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## **Operating Results and Financial Position (for the Six Months Ended September 30, 2006)**

### **1. Operating Results**

#### **[Overview]**

During the six months under review, the Japanese economy trended along a recovery path supported by improved corporate profits and the ensuing recovery in capital expenditures, despite rising crude oil and raw material prices. Overseas, the U.S. economy as a whole showed steady growth on the back of capital expenditures in the private sector, while expansion of consumer spending slowed. European economies saw a gradual recovery while Asia experienced continued growth in China and other economies.

Given such economic conditions and under its medium term management plan set out for the period starting from April 2005 through March 2008, the Shimadzu Group pursued further globalization and drove forward structural reform of business operations focused on production, sales and service reforms, while focusing efforts on expanding sales of new products to address customer needs.

As a result, Group consolidated net sales for the six months increased 4.5% from the same period of the previous fiscal year to ¥119,973 million. Overseas sales expanded 19.0% to ¥44,213 million. Ordinary income grew 22.3% to ¥9,981 million while net income amounted to ¥5,790 million, up 13.7% from a year earlier.

#### **[Geographic Segment Information]**

By geographic segment, Japan operations for the period under review suffered from slumping domestic demand for aircraft equipment, while demand backed by recovery in capital expenditure in the private sector was strong. Exports on the whole performed well, led by those of analytical and measuring instruments. As a result, net sales in Japan declined 2.9% from the same period a year earlier to ¥85,934 million while operating income grew 7.9% to ¥12,271 million.

In North and South America, net sales jumped 51.9% to ¥9,780 million and operating income surged 87.1% to ¥550 million, helped by strong performance in analytical and measuring instruments and growing demand for medical systems.

In Europe, net sales increased 7.6% to ¥7,971 million while operating income fell 4.9% to ¥462 million on the back of solid performance in analytical and measuring instruments.

In Asia and Oceania, net sales increased 30.1% to ¥16,287 million and operating income grew 35.0% to ¥1,546 million, reflecting strong performance in analytical and measuring instruments and medical systems.

## **[Industry Segment Information]**

### **I. Analytical and Measuring Instruments**

In the domestic market, solid performance came primarily from chromatographs, mass spectrometers, X-ray fluorescence spectrometers, spectrometers, and material testing machines, reflecting growing private sector capital expenditures. Overseas performance was robust primarily in Asia and Europe, partly on continued strength in demand relating to WEEE and RoHS (European Union regulations on hazardous substances) in Asia.

As a result, segment net sales for the period increased 8.9% to ¥69,397 million from the same period a year earlier. Operating income amounted to ¥11,741 million, an increase of 18.4%.

### **II. Medical Systems**

In the domestic market, X-ray equipment products including X-ray TV systems delivered strong performance. Elsewhere, medical systems showed particularly robust performance in Asia and North America. As a result, net sales for the segment grew 11.6% to ¥23,504 million, while operating income surged 421.5% to ¥1,219 million.

### **III. Aircraft Equipment and Industrial Machinery**

In the aircraft equipment segment, the domestic market remained stagnant amid a difficult business environment resulting from defense budget constraints by the Japanese government.

In the industrial machinery segment, domestic operations saw growing demand for hydraulic equipment and turbomolecular pumps, while demand for CVD equipment for solar panel declined. Overseas, demand for industrial machinery grew in Asia and North America.

As a result, net sales for the segment declined 9.0% to ¥24,664 million and operating income fell 23.8% to ¥1,757 million.

### **IV. Other**

Net sales for the segment declined 18.7% to ¥2,408 million while operating income jumped 49.4% to ¥954 million.

## **2. Financial Position**

### [Total Assets and Shareholders' Equity]

Total assets at the end of the six months stood at ¥275,545 million, representing a decline of ¥1,506 million from the end of the previous fiscal year. This is primarily due to a decrease in cash and deposits by ¥7,511 million and increases in inventories by ¥4,922 million and construction in progress by ¥1,482 million, respectively. Net assets increased ¥3,954 million to ¥134,120 million, as retained earnings grew by ¥4,519 million while the net unrealized gain on securities available-for-sale declined by ¥587 million.

