

May 15<sup>th</sup>, 2015

Company name: Fukuda Denshi Co., Ltd.  
Representative: Daijiro Shirai, President & COO  
JASDAQ code no.: 6960  
Inquiries: Business Planning Department  
Telephone: +81-3-5684-1558

## **Fukuda Denshi Announces that it Makes Atomic Sangyo its Wholly-owned Subsidiary through Share Exchange and Change of Largest Shareholder**

At the meeting of Board of Directors held on May 15<sup>th</sup>, 2015, Fukuda Denshi Co., Ltd. (hereinafter referred to as the “Fukuda Denshi”) has resolved to conduct a share exchange (hereinafter referred to as the “Share Exchange”), effective as of October 1<sup>st</sup>, 2015, with Fukuda Denshi as the wholly-owning parent company and Atomic Sangyo Co., Ltd. (hereinafter referred to as “Atomic Sangyo”) as a wholly-owned subsidiary, and that Fukuda Denshi concluded a share exchange agreement (hereinafter referred to as the “Share Exchange Agreement”) with Atomic Sangyo today.

The Share Exchange is subject to approval for the Share Exchange Agreement by the general meeting of each respective shareholders of Fukuda Denshi and Atomic Sangyo.

### **I. Share Exchange**

#### **1. Purpose of the Share Exchange**

Since going public in May 1982, Fukuda Denshi has developed operations to achieve stable and sustainable growth and worked on active information disclosure so that our shareholders and investors can always make appropriate investment decisions. Under these circumstances, as part of the measures to further enhance transparency in corporate management and for the purpose of stabilizing and improving the efficiency of corporate management and improving customer services, Fukuda Denshi resolved to conclude a Share Exchange Agreement with our largest shareholder, Atomic Sangyo.

Principal business of Atomic Sangyo, Fukuda Denshi’s largest shareholder, is manufacturing recording paper for medical electronic devices and the real estate leasing business. Fukuda Denshi purchases recording paper and other products from Atomic Sangyo which are essential to our business.

In addition, Kotaro Fukuda, a member of the founding family and the Chairman & CEO of Fukuda Denshi, and his relatives have a stake in Atomic Sangyo, and transactions between Fukuda Denshi and Atomic Sangyo are considered as related party transactions. In transactions with Atomic Sangyo of recording paper and other products, decisions on the prices are based on negotiations and consideration of market prices and ensuring the transparency by continuously disclosing them (disclosure of related party transactions) in securities reports.

However, since Atomic Sangyo is an unlisted company, it is difficult for our shareholders and investors to understand the reality of corporate management, and we cannot deny that the relationship between Fukuda Denshi and Atomic Sangyo seems unclear. In order for Fukuda Denshi to gain more trust from our shareholders and investors and to achieve stable and sustainable growth, we are aware that it is necessary to terminate related party transactions of recording paper and other products and implement measures to further enhance the

transparency of corporate management.

At the same time, recording paper and other products manufactured by Atomic Sangyo are essential to our business and thus cannot easily be replaced with other companies' products. Therefore, we came to the conclusion that rather than terminate the transactions or switching to products of other companies, we can stabilize the supply chain as a Group from manufacturing to sales, and improve management efficiency including further cost reduction and enhance customer service by making Atomic Sangyo wholly-owned subsidiary by the Share Exchange, and terminating these related party transactions.

Fukuda Denshi and Atomic Sangyo started discussions around February 2015, performed due diligence and engaged in frequent exchanges of views. As a result, Fukuda Denshi and Atomic Sangyo agreed today to conclude the Share Exchange Agreement in order to enhance the transparency of corporate management by terminate these related party transactions, and stabilize and improve the efficiency of corporate management, as well as improve customer services.

Based on the Share Exchange, the type of holding of our shares by Kotaro Fukuda and his relatives will change from a combination of direct holding and indirect holding through Atomic Sangyo to direct holding only. Accordingly, we believe that transparency of our shareholder composition will increase, and that the understanding of our shareholders and investors for our governance will be improved further.

