



May 29, 2026

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Notice Regarding Receipt of the Investigation Report from the Special Investigation Committee Regarding Allegations of Improper Compensation Received by a Managing Director and the Company's Future Course of Action

As described in "Notice Regarding Allegations of Improper Compensation Received by a Managing Director" dated April 16, 2026 and in "Notice Regarding the Establishment of a Special Investigation Committee and Delay in Disclosure of the Financial Results for the Fiscal Year Ended March 2026 Beyond 50 Days After the Fiscal Year-End" dated May 1, 2026, allegations arose that a Managing Director had received additional remuneration from a Group subsidiary under his executive responsibility, beyond the amount determined by the Nomination and Remuneration Advisory Committee. Accordingly, Sanrio Company, Ltd. (the "Company") determined that it would be appropriate to proceed under a framework that ensures greater independence and objectivity in order to clarify the relevant facts, determine whether similar incidents existed, and identify the causes and related issues. Therefore, on May 1, the Company established a Special Investigation Committee composed of external experts such as an attorney and a public accountant. The Committee has taken the lead in the investigation.

Today, the Company received an investigation report regarding this matter from the Special Investigation Committee and hereby announces the details as follows.

Details

1. Summary of the Investigation Results Received from the Special Investigation Committee

This matter concerns various benefits received from the U.S. subsidiary by a Managing Director of the Company in his capacity as CEO of its U.S. subsidiary (Sanrio Inc.), specifically benefits (primarily COLA (Cost of Living Adjustment) Bonuses, etc.) paid separately from the compensation determined by the Company's Nomination and Remuneration Advisory Committee.

The Special Investigation Committee's investigation confirmed that the relevant director received COLA bonuses on multiple occasions between 2023 and 2026, and it was also confirmed that financial benefits, such as tuition for a doctoral program, were provided. The total amount of financial benefits provided to the relevant director amounts to USD1,682,018. (JPY252,302,700, calculated at an exchange rate of USD1 = JPY150).

Furthermore, it has been confirmed that the formal approval procedures by the Board of Directors or the compensation committee required within the U.S. subsidiary were not fully carried out for these payments, and that they were implemented based on informal consultations among senior management. In addition, it was confirmed that no prior approval or systematic reporting regarding these payments was provided to the Company.

To add to the above, it has been confirmed that similar bonuses were paid to officers (at the time) other than the relevant director at the U.S. subsidiary without the formal approval procedures being fully carried out.

Based on these facts, the Special Investigation Committee pointed out the following; the approval procedures regarding compensation payments at the U.S. subsidiary in question were not fully implemented and internal controls not functioning effectively; a situation existed where internal controls regarding the determination of compensation for directors by the Company and the U.S. subsidiary were circumvented as a result of decisions being made based on informal consultations and judgments by senior management; and, the Company itself had not sufficiently established mechanisms to grasp and manage overall compensation, including that of its subsidiaries, and that group-wide controls were not functioning effectively.

As described above, this matter is assessed as a case involving a combination of issues regarding the operation of compensation governance and internal controls within the Group, including instances where deviations from internal controls by the Company and the relevant U.S. subsidiary were identified in the decision-making process by senior management of the U.S. subsidiary.

It has been determined that the following factors primarily interacted with one another in the context of this matter.

- Individual level: The director's and the relevant U.S. subsidiary officers' lack of understanding regarding the compensatory nature of the COLA system and the related reporting requirements. Furthermore, subjective justifications based on the interpretation that such payments were not subject to reporting, together with the shared acceptance of that interpretation, resulted in operational practices that circumvented internal control procedures
- System level: Ambiguity in the rules governing compensation controls and information sharing between the Company and subsidiaries
- Organizational level: The ease with which senior executives at the U.S. subsidiary could make discretionary decisions and the limited opportunities for correction

Due to these factors, it is recognized that an environment had been created in which effective compensation controls were difficult to maintain.

Details are provided in the attached "Investigation Report (Executive Summary)."