### [Cash Flow Position]

Net cash provided by operating activities at the end of the six months under review improved ¥4,789 million from the previous same period to ¥4,312 million, owing chiefly to a ¥3,201 million decline in income taxes paid, etc.

Net cash used in investing activities increased ¥2,518 million to ¥4,585 million. A primary factor was the purchases of property, plant and equipment and other assets in the amount of ¥3,923 million.

Net cash used in financing activities increased ¥1,249 million to ¥7,229 million, due primarily to net repayment of loans in the amount of ¥6,152 million and ¥1,030 million in cash dividends paid.

As a result of these factors, cash and cash equivalents at the end of the six months under review declined ¥7,408 million from the end of the previous fiscal year to ¥24,517 million.

### [Trend of Cash Flow Indicators]

Fiscal year ended:	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	Sept 30, 2006
Equity ratio (%)	33.0	33.4	36.7	46.8	48.5
Market value equity ratio (%)	33.1	53.4	64.9	79.0	97.4
Debt redemption (years)	3.6	5.2	3.6	3.3	4.2
Interest coverage ratio	15.9	10.4	16.9	18.5	12.9

Notes:

Equity ratio: (Net asset – minority interests)/total assets

Market value equity ratio: Market capitalization/total assets

Debt redemption: Interest-bearing debt/cash flow from operating activities

Interest coverage ratio: Cash flow from operating activities/interest payment

1. All indices are calculated using consolidated figures.
2. Market capitalization is calculated by multiplying the closing price of the company's stock at the year-end by the number of shares issued and outstanding at the year-end (excluding treasury stock).
3. Cash flows from operating activities are computed using cash flows from operating activities listed in the consolidated cash flow statements. Interest-bearing debt consists of all interest-bearing liabilities included in liabilities listed in the consolidated balance sheet. Interest payments are based on the interest payments in the consolidated statements of cash flows.
4. When calculating the number of years for debt redemption as of the end of the first half, cash flow from operating activities is doubled to annualize the result.

### **3. Business Risks**

Business risks and other risks that could materially affect investors' investment decisions include, but are not limited to, the following:

(1) Domestic and overseas market trends

As about 60% of the Group's consolidated net sales are generated from its domestic operations, the Japanese government's domestic policy as well as domestic economic and capital expenditure trends may significantly affect the Group's business performance. In addition, the Group's products and services are marketed globally, thus economic and capital expenditure trends as well as the political and economic environments in each region may significantly affect the Group's business performance and financial condition.

(2) Impact of foreign exchange movements

The Group's operations include global production and sales of its products, and overseas sales account for about 40% of the Group's overall consolidated net sales. As a result, the value of overseas business results after translation into Japanese yen is subject to foreign exchange movements at the time of the translation. Although the Group strives to minimize this impact by means of forward foreign exchange contracts and other countermeasures, it cannot completely eliminate the risk of foreign exchange movements, which may significantly affect the Group's business performance and financial condition.

### **4. Outlook for the Fiscal Year Ending March 31, 2007**

For the fiscal year ending March 31, 2007, although the Japanese economy is expected to continue its recovery driven by the private sector, there are concerns regarding rising crude oil and raw material prices and higher interest rates as well as a slowdown in the U.S. economy, which may negatively affect the global economy.

Under this business environment, the Group will steadfastly implement initiatives to achieve new growth (Global Growth) and build a firm foundation for Group earnings (Structural Reform of Business Operations), which are the two basic policies of the Group's medium term management plan. Through implementation of the plan, the Group is pursuing further growth to become a truly global corporation.

#### **Outlook for the Fiscal Year Ending March 31, 2007**

(1) Consolidated Earnings Forecast (April 1, 2006 – March 31, 2007)

(Millions of yen)

	Results for the first six months		Forecast for the full year	
		Year-on-year change		Year-on-year change
Net sales	119,973	4.5%	253,000	4.3%
Operating income	11,251	24.7%	23,500	11.5%
Ordinary income	9,981	22.3%	20,500	11.9%
Net income	5,790	13.7%	11,500	1.6%

(2) Non-consolidated Earnings Forecast (April 1, 2006 – March 31, 2007)

(Millions of yen)

	Results for the first six months		Forecast for the full year	
		Year-on-year change		Year-on-year change
Net sales	79,234	1.1%	165,000	1.6%
Operating income	5,282	5.3%	12,000	4.0%
Ordinary income	5,745	1.3%	10,800	1.0%
Net income	3,651	-13.2%	6,200	-16.7%

\* The earnings forecasts given above are estimated based on information available at the time of the release of this report. Actual results may differ from these forecasts due to various factors including, but not limited to, economic conditions of the Group's major markets (Japan, North America, Europe and Asia, etc.), changes in demand for the Group's products and services, and foreign exchange movements.