Atomic Sangyo is engaged in real estate leasing other than manufacturing of recording paper for medical electronic devices and owns some assets which have limited relevance to our business. We plan to separate these assets from Atomic Sangyo before the Share Exchange becomes effective by transferring them to a third party by a company split and other measures.

Specifically, Atomic Sangyo plans to implement an absorption-type company split (hereinafter referred to as the "Absorption-Type Company Split") which will transfer the majority of rights and obligations concerning the real estate leasing business to a successor company, and to transfer assets which have limited relevance to our business (hereinafter referred to as the "Asset Transfer") to a third party, effective as of September 1<sup>st</sup>, 2015. Cash will be used as consideration for the Absorption-Type Company Split and the Asset Transfer. No capital ties will arise between Fukuda Denshi and the successor company/the third party after the Share Exchange. As the Share Exchange will be effective subject to effectuation of the Absorption-Type Company Split and the Asset Transfer, the Group will not succeed the real estate leasing business to a third party.

Assets which Atomic Sangyo plans to continue owning after the Share Exchange include those with a security interest for debts which will be transferred from Atomic Sangyo to the successor company as a result of the Absorption-Type Company Split. This security interest is scheduled to be released (hereinafter referred to as the "Release of the Security Interest") before effectuation of the Share Exchange, and the Share Exchange will become effective subject to the Release of the Security Interest.

Atomic Sangyo, which will become a wholly-owned subsidiary by the Share Exchange, owns common shares of Fukuda Denshi, which will become the wholly-owning parent company, but plans to dispose of these shares in accordance with provisions of the Companies Act by distribution in kind to Fukuda Denshi and other means after effectuation of the Share Exchange.

## 2. Overview of the Share Exchange

### (1) Schedule of the Share Exchange

Recording date for the general meeting of shareholders(Fukuda Denshi)	March 31 <sup>st</sup> , 2015
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Date of resolution by the Board of Directors meeting(Fukuda Denshi) Date of decision by Board of Directors (Atomic Sangyo)	May 15 <sup>th</sup> , 2015
Date on which the Share Exchange Agreement is executed (Fukuda Denshi, Atomic Sangyo)	May 15 <sup>th</sup> , 2015
Date of resolution by the general meeting of shareholders (Fukuda Denshi, Atomic Sangyo)	June 26 <sup>th</sup> , 2015(scheduled)
Scheduled date of the Share Exchange(effective date)	October 1 <sup>st</sup> , 2015(scheduled)

Note 1: The schedule above may change by mutual agreement when such change is required in the course of the Share Exchange procedures.

Note 2: The Share Exchange shall be effective subject to approval of the Share Exchange Agreement by a resolution of the respective general meetings of shareholders of Fukuda Denshi and Atomic Sangyo, the Absorption-Type Company Split, the Asset Transfer and the Release of Security Interest.

## (2) Method of the Share Exchange

The share exchange will be conducted with Fukuda Denshi as the wholly-owning parent company and Atomic Sangyo as a wholly-owned subsidiary. The Share Exchange shall be effective as of October 1<sup>st</sup>, 2015 subject to approval of the Share Exchange Agreement by a resolution of the respective general meetings of shareholders of Fukuda Denshi and Atomic Sangyo.

## (3) Details of Allotment by the Share Exchange

	Fukuda Denshi (Wholly-owning parent company)	Atomic Sangyo (Wholly-owned subsidiary)
Details of allotment by the Share Exchange	1	419

Note 1: Ratio of allotment of shares by the Share Exchange

Fukuda Denshi will allot its 419 common shares to one share of Atomic Sangyo.

As described in 3. (2) 2) "Overview of calculation" below, financial figures based on the Absorption-Type Company Split and the Asset Transfer are used for calculation by a comparable company method and by the discounted cash flow method (DCF method). The calculation sheet for the share exchange ratio, which is used as reference to determine the ratio of allotment.