2. Impact on Financial Results

Although the audit by our independent auditors is still ongoing, as of now, the aforementioned benefit amounts paid to the director in question have already been recorded as expenses of the relevant U.S. subsidiary (Sanrio Inc.) in the respective fiscal years, and no misstatements have been identified in the Company's consolidated financial results or the financial results of the relevant U.S. subsidiary.

In the fiscal year ending March 2027, investigation costs and other expenses related to this matter will be incurred, but the impact is expected to be minimal.

3. Response of the Company

i. Correction to the "Total Amount of Consolidated Compensation, etc., by Officer" in Annual Securities Reports for Previous Fiscal Years

Based on the findings of the Special Investigation Committee, as soon as the calculation and verification of the amount to be added to that item regarding the compensation of the director in question have been completed, the Company will promptly submit an amended securities report so that the compensation amount for the relevant director is added.

ii. Measures Regarding the Relevant Director and Key Executives

The director in question offered to resign, and the Board of Directors resolved at its meeting held today to accept the resignation, which will take effect as of today.

The Company takes the occurrence of this matter very seriously and has decided on the following measures regarding the relevant officers.

President and CEO	Return of 30% of monthly compensation (for three months)
Senior Managing Director	Return of 10% of monthly compensation (for one month)

In addition, the Company is currently examining appropriate measures with respect to former officers of the U.S. subsidiary, taking into consideration the nature of their involvement in this matter.

iii. Measures to Prevent Recurrence

The Company recognizes this matter as a serious incident and takes seriously the findings, cause analysis, and recommendations of the Special Investigation Committee. To strengthen governance across the entire Group, the Company has formulated the following measures to prevent recurrence and will implement them sequentially.

A) Clarifying the Roles of Head Office Directors and Ensuring Effectiveness through Appropriate Staffing

- In order to place certain restraints on the concentration of authority in a specific individual and situations in which internal controls are circumvented — identified as the root causes of this incident — the role of head office directors will be focused on management oversight functions, and their concurrent appointment to subsidiary executive responsibilities (i.e., subsidiary CEO positions) will be discontinued.
- A framework and appropriate staffing structure will be established in which the roles of “oversight of execution” and “execution itself” are separated and entrusted to different individuals, thereby preventing excessive concentration of authority in a specific individual as well as misconduct, including information manipulation.
- The Company will appoint directors who possess the qualities necessary to ensure compliance with laws and regulations, avoid biased judgments, and exercise fair management by maintaining a broad perspective. Moreover, the Company will review the structure of the Nomination and Compensation Advisory Committee to enable rigorous evaluations that incorporate objective perspectives.

B) Clarification of Controls Regarding Compensation for Directors of Overseas Subsidiaries

- The Company will clarify the meaning of executive compensation determined by the head office and define the compensation amount determined by the head office Nomination and Remuneration Advisory Committee as the total amount of all monetary compensation that the directors may receive through the Company’s and subsidiaries.
- Payments exceeding this total amount shall not be permitted in principle; in exceptional cases where necessary, prior approval by the Company Board of Directors or the Nomination and Remuneration Advisory Committee shall be mandatory.

C) Addition of a Reporting Line to the Company for CFOs of Overseas Subsidiaries

- The Company will establish a “Group CxO structure” as soon as possible and, by adding a dotted report line (indirect reporting line) from each function of overseas subsidiaries to the Company, provide executive support and management oversight

from the Company CxOs to the subsidiaries (envisaging functions such as Finance, HR, IT/DX, Legal, and Marketing).

