

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

NET SALES, INCOME AND EXPENSES

Net Sales

Net sales in the fiscal year under review declined 1.2% from the previous fiscal year to ¥302.7 billion. Further information is provided in the sections "Interview with the President," "Overview by Business Segment" and "Overview by Geographic Segment."

Cost of Sales, Gross Profit Margin

The cost of sales rose 4.6% from the previous fiscal year to ¥144.5 billion. The gross profit margin, despite cost reductions and expansion in the lineup of high-value-added products, decreased 2.6 percentage points to 52.3% as a result of the considerable impact from the rising yen, the reduction in medical reimbursements under Japan's national health insurance, and rising raw material costs.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 2.9% year on year to ¥104.2 billion. Despite efforts to maximize efficiency in general administrative costs, SG&A expenses rose as a result of proactive spending on research and development and enhancement of the overseas sales structure, among other factors.

Operating Income

Operating income declined 19.3% from the previous fiscal year to ¥54.0 billion. The operating income margin decreased 4.0 percentage points to 17.8%.

Other Income and Expenses

Terumo posted other expenses of ¥1.7 billion in the fiscal year under review, compared with ¥1.6 billion in the previous fiscal year, due mainly to an exchange loss.

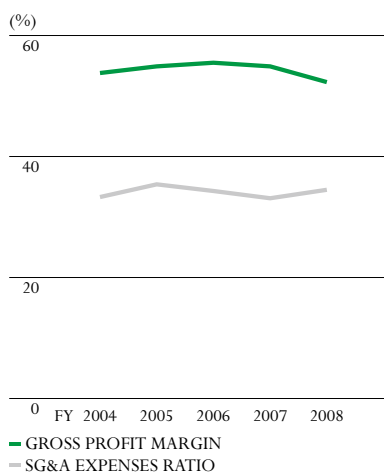
Income before Income Taxes and Minority Interests

As a result, income before income taxes and minority interests declined 19.9% from the previous fiscal year to ¥52.4 billion.

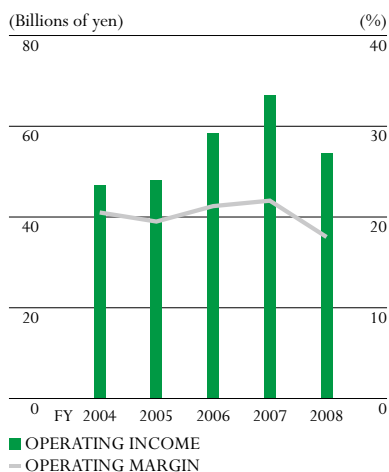
Income Taxes

Corporate and other taxes decreased 29.6% year on year to ¥15.4 billion. The income tax rate applicable to the fiscal year under review was 29.5%, down 4.1 percentage points from 33.6% in the previous fiscal year.

GROSS PROFIT MARGIN SG&A EXPENSES RATIO



OPERATING INCOME OPERATING MARGIN



Net Income

Net income declined 15.0% from the previous fiscal year to ¥36.9 billion. As a result, the ratio of net income to net sales fell 2.0 percentage points to 12.2%. Return on equity (ROE) declined 2.0 percentage points to 13.0%, with return on assets (ROA) down 1.9 percentage points to 9.3%.

Per Share Data

Basic net income per share amounted to ¥191.86, compared to ¥220.30 in the previous fiscal year. Net assets per share also declined to ¥1,464.27, from ¥1,489.10 in the previous fiscal year. Taking into consideration operating results and other factors, the annual dividend for the fiscal year under review was fixed at ¥32 per share (comprising the interim and fiscal year-end dividends).

R&D Expenditure

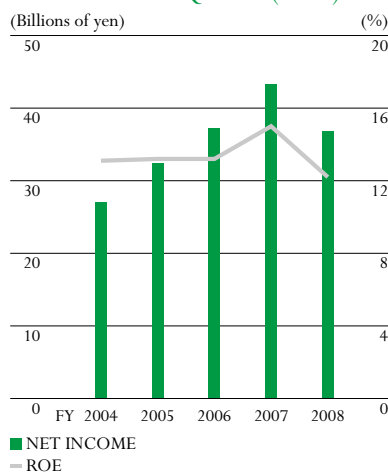
R&D expenditure totaled ¥17.2 billion for the fiscal year under review. This was an increase of 8.9% from ¥15.8 billion in the previous fiscal year, stemming mainly from a rise in costs for clinical trials related to the development of high-value-added products.

Capital Expenditure, Depreciation and Amortization

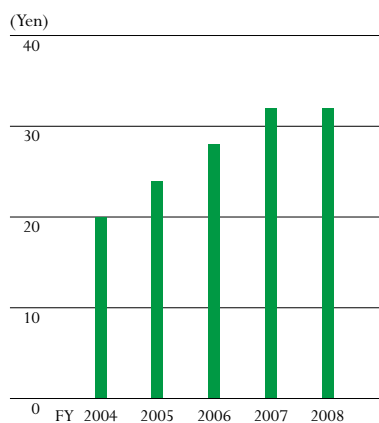
Capital expenditure amounted to ¥17.8 billion, up 11.8% from the previous fiscal year. Expenditures included the start of construction on a new building at the Ashitaka Factory complex, along with investments centered on interventional systems to expand product supply and enhance quality, streamline operations and boost product competitiveness.

Depreciation and amortization (including the amortization of goodwill) for the fiscal year under review rose 14.4% from the previous fiscal year to ¥20.4 billion.

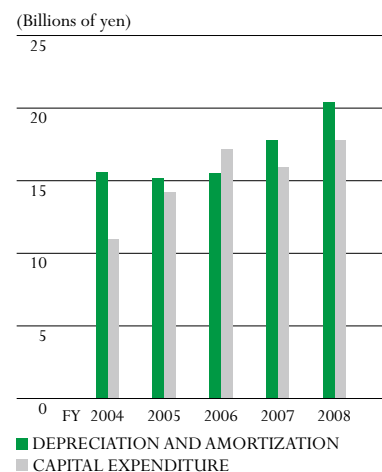
NET INCOME RETURN ON EQUITY (ROE)



CASH DIVIDENDS PER SHARE



DEPRECIATION AND AMORTIZATION CAPITAL EXPENDITURE



FINANCIAL POSITION

Total Assets

Total assets at March 31, 2009 amounted to ¥379.1 billion, a decline of ¥31.9 billion from ¥410.9 billion at the end of the previous fiscal year. The principal components and changes are shown below.

Total Current Assets

Total current assets decreased ¥24.4 billion year on year to ¥193.7 billion. Cash and deposits declined ¥30.3 billion to ¥57.1 billion, due mainly to expenditures for repayment of short-term debt and acquisition of treasury stock. Notes and accounts receivable-trade declined ¥2.2 billion, while inventories increased ¥5.9 billion.

Property, Plant and Equipment including Investments and Other Assets

The balance of property, plant and equipment declined ¥7.4 billion from the end of the previous fiscal year to ¥185.4 billion. This reflected an increase in depreciation and amortization due to the fact that the Company used amendments to the tax system as an opportunity to review the estimated useful lives of its assets, and a decline in the market value of investment securities.

Total Liabilities

Total liabilities at March 31, 2009 amounted to ¥100.9 billion, a decline of ¥21.2 billion from end of the previous fiscal year. The principal components are shown below.

Total Current Liabilities

Total current liabilities decreased ¥20.8 billion year on year to ¥93.7 billion. Income taxes payable declined ¥11.8 billion, and short-term debt ¥9.8 billion.

