

Financial Results for the Fiscal Year Ended March 31, 2015: Reference

Analysis of Business Performance and Financial Position

Analysis of Business Performance

1. Overview of Financial Results for the Fiscal Year Ended March 31, 2015

(1) Overview of Consolidated Business Results

Trends varied in the global healthcare market in the fiscal year ended March 31, 2015. In the United States the healthcare system is undergoing expansion with the aim of improving comprehensive prevention and care services. In addition to ensuring the quality of the nation's healthcare, the goal is to pursue effective management, including an emphasis on preventive medicine and the reduction of unnecessary hospitalization. Countries in Europe continued to roll out measures to reduce healthcare expenditure and experience price pressure in those medical device market. Meanwhile the outlook in emerging countries remained murky owing to factors such as a decline in the value of currencies in these countries versus major currencies and a slowdown in economic growth. Moreover, the global healthcare industry continued to undergo reorganization. This included a mega M&A deal valued at over ¥1 trillion.

Meanwhile, as national healthcare costs climbed to a new high in Japan, there is rising demand to reduce healthcare expenditures and to enhance the medical cost efficiency, including the continued division of medical institution functions backed by revisions to the medical care delivery system. The industry is continuing to lay the groundwork for the discovery of innovative pharmaceuticals, the development of ground-breaking medical devices, and the practical application of regenerative therapies thanks to the enactment of the Pharmaceutical and Medical Device (PMD) Act and the Act to Ensure Safety in Regenerative Medicine, etc. In addition, preparations were carried out to establish the Japan Agency for Medical Research and Development (AMED) in April 2015. The central role of the AMED is to engage in research and development in the field of medicine, and to establish and maintain the R&D environment.

Amid this environment, 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 fiscal year ended March 31, 2015.

- In the Cardiac & Vascular Company, sales grew substantially in the full year at the overseas interventional systems and neurovascular intervention businesses. Meanwhile, the company rolled out the "Ultimaster," a drug-eluting stent, in Europe and Asia. In addition to building up its product lineup, Ultimaster sales also increased.
- In the domestic market, the General Hospital Company operates remained grim due to various obstacles, including negative impact from the consumption tax hike and reimbursement price revisions, and a partial increase in cost burden for senior citizens. Nonetheless, the company

pursued an improvement of its profit, in part by downsizing its low margin businesses.

- In the Blood Management Company, there was negative impact, owing to factors such as price pressure, to a still challenging environment in the United States and Europe. Nonetheless, the company posted an expansion in sales of therapeutic apheresis systems and cell expansion systems. Also, in emerging countries, sales trended steadily for whole blood collection related products and automated blood component collection systems.

To further instill the business-led management structure, in the first quarter of the fiscal year ended 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 previous consolidated fiscal year (April 1, 2013 to March 31, 2014) disclosed herein has been prepared to conform to the revised reporting segments.

Owing to the above initiatives in the fiscal year under review, Terumo’s consolidated financial results are as follows.

Net sales

Net sales totaled 489.5 billion yen, an increase of 4.7% compared with a year earlier.

In Japan, net sales came to 183.1 billion yen, a decline of 3.1% 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 306.4 billion yen, an increase of 10.1% 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 sales growth in the Blood Management Company.

Gross profit

Gross profit totaled 256.0 billion yen, a growth of 5.8% in contrast with the previous fiscal year. 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 mainly in overseas markets.

Operating income

Operating income was 67.5 billion yen, a rise of 3.3% versus the previous fiscal year reflecting the company's adequate control over spending, mainly for sales promotions and logistical costs.

Ordinary income

Ordinary income came to 70.7 billion yen, a growth of 10.9% year-on-year, owing to an increase in operating income and benefit from foreign exchange gains owing to a weaker yen.

Net income

Net income totaled 38.5 billion yen, an increase of 12.8% in comparison with the previous fiscal year.

