Kaname Capital

June 15, 2026

Fukuda Denshi Co., Ltd.
To the Board of Directors and the Board of Corporate Auditors

Our Views on Your June 3 Disclosure and Our Path Forward

In response to our renewed request of May 22, 2026, for the establishment of a third-party committee, you informed us by email on May 29 that you had no intention of establishing one. You then disclosed, on June 3, the Board of Corporate Auditors' report that you had initially withheld, and at the same time announced your recurrence-prevention measures (detailed version).

We have examined these disclosures carefully, and we agree with the general direction of the recurrence-prevention measures. The scope of the Board of Corporate Auditors' investigation, however, is markedly deficient against the information in our possession, and it fails entirely to capture the six newly identified categories of misconduct. You disclosed the June 1 resignation of outside corporate auditor Mr. Keiji Goto through the independent-officer notification filed on June 4. That Mr. Goto, who took part in the investigation, resigned immediately before the report was published—and that you have offered no explanation for it—only deepens our doubts about the appropriateness of that investigation.

You have also championed stronger governance, and as part of that effort you have put Mr. Masashi Fukuda forward as a new outside-director candidate at the 79th Ordinary General Meeting of Shareholders on the 26th of this month. Yet Mr. Masashi Fukuda appears to be exceptionally close to Chairman Kotaro Fukuda, and his independence cannot be recognized in any way. We are astounded that such a person could stand as a candidate for outside director.

In short, your response—both the investigation and the recurrence-prevention measures—is no more than a façade, and we maintain emphatically that a third-party committee remains indispensable to the restoration of your credibility. Because no self-cleansing function is evident in your Board of Directors, we have concluded that intervention by the public authorities is now necessary, and we intend to raise the matter with the police, the tax authorities, the stock exchange, and the financial authorities.

1. Our Views on the Report of Your Board of Corporate Auditors

(1) The investigation structure

In your May 14 release, you stated that you had "conducted a factual investigation with the assistance of outside experts independent of the Company," but it has now emerged that Abe, Ikubo & Katayama served in an advisory and verification role only.

Moreover, your full-time corporate auditor, Mr. Yoshitaka Otagaki, served for many years as your General Manager of Human Resources and General Affairs; the power dynamics remain when giving statements to a "former person of senior authority." Indeed, there are scattered instances in which the people you interviewed gave statements at odds with the information we have ascertained or reported understated figures. You need to conduct the investigation afresh, led by an independent party.

The resignation of Mr. Keiji Goto—an attorney and outside corporate auditor—effective June 1 casts further grave doubt on the soundness of the investigation structure. You disclosed it only within the independent-officer notification and have made no disclosure of any kind, such as a press release, as to the reasons for it. Mr. Goto is known as an expert on compliance and the handling of corporate misconduct and is the author of works including *Corporate Compliance* (Bungeishunju, 2006) and *The Practice of Responding to Corporate Scandals from the Perspective of Risk Factors* (Chuokeizai-sha, 2008); we take his resignation seriously as a warning about your compliance system. A corporate auditor who has resigned is entitled to state opinions at the first general meeting of shareholders convened after the resignation (Companies Act, Article 345, Paragraph 4), and we request that Mr. Goto do so at the 79th Ordinary General Meeting of Shareholders on June 26.

(2) The scope and methods of the investigation

The Board of Corporate Auditors' report makes clear that, in response to the matters we raised, it investigated only five categories of misconduct: the underground parking lot, dining and entertainment expenses, professional baseball tickets, private use of the driver, and private use of the 8th-floor facilities at headquarters.