## Consolidated Balance Sheets

(In million yen)

	As of September 30, 2006 (A)	As of September 30, 2005 (B)	(A) – (B)	As of March 31, 2006 (C)	(A) – (C)
<b>( Assets )</b>					
Current assets					
Cash and time deposits	25,094	22,005	3,088	32,606	-7,511
Deposit of the cash for unsecured bonds	-	16,335	-16,335	-	-
Trade notes and accounts receivable	77,306	74,728	2,577	79,408	-2,102
Marketable securities	88	87	1	92	-3
Inventories	65,002	58,414	6,588	60,080	4,922
Deferred tax assets	6,937	6,672	265	7,178	-240
Other	4,179	3,314	864	2,925	1,254
Allowance for doubtful receivables	-950	-1,537	587	-1,246	295
Total current assets	177,659	180,021	-2,362	181,046	-3,387
Noncurrent assets					
Property, plant and equipment:					
Buildings and structures	28,114	28,540	-425	28,124	-9
Machinery, equipment and vehicles	5,014	4,790	223	4,895	118
Land	18,972	18,980	-8	19,010	-38
Construction in progress	2,642	87	2,554	1,160	1,482
Other	6,706	5,877	828	6,401	305
Net property, plant and equipment	61,450	58,278	3,172	59,592	1,858
Intangible fixed assets	2,710	1,731	979	2,224	486
Investments and other assets:					
Investment securities	14,969	11,920	3,048	15,156	-186
Long-term receivables	805	2,064	-1,259	1,996	-1,191
Deferred tax assets	13,386	14,262	-876	13,494	-108
Other	4,852	4,933	-80	4,890	-37
Allowance for doubtful receivables	-287	-1,383	1,095	-1,348	1,060
Total investments and other assets	33,725	31,797	1,927	34,188	-463
Total noncurrent assets	97,886	91,806	6,079	96,005	1,880
Total assets	275,545	271,828	3,717	277,052	-1,506

(Amounts are rounded down to the nearest million yen)

(In million yen)

	As of September 30, 2006 (A)	As of September 30, 2005 (B)	(A) – (B)	As of March 31, 2006 (C)	(A) – (C)
<b>(Liabilities)</b>					
<b>Current liabilities</b>					
Trade notes and accounts payable	50,850	41,361	9,489	49,830	1,020
Short-term loans	9,433	17,092	-7,658	15,592	-6,159
Commercial paper	-	13,000	-13,000	-	-
Accounts payable, other	8,293	7,645	648	8,418	-124
Income taxes payable	3,391	3,812	-420	3,950	-559
Allowance for bonuses	5,566	5,209	356	5,526	39
Other	8,241	7,697	544	7,977	264
Total current liabilities	85,777	95,818	-10,040	91,296	-5,518
<b>Long-term liabilities</b>					
Unsecured bonds	25,000	25,000	-	25,000	-
Long-term debt	2,130	1,736	393	2,039	90
Liability for employees' retirement benefits	20,961	19,703	1,257	20,686	274
Liability for directors' retirement benefits	605	491	113	547	57
Other	6,951	7,469	-518	7,315	-364
Total long-term liabilities	55,647	54,401	1,246	55,589	58
Total liabilities	141,425	150,219	-8,794	146,885	-5,460
<b>Net assets</b>					
<b>Shareholders' capital</b>					
Common stock	26,648	-	-	-	-
Additional paid-in capital	35,188	-	-	-	-
Retained earnings	69,841	-	-	-	-
Treasury stock	-344	-	-	-	-
Total shareholders' capital	131,334	-	-	-	-
<b>Valuation and translation adjustments</b>					
Net unrealized gain on available-for-sale securities	5,163	-	-	-	-
Foreign currency translation adjustments	-2,909	-	-	-	-
Total valuation and translation adjustments	2,254	-	-	-	-
Minority interests	532	-	-	-	-
Total net assets	134,120	-	-	-	-
Total liabilities and net assets	275,545	-	-	-	-
Minority interests	-	356	-	507	-
<b>Shareholders' equity</b>					
Common stock	-	26,648	-	26,648	-
Additional paid-in capital	-	35,188	-	35,188	-
Retained earnings	-	60,134	-	65,322	-
Net unrealized gain on available-for-sale securities	-	3,769	-	5,750	-
Foreign currency translation adjustments	-	-4,233	-	-2,946	-
Treasury stock	-	-255	-	-304	-
Total shareholders' equity	-	121,252	-	129,659	-
Total liabilities, minority interests and shareholders' equity	-	271,828	-	277,052	-

