Financial Results for the First Half of the Fiscal Year Ending March 31, 2017 (FY2016)

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I, Kitabatake, will now give an overview of the financial results of the first half of the fiscal year ending March 2017.

Overview: Achieved the Highest-ever Operation Income despite FX Impact

(billion yen)

	1H FY15	1H FY16	YoY%	YoY% (FXN)
Net Sales	259.2	245.1	-5%	+5%
Gross Profit	139.4 (53.8%)	136.0 (55.5%)	-2%	+8%
SG&A expenses	84.4 (32.6%)	80.3 (32.8%)	-5%	+5%
R&D Expenses	15.9 (6.1%)	16.3 (6.6%)	+3%	+11%
Operating Income	39.1 (15.1%)	39.4 (16.1%)	+1%	+11%
(Excl. Amortization)	49.3 (19.0%)	48.6 (19.8%)	-2%	+10%
Ordinary Income	35.8 (13.8%)	30.6 (12.5%)	-14%	
Net Income	27.0 (10.4%)	20.4 (8.3%)	-24%	

Average Exchange Rate	1H FY15	1H FY16
USD	122 yen	105 yen
EUR	135 yen	118 yen

- Sales: Both Japan and overseas sales increased w/FXN. Cardiac and Vascular Company made a continuous double digit growth.
- Operating income: Growth in profit made by sales expansion of highly profitable products mainly in TIS and the reduced cost of the quality system improvement
- Ordinary income: Posted FX loss of 6.6 BJPY. Decrease in FX loss posted in Q2 due to decreased receivables in USD
- Net income: Decrease in profit due to sale of land in 1H FY15 and posed FX loss

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This page is the financial results overview. As is written at the top, we achieved our highest-ever operating income despite significant foreign exchange impact. Even with FX impact, operating income increased 1% year-on-year to reach 39.4 billion yen. Last fiscal year’s figure had been the highest-ever operating income to date, and this exceeded that.

With FX impact, the sales amount was -5% year-on-year; however, when excluding FX impact sales increased 5%, remaining the same as the first quarter. Also, without FX impact, sales grew positively in all regions of the world, including Japan, and the interventional systems business saw double-digit global growth.

As I mentioned, operating income was our highest-ever, led by growth of high-margin products such as interventional systems and by reduced quality system improvement costs. Our first-half forecast was for 35.5 billion yen, and we achieved an 11% year-on-year increase.

Ordinary income was negatively impacted 6.6 billion yen by FX and dropped 14% year-on-year; I will explain in detail on the next slide.

Net income was not only negatively affected by FX, but also decreased more year-on-year due to being inflated last fiscal year by the 4.4-billion-yen sale of land in Hatagaya, Tokyo. These factors brought net income down 24% year-on-year; however, when excluding FX impact and the difference occurring due to last fiscal year’s sale of property, net income remained overall the same year-on-year.

Reduce the Receivables in USD to Minimize the Risk from the fluctuation of FX

- Decreased receivables in USD from 600MUSD at the end of FY15 to 100MUSD at the end of FY16Q2
- FX loss posted in 1H FY16: 6.6BJPY (FYQ1: 5.5BJPY, FY16Q2: 1.1BJPY)

	FX rate (yen)			FX gain/Loss in 1H FY16 (billion yen)	
	End of FY15	End of FY16Q1	End of FY16Q2	FY16Q1	FY16Q2
USD	112.68	102.91	101.12	-4.6	-0.9*
CNY	17.39	15.46	15.14	-0.5	-0.1
EUR	127.70	114.39	113.36	-0.3	0.0
Others	-			-0.1	-0.1
Total	-			-5.5	-1.1

*Incl. 0.7 BJPY of FX loss realized at the payment for an acquisition of Sequent Medical

