



June 14, 2023

To Whom It May Concern

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[Delayed] Notice Concerning Establishment of Measures to Prevent Recurrence

As announced in the Sanrio Company, Ltd. (“Company”) timely disclosure published March 16, 2023, *Notice of Establishment of Measures to Prevent Recurrence and Future Response Policies*, the Company learned that sales had been manipulated by pooling royalties and intentionally recording said royalties in the wrong month in the Domestic License Business¹ (the “Case”). We understand the Case is a serious matter, studying and implementing measures to prevent the recurrence of similar cases or the occurrence of new misconduct. These measures take into consideration details of the report received from the Special Investigation Committee that investigated the facts of the Case.

The Compliance Reinforcement Committee completed a study of measures to prevent recurrence, and the Company’s Board of Directors passed a resolution at a meeting held today concerning the formulation of said measures.

We ask for your understanding as we undertake company-wide efforts to restore the trust of our business partners and stakeholders.

Note1: In April 2023, the former License Business Division and the former Product Sales Business Division were merged to newly establish the Domestic Sales Division.

Overview of Recurrence Prevention Measures

1. Strengthening and Improving Internal Controls
 - 1) Change in the department receiving royalty reports and adoption of a mechanism to verify report completeness

The Company changed responsibilities for receiving royalty reports to a separate department from the sales department. In addition, we introduced a checklist to prevent the omission of sales or the falsification of entries.
 - 2) Operating manuals and training for Domestic Sales Division staff

The Company has prepared an operating manual for managing royalty reports. We held briefing sessions for all staff members who deal with reporting license transactions. We will continue to conduct training and education in the future.

3) Backup data review rules for the Administration Department within the Domestic Sales Division

In addition to encouraging licensees to submit detailed backup data in support of royalties, we added a task for staff in the Administration Department within the Domestic Sales Division to perform a secondary review to conduct a preliminary review to confirm that the details of Royalty Reports are consistent with backup data.

4) Systems for strengthening and improving internal controls

We are in the process of defining requirements for implementation over the second half of the fiscal year ending March 31, 2024.

5) Personnel rotation system

For some time, the Company has been rotating senior managers (SM) and general managers (GM) after a maximum of three two-year terms under the framework of our personnel assignment system. We have decided to implement this system for regular personnel transfers for employees at positions below SM and GM levels.

6) Ensuring the effectiveness of bookkeeping investigations of licensees

The Company designated the Legal Affairs Department as the department responsible for managing bookkeeping investigations. By involving the Legal Affairs Department in the process for selecting targets of bookkeeping investigations, we designed a business process to prevent the arbitrary selection of targets and stated clearly in the related manual that multiple bookkeeping investigations must be conducted annually.

2. Internal Audit System Review

1) Updating documents, etc., required for internal control audit procedures and planning audit procedures

The Company completed updating documents, etc., required for internal control audit procedures for the business processes changed as a result of the Case. We intend to develop audit procedures for the fiscal year ending March 31, 2024, based on these updated documents. The audit plan was approved by the Risk Management Committee on April 27, 2023.

2) Fraud risk identification

We included an audit of the appropriateness of recorded sales in the internal audit plan as an audit category to be implemented this fiscal year. The fraud risk identified addresses the factuality of sales, completeness, appropriateness of attribution to periods, and accuracy of amounts not only for the former License Business Division, but also for company-wide sales processes. We intend to scrutinize and review the current risk controls for business processes subject to J-SOX.

3) Information sharing with the Administration Department within the Domestic Sales Division related to bookkeeping investigations

We included an audit of the appropriateness of bookkeeping investigations of licensees as an audit category for the audit plan to be conducted this fiscal year.

3. Internal Reporting System Review

Outside directors and corporate auditors will be involved actively in the internal reporting process. At the same time, we will implement a flow system to manage reports received through multiple reporting channels centrally. We also clarified escalation criteria to ensure that all important reporting issues, without omission, are discussed within the Joint Compliance Committee. Our new internal reporting process is scheduled to be operational on October 1, 2023.

4. Measures to Improve Organizational Culture and Climate

1) Review of the budget formulation process in the former License Business Division

We changed our budget formulation process from budgets based on a simple year-to-year comparison to budgets incorporating strategic initiatives and information from the external environment, including overall market and channel trends.

2) System to prevent undue pressure to achieve sales in the former License Business Division

We plan to introduce sales support tools and systems that allow for the input and aggregation of estimates and probabilities for each contract, making it easier to aggregate sales estimates related to the actual situation on the ground.

3) Initiatives to raise compliance awareness

i. Education and training

We conducted 60-minute in-person training sessions and distributed training videos for internal executives. We also measured the effectiveness of the training. In addition, we provided training for all employees.

ii. Compliance officer

We intend to appoint a compliance officer who will be responsible for identifying compliance risks, formulating measures to raise compliance awareness, following up on compliance (including training session attendance), cooperating with investigations, and responding to cases of compliance violations. We revised and clarified the roles and responsibilities of the compliance officer in our regulations and operating manuals.

iii. Regular communications from top management

President and CEO will communicate information, including compliance-related matters, via the company intranet approximately once every half year. We will ensure that all directors and employees clearly understand the Company's approach to compliance and that compliance violations will not be tolerated.

iv. Personnel evaluation standards

To provide appropriate incentives for compliance, we developed clear standards that incorporate quantitative indicators. We also conducted a review of compliance-related evaluation categories within our personnel evaluation system. We expect to reflect these changes in our personnel evaluation system beginning in fiscal 2024.

v. Compliance questionnaire categories

We revised our compliance self-assessment, adding categories related to overall compliance. This update encourages the cycle of monitoring changes in compliance awareness among employees and implementing improvements when necessary.

vi. Self-assessments

We created a self-assessment check sheet for use in our corporate headquarters in addition to the compliance questionnaire described above to provide opportunities for personnel to confirm whether operations are in accordance with rules. We will conduct checks quarterly.

5. Compliance Functions

1) A New division in charge of compliance

We are in the process of establishing a new division in charge of compliance that will serve as a specialized department engaged in overall compliance activities at all times to ensure comprehensiveness, acceptance, and ongoing improvement in overall compliance throughout the Company. Once established, the division will be responsible for

- Implementation of compliance education and training
- Regular top management messages regarding compliance
- Monitoring activities to ensure that compliance awareness becomes a familiar part of our business
- Planning and implementation of other compliance activities.

In preparation for the official launch of this division on October 1, 2023, we established a preparatory office within the Company to study the appropriate structure for these tasks, secure personnel, and monitor the progress of measures to prevent recurrence until the launch.

2) Joint Compliance Committee effectiveness

We intend to review the composition of the Joint Compliance Committee, and ensure the committee includes members from outside the Company. We expect the schedule for reconstituting the Joint Compliance Committee to coincide with the establishment of the division in charge of compliance (October 1, 2023).

END