

Financial Results for the Fiscal Year Ended March 31, 2011: Reference

Analysis of Business Performance

<1> Overview of the Fiscal Year Ended March 31, 2011

[1] Overview of Business Results

The global economy has shown moderate growth this fiscal year, driven by economic expansion in China and other emerging countries. In Japan, the ongoing appreciation of the yen impacted the performance of export-based companies, and off the Pacific Ocean Earthquake on March 11, 2011, badly affected the economy.

The Terumo Group or the group of companies around Terumo Corporation experienced earthquake damage to some sales branches in the Tohoku region, but factories in Japan didn't experience much damage. On the other hand, the East Shizuoka Earthquake of March 15, 2011, caused damage to some factories, but we were able to resume operations at all factories by March 19. Damage to material manufacturers and planned power-outages temporarily reduced operation rates of factories, but by introducing in-house power generators, procurement of alternative materials and working shifts at nighttime and holidays, we recovered operations to a level nearly equivalent to that prior to the earthquake. It should be noted, however, that the supply of I.V. solutions and some other general hospital products were impacted, which caused a shortage in supply.

Looking at the environment surrounding the healthcare market, we see drastic changes.

In Japan, the government's new growth strategy positioned medical and nursing care as a strategic industry. Medical equipment & device manufacturers are now expected to assume a role to industrialization of healthcare through Japan-made innovations. Furthermore, due to the aging of society, needs for chronic care have been increasing, and the markets for products and services for elderly citizens have been expanding. Going forward, new entries into the market by companies from other industries are expected to further spur the invigoration of the market. Outside of Japan, medical infrastructures have been improving, driven by economic development in emerging countries, and demand for a wide range of medical equipment & device from basic medicine to advanced medical care has been drastically increasing. In developed countries, while a reduction of medical expenses has been promoted, needs for improvement of QOL (quality of life) of patients and the healthcare economics have become clearer.

In this drastically changing global market, new opportunities for growth to take advantage of the strengths of the Terumo Group have become conspicuous.

As a result, the Terumo Group has come up with new growth strategies, targeting the realization of drastic growth. Under the new management system, we herald the target

of “becoming a company with a global presence by exceeding net sales of one trillion yen within ten years,” and seek growth opportunities through addressing challenges of healthcare needs, accompanied by global market expansion. We have also been accelerating business expansion in emerging countries. In particular, we have taken stronger strategic steps in China, India, and Brazil.

As part of such growth strategies, we announced the acquisition of CaridianBCT of the U.S., a global leader in the field of blood transfusion businesses in March 2011. This is the largest acquisition in the history of Terumo and enabled us to become the leader in the industry in the global market and have a new pillar for growth with prospective continuous double-digit growth. From the next fiscal year onwards, we will integrate our Blood Transfusion Business with CaridianBCT to establish TERUMO BCT for further global business expansion. Through the integration of the two companies with reciprocal characteristics, we will establish a “Blood Management Business” and seek to provide new value to customers.

As a result, our performance in the consolidated period of this fiscal year is as follows:

< Net Sales >

Net sales increased by 1.9% in Japan and by 15.6% outside of Japan on a constant currency basis, but affected by the appreciation of the yen, total net sales increased to 328.2 billion yen or 3.9% when compared with the previous year.

Geographic segments

(Unit: millions of yen)

Area	FYE Mar. 2010 Results	FYE Mar. 2011 Results	Changes%	Changes % (Constant currency basis)
Japan	173,910	177,132	1.9%	1.9%
Europe	56,590	56,630	0.1%	15.4%
Americas	53,776	56,977	6.0%	14.8%
Asia and others	31,731	35,551	12.0%	17.5%
Total of Overseas	142,098	149,158	5.0%	15.6%

In Japan, we focused on the chronic care market, increasing the sales of semi-solid nutritious foods, etc. and, steadily expanding the sales of interventional systems in spite of the reduction in drug & reimbursement prices. Consequently, net sales in Japan were 177.1 billion yen.