Total Noncurrent Liabilities

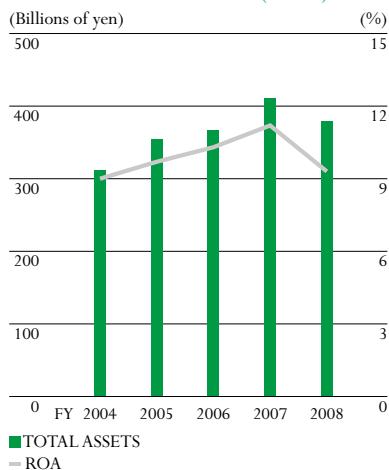
Total noncurrent liabilities declined ¥0.4 billion from the end of the previous fiscal year to ¥7.2 billion. This was due mainly to a ¥0.6 billion decrease in retirement benefits.

Total Net Assets

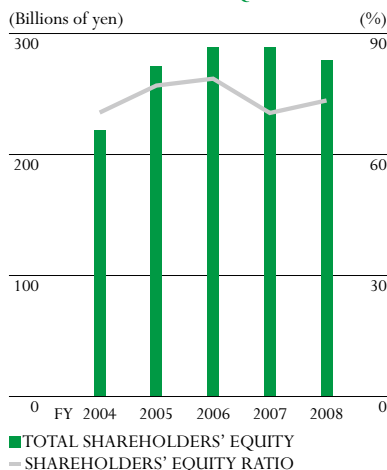
Total net assets at March 31, 2009 amounted to ¥278.2 billion, a decline of ¥10.7 billion from the end of the previous fiscal year. This was due mainly to expenditures of ¥18.0 billion for acquisition of treasury stock, along with declines in the valuation difference on available-for-sale investment securities and foreign currency translation adjustment, which offset an increase of ¥29.4 billion in retained earnings.

As a result, the equity ratio at March 31, 2009 stood at 73.4%, an increase of 3.1 percentage points from 70.3% at the end of the previous fiscal year. Net assets per share, however, fell to ¥1,464.27, from ¥1,489.10 at the end of the previous fiscal year.

TOTAL ASSETS RETURN ON ASSETS (ROA)



TOTAL SHAREHOLDERS' EQUITY SHAREHOLDERS' EQUITY RATIO



CASH FLOWS

Cash and cash equivalents at March 31, 2009 stood at ¥55.1 billion, a decrease of ¥30.3 billion from the end of the previous fiscal year.

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥31.6 billion, a decrease of ¥38.1 billion from the previous fiscal year. This was due mainly to ¥52.4 billion in income before income taxes and minority interests and ¥20.4 billion in depreciation and amortization (including the amortization of goodwill) offset by ¥29.3 billion in income taxes paid.

Cash Flow from Investing Activities

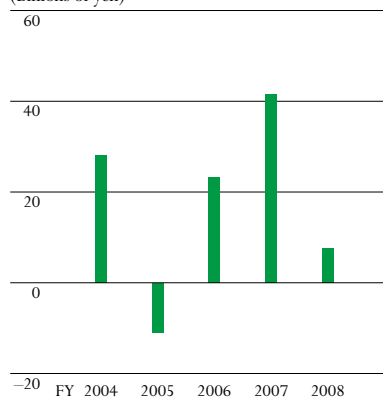
Net cash used in investing activities amounted to ¥24.0 billion, a decrease of ¥4.1 billion from the previous fiscal year. This was due mainly to expenditures of ¥17.8 billion for the acquisition of property, plant and equipment; and the acquisition of shares in subsidiaries.

Cash Flow from Financing Activities

Net cash used in financing activities amounted to ¥34.8 billion, compared to cash provided of ¥3.1 billion in the previous fiscal year. This was due mainly to repayment of debt; acquisition of treasury stock; and dividends paid.

FREE CASH FLOW

(Billions of yen)



CONSOLIDATED BALANCE SHEETS

Terumo Corporation and subsidiaries
March 31, 2009 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
CURRENT ASSETS:			
Cash and deposits (Note 3)	¥ 57,074	¥ 87,343	\$ 582,388
Notes and Accounts receivable—trade (Note 18)			
Notes	1,770	2,498	18,061
Accounts	65,095	66,551	664,235
	66,865	69,049	682,296
Less: allowance for doubtful accounts	(733)	(802)	(7,480)
Notes and accounts receivable—trade, net	66,132	68,247	674,816
Inventories (Note 4)	54,592	48,739	557,061
Deferred tax assets—current (Note 8)	9,687	8,999	98,847
Other current assets (Note 18)	6,174	4,744	63,000
Total current assets	193,659	218,072	1,976,112
PROPERTY, PLANT AND EQUIPMENT:			
Land	20,304	20,405	207,184
Buildings and structures (Note 11)	112,247	112,450	1,145,378
Machinery and equipment (Note 11)	177,828	175,535	1,814,571
Lease assets (Note 14)	892	—	9,102
Construction in progress	8,585	6,413	87,602
	319,856	314,803	3,263,837
Less: accumulated depreciation	(208,791)	(202,058)	(2,130,521)
Net property, plant and equipment	111,065	112,745	1,133,316
INVESTMENTS AND OTHER ASSETS:			
Investment securities, including investment securities of unconsolidated subsidiaries and affiliates (Note 5)	23,687	40,528	241,704
Goodwill and intangibles recognized in acquisitions (Note 3)	26,823	30,203	273,704
Deferred tax assets—noncurrent (Note 8)	11,529	1,878	117,643
Other assets (Note 7)	12,302	7,493	125,531
Total investments and other assets	74,341	80,102	758,582
TOTAL ASSETS	¥ 379,065	¥ 410,919	\$ 3,868,010

See accompanying notes to consolidated financial statements.

LIABILITIES	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
CURRENT LIABILITIES:			
Short-term debt (Note 6)	¥ 25,190	¥ 35,000	\$ 257,041
Notes and Accounts payable—trade (Note 18)			
Notes	2,211	1,877	22,561
Accounts	25,602	25,369	261,245
Total notes and accounts payable—trade	27,813	27,246	283,806
Short-term lease obligations	161	—	1,643
Income taxes payable (Note 8)	6,023	17,802	61,459
Accrued expenses	15,226	15,200	155,367
Other current liabilities (Notes 8, 15 and 18)	19,288	19,209	196,817
Total current liabilities	93,701	114,457	956,133
NONCURRENT LIABILITIES:			
Long-term lease obligations	409	—	4,173
Provision for retirement benefits (Note 7)	3,692	4,264	37,673
Provision for directors' retirement benefits	660	728	6,735
Other noncurrent liabilities (Notes 8 and 18)	2,436	2,602	24,857
Total noncurrent liabilities	7,197	7,594	73,438
Total liabilities	100,898	122,051	1,029,571
Contingencies (Note 16)			
NET ASSETS (Note 13):			
Capital stock,			
Authorized 840,000,000 shares in 2009 and 2008:			
issued 210,876,260 shares in 2009 and 2008	38,716	38,716	395,061
Capital surplus	59,031	59,031	602,357
Retained earnings	282,058	252,668	2,878,143
Less: treasury stock, at cost (Note 12)	(76,800)	(58,791)	(783,673)
Total shareholders' equity	303,005	291,624	3,091,888
Valuation difference on available-for-sale securities	(5,118)	5,026	(52,224)
Foreign currency translation adjustment	(19,824)	(7,870)	(202,286)
Total valuation and translation adjustments	(24,942)	(2,844)	(254,510)
Minority interests	104	88	1,061
Total net assets	278,167	288,868	2,838,439
TOTAL LIABILITIES AND NET ASSETS	¥379,065	¥410,919	\$3,868,010

