News in Depth: Even in a downturn, companies are spending on innovation

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

What's News

Massive quake rocks Italy

More than 100 people die, thousands left homeless; 'everything was falling'

BY STACY MEICHTRY

L'AQUILA, Italy—A powerful earthquake shook this medieval town in central Italy early on Monday morning, killing at least 100 people, destroying houses, schools and cultural sites and leaving tens of thousands without a home.

Rescue workers worked into the night on Monday, sifting through slabs of walls, twisted steel, furniture and wire fences strewn on gray-dusted sidewalks in search of possible survivors stuck under the rubble. The quake, the most devastating in Italy in nearly three decades, which had a magnitude of 6.3 and was strong enough that many felt it in Rome, 100 kilometers to the west of L'Aquila.

"Everything was falling. Furniture, dishes," said Giovanna Papola, 62. Her husband had to pull her mother's body out of the ruins of her nearby home, she said.

Italy has a long history of earthquakes. In 2002, a school in Puglia, in southern Italy, collapsed during a tremor, killing 30 people, including many young children. The worst Italian quake in recent memory was in Irpinia, also in the south, in November 1980. Almost 3,000 people were killed and thousands were left without a proper home for years.

Italy's buildings are particularly vulnerable to tremors, analysts say—more so than buildings in the U.S. and Japan—because they often date back hundreds of years and haven't added modern reinforcements to help them withstand quakes.

"The housing style hasn't change for hundreds of years," said Robert Muir-Wood, chief research officer at Risk Management Solutions, a disaster consultancy in London. He estimated the damage from Monday's tremor at "certainly in the billions" of euros.

Many of the buildings that collapsed or were damaged in L'Aquila on Monday were cultural monuments. The back of the 13th-century Basilica di Santa Maria di Collemaggio, founded by future

Please turn to back page

Associated Press

An earthquake struck central Italy early Monday morning. Above, two men hug amid the debris in the city of L'Aquila, near the epicenter.

U.S. to shake up big weapons programs

BY AUGUST COLE

U.S. Defense Secretary Robert Gates on Monday unveiled a sweeping overhaul of weapons priorities to reorient the Pentagon toward winning unconventional conflicts like the one in Afghanistan, rather than fighting major powers like China and Russia.

Mr. Gates said his proposed budget represented "one of those rare chances to match virtue to necessity; to critically and ruthlessly separate appetites from real requirements," and that politics played no role in his analysis.

The assault on business as usual in Pentagon procurement proposes canceling or severely cutting back nearly every program that is either over budget or behind schedule. Mr. Gates's hit list in the Defense Department's 2010 budget includes a number of programs that contractors such as **Lockheed Martin** Corp. and **Boeing** Co. have said will lead to thousands of lost jobs in the aerospace industry.

While Mr. Gates proposed boosting certain programs, including big ones such as Lockheed's Joint Strike Fighter jet, and a variety of unmanned aerial vehicles, the scope of program cuts and curtailed orders is wide. Mr. Gates said the Air Force will not order more of Lockheed's $143 million F-22 Raptors, widely considered to be the world's most advanced fighter jet, beyond the 187 already expected. He said he planned to order no more Boeing C-17 transport planes beyond the 205 planned.

Mr. Gates's plans have clear international implications. His decision to increase spending on the F-35, which involves European nations and defense companies, from $6.8 billion to $11.2 billion in 2010, secures the program's future and will help keep costs in check for nations such as the U.K. and the Netherlands.

However, in a blow that carries as much symbolic weight as it does financial, Mr. Gates said he intends to cancel the Lockheed-led effort to build a new fleet of Marine One helicopters for the U.S. president. **Finmeccanica's** AgustaWestland is a partner on that program, which had called for heavily modifying a US101 helicopter into a flying limousine.

Mr. Gates said he had de-

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Obama presses U.S. ties to Turkey

BY JONATHAN WEISMAN AND FARNAZ FASSIHI

ANKARA, Turkey—Barack Obama, in his first appearance as U.S. president in a Muslim nation, waded Monday into Turkey's thorniest issues—the slaughter of Armenians in World War I and the rising power of political Islam in a secular state.

By evoking his own country's past and the difficult relations between the two countries under former president George W. Bush, Mr. Obama appealed to this crucial ally to repair ties.

"I know that the trust that binds the United States and Turkey has been strained, and I know that strain is shared in many places where the Muslim faith is practiced," he told Turkey's parliament in a speech beamed live throughout the Muslim world. "So let me say this as clearly as I can: the United States is not and will never be at war with Islam."

The last leg of this overseas tour is also the most dip-

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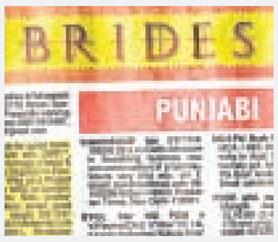

Ineligible bachelors

U.S. crisis makes Indian men less of a catch back home

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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7975.85	-0.52
Nasdaq	1606.71	-0.93
DJ Stoxx 600	185.01	-0.62
FTSE 100	3993.54	-0.90
DAX	4349.81	-0.80
CAC 40	2929.75	-0.98
Euro	$1.3393	-0.31
Nymex crude	$51.05	-2.78

LEADING THE NEWS

Central banks enhance foreign-currency lending

Swap lines put in to improve workings of short-term markets

By Jon Hilsenrath

In a precautionary move, the U.S. Federal Reserve, along with the Bank of Japan and three European central banks, expanded a program that allows them to lend each other's money to financial institutions in need of foreign currency.

The Fed, Bank of England, European Central Bank, Swiss National Bank and BOJ announced the Fed will be able to lend pounds, euros, yen and Swiss francs to U.S. institutions with pressing short-term needs for loans in those currencies.

The move is an example of housekeeping meant to strengthen the plumbing of short-term money markets, rather than emergency management. The new program has been in the works for a few months. A person familiar with the planning said the central banks involved believe the new lines aren't likely to be tapped in the foreseeable future.

Financial institutions outside the U.S. have been in great need of U.S. dollar funding during the financial crisis, forcing other central banks to turn to the Fed for dollars to lend out abroad. But U.S. financial institutions haven't faced severe shortages of foreign-currency funding that would force them to turn to the Fed for loans in these currencies.

There are a few reasons why the Fed and other central banks might want to put these swap lines in place. One is that during some holidays, when U.S. markets are closed but others aren't, U.S. institutions operating abroad could face temporary funding needs.

Another is simply to make existing arrangements more reciprocal. In the past few months, the Fed has loaned hundreds of billions of dollars to other central banks, which those central banks have in turn loaned to financial institutions in need of dollars. The new arrangement more formally allows the money to flow the other way if needed.


Kevin Warsh

"Should the need arise, euro, yen, sterling and Swiss francs would be provided to the Federal Reserve via these additional swap agreements with the relevant central banks," the Fed said.

Separately, in a speech Monday, Federal Reserve Governor Kevin Warsh said panic has been a fundamental cause of the financial crisis and indirectly defended the government's actions during this recession.

"The panic is the result of both faulty private practices and flawed public policies. To place blame either exclusively on private financial firms or chiefly at the doorstep of the official sector is incorrect," he said. "The encouraging news, I should note, is that panics end. And this panic is showing meaningful signs of abating."

Coke will take a minority stake in U.K.'s Innocent

By Valerie Bauerlein

Coca-Cola Co. is investing £30 million ($44 million) for a minority stake in **Innocent** Ltd., a U.K. smoothie maker known for its environmentally conscious packaging and marketing savvy.