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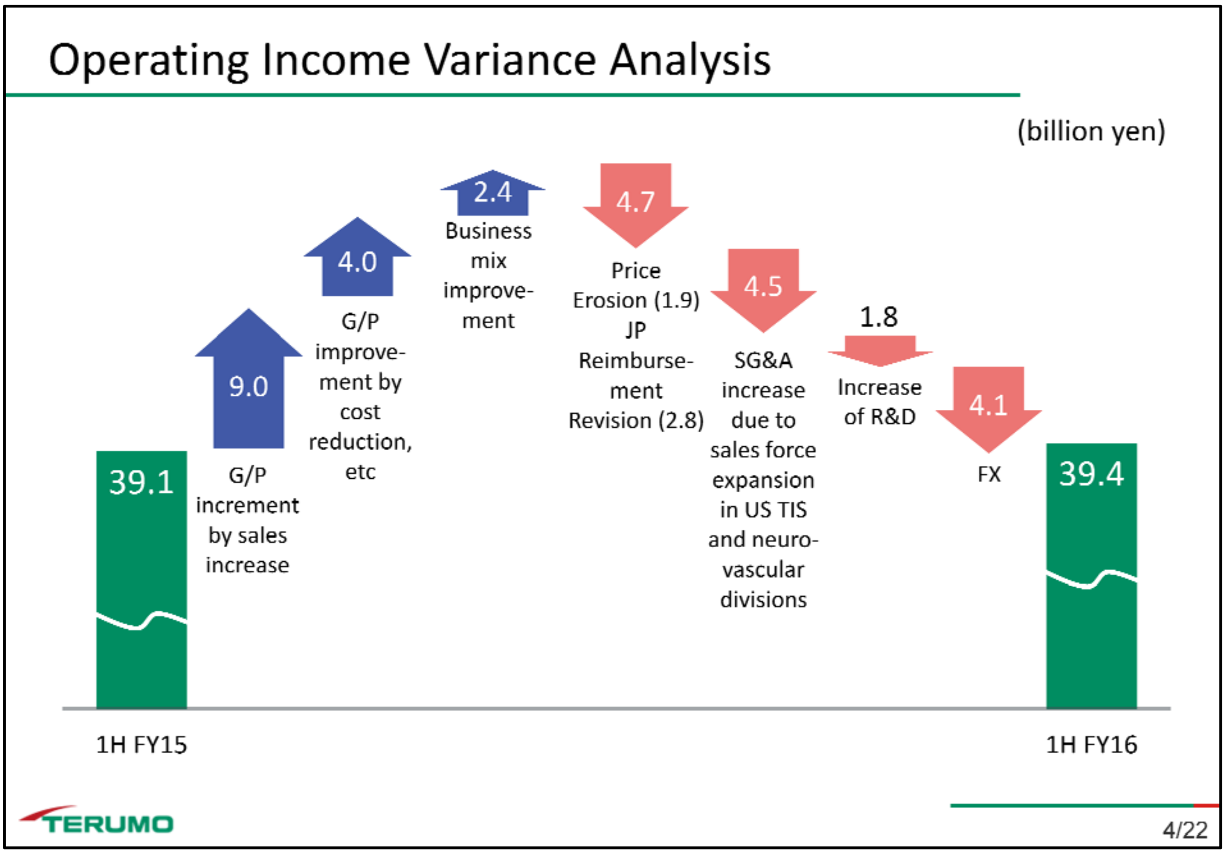
I will now briefly discuss the non-operating aspects of foreign exchange fluctuation. After Q1's 5.5 billion yen FX loss, we have taken and previously announced our measures to lessen FX impact. The chief measure has been to minimize the amount of dollar-denominated receivables. When we look at Q1 and Q2, we see that there was 5.5 billion yen in impact in Q1, and then 1.1 billion yen of impact in Q2.

The minus 0.9 billion yen of USD impact that you see in Q2 on the chart includes a 0.7-billion-yen loss due to rate fluctuation between the time of contract and the time of payment for the Sequent Medical acquisition that we completed in July.

Sometimes this kind of fluctuation results in positive impact for us, but in this case, with uncertainty about markets following the election of Mr. Trump, we consider it a positive thing to reduce our FX fluctuation risk, and going forward we think this kind of risk will be manageable.

