

Financial Results for the Fiscal Year Ended March 31, 2010: Reference

Analysis of Business Performance

<1> Overview of the Fiscal Year Ended March 31, 2010

[1] Overview of Business Results

As illustrated by the economic expansion in China and other emerging countries and the improvement of business sentiment in the US, the global economy started to recover from the worst period since the Lehman shock. However, there are still many reasons for uneasiness such as gaps in the progress of recovery among regions, and uncertainty about medium and long-term economic trends persist. In Japan, departure from an export-dependent economic structure is a major challenge for a fully-fledged economic recovery.

Under such conditions, drastic ongoing structural changes can be seen on a global scale around healthcare markets. In the US, the healthcare reform law was enacted to reduce uninsured people and future burdens of government. In Europe, efforts to further reduce medical costs are in place. At the same time, in China, a national project mainly focusing on improving the nation-wide healthcare infrastructure including inland regions has been launched, with competition becoming harsher due to the emergence of local manufacturers and entry to the market by manufacturers from the US and Europe.

In Japan, while medical cost reduction policies have been continuously carried out, many issues have been highlighted such as patients being passed from hospital to hospital due to the lack of the capacity, harsh working conditions of medical practitioners and emergency response issues about the H1N1 pandemic. On the other hand, while discussions to improve the medical infrastructure have been taking place, the government's new growth strategy has launched industrialization of medical care and nursing services, presenting prospective factors for future growth.

Under such market conditions, our Group has undertaken a three-year mid-term plan, "Phoenix 2010: Challenge for Dramatic Leap" with three focus strategies of the "Reorganizing Internal Companies to Enhance Business Portfolio", "Promoting Globalization" and "Tackling the Challenge of Creating Innovation" since April 2008. In this fiscal year ended March 2010 that is the second year of the mid-term plan, we developed products and services that contribute to the "healthcare economy" to enhance the quality of medical care and promote efficiency both in Japan and outside of Japan.

As a result, our consolidated financial results for the fiscal year ended March 2010 are as follows:

< **Net Sales** >

Net sales showed a 7.3% growth in Japan and a 10.5% growth outside of Japan on a local currency basis, but impacted by foreign exchange, net sales in total were 316.0 billion yen or a 4.4% increase when compared with the previous year.

Geographic segments

(Unit: millions of yen)

Area	FYE Mar. 2009 Results	FYE Mar. 2010 Results	Changes%	Changes % (Local currency basis)
Japan	162,049	173,910	7.3%	7.3%
Europe	55,962	56,590	1.1%	11.6%
Americas	53,770	53,776	0.0%	8.5%
Asia and others	30,964	31,731	2.5%	12.2%
Total of Outside of Japan	140,697	142,098	1.0%	10.5%
Total	302,746	316,009	4.4%	8.8%

In Japan, sales of prefilled syringes and interventional products increased steadily, and due to the impact of the H1N1 pandemic, sales of digital thermometers grew strongly. Vascular grafts also contributed to the sales growth due to the switch from agency business to consignment sales. Consequently, Japan net sales were 173.9 billion yen.

Outside of Japan, we increased sales in all regions including Europe, North & Latin America, Asia and other area, mainly interventional products, achieving a high growth rate of 10.5% on a local currency basis. Especially in China, we enjoyed growth exceeding 30% on a local currency basis, which served as the driving force for sales in Asia and other regions. Ultimately, affected by foreign exchange, net sales outside of Japan were 142.1 billion yen or a 1% increase from the previous year.

<Gross Profit>

Though there were such negative factors on profit as the inclusion of retirement benefit expenses and increased depreciation expenses with the completion of the new building at the Ashitaka Factory in addition to the impact of foreign exchange, gross profit was 166.4 billion yen or a 5.1% increase from the previous year, thanks to increased

production, shift to highly profitable products and cost reductions, etc.

<Operating Income>

While we proactively invested in R&D and made other investments for growth, we exercised the corporate-wide efficiency promotion initiatives to control SG&A expenses. Operating income was 63.3 billion yen or a 17.1% increase compared with the previous year.

