

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

Analysis of Business Performance

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

(1) Overview of Consolidated Business Results

During the first three quarters of the current fiscal year (from April 1 to December 31, 2014), performance in the global healthcare industry was mixed. In the United States there were signs of recovery in capital expenditures and operating rates at medical institutions, but in Europe and emerging economies, healthcare spending continued to be curbed and there was still downward pressure on market prices. In Japan, the Pharmaceuticals, Medical Devices and Other Therapeutic Products Act (PMD Act) and the Act on the Safety of Regenerative Medicine took effect on November 25, 2014 paving the way for an environment that is conducive to strengthening safety measures, accelerating the approval screening process, developing pioneering and innovative pharmaceuticals and medical devices, and the practical applications of regenerative medicine. In accordance with these new laws, Terumo filed for the approval of the manufacturing and sales of the skeletal myoblast Sheets as a product for use in regenerative medicine to treat severe heart failure due to chronic ischemic heart disease.

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 structure, Terumo is promoting management that aims to achieve sustainable and profitable growth. The followings are highlights at each Company during the first three quarters of the current fiscal year.

- In the Cardiac & Vascular Company, overseas sales grew double digits for interventional systems and neurovascular intervention business. In addition, sales smoothly expanded for "Ultimaster", a drug-eluting stent, for which sales were launched in Europe in the first quarter.
- In the General Hospital Company, sales increased in the third quarter for high-margin diabetes related products and B2B business, which is directed at pharmaceuticals companies. In light of this, the profit margin increased owing to an improvement in portfolio mix.
- In the Blood Management Company, overall overseas sales continued to grow for automated blood component processing systems and therapeutic apheresis systems, despite the still challenging environment in the United States and Europe.

To further instill the business-led management structure, 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.

Moreover, a partial revision was made to the management of earnings at Terumo’s overseas subsidiaries. Accordingly, starting October 1, 2014, earnings at consolidated subsidiaries Harvest Technologies Corporation and Harvest Technologies GmbH are being posted under the Blood Management Company reporting segment, as opposed to the Cardiac & Vascular Company. The segment information for the first three quarters in the previous fiscal year (April 1, 2013 to December 31, 2013) disclosed herein has been prepared to conform to the revised reporting segments.

Financial results for the first three quarters in the fiscal year ending March 31, 2015 are as follows:

Net sales

Net sales totaled 363.2 billion yen, an increase of 5.2% compared with the same period in the previous fiscal year.

In Japan, net sales came to 138.9 billion yen, a decline of 2.2% compared with a year earlier, reflecting negative impact from reimbursement price revisions in Cardiac & Vascular Company and General Hospital Company, and a drop in the number of blood donations in the Blood Management Company. Meanwhile, net sales overseas were 224.3 billion yen, an increase of 10.4% year-on-year, owing to an expansion in sales of interventional systems and neurovascular intervention business in the United States, Europe, and Asia, and continued strong sales in the Blood Management Company.

Gross profit

Gross profit totaled 190.7 billion yen, a growth of 6.7% in contrast with the same period a year earlier. Although there was negative impact from reimbursement price revisions in Japan, Terumo improved its manufacturing costs, mainly in Japan, and also expanded the sales of high-value-added products in Japan and abroad.

Operating income

Operating income stood at 52.9 billion yen, an expansion of 9.6% versus the same period a year earlier, reflecting an increase in gross profit, and adequate control of expenses, mainly of sales promotion and distribution outlays, which was also carried out in the second quarter.

Ordinary income

Ordinary income was 58.7 billion yen, an increase of 17.6% in comparison with the same period a year earlier, reflecting the growth in operating income and foreign exchange gains, owing to a weaker yen.

Net income

Net income came to 33.4 billion yen, a decline of 9.4% in contrast with the same period in the previous fiscal year, owing in part to business structural losses in tandem with portfolio reforms in the Hospital and Laboratory Business in Europe.

