Financial Results for the First Half of the Fiscal Year Ending March 31, 2015 (FY2014)

Terumo Corporation
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November 5, 2014

I, Kitabatake, will now give an overview of results from the first half of the financial period ending March 2015.

Highlights in 1H

Corporate	■ Secured increase both in sales and profit while absorbing reimbursement price cut in Japan
Cardiac & Vascular	■ Grew overseas IS and Neurovascular businesses at double digit while absorbing declined domestic sales due to reimbursement price cut in JP ■ Launched Ultimaster (new DES) in Asian and Latin American countries as well as Europe
General Hospital	■ In Japan, on top of recoil reduction in demand following the consumption tax increase, the effect of restrained consultation due to revision of public insurance system has seen ■ Reduced manufacturing cost of General Hospital Products
Blood Management	■ Sustained increase in sales and profit under the challenging market environment ■ Achieved continuous sales growth in overseas automated blood component processing system and therapeutic apheresis

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First, the results highlights.

The highlights for this first half included increased sales and profits, continuing the trend from the first quarter.

Driving this was the Cardiac & Vascular Company, with double-digit growth in overseas interventional systems and neurovascular products the main factor.

In the Blood Management business, new products performed well and allowed the business to maintain sales and profit growth despite what remained a difficult market environment.

As was explained in the first quarter results announcement, the General Hospital Company was affected in the first quarter by the consumption tax increase; in the second quarter it was affected by the restrained patients consultation due to health insurance revision, and other factors that led to difficulty in sales numbers. However, cost improvement continues for general hospital products.

Mr. Matsumura, who is in charge of the General Hospital Company, will give a more detailed explanation of this hereafter.

Increase in Sales and Profit: Operating Income Up by 8%

(Billion yen)

	1H FY2013	1H FY2014	YoY%	YoY% (Excl. FX)
Net Sales	226.0	233.3	+3%	+0%
Gross Profit	117.2 (51.8%)	122.9 (52.7%)	+5%	+1%
SG&A Expenses	71.4 (31.5%)	76.3 (32.8%)	+7%	
R&D Expenses	15.3 (6.8%)	13.6 (5.8%)	-11%	
Operating Income	30.5 (13.5%)	33.0 (14.1%)	+8%	+3%
(Excl. Amortization)	38.5 (17.0%)	41.3 (17.7%)	+7%	+3%
Ordinary Income	29.6 (13.1%)	34.0 (14.6%)	+15%	
Net Income	19.5 (8.6%)	21.9 (9.4%)	+12%	

Average exchange rate		1H FY2013	1H FY2014
	US$	99 yen	103 yen
	EUR	130 yen	139 yen

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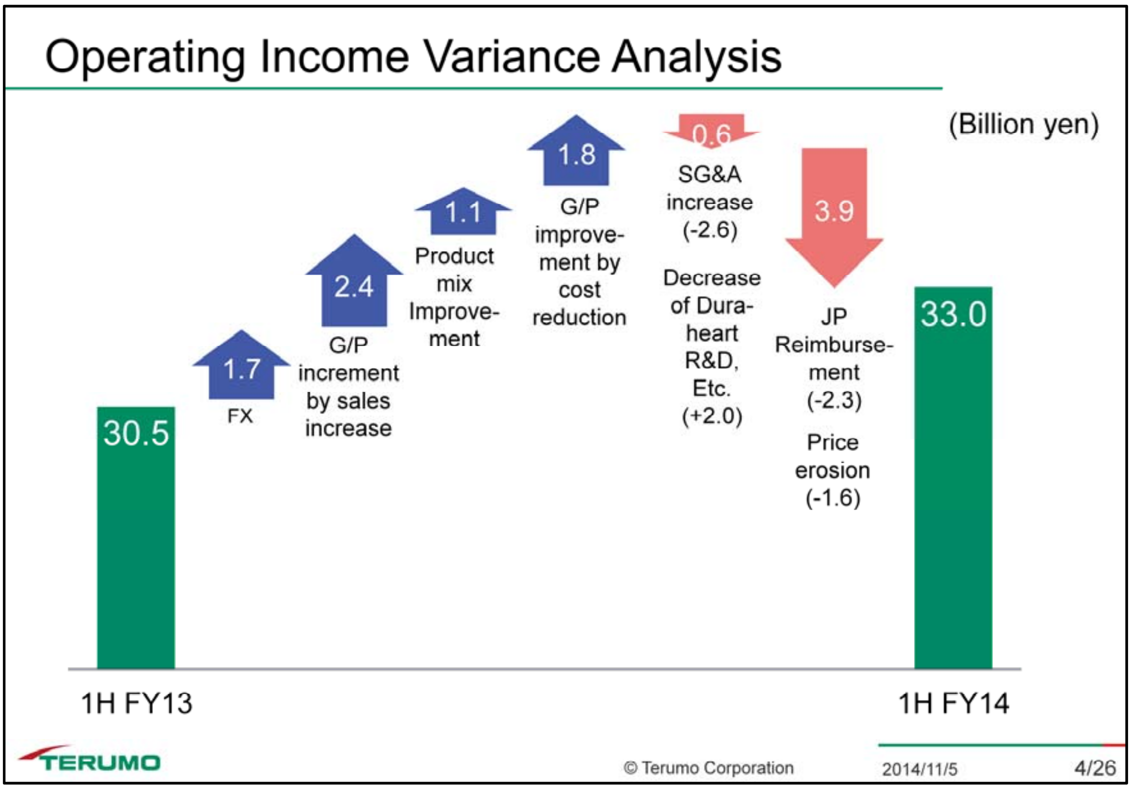
Now, the numbers:

Sales increased 3% to 233.3 billion yen. Operating profit was 33 billion yen, an 8% increase over the previous period. Ordinary income increased 15% from the previous period, but this includes a positive 2.5 billion yen in foreign exchange effect.

Net income was 12% increase. Because tax rates were different in FY13 and FY14, and then higher for this period, net income increase was just by 12%.

We had not only a higher amount, but also a higher margin in gross profit, with the percentage going from 51.8% to 52.7%. For operating profit, too, last year’s 13.5% grew to 14.1%, for an improvement in both profit amount and profitability.

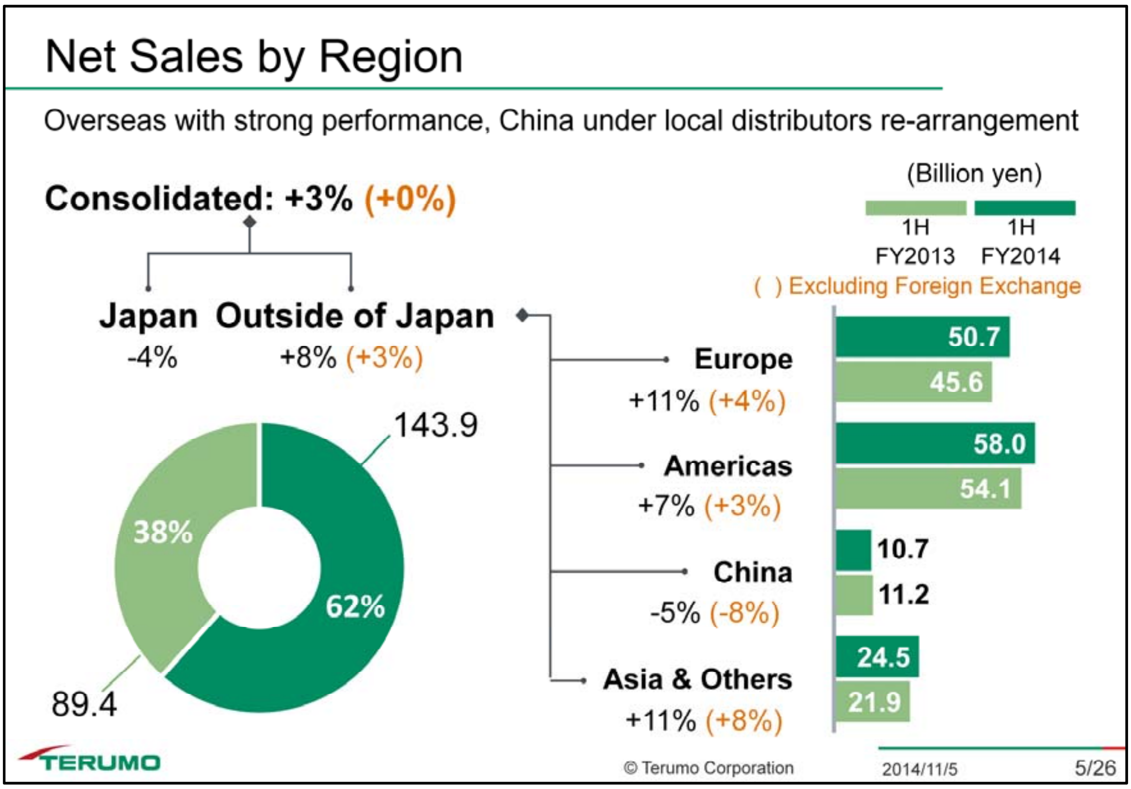