<Ordinary Income>

Because of reduction of foreign exchange loss and other factors, ordinary income showed a 21.0% increase from last year, resulting in 63.6 billion yen.

<Net Income>

Net income was 40.7 billion yen or a 10.4% increase compared with the previous year.

Next, net sales results by business segments are as follows:

Business Segments

(Unit: millions of yen)

Business Segments		FYE Mar. 2009 Results	FYE Mar. 2010 Results	Changes%	Changes % (Local currency basis)
General Hospital Products	Net Sales	146,496	149,788	2.2%	4.2%
	(Japan)	114,676	119,326	4.1%	4.1%
	(Outside of Japan)	31,820	30,461	(4.3%)	4.9%
Cardiac & Vascular Products	Net Sales	127,034	135,831	6.9%	14.1%
	(Japan)	33,663	39,217	16.5%	16.5%
	(Outside of Japan)	93,370	96,614	3.5%	13.2%
Blood Transfusion Products	Net Sales	23,871	23,947	0.3%	5.9%
	(Japan)	9,003	9,650	7.2%	7.2%
	(Outside of Japan)	14,868	14,296	(3.8%)	5.1%
Consumer Healthcare Products	Net Sales	5,344	6,442	20.5%	22.1%
	(Japan)	4,706	5,715	21.5%	21.5%
	(Outside of Japan)	637	726	13.9%	26.7%

<General Hospital Products>

In Japan, such products as prefilled syringes jointly developed with Kyowa Hakko Kirin Co., Ltd. and other infusion products with improved added value for medical accident prevention and infection risk reduction increased sales steadily.

Outside of Japan, infusion pumps, syringe pumps and other products increased sales, but impacted by foreign exchange, sales in total decreased.

Consequently, net sales of general hospital products were 149.8 billion yen or a 2.2% increase from the previous year.

<Cardiac & Vascular Products>

In Japan, new products such as intra-vascular ultrasound catheter used in the treatment of Angina Pectoris, “ViewIT”, and a PTCA balloon catheter, “Tazuna”, enjoyed favorable sales, increasing total sales of interventional products, while vascular grafts contributed to a high level of sales growth due to the switch from agency business to consignment sales.

Outside of Japan, the postponement of purchase of large medical equipment at hospitals still continued in some areas due to unfavorable medical fiscal conditions caused by the economic crisis. However, sales of mainly interventional products increased, enjoying double digit growth rates across all regions including Europe, North & Latin America, Asia and other regions on a local currency basis. In Europe, Asia, and other areas, the drug-eluting stent, “Nobori”, increased sales, while in North & Latin America, coils for cerebral aneurysms treatments enjoyed good sales.

As a result, net sales of cardiac & vascular products increased by 6.9% from last year and were 135.8 billion yen.

<Blood Transfusion Products>

In Japan, blood bags and aphaeresis system products enjoyed good sales, contributing to a sales increase.

Outside of Japan, sales of blood bags increased in emerging countries such as Asia and Latin America, but impacted by foreign exchange, net sales decreased.

As a result, net sales of blood transfusion products increased to 23.9 billion yen or a 0.3% increase from the previous year.

<Consumer Healthcare Products>

In Japan, We continuously launched new products such as new digital blood pressure monitor and demand for digital thermometers increased due to the H1N1 pandemic. Sales increased significantly.

As a result, net sales of consumer healthcare products increased by 20.5% or to 6.4 billion yen.

[2] Research and Development

In Japan, we launched new products such as blood glucose monitors, PTCA balloon catheters and syringes for influenza vaccines. Also, a prefilled syringe jointly developed with and sold by Kyowa Hakko Kirin Co., Ltd. was launched, and we have made an entry into the pain relief market for patients of cancer.

We made an application for approval to manufacture in Japan left ventricular assist system already sold in Europe and simultaneously started clinical trials of peripheral stent, “Misago,” in Japan and the US, preparing for the further acceleration of global development of highly value-added products.