Coke is continuing to invest in juices and teas, as growth in its core soft-drink business fizzles in the U.S. and slows in some other markets. Coke's $2.4 billion offer for **China Huiyuan Juice Group** Ltd. was blocked last month by Chinese regulators. But the company spent $43 million last year for a 40% stake in **Honest Tea** Inc., a maker of premium and organic bottled teas, and has bought companies such as Fuze Beverages LLC and Odwalla in recent years.

Coke isn't alone in such investments, as rival **Nestlé Waters North America** Holdings Inc. agreed last month to invest $15.6 million for a stake in Sweet Leaf Tea Co., with an option to buy the ready-to-drink tea company.

Innocent said its co-founders would continue to run the company with an emphasis on such things as natural ingredients, environmentally friendly packaging such as a 100% recycled plastic bottle and delivery vans covered in grass and daisies, and charitable giving. "We'll just get to do them even more," said co-founder Richard Reed, in a statement. Coke said its investment should foster Innocent's continued expansion in Europe.

Companies balk at levy to replenish SIPC fund

By Randall Smith

Opposition is swirling to a move to replenish the securities-industry insurance fund making payouts to some investors who suffered losses with Bernard Madoff.

Last month, the Securities Investor Protection Corp. told member firms they would have to pay 0.25% of their net operating revenue to bolster the insurance fund, which is expected to shrink to less than $1 billion from $1.7 billion because of the Madoff fraud and other losses.

At a meeting last week of small and midsize securities firms, several executives protested the amounts their firms are slated to pay. Lon Dolber, chief executive of **American Portfolios Financial Services** Inc. in Holbrook, N.Y., estimated his payment would rise 100-fold to $15,000.

"People are concerned about the assessment," Mr. Dolber said, which applies to the fiscal year that began April 1.

A flat fee of $150 a firm had been charged every year from 1996 to 2008 to keep the insurance fund above its target minimum of $1 billion. SIPC has about 5,200 member firms, and its insurance fund covers customer losses of as much as $500,000 in brokerage accounts due to theft or negligence.

The "huge magnitude" of the assessment is "very disturbing," said Tony Pizelo, chief executive of **Pacific West Financial Group**, of Renton, Wash., especially since many of the firms paying more have been weakened by the market's tumble and the recession. "Why should we be subsidizing the Madoff situation?" he asked.

The complaints about the assessment echo the anger among small-bank chief executives amid pressure to increase deposit-insurance premiums to strengthen the Federal Deposit Insurance Corp.

Messrs. Pizelo and Dolber voiced their objections at last week's meeting, held at a Ritz-Carlton hotel in lower Manhattan by **Bank of New York Mellon** Corp.'s Pershing unit, which provides support and back-office services, such as clearing, to securities firms.

Pershing Chief Executive Rich Brueckner told attendees Pershing's assessment would increase to an estimated $4 million, according to people who attended the meeting.

Some brokerage houses have complained that they shouldn't have to foot the bill for investor losses on what were essentially money-management accounts at Mr. Madoff's firm. Also making some executives angry is the Securities and Exchange Commission's failure to spot the fraud.

"The most common question is: Why pay claims at all?" said Stephen P. Harbeck, SIPC president, who declined to estimate how much the assessment is expected to generate. He said some Madoff-related losses are covered by the insurance fund because **Bernard L. Madoff Investment Securities** LLC was registered as both an investment adviser and a brokerage house that was a SIPC member. As a result, Mr. Madoff's investors "fit the classic statutory definition of the term customer."

In the bear market of the 1970s, SIPC levied annual member assessments equal to 0.5% of a firm's revenue. The amount varied in the 1980s and early 1990s, settling at $150 a firm in 1996. "It's been a pretty good deal," given the protection provided by the insurance fund, Mr. Harbeck said.

The fee increase, approved by SIPC's board, was announced March 2. Members that don't pay will lose their membership, which is required to do brokerage business.

SIPC's directors include executives from UBS AG, Travelers Cos. and ING Groep NV, as well as two government officials.

In an interview, Mr. Brueckner, the Pershing CEO, expressed support for the assessment, noting that SIPC helps give investors "trust and confidence" in the financial system.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

For more people in the news, visit CareerJournal.com/WhosNews

IBM, Sun deal talks near collapse

IBM withdraws $7 billion offer amid split on Sun board

Talks between **International Business Machines** Corp. and **Sun Microsystems** Inc. were on the verge of unraveling Monday, threatening a potential $7 billion acquisition that would place one of Silicon Valley's iconic companies under the Big Blue umbrella.

*By **Dennis K. Berman, William M. Bulkeley** and **Don Clark***

People familiar with the situation said Sun's board rejected a formal acquisition offer by IBM on Saturday, sending a notice terminating Sun's agreement to negotiate exclusively with IBM. IBM on Sunday withdrew its offer to buy Sun, said a person informed about the situation. Another person familiar with the negotiations suggested the situation was "fluid" and that advisers to the parties were still in touch.

Sun's board is split over whether to do the deal, with a faction led by Sun's chairman and co-founder, Scott McNealy, opposing the transaction and a group led by Chief Executive Jonathan Schwartz in favor, said two people familiar with the talks. While the price of IBM's offer remained unclear—some placed it at $9.10 a share, others at $9.40—some people familiar with the talks say price wasn't the biggest issue.

In late afternoon trading Monday, Sun's shares were down 23% at $6.51 each on the Nasdaq Stock Market. IBM's stock was down 0.5% at $101.71 on the New York Stock Exchange.

Sun argued the offer gave IBM too much "optionality," or leeway to walk away from the deal, according to one person familiar with the talks. IBM believed that under the proposed framework, it would be fully committing to a deal.

Late-stage deal negotiations are often full of brinkmanship, and it's possible the two sides are hardening their positions only to strike a full deal in the near future. But for now the stance is confrontational.

Word of talks between the two companies first came last month in The Wall Street Journal. Neither Sun nor IBM has confirmed they were in negotiations.

If talks collapse, Sun would face pressure to find other plans to bolster its stock price, which had fallen 79% in 2008. Its share price last week was nearly 71% above the price before reports that the two companies were in takeover talks.

The stakes are higher for Sun than for IBM: Sun has no other prospective suitors, and without a deal, its stock price would likely sink to the $4 to $5 range, where it traded before news of the talks last month. Should the company's stock fall significantly, its shareholders could press for renewed negotiations.

For IBM, a purchase of Sun would represent the biggest deal in the century-plus history of the company. IBM's interest in Sun was spurred by its desire to gain clout in the growing market for "cloud computing," a loosely defined business in which customers rent computing power from remote locations via the Internet instead of buying machines and software of their own.

IBM was especially interested in Sun's software and the community of developers using Sun's freely available Solaris, Java and MySQL software products. It also believed Sun could help it fight **Microsoft** Corp. by providing free alternatives to the Windows operating system.

Investors initially expected Sun to fetch $10 to $11 a share. But the price apparently came down as Sun demanded assurances that IBM would proceed with the deal in the face of anticipated regulatory challenges.

Some antitrust lawyers had predicted IBM would have a hard time getting clearance for the deal because the companies have overlapping product lines. The computer maker could have opted to spin off Sun's tape-based storage systems, as a merger would have given IBM nearly 100% of that market. But the combination would also have given IBM about 65% of the $17 billion market for servers that use the Unix operating system, according to the market-research firm IDC.

The apparent impasse in the talks with IBM won't necessarily attract other suitors to Sun. People familiar with the situation say Sun's bankers approached most large technology firms after IBM expressed interest, and all passed.

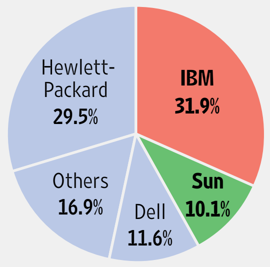
A takeover of Sun would mark an inglorious end for a company that remained a Silicon Valley innovator even as its financial fortunes languished. Sun's stock-market value topped $200 billion during the Internet bubble, but the company never fully recovered from the ensuing bust. Yet it retains loyal customers and a trove of software.