This slide is a waterfall chart showing the positive and negative factors that influenced operating profit.

First, I will explain the negative factors: The factor labeled “prices” refers to the reimbursement price revision in Japan that occurred this year, of which many of you are aware. The other portion of this factor was price pressure in general, which combined with the revision totaled 3.9 billion yen.

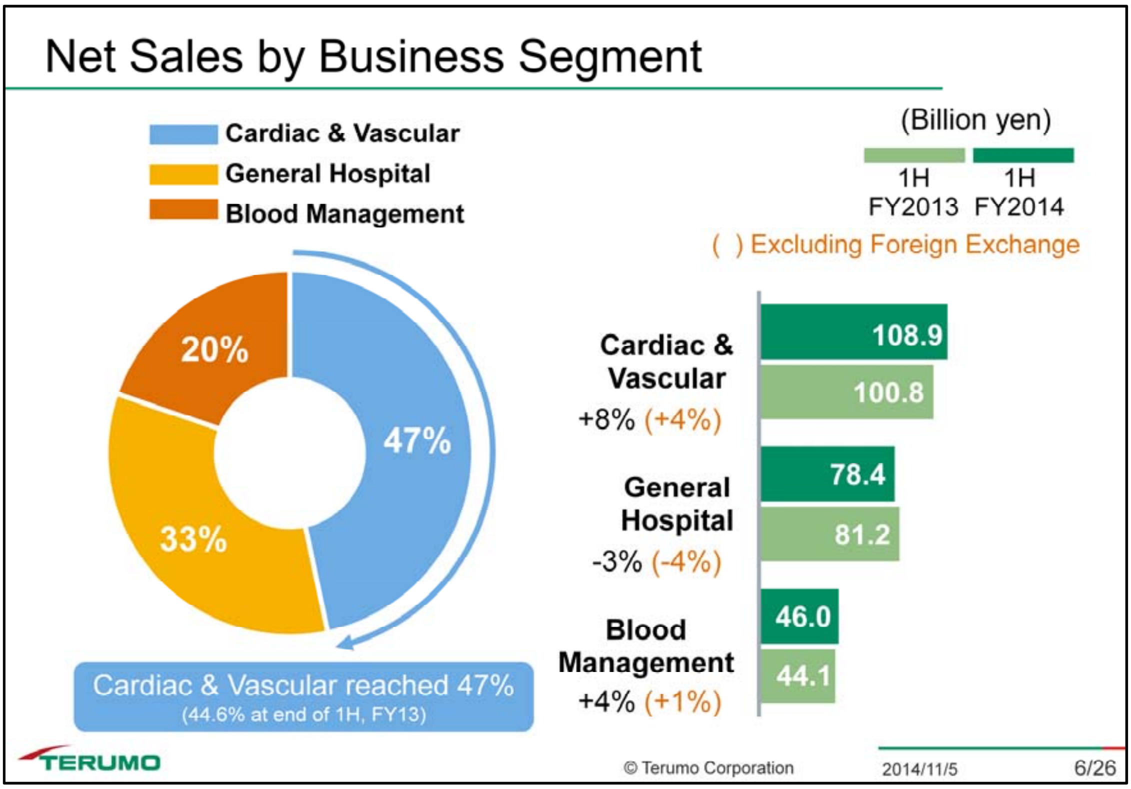
There was an increase of 2.6 billion yen in SG&A expenses, but that was somewhat offset by Duraheart development expenses not being incurred in this period for a 2 billion yen savings; this left SG&A expenses with a 600-million-yen negative impact on operating profit.