(Amounts are rounded down to the nearest million yen)

## Consolidated Statements of Operations

(In million yen)

	Six months ended September 30, 2006		Six months ended September 30, 2005		Change		Year ended March 31, 2006	
	Amount (A)	%	Amount (B)	%	Amount (A) – (B)	%	Amount	%
Net sales	119,973	100.0	114,839	100.0	5,134	4.5	242,638	100.0
Cost of sales	71,621	59.7	71,850	62.6	-229	-0.3	151,062	62.3
Gross profit	48,352	40.3	42,988	37.4	5,363	12.5	91,576	37.7
Selling, general and administrative expenses	37,100	30.9	33,964	29.5	3,135	9.2	70,500	29.0
Operating income	11,251	9.4	9,024	7.9	2,227	24.7	21,076	8.7
Other income:								
Interest income	99		63		36		147	
Dividend income	77		63		13		95	
Foreign exchange gain, net	-		227		-227		270	
Other	616		318		297		947	
Total other income	793	0.6	673	0.5	119	17.8	1,461	0.6
Other expenses								
Interest expense	325		340		-14		699	
Loss on disposals of inventories	570		543		27		1,572	
Foreign exchange loss, net	150		-		150		-	
Other	1,016		649		367		1,944	
Total other expenses	2,063	1.7	1,533	1.3	529	34.6	4,217	1.7
Ordinary income	9,981	8.3	8,164	7.1	1,817	22.3	18,319	7.6
Extraordinary income:								
Gain on reversal of allowance for doubtful receivables	206		-		206		-	
Gain on sale of investment securities	68		4		63		5	
Gain on sale of property, plant and equipment	7		347		-339		351	
Total extraordinary income	282	0.2	352	0.3	-69	-19.7	356	0.1
Extraordinary losses:								
Patent fee for past year	534		-		534		-	
Loss on disposal of property, plant and equipment	123		84		39		232	
Loss on write-down of investment securities	107		8		99		189	
Loss on sale of investment securities	-		4		-4		4	
Loss on adoption of FRS17 by British subsidiaries	-		-		-		497	
Total extraordinary losses	766	0.6	97	0.1	668	685.1	924	0.4
Income before income taxes and minority interests	9,498	7.9	8,419	7.3	1,079	12.8	17,752	7.3
Income taxes								
Current	2,928		3,616		-688		7,839	
Deferred	749		-319		1,068		-1,448	
Minority interests in net income	29	0.0	28	0.0	1	6.1	45	0.0
Net income	5,790	4.8	5,093	4.4	696	13.7	11,316	4.7

(Amounts are rounded down to the nearest million yen)



## Consolidated Statements of Changes in Net Assets

Six months ended September 30, 2006 (April 1, 2006 – September 30, 2006)

(In million yen)

	Shareholders' capital					Valuation and translation adjustments			Minority interests	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total valuation & translation adjustments		
Balance as of March 31, 2006	26,648	35,188	65,322	-304	126,855	5,750	-2,946	2,803	507	130,166
Changes during the period										
Distribution of retained earnings			-1,033		-1,033					-1,033
Directors' bonuses from appropriation of profit			-228		-228					-228
Decrease in retained earnings due to an increase in the number of consolidated subsidiaries			-9		-9					-9
Net income			5,790		5,790					5,790
Purchase of treasury stock				-40	-40					-40
Net change in items other than shareholders' capital during the period					-	-587	37	-549	24	-524
Total changes during the period	-	-	4,519	-40	4,478	-587	37	-549	24	3,954
Balance as of September 30, 2006	26,648	35,188	69,841	-344	131,334	5,163	-2,909	2,254	532	134,120