Note 2: Number of Fukuda Denshi's shares to be issued by the Share Exchange

Number of Fukuda Denshi's common shares to be issued by the Share Exchange: 3,704,798 shares (scheduled)

In issuing its common shares by the Share Exchange, Fukuda Denshi plans to use treasury stock of 3,704,798 shares it owns and will not issue new shares. Fukuda Denshi plans to allot its common shares in the number calculated based on the abovementioned ratio of allotment to all the shareholders of Atomic Sangyo immediately before the planned acquisition by Fukuda Denshi of all outstanding shares of Atomic Sangyo (hereinafter referred to as the "Base Period"), in exchange for common shares of Atomic Sangyo owned by these shareholders.

In addition, Atomic Sangyo plans to cancel all treasury stock (including shares of Atomic Sangyo owned by its shareholders which Atomic Sangyo will acquire based on their appraisal remedy in accordance with provisions of Article 785, Section 1 of the Companies Act) it owns as of immediately before the Base Period upon decision of the Board of Directors to be made before effectuation of the Share Exchange.

Note 3: Fukuda Denshi's common shares owned by Atomic Sangyo

Atomic Sangyo, which will become a wholly-owned subsidiary by the Share Exchange, owns common shares of Fukuda Denshi, which will become the wholly-owning parent company by the Share Exchange. Atomic Sangyo plans to dispose of these shares in accordance with provisions of the Companies Act by distribution in kind to Fukuda Denshi and other means after effectuation of the Share Exchange.

Note 4: Treatment of fractional shares

To shareholders of Atomic Sangyo who will be allotted fractional shares of Fukuda Denshi as a result of the Share Exchange, Fukuda Denshi, in accordance with Article 234 of the Companies Act and other laws and regulations, plans to sell its shares in the number equivalent to the total number of these fractional shares (fractions will be rounded down) and allot its proceeds to these shareholders based on the number of fractional shares owned.

#### (4) Treatment of share options and bonds with share options going with the Share Exchange

Atomic Sangyo does not issue share options and bonds with share options.

### 3. Basis for allotment for the Share Exchange and other matters

#### (1) Basis and reason for allotment

As mentioned in 1. "Purpose of the Share Exchange" above, Fukuda Denshi and Atomic Sangyo started discussions and exchanges of views concerning the Share Exchange around February 2015.

In these discussions and exchanges of views, Fukuda Denshi appointed MID Structures, Co., Ltd. (hereinafter referred to as "MID Structures"), a third-party valuation institution independent from Fukuda Denshi and Atomic Sangyo, as well as Yanagida & Partners as legal adviser and has conducted a full-scale review in order to ensure fairness and reasonableness of the share exchange ratio to be used for the Share Exchange (hereinafter referred to as the "Share Exchange Ratio").

Fukuda Denshi has repeated careful discussions and reviews, taking into account the financial conditions and trends in earnings of both companies, based on the share exchange ratio calculation sheet submitted by MID Structures and advice from our legal adviser.

As a result, we have come to the conclusion that the share exchange ratio mentioned in 2. (3) "Details of Allotment by the Share Exchange" above is reasonable. It was decided at the meetings of the Board of Directors of both companies held today to conduct the Share Exchange, and both companies signed the Share Exchange Agreement.

#### (2) Matters regarding calculation

##### 1) Name of valuation institution and its relationship with Fukuda Denshi

MID Structures, a third-party valuation institution, is not a related party of Fukuda Denshi and Atomic Sangyo and does not have any material vested interest.

##### 2) Overview of calculation

As described in (1) "Basis and reason for allotment" above, Fukuda Denshi decided to ask MID Structures, a third-party valuation institution independent from both Fukuda Denshi and Atomic Sangyo, to calculate the Share Exchange Ratio in order to ensure its fairness and reasonableness. Prior to the meeting of the Board of Directors held today, Fukuda Denshi received the share exchange ratio calculation sheet from MID Structures as of May 14<sup>th</sup>, 2015.

