ANNUAL REPORT 2017

# FINANCIAL INFORMATION

# Consolidated Balance Sheets

Terumo Corporation and subsidiaries
March 31, 2017 and 2016

| | Millions of yen | |
|---|---|---|
| **Assets** | **2017** | 2016 |
| **Current Assets:** | | |
| Cash and deposits (Notes 2 and 18) | **¥ 105,388** | ¥ 149,672 |
| Notes and accounts receivable—trade (Note 18) | **109,508** | 104,426 |
| Less: allowance for doubtful accounts | **(1,430)** | (1,390) |
| Notes and accounts receivable—trade, net | **108,078** | 103,035 |
| Inventories (Note 3) | **106,712** | 96,454 |
| Deferred tax assets (Note 8) | **17,501** | 14,963 |
| Other current assets (Note 18 and 19) | **11,503** | 10,621 |
| Total current assets | **349,183** | 374,746 |
| **Property, Plant and Equipment:** | | |
| Land | **22,471** | 23,297 |
| Buildings and structures | **168,773** | 167,612 |
| Machinery, equipment and vehicles | **234,942** | 233,310 |
| Other equipment and furniture | **46,245** | 43,683 |
| Leased assets | **3,307** | 2,141 |
| Construction in progress | **30,445** | 21,417 |
| | **506,186** | 491,463 |
| Less: accumulated depreciation | **(323,064)** | (315,668) |
| Net property, plant and equipment (Note 13 and 22) | **183,122** | 175,794 |
| **Investments and Other Assets:** | | |
| Investment securities, including investments in unconsolidated subsidiaries and affiliates (Notes 4 and 18) | **12,463** | 37,724 |
| Goodwill (Note 22) | **217,334** | 143,707 |
| Developed technology | **105,581** | 28,017 |
| Customer relationships | **85,338** | 90,750 |
| Deferred tax assets (Note 8) | **6,727** | 3,436 |
| Retirement benefit assets (Note 7) | **757** | — |
| Other assets | **60,896** | 47,506 |
| Total investments and other assets | **489,099** | 351,143 |
| **Total Assets** | **¥1,021,405** | ¥ 901,685 |

See accompanying notes to consolidated financial statements.

| Liabilities and Net Assets | Millions of yen 2017 | 2016 |
|---|---|---|
| **Current Liabilities:** | | |
| Short-term debt (Notes 5 and 18) | **¥ 120,000** | ¥ 61 |
| Current portion of long-term debt (Notes 5 and 18) | **7,853** | 19,839 |
| Current portion of bonds payable (Notes 6 and 18) | **—** | 40,000 |
| Notes and accounts payable—trade (Note 18) | **38,451** | 36,294 |
| Lease obligations | **231** | 256 |
| Income taxes payable (Note 8) | **9,688** | 9,778 |
| Accrued expenses | **38,040** | 35,555 |
| Asset retirement obligations | **72** | — |
| Other current liabilities (Notes 8, 18 and 19) | **34,052** | 27,049 |
| Total current liabilities | **248,389** | 168,835 |
| **Non-current Liabilities:** | | |
| Bonds payable (Notes 6 and 18) | **30,000** | — |
| Convertible bonds with subscription rights to shares (Notes 6 and 18) | **100,135** | 100,184 |
| Long-term debt (Notes 5 and 18) | **80,578** | 58,873 |
| Lease obligations | **230** | 286 |
| Retirement benefit liabilities (Note 7) | **6,803** | 8,656 |
| Provision for directors' retirement benefits | **14** | 66 |
| Asset retirement obligations | **84** | 230 |
| Deferred tax liabilities (Note 8) | **47,501** | 45,079 |
| Other non-current liabilities | **18,113** | 7,925 |
| Total non-current liabilities | **283,462** | 221,304 |
| Total liabilities | **531,851** | 390,140 |
| **Contingencies** (Note 20) | | |
| **Net Assets** (Note 15): | | |
| Capital stock | **38,716** | 38,716 |
| Authorized 1,519,000,000 shares in 2017 and 2016. | | |
| Issued 379,760,520 shares in 2017 and 2016. | | |
| Capital surplus | **50,928** | 50,928 |
| Retained earnings | **459,261** | 419,573 |
| Less: treasury stock, at cost (Note 14) | **(108,225)** | (64,040) |
| Total shareholders' equity | **440,680** | 445,178 |
| Unrealized gains (losses) on available-for-sale securities, net of taxes | **1,706** | 16,308 |
| Deferred gains (losses) on hedges, net of taxes | **(560)** | (13) |
| Foreign currency translation adjustments | **56,257** | 63,182 |
| Accumulated adjustments for retirement benefits, net of taxes (Note 7) | **(8,938)** | (13,403) |
| Total accumulated other comprehensive income | **48,464** | 66,074 |
| Stock subscription rights | **307** | 183 |
| Non-controlling interests | **101** | 109 |
| Total net assets | **489,554** | 511,544 |
| **Total Liabilities and Net Assets** | **¥1,021,405** | ¥901,685 |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

Terumo Corporation and subsidiaries
Years ended March 31, 2017 and 2016

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| **Net Sales** | **¥514,164** | ¥525,026 |
| **Cost of Sales** | **236,164** | 242,170 |
| Gross profit | **278,000** | 282,856 |
| Selling, General and Administrative Expenses (Notes 9 and 10) | **201,421** | 201,152 |
| Operating income | **76,578** | 81,703 |
| **Other Income (Expenses):** | | |
| Interest and dividend income | **701** | 942 |
| Royalty income | **137** | 209 |
| Gain on sales of property, plant and equipment (Note 11) | **366** | 4,917 |
| Gain on sales of investment securities | **15,792** | 793 |
| Subsidy income | **284** | 1,783 |
| Interest expense | **(1,205)** | (1,395) |
| Foreign exchange gains (losses) | **(4,100)** | (7,485) |
| Equity in earnings (losses) of affiliates | **(559)** | 328 |
| Loss on disposal of inventories | **(848)** | (82) |
| Structural reform-related expenses | **(703)** | (222) |
| Amortization of business commencement expenses | **(1,111)** | (278) |
| Loss on disposal of property, plant and equipment (Note 12) | **(1,652)** | (895) |
| Impairment loss (Note 13) | **—** | (1,010) |
| Settlement package | **—** | (1,656) |
| Loss on liquidation of subsidiaries | **—** | (102) |
| Restructuring loss | **(1,375)** | — |
| Loss on valuation of investment securities (Note 4) | **(2,178)** | — |
| Loss on valuation of other investments | **(4,805)** | — |
| Other, net | **(335)** | (629) |
| | **(1,596)** | (4,782) |
| Income before income taxes | **74,981** | 76,920 |
| **Income Taxes** (Note 8): | | |
| Current | **25,640** | 27,718 |
| Deferred | **(4,772)** | (1,427) |
| | **20,867** | 26,290 |
| **Profit** | **54,114** | 50,630 |
| Loss attributable to non-controlling interests | **(111)** | (46) |
| Profit attributable to owners of parent | **¥ 54,225** | ¥ 50,676 |

| | Yen | |
|---|---|---|
| **Earnings per Common Stock:** | | |
| Basic | **¥150.15** | ¥135.14 |
| Diluted | **140.04** | 126.36 |
| | | |
| **Cash Dividends per Common Stock** | **¥ 42.00** | ¥ 39.00 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Terumo Corporation and subsidiaries
Years ended March 31, 2017 and 2016

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| **Profit** | **¥ 54,114** | ¥ 50,630 |
| **Other Comprehensive Income:** | | |
| Unrealized gains (losses) on available-for-sale securities, net of taxes | **(14,601)** | (602) |
| Deferred gains (losses) on hedges, net of taxes | **(546)** | (15) |
| Foreign currency translation adjustments | **(6,931)** | (25,864) |
| Adjustments for retirement benefits, net of taxes | **4,465** | (9,792) |
| Share of other comprehensive income of affiliates accounted for using the equity method, net of taxes | **(0)** | 2 |
| Total other comprehensive income (Note 23) | **(17,615)** | (36,272) |
| **Comprehensive Income** | **¥ 36,498** | ¥ 14,358 |

| **Comprehensive Income attributable to:** | Millions of yen | |
|---|---|---|
| Owners of parent | **¥ 36,616** | ¥ 14,408 |
| Non-controlling interests | **(118)** | (50) |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets (Note 15)

Terumo Corporation and subsidiaries
Years ended March 31, 2017 and 2016

| | Thousands | Millions of yen | | | |
|---|---|---|---|---|---|
| | | Shareholders' equity | | | |
| | Number of shares of common stock | Capital stock | Capital surplus | Retained earnings | Treasury stock |
| Balance at March 31, 2015 | 378,829 | ¥38,716 | ¥52,103 | ¥383,317 | ¥ (3,035) |
| Cumulative effect of changes in accounting policies | | | (1,175) | (1,220) | |
| Beginning of period as restated | 378,829 | 38,716 | 50,928 | 382,097 | (3,035) |
| Dividends from surplus | | | | (13,200) | |
| Profit attributable to owners of parent | | | | 50,676 | |
| Purchase of treasury stock | (15,859) | | | | (61,004) |
| Disposal of treasury stock | | | | | |
| Net changes of items other than shareholders' equity | | | | | |
| Balance at March 31, 2016 | 362,969 | 38,716 | 50,928 | 419,573 | (64,040) |
| Dividends from surplus | | | | **(14,518)** | |
| Profit attributable to owners of parent | | | | **54,225** | |
| Purchase of treasury stock | **(11,001)** | | | | **(44,227)** |
| Disposal of treasury stock | | | | **(18)** | **41** |
| Net changes of items other than shareholders' equity | **10** | | | | |
| **Balance at March 31, 2017** | **351,979** | **¥38,716** | **¥50,928** | **¥459,261** | **¥(108,225)** |

See accompanying notes to consolidated financial statements.

