

Financial Results for the Fiscal Year Ended March 31, 2017: Reference

Analysis of Business Performance and Financial Position

Analysis of Business Performance

1. Overview of Financial Results for the Fiscal Year Ended March 31, 2017

(1) Overview of Consolidated Business Results

In the fiscal year ended March 31, 2017, the global healthcare market was highlighted by the following trends. The healthcare industry overseas, primarily in the United States, underwent reorganization, including the acquisition and sale of businesses by major medical device companies. Meanwhile, in Japan, NHI reimbursement prices were revised in April 2016. There is a growing need for medical cost efficiency, including the trial introduction of cost-benefit analysis to achieve a more focused and efficient allocation of fiscal resources.

Amid this environment, in December 2016 the Terumo Group developed a Mid- to Long-term Growth Strategy with a five-year horizon. Furthermore, the company announced new management members that are scheduled to take the reins from April 1, 2017, to ensure the vigorous implementation of the Mid- to Long-term Growth Strategy. Under the guidance of a newly appointed Chairman of the Board, and President and CEO, Terumo Group aims to achieve sustainable and profitable growth as a global corporation with unique excellence.

The following are highlights of performance at each company during the fiscal year ended March 31, 2017.

- In the Cardiac and Vascular Company, access device sales were brisk in the Terumo Interventional Systems (TIS) business. In the fiscal year under review, Terumo added on sales regions for the “Ultimaster”, a drug-eluting stent, launching sales in France, Brazil, and South Korea. In Japan, Terumo poured energies into increasing sales by expanding its product lineup. In July 2016, Terumo acquired Sequent Medical, Inc., a company in the United States that developed a newly-configured medical device for aneurysm embolization. In addition, in January 2017, Terumo acquired the vascular closure device business from St. Jude Medical, Inc. and Abbott Laboratories, both of the United States. In March 2017, the company acquired Bolton Medical, Inc., a company in the United States that conducts the development and manufacturing of stent-graft systems for thoracic aorta treatments.
- In the General Hospital Company, sales in Japan trended briskly for infusion line products, including the needleless infusion system. Meanwhile, in overseas markets, sales momentum in Asia was strong for IV catheters and business-to-business for pharmaceutical companies was brisk in Europe.
- In the Blood Management Company, sales were down year on year reflecting price revisions for products for US blood centers implemented in the second half of the fiscal year ended March 31, 2016, and also due to negative impact from foreign exchange.

Financial results for the fiscal year ended March 31, 2017 are as follows:

Net sales

Net sales totaled 514.2 billion yen, a decrease of 2.1% compared with the previous fiscal year.

(million yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Growth (%)	Growth excluding impact of forex translations (%)
Net sales	525,026	514,164	(2.1)	5.6
Gross profit	282,856	278,000	(1.7)	8.2
Operating income	81,703	76,578	(6.3)	7.1
Ordinary income	73,090	68,552	(6.2)	-
Profit attributable to owners of parent	50,676	54,225	7.0	-

(million yen)

Regional sales	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Growth (%)	Growth excluding impact of forex translations (%)
Japan	187,210	187,000	(0.1)	(0.1)
Europe	101,802	95,013	(6.7)	5.4
Americas	143,462	139,698	(2.6)	8.5
Asia, outside Japan	92,550	92,451	(0.1)	12.6
Other overseas region	337,815	327,163	(3.2)	8.7
Total	525,026	514,164	(2.1)	5.6

In Japan, sales dropped marginally year on year due to impact from the NHI reimbursement price revisions, the wind down of sales contribution from the Ultimaster, which was launched in October 2015, and impact from the transfer of contrast agent sales to Fuji Pharma Co., Ltd. in the same month. On a more positive note, sales were brisk in the neurovascular intervention business, for access devices in the TIS business, and for infusion line products in the general hospital products business. Overseas sales were down. Although sales trended briskly in the TIS business and neurovascular intervention business, and there was contribution from sales in the recently acquired vascular closure device business as well, performance was hindered by the yen's appreciation in value against major currencies companywide.

Gross profit

Gross profit totaled 278.0 billion yen, a decrease of 1.7% year on year. However, the decline in sales due to the yen's appreciation in value was only partially offset by an increase in sales of high-margin products, including access devices, a decline in costs for improving the quality management in Terumo Cardiovascular Systems Corporation in the United States, and an improvement in production costs.