MID Structures used the market share price method (with May 14<sup>th</sup>, 2015 as the base date for calculation and calculated based on a simple average of the closing share price for one month, three months and six months prior to the base date for calculation) and the DCF method for calculation for Fukuda Denshi to properly reflect future business activities as Fukuda Denshi is listed on a financial instruments exchange, and has a market share price.

On the other hand, as Atomic Sangyo is an unlisted company, and therefore there is no market share price, MID Structures used the comparable company method and the DCF method for calculation for Atomic Sangyo to properly reflect future business activities, considering the fact that there are several listed companies engaged in similar businesses as Atomic Sangyo.

Calculation by the comparable company method and the DCF method is based on financial figures assuming the Absorption-Type Company Split and the Asset Transfer.

Business plans of both companies, which serve as a basis for calculation by the DCF method do not forecast a significant increase/decrease in profit. Calculation does not assume appraisal remedy from shareholders of Atomic Sangyo in accordance with provisions of Article 785, Paragraph 1 of the Companies Act.

As a result, the valuation range when the stock value of one common share of Fukuda Denshi is one is as follows.

Assessment method		Calculation results of share exchange ratio
Fukuda Denshi	Atomic Sangyo	
Market share price method	Comparable company method	419~466
DCF method	DCF method	378~460

In calculating the Share Exchange Ratio, MID Structures used materials received from Fukuda Denshi and Atomic Sangyo and publicly available information, assuming these materials and information are accurate and complete, and therefore did not independently verify their accuracy and completeness. Furthermore, MID Structures did not independently evaluate, appraise or assess assets and liabilities (including contingent liabilities) of Fukuda Denshi, Atomic Sangyo or affiliates thereof, including analysis or evaluation of individual assets and liabilities, nor did it request an independent organization to appraise or assess them. Calculation of the share exchange ratio by MID Structures reflects information and economic conditions as of May 14<sup>th</sup>, 2015 and assumes that it is rationally prepared based on the best estimate and judgement which could be made at this time by the management of Fukuda Denshi and Atomic Sangyo.

Calculation results of the Share Exchange Ratio by MID Structures, a third-party valuation institution, do not express any opinion on the fairness and reasonableness of the Share Exchange Ratio.

(3) Likelihood of and reason for delisting

It is unlikely that Fukuda Denshi will be delisted as a result of the Share Exchange.

(4) Measures to ensure fairness

Atomic Sangyo, a counterparty of the Share Exchange, is Fukuda Denshi's largest shareholder, and Kotaro Fukuda, a member of the founding family and the Chairman & CEO of Fukuda Denshi, and his relatives have a stake in it. Therefore, the following measures are taken to ensure the fairness of the Share Exchange.

1) Acquisition of calculation sheet from a third-party valuation institution

In order to ensure the fairness of the Share Exchange, Fukuda Denshi asked MID Structures, a third-party valuation institution independent from Fukuda Denshi and Atomic Sangyo, to calculate the share exchange ratio in implementing the Share Exchange and by referring to the calculation results, will conduct the Share Exchange based on the Share Exchange Ratio after discussions and negotiations with Atomic Sangyo.

Fukuda Denshi has not obtained an opinion on fairness from MID Structures which states the share exchange ratio is reasonable from a financial perspective.

2) Advice from independent law firm

Fukuda Denshi appointed Yanagida & Partners as legal adviser and received advice on the procedures of the Share Exchange and a method and process of decision-making from a legal perspective. Based on such advice, Fukuda Denshi resolved and made decisions concerning conclusion of the Share Exchange Agreement.

(5) Measures to avoid conflict of interest

Atomic Sangyo, a counterparty of the Share Exchange, is Fukuda Denshi's largest shareholder, and Kotaro Fukuda, a member of the founding family and the Chairman & CEO of Fukuda Denshi, and his relatives have a stake in it. Therefore, in order to avoid conflicts of interest, Kotaro Fukuda does not participate in discussions and decision-making of the Board of Directors of Fukuda Denshi concerning the Share Exchange and does not participate in discussions and negotiations with Atomic Sangyo concerning the Share Exchange on behalf of Fukuda Denshi.

