News in Depth: Uncertainty fuels slowdown in U.S. bank lending, could hinder recovery

THE WALL STREET JOURNAL.

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Stocks declined across the board as investors remained jittery about the financial sector despite big profits at Bank of America. Crude-oil futures also fell on worries about the economic outlook. Page 20

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- **UBS will sell** Brazilian investment bank Banco Pactual at a loss to an original owner as the Swiss lender aims to raise capital. Page 19
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Identity crisis
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A colorful protest at U.N. summit on racism

Associated Press

NO LAUGHING MATTER: Security officers arrest a demonstrator who threw a clown nose at Iranian President Mahmoud Ahmadinejad at the Durban Review Conference in Geneva Monday. Page 3.

Allied Irish to raise capital

By Stephen Fidler

LONDON—Ireland's largest bank by assets announced plans to boost capital after stress tests convinced the government that the bank needed to bolster its financial strength in the face of the country's worst recession since the 1930s.

Allied Irish Banks PLC said Monday it had agreed with the government to increase capital by a further €1.5 billion ($1.95 billion), in part by selling assets. That is on top of the €3.5 billion the government agreed to inject in February.

People familiar with the decision said it was pushed strongly by the government. The bank said the increase reflected Finance Minister Brian Lenihan's "desire to ensure that systemically important banks remain adequately capitalized, even in stressed scenarios."

The bank's need for further capital reflects the dire state of the Irish economy, which the government expects to shrink by 7.8% this year, which would be one of the sharpest contractions in the developed world this year. In a recent interview, Mr Lenihan said Ireland's economy faced a three-pronged attack from a global financial crisis, a domestic real-estate bust and a sharp depreciation

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Dutch buck Shell's CO_2 plan

By Guy Chazan

Royal Dutch Shell PLC's push to become a world leader in the technology to capture and store carbon dioxide has hit a snag in the Netherlands, where locals are trying to block the company's plan to bury CO_2 under their town.

The idea of stripping CO_2 from the emissions of coal-fired power plants and other big polluters and injecting it deep underground is seen as a crucial weapon in the battle against climate change. But the technical and economic hurdles are immense, and it has never been tested on a commercial scale.

The case of the Dutch town of Barendrecht shows there are other obstacles, too—grass-roots opposition from locals who say it's unsafe. Barendrecht shows how not-in-my-backyard activism can trump efforts to stop global warming, even in countries with powerful green movements like the Netherlands.

Shell's plan is designed to reduce emissions from its Pernis oil refinery near the port of Rotterdam. Already, the company diverts some of Pernis's CO_2 to nearby greenhouses and the local soft-drinks industry. Its aim is to pipe the rest to Barendrecht, 17 kilometers to the south, where it would be injected into two nearly exhausted gas fields operated by NAM, a joint venture between Shell and **Exxon Mobil** Corp. The Dutch government says it will

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Oracle to pay $7.38 billion to buy Sun

By Don Clark and Ben Worthen

Oracle Corp. announced a deal to buy **Sun Microsystems** Inc. for $7.38 billion, a surprise union of software and hardware companies that emerged following failed talks for **International Business Machines** Corp. to buy Sun.

Larry Ellison

Oracle, which has been snapping up smaller software companies for several years, agreed to pay $9.50 a share for Sun. The companies valued the transaction at about $5.6 billion, excluding Sun's cash and debt. As of Dec. 28, Sun had about $2.6 billion in cash and short-term investments and about $700 million in long-term debt.

Oracle made its offer after negotiations between IBM and Sun had stalled. IBM is "highly unlikely" to reenter the bidding for Sun, according to people familiar with the matter. IBM had been talking with Sun since last fall and last month had offered to buy Sun for up to $9.40 a share depending on certain conditions, people familiar with the talks have said.

Sun, whose server systems have long been sold along with Oracle's database software, was widely believed to need a bigger partner as it competes with giants such as IBM, **Hewlett-Packard** Co. and **Dell** Inc. Another much larger company, **Cisco Systems** Inc., also recently entered the server business.

The Sun deal helps elevate Oracle into those ranks, giving the company the ability to sell hardware as well as more fully exploit some important Sun software—notably the popular Java programming technology and Sun's Solaris operating systems.

Oracle's acquisition of Sun puts added pressure on Oracle rival **SAP** AG, which competes in back-office software that manages corporate functions like payroll and keeping track of inventory. With Sun's software offerings, Oracle will have more offerings to go up against SAP. But SAP spokesman Jim Dever questioned whether Oracle's fast pace of acquisitions is giving the company too many products to manage and moving its focus from developing new software to managing products developed by others. "Are they a software company or more of a holding company at this point?" he asked.

Larry Ellison, Oracle's chief executive, in a Monday conference call described Java as "the single most important software asset we have ever acquired." As a result of the deal, he expects Oracle to be able to offer customers application programs, computers and data-storage hardware in

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Driving east

Shanghai auto show reflects China's stature in the sector
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Nasdaq	1608.21	-3.88
DJ Stoxx 600	189.93	-3.57
FTSE 100	3990.86	-2.49
DAX	4486.30	-4.07
CAC 40	2969.40	-3.96
Euro	$1.2920	-0.94
Nymex crude	$45.88	-8.84

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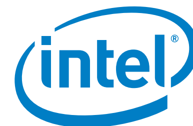

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THE WALL STREET JOURNAL.

EU probes airline pacts

Regulators suspect carriers of working too closely on price

BY DOUG CAMERON

Associated Press

The European Commission Monday said it had intensified its review into members of the Star Alliance, led by United and Germany's Deutsche Lufthansa.

United Airlines' parent **UAL** Corp. and **Continental Airlines** Inc. say they still plan to launch a trans-Atlantic alliance next year despite a new probe by European regulators into airline industry cooperation.

The European Commission said Monday it had intensified its review into members of the Star Alliance, led by United and Germany's **Deutsche Lufthansa** AG.

It also targeted the planned expansion of the Oneworld pact, led by **AMR** Corp.'s American Airlines and British Airways PLC.

Members of both alliances are seeking antitrust immunity from U.S. regulators to coordinate flying and marketing on international routes.

The commission is unlikely to disband the alliances or fine members, according to people briefed on its plans, but may curb some of their existing and planned cooperation on routes, fares and marketing.

The Brussels-based commission said it had no "conclusive proof" that either alliance had breached competition rules, but would examine the costs and benefits to consumers.

It has been examining the rival SkyTeam pact, led by **Delta Air Lines** Inc. and **Air France-KLM** since 2006.

Opening a formal probe is a procedural step needed for the commission to take any further action. The agency is also looking to mesh the timetables for reviewing the three alliances, according to people briefed on the matter.

"We are working very closely with the commission to satisfy any competition concerns that they may raise," said Mike Whitaker, United's senior vice president for alliances, international and regulatory affairs.

U.S. regulators have already given tentative approval for Continental to leave SkyTeam and join United, Lufthansa and Air Canada in an enlarged Star trans-Atlantic pact next year.

Continental said in a statement Monday that "the U.S. DOT has tentatively concluded that our new alliance should be granted antitrust immunity and we are confident that the European Commission will reach a similar conclusion."

Lufthansa said the company is in "constructive talks" with the commission, while Air Canada said it would provide "full cooperation."

The commission first approved trans-Atlantic cooperation between United and Lufthansa in 2002, but has since changed its rules and no longer provides U.S.-style antitrust exemptions.

The commission has been working with members of SkyTeam, notably Delta and Air France-KLM to "test" potential remedies to some concerns, according to a person close to the matter. Delta declined comment. Air France couldn't be reached.

The second probe announced Monday focuses on efforts by American, BA and Iberia Lineas Aereas de Espana to expand their existing pact with antitrust immunity from U.S. regulators.

"This is a normal part of the E.U. process of examining our antitrust immunity application with American Airlines and Iberia," British Airways said in a statement. American Airlines couldn't be reached for comment.

Iberia said that the airlines were waiting for the approval from Brussels before starting more intensive cooperation.

Airline regulators have already fined airlines more than $1.5 billion for operating cartels related to fuel surcharges levied by passenger and cargo airlines.

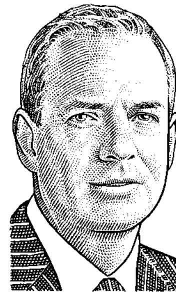
—Peppi Kiviniemi contributed to this article.

Glaxo acquires Stiefel as a haven in hard times

BY DANA CIMILLUCA AND JEANNE WHALEN

GlaxoSmithKline PLC's $2.9 billion purchase of **Stiefel Laboratories** Inc. gives the company a bigger foothold in dermatology, a business partly insulated from pressures facing the rest of the drug business.

As expected, Glaxo said Monday it has struck an agreement to acquire closely held Stiefel for $2.9 billion. Glaxo will also assume about $400 million of Stiefel's debt, and could make a further $300 million cash payment if the company's performance meets certain standards, Glaxo said.



Andrew Witty

Stiefel, based in Coral Gables, Fla., is part-owned by buyout firm **Blackstone Group**. An auction of the company drew interest from several major global drug companies, including **Sanofi-Aventis** SA.