Toni Sacconaghi, an analyst with Sanford C. Bernstein, said the Sun "board is going to have a lot of explaining to do if they turned down an offer of $9.40 a share." He added the talks with IBM "casts uncertainty among customers about Sun's future."

—Matthew Karnitschnig contributed to this article.

Computing clash

Share of the $53.3 billion computer server market



Note: by 2008 factory revenue Source: IDC

CORPORATE NEWS

Diageo aims a new pitch at shoppers

As more people drink at home, liquor giant's focus shifts to in-store displays for beer, helping novices mix cocktails

By Aaron O. Patrick

With people going out less often amid the recession and drinking more at home, **Diageo** is adding a twist to its marketing.

The company, whose brands include Johnnie Walker scotch and Guinness beer, is developing in-store displays to encourage shoppers to buy more of its products in supermarkets and liquor stores. Central to its approach is a plan to roll out big refrigeration units so stores can sell their beer chilled.

ADVERTISING

The idea is to create a partially enclosed, refrigerated beer zone within a supermarket aisle, using a design Diageo calls "the pod." The refrigeration units, which will cost retailers roughly €10,000 ($13,000) each, are intended to hold all kinds of beer, not just Diageo's brands, in an attempt to boost beer sales overall.

No retailer has yet bought the pod, which was designed by British in-store marketing specialist **Design Central**. But Diageo says it is working with Spar, a European food chain, to install a smaller version this spring.

The effort is part of a strategy by Chief Executive Paul Walsh to make Diageo, the world's biggest alcoholic-beverage company by revenue, better at working with supermarket chains, an increasingly important outlets for alcohol sales in Europe and the U.S. In Britain, **Molson Coors Brewing** expects beer sales by supermarkets and other stores to overtake pub and club sales this year for the first time, according to a company spokesman.

Diageo

Mockup of a Diageo "pod," which is designed to create a partially enclosed, refrigerated beer zone within a supermarket aisle.

In September, Mr. Walsh appointed longtime Diageo salesman Ron Anderson to the new post of chief customer officer, and put him on Diageo's top management committee. One of Mr. Anderson's top priorities: teaching drinkers how to make their own cocktails. "Mixing is a problem," he says. "It's a case of having people understand what they need at home."

Diageo is installing computer screens in liquor stores to help people plan parties. Customers type in the cocktails they want to serve and the number of guests they are expecting, and the computer prints out a list of ingredients and quantities, including ice. The machines, which the company says are in 500 liquor stores in 38 U.S. states, can also send cocktail recipes via email.

Diageo, along with rivals **Brown-Forman** and **Fortune Brands**' Beam Global Spirits & Wine, Diageo also plans to release several new premixed cocktails in the U.S. this year.

Stock analysts say Diageo's retail push seems to be working. Sales of its Smirnoff vodka grew 2.2% in the U.S. in January, twice the rate of the spirits market as a whole, according to a Feb. 26 report from Credit Suisse, while sales of most big spirits brands fell. Credit Suisse analysts said the figures suggest that Diageo's campaign will help it get through the recession with a minimal loss of sales.

In Europe, Diageo's Irish unit has emerged as a leader in the supermarket strategy. In the past few years it has given away 600 display stands that hold spirits, mixers and condiments. They could be used, for example, to tempt margarita lovers by displaying Diageo's Cuervo tequila, lime juice and salt next to each other. The stands cost Diageo between €100 and €200, a spokesman says.

Spirits account for most of London-based Diageo's profit, but beer is especially important to it in Ireland, where it brews Guinness as well as such brands as Budweiser and Carlsberg. Diageo Ireland learned that 78% of those who buy beer in Ireland drink it within three hours, says Henry Dummer, the company's head of customer marketing in Ireland. Many Irish supermarkets don't sell chilled beer, missing out on sales, he says.

Now, Spar has agreed to install Diageo-designed beer refrigerators in all 50 Irish outlets of its Eurospar chain over the next two years, says Declan Ralph, Spar Ireland's retail-development director.

Diageo wanted British supermarket giant **Tesco** to install the first pod, says Mr. Dummer. But a spokesman for the retailer said it has "no plans" to do so in Britain or Ireland. A Diageo spokesman said Tesco is working with it on other beer-display projects, and that Diageo is in talks with several other retailers about the pod.

Meanwhile, Diageo is pushing ahead with another version of the pod concept: one that will stock premium wines and spirits, says Robert Thorpe, a co-founder of Design Central. Instead of chrome, the shelves will likely be made of wood, he says.

Music firms pitch an iTunes 'pass'

By Ethan Smith

Record companies, weary of scraping by on 99-cent song downloads and dwindling CD sales, are trying to reinvent their most profitable product—the album—to appeal to shoppers on **Apple** Inc.'s iTunes Store.

On Tuesday, **Sony** Corp.'s Epic Records plans to release a $17 iTunes "pass" for pop band the Fray. The pass delivers songs, video footage and photos, but spaces out the offering over several weeks in the hope of holding consumers' attention and justifying the premium price. Earlier this year, British electronic group Depeche Mode launched its own iTunes pass to help promote the release of its 12th studio album. Apple plans several more subscription-style passes in the coming weeks.

The offer is part of a broader strategy among record labels as they try to adapt to a retail landscape now dominated by the iTunes Store, which has become the world's largest music retailer. While iTunes has thrown the music industry a lifeline by getting listeners to pay for a product that many had been getting free via illegal file-sharing, it also has created a new set of problems for record labels. The vast majority of iTunes sales are for single-song downloads, while higher-priced album sales have dwindled. Record companies are desperate to find ways to hook consumers onto bigger-ticket products that deliver higher margins.

The release of the Fray's iTunes pass comes the same day that song prices on the iTunes Store are set for an overhaul. Instead of the long-standing 99-cent across-the-board price, songs will be priced on a three-tiered system, with new releases or hits costing $1.29, and older tunes at 69 cents. Those occupying the middle ground will still cost 99 cents.

Even so, many in the recorded-music industry view the continuing shift to song-by-song downloads as a major problem. Major labels can't sustain their global marketing and physical distribution infrastructures with transactions that net them pennies apiece.

"If what this industry is relying on are one-by-one download sales, I don't care what the price is, that's not an industry that grows," said David Ring, executive vice president of Universal Music Group's eLabs division, speaking at a conference in February. Universal Music is part of **Vivendi** SA of France.

Though CD sales still account for about 80% of retail music sales in the U.S., they have fallen 20.3% this year alone, according to Nielsen SoundScan. Adding in digitally downloaded albums, sales are down 13.5%, compounding a 45% decline in album sales since 2000. Sales of individual digital tracks are up 17% this year. Even so, using an industry metric called track equivalent albums, which counts 10 song downloads as one album, sales are still down 7%.

Depeche Mode recently charged $19 for more than 30 songs and videos—most of them available only as part of the pass—culminating with its new album, "Sounds of the Universe." The album and pass are being released by **EMI Group** Ltd., which is owned by British private-equity fund **Terra Firma Capital Partners** Ltd.

Representatives of Apple and EMI declined to say how many users have signed up for Depeche Mode's iTunes Pass since it became available in February. Both companies said they were happy with the adoption rate.

The Fray's iTunes Pass follows its most recent, self-titled album, which was released in early February. The songs and videos are to be mostly recorded live while the band is on tour. Instead of waiting months or years for the live recordings to be released on an album, buyers will get them within weeks or even days of their performance.

"It's like buying a ticket," says the band's lead singer and pianist, Isaac Slade. "But it doesn't go to the show, it goes to the backstage room where we're showing each other YouTube videos. It's a chance to let the fan in."

