Analysis of Business Performance

1. Financial Results for the First Half of the Fiscal Year Ending March 31, 2017: Reference

(1) Overview of Consolidated Business Results

During the first half of the current fiscal year (from April 1 to September 30, 2016), the following trends were noted in the healthcare industry. Overseas, the healthcare industry underwent reorganization, including the sale and/or acquisition of businesses by major medical device companies, mainly in the United States. 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 half of the current fiscal year.

- In the Cardiac and Vascular Company, access device sales in the Terumo Interventional Systems (TIS) business trended briskly. In the current fiscal year, Terumo launched sales of the “Ultimaster,” a drug-eluting stent, in France, Brazil, and South Korea. Ultimaster sales were strong in all regions. Moreover, Terumo added a 4mm stent to its product lineup in Japan and launched sales in August 2016.

- In the General Hospital Company, sales trended steadily for infusion line products, including the needleless infusion system, in Japan. Meanwhile, the company improved its profitability overseas, including downsizing low-profit businesses, mainly in Europe and Latin America.

- In the Blood Management Company, sales were down 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 appreciation in the yen’s value against major currencies.

Financial results for the first half of the fiscal year ending March 31, 2017 are as follows:

Net sales
Net sales totaled 245.1 billion yen, a decrease of 5.4% in contrast with the same period in the previous fiscal year.
In Japan, although there was negative impact from revisions to NHI reimbursement prices, sales rose in comparison with a year earlier on impetus provided from the TIS business and neurovascular intervention business. Meanwhile, despite brisk sales of access devices, the Ultimaster, and other products in the TIS business, sales in overseas markets dwindled due to companywide impact from the yen’s appreciation in value against major currencies.

**Gross profit**
Gross profit totaled 136.0 billion yen, a fall of 2.4% year on year. A decline in sales due to the yen’s appreciation in value was only partially offset by an improvement in production costs.

**Operating income**
Operating income stood at 39.4 billion yen, an increase of 0.7% year on year. Although gross profit was down, SG&A costs decreased owing to the yen’s appreciation.

**Ordinary income**
Ordinary income totaled 30.6 billion yen, a decline of 14.4% versus a year earlier, owing to an increase of 4.2 billion yen in foreign exchange rate translation loss in tandem with the yen’s appreciation in value against major currencies.
Profit attributable to owners of parent

Profit attributable to owners of parent was 20.4 billion yen, a fall of 24.4% year on year. In addition to an increase in foreign exchange rate translation loss, in the same period of the previous fiscal year, Terumo posted extraordinary income of 4.4 billion yen in tandem with the sale of land.

Net sales results by company are as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q2 FYE3/2016 (million yen)</th>
<th>Q2 FYE3/2017 (million yen)</th>
<th>Growth (%)</th>
<th>Growth excluding impact of forex translations (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiac and Vascular Company</td>
<td>125,542</td>
<td>121,540</td>
<td>(3.2)</td>
<td>9.9</td>
</tr>
<tr>
<td>(Japan)</td>
<td>22,774</td>
<td>24,500</td>
<td>7.6</td>
<td>7.6</td>
</tr>
<tr>
<td>(Overseas)</td>
<td>102,768</td>
<td>97,039</td>
<td>(5.6)</td>
<td>10.4</td>
</tr>
<tr>
<td>General Hospital Company</td>
<td>80,830</td>
<td>78,242</td>
<td>(3.2)</td>
<td>0.3</td>
</tr>
<tr>
<td>(Japan)</td>
<td>62,004</td>
<td>61,485</td>
<td>(0.8)</td>
<td>(0.8)</td>
</tr>
<tr>
<td>(Overseas)</td>
<td>18,825</td>
<td>16,756</td>
<td>(11.0)</td>
<td>4.0</td>
</tr>
<tr>
<td>Blood Management Company</td>
<td>52,794</td>
<td>45,227</td>
<td>(14.3)</td>
<td>(1.3)</td>
</tr>
<tr>
<td>(Japan)</td>
<td>5,564</td>
<td>5,717</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>(Overseas)</td>
<td>47,230</td>
<td>39,510</td>
<td>(16.3)</td>
<td>(1.7)</td>
</tr>
</tbody>
</table>

Cardiac and Vascular Company

In Japan, on top of contribution from Ultimaster sales, which were launched in October 2015, access device sales trended briskly in the TIS business. Furthermore, sales in the neurovascular intervention business trended briskly. These factors offset the negative from revisions to NHI reimbursement prices and generated sales growth. Meanwhile, overseas sales declined. Although access device and Ultimaster sales were trended solidly in all markets, this did not compensate for the negative impact from a rise in the yen’s value against major currencies.

