TERUMO

Financial Information 2014

Consolidated Balance Sheets

Terumo Corporation and subsidiaries
March 31, 2014 and 2013

	Millions of yen	
Assets	**2014**	2013
Current Assets:		
Cash and deposits (Notes 2 and 18)	**¥ 95,619**	¥ 78,201
Notes and accounts receivable—trade (Note 18)	**101,520**	95,008
Less: allowance for doubtful accounts	**(1,394)**	(1,220)
Notes and accounts receivable—trade, net	**100,126**	93,788
Inventories (Note 3)	**93,966**	85,180
Deferred tax assets (Note 8)	**12,341**	11,258
Other current assets (Note 24)	**8,934**	18,528
Total current assets	**310,986**	286,955
Property, Plant and Equipment:		
Land	**21,758**	21,827
Buildings and structures (Note 13)	**148,177**	136,828
Machinery, equipment and vehicles (Note 13)	**209,614**	197,713
Lease assets (Note 13)	**1,590**	1,611
Construction in progress (Note 13)	**27,975**	17,794
Other equipment and furniture(Note 13)	**40,355**	38,504
	449,469	414,277
Less: accumulated depreciation	**(291,714)**	(269,452)
Net property, plant and equipment	**157,755**	144,825
Investments and Other Assets:		
Investment securities, including investment securities of unconsolidated subsidiaries and affiliates (Notes 4 and 18)	**37,955**	30,305
Goodwill (Note 13)	**154,161**	149,322
Customer relationships (Note 13)	**93,969**	90,707
Deferred tax assets (Note 8)	**5,323**	5,154
Retirement benefit asset (Note 7)	**2,573**	—
Other assets (Notes 7 and 13)	**70,092**	63,764
Total investments and other assets	**364,073**	339,252
Total Assets	**¥ 832,814**	¥ 771,032

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2014	2013
Current Liabilities:		
Short-term debt (Notes 5 and 18)	**¥ 260**	¥ 18,046
Current portion of long-term debt (Notes 5 and 18)	**4,652**	3,762
Current portion of bonds payable (Notes 6 and 18)	**40,000**	—
Notes and accounts payable—trade (Notes 18 and 24)	**38,148**	37,515
Lease obligations	**226**	277
Income taxes payable (Note 8)	**18,402**	2,609
Accrued expenses	**30,934**	25,802
Asset retirement obligations (Note 20)	**—**	420
Other current liabilities (Notes 8, 18, 19 and 24)	**28,315**	27,413
Total current liabilities	**160,937**	115,844
Noncurrent Liabilities:		
Bonds payable (Notes 6 and 18)	**40,000**	80,000
Long-term debt (Notes 5 and 18)	**76,770**	78,712
Lease obligations	**299**	439
Provision for retirement benefits (Note 7)	**—**	1,248
Retirement benefit liabilities (Note 7)	**3,125**	—
Provision for directors' retirement benefits	**67**	199
Asset retirement obligations (Note 20)	**220**	156
Deferred tax liabilities (Note 8)	**47,796**	49,659
Other noncurrent liabilities	**7,355**	6,866
Total noncurrent liabilities	**175,632**	217,279
Total liabilities	**336,569**	333,123
Contingencies (Note 21)		
Net Assets (Note 15)**:**		
Capital stock		
Authorized 840,000,000 shares in 2014 and 2013:		
issued 189,880,260 shares in 2014 and 2013	**38,716**	38,716
Capital surplus	**52,104**	52,104
Retained earnings	**353,601**	329,189
Less: treasury stock, at cost (Note 14)	**(24)**	(9)
Total shareholders' equity	**444,397**	420,000
Valuation difference on available-for-sale securities	**11,270**	7,458
Deferred gains or losses on hedges	**(2)**	—
Foreign currency translation adjustments	**43,377**	10,099
Accumulated adjustments for retirement benefit (Note 7)	**(2,817)**	—
Total accumulated other comprehensive income	**51,828**	17,557
Stock subscription rights	**20**	—
Minority interests	**—**	352
Total net assets	**496,245**	437,909
Total Liabilities and Net Assets	**¥ 832,814**	¥ 771,032

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Terumo Corporation and subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen	
	2014	2013
Net Sales	¥ **467,360**	¥ 402,294
Cost of Sales (Note 24)	**225,348**	196,606
Gross profit	**242,012**	205,688
Selling, General and Administrative Expenses (Notes 9, 10 and 24)	**176,723**	152,472
Operating income	**65,289**	53,216
Other Income (Expenses):		
Interest and dividends income	**799**	592
Royalty income	**117**	124
Foreign exchange gains	**3,250**	1,258
Equity in earnings of affiliates	**133**	177
Gain on sales of property, plant and equipment (Note 11)	**743**	78
Gain on transfer of businesses	**667**	892
Settlement income	**6,000**	—
Subsidy income	**—**	876
Interest expense	**(1,543)**	(1,304)
Loss on disposal of inventories	**(837)**	(678)
Loss on disposal of property, plant and equipment (Note 12)	**(995)**	(543)
Impairment loss (Note 13)	**(15,351)**	—
Directors' retirement benefits	**(33)**	—
Loss on liquidation of businesses	**(740)**	—
Loss on information system failure	**(1,186)**	—
Loss on valuation of golf club memberships	**—**	(3)
Environmental expenses	**—**	(391)
Other, net (Note 24)	**(3,405)**	(2,009)
	(12,381)	(931)
Income before income taxes and minority interests	**52,908**	52,285
Income Taxes (Note 8)**:**		
Current	**26,637**	7,179
Deferred	**(7,856)**	(1,961)
	18,781	5,218
Income before minority interests	**34,127**	47,067
Minority Interests in Income	**31**	53
Net income	¥ **34,096**	¥ 47,014

	Yen	
Net Income per Common Stock:		
Basic	¥ **89.78**	¥ 123.80
Diluted	¥ **89.78**	—

Terumo Corporation executed a two-for-one stock split on its common shares effective April 1, 2014.

Net Income per Common Stock has been adjusted retrospectively to reflect the effect of the stock split.

