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Announcement Regarding Receipt of Tax Reassessment Notice Under the Anti-Tax Haven Rules and Sanrio's Responses

On July 29, 2022, Sanrio Company, Ltd. received a tax reassessment notice from the Tokyo Regional Taxation Bureau for the five fiscal years from the fiscal year ended March 2017 to March 2021. The reassessed additional income is approximately 4.2 billion yen, and additional tax due, including local taxes, is approximately 1.3 billion yen.

Having examined the contents of the reassessment notice, the Sanrio board of directors resolved, at its meeting held today, to adopt the following response policy.

1. The main contents of the tax reassessment and Sanrio's responses

According to the reassessment notice received by Sanrio, the above taxation is based on the authorities' judgment that Sanrio's subsidiaries in Hong Kong and Taiwan did not meet the conditions for exemption (before the 2017 Tax Reform) or the Economic Activity Test (after the 2017 Tax Reform) and should be aggregated for taxation in Japan.

However, our Hong Kong and Taiwan subsidiaries, which are engaged in localization of Sanrio characters and development of character business to match the preferences of local consumers, possess proactive economic rationality and have an independent business status to conduct their business operations of customization to reflect the individual requirements of local customers, planning, proposing, and providing support. As such, we judged that the subsidiaries satisfied the conditions for exemption and the Economic Activity Test, and were therefore not subject to the Anti-Tax Haven Rules, based on which we declared our income properly. It is very unfortunate that, notwithstanding the above, the reassessment decision was made without taking fully into consideration the subsidiaries' business status as mentioned above. In December 2017, Sanrio received a tax reassessment from the authorities for the same reason (applicable to the four fiscal years from the fiscal year ended March 2013 to March 2016). While the lawsuit seeking rescission of the said tax reassessment is still pending, we intend to pay the tax due in respect of the recent tax reassessment as we did in the previous reassessment case, and follow appropriate procedures to assert the legitimacy of our claims.

2. Impact on earnings

The additional tax of approximately 1.3 billion yen (including local taxes) will be recorded, in the first quarter of the consolidated fiscal year ending March 31, 2023, as income taxes and taxes and other public charges for prior periods. For information on the impact on financial results, please refer to "Notice Regarding Revisions to Forecasts for First Half and Full Year for the Fiscal Year Ending March 31, 2023 and Revisions to Dividend Forecasts" announced today.