- The Company will strengthen the management, checks, and controls of subsidiaries and establish a framework to prevent accounting fraud by having subsidiary CFOs report to the Head Office CFO function on a dotted-line basis.
- D) Strengthening Subsidiary Management and Supervision by the Company
- The Company will strengthen subsidiary management and supervision more than ever before by reviewing the Company's regulations governing the management of overseas affiliates and the decision-making procedures for overseas affiliates, and by increasing the level of involvement in the decision-making and approval of important matters regarding subsidiary operations.
 - Specifically, the Company will expand the scope of definition for important matters arising during the execution of a subsidiaries' annual business plans—such as “expenses or investments exceeding a certain amount” and “the hiring, transfer, dismissal, or evaluation of executives and other key personnel”. Additionally, the Company will manage resolutions and reporting through the Company's Board of Directors and its advisory bodies, which are the Company's decision-making bodies.
 - Regarding executive compensation at subsidiaries, the Company will introduce rules such as requiring prior approval from the Company for payments exceeding a certain amount or for exceptional payments and mandating regular reporting on all executive compensation payments.
- E) Strengthening Approval Procedures at Overseas Affiliates
- The Company will review the decision-making regulations at overseas affiliates to ensure that important executive judgments and decisions are made with greater transparency and strictness within the subsidiaries.
 - Specifically, the Company will review the financial thresholds, approvers, decision-making bodies, and reporting destinations specified in the regulations, and ensure strict implementation of annual business plans, proper record-keeping, and regular reporting to the Company.
- F) Strengthening the Implementation of the Above Regulations (The Company's Regulations / Subsidiary Regulations)
- The Company will ensure that the “Overseas Executive Management Committee,” established as an advisory body to the Company's Board of Directors, receives thorough reports from subsidiaries regarding the content of reports and resolutions made at subsidiary board meetings, as well as meeting minutes.
 - The Company will further strengthen the information management infrastructure of the "Overseas Executive Management Committee" and enhance the infrastructure that facilitates the collection and recording of information from subsidiaries, as well as centralized management across subsidiaries.
- G) Strengthening Internal Checks and Balances at Overseas Affiliates
- The Company will also review the composition of the Company's Board of Directors. By ensuring the involvement of individuals who maintain a certain degree of independence from local management (such as executives and employees at the Company), we will establish a structure that guarantees an effective system of checks and balances.
 - The Company will make formal approval by the Company's Board of Directors mandatory for executive compensation.

- The Company will establish an Overseas Subsidiary Compensation Committee and clarify its authority and procedures.
- The Company will ensure thorough documentation of minutes, approval records, and allocation at subsidiaries rationale to ensure auditability.
- The Company will clearly separate the functions of proposal, financial verification, independent review, and final approval to prevent stakeholder interference and eliminate a structure of mutual decision-making in the decision-making process.

H) Strengthening Education and Monitoring of the Company's Executives

- The Company will provide systematic training to the Company's executives on topics such as "head office-determined compensation is total compensation including that of subsidiaries," "the concept of compensation management on a consolidated basis," "duty of care and reporting obligations," and "the fact that informal approvals and practices are not permitted."
- Relevant departments at the Company will collaborate to clarify the division of roles regarding compensation controls, establish functions responsible for "verifying the legality of compensation" and "verifying the appropriateness of the approval process," and shift from an administrative function to a control function.
- Based on the three-line model concept, the Company will ensure the effectiveness of the daily monitoring system through self-checks by the first line and reviews by the second line.
- From the perspective of identifying control deviations at an early stage, we will strengthen the global internal whistleblowing system by ensuring anonymity, accessibility, and protection for whistleblowers, while also thoroughly promoting awareness of the system, and the Company will clarify that the Company's internal reporting channel is one of the reporting routes for matters concerning management at overseas subsidiaries, and ensure that all officers and employees of overseas subsidiaries are fully aware of this.

I) Qualitative Enhancement of the Internal Audit System

- In the relevant U.S. subsidiary, internal controls such as compensation determination process existed in form but were not functioning effectively. The Company will qualitatively strengthen the internal audit system.
- Specifically, the Company will conduct regular audits focusing on compensation governance and reporting and approval processes between the Company and subsidiary companies.
- The Company will introduce risk-based audits targeting executive compensation and other high-importance benefits and prioritize the verification of areas with a high risk of control deviations.
- The Company will ensure that audit results are thoroughly reported to the Board of Directors and enhance the effectiveness of our checks and balances by strengthening follow-up on corrective actions for identified issues.