CONSOLIDATED STATEMENTS OF INCOME

Terumo Corporation and subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
NET SALES (Note 18)	¥302,747	¥306,382	¥276,439	\$3,089,255
COST OF SALES (Note 18)	144,506	138,180	123,112	1,474,551
Gross profit	158,241	168,202	153,327	1,614,704
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9, 10 and 18)	104,201	101,260	94,872	1,063,275
Operating income	54,040	66,942	58,455	551,429
OTHER INCOME (EXPENSE):				
Interest and dividend income	1,702	1,803	981	17,367
Interest expense	(232)	(320)	(165)	(2,367)
Foreign exchange gains (losses) (Note 15)	(2,350)	(3,524)	628	(23,980)
Royalty income	136	203	53	1,388
Equity in earnings of affiliates	50	30	136	510
Loss on disposal of inventories	(532)	(383)	(1,242)	(5,429)
Settlement package	(432)	—	—	(4,408)
Loss on disposal of noncurrent assets	(299)	(225)	(195)	(3,051)
Gain on sales of investment securities	80	—	—	816
Loss on valuation of investment securities	(37)	—	—	(378)
Loss on valuation of golf club membership	(10)	—	—	(102)
Loss on restructuring in overseas operation	—	—	(60)	—
Gain on sales of noncurrent assets	17	10	44	174
Impairment loss (Note 11)	—	(157)	—	—
Provision for directors' retirement benefits	—	—	(728)	—
Reversal of allowance for doubtful accounts	22	21	—	225
Adjustment to acquisition cost of overseas subsidiary	—	438	—	—
Gain on change in equity	—	1,060	—	—
Other, net (Note 18)	198	(552)	(834)	2,020
	(1,687)	(1,596)	(1,382)	(17,215)
Income before income taxes	52,353	65,346	57,073	534,214
INCOMETAXES (Note 8):				
Current	17,789	22,410	17,002	181,520
Deferred	(2,349)	(475)	2,822	(23,969)
	15,440	21,935	19,824	157,551
MINORITY INTERESTS IN INCOME	35	29	16	357
Net income	¥ 36,878	¥ 43,382	¥ 37,233	\$ 376,306

	Yen			U.S. dollars (Note 2)
NET INCOME PER COMMON STOCK:				
Basic	¥ 191.86	¥ 220.30	¥ 185.00	\$ 1.96
CASH DIVIDENDS PER COMMON STOCK	32.00	32.00	28.00	0.33

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGE IN NET ASSETS

Terumo Corporation and subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Thousands			Millions of yen					
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Minority interests	Total
Balance at March 31, 2006	203,027	¥38,716	¥59,031	¥183,392	¥(13,450)	¥ 7,367	¥ (1,747)	¥ 50	¥273,359
Net income				37,233					37,233
Dividends from surplus				(5,279)					(5,279)
Directors' and corporate auditors' bonus as appropriation of earnings				(132)					(132)
Purchase of treasury stock	(4,239)				(20,003)				(20,003)
Net changes of items other than shareholders' equity						1,580	2,472	18	4,070
Balance at March 31, 2007	198,788	38,716	59,031	215,214	(33,453)	8,947	725	68	289,248
Net income				43,382					43,382
Dividends from surplus				(5,928)					(5,928)
Purchase of treasury stock	(4,859)				(25,338)				(25,338)
Net changes of items other than shareholders' equity						(3,921)	(8,595)	20	(12,496)
Balance at March 31, 2008	193,929	38,716	59,031	252,668	(58,791)	5,026	(7,870)	88	288,868
Effect of changes in accounting policies applied to foreign subsidiaries				(894)					(894)
Net income				36,878					36,878
Dividends from surplus				(6,594)					(6,594)
Purchase of treasury stock	(4,031)				(18,009)				(18,009)
Net changes of items other than shareholders' equity						(10,144)	(11,954)	16	(22,082)
BALANCE AT MARCH 31, 2009	189,898	¥38,716	¥59,031	¥282,058	¥(76,800)	¥ (5,118)	¥(19,824)	¥104	¥278,167

	Thousands of U.S. dollars (Note 2)							
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Minority interests	Total
Balance at March 31, 2008	\$395,061	\$602,357	\$2,578,245	\$(599,908)	\$ 51,286	\$ (80,306)	\$ 898	\$2,947,633
Effect of changes in accounting policies applied to foreign subsidiaries			(9,122)					(9,122)
Net income			376,306					376,306
Dividends from surplus			(67,286)					(67,286)
Purchase of treasury stock				(183,765)				(183,765)
Net changes of items other than shareholders' equity					(103,510)	(121,980)	163	(225,327)
BALANCE AT MARCH 31, 2009	\$395,061	\$602,357	\$2,878,143	\$(783,673)	\$ (52,224)	\$(202,286)	\$1,061	\$2,838,439

CONSOLIDATED STATEMENTS OF CASH FLOWS

Terumo Corporation and subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
NET CASH PROVIDED BY OPERATING ACTIVITIES				
Income before income taxes and minority interests	¥ 52,353	¥ 65,346	¥ 57,073	\$ 534,214
Depreciation and amortization	18,193	16,639	14,341	185,643
Impairment loss (Note 11)	—	157	—	—
Amortization of goodwill	2,189	1,173	1,173	22,337
Equity in (earnings) losses of affiliates	(50)	(30)	(136)	(510)
Increase (decrease) in allowance for doubtful accounts	(5)	(75)	(54)	(51)
Increase (decrease) in provision for retirement benefits	(367)	(2,243)	(670)	(3,745)
Increase (decrease) in provision for directors' retirement benefits	(68)	—	728	(694)
Increase (decrease) in provision for directors' bonuses	(17)	21	169	(173)
Interest and dividend income	(1,702)	(1,803)	(981)	(17,367)
Interest expense	232	320	165	2,367
Foreign exchange losses (gains)	507	463	561	5,173
Settlement package	432	—	—	4,408
Loss (gain) on disposal of noncurrent assets	299	225	195	3,051
Loss (gain) on sales of noncurrent assets	(17)	(10)	(44)	(174)
Loss (gain) on sales of investment securities	(80)	—	—	(816)
Loss (gain) on valuation of investment securities	37	—	—	378
Loss on valuation of golf club membership	10	—	—	102
Cash contribution of securities to retirement benefit trust	—	—	(5,000)	—
Adjustment to acquisition cost of overseas subsidiary	—	(438)	—	—
Loss (gain) on change in equity	—	(1,060)	—	—
Decrease (increase) in notes and accounts receivable—trade	(450)	(1,218)	(4,471)	(4,592)
Decrease (increase) in inventories	(8,478)	(5,080)	(3,080)	(86,510)
Increase (decrease) in notes and accounts payable—trade	629	2,699	666	6,418
Directors' and corporate auditors' bonuses	—	—	(132)	—
Other, net	(3,862)	5,730	1,479	(39,408)
Subtotal	59,785	80,816	61,982	610,051
Interest and dividends income received	1,880	1,904	1,117	19,183
Interest expenses paid	(290)	(244)	(165)	(2,959)
Settlement package paid	(432)	—	—	(4,408)
Income taxes paid	(29,327)	(12,793)	(19,811)	(299,255)
Net cash provided by (used in) operating activities	31,616	69,683	43,123	322,612
NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES				
Payments into time deposits	(5,742)	(5,832)	(1,488)	(58,592)
Proceeds from withdrawal of time deposits	5,487	5,354	—	55,990
Purchase of property, plant and equipment	(17,837)	(15,954)	(17,202)	(182,010)
Proceeds from sales of property, plant and equipment	17	10	191	174
Purchase of intangible assets	(2,405)	(453)	(447)	(24,541)
Purchase of investment securities	(802)	(12,195)	(2)	(8,184)
Proceeds from redemption of investment securities	—	1,000	—	—
Proceeds from sales of investment securities	580	—	—	5,918
Proceeds from transfer of business (Note 3)	—	—	40	—
Payments for transfer of business (Note 3)	—	—	(799)	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	(3,286)	—	(210)	(33,531)
Net cash provided by (used in) investment activities	(23,988)	(28,070)	(19,917)	(244,776)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES				
Net increase (decrease) in short-term loans payable	(10,090)	34,771	(3,787)	(102,959)
Proceeds from long-term loans payable	—	—	433	—
Repayment of long-term loans payable	—	(423)	—	—
Purchase of treasury stock	(18,009)	(25,338)	(20,004)	(183,765)
Repayments of finance lease obligations	(128)	—	—	(1,306)
Cash dividends paid	(6,594)	(5,928)	(5,279)	(67,286)
Net cash provided by (used in) financing activities	(34,821)	3,082	(28,637)	(355,316)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(30,310)	42,329	(4,915)	(309,286)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	85,378	43,049	47,964	871,204
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 3)	¥ 55,068	¥ 85,378	¥ 43,049	\$ 561,918