Stiefel makes treatments for a wide range of skin ailments, including the DUAC acne gel and OLUX, an anti-itch foam for the scalp. About 70% of its sales come from prescription products and 30% from nonprescription, analysts said.

Dermatology is an attractive business because consumers are generally more loyal to brand names, making it harder for generic companies to sell less-expensive copies of products, says Gbola Amusa, an analyst at UBS in London. In addition, many consumers pay out of their own pockets for dermatology products, which cuts out frugal insurers. Insurers have put pressure on drug prices in recent years by demanding bigger discounts and pushing greater use of generics.

Glaxo already has a dermatology business that generated sales of about $550 million last year. Stiefel's products had sales of about $900 million last year, Glaxo said.

The deal is the latest in a wave of takeovers in the industry, which is looking for new sources of sales growth as some of its biggest drugs face competition from less-expensive generics. Included in this year's pharmaceutical megadeals are Pfizer Inc.'s pending $68 billion acquisition of Wyeth and Merck & Co.'s agreement to buy Schering-Plough Corp. for $41 billion.

Lazard Ltd. is advising Glaxo on the Stiefel deal, with Blackstone bankers advising the sellers.

Stiefel has been controlled for more than 160 years by the founding Stiefel family. It has expanded in recent years through a string of acquisitions, including the roughly $600 million purchase of Connetics Corp. in 2006.

Blackstone invested $500 million in Stiefel in 2007 for a large minority stake. Though now based in Florida, Stiefel was founded in Germany as a maker of medicated soap.

As the other big pharmaceutical deals have been struck, Glaxo Chief Executive Andrew Witty has signaled a lack of interest in such blockbuster deals. But that doesn't mean the company isn't in deal-making mode. Just last week, Glaxo struck an alliance with Pfizer to create a new company combining their HIV businesses. That deal is expected to give Glaxo access to Pfizer's more-promising profile of AIDS drugs in development, and provide opportunities for cutting costs. Glaxo will initially own 85% of the venture, which could be valued at more than £4 billion ($5.91 billion).

For Blackstone, the deal would represent a positive development in a difficult market for private-equity firms, which have been constrained in their ability to sell investments by the depressed merger and initial-public-offering markets.

CORRECTIONS & AMPLIFICATIONS

Tarun Jotwani works in Tokyo for **Nomura Holdings** Inc. as head of fixed income. A Financial News article Monday incorrectly said he was was based in Hong Kong. Also, a majority of Nomura's wholesale-banking employees are based outside Japan. The article incorrectly said that 80% of the wholesale bank's revenue comes from outside Japan.

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Ahmadinejad calls Israel 'racist'

Speech in Geneva complicates outreach by Obama to Iran

Iranian President Mahmoud Ahmadinejad called Israel the "most cruel and repressive racist regime" at a racism conference in Geneva, giving a fresh reminder of the hurdles the U.S. must clear in its effort to improve relations with Tehran.

*By **Chip Cummins** in Dubai and **Charles Forelle** in Brussels*

European diplomats stormed out of the room during the speech. The U.S. and a handful of European allies had already abstained from the United Nations event out of concern that it would become a platform for Iran to insult Israel. Mr. Ahmadinejad has questioned whether the Holocaust happened and said Israel should be wiped off the map.

Earlier Monday, Israel said it would temporarily recall its ambassador to Switzerland to protest a meeting between the Swiss president and his Iranian counterpart Sunday evening.

"We will not allow the Holocaust deniers to carry out another Holocaust against the Jewish people. This is the supreme duty of the state of Israel," Israeli Prime Minister Benjamin Netanyahu said at a ceremony Monday marking Israel's annual memorial for the six million Jews killed in the Holocaust, the Associated Press reported.

Some of Mr. Ahmadinejad's more recent comments about Israel had been muted, and he has also made tentatively welcoming comments in response to U.S. President Barack Obama's diplomatic outreach.

But Mr. Ahmadinejad's tone and comments Monday—in keeping with his unpredictable style—sparked an uproar that could make it more difficult for Mr. Obama to convince the U.S. public and allies, in particular Israel, to continue to accommodate his strategy.

The speech came days after an Iranian court sentenced an Iranian-American journalist to eight years in prison for spying, drawing a rebuke from the U.S. State Department. State Department Deputy spokesman Robert A. Wood told a regular news briefing in Washington after Monday's speech that the U.S. still hopes to engage Iran in direct diplomacy. "There are a number of situations around the world where we need to engage Iran," he said.

In an echo of his previous Holocaust denial, Mr. Ahmadinejad, in a rambling speech Monday, castigated the U.S. and Europe for acting after World War II to make "an entire nation homeless under the pretext of Jewish suffering," according to an English translation of the speech released by the Associated Press. He also accused the West of using Jewish suffering as a pretext for hostility against Palestinians.

Protesters in clown wigs interrupted his speech with shouts of "Shame! Shame!" and "Racist! Racist!" the AP reported.

Mr. Ahmadinejad, who is expected to run for a second term in elections this summer, may have been playing more to an audience back home.

—Sara Toth in Jerusalem and David Crawford in Berlin contributed to this article.

Reuters

Mahmoud Ahmadinejad speaks at the U.N. conference on racism on Monday.

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CORPORATE NEWS

China's heft is on display at car show

In Shanghai, BMW, Porsche, Mercedes unveil new models with an eye on their only big growth market

By Norihiko Shirouzu
And Gordon Fairclough

SHANGHAI—The Shanghai auto show that opened Monday is demonstrating how the balance of importance in the global car industry is tipping decisively toward China.

China is the only major auto market still growing despite the global economic slowdown, and in the past few months the number of sales in the country has out-stripped sales in the U.S.

That's prompting auto makers including **Daimler** AG, **General Motors** Corp., **Toyota Motor** Corp. and **Porsche Automobil Holding** AG to think of China not as an emerging market but, increasingly, the industry's central battle-ground.

"The center of gravity is moving eastward," Dieter Zetsche, chairman of Daimler, the parent of Mercedes-Benz, told a group of reporters at the auto show.

China's central government is pouring money into expanding the country's network of highways and roads as part of a major economic stimulus package. That spending could sustain auto-sales growth for years to come. Chinese car makers, flush with cash, are keen to buy foreign brands and technologies. **Geely Automobile Holdings** Ltd., for instance, is looking to buy **Ford Motor** Co.'s Volvo.

The buzz and excitement surrounding this year's Shanghai auto show contrasts with the subdued tone of major car shows in North America and Europe. **Nissan Motor** Co., for example, skipped this year's Detroit show and plans to be absent from Frankfurt's but is making a splash in Shanghai.

Atsuyoshi Hyogo, head of **Honda Motor** Co.'s China operations, said auto makers at the Shanghai show are witnessing "a major shift in the battleground within the global automobile market from the U.S. to China."

Associated Press

A worker polishes the display platform of Nissan GT-R at the Shanghai International Auto Show on its opening day Monday.

Nick Reilly, head of GM's Asia-Pacific operations, said China is one of the "centerpieces" for the Detroit auto maker's future. While GM is racing to avoid bankruptcy in the U.S., its business in China is profitable and has remained largely unaffected by the global slowdown, Mr. Reilly said.

Several car makers are unveiling new models in Shanghai. Daimler is showcasing a new version of its S-class S65 AMG, a luxury car with a 612-horsepower engine. The car can go from 0 to 100 kilometers (62 miles) an hour in 4.4 seconds. Sports-car manufacturer Porsche on Sunday debuted its four-door Panamera.

BMW AG, another German producer, is also having a world premier of a new model of its 7-Series sedan in Shanghai. The BMW 760 Li sedan has a 6-liter, 12-cylinder engine. Ian Robertson, executive board member of BMW, said China will likely be the vehicle's biggest market.

Toyota, meanwhile, has brought to Shanghai a "concept" plug-in electric hybrid car, which the company said it may sell in China on a trial basis in the near future.

GM executives said the company plans to launch its futuristic hybrid, the Chevy Volt, in China by 2011, shortly after the car goes on sale in the U.S. in late 2010. They said the American auto maker expects China's overall auto market to continue to grow 7% to 8% on average every year over the next five to six years. That's slower than the double-digit growth rates of the Chinese market over the past decade, but makes China one of the rare bright spots looking ahead.

Among other signs pointing to China as a main engine of growth for the global industry, Ford has decided to move its Asian-Pacific headquarters to China from Thailand later this year.

To be sure, more cars are selling in China than the U.S. in part because of a severe auto sales downturn in America since last year. Chinese auto makers also remain largely uncompetitive in the world's advanced economies because of their limited, albeit improving, technological and manufacturing capabilities. The country also suffers from a reputation of being a copycat, with many of its cars closely resembling those from more established foreign rivals.

Honda's Mr. Hyogo noted that Chinese makers will have to stop cutting corners "in areas such as the environment, safety and intellectual property" to create an industry that deserves to be called a leading global player.