In line with the globalization of the business environment and the promotion of our medium-term management plan and long-term vision, the Company has been advancing reforms across the entire Group since previous fiscal years. Measures to prevent recurrence will be implemented in addition to the reforms undertaken to date, and the Company believes that these management and governance reforms will be further strengthened and accelerated.

4. Regarding the Announcement of Financial Results for the Fiscal Year Ended March 2026

As stated in the “Notice Regarding the Establishment of a Special Investigation Committee and the Disclosure of the Financial Results for the Fiscal Year Ended March 2026 Exceeding 50 Days After the Fiscal Year-End” disclosed on May 1, 2026, the Company has postponed the announcement of the financial results for the fiscal year ended March 2026, which was originally scheduled for May 13.

Based on the findings of the Special Investigation Committee, an audit of the Company’s consolidated financial statements by the Company’s Accounting Auditor will be continuously conducted. As a result, the Company currently expects to announce the financial results in late June. The Company will promptly announce the official announcement date once it is determined, after confirming the status of the audit.

We would like to once again express our deepest apologies to our shareholders, investors, business partners, and all other stakeholders for the significant inconvenience and concern this matter has caused. We take this matter very seriously and are committed to restoring trust by thoroughly implementing measures to prevent recurrence and strengthening governance across the entire Group.

End

Note : This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

May 29, 2026

To: Sanrio Company, Ltd.

Investigation Report (Executive Summary)

Special Investigation Committee

Chairperson: Kiyoko Morikawa

Member: Takeshi Yoshida

Member: Yasunori Sato

Section 1. Background to the Establishment of the Special Investigation Committee

In late February 2026, Sanrio Company, Ltd. (“**Sanrio**”) received a report from local personnel raising questions regarding the consistency between the executive compensation terms determined by Sanrio and the actual operation of executive compensation at Sanrio Inc., Sanrio’s U.S. subsidiary (the “**U.S. Subsidiary**”).

In response to the report, Sanrio promptly commenced an initial internal investigation and proceeded to ascertain the facts through review of relevant materials, interviews with relevant persons and other steps. In the course of that process, Sanrio became aware of the possibility that Sanrio’s Senior Managing Director, who concurrently served as director and CEO of the U.S. Subsidiary (the “**Sanrio Senior Managing Director**”), had received certain monetary benefits from the U.S. Subsidiary in his capacity as director and CEO of the U.S. Subsidiary, separately from the compensation determined by Sanrio (the “**Compensation Receipt Matter**”).

Thereafter, in March 2026, Sanrio’s Nomination and Compensation Advisory Committee shared information and conducted an initial review regarding the Compensation Receipt Matter. In light of the need for further examination of the facts and legal analysis, Sanrio also established a framework to continue the investigation with the assistance of external experts.

Further, following reporting and discussion at the Board of Directors meeting held in April 2026, Sanrio made an external announcement regarding the status of the investigation into the Compensation Receipt Matter.

In light of these circumstances, and because the scope of the matters subject to investigation had expanded, Sanrio determined that it would be appropriate to proceed with the investigation under a framework designed to ensure greater independence and objectivity. Accordingly, at an extraordinary meeting of the Board of Directors held on May 1, 2026, Sanrio resolved to establish a Special Investigation Committee chaired by an outside officer (the “**Committee**”) and to conduct an investigation into the Compensation Receipt Matter and the existence of any similar matters (the “**Investigation**”).

Section 2. Overview of Matters Subject to Investigation

The subject of the Investigation was the economic benefits, principally COLA (cost-of-living adjustment) bonuses and similar benefits, that the Sanrio Senior Managing Director received from the U.S. Subsidiary in his concurrent capacity as director and CEO of the U.S. Subsidiary, separately from the compensation determined by Sanrio’s Representative Director and President based on the deliberations and determinations of Sanrio’s Nomination and Compensation Advisory Committee.

As a result of the initial investigation, Sanrio confirmed that, from 2023 through 2026, the U.S. Subsidiary made multiple monetary payments to the Sanrio Senior Managing Director under the name of COLA and also provided economic benefits other than COLA.

Sanrio also confirmed that these monetary payments and economic benefits were provided solely based on management decisions of the U.S. Subsidiary and were not subject to prior approval by Sanrio or reported to Sanrio.

