Analysis of Business Performance

1. Overview of Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2017

(1) Overview of Consolidated Business Results

The first quarter of the current fiscal year (from April 1 to June 30, 2016), the following trends were identified in the global healthcare market. In the United States, the industry continued to undergo reorganization, owing in part to a blitz of M&A deals between major medical device companies. In Europe, focus was on the impact to the pharmaceutical and medical devices industries from the outcome of the Brexit vote to leave the European Union (EU). In Japan, NHI reimbursement prices were revised in April 2016. Medical cost efficiency is increasing in significance, including the trial introduction of cost benefit analysis to determine where to focus and how to efficiently allocate fiscal resources.

Amid this environment, the Terumo Group is pursuing its goal of “becoming a company with a global presence,” and in line with its business-led management structure, Terumo is promoting management that aims to achieve sustainable, profitable, and high-quality growth.

The following are highlights of performance at each company during the first quarter of the current fiscal year.

- In the Cardiac and Vascular Company, although there was negative impact in Japan from revisions to NHI reimbursement prices and overseas due to appreciation of the yen’s value against major currencies, global sales of Terumo Interventional Systems (TIS) trended steadily. Following its release in France, Terumo rolled out the “Ultimaster”, a drug-eluting stent, in Brazil, South Korea, and Taiwan. In the neurovascular intervention business, Terumo signed an agreement in June 2016 to acquire Sequent Medical, Inc., the first company in the world to develop new cerebral aneurysm embolization device, called “WEB”. In the CV business, the United States Food and Drug Administration (FDA) inspected the Ann Arbor factory of Terumo Cardiovascular Systems Corporation, a subsidiary in the United States, and found no inspectional observations. Consequently, all remaining sales restrictions were lifted in June. In addition, in late May 2015 in the regenerative medicine field, Terumo launched sales of the “HeartSheet,” the world’s first autologous skeletal myoblast sheet to treat severe heart failure.

- In the General Hospital Company, sales of needless infusion systems, infusion pumps, syringe pumps and other products trended steadily in Japan. Terumo also acquired manufacturing and sales approval in June for a spray type adhesion barrier, “Adspray”, which was developed to prevent adhesion formation after surgical procedures. Outside of Japan, the company pursued an improvement in profitability by pushing forward with the downsizing of low-profit businesses, mainly in Europe, Latin America, and in some parts of Asia.

- In the Blood Management Company, sales declined year-on-year reflecting price revisions implemented a year earlier for products for blood centers in the United States, and due to negative impact from an appreciation in
Financial results for the first quarter of the fiscal year ending March 31, 2017 are as follows:

**Net sales**
Net sales totaled 124.5 billion yen, a decrease of 3.2% compared to the same period in the previous fiscal year.

<table>
<thead>
<tr>
<th></th>
<th>FYE3/2016</th>
<th>FYE3/2017</th>
<th>Growth (%)</th>
<th>Growth excluding impact of forex translations (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>128,660</td>
<td>124,519</td>
<td>(3.2)</td>
<td>5.3</td>
</tr>
<tr>
<td>Gross profit</td>
<td>69,047</td>
<td>69,726</td>
<td>1.0</td>
<td>10.7</td>
</tr>
<tr>
<td>Operating income</td>
<td>19,449</td>
<td>21,356</td>
<td>9.8</td>
<td>21.5</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>20,592</td>
<td>15,123</td>
<td>(26.6)</td>
<td>–</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
<td>14,504</td>
<td>10,110</td>
<td>(30.3)</td>
<td>–</td>
</tr>
</tbody>
</table>

In Japan, sales increased year-on-year owing to brisk double-digit sales growth in the TIS business despite negative impact from revisions to NHI reimbursement prices.

Overseas, sales were down from the same period a year earlier. Although sales trends were favorable in the TIS business, overall performance was aggravated by revisions to selling prices of products for blood centers in the United States, and due to companywide impact from an appreciation in the yen’s value.

**Gross profit**
Gross profit rose 1.0% to 69.7 billion yen compared to the same period of the previous fiscal year. The decline in sales was offset in part by an expansion in sales of high-value-added products and a reduction in manufacturing
Operating income
Operating income came to 21.4 billion yen, up 9.8% year on year. In addition to the rise in gross profit, there was also benefit from a decline in selling, general and administrative expenses reflecting a rise in the yen’s value against major currencies.

Ordinary income
Ordinary income decreased 26.6% to 15.1 billion yen year on year due to the posting of foreign exchange losses reflecting a rise in the value of the yen against major currencies. Conversely, the company posted foreign exchange gains in the same period a year earlier.

Profit attributable to owners of parent
Profit attributable to owners of parent decreased 30.3% to 10.1 billion yen year on year.

