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Notice Regarding Recording of Provision of Allowance for Doubtful Accounts, Losses on Construction Contracts, and Loss on Performance of Guarantee Obligations, and Revision to Financial Results Forecast

TOKYO SANGYO CO., LTD. (the "Company") hereby announces that it has recorded a provision of allowance for doubtful accounts, a provision of allowance for losses on construction contracts, and a loss on performance of the guarantee obligations in its consolidated financial results for the six months ended September 30, 2026. The Company has now revised its full-year consolidated financial results forecast for the fiscal year ending March 31, 2027 (April 1, 2026 to March 31, 2027). Details are as provided below.

1. Recording of allowance in connection with renewable energy power plant construction project (Project 1)

(1) Background

With respect to a renewable energy power plant construction project, for which the Company entered into a contract in 2020 and is undertaking the work as an EPC contractor (hereinafter "Project 1"), a court ruling has raised questions regarding the permits for the project, giving rise to substantial uncertainties concerning the project plan. The Company has not confirmed receipt of payment of the receivables it holds from the project owner of Project 1 (hereinafter "Company A") even though the payment due date in September 2026 has passed. The Company believes that Company A is obligated to make the payment; however, Company A has withheld payment. Company A is a special purpose company established for the purpose of implementing Project 1; as no legal insolvency proceedings or similar events have occurred, the Company refrains from disclosing its name and other details in consideration of the potential impact on its business continuity.

Having comprehensively considered the business environment surrounding Project 1, the status of discussions with Company A, and the expenses expected to be incurred going forward, the Company has decided to record an allowance for doubtful accounts and allowance for losses on construction contracts.

The recording of the allowance for doubtful accounts represents an accounting judgment based on the collectability of the receivables as of the present time, and does not constitute Company's acceptance of Company A's assertion that it is entitled to withhold payment.

(2) Type and amount of receivables from Company A, and ratio to consolidated net assets

Accounts receivable and contract assets: 3,123 million yen (12.4% of consolidated net assets as of March 31, 2026)

(3) Recording of provision of allowance for doubtful accounts

The Company recorded 3,123 million yen, equivalent to the full amount of the receivables expected to be uncollectible, as a provision of allowance for doubtful accounts under extraordinary losses in its consolidated financial results for the six months ended September 30, 2026.

(4) Recording of provision of allowance for losses on construction contracts

In light of the circumstances described above, the Company reviewed the unavoidable expenses expected to be incurred going forward. As a result, the Company recorded a provision of allowance for losses on construction contracts of 1,313 million yen under cost of sales in its consolidated financial results for the six months ended September 30, 2026.

(5) Outlook

The Company will continue to seek recovery of the receivables from Company A, as well as the expenses that the Company believes should be borne by Company A. Going forward, the Company will consult with its legal counsel, closely examine the relevant facts and circumstances, consider necessary legal measures, and proceed with the procedures to preserve and recover its claims.

2. Recording of allowance for losses on construction contracts in connection with renewable energy power plant construction project (Project 2)

(1) Background

The Company entered into a contract in 2022 and is undertaking, as an EPC contractor, the construction of a renewable energy power plant (hereinafter "Project 2"). In Project 2, the financial condition of the company's subcontractor (hereinafter "Company B") has deteriorated significantly, and there is an increasing likelihood that company B will be unable to bear expenses that it should be responsible for. Having comprehensively considered the status of discussions with the parties concerned and the circumstances surrounding the Company, it has determined that it is highly likely to be compelled to temporarily bear such expenses in the future. Although the Company intends to seek recovery from Company B should it bear such expenses, its views are that such expenses are highly likely to prove unrecoverable in light of Company B's financial condition. Accordingly, the Company recorded a provision of allowance for losses on construction contracts of 960 million yen under cost of sales in its consolidated financial results for the six months ended September 30, 2026.

(2) Outlook

The Company will proceed with measures necessary to complete Project 2 and with discussions with the parties concerned.

