

Q&A at Financial Announcement for Q1 of FYE Mar. 2014

The principal Q&A given during financial announcement for Q1 of FYE Mar. 2014 held on August 1, 2013 are presented as follows. Certain details have been expanded or modified to provide readers with a deeper understanding of Terumo Corporation's performance and activities.

Q1: The temporary factors occurred within overseas Interventional Systems business were originally incorporated into the plan?

A1: A delayed product shipment due to new IT system introduction in EU was unexpected, but we expect it to be recovered in Q2. The inventory adjustment by a local distributor in China was unexpected and not incorporated into the plan neither. As for the business transition of urology guidewire to direct sales in US, we expected it to cause an inventory adjustment at end user level, but the impact was greater than our estimation. As far as we check the conditions in July, these temporary factors both in China and U.S. are already back on the recovery track, thus we don't see them as huge problems.

Q2: It was mentioned that Q1 operating income was in line. What made up for the negative impact by temporary factors within Interventional Systems business?

A2: SG&A expenses were well proceeded according to forecast. Overseas Interventional Systems sales on the whole, which were slightly above the plan, made up for the unexpected negative impact of temporary factors.

Q3: The operating margin in General Hospital business dropped in Q1. Was this caused by "lowered plant productivity"?

A3 : Compared to Q4/FY12, a plant productivity was improved in Q1/FY13. However, compared to Q1/FY12, in which there was no burden on plant productivity by new product launch, and in which there was great increment on operating profit by sales increase, the impact of "lowered plant productivity" turned to be significant in Q1/FY13.

Q4: How significant was negative temporary factors on operating income?

A4: The effect of temporary factors, which occurred in Q1/FY12, amounted 1.4 billion yen. The inventory re-evaluation on TCVS products, which brought an increment on operating income in Q1/FY12, generated negative difference in Q1/FY13. Additionally, the manufacturing operation of our CV products was temporarily raised in Q1/FY12 since a

competitor's plant was stricken by earthquake, resulting in negative difference in Q1/FY13. Both temporary factors and associated costs will be resolved in Q2 and the rest of fiscal year. The cost for quality system improvement in TCVS amounted 1.5 billion yen in this Q1. It was peaked out and will be reduced for the rest of fiscal year.

Q5: How much will be the cost for quality system improvement in TCVS in Q3 and the rest of fiscal year?

A5: We expect to spend slightly over 3 billion yen for this fiscal year. The cost in 2H will be about 1.2 billion yen.

Q6: The gain on sale of DH-II seems not be posted in extraordinary income. Will it be paid later in this fiscal year?

A6: The upfront payment will actually be made in Q2. In accounting practice, it is already reported. The assets sold includes the ones to be devaluated, thus the net amount was reported.

Q7: What is the current status of THI after the announcement of sale of DH II, and how will it be positioned hereafter?

A7: The R&D engineers for DH II in THI have already been transferred to Thoratec. The associates responsible for DH manufacturing remain with THI. We have a plan to pay off the rest of associates. We are preparing for the procedure.

Q8: What were the sales of Nobori and Misago in Q1, domestic and overseas?

A8: With Nobori, its sales was 1.8 billion yen in Japan and 2.1 billion yen outside Japan. With Misago, its sales was 0.9 billion yen in Japan and 0.2 billion yen outside Japan.

Q9: What is "Lowered plant productivity" which affected the drop in gross margin?

A9: It was largely affected by new products introduction. Additionally, increase in fixed cost due to currently made capital investment had a negative impact.

Q10: What is the impact of "inventory re-evaluation"?

A10: The inventory re-evaluation of TCVS products, which brought an increment on operating income in Q1/FY12, generated negative difference in Q1/FY13.

Q11: Do you expect positive FX impact for Q2 and the rest of fiscal year?

A11: Since we are increasing the investments for growth business areas outside Japan, FX impact on SG&A will be greater, resulting in a weaker FX sensitivity at operating income. However, if FX remains current level, there will be still positive FX impact on 1H at certain degree.

Q12: Was “Lowered Plant Productivity” an anticipated factor? Do you expect this to be resolved in Q2?

A12: In the details, there are minor surprises, however, as a whole, it was as expected. It will be resolved in Q2 and the rest of fiscal year.

Q13: General Hospital sales in Japan seems weak. Have new products contribute to growth yet?

A13: Compared to Q4/FY12, sales of new products increased significantly. However, compared to plan, the new safety IV catheter reached only 70% of its sales plan. As for Smart Pump, a ramp-up of its sales was slightly slower than plan.

Q14: In Chinese market, there seems to be various risk factors, including macro economy. In Chinese medtech market, are there any specific and foreseen risk factors?

A14: We still haven't seen any negative impact of the bribery case by a foreign pharmaceutical company on medtech industry. Meanwhile, even before the described case, there has been distribution reform going on to control healthcare cost. We will enhance direct marketing capability to cope with such trend and expand our business in China.

Q15: If FX remains current level, will “foreign exchange gains and losses” be neutral in Q2?

A15: Yes, it will be.

Q16: Inventory seemed to increase. Is there any risks of eliminating unrealized profit?

A16: We have been controlling inventory level with considering the impact by eliminating unrealized profit. More than half of increase in Q1 inventory came from the impact of FX. Therefore, also with considering FX impact, we will continuously control inventory level.