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | | |
| | Unrealized gains (losses) on available-for-sale securities, net of taxes | Deferred gains or losses on hedges, net of taxes | Foreign currency translation adjustments | Accumulated adjustments for retirement benefits, net of taxes | Stock subscription rights | Non-controlling interests | Total |
| Balance at March 31, 2015 | ¥ 16,910 | ¥ — | ¥89,043 | ¥(3,611) | ¥ 78 | ¥ — | ¥573,523 |
| Cumulative effect of changes in accounting policies | | | | | | | (2,396) |
| Beginning of period as restated | 16,910 | — | 89,043 | (3,611) | 78 | — | 571,126 |
| Dividends from surplus | | | | | | | (13,200) |
| Profit attributable to owners of parent | | | | | | | 50,676 |
| Purchase of treasury stock | | | | | | | (61,004) |
| Disposal of treasury stock | | | | | | | — |
| Net changes of items other than shareholders' equity | (602) | (13) | (25,860) | (9,792) | 105 | 109 | (36,053) |
| Balance at March 31, 2016 | 16,308 | (13) | 63,182 | (13,403) | 183 | 109 | 511,544 |
| Dividends from surplus | | | | | | | **(14,518)** |
| Profit attributable to owners of parent | | | | | | | **54,225** |
| Purchase of treasury stock | | | | | | | **(44,227)** |
| Disposal of treasury stock | | | | | | | **22** |
| Net changes of items other than shareholders' equity | **(14,601)** | **(547)** | **(6,925)** | **4,465** | **124** | **(7)** | **(17,493)** |
| **Balance at March 31, 2017** | **¥ 1,706** | **¥(560)** | **¥56,257** | **¥(8,938)** | **¥307** | **¥101** | **¥489,554** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Terumo Corporation and subsidiaries
Years ended March 31, 2017 and 2016

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| **Net Cash Provided by (Used in) Operating Activities** | | |
| Income before income taxes | **¥ 74,981** | ¥ 76,920 |
| Depreciation and amortization | **34,153** | 33,679 |
| Impairment loss | **—** | 1,010 |
| Amortization of goodwill | **11,247** | 10,995 |
| Equity in losses (earnings) of affiliates | **559** | (328) |
| Decrease (increase) in retirement benefit assets | **(757)** | (6,890) |
| Increase (decrease) in retirement benefit liabilities | **(1,774)** | (220) |
| Increase (decrease) in allowance for doubtful accounts | **66** | (22) |
| Increase (decrease) in provision for directors' retirement benefits | **(52)** | — |
| Increase (decrease) in provision for directors' bonuses | **20** | 28 |
| Interest and dividend income | **(701)** | (942) |
| Interest expense | **1,205** | 1,395 |
| Foreign exchange losses (gains) | **2,881** | 4,321 |
| Structural reform-related expenses | **703** | 222 |
| Amortization of business commencement expenses | **1,111** | 278 |
| Gain on sales of property, plant and equipment | **(366)** | (4,917) |
| Loss on disposal of property, plant and equipment | **1,652** | 895 |
| Gain on sales of investment securities | **(15,792)** | (793) |
| Subsidy income | **(284)** | (1,783) |
| Settlement package | **—** | 1,656 |
| Loss on liquidation of subsidiaries | **—** | 102 |
| Restructuring loss | **1,375** | — |
| Loss on valuation of investment securities | **2,178** | — |
| Loss on valuation of other investments | **4,805** | — |
| Decrease (increase) in notes and accounts receivable—trade | **(4,784)** | (3,138) |
| Decrease (increase) in inventories | **(3,921)** | 398 |
| Increase (decrease) in notes and accounts payable—trade | **886** | (1,492) |
| Other, net | **(254)** | 5,305 |
| Subtotal | **109,140** | 116,679 |
| Interest and dividend income received | **784** | 1,751 |
| Interest expenses paid | **(1,190)** | (1,445) |
| Income taxes paid | **(24,845)** | (36,451) |
| Settlement paid | **(1,493)** | — |
| Payments for structural reform-related expenses | **(450)** | (409) |
| Subsidy income received | **284** | 1,783 |
| Payments for loss on liquidation of subsidiaries | **—** | (83) |
| Payments for restructuring loss | **(1,365)** | (1,390) |
| Payments for loss on liquidation of businesses | **—** | (132) |
| Net cash provided by (used in) operating activities | **80,862** | 80,303 |
| **Net Cash Provided by (Used in) Investing Activities** | | |
| Payments for time deposits | **(298)** | (1,766) |
| Proceeds from withdrawal of time deposits | **2,443** | 1,796 |
| Purchase of property, plant and equipment | **(29,838)** | (28,209) |
| Proceeds from sales of property, plant and equipment | **1,315** | 5,135 |

| | | |
|---|---|---|
| Purchase of intangible assets | **(6,680)** | (4,703) |
| Purchase of investment securities | **(1,243)** | (3,505) |
| Proceeds from sales of investment securities | **21,440** | 10,802 |
| Collection of lease deposits | **—** | 39 |
| Payments for acquisition of businesses (Note 2) | **(119,191)** | — |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 2) | **(49,380)** | — |
| Other, net | **(0)** | (3,082) |
| Net cash provided by (used in) investing activities | **(181,433)** | (23,495) |
| **Net Cash Provided by (Used in) Financing Activities** | | |
| Proceeds from short-term debt | **120,000** | — |
| Repayments of short-term debt | **(58)** | (298) |
| Proceeds from long-term debt | **29,640** | — |
| Repayments of long-term debt | **(19,460)** | (5,416) |
| Proceeds from issuance of bonds | **29,888** | — |
| Redemption of bonds | **(40,000)** | — |
| Proceeds from share issuance to non-controlling interests | **—** | 181 |
| Repayments of finance lease obligations | **(325)** | (197) |
| Purchase of treasury stock | **(44,227)** | (61,004) |
| Cash dividends paid | **(14,518)** | (13,200) |
| Net cash provided by (used in) financing activities | **60,937** | (79,936) |
| **Effect of Exchange Rate Changes on Cash and Cash Equivalents** | **(2,246)** | (6,606) |
| **Net Increase in Cash and Cash Equivalents** | **(41,880)** | (29,734) |
| **Cash and Cash Equivalents at Beginning of the Year** | **146,927** | 176,662 |
| **Cash and Cash Equivalents at End of the Year (Note 2)** | **¥105,046** | ¥146,927 |

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Terumo Corporation and subsidiaries

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presenting Consolidated Financial Statements

Terumo Corporation (the "Company") and domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments on consolidation for four specified items as applicable.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

### (b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and subsidiaries, except for immaterial subsidiaries. All significant intercompany balances, transactions and unrealized profits have been eliminated in consolidation. Investments in affiliated companies and the immaterial subsidiaries not consolidated are stated at their underlying net equity value.

Assets and liabilities of subsidiaries are valued at their full fair value, including a portion, if any, attributable to non-controlling interests, at the time the Company acquires control of the respective subsidiary.

### (c) Foreign Currency Translation

All short-term and long-term assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the balance sheet date.

Revenue and expenses denominated in foreign currencies are translated into Japanese yen at their respective spot rates.

The balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at exchange rates as of the balance sheet date except for shareholders' equity, which is translated at historical rates. Differences arising from such translations are shown as "Foreign currency translation adjustments" in a separate component of net assets in the consolidated balance sheets.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at annual average exchange rates.

### (d) Cash and Cash Equivalents

The Company considers cash and deposits, which can be withdrawn on demand without diminution of principal and with original maturities of three months or less, to be cash and cash equivalents.

### (e) Investments

The accounting standards for financial instruments require the Company to classify its securities into one of the following four categories: trading, held-to-maturity, available-for-sale securities or investments in unconsolidated subsidiaries and affiliates. All of the Company's securities are classified as held-to-maturity securities, available-for-sale securities or investments in unconsolidated subsidiaries or affiliates and included in investment securities in the consolidated balance sheets.

In accordance with the accounting standards for financial instruments, available-for-sale securities with a market value are carried at market value. The difference, net of tax, between the acquisition cost and the carrying value of available-for-sale securities, including unrealized gains and losses, is recognized in "Unrealized gains (losses) on available-for-sale securities, net of taxes" in a separate component of net assets in the consolidated balance sheets. Available-for-sale securities without a market value are principally carried at cost. The cost of available-for sale securities sold is principally computed based on the moving average method.

### (f) Inventories

Inventories are stated at cost, principally using the average method. Inventories are written down to their net realizable value when there is evidence of deterioration in value.

### (g) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Routine maintenance and repairs and minor replacement costs are charged to expenses as incurred. Depreciation is computed by the straight-line depreciation method based on the following estimated useful lives:

Buildings and structures: 3–60 years

Machinery, equipment and vehicles: 4–15 years

### (h) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided to cover probable losses on notes and accounts receivable due to customer defaults at an estimated amount based on past collection experience for current receivables, and individual account by account analysis for specific overdue receivables.

### (i) Goodwill

Goodwill, which represents the excess cost over the fair value of the net assets acquired at acquisition dates of investments in subsidiaries, is principally amortized over 10–20 years, which is the expected period to be benefited.

### (j) Intangible assets

Intangible assets are amortized on a straight-line basis over the following estimated useful lives:

Customer relationships: 20 years

Developed technology: 14 years

### (k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### (l) Retirement Benefits

The Company and certain subsidiaries have contributory and non-contributory defined benefit plans for employees that provide for pension or lump-sum benefit payments. In calculating retirement benefit obligations, the Company and subsidiaries allocate the projected retirement benefits to the period through the expected retirement period based on the benefit formula basis.

Prior service cost is amortized by the straight-line method over a period within the average remaining service years of employees (mainly 10 years) at the time of recognition. Actuarial gain and loss is amortized by the straight-line method over a period within the average remaining service years of employees (mainly 10 years) at the time of recognition, beginning from the fiscal year following the respective fiscal year of recognition.

The Company decided to abolish the directors' retirement benefit program on April 20, 2006. The payment of retirement benefits estimated for the abolished program according to the length of service of eligible directors and audit and supervisory board members through June 29, 2006 was approved at the Annual General Meeting of Shareholders for the year ended March 2006 which was held on June 29, 2006. The payments will be made at the time of each eligible individual's retirement.

### (m) Leases

Assets held under finance leases, except for certain immaterial leases, are capitalized and depreciated over the lease terms.

### (n) Derivatives and Hedge Accounting

The Company, in general, adopts the deferral method of hedge accounting. Interest rate swaps that meet certain criteria are accounted for under the special method provided by the accounting standards as if the interest rates under the interest rate swaps were originally applied to underlying borrowings. Interest rate and currency swaps that meet certain criteria are accounted for by the integrated accounting treatment (designated treatment and special accounting treatment).