Cash Dividends per Common Stock	**58.00**	44.00

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Terumo Corporation and subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen	
	2014	2013
Income before Minority Interests	**¥ 34,127**	¥ 47,067
Other Comprehensive Income:		
Valuation difference on available-for-sale securities	**3,811**	7,510
Deferred gains or losses on hedges	**(2)**	(2)
Foreign currency translation adjustments	**33,234**	39,157
Share of other comprehensive income of associates accounted for using equity method	**(3)**	3
Total other comprehensive income (Note 25)	**37,040**	46,668
Comprehensive Income	**¥ 71,167**	¥ 93,735

	Millions of yen	
Attributable to:		
Shareholders of Terumo Corporation	**¥ 71,180**	¥ 93,648
Minority interests	**(13)**	87

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Terumo Corporation and subsidiaries
Years ended March 31, 2014 and 2013

	Thousands	Millions of yen										
		Shareholders' equity				Accumulated other comprehensive income						
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Stock subscription rights	Minority interests	Total
Balance at March 31, 2012	189,879	¥ 38,716	¥ 52,104	¥ 290,529	¥ (4)	¥ (52)	¥ 2	¥ (29,023)	—	—	¥ 265	¥ 352,537
Dividends from surplus				(8,354)								(8,354)
Net income				47,014								47,014
Purchase of treasury stock	(1)				(5)							(5)
Net changes of items other than shareholders' equity						7,510	(2)	39,122			87	46,717
Balance at March 31, 2013	189,878	38,716	52,104	329,189	(9)	7,458	—	10,099	—	—	352	437,909
Dividends from surplus				**(9,684)**								**(9,684)**
Net income				**34,096**								**34,096**
Purchase of treasury stock	**(3)**				**(15)**							**(15)**
Net changes of items other than shareholders' equity						**3,812**	**(2)**	**33,278**	**(2,817)**	**20**	**(352)**	**33,939**
Balance at March 31, 2014	**189,875**	**¥ 38,716**	**¥ 52,104**	**¥ 353,601**	**¥ (24)**	**¥ 11,270**	**¥ (2)**	**¥ 43,377**	**¥ (2,817)**	**¥ 20**	**—**	**¥ 496,245**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Terumo Corporation and subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen	
	2014	2013
Net Cash Provided by (Used in) Operating Activities		
Income before income taxes and minority interests	¥ 52,908	¥ 52,285
Depreciation and amortization	30,322	24,603
Impairment loss	15,351	—
Amortization of goodwill	9,559	7,952
Equity in earnings of affiliates	(133)	(177)
Increase (decrease) in provision for retirement benefits	(1,248)	(535)
Decrease (increase) in retirement benefit assets	(1,900)	—
Increase (decrease) in retirement benefit liabilities	1,506	—
Increase (decrease) in provision for directors' retirement benefits	(132)	(3)
Increase (decrease) in allowance for doubtful accounts	73	(96)
Increase (decrease) in provision for directors' bonuses	1	(18)
Interest and dividends income	(799)	(592)
Interest expense	1,543	1,304
Foreign exchange gains	(3,211)	(2,977)
Gain on transfer of businesses	(667)	(892)
Settlement income	(6,000)	—
Gain on sales of property, plant and equipment	(743)	(78)
Loss on disposal of property, plant and equipment	995	543
Payment of cash contributions to retirement benefit trust	(3,600)	—
Directors' retirement benefits	33	—
Loss on liquidation of businesses	740	—
Loss on information system failure	1,186	—
Loss on valuation of golf club memberships	—	3
Subsidy income	—	(876)
Environmental expenses	—	391
Decrease (increase) in notes and accounts receivable—trade	(507)	986
Decrease (increase) in inventories	(3,619)	(10,590)
Increase (decrease) in notes and accounts payable—trade	(1,096)	3,925
Other, net	4,850	(79)
Subtotal	95,412	75,079
Interest and dividends income received	1,020	842
Interest expenses paid	(1,522)	(1,330)
Income taxes paid	(2,876)	(24,322)
Settlement received	6,000	—
Payments for directors' retirement benefits	(33)	—
Payments for information system failure	(943)	—
Payments for environmental expenses	(798)	—
Subsidy received	—	1
Net cash provided by operating activities	96,260	50,270
Net Cash Provided by (Used in) Investing Activities		
Payments into time deposits	(767)	(561)
Proceeds from withdrawal of time deposits	1,183	2,803
Purchase of property, plant and equipment	(39,933)	(25,715)
Proceeds from sales of property, plant and equipment	953	322
Purchase of intangible assets	(4,961)	(6,759)
Payments for settlement of asset retirement obligations	(420)	(420)
Purchase of investment securities	(1,824)	(1,074)
Payments for acquisition of businesses	(1,828)	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(374)	(956)
Purchase of stock of subsidiaries	(1,519)	—
Proceeds from transfer of businesses	1,815	1,373
Other, net	(5,070)	(307)
Net cash used in investing activities	(52,745)	(31,294)
Net Cash Provided by (Used in) Financing Activities		
Proceeds from short-term debt	253	1,264
Repayments of short-term debt	(49)	(1,279)
Repayments of long-term debt	(4,007)	—
Net increase (decrease) in short-term debt	(18,000)	(42,000)
Proceeds from long-term debt	—	28,613
Repayments of finance lease obligations	(284)	(579)
Purchase of treasury stock	(15)	(5)
Cash dividends paid	(9,684)	(8,354)
Net cash used in financing activities	(31,786)	(22,340)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	5,603	4,736
Net Increase in Cash and Cash Equivalents	17,332	1,372
Cash and Cash Equivalents at Beginning of the Year	75,166	73,794
Cash and Cash Equivalents at End of the Year (Note 2)	¥ 92,498	¥ 75,166

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. The accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified five 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, transactions and unrealized profits 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 as of 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 translations are shown as "Foreign currency translation adjustments" in a separate component of net assets.

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

(d) Cash and Cash Equivalents

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

(e) Investments

The accounting standards for financial instruments require the Company to classify its securities into one of the following four categories: trading, held-to-maturity, available-for-sale securities or securities of unconsolidated subsidiaries and affiliates. Based on the classification, all securities are classified as either available-for-sale securities or securities of unconsolidated subsidiaries or affiliates and included in investment securities.

To comply with the accounting standards for financial instruments, available-for-sale securities with a market value are carried at market value. The difference, net of tax, between the acquisition cost and the carrying value of available-for-sale securities, including unrealized gains and losses, is recognized in "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.

(g) Property, Plant and Equipment

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

Buildings and structures:	3–60 years
Machinery, equipment and vehicles :	4–15 years

(h) Allowance for Doubtful Accounts

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

(i) Goodwill

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

(j) Intangible assets

Intangible assets are amortized on a straight-line basis.

