

Financial Results for the First Half of the Fiscal Year Ending March 31, 2015: Reference

Analysis of Business Performance

1. Overview of Financial Results for the First Half of the Fiscal Year Ending March 31, 2015

(1) Overview of Consolidated Business Results

In the first half of the current fiscal year (from April 1 to September 30, 2014), the operating environment remained grim in the healthcare market. In the United States, there were signs of a recovery trend in the demand for capital equipments at hospitals. However, in Europe and emerging countries, the trend among governments is to reduce healthcare expenditures and there are ongoing pricing pressures. In Japan, there are concerns of a reduction in medical examinations due in part to the consumption tax hike and an increase in the individual cost burden for some senior citizens and a decrease in expenditures as medical institutions are dividing up functions due to the reflecting revisions to the medical payment system. Under these circumstances, the Terumo Group is pursuing its goal of “becoming a company with a global presence,” and in line with its business-led management, Terumo is promoting management that aims to achieve sustainable and profitable growth. The followings are Terumo’s main achievements in each Company during the first half.

- In the Cardiac & Vascular Company, Terumo expanded sales of (PTCA dilation catheter “Hiryu Plus” and intravascular imaging systems in Japan. In Asia and Central and South America, we launched sales of the new drug-eluting stent “Ultimaster,” which we released in Europe in the first quarter.
- In the General Hospital Company, given the rising needs for medical safety, Terumo commenced full-fledged sales of the SURPLUG AD series of needleless system. In addition, Terumo also improved production cost.
- In the Blood Management Company, performance was negatively impacted by continued sluggishness in the business environments in the United States and Europe, and also due to a decline in the number of blood donations in Japan. In markets in Central and South America and Asia, sales continued to trend solidly for whole blood collection related products and blood component collection system products.

In line with business-led management, in the first quarter of the fiscal year ending March 31, 2015, Terumo changed the names of its conventional reporting segments from the “Cardiac & Vascular Business,” “General Hospital Business,” and “Blood Management Business,” to the “Cardiac & Vascular Company,” “General Hospital Company,” and “Blood Management Company,” respectively. Please note that the change in segment names does not impact segment information.

Financial results for the first half of the fiscal year ending March 31, 2015 are as follows:

Net sales

Compared with the same period of the previous fiscal year, net sales increased 3.2% to 233.3 billion

yen.

In Japan, net sales decreased 4.0% year on year to 89.4 billion yen due in part to the negative impact of reimbursement price revisions mainly in the General Hospital Company and Cardiac & Vascular Company, and negative impact due to a decrease in the number of blood donations in the Blood Management Company. Meanwhile, sales outside Japan rose 8.3% to 143.9 billion yen, reflecting an expansion in interventional system sales in the United States, Europe, and Asia, and solid performance in the Blood Management Company.

Gross profit

Gross profits totaled 122.9 billion yen, an increase of 4.9% year on year. Although there was negative impact from reimbursement price revisions, Terumo improved production cost, mainly at domestic factories, and expanded sales of highly valued-added products in Japan and abroad.

Operating income

Operating income increased 8.3% year on year to 33.0 billion yen thanks to an increase in gross profit as well as adequately controlled expenses, mainly sales promotion expenses.

Ordinary income

Ordinary income totaled 34.0 billion yen, up 15.1% year on year, owing to an increase in operating income and foreign exchange gains reflecting weak yen.

Net income

First half net income increased 12.4% year on year to 21.9 billion yen.

Net sales results by company are as follows:

Please note that the adjustments in the first half of the previous fiscal year reflect sales related to home oxygen system and home infusion pump business which were sold off in the fiscal year ended March 31, 2013 and those related to next generation implantable left ventricular assist systems, for which Terumo entered a strategic alliance in the fiscal year ended March 31, 2014.

Cardiac & Vascular Company

In Japan, although new product sales were brisk in the neurovascular business, which launched sales in the fiscal year ended March 31, 2014, domestic sales in this segment declined due to impact from reimbursement price revisions for interventional systems. Outside Japan, interventional system sales trended briskly in the United States, Europe, and Asia, while sales in the neurovascular business remained strong in the United States and Europe.

As a result, sales in the Cardiac & Vascular Company increased 8.1% year on year to 108.9 billion yen.

General Hospital Company

In Japan, sales decreased 4.5% year on year due to impact from reimbursement price revisions, the consumption tax hike, and revisions to the healthcare insurance system. Outside Japan, sales were nearly flat year on year, rising a mere 0.1%. Although the B2B business targeting pharmaceutical companies expanded smoothly, Terumo trimmed unprofitable business accounts.

As a result, sales of General Hospital Company decreased 3.4% year on year to 78.4 billion yen.