Operating income

Operating income totaled 76.6 billion yen, a decrease of 6.3% year on year. SG&A expenses increased slightly on top of a decline in gross profit.

Ordinary income

Ordinary income was 68.6 billion yen, a decline of 6.2% versus a year earlier, owing to a decrease in operating income, despite a decrease in non-operating expense, in part reflecting a decline in foreign exchange rate translation loss.

Profit attributable to owners of parent

Profit attributable to owners of parent came to 54.2 billion yen, an increase of 7.0% year on year. Terumo posted extraordinary income of 15.7 billion yen owing to the sale of shares in Olympus Corporation. Meanwhile, the company also recorded an extraordinary loss of 7.0 billion yen in tandem with the termination of a contract for the joint development of a bioresorbable scaffold with Arterial Remodeling Technologies (ART) of France in Q3.

Net sales results by company are as follows:

(million yen)

Segment		Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Net sales	258,600	261,529	1.1	11.0
	(Japan)	51,554	50,975	(1.1)	(1.1)
	(Overseas)	207,046	210,554	1.7	14.0
General Hospital Company	Net sales	161,382	157,946	(2.1)	0.3
	(Japan)	124,178	123,797	(0.3)	(0.3)
	(Overseas)	37,203	34,149	(8.2)	2.4
Blood Management Company	Net sales	105,042	94,483	(10.1)	0.0
	(Japan)	11,477	12,023	4.8	4.8
	(Overseas)	93,565	82,460	(11.9)	(0.6)

Cardiac and Vascular Company

In Japan, access device sales trended briskly in the TIS business and performance was strong in the neurovascular intervention business. However, sales in Japan declined due to a wind down in contribution from Ultimaster sales, which were launched in October 2015, and negative impact from revisions to NHI reimbursement prices.

Meanwhile, overseas sales increased. Sales trended solidly for access devices and the Ultimaster in the TIS business, and the company posted double-digit sales growth (forex neutral) in the neurovascular intervention business. Furthermore, there was also sales contribution from the recently acquired vascular closure device business. These positive factors muted the negative impact from a rise in the yen's value against major currencies. Consequently, net sales in the Cardiac and Vascular Company totaled 261.5 billion yen, an increase of 1.1% year on year.

General Hospital Company

In Japan, sales declined in comparison with a year earlier. Although sales were strong for infusion line products, including needleless infusion systems, and for products used in pain management and peritoneal dialysis, sales in Japan were marginally lower reflecting negative impact from revisions to NHI drug reimbursement prices and the transfer of contrast agent sales to Fuji Pharma Co., Ltd. in October 2015. Overseas, sales also fell. Although sales momentum was strong for IV catheters in Asia and business-to-business for pharmaceutical companies was brisk in Europe, performance in the general hospital products business was hindered by downsizing low-profit businesses mainly in Europe and Latin America and negative impact from foreign exchange.

In light of this, net sales in the General Hospital Company came to 157.9 billion yen, a drop of 2.1% year on year.

Blood Management Company

In Japan, sales increased in comparison with the previous year. Sales momentum was strong for automated blood component collection systems shipped to blood centers. Overseas sales fell. This was due to negative impact from revisions to selling prices on products shipped to blood centers in the United States implemented in the second half of the previous fiscal year, and also reflecting negative impact from foreign exchange.

Accordingly, net sales in the Blood Management Company were 94.5 billion yen, a decrease of 10.1% year on year.

(2) Research and Development

In the Cardiac and Vascular Company, Terumo moved forward with the expansion of its lineup for the drug-eluting stent Ultimaster, launching sales of a 4mm stent in August 2016 and a 2.25mm stent in February 2017. The company also began full-fledged sales in Japan of VISICUBE, an intravascular ultrasound system, and AltaView, an intravascular ultrasound catheter, February 2017. In addition to advances in high-resolution imaging and speedier image acquisition and processing, this console is lighter weight and has improved operability. This has shortened the time for prepping for screening and performing a diagnostic procedure.

In the General Hospital Company, Terumo acquired regulatory approval in June 2016 for "Adspray", the first time spray type adhesion barrier in Japan. In addition, in February 2017, the company launched sales of Japan's first intravenous injectable acetaminophen antipyretic analgesic.

In the Blood Management Company, the company developed and initially introduced TACSI, an automated blood

component processing system, the first for blood centers in Japan. In the United States, the Department of Health and Human Services has decided to provide a subsidy, going through the Biomedical Advanced Research and Development Authority (BARDA), for a trial on pathogen reduction technologies Mirasol for platelets preparations.