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 Law 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. Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six 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 Law. 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 an immaterial subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in affiliated companies with 20% to 50% ownership and the immaterial subsidiary 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 minority shareholders, at the time the Company acquires control of the respective subsidiary.

(c) Foreign Currency Translation

All short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The balance sheet accounts of the 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 transactions are shown as “Foreign currency translation adjustment” in a separate component of net assets.

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

(d) Cash and Cash Equivalents

The Company considers cash and deposits, which may 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 standard for financial instruments requires the Company to classify its securities into one of the following three categories: trading, held-to-maturity or available-for-sale securities. Based

on the classification, all securities are classified as available-for-sale securities and included in investment securities.

To comply with the accounting standard for financial instruments, available-for-sale securities with a market value are principally 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 “Valuation difference on available-for-sale securities” in a separate component of net assets. 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.

(CHANGES IN ACCOUNTING POLICY)

Effective April 1, 2008, the Company adopted the provisions of “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9). As a result, operating income and income before income taxes for the year ended March 31, 2009 both decreased by ¥954 million (\$9,735 thousand), compared to the respective amounts that would have been reported under the previous method of accounting.

The effects on segment information are described in Note 17.

(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 principally by the declining-balance method based on the following estimated useful lives.

	2009	2008
Buildings and structures:	3–50 years	5–50 years
Machinery and equipment:	4–15 years	3–20 years

However, buildings except for accompanying facilities acquired by the Company and domestic subsidiaries on or after April 1, 1998 are depreciated by the straight-line method.

Property, plant and equipment capitalized under finance lease arrangements are depreciated over the lease term of the respective assets.

(SUPPLEMENTAL INFORMATION)

Effective from the year ended March 31, 2009, the Company and domestic subsidiaries changed the estimated useful lives for certain machinery and equipment to conform to the revised Japanese Tax Law. The estimated useful life of each category of equipment was changed as follows:

Equipment for medical product:	12 years → 7 years
Equipment for pharmaceutical:	7 years → 8 years

As a result, operating income and income before income taxes each decreased by ¥1,437 million (\$14,663 thousand) for the year ended March 31, 2009, as compared to the amounts that would have been reported without changes in useful lives.

The effects on segment information are described in Note 17.

(SUPPLEMENTAL INFORMATION)

Effective from the year ended March 31, 2008, the Company and domestic subsidiaries started to depreciate the 5% residual value of property, plant and equipment on a straight-line basis over a 5-year period commencing in the year following a year in which the

carrying amount reaches the 5% residual value using the previous method of depreciation.

The effects of the change on consolidated statements of income for the year ended March 31, 2008 were immaterial.

The effects on segment information are described in Note 17.

(CHANGES IN ACCOUNTING POLICY)

In accordance with the amendment of the Corporate Tax Law in Japan, with effect from the year ended March 31, 2008, the Company and domestic subsidiaries changed the method of depreciation applied to all property, plant and equipment acquired on or after April 1, 2007 to that based on the revised law.

The effects of this change on consolidated statements of income were immaterial.

The effects on segment information are described in Note 17.

(h) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided to cover the risk of credit losses on accounts and notes receivables due to customer defaults at an estimated amount based on past collection experience for current receivables, and individual accounting by account analyses for specific overdue receivables.

(i) Goodwill and Intangibles Recognized in Acquisitions

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 on a straight-line basis over 5 or 20 years which is the expected period to be benefited.

(j) 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 carryforwards. 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. (See Note 8.)

(k) Retirement Benefits

The Company and certain subsidiaries have contributory and non-contributory defined benefit plans that provide for pension or lump-sum benefit payments. The provision for retirement benefits for employees is provided based on the projected retirement benefit obligation and plan assets at fair value.

The Company decided to abolish the directors' retirement benefit program on April 20, 2006. Payments of retirement benefits estimated on the abolished program according to the length of service of relevant directors and corporate auditors was approved by 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 relevant person's retirement.

As of March 31, 2007, the estimated amount of retirement benefits is shown as provision for directors' retirement benefits.

(l) Leases

Finance leases, except for certain immaterial leases, are capitalized and depreciated over lease terms, as applicable. However, the Company and subsidiaries account for finance and depreciated leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information.

(CHANGES IN ACCOUNTING POLICY)

Previously, finance lease transactions that do not transfer ownership of the leased property to the lessee are accounted for as operating leases.

However, effective from the year ended March 31, 2009, the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13) and "Implementation Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16) have been applied.

Finance lease transactions started before April 1, 2008 that do not transfer ownership of the leased property to the lessee are accounted for as operating leases.

There was no impact on consolidated statements of income from this change.

(m) Derivatives and Hedge Accounting

The Company principally adopts the deferral method of hedge accounting.

Derivative financial instruments held by the Company and subsidiaries are forward exchange contracts to manage foreign exchange risk.

Derivatives are, in principle, stated at market 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 scopes, risks arising from changes in foreign currency exchange rates. The Company reviews the effectiveness of all hedging policies to take account of the cumulative cash flows and any changes in the market.

(n) 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. (See Note 13.)

(o) Consumption Taxes

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

(p) Net Income and Cash Dividends per Common Stock

Net income per common stock is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the year. (See Note 13.)

Diluted net income per common stock for the years ended March 31, 2009, 2008 and 2007 is not presented since the Company had no securities with dilutive effect to net income per share.

(q) Research and Development Expenses

Research and development expenses are charged to income when incurred.

(r) Reclassification

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

(s) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 9), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (ASBJ Guidance No. 8), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections. The consolidated balance sheet as of March 31, 2006 has been reclassified to conform to the New Accounting Standards. The effect of adopting the New Accounting Standards at March 31, 2006 was immaterial.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥289,180 million would have been presented.

(t) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (ASBJ Statement No. 6), and the implementation guidance for the accounting standard for statement of changes in net assets (ASBJ Guidance No. 9), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 and 2005 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(u) Provision for Directors' Bonuses

Effective from the year ended March 31, 2007, the Company and consolidated domestic subsidiaries adopted new accounting standards, "Accounting Standard for Directors' and Corporate Auditors' Bonus" (ASBJ Statement No. 4). In accordance with the new standard, directors' and corporate auditors' bonus, which was previously reduced in the appropriation of retained earnings, is charged to expenses on an accrual basis. As a result of adopting of the new accounting standard, accrued expenses at March 31, 2007 increased by ¥169 million and operating income, income before income taxes for the year ended March 31, 2007 decreased by the same amount.