Net sales results by company are as follows:

Adjustments to sales in the previous fiscal year (April 1, 2013-March 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 strategic alliance that was formed in the next generation implantable left ventricular assist system business in the fiscal year ended March 31, 2014.

Cardiac & Vascular Company

In Japan, sales declined 2.4% year-on-year due to negative impact from reimbursement price revisions mainly affecting the interventional systems business and despite an expansion in sales in the neurovascular intervention business. In overseas markets, sales of products for transradial coronary intervention (TRI: a technique using a catheter to approach the coronary artery from an artery in the wrist), an area the interventional systems business is pouring energies into, remained brisk in the United States, Europe, and Asia. Sales of the Ultimaster drug-eluting stent, which were launched in Europe and Asia, also expanded favorably. In the neurovascular intervention business, sales remained steady in various overseas markets.

Consequently, sales in the Cardiac & Vascular Company came to 229.2 billion yen, a growth of 9.9% in comparison with the previous fiscal year.

General Hospital Company

In Japan, sales fell 2.8% year-on-year, due to negative impact from the consumption tax hike, revisions to reimbursement prices, and a partial increase in cost burden for senior citizens. Meanwhile, overseas sales were up 2.2% year-on-year owing to an expansion in the B2B business targeting pharmaceutical companies.

Accordingly, sales in the General Hospital Company came to 161.5 billion yen, a decrease of 1.6% in contrast with the previous fiscal year.

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, overseas sales grew for therapeutic apheresis systems, and also trended briskly for whole blood collection related products and automated blood component collection systems in the emerging countries.

Consequently, sales in the Blood Management Company amounted to 98.9 billion yen, a growth of 4.2% in contrast with the previous fiscal year.

(2) Research and Development

In Europe, the Cardiac & Vascular Company launched sales of “Accuforce,” a PTCA balloon catheter, a carotid artery stent, and a neurovascular stroke device (clot retriever). In the United States, the company rolled out a coil assist stent for neurovascular uses. Also, preparations were also carried out in Southern California to expand the research and development platform for the development of therapeutic devices for coronary and peripheral intervention. Moreover, the company forged ahead with joint development of a drug eluting bioresorbable scaffold with its partner Arterial Remodeling Technologies SA (ART) of France.

(3) Capital Expenditure

In Japan, Terumo strengthened production lines and the quality system at the Ashitaka factory, with the aim of increasing production of intervention products for which sales are continuing to increase globally. Pharmaceutical production capacity was also increased at the Fujinomiya factory. Also, capital was injected into production facilities for the Yamaguchi factory which is scheduled to newly come on line.

Overseas in addition to capital expenditures to expand the factory in the Philippines and to fortify production of intervention products at the Vietnam factory, Terumo invested in production equipment for the Terumo BCT manufacturing facility in Vietnam. Construction of the facility was completed in July 2014. The company also carried out investments elsewhere to globally enhance quality, improve production efficiency, and boost the competitive strength of its products.

Accordingly, total capital expenditure in the fiscal year under review was 41.4 billion yen.

2. Outlook for the Fiscal Year Ending March 31, 2016

The business-led global management structure aims to clarify responsibility for earnings performance and speed up decision-making by designating authority at each company. Moreover, Terumo plans to move forward with the fortification of its global headquarter functions which support each of its businesses.

The Cardiac & Vascular Company plans to actively develop growth businesses and promote improved profit management to enhance its competitive edge in global markets. In the interventional systems business, the company aims to continue to expand sales of the Ultimaster, a drug-eluting stent, in Europe and Asia, and also launch sales in Japan. In the peripheral intervention market the company is scheduled to launch sales in the United States of Misago, a stent used in the treatment of peripheral artery disease, and accelerate the global expansion of new products, including the PTA balloon catheter. In the neurovascular intervention business, the company continues to aim for a high level of growth as it plans to expand sales of products, including a neurovascular stroke device (clot retriever). In the cardiovascular business, the United States Food and Drug Administration (FDA) lifted sales restrictions sales of an intraoperative monitoring system being handled by US based Terumo Cardiovascular Systems Corporation, and the subsidiary will begin production and sales. In addition, the company is slated to gear up for the establishment of a development base in Southern California. This base will be in charge of handling the acceleration of the company's global growth in the field of therapeutic intervention products.