Derivative financial instruments held by the Company and subsidiaries include forward exchange contracts, interest rate swap contracts, and interest rate and currency swap contracts. Forward exchange contracts are utilized to hedge risks arising from changes in foreign exchange risk of monetary assets and liabilities and forecast transactions denominated in foreign currencies. Interest-rate swaps are utilized to manage interest-rate risk of long-term debt. Interest rate and currency swap contracts are utilized to manage foreign exchange risk and interest-rate risk of debt denominated in foreign currencies.

Derivatives are stated at fair value.

The Company has developed a hedging policy to control various aspects of derivative transactions, including authorization levels and transaction volumes. Based on this policy, the Company hedges, within certain limits, risks arising from changes in foreign currency exchange rates and interest rates. The Company reviews the effectiveness of all hedging instruments to take account of the cumulative cash flows and any changes in the market.

The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows from hedged items and corresponding changes in hedging derivative instruments every half year. With respect to interest rate swaps under the special method and interest rate and currency swaps under the integrated accounting treatment, the evaluation of hedge effectiveness is omitted.

### (o) Appropriation of Retained Earnings

Under the Japanese Corporate Law, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the end of such financial period. The accounts for that period do not, therefore, reflect such appropriation.

### (p) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

### (q) Earnings and Cash Dividends per Common Stock

Basic earnings per common stock is computed by dividing earnings available to common shareholders by the weighted-average number of common stock outstanding during the year.

Diluted earnings per common stock is computed similarly to the basic earnings per common stock except that the average of common stock outstanding is increased by the number of additional common stock that would have been outstanding had potentially dilutive common stock been issued.

Cash dividends per common stock are presented on an accruals basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

### (r) Research and Development Expenses

Research and development expenses are charged to income when incurred.

### (s) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

### (t) Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

ASBJ PITF No. 18 requires that accounting policies and procedures applied by a parent company and subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following four items are required in the consolidation process so that their impact on profit is accounted for in accordance with Japanese GAAP unless the impact is not material.

(i) Goodwill not subject to amortization

(ii) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss

(iii) Capitalized expenditures for research and development activities

(iv) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets

### (u) Accounting Periods of Consolidated Subsidiaries

The year end consolidated balance sheet date is March 31. Among the consolidated subsidiaries, Terumo Medical Products (Hangzhou) Co., Ltd., Terumo Medical (Shanghai) Co., Ltd. and TERUMO (China) Holdings Co., Ltd. have a year end balance sheet date of December 31, which is different from the year end consolidated balance sheet date. Financial statements of these subsidiaries for consolidation purposes were prepared as of the consolidated balance sheet date.

### (v) Changes in Presentation

**Consolidated Balance Sheets**

"Developed technology," which was included in "Other" of "Intangible assets" at the previous year end, is presented as a separate line item because of increased monetary materiality at March 31, 2017. "Developed technology" and "Other" at March 31, 2016 amounted to 28,017 million yen and 28,038 million yen, respectively.

**Consolidated Statements of Income**

Certain manufacturing subsidiaries previously presented personnel expenses and other expenses of indirect departments as selling, general and administrative expenses. These expenses are presented as cost of sales from the year ended March 31, 2017. With the Mid-to Long-term Growth Strategy implemented from the year ended March 31, 2017 onward, the Company seeks to further deepen global management. To this end, the Company reorganised its global production system and reviewed the scope of business of each operation. As a result, the materiality of various expenses of indirect operations of certain manufacturing subsidiaries has increased. Therefore, in order to more appropriately present the Group's gross profit and selling, general and administrative expenses, the change was made to include these expenses in cost of sales so that they directly correspond to net sales. Cost of sales included in selling, general and administrative expenses in the consolidated statement of income for the year ended March 31, 2016 amounted to 2,044 million yen.

"Amortization of business commencement expenses," which was included in "Other" of "Non-operating expenses" for the year ended March 31, 2016, is presented as a separate line item because of increased monetary materiality from the year ended March 31, 2017. "Amortization of business commencement expenses" and "Other" for the year ended March 31, 2016 amounted to 278 million yen and 1,567 million yen, respectively.

**Consolidated Statements of Cash Flows**

"Amortization of business commencement expenses," which was included in "Other" of "Net Cash Provided by (Used in) Operating Activities" for the year ended March 31, 2016, is presented as a separate line item because of increased monetary materiality from the year ended March 31, 2017. "Amortization of business commencement expenses" and "Other" for the year ended March 31, 2016 amounted to 278 million yen and 5,305 million yen, respectively.

### (w) Additional Information

**Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets**

The Company applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year ended March 31, 2017.

## 2. CASH FLOW INFORMATION

The reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2017 and 2016 is as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Cash and deposits | **¥105,388** | ¥149,672 |
| Time deposits with maturities exceeding 3 months | **(341)** | (2,745) |
| Cash and cash equivalents | **¥105,046** | ¥146,927 |

A breakdown of assets and liabilities of newly consolidated subsidiaries at the date of initial consolidation was as follows:

Sequent Medical, Inc.

| | Millions of yen |
|---|---|
| | **2017** |
| Current assets | **¥ 4,060** |
| Non-current assets | **18,778** |
| Goodwill | **20,750** |
| Current liabilities | **(1,832)** |
| Non-current liabilities | **(4,783)** |
| Acquisition cost | **36,973** |
| Contingent consideration included in acquisition cost | **(7,811)** |
| Cash and cash equivalents of the subsidiary | **(1,465)** |
| Translation adjustments | **1,109** |
| Net cash payments for acquisition of the subsidiary | **¥28,806** |

Kalila Medical, Inc.

| | Millions of yen |
|---|---|
| | **2017** |
| Current assets | **¥ 95** |
| Non-current assets | **2,302** |
| Goodwill | **2,793** |
| Current liabilities | **(73)** |
| Non-current liabilities | **(765)** |
| Acquisition cost | **4,351** |
| Contingent consideration included in acquisition cost | **(1,093)** |
| Translation adjustments | **(192)** |
| Net cash payments for acquisition of the subsidiary | **¥ 3,065** |

Bolton Medical, Inc. and related 2 companies

| | Millions of yen |
|---|---|
| | **2017** |
| Current assets | **¥ 3,904** |
| Non-current assets | **4,517** |
| Goodwill | **13,977** |
| Current liabilities | **(2,509)** |
| Non-current liabilities | **(1,808)** |
| Acquisition cost | **18,080** |
| Cash and cash equivalents of the subsidiary | **(37)** |
| Translation adjustments | **(533)** |
| Net cash payments for acquisition of the subsidiary | **¥17,508** |

A breakdown of assets and liabilities of newly acquired buisinesses at the date of initial acquisition was as follows:

| | Millions of yen |
|---|---|
| | **2017** |
| Current assets | **¥ 3,118** |
| Non-current assets | **75,465** |
| Goodwill | **48,078** |
| Current liabilities | **(42)** |
| Acquisition cost | **126,620** |
| Translation adjustments | **(7,128)** |
| Net cash payments for acquisition of the businesses | **¥119,191** |

## 3. INVENTORIES

Inventories at March 31, 2017 and 2016 are summarized as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Merchandise and finished goods | **¥ 69,765** | ¥59,132 |
| Work in process | **9,367** | 10,194 |
| Raw materials and supplies | **27,579** | 27,126 |
| | **¥106,712** | ¥96,454 |

## 4. SECURITIES

Investment securities at March 31, 2017 and 2016 include available-for-sale securities.

The original cost, carrying amount (market value) and unrealized holding gains (losses) for these securities are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Original cost | Unrealized holding gains | Unrealized holding losses | Carrying amount (market value) |
| **2017:** | | | | |
| Available-for-sale securities: | | | | |
| Equity securities | **¥2,667** | **¥2,449** | **¥ —** | **¥5,116** |
| | **¥2,667** | **¥2,449** | **¥ —** | **¥5,116** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | Original cost | Unrealized holding gains | Unrealized holding losses | Carrying amount (market value) |
| 2016: | | | | |
| Available-for-sale securities: | | | | |
| Equity securities | ¥8,313 | ¥20,564 | ¥(2) | ¥28,875 |
| | ¥8,313 | ¥20,564 | ¥(2) | ¥28,875 |

Realized gains and losses on investment securities which were sold in the years ended March 31, 2017 and 2016 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Sales price | Realized gains | Realized losses |
| **2017:** | | | |
| Equity securities | **¥21,440** | **¥15,792** | **¥ —** |
| | **¥21,440** | **¥15,792** | **¥ —** |

| | Millions of yen | | |
|---|---|---|---|
| | Sales price | Realized gains | Realized losses |
| 2016: | | | |
| Equity securities | ¥10,802 | ¥793 | ¥ — |
| | ¥10,802 | ¥793 | ¥ — |

The balances of investments in unconsolidated subsidiaries and affiliates at March 31, 2017 and 2016 were ¥4,491 million and ¥4,939 million, respectively.

## 5. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2017 included unsecured bank borrowings in the amount of ¥120,000 million. The weighted-average interest rates applicable to the bank borrowings was 0.1% at March 31, 2017.

As is customary in Japan, short-term debt is made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the banks, and that the banks have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the banks.