Customer relationships is mainly amortized over 20 years which is the estimated useful life.

(k) Income Taxes

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

(l) Retirement Benefits

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

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

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

(m) Leases

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

(n) Derivatives and Hedge Accounting

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

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

Derivatives are stated at fair value.

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

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

(o) Appropriation of Retained Earnings

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

(p) Consumption Taxes

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

(q) Net Income and Cash Dividends per Common Stock

Basic 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.

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

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

(r) Research and Development Expenses

Research and development expenses are charged to income when incurred.

(s) Reclassification

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

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

ASBJ PITF No. 18 requires that accounting policies and procedures applied by a parent company and subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following five 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) Accounting for net income attributable to minority interests

(u) Accounting Periods of Consolidated Subsidiaries

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

(v) Accounting Standard for Retirement Benefits

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25, and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as retirement benefit liabilities or assets, as appropriate.

In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result, "Retirement benefit assets" of ¥2,573 million and "Retirement benefit liabilities" of ¥3,124 million have been recognized on the consolidated balance sheet at March 31, 2014, and accumulated other comprehensive income has decreased by ¥2,816 million. Net assets per share have decreased by ¥7.42.

(w) New Accounting Pronouncements

— Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)
— Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)
（Please also refer to the ASBJ homepage , which has a summary in English of the accounting standard.)

(1)Summary

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in earnings would be recognized within the net assets section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. In determining the method of attributing expected benefit to periods, the Standard now allows entities to choose the benefit formula basis or straight-line basis. The method of determining a discount rate has also been amended.

(2)Effective dates

Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

(3) Effect of application of the standard

The adoption of this accounting standards on the Company's consolidated financial statements for the fiscal year ending March 31, 2015 is expected to increase both "Operating income" and "Income before income taxes and minority interests" in the consolidated statement of income by ¥633 million.

2. CASH FLOW INFORMATION

The reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Cash and deposits	**¥ 95,619**	¥ 78,201
Time deposits with maturities exceeding 3 months	**(3,121)**	(3,035)
Cash and cash equivalents	**¥ 92,498**	¥ 75,166

In the year ended March 31, 2014, the Company's subsidiary acquired 100% of the outstanding shares of Terumo BCT Tibbi Cihazlar Dagitimve Hizmetleri A.S.. The acquisition was accounted for under the purchase method.

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

Terumo BCT Tibbi Cihazlar Dagitimve Hizmetleri A.S.

	Millions of yen
	2014
Current assets	**¥ 635**
Noncurrent assets	**303**
Goodwill	**56**
Current liabilities	**(593)**
Noncurrent liabilities	**(13)**
Foreign currency translation adjustment	**(2)**
Acquisition cost	**386**
Cash and cash equivalents of the subsidiary	**(12)**
Net cash payments for acquisition of the subsidiary	**¥ 374**

In the year ended March 31, 2014, the Company transferred the next generation implantable left ventricular assist system business. A breakdown of assets and liabilities of this business at the time of transfer was as follows:

	Millions of yen
	2014
Noncurrent assets	**¥ 961**
Current liabilities	**84**
Gain on transfer of businesses	**237**
Net cash proceeds from transfer of businesses	**¥ 1,282**

In the year ended March 31, 2014, the Company acquired the Estech CABG business. A breakdown of assets and liabilities of this business at the time of acquisition was as follows:

	Millions of yen
	2014
Current assets	**¥ 15**
Noncurrent assets	**1,400**
Goodwill	**463**
Foreign currency translation adjustment	**(50)**
Net cash payments for acquisition of businesses	**¥ 1,828**

In the year ended March 31, 2013, the Company's subsidiary acquired 100% of the outstanding shares of Medservice Sp.z.o.o. The acquisitions was accounted for under the purchase method.

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

Medservice Sp.z.o.o.

	Millions of yen
	2013
Current assets	¥ 697
Noncurrent assets	130
Goodwill	768
Current liabilities	(615)
Noncurrent liabilities	(24)
Acquisition cost	956
Cash and cash equivalents of the subsidiary	0
Net cash payments for acquisition of the subsidiary	¥ 956

In the year ended March 31, 2013, the Company transferred its domiciliary oxygen system business and domiciliary infusion pump business. A breakdown of assets and liabilities of the those businesses at the time of transfer was as follows:

	Millions of yen
	2013
Current assets	¥ 1,992
Noncurrent assets	170
Current liabilities	(1,010)
Noncurrent liabilities	(170)
Gain on transfer of businesses	892
Considerations received	1,874
Cash and cash equivalents of the transferred businesses	(501)
Net cash proceeds from transfer of businesses	¥ 1,373

3. INVENTORIES

Inventories at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen	
	2014	2013
Merchandise and finished goods	**¥ 60,035**	¥ 54,346
Work in process	**10,262**	9,265
Raw materials and supplies	**23,669**	21,569
	¥ 93,966	¥ 85,180

4. INVESTMENT SECURITIES

Investment securities at March 31, 2014 and 2013 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			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Gross amount (market value)
2014:				
Available-for-sale securities:				
Equity securities	**¥ 19,191**	**¥ 14,648**	**¥ (1,210)**	**¥ 32,629**
Others	**—**	**—**	**—**	**—**
	¥ 19,191	**¥ 14,648**	**¥ (1,210)**	**¥ 32,629**

	Millions of yen			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Gross amount (market value)
2013:				
Available-for-sale securities:				
Equity securities	¥ 19,188	¥ 8,240	¥ (710)	¥ 26,718
Others	—	—	—	—
	¥ 19,188	¥ 8,240	¥ (710)	¥ 26,718

The balances of investment securities of unconsolidated subsidiaries and the affiliates at March 31, 2014 and 2013 were ¥3,419 million and ¥3,390 million, respectively.

5. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2014 was unsecured bank borrowings in the amount of ¥260 million. The weighted-average interest rates applicable to the bank borrowings was 13.0% at March 31, 2014.