Since the publication of our investigation report, however, numerous accounts have reached us from people connected with the Company, and the following categories of misconduct, among others, fall entirely outside the scope of the Board of Corporate Auditors' investigation (details are set out in materials we will publish separately):

- Suspicion that Chairman Fukuda and several others, including the head of the secretarial office, made repeated business trips to Yamagata Prefecture principally to buy sake and tour hot springs.
- Suspicion that Chairman Fukuda used a helicopter to reach his private garage in Oyama Town, Shizuoka Prefecture and a circuit in Suzuka City, Mie Prefecture, and had the Company pay the substantial fees.
- Suspicion that he had his secretaries perform a range of personal tasks, such as managing real estate he owns and preparing to open a private restaurant.
- Suspicion that payments to Sugatetsu Kensho included the cost of day-to-day health care for Chairman Fukuda's younger sister.
- Suspicion that Chairman Fukuda made excessive use of the insurance subsidiary Fukushin for the insurance administration of his private vehicles.

- Suspicion that Chairman Fukuda abused invoice-based payment at sushi restaurants and the like around Hongo.

In a normal third-party committee investigation, the scope is fixed through wide-ranging interviews of relevant parties, forensic analysis, questionnaire surveys, and the establishment of a hotline. Your Board of Corporate Auditors did none of these, and it may well have overlooked many instances of misconduct beyond those we have newly identified.

On the interviews in particular, the list of interviewees has not been disclosed, and it is unclear what positions and authority those interviewed held. Despite our repeated requests, the Board of Corporate Auditors has not met with the informants from whom we obtained our information, and it may have missed other important testimonies.

(3) Use of the underground parking lot

The Board of Corporate Auditors' investigation trivializes this misconduct as a mere failure to charge parking fees for 28 vehicles.

First, the underground parking lot must be investigated by going back before the 2021 completion of the Hongo Office to establish how Chairman Fukuda's wishes shaped its construction. As stated in our investigation report, our informants recall remarks by Chairman Fukuda such as "I designed the underground parking lot so that many private cars could be parked there" and "[Headquarters] is my own castle." We have also received quite specific testimony, including that "at the Chairman's instruction, the construction company tested the angle of the entrance/exit ramp so that low-clearance cars could be parked."

As for the parking spaces, the Board of Corporate Auditors' investigation puts the number at 30, but according to informants—because cars were also parked outside the marked spaces, in passageways and elsewhere—there were 30 to 40 vehicles. That the Board of Corporate Auditors arrived at 30 because of the marked spaces alone shows that it neither examined the surveillance-camera footage nor interviewed in detail those who had entered and exited the lot.

Similarly, for those authorized to enter the underground parking lot and the 8th floor, the report broadly puts the figure at about 90 based on the security-card settings. Here too, beyond informants' statements, we have heard accounts such as "No employee has ever seen the underground parking lot" and "Employees do not even know where its entrance is." As with the parking spaces, then, it is necessary to examine the surveillance cameras and to confirm which of the roughly 90 authorized people actually have a record of entry.

We believe that, once these steps are taken, it will become clear that Chairman Fukuda effectively monopolized both the underground parking lot and the 8th floor of headquarters. In that case the Company's loss should be calculated based on the rent for the floor space, not parking fees.

Beyond the above, information we have received indicates that Chairman Fukuda had parked his cars at the Company's buildings around Hongo since his time as president. The past use of parking at your real estate office, other than the current headquarters (the Hongo Office) therefore also needs to be investigated.

(4) Private use of dining and entertainment expenses

The Board of Corporate Auditors' investigation rested primarily on the statements of the head of the secretarial office. But as noted above, the head of the secretarial office is someone who condoned Chairman Fukuda's misconduct—accompanying him, for instance, on his non-business trips to Yamagata—or who shared in its illicit benefits, and a broader investigation that does not rely on him is plainly required.

The investigation concludes that Chairman Fukuda personally bore more than ¥4 million in external dining expenses at a French restaurant; if so, it cannot explain why the receipts for those expenses were routed through internal expense claims.

We have information that it had become customary for the accounting department to settle Chairman Fukuda's large dining bills by handing him cash in envelopes from Kiraboshi Bank and the like. Whereas every other officer was reimbursed by bank transfer, Chairman Fukuda alone, it is said, was given cash. The Board of Corporate Auditors' investigation confirmed payments out of Chairman Fukuda's bank account but did not examine whether cash was subsequently passed to him by the Company. The interviews must therefore be widened to include accounting department staff, and the Company's cash-management records must be inspected. On the "falsification of attendees," informants tell us that, in cases of private use—where the attendees would be the same every time—the head of the secretarial office and others falsified the attendee lists before submitting the claims to accounting. Primary sources must therefore be examined, including by checking Chairman Fukuda's schedule and contacting both the actual attendees and those who appear to have been falsely listed.