In order to facilitate efficient working capital management, the Company maintains committed lines of credit with one bank. The amount of unused credit available for immediate borrowing under these lines as of March 31, 2017 is follows:

| | Millions of yen |
|---|---|
| | **2017** |
| Total amount of committed lines | **¥120,000** |
| Amount borrowed | **110,000** |
| Amount available for borrowing | **¥ 10,000** |

Long-term debt at March 31, 2017 and 2016 is summarized as follows:

| | Millions of yen |
|---|---|
| | **2017** |
| Unsecured loans, principally from banks: | |
| Due 2018, weighted-average interest rate of 1.86% | **¥ 7,853** |
| Due 2019 to 2024, weighted-average interest rate of 0.74% | **80,578** |
| Total long-term debt | **¥88,431** |

| | Millions of yen |
|---|---|
| | 2016 |
| Unsecured loans, principally from banks: | |
| Due 2017, weighted-average interest rate of 1.03% | ¥19,839 |
| Due 2018 to 2024, weighted-average interest rate of 1.24% | 58,873 |
| Total long-term debt | ¥78,713 |

The aggregate annual maturities of long-term debt at March 31, 2017 are as follows:

| Year Ending March 31 | Millions of yen |
|---|---|
| 2018 | ¥ 7,853 |
| 2019 | 47,853 |
| 2020 | — |
| 2021 | — |
| 2022 | 30,668 |
| 2023 and thereafter | 2,056 |
| | ¥88,431 |

## 6. BONDS PAYABLE

The Company has issued the following bonds:

| | Issuance date | Interest rate | Security | Maturity date | Millions of yen | |
|---|---|---|---|---|---|---|
| | | | | | 2017 | 2016 |
| 4th series unsecured straight bonds | March 2, 2012 | 0.504% | Unsecured | March 2, 2017 | — | ¥ 40,000 |
| Convertible bonds with subscription rights to shares (maturing in 2019) | December 4, 2014 | — | Unsecured | December 4, 2019 | ¥ 50,135 | ¥ 50,184 |
| Convertible bonds with subscription rights to shares (maturing in 2021) | December 4, 2014 | — | Unsecured | December 6, 2021 | ¥ 50,000 | ¥ 50,000 |
| 5th series unsecured straight bonds | April 19, 2016 | 0.080% | Unsecured | April 19, 2021 | ¥ 10,000 | — |
| 6th series unsecured straight bonds | April 19, 2016 | 0.170% | Unsecured | April 19, 2023 | ¥ 10,000 | — |
| 7th series unsecured straight bonds | April 19, 2016 | 0.240% | Unsecured | April 17, 2026 | ¥ 10,000 | — |
| | | | | | ¥130,135 | ¥140,184 |

The aggregate annual maturities of unsecured straight bonds at March 31, 2017 is as follows:

| Year Ending March 31 | Millions of yen |
|---|---|
| 2018 | ¥ — |
| 2019 | — |
| 2020 | — |
| 2021 | — |
| 2022 | 10,000 |
| 2023 and thereafter | 20,000 |
| | ¥30,000 |

The aggregate annual maturities of convertible bonds with subscription rights to shares at March 31, 2017 is as follows:

| Year Ending March 31 | Millions of yen |
|---|---|
| 2018 | ¥ — |
| 2019 | — |
| 2020 | 50,000 |
| 2021 | — |
| 2022 | 50,000 |
| 2023 and thereafter | — |
| | ¥100,000 |

# 7. RETIREMENT BENEFITS

The Company and certain subsidiaries have defined benefit corporate pension plans and the Company has established a retirement benefit trust. In addition, certain overseas subsidiaries have also established defined contribution plans.

## DEFINED BENEFIT PLANS

Movements in retirement benefit obligations are as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Balance at April 1, 2016 and 2015 | **¥108,134** | ¥ 97,351 |
| Service cost | **3,479** | 2,969 |
| Interest cost | **1,034** | 1,606 |
| Actuarial gains or losses | **(440)** | 9,787 |
| Benefits paid | **(2,498)** | (2,454) |
| Foreign currency translation adjustment | **(961)** | (1,294) |
| Other | **39** | 167 |
| Balance at March 31, 2017 and 2016 | **¥108,787** | ¥108,134 |

Movements in plan assets are as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Balance at April 1, 2016 and 2015 | **¥ 99,477** | ¥ 97,117 |
| Expected return on plan assets | **3,135** | 2,924 |
| Actuarial gains or losses | **2,648** | (5,924) |
| Employer contributions | **695** | 8,658 |
| Benefits paid | **(2,466)** | (2,332) |
| Foreign currency translation adjustment | **(741)** | (1,058) |
| Other | **(8)** | 92 |
| Balance at March 31, 2017 and 2016 | **¥102,741** | ¥ 99,477 |

A reconciliation from the retirement benefit obligations and plan assets to retirement benefit liabilities (assets) is as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Funded retirement benefit obligations | **¥ 107,686** | ¥107,108 |
| Plan assets | **(102,741)** | (99,477) |
| | **4,945** | 7,630 |
| Unfunded retirement benefit obligations | **1,100** | 1,026 |
| Total net liability for retirement benefits at March 31, 2017 and 2016 | **¥ 6,045** | ¥ 8,656 |
| Retirement benefit liabilities | **¥ 6,803** | ¥ 8,656 |
| Retirement benefit assets | **(757)** | — |
| Total net liability for retirement benefits at March 31, 2017 and 2016 | **¥ 6,045** | ¥ 8,656 |

Retirement benefit costs consisted of the following:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Service cost | **¥3,479** | ¥2,969 |
| Interest cost | **1,034** | 1,606 |
| Expected return on plan assets | **(3,135)** | (2,924) |
| Net actuarial gains or losses amortization | **3,357** | 1,452 |
| Past service costs amortization | **(150)** | (150) |
| Total retirement benefit costs for the years ended March 31, 2017 and 2016 | **¥4,585** | ¥2,954 |

The pre-tax amount recognized in adjustments for retirement benefits consisted of the following:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Past service costs | **¥ 150** | ¥ 150 |
| Net actuarial gains or losses | **(6,691)** | 13,998 |
| Total balance for the years ended March 31, 2017 and 2016 | **¥(6,541)** | ¥14,148 |

The pre-tax amount recognized in Accumulated adjustments for retirement benefits consisted of the following:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Past service costs that are yet to be recognized | **¥ 675** | ¥ 825 |
| Net actuarial gains or losses that are yet to be recognized | **(13,811)** | (20,503) |
| Total balance at March 31, 2017 and 2016 | **¥(13,136)** | ¥(19,678) |

A breakdown of plan assets by category is as follows:

| | **2017** | 2016 |
|---|---|---|
| Bonds | **54%** | 55% |
| Equity securities | **40** | 40 |
| Cash and cash equivalents | **1** | 0 |
| Other | **5** | 5 |
| Total | **100%** | 100% |

14% and 16% of the total plan assets were held by a retirement benefit trust established to cover the corporate pension plan benefits at March 31, 2017 and 2016, respectively.

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

The principal actuarial assumptions at March 31, 2017 and 2016 are as follows:

| | **2017** | 2016 |
|---|---|---|
| Discount rate | **0.5%** | 1.2% |
| Long-term expected rate of return | **3.0** | 3.0 |

## DEFINED CONTRIBUTION PLANS

Certain overseas subsidiaries have defined contribution plans, which provide retirement benefits for their employees who meet certain eligibility requirements. Contributions made to those plans for the years ended March 31, 2017 and 2016 were ¥2,869 million and ¥2,818 million, respectively.

## 8. INCOME TAXES

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax, which in the aggregate resulted in a statutory tax rate of 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

The difference between the Japanese statutory income tax rate and the effective income tax rate for the year ended March 31, 2016 is not presented because the difference is less than 5% of the statutory tax rate. A reconciliation between the Japanese statutory income tax rate and the effective income tax rate calculated as a percentage of income before income taxes for the year ended March 31, 2017 is as follows:

| | 2017 |
|---|---|
| Japanese statutory income tax rate | 30.9% |
| Increase (decrease) in income taxes resulting from: | |
| Expenses not deductible for tax purposes | 0.4 |
| Income of foreign subsidiaries taxed at different rate to Japanese statutory tax rate | (1.9) |
| Amortization of goodwill | 4.6 |
| R&D tax credit | (2.6) |
| Valuation allowance | (3.7) |
| Other | 0.1 |
| Effective income tax rate after adoption of tax-effect accounting | 27.8% |

The tax effects of temporary differences and net operating loss carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2017 and 2016 are presented below:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Deferred tax assets: | | |
| Retirement benefit liabilities | **¥ 7,772** | ¥ 10,088 |
| Research and development expenses | **1,600** | 1,282 |
| Unrealized profit in inventories and property, plant and equipment | **4,582** | 4,743 |
| Accrued expenses | **7,314** | 7,323 |
| Impairment loss | **3,451** | 4,244 |
| Loss on valuation of investment securities | **750** | 2,542 |
| Inventories | **3,007** | 2,346 |
| Net operating loss carryforwards | **5,690** | 3,589 |
| Other | **4,510** | 2,450 |
| Total gross deferred tax assets | **38,679** | 38,611 |
| Less: valuation allowance | **(2,101)** | (5,259) |
| Net deferred tax assets | **36,578** | 33,351 |
| Deferred tax liabilities: | | |
| Gain on contribution of securities to retirement benefit trust | **(1,479)** | (1,479) |
| Intangible assets | **(52,164)** | (48,753) |
| Unrealized gains (losses) on available-for-sale securities | **(436)** | (4,084) |
| Other | **(5,793)** | (5,769) |
| Total gross deferred tax liabilities | **(59,874)** | (60,087) |
| Net deferred tax liabilities | **¥(23,295)** | ¥(26,735) |

Deferred tax liabilities-current included in “Other current liabilities” were ¥23 million and ¥56 million as of March 31, 2017 and 2016, respectively.

## 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Promotion and advertising expenses | **¥15,613** | ¥17,177 |
| Salaries and allowances | **74,582** | 75,102 |
| Freight and packing expenses | **11,249** | 10,995 |
| Research and development expenses | **33,747** | 33,147 |
| Depreciation and amortization | **27,491** | 27,368 |

Certain manufacturing subsidiaries previously presented personnel expenses and other expenses of indirect departments as selling, general and administrative expenses. These expenses are presented as cost of sales from the fiscal year ended March 31, 2017. In order to reflect these changes, significant components of selling, general and administrative expenses for the previous year are restated.

## 10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2017 and 2016 were ¥33,747 million and ¥33,147 million, respectively.

## 11. GAIN ON SALES OF PROPERTY, PLANT AND EQUIPMENT

A breakdown of gain on sales of property, plant and equipment for the years ended March 31, 2017 and 2016 is as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Buildings and structures | **¥ 20** | ¥ 237 |
| Machinery, equipment and vehicles | **45** | 172 |
| Land | **65** | 4,473 |
| Other | **235** | 33 |
| | **¥366** | ¥4,917 |

## 12. LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

A breakdown of loss on disposal of property, plant and equipment for the years ended March 31, 2017 and 2016 is as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Buildings and structures | **¥ 69** | ¥ 88 |
| Machinery, equipment and vehicles | **418** | 138 |
| Construction in progress | **1,138** | 72 |
| Other | **25** | 595 |
| | **¥1,652** | ¥895 |

## 13. IMPAIRMENT LOSS

The Company and subsidiaries group their fixed assets by the smallest identifiable operating unit for which its performance is continuously monitored, within the Cardiac and Vascular Company segment, General Hospital Company segment, or Blood Management Company segment. Idle assets and assets to be disposed of due to termination of operations or businesses are grouped on an individual asset-by-asset basis.

