

Financial Results for the Fiscal Year Ended March 31, 2012: Reference

Analysis of Business Performance

<1> Overview of the Fiscal Year Ended March 31, 2012

[1] Overview of Business Results

In developed countries, fiscal resources for medical services have become tight due to the concerns about U.S. economy and reduced government spending with the credit crisis in Europe. The promotion of efficiency of national medical costs is now an immediate political issue, further increasing expectations for excellent products with medical cost efficiency that can improve the total profitability of medical services. At the same time, looking at emerging countries, such as in China, thanks to the improvement of its government-driven medical system, medical standards have improved, and the medical divide between cities and country areas has been corrected, while society is rapidly aging, which has resulted in drastic expansion of the medical device market. In Latin America, in particular Brazil, and Asian countries, again the medical device market has continued to develop, due to the increased medical demand in the growing middle income class. This means that in the global medical device market, new opportunities for growth where Terumo Group can take advantage of our strength have been expanding.

Launching the target of GP1 “1 trillion Global Presence”, “becoming a company with a global presence within ten years”, our group kicked off a three-year mid-term management plan, “GP1: Change and Growth 2013”, starting in the fiscal year ended March 2012. The major initiatives of this fiscal year are as follows:

- As countermeasures against disasters based on the experience of the Great East Japan Earthquake, we continuously addressed the challenge of strengthening BCP (Business Continuity Plan) such as installing in-house power generators, duplexing customer service centers in East and west Japan, securing an additional data center, expanding domestic and overseas production capacities and diversifying raw materials procurement.

- All activities for quality management system improvement at the Ann Arbor factory of Terumo Cardiovascular Systems Corporation (TCVS) have made progress as planned, and we expect it to be completed by the spring of 2013.

- In relation to the integration with CaridianBCT that we acquired in April 2011, we completed the integration of sales bases by the end of this fiscal year, and we are now

ready to promote business as “Terumo BCT”.

● We launched drug-eluting coronary stent, the first made-in-Japan, “Nobori”, in May 2011. The product acquired a high market share in Japan close to 30% in the first fiscal year of sales.

● In the Drug & Device (D&D) business where values are added by combining pharmaceutical products with medical devices, we reached an agreement with Daiichi Sankyo Company Ltd. to co-develop a new vaccine for the prevention of infectious diseases utilizing Terumo's intradermal injection device.

● As strategies for emerging countries, we established holding companies in China and Asia to strengthen local business foundations and dynamically implement regional strategies. We also formed a strategic business alliance with Weigao, a leading medical device provider in China, in peritoneal dialysis (PD) business in China.

● In the field of Research and Development, we started the world's first clinical study in Japan of a cardiac regeneration therapy using cell sheets. In cardiovascular field, we gained the cell therapy technologies by acquiring Harvest Technologies in U.S. and innovative large diameter sheath technology by acquiring Onset Medical in U.S..

As a result, our performance in this fiscal year is as follows:

(Unit: millions of yen)

	FYE Mar. 2011 Results	FYE Mar. 2012 Results	Changes %	Changes % (Constant currency basis)
Net Sales	328,214	386,686	17.8	21.8
Gross Profit	170,798	204,639	19.8	24.9
Operating Income	62,606	63,049	0.7	7.3
Ordinary Income	56,903	59,164	4.0	—
Net Income	32,338	24,167	(25.3)	—

(Note) The results of BCT and Harvest are included.

(Unit: millions of yen)

	FYE Mar. 2011 Results	FYE Mar. 2012 Results	Changes %	Changes % (Constant currency basis)
Net Sales	328,214	339,793	3.5	6.3
Gross Profit	170,798	175,503	2.8	6.4
Operating Income	62,606	64,197	2.5	7.9
Ordinary Income	56,903	60,572	6.4	—
Net Income	32,338	27,369	(15.4)	—

(Note) The results of BCT and Harvest are excluded.

< Net Sales >

Net sales were 386.7 billion yen or a 17.8% increase compared with the last fiscal year. Sales of the existing business excluding CaridianBCT and Harvest Technologies whose acquisition we completed this fiscal year (“existing businesses”) were 339.8 billion yen or a 3.5% increase compared with the last fiscal year.