4. Overview of parties concerned of the Share Exchange (As of March 31<sup>st</sup>, 2015)

	Wholly-owning parent company by the Share Exchange	Wholly-owned subsidiary after the Share Exchange
(1) Corporate name	Fukuda Denshi Co., Ltd.	Atomic Sangyo Co., Ltd.
(2) Head office	39-4, Hongo 3-chome, Bunkyo-ku, Tokyo 113-8483, Japan	13-6, Hongo 3-chome, Bunkyo-ku, Tokyo 113-0033, Japan
(3) Name and title of representative	President & COO Daijiro Shirai	President Toshikazu Yoshida
(4) Description of business	Manufacturing and sales of physiological diagnostic equipment, patient monitoring equipment, medical treatment equipment, consumable and others	Manufacturing of recording papers for medical electronic devices, real estate leasing business
(5) Capital stock	4,621 million yen	10 million yen
(6) Date established	July 6 <sup>th</sup> , 1948	February 1 <sup>st</sup> , 1964
(7) Number of shares issued	19,588,000 shares	8,842 shares
(8) Fiscal year end	End of March	End of March
(9) Number of employees	2,949(consolidated)	18(Non-consolidated)
(10) Major business partners	Companies, Hospitals, etc.	Companies, Fukuda Denshi
(11) Main financing bank	The Tokyo Tomin Bank, Ltd. Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd.	The Tokyo Tomin Bank, Ltd. Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(12) Major shareholders and shareholding ratio	Atomic Sangyo 11.46% Nippon Life Insurance Company 3.84% Mizuho Trust & Banking Co., Ltd. 3.55% Retirement benefit trust, The Tokyo Tomin Bank account Re-trust trustees, Trust & Custody Services Bank, Ltd. Mizuho Bank, Ltd. 3.55% The Bank of Tokyo-Mitsubishi UFJ, Ltd. 3.46%	Kotaro Fukuda 79.32% Reiko Fukuda 12.21% Yuriko Fukuda 7.41% Setsuko Fukuda 1.04% (Note 1)				
(13) Relationships between the parties						
Capital relationship	Atomic Sangyo is Fukuda Denshi's shareholder which owns 11.46% of its outstanding shares (2,244,000 shares).					
Personal relationship	None					
Transaction relationship	Fukuda Denshi purchases recording paper for medical electronic devices and rents offices and other properties from Atomic Sangyo.					
Status as a related party	Atomic Sangyo is Fukuda Denshi's shareholder which owns 11.46% of its outstanding shares (2,244,000 shares), and Kotaro Fukuda, Fukuda Denshi's Chairman & CEO, and his relatives directly hold 100% of the related voting rights.					
(14) Operational results and financial condition for recent 3 years						
Fiscal year ended	Fukuda Denshi			Atomic Sangyo		
	March 2013	March 2014	March 2015	March 2012	March 2013	March 2014
Net assets	82,082	81,736	88,991	7,684	8,067	8,665
Total assets	114,646	120,730	124,582	12,135	11,683	12,564
Shareholders' equity per share(yen)	5,306.30	5,879.25	6,401.07	869,146	912,377	979,985
Net sales	96,239	107,574	108,269	1,577	1,490	1,577
Operating profit	10,240	11,811	10,303	501	424	546
Ordinary income	10,435	12,023	11,371	1,819	436	941
Net income	6,462	7,559	7,119	1,344	382	597
Net income per share(yen)	415.47	516.89	512.10	152,052	43,230	67,607
Dividends per share(yen)	125	145	150	-	-	-

(Million yen except as otherwise noted)

Note 1: Major shareholders and the ratio of shareholding are rounded off to two decimal places. Shareholders of Atomic Sangyo consist of Kotaro Fukuda, Reiko Fukuda, Yuriko Fukuda and Setsuko Fukuda. The ratio of shareholding of these four people is 100%.

