

Financial Results for the Fiscal Year Ended March 31, 2014: Reference

Analysis of Business Performance

1. Overview of Financial Results for the Fiscal Year Ended March 31, 2014

(1) Overview of Consolidated Business Results

During the fiscal year under review, conditions were generally severe in the global healthcare market as pressure mounted in developed countries to control healthcare costs. Nevertheless, in the United States, individual enrollment in the government's new private healthcare coverage began in January 2014 in accordance with the Affordable Care Act, and the government reached its target of registering 7 million people. This is expected to be highly beneficial for the medical devices industry as the number of people using healthcare services increases in the future.

In Japan, a revised version of the Pharmaceutical Affairs Law was enacted in November 2013. Designed to promote greater utilization of medical devices, the revised law broadens the range of devices subject to certification by third-party organizations in the private sector, and sets forth measures for speeding up review and approval process of medical devices. Meanwhile, the Japanese government has been taking steps to set up a Japanese version of the U.S. National Institutes of Health (NIH) as one of its specific growth strategies. Conditions for facilitating this system moved forward with the Cabinet's approval of a bill for "Healthcare and Medical Strategy Promotion", as well as a bill for establishing "Japan Medical Research and Development Agency".

Under these circumstances, Terumo is presently carrying out its mid-term management plan with the goal of becoming a company with a global presence. Amidst favorable exchange rates, the Company achieved increases in sales and profit compared to the previous year. Major achievements in each business segment were as follows.

- In the General Hospital Business, Terumo launched the first intravenous injectable acetaminophen antipyretic analgesic in Japan, as it worked to expand business in the fields of cancer treatment and post-surgery pain management. In the diabetes management market, Terumo recorded strong sales of blood glucose monitoring systems and NANOPASS 34, which, as the world's thinnest insulin pen needle, is specially designed to minimize pain.
- In the Cardiac & Vascular Business, sales of Misago stent for treating peripheral artery disease contributed significantly to Terumo's performance in Japan's peripheral disease market. In the neurovascular intervention market, Terumo steadily expanded business as it commenced worldwide sales of new products including flow diverting stents and occlusion balloons. Meanwhile, sales of products related to transradial coronary intervention (TRI), an interventional treatment for approaching the coronary artery from the blood vessels in the wrist, continued to grow, particularly in North America.
- In the Blood Management Business, while market conditions were difficult in Europe and the United States

owing to a patient blood management program and other factors, Terumo commenced sales of new automated blood component processing systems in Europe, and recorded robust sales of whole blood collection related products in Japan. Meanwhile, double-digit sales growth continued in emerging countries in Eastern Europe, Asia, and Central and South America, particularly for automated blood component collection systems.

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

Net sales

Compared to the previous fiscal year, net sales increased 16.2% to 467.4 billion yen.

Of this amount, net sales in Japan came to 189.0 billion yen, up 1.7% year on year, reflecting ongoing sales growth of blood glucose monitoring systems in the General Hospital Business segment, as well as improved results for the Misago peripheral artery stent and a new percutaneous transluminal coronary angioplasty (PTCA) dilation catheter in the Cardiac & Vascular Business segment, and increased sales of automated blood component collection systems and blood bags in the Blood Management Business segment. Outside Japan, net sales jumped 28.6% to 278.3 billion yen year on year, driven by increased sales of automated blood component collection systems and business expansion in emerging countries for the Blood Management Business segment, as well as a strong performance by the Interventional Systems business, particularly in the Americas.

Gross profit

Gross profit totaled 242.0 billion yen, an increase of 17.7% compared to the previous fiscal year. Improved profits due to the depreciating yen and expanded lineups of highly profitable products in the Cardiac & Vascular Business and Blood Management Business offset the delay of new products expansion in the General Hospital Business, yielding the overall growth.

Operating income

Operating income jumped 22.7% year on year to 65.3 billion yen. Despite increases in R&D expenses and selling, general and administrative expenses, which include investments intended to foster business growth, operating income grew as a result of the increase in gross profit on the back of sales growth and the benefits of the depreciating yen.

Ordinary income

Ordinary income totaled 63.8 billion yen, up 24.2% compared to the previous fiscal year. Favorable exchange rates resulting from the depreciating yen contributed to the increase.

Net income

Net income decreased 27.5% year on year to 34.1 billion yen. The decrease was mainly due to impairment loss on noncurrent assets resulting from non-profitable business facilities, despite extraordinary income of 6.0 billion yen

from a settlement received.

Net sales results by business segment are as follows.

Sales and expenses related to home oxygen system business and home infusion pump business sold off in previous fiscal year and next generation implantable left ventricular assist system entered in strategic alliance in this fiscal year are allocated to “Adjustments.”

General Hospital Business

In Japan, although a delay in new products expansion related to infusion systems had a negative impact on sales and profits, sales of prefilled syringes and products related to blood glucose monitoring systems continued to grow, driving up overall sales by 1.3% year on year. Outside Japan, sales expanded in all countries in Asia. As a result of these factors, net sales in the General Hospital Business segment rose 5.9% compared to the previous fiscal year, amounting to 164.1 billion yen.