Apple has begun offering fans other incentives to trade up from individual songs to full albums. A feature introduced in 2007 called "complete my album" allows a buyer to apply money spent on individual songs toward the cost of the full album it came from.

Aer Lingus CEO steps down as carrier's troubles deepen

By Quentin Fottrell And Michael Carolan

Aer Lingus Group PLC said Monday that Chief Executive Dermot Mannion stepped down, effective immediately, leaving the embattled Irish flag carrier at a crucial time.

Aer Lingus faces large operating losses in 2009, with average fares seen falling by a minimum of 10% this year. The airline's cargo revenue is expected to fall as much as 30%.

Dermot Mannion

"My decision to step down will allow a new CEO to bring fresh thinking and new ideas to the business," Mr. Mannion said. The CEO has been under pressure since Aer Lingus posted disappointing full-year results last month, swinging to a net loss for 2008, and warned of large operating losses in 2009.

Mr. Mannion, 51 years old, had faced down trade unions, steered the airline through two rounds of cost cuts and helped thwart two takeover attempts by Irish rival **Ryanair Holdings** PLC. On his watch, the airline also negotiated sharing arrangements with **Jet Blue Airways** Corp. on domestic U.S. flights and **UAL** Corp.'s United Airlines on trans-Atlantic flights.

Speculation that his position was under threat has mounted since December, when it was revealed that a successful Ryanair takeover could trigger a €2.8 million ($3.8 million) golden parachute payout to Mr. Mannion, should he wish to step down. Mr. Mannion subsequently decided to cancel the potential bonus.

Mr. Mannion was lured away from Emirates Airline in 2005 to fill the top job at Aer Lingus after it had been vacated by Willie Walsh, who left to become chief executive at **British Airways** PLC.

Some observers said Sean Coyle, Aer Lingus's chief financial officer, is a front-runner to succeed Mr. Mannion. The airline's chairman, Colm Barrington, will take charge of the group until a new CEO is appointed. A spokeswoman for Aer Lingus said that Mr. Coyle was unavailable for comment.

Aer Lingus posted a net loss of €107.8 million for 2008, compared with a net profit of €105.3 million in 2007. The carrier also warned of large operating losses in 2009.

Separately, U.K.-based low-cost airline **easyJet** PLC on Monday appointed Michael Rake, the chairman of **BT Group** PLC, as its deputy chairman and said that current Chairman Colin Chandler will step down July 1. The airline also said that the number of passengers carried in March fell 6.3% from a year earlier to 3.49 million.

From a deal maker to Mr. Fix-it

Rattner's new task: figuring out a rescue for GM and Chrysler

By Neil King Jr.
And Peter Lattman

Bloomberg News

Steven Rattner, former Wall Street investor charged with rescuing GM and Chrysler, in Washington on March 20.

WASHINGTON—Steven Rattner arrived in Washington six weeks ago with a reputation as a finance whiz who amassed a fortune on Wall Street. His ability to size up troubled firms, he and others said, was just what President Barack Obama needed to plot a rescue of **General Motors** Corp. and **Chrysler** LLC.

A look back at his years in New York, though, suggests that a broader blend of skills—deal maker, Democratic fund-raiser and networker extraordinaire—proved crucial in positioning him for the job. Since turning down a post in the Clinton Treasury Department, Mr. Rattner, 56 years old, has sought a return to the U.S. corridors of power that he covered as a young newspaper reporter in the Carter years.

Mr. Rattner's recent deal-making experience—investing in companies at private-equity firm **Quadrangle Group** LLC, largely in the media industry—has been mixed. Amid a brutal fund-raising climate, Quadrangle recently delayed plans to raise $2 billion to start a buyout fund. Its media hedge fund folded late last year. Several investments are struggling, including ones in Spanish cable operator Ono and the publisher of Maxim magazine.

Most private-equity funds have hit hard times during the financial crisis, making Quadrangle no exception. Overall, its performance has outperformed the stock market, according to an investor presentation. The firm scored a coup last year when New York City Mayor Michael Bloomberg selected it to manage his multibillion-dollar fortune.

Mr. Rattner faces a large task: figuring how to rescue the failing GM and Chrysler. He leads a growing auto task force within the Obama administration, numbering a couple of dozen, in charge of one of the most ambitious industrial restructurings ever taken on by the government. In four months, the two auto companies have already gobbled more than $17 billion in government aid.

To Mr. Rattner, the job doesn't require the skills of a turnaround expert. Instead, he says, "this is an investment decision" not unlike the many he made at Quadrangle or earlier, during his years as an investment banker at Lazard Freres & Co.

"This job fits as naturally as any with the arc of what I've done during my career," Mr. Rattner said last Friday, sitting at the same table in his corner office at Treasury where, a week earlier, he fired GM Chief Executive Rick Wagoner.

"We have to decide whether to invest a certain number of more billions into these entities," he said. "It is very similar to what we do in private equity. You take a company, you analyze it inside and out, you break down all of its components, you evaluate the management, you evaluate its competitive position—and you decide whether to invest in it or not."

All of the president's calls thus far, including threatening GM and Chrysler with bankruptcy if they can't work out their problems, flowed directly from conclusions presented to the White House by Mr. Rattner and his team, administration officials say. That included the need to oust Mr. Wagoner.

Mr. Rattner grew up in Great Neck, N.Y., on Long Island. After Brown University, where he edited the college newspaper, he took a job as a reporter at the New York Times. After stints in the Washington and London bureaus, he jettisoned a promising journalism career for investment banking. He was tagged as an up-and-comer, first at Lehman Brothers, then Morgan Stanley and finally at Lazard. He ascended to the No. 2 spot at Lazard before leaving to start Quadrangle.

Along with three colleagues, he started the firm in March 2000, at the height of the tech bubble. They set up shop in a swank office on a floor of the landmark Seagram's building on Park Avenue. Mr. Rattner was the firm's headliner. One former colleague called him "Quadrangle's brand manager."

Mr. Rattner was already looking at opportunities in Washington. Prominent Washington lawyer Vernon Jordan had introduced him and his wife, Maureen White, to President Clinton and Hillary Clinton on Martha's Vineyard four years earlier. After the 1996 election, Mr. Rattner was offered a senior policy job at the Treasury, which he turned down. He promised his Quadrangle co-founders he would stay at the firm for five more years.

To raise Quadrangle's first $1 billion fund, Mr. Rattner turned to the big pension funds, but also tapped his old Lazard clientele, including billionaire telecom investor Craig McCaw; Comcast Corp. President Brian Roberts, and Henry Kravis, co-founder of private-equity firm Kohlberg Kravis Roberts & Co.

The firm started slowly, with relatively small investments in publishing and video distribution. It looked at but never closed on two baseball ventures, first involving the New York Yankees' TV network and then in a long brawl over ownership of the Boston Red Sox.

Some early deals, like a minority investment in Cablevision, the New York cable giant, made big profits for Quadrangle. An investment in a company that produced DVDs for exercise guru Richard Simmons and others flopped.

The media and communications sectors have been particularly hard-hit by the financial crisis, but Quadrangle's investments are largely in subscription-based rather than advertising-driven businesses, buffering it somewhat against the downturn. Investments that are holding up well include Get AS, a Norwegian cable company, and Hargray, a South Carolina-based rural telecom outfit.

The firm's highest-profile loss was a $250 million wrong-way bet on **Alpha Media**, the publisher of men's magazine Maxim, made in June 2007 at the market peak. Crushed by the declining advertising market, the company recently shut down its other title, music magazine Blender. Quadrangle invested about $90 million of equity and borrowed the rest.