Note 2: As mentioned above, Atomic Sangyo plans to transfer the majority of rights and obligations concerning the real estate leasing business and assets which have limited relevance to Fukuda Denshi to a third party and separate them before effectuation of the Share Exchange. The above mentioned financial figures of Atomic Sangyo represent before those separation. Assumed financial figures of those which will be separated are as follows.

Net assets: 950 million yen, Total assets: 3,626 million yen (as of the end of December 2014)

Net sales: 201 million yen (for the year ended March 2014)

## 5. Status after the Share Exchange

(1) Corporate name	Fukuda Denshi Co., Ltd.
(2) Head office	39-4, Hongo 3-chome, Bunkyo-ku, Tokyo 113-8483, Japan
(3) Name and title of representative	President & COO Daijiro Shirai
(4) Description of business	Manufacturing and sales of physiological diagnostic equipment, patient monitoring equipment, medical treatment equipment, consumable and others
(5) Capital stock	4,621 million yen
(6) Fiscal year end	End of March
(7) Net assets	Not determined at present
(8) Total assets	Not determined at present

## 6. Overview of accounting

As the Share Exchange is acquisition in accordance with the Accounting Standards for Business Combinations, goodwill (or negative goodwill) will be generated on Fukuda Denshi's consolidated financial statements. However, its amount is not yet determined at this time.

## 7. Future outlook

Atomic Sangyo will become Fukuda Denshi's wholly-owned subsidiary after the Share Exchange. The effect of the Share Exchange on the consolidated financial results of Fukuda Denshi is not yet determined at this time. When it is necessary to adjust the earnings forecast or there is any matter to be disclosed, we will disclose it promptly.

(Reference) Consolidated financial forecast for Year ending March 2016 and result of Year ended March 2015

	Net Sales	Operating profit	Ordinary income	Net income
Year ending March 2016(Forecast)	109,000	12,000	12,000	7,380
Year ended March 2015	108,269	10,303	11,371	7,119

(Million yen)

## II. Change of the largest shareholder

### 1. Background to change

Due to the Share Exchange, Kotaro Fukuda, Fukuda Denshi's Chairman & CEO, will acquire our common shares of 2,938,866 shares, and Atomic Sangyo, Fukuda Denshi's largest shareholder, will become a wholly-owned subsidiary and thus cease to have voting rights concerning Fukuda Denshi's common shares owned. Therefore, there will be a change in Fukuda Denshi's largest shareholder.

### 2. Overview of changed shareholders

#### (1) Major shareholder which will become the largest shareholder

Name	Kotaro Fukuda,
Address	Bunkyo-ku, Tokyo

(2) Major shareholder which will cease to be the largest shareholder

Name	Atomic Sangyo Co., Ltd.
Head office	13-6, Hongo 3-chome, Bunkyo-ku, Tokyo 113-0033, Japan
Name and title of representative	President Toshikazu Yoshida
Description of business	Manufacturing of recording papers for medical electronic devices , real estate leasing business
Capital stock	10 million yen

3. Number of voting rights (number of shares owned) of the said shareholders and the ratio to voting rights of all shareholders before and after change

(1) Kotaro Fukuda

	Number of voting rights (Number of shares owned)	Ratio to voting rights of all shareholders	Major shareholder ranking
Before change (As of March 31 <sup>st</sup> , 2015)	5,312 rights (531,271 shares)	3.81%	6th
After change	34,701 rights (3,470,137 shares)	22.53%	1st

(2) Atomic Sangyo

	Number of voting rights (Number of shares owned)	Ratio to voting rights of all shareholders	Major shareholder ranking
Before change (As of March 31 <sup>st</sup> , 2015)	22,440 rights (2,244,096 shares)	16.10%	1st
After change	—	—	—

Note: The ratio to voting rights of all shareholders is rounded off to two decimal places.

4. Future outlook

There is no effect of the change of Fukuda Denshi's largest shareholder on our management and financial results.

\*This English translation is for reference purposes only. The original Japanese version will prevail as the official authoritative version.

\*The original disclosure in Japanese was released on May 15<sup>th</sup>, 2015 at 15:00 (GMT+9)