Positive factors included 1.7 billion yen in favorable foreign exchange, 2.4 billion yen in gross profit created by expanded sales, and the effects of portfolio mix improvements by expansion of highly profitable Cardiac and Vascular business, driving a positive 1.1 billion yen. There was also a 1.8-billion-yen positive impact from lowering costs. In total, we achieved a 2.5-billion-yen increase in operating profit, going from 30.5 to 33 billion yen.



Next is sales by region. The basic pattern of overseas regions making up for the Japan market remains the same as the previous quarter. Japan experienced a decrease of 4%, while overseas regions saw 8% growth. This resulted in overseas markets accounting for 62% of all sales.

Now, by overseas region: The local distributors re-arrangement in China has lagged slightly, resulting in negative sales growth in China. However, other overseas regions achieved double-digit or near-double-digit sales growth. Europe was 11%, Americas was 7%, and Asia was 11%, for a total overseas growth of 8%.



Now, sales by company: Companies with more overseas sales Cardiac & Vascular and Blood Management were positive, in part due to favorable exchange rates. General Hospital was negative. As the arrow in the circular graph shows, the percentage of sales from the Cardiac & Vascular Company increased to 47%. This is due to both the sales of that company’s products, as well as the foreign exchange favorability realized through a higher amount of overseas sales.

Operating Profit by Business Segment

(Billion yen)

		1H FY2013	1H FY2014	YoY%	YoY% (Excl. FX)
Business Profit	Cardiac & Vascular	20.1 (20%)	21.5 (20%)	+7%	-1%
	General Hospital	10.9 (13%)	9.6 (12%)	-12%	-13%
	Blood Management	8.9 (20%)	9.3 (20%)	+4%	+0%
	Others*	-1.4	0.9	-	-
Operating Income (Excl. amortization)		38.5 (17%)	41.3 (18%)	+7%	+3%

* Others: profit unrelated to any business segments

1H FY13: R&D for Duraheart and others, 1H FY14: profit increase by reduction of corporate related expense and others

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Next is business profit by company: Cardiac & Vascular and Blood Management were positive, while General Hospital was negative. Profitability remained at the same level as the previous year.

I'll now explain in more detail concerning each company.

Cardiac & Vascular: Increase in Sales and Profit

(Billion yen)

	1H FY2013	1H FY2014	YoY%	YoY% (Excl. FX)
Sales	100.8	108.9	+8%	+4%
Business Profit (%)	20.1 (20%)	21.5 (20%)	+7%	-1%

<Sales>

- Increase in overseas IS business and neurovascular intervention products (stent, etc.) +6.8 BJPY
- CV business: oxygenators and monitoring system grew mainly in EU and U.S. +1.7 BJPY
- Reimbursement price cut in Japan - 1.9 BJPY

<Business Profit>

- Reduced manufacturing cost mainly for IS business + 0.6 BJPY
- Launched Ultimaster (new DES) in Asian and Latin American countries as well as Europe

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First, the Cardiac & Vascular Company: Sales totaled 108.9 billion yen, for growth of 8%. Business profit increased 7% to 21.5 billion yen. The aforementioned Japanese reimbursement price revision affected Cardiac & Vascular the most of any company, with a negative impact of 1.9 billion yen. However, this was more than covered by the 6.8 billion yen increase in overseas, particularly driven by interventional and neurovascular products. Cost improvement also continued in interventional systems and other businesses for a further 600-million-yen improvement.