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

Effective from the year ended March 31, 2009, the "Solution on Unification of Accounting Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18) has been applied.

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 six items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets
- (e) Retrospective treatment of a change in accounting policies
- (f) Accounting for net income attributable to minority interests

As a result, operating income and income before income taxes decreased by ¥820 million (\$8,367 thousand) for the year ended March 31, 2009.

The effects on segment information are described in Note 17.

2. FINANCIAL STATEMENT TRANSLATION

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98 to U.S.\$1. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

3. 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, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Cash and deposits	¥57,074	¥87,343	\$582,388
Time deposits with maturities exceeding 3 months	(2,006)	(1,965)	(20,470)
Cash and cash equivalents	¥55,068	¥85,378	\$561,918

In the year ended March 31, 2009, the Company acquired 100% of outstanding shares of Clinical Supply Co., Ltd. The acquisition was accounted for as a purchase transaction.

In the year ended March 31, 2007, the Company acquired 100% of outstanding shares of Terumo Chile Ltda. The acquisition was accounted for as a purchase transaction.

Details of assets and liabilities of the newly consolidated subsidiaries for the years ended March 31, 2009 and 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Current assets	¥1,985	¥—	¥467	\$20,255
Noncurrent assets	740	—	3	7,551
Current liabilities	(854)	—	(94)	(8,714)
Noncurrent liabilities	(180)	—	(18)	(1,837)
Goodwill	1,857	—	(58)	18,949
Purchase cost of the subsidiary	3,548	—	300	36,204
Cash and deposits of the subsidiary	(262)	—	(90)	(2,673)
The purchase of investment in subsidiaries resulting in change in scope of consolidation	¥3,286	¥—	¥210	\$33,531

Details of assets of the businesses acquired for the year ended March 31, 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Current assets	¥ —	¥—	¥286	\$ —
Noncurrent assets	—	—	101	—
Goodwill	—	—	412	—
Total assets	—	—	799	—
Payments for transfer of business	¥ —	¥—	¥799	\$ —

Details of assets of the business transferred for the year ended March 31, 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Current assets	¥ —	¥—	¥ 5	\$ —
Noncurrent assets	—	—	35	—
Total assets	—	—	40	—
Proceeds from transfer of business	¥ —	¥—	¥ 40	\$ —

4. INVENTORIES

Inventories at March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Merchandise and finished goods	¥33,273	¥29,647	\$339,520
Work in process	6,374	5,735	65,041
Raw materials and supplies	14,945	13,357	152,500
	¥54,592	¥48,739	\$557,061

The amounts of inventories are net of ¥954 million (\$9,735 thousand) write-downs reflecting a decrease in their net realizable value.

5. INVESTMENT SECURITIES

Investment securities at March 31, 2009 and 2008 include available-for-sale securities.

The original cost, carrying amount (market value) and gross unrealized holding gain (loss) for marketable available-for-sale securities are summarized as follows:

	Millions of yen			Gross amount (market value)
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	
2009:				
Available-for-sale securities:				
Equity securities	¥29,477	¥ 323	¥(8,934)	¥20,866
Others	100	—	—	100
	¥29,577	¥ 323	¥(8,934)	¥20,966

	Millions of yen			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Gross amount (market value)
2008:				
Available-for-sale securities:				
Equity securities	¥28,675	¥8,571	¥ (152)	¥37,094
Others	100	—	—	100
	¥28,775	¥8,571	¥ (152)	¥37,194
	Thousands of U.S. dollars (Note 2)			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Gross amount (market value)
2009:				
Available-for-sale securities:				
Equity securities	\$300,786	\$3,296	\$(91,163)	\$212,919
Others	1,020	—	—	1,020
	\$301,806	\$3,296	\$(91,163)	\$213,939

The Company recognized valuation loss on available-for-sale securities of ¥37 million (\$378 thousand) in the year ended March 31, 2009.

The Company generally recognizes a full valuation loss on available-for-sale securities whose fair value at the end of the year are less than 50% of their original cost. For those available-for-sale securities whose fair values are more than 30% but less than 50% below their original costs, a valuation loss is recognized at the amount considered necessary taking into consideration future prospects of recovery in value.

The disclosure of total proceeds from sale of available-for-sale securities is omitted because net gain/loss on sale of available-for-sale securities was immaterial.

The carrying amount of significant non-marketable securities is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Available-for-sale securities:			
Unlisted stocks (excluding stocks traded in OTC market)	¥83	¥583	\$847

Among available-for-sale securities, scheduled redemption amount of bonds intended to be held to maturity and of instruments that have maturities are as follows:

	Millions of yen		
	Within one year	One to five years	Over five years
2009:			
Available-for-sale securities	¥—	¥100	¥—
2008:			
Available-for-sale securities	¥—	¥100	¥—
	Thousands of U.S. dollars (Note 2)		
	Within one year	One to five years	Over five years
2009:			
Available-for-sale securities	\$—	\$1,020	\$—

The balance of investment securities of unconsolidated subsidiaries and the affiliates at March 31, 2009 and 2008 were ¥2,638 million (\$26,918 thousand) and ¥2,752 million, respectively.

6. SHORT-TERM DEBT

Short-term debt at March 31, 2009 and 2008 were unsecured bank borrowings and were ¥25,190 million (\$257,041 thousand) and ¥35,000 million, respectively. The weighted-average interest rates applicable to the bank borrowings were 0.79993% and 0.96667% at March 31, 2009 and 2008, respectively.

As is customary in Japan, short-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall 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 bank.

In order to facilitate efficient working capital management, the Company maintains committed lines of credit with four banks. The amount of unused credit available for immediate borrowing under these lines as of March 31, 2009 is as follows:

Total amount of committed lines:	¥20,000 million (\$204,082 thousand)
Amount borrowed:	¥5,000 million (\$51,020 thousand)
Amount available for borrowing:	¥15,000 million (\$153,061 thousand)

7. RETIREMENT BENEFITS

The plan's funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Employee retirement benefits:			
Projected benefit obligation	¥(63,756)	¥(59,308)	\$ (650,572)
Plan assets at fair value	37,778	41,772	385,490
Retirement benefit trust at fair value	5,699	8,896	58,153
Projected benefit obligation in excess of plan assets	(20,279)	(8,640)	(206,929)
Unrecognized actuarial loss	24,351	12,810	248,480
Unrecognized prior service cost	(7,028)	(8,434)	(71,714)
Prepaid pension cost	736	—	7,510
Provision for retirement benefits	¥ (3,692)	¥ (4,264)	\$ (37,673)

Retirement benefit expenses for the years ended March 31, 2009, 2008 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Service cost for benefits earned, net of employee contributions	¥ 2,816	¥ 2,799	¥ 2,705	\$ 28,734
Interest cost on retirement benefit obligation	1,514	1,436	1,289	15,449
Estimated return on plan assets	(1,579)	(1,697)	(1,288)	(16,112)
Amortization of unrecognized actuarial loss	2,475	1,707	1,771	25,255
Amortization of unrecognized prior service cost	(1,408)	¥(1,408)	¥(1,398)	(14,367)
Retirement benefit expenses	¥ 3,818	¥ 2,837	¥ 3,079	\$ 38,959

Several consolidated subsidiaries have defined contribution plans, which provide retirement benefits for their employees who meet certain eligibility requirements. Expenses under the plans for the years ended March 31, 2009, 2008 and 2007 were ¥313 million (\$3,196 thousand), ¥459 million and ¥274 million, respectively.

Service cost does not include the amounts contributed by employees with respect to welfare pension funds plans.

