

Financial Results for the First Half of the Fiscal Year Ending March 31, 2014: Reference

Analysis of Business Performance

1. Overview of Financial Results for the First Half of the Fiscal Year Ending March 31, 2014

(1) Overview of Consolidated Business Results

In the first half of the current fiscal year (from April 1 to September 30, 2013), various circumstances affected the healthcare market. In the United States, issues surrounding the health insurance reforms put forth under President Obama led to confrontations between the political parties in Congress, culminating in a partial government shutdown. The market outlook remains unclear as these reforms are set for full implementation in 2014.

In Japan, the government has commenced efforts to centralize healthcare-related budgets as it moves toward realizing a Japanese version of the U.S. National Institutes of Health (NIH), which will oversee research and development in designated healthcare fields, modeled after the NIH. In budgetary requests for fiscal 2014, 138.2 billion yen of the amount budgeted for R&D in healthcare fields by three ministries (the Ministry of Health, Labour and Welfare, the Ministry of Education, Culture, Sports, Science and Technology, and the Ministry of Economy, Trade and Industry) is targeted for centralization. For the Japanese version of the NIH, the government has decided to proceed with nine projects involving the cooperation of each ministry, including initiatives classified by type of illness such as cancer or intractable diseases, and is working to prepare the healthcare environment for the implementation of growth strategies.

Under these circumstances, Terumo is presently carrying out its four-year mid-term plan, which started from this fiscal year, with the goal of becoming a company with a global presence.

In the first half of the fiscal year under review, Terumo's sales and profit increased year on year as the Group's businesses outside Japan continued to benefit from the depreciation of the yen, which began falling from the beginning of the current fiscal year. In the Cardiac & Vascular Business segment, sales of Misago, a stent for treating peripheral artery disease, remained robust in Japan, while the Interventional Systems business performed favorably outside the country. The Blood Management Business segment secured sales growth both in Japan and overseas, despite rapid changes in the market environment that began to have an effect on sales. Meanwhile, in the General Hospital Business segment, strong sales were generated by the Drug and Device (D&D) business and Diabetes Management business.

Other major achievements were as follows:

- In the Cardiac & Vascular Business, Terumo launched the Glidesheath Slender in the United States as a pipeline product under its mid-term plan. The Glidesheath Slender is an extremely

thin sheath used for transradial coronary intervention (TRI), an interventional treatment for approaching the coronary artery from the blood vessels in the wrist. By making only the outer diameter of the sheath smaller and leaving the inner diameter the same, Terumo has enabled patients with small blood vessels to undergo this treatment. The sheath is also expected to help further minimize the invasiveness of treatments because it can lower the risk of damage to the inner wall of the blood vessel. In addition, a live demonstration using the company's transradial renal nerve ablation catheter for hypertension treatment was conducted at an academic conference in the U.S., and received very high acclaim from participants. Meanwhile, good initial sales were recorded for new products launched in the peripheral and neuro endovascular markets.

- In the Blood Management Business, Terumo's automated blood component processing systems, which were launched in Europe, are winning praise in clinical settings for their contribution to improving the operational efficiency of blood centers. Widespread usage of blood component collection systems in emerging countries is also driving up sales.
- In the General Hospital Business, Terumo's smart pumps, which are equipped with IT functions designed to improve the safety of drug administration, continued to be adopted worldwide, including by university hospitals in Japan and by hospitals in the Middle East and Europe.

Owing to the factors above in the first half of the current fiscal year, Terumo's consolidated financial results are as follows:

Net Sales

Compared to the same period of the previous fiscal year, net sales increased 17.8% to 226.0 billion yen.

In Japan, net sales increased 1.7% to 93.2 billion yen year on year, mainly on the back of strong results in the Cardiac & Vascular Business. Outside Japan, net sales jumped 32.5% to 132.9 billion yen year on year, primarily due to continuously robust sales in the Interventional Systems business and to the positive impact of the depreciating yen.