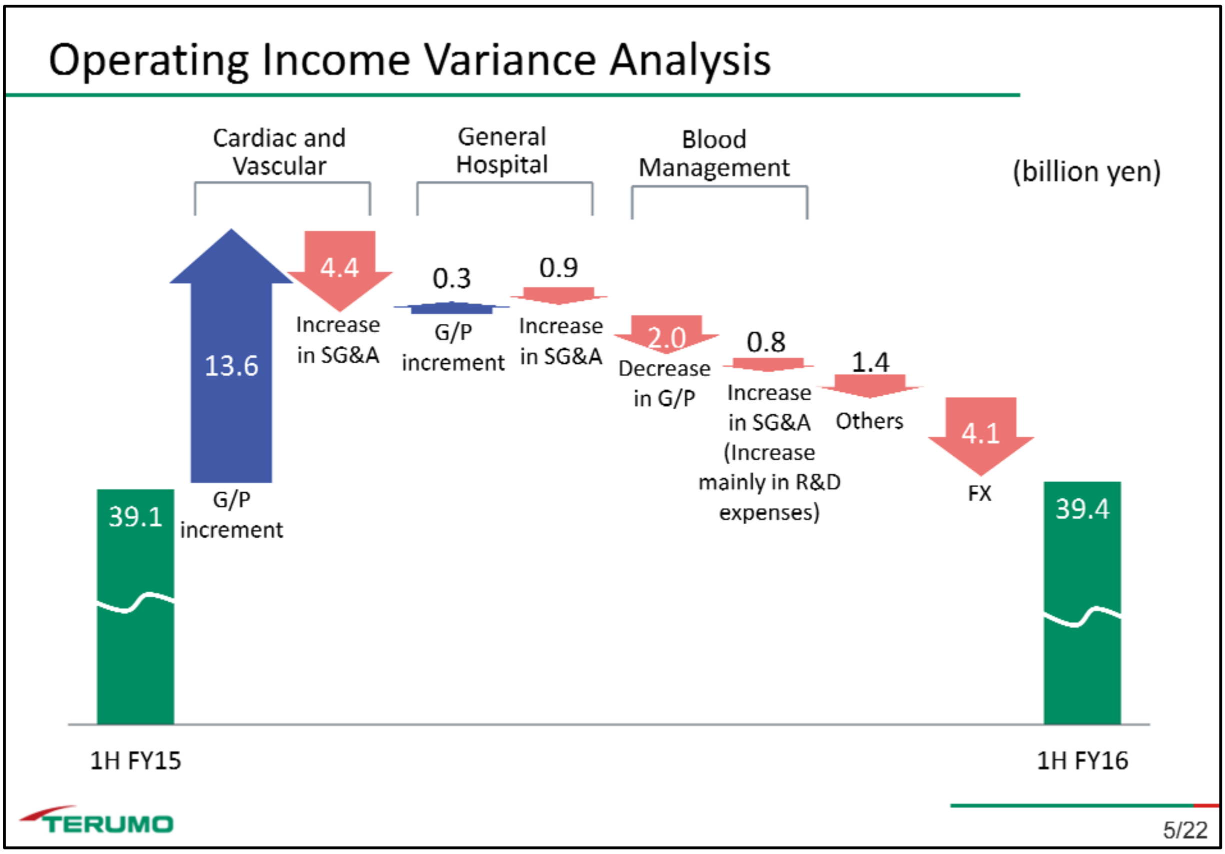


This slide shows the operating income variance analysis. The largest factor was increased gross profit due to higher sales, similarly to the first quarter. One item that bears explanation is the increased gross profit achieved through cost reduction. The gross profit margin when excluding FX was the same 55%, unchanged through both quarters. There were three factors in Q1 cost reduction: First, lower costs at TCVS quality system improvement, and second, the suspension of US medical device tax. The third was reduced cost of manufacturing Ultimaster.

The cost reductions seen in the second quarter were equal to, but of a different nature than, those in the first quarter. There were actually some negative factors in Q2: One was that Q2 of the previous year included a large-scale production run of Ultimaster in preparation for launch, leading to high efficiency. This did not happen in Q2 of FY2016, resulting in a negative year-on-year result. Another factor is that we are currently increasing the number of engineers at the Ashitaka and Yamaguchi Factories. This has an impact in the hundreds of millions of yen. We are also responding to a warning letter in the United States, which carries impact of four- to five-hundred million yen.