Meantime, car sales in China are showing surprising resilience. Chinese consumers are proving particularly responsive to government stimulus initiatives to boost spending, such as tax cuts and other subsidies on auto purchases. In March, vehicle sales climbed 5% to a record 1.11 million. In contrast, March car sales fell 30% in the U.S. and 32% in Japan.

GM's Mr. Reilly said the company is aiming to double its annual sales in China to more than two million over the next five years. The company sold 1,094,561 vehicles in China last year, including sales of micro minivans made with **Wuling Automobile** Co., one of GM's Chinese partners.

To meet that sales target, GM may soon need to build another assembly plant, company executives said. GM operates five plants in China with its joint-venture partner **SAIC Motor** Corp. GM also has two additional plants run by a separate, three-way venture it jointly operates with SAIC and Wuling.

China's auto industry may soon emerge as a significant export base for foreign car makers such GM and Nissan. Mr. Reilly noted that the quality of cars GM produces with its joint-venture partners in China is roughly on par with that of vehicles it makes in North America and Europe.

Asked why Daimler is skipping the Tokyo auto show later this year but is staging a big presence in Shanghai, Mr. Zetsche pointed to the fact that sales of Mercedes-Benz cars in China have recently surpassed those in Japan.

"Here, we are likely to leverage the opportunities, which are building," the German executive said.

—Yoshio Takahashi, Patricia Jiayi Ho and Joy C. Shaw contributed to this article.

Arcandor to seek new financing

By Hilde Arends

FRANKFURT—Heavily indebted German retail and tourism company **Arcandor** AG on Monday announced details of a restructuring plan that involves up to €900 million, or about $1 billion, in new financing over the next five years and the disposal of unprofitable businesses.

The company's surprisingly high financing needs come on top of a pending €650 million refinancing due this summer, and caught investors off guard. Arcandor shares fell 9.4%.

The unprofitable retailer said the new financing plan is part of a consolidation program to improve cash at its three core units.

Chief Executive Karl-Gerhard Eick said at a news conference that Arcandor is also considering a capital increase. Mr. Eick, who became CEO March 1, said the current refinancing plan is based mainly on new bank loans but that those alone won't suffice. To secure financing for the long-run, the support of all stakeholders is needed, he said.

The retailer is also studying options for state support. Arcandor said initial exploratory talks with the federal government were held, but it didn't say whether a decision was made.

Associated Press

Arcandor CEO Karl-Gerhard Eick at a news conference in Duesseldorf on Monday.

Beatrix Brodkorb, a spokeswoman for the German Economy Ministry, said funds from the government's €100 billion rescue fund for domestic companies would be available to Arcandor, "if the company decides to apply for this option."

The Essen-based company, which reported a loss of €745.7 million for fiscal 2008, said it will jettison or scale down underperforming retail operations while concentrating on the profitable core operations of its department-store division Karstadt and mail-order unit Primondo.

But its lucrative tourism unit, Thomas Cook PLC, remains Arcandor's core business, the company said.

Halliburton earnings decline 35% as drilling activity drops sharply

By Ben Casselman

Halliburton Co. reported a 35% drop in first-quarter earnings as a sharp decline in U.S. drilling activity showed no sign of reversing.

The decline in oil and natural-gas drilling in North America has been faster than most in the industry predicted last fall. There were 975 drilling rigs operating in the U.S. as of Friday, less than half the number running in September, according to oil-field services firm Baker Hughes Inc. It was the first time the rig count had dropped below 1,000 since 2003.

Producers have cut back their drilling due to low oil and gas prices that have rendered many projects unprofitable and left less cash available even for projects that would make money. Oil prices have fallen 56% in the past year to $50.33 a barrel as of Friday. Natural-gas prices have fallen 64% to $3.729 per million British thermal units.

Industry executives have warned that decreased drilling would lead to a drop in oil production, which could cause a sharp run-up in prices when the economy recovers and demand rebounds. But industry actions suggest that executives don't expect that to happen soon. In recent months, producers have begun buying themselves out of contracts with drilling contractors and have started postponing or scaling back long-term projects.

Halliburton, the world's second-largest oil-field services firm by revenue, behind **Schlumberger** Ltd., on Monday reported profit of $380 million compared with $587 million a year earlier. Revenue fell 3% to $3.91 billion.

Chief Executive Dave Lesar called the decline in drilling "unprecedented" and said it was impossible to say when activity would begin to recover. The biggest decline came in North America, which accounts for roughly three quarters of Houston-based Halliburton's business. North American revenue fell 10% from a year earlier and 25% from the fourth quarter, when the downturn was already underway.

China Mobile's net rises

Profit climbs 5.2%, but growth slows; China Telecom limps

BY LORRAINE LUK

HONG KONG—**China Mobile** Ltd. warned that subscriber growth is slowing as the company posted a 5.2% increase in first-quarter net profit. Meanwhile, **China Telecom** Corp.'s profit fell 27% as consumers switched from its fixed-line business to mobile phones.

The results, in line with expectations, illustrate broad industry trends. China's once red-hot telecommunications sector is shifting from a booming market to a more mature industry, with more users giving up land lines to use mobile phones.

"The market has already priced in the slowing subscriber growth as the mobile penetration rate in China exceeds 40% of the population," said Steven Liu, an analyst at DBS Vickers Securities.

China Mobile said its net profit rose to 25.2 billion yuan ($3.69 billion) from 23.95 billion yuan a year earlier. Operating revenue rose 9.2% to 101.27 billion yuan from 92.71 billion yuan.

The company, the world's largest mobile telephone operator by subscribers, added 6.49 million users in March, down from 6.75 million in February. Mr. Liu said he expects China Mobile to add an average 6.3 million users a month this year, down from an average net addition of more than seven million users last year.

China Mobile said its average revenue per user, a barometer for long-term growth, fell to 73 yuan in the first quarter from 82 yuan due to a drop in mobile tariffs. New subscribers were mainly low-end users, the company said.

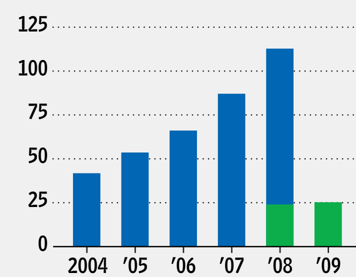
At China Telecom, the nation's biggest fixed-line operator by subscribers, net profit fell to 4.7 billion yuan from 6.47 billion yuan a year earlier. The profit figure is unaudited and excludes the amortization of upfront connection fees. Revenue excluding the connection fees rose 15% to 50.89 billion yuan from 44.27 billion yuan.

Overall revenue growth was mainly driven by a net addition of 2.5 million wireless broadband users. The company reported a net reduction of 4.35 million fixed-line users.

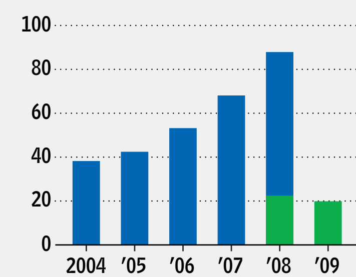
China Telecom said it added 2.21 million mobile subscribers last month, up from 1.7 million in February. The company acquired the code division multiple access mobile operations from **China Unicom (Hong Kong)** Ltd. in a government-ordered industry restructuring last year.

China Mobile

Net profit, in billions of yuan



Cumulative change in subscribers, in millions



Source: the company

Tata's net rises as software firm brings staff home

A WSJ NEWS ROUNDUP

MUMBAI—**Tata Consultancy Services** Ltd. said net profit in fiscal fourth quarter grew 4.6% despite shrinking volumes as the company pulled thousands of Indian employees back home to save on costs.

TCS, India's largest software exporter by revenue, said it expects a fall in its billing rates in the current fiscal year, which began April 1.

Net profit for the quarter was 13.14 billion rupees ($263.9 million), compared with 12.56 billion rupees in the year-earlier quarter, according to U.S. accounting standards. The Mumbai-based company said revenue rose 19% from a year earlier to 71.72 billion rupees.

Quarterly profit declined 2.8% on a sequential basis as the company battled cost pressures and waning demand from U.S. and European customers.

Net profit for the year ending March 31 fell 10% to $1.12 billion, due to foreign-exchange losses, while revenue came in at a record $6 billion, up 23% from the previous year, the company said.

The results came after **Infosys Technologies** Ltd., the country's second-largest software exporter, last week posted a 2.6% net profit growth in dollars for the year, and said it expects its first-ever decline in dollar earnings and revenue this fiscal year.

TCS has focused on controlling costs by pulling back thousands of Indian employees who had been working on projects in the U.S. That pushed the amount of work done in India up 3.1 percentage points last quarter, to 45%, saving the company 1.31 billion rupees on employee costs.

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Scott McCartney/The Wall Street Journal

Marana, Ariz., is home to the world's largest airplane boneyard. It was once a secret base for the U.S. Central Intelligence Agency.

More airlines park planes

Grounded jets help carriers better match capacity to demand

By Scott McCartney

MARANA, Ariz.—Hundreds of once-proud aluminum birds are parked here with engines sealed, tires wrapped and windows covered. Whether these passenger jets will soar across continents again will have a direct impact on how much you pay to fly.