Section 3. Summary of Principal Factual Findings

The principal facts confirmed as a result of the Investigation are as follows.

The U.S. Subsidiary made monetary payments to the Sanrio Senior Managing Director, who was a director and CEO of the U.S. Subsidiary, under the name of COLA (cost-of-living adjustment) and similar items, separately from the compensation determined by Sanrio's Nomination and Compensation Advisory Committee.

Specifically, the U.S. Subsidiary paid COLA to the Sanrio Senior Managing Director more than ten times in addition to annual bonuses, and the amounts of COLA received by the Sanrio Senior Managing Director since 2023 were US\$224,143 in 2023, US\$527,500 in 2024, US\$460,000 in 2025 and US\$40,000 in 2026.

Under the internal rules of the U.S. Subsidiary, benefits to directors of the U.S. Subsidiary were required to go through formal procedures, including approval by the Board of Directors or the Compensation Committee. However, no such approval procedures were followed for the COLA payments described above, and the COLA payments were made only on the basis of informal discussions and oral approvals by the former CEO, former CFO and former COO of the U.S. Subsidiary (the "**U.S. Subsidiary Executives**").

Sanrio's Nomination and Compensation Advisory Committee understood that compensation paid to Sanrio directors, including compensation received by Sanrio directors in their capacity as officers of Sanrio's subsidiaries, was managed based on decisions of Sanrio's Nomination and Compensation Advisory Committee. However, with respect to the COLA payments, neither prior approval by Sanrio nor reporting to Sanrio occurred, and Sanrio's Nomination and Compensation Advisory Committee was not aware of them.

COLA was also paid to officers and employees of the U.S. Subsidiary other than the Sanrio Senior Managing Director, including the former CFO, who held the position of director of the U.S. Subsidiary.

In addition to COLA, the U.S. Subsidiary provided economic benefits to the Sanrio Senior Managing Director, including tuition for a university doctoral program (the "**Tuition**"; a total of US\$148,475 since 2022) and residential lease expenses (a total of US\$281,900 since 2024) (the "**Provision of Economic Benefits**"). Neither approval by Sanrio nor reporting to Sanrio was conducted with respect to the Provision of Economic Benefits. The provision to the Sanrio Senior Managing Director of economic benefits such as the Tuition and residential lease expenses did not undergo the Board of Directors resolution required for conflict-of-interest transactions involving directors of the U.S. Subsidiary and violated the internal rules of the U.S. Subsidiary. Although the Sanrio Senior Managing Director had not obtained Sanrio's approval for the U.S. subsidiary to bear the Tuition for the doctoral program and had not reported this to Sanrio, he told the U.S. subsidiary's CFO that he had obtained Sanrio's approval, and thereby obtained the former U.S. subsidiary CFO's approval for the U.S. Subsidiary to pay the Tuition for the doctoral program.

As described above, the payment of COLA to officers and the Provision of Economic Benefits at the U.S. Subsidiary were made without following the approval procedures required under the internal rules of the U.S. Subsidiary, and a discrepancy arose between those payments and the framework for determining and reporting executive compensation at Sanrio (the “**Compensation Payment Matter Outside Sanrio’s Approval Framework**”).

Section 4. Principal Assessment of Internal Controls and Related Matters

In the Investigation, the Committee reviewed the facts revealed from the perspectives of the manner and degree of involvement of each U.S. Subsidiary Executive in the receipt of compensation outside Sanrio’s approval framework, the applicability of compensation regulations, the effectiveness of governance and internal controls at the U.S. company, and whether there were deviations from controls in the decision-making process.

1. Manner and Degree of Involvement of Each U.S. Subsidiary Executive in the Receipt of Compensation Outside Sanrio’s Approval Framework

Differences were found among the U.S. Subsidiary Executives in the manner and degree of their involvement.