Assets belonging to the Headquarters and R&D center, company housing and dormitories are included in common assets due to the fact that they do not generate separately identifiable cash flows.

The Company and subsidiaries assessed fixed assets for possible impairment on the basis of the above asset groups. In the year ended March 31, 2016, since the profitability or utility which was originally expected of certain asset groups deteriorated, their carrying amounts were reduced to the respective recoverable amounts. As a result, the Company and subsidiaries recognized a total of ¥876 million in impairment loss on the following groups of assets for the year ended March 31, 2016. In the year ended March 31, 2016, the former Fukuoka branch became idle due to relocation and the assets were determined to be sold. As a result, the asset carrying amounts were reduced to the recoverable amounts.:

| | Use | Location | Classification |
|---|---|---|---|
| **2016:** | **Cardiac and Vascular Company Manufacturing facilities** | **Michigan, U.S.A. and others** | **Machinery, equipment and vehicles, Construction in progress and other assets** |
| | **Idle assets** | **Fukuoka Prefecture, Japan** | **Buildings and structures, and Land** |

Breakdown of impairment loss for the asset groups by fixed asset type is as follows (millions of yen):

・Cardiac and Vascular Company / Manufacturing facilities and others
¥876 (Construction in progress ¥601, Machinery, equipment and vehicles ¥207, Buildings and structures ¥43, Other ¥23)

・Idle assets
¥134 (Land ¥115, Buildings and structures ¥18)

With respect to the asset groups within the Cardiac and Vascular Company segment, the recoverable amounts of buildings and land were measured at net selling prices based on a third party's appraisal, and the recoverable amounts of all other assets were deemed to be zero.

The recoverable amount was computed using the net selling price based on the estimated price if sold.

There was no impairment loss for the year ended March 31, 2017.

## 14. TREASURY STOCK

At March 31, 2017 and 2016, the Company held 27,781 thousand and 16,790 thousand shares of treasury stock for an aggregate cost of ¥108,225 million and ¥64,040 million, respectively.

The annual shareholders' meeting held on June 29, 2004 approved a change to the Company's Articles of Incorporation so that the Company may acquire its common stock to be held in treasury based on decision by the Board of Directors.

## 15. NET ASSETS

Under the Japanese Corporate Law ("the Law") and related regulations, the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus. In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of capital stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit and capitalized by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remain equal to or exceed 25% of common stock, they are available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law and related regulations.

The total number and periodic changes in the number of share subscription rights of convertible bonds with subscription rights to shares for the year ended March 31, 2017 are summarized as follows:

| Item | Convertible bonds with subscription rights to shares (maturing in 2019) | Convertible bonds with subscription rights to shares (maturing in 2021) |
|---|---|---|
| Class of stock | Common stock | Common stock |
| | (Thousands of shares) | (Thousands of shares) |
| Balance at March 31, 2016 | 12,843 | 12,843 |
| Increase | 39 | 39 |
| Decrease | — | — |
| Balance at March 31, 2017 | 12,883 | 12,883 |

Dividends applicable to the years ended March 31, 2017 and 2016 are as follows:

YEAR ENDED MARCH 31, 2017

Dividends paid

| Resolution | Class of shares | Total amount of dividends (Millions of yen) | Dividends per common stock (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual shareholders' meeting held on June 24, 2016 | **Common stock** | **¥7,259** | **¥20.00** | **March 31, 2016** | **June 27, 2016** |
| Board of Directors meeting held on November 10, 2016 | **Common stock** | **7,259** | **20.00** | **September 30, 2016** | **December 7, 2016** |

Dividends resolved during the current period that will be effective after the period-end

| Resolution | Class of shares | Total amount of dividends (Millions of yen) | Funding of dividends | Dividends per common stock (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual shareholders' meeting held on June 27, 2017 | **Common stock** | **¥7,743** | **Retained earnings** | **¥22.00** | **March 31, 2017** | **June 28, 2017** |

YEAR ENDED MARCH 31, 2016

Dividends paid

| Resolution | Class of shares | Total amount of dividends (Millions of yen) | Dividends per common stock (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual shareholders' meeting held on June 24, 2015 | Common stock | ¥6,061 | ¥16.00 | March 31, 2015 | June 25, 2015 |
| Board of Directors meeting held on November 5, 2015 | Common stock | 7,139 | 19.00 | September 30, 2015 | December 7, 2015 |

Dividends resolved during the current period that will be effective after the period-end

| Resolution | Class of shares | Total amount of dividends (Millions of yen) | Funding of dividends | Dividends per common stock (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual shareholders' meeting held on June 24, 2016 | Common stock | ¥7,259 | Retained earnings | ¥20.00 | March 31, 2016 | June 27, 2016 |

## 16. STOCK OPTIONS

Stock options outstanding as of March 31, 2017 are as follows:

| Stock Options | Grantees | Number of Options Granted | Date of Grant | Exercise Price | Exercise Period |
|---|---|---|---|---|---|
| | | (Shares) | | (Yen) | |
| 2013 Stock Options | 7 directors<br>6 employees | 47,542 | Aug 22, 2013 | ¥1 | From Aug 23, 2013 to Aug 22, 2043 |
| 2014 Stock Options | 9 directors<br>26 employees | 55,350 | Aug 27, 2014 | ¥1 | From Aug 28, 2014 to Aug 27, 2044 |
| 2015 Stock Options | 10 directors<br>26 employees | 52,102 | Aug 25, 2015 | ¥1 | From Aug 26, 2015 to Aug 25, 2045 |
| 2016 Stock Options A-Type | 9 directors | 25,390 | Aug 25, 2016 | ¥1 | From Aug 26, 2016 to Aug 25, 2046 |
| 2016 Stock Options B-Type | 29 employees<br>4 fellows | 28,092 | Aug 25, 2016 | ¥1 | From Aug 26, 2016 to Aug 25, 2046 |

The stock option activity for the year ended March 31, 2017 is as follows:

| | 2013 Stock Options | 2014 Stock Options |
|---|---|---|
| | (Shares) | (Shares) |
| Non-vested | | |
| Outstanding at March 31, 2016 | 47,542 | 55,350 |
| Granted | — | — |
| Canceled | — | — |
| Vested | 47,542 | 670 |
| Outstanding at March 31, 2017 | — | 54,680 |
| Vested | | |
| Outstanding at March 31, 2016 | — | — |
| Vested | 47,542 | 670 |
| Exercised | 10,980 | — |
| Canceled | — | — |
| Outstanding at March 31, 2017 | 36,562 | 670 |
| | | |
| Exercise price | ¥ 1 | ¥ 1 |
| Average stock price at exercise | — | — |
| Fair value at grant date | ¥ 4,180 | ¥ 4,610 |

| | 2015 Stock Options | 2016 Stock Options A-Type |
|---|---|---|
| | (Shares) | (Shares) |
| Non-vested | | |
| Outstanding at March 31, 2016 | **52,102** | **—** |
| Granted | **—** | **25,390** |
| Canceled | **—** | **—** |
| Vested | **—** | **—** |
| Outstanding at March 31, 2017 | **52,102** | **25,390** |
| Vested | | |
| Outstanding at March 31, 2016 | **—** | **—** |
| Vested | **—** | **—** |
| Exercised | **—** | **—** |
| Canceled | **—** | **—** |
| Outstanding at March 31, 2017 | **—** | **—** |
| | | |
| Exercise price | **¥ 1** | **¥ 1** |
| Average stock price at exercise | **—** | **—** |
| Fair value at grant date | **¥ 5,616** | **¥ 8,166** |

| | 2016 Stock Options B-Type |
|---|---|
| | (Shares) |
| Non-vested | |
| Outstanding at March 31, 2016 | **—** |
| Granted | **28,092** |
| Canceled | **—** |
| Vested | **—** |
| Outstanding at March 31, 2017 | **28,092** |
| Vested | |
| Outstanding at March 31, 2016 | **—** |
| Vested | **—** |
| Exercised | **—** |
| Canceled | **—** |
| Outstanding at March 31, 2017 | **—** |
| | |
| Exercise price | **¥ 1** |
| Average stock price at exercise | **—** |
| Fair value at grant date | **¥ 7,960** |

Terumo Corporation executed a two-for-one stock split of its common stock effective April 1, 2014.
The number of shares relating to the 2013 Stock Options were adjusted retrospectively to reflect the effect of the stock split.

ASSUMPTIONS USED TO MEASURE FAIR VALUE OF 2016 STOCK OPTIONS A-TYPE

| | |
|---|---|
| Valuation method: | **Black - Scholes option pricing model** |
| Volatility of stock price: | **31.149%** |
| Estimated remaining outstanding period: | **4.6 years** |
| Estimated annual dividend (Yen): | **¥39 per common stock** |
| Risk-free interest rate: | **-0.181%** |

ASSUMPTIONS USED TO MEASURE FAIR VALUE OF 2016 STOCK OPTIONS B-TYPE

| | |
|---|---|
| Valuation method: | **Black - Scholes option pricing model** |
| Volatility of stock price: | **30.100%** |
| Estimated remaining outstanding period: | **7.4 years** |
| Estimated annual dividend (Yen): | **¥39 per common stock** |
| Risk-free interest rate: | **-0.190%** |

## 17. LEASES

(a)The Company and its subsidiaries lease primarily system servers and network equipment under various lease arrangements.

(b)The minimum commitments under non-cancellable operating leases at March 31, 2017 and 2016 are as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Within one year | **¥355** | ¥186 |
| Over one year | **339** | 699 |
| | **¥694** | ¥885 |

# 18. FINANCIAL INSTRUMENTS

## 1. Qualitative information on financial instruments

### (A) POLICIES FOR USE OF FINANCIAL INSTRUMENTS

The Company and subsidiaries secure funds through bank borrowings and issuance of bonds. Direct and indirect finance is managed effectively based on capital investment plans to operate the business of manufacturing and marketing medical equipment and healthcare products, considering changes in the business environment. Excess cash is temporarily invested in a portfolio that emphasizes the principal of safety. The Company and subsidiaries enter into derivative transactions for the purpose of hedging their exposures to foreign exchange fluctuations and interest rate fluctuations, and not for speculative purposes.