THE MIDDLE SEAT

The airline industry has grounded more than 11% of its jets in dusty airplane boneyards, mostly in New Mexico, Arizona and California. Planes from all corners of the world end up here, but U.S. airlines have led the way, clipping the wings of 800 aircraft since mid-2008, according to London-based **Ascend Worldwide** Ltd. That's a fleet far bigger than **AMR Corp.**'s American Airlines' 626 jets (plus 47 in storage).

More are coming—jets are being parked at a rate of about 30 per month this year. And the drop in international business travel has prompted the mothballing of wide-body jets.

What happens in aircraft storage fields may ultimately lead to fewer cheap tickets for consumers. By aggressively removing seats from service, airlines have better matched capacity to weakened demand, enabling them to fly through this recession with more financial stability than in past downturns.

Many of the parked planes, especially older ones, may never fly again, or are highly unlikely to fly again for U.S. airlines. The planes will be expensive to return to service, especially if they miss scheduled overhauls while parked. And since U.S. airlines have scant orders for new jets at **Boeing** Co. and **Airbus**, the storage strategy may well lead to a jet shortage when the economy rebounds, which could mean higher airfares for travelers.

"Planes that are leaving the U.S. fleet for the most part are leaving forever, and that will lead to higher fares," said Douglas Runte, a managing director at Piper Jaffrey & Co. "Airlines are going to have some pricing power. I think there are potential benefits for the industry."

Already, some airlines have reported that ticket purchases improved in the past few weeks, and summer travel may be stronger than airlines anticipated. Last weekend, for the second weekend in a row, a few airlines even tried a $15 across-the-board fare increase.

It didn't work—prices rolled back when competing airlines didn't raise their prices. But considering there hasn't been a broad-based price increase since last summer, the moves could be seen as a sign of airlines' renewed confidence.

The groundings, which began as a response to last summer's sky-high fuel prices, turned into adroit planning for weak travel demand and saved airlines from flying too many mostly-empty trips or pricing tickets at fire-sale levels. Airlines are currently losing lots of money, but analysts say it could have been far worse.

"They did absolutely the right thing for absolutely the wrong reason," said Mr. Runte. "Even when fuel came down, they continued to park airplanes."

UAL Corp.'s United Airlines, for example, is grounding 100 airplanes from its fleet, which totaled 460 planes at the end of 2007. All 94 of United's 737s are being grounded, plus six 747s. Through the first three months of this year, United's capacity was down 13.1% compared to the first quarter of 2008, the largest decline among major U.S. airlines.

Desert storage areas have historically been chop shops to dismantle retired jets, but increasingly, airlines are parking newer planes, too—a trend expected to strengthen after the summer travel season.

"We're getting indications from industry there will be another movement after summer. And it will be next-generation aircraft," said John Keating, president of **Evergreen Maintenance Center** Inc., which runs one of the world's largest aircraft storage facilities here.

Evergreen already has more than 200 jets parked here, and among the planes Mr. Keating expects to land in Marana: five relatively new Boeing 777s wide bodies, the jewel of many airplane fleets.

Airlines and aircraft leasing companies put jets in the desert because of low humidity—moisture can corrode airplanes—and rarity of hail storms or tornadoes that can damage jets. Besides airline capacity reductions, some planes end up in storage after they are repossessed by banks and leasing companies seeking new operators. In some cases, bonds sold to finance jets require airlines to "maintain" the airplane even though it's not being flown.

American, for instance, has four Fokker 100s in storage in Roswell, N.M., even though the airline eliminated that type of plane from its fleet in 2004. Bonds sold to finance those particular planes don't allow the airline to scrap or sell them, according to Mr. Runte of Piper Jaffrey.

In Marana, once a Central Intelligence Agency base for covert operations, Evergreen Maintenance, a unit of **Evergreen International Aviation** Inc., not only stores jets but also overhauls and repaints them when they return to service. The company also chops up planes for parts and recycling (the high-grade aluminum of jets typically gets reused in laptop and Blackberry cases and automobile wheel covers).

It costs about $60,000 a month to store a 747 in Marana, according to Steve Coffaro, Evergreen's vice president of sales.

When they arrive, mechanics drain fluids from bathrooms, check engines and close all openings and antennas with bug screens. Tires are covered in Mylar to prevent sunlight from deteriorating the rubber. Periodically systems are run and even pressurized, flight controls are moved and lubed and planes are typically moved every 30 days or so to rotate tires.

Evergreen prefers newer aircraft because their owners are more likely to use the company's maintenance service to keep planes in shape. Many of the planes now being sent to storage are "next-generation" Boeing 737s and Airbus A320s, in service only a few years before being relegated to aviation's attic. About 3% of the world's 737-700s are in storage.

"Right now, we get 60% that go back out. Most of what is coming in now is newer," said Mr. Keating.

When air travel picks up, new airlines will undoubtedly take to the skies, and storage facilities believe entrepreneurs will come looking for jets since it can be a long wait for Boeing and Airbus to fill new orders.

"We're a very nice used car lot," says Mr. Coffaro.

Tech Mahindra seeks EU, U.S. assent to Satyam buy

Tech Mahindra Ltd. wants antitrust approval from the European Union and the U.S. before it concludes the purchase of a stake in **Satyam Computer Services** Ltd., a person familiar with the development said Monday, a process that could delay the acquisition of the beleaguered software company by as long as two weeks.

*By **Romit Guha** in Bangalore, **Rumman Ahmed** in Hyderabad and **Jackie Range** in New Delhi*

The person said Satyam and Tech Mahindra do a lot of technology-outsourcing work in Germany and the U.S., so Tech Mahindra wants antitrust clearances to avoid any regulatory issues in both regions.

Tech Mahindra doesn't anticipate problems getting the approval. "This is not an issue," the individual said. "This just means a few days more."

The company filed for approval with the EU on Monday and plans to file for U.S. approval on Tuesday.

Satyam and Tech Mahindra officials declined to comment on the issue. U.S. and EU antitrust officials couldn't be reached for comment.

Satyam shares are currently listed in New York and in Europe. Tech Mahindra is a joint venture between Indian utility-vehicle maker **Mahindra & Mahindra** Ltd. and British telecommunications firm **BT Group** PLC.

Last week, Tech Mahindra's Venturbay Consultants Pvt. Ltd. unit emerged as the highest bidder to buy 31% of Satyam. It will also will make an open offer for a further 20% of the company.

Hyderabad-based Satyam has been in turmoil since founder B. Ramalinga Raju revealed in January he had overstated the company's profits over several years and created a fictitious cash balance of more than $1 billion.

Separately, a report by India's Serious Fraud Investigation Office alleged that PricewaterhouseCoopers auditors working at Satyam were aware of the huge fraud at the company, according to a person familiar with the report's contents.

"They were knowing, fully," the person alleged, adding that the report also claims that the auditors didn't check information that could have exposed the fraud.

A spokesman for the SFIO, a multidisciplinary body that operates under India's Ministry of Corporate Affairs, directed questions to the ministry. A ministry spokesman wasn't available to comment.

Price Waterhouse, an Indian affiliate of PricewaterhouseCoopers, audited Satyam's financial statements from mid-2000 to late 2008. The firm has suspended the Satyam auditors, S. Gopalakrishnan and Srinivas Talluri, until investigations into the fraud are completed.

The two auditors are in jail in Hyderabad awaiting trial on charges including criminal conspiracy and cheating. A lawyer for the auditors couldn't be reached.

A PricewaterhouseCoopers spokesman declined to comment on the SFIO's report but said, "We've not come across any evidence of criminal wrongdoing on the part of either partner, and both partners continue to vigorously deny any wrongdoing."

In interviews recently with a delegation from the Institute of Chartered Accountants of India, which also is conducting a review of what happened at Satyam, the two accountants said they weren't aware of anything untoward inside the company, according to Uttam Prakash Agarwal, the institute's president. Mr. Agarwal declined to comment onthe SFIO report Monday.

Tech Mahindra said Satyam's current management will remain in place.

Also Monday, Satyam director Deepak Parekh said at a news conference in Hyderabad that the transition to Tech Mahindra ownership "is going to take some time."

Tech Mahindra said the current management of Satyam, including Chief Executive A.S. Murty, will continue in their positions. It also said Satyam will function as a standalone unit of Tech Mahindra.

"We have complete confidence in Satyam's executive leadership to restore the company and take it to new levels of success," Vineet Nayyar, chief executive of Tech Mahindra, said in a statement.

Mr. Nayyar said Tech Mahindra will focus on retaining key Satyam employees and clients, getting new outsourcing orders and winning back clients who canceled deals following the scandal.

AFP

Tech Mahindra is seeking antitrust approvals of its Satyam bid. Above, Tech Mahindra Chairman Anand Mahindra, right, and CEO Vineet Nayyar.

Hong Kong court looks at free PCCW shares

A key issue is legality of stock distribution in telecom buyout

BY LORRAINE LUK

HONG KONG—**PCCW** Ltd. Chairman Richard Li's attempt to buy out the company for US$2.1 billion faced scrutiny Monday as an appellate court questioned the propriety of a shareholder vote on the deal.