Another factor is the business mix improvement. This was a positive 800-million-yen impact in Q1, and 2.4 billion yen positive impact in Q2. In the first quarter, we allocated some of the improvement to gross profit by cost reduction but we decided to allocate them differently in the second quarter into business mix improvement. That is why gross profit improvement by cost reduction appears 400 million yen lower and in business mix improvement that same amount higher in Q2. In the upcoming third quarter, we also expect that due to last fiscal year's cost reduction that occurred with the launch of Ultimaster, we won't see a comparable level of reduction this year. The main two factors in improving operating income onward will be gross profit increases by sales increase and business mix improvement.

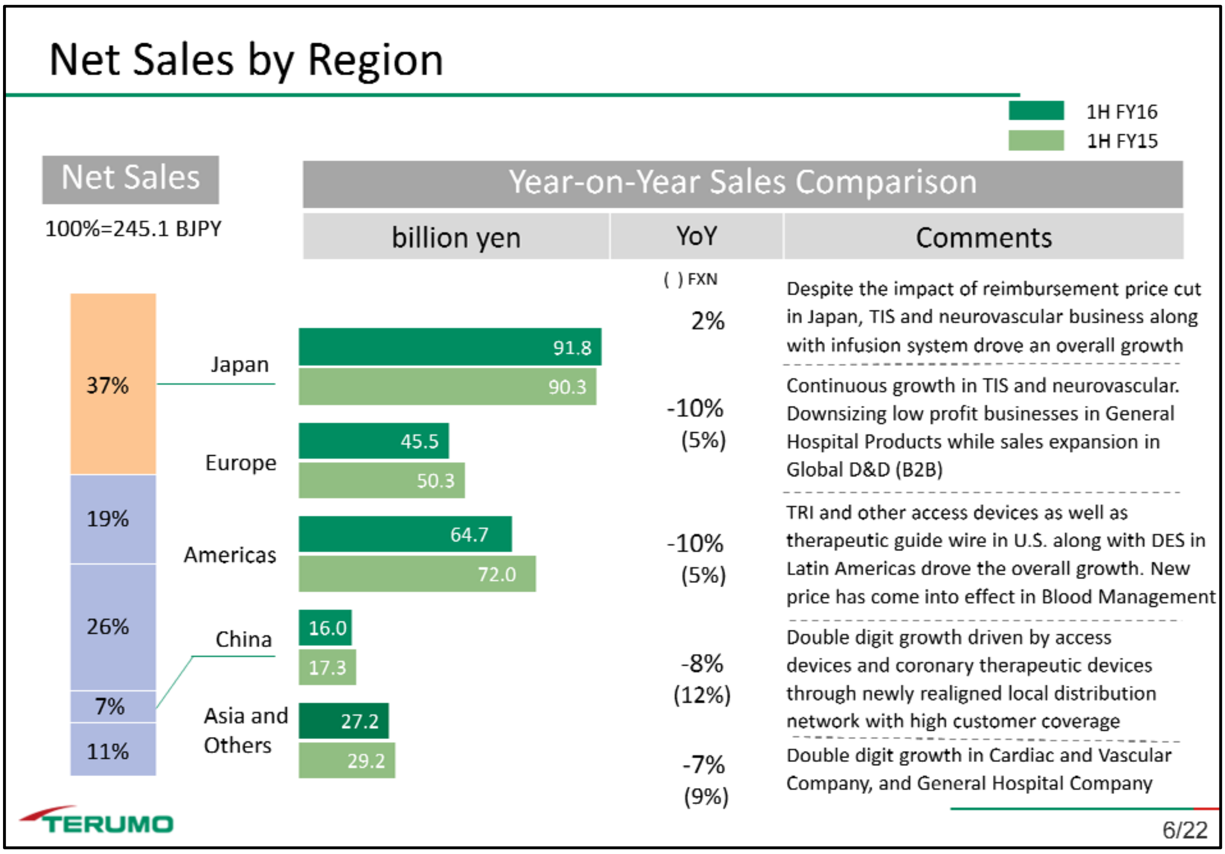
One other item, on the minus impact side of the analysis: We saw a 4.5-billion-yen increase in SG&A have a negative impact, and as written here this was partially due to TIS and neurovascular sales force expansion. To explain in more detail, the TIS and neurovascular sales force expansion accounted for about 3.5 billion yen in increased SG&A, which also included expansion in the United States of not only sales force but also increased numbers of field clinicians who explain products to physicians—about 50 personnel in total. The remaining 1-billion-yen in new SG&A consisted of higher pension costs and increased business tax burden, contributing to the above total of 4.5 billion yen.