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

In order to facilitate efficient working capital management, the Company maintains committed lines of credit with four banks. The amount of unused credit available for immediate borrowing under these lines as of March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Total amount of committed lines	**¥ 15,000**	¥ 15,000
Amount borrowed	**—**	—
Amount available for borrowing	**¥ 15,000**	¥ 15,000

Long-term debt at March 31, 2014 and 2013 is summarized as follows:

	Millions of yen	
	2014	2013
Unsecured loans, principally from banks:		
Due 2015, weighted-average interest rate of 1.87%	**¥ 4,652**	¥ 3,762
Due 2016 to 2019, weighted-average interest rate of 1.14%	**¥ 76,770**	¥ 78,712
Total long-term debt	**¥ 81,422**	¥ 82,474

The aggregate of annual maturities of long-term debt at March 31, 2014 are as follows:

	Millions of yen
2015	**¥ 4,652**
2016	**4,642**
2017	**17,719**
2018	**7,204**
2019 and thereafter	**47,205**
	¥ 81,422

6. BONDS PAYABLE

The Company has issued the following bonds:

	Issuance date	Interest rate	Security	Maturity date	Millions of yen	
					2014	2013
3rd series unsecured straight bonds	March 2, 2012	0.352%	Unsecured	March 2, 2015	**¥ 40,000**	¥ 40,000
4th series unsecured straight bonds	March 2, 2012	0.504%	Unsecured	March 2, 2017	**¥ 40,000**	¥ 40,000

The aggregate of annual maturities of bonds payable at March 31, 2014 are as follows:

	Millions of yen
2015	**¥ 40,000**
2016	**—**
2017	**¥ 40,000**
2018	**—**
2019 and thereafter	**—**
	¥ 80,000

7. RETIREMENT BENEFITS

The Company and certain subsidiaries have defined benefit corporate pension plans.

In addition, certain foreign subsidiaries have also established defined contribution plans.

The Company has established a retirement benefit trust.

DEFINED BENEFIT PLANS

Movement in retirement benefit obligations are as follows:

	Millions of yen
	2014
Balance at April 1, 2013	¥ 85,362
Service cost	3,571
Interest cost	1,433
Actuarial gain	(2,491)
Benefits paid	(1,868)
Foreign translation adjustment	1,729
Other	(241)
Balance at March 31, 2014	¥ 87,495

Movements in plan assets are as follows:

	Millions of yen
	2014
Balance at April 1, 2013	¥ 71,479
Expected return on plan assets	2,456
Actuarial gain	5,712
Contributions paid by the employer	7,679
Benefits paid	(1,840)
Foreign translation adjustment	1,360
Other	97
Balance at March 31, 2014	¥ 86,943

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

	Millions of yen
	2014
Funded retirement benefit obligations	¥ 86,790
Plan assets	(86,943)
	(153)
Unfunded retirement benefit obligations	705
Total Net liability (asset) for retirement benefits at March 31, 2014	¥ 552
Liabilities for retirement benefits	¥ 3,125
Assets for retirement benefits	(2,573)
Total net liability for retirement benefits at March 31, 2014	¥ 552

Retirement benefit costs consisted of the following:

	Millions of yen
	2014
Service cost	¥ 3,571
Interest cost	1,433
Expected return on plan assets	(2,456)
Net actuarial loss amortization	2,332
Past service costs amortization	(1,555)
Total retirement benefit costs for the year ended March 31, 2014	¥ 3,325

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

	Millions of yen
	2014
Past service costs that are yet to be recognized	¥ 1,125
Net actuarial losses that are yet to be recognized	(5,453)
Total balance at March 31, 2014	¥ (4,328)

A breakdown of plan assets by category is as follows:

	2014
Equity securities	50%
Bonds	43
Cash and cash equivalents	1
Other	6
Total	100%

19% of the total plan assets were held by a retirement benefit trust established to cover the corporate pension plan benefits.

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

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) are as follows:

	2014
Discount rate	1.2%
Long-term expected rate of return	3.0

DEFINED CONTRIBUTION PLANS

Certain foreign subsidiaries have defined contribution plans, which provide retirement benefits for their employees who meet certain eligibility requirements. Contributions made to those plans for the year ended March 31, 2014 were ¥901 million.

The plan's funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 are as follows:

	Millions of yen
	2013
Employee retirement benefits:	
Projected benefit obligation	¥ (85,362)
Plan assets at fair value	62,614
Retirement benefit trust at fair value	8,865
Projected benefit obligation in excess of plan assets	(13,883)
Unrecognized actuarial loss	16,116
Unrecognized prior service cost	(2,680)
Prepaid pension cost in other assets	801
Provision for retirement benefits	¥ (1,248)

Retirement benefit expenses for the year ended March 31, 2013 consisted of the following:

	Millions of yen
	2013
Service cost for benefits earned, net of employee contributions	¥ 2,818
Interest cost on retirement benefit obligation	1,721
Expected return on plan assets	(1,781)
Amortization of unrecognized actuarial loss	2,420
Amortization of unrecognized prior service cost	(1,554)
Retirement benefit expenses	¥ 3,624

Several consolidated overseas subsidiaries have defined contribution plans, which provide retirement benefits for their employees who meet certain eligibility requirements. Expenses under the plans for the year ended March 31, 2013 was ¥1,619 million.

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

	2013
Method of the benefit attribution	"Benefit / year-of-service" approach
Discount rate	Mainly 1.2%
Expected 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

8. INCOME TAXES

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax, which in the aggregate resulted in a statutory tax rate of 38.0% in the year ended March 31, 2014 and 2013.

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 and minority interests for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen	
	2014	2013
Japanese statutory effective income tax rate	**38.0%**	38.0%
Increase (reduction) in income taxes resulting from:		
Expenses not deductible for tax purposes	**0.9**	1.1
Dividends income, non-taxable	**(0.2)**	(34.7)
Income of foreign subsidiaries taxed at lower rate than Japanese normal tax rate	**(3.2)**	(3.7)
Amortization of goodwill	**6.8**	5.7
R&D tax credit	**(7.4)**	(0.8)
Valuation allowance	**1.5**	0.2
Changes in tax rates	**0.9**	—
Deferred tax effect on unrealized profit	**(3.4)**	3.7
Other	**1.6**	0.5
Effective income tax rate after adoption of tax-effect accounting	**35.5%**	10.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2014 and 2013 are presented below:

	Millions of yen	
	2014	2013
Deferred tax assets:		
Provision for retirement benefits	**¥ —**	¥ 6,428
Retirement benefit liabilities	**7,639**	—
Research and development expenses	**858**	2,260
Unrealized profit in inventories and property, plant and equipment	**4,219**	1,141
Accrued expenses	**6,368**	4,762
Impairment loss	**5,455**	302
Loss on valuation of investment securities	**2,970**	2,970
Inventories	**1,793**	1,005
Net operating loss carryforwards	**1,742**	3,380
Other	**2,697**	3,794
Total gross deferred tax assets	**33,741**	26,042
Less: valuation allowance	**(6,279)**	(4,792)
Net deferred tax assets	**27,462**	21,250
Deferred tax liabilities:		
Gain on contribution of securities to retirement benefit trust	**(1,911)**	(1,912)
Intangible assets	**(50,620)**	(48,956)
Valuation difference on available-for-sale securities	**(2,168)**	(71)
Other	**(2,989)**	(3,594)
Total gross deferred tax liabilities	**(57,688)**	(54,533)
Net deferred tax liabilities	**¥ (30,226)**	¥ (33,283)

Deferred tax liabilities-current included in “Other current liabilities” were ¥94 million and ¥35 million as of March 31, 2014 and 2013.