Cardiac & Vascular Business

In Japan, Terumo boosted sales by expanding its product range in each therapeutic field, including its Interventional Systems product lineup of Misago stents for treating peripheral artery disease, and the Hiryu Plus of PTCA dilation catheters. Outside Japan, the Interventional Systems business continued to generate strong results as the adoption of TRI grew in popularity in North America. In the Neurovascular Business, sales of new products including stents expanded globally. As a result of these factors, net sales in the Cardiac & Vascular Business segment amounted to 210.6 billion yen, up 24.1% compared to the previous fiscal year.

Blood Management Business

While competition intensified in Japan, sales of whole blood collection related products and automated blood component collection systems increased, driving up overall sales by 7.3% year on year. Outside Japan, although a patient blood management program negatively impacted demand in Europe and the United States, sales of new automated blood component processing systems expanded in Europe, and sales of automated blood component collection systems continued to grow in emerging countries. Owing to these factors, net sales in the Blood Management Business segment rose 24.1% year on year to 92.7 billion yen.

(2) Research and Development

In the Cardiac & Vascular Business, Terumo commenced sales of the Glidesheath Slender sheath for TRI in the United States, along with flow diverting stents and occlusion balloon for the neurovascular intervention markets in Japan and Europe. The Company also gained CE mark certification for its Ultimaster drug-eluting stent in February 2014, and will begin sales in Europe from June 2014.

With the aim of expanding a future product pipeline, Terumo secured exclusive acquisition rights from Arterial

Remodeling Technologies S.A., a French company developing bioresorbable scaffold, and has concluded an agreement to pursue joint development and a series of investments. Terumo is also investing in Emergent Medical Partners II L.P., a U.S. venture capital fund, in an effort to gain the latest technological expertise. The Company has transferred a development project to an incubator center, and has started initiatives for achieving rapid commercialization.

(3) Capital Expenditure

Terumo expanded production lines at its Ashitaka Factory in Japan for the purpose of boosting production of its lineup of interventional systems products, for which sales continue to increase globally. The Company also expanded production lines of prefilled syringes at its Fujinomiya Factory, and invested in its Kofu Factory to increase production of blood glucose monitoring related products. In addition, Terumo is planning to bring its new Yamaguchi Factory on line, and invested in the building structure and production facilities for this purpose.

Outside Japan, Terumo undertook capital investments for its factory in the Philippines in order to boost production of needles. It also invested in expanding and transferring production of its interventional system line of products to its factory in Vietnam, and began construction of a factory that will produce blood management related products in the southern part of Vietnam. In addition, the Company undertook capital expenditures for improvements and upgrades in order to improve quality, productivity, and product competitiveness.

As a result of these initiatives, capital expenditures amounted to 46.6 billion yen in the fiscal year under review.

2. Outlook for the Fiscal Year Ending March 31, 2015

Aiming to accelerate initiatives designed to accomplish its mid-term management plan, Terumo will reorganize its organization from a matrix management structure to operate business, functions, and region, to globally aligned “company-led management”. This shift is intended to speed up decision-making by designating authority and clarifying accountabilities in connection with profits in each business, and to enhance the corporate functions of headquarters so that it can better support each business and create portfolio strategies based on a group-wide perspective.

In the General Hospital Business, Terumo intends to closely manage profits while stepping up marketing of high-value-added products that help prevent medical errors and improve efficiency at hospitals and clinics. These products include the SURPLUG AD needleless system as well as infusion pumps and syringe pumps equipped with IT functions. In addition, Terumo plans to expand its Drug and Device (D&D) Business as a growth area by continuing to boost its market share of proprietary products in Japan and more quickly forming globally strategic business alliances.

In the Cardiac & Vascular Business, Terumo will carefully manage growing profits, and reduce production cost by making use of production plants outside Japan, particularly in Asia. In the Interventional Systems business, the

Company will begin selling its new Ultimaster drug-eluting stent in Europe and Asia in June 2014. Terumo will step up the pace of its global development of a full lineup of new products for the peripheral market, such as PTA balloon catheters and intervention wires, while continue launching non-coil products in the neurovascular intervention market. In the Cardiovascular Business, Terumo will work to steadily improve quality systems at Terumo Cardiovascular Systems Corporation in the United States in preparation for re-inspections by the U.S. Food and Drug Administration in fiscal 2014.

In the Blood Management Business, Terumo faces challenging market conditions as a result of a patient blood management program in developed countries, among other factors. Nevertheless, the Company will expand business of automated blood component collection system in emerging countries and enhance products for the therapeutic apheresis market while setting up production facilities in Asia, in an effort to continue ensuring stable growth and steady profit.

By means of these initiatives, Terumo is aiming to realize its financial targets for the fiscal year underway and achieve continuous growth in profits going forward.