Gross Profit

Gross profit rose 16.5% to 117.1 billion yen compared to the same period in the previous fiscal year. This was mainly due to favorable exchange rates and a successful shift to highly profitable products, despite the negative effects of inventory valuation.

Operating Income

Operating income amounted to 30.5 billion yen, up 8.0% year on year as a result of controlling

selling, general and administrative expenses as well as research and development expenses according to management plans.

Ordinary Income

Ordinary income rose 22.1% to 29.6 billion yen year on year, mainly owing to favorable exchange rates resulting from the depreciating yen.

Net Income

Net income totaled 19.5 billion yen, a year-on-year increase of 34.0%.

Net sales results by business segment are as follows.

General Hospital Business

In Japan, despite the effects of selling off home therapy businesses in the previous fiscal year, sales remained on par with the same period in the previous fiscal year owing to strong results in the Drug and Device business and Diabetes Management business. Outside Japan, however, sales decreased on a local currency basis in North America and Europe, where subsidiaries are taking steps to improve profitability. Nevertheless, on a local currency basis, overseas sales overall increased year on year due to favorable sales results in Asia and Central and South America.

As a result of these factors, net sales in the General Hospital Business segment amounted to 81.2 billion yen, up 5.2% year on year.

Cardiac & Vascular Business

In Japan, sales of the Misago peripheral artery stent have grown steadily since its launch. Meanwhile, the Interventional Systems business performed strongly outside Japan, especially in Europe and the United States. Sales of TRI-related product lineups in particular continued to expand in the U.S., reflecting the growing popularity of this treatment. In the neuro endovascular market, sales of Terumo's new balloon catheters and stents grew markedly.

As a result of the above, net sales in the Cardiac & Vascular Business amounted to 100.8 billion yen, an increase of 25.4% year on year.

Blood Management Business

Sales in Japan increased year on year on the back of strong sales of automated blood component collection systems. Outside Japan, sales of therapeutic apheresis systems continued to grow steadily.

Owing to these factors, net sales in the Blood Management Business rose 28.5% year on year to

44.1 billion yen.

(2) Overview of Consolidated Balance Sheets

Assets

As of September 30, 2013, total assets amounted to 802.5 billion yen, up 31.5 billion yen compared to March 31, 2013. Of this amount, current assets increased 5.6 billion yen to 292.5 billion yen, primarily due to increases in accounts receivable trade and the value of inventories in line with the increase in net sales. Noncurrent assets were up 25.6 billion yen to 509.3 billion yen, mainly owing to the effect of exchange rates and increased investments intended to foster business growth. Property, plant and equipment rose 12.7 billion yen as a result of investment in Terumo Yamaguchi and others. Meanwhile, intangible assets increased 6.0 billion yen and investments and other assets were up 6.9 billion yen.

Total Liabilities

Total liabilities decreased 0.5 billion yen to 332.6 billion yen. Of this amount, current liabilities amounted to 113.3 billion yen, a decrease of 2.5 billion yen mainly due to the repayment of short-term loans payable. Noncurrent liabilities totaled 219.2 billion yen, up 2.0 billion yen, primarily due to an increase in long-term debt resulting from the impact of exchange rates.

Net Assets

Net assets totaled 469.9 billion yen, an increase of 32.0 billion yen. Consequently, the share holders' equity ratio was 58.6%, up 1.8 percentage points compared to March 31, 2013.

(3) Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2014

Terumo's operating environment continues to be uncertain due to fluctuations in exchange rates, changing conditions surrounding the medical device market, and other factors. Although, the company made no revisions to its consolidated financial forecasts for the current fiscal year. Amidst challenging business conditions, the Terumo Group is working to achieve its targets by launching high-value-added products that improve medical cost efficiency, as well as implementing measures to reduce manufacturing costs, and strictly and efficiently managing selling, general and administrative expenses.