Hong Kong's Securities and Futures Commission wants to stop the transaction and has alleged that a Feb. 4 shareholder meeting was marred by vote rigging after hundreds of insurance agents were given PCCW shares and then voted in favor of the buyout.

Richard Li

"What's the difference between giving people shares to vote and giving people money to vote?" asked Justice Anthony Rogers at the Court of Appeal. "You must convince me of the difference."

Another of the three appellate judges, Johnson Lam, said anything that had distorted the PCCW shareholder vote would be "objectionable."

Michael Todd, a lawyer for the Hong Kong telecommunications company, said Hong Kong law doesn't prohibit the practice, known as "share splitting," in which a single block of shares is broken into smaller lots that allow more shareholders to vote on a deal. Mr. Todd said people who received PCCW shares weren't told how to vote on the offer from PCCW's majority shareholders, led by Mr. Li.

The deal needed approval from a majority of voting shareholders who were present at a meeting to consider the transaction.

The insurance agents who received the free shares ahead of the vote on Feb. 4 stand to profit if the deal goes through because the shares were worth less on the open market than the HK$4.50-a-share price. Many small investors who bought PCCW earlier at a higher price oppose the deal.

Justice Rogers earlier called the HK$4.50-a-share bid "pathetic" for shareholders who paid more than HK$100 years ago. Many small investors have said they would rather keep getting dividends from PCCW than be forced to sell.

Mr. Todd said the bid price was fair, according to independent financial advisers. Justice Rogers countered that some brokerage reports said HK$5 a share or more was reasonable.

PCCW and an investment vehicle controlled by Mr. Li, Pacific Century Regional Developments Ltd., have repeatedly said they weren't involved in vote rigging.

The appellate court plans to continue its hearing Tuesday.

Hitachi looks into raising capital

BY YUZO YAMAGUCHI

TOKYO—**Hitachi** Ltd.'s new president said the Japanese electronics manufacturer will consider raising capital and that it plans to spend less in the current fiscal year than it did in the prior year.

Takashi Kawamura, who took the helm at Hitachi on April 1, said applying for state funds would be one option for raising capital if the company needs to restructure or start a new business.

Hitachi is Japan's latest electronics company to say it might need to raise capital to get through the global economic downturn. **Elpida Memory** Inc. recently raised about 45.8 billion yen ($461.5 million).

Toshiba Corp. said Monday it is considering launching "an appropriate capital policy," raising speculation it will pursue large-scale equity financing. The company, which manufactures products ranging from television sets to nuclear reactors, said it has nothing to announce at this stage.

The remarks, which followed a report in the Nikkei's Saturday morning edition that the company plans to increase capital by 500 billion yen as early as June to strengthen its balance sheet, knocked Toshiba's shares down 4.8% to 316 yen in Tokyo.

Meanwhile, Mr. Kawamura said Hitachi's capital expenditure for the current fiscal year will be less than the 860 billion yen estimated for the year that ended March 31.

Hitachi expects to post a net loss of 700 billion yen for the recently ended fiscal year. Mr. Kawamura said the company is likely to miss its revenue goal of 10.02 trillion yen.

He said Hitachi will shift its focus from consumer electronics to "social innovation" businesses such as power generation and information technology consulting. The switch means "we will no longer be a general electric conglomerate," said Mr. Kawamura, adding that "the bottom line is to make a net profit."

To that end, Hitachi has already announced it will split off its consumer and automobile-related operations into wholly owned subsidiaries starting in July.

Mr. Kawamura said his company is considering various options, including an alliance to revive its consumer business, primarily manufacturing of televisions, but he didn't elaborate.

He did say Hitachi will hold onto its 55% stake in semiconductor maker Renesas Technology Corp. Last week, Renesas said it is in tie-up talks with **NEC Electronics** Corp. Mr. Kawamura declined to comment on the talks.

Mitsubishi Electric Corp. has the remaining 45% stake in Renesas.

Lilly's profit rises 23% on solid sales

BY PETER LOFTUS

Eli Lilly & Co.'s first-quarter net income rose 23%, as a stronger U.S. dollar helped expand profit margins and higher prices boosted revenue.

The strengthening of the U.S. dollar against other currencies has generally hampered revenue growth at multinational drug makers, and Lilly is no exception. But in Lilly's case, the currency trend also helped to substantially reduce its cost of sales by revaluing international inventories of Lilly drugs.

Lilly is among a slew of pharmaceutical firms that have raised some drug prices aggressively in recent months even as government and private insurers struggle to rein in health-care costs.

Catherine Arnold, an analyst at Credit Suisse, said price increases propelled Lilly sales in the U.S. "It was the key driver," she said.

Lilly will face U.S. patent expirations on top-selling drugs, such as antipsychotic Zyprexa and cancer drug Gemzar, early next decade. It is unclear whether Lilly will have enough successful new drugs to replace revenue lost to generic competition.

Lilly reported quarterly net income of $1.31 billion, or $1.20 a share, compared with $1.06 billion, or 97 cents a share, a year earlier.

Revenue rose 5% to $5.05 billion.

—Jonathan D. Rockoff contributed to this article.

Ogilvy sees India and China increasing their ad spending

BY JASON DEAN

BOAO, China—Advertising spending has dropped sharply in some of Asia's biggest markets this year, but Ogilvy & Mather still expects to see significant growth in China and India for 2009, its top executive in the region said.

The impact of the economic downturn on advertising in Asia "is varying enormously market by market, and even sector by sector," Paul Heath, chief executive of Ogilvy & Mather Asia Pacific, said in an interview on the sidelines of a regional conference here.

In more mature markets like Japan, South Korea, Hong Kong and Australia, "clients have taken a very conservative start to the year," he said. Ad spending in those markets in the first quarter was down at least 5% from a year earlier—and much more in some markets. Mr. Heath estimated that overall media spending in Japan fell about 20% in the first quarter and that television ad spending in Korea fell about 40% in the first two months of this year.

Despite the overall slump, Mr. Heath said he expects Ogilvy's revenue to rise in China and India this year. although not as fast as last year, when Indian revenue rose by more than 20% and Chinese revenue grew at a similar clip. "I think we'll see single-digit growth [rates] in those markets this year," he said. He didn't specify the revenue amounts.

Ogilvy, a unit of **WPP Group** PLC, is the largest communications group by revenue in Asia outside Japan, Mr. Heath said. The region accounts for about a fourth of Ogilvy's global revenue.

Ogilvy's operations include advertising, public relations, digital marketing, and sales promotion, a breadth that Mr. Heath said has helped insulate it in Asia from the decline in ad spending in many markets.

Revenue in some of its businesses is growing faster than expected, Mr. Heath said. Those include consulting and digital-media services, as well as a unit called RedWorks, which produces region-wide marketing campaigns and translates them into multiple languages so companies don't need to make separate campaigns for different markets.

About 60% of Ogilvy's business in Asia now comes from domestic companies, with the rest from multinationals—a ratio that was in reverse five years ago, Mr. Heath said. That trend is likely to continue, especially in the short term. "Across the region, the local companies have been less sensitive to the economic recession" than multinationals, Mr. Heath said.

Ogilvy sees opportunity for longer term growth in Asia, he said, both because marketing strategies today in the region are still relatively immature and because Asian companies are becoming more important elsewhere in the world. "We see opportunities with companies in China, Korea, and India to help them go global," he said.

//Guide/the
Global Evolution
//of/the/Internet

Seeking Applications for Top-Level Domain Name Evaluator Panels

ICANN intends to launch a program to expand generic top-level domain names beyond the existing 21 domains (.com, .org, .info and others). This change is in response to the continued expansion and evolution of the Internet. It will have a huge impact on how people access information and interact on the Internet.

ICANN is seeking organizations interested in providing independent evaluation services to review applications for these new top-level domains. Organizations should have international and Internet expertise and be capable of assessing financial, technical, geographical, linguistic and other elements of these applications.

Formed in 1998, the Internet Corporation for Assigned Names and Numbers (ICANN) is a not-for-profit public-benefit corporation with participants from all over the world dedicated to keeping the Internet secure, stable and interoperable. In simple terms, ICANN coordinates each computer's unique identifier, or address, to ensure globally consistent coordination of the Internet. It also promotes competition and develops policy on the Internet's unique identifiers.

Expressions of interest are due by 11 JUNE 2009.

Full details about the application process are available at
http://www.icann.org/en/announcements/announcement-2-02apr09-en.htm.
For questions regarding this announcement, please email: **eval-eoi@icann.org.**

For further information on ICANN and its role, please visit **http://www.icann.org/**

New GTLDS - Openness, Change, Innovation

CORPORATE NEWS

Pepsi bids for big bottlers

Distribution control would be tightened amid profit pressures

PepsiCo Inc. launched a $6 billion takeover bid for its two largest independent bottlers late Sunday, a major strategy shift that signals the company's intention to overhaul how it makes and distributes its products to consumers.