First, the former CEO had final decision-making authority regarding the introduction and continuation of COLA payments and was aware that he was a recipient and of the payment level (a certain percentage of base compensation). Accordingly, he was in a position to have a corresponding degree of awareness of the scale of his own receipt of payments in the process of determining the aggregate payment amount. At the same time, while deciding to make the payments without obtaining a resolution of the Board of Directors of the U.S. Subsidiary, he shared with the CFO an interpretation that COLA was not subject to reporting and continued the payments on the premise that they would not be reported to Sanrio. In addition, he obtained certain economic benefits through deceptive means. Based on the foregoing, it is highly likely that both intentional deviation from controls and improper acquisition of benefits are present.

Next, the former CFO led the payment administration through budget management and preparation of allocation proposals relating to the COLA payments and played a central role in the decision-making process. In addition, given that the former COO had raised concerns regarding the necessity of a Board of Directors resolution, the former CFO was in a position to recognize that the payments were of a nature requiring governance procedures. Nevertheless, the former CFO shared with the former CEO the interpretation that reporting was unnecessary and, on that premise, played a leading role in carrying out the payment administration. The former CFO is therefore found to have substantially supported, together with the former CEO, intentional deviation from controls.

By contrast, although the former COO was involved in individual allocations of COLA, the former COO did not have final decision-making authority regarding whether payments should be made or the aggregate

payment amount, and the facts show that the former COO had raised issues regarding the necessity of a Board of Directors resolution. Further, no circumstances were found indicating that the former COO was actively involved in forming the interpretation that reporting was unnecessary. Based on the foregoing, although the former COO's conduct ultimately involved internal control issues, the Committee cannot find that the former COO contributed to intentional deviation from controls to a degree comparable to the involvement of the former CEO and former CFO.

2. Relationship with Compensation Regulations

The COLA payments and the Provision of Economic Benefits were, as a formal matter, made by the U.S. Subsidiary to the Sanrio Senior Managing Director. They may therefore be understood as not being directly regulated by the compensation regulations under the Companies Act of Japan that apply to Sanrio as a Japanese corporation.

On the other hand, although the COLA payments and the Provision of Economic Benefits were formally made through the U.S. Subsidiary, there is room to evaluate them substantively as compensation received in the capacity of a Sanrio director. Accordingly, a substantive assessment is required in relation to Sanrio's compensation determination framework.

In addition, in relation to the disclosure regulations applicable to annual securities reports under Japan's Financial Instruments and Exchange Act, economic benefits that are substantively evaluated as consideration for the performance of duties as a director may be subject to disclosure as consolidated compensation and similar items, and therefore the appropriateness of disclosure must also be considered.

Meanwhile, under foreign law, including California law in the United States, assuming the application of rules governing self-interested transactions, the COLA and similar payments by the U.S. Subsidiary to the Sanrio Senior Managing Director and the former CFO may be subject to rescission or invalidation from the perspectives of both procedural fairness and substantive reasonableness, and the Sanrio Senior Managing Director and the former CFO may be found to have breached fiduciary duties with respect to those payments.

3. Effectiveness of Governance and Internal Controls at the U.S. Subsidiary

At the U.S. Subsidiary, although the system contemplated approval procedures by the Board of Directors or the Compensation Committee of the U.S. Subsidiary for director compensation, it is difficult to find that those procedures were followed in practice.

Specifically, the following points were found, and it is difficult to assess that the checks and balances contemplated under the system functioned effectively.

- Failure to obtain approval by the Board of Directors
- Limited substantive functioning of the Compensation Committee
- Insufficient documentation of the decision-making process
- Limited reporting and verification functions of the human resources and finance departments

At Sanrio as well, mechanisms for comprehensively identifying and managing additional compensation at overseas subsidiaries were limited, and the controls of the Sanrio Group as a whole are considered not to have functioned sufficiently.

4. Management Override at the U.S. Subsidiary and the Control Environment to Prevent It

The U.S. Subsidiary paid executive compensation based on informal discussions and judgments by the U.S. Subsidiary Executives, without following the approval procedures required under its internal rules.

In addition, although the Sanrio Senior Managing Director had not obtained Sanrio's approval for the U.S. Subsidiary to bear the Tuition, he told the former CFO as if such approval had been obtained and caused the U.S. Subsidiary to bear his Tuition.