Alpha presents another awkward issue for Mr. Rattner. One of the main lenders in the deal is **Cerberus Capital Management** LP, the private-equity firm that owns Chrysler and stands to lose a lot of money as a result of Mr. Rattner's decisions in his new job. Cerberus controls a large chunk of Alpha Media's $125 million in senior debt and could end up owning the company.

Quadrangle has written down its Alpha investment and is no longer butting heads with Cerberus over the magazine company, say people familiar with the situation.

In November, Quadrangle wound down a two-year-old, $500 million media-focused hedge fund struggling with weak performance and investor redemptions. The firm also agreed last year to let the managers of its $3 billion distressed-debt fund, a collection of Mr. Rattner's former Lazard colleagues, buy out Quadrangle's share of the fund. It was a blow to Quadrangle, as private-equity firms view distressed-debt investing as complementary to their core buyout businesses.

Joshua Steiner, Quadrangle's co-president, has said the firm gained distressed-investing knowledge working with the team.

The firm's two private-equity funds—a $1 billion vehicle launched in 2000 and a roughly $2 billion fund started in 2005—have posted solid results, delivering net annualized returns of 10.7% and negative 1%, respectively, as of the end of 2008. That outpaces the S&P 500 stock-market index by about 5% and 20%, respectively, over those periods, based on a formula that adjusts for when the investments were made and when profits were returned to the funds' backers.

But even as Mr. Rattner helped build Quadrangle, his attention was shifting toward Washington. In 2004, he was an adviser and major fund-raiser for Sen. John Kerry. The Rattners have carved out a role as a Democratic power couple, hosting fund-raisers at their Fifth Avenue apartment overlooking the Metropolitan Museum of Art. They were both major supporters of Mrs. Clinton, and when she lost the primary race to be the Democratic candidate for president, they threw their support behind Mr. Obama.

Roger Altman, a Wall Street financier who was the Treasury Department's point man during the first Chrysler bailout in 1979, says Mr. Rattner is well-suited for his new job.

"Steve has a brilliant grasp of finance, and that is the single-most important ingredient here," said Mr. Altman, a longtime mentor who lured Mr. Rattner to Lehman Brothers in 1982.

The Obama administration, partly to allay concerns among the United Auto Workers union, first picked union adviser and former investment banker Ron Bloom to lead the auto team. Mr. Rattner was then appointed a week later as head of the task force and has become the effort's most public face. Mr. Bloom remains a key part of the task force.

At Quadrangle, Mr. Rattner's former partners will learn this month how its investors feel about a post-Rattner era. Private-equity firms typically call for capital from their investors over time. Mr. Rattner's departure triggers a clause under which investors can stop the firm from making new investments.

Though its first fund is fully invested, the firm's second fund, at roughly $2 billion, is still about $500 million uninvested. Mr. Rattner has pleaded with Quadrangle investors to stick with it.

U.K. car sales drop 31%, fueling call for incentives

By Jonathan Buck

LONDON—U.K. new-car registrations fell 31% last month from a year earlier as the recession continued to deter consumers from spending on big-ticket items.

The decline, which mirrors sales, was a particularly heavy blow to the British car industry; March has been the largest-volume month in six of the last 10 years. March typically accounts for 18% of the annual market and last year had a 21% share.

New-car registrations fell to 313,912 vehicles, contributing to a first-quarter decline of 30% to 480,358 vehicles. Registrations fell 21.9% in February.

The U.K. auto-industry trade group has been pushing for a government incentive plan similar to those in other European countries, under which consumers who scrap old, inefficient cars receive cash toward the purchase of a new car. "A scrappage scheme will provide the incentive needed, and the evidence is clear that schemes already implemented across Europe do work to increase demand," Paul Everitt, chief executive of the Society of Motor Manufacturers and Traders, said in a written statement.

There is a marked contrast in registration figures across Europe between countries that offer scrapping incentives and those that don't.

In Germany, which offers €2,500, or about $3,400, in scrapping incentives, registrations last month jumped 40% from a year earlier. Industry association VDIK increased its forecast for German new-car sales to 3.1 million for the year from its January forecast of 2.9 million. Last year, 3.09 million cars were sold in Germany. Registrations in France, which also offers scrapping incentives, last month rose 8.1% from a year earlier.

But Spain, which doesn't offer incentives, saw new-car registrations fall 39% last month.

Industry experts worry, however, that government-funded incentives will only delay slowdowns unless economic growth resumes.

U.K. sales for **Ford Motor** Co. dropped 23% last month to 52,289 vehicles as its market share slipped to 15% from 16.7%. The Ford Fiesta remained the best-selling model for a fifth consecutive month. Vauxhall, part of **General Motors** Corp., reported 40,000 registrations last month, down 30%. Its market share was almost unchanged at 12.6%.

Marketplace

Carrying charges

A cost gap remains between 'legacy' and low-cost airlines > **Page 30**

Fiat in a strong position

AFP/Getty Images

Fiat says its MultiAir engine technology, which reduces engine waste and boosts fuel efficiency by 10%, will make its debut on the sporty Alfa Romeo MiTo model.

Fuel systems offer technological edge in Chrysler talks

BY JENNIFER CLARK

TURIN—Fiat SpA's strength in fuel efficiency is its biggest bargaining chip as it negotiates a stake in **Chrysler** LLC. The Italian auto maker's fuel systems offer Chrysler access to something it hasn't had in years: cutting-edge technology.

The U.S. government's plan to let states set their own fuel-efficiency rules could make fuel efficiency and emissions levels more important. "Americans won't take to small cars, but they might accept smaller motors" in return for fuel efficiency, said Pierlugi Bellini, associate director of the automotive group at the IHS Global Insight forecasting company in Milan.

Until recently, the quickest way for auto makers to improve emissions was to pursue diesel technology, because it is more efficient. But the European Parliament has tightened emissions standards of nitrogen oxide, making it more expensive to produce diesel engines that meet those standards. That means European manufacturers are focusing more and more on wringing greater efficiency from gasoline-powered engines.

European auto makers such as Fiat, **Volkswagen** AG, **PSA Peugeot-Citroën** SA and others are at the forefront of making gasoline engines smaller and cleaner, which gives them a big advantage over other car companies.

"Chrysler does not have expertise in this area, and Fiat does," said Andrew Fulbrook, senior analyst at CSM worldwide in London.

Fiat—part of **Fiat Group** SpA, Italy's largest industrial company with revenue of €59.4 billion ($80.12 billion) last year—led Europe's volume brands on low carbon-dioxide emissions for the second year running in 2008, according to JATO Consult.

Its future strategy depends on innovations such as its MultiAir engine technology, which reduces engine waste and boosts fuel efficiency by 10%. MultiAir-powered and downsized engines could achieve fuel economy of up to 25%, Fiat said.

The MultiAir is a component about the size of a box of chocolates that sits on top of a gasoline engine. Standard gasoline internal-combustion engines pump the same amount of air through a car's cylinder head whether it is idling or cruising at top speed. But the MultiAir gives air intake flexibility, wasting less fuel and squeezing more power and efficiency out of the engine.

Fiat said the technology will make its debut in September on Fiat's sporty Alfa Romeo MiTo model.

Sergio Marchionne, Fiat's chief executive, said he has no plans to limit Chrysler's access to technologies such as the MultiAir. That would be a boon to Chrysler, which was largely restricted to older technology and platforms by former parent **Daimler** AG.

MultiAir technology delivers fuel-efficiency gains but costs less than a hybrid engine, said Fiat's technology design chief, Rinaldo Rinolfi, who designed MultiAir with a team of 50 to 60 people over a 10-year period at Fiat's spartan powertrain facility on the outskirts of Turin.

Mr. Rinolfi, who has worked at Fiat for more than 25 years, is well known in the engine-design world. His work on developing the common rail diesel engine transformed diesel from a loud and dirty monster suitable for only trucks into the quiet, clean and svelte version that now powers European cars.