Although the Board of Corporate Auditors states that no fact of Chairman Fukuda "explicitly and actively instructing" the falsification could be established, such falsification appears to have been a long-standing custom entrenched as field practice. We therefore believe Chairman Fukuda gave comprehensive instructions, and we view the matter as potentially constituting fraud (Penal Code, Article 246) or aggravated breach of trust (Companies Act, Article 960).

(5) Professional baseball tickets

The Board of Corporate Auditors' investigation states that the right to use the Tokyo Dome suite was held by Atomic Sangyo before it became your wholly owned subsidiary. Atomic Sangyo family-controlled company that upsold recording paper to Fukuda Denshi, and we have brought a shareholder derivative suit seeking damages of approximately ¥50.2 billion over its opaque transactional relationship. You took it wholly in-house in 2015 in order to "gain further trust from shareholders and investors and achieve stable and continuous development" (release of May 15, 2015), yet it has now emerged that private contracts dating from the era of Fukuda-family ownership have survived to this day. You therefore need to scrutinize not only the Tokyo Dome suite right but whether other founding-family-related transactions remain within Atomic Sangyo.

The investigation states that "Atomic Sangyo is obliged to pay the annual usage fee regardless of whether the Chairman used this season ticket privately." But Atomic Sangyo paid that annual fee from the time it belonged to the Fukuda family and has continued to do so since becoming a wholly owned subsidiary. What the Fukuda family once paid should therefore be regarded as now being paid by the Fukuda Denshi group, and we believe Chairman Fukuda must pay a corresponding share of the annual fee as well.

As for the tickets, the absence of any record of where they were distributed can only be called sloppy management, and it raises the suspicion that the secretarial office, aware of the impropriety of the distribution, deliberately kept no records. Even so, the Board of Corporate Auditors' effort to infer the number of private uses from the information now available merits some credit. Beyond this, we have learned that Chairman Fukuda held spectator seats for the Chiba Lotte Marines and the Tohoku Rakuten Golden Eagles in professional baseball, and that in motorsport he passed SUPER GT and KYOJO CUP (women's racing) tickets to his friends. A comprehensive investigation is needed into whether Company funds flowed into the sports Chairman Fukuda pursues as hobbies, the connection between the sponsorships and the business, and the personal benefits he obtained through them.

We have also obtained testimony from informants that Chairman Fukuda charged dining expenses at Tokyo Dome to the Company, which again differs from the Board of Corporate Auditors' findings.

(6) Private use of the driver

Based on interviews with the Chairman and the driver, the Board of Corporate Auditors' investigation finds that roughly half the use was private. But as with the other categories, the possibility that the parties gave false statements in those interviews cannot be ruled out, and the facts must be established from multiple angles—crosschecking against Chairman Fukuda's schedule and interviewing those who know it.

Furthermore, information we have obtained indicates that there were organizational instructions not to record Chairman Fukuda's private use on the schedules submitted to the driver's staffing agency. Rather than merely estimating the loss, the Board of Corporate Auditors needs to dig into why this private use went undetected for years, and how Chairman Fukuda nullified internal controls.

As noted above, we also have information about Chairman Fukuda's private use of secretaries—matters far removed from a secretary's duties, such as maintaining the villa he owns on Ishigaki Island, mowing the grass at his private garage, and preparing to open a private restaurant. The actual nature of the secretaries' work should likewise be clarified, and for the private portion Chairman Fukuda should bear the associated personnel costs, such as salaries, together with the costs of the trips to Okinawa and Yamagata.

