members from each group company. The committee decided on compliance-related themes and conducted self-evaluations within the group. However, the frequency of these meetings was limited to once a year during the investigation period, due in part to the fact that the committee members were executives from group companies.

From the perspective of thoroughly preventing the recurrence of improper accounting treatment such as that discovered in the Incident at Sanrio, it is recommended that a department in charge of compliance be established to engage in compliance activities at all times. It is also recommended that Sanrio establish a system that enables regular and continuous implementation of compliance activities by reinforcing functions, such as assigning a person who is constantly engaged in compliance activities to the Joint Compliance Committee. The department that is constantly engaged in compliance activities is expected to monitor the implementation status and effectiveness of the initiatives described in Sections IX. 1. through IX. 4. above, and to link this to ongoing efforts to improve effectiveness.

Considering the possibility that Sanrio may not be able to obtain the necessary knowledge for its internal compliance activities as mentioned above, it is recommended that Sanrio also consider engaging a third-party expert to provide advice on the content

of necessary compliance activities, verification methods, and recommendations for improvement measures, etc., as necessary.

END

## Appendix 1: List of Interviewees

### 1. Internal Parties Involved

No.	Target Name	Affiliation and Title	Status	Times Interviewed
1	Individual A	Sanrio Group SM in charge of Company a and Company c	Employed	2
2	Individual B	Sanrio GM of Sales Department A	Employed	1
3	Individual C	Sanrio Former group member in charge of Company a and Company c	Employed	2
4	Individual D	Sanrio Former GM of Sales Department A	Employed	2
5	Individual E	Sanrio Former group member in charge of Company a and Company c	Retired	2
6	Individual F	Sanrio Group section staff in charge of Company a and Company c	Employed	2
7	Individual G	Sanrio Former general manager, License Business Division	Retired	1
8	Individual H	Sanrio Former general manager, Licensing Division	Retired	1
9	Individual I	Sanrio General manager and executive officer, License Business Division	Employed	1
10	Individual K	Sanrio Executive officer	Employed	1
11	Individual L	Sanrio Deputy general manager and executive officer, License Business Division	Employed	1
12	Individual M	Sanrio Former group member in charge of Company b	Employed	1
13	Individual N	Sanrio SM, Administration Section, Administration Department	Employed	1
14	Individual P	Sanrio Former group SM in charge of Company b	Employed	2
15	Individual Q	Sanrio Former group SM in charge of Company b	Employed	2
16	Individual R	Sanrio Former group member in charge of Company a and Company c	Employed	2
17	Individual S	Sanrio Former group SM in charge of Company e	Retired	1
18	Individual T	Sanrio Former group SM in charge of Company e	Employed	1
19	Individual U	Sanrio Former group member in charge of Company e	Employed	1
20	Individual V	Sanrio Former group member in charge of Company g	Employed	1
21	Individual W	Sanrio Former group member in charge of Company b	Employed	1
22	Individual X	Sanrio Former group member in charge of Company b	Employed	2

18 others

### 2. Customers

Company a - 2 persons, Company b - 4 persons, Company c - 3 persons, Company d - 1 person



## Appendix 2: Digital Forensic Investigation Overview

The Committee directed its assistant, DTFA, to conduct a digital forensic investigation. The electronic data relevant to this investigation was extracted through the process described in the table below and used as evidence in the inquiry conducted by the Committee.