The General Hospital Company is set to tackle the improvement of business profit via the strengthening of its high-value-added products and full-fledged profit management. In the general hospital products business, the company aims to promote the spread of high-value-added products that contribute to improving medical safety and efficacy, including the SURPLUG AD, a new needleless infusion system. In the Drug and Device business, the company looks to promote strategic partnerships globally. Meanwhile, in the DM and consumer healthcare business, the company plans to expand business operations by promoting the HR Joint, which is equipped with data communications functions to transmit blood glucose level, body temperature, blood pressure and other information.

The Blood Management Company plans to establish a business infrastructure that will facilitate response to growing demand in emerging countries and to improve its cost competitive strength in developed countries. In developed countries, the company expects an expansion in business of therapeutic apheresis systems. In Asia and Latin America, where demand for medical care is growing, the company aims to expand its business by introducing new product offerings that will contribute to an improvement in medical safety and efficacy. The company is also smoothly moving forward with the integration of its production system globally. Consequently, the company plans to gear up for the launch of production at its factory in the southern region of Vietnam.

Terumo aims to achieve its earnings targets for the fiscal year ending March 31, 2016, as well as sustainable growth further out, via the aforementioned initiatives.

Forecast of Consolidated Financial Results

(million yen)

	Results for the fiscal year ended March 31, 2015	Forecast for the fiscal year ending March 31, 2016	Change	Change (%)
Net sales	489,506	520,000	30,493	6.2
Operating income	67,456	70,000	2,543	3.8
Operating margin	13.8%	13.5%		
Ordinary income	70,730	67,000	(3,730)	(5.3)
Net income	38,470	39,500	1,029	2.7

Actual exchange rate for the fiscal year ended March 31, 2015: ¥110/USD, ¥139/EUR

Exchange rate assumption for the fiscal year ending March 31, 2016: ¥120/USD, ¥130/EUR

Analysis of Financial Position

1. Total assets, liabilities and net assets

Total assets stood at 992.1 billion yen as of March 31, 2015, an increase of 159.3 billion yen versus a year earlier. This primarily reflects impact from the issuance of convertible bonds, the acquisition of property, plant and equipment, and exchange rate translations.

Liabilities totaled 418.6 billion yen as of March 31, 2015, an increase of 82.0 billion yen in comparison with a year earlier. This primarily reflects the issuance of convertible bonds.

New assets were 573.5 billion yen as of March 31, 2015, an increase of 77.3 billion yen in contrast with the previous year. This primarily reflects impact from a 29.7 billion yen increase in retained earnings and from exchange rate translations.

2. Cash flows

Net cash provided by operating activities was 73.1 billion yen. During the fiscal year under review, income before income taxes was 64.0 billion yen, depreciation was 30.4 billion yen, and goodwill amortization was 10.3 billion yen. In addition, corporate and other taxes paid were 31.0 billion yen.

Net cash used in investment activities was 40.4 billion yen. This primarily reflects the 37.3 billion yen used to acquire property, plant and equipment.

Net cash provided by financing activities was 44.1 billion yen. This mainly reflects a gain of 100.3 billion yen owing to the issuance of convertible bonds.