Actuarial assumptions and basis for the calculation of retirement benefits are as follows:

	2009
Method of the benefit attribution	“Benefit/year-of-service” approach
Discount rate	Mainly 2.0%
Estimated rate of return on plan assets	Mainly 2.5%
Amortization period of unrecognized prior service cost	Mainly 10 Years
Amortization period of unrecognized actuarial gain or loss	Mainly 10 Years
	2008
Method of the benefit attribution	“Benefit/year-of-service” approach
Discount rate	Mainly 2.0%
Estimated rate of return on plan assets	Mainly 3.0%
Amortization period of unrecognized prior service cost	Mainly 10 Years
Amortization period of unrecognized actuarial gain or loss	Mainly 10 Years
	2007
Method of the benefit attribution	“Benefit/year-of-service” approach
Discount rate	Mainly 2.0%
Estimated rate of return on plan assets	Mainly 3.0%
Amortization period of unrecognized prior service cost	Mainly 10 Years
Amortization period of unrecognized actuarial gain or loss	Mainly 10 Years

8. INCOME TAXES

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax, which in the aggregate resulted in a statutory effective tax rate of approximately 40.3% in the years ended March 31, 2009, 2008 and 2007.

A reconciliation between the Japanese statutory effective income tax rate and the effective income tax rate calculated as a percentage of income before income taxes for the years ended March 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Japanese statutory effective income tax rate	40.3%	40.3%	40.3%
Increase (reduction) in income taxes resulting from:			
Expenses not deductible for tax purposes	0.9	0.8	0.8
Dividend income, non-taxable	(0.2)	(0.1)	(0.2)
Income of foreign subsidiaries taxed at lower rate than Japanese normal tax rate	(3.2)	(2.6)	(2.9)
Amortization of goodwill	1.3	0.5	0.5
Tax credit	(2.3)	(1.6)	(3.5)
Foreign tax credit	(6.3)	—	—
Other	(1.0)	(3.7)	(0.3)
Effective income tax rate after adoption of tax-effect accounting	29.5%	33.6%	34.7%

“Other” for the year ended March 31, 2008 includes a favorable tax rate reconciling item of (1.4)% attributable to foreign tax credit.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2009 and 2008 are presented below:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Deferred tax assets:			
Allowance for doubtful accounts	¥ 207	¥ 274	\$ 2,112
Accrued expenses	4,066	3,214	41,490
Accrued business tax	609	1,209	6,214
Retirement benefits	6,117	4,252	62,418
Loss on valuation of investment securities	241	226	2,459
Losses sustained by overseas subsidiaries	2,153	3,296	21,970
Unrealized profit in inventories and property, plant and equipment	2,033	2,017	20,745
Valuation difference on available-for-sale securities	3,455	—	35,255
Impairment loss on property, plant and equipment	323	321	3,296
Provision for directors’ retirement benefits	315	294	3,214
Other	4,506	2,823	45,980
Total gross deferred tax assets	24,025	17,926	245,153
Less: valuation allowance	(405)	(1,432)	(4,133)
Net deferred tax assets	23,620	16,494	241,020
Deferred tax liabilities:			
Depreciation and amortization	—	(104)	—
Valuation difference on available-for-sale securities	—	(3,393)	—
Gain on contribution of securities to retirement benefit trust	(2,002)	(2,002)	(20,429)
Other	(679)	(352)	(6,928)
Total gross deferred tax liabilities	(2,681)	(5,851)	(27,357)
Net deferred tax assets	¥20,939	¥10,643	\$213,663

Net deferred tax liabilities included in “Other current liabilities” are ¥173 million (\$1,765 thousand) and ¥198 million as of March 31, 2009 and 2008.

Net deferred tax liabilities included in “Other noncurrent liabilities” are ¥104 million (\$1,061 thousand) and ¥36 million as of March 31, 2009 and 2008.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of selling, general and administrative expenses for the years ended March 31, 2009, 2008 and 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Promotion and advertising expenses	¥10,919	¥10,450	¥10,237	\$111,418
Salaries and allowances	25,033	24,442	22,075	255,439
Freight and packing expenses	9,095	8,983	7,997	92,806
Research and development expenses	17,158	15,754	16,793	175,082
Depreciation	3,355	3,369	3,027	34,235

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2009, 2008 and 2007 are ¥17,158 million (\$175,082 thousand), ¥15,754 million and ¥16,793 million, respectively.

11. IMPAIRMENT LOSS

In the year ended March 31, 2008 the Company and subsidiaries recognized ¥157 million of impairment loss on the following group of assets:

	Location	Classification	Millions of yen Impairment loss
2009:	—	—	¥—
			—
			¥—
2008:	Shizuoka Pref.	Buildings and structures (Idle assets)	¥ 41
		Machinery and equipment (Idle assets)	116
			¥157
2007:	—	—	¥ —
			¥ —

	Location	Classification	Thousands of U.S. dollars (Note 2) Impairment loss
2009:	—	—	\$—
			—
			\$—

The Company and subsidiaries group their fixed assets by business groups continuously managing its income and expenditures, such as General hospital products segment, Catheter and Cardiovascular products segment, Blood transfusion products segment and Home health care products segment. Idle assets are each grouped into an asset group.

In addition, assets belonging to Headquarters and R&D center,

company housing and dormitories are included in common assets due to the fact that they do not generate identifiable cash flows.

For idle assets not in the ordinary course of business and the asset values significantly depreciated, the book values were reduced to memorandum value, and such reduced amounts were recorded as impairment loss.

12. TREASURY STOCK

On March 31, 2009, the Company holds 20,977,618 shares of the treasury stock for an aggregate cost of ¥76,800 million (\$783,673 thousand).

The annual shareholders' meeting held on June 29, 2004

approved that, in accordance with Japanese Commercial Code Article 211-3, the Company changed the Article of Incorporation so that the Company may acquire its common stock to be held in treasury based on decision on Board of Directors.

13. NET ASSETS

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and 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.

Under the Law, 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 Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal

earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of capital stock. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were 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 nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

Dividends applicable to the years ended March 31, 2009 and 2008 were as follows:

YEAR ENDED MARCH 31, 2009

Resolution	Class of shares	Millions of yen		Record date	Effective date	Thousand of U.S.dollars (Note 2)	
		Total amount of dividends	Yen Dividend per share			Total amount of dividends	U.S.dollars Dividend per share
Annual shareholders' meeting held on June 27, 2008	Common stock	3,491	18.00	March 31, 2008	June 30, 2008	35,622	0.18
Board of directors held on October 30, 2008	Common stock	3,103	16.00	September 30, 2008	December 12, 2008	31,663	0.16

Resolution	Class of shares	Millions of yen		Record date	Effective date	Thousand of U.S.dollars (Note 2)	
		Total amount of dividends	Funds of dividends			Total amount of dividends	U.S.dollars Dividend per share
Annual shareholders' meeting held on June 19, 2009	Common stock	3,038	Retained Earnings	March 31, 2009	June 22, 2009	31,000	0.16

YEAR ENDED MARCH 31, 2008

Resolution	Class of shares	Millions of yen		Record date	Effective date	Thousand of U.S.dollars (Note 2)	
		Total amount of dividends	Yen Dividend per share			Total amount of dividends	U.S.dollars Dividend per share
Annual shareholders' meeting held on June 28, 2007	Common stock	3,181	16.00	March 31, 2007	June 29, 2007		
Board of directors held on October 29, 2007	Common stock	2,748	14.00	September 30, 2007	December 10, 2007		

Resolution	Class of shares	Millions of yen		Record date	Effective date	Thousand of U.S.dollars (Note 2)	
		Total amount of dividends	Funds of dividends			Total amount of dividends	U.S.dollars Dividend per share
Annual shareholders' meeting held on June 27, 2008	Common stock	3,491	Retained Earnings	March 31, 2008	June 30, 2008		

14. LEASES

The Company and its subsidiaries lease certain machinery and equipment under various lease arrangements. As described in "Summary of Significant Accounting Policies, (l) Leases," financing lease arrangements entered into prior to April 1, 2008 that did not transfer ownership of leased property to the lessee are continued to be accounted for as if they were operating leases.