General Hospital

Decrease in Sales and Profit Due to Changing Market Environment

(Billion yen)

	1H FY2013	1H FY2014	YoY%	YoY% (Excl. FX)
Sales	81.2	78.4	-3%	-4%
Business Profit (%)	10.9 (13%)	9.6 (12%)	-12%	-13%

<Sales>

- Japan: recoil reduction in demand following the consumption tax increase and the effect of restrained consultation due to revision of public insurance system - 1.7 BJPY
- Americas: trimmed unprofitable accounts business for general hospital products - 0.7 BJPY
- Reimbursement price cut in Japan - 0.4 BJPY
- Europe: grew business-to-business with pharmaceutical companies at double digit + 0.5 BJPY

<Business Profit>

- Reduced manufacturing cost mainly for general hospital products + 0.5 BJPY

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Next is the General Hospital Company. Sales amounts were 78.4 billion yen; a 3% decrease from the previous period. Business profit was 9.6 billion yen, a decrease of 12%. In sales, the aforementioned consumption tax increase and market environment shifts had a 1.7-billion-yen negative impact. The company has been executing a transforming of its product portfolio since last year in Americas to decrease its percentage of low-profitability business. This has led to higher profitability, but a 700-million-yen decrease in sales.

We recently announced a transformation of Hospital business portfolio in Europe as well; B-to-B business in Europe has seen double-digit growth for a 500-million-yen positive impact. Cost improvement in general hospital products also contributed 500 million yen in positive impact. One note regarding operating margin ability: It has decreased from 13% to 12% when compared with the first half of last year; however, this is because a very high percentage was achieved in the second quarter of last year, but then followed by a drastic drop. After that drop, the percentage has steadily improved in each quarter starting with the fourth of last year, leading up to this most recent result. Mr. Matsumura will later explain that in more detail.

Blood Management: Sustained Increase in Sales and Profit

(Billion yen)

	1H FY2013	1H FY2014	YoY%	YoY% (Excl. FX)
Sales	44.1	46.0	+4%	+1%
Business Profit (%)	8.9 (20%)	9.3 (20%)	+4%	+0%

<Sales>

- Achieved double digit growth in overseas therapeutic apheresis + 0.9 BJPY
- Automated blood component processing system globally grew at double digit + 1.3 BJPY
- US: on the back of constraints of healthcare expenditure, price pressure is increased - 0.4 BJPY

<Business Profit>

- Controlled SG&A within the range of sales growth

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Next, the Blood Management Company: This company has experienced a difficult market environment in Japan and abroad. Blood bags and other commodity-type product sales have suffered. However, the company has achieved double-digit growth overseas in therapeutic apheresis, while automated blood processing systems have seen double-digit growth globally for an overall 1.3-billion-yen increase in sales. These new products have enabled the Blood Management Company to increase both sales and profit, and we hope to see further positive results in the second half of this year.

Progress in 1H New Product Pipeline

Business	Product		Region
Coronary	New DES (developed in house)	◎◎ ★	EU, Latin A, Asia
Peripheral	Central implantable venous access system		JP
	Occlusion microballoon for B-TACE	★	JP
Ablation	Renal sympathetic denervation system (RSD)		Asia & Latin A
	RSD for TRI technique		Asia & Latin A
Neuro	Carotid stent	★	EU
Infusion System	Needleless system	◎	JP
	Closed infusion system for anticancer drug		JP
Nutrition	Liquid formula (anti-reflux)	★	JP

◎ Item with large contribution to sales and profit
★ Item with highly innovative technology

New DES(Ultimaster)
★Great conformability and proprietary drug coating

Carotid stent (CASPER)
★Through control of plaque dislodgement, reduction of stroke is expected

Occlusion microballoon (Attendantnexus)
★Enables further selective B-TACE

Liquid formula (Mermed)
★Semi-solidified once introduced into stomach, reduction of reflux is expected

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Here are the products that have been launched during the first half of FY2014.

Ultimaster is listed at the top: It was launched in the first quarter in Europe, and then in Asia, Central and South America in the second quarter, and sales are growing well.

I'll now outline some of our second-half efforts.

Key Initiatives in 2H FY2014

- Continuously reinforce initiatives for profitability improvement
- Catch up with sales guidance
  - Cardiac & Vascular: continue the launch of new products for IS and Neurovascular business and sustain the expansion of existing products (access devices, etc.)
  - General Hospital: expand pumps and infusion solutions sales, and accelerate test tip expansion by the leverage of new blood glucose monitor launch
  - Blood Management: continue expansion of automated blood component processing system and therapeutic apheresis
- In response to performance, move on SG&A expenditure and accelerate R&D activities

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As you have heard, we began a system of “Business-led management” in April this year. The greatest effect we have seen from this change has been in profit; we have seen large improvements in the ability to manage profitability, resulting in significant growth during this fiscal year. We will work toward further improvement in the second half as well.