(Amounts are rounded down to the nearest million yen)

## Consolidated Statements of Cash Flows

(In million yen)

	Six months ended September 30, 2006 (A)	Six months ended September 30, 2005 (B)	(A) - (B)	Year ended March 31, 2006
<b>I. Cash flows from operating activities:</b>				
Income before income taxes and minority interests	9,498	8,419	1,079	17,752
Depreciation and amortization	2,394	2,338	56	4,866
Increase/decrease in allowance for doubtful receivables	-219	112	-331	-240
Increase/decrease in allowance for bonuses	39	-30	70	286
Provision for/reversal of accrued retirement benefits for employees	274	486	-212	1,470
Interest and dividends income	-177	-126	-50	-242
Interest expense	325	340	-14	699
Foreign exchange gain/loss, net	-4	-19	15	-22
Net gain/loss on sale and valuation of investment securities	39	8	31	189
Net gain/loss on sale and disposal of property, plant and equipment	115	-262	378	-119
Increase/decrease in trade receivables	2,254	2,165	89	-1,697
Increase/decrease in inventories	-4,926	-1,468	-3,458	-2,180
Increase/decrease in trade payables	1,058	-5,886	6,945	1,776
Other, net	-2,689	382	-3,071	1,815
Subtotal	7,983	6,459	1,524	24,352
Interest and dividends received	183	127	56	237
Interest paid	-335	-342	7	-699
Income taxes paid	-3,518	-6,720	3,201	-10,950
Net cash used in operating activities	4,312	-476	4,789	12,941
<b>II. Cash flows from investing activities:</b>				
Proceeds from sale of marketable securities	44	62	-18	110
Purchases of property, plant and equipment	-3,923	-2,856	-1,067	-6,811
Proceeds from sale of property, plant and equipment	137	462	-325	626
Purchases of investment securities	-1,147	-53	-1,093	-495
Proceeds from sale of investment securities	153	42	110	32
Increase in long-term receivables	-15	-14	-	-22
Decrease in long-term receivables	64	78	-13	167
Other, net	100	210	-110	51
Net cash used in investing activities	-4,585	-2,066	-2,518	-6,341
<b>III. Cash flows from financing activities:</b>				
Borrowing of short-term loans	811	906	-94	687
Repayment of short-term loans	-2,175	-1,588	-587	-3,143
Borrowing of long-term debt	660	520	140	1,240
Repayment of long-term debt	-5,448	-463	-4,984	-899
Issuance of commercial paper	-	13,000	-13,000	23,000
Redemption of commercial paper	-	-	-	-23,000
Redemption of unsecured bonds	-	-381	381	-381
Withdrawal of the cash for unsecured bonds	-	-16,335	16,335	-16,335
Deposit of the cash for unsecured bonds	-	-	-	16,335
Cash dividends paid	-1,030	-1,185	154	-2,229
Dividends payments to minority shareholders	-5	-8	2	-12
Redemption of construction cooperation fund	-	-329	329	-428
Other, net	-40	-114	73	-163
Net cash used in financing activities	-7,229	-5,979	-1,249	-5,330
<b>IV. Foreign currency translation adjustments on cash and cash equivalents</b>	-16	199	-216	890
<b>V. Net increase/decrease in cash and cash equivalents</b>	-7,519	-8,323	804	2,159
<b>VI. Cash and cash equivalents, beginning of the period</b>	31,926	29,859	2,066	29,859
<b>VII. Increase due to inclusion of subsidiaries in consolidation</b>	110	-	110	-
<b>VIII. Decrease due to exclusion of subsidiaries from consolidation</b>	-	-92	92	-92
<b>IX. Cash and cash equivalents, end of the first half period</b>	24,517	21,444	3,073	31,926

(Amounts are rounded down to the nearest million yen)

## Segment Information

### Industry Segment Information

Six months ended September 30, 2006 (April 1, 2006 – September 30, 2006)

(In million yen)