By ***Betsy McKay, Dennis K. Berman*** *and* ***Valerie Bauerlein***

Combining Pepsi with its two main bottlers would give it control of about 80% of its North America beverage-distribution volume. The company also said it expects to save $200 million and anticipates boosting annual earnings by 15 cents a share once those cost benefits are fully realized.

The simultaneous offers for **Pepsi Bottling Group** Inc. and **PepsiAmericas** Inc. value each company's shares at about 17% above their trading price Friday. PepsiCo is offering $29.50 in cash and stock for each share of Pepsi Bottling, valuing the company at about $6.4 billion. It is making a separate offer for PepsiAmericas, at $23.27 a share, that values that bottler at about $2.9 billion.

Meanwhile, Pepsi posted a 1% decline in first-quarter profit, hurt in part by a drop in North American beverage volume that underscored the company's argument for buying its biggest bottlers. Profit slipped to $1.14 billion, or 72 cents a share, from $1.15 billion, or 70 cents a share, a year earlier. There were 3.8% fewer shares outstanding in the most recent period. The latest results included a $25 million charge related to its restructuring plan. Revenue slipped 0.8% to $8.26 billion.

Bottled up

Percentage of shares outstanding owned by PepsiCo

Company	Share
PepsiAmericas*	43.2%
Pepsi Bottling Group†	33.1%

*As of March 2009 †As of February 2009
Source: the companies

North American beverage volume fell 6%, hurt by a mid-single-digit decline in carbonated soft drinks and a double-digit decline in sports drinks. The company said it faced a challenging comparison because of the launch of two Gatorade products—G2 and Gatorade Tiger—in the prior year.

International revenue increased 2.6% as profits fell 4.5%.

Pepsi already owns one-third of Pepsi Bottling and more than two-fifths of PepsiAmericas. The bottlers will likely convene independent committees to evaluate the bids.

A decade ago, Pepsi sought to separate itself from its bottlers, figuring it would help the company focus on soft-drink growth while keeping bottling assets off its balance sheet. In an interview, Pepsi Chairman and Chief Executive Indra Nooyi said business conditions had changed since then. Consumers are abandoning soft drinks for water, juice and other noncarbonated beverages.

Indra Nooyi

Owning the two big bottlers would allow Pepsi to revamp production and distribution and squeeze out costs. "We can accelerate revenue growth and be more agile and flexible," she said of the offer. "When you have a flat-to-shrinking profit pool, slicing it 20 ways to Sunday is not the answer."

The offers are the most aggressive moves by Ms. Nooyi since she became head of the drinks and snack-food giant in 2006. She has become increasingly convinced that a major revamp of the distribution system was needed, saying in a published interview last October that it needed to be "reconceptualized."

Pepsi shares slid $2.26, or 4.4%, to $49.87 in late-afternoon trading on the New York Stock Exchange Monday as investors questioned whether it might have to pay more for the bottlers. Shares of Pepsi Bottling Group rose 22%, or $5.60, to $30.80. Shares of PepsiAmericas gained 26% to $25.13.

The concept of the big publicly traded bottler was forged by **Coca-Cola** Co. in the late 1980s. Worried about losing control over its bottlers, Coke's chief financial officer at the time, M. Douglas Ivester, devised a plan to create "anchor bottlers" in which it would own a large stake — up to 49% — while keeping the bottlers' assets off its books.

PepsiCo's move is likely to put pressure on Coke, which is grappling with its own decline in U.S. soda sales and has had a fractious relationship with its biggest bottler, Coca-Cola Enterprises Inc. But Coke has been adamantly against such a purchase, and its system is more complex than Pepsi's.

PepsiCo spun off its bottling division in 1999, under pressure from investors. The initial public offering of Pepsi Bottling, or PBG, was one of the largest in the history of the New York Stock Exchange. Today PBG is the world's largest bottler of Pepsi beverages, generating nearly $14 billion in annual sales and accounting for about 40% of Pepsi's global volume and more than 50% of Pepsi beverages sold in North America.

PepsiAmericas has $4.9 billion in annual revenue and accounts for about 19% of Pepsi products sold in the U.S.

U.S. union aims to curb imports of Chinese tires

By Robert Guy Matthews

The United Steelworkers filed a trade case against Chinese tire manufacturers, alleging a four-year-long surge of unfairly imported tires for cars and trucks that the union said is causing plant closings in the U.S. and the loss of thousands of domestic jobs.

This filing is the latest trade case by U.S. producers against Chinese manufacturers. Last week, U.S. steelmakers filed their largest case against allegedly unfairly dumped steel from China.

The steel workers union said it is requesting that China lower the number of car and light-truck tires exported to the U.S. to 21 million. It said that would return Chinese imports to 2005 levels. The quota would increase 5% a year for three years, the union said.

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GLOBAL BUSINESS BRIEFS

Kuehne & Nagel

Swiss freight forwarder posts 17% drop in profit

Swiss freight forwarder **Kuehne & Nagel International** AG said Monday its first-quarter net profit fell 17% as cost-cutting and increased sales activities only partially offset severe, recession-related volume declines. Net profit at the Schindellegi-based company fell to 128 million Swiss francs ($109.6 million) from 154 million francs a year earlier. Revenue was down 19% at 4.29 billion francs from 5.31 billion francs. "The solid performance in the first quarter confirms the efficiency of the measures we have taken at an early stage and implemented on a worldwide scale to adapt our enterprise to today's economic environment," said Chief Executive Reinhard Lange. The company said it would continue to curb costs while seeking to expand market share.

Alliance Trust PLC

U.K. investment trust **Alliance Trust** PLC posted a sharply wider net loss for its full fiscal year as the value of its investments dropped. In the 12 months ended Jan. 31, Alliance's net loss grew to £523.2 million ($773.5 million) from £76.56 million a year earlier. Revenue rose 9% to £60.3 million, but this was negated by £583.5 million in investment losses. The company said its net asset value per share fell to £3.17 from £4.03 a year earlier. Alliance Trust nevertheless said it will pay a full-year dividend of 8 pence a share, up from 7.9 pence a year ago. Chief Executive Katherine Garrett-Cox said that although the firm is cautious about the market outlook, "the outlook for us is very rosy because we are very much bottom-up stock pickers and we seek good companies for the long term."

British Airways PLC

British Airways PLC expects a shortfall of £1.7 billion ($2.5 billion) in cash generation if the industry downturn causes it to book two years of losses, Chief Financial Officer Keith Williams said in the airline's weekly in-house newsletter. "We have prepared our finances to sustain a downturn, but we had planned our business around an operating margin of eight to 10 per cent," Mr. Williams said. The airline warned earlier this month that it will likely post an operating loss of about £225 million for the year ended March 31 when it reports results next month. The carrier has reported 13 months of declining traffic and is offering voluntary departure packages to its managers in an effort to cut costs. Last year, BA delivered a 10.4% operating margin.

Czech Airlines

Air France-KLM SA and Czech consortium **Unimex-Travel Service** were picked by the Czech government Monday as candidates to take over state-owned Czech Airlines, officials said. The Czech state aims to sell its 91.5% stake in the national carrier, also called CSA, in a two-round public tender this year, and expects to generate about $270 million. Four bidders applied for the deal in the first round, including Russian carrier OAO **Aeroflot**. Finance Minister Miroslav Kalousek said the government decided to invite only Air France and the Czech consortium, declining to elaborate on reasons for the decision. Czech Premier Mirek Topolanek said last month that strategic and security interests would be decisive. The government plans to complete the sale by September.

Toyota Motor Corp.

Toyota Motor Corp.'s French operations have seen production drop by 3,300 cars in recent days because workers angry over cutbacks blocked access to a factory where the Yaris model is built, a company official said Monday. More than 100 workers were barring all entrances to the site with their cars in Onnaing in northern France before reaching a deal with company management Monday afternoon, said François-Régis Cuminal, chief spokesman for the plant. Some set tires or crates ablaze. The plant employs 3,250 workers and normally produces about 26,000 cars a month. The workers were protesting for more compensation for so-called short-time contracts, under which they work fewer hours. Mr. Cuminal said Toyota would tap a government aid fund to boost the rate of short-time pay from 60% of gross salary to 75%.

Sacyr-Vallehermoso SA

Debt-laden Spanish construction company **Sacyr-Vallehermoso** SA restated its 2008 results, posting a wider loss on accounting adjustments and higher provisions. Madrid-based Sacyr said its net loss widened to €256 million ($333.5 million)from a previously stated loss of €176.8 million. The company reported net profit of €946.4 million for 2007. A Sacyr representative said the changes were conducted to follow "more prudent accounting criteria." Sacyr, which embarked on leveraged acquisitions when liquidity was abundant, recently has been forced to sell assets as financing costs jumped and Spain's real-estate market imploded. Sacyr said in a filing with regulators that restatements include a provision of €37.2 million for uncollected loans.

China Merchants Holdings

China Merchants Holdings (International) Co. said its 2008 net profit rose 4.5%, lifted by increased capacity. The Hong Kong-listed port operator, a unit of state-owned **China Merchants Group**, said net profit rose to 3.71 billion Hong Kong dollars (US$478.7 million) from HK$3.55 billion. Revenue from continuing operations rose 24% to HK$4.14 billion from HK$3.35 billion. China Merchants is the largest container terminal operator by volume in Shenzhen, mainland China's second-biggest port. It controls nearly all the terminals on the west side of Shenzhen port including the Shekou, Chiwan and Mawan container terminals. The company recommended a final dividend of 40 Hong Kong cents, down from 45 cents in 2007.