Regarding sales, our results for the first half are slightly below guidance. In the second half, we intend to improve this situation by achieving sales growth beyond what we had in the first.

As is shown here, each company will work to improve its sales: In Cardiac & Vascular, the focus will be in interventional systems and neurovascular products, and in Blood Management on automated blood processing system and therapeutic apheresis.

In General Hospital, this will be accomplished through expanded sales of pumps and infusion solutions, and new glucose monitor and test tip. This is how we plan to expand sales in the second half.

As I mentioned, we worked to expand profitability in the first half by keeping SG&A expenses down, but in the second half we will move on SG&A expenditure for the expansion of sales and accelerate new product development.

New Product Pipeline for 2H

Business	Product		Region
Coronary	New PTCA balloon	◎	EU, Asia, L America
Peripheral	PTA balloon (above and below the knee)		JP, EU, US
	Stent for small vessel (Misago)		EU
Neuro	Coil assist stent	◎	US
	Stroke device (clot retriever)	◎★	EU
	Liquid embolic glue	★	EU
Infusion System	Needleless system		Asia
DM	Blood glucose monitor (color LCD)	◎	JP
Blood Management	Automated blood component collection system (plasma)		JP
	Automated blood component processing system	★	JP
	Therapeutic apheresis system (Bone marrow stem cell and polymorphonuclear leukocyte application)		US

◎ Item with large contribution to sales and profit
★ Item with highly innovative technology

Stroke device (ERIC)
★ Interlinked cage system for efficient clot retrieval

Liquid embolic glue (PHIL)
★ The world first ready-to-use prefilled syringe

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We plan to launch these products in the second half. In particular, the new neurovascular products pictured here are highly innovative ones that we will initially launch overseas.

Net Income Guidance Revised Due to Subsequent Event

(Billion yen)

	Previous FY14 Guidance	Modified FY14 Guidance	YoY	YoY%
Net Income	37.5	33.5	-4.0	-10.7%

Average exchange rate: US$ = 100 yen, EUR = 140 yen

<Reason>

Extraordinary loss of 6.4 billion yen due to subsequent event "Terumo transforms product portfolio of Hospital and Laboratory Business in Europe", announced in Oct 23, 2014, will be posted in 3Q of FY2014.

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Finally, information we were unable to convey in our press release dated October 23 regarding the transformation of Hospital business portfolio in Europe: At the time of the release, we stated that up to 260 employees would be affected, but we were unable to explain the costs that would be associated. We have therefore included a 6.4 billion yen extraordinary loss in our third-quarter outlook. The 4.0 billion yen effect that will remain after taxes will correct our net income forecast down from 37.5 to 33.5 billion yen. These figures are based on exchange rates of 100 yen to the US dollar and 140 yen to the Euro.

This concludes my explanation of first-half results.

Reference

1H Net Sales and Growth by Region

(Billion yen)

Business Segment	Japan	Outside of Japan					G. Total
		Subtotal	Europe	Americas	China	Asia	
Cardiac & Vascular	23.5 (-3%)	85.4 (6%)	31.7 (6%)	35.6 (8%)	8.3 (-9%)	10.0 (15%)	108.9 (4%)
Out of C&V Interventional Systems*	18.1 (-4%)	63.4 (7%)	25.0 (7%)	23.2 (11%)	7.7 (-10%)	7.6 (11%)	81.6 (4%)
General Hospital	59.9 (-4%)	18.5 (-4%)	6.0 (1%)	3.7 (-19%)	0.7 (19%)	8.0 (-1%)	78.4 (-4%)
Blood Management	6.0 (-4%)	40.0 (1%)	13.1 (2%)	18.7 (-1%)	1.7 (-8%)	6.5 (10%)	46.0 (1%)
G. Total	89.4 (-4%)	143.9 (3%)	50.7 (4%)	58.0 (3%)	10.7 (-8%)	24.5 (8%)	233.3 (0%)

*Including Neurovascular business

(YoY%): Excluding foreign exchange

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SG&A Expenses

(Billion yen)