Net sales results by company are as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1 FYE3/2016</th>
<th>Q1 FYE3/2017</th>
<th>Growth (%)</th>
<th>Growth excluding impact of forex translations (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiac and Vascular Company</td>
<td>Net sales 63,195</td>
<td>63,699</td>
<td>0.8</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>(Japan) 11,317</td>
<td>12,789</td>
<td>13.0</td>
<td>13.0</td>
</tr>
<tr>
<td></td>
<td>(Overseas) 51,877</td>
<td>50,910</td>
<td>(1.9)</td>
<td>11.4</td>
</tr>
<tr>
<td>General Hospital Company</td>
<td>Net sales 39,484</td>
<td>38,383</td>
<td>(2.8)</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>(Japan) 30,159</td>
<td>30,113</td>
<td>(0.2)</td>
<td>(0.2)</td>
</tr>
<tr>
<td></td>
<td>(Overseas) 9,325</td>
<td>8,269</td>
<td>(11.3)</td>
<td>1.9</td>
</tr>
<tr>
<td>Blood Management Company</td>
<td>Net sales 25,980</td>
<td>22,387</td>
<td>(13.8)</td>
<td>(3.0)</td>
</tr>
<tr>
<td></td>
<td>(Japan) 2,509</td>
<td>2,499</td>
<td>(0.4)</td>
<td>(0.4)</td>
</tr>
<tr>
<td></td>
<td>(Overseas) 23,471</td>
<td>19,888</td>
<td>(15.3)</td>
<td>(3.3)</td>
</tr>
</tbody>
</table>

Cardiac and Vascular Company
In Japan, sales rose double digits year on year. Sales in the TIS business were brisk for coronary therapeutic devices, including the “Ultimaster”. This offset the negative impact from revisions to NHI reimbursement prices. Meanwhile overseas sales declined. Although sales trended solidly for the “Ultimaster” and access devices, sales were stalled by negative impact from a rise in the yen’s value against major currencies.

Consequently, net sales in the Cardiac and Vascular Company totaled 63.7 billion yen, an increase of 0.8% year on year.
General Hospital Company
In Japan, sales dropped in contrast with the same period a year earlier. This reflects negative impact from NHI reimbursement price revisions and from the transfer of contrast agent sales to Fuji Pharma Co., Ltd. in October, 2015 despite solid sales of needleless infusion systems, infusion pumps, syringe pumps and other products. Sales were also down overseas. In addition to pouring energies into the downsizing of low-profit businesses, mainly in Europe, Latin America, and in some parts of Asia to improve profitability, there was also negative impact from a rise in the yen’s value against major currencies.

In light of this, net sales in the General Hospital Company came to 38.4 billion yen, a decline of 2.8% year on year.

Blood Management Business
In Japan, sales decreased versus the same period in the previous year due in part to a change in the schedule of product deliveries to blood centers. Sales overseas also fell. This was due to negative impact from revisions to selling prices of products for blood centers in the United States, and also reflecting a rise in the yen’s value against major currencies in various regions.

Accordingly, net sales in the Blood Management Company were 22.4 billion yen, down 13.8% year on year.

(2) Overview of Consolidated Balance Sheets
Assets
As of June 30, 2016, total assets totaled 867.7 billion yen, down 34.0 billion yen compared to March 31, 2016.

Current assets stood at 379.9 billion yen, an increase of 5.1 billion yen, primarily attributable to a rise in cash and deposits.

Non-current assets stood at 482.8 billion yen, a decline of 38.9 billion yen. Property, plant and equipment declined 6.8 billion yen, intangible assets decreased 28.5 billion yen, and investments and other assets shrunk 3.5 billion yen.

Total Liabilities
Total liabilities came to 392.7 billion yen, an increase of 2.6 billion yen.

Current liabilities were 149.4 billion yen, a decrease of 19.4 billion yen, owing in part to the payment of income taxes payable.

Non-current liabilities came to 243.3 billion yen, an increase of 22.0 billion yen, primarily attributable to the issuance of unsecured bonds.

Total Net Assets
Net assets were 474.9 billion yen, a decrease of 36.6 billion yen.

Accordingly, Terumo’s equity ratio stood at 54.7%, down 2.0 percentage points compared with March 31, 2016.

(3) Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2017

Terumo did not revise its forecasts for the 1st half or for the fiscal year ending March 31, 2017, which it released on May 10, 2016. Trends in the business environment are expected to remain uncertain. This includes a change in the environment surrounding the medical device and pharmaceutical industries, and foreign exchange rate trends. To achieve its earnings goals, the Terumo Group aims to pour energies into a number of areas. This includes the introduction and expansion of high value-added products that contribute to the improvement of medical quality and efficiency, further improvement to manufacturing costs, and the efficient use of SG&A expenses.