Geographic segments

(Unit: millions of yen)

Area	FYE Mar. 2011 Results	FYE Mar. 2012 Results	Changes %	Changes % (Constant currency basis)
Japan	177,132	188,498	6.4	6.4
Europe	56,630	57,526	1.6	5.7
Americas	56,977	53,937	(5.3)	2.6
Asia and others	35,551	39,839	12.1	18.2
Total of Outside of Japan	149,158	151,304	1.4	7.5

(Note) The results of BCT and Harvest and the accounting period adjustment of overseas subsidiaries are excluded.

In Japan, drug-eluting coronary stent, “Nobori”, continued to increase its market share, driving domestic sales. I.V. solution and other general hospital products affected by the earthquake showed signs of recovery, and the net sales in Japan thus increased by 6.4% to 188.5 billion yen compared with the last fiscal year.

Outside of Japan, sales of interventional systems products were favorable. Especially in emerging countries like China and Latin America, we achieved growth of more than 30% on a constant currency basis compared with the last fiscal year, pushing up total sales. However, outside of Japan net sales saw a 1.4% increase compared with the last fiscal year or 151.3 billion yen, due to the effect of the appreciation of the yen.

<Gross Profit>

Gross profit was 204.6 billion yen or a 19.8% increase compared with the last fiscal year. With existing businesses, in spite of the effect of the appreciation of the yen, the amount increased to 175.5 billion yen or 2.8% increase compared with the last fiscal year, thanks to the shift to highly profitable products and the effect of increased production.

<Operating Income>

Though affected by new goodwill depreciation due to acquisitions, operating income increased by 0.7% compared with the last fiscal year and was 63 billion yen. With existing businesses, with the increase of gross profit and efficient operation of SG&A expenses, the amount increased to 64.2 billion yen or a 2.5% increase compared with

the last fiscal year.

<Ordinary Income>

Ordinary income was affected by the appreciation of the yen and interest payments due to loans for acquisitions and issuance of corporate bonds, but increased by 4.0% compared with the last fiscal year to 59.2 billion yen. The same impact was imposed upon existing businesses, which still increased by 6.4% compared with the last fiscal year to 60.6 billion yen.

<Net Income>

Net income decreased by 25.3% compared with the last fiscal year to 24.2 billion yen, affected by the tax burden from goodwill depreciation and loss on revaluation of investment securities and so on. For existing businesses, net income decreased by 15.4% compared with the last fiscal year to 27.4 billion yen.

Next, net sales results by business segments are as follows:

Business Segments

(Unit: millions of yen)

Business Segments		FYE Mar. 2011 Results	FYE Mar. 2012 Results	Changes %	Changes % (Constant currency basis)
General Hospital Business	Net Sales	152,805	149,518	(2.2)	(1.2)
	(Japan)	122,960	120,218	(2.2)	(2.2)
	(Overseas)	29,844	29,299	(1.8)	3.2
Cardiac & Vascular Business	Net Sales	144,598	158,807	9.8	14.4
	(Japan)	40,058	53,043	32.4	32.4
	(Overseas)	104,540	105,763	1.2	7.5
Blood Management Business	Net Sales	24,549	26,715	8.8	12.7
	(Japan)	10,417	11,225	7.8	7.8
	(Overseas)	14,132	15,489	9.6	16.3
Consumer Healthcare Business	Net Sales	4,337	4,761	9.8	10.5
	(Japan)	3,696	4,010	8.5	8.5
	(Overseas)	641	751	17.1	21.7

(Note) The results of BCT and Harvest and the accounting period adjustment of overseas subsidiaries are excluded.

<General Hospital Business>

In Japan, I.V. solutions and some other products whose sales had temporarily dropped in the first half, affected by the earthquake, showed signs of steady recovery in the second half, while semi-solid nutritious foods for the chronic care market and

commissioned business of Drug & Device (D&D) has seen steady growth. However, compared with the last fiscal year, domestic sales decreased.

Outside of Japan, sales were steady in Asia and Latin America, increasing sales on a constant currency basis but were badly affected by the appreciation of the yen. Consequently, net sales of the General Hospital Business dropped by 2.2% compared with the last fiscal year to 149.5 billion yen.

<Cardiac & Vascular Business>

In Japan, sales of “Nobori”, our drug-eluting coronary stent, enjoyed favorable sales, while intravascular ultrasound imaging catheter, “ViewIT”, achieved a large increase in sales.

Outside of Japan, “Nobori” increased sales in Europe, Asia and Latin America, while interventional systems showed favorable growth in sales, driven by the increasing popularity of TRI (interventional treatment of approaching the coronary artery from the blood vessels of the wrist) in North & Latin America.

