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Company name: Sanrio Company, Ltd.
President and Chief Executive Officer: Shintaro Tsuji
Code: 8136, First Section of Tokyo Stock Exchange
Inquiries: Susumu Emori, Senior Managing Director
Tel: *81-3-3779-8058

Receipt of Notice of Supplementary Tax Assessment Order Based on Japanese Anti-Tax Haven Rules and Response Taken by Sanrio

On December 15, 2017, Sanrio Company, Ltd. (the Company) received a supplementary tax assessment order from the Tokyo Regional Taxation Bureau (TRTB) regarding the revision of income tax statements during a period of four years, from fiscal 2012 (ended March 31, 2013) to fiscal 2015 (ended March 31, 2016). The Company's consolidated taxable subsidiaries are also expected to receive the similar notice for the same period in the coming days.

The amount of supplementary income tax for the Company and its consolidated taxable subsidiaries is estimated to be about 2.8 billion yen and the additional tax payment, including local government tax and other items, about 1.1 billion yen.

(1) Main contents of supplementary tax assessment

According to the notice of supplementary tax assessment order received by the Company, the TRTB ordered the Company to pay additional tax, as it concluded that the Company's subsidiaries in Hong Kong did not satisfy the requirements for exemption from the application of the Japanese Anti-Tax Haven Rules and should be included in unitary taxation.

However, the Company believes that Sanrio's subsidiaries in Hong Kong have proactive economic rationale, as they are developing a localization business for Sanrio characters that reflects local consumers' preferences. In addition, these subsidiaries have an independent, actual business involving customization, planning and proposals that reflects the needs of each local licensee. The Company has therefore filed taxation returns appropriately, based on the belief that the subsidiaries fulfill the requirements for exemption from the perspective of the Anti-Tax Haven Rules. The Company therefore sincerely regrets that the actual business status of the subsidiaries was not fully considered and that the Company received a notice of supplementary tax assessment order. The Company will pay the supplementary tax for the time being but continue to assert its legitimacy to the tax authority.

(2) Impact on earnings

The Company and its consolidated taxable subsidiaries will record an additional tax of about 1.1 billion yen as income taxes and other items in the third quarter of fiscal 2017 (ending March 31, 2018).
Concerning consolidated earnings forecasts for the current fiscal year, in consideration of the matter of the fixed asset sale, as stated in the release "Notice Regarding Sale of Fixed Asset by Sanrio's Consolidated Subsidiary" disclosed on November 9, 2017, and current and future earnings trends, the amount of impact on consolidated earnings forecasts will be promptly disclosed following a comprehensive examination of those factors and determination of the sale value.