In addition, we launched the renewed R&D Headquarters by integrating the R&D Center with the Product Development department at all domestic factories for managing R&D activities, aiming to create synergies and promote efficiency. We started the promotion of fully-fledged partnerships with the Product Development departments outside of Japan.

[3] Capital Expenditure

In order to enable production increase of interventional products whose sales have been increasing globally, we constructed a new building at Ashitaka Factory and completed it in January 2010. In order to respond to increased production of I.V. solutions, we started to build a new building at the Fujinomiya Factory. Outside of Japan, we continued to increase the utilization of the Vietnam Factory, which was completed in 2008. In addition, we invested in further improvement of quality and production efficiency as well as a strengthening of our products’ competitive edge.

This year’s capital expenditure was thus 20.9 billion yen.

<2> Forecast for the fiscal year ending March 31, 2011

In Japan, impacted by the revision of the medical fee reimbursement in April 2010, National Health Insurance drug and device reimbursement prices were reduced, resulting in very harsh business conditions. On the other hand, medical fees such as physicians technical fees was revised upwards compared with the previous revision, and the mechanism to promote more efficient healthcare was strengthened by clearly defining acute and chronic phase hospital functions.

Globally, diverse factors such as the enactment of the medical reform law in the US, efforts to reduce medical costs in European countries, and market expansion/harsher competition in China and other emerging countries are expected to result in and appear as large-scale structural changes.

Taking such changes in conditions as opportunities for growth, Terumo Group further promotes development of proprietary products and services that contribute to the improvement of the “healthcare economics” to a greater extent as required in the global healthcare market.

In Japan, in response to market changes, we proactively reorganized our sales force. We shifted sales representatives to the chronic care market where an increase of patients with advanced diseases is expected. For the Diabetes Care Business where regional cooperation is importance, we assigned sales representatives dedicated full-time to this business. Utilizing our training center for medical practitioners, “Terumo Medical Pranex,” we will contribute to the improvement of medical safety and further promote development of products with strong needs in the field.

Outside of Japan, we will expand our product lineup by adding blood glucose monitors in China that is a future huge market and at the same time, build an infrastructure to shift from the conventional export-based operations to locally self-sufficient business in which development, production, and sales will be carried out locally. To strengthen the global sales network, we will open offices in Turkey and Columbia. In relation to manufacturing, we will expand production capability mainly in Asia and begin to restructure the manufacturing organization for cost reductions at global level.

In the General Hospital Business, we continue to promote one of the key strategies of our mid-term business plan, “Fusion between Drugs and Devices.” In order to support the diabetes care market that is expected to grow further, our Diabetes Care Business is independently operated as an internal company, attempting to aggressively expand

business including global development.

In the Cardiac & Vascular Business, we continue to launch new interventional system products for treatment and globally extend our product lineup suitable for TRI (Trans-Radial Coronary Intervention; an interventional system to approach coronary artery from vessels at the wrist) that further enhances the healthcare economy, enabling operations without hospitalization.

In the Blood Transfusion Business, we will expand the sales areas of “TACSI,” our Automated Centrifuge & Separator Integration that contributes to promote operational efficiency at blood centers and promote blood bags in Asia and Latin America.

The Consumer Healthcare Business continues to launch new products with excellent usability and design.

As the result of implementation the above, we will absorb the impact of drug and device reimbursement and foreign exchange aiming to increase sales and profits.

Forecast

(Unit: millions of yen)

	FYE Mar. 2010 Results	FYE Mar. 2011 Forecast	Change	Change %
Net Sales	316,009	333,000	16,990	5.4%
(Japan)	173,910	180,000	6,089	3.5%
(Outside of Japan)	142,098	153,000	10,901	7.7%
Operating Income	63,282	65,200	1,917	3.0%
Operating Income (%)	20.0%	19.6%		
Ordinary Income	63,611	65,000	1,388	2.2%
Net Income	40,721	41,500	778	1.9%