Blood Management Company

In Japan, whole blood collection related product sales decreased due in part to an adjustment in demand reflecting a decline in the number of blood donations. Meanwhile, outside Japan, sales trended briskly for whole blood collection related products and therapeutic apheresis systems.

As a result, sales of Blood Management Company increased 4.4% year on year to 46.0 billion yen.

(2) Overview of Consolidated Balance Sheets

Total Assets

As of September 30, 2014, the total assets amounted 866.8 billion yen, up 34.0 billion yen compared to March 31, 2014.

Of this amount, current assets increased 11.4 billion yen to 322.3 billion yen, primarily due to an increase in cash and deposits, which includes impact from foreign exchange translations.

Noncurrent assets increased 21.8 billion yen to 542.2 billion yen, owing in part to growth investments and impact from foreign exchange translations. Tangible fixed assets increased 11.5 billion yen, in part reflecting investment in Terumo Yamaguchi Corporation. Intangible fixed assets increased 8.0 billion yen and investment and other assets were up 2.4 billion yen.

Total Liabilities

Total liabilities decreased 5.9 billion yen to 330.7 billion yen. Although there were catalysts such as impact from foreign exchange translations that pushed up total liabilities, the payment of income taxes payable brought down total liabilities overall.

Total Net Assets

Net assets rose 39.9 billion yen to 536.2 billion yen.

Consequently, the shareholders' equity ratio stood at 61.9%, up 2.3 percentage points compared to March 31, 2014.

(3) Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2015

There was a gap between the results we announced today and the consolidated financial forecast for the first half of the fiscal year ending March 31, 2015, which we released on May 8, 2014.

1. Gap between the consolidated financial forecast for the first half of the fiscal year ending March 31, 2015 and actual results (from April 1 to September 30, 2014)

	Net sales (billion yen)	Operating income (billion yen)	Ordinary income (billion yen)	Net income (billion yen)	Net income per share (yen)
Previous Forecast (A)	236.0	28.0	27.0	16.0	42.13
Revised Forecast (B)	233.3	33.0	34.0	21.9	57.62
Change (B-A)	-2.7	5.0	7.0	5.9	-
Change (%)	-1.1%	17.8%	26.1%	36.7%	-
(Reference) Six months ended September, 2013 Results	226.0	30.5	29.6	19.5	102.48

Terumo implemented a 2-for-1 stock split (common shares), effective April 1, 2014. The gap between the net income per share stated in our previously-announced forecast (A) and as the first-half result (B) reflects this stock split.

2. Reason for this gap

The results for the first half of the fiscal year ending March 31, 2015 reflect in part the consumption tax hike and revisions to the healthcare insurance system in Japan. Net sales underperformed the previous forecast but gross profit increased owing to a growth in sales of interventional systems, which boast a high profit margin, outside Japan. In addition, operating income outpaced Terumo's forecast owing to adequate control of expenses, primarily sales promotion expenses. Furthermore, first half net income sharply outperformed the previous forecast in part thanks to a foreign exchange rate benefits due to a weak yen and extraordinary gains.

3. Consolidated financial forecast for the fiscal year ending March 31, 2015

Terumo is revising the net income forecast in the consolidated financial forecast for the fiscal year ending March 31, 2015 released on May 8, 2014, to factor in first-half financial results and an estimated extraordinary loss of 6.4 billion yen owing to the transformation of the product portfolio at the Hospital and Laboratory Business in Europe, which was announced on October 23, 2014. For details on our consolidated financial forecast for the fiscal year ending March 31, 2015, please refer to the "Notice Concerning Revisions to Consolidated Financial Forecasts," which are to be announced today.

2. Summary Information (Notes)

(1) Changes in accounting policies and changes or restatement of accounting estimates

Changes in accounting policies

Application of accounting standards for retirement benefits

From the first half of the fiscal year ending March 31, 2015, Terumo applied the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Statement No. 25, May 17, 2012) in line with the main provisions in Paragraph 35 of the Accounting Standard for Retirement Benefits and in Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits. Terumo revised its calculation methods for retirement benefit obligations and service costs, switching from straight-line attribution to a benefit formula for the period attribution method for projected pension obligations. In addition, the method to determine the discount rate was changed from a discount rate based on the number of years that is close to the average remaining service period to a method that employs several discount rates set for the potential payout period for retirement benefits.

Regarding the application of retirement benefit accounting standards, in accordance with transitional provisions in Paragraph 37 of the Accounting Standard for Retirement Benefits, at the start of the first half of the fiscal year ending March 31, 2015, Terumo adjusted its retained earnings to reflect the impact from changes to calculation methods for retirement benefit obligations and service costs.

Consequently, at the start of the first half of the fiscal year ending March 31, 2015, retirement benefit asset increased by 3,509 million yen and retained earnings increased by 2,258 million yen. Moreover, first half operating income, ordinary income and income before income taxes and minority interests rose 316 million yen, respectively.