(Adjustment of deferred tax assets and liabilities for the enacted changes in tax laws and rates)

On March 31, 2014, amendments to the Japanese tax regulations were enacted into law under which the special corporate tax for reconstruction was abolished one year earlier than originally enacted. As a result of these amendments, the statutory income tax rate for the Company and domestic subsidiaries will be reduced to 35.6% for years beginning on or after April 1, 2014. Due to this change in the statutory income tax rate, net deferred tax assets decreased by ¥498 million as of March 31, 2014 and deferred tax expense recognized for the year ended March 31, 2014 increased by ¥498 million.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Promotion and advertising expenses	**¥ 14,238**	¥ 12,495
Salaries and allowances	**63,829**	53,206
Freight and packing expenses	**10,547**	10,177
Research and development expenses	**30,130**	27,129
Depreciation and amortization	**22,748**	18,258

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2014 and 2013 were ¥30,130 million and ¥27,129 million, respectively.

11. GAIN ON SALES OF PROPERTY, PLANT AND EQUIPMENT

A breakdown of gain on sales of property, plant and equipment assets is as follows:

	Millions of yen	
	2014	2013
Buildings and structures	**¥ 511**	¥ —
Machinery, equipment and vehicles	**13**	35
Land	**212**	43
Other	**7**	0
	¥ 743	¥ 78

12. LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

A breakdown of loss on disposal of property, plant and equipment assets is as follows:

	Millions of yen	
	2014	2013
Buildings and structures	**¥ 126**	¥ 222
Machinery, equipment and vehicles	**496**	221
Other	**373**	100
	¥ 995	¥ 543

13. IMPAIRMENT LOSS

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

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.

The Company and subsidiaries assess fixed assets for recoverability on the basis of the above asset groups. In the year ended March 31, 2014, since the profitability or utility which was originally expected of certain asset groups deteriorated, their carrying amounts were reduced to the respective recoverable amounts. As a result, the Company and subsidiaries recognized a total of ¥15,351 million in impairment loss on the following groups of assets:

	Use	Location	Classification
2014:	Cardiac & Vascular Business Manufacturing facilities etc	Michigan, U.S.A. etc	Machinery, equipment and vehicles, Buildings and structures etc
	General Hospital Business Manufacturing facilities etc	Shizuoka Prefecture, Japan etc	Machinery, equipment and vehicles etc
	Blood Management Business Manufacturing facilities etc	Colorado, U.S.A. etc	Machinery, equipment and vehicles, Other assets of Investments and Other Assets
	Common system of Headquarters	Tokyo Prefecture,Japan	Other assets of Investments and Other Assets

*A breakdown of impairment loss for each asset group by fixed asset type is as follows: (millions of yen)

- Cardiac & Vascular Business / Manufacturing facilities etc
  ¥7,595 (Machinery, equipment and vehicles ¥3,136, Other assets (Investments and Other Assets) ¥1,893, Buildings and structures ¥875, Construction in progress ¥702, Goodwill ¥518, Other ¥471)
- General Hospital Business / Manufacturing facilities etc
  ¥3,454 (Machinery, equipment and vehicles ¥3,299, Other ¥155)
- Blood Management Business / Manufacturing facilities etc
  ¥1,966 (Machinery, equipment and vehicles ¥991, Other assets (Investments and Other Assets) ¥785, Other ¥190)
- Common system of Headquarters
  ¥2,336 (Other assets (Investments and Other Assets) ¥2,336)

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

With respect to the asset groups within General Hospital Business, the recoverable amounts were measured using the value-in-use based on estimated future cash flows discounted at a rate of 13.1%.

With respect to the asset groups within Blood Management Business segment, the recoverable amounts were measured using either the value-in-use based on estimated future cash flows discounted at a rate of 13.1%, or the net selling price.

With respect to the Common system of Headquarters, since its expected economic benefit became uncertain, an impairment loss was recognized as above.

14. TREASURY STOCK

At March 31, 2014 and 2013, the Company holds 6 thousand and 3 thousand shares of the treasury stock for an aggregate cost of ¥24 million and ¥9 million, respectively.

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 by the Board of Directors.

15. NET ASSETS

Under the Japanese Corporate Law ("the Law") 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. In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of capital stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit 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 Law, 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 the Law and regulations.

Dividends applicable to the years ended March 31, 2014 and 2013 are as follows:

YEAR ENDED MARCH 31, 2014

Dividends paid

		Millions of yen	Yen		
Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Annual shareholders' meeting held on June 26, 2013	**Common stock**	**¥ 4,177**	**¥ 22.00**	**March 31, 2013**	**June 27, 2013**
Board of Directors meeting held on November 6, 2013	**Common stock**	**5,506**	**29.00**	**September 30, 2013**	**December 9, 2013**

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

		Millions of yen		Yen		
Resolution	Class of shares	Total amount of dividends	Funds of dividends	Dividends per share	Record date	Effective date
Annual shareholders' meeting held on June 24, 2014	**Common stock**	**¥ 5,506**	**Retained earnings**	**¥ 29.00**	**March 31, 2014**	**June 25, 2014**

YEAR ENDED MARCH 31, 2013

Dividends paid

		Millions of yen	Yen		
Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Annual shareholders' meeting held on June 28, 2012	Common stock	¥ 4,177	¥ 22.00	March 31, 2012	June 29, 2012
Board of Directors meeting held on October 30, 2012	Common stock	4,177	22.00	September 30, 2012	December 7, 2012