"I am a green guy at heart—not politically, but because I think the environmental sustainability of our product must be our first goal," Mr. Rinolfi said.

Fiat will also introduce a dry dual-clutch transmission, which delivers seamless gear changes in an automatic transmission. Mr. Rinolfi said the technology saves 10% on fuel, partly because of its compact size, and will be produced by the end of this year.

The auto maker is adopting other initiatives, too. It has launched a version of its iconic 500 model equipped with stop-start technology, a system that temporarily stops a car's engine when the vehicle isn't moving.

Chrysler, receiving government rescue funds, has until May 1 to put together a viability plan, and the company is scrambling to finalize a partnership with Fiat. For Fiat, a tie-up with Chrysler would give the brand a solid foothold in the North American market for the first time since 1983, when it retreated amid competition from Japanese auto makers and a reputation tarnished by reliability worries. Before that point, Fiat had been present in the U.S. market for decades, carving out a niche for small cars, particularly after the oil crisis of the 1970s.

"I think the minds of U.S. consumers are changing, as demonstrated by the success of the Mini and the Smart," Mr. Rinolfi said, referring to small models from **BMW** AG and Daimler, respectively. "So I think a part of the U.S. market could be interested in a Fiat 500. And probably the Alfa Romeo," he added.

CORPORATE NEWS

Support for Avtovaz is questioned

Russian state loan relieves car maker of need to cut costs

By Will Bland

MOSCOW—Russia last week agreed to provide the country's biggest car manufacturer, OAO **Avtovaz**, with an interest-free loan, but analysts fear the money could do more harm than good over the long term.

Visiting the company's plant in Togliatti last week, Russian Prime Minister Vladimir Putin told its 140,000 workers that the government would support the company's 90 billion ruble ($2.7 billion) investment plan with a 25 billion ruble interest-free loan.

But some analysts said state money could make the company uncompetitive, especially if it avoids layoffs. "Such large-sale state support may be unproductive and even increase the company's inefficiency," said Elena Sakhanova, an analyst at investment bank VTB Capital.

The government loan wasn't contingent on any cost cuts.

An Avtovaz spokesman defended the company, which produces the Lada and other brands, saying its restructuring plan will save 19 billion rubles this year. The plan aims to increase market share and competitiveness by modernizing Avtovaz's product range and improving quality.

ITAR-TASS

Russian Prime Minister Vladimir Putin announced an interest-free loan for Avtovaz to workers last week in Togliatti.

Last year French car maker **Renault** SA took a 25% stake in Avtovaz. The Russian government and Moscow brokerage Troika Dialog also each own 25%.

Avtovaz has lost market share to international rivals because richer Russians preferred to buy foreign cars. And when car sales fell sharply late last year, Avtovaz didn't reduce production. This caused a large buildup in inventories, with the company now holding a stock of 240,000 cars and car kits, which would take around eight months to sell off at the current monthly sales rate of 30,000 cars.

"The company responds too slowly to changes in the car market," said Sergei Udalov, deputy head of Togliatti-based consultancy Autostat. "Avtovaz should have increased prices a year ago when raw material and parts were getting more expensive. Instead they waited till March."

Avtovaz Chief Executive Boris Alyoshin, who has spent most of his career within the government, said in a recent interview that Avtovaz had a duty to support its suppliers when other car makers stopped ordering from them. "If we had stopped buying components as well, the suppliers wouldn't have survived the new year, and without them, absolutely no one would be working," Mr. Alyoshin told a Russian paper last week.

A company spokesman confirmed the statements were accurate. Mr. Alyoshin didn't immediately respond to an interview request.

—David Pearson in Paris contributed to this article.

Worry arises over possible Porsche-VW delay

By Christoph Rauwald

FRANKFURT—Tight credit markets and a steep downturn of the global auto industry are sparking concerns among investors that **Porsche Automobil Holding** SE might have to adjust or delay plans for gaining full control of **Volkswagen** AG.

Porsche in January increased its stake in Europe's largest auto maker by sales to 50.76% plus an undisclosed number of options to buy more shares. The Stuttgart-based sportscar maker last month confirmed that it plans to further increase its stake in Volkswagen and is "keeping all its options open."

But it also stressed last month that economic conditions must support any investment activity.

Instead, economic conditions are shrinking Porsche's cash flow and making the timing of a recovery in the auto market uncertain.

Meanwhile, the German government is showing no willingness to abolish the so-called VW Law, effectively preventing Porsche from exercising the voting power it would usually have through a majority stake.

"It seems impossible that Porsche can raise enough financing via normal channels to go to 75% of VW," said Sanford Bernstein analyst Max Warburton, who rates Porsche shares as market perform.

Porsche has been reaping huge windfall profits through the shareholding in Volkswagen it started to quietly accumulate in 2005. In its fiscal first half ended Jan. 31, Porsche reported net profit soared to €5.55 billion ($7.49 billion) from €1.26 billion in the same period the previous year.

However, Porsche's net debt almost tripled to €9 billion from €3.1 billion at July 31, 2008.

"A combination of low quality disclosure—making any detailed analysis difficult—and a surge in net debt only a few days after renegotiating a syndicated bank loan on much less favorable terms, overshadowed a surprisingly resilient core business operating profit," Nomura said.

On March 24, Porsche raised €10 billion in commitments needed to complete its refinancing.

The talks with banks had faced some hurdles and the commitments were reached after a late-night conference call with banks, people close to the situation said.

Some investors believe Porsche might just let options up to an additional 25% of VW stock expire by July and stick with its 50% stake for now. "If Porsche really does have just an option to increase its VW stake to 75%, then it remains in a solid position. It can just call it a day at 50% and wait for the VW Law to go one day and for the economy to improve," Mr. Warburton said.

The VW Law limits the voting rights of each shareholder to 20%. That gives the German state of Lower Saxony, which has a stake of just above 20%, a blocking minority on important company decisions.

Family-owned Porsche expects the VW Law to be removed eventually because the European Commission has criticized the law.

Porsche shares closed 3.3% higher at €43.85 in Frankfurt, largely due to a report from Bloomberg that Porsche and Volkswagen were considering an asset swap under a plan that would allow Porsche to increase its stake in Volkswagen without having to raise debt.

A spokesman for Porsche said the company didn't comment on the market rumor, while a spokesman for Volkswagen described the report as "wild speculation."

—Carol Dean in London contributed to this article.

GM's Saab unit anticipates sale before end of June

By Ola Kinnander

STOCKHOLM—Saab Automobile AB, the Swedish unit of **General Motors** Corp., told a Swedish court Monday that it has more than 20 suitors and expects to be sold before the end of June.

The Vanersborg district court Monday granted Saab an extension of its reconstruction period. The car maker met with creditors in court and argued successfully that it shouldn't immediately be forced into bankruptcy because it stands a chance of being sold and becoming profitable.

Saab, fighting for its survival, filed for bankruptcy protection Feb. 20. Its parent company, also struggling, has said it seeks to unload the Swedish unit this year.

Saab told the court it needs about $1 billion in the near future in order to continue production at its main plant in Trollhattan, Sweden, and to be able to launch the new models it has developed.

Of the $1 billion, $600 million would be a loan from the European Investment Bank and $400 million would consist of GM writing off loans and providing support for production of the new car models, Saab said.

Saab said it estimates it will sell 150,000 cars in 2011. It sold 93,000 cars in 2008.

The company didn't identify any potential buyers, but said in court documents that "currently there are more than 20 actively interested parties." It said the management's presentation to the parties will begin shortly and the sales process should be completed by the end of June.