(3) Capital Expenditure

In Japan, Terumo invested primarily to expand production capacity at the Ashitaka factory and Terumo Yamaguchi Corporation to increase production of intervention products, as interventional systems sales continue to rise globally.

Overseas the company built a new building for MicroVention, Inc., which is located in Southern California, in the United States. The goal is to strengthen product development capabilities in the neurovascular intervention and TIS businesses.

Elsewhere, we also invested to make enhancements at factories in Japan and overseas. This included outlays for boosting quality, production efficiency, and competitiveness of our products.

Accordingly, capital expenditure in the fiscal year under review totaled 39.1 billion yen.

2. Overview of Consolidated Balance Sheets

As of March 31, 2017, total assets stood at 1,021.4 billion yen, an increase of 119.7 billion yen compared with March 31, 2016. This is primarily attributable to corporate acquisitions and business transfers, which pushed up goodwill by 73.6 billion yen and developed technology by 77.6 billion yen.

Total liabilities stood at 531.9 billion yen, an increase of 141.7 billion yen, owing mainly to an increase in short-term loans payable of 119.9 billion yen.

Net assets totaled 489.6 billion yen, a decrease of 22.0 billion yen. This chiefly reflects an increase in treasury stock of 44.2 billion yen.

3. Cash flow trends in the fiscal year ended March 31, 2017

(million yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Change
Cash flows from operating activities	80,303	80,862	558
Cash flows from investing activities	(23,495)	(181,433)	(157,938)
Cash flows from financing activities	(79,936)	60,937	140,873
Cash and cash equivalents as of the end of the fiscal year under review	146,927	105,046	(41,880)

Cash flows from operating activities

Net cash provided by operating activities was 80.9 billion yen. During the fiscal year under review, income before income taxes was 75.0 billion yen, depreciation was 34.2 billion yen, and goodwill amortization was 11.2 billion yen. In addition, corporate and other taxes paid were 24.8 billion yen.

Cash flows from investing activities

Net cash used in investment activities was 181.4 billion yen. This primarily reflects the 119.2 billion yen used to acquire a business, an expenditure of 49.4 billion yen to acquire shares in a subsidiary to change the scope of consolidation, and 29.8 billion yen to acquire property, plant and equipment.

Cash flows from financing activities

Net cash provided by financing activities was 60.9 billion yen. This mainly reflects 44.2 billion yen to buy back Terumo shares and 14.5 billion yen for dividends payment. Other major factors include outflow of 120.0 billion yen for short-term loans, 29.9 billion yen for a bond issuance, and 29.6 billion yen for long-term loans.

(Reference) Cash flow indicators

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Equity ratio (%)	57.8	56.7	47.9
Market cap-based equity ratio (%)	121.0	162.4	133.2
Interest-bearing debt to cash flow ratio (annual)	1.7	1.5	3.0
Interest coverage ratio (x)	57.0	55.5	67.9

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.

4. Mid- to Long-term Outlook

In accordance with the Mid- to Long-term Growth Strategy with a five-year horizon, we aim to achieve earnings targets for the fiscal year ending March 31, 2018 as well as attain sustainable and profitable growth by grasping growth opportunities at each Company and carrying out the following plans.

In the Cardiac and Vascular Company, as the vision for the Mid- to Long-term Growth Strategy, we aim to be recognized as a top brand by medical professionals worldwide in the Cardiac & Vascular Business domains. To achieve this goal, we plan to rank in the top three in each of these domains, enhance our overall quality, including products and services, and thereby provide value required by medical professional worldwide. In the TIS business, we aim for further sales growth for access devices as a whole, by steadily expanding sales of the recently acquired

vascular closure devices. In therapeutic devices, we plan to pour energies into expanding sales in Japan and abroad of the Ultimaster, a drug-eluting stent. We also will continue to push forward with expansion of this product lineup. In Europe, we are scheduled to launch sales of drug-coated balloon catheter for peripheral arteries and radioactive microspheres which are fed to liver tumors using transcatheter arterial embolization. In the neurovascular intervention business, we are slated to launch sales of a new product, a coil for the embolization of aneurysms. We also plan to expand our sales to domain to products other than coils. This includes the roll out of the WEB, newly-configured medical device for cerebral aneurysm embolization. In the CV business, we will pour energies into rekindling sales of heart lung machine. In the vascular business, we look for the smooth integration with Bolton Medical, Inc., which was acquired at the end of March 2017. We also plan investments to boost production and for research and development, to strengthen the development system, and other measures to move forward with establishing an infrastructure that will support the acceleration of growth for the Cardiac and Vascular Company overall.