(Reference) Cash flow indicators

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Equity ratio (%)	56.7	59.6	57.8
Market cap-based equity ratio (%)	99.7	102.7	121.0
Interest-bearing debt to cash flow ratio (annual)	3.6	1.7	1.7
Interest coverage ratio (x)	37.8	63.2	57.0

Note: Equity ratio = Shareholders' equity/Total assets

Market cap-based equity ratio = Total market capitalization/Total assets

Interest-bearing debt to cash flow ratio = interest-bearing debt/cash flow

Interest coverage ratio = cash flow/total interest payments

*All of the above is calculated on a consolidated basis

*Market capitalization = fiscal year-end share price X the total number of shares outstanding excluding treasury stock

*The cash flow above is the cash flow provided by operating activities as stated in the consolidated statements of cash flows. The interest-bearing debt includes all debt posted in the consolidated balance sheet on which the company pays interest. Also the figure for interest expense in the consolidated statements of cash flows was employed as the amount for interest payments.

Basic policy for profit distribution, dividend payouts in fiscal year ended March 31, 2015, and payout plan for the fiscal year ending March 31, 2016

As a measure to secure high profit margins and sustainable growth, the Terumo Group adequately and actively reinvests profits to constantly enhance its corporate value. This is consistent with the group's pledge to distribute profits to shareholders and maximize the value of its investments.

Terumo aims to steadily increase its dividend payouts to shareholders and has set a medium/long-term dividend payout ratio target of 30%.

In the fiscal year ended March 31, 2015, the company plans to pay cash dividends per share of 30.50 yen. Consequently, this is a per-share year-end dividend of 16 yen, after excluding the 14.50 yen per-share interim dividend the company has already paid out.

That being said, Terumo initiated a 2-for-1 stock split effective April 1, 2014. Factoring in the impact of the stock split, the increase in annual per-share cash dividend was 1.50 yen year-on-year.

In the fiscal year ending March 31, 2016, the company plans annual cash dividends per share of 32 yen (interim dividend of 16 yen).

Business and other risks

The following are potential risks to the business performance and financial position of the Terumo Group.

- Revisions to healthcare administration policies

In the industry in which Terumo operates, healthcare system reform aimed at reducing medical fees and improving the quality of healthcare services is an ongoing trend. A sudden change in the business environment due to an unexpected major turnaround in healthcare administration policies could potentially impact the business performance and financial position of the Terumo Group.

- Fluctuation in selling prices

As a part of its policy to reduce medical costs, the Japanese government enacts reimbursement price revisions once every two years for medical services, drug prices, and special treatment materials. In addition, there is a possibility of a substantial decline in selling prices in Japan and abroad due to

intensified competition with industry peers and advances in technologies. A change in selling prices is likely to have an impact on the business performance and financial position of the Terumo Group.

- Change in raw material prices

Many of Terumo's products are made from plastic and other materials that use crude oil as a raw material. Consequently, a sharp rise in resource prices globally would push up the company's purchasing cost for raw materials. This could potentially impact the business performance and financial position of the Terumo Group.

- Shift in foreign exchange rates

Given that Terumo's headquarters are in Japan and the company therefore conducts operations from Japan, financial statements that are prepared by overseas units and stated in local currencies are translated into yen to create consolidated financial statements. The foreign exchange rates the company applies change in tandem with fluctuations in foreign exchange rates, and impact profit after translation from local currencies.

The company aims to cope with this structurally, such as by transferring production to overseas plants and procuring raw materials from overseas. At the same time, Terumo uses forward contracts to flexibly hedge against the risk to the company's credit.

However, an unexpected fluctuation in exchange rates could possibly impact the business performance and financial position of the Terumo Group.

- Risks related to overseas activities

Terumo supplies products in more than 160 countries and regions. Consequently, in the markets where Terumo is conducting its business activities, potential risks to business performance and financial position include an economic downturn, the accompanying decline in demand, unexpected changes in the political situation, and changes in laws and regulations.

- Quality issues

Terumo employs strict quality management in accordance with GMP and ISO standards for the manufacturing of pharmaceuticals and medical devices.

However, the quality of Terumo's products could come into question should an accident occur, including medical errors. Even if it is clear that the company's product is not directly responsible for the medical error or accident, there is a risk this will have an impact on the future of the company's products. Consequently, in certain cases the company takes preventive measures. These measures could trigger a decline in sales or an increase in costs which could possibly impact the business performance and financial position of the Terumo Group.