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

		Millions of yen		Yen		
Resolution	Class of shares	Total amount of dividends	Funds of dividends	Dividends per share	Record date	Effective date
Annual shareholders' meeting held on June 26, 2013	Common stock	¥ 4,177	Retained earnings	¥ 22.00	March 31, 2013	June 27, 2013

16. STOCK OPTION

The stock options outstanding as of March 31, 2014 are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
		(Shares)		(Yen)	
2013 Stock Option	**7 directors 6 employees**	**23,771**	**Aug 22, 2013**	**¥ 1**	**From Aug 23, 2013 to Aug 22, 2043**

The stock option activity is as follows:

For the year ended March 31, 2014	2013 Stock Option
	(Shares)
Non-vested	
March 31, 2013 - Outstanding	**—**
Granted	**23,771**
Canceled	**—**
Vested	**—**
March 31, 2014 - Outstanding	**23,771**
	(Yen)
Exercise price	**¥ 1**
Average stock price at exercise	**—**
Fair Value price at grant date	**¥ 4,180**

THE ASSUMPTIONS USED TO MEASURE FAIR VALUE OF 2013 STOCK OPTION

Valuation method:	**Black - Scholes option pricing model**
Volatility of stock price:	**34.81%**
Estimated remaining outstanding period:	**13.4 years**
Estimated dividend (Yen):	**¥ 44 per share**
Risk-free interest rate:	**1.08%**

17. LEASES

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

Proforma amounts of such financing leases accounted for as operating leases at March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Acquisition costs	**¥ —**	¥ 79
Less: accumulated depreciation	**—**	74
Net book value	**¥ —**	¥ 5

Acquisition costs include the interest component since the amount of future minimum lease payments as compared to the year-end balance of property, plant and equipment is not significant.

Future minimum payments required under such finance leases at March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Within one year	**¥ —**	¥ 5
Over one year	**—**	—
	¥ —	¥ 5

The lease expenses for such finance leases for the years ended March 31, 2014 and 2013 amounted to ¥4 million and ¥48 million, respectively.

The depreciation amount calculated by straight-line method over the lease terms without residual value were ¥4 million and ¥48 million, respectively, for the years ended March 31, 2014 and 2013.

Future lease payments include the interest component since the amount of future minimum lease payments as compared to the year-ended balance of property, plant and equipment is not significant.

The minimum rental commitments under noncancellable operating leases at March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Within one year	**¥ 363**	¥ 290
Over one year	**655**	730
	¥ 1,018	¥ 1,020

18. FINANCIAL INSTRUMENTS

1. Qualitative information on financial instruments

(A) POLICIES FOR USING FINANCIAL INSTRUMENTS

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

(B) DESCRIPTION OF FINANCIAL INSTRUMENTS USED AND THEIR EXPOSURES TO RISKS

Trade receivables, including notes and accounts receivable, are exposed to customer credit risk, and trade receivables in foreign currencies are also affected by foreign exchange rate fluctuations. The Company and subsidiaries utilize forward exchange contracts and foreign-currency denominated payables to hedge their exposures to foreign exchange fluctuations related to foreign-currency denominated trade receivables. Investment securities mainly consist of the shares of business partners held for business and capital alliances, and are exposed to the risk of stock price fluctuations. Long-term debt and bonds payable were issued to finance a part of acquisition funds of CaridianBCT Holding Corp. in the previous period and capital expenditures in property, plant, and equipment. Long-term debt with variable interest rates is exposed to the risk of interest rate fluctuations, and interest rate swaps are used for certain long-term debt in order to hedge its risk. A part of long-term debt is denominated in foreign currencies, and is therefore exposed to a foreign currency rate fluctuation risk.

On the other hand, most trade payables, including notes and accounts payable, have a short maturity of one year or less. Though a portion of trade payables arising from imports of raw materials are denominated in foreign currencies, the amount of such foreign-currency denominated trade payables is within the balance of accounts receivable denominated in the same foreign currencies.

The Company enters into forward exchange contracts to hedge against the risk of fluctuations in foreign currency exchange rates associated with certain trade receivables and payables in foreign currencies and forecast transactions in foreign currencies, and interest rate swaps to hedge against the risk of fluctuations in interest rates associated with debt with variable interest. For more information on the use of hedge accounting, such as hedging instruments, hedged items and the hedge policy, including the evaluation of hedge effectiveness, please refer to “Summary of Significant Accounting Policies,” (n) Derivatives and Hedge Accounting.

(C) POLICIES AND PROCEDURES FOR MANAGING THE RISKS

i. Management of Credit Risk

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

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

ii. Management of Market Risk

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

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

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

iii. Management of Funding and Liquidity Risk

The Treasury Department administers liquidity risk management by forecasting and updating the Company’s cash flow plan according to reports from each Department in the Company.

(D) SUPPLEMENTAL INFORMATION ON FAIR VALUES

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

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

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

2. Fair value of financial instruments

The book carrying amount of the financial instruments included in the consolidated balance sheets and their fair value at March 31, 2014 and 2013 are as follows:

	Millions of yen		
	Carrying Amount	Fair value	Difference
2014:			
Assets:			
Cash and deposits	**¥ 95,619**	**¥ 95,619**	**¥ —**
Notes and accounts receivable—trade	**101,520**	**101,520**	**—**
Investment securities			
Available-for-sale securities	**32,629**	**32,629**	**—**
Total	**¥ 229,768**	**¥ 229,768**	**—**
Liabilities:			
Notes and accounts payable—trade	**¥ 38,148**	**¥ 38,148**	**—**
Short-term debt	**260**	**260**	**—**
Notes and accounts payable—facilities included in other current liabilities	**8,426**	**8,426**	**—**
Bonds payable(*1)	**80,000**	**80,364**	**364**
Long-term debt(*1)	**81,422**	**81,610**	**188**
Total	**¥ 208,256**	**¥ 208,808**	**¥ 552**
Derivatives:(*2)			
Total	**¥ (117)**	**¥ (117)**	**¥ —**

	Millions of yen		
	Carrying Amount	Fair value	Difference
2013:			
Assets:			
Cash and deposits	¥ 78,201	¥ 78,201	¥ —
Notes and accounts receivable—trade	95,008	95,008	—
Investment securities			
Available-for-sale securities	26,718	26,718	—
Total	¥ 199,927	¥ 199,927	¥ —
Liabilities:			
Notes and accounts payable—trade	¥ 37,515	¥ 37,515	¥ —
Short-term debt	18,046	18,046	—
Notes and accounts payable—facilities included in other current liabilities	6,625	6,625	—
Bonds payable(*1)	80,000	80,512	512
Long-term debt(*1)	82,474	83,066	592
Total	¥ 224,660	¥ 225,764	¥ 1,104
Derivatives:(*2)			
Total	¥ (914)	¥ (914)	¥ —

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

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

Assets:

Cash and deposits, Notes and accounts receivable-trade

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

Investment securities

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

Liabilities:

Notes and accounts payable—trade

Short-term debt, Notes and accounts payable—facilities

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

Bonds payable

The fair value is estimated based on quoted market prices.