The next slide shows operating income variance analysis by company.

Cardiac and Vascular Company remained the main factor in income improvement, similarly to the first quarter. With the General Hospital Company, we had a 100-million-yen negative impact from gross profit in the first quarter, while in the second quarter, sales in Japan of high-margin products such as pumps and infusion lines, and price increases in Asia and Latin America, contributed to a 300-million-yen positive gross profit impact.

In Blood Management Company, gross profit had negative 2.4-billion-yen impact in the first quarter, and then minus 400 million yen in second quarter, which shows improvement in the trend for gross profit. The 800 million yen in SG&A increase is primarily R&D cost, as opposed to sales-related expenses. The content of this cost was primarily payment of outside development costs which will pay off in the future. Over the span of a year it has not changed much, but did have an impact in the second quarter.

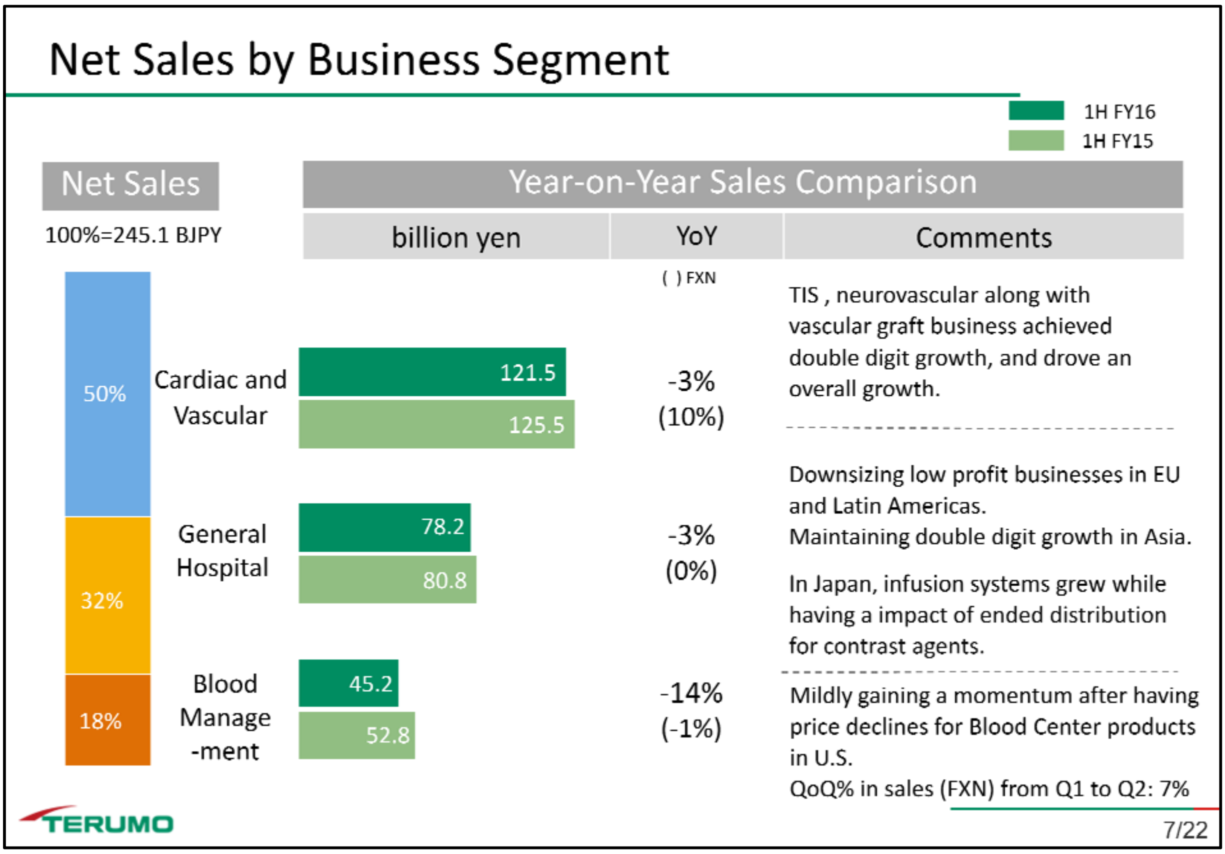


Next is net sales by region.

As I mentioned, when excluding FX impact, each region achieved year-on-year sales improvement. I will go into a few details on this.

In Europe, we improved 5% in sales, and here it attributes that to the downsizing of low-profit businesses in the General Hospital Company. There are actually two factors within General Hospital Company, though: One is the 38% drop in general hospital products due to the aforementioned downsizing of low-profit business, and second is the 25% increase in the global Drug & Device business, which is B2B and one of the ways we plan to strengthen the General Hospital Company. These together total minus 11% in growth, and it is important to note that the decrease is not simply a drop in sales, but actually a sign of our business portfolio improvement activities, in which we sharply reduce areas of low profit and increase those with high margins. Those are some of the negative factors behind the 5% growth in Europe, where interventional systems products continue to expand well.

In the Americas we saw a somewhat small sales growth of 5% when excluding FX impact. Negative growth for the Blood Management Company was the biggest factor. Interventional Systems business had double-digit growth.



Looking at net sales by business segment, Cardiac and Vascular saw 10% growth when excluding FX impact. General Hospital and Blood Management were approximately zero.

The Blood Management Company has bottomed out, with the fourth quarter of last fiscal year and first quarter of this fiscal year being the most difficult. Now we are seeing planned improvements having effect: Quarter-to-quarter sales growth from Q1 to Q2 was 7%, and I will address business profit later.

Cardiac and Vascular : Double Digit Growth in Profit Driven by Highly Profitable Access and Coronary Therapeutic Devices

(billion yen)

	1H FY15	1H FY16	YoY% ( ) FXN	Major Topics	Impact
Sales	125.5	121.5	-3% (10%)	Negative impact of FX	- 16.4
				Japan: Bouncing back an impact of reimbursement price cut, sales of coronary therapeutic devices and neurovascular business have been continuously growing.	+1.7
				Overseas: Coronary therapeutic devices and access devices have been continuously growing at double digit	+10.6
Business Profit	29.3 (23%)	33.0 (27%)	13% (32%)	Highly profitable access devices and coronary therapeutic devices drove an overall growth in profit.	
				Impacts of recall for Misago and acquisition of Sequent Medical	-1.3

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Cardiac and Vascular was most affected by FX rates, with negative sales growth when including FX, but positive sales growth of 10% when excluding FX. In business profit there was little change in trend what has driven, but this year included negative impacts from the Misago recall and cost of our acquisition of Sequent Medical.

General Hospital : Mildly Upward Trend in Profitability despite Decrease in Sales due to Reimbursement Price Cut in Japan and Downsizing of Low Profit Businesses

(billion yen)

	1H FY15	1H FY16	YoY% ( ) FXN	Major Topics	Impact
Sales	80.8	78.2	-3% (0%)	Negative Impact of FX	- 2.8
				Overseas: Downsizing of low profit businesses in EU and Latin Americas.	- 0.9
				IV catheter needles and others drove the sales growth in Asia.	+1.1
				Japan: Increase of sales in infusion system	+1.0
				Reimbursement price cut and ended distribution for contrast agents	- 1.4
Business Profit	11.7 (15%)	11.2 (14%)	-4% (-5%)	Despite a remaining impact of increase in pension cost due to the lowering interest rate and inventory revaluation, profitability remained in mildly upward trend. Business Profit Margin: Q1: 14% ⇒ Q2: 15%	

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In General Hospital, sales were approximately the same as the previous year when excluding FX impact. Negative impacts there included downsizing of low-profit businesses in the EU and Latin America. The Japan reimbursement price cut had effect, and the ending of distribution for contrast agents in Q3 of last fiscal year also took full year-on-year effect up to the second quarter of this fiscal year, but will not have the same impact in Q3 and onward. In business profit, the General Hospital Company saw a slight improvement from Q1 to Q2 that signals the start of an improvement trend.