Net sales results by company are as follows:

Adjustments to sales in the first three quarters of the current fiscal year (from April 1 to December 31, 2014) reflect the sale of the home oxygen system and home infusion pump business in the fiscal year ended March 31, 2013, and the next generation implantable left ventricular assist system entered in strategic alliance formed in the fiscal year ended March 31, 2014.

Cardiac & Vascular Company

In Japan, sales declined 2.1% year-on-year due to negative impact from reimbursement price revisions to interventional systems and other products, and despite an expansion in sales consisting mainly of new products in the neurovascular intervention business. Meanwhile, in overseas markets, sales of products for transradial coronary intervention (TRI: a technique using a catheter to approach the coronary artery from a vein in the wrist) were brisk in the United States, Europe, and Asia, and neurovascular intervention business sales continued to trend solidly in various overseas markets.

Consequently, sales in the Cardiac & Vascular Company came to 168.0 billion yen, a growth of 9.9% in comparison with the same period in the previous fiscal year.

General Hospital Company

In Japan, sales fell 2.0% year-on-year, due to negative impact from revisions to reimbursement prices, the consumption tax hike, and revisions to the healthcare insurance system. Overseas sales were up 1.7% year-on-year owing to an expansion in the B2B business targeting pharmaceutical companies, and sales of diabetes-related products.

Accordingly, sales in the General Hospital Company came to 122.5 billion yen, a decrease of 1.2% in contrast with the same period a year earlier.

Blood Management Company

In Japan, sales declined in part due to negative impact from a fluctuation in demand triggered by a

decrease in the number of blood donations. Meanwhile, sales overseas trended briskly for whole blood collection related products, automated blood component collection systems, and therapeutic apheresis systems.

Consequently, sales in the Blood Management Company amounted to 72.7 billion yen, a growth of 6.1% in contrast with the same period in the previous fiscal year.

(2) Overview of Consolidated Balance Sheets

Total Assets

Total assets as of December 31, 2014 totaled 1,027.6 billion yen, an increase of 194.8 billion yen in comparison with March 31, 2014. Current assets stood at 446.4 billion yen, an increase of 135.5 billion yen, owing in part to the issuance of convertible bond-type bonds with subscription rights to shares and foreign exchange translation gains.

Noncurrent assets stood 577.9 billion yen, a rise of 57.6 billion yen, partly reflecting growth investments and foreign exchange translation gains. Property, plant and equipment increased 19.0 billion yen, due in part to investment in production facilities, intangible assets increased 33.4 billion yen, and investments and other assets increase 5.1 billion yen.

Total Liabilities

Liabilities totaled 448.9 billion yen, an increase of 112.3 billion yen, in part reflecting the issuance of convertible bond-type bonds with subscription rights to shares.

Total Net Assets

Net assets were 578.7 billion yen, an increase of 82.5 billion yen.

Reflecting these factors, Terumo's equity ratio came to 56.3%, a decrease of 3.3 basis points in comparison with March 31, 2014.

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

The business environment is likely to remain murky going forward, including changes in the business climate for medical devices. However, Terumo is reiterating its consolidated financial forecasts.

Amid this business environment, to achieve its goals, the Terumo Group aims to introduce and expand sales of high-value-added products that contribute to the improvement of healthcare economics. Furthermore, the Company plans to embark on the reduction of manufacturing costs and the full-fledged implementation of SG&A cost efficiency measures.

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 start of the current fiscal year, Terumo began applying 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 that is 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 current fiscal year, Terumo adjusted its retained earnings to reflect the impact from changes to calculation methods for retirement benefit obligations and service costs.

Reflecting this, net defined benefit assets and retained earnings for the start of the current fiscal year were upwardly adjusted 3,509 million yen and 2,258 million yen, respectively. Meanwhile, operating income, ordinary income and income before income taxes and minority interests for the first three quarters of the current fiscal year were upwardly adjusted 474 million yen, respectively.