(7) Private use of the 8th-floor facilities at headquarters

The Board of Corporate Auditors' investigation rests only on an interview with the Chairman himself and an on-site inspection and can only be described as under-informed. As with the other categories, it is necessary to confirm the intended use by going back to the circumstances in which the 8th floor was designed, and to establish who used it by examining the security-card entry records. Information we have obtained indicates that, even if some officers and employees held access rights, the Chairman effectively monopolized almost all the floor—enough, as with the private use of the driver, to warrant rent in proportion to the share of private use. We believe Chairman Fukuda monopolized about 50% of the floor.

2. Our Views on Your Recurrence-Prevention Measures (Detailed Version)

(1) You did not even respond adequately to the Board of Corporate Auditors' investigation

In our view, although the Board of Corporate Auditors' investigation had many of the doubts and shortcomings set out above, it carried great significance: it was conducted on a body of primary information, and it recognized the existence of misconduct by Chairman Fukuda.

The May 14 investigation report you have now disclosed itself contains Part 4, "Analysis of Causes and Recurrence-Prevention Measures," which states: "We have decided to include this, believing it may be of reference to many stakeholders, including shareholders, investors, and business partners." That statement suggests the Board of Corporate Auditors prepared the report expecting it to be disclosed to stakeholders—yet your Board of Directors did not disclose it until June 3.

The same is true of the recurrence-prevention measures. Even though the Board of Corporate Auditors' report made some forward-leaning recommendations—an outside-director majority and a "Fukuda Denshi Renewal Committee (tentative name)" including outside experts—your Board of Directors decided on no concrete measures until June 3, after public criticism had mounted. Your Board of Directors' response thus plainly lagged the conduct of your Board of Corporate Auditors, and a structure of deference to Chairman Fukuda can still be discerned within the Board of Directors.

(2) It does not amount to an effective sanction

In comparable recent expense-misconduct cases, such as those at Sanrio and YKK, once the facts were established by internal investigation the violators' duties were promptly suspended and a third-party committee was set up to uncover the full picture.

With respect to Chairman Fukuda, by contrast, you have stopped at a voluntary return of 60% of his executive remuneration for six months. To begin with, while Chairman Fukuda receives more than ¥400 million a year, there is grave doubt that he performs duties commensurate with that sum—given that, as you yourselves acknowledge, he uses the company-car driver privately at least half the time. Cutting such a Chairman's remuneration by 30% of the annual total cannot be regarded as an effective sanction. We believe his duties should be suspended at once and the sanction reconsidered following a third-party committee investigation.

(3) It is suspected of being the same façade-like response as before

We have repeatedly and sharply pointed out your history of offering shareholders plausible explanations on the surface while gutting governance in substance.

Specifically, the 2015 decision to take Atomic Sangyo wholly in-house in October was explained as eliminating related-party transactions with the founding family and bringing transparency to management. In reality, once the inflow of profit from Atomic Sangyo ceased, Chairman Fukuda sharply raised his own remuneration through self-redelegation—from roughly ¥140 million in the fiscal year ended March 2015 to roughly ¥450 million in the fiscal year ended March 2022. Although shareholders expected that taking Atomic Sangyo wholly in-house would end the outflow of profit to the founding family, that outflow simply continued in another form: excessive increases in remuneration.

Likewise, at the 74th Ordinary General Meeting of Shareholders in June 2021 you proposed raising the cap on executive remuneration from within ¥600 million to within ¥1 billion, explaining at the time that it was "to secure capable personnel and increase the number of directors." Yet of the roughly ¥160 million net increase in total director remuneration from the fiscal year ended March 2021 to the fiscal year ended March 2022, fully 71%—about ¥110 million—went solely to increasing Chairman Fukuda's own remuneration. Moreover,

the internal directors added during this period were "employee-concurrent" directors whose principal pay appears to be the employee portion. In other words, while promising to recruit capable personnel and raising the remuneration cap, you added people who took their principal pay as employees, and the increased cap went exclusively to Chairman Fukuda.