Hasbro Inc.

Hasbro Inc.'s first-quarter profit fell 47% as consumers purchased fewer toys and a stronger dollar reduced overseas revenue. Sales slumped at Hasbro's boys division and its board-game unit. The company also was forced to cut prices on toy dinosaurs and dogs it had hoped to sell for $200 as consumers shunned expensive toys. Company executives in a conference call indicated they suspect the worst is behind Hasbro in terms of retailers' efforts to lower inventories, a major concern in the first quarter. The Pawtucket, R.I., toy maker reported first-quarter profit of $19.7 million, or 14 cents a share, compared with $37.5 million, or 25 cents a share, a year earlier. Revenue declined 12% to $621.3 million.

—Compiled from staff and wire service reports.

High-speed rail changes life in Spain

Bullet train is costly to government but improves social cohesion and economic mobility as it gains favor

By Thomas Catan

CIUDAD REAL, Spain—To sell his vision of a high-speed train network to the American public, President Barack Obama has cited Spain, a country most people don't associate with futuristic bullet trains.

Yet the country is on track to bypass France and Japan to have the world's biggest network of ultrafast trains by the end of next year, figures from the International Union of Railways and the Spanish government show.

The growth of the the Alta Velocidad Española, or AVE, high-speed rail network is having a profound effect on life in Spain. Many Spaniards are fiercely attached to their home regions and studies show they are unusually reluctant to live or even travel elsewhere.

But those centuries-old habits are starting to change as Spain stitches its disparate regions together with a €100 billion ($130 billion) system of bullet trains designed to traverse the countryside at up to 350 kilometers an hour.

"We Spaniards didn't used to move around much," says José María Menéndez, who heads the civil engineering department at the University of Castilla-La Mancha. "Now I can't make my students sit still for one second. The AVE has radically changed this generation's attitude to travel."

Spain opened its first high-speed line, between Madrid and Seville, in 1992. At the time, the decision to run the line to sleepy Seville, host to the World Expo that year, was deeply controversial. Critics said it would be a costly failure for then-Prime Minister Felipe González, and that he built the line just to take him to Seville, his hometown, on the weekends.

But the AVE—which means "bird" in Spanish— proved to be a popular and political success. Politicians now fight to secure stations in their districts. Political parties compete to offer ever-more ambitious expansion plans. Under the latest blueprint, nine out of 10 Spaniards will live within 50 kilometers of a high-speed-rail station by 2020.

Agence France-Presse/Getty Images

Spain's system of 350-kilometer-an-hour bullet trains, the AVE—meaning 'bird' in Spanish—has improved national mobility.

By last year, the sprawling network of lines that stretches out from the capital, Madrid, reached Málaga in the south, Valladolid to the north and Barcelona in the country's northeast. Now, residents of Barcelona can be in Madrid in just over 2½ hours—a journey that takes around six hours by car.

In the year since the Madrid-Barcelona line opened in February 2008, the AVE, costing passengers roughly the same as what they would pay to fly, has snatched half the route's air-passenger traffic.

"We had expected it to be mostly business travelers on this line," says Julio Hermida, a spokesman for Renfe, the state train operator. "But we're finding it's just as busy on the weekends," as Barcelona residents discover Madrid and vice-versa, despite a long-lived rivalry between the two cities. "To some extent, it's changing the way people think about each other."

Not everyone is pleased. ETA, the militant Basque separatist group, has said it would target anyone involved in the construction of a high-speed train line that will connect the restive northern region with Madrid and France. In December, ETA killed the owner of a company working as a contractor on the project, and in February detonated a bomb at the headquarters of Ferrovial SA, another contractor working on the project.

Other, nonviolent critics say the country's massive investment in high speed rail has come at the expense of other, less-glamorous forms of transportation. Starved of funds, Spain's antiquated freight-train network has fallen into disuse, forcing businesses to move their goods around by road. That means the Spanish economy is unusually sensitive to changes in the price of crude oil.

Critics say the AVE will never stop losing money. Even its backers say high-speed rail can be economical only if the state bears much of the construction costs. But they say the train's benefits—lower greenhouse-gas emissions, less road congestion and, in Spain's case, greater social cohesion and economic mobility—make it an investment worth making.

"The country is becoming far more intertwined," says José María Ureña, a professor of city and regional planning at the University of Castilla-La Mancha. "In a country that tends to separate out somewhat, that can only be a good thing."

The AVE was originally designed to compete with the airplane for commutes between major cities around 500 kilometers apart. But the biggest, and least expected, effect of the AVE has been on the smaller places in between.

Perhaps the most striking example is Ciudad Real, a scrappy town 200 kilometers south of Madrid in Castilla-La Mancha which, Mr. Ureña says, "had completely vanished from the map." In medieval times, the town was a key stopover point on the route between the two of most important cities of the time, Córdoba and Toledo. But the railway and the highway south later bypassed the town, and Ciudad Real began to wither.

Now it has an AVE station that puts it just 50 minutes away from Madrid, and Ciudad Real has come alive. The city has attracted a breed of daily commuters that call themselves "Avelinos." The AVE helped attract a host of industries to Ciudad Real, and the train is full in both directions.

Indra, an information-technology company, moved a "software factory" to Ciudad Real a decade ago. "Along with the University, the AVE was one of the key reasons we moved here," says Ángel Villodre, the director of the center.

The University of Castilla-La Mancha's campus here has grown sharply in size and importance. "The school is here because of the AVE," says Mr. Menéndez, the department head. "Without it, it would be impossible to attract the high-level staff we need."

Around a third of Mr. Menéndez's students are from a different region of Spain—almost unheard of in a country where students mostly stay close to home.

Airlines have in the past lobbied hard against high-speed rail projects, seeing them as unfair, government-subsidized competition. In the U.S., Southwest Airlines was credited with helping to kill a project to build a Texan bullet train in the 1990s.

But in Ciudad Real, an international airport has just opened its doors. It's key selling point? The AVE. The private owners of the airport have placed it next to the high speed line, hoping to offer a cheap alternative to Madrid's airports.

"If you can't beat them, join them," shrugs José Lopes, director of airlines development at Aeropuerto Central.

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See how Spain's high-speed rail system will grow in the coming years, at WSJ.com/World

German Coalition Considers Programs to Preserve Jobs

Germany's governing coalition is working on new job-preservation plans, hoping to avoid a leap in jobless figures ahead of September's general election.

*By **Roman Kessler** in Frankfurt and **Marcus Walker** in Berlin*

Existing programs have helped avoid big layoffs since last year. Under its "short-week" program, for example, the government is subsidizing the salaries of more than two million workers.

But both Chancellor Angela Merkel's conservative Christian Democrats and her party's current coalition partners, the left-leaning Social Democrats—which are each hoping to split from the current coalition and lead a new government—fear that struggling companies will cut costs further by laying off staff. In past elections, incumbent parties paid a heavy price in lost votes for rising unemployment.

Ms. Merkel is trying to cast herself as Germany's calm, competent crisis manager, and she still has high approval ratings, but the full brunt of the recession hasn't yet hit the country's labor market.

Her main rival for the job of chancellor, current Foreign Minister Frank-Walter Steinmeier, a Social Democrat, launched his campaign over the weekend. He is styling himself as the friend of the ordinary worker, promising tax cuts for lower-income earners, paid for with higher taxes on the rich.

Both parties are looking to new methods to contain joblessness, including "warehousing" workers in subsidized paid training programs until the economy rebounds.

The worsening global downturn since the beginning of the year has added to pressure on Germany's export-dependent industries to cut jobs, an economics ministry report showed last week. By the end of March, the number of people looking for work had soared to more than 3.5 million from just below three million in November. Labor-office forecasts suggest the total could rise above four million around the time of the general election—potentially disastrous for a government that made full employment a major goal before the present recession struck.

Seeking work

Change from a year earlier in the number of registered unemployed German workers

Source: German Federal Statistics Agency

After a meeting with German companies on Monday, a spokeswoman for Labor Minister Olaf Scholz, a Social Democrat, said the short-week subsidies might be extended to two years from the current 18 months. Another plan that coalition leaders will discuss Thursday is the creation of government-supported "transfer companies," which act as warehouses for surplus workers until they can be rehired, keeping their skills up-to-date and their names off official jobless lists. But many economists dismiss that plan as an attempt to manipulate the jobless data.

The short-hours subsidy allows firms to cut working hours and receive partial government compensation if they have trouble meeting payrolls. Workers suffer pay cuts but keep their jobs, and the labor office makes up some of the salary shortfall. Because they are able to retain qualified staff, companies can gear up production quickly once orders recover. Still, the program is in need of an overhaul if it is to hold up in a full-blown recession, economists say.

