

Analysis of Business Performance

1. Overview of Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2013

(1) Overview of consolidated business results

In the first three quarters (April 1, 2012 to December 30, 2012) of the current fiscal year, significant political changes occurred in major markets, including the presidential election in the United States and the leadership handover in China. From the overall perspective of global healthcare markets, however, no major changes in ongoing trends are expected. In Japan, the Industrial Competitiveness Council, which has been newly established by the new political administration, has positioned health as an important field for strategic market creation, and is examining specific measures for implementing growth strategies through regulatory reforms to healthcare and care-giving. In addition, regenerative medicine is expected to expand in Japan in light of the government's decision to provide long-term funding of about 110 billion yen over the next 10 years to research on induced pluripotent stem cells (iPS cells), for which Dr. Shinya Yamanaka of Kyoto University received the 2012 Nobel Prize in Physiology or Medicine.

Turning to the Terumo Group's operations, the Cardiac & Vascular Business was affected by the revision of drug and standard prices set under the National Health Insurance system in Japan, but sales rose steadily outside the country on a local currency basis. The Group's Blood Management Business continued on a steady recovery, especially outside Japan. The General Hospital Business turned in steady performance even though sales from successive releases of new products have yet to contribute significantly.

The Terumo Group is currently carrying out its three-year mid-term management plan, which commenced in the previous fiscal year, with the aim of becoming a company with a global presence. The Group's main initiatives under the plan in the first three quarters of the current fiscal year are described as follows:

- In the Cardiac & Vascular Business, Terumo established a strategic business alliance with Shanghai AngioCare Medical Technology Co., Ltd., a Chinese firm that develops and manufactures renal denervation catheters, for which the market is projected to expand globally in the future. Sales through this alliance are expected to commence in China in fiscal 2015. The scale of the market for these products in China is forecast to exceed 50 billion yen by 2020, and Terumo is aiming to gain a market share of about 20%. Accordingly, Terumo is planning to

expand its business in interventional systems on the basis of its strategy of localizing manufacturing and sales in China going forward.

- In the Blood Management Business, Terumo acquired a site near Ho Chi Minh City, Vietnam, to build a new factory for manufacturing blood bags and automated blood collection system disposable kits for export to developed countries. The new factory is scheduled to commence operations around the summer of 2015. In addition, Terumo decided to make Terumo Penpol Ltd. a wholly owned subsidiary, and will operate it as a center for manufacturing products destined for emerging countries. Based in India, the firm has been manufacturing Terumo's whole blood collection-related products for emerging countries. By positioning Terumo Penpol as its main production center for exports to such countries, and the new factory in Vietnam as a production base for advanced countries, Terumo is setting up a global manufacturing network.
- In the General Hospital Business, Terumo has released a succession of new products, aiming to expand its lineup of infusion systems. These products include Terufusion[®], a new infusion pump equipped with Terumo's originally developed IT functions designed to improve the safety of drug administration; SurFlo V3[®] an intravenous catheter with an attached needle-stick prevention mechanism designed for safe intravenous injections; and Fulcaliq[®], a high-calorie infusion device fitted with new safety containers.

Terumo's consolidated performance in the first three quarters of this fiscal year is presented below.

Net Sales

Net sales totaled 295.7 billion yen, an increase of 2.4% compared to the same period of the previous fiscal year. Of this amount, net sales in Japan were 142.1 billion yen, down 0.8% year on year, mainly due to the impact of the revision of drug and standard prices, particularly the impact on the Cardiac & Vascular Business. In contrast, net sales outside Japan increased 5.5% to 153.7 billion yen, reflecting ongoing robust sales of interventional systems and a firm recovery in the Blood Management Business.

Gross Profit

Gross profit slipped 0.3% compared to the same period of the previous fiscal year to 153.5 billion yen. While Terumo benefited from a shift toward highly profitable products, the revision of drug and standard prices had a negative impact.