Consequently, net sales in the Cardiac and Vascular Company totals 121.5 billion yen, a decrease of 3.2% year on year.

General Hospital Company

In Japan, sales declined in comparison with the same period a year earlier. The decline reflects negative impact from the transfer of contrast agent sales to Fuji Pharma Co., Ltd. in October 2015, despite solid sales of infusion line products, including needleless infusion systems. Overseas, sales also fell. In addition to downsizing low-profit businesses, mainly in Europe and Latin America, 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 78.2 billion yen, a drop of 3.2% year on year.

Blood Management Company
In Japan, sales increased versus the same period in the previous year thanks to progress in resolving changes to delivery schedules for product shipments to blood centers in the second quarter. Overseas sales fell. This was due to negative impact from revisions to selling prices on products shipped to blood centers in the United States implemented in the second half of the previous fiscal year, 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 45.2 billion yen, a decrease of 14.3% year on year.

(2) Overview of Consolidated Balance Sheets
Assets
As of September 30, 2016, total assets came to 886.0 billion yen, a decrease of 15.7 billion yen compared with March 31, 2016.

Current assets totaled 368.5 billion yen, a decline of 6.2 billion yen owing in part to a decrease in accounts receivable.

Non-current assets were 512.7 billion yen, a decline of 8.9 billion yen. Property, plant and equipment was down 6.0 billion yen, intangible assets increased 2.3 billion yen, and investments and other assets contracted 5.2 billion yen.

Total Liabilities
Total liabilities stood at 407.9 billion yen, an increase of 17.8 billion yen, owing in part to the issuance of unsecured bonds.

Total Net Assets
Net assets totaled 478.1 billion yen, a decrease of 33.4 billion yen.
Consequently, Terumo’s equity ratio stood at 53.9%, down 2.8 percentage points compared with March 31, 2016.

(3) Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2017
Terumo revised its foreign exchange rate assumptions given the advance in the yen’s appreciation in value against major currencies. Factoring out the negative impact from the rise in the yen’s value, earnings are trending steadily overseas, mainly in the Interventional Systems business. Management did not revise the net sales and operating income forecasts, released on May 10, 2016, as performance is basically in line with plans.

However, in light of the advance in the yen’s appreciation in value against major currencies, the loss on foreign exchange rate translations posted to non-operating expense is expected to be larger than previously expected. In addition, Terumo now anticipates a one-off extraordinary loss in the second half reflecting the acquisition of Sequent Medical, Inc., which was acquired in July 2016 and turned into a consolidated subsidiary in the second half. In light of these factors, management revised its forecasts for ordinary income and profit attributable to owners of parent as shown in the table below. (Foreign exchange rate assumptions for the second half are ¥105/USD1 and ¥115/EUR1 and for the full fiscal year are ¥105/USD1 and ¥116/EUR1.)
<table>
<thead>
<tr>
<th></th>
<th>Net sales (Million yen)</th>
<th>Operating income (Million yen)</th>
<th>Ordinary income (Million yen)</th>
<th>Profit attributable to owners of parent (Million yen)</th>
<th>Net income per share (Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior forecast (A)</td>
<td>517,000</td>
<td>75,000</td>
<td>71,000</td>
<td>52,500</td>
<td>144.64</td>
</tr>
<tr>
<td>Revised forecast (B)</td>
<td>517,000</td>
<td>75,000</td>
<td>65,000</td>
<td>47,500</td>
<td>130.87</td>
</tr>
<tr>
<td>Change (B – A)</td>
<td>-</td>
<td>-</td>
<td>(6,000)</td>
<td>(5,000)</td>
<td>-</td>
</tr>
<tr>
<td>Change (%)</td>
<td>-</td>
<td>-</td>
<td>(8.5)</td>
<td>(9.5)</td>
<td>-</td>
</tr>
<tr>
<td>(Ref.) Results for prior fiscal year</td>
<td>525,026</td>
<td>81,703</td>
<td>73,090</td>
<td>50,676</td>
<td>135.14</td>
</tr>
</tbody>
</table>