

Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2014: Reference

Analysis of Business Performance

1. Overview of Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2014

(1) Overview of Consolidated Business Results

In the first three quarters of the current fiscal year (from April 1 to December 31, 2013), various circumstances affected the healthcare market. In the United States, individual enrollment in the government's new healthcare insurance system began in January 2014 in accordance with the Affordable Care Act. According to estimates by the Congressional Budget Office (CBO), more than 50 million people in the country were without any health insurance in fiscal 2013. If the number of insurance holders' increases, the number of people seeking medical care will also eventually rise. This is expected to have a major impact on the medical devices industry.

In Japan, a revised version of the Pharmaceutical Affairs Law was enacted by the government in November 2013. A newly established section in the law treats medical devices separately from pharmaceutical products, and the name of the law was changed from the Pharmaceutical Affairs Law to the "Act on Assurance of Quality, Effectiveness and Safety of Drugs and Medical Devices, etc." Designed to promote early utilization of medical devices, the revised law sets forth measures for speeding up the review of medical devices by broadening the range of devices subject to certification by third-party organizations in the private sector, and designating certain highly sophisticated medical devices (classified as Class III according to criteria set by the Minister of Health, Labour and Welfare) subject to certification by third-party organizations. The revised law is scheduled to go into effect in the autumn of 2014.

Under these circumstances, Terumo is presently carrying out its four-year mid-term management plan, which started this fiscal year, with the goal of becoming a company with a global presence.

In the first three quarters of the fiscal year under review, sales and profit increased year on year as the Group's businesses outside Japan continued to benefit from favorable exchange rates. In the Cardiac & Vascular Business segment, sales were strong in the Interventional Systems business, especially for peripheral and Neuroendovascular intervention products in Japan. Sales remained firm outside Japan, particularly in North America, but slightly slowed in Europe. Meanwhile, the Blood Management Business segment maintained steady results despite challenging market conditions in Europe and the U.S. The General Hospital Business segment, however, saw sales decelerate in Japan and recorded negative results mainly owing to the effects of selling off home therapy businesses in the previous fiscal year. Outside Japan, however, sales remained steady in Asia.

Other major achievements were as follows:

- In the Cardiac & Vascular Business, in November Terumo launched the Hiryu Plus in Japan as a pipeline product under its mid-term management plan. The Hiryu Plus is a percutaneous transluminal coronary angioplasty (PTCA) dilation catheter used for non-compliant balloon. For this product, Terumo employed a three-layer structure of balloon materials to enable higher pressure resistance while achieving excellent flexibility of the balloon section, and reinforced the shaft section of the deliverly catheter, thereby improving the maneuverability of the overall system. After a drug-eluting stent has been placed inside the body, a non-compliant balloon is commonly used for pressing the stent firmly against the blood vessel wall. The importance of these balloons is growing along with the widespread usage of drug-eluting stents.
- In the Blood Management Business, Terumo made steady progress in integrating its global production operations by boosting production at existing factories in India and building a new production factory in the southern part of Vietnam.
- In the General Hospital Business, in November Terumo launched its “acelio Intravenous Injection 1,000mg” as the first intravenous injectable acetaminophen antipyretic analgesic in Japan. Acetaminophen is the most commonly used antipyretic analgesic in the world, and is recognized as a basic medicine for managing cancer pain according to methods of the World Health Organization. It is expected to enable appropriate pain management for patients who have undergone surgery and for cancer patients who have difficulty using suppositories or taking medicine orally due to physical symptoms.

Owing to the factors above, Terumo’s consolidated financial results in the first three quarters of the current fiscal year were as follows.

Net sales

Net sales totaled 345.3 billion yen, an increase of 16.7% compared to the same period of the previous fiscal year.

In Japan, net sales totaled 142.1 billion yen, a slight increase compared to the same period of the previous fiscal year, mainly owing to strong results in the Cardiac & Vascular Business segment, despite unfavorable results in the General Hospital Business segment. In contrast, although sales slowed slightly in Europe, net sales rose markedly outside Japan, climbing 32.2% to 203.2 billion yen as a result of the positive impact of the depreciating yen and ongoing robust sales in the Interventional Systems Business, especially in North America.