In the present recurrence-prevention measures (detailed version) you set out "an outside-director majority in the fiscal year ending March 2027." But the preceding step, Mr. Masashi Fukuda—put forward as an outside-director candidate at this June's 79th Ordinary General Meeting of Shareholders—is a person who calls Chairman Fukuda "GODFATHER" and has publicly stated that he received great favor in establishing a soccer team (Tokyo United FC). He is also listed as an auditor of the Kotaro Fukuda Sports Promotion Foundation, a public-interest incorporated foundation established by Chairman Fukuda. Putting forward as an outside-director candidate a person who appears to have no independence whatsoever from Chairman Fukuda shows that your review of the Board's composition is, as before, a "façade."

On Director Genchi, too, we have received many reports that, while he hosts the "imoni gathering" (a communal autumn cookout) of people close to Chairman Fukuda and the in-house automobile club's "driving sessions," he contributes almost nothing to the business. Reform of your Board of Directors requires substantive selection of people able to supervise Chairman Fukuda—not a formalistic numbers exercise to reach an "outside majority."

The remaining recurrence-prevention measures are all matters that can be discharged formally, through steps such as drafting regulations and holding training. According to information we have received, your internal audit division has in the past conducted periodic interviews of the representative directors—but these were held with Chairman Fukuda and President Shirai at the same time, from a script prepared in advance, and were over within minutes. We do not believe effective recurrence-prevention measures can be formulated without asking why governance has been nullified at your company until now.

3. Conclusion

Regrettably, no self-cleansing function is yet at work at your company. Because the Board of Directors is not functioning, we, as a minority shareholder, have no choice but to move to correct matters directly, as we already have through the pending shareholder derivative suit. We have obtained testimony that Chairman Fukuda directed misconduct on an organization-wide basis, and on that basis, we intend to file a criminal complaint against him. The fact that Chairman Fukuda had the Company bear private expenses may also amount to under-reporting of income, and we intend to share the relevant information with the tax authorities. There are, further, doubts regarding the disclosure of Chairman Fukuda's remuneration in your filings, and we intend to proceed with reports to the Securities and Exchange Surveillance Commission and the Tokyo Stock Exchange. And if the Board of

Directors will not pursue the matter itself by establishing a third-party committee, we will bring a further shareholder derivative suit against the current directors for organization-wide concealment.

As you yourselves recognize, you bear a great social responsibility as a medical-device manufacturer—owed not only to shareholders but to all the citizens who depend on Japan's healthcare system. If you cannot uncover and rectify the organizational culture that breeds misconduct, that social credibility will only erode. This is not what we, who invest in the long-term enhancement of your corporate value, want to see. And yet the future value lost by leaving Chairman Fukuda's appropriation of the company unaddressed is, we believe, greater still.

The Board of Corporate Auditors' report states that "acts of commingling public and private affairs by the founder-top were carried out, and our governance failed to function against them," and that they were "brought about by the founder-top Chairman's consciousness of commingling public and private affairs" (p. 11). But Chairman Fukuda is not the founder; he is merely the eldest son of the founder, Mr. Takashi Fukuda. As you approach your 87th anniversary, you need to build a management structure that does not depend on the Fukuda family, with an eye to your 100th and to further growth beyond it. If you cannot withstand even the appropriation of the company by a second-generation member of the founding family who, like Chairman Fukuda, has all but lost interest in the business, then your governance failure is extremely serious.

Since our shareholder proposal in 2023 we have repeatedly criticized your governance failures, and in 2024 we filed shareholder derivative suits totaling approximately ¥54 billion. You have now at last acknowledged misconduct by Chairman Fukuda, but you are seeking to paper it over with only a partial return of executive remuneration and reimbursement of roughly ¥154 million. This is not merely a matter of expense misconduct; it is a manifestation of governance failure left unaddressed for many years, and to bring the curtain down on it with a self-investigation alone cannot possibly be permitted. We strongly demand that you conduct a thorough investigation by an independent third-party committee and, on the strength of its findings, undertake a fundamental review of your management structure.

This document has been prepared in Japanese and English; the Japanese shall prevail over the English.

Thomas O. Rodes

Chief Investment Officer

Nao Makino

Head of Research