Blood Management

: Year-on-year Negative Impacts of Price Decline for Blood Center products in U.S. Is Nearly Over in 1H of FY2016

(billion yen)

	1H FY15	1H FY16	YoY% ( ) FXN	Major Topics	Impact
Sales	52.8	45.2	-14% (-1%)	Negative impact of FX	- 6.9
				Price declines for Blood Center products in US	- 1.4
				Sales in apheresis system grew mainly in Europe and Latin Americas	+ 0.7
Business Profit	10.0 (19%)	6.5 (14%)	-35% (-28%)	Regaining momentum in sales of Blood Center products in Asia and Japan. Profitability remained in mildly upward trend along with increase in sales from FY16Q1 to FY16Q2 Business Profit Margin: Q1: 12% ⇒ Q2: 17%	

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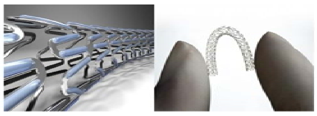
In Blood Management, I already mentioned that sales improved from Q1 to Q2, and in business profit as well, the company saw an increase from 12% to 17% quarter-to-quarter. One reason for this increase was the increase in sales, and additionally, R&D spending was somewhat higher in the first quarter but then returned to normal in the second, thereby improving business profit.

Major Topics in Q2

Corporate

- Established a new affiliated company in Singapore to retain investment capital for the growth (Aug)
- Heartsheet received "the Minister of Health, Labour and Welfare Award of the Annual Merit Awards for Industry-Academia-Government Collaboration" (Aug)
- The three products below won "Good Design Award" on FY2016 (Sep)



Ultimaster

Infusion "Terupack eco"

Leukomed C Film Dressing

Business

- Automated blood component processing system "TACSI" was launched in Japan (Jul)
- Ultimaster w/ diameter of 4mm was launched in Japan (Aug)
- "MEDISAFE FINETOUCH Ⅱ LANCING DEVICE" was launched in Japan (Sep)

There are several major topics listed here, but due to time constraints I will skip over them.

New Products Pipeline in FY2016

Category	Products		Region	Launch
Coronary	DES (Ultimaster)	◎ ★	France	Launched
Coronary	DES (Ultimaster) 4.0mm (Diameter)	◎ ★	JP	Launched
Imaging	IVUS	◎ ★	JP	
Peripheral	PTA Balloon (Below the knee, RX/OTW)		JP・US・EU	Launched in JP&US
Peripheral	PTA Balloon (Below & above the knee, RX/OTW)		JP・US・EU	Launched in JP&US
Peripheral	PTA balloon (Above the knee, RX/OTW)		JP・US・EU	Launched in JP,US&EU
Neuro	Distal protection device		EU	
Oncology	Radioembolization beads (Quirem)	★	EU	

Category	Products		Region	
CV	Disposable Centrifugal Pump (for PCPS)		Asia	
Regenerative Medicine	HeartSheet	★	JP	Launched
D&D	Intradermal Injection Device	★	JP	To be launched in FY17
D&D	Adhesion barrier	★	JP	Approved Launch in Q4
DM	Blood glucose meter (MEDISAFE Fit Smile)		China	
Blood Management	Automated blood component processing system	★	JP	Launched

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


DES (Ultimaster) 4.0mm (Diameter) (JP:Q2)



Automated blood component processing system "TACSI" (JP:Q2)


Adhesion barrier (JP: Launch in Q4)

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The new product pipeline is progressing well.

Revision of FY16 Guidance

- Revising FY16 Guidance considering the FX impact and acquisition of Sequent Medical

(billion yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
Original Guidance	517.0	75.0	71.0	52.5
New Guidance	517.0	75.0	65.0	47.5
Gap to Original Guidance	-	-	-6.0	-5.0

FX rate
2H of FY16 : USD=105 yen, EUR=115 yen
FY16 : USD=105 yen, EUR=116 yen

- Influential events / points in 2H FY2016
  - No change in good momentum in TIS overseas
  - Temporary impact on profit given the completion of closure devices' acquisition
  - Net income and ordinary income might change due to FX at the end of FY16

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I will now show two additional slides. The first is regarding our revision of our FY16 guidance. We revised the FX rates for the second half, changing from 110 yen to 105 yen to the US dollar, and from 125 yen to 115 yen to the EUR. We revised our outlook to reflect that rate change. Sales and operating income remain the same, but we revised ordinary income and net income downward. This was due to the first-half FX loss, as well as the costs of the Sequent Medical acquisition, which affects the entire year.

Items to watch in the second half include the continued momentum of Interventional Systems product sales outside of Japan. Sales are affected somewhat negatively by yen appreciation, but we may see the positive impact of sales from our closure device acquisition in the fourth quarter. The effect on operating income from the closure device acquisition will remain somewhat unclear until we will learn more through due diligence activities, so we have not included that potential impact here. We will make further revision of these figures if due diligence indicates such a need. Ordinary income and net income may also end up different at the end of the fiscal year depending on the FX fluctuations that occur between now and then.

Also, while we have made this revision, we have not revised the scheduled dividend amount.