- Significant lawsuits

There are risks that could possibly trigger a lawsuit, disputes, or other legal action related to the

company's businesses in Japan and abroad. The legal department, the intellectual property department, and other overseeing departments conduct surveys of these legal risks. There is also an internal check system. The management system facilitates reporting to the Board of Directors and Board of Corporate Auditors when necessary. However, a significant lawsuit including damage claims and injunctions to prevent use of a product or material, could possibly impact the business performance and financial position of the Terumo Group.

- Other

Other potential risks to the business performance and financial position of the Terumo Group include changes in business practices, disasters such as terrorist attacks and war, and the global spread of communicable diseases and new strains of influenza.

Cautionary note:

Forward-looking statements, including earnings forecasts, contained in Terumo's disclosure materials are based on currently available information and assumptions believed to be reasonable by management. This is not a promise or guarantee by Terumo that it will achieve these goals. Please note that the actual results or outcomes could differ due to a number of factors. Key elements that are likely to have an impact on actual earnings performance include economic conditions surrounding the company's business environment, volatility in foreign exchange rates, and competition.

Management policies

1. Basic stance on corporate management

Corporate policy: Contributing to Society through Healthcare

In accordance with this corporate policy, it is the goal of Terumo to make medical advancements and improve healthcare safety. Since its founding in 1921, the company has consistently embarked on the development and expansion of medical devices and pharmaceuticals that satisfy the needs of the medical industry.

Five statements: Open management; enhanced value; safety and reliability; respect for our associates, and corporate citizenship

These statements serve as basic tenets—standards for actions and decisions—for the corporate activities of the Terumo Group.

Global vision: “Innovating at the Speed of Life”

Terumo established this vision in January 2015. It is a roadmap that indicates what initiatives Terumo should engage in and what direction it should take moving forward. This outlines the policy of the Terumo Group, which is to place top priority on the lives of patients, continue to be a partner to medical practitioners, and to create innovations that will improve the life and healthcare of patients.

Furthermore, the company plans to switch from being a company with a Board of Corporate Auditors to being a company with an Audit/Supervisory Committee. The goal of this move is to establish and reinforce the group’s corporate governance. The company aims to strengthen its audit and supervisory functions, improve transparency, and speed up its decision-making process by increasing the number of external directors.

In accordance with these management policies, Terumo aims to optimize corporate value, in particular maximize profits for shareholders, by fortifying its position as Japan’s leader in the medical industry, as well as boosting its share of the global market and improving its brand value.

2. Management strategies in the medium/long term

At present, the goal of the Terumo Group is to become a company with a global presence. The company is implementing a four-year mid-term management plan designed to achieve this goal. Under this mid-term management plan, in the fiscal year ending March 31, 2016, the company plans to achieve an operating margin, prior to goodwill amortization, of 20% by reducing the use and cost of management resources, and expanding sales by offering valued products and services that meet the underlying needs of the healthcare industry. In the medium/long term, Terumo aims to achieve sustainable growth coupled with profits while maintaining a keen awareness of the necessary balance between capital efficiency and financial health.

3. Issues the company should address

The global medical device market is undergoing a period of transformation. In developed countries there is increasing pressure to curb medical costs. In addition to performance and quality, another indispensable element for medical devices is their contribution to the economic efficiency of healthcare. Meanwhile, in emerging countries, demand is growing in tandem with the establishment of a healthcare infrastructure. In Japan, there is a rising demand for long-term care. The market for products and services that target senior citizens is expanding. Terumo is flexibly combining strategies developed to for each of these markets to fulfill diversified demand, and is embarking on sustainable and profitable business expansion.

Basic stance on the selection of accounting standards

In preparation for the future adoption of International Financial Reporting Standards (IFRS), Terumo is currently considering the establishment of procedures, including the creation of an internal manual and guidelines, and the appropriate timing for adoption.