The details of such financing leases accounted for as operating leases at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Acquisition costs	¥ 986	¥1,186	\$10,061
Less: accumulated depreciation	(539)	(761)	(5,500)
Net book value	¥ 447	¥ 425	\$ 4,561

Future minimum payments required under such finance leases at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Within one year	¥167	¥163	\$1,704
Over one year	280	262	2,857
	¥447	¥425	\$4,561

The lease expenses for such finance leases for the years ended March 31, 2009, 2008 and 2007 amounted to ¥230 million (\$2,347 thousand), ¥262 million and ¥417 million, respectively.

The depreciation amount calculated by straight-line method over the lease terms without residual value is ¥230 million (\$2,347 thousand), ¥262 million and ¥417 million, respectively, for the years ended March 31, 2009, 2008 and 2007.

Future lease payments include the interest component since the amount of future minimum lease payments as compared to the carrying amount of leased machinery and equipment is not significant.

The minimum rental commitments under noncancellable operating leases at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Within one year	¥362	¥390	\$3,694
Over one year	500	396	5,102
	¥862	¥786	\$8,796

15. FOREIGN EXCHANGE RISK MANAGEMENT

The Company and subsidiaries operate internationally which expose them to the risk of a change in foreign exchange rates. Derivative financial instruments are comprised of forward exchange contracts utilized by the Company to reduce such risks. The Company and subsidiaries do not enter into derivative transactions for speculative purposes.

The contract amounts of derivative financial instruments are not a measure of the exposure of the Company through its use of derivative financial instruments. The Company is exposed to the risk of credit related losses in the event of nonperformance by counterparties to the foreign exchange contracts, but does not expect any counterparties to fail given their high credit ratings.

The Company enters into forward exchange contracts to hedge against the risk of fluctuation in foreign currency exchange rates associated with certain trade receivables and payables denominated in foreign currencies. All derivative transactions are implemented and managed under the Company policy and reported to the Board of Directors every month. At March 31, 2009 and 2008, outstanding foreign exchange currency contracts are used for the translation of hedged trade receivables and payables. The Company is required to disclose certain information with respect to derivatives. Contract amounts and fair value of forward exchange contracts at March 31, 2009 and 2008 are set forth below.

Foreign exchange contracts:	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Sell			
Contract amount	¥ 9,657	¥2,573	\$98,541
Estimated fair value	10,046	2,405	102,510
Unrealized gain (loss)	(389)	168	(3,969)
Buy			
Contract amount	¥ 643	¥1,287	\$ 6,561
Estimated fair value	639	1,268	6,520
Unrealized gain (loss)	(4)	(19)	(41)

16. CONTINGENCIES

The Company and subsidiaries had no significant contingent liabilities at March 31, 2009 and 2008.

17. SEGMENT INFORMATION

Operations by business group and geographic area are summarized as follows:

(a) BUSINESS SEGMENTS

Business segment information for the years ended March 31, 2009 and 2008 was as follows:

Sales:	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
General hospital products	¥146,496	¥152,019	\$1,494,857
Catheter and Cardiovascular products	127,035	124,755	1,296,275
Blood transfusion products	23,872	23,544	243,592
Home health care products	5,344	6,064	54,531
	¥302,747	¥306,382	\$3,089,255
Operating income:			
General hospital products	¥ 30,820	¥ 36,735	\$ 314,490
Catheter and Cardiovascular products	32,956	37,856	336,286
Blood transfusion products	3,335	3,555	34,031
Home health care products	153	366	1,561
	67,264	78,512	686,368
Corporate expenses	(13,224)	(11,570)	(134,939)
	¥ 54,040	¥ 66,942	\$ 551,429
Assets:			
General hospital products	¥137,149	¥141,382	\$1,399,480
Catheter and Cardiovascular products	137,720	130,557	1,405,306
Blood transfusion products	28,711	27,712	292,969
Home health care products	4,202	4,755	42,878
Corporate assets	71,283	106,513	727,377
	¥379,065	¥410,919	\$3,868,010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Depreciation:			
General hospital products	¥ 10,785	¥9,602	\$ 110,051
Catheter and Cardiovascular products	6,208	5,060	63,347
Blood transfusion products	2,203	2,175	22,480
Home health care products	227	222	2,316
Corporate depreciation	959	753	9,786
	¥ 20,382	¥ 17,812	\$ 207,980
Impairment loss:			
General hospital products	¥ —	¥ 157	\$ —
Catheter and Cardiovascular products	—	—	—
Blood transfusion products	—	—	—
Home health care products	—	—	—
Corporate impairment loss	—	—	—
	¥ —	¥ 157	\$ —
Capital expenditures:			
General hospital products	¥ 10,646	¥ 9,322	\$ 108,633
Catheter and Cardiovascular products	9,842	4,635	100,429
Blood transfusion products	1,807	1,327	18,439
Home health care products	419	362	4,275
Corporate expenditures	752	522	7,673
	¥ 23,466	¥ 16,168	\$ 239,449

Business segment information for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen	
	2008	2007
Sales:		
General hospital products	¥150,956	¥138,233
Cardiac and vascular products	124,755	109,434
Home health care products	30,671	28,772
	¥306,382	¥276,439
Operating income:		
General hospital products	¥ 31,744	¥ 26,497
Cardiac and vascular products	37,857	34,430
Home health care products	8,911	7,901
	78,512	68,828
Corporate expenses	(11,570)	(10,373)
	¥ 66,942	¥ 58,455
Assets:		
General hospital products	¥150,062	
Cardiac and vascular products	130,557	
Home health care products	23,787	
Corporate assets	106,513	
	¥410,919	
Depreciation:		
General hospital products	¥ 10,847	¥ 9,456
Cardiac and vascular products	5,060	4,687
Home health care products	1,153	865
Corporate depreciation	752	506
	¥ 17,812	¥ 15,514
Impairment loss:		
General hospital products	¥ 157	¥ —
Cardiac and vascular products	—	—
Home health care products	—	—
Corporate impairment loss	—	—
	¥ 157	¥ —
Capital expenditures:		
General hospital products	¥ 9,366	¥ 10,453
Cardiac and vascular products	4,635	6,185
Home health care products	1,645	1,911
Corporate expenditures	522	773
	¥ 16,168	¥ 19,322

Corporate assets consist primarily of surplus money (cash and deposits), long-term investment funds (investment securities), deferred income taxes and general and administrative division's assets. (CHANGES IN ACCOUNTING POLICY)

As described in "Summary of Significant Accounting Policies, (f) Inventories", effective April 1, 2008, the Company adopted the provisions of "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9).

As a result, operating income for the year ended March 31, 2009 decreased by ¥954 million (\$9,735 thousand) in General hospital products, compared to the amount that would have been reported under the previous method of accounting.

As described in "Summary of Significant Accounting Policies", from the year ended March 31, 2009, the "Practical Solution on Unification of Accounting Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18) has been applied, and accordingly, some revisions have been made to the consolidated accounts as necessary.

As a result, operating income in this year ended March 31, 2009 decreased by ¥817 million (\$8,337 thousand) in Catheter and Cardiovascular products, and ¥3 million (\$30 thousand) in Corporate expenses.