Outside of Japan, sales increased in all regions including Europe, North & Latin America, as well as Asia and others and enjoyed a high growth rate of 15.6% on a constant currency basis. Especially, interventional systems showed a growth rate as

high as 17.6% on a constant currency basis, driving sales in all regions. After taking the effect of the appreciation of the yen, net sales outside of Japan were 149.2 billion yen or a 5.0% increase from last year.

<Gross Profit>

Though we saw such negative factors as reduced drug & reimbursement prices and the effect of the appreciation of the yen, thanks to our efforts for cost improvements like shifting to highly profitable products and cost reductions, gross profit was 170.8 billion yen or a 2.7% increase from last year.

<Operating Income>

We continued to efficiently operate general administrative expenses in general, but due to R&D expenses and other proactive growth investments, operating income reduced by 1.1% to 62.6 billion yen.

<Ordinary Income>

Ordinary income was substantially affected by the foreign exchange loss due to yen appreciation and resulted in 56.9 billion yen or a 10.5% decrease from last year.

<Net Income>

As we reported an extraordinary loss, including the money paid to settle the issue with our U.S. affiliate and under the agreement with the FDA (Food and Drug Administration), disposal cost of inventories damaged in off the Pacific Ocean Earthquake and the cost of restoring damaged equipment, net income dropped by 20.6% from last year to 32.3 billion yen.

Please also note that we unified the accounting period of five subsidiaries in Asia whose fiscal year finished in December. For this reason, financial reports were reported for the period between January 1, 2010 and March 31, 2011, resulting in increases of 1.9 billion yen for net sales, 1 billion yen for operating income, 0.9 billion yen for ordinary income and 0.7 billion yen for net income, respectively.

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

Business Segments

(Unit: millions of yen)

Business Segments		FYE Mar. 2010 Results	FYE Mar. 2011 Results	Changes%	Changes % (Constant currency basis)
General Hospital Business	Net Sales	149,545	152,945	2.3	4.0
	(Japan)	119,083	122,964	3.3	3.3
	(Overseas)	30,461	29,981	(1.6)	7.0
Cardiac & Vascular Business	Net Sales	136,074	144,415	6.1	14.4
	(Japan)	39,460	40,060	1.5	1.5
	(Overseas)	96,614	104,355	8.0	19.6
Blood Transfusion Business	Net Sales	23,947	24,603	2.7	8.3
	(Japan)	9,650	10,417	7.9	7.9
	(Overseas)	14,296	14,186	(0.8)	8.6
Consumer Healthcare Business	Net Sales	6,442	4,326	(32.8)	(32.5)
	(Japan)	5,715	3,690	(35.4)	(35.4)
	(Overseas)	726	635	(12.5)	(9.1)

(Note): For comparison to the previous year, the adjustments of accounting period of this period are excluded in this table.

<General Hospital Business>

In Japan, our major line of products such as semi-solid nutritious foods and I.V. lines steadily sold in the chronic care market, and new blood glucose monitors and other products enjoyed increasing sales.

Outside of Japan, I.V. lines and other products sold well in Latin America, increasing sales.

As a result, net sales Increased by 2.3% compared with the previous year to 152.9 billion yen.

<Cardiac & Vascular Business>

In Japan, we saw steady sales growth of “ViewIT,” an intravascular ultrasound imaging catheter used for treating Angina Pectoris and “VisiGlide,” guidewire for endoscope jointly developed with Olympus.

Outside of Japan, our drug-eluting coronary artery stent, “Nobori” enjoyed positive sales in Europe, Latin America, Asia and other regions, while in North and Latin America, thanks to the permeation of TRI (interventional system technique to approach the coronary artery through blood vessels on the wrist), interventional systems saw steady sales.

On a constant currency basis, we saw a high growth rate of 17.6% compared with the

previous year.

As a result, net sales were 144.4 billion yen, marking a 6.1% increase from last year.

<Blood Transfusion Business>

In Japan, sales of blood bags and aphaeresis system products were steady and displayed an increase.

Outside of Japan, “TACSI,” our automated centrifuge & separator integration system steadily increased sales in Europe.