### (B) DESCRIPTION OF FINANCIAL INSTRUMENTS AND THEIR EXPOSURE TO RISKS

Trade receivables, including notes and accounts receivable, are exposed to customer credit risk, and trade receivables in foreign currencies are also affected by foreign exchange rate fluctuations. The Company and subsidiaries utilize forward exchange contracts and foreign-currency denominated payables to hedge their exposures to foreign exchange fluctuations related to foreign-currency denominated trade receivables. Investment securities mainly consist of the shares of business partners held for business and capital alliances, and are exposed to the risk of stock price fluctuations. Most trade payables, including notes and accounts payable, have a short maturity of one year or less. While a portion of trade payables arising from imports of raw materials are denominated in foreign currencies, the amount of such foreign-currency denominated trade payables is within the balance of accounts receivable denominated in the same foreign currencies.

Long-term debt and bonds payable are for the purpose of financing a part of the business acquisition cost for prior years and for capital investment. Long-term debt with variable interest rates is exposed to the risk of interest rate fluctuations, which is hedged by employing interest rate swaps. Long-term debt denominated in foreign currencies is exposed to the risk of foreign exchange rate fluctuations, which is hedged by employing currency swaps.

Regarding derivatives, the Company enters into forward exchange contracts to hedge against the risk of fluctuations in foreign currency exchange rates associated with trade receivables and payables denominated in foreign currencies and forecast transactions denominated in foreign currencies, interest rate swaps to hedge against the risk of fluctuations in interest rates associated with loans payable, and currency swaps to hedge against the risk of foreign exchange rate fluctuations. For more information on the use of hedge accounting, including hedging instruments, hedged items, the hedging policy, and the method for assessment of hedge effectiveness, please refer to "1. Summary of Significant Accounting Policies" (n) Derivatives and Hedge Accounting.

### (C) POLICIES AND PROCEDURES FOR MANAGING THE RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

i. Management of Credit Risk

The Company regularly monitors customer accounts under its receivable management process by managing the balances and due dates of each customer, identifying early signs of potential collection issues due to customers' deteriorated financial condition, and reviewing the adequacy of collateral in order to prevent default losses. Each of the Company's consolidated subsidiaries has a similar receivable management process in place.

The Company limits counterparties to its derivative transactions to financial institutions which are highly creditworthy and, accordingly, is exposed to no or little counterparty credit risk.

ii. Management of Market Risk

The Company and certain subsidiaries utilize foreign currency forward contracts for the purpose of hedging their exposures to foreign exchange rate fluctuations arising from trade receivables and payables in foreign currencies and forecast transactions in foreign currencies, which are analyzed on a monthly basis by currency. The Company utilizes interest rate swaps for the purpose of hedging its exposure to the risk of interest rate fluctuations and currency swaps for the purpose of hedging its exposure to the risk of foreign exchange rate fluctuations associated with long-term loans payable with variable interest rates.

For investment securities, the Company regularly monitors their fair value and the issuers' financial condition. Securities other than those held to maturity are continuously reviewed regarding their retention by considering the relationship with business partners.

The Company enters into derivative transactions under the corporate derivative management policy, which prescribes the authority and limitations on derivative transactions. In accordance with the policy, the Treasury Department executes and records derivative transactions and reconciles balances with the counterparties. The results of forward exchange transactions are reported monthly to the director in charge of the Treasury Department and the Board of Directors. The same management process is implemented by subsidiaries of the Company.

iii. Management of Funding and Liquidity Risk

The Treasury Department performs liquidity risk management by forecasting and updating the Company's cash flow plan according to reports from each Department of the Company.

### (D) SUPPLEMENTAL INFORMATION ON FAIR VALUES

The fair value of financial instruments is estimated based on quoted market prices as well as amounts calculated using a reasonable valuation technique when there is no available market price.

Accordingly, the fair values are subject to change since certain assumptions are used in the calculation.

The notional amount of derivative transactions disclosed in Note 19 “Foreign Exchange Risk Management” itself does not reflect the impact of market risks the Company is exposed to.

### 2. Fair value of financial instruments

The carrying amount of financial instruments included in the consolidated balance sheets and their fair value at March 31, 2017 and 2016 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Carrying Amount | Fair value | Difference |
| 2017: | | | |
| Assets: | | | |
| Cash and deposits | **¥105,388** | **¥105,388** | **¥ —** |
| Notes and accounts receivable—trade | **109,508** | **109,508** | **—** |
| Investment securities | | | |
| Available-for-sale securities | **5,116** | **5,116** | **—** |
| Total | **¥220,013** | **¥220,013** | **¥ —** |
| Liabilities: | | | |
| Notes and accounts payable—trade | **¥ 38,451** | **¥ 38,451** | **¥ —** |
| Short-term debt | **120,000** | **120,000** | **—** |
| Notes and accounts payable—facilities included in other current liabilities | **7,059** | **7,059** | **—** |
| Bonds payable | **30,000** | **29,779** | **(221)** |
| Convertible bonds with subscription rights to shares | **100,135** | **114,600** | **14,465** |
| Long-term debt(*1) | **88,431** | **88,462** | **31** |
| Total | **¥384,077** | **¥398,352** | **¥14,274** |
| Derivatives:(*2) | | | |
| Total | **¥ (632)** | **¥ (632)** | **¥ —** |

| | Millions of yen | | |
|---|---|---|---|
| | Carrying Amount | Fair value | Difference |
| 2016: | | | |
| Assets: | | | |
| Cash and deposits | ¥149,672 | ¥149,672 | ¥ — |
| Notes and accounts receivable—trade | 104,426 | 104,426 | — |
| Investment securities | | | |
| Available-for-sale securities | 28,875 | 28,875 | — |
| Total | ¥282,973 | ¥282,973 | ¥ — |
| Liabilities: | | | |
| Notes and accounts payable—trade | ¥ 36,294 | ¥ 36,294 | ¥ — |
| Short-term debt | 61 | 61 | — |
| Notes and accounts payable—facilities included in other current liabilities | 5,451 | 5,451 | — |
| Bonds payable(*1) | 40,000 | 40,128 | 128 |
| Convertible bonds with subscription rights to shares | 100,184 | 121,050 | 20,866 |
| Long-term debt(*1) | 78,713 | 79,406 | 693 |
| Total | ¥260,705 | ¥282,392 | ¥21,686 |
| Derivatives:(*2) | | | |
| Total | ¥ 249 | ¥ 249 | ¥ — |

(*1) Bonds payable and long-term debt include current portion.

(*2) The amount represents the net amount of assets (liabilities).

Assets:

Cash and deposits, Notes and accounts receivable-trade

The carrying amount approximates fair value because of the short maturity of these instruments.

Investment securities

The fair value is estimated based on quoted market prices. Please refer to Note 4 Securities.

Liabilities:

Notes and accounts payable—trade

Short-term debt, Notes and accounts payable—facilities included in other current liabilities

The carrying amount approximates fair value because of the short maturity of these instruments.

Bonds payable, Convertible bonds with subscription rights to shares

The fair value is estimated based on quoted market prices.

Long-term debt

The fair value is based on the present value of the total of principal and interest(*3) discounted at an interest rate to be applied if similar new debt were issued.

(*3) Long-term debt associated with interest rate swaps that qualify for the special method, are measured by discounting the total amount of principle and interest, at the interest rate of the swaps.

Derivatives:

Please refer to Note 19 Derivative Instruments and Hedging Activities.

The following securities are not included within Investment securities in the above table since the fair values of these securities are difficult to estimate.

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Unlisted stocks | **¥2,854** | ¥3,909 |
| Investments in unconsolidated subsidiaries and affiliates | **4,491** | 4,939 |

The amount of assets with maturities within one year from the year-end as of March 31, 2017 and March 31, 2016 is as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Cash and deposits | **¥105,388** | ¥149,672 |
| Notes and accounts receivable—trade | **109,508** | 104,426 |

## 19. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

At March 31, 2017 and 2016, outstanding foreign currency forward contract rates are used for the translation of hedged trade receivables and payables. Contract amounts and fair value of forward contracts at March 31, 2017 and 2016 are as follows:

| Derivatives not designated as hedging instruments: | Millions of yen | |
|---|---|---|
| Foreign currency forward contracts | **2017** | 2016 |
| Sell | | |
| Contract amount | **¥18,634** | ¥11,324 |
| Fair value | **173** | 268 |
| Unrealized gains (losses) | **173** | 268 |
| Buy | | |
| Contract amount | **¥ —** | ¥ 214 |
| Fair value | **—** | (5) |
| Unrealized gains (losses) | **—** | (5) |
| Net unrealized gains | **¥ 173** | ¥ 262 |

| Derivatives designated as qualifying hedging instruments: | Millions of yen | |
|---|---|---|
| Foreign currency forward contracts | **2017** | 2016 |
| Sell | | |
| Contract amount | **¥92,936** | ¥6,831 |
| Fair value | **(806)** | (13) |
| Buy | | |
| Contract amount | **¥ —** | ¥ — |
| Fair value | **—** | — |
| Total fair value | **¥ (806)** | ¥ (13) |

| Derivatives designated as qualifying hedging instruments: | Millions of yen | |
|---|---|---|
| Interest rate swaps | **2017** | 2016 |
| Notional amount | **¥20,000** | ¥20,000 |
| Fair value | (*1) | (*1) |

(*1) Interest rate swap contracts are accounted for as part of long-term debt. Therefore, the estimated fair value of the contracts is included in the fair value of the underlying long-term debt.

## 20. CONTINGENCIES

The Company and subsidiaries had no significant contingent liabilities at March 31, 2017 and 2016.

## 21. SUBSEQUENT EVENTS

(a) Significant borrowings

In accordance with the resolution of the Board of Directors made on February 9, 2017, the Company concluded a syndicated loan contract on March 29, 2017, for which Mizuho Bank, Ltd. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. act as arrangers and The Bank of Tokyo-Mitsubishi UFJ, Ltd. acts as the agent, and received borrowings on April 28, 2017.

1) Purpose and usage

Funds for acquisition of St. Jude Medical’s vascular closure device business and acquisition of stock of Kalila Medical, Inc.

2) Lenders

Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and others

3) Loan amount

i) 620 million US dollars, interest based on base rate + spread

ii) 48.0 billion yen, fixed rate interest

4) Loan execution date

April 28, 2017

5) Repayment due date

April 30, 2024

6) Collateral assets

None

7) Financial covenants

After the financial closing at March 31, 2017, the amount of net assets on the consolidated balance sheet at each fiscal year-end shall be maintained at 75% or more of whichever is higher between the amount of net assets on the consolidated balance sheet at the end of the fiscal year immediately prior to the fiscal year in question or the amount of net assets on the consolidated balance sheet at March 31, 2016.