	1H FY2013	1H FY2014	YoY	YoY%
Salaries & Wages	31.3	33.9	+2.6	+8%
Sales Promotion	7.0	7.6	+0.6	+8%
Logistical Costs	5.4	5.3	-0.1	-2%
Depreciation & Amortization	10.9	11.9	+1.0	+8%
Others	16.8	17.6	+0.8	+6%
General Administrative Total	71.4 (31.5%)	76.3 (32.8%)	+4.9	+7%
R&D Expenses	15.3 (6.8%)	13.6 (5.8%)	-1.7	-11%
SG&A Expenses Total	86.7 (38.3%)	89.9 (38.6%)	+3.2	+4%

(%) Against net sales

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SG&A Expenses

(Billion yen)

	1H FY2013*	1H FY2014	YoY	YoY%
General Administrative Total	73.7	76.3	+2.6	+4%
R&D Expenses	15.6	13.6	-2.0	-13%
SG&A Expenses Total	89.3	89.9	+0.6	+1%

* Value adjusted by excluding FX impact

Quarterly Results

(Billion yen)

		Q2 (Jul-Sep)	Q3 (Oct-Dec)	Q4 (Jan-Mar)	Q1 FY14 (Apr-Jun)	Q2 (Jul-Sep)
Net Sales		114.9	119.2	122.1	114.9	118.4
Gross Profit		60.1 (52.3%)	61.5 (51.6%)	63.3 (51.9%)	60.7 (52.8%)	62.3 (52.6%)
SG&A Expenses		43.0 (37.4%)	43.7 (36.7%)	46.3 (37.9%)	44.6 (38.8%)	45.4 (38.3%)
Operating Income		17.1 (14.9%)	17.8 (14.9%)	17.0 (14.0%)	16.1 (14.0%)	16.9 (14.3%)
Average Exchange Rate	US$	99 yen	100 yen	103 yen	102 yen	104 yen
	EUR	131 yen	137 yen	141 yen	140 yen	138 yen

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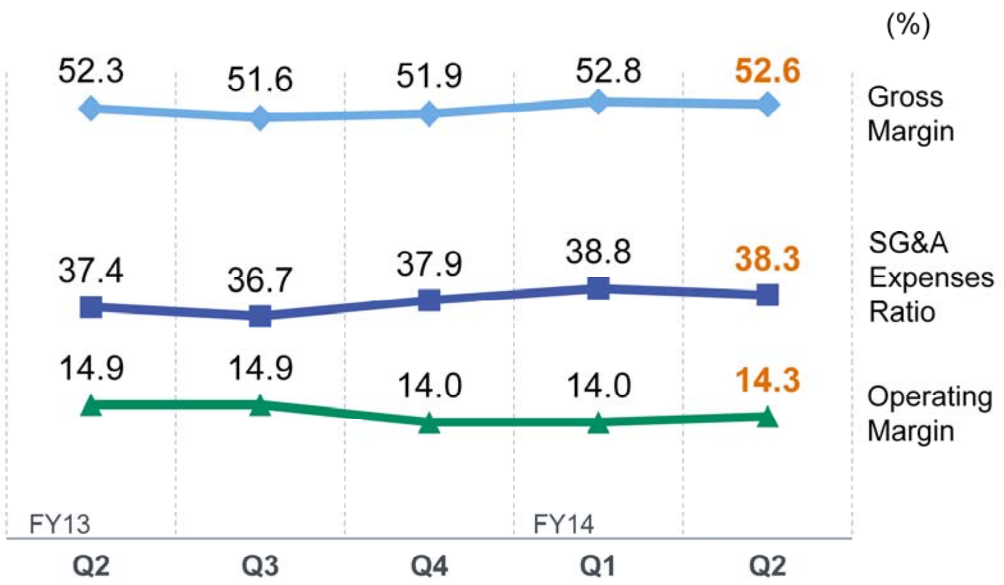
Profit Ratio, SG&A Expenses Ratio



CAPEX, R&D Expenses

(Billion yen)

	FY2014 Guidance	1H Results	Progress to guidance
CAPEX	42.0	21.2	50%
Depreciation & Amortization	41.0	19.6	48%
R&D Expenses	31.0	13.6	44%