A Swedish government official who is the state's liaison with the auto industry said last week he thought some rival car makers may be feigning interest in buying Saab to get access to its books and research and development plans.

The official, Joran Hagglund, said he believes Saab has three to five "serious" suitors. He said this might not be enough to save Saab, as the industry currently is in "free-fall" and any buyers now may have several troubled car makers to choose from.

Phone maker HTC's net falls 30%

By Perris Lee Choon Siong

TAIPEI—**HTC** Corp.'s first-quarter net profit dropped 30% from a year earlier amid the global economic slowdown and delayed shipments of some new products.

The Taiwan-based smart-phone maker said its net profit fell to 4.89 billion New Taiwan dollars (US$146.7 million) in the three months ended March 31 from NT$6.94 billion a year earlier. Revenue declined 3.4% to NT$31.59 billion. In February, the company had projected first-quarter revenue of NT$33 billion.

HTC is the world's largest maker, by shipments, of phones using **Microsoft** Corp.'s Windows Mobile operating system. It is also the maker of the G1 phone, which uses **Google** Inc.'s android operating system.

Africa ahead

France Télécom will acquire a 28.75% stake in Mobinil, to help its Africa expansion plans

- Mobinil subscribers increased 33% to 20.1 million as of Dec. 31
- Net profit rose 8% to 1.97 billion Egyptian pounds in 2008
- Full-year revenue rose 21% to 10 billion Egyptian pounds
- Full-year Ebitda rose 27% to 4.68 billion Egyptian pounds

Source: the companies

France Télécom to increase stake in Egypt carrier

By Ruth Bender

PARIS—**France Télécom** SA said an international court cleared it to acquire **Orascom Telecom Holding** SAE's stake in Egyptian mobile-phone operator Mobinil for €530 million ($715 million).

The Arbitration Court of the International Chamber of Commerce ruled that Orascom must transfer its 28.75% stake in Mobinil to France Télécom by Friday at 441,658 Egyptian pounds ($78,456) a share, France Télécom said late Sunday.

The ruling comes as the result of a 2007 effort by Orascom to force France Télécom to transfer its Mobinil shares to the Cairo-based company after the partners disagreed over Mobinil's budget. "We were for a budget that increased investment in Egypt to capture more of the market, and they wanted to reduce it," Orascom Chairman and Chief Executive Naguib Sawiris said.

The ruling will give France Télécom, which holds 71.25% of Mobinil, full control of the Egyptian mobile-phone company.

France Télécom also will consolidate the financial results of Egyptian Co. for Mobile Services, in which Mobinil holds a 51% stake. Based on 2008 results, that could add more than €360 million to France Télécom's full-year revenue and €165 million to its earnings before interest, taxes, depreciation and amortization, the Paris-based company said. Orascom holds 20% of ECMS and the rest is in the hands of other shareholders. France Télécom is considering making a bid for that remaining 49%, a person familiar with the matter said.

The court's decision lets France Télécom reinforce its presence in an emerging market, in line with the company's growth strategy. France Télécom operates in 15 countries across Africa. "Subscribers are still growing rapidly in Egypt," said Dexia analyst Rob Goyens. Mobinil had 20.1 million customers as of Dec. 31.

Domestic growth has slowed for major telecommunications companies as their home markets have matured, prompting the companies to focus on emerging markets. Telecom investment has poured into Africa, where the 35% penetration of mobile-phone service is far below the rate for other regions.

Mobinil competes in Egypt with Vodafone Egypt, a subsidiary of U.K.-based **Vodafone Group** PLC, and the **Emirates Telecommunications** Corp.

—Maria Habib in Dubai contributed to this article.

More Satyam employees arrested

Outside auditors of Indian tech firm said to be uninvolved

By Jackie Range And R. Jai Krishna

NEW DELHI—Three employees from the finance department of software-services firm **Satyam Computer Services** Ltd. were arrested Sunday, while separately, the company's former chief financial officer told the head of an Indian accounting body that the company's outside auditors weren't complicit in cooking the books.

The Central Bureau of Investigation, the federal body probing a massive fraud at the company that was revealed in January, said in a statement Monday that the three employees were arrested "for their active role in [the] perpetration and involvement in the crimes."

The company, one of India's largest technology firms, has been under investigation since founder B. Ramalinga Raju confessed in a letter to the board that he had manipulated the company's accounts, including inventing a bank balance of more than $1 billion.

A Satyam spokeswoman said all three arrested are from the company's finance department. G. Ramakrishna is a vice president; Danthuluri Venkatapati Raju is a senior manager; and Srisailam Chetkuru is an assistant manager. None of the employees nor their lawyers could be reached immediately for comment. In India, suspects don't have to be charged with specific crimes when they are arrested.

B. Ramalinga Raju

Mr. Raju, the company founder; his brother and Satyam co-founder B. Rama Raju; and former Chief Financial Officer S. Vadlamani are currently in jail on charges of cheating, forgery and breach of trust. They have yet to stand trial.

Separately, Mr. Vadlamani told the president of the Institute of Chartered Accountants of India on Sunday that Satyam's outside auditors from Price Waterhouse weren't complicit in the fraud, said Uttam Prakash Agarwal, the president of the accounting body, in an interview. Price Waterhouse is the Indian affiliate of **PricewaterhouseCoopers**.

The accounting institute is conducting a review of what happened at Satyam, and Mr. Agarwal and another official from the body were given access to question Mr. Vadlamani in jail. They also interviewed the PWC auditors who worked on the Satyam account and who are also in custody in Hyderabad.

Mr. Agarwal's review is separate from the criminal investigation of the auditors. A CBI spokesman said the accounting body's investigation was separate but that "they are helping us." He said the CBI was "looking at the involvement of PWC, but haven't taken any action yet."

According to Mr. Agarwal, Mr. Vadlamani said in the jailhouse interview that forged documents were given to the auditors and they "relied on the documents provided by the management."

In a news release from the accounting body, the group stated that Mr. Vadlamani said he, along with a vice president of finance "were actively involved in the scam." Mr. Vadlamani said the plan had been carried out by "fabricating and preparing false documents such as sales invoices, bank statements, bank confirmations," and involved a team of some 10 junior staff, the release said.

The comments couldn't be independently verified. A lawyer for Mr. Vadlamani said he didn't know what had been discussed between the accounting institute and his client.

A Satyam spokeswoman declined to comment on the contention that a team of junior staff was involved: "Satyam will cooperate with the investigation but we would not be able to comment on it." A lawyer for B. Ramalinga Raju declined to comment on the statement from the institute.

PricewaterhouseCoopers declined to comment.

—Romit Guha contributed to this article.

Bristol-Myers, Otsuka extend marketing deal

By Shirley S. Wang

Bristol-Myers Squibb Co. is extending its U.S. marketing partnership with Japan's **Otsuka Pharmaceutical** Co. on the blockbuster psychiatric drug Abilify, potentially bringing Bristol-Myers billions of dollars more in revenue.

Like others in the industry, Bristol-Myers faces the prospect of substantial revenue losses from patent expirations, and the extension eliminates the potential loss of another key revenue stream. Its marketing rights to Abilify, the New York company's second-biggest seller, with $2 billion in 2008 revenue, were due to return to Otsuka in late 2012.

The new agreement extends the relationship for 2½ years, through April 2015. It will allow Bristol-Myers to shift "focus from near-term growth to longer-term opportunities," Chief Executive James Cornelius said on a conference call.

Bristol-Myers will pay Otsuka $400 million initially for the extension and an increasing portion of product sales. Bristol-Myers currently receives 65% of Abilify's U.S. sales, but starting in 2010, that figure will decline until 2013, when the companies will share equally in sales. Otsuka, which hasn't been paying any development costs, will take on 30% of such costs from 2010 through 2012 and half of the costs from 2013 through April 2015.