Adoption of International Financial Reporting Standards (IFRS)

- **Adopting IFRS from the fiscal year ending March 31, 2018**
  - Q1-Q3 in FY18 — Generally Accepted Accounting Principle in Japan(Japanese GAAP)
  - End of FY18 — International Financial Reporting Standards (IFRS) basis
- **The purpose of adopting global standard "IFRS"**
  - To improve the comparability of the financial statements on global scale
  - To enhance the management capability and the corporate governance by standardizing basis of accounting among group
- **The major impact on profit due to adoption of IFRS**
  - Goodwill will no longer be amortized under Japanese GAAP

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Finally, regarding accounting standards, we officially decided today that we will adopt IFRS as our accounting standard in the next fiscal year, or the year ending March 31, 2018. Our reasons for doing so include wanting to move to a global standard, and to make our financials, which are currently Japanese GAAP-based, easier for investors to compare internationally with those of our competitors in Europe and the United States.

Another reason is to improve understanding within the Terumo Group. Terumo BCT already uses IFRS, and our American subsidiary TAH uses US GAAP, for example, so understanding of financials within the group can be improved. We therefore decided to eliminate confusion by bringing the entire Terumo group into one consistent accounting standard, IFRS.

The major impact of adopting IFRS will be that we will no longer amortize the goodwill of acquired companies, as is automatically done annually in our current JGAAP. In the case of last fiscal year's results, we had 11 billion yen in goodwill amortization. Without this amortization, operating income increases by the amount that would have been amortized.

This concludes my remarks. Thank you for your attention.

Reference

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1H FY16 Net Sales and Growth by Region

(billion yen)

Business Segment	Japan	Outside of Japan					G. Total
		Subtotal	Europe	Americas	China	Asia	
Cardiac and Vascular	24.5 (+8%)	97.0 (+10%)	30.4 (+8%)	42.0 (+10%)	12.8 (+15%)	11.8 (+12%)	121.5 (+10%)
Out of C&V Interventional Systems*	18.9 (+10%)	77.7 (+12%)	24.7 (+9%)	31.1 (+12%)	12.1 (+14%)	9.8 (+15%)	96.6 (+11%)
General Hospital	61.5 (-1%)	16.8 (+4%)	3.8 (-11%)	3.7 (+3%)	1.0 (+9%)	8.3 (+12%)	78.2 (+0%)
Blood Management	5.7 (+3%)	39.5 (-2%)	11.2 (+1%)	19.0 (-4%)	2.2 (-3%)	7.1 (-0%)	45.2 (-1%)
G. Total	91.8 (+2%)	153.3 (+6%)	45.5 (+5%)	64.7 (+5%)	16.0 (+12%)	27.2 (+9%)	245.1 (+5%)

*Including Neurovascular business

(YoY%): Excluding foreign exchange

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Operating Expenses

(billion yen)

	1H FY15	1H FY16	YoY	YoY%	YoY% (FXN)
Salaries & Wages	38.2	36.3	-1.9	- 5%	+6%
Sales Promotion	8.1	7.5	-0.6	- 7%	+3%
Logistical Costs	5.5	5.5	-0.0	- 0%	+5%
Depreciation & Amortization	14.0	12.4	-1.6	- 11%	+0%
Others	18.6	18.6	+0.0	+ 0%	+9%
SG&A Expenses Total	84.4 (32.6%)	80.3 (32.8%)	-4.1	- 5%	+5%
R&D Expenses	15.9 (6.1%)	16.3 (6.6%)	+0.4	+3%	+11%
Operating Expenses Total	100.3 (38.7%)	96.6 (39.4%)	-3.7	- 4%	+6%

(%) Against net sales

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Quarterly Results

(billion yen)

	FY15Q2 (Jul-Sep)	Q3 (Oct-Dec)	Q4 (Jan-Mar)	FY16Q1 (Apr-Jun)	Q2 (Jul-Sep)
Net Sales	130.5	136.8	129.0	124.5	120.6
Gross Profit	70.4 (53.9%)	75.3 (55.0%)	70.3 (54.4%)	69.8 (56.0%)	66.3 (55.0%)
SG&A Expenses	42.7 (32.7%)	42.9 (31.3%)	42.8 (33.1%)	40.3 (32.3%)	40.1 (33.3%)
R&D Expenses	8.0 (6.1%)	7.4 (5.4%)	9.9 (7.7%)	8.1 (6.5%)	8.2 (6.8%)
Operating Income	19.7 (15.1%)	25.0 (18.3%)	17.6 (13.6%)	21.4 (17.2%)	18.0 (14.9%)
(Excl. Amortization)	24.8 (19.0%)	30.1 (22.0%)	22.5 (17.4%)	25.9 (20.8%)	22.6 (18.8%)

Average Exchange Rate	USD	122 yen	121 yen	115 yen	108 yen	102 yen
	EUR	136 yen	133 yen	127 yen	122 yen	114 yen