Gross profit

Gross profit rose 16.4% to 178.7 billion yen compared to the same period of the previous fiscal year. This was mainly due to Terumo's successful shift to highly profitable products along with the impact of favorable exchange rates, despite the negative effects of inventory valuation.

Operating income

Operating income came to 48.3 billion yen, up 13.2% year on year. This was mainly the result of effectively controlling selling, general and administrative expenses as well as research and development expenses according to management plans.

Ordinary income

Ordinary income increased 23.4% to 49.9 billion yen year on year, primarily owing to favorable exchange rates resulting from the depreciating yen.

Net income

Net income jumped 49.3% year on year to 36.9 billion yen, mainly due to extraordinary income from a settlement received amounting to 6.0 billion yen.

Net sales results by business segment are as follows.

General Hospital Business

In Japan, declining sales, along with the impact of selling off home therapy businesses in the previous fiscal year, resulted in a fall in sales compared to the same period of the previous fiscal year. Outside Japan, however, overall sales increased year on year on a local currency basis due to sales growth in Asia. This was despite decreasing sales on a local currency basis in North America and Europe, where Terumo is taking steps to improve profitability. As a result of these factors, net sales in the General Hospital Business segment amounted to 123.9 billion yen, up 3.4% year on year.

Cardiac & Vascular Business

Robust sales in Japan were driven by Misago, a stent for treating peripheral artery disease, and Scepter occlusion balloon catheters, a new product for the Neuroendovascular intervention market. Outside Japan, although sales growth slightly slowed down in Europe on a local currency basis, the Interventional Systems business performed strongly, especially in North America. Sales of TRI-related product lineups in particular continued to expand in North America, reflecting the growing popularity of this treatment there. In addition, sales of Terumo's new occlusion balloon catheters and stents grew markedly in the Neuroendovascular intervention market. As a result of the

above, net sales in the Cardiac & Vascular Business segment amounted to 153.9 billion yen, up 25.8% compared to the same period of the previous fiscal year.

Blood Management Business

Sales in Japan increased year on year on the back of strong sales of therapeutic apheresis systems. Outside Japan, results remained steady despite challenging market conditions in Europe and the United States. Owing to these factors, net sales in the Blood Management Business segment increased 25.8% year on year to 67.5 billion yen.

(2) Overview of Consolidated Balance Sheets

Assets

As of December 31, 2013, total assets amounted to 863.3 billion yen, an increase of 92.3 billion yen compared to March 31, 2013. Of this amount, current assets increased 32.3 billion yen to 319.2 billion yen, primarily due to the effect of exchange rates, along with increases in accounts receivable trade and the value of inventories accompanying the increase in net sales. Meanwhile, noncurrent assets rose 59.3 billion yen to 543.1 billion yen, mainly owing to the effect of exchange rates and increased investments intended to foster business growth. Property, plant and equipment rose 23.2 billion yen, primarily as a result of investment in Terumo Yamaguchi. Intangible assets were up 25.7 billion yen while investments and other assets increased 10.5 billion yen.

Total Liabilities

Total liabilities increased 18.8 billion yen to 351.9 billion yen. Of this amount, current liabilities amounted to 126.1 billion yen, an increase of 10.2 billion yen primarily owing to an increase in income taxes payable. Noncurrent liabilities totaled 225.8 billion yen, up 8.6 billion yen year on year, mainly due to an increase in long-term debt resulting from the impact of exchange rates.

Net Assets

Net assets totaled 511.4 billion yen, an increase of 73.5 billion yen. Consequently, the shareholders' equity ratio was 59.2%, up 2.5 percentage points compared to March 31, 2013.

(3) Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2014

As Terumo's operating environment continues to be uncertain due to changing conditions surrounding the medical device market and other factors, the Company made no revisions to its consolidated financial forecasts for the current fiscal year. Nevertheless, the assumed exchange rates for the fiscal year have been revised from 95 yen to the U.S. dollar and 123 yen to the euro, as initially assumed, to 100 yen to the U.S. dollar and 134 yen to the euro, respectively.

Amidst challenging business conditions, the Terumo Group is working to achieve its targets by launching high-value-added products that improve medical cost efficiency, as well as implementing measures to reduce manufacturing costs, and strictly and efficiently managing selling, general and administrative expenses.