3. Recording of loss on performance of the guarantee obligations in connection with renewable energy power plant construction project (Project 3)

(1) Background

In connection with a renewable energy power plant construction project, for which the Company entered into a contract in 2020, undertook the work as an EPC contractor, and has already completed and handed over the facility (hereinafter "Project 3"), the Company had issued a bank guarantee (payable on demand) covering a performance ratio guarantee. In Project 3, the performance ratio guarantee value could not be achieved due to circumstances that Company believes were attributable to the project owner (hereinafter "Company C"). The Company has been continuing discussions with Company C; however, having received a demand for payment under the bank guarantee, the Company made payment in October 2026.

Under the contract, the amount paid in this matter is to be administered by Company C in connection with guarantee obligations and the like. The ultimate entitlement to these funds is expected to be determined based on the outcome of future discussions and other procedures. However, as there is currently a significant divergence between the views of the Company and Company C, the Company recorded 719 million yen, the amount demanded under the bank guarantee, as a loss on performance of the guarantee obligations under extraordinary losses in its consolidated financial results for the six months ended September 30, 2026.

(2) Outlook

The Company will consult with its legal counsel, closely examine the relevant facts and circumstances, and proceed with discussions with Company C, while taking necessary procedures to preserve and recover the funds.

4. Impact on consolidated financial results

The impact on consolidated financial results of the recording of the provision of allowance for doubtful accounts, the provision of allowance for losses on construction contracts, and the loss on performance of the guarantee obligations described above is reflected in the "Consolidated Financial Results for the Six Months Ended September 30, 2026 [Japanese GAAP]," announced November 13, 2026. The breakdown is as follows.

(Million yen)

	Project 1	Project 2	Project 3	Total
Cost of sales (Provision of allowance for losses on construction contracts)	1,313	960	—	2,273
Extraordinary losses (Provision of allowance for doubtful accounts)	3,123	—	—	3,123
Extraordinary losses (Loss on performance of the guarantee obligations)	—	—	719	719
Total	4,436	960	719	6,116

5. Revision of consolidated financial results forecast

(1) Revisions to full-year consolidated financial results forecast for the fiscal year ending March 31, 2027 (April 1, 2026–March 31, 2027)

(Million yen)

	Net sales	Operating profit	Ordinary profit	Profit	Basic earnings per share
Previously announced forecast (A)	63,000	2,500	2,500	1,700	Yen 65.08
Revised forecast (B)	63,000	400	400	(4,300)	(160.79)
Difference (B–A)	0	(2,100)	(2,100)	(6,000)	—
Change (%)	0.0	—	—	—	—
(Reference) Actual results for the previous corresponding period (fiscal year ended March 31, 2026)	63,235	3,426	4,045	2,513	96.34

(2) Reasons for revisions

Owing to the impact of the circumstances described in the preceding sections, the Company expects its full-year financial results to fall below the forecast previously announced.

The Company takes the revision to its earnings forecast seriously. In light of the projected consolidated net loss for the final fiscal year of its medium-term management plan, the Company has resolved to reduce the monthly remuneration of its Directors and Executive Officers as follows in order to demonstrate management accountability.

- Chairman of the Board: 30% reduction in monthly remuneration
- President and Representative Director: 30% reduction in monthly remuneration
- Director and Senior Managing Executive Officer: 20% reduction in monthly remuneration
- Other Directors: 10% reduction in monthly remuneration
- Other Executive Officers: 10% reduction in monthly remuneration

Applicable period**:** Three months

Although the Company has revised its financial results forecast downward, it maintains its basic policy of stable dividends and a DOE of 4% or higher. Accordingly, the dividend forecast for the fiscal year ending March 31, 2027 remains unchanged from the previously announced figures, with an interim dividend of 20 yen per share and an annual dividend of 40 yen per share.

(Note) The above financial results forecast is prepared based on information available as of the announcement date of this document. Actual results may differ from the above forecast figures due to various future factors.