In the two consecutive fiscal years after the financial closing at March 31, 2017, the amount of ordinary income or loss on the consolidated statement of income for each fiscal year shall not be a negative amount for two consecutive years. The first judgment related to compliance with this covenant shall be executed for the fiscal year ending March 31, 2018 and the fiscal year immediately prior to that fiscal year.

8) Other

The risk of foreign exchange rate fluctuations and the risk of interest rate fluctuations are hedged.

(b) Issuance of bonds

In accordance with the resolution of the Board of Directors made on March 30, 2017, the Company issued unsecured straight bonds with a payment date of April 26, 2017 under the following terms and conditions:

1) Terumo Corporation Series 8 Unsecured Straight Bonds (with inter-bond pari passu clause) (3-year bonds)

| | | |
|---|---|---|
| i) Total amount of issue | : | 10,000,200,000 yen |
| ii) Issue price | : | 100.002 yen per face value 100 yen |
| iii) Interest rate | : | 0.001% per annum |
| iv) Payment date | : | April 26, 2017 |
| v) Maturity date | : | April 24, 2020 |
| vi) Redemption method | : | Lump sum redemption at maturity |
| vii) Use of funds | : | To be used for repayment of borrowings by May 31, 2017 |

2) Terumo Corporation Series 9 Unsecured Straight Bonds (with inter-bond pari passu clause) (10-year bonds)

| | | |
|---|---|---|
| i) Total amount of issue | : | 10,000,000,000 yen |
| ii) Issue price | : | 100 yen per face value 100 yen |
| iii) Interest rate | : | 0.255% per annum |
| iv) Payment date | : | April 26, 2017 |
| v) Maturity date | : | April 26, 2027 |
| vi) Redemption method | : | Lump sum redemption at maturity |
| vii) Use of funds | : | To be used for repayment of borrowings by May 31, 2017 |

## 22. SEGMENT INFORMATION

Reportable segments are components of the Company for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine the allocation of resources and assess segment performance.

The Company is organized into business units, called internal companies, which are classified according to product groups. Each internal company headquarters plans comprehensive business strategies for its products in Japan and overseas, and conducts its own business activities. As a result, the Company's reportable segments are based on these internal companies.

The accounting policies applied to the reportable segments are generally the same as those described in the summary of significant accounting policies except for inventories which are valued at the amount before adjustment to their net realizable value.

The Company uses operating income (loss) as the measure of segment income (loss).

Reportable segment information as of and for the years ended March 31, 2017 and 2016 are as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| External sales: | | |
| Cardiac and Vascular Company | **¥ 261,529** | ¥258,600 |
| General Hospital Company | **157,946** | 161,382 |
| Blood Management Company | **94,483** | 105,042 |
| | **513,959** | 525,026 |
| Adjustment | **205** | — |
| | **¥ 514,164** | ¥525,026 |
| Segment income (loss): | | |
| Cardiac and Vascular Company | **¥ 60,787** | ¥ 61,616 |
| General Hospital Company | **23,772** | 22,613 |
| Blood Management Company | **(2,906)** | (1,405) |
| | **81,653** | 82,824 |
| Adjustment | **(5,075)** | (1,121) |
| | **¥ 76,578** | ¥ 81,703 |
| Segment assets: | | |
| Cardiac and Vascular Company | **¥ 451,660** | ¥241,798 |
| General Hospital Company | **158,946** | 166,727 |
| Blood Management Company | **317,731** | 326,728 |
| | **928,338** | 735,254 |
| Adjustment | **93,066** | 166,431 |
| | **¥1,021,405** | ¥901,685 |

| | | |
|---|---|---|
| Depreciation and amortization: | | |
| Cardiac and Vascular Company | **¥10,854** | ¥ 9,181 |
| General Hospital Company | **9,690** | 9,938 |
| Blood Management Company | **12,922** | 13,752 |
| | **33,468** | 32,872 |
| Adjustment | **684** | 806 |
| | **¥34,153** | ¥33,679 |
| Amortization of goodwill: | | |
| Cardiac and Vascular Company | **¥ 2,962** | ¥ 1,803 |
| General Hospital Company | **—** | — |
| Blood Management Company | **8,285** | 9,191 |
| | **11,247** | 10,995 |
| Adjustment | **—** | — |
| | **¥11,247** | ¥10,995 |
| Capital expenditures: | | |
| Cardiac and Vascular Company | **¥19,591** | ¥15,526 |
| General Hospital Company | **8,600** | 8,507 |
| Blood Management Company | **6,905** | 7,218 |
| | **35,097** | 31,252 |
| Adjustment | **3,994** | 201 |
| | **¥39,091** | ¥31,454 |

The ¥205 million adjustment to External sales is proceeds from temporary staffing that is not attributable to reportable segments.

The adjustment to segment income (loss) consists of ¥(553) million for Inventories and ¥ (4,521) million for other items for the year ended March 31, 2017 and ¥(1,096) million for Inventories and ¥ (24) million for other items for the year ended March 31, 2016.

The adjustment to segment assets mainly includes Cash and deposits, Investment securities, Deferred tax assets and assets of administrative departments.

## OTHER RELEVANT INFORMATION

### (a) INFORMATION OF GOODS AND SERVICES

Information of goods and services is omitted because the information is the same as that of the reportable segments.

### (b) INFORMATION BY GEOGRAPHIC AREA

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Sales to customers recognized by sales destination: | | |
| Japan | **¥187,000** | ¥187,210 |
| Europe | **95,013** | 101,802 |
| North and South America | **139,698** | 143,462 |
| Asia and Others | **92,451** | 92,550 |
| | **¥514,164** | ¥525,026 |
| Property, plant and equipment by location: | | |
| Japan | **¥105,977** | ¥106,223 |
| Europe | **9,719** | 9,754 |
| North and South America | **37,277** | 29,446 |
| Asia and Others | **30,148** | 30,369 |
| | **¥183,122** | ¥175,794 |

Sales to customers in North and South America included ¥119,879 million and ¥122,559 million for the United States of America for the years ended March 31, 2017 and 2016, respectively.

The property, plant and equipment of North and South America included ¥27,952 million and ¥19,714 million for the United States of America as of March 31, 2017 and 2016, respectively.

### (c) MAJOR EXTERNAL CUSTOMERS

There were no sales to a single external customer exceeding 10% of consolidated net sales for the years ended March 31, 2017 and 2016.

### (d) IMPAIRMENT LOSS BY REPORTABLE SEGMENT

| | Millions of yen |
|---|---|
| | 2016 |
| Impairment loss: | |
| Cardiac and Vascular Company | ¥ 876 |
| General Hospital Company | — |
| Blood Management Company | — |
| | 876 |
| Corporate | 134 |
| | ¥1,010 |

There was no impairment loss for the year ended March 31, 2017.

### (e) GOODWILL BY REPORTABLE SEGMENT

| | Millions of yen | |
|---|---|---|
| Balance at end of the year | **2017** | 2016 |
| Cardiac and Vascular Company | **¥ 97,799** | ¥ 14,997 |
| General Hospital Company | **—** | — |
| Blood Management Company | **119,534** | 128,710 |
| | **217,334** | 143,707 |
| Adjustment | **—** | — |
| | **¥217,334** | ¥143,707 |

## 23. OTHER COMPREHENSIVE INCOME

Amounts reclassified to profit attributable to owners of parent in the current year that were recognized in other comprehensive income in the current or previous years and tax effects for each component of other comprehensive income are as follows:

| | Millions of yen | |
|---|---|---|
| | **2017** | 2016 |
| Unrealized gains (losses) on available-for-sale securities: | | |
| Increase (decrease) during the year | **¥ (2,141)** | ¥ (100) |
| Reclassification adjustments | **(15,792)** | (793) |
| Sub-total, before tax effect | **(17,933)** | (893) |
| Tax effect | **3,331** | 291 |
| Sub-total, net of tax | **(14,601)** | (602) |
| Deferred gains (losses) on hedges: | | |
| Increase (decrease) during the year | **(1,037)** | 15 |
| Reclassification adjustments | **238** | (28) |
| Sub-total, before tax effect | **(798)** | (13) |
| Tax effect | **252** | (2) |
| Sub-total, net of tax | **(546)** | (15) |
| Foreign currency translation adjustments: | | |
| Increase (decrease) during the year | **(6,931)** | (25,902) |
| Reclassification adjustments | **—** | 38 |
| Sub-total, net of tax | **(6,931)** | (25,864) |
| Accumulated adjustments for retirement benefits: | | |
| Increase (decrease) during the year | **3,323** | (15,412) |
| Reclassification adjustments | **3,218** | 1,263 |
| Sub-total, before tax effect | **6,541** | (14,148) |
| Tax effect | **(2,076)** | 4,356 |
| Sub-total, net of tax | **4,465** | (9,792) |
| Share of other comprehensive income of associates accounted for using the equity method: | | |
| Increase (decrease) during the year | **(0)** | 2 |
| Total other comprehensive income | **¥(17,615)** | ¥(36,272) |

## 24. BUSINESS COMBINATIONS

### 1) Acquisition of stock of Sequent Medical, Inc., a US-based company (making it a subsidiary of the Company)

#### (1) Overview of the business combination

i) Name of the acquired company and its business

Name of the acquired company : Sequent Medical, Inc.

Business : Development, manufacture, and sale of aneurysm embolization devices

ii) Reasons for the business combination

As a new growth strategy for the future, the Company is seeking to expand its global presence in a business field where it can expect to achieve growth and strengthen its competitiveness. Neurovascular treatment is a key area along with catheter treatment and this acquisition will accelerate the growth of the Terumo Group.

iii) Date of the business combination

July 14, 2016

iv) Legal form of the acquisition

Stock acquisition with cash as consideration

v) Name of the company after the business combination

No change of the name

vi) Percentage of voting rights acquired

100%

vii) Primary reason for determining that the Company is the acquirer

The Company acquired the stock of Sequent Medical, Inc. with cash as compensation.

#### (2) Period of the acquired company's financial results included in the consolidated financial statements for the year ended March 31, 2017

From July 14, 2016 to March 31, 2017

### (3) Acquisition cost and breakdown of consideration

| | |
|---|---|
| Consideration for the acquisition : (Note) Cash: | ¥36,973 million |
| Acquisition cost | ¥36,973 million |

Note: The consideration for the acquisition includes contingent consideration (at fair value) of ¥7,811 million. This contingent consideration is recognized based on U.S. Generally Accepted Accounting Principles (U.S. GAAP).