In the General Hospital Company, our goal is to shift to a stage of sustainable growth by steering in the direction of sales growth by providing unique technologies and services, by enhancing the quality and efficiency of healthcare, and by contributing to drug-delivery innovations. In our business directed at hospitals, we plan to leverage Terumo's comprehensive capabilities to expand business operations, mainly in Japan. We look to build a healthcare platform that will provide a broad product lineup that will include infusion and syringe pumps, needleless infusion system, and anti-cancer drug delivery system and contribute to the improvement of safety in healthcare and enhancement of operational efficiency. We will also pour energies into the development and sales of products that contribute to early release from hospital and better QOL for patients, including pain management products, spray-type adhesion barriers, and the development of an insulin pump that helps control blood sugar for diabetics. In our business aimed at pharmaceutical companies, we plan to undertake development of a prefilled syringe suited for use with biopharmaceuticals, the expansion of a contract manufacturing business that leverages advanced sterilized manufacturing technologies, and the development of high value-added devices that suit the needs of pharmaceutical companies.

In the Blood Management Company, we look to get back on to our growth trajectory. We aim to do so by further enhancing the competitiveness of products that have a high share in their respective markets, and by contributing to improving safety of blood transfusions and by offering diverse treatment methods. In blood centers business, we plan to strengthen our position further by pouring energies into expanding sales of blood component collection systems that have a share of over 50% of the global market, using a next-generation platform. In addition, we plan to globally promote, through the trials in the United States, the use of pathogen reduction technology that improves the safety of blood transfusions. In the field of blood therapies, we aim to pour energies into expanding the applications for therapeutic apheresis systems to strengthen our No. 1 global position further. In the field of cell processing business, owing to the expansion of regenerative medicine, we are looking to increase the use of cell processing, including at research institutes, by strengthening our recommendation of cell expansion systems that efficiently expand cells. In the production front, at our factory in Vietnam, we plan to improve profit margins, by expanding production of disposable products, including blood bags and promoting a cut to production costs.

(million yen)

	Results for the fiscal year ended March 31, 2017	Forecast for the fiscal year ending March 31, 2018	Change	Change (%)
Net sales	514,164	575,000	60,835	11.8
Operating income	76,578	82,000	5,421	7.1
Operating margin	14.9%	14.3%		
Ordinary income	68,552	79,500	10,947	16.0
Profit attributable to owners of parent	54,225	53,000	(1,225)	(2.3)

Actual exchange rate for the fiscal year ended March 31, 2017: ¥108/USD, ¥119/EUR

Exchange rate assumption for the fiscal year ending March 31, 2018: ¥110/USD, ¥120/EUR

5. Basic policy for profit distribution, dividend payouts in the fiscal year ended March 31, 2017 and payout plan for the fiscal year ending March 31, 2018

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, 2017, the company plans to pay cash dividends per share of 42 yen. Consequently, the fiscal year-end dividend is 22 yen per share, and the interim dividend, which has already been paid, was 20 yen per share.

In the fiscal year ending March 31, 2018, Terumo plans annual cash dividends per share of 44 yen (interim dividend of 22 yen).

6. 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

In the industry in which we operate, as a part of government 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, an accompanying decline in demand, unexpected changes in the political situation, and changes in laws and regulations.

- Quality issues

Terumo manufactures products in line with strict quality management carried out in accordance with GMP standards for pharmaceuticals and medical devices and ISO standards for quality management. 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 and compliance department, the intellectual property department, and other overseeing departments conduct surveys and internal checks of these legal risks. The management system

facilitates reporting to the Board of Directors and Audit/Supervisory Committee 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.

- Mergers and acquisitions

Terumo positions mergers, acquisitions, and capital and business affiliations as a key strategy for strengthening its business infrastructure. Going forward, the success or failure of a merger, acquisition, and capital and business affiliation could potential have an impact on 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.

Basic stance on the selection of accounting standards

We plan to voluntarily adopt International Financial Reporting Standards (IFRS) from the fiscal year-end financial announcement for the fiscal year ending March 31, 2018, with the goal of strengthening our corporate governance and improving the precision of our management by enhancing the feasibility to compare financial data internationally and by standardizing our rules globally.