Operating Income

Operating income totaled 42.6 billion yen, down 14.5% year on year. This decrease was mainly due

to increased research and development costs as well as selling, general and administrative expenses, which included investments intended to foster business growth.

Ordinary Income

While ordinary income was affected favorably by the depreciation of yen, the interest payments had a negative impact. As a result, it decreased 12.7% year on year to 40.5 billion yen,

Net Income

Net income amounted to 24.7 billion yen, an increase of 12.5% compared to the same period of the previous fiscal year.

Net sales results by business segment are as follows.

As of the beginning of the first quarter of the current fiscal year, Terumo integrated the Consumer Healthcare Business into the General Hospital Business, thereby reorganizing the business segments in its financial reports from four segments to three: the General Hospital Business, Cardiac & Vascular Business, and Blood Management Business.

General Hospital Business

Sales in Japan remained steady for semi-solid nutritious foods, which target the chronic care market. Sales were also robust for contrast media, disposable medical devices in the Drug and Device (D&D) business. Consequently, earnings increased compared to same period of the previous fiscal year. Meanwhile, outside Japan sales increased on a local currency basis in China and other Asian countries, but fell in the Americas and Europe.

As a result of these factors, net sales in the General Hospital Business totaled 119.8 billion yen, up 2.4% compared to the same period of the previous fiscal year.

Cardiac & Vascular Business

In Japan, while sales of the Nobori drug-eluting coronary stent have been on the decline owing to the revision of drug and standard prices, and also the release of new products by competing companies, sales gradually recovered after bottoming out. Outside Japan, Terumo's business of the interventional systems continued to perform strongly in principal markets such as Europe, North America, and China. Particular in North America, the penetration of TRI (interventional treatment of approaching the coronary artery from the blood vessels of the wrist) is increasing.

As a result of the above, net sales in the Cardiac & Vascular Business amounted to 122.3 billion yen, an increase of 3.1% compared to the same period of the previous fiscal year.

Blood Management Business

Sales increased in Japan and outside Japan compared to the same period of the previous fiscal year. As a result, net sales in the Blood Management Business edged up 0.8% year on year to 53.7 billion yen.

(2) Overview of consolidated balance sheets

Assets

As of December 31, 2012, the end of the third quarter of the current fiscal year, total assets amounted to 715.1 billion yen, an increase of 22.6 billion yen compared to the end of the previous fiscal year on March 31, 2012. Of that amount, current assets totaled 262.9 billion yen, up 6.0 billion yen. Noncurrent assets also increased, rising 16.5 billion yen to 452.2 billion yen. Main components included increases of 7.8 billion yen in property, plant and equipment, 4.8 billion yen in intangible assets, and 3.9 billion yen in investments and other assets.

Liabilities

During the same period as above, total liabilities amounted to 330.1 billion yen, a decrease of 9.9 billion yen. Of that amount, current liabilities totaled 115.3 billion yen, down 42.7 billion yen mainly owing to a decrease in short-term loans payable of 35.7 billion yen. Meanwhile, noncurrent liabilities amounted to 214.7 billion yen, a rise of 32.7 billion reflecting an increase in long-term loans payable of 29.9 billion yen.

Net assets

Total net assets amounted to 385.0 billion yen, an increase of 32.5 billion yen. As a result, the equity ratio was 53.8% as of December 31, 2012, up 2.9 percentage points compared to March 31, 2012.

(3) Forecast of consolidated results for the fiscal year ending March 31, 2013

The future outlook for Terumo's operating environment continues to be unclear because of the unsteady value of the yen, changes happening in the medical devices market, and other factors. However, Terumo has not revised its forecast of consolidated results for the current fiscal year.

Amid harsh conditions in its operating environment, the Terumo Group is working to launch high-value-added products that can contribute to making healthcare more economical. To achieve its financial targets, the Group is pursuing measures designed to further decrease production costs and to manage selling, general and administrative expenses more strictly and efficiently.