In light of these circumstances, the Committee finds that, due to circumvention of control procedures by management (management override), the internal controls relating to executive compensation at Sanrio and the U.S. Subsidiary remained in a state in which they did not function effectively in substance.

For the following reasons, it would not be appropriate to treat this management override merely as a personnel-specific matter. Rather, it should be evaluated as the result of overlapping institutional deficiencies at Sanrio and the U.S. Subsidiary.

- Given that decision-making and other actions without following control procedures continued, and that economic benefits were obtained from the U.S. Subsidiary based on misrepresentation, although the manner of involvement differed among the U.S. Subsidiary Executives, such conduct should be evaluated as control deviation based on the clear intent of the U.S. Subsidiary Executives.
- At the same time, deficiencies were found in the development of compensation controls between the parent company and subsidiary and in the operation of controls within the U.S. Subsidiary, which enabled the control deviations by the U.S. Subsidiary Executives.

5. Overall Assessment

Taking the foregoing together, the following points are found with respect to the Compensation Payment Matter Outside Sanrio's Approval Framework.

- Management override occurred at the U.S. Subsidiary by the Sanrio Senior Managing Director (former CEO), who, based on his position as a director of the U.S. Subsidiary, should have exercised Sanrio's governance function over its overseas subsidiary, with the involvement of the former CFO, who was also a director of the U.S. Subsidiary.
- There was a discrepancy between the amount of executive compensation determined based on Sanrio's executive compensation determination framework and the amount of executive compensation paid at the U.S. Subsidiary.

- The internal controls and information-sharing framework for timely identifying and correcting that discrepancy did not function sufficiently.
- Governance over Sanrio's U.S. Subsidiary remained formalistic and did not sufficiently exercise substantive checks and balances.

In light of these points, the Compensation Payment Matter Outside Sanrio's Approval Framework can be said to indicate issues arising from not merely to individual judgments by specific officers, but also to the operation of compensation controls and internal controls across the Sanrio Group as a whole.

Section 5. Summary of Causes

The following factors existed in the background of the Compensation Payment Matter Outside Sanrio's Approval Framework, and are considered to have interacted with one another.

- Individual level: Factors common to the Sanrio Senior Managing Director and the former CFO included subjective justification based on an interpretation of the nature of the COLA system (that it did not constitute compensation) and the formation of a theoretical basis for avoiding control procedures through their sharing of that interpretation. Factors applicable only to the Sanrio Senior Managing Director included insufficient recognition of the care required with respect to his own compensation as a director and of expectations regarding reporting, as well as deceptive elements found in the acquisition of certain economic benefits
- System level: Lack of clarity in rules concerning compensation controls and information sharing between the parent company and subsidiary
- Organizational level: Ease with which compensation could be determined at the discretion of management executives and limited opportunities for correction

Section 6. Summary of Recurrence Prevention Measures

The Committee recommends the following measures as principal recurrence prevention measures.

- Clearly position the amount of executive compensation for Sanrio directors determined by Sanrio as the aggregate amount of executive compensation paid by Sanrio and Sanrio subsidiaries, and conduct integrated management, including at subsidiaries, so that executive compensation is paid in accordance with Sanrio's decisions
- Establish reporting and approval routes between Sanrio and its subsidiaries for executive compensation and economic benefits received by Sanrio directors, and build a multilayered reporting framework
- Ensure the effectiveness of Boards of Directors and committees at Sanrio's overseas subsidiaries
- Enhance control and monitoring frameworks through strengthened education, internal audits and whistleblowing systems

Through these measures, Sanrio is expected to enhance the transparency of compensation operations and the effectiveness of governance.

As described above, the Compensation Payment Matter Outside Sanrio's Approval Framework is not limited to a specific individual matter, but indicates issues relating to compensation governance and the operation of internal controls across the group as a whole.

It is important for Sanrio to use the Investigation as an opportunity to pursue improvements in both its systems and operations and to establish an appropriate control environment.

End