Consequently, net sales of the Cardiac & Vascular Business increased by 9.8% compared with the last fiscal year to 158.8 billion yen, though they were affected by the appreciation of the yen.

<Blood Management Business>

In Japan, sales of blood bags affected by the earthquake in the first half recovered, and increased sales compared with the last fiscal year.

Outside of Japan, “TACSI”, our automated blood component processing device, enjoyed favorable sales in Europe, pushing up the total business, and as a result, net sales of the Blood Management Business increased by 8.8% compared with the last fiscal year to 26.7 billion yen. The growth of CaridianBCT was driven by good sales of therapeutic apheresis products.

<Consumer Healthcare Business>

Though there was a slowdown in consumption due to the earthquake in Japan, net sales were 4.8 billion yen, representing a 9.8% increase compared with the last fiscal year.

[2] **Research and Development**

We launched products such as a drug-eluting coronary stent, “Nobori”, Low-profile Visualized Intraluminal Support device, “LVIS”, portable HPN infusion pump, “Cafty Pump S”, and basal body thermometer, “WOMAN ° C”. In Japan, we also started clinical study of intravenous acetaminophen injections in April 2011 and a cardiac regeneration therapy using cell sheets in February 2012.

In order to meet the needs of different countries, with the improvement of medical

infrastructure especially in emerging countries, the Research and Development division strengthened partnerships with development divisions outside of Japan.

[3] Capital Expenditure

To increase production of interventional systems products whose sales have been expanding globally, we added a production line to the Ashitaka Factory. We also added another production line to the new building of the Fujinomiya Factory for increased production of I.V. solutions. To strengthen the business continuity plan (BCP), we newly installed in-house generators at the Ashitaka and Kofu Factories.

Outside of Japan, we started to officially transfer the production of interventional systems products to the factory in Vietnam. We also made capital expenditures for enhancement and improvement of quality, production efficiency, and product competitiveness.

As a result, the capital expenditure for this fiscal year was 26.6 billion yen.

<2> Forecast for the Fiscal Year Ending March 31, 2013

Due to the revision of drug & reimbursement price as well as investments in quality management system improvements at Terumo Cardiovascular Systems (TCVS), a certain level of impact upon sales and profit is anticipated. Under such conditions, we will maintain investment for future growth on R&D activities and post marketing studies, and we expect that the next fiscal year will see an increase in sales but a decrease in profits. By strengthening sales promotion activities and launching new products, however, we will work hard to absorb the impact of these factors.

In developed countries in Europe and U.S., we target expanding sales of minimally invasive treatment products with high medical cost efficiency, while we will strengthen our local business foundation in emerging countries, based on our holding companies in China and Asia to respond to expanding markets. We will also promote the reorganization of our global production system including the transfer of production to factories in the Philippines and Vietnam.

In the General Hospital Business, we will continue to accelerate our initiatives in the field of Drug & Device (D&D) where values are added through the combination of pharmaceutical products and medical device, including global strategic partnerships, seeking aggressive business expansion. In the field of medical device, we strive to expand sales of products added with functions to prevent infection and medical accidents, including the introduction of new products.

In the Cardiac & Vascular Business, we are globally seeking further sales expansion of our drug-eluting coronary stent, "Nobori". In U.S., we are targeting increasing sales of products related to TRI (interventional treatment of approaching the coronary artery from the blood vessels of the wrist) that has drastically gained popularity. In Europe, we plan to launch our new product, "OFDI", intravascular optical frequency domain

imaging system in the next fiscal year. In China, Asia, Latin America, and other emerging countries where the number of cases are expected to steadily grow, we seek to expand sales of total interventional systems. We will also expand and enhance the range and lineup of interventional products for neurovascular and peripheral vascular. For the Blood Managements business, as Terumo BCT, we seek to further increase sales with a wide ranging product lineup supporting both whole blood collection and blood component collection, and globally developed sales network for cover from emerging to developed countries. Through these activities, we will realize anticipated performance in the next fiscal year and sustainable profit growth in the future.

Forecast for the fiscal year ending March 31, 2013

(Full year)

(Unit: millions of yen)

	Previous Forecast	Revised Forecast	Changes	Changes (%) year on year
Net Sales	386,686	410,000	23,313	6.0
Operating Income	63,049	60,000	(3,049)	(4.8)
Operating Income Rates	16.3%	14.6%	—	—
Ordinary Income	59,164	58,000	(1,164)	(2.0)
Net Income	24,167	34,000	9,832	40.7

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