Long-term debt

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

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

Derivatives:

Please refer to Note 19 Foreign Exchange Risk Management.

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

	Millions of yen	
	2014	2013
Unlisted stocks	**¥ 1,907**	¥ 197
Investment securities of unconsolidated subsidiaries and affiliates	**3,419**	3,390

The amount of maturities within one year from the year-end is ¥95,619 million of Cash and deposit and ¥101,520 million of Notes and accounts receivable—trade as of March 31, 2014.

The amount of maturities within one year from the year-end is ¥78,201 million of Cash and deposit and ¥95,008 million of Notes and accounts receivable—trade as of March 31, 2013.

19. FOREIGN EXCHANGE RISK MANAGEMENT

At March 31, 2014 and 2013, outstanding foreign currency exchange 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, 2014 and 2013 are set forth below.

Derivatives not designated as hedges:	Millions of yen	
Foreign currency forward contracts	**2014**	2013
Sell		
Contract amount	**¥ 7,365**	¥ 6,081
Fair value	**(114)**	(900)
Unrealized gain (loss)	**(114)**	(900)
Buy		
Contract amount	**¥ 176**	¥ 768
Fair value	**1**	(14)
Unrealized gain (loss)	**1**	(14)
Net amount of unrealized gain (loss) by sell and buy	**¥ (113)**	¥ (914)

Derivatives designated as qualified hedging instrument:	Millions of yen	
Foreign currency forward contracts	**2014**	2013
Sell		
Contract amount	**¥ 613**	¥ —
Fair value	**(4)**	—
Buy		
Contract amount	**¥ —**	¥ —
Fair value	**—**	—
Total amount of fair value	**¥ (4)**	¥ —

Derivatives designated as qualified hedging instrument:	Millions of yen	
Interest rate swaps	**2014**	2013
National amount	**¥ 20,000**	¥ 20,000
Fair value	**(*1)**	(*1)

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

20. ASSET RETIREMENT OBLIGATIONS

For asset retirement obligations, the amount recorded in the consolidated balance sheet are as follows:

(A) NATURE OF ASSET RETIREMENT OBLIGATIONS

The Company recognizes asset retirement obligations for the costs of building demolition work and soil clean up under a real estate sales agreement for the headquarters' land.

(B) CALCULATION METHOD OF THE ASSET RETIREMENT OBLIGATIONS

The period to retirement was estimated either 1 year or 10 years from the acquisition, and the obligations are discounted at a rate of 1.36% (for other than those with one-year life) to calculate the amount of asset retirement obligations.

(C) CHANGE IN ASSET RETIREMENT OBLIGATIONS

Since the respective amounts for the year ended March 31, 2014 are immaterial, information on the changes in asset retirement obligation has been omitted.

	millions of yen
	2013
Balance at beginning of the year	¥ 993
Changes in estimate obligations	—
Accretion due to the passage of time	3
Decrease due to settlement of asset retirement obligations	(420)
Balance at end of the year	¥ 576

21. CONTINGENCIES

The Company and subsidiaries had no significant contingent liabilities at March 31, 2014 and 2013.

22. SUBSEQUENT EVENT

The Company executed a stock split effective April 1, 2014, according to the resolution of the Board of Directors' meeting on February 4, 2014.

Details of the stock split are as follows:

1. Purpose of stock split

The stock split was implemented with the aim of increasing the liquidity of the Company's stock and expanding its investor base by reducing the price per share-trading unit.

2. Method of the stock split

Each share of common stock held by shareholders recorded on the shareholders registry as of March 31, 2014, was split into 2 shares on April 1, 2014.

3. Increase in the number of shares due to the stock split

Common stock 189,880,260 shares

Per share data has been adjusted retrospectively to reflect the effect of the two-for-one stock split effective April 1, 2012.

23. SEGMENT INFORMATION

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

The Company is organized into business units, called the internal companies, which are classified according to product groups. Each internal company headquarters plans comprehensive business strategies for its products in Japan and overseas, and conducts its own business activities.

Accordingly, the Company has three reportable segments on the basis of its internal companies; General Hospital Business, Cardiac & Vascular Business, and Blood Management Business. Effective from the year ended March 31, 2013, the Company integrated the Consumer Healthcare Business segment into the General Hospital Business segment.

The accounting policies applied to the reportable segments are generally the same as those described in the summary of significant accounting policies except for inventories which are valued at the amount before adjustment to their net realizable value. The Company adopted operating income (loss) as the measure of segment income (loss).

(Note) Changes in the composition of segments

Sales and expenses related to the domiciliary oxygen system business and the domiciliary infusion pump business which were transferred in the previous fiscal year, and the next generation implantable left ventricular assist system business which was entered into a strategic alliance in this fiscal year are allocated to “Adjustments.” The segment information for the year ended March 31, 2013 has been reclassified retrospectively giving effect to these changes.

As a result of the changes, compared to the reported amounts based on the previous classification, the segment income for the year ended March 31, 2013 has increased; General Hospital Business by ¥366 million, Cardiac & Vascular Business by ¥3,641 million, and Blood Management Business by ¥39 million. On the other hand, the income under “Adjustment” has decreased by ¥4,046 million accordingly.