**Table 1: Digital Forensic Investigation Contents**

Process	Operations																																																																		
<b>Data Integrity</b>	<p>Computers, iPhones, and iPads used by the following targets were retained in the DTFA forensics team lab. DTFA retained each target’s mail server data and Microsoft Teams chat data extracted from Office365 by IT staff. IT staff restored the file servers from the backups of areas assigned to the License Business Division. The DTFA then received and retained the restored data.</p> <p>DTFA received the computers of targets1 and 3 from Sanrio Head Office, as they had been collected from the targets and kept in custody at the General Affairs Division. Once received, DTFA took them back to the lab where they began work to preserve data integrity.</p> <p>Upon receiving the iPhones and iPads of targets 1 through 10 from the Sanrio Head Office, where they had been collected by the General Affairs Division, DTFA took them to the lab and began preservation operations.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">No.</th> <th style="text-align: center;">Name</th> <th style="text-align: center;">PC</th> <th style="text-align: center;">iPhone</th> <th style="text-align: center;">iPad</th> <th style="text-align: center;">E-mail</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>Individual A</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">2</td> <td>Individual C</td> <td style="text-align: center;">0(*4)</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">3</td> <td>Individual D</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0(*1)</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">4</td> <td>Individual E</td> <td style="text-align: center;">0(*3)</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">5</td> <td>Individual F</td> <td style="text-align: center;">0(*4)</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">6</td> <td>Individual K</td> <td style="text-align: center;">0(*4)</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">7</td> <td>Individual P</td> <td style="text-align: center;">0(*4)</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">8</td> <td>Individual Q</td> <td style="text-align: center;">0(*4)</td> <td style="text-align: center;">0(*2)</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">9</td> <td>Individual W</td> <td style="text-align: center;">0(*4)</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> </tr> <tr> <td style="text-align: center;">10</td> <td>Individual X</td> <td style="text-align: center;">0(*4)</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> </tr> </tbody> </table> <p>(*1) Data applicable to the investigation was not found on the device            (*2) The device used was returned and reset to factory settings upon transfer to an affiliated company            (*3) Reset to factory settings upon retirement            (*4) The Committee determined that retention was unnecessary</p>	No.	Name	PC	iPhone	iPad	E-mail	1	Individual A	1	1	1	1	2	Individual C	0(*4)	1	0	1	3	Individual D	1	1	0(*1)	1	4	Individual E	0(*3)	1	0	1	5	Individual F	0(*4)	1	0	1	6	Individual K	0(*4)	1	1	1	7	Individual P	0(*4)	1	0	1	8	Individual Q	0(*4)	0(*2)	0	1	9	Individual W	0(*4)	1	0	1	10	Individual X	0(*4)	1	0	1
No.	Name	PC	iPhone	iPad	E-mail																																																														
1	Individual A	1	1	1	1																																																														
2	Individual C	0(*4)	1	0	1																																																														
3	Individual D	1	1	0(*1)	1																																																														
4	Individual E	0(*3)	1	0	1																																																														
5	Individual F	0(*4)	1	0	1																																																														
6	Individual K	0(*4)	1	1	1																																																														
7	Individual P	0(*4)	1	0	1																																																														
8	Individual Q	0(*4)	0(*2)	0	1																																																														
9	Individual W	0(*4)	1	0	1																																																														
10	Individual X	0(*4)	1	0	1																																																														
<b>Narrowing Down Data for</b>	Out of the retained data, mail server data and Microsoft Teams chat data from targets 1-10, as well as the iPhones and iPads of targets 1, 3, 4, 6, 7 were processed. The																																																																		

<b>Process</b>	<b>Operations</b>
<b>Review</b>	<p>processed data was then uploaded (1,833,381 cases) to a private review platform, and the following criteria was used to narrow down the targets for each target.</p> <ul style="list-style-type: none"> <li>(1) Period: April 1, 2017 to date of retention</li> <li>(2) Keyword: 60 keywords related to sales records</li> </ul> <p>A search was conducted using the above criteria, and of the 150,333 documents, applicable ones were reviewed.</p>
<b>Document Review</b>	<p>Each DTFA reviewer reviewed documents by tagging documents as Hot or Relevant in accordance with the review protocol criteria, which specified the criteria for extracting documents relevant to the Investigation. The Committee then reviewed documents tagged as Hot and Relevant.</p> <p>Attached files were also reviewed in cases where the body of the e-mail was found to be relevant to the Investigation. A total of 156,129 documents were reviewed.</p> <p>A total of 504 cases (199 Hot and 305 Relevant) of relevant data were extracted.</p>

Appendix 3: Status of Sent and Collected Questionnaires

Target Company	Number of Targets	Date Mailed	Collected Responses	Uncollected Responses	Collection Rate
Sanrio	165	February 22, 2023	158	7	96%
SFE	8	February 22, 2023	8	0	100%
Sanrio Korea	9	February 24, 2023	9	0	100%
Sanrio WAVE Hong Kong	7	February 27, 2023	7	0	100%
Sanrio Taiwan	14	March 3, 2023	14	0	100%
Total	203	-	196	7	-

\*Two of the seven parties that had unclaimed responses from Sanrio could not answer due to being on standby at home from matters pertaining to the Incident. The other five parties were unable to answer due to being on childcare leave. Therefore, the committee evaluated the actual collection rate to be 100%.