Consequently, net sales were 24.6 billion yen, or a 2.7% increase from last year.

<Consumer Healthcare Business>

In Japan, the Consumer Healthcare Business experienced the impact in reaction to the H1N1 influenza pandemic of the previous year. Though we introduced new activity monitors and upper arm blood pressure monitors to the market, under harsh business conditions, performance was not remarkable. Net sales consequently dropped by 32.8% on a constant currency basis and were 4.3 billion yen.

[2] Research & Development

We launched new products such as a guidewire for endoscope jointly developed with Olympus, “VisiGlide,” a coil for cerebrovascular embolism, “V-Trak HydroCoil embolic system” and a home oxygen therapy system with built-in battery, “02 Green Koharu 3SP.”

In addition, the Ministry of Health, Labor and Welfare of Japan approved our left ventricular assist device, “DuraHeart” in December 2010, that is already on sale in Europe, and our drug-eluting coronary artery stent, “Nobori” in March 2011, both for manufacture and sales, respectively.

In order to meet needs in different countries driven by the improvement of medical infrastructures in mainly emerging countries, the Research & Development Division has strengthened partnership with overseas developing divisions and departments.

[3] Capital Expenditure

To increase production of the interventional system product line whose sales has been globally expanding, we increased production lines at the Ashitaka Factory. To respond to a production increase of I.V. solutions, we built a new building at the Fujinomiya Factory and completed it in November 2010. Outside of Japan, we started to fully transfer production to our Vietnam Factory, which was completed in 2008. In addition, we made capital expenditure for enhancement and improvement to strengthen quality, production efficiency, and product competitiveness. Consequently, capital expenditure for the year was 19.3 billion yen.

<2> Forecast for the Fiscal Year Ending March 31, 2012

In Japan, affected by the earthquake, we anticipate a decrease to some degree in sales and profits of some General Hospital products such as I.V. solutions, but we will do our best for the quickest possible recovery. We are also concerned about the possible restriction of power usage in the summer and winter. To secure a stable supply of products, we will maintain a high operation rate of factories through improving in-house power generation systems, leveling of power consumption through the night and holiday operations and other energy-saving means. Outside of Japan, to respond to expanding emerging markets, we will strengthen functions of local affiliates with reorganization and restructuring in Asia and China. In addition, we will also reorganize outside of Japan production systems, including a full-scale production transfer to the Vietnam Factory.

In the General Hospital Business, as one of the medium and long-term growth strategies, we herald “Drug & Device” to target adding new value through combining drugs with medical devices, as bio-medicine is in progress around the world. To fully develop and apply business models established in Japan to the world, we will promote a proactive business expansion.

In the Cardiac & Vascular Business, we will globally improve the product range and lineup for TRI (interventional system technique to approach the coronary artery through blood vessels on the wrist) to improve the healthcare economics, and seek to increase sales by introducing “Nobori,” our drug-eluting coronary artery stent, to Japan.

In the Blood Transfusion Business, we will promote integration with CaridianBCT and, as TERUMO BCT, further promote sales expansion through a wide product range to meet every need from emerging to developed countries and a global sales system.

In the Consumer Healthcare Business, we will promote sales expansion in activity monitors and upper arm blood pressure monitors and continue to release new products in terms of convenience usage and design.

The Terumo Group further considers recovery from the earthquake as an opportunity for growth, and in the Mid-term Plan, we will take concrete measures to respond to risks and strengthen our corporate culture.

Forecast for the fiscal year ending March 31, 2012

(Full year)

(Unit: millions of yen)

	FYE Mar. 2011 Results	FYE Mar. 2012 Forecast	Changes	Changes (%)
Net Sales	328,214	332,000	3,785	1.2
Operating Income	62,606	65,000	2,393	3.8
Operating Income rates	19.1%	19.6%		
Ordinary Income	56,903	63,000	6,096	10.7
Net Income	32,338	40,000	7,661	23.7

*Excluding forecasts of CaridianBCT and Harvest.

*Including the impact of unified depreciation method into Straight-line Method.

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