(A) REPORTABLE SEGMENTS

Reportable segment information for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Sales:		
General Hospital Business	**¥ 164,090**	¥ 155,010
Cardiac & Vascular Business	**210,558**	169,678
Blood Management Business	**92,744**	74,746
	467,392	399,434
Adjustment	**(32)**	2,860
	¥ 467,360	¥ 402,294
Segment income (loss):		
General Hospital Business	**¥ 20,798**	¥ 23,647
Cardiac & Vascular Business	**41,950**	27,282
Blood Management Business	**4,281**	2,044
	67,029	52,973
Adjustment	**(1,740)**	243
	¥ 65,289	¥ 53,216
Segment assets:		
General Hospital Business	**¥ 171,317**	¥ 168,316
Cardiac & Vascular Business	**237,447**	219,297
Blood Management Business	**327,087**	308,322
	735,851	695,935
Adjustment	**96,963**	75,097
	¥ 832,814	¥ 771,032
Depreciation and amortization:		
General Hospital Business	**¥ 8,661**	¥ 7,766
Cardiac & Vascular Business	**8,988**	5,891
Blood Management Business	**11,812**	10,477
	29,461	24,134
Adjustment	**861**	469
	¥ 30,322	¥ 24,603
Amortization of goodwill:		
General Hospital Business	**¥ –**	¥ –
Cardiac & Vascular Business	**1,979**	1,767
Blood Management Business	**7,580**	6,185
	9,559	7,952
Adjustment	**–**	–
	¥ 9,559	¥ 7,952
Capital expenditures:		
General Hospital Business	**¥ 13,038**	¥ 12,795
Cardiac & Vascular Business	**22,022**	12,868
Blood Management Business	**10,562**	6,564
	45,622	32,227
Adjustment	**1,002**	936
	¥ 46,624	¥ 33,163

The adjustment to segment income (loss) consists of ¥ (129) million for Inventories and ¥ (1,611) million for other for the year ended March 31, 2014.

The adjustment to segment income (loss) consists of ¥584 million for Inventories and ¥ (341) million for other for the year ended March 31, 2013.

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

(RELEVANCE INFORMATION)

(a) INFORMATION OF EACH GOODS AND SERVICES:

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

(b) INFORMATION ON GEOGRAPHIC AREA

	Millions of yen	
	2014	2013
Sales to customers recognized by sales destination:		
Japan	**¥ 189,042**	¥ 185,914
Europe	**96,893**	75,394
North and South America	**110,973**	87,941
Asia and Others	**70,452**	53,045
	¥ 467,360	¥ 402,294
Property, plant and equipment:		
Japan	**¥ 105,401**	¥ 99,276
Europe	**10,712**	9,240
North and South America	**17,722**	19,126
Asia and Others	**23,920**	17,183
	¥ 157,755	¥ 144,825

The sales to customers in North and South America consist of ¥91,771 million for the United States of America and ¥ 19,202 million for other countries and areas for the year ended March 31, 2014.

Since there is no single country or area that accounts for 10% or more of total property, plant and equipment, information by country or area on property, plant and equipment has been omitted.

The sales to customers in North and South America consist of ¥73,066 million for the United States of America and ¥14,875 million for other countries and areas for the year ended March 31, 2013.

The property, plant and equipment of North and South America consists of ¥18,116 million for the United States of America and ¥1,010 million for other countries and areas for the year ended March 31, 2013.

(c) INFORMATION ON MAJOR EXTERNAL CUSTOMERS

There were no sales to a single external customer exceeding 10% of consolidated net sales for the year ended March 31, 2014.

(d)INFORMATION ON IMPAIRMENT LOSS BY REPORTABLE SEGMENTS

	Millions of yen	
	2014	2013
Impairment loss:		
General Hospital Business	**¥ 3,454**	¥ –
Cardiac & Vascular Business	**7,595**	–
Blood Management Business	**1,966**	–
	13,015	–
Adjustment	**2,336**	–
	¥ 15,351	¥ –

(e)INFORMATION ON GOODWILL BY REPORTABLE SEGMENTS

	Millions of yen	
Balance at end of the year	**2014**	2013
General Hospital Business	**¥ –**	¥ –
Cardiac & Vascular Business	**21,663**	22,397
Blood Management Business	**132,498**	126,925
	154,161	149,322
Adjustment	**–**	–
	¥ 154,161	¥ 149,322

24. BALANCES AND TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Since the respective amounts as of and for the year ended March 31, 2014 are immaterial, information on balances and transactions with unconsolidated subsidiaries and affiliated companies has been omitted.

Balances as of March 31, 2013 and transactions for the years ended March 31,2013 with unconsolidated subsidiaries and affiliated companies are summarized as follows:

	Millions of yen
	2013
Other current assets:	
Terumo Business Support Corporation	¥ 5
Terumo Human Create Corporation	1
Terumo BSN K.K.	40
Accounts payable and other current liabilities:	
Terumo Business Support Corporation	¥ 30
Terumo Human Create Corporation	128
Terumo BSN K.K.	183
Olympus Terumo Biomaterials Corp.	6

	Millions of yen
	2013
Income from other services:	
Terumo BSN K.K.	¥ 21
Purchase:	
Terumo BSN K.K.	¥ 1,071
Olympus Terumo Biomaterials Corp.	23
Insurance and other expenses:	
Terumo Business Support Corporation	¥ 1,137
Terumo Human Create Corporation	1,414

25. OTHER COMPREHENSIVE INCOME

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

	Millions of yen	
	2014	2013
Valuation difference on available-for-sale securities:		
Increase (decrease) during the year	**¥ 5,908**	¥ 8,743
Reclassification adjustments	**—**	—
Sub-total, before tax	**5,908**	8,743
Tax (expense) or benefit	**(2,097)**	(1,233)
Sub-total, net of tax	**3,811**	7,510
Deferred gains or losses on hedges:		
Increase (decrease) during the year	**(75)**	(349)
Reclassification adjustments	**72**	346
Sub-total, before tax	**(3)**	(3)
Tax (expense) or benefit	**1**	1
Sub-total, net of tax	**(2)**	(2)
Foreign currency translation adjustments:		
Increase (decrease) during the year	**33,234**	39,157
Reclassification adjustments	**—**	—
Sub-total, before tax	**33,234**	39,157
Tax (expense) or benefit	**—**	—
Sub-total, net of tax	**33,234**	39,157
Share of other comprehensive income of associates accounted for using equity method:		
Increase (decrease) during the year	**(3)**	3
Reclassification adjustments	**—**	—
Sub-total, before tax	**(3)**	3
Tax (expense) or benefit	**—**	—
Sub-total, net of tax	**(3)**	3
Total other comprehensive income	**¥ 37,040**	¥ 46,668

Independent Auditor's Report

To the Board of Directors of Terumo Corporation:

We have audited the accompanying consolidated financial statements of Terumo Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Terumo Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 25, 2014
Tokyo, Japan