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Obama looks for savings

U.S. president seeks to trim $100 million amid raft of spending

By John D. McKinnon

WASHINGTON—U.S. President Barack Obama told agency heads to trim spending by $100 million, a largely symbolic effort that foreshadows bigger budget fights down the road.

Responding to Republican lawmakers—and some ordinary voters—who complain that his policy proposals would spend too much money, Mr. Obama told cabinet chiefs to find the savings in their existing allocations and report back within 90 days.

The president acknowledged at his first cabinet meeting that the new efforts wouldn't put much of a dent in the budget deficit. But "cumulatively they make an extraordinary difference because they start to set a new tone," he said. "A hundred million here, a hundred million there, pretty soon even in Washington, it adds up to real money."

Associated Press

U.S. President Barack Obama speaks to the media after his first cabinet meeting. He is flanked by Secretary of State Hillary Clinton and Defense Secretary Robert Gates.

Republicans noted the U.S. government spends $100 million every 13 minutes.

The White House released a list of agency spending cuts that are already under way. It included curbs on travel and reductions in paper flow.

Republicans belittled the administration's move. House Minority Leader John Boehner of Ohio pointed out that $100 million in cuts would amount to just 0.0025% of total federal spending for fiscal 2009, expected to reach $4 trillion. Other Republicans noted that the federal government spends $100 million about every 13 minutes.

"Let's not forget that at the same time they're looking for millions in savings, the president's budget calls for adding trillions to the debt," said Senate Minority Leader Mitch McConnell of Kentucky.

Mr. Obama has left himself open to the charge of overspending as he focuses on jump-starting the U.S. economy with a huge fiscal stimulus bill and shoring up its foundations with expensive overhauls of health care, energy and education.

Anticipating the charge, the administration sought to build some savings into its budget plans. But results so far have been modest.

The president estimated in his address to Congress in February that his budget would achieve $2 trillion in deficit reduction over the next decade. However, some of the spending reductions were derived from the savings of pulling U.S. troops out of Iraq as opposed to keeping them there at current levels for the next 10 years. And much of the projected deficit reduction was based on tax increases rather than spending cuts.

Some proposed spending curbs, such as a White House plan to end government agricultural subsidies to higher-income farmers, have run into stiff congressional resistance. The White House so far hasn't put up much of a fight to save those plans.

Still, the latest White House moves to curb spending likely foreshadow fierce budget battles down the road, as the administration seeks to stave off a loss of confidence in the U.S. fiscal outlook and in Washington itself.

Passage of health-care legislation, for example, likely will depend on extracting major savings from hospitals and physicians. The administration also wants to raise taxes substantially on oil companies that have seen their profits soar. Eventually, the White House hopes to impose a system of trading for emissions rights for greenhouse gases—a move that would substantially raise costs for many utilities and other big energy producers and users.

The administration also proposes a batch of tax increases on higher-income earners. Longer term, it is beginning to take an interest in tax reform.

Health tops lawmakers' agendas

By Greg Hitt

WASHINGTON—Shortly after the U.S. Congress returns from recess Monday, lawmakers will have to choose which Obama promise to make a higher priority—overhauling the health-care system or addressing climate change.

A growing number of Democratic lawmakers prefer health care, saying that has a far greater chance of producing consensus than climate change, inside the party and across party lines. And they argue that it would be a more tangible accomplishment to present to financially stressed voters heading into the 2010 midterm elections.

"Moving forward on health-care reform should be first among equals," Rep. Chris Van Hollen (D., Md.) said in an interview. Mr. Van Hollen, a member of the House leadership team, said the House will also "make substantial progress" on climate change, including consideration of a cap-and-trade plan to control harmful emissions. But he stressed health care has the best prospect for enactment. "That is in a position to move through the entire process first," he said.

The White House and Democratic congressional leaders say both issues remain at the top of their agenda. Mr. Obama looks "forward to working with [the] leadership on Capitol Hill in the months to come on both issues," said White House spokesman Jen Psaki.

Both issues are complex and politically difficult, and Capitol Hill has rarely completed landmark legislation on two fronts in one year. With four months gone in 2009 and the 2010 election looming, the window for substantive legislative action will narrow sharply.

While health care may have a smoother path than climate change, even that won't be easy, with many details remaining to be worked out. Among them: how to pay for expanded coverage, which is estimated to cost more than $1 trillion over 10 years. Republicans are attacking the revenue-raisers already floated as big tax increases.

Leading-indicators index falls

By Kelly Evans

The Conference Board's index of leading economic indicators sank in March for the ninth consecutive month, the New York-based business research group said Monday.

Declines in new building permits, the stock market and labor-market activity last month pushed the index down 0.3%, after 0.2% drops in the previous two months, suggesting the U.S. economy will continue to contract. But modest improvement in consumer expectations and personal income suggests the pace of decline is moderating.

"The recession will continue through the summer, but the intensity will ease," said Ken Goldstein, an economist with the group.

CAPITAL JOURNAL ▪ Gerald F. Seib

Pieces are falling into place that will determine path on Iran

Can the U.S. talk to Iran and ratchet up economic pressure on it at the same time?

We're about to find out. President Barack Obama, as everyone knows, wants to do the talking, in hopes of finding a way to derail Iran's nuclear program. But even as he moves in that direction, the combined efforts of new Israeli Prime Minister Benjamin Netanyahu and a bipartisan selection of lawmakers in Congress will try to perform the economic squeeze.

The great question, of course, is whether these two impulses are mutually reinforcing or at odds with each other. Would more economic pressure give Iran an incentive to be more forthcoming, or simply provide an excuse to abandon the diplomatic track?

Benjamin Netanyahu

Three separate events are coming quickly that, taken together, may provide the answer.

The first is the consolidation of power in Israel by Mr. Netanyahu, the famously blunt, congenitally hard-nosed new prime minister. He has formed his new government in Israel, and warned as he did that Iran's nuclear program represents a "hinge of history," and the effort to stop it a test of "Western civilization."

His attitude can't have been brightened by Iranian President Mahmoud Ahmadinejad's performance at a United Nations conference on racism Monday, when the Iranian leader gave a speech labeling Israel a "cruel and racist regime." Mr. Netanyahu leaves barely beneath the surface the threat to use Israeli air power to strike at the nuclear program that Mr. Ahmadinejad oversees.

Look for Mr. Netanyahu to visit Washington by the end of May to inaugurate his relationship with Mr. Obama. Mr. Netanyahu says he doesn't oppose the president's effort to start a dialogue with Iran, but warns that time is short and the odds of success low.

In many ways, Mr. Netanyahu has set himself up nicely for his coming visit to Washington. When he arrives, he's likely to find that Israel's veiled threats to use the military option against Iran have left many on the American side nervous and urging him to hold off. To which he will respond, in effect: OK, if you don't want me to use the military option, find some other way to squeeze Iran hard enough to make it change course.

That's where those members of Congress enter the picture. As early as this week, some key senators—led by Democrat Evan Bayh of Indiana, Republican Jon Kyl of Arizona and independent Joseph Lieberman of Connecticut—will introduce a bill designed to hit Iran in what is widely regarded as its soft economic underbelly: its reliance on imported gasoline and other refined products.

The great economic anomaly of Iran is that it is a country wealthy in oil but woefully unable to provide enough refined-oil products to run its country's cars and trucks. It simply has never built enough refining capacity to do that. By some estimates Iran imports as much as 40% of the gasoline it uses, and two years ago imposed rationing because it couldn't keep up with escalating demand. In fact, Iran has been stocking up on gasoline in recent weeks in hopes of meeting summer demand at home.

Other economic sanctions have struck at Iran's financial sector, but the goal of the bill that Sens. Bayh, Kyl and Lieberman are about to introduce is to penalize international energy companies that sell refined products to Iran. The bill will authorize economic sanctions against these firms, as well as companies that insure the tankers that deliver refined products and those that finance shipments. The penalty: a ban on doing business with the U.S. government. The hope is to make such business too costly for companies such as India's Reliance Industries and European oil trading firms to keep it up.

In an interview, Sen. Bayh explains the strategy this way: "We're trying to strengthen the president's hand in the efforts to avoid a nuclear-armed Iran. If events keep unfolding in the direction they're going, in the next several years we will face a choice of either trying to contain a nuclear-armed Iran or using military force to stop it. Neither is a good option." Iran, he adds, has "a real Achilles' heel" in its reliance on imported gasoline. If an embargo on gasoline imports "was even 50% effective, that could perhaps get them to sit up and take notice."

The problem with such strategies is that Iran is hardly without economic leverage of its own. It can disrupt international oil markets, of course, or halt the flow of badly needed electricity it provides to the American-sponsored government next door in Iraq. And Iran has endured shortages of refined products before—with discomfort, to be sure, but endured them.

The ultimate target of this pressure will be the new Iranian government that emerges from elections to be held in June. It's a reasonably good bet that those elections—which pit Mr. Ahmadinejad against less-doctrinaire foes—won't change much.

But at least they will clarify which kind of Iranian government the Obama administration will approach for a dialogue. By the end of June, then, all the pieces will be on the board, and the chess game will begin in earnest.