### (4) Principal expenses related to the acquisition

Advisory expenses: ¥332 million

### (5) Amount of, and reasons for, the resulting goodwill and applicable amortization method and period

i) Amount of goodwill
¥20,750 million

ii) Reasons for goodwill
Goodwill arose from the expected additional earning power in the future due to business development.

iii) Amortization method and period
To be amortized by the straight-line method over 20 years

### (6) Amounts and breakdown of assets acquired and liabilities assumed on the business combination date

(Millions of yen)

| | |
|---|---:|
| Current assets | 4,060 |
| Non-current assets | 18,778 |
| Total assets | 22,838 |
| Current liabilities | 1,832 |
| Non-current liabilities | 4,783 |
| Total liabilities | 6,615 |

### (7) Nature of the contingent consideration specified in the business combination agreement and the accounting policy for future treatment

i) Nature of the contingent consideration
The Company is to pay additional consideration according to the achievements of specific milestones following the business combination.

ii) Accounting policy for future treatment
The variable portion of the above-mentioned contingent consideration is recognized based on U.S. GAAP.

### (8) Monetary amounts allocated to intangible assets other than goodwill, breakdown by principal classification, and amortization period

| Classification | Amount (Millions of yen) | Amortization period |
|---|---:|---:|
| Developed technology | 10,206 | 20 years |
| In-process research and development | 7,717 | 20 years |

### (9) Approximate amount of the impact on the consolidated statement of income for the year ended March 31, 2017 based on the assumption that the business combination was completed at the beginning of the year ended March 31, 2017 and the calculation method

Disclosure is omitted because the impact is insignificant.

## 2) Acquisition through business transfer of St. Jude Medical, Inc.'s vascular closure devices business and acquisition of the stock of Kalila Medical, Inc. (a subsidiary of Abbott Laboratories)(making it a subsidiary of the Company)

### (1) Overview of the business combination

i) Name of the counterparty for business transfer and name of the acquired company and its business

Name of the counterparty for business transfer : St. Jude Medical, Inc.

Name of the acquired company : Kalila Medical, Inc.

Business : Business related to Angio-Seal and FemoSeal femoral artery closure devices*1 and Vado catheter introducer kit for use in the heart

*1 Femoral artery closure devices: Devices for catheter procedures in the leg that stop bleeding at the site where the catheter is inserted upon the conclusion of an operation. Compared to simply applying pressure with a finger, these devices are expected to reduce the risk of bleeding at the puncture site, which is a complication of catheterization procedures.

ii) Reasons for the business combination

The Company develops a range of vascular access devices, such as introducer sheaths and guide wires, and has a large share of the global market. As a result of this acquisition, the Company acquired Angio-Seal, a leading vascular closure device, thus creating a stream of vascular access devices*2 extending from centesis*3 to hemostasis. The Company expects that this acquisition will enhance its presence in the United States, which is the largest market for medical devices.

The Company plans to maximize the value of the acquired business by capitalizing on its good fit with its existing business and will contribute to the spread of safe and efficient catheterization procedures.

*2 Vascular access devices: products such as introducer sheaths, which make an entry to insert a catheter into a blood vessel, guide wires, which make a path to the lesioned area, and devices to stop bleeding at the end of surgery. These medical products are invariably used in catheter procedures.

*3 Centesis: puncturing a vein when making an entry for the purpose of inserting a catheter.

iii) Date of the business combination
January 20, 2017

iv) Legal form of the acquisition

Business transfer and stock acquisition with cash as consideration

v) Name of the company after the business combination

No change of the name

vi) Percentage of voting rights acquired

100% of Kalila Medical, Inc.

vii) Primary reason for determining that the Company is the acquirer

The Company acquired the business and stock with cash as compensation.

### (2) Period of the acquired business' financial results included in the consolidated financial statements for the year ended March 31, 2017

From January 20, 2017 to March 31, 2017

### (3) Acquisition cost and breakdown of consideration

Consideration for the acquisition: (Note) Cash: ¥130,061 million

Acquisition cost ¥130,061 million

Note: The consideration for the acquisition includes contingent consideration (at fair value) of ¥1,093 million. This contingent consideration is recognized based on U.S. GAAP.

### (4) Principal expenses related to the acquisition

Advisory expenses: ¥1,620 million

### (5) Amount of, and reasons for, the resulting goodwill and applicable amortization method and period

i) Amount of goodwill

¥50,476 million

ii) Reasons for goodwill

Goodwill arose from the expected additional earning power in the future due to business development.

iii) Amortization method and period

To be amortized by the straight-line method over 20 years

### (6) Amounts and breakdown of assets acquired and liabilities assumed on the business combination date

(Millions of yen)

| | |
|---|---|
| Current assets | 2,706 |
| Non-current assets | 77,759 |
| Total assets | 80,466 |
| Current liabilities | 116 |
| Non-current liabilities | 765 |
| Total liabilities | 881 |

### (7) Nature of the contingent consideration specified in the business combination agreement and the accounting policy for future treatment

i) Nature of the contingent consideration

The Company is to pay additional consideration according to the achievement of specific milestones following the business combination.

ii) Accounting policy for future treatment

The variable portion of the above-mentioned contingent consideration is recognized based on U.S. GAAP.

### (8) Monetary amounts allocated to intangible assets other than goodwill, breakdown by principal classification, and amortization period

| Classification | Amount (Millions of yen) | Amortization period |
|---|---|---|
| Developed technology | 74,495 | 14 years |
| Customer relationships | 1,061 | 10 years |
| Trademark | 1,612 | 18 years |

### (9) Allocation of acquisition cost

At March 31, 2017, fair values of assets and liabilities were under review and allocation of the acquisition cost was not completed. Therefore, provisional accounting treatment was carried out based on the information available.

### (10) (Unaudited) Approximate amount of the impact on the consolidated statement of income for the year ended March 31, 2017 based on the assumption that the business combination was completed at the beginning of the year ended March 31, 2017 and the calculation method

Net sales : ¥21,899 million

Operating income : ¥532 million

Method of calculation of the approximate amount

The approximate impact is calculated as the difference between the simply-annualized sales and profit or loss amounts calculated based on the assumption that the business combination was completed at the beginning of the fiscal year ended March 31, 2017 and the sales and profit or loss amounts on the consolidated statement of income of the Company.

The amortization amount of goodwill and intangible assets is provisional.

## 3) Acquisition of Bolton Medical, Inc. and two other companies (making them subsidiaries of Terumo) and acquisition of a related business

### (1) Overview of the business combination

i) Name of the acquired companies and their business

Name of the acquired company : Bolton Medical, Inc. and two other companies, and related assets

Business :Manufacturing and sale of stent grafts used in the treatment of aortic aneurysms

ii) Reasons for the business combination

The Company manufactures and sells artificial blood vessels and stent grafts, which are devices for treating aortic aneurysms. The Company has acquired the stocks of the above-mentioned companies and related assets in order to expand its stent graft product lineup and gain the opportunity to enter the United States market, the largest market for blood-vessel-related medical treatments, to achieve further growth of the business.

iii) Date of the business combination

March 31, 2017

iv) Legal form of the acquisition

Stock acquisition and business transfer with cash as consideration

v) Name of the company after the business combination

No change of the name

vi) Percentage of voting rights acquired

100% of Bolton Medical, Inc. and two other companies

vii) Primary reason for determining that the Company is the acquirer

The Company acquired the stocks with cash as compensation.

### (2) Period of the acquired companies' financial results included in the consolidated financial statements for the year ended March 31, 2017

Only the balance sheets of the acquired companies are consolidated as of March 31, 2017. Financial results of the acquired companies are not reflected in the consolidated statement of income.

### (3) Acquisition cost and breakdown of consideration

| | | |
|---|---|---|
| Consideration for the acquisition : | Cash : | ¥18,990 million |
| Acquisition cost | | ¥18,990 million |

Note: The above acquisition cost is a provisional amount. The actual amount may be different from the above due to price adjustment.

### (4) Principal expenses related to the acquisition

Advisory expenses: ¥479 million

### (5) Amount of, and reasons for, the resulting goodwill and the applicable amortization method and period

i) Amount of goodwill

¥14,371 million

Identification of identifiable assets and liabilities and estimation of fair values at the date of business combination have not been completed yet because the period of time from the date of business combination to the financial closing date was short.

Therefore, allocation of the acquisition cost is not completed and thus the above amount of goodwill is a provisional amount.

ii) Reasons for goodwill

Goodwill arose from the expected additional earning power in the future due to business development.

iii) Amortization method and period

To be amortized by the straight-line method over the estimated benefit period. The amortization period is to be determined in view of the result of the allocation of acquisition cost.

### (6) Amounts and breakdown of assets acquired and liabilities assumed on the business combination date

(Millions of yen)

| | |
|---|---|
| Current assets | 4,411 |
| Non-current assets | 4,525 |
| Total assets | 8,936 |
| Current liabilities | 2,509 |
| Non-current liabilities | 1,808 |
| Total liabilities | 4,318 |

### (7) Allocation of acquisition cost

At March 31, 2017, fair values of assets and liabilities were under review and allocation of the acquisition cost was not completed. Therefore, provisional accounting treatment was carried out based on the information available.

### (8) Approximate amount of the impact on the consolidated statement of income for the fiscal year ended March 31, 2017 based on the assumption that the business combination was completed at the beginning of the fiscal year ended March 31, 2017 and the calculation method

Disclosure is omitted because the impact is difficult to calculate reasonably.

KPMG

**Independent Auditor's Report**

To the Board of Directors of Terumo Corporation:

We have audited the accompanying consolidated financial statements of Terumo Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Terumo Corporation and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 21 to the consolidated financial statements.

1. In accordance with the resolution of the Board of Directors made on February 9, 2017, Terumo Corporation concluded a syndicated loan contract on March 29, 2017 and received borrowings on April 28, 2017.
2. In accordance with the resolution of the Board of Directors made on March 30, 2017, Terumo Corporation issued series 8 and series 9 unsecured straight bonds with a payment date of April 26, 2017.

KPMG AZSA LLC

June 28, 2017
Tokyo, Japan

**TERUMO CORPORATION**
Tokyo Office
Tokyo Opera City Tower, 3-20-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-1450, Japan