Depreciation & Amortization: Including intangibles
CAPEX: Acquisition basis

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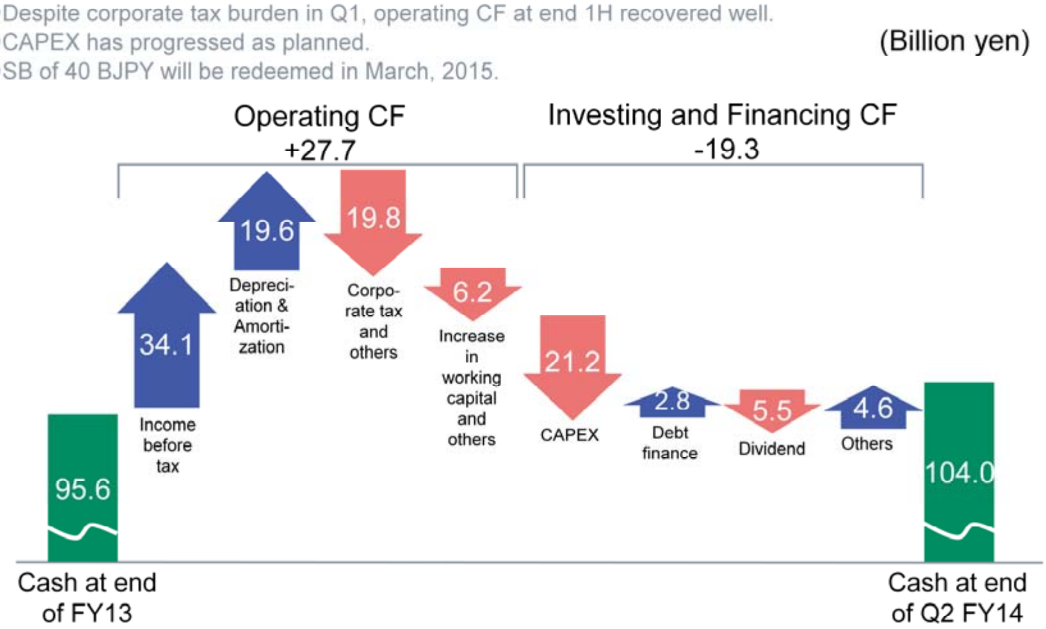
Cash Flow

- Despite corporate tax burden in Q1, operating CF at end 1H recovered well.
- CAPEX has progressed as planned.
- SB of 40 BJPY will be redeemed in March, 2015.

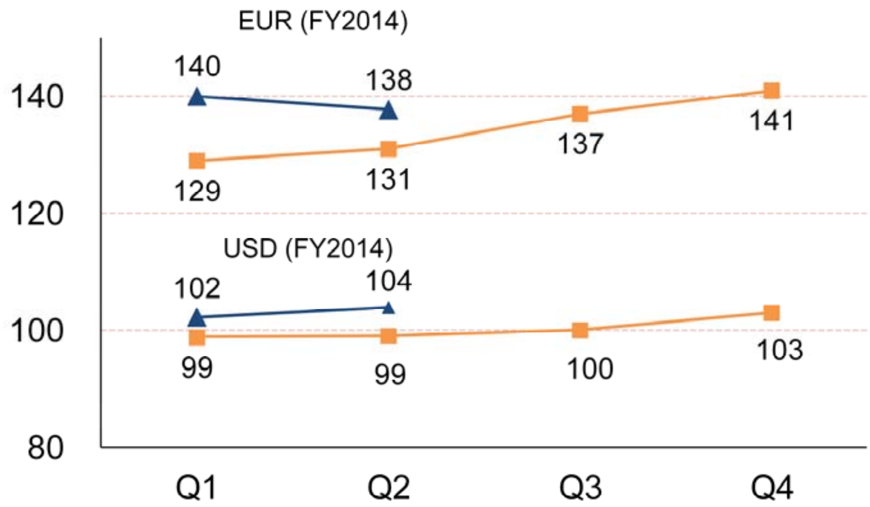


Foreign Exchange Sensitivity

(Billion yen/year)

	US$	EUR
Net Sales	1.8	0.7
Operating Income	0.3	0.4

Quarterly Average Exchange Rates Trend



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The market share information in this presentation is partly derived from our own independent research.