	Analytical and measuring instruments	Medical systems	Aircraft equipment and industrial machinery	Other	Total	Eliminations/Corporate	Consolidated
Net sales							
(1) Sales to customers	69,397	23,504	24,664	2,408	119,973	-	119,973
(2) Inter-segment sales	125	-	22	504	652	-652	-
Total	69,522	23,504	24,686	2,912	120,626	-652	119,973
Operating expenses	57,780	22,285	22,928	1,958	104,953	3,769	108,722
Operating income	11,741	1,219	1,757	954	15,673	-4,421	11,251

(Amounts are rounded down to the nearest million yen)

Six months ended September 30, 2005 (April 1, 2005 – September 30, 2005)

(In million yen)

	Analytical and measuring instruments	Medical systems	Aircraft equipment and industrial machinery	Other	Total	Eliminations/Corporate	Consolidated
Net sales							
(1) Sales to customers	63,711	21,065	27,102	2,960	114,839	-	114,839
(2) Inter-segment sales	83	-	37	407	528	-528	-
Total	63,794	21,066	27,139	3,367	115,368	-528	114,839
Operating expenses	53,881	20,832	24,832	2,728	102,275	3,540	105,815
Operating income	9,913	233	2,306	639	13,093	-4,068	9,024

(Amounts are rounded down to the nearest million yen)

Year ended March 31, 2006 (April 1, 2005 – March 31, 2006)

(In million yen)

	Analytical and measuring instruments	Medical systems	Aircraft equipment and industrial machinery	Other	Total	Eliminations/Corporate	Consolidated
Net sales							
(1) Sales to customers	138,452	46,277	52,460	5,447	242,638	-	242,638
(2) Inter-segment sales	214	5	83	1,043	1,347	-1,347	-
Total	138,667	46,282	52,543	6,491	243,985	-1,347	242,638
Operating expenses	116,776	44,142	48,634	4,997	214,551	7,010	221,562
Operating income	21,891	2,140	3,909	1,493	29,433	-8,357	21,076

(Amounts are rounded down to the nearest million yen)

Notes:

- Classification of business segment and names of major products under each segment.  
The Group's operations are classified into four principal segments: Analytical and Measuring Instruments, Medical Systems, Aircraft Equipment and Industrial Machinery, and Other, based on the purpose of use of each product in the market.
- "Elimination/Corporate" includes unallocated operating expenses of ¥4,426 million, ¥4,073 million and ¥8,418 million for the six months ended September 30, 2006 and 2005, and for the year ended March 31, 2006 respectively, consisting principally of general corporate expenses incurred by the administration of the Company, fundamental research and development expenses and advertisement expenses.

## Overseas Sales

Six months ended September 30, 2006 (April 1, 2006 – September 30, 2006)

(In million yen)

	North and South America	Europe	Asia and Oceania	Total
I. Overseas sales	11,646	7,815	24,751	44,213
II. Consolidated sales				119,973
III. Ratio of overseas to total consolidated sales	9.7%	6.5%	20.7%	36.9%

(Amounts are rounded down to the nearest million yen)

Six months ended September 30, 2005 (April 1, 2005 – September 30, 2005)

(In million yen)

	North and South America	Europe	Asia and Oceania	Total
I. Overseas sales	9,396	7,639	20,131	37,167
II. Consolidated sales				114,839
III. Ratio of overseas to total consolidated sales	8.2%	6.7%	17.5%	32.4%

(Amounts are rounded down to the nearest million yen)

Year ended March 31, 2006 (April 1, 2005 – March 31, 2006)

(In million yen)

	North and South America	Europe	Asia and Oceania	Total
I. Overseas sales	20,171	15,343	43,614	79,128
II. Consolidated sales				242,638
III. Ratio of overseas to total consolidated sales	8.3%	6.3%	18.0%	32.6%

(Amounts are rounded down to the nearest million yen)

Notes:

1. Classification method of geographic segment: by geographic proximity.
2. Major countries or regions in each segment:
  - (1) North and South America \* U.S.
  - (2) Europe \* U.K. and Germany
  - (3) Asia and Oceania \* China, Southeast Asian nations and Australia
3. Overseas sales is sales in the countries and regions other than Japan by the Company and its consolidated subsidiaries.