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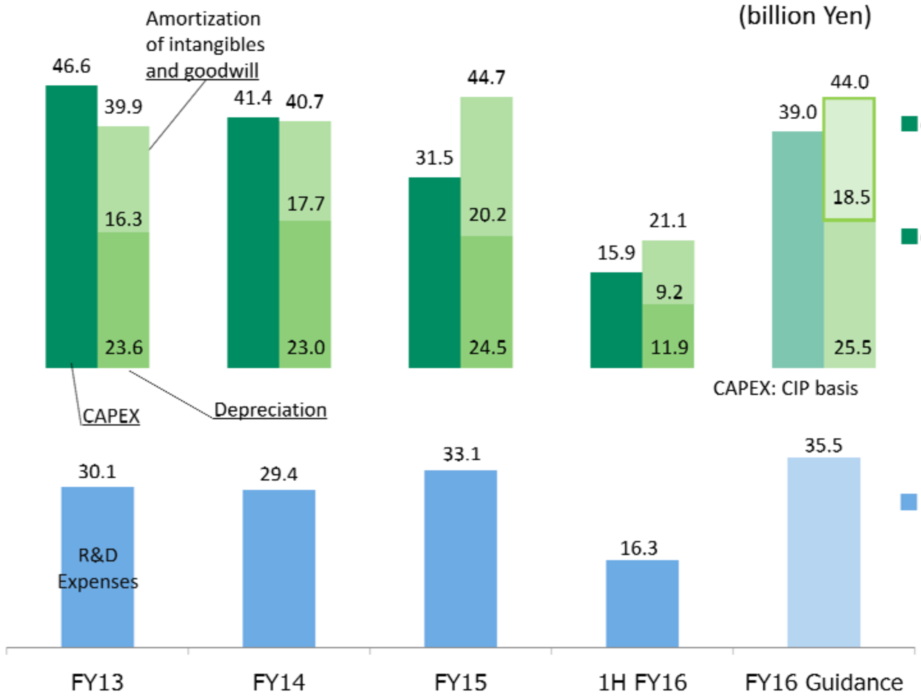
CAPEX and R&D Expenses

(billion Yen)



- CAPEX was peaked out in FY2013
- CAPEX is projected to be at the same level as depreciation and amortization

- Further promote R&D activities for TIS and neurovascular business in US

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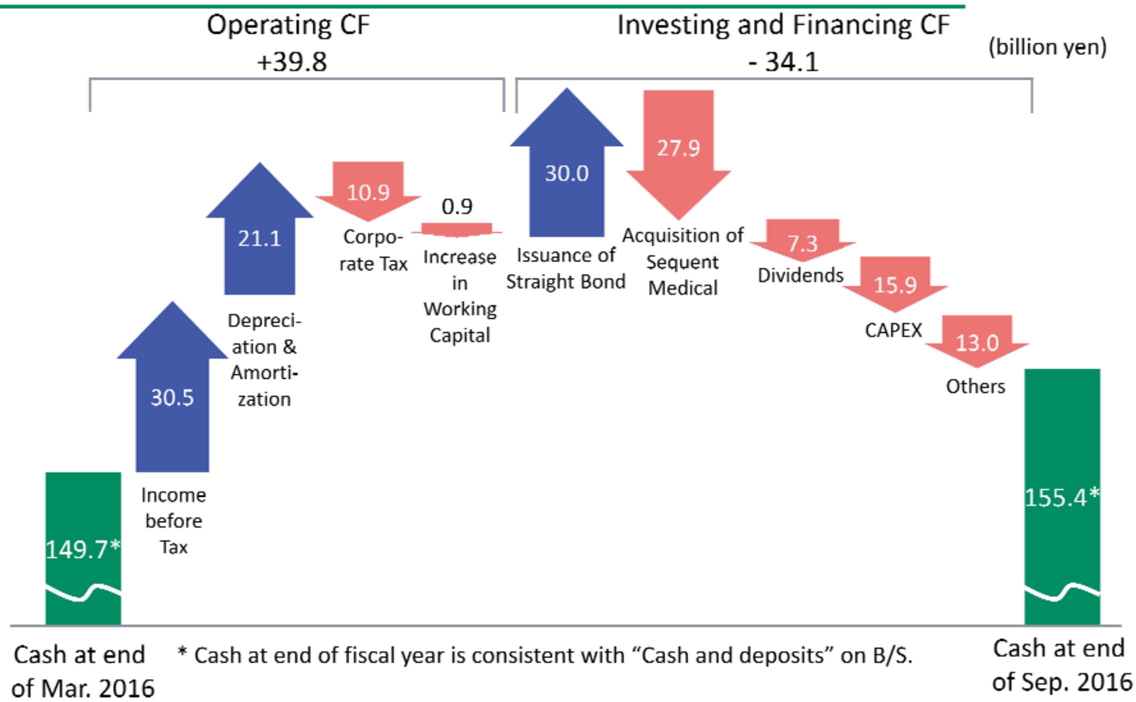
Cash Flow



* Cash at end of fiscal year is consistent with “Cash and deposits” on B/S.

Foreign Exchange Sensitivity

(billion yen)

	USD		EUR
	Excl. Amortization	Incl. Amortization	
Net Sales	1.4	1.4	0.5
Operating Income	0.0	-0.2	0.3

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