As described in "Summary of significant accounting policies, (g) Property, Plant and Equipment", effective from the year ended March 31, 2008, the Company and domestic subsidiaries changed the method of depreciation.

The effects of this change on consolidated statements of income in the year ended March 31, 2008 were immaterial.

(SUPPLEMENTAL INFORMATION)

As described in "Summary of Significant Accounting Policies (g) Property, Plant and Equipment," effective from the year ended March 31, 2009, the Company and domestic subsidiaries changed

the estimated useful lives for certain machinery and equipment to conform to the revised Japanese Tax Law. As a result, operating income for the year ended March 31, 2009 decreased in total by ¥1,437 million (\$14,663 thousand), consisting of a decrease of ¥790 million (\$8,061 thousand) in General hospital products, a decrease of ¥701 (\$7,153 thousand) million in Catheter and Cardiovascular products, a decrease of ¥9 million (\$92 thousand) in Home health care products, an increase of ¥63 million (\$643 thousand) in Blood transfusion products, and an increase of ¥0 million (\$0 thousand) in corporate expenses, as compared to the respective amounts that would have been reported without changes in useful lives.

As described in "Summary of Significant Accounting Policies (g) Property, Plant and Equipment," effective from the year ended March 31, 2008, the Company and domestic subsidiaries started to depreciate the 5% residual value of property, plant and equipment on a straight-line basis over a 5-year period commencing in the year following a year in which the carrying amount reaches the 5% residual value using the previous method of depreciation.

The effects of this change on the results of business segments were immaterial.

Previously, the Company classified its businesses into three business segments, "General hospital products," "Cardiac and vascular products" and "Home health care products," on the basis of similarity in product and market.

Effective April 1, 2008, in accordance with the realignment of its company organization structure, the Company revised its business segment reporting into four segments, "General hospital products," "Catheter and cardiovascular products," "Blood transfusion products" and "Home health care products." These organizational changes reflect the sophistication and complexity of the medical service markets, and enable management to respond to market and customer-specific needs in a timely manner. The revised segment information better presents the results of operations of each business.

(b) GEOGRAPHIC SEGMENTS

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Sales:				
Japan	¥162,155	¥162,538	¥152,572	\$1,654,643
Europe	55,702	56,772	48,371	568,388
North and South America	56,549	58,802	52,735	577,030
Asia and Others	28,341	28,270	22,761	289,194
	¥302,747	¥306,382	¥276,439	\$3,089,255
Operating income:				
Japan	¥ 51,405	¥ 61,206	¥ 52,458	\$ 524,541
Europe	7,029	8,492	7,128	71,725
North and South America	2,476	3,631	5,964	25,265
Asia and Others	7,410	6,627	4,902	75,612
	68,320	79,956	70,452	697,143
Corporate expenses and eliminations	(14,280)	(13,014)	(11,997)	(145,714)
	¥ 54,040	¥ 66,942	¥ 58,455	\$ 551,429
Assets:				
Japan	¥284,793	¥273,895		\$2,906,051
Europe	59,585	63,501		608,010
North and South America	55,155	56,000		562,806
Asia and Others	35,526	40,409		362,511
	435,059	433,805		4,439,378
Corporate assets and eliminations	(55,994)	(22,886)		(571,368)
	¥379,065	¥410,919		\$3,868,010

Each overseas geographic segment mainly consists of the following:

Europe: Belgium, United Kingdom and Germany
 North and South America: United States of America, Canada and Mexico
 Asia and Others: United Arab Emirates, Australia and Thailand

(CHANGES IN ACCOUNTING POLICY)

As described in “Summary of Significant Accounting Policies, (f) Inventories”, effective April 1, 2008, the Company adopted the provisions of “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9).

As a result, operating income in this year ended March 31, 2009 decreased by ¥954 million (\$9,735 thousand) in Japan, compared to the amount that would have been reported under the previous method of accounting.

As described in “Summary of Significant Accounting Policies”, from the year ended March 31, 2009, the “Practical Solution on Unification of Accounting Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18) has been applied, and accordingly, some revisions have been made to the consolidated accounts as necessary.

As a result, operating income for the year ended March 31, 2009 decreased by ¥817 million (\$8,337 thousand) in North and South America, and ¥3 million (\$30 thousand) in Corporate expenses and eliminations.

As described in “Summary of significant accounting policies, (g) Property, Plant and Equipment”, effective from the year ended March 31, 2008, the Company and domestic subsidiaries changed the method of depreciation.

The effects of this change on consolidated statements of income in the year ended March 31, 2008 were immaterial.

(SUPPLEMENTAL INFORMATION)

As described in “Summary of Significant Accounting Policies (g) Property, Plant and Equipment,” effective from the year ended March 31, 2009, the Company and domestic subsidiaries changed the estimated useful lives for certain machinery and equipment to conform to the revised Japanese Tax Law. As a result, operating income for the year ended March 31, 2009 decreased in total by ¥1,437 million (\$14,663 thousand), consisting of a decrease of ¥1,437 million (\$14,663 thousand) in Japan and an increase of ¥0 (\$0 thousand) million in corporate expenses and eliminations, as compared to the amount that would have been reported without changes in useful lives.

As described in “Summary of Significant Accounting Policies (g) Property, Plant and Equipment,” effective from the year ended March 31, 2008, the Company and domestic subsidiaries started to depreciate the 5% residual value of property, plant and equipment on a straight-line basis over a 5-year period commencing in the year following a year in which the carrying amount reaches the 5% residual value using the previous method of depreciation.

The effects of this change on the results of geographic segments were immaterial.

(c) OVERSEAS SALES

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Overseas sales:				
Europe	¥ 55,702	¥ 56,772	¥ 48,371	\$ 568,388
North and South America	56,549	58,802	52,742	577,030
Asia and Others	28,446	28,357	22,860	290,266
	¥140,697	¥143,931	¥123,973	\$1,435,684
Ratio to total sales	46.5%	47.0%	44.8%	

Each overseas sales destination mainly consists of the following:

Europe:	Germany, France and Italy
North and South America:	United States of America, Canada and Mexico
Asia and Others:	Australia, Thailand and Taiwan

18. BALANCES AND TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANY

Balances as of March 31, 2009 and 2008 and transactions for the years ended March 31, 2009, 2008 and 2007 with unconsolidated subsidiaries and affiliated company are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	2009
Accounts receivable and other current assets:				
Olympus Terumo Biomaterials Corp.	¥ 13	¥ 11	—	\$ 133
Terumo BSN K.K.	14	8	—	143
Accounts payable and other current liabilities:				
Terumo Business Support Corporation	¥ 17	¥ 27	—	\$ 173
Terumo Human Create Corporation	60	—	—	612
Terumo BSN K.K.	174	304	—	1,776
Sales:				
Olympus Terumo Biomaterials Corp.	¥ 126	¥ 149	¥ —	\$ 1,286
Income from other services:				
Terumo BSN K.K.	¥ 29	¥ 36	¥ 32	\$ 296
Purchase:				
Terumo BSN K.K.	¥1,546	¥1,750	¥1,915	\$15,776
Insurance and other expenses:				
Terumo Business Support Corporation	¥ 941	¥ 948	¥1,008	\$ 9,602
Terumo Human Create Corporation	622	438	100	6,347

INDEPENDENT AUDITORS' REPORT



To the Stockholders and Board of Directors of
Terumo Corporation:

We have audited the accompanying consolidated balance sheets of Terumo Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Terumo Corporation and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

KPMG AZSA & CO.

Tokyo, Japan
June 24, 2009