Also as part of the agreement, the companies will collaborate on two of Bristol-Myers's cancer drugs, Sprycel and Ixempra. Otsuka will co-market Sprycel and participate in commercial and development planning for Ixempra.

For the past year, Bristol-Myers had been talking openly about trying to extend its partnership with Otsuka, Japan's fifth-largest drug maker by revenue. Otsuka specializes, among other things, in drugs that treat mental disorders. Abilify is used to treat schizophrenia and bipolar disorder and as an add-on treatment to use with antidepressants. The companies are also hoping to get approval for Abilify's use in children with autism.

"The agreement with our longstanding and valued collaborator Otsuka will help build our earnings base for 2013 and transition us to an expected period of growth in 2014 and beyond," Lamberto Andreotti, Bristol-Myers president and chief operating officer, said in a statement.

"The expanded agreement also provides an opportunity for Bristol-Myers Squibb and Otsuka to work together in oncology. We believe that sharing our collective resources will benefit the cancer patients we serve," he said.

Under a strategy that it calls "String of Pearls," Bristol-Myers has been building through acquisitions and partnerships with other companies rather than trying to produce all of its new products in-house. Bristol-Myers has made seven transactions since the fourth quarter of 2007.

"We can continue at the same pace with the same dynamism," Chief Financial Officer Jean-Marc Huet said in the conference call regarding the Abilify extension agreement. "This deal has not in any way impacted our firepower."

ENI to sell 20% of Gazprom Neft to Russian parent

By Guy Chazan

Italian oil and gas company **ENI** SpA on Tuesday will sign a $4.2 billion deal to sell its stake in a Russian oil producer to **OAO Gazprom**, according to people familiar with the matter, closing one of the chapters of the Yukos affair.

Gazprom, the world's largest natural-gas producer, has long had a call option to buy ENI's 20% stake in Gazprom Neft, its oil unit, but many wondered if it was too strapped for cash to exercise it. A person familiar with the deal said the gas giant was lining up financing from some of Russia's largest banks, such as state-run VTB.

The deal comes at a difficult time for Gazprom, which has been squeezed by falling gas prices and collapsing energy demand across Europe, its main export market. Gazprom already is Russia's biggest corporate borrower, with $47.6 billion in debt as of mid-2008. Only last week, Russian prime minister Vladimir Putin offered the company state aid to get it through the downturn—an offer Gazprom's head, Alexei Miller, declined.

The deal will be signed in Moscow by Mr. Miller and his counterpart at ENI, Paolo Scaroni. Italian Prime Minister Silvio Berlusconi was also due to attend the signing along with Mr. Putin, but stayed behind to deal with the deadly earthquake that struck Italy Monday.

ENI's investment in Gazprom Neft has its roots in the Yukos affair, when Russia's largest publicly traded oil company was driven to bankruptcy and largely nationalized by the Kremlin and its founder, Mikhail Khodorkovsky, a fierce Putin critic, jailed for fraud and tax evasion.

In April 2007, ENI teamed up with Italian utility **Enel** SpA to purchase a clutch of Yukos assets for $5.8 billion at a controversial auction. These included two small gas-producing companies and the 20% holding in Gazprom Neft. As part of the deal, Gazprom was given an option to buy 51% of the gas assets and the whole 20% Gazprom Neft stake within two years.

Gazprom had not taken part in the auction, fearing legal repercussions, and ENI and Enel were widely seen as acting in cahoots with the gas giant. Yukos shareholders denounced them for lending legitimacy to what they considered the Kremlin's illegal dismantling of the oil company.

Tuesday's deal is good news for ENI, which saw its share price fall last month amid concern that Gazprom would not be able to exercise its option. Investors worried that without the cash injection from the Russians, ENI might struggle to maintain its dividend and could see its credit rating cut. Its shares closed Monday down 1.3% at €14.61 ($19.66) in Milan.

FDA wants more Symbicort data

By Kathy Sandler

LONDON—**AstraZeneca** PLC said Monday the U.S. Food and Drug Administration has asked for more information on asthma treatment Symbicort before it can allow the use of the inhalable drug in small children.

The data provided by the company was inadequate to establish the appropriate dose of the two components of Symbicort, budesonide and formoterol, for patients aged between 6 and 11, the FDA's complete response letter said.

Symbicort was approved in 2006 in the U.S., where it competes against **GlaxoSmithKline** PLC's asthma blockbuster Advair.

AstraZeneca said it is evaluating the letter and will provide a response to the FDA in due course.

In 2008, Symbicort was AstraZeneca's fourth-largest-selling product, with sales rising 22% to $2 billion.

—Elena Berton contributed to this article.

GLOBAL BUSINESS BRIEFS

Groupe Danone SA

Leila Lands to acquire holding in biscuit maker

France's **Groupe Danone** SA is selling its entire stake in **Britannia Industries** Ltd., giving majority control of the Indian biscuit maker to a company in the Wadia group. **Leila Lands** Ltd. (Mauritius), in a regulatory filing in India, said Monday it will buy a 25.48% stake in Britannia Industries, on April 14 from Danone. The purchase will double Leila Lands' stake in Britannia Industries, India's top biscuit maker by sales, to 50.96%. Terms weren't released but analysts say Danone's stake of 6.086 million shares in Britannia is valued at 8.68 billion rupees ($173.9 million), based on Friday's closing share price of 1,426.25 rupees.

Volkswagen AG

German car maker Audi AG, the premium unit of **Volkswagen** AG, said Monday that its global sales fell 11% in March, with the U.S. and Western Europe showing the sharpest declines, while results elsewhere improved. Audi said it sold 90,400 vehicles in March, down from 101,251 in the year-earlier month. However, Audi said there were positive signs for the future. Thanks in part to the launch of the Q5 car-sport-utility-vehicle crossover, "our order intake is now significantly increasing," said Peter Schwarzenbauer, a board member responsible for sales and marketing. The company didn't immediately provide figures. In March, sales in the Asian-Pacific region rose 5%. U.S. sales fell 20%. Western European sales fell 13%.

Kirin Holdings Co.

A unit of Japan's **Kirin Holdings** Co. and **Diageo** PLC of the U.K. have agreed to set up a joint venture to broaden the distribution of Diageo products in Japan, including Guinness stout and Smirnoff Ice alcoholic beverages. The announcement follows an accord signed in November giving Kirin the right to import and sell Guinness in Japan, taking over from rival **Sapporo Breweries** Ltd. Kirin Brewery Co. and Diageo will establish Diageo Kirin Co., to be 51% owned by Diageo, with Kirin holding 49%. Kirin said sales targets haven't been determined, and that it hasn't changed its own earnings outlook for this year. The agreement with Diageo also will allow Kirin to sell Kilkenny ale and other brands.

PT Garuda Indonesia

An Indonesian pilot has been sentenced to two years in prison for a 2007 plane crash that killed 21 people. Capt. Marwoto Komar was approaching the runway at Yogyakarta at almost double the normal speed when his **PT Garuda Indonesia** Boeing 737-400 careened into a rice paddy and burst into flames. He was accused of disregarding alerts indicating it wasn't safe to land. "His negligence caused loss of life," presiding judge Sri Andini told the Sleman District Court Monday as he handed down the prison sentence. Capt. Komar, who together with his copilot and 117 others survived the crash, blamed mechanical problems and said he would appeal.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Americans' frugality could last

Recession has the potential to reshape attitudes on savings for years to come

By Kelly Evans

With their jobs less secure, their houses worth less and their stock-market portfolios shrunken, Americans are saving more now. But will they still be thrifty when the recession ends?

THE OUTLOOK

No one will know for sure for years, but there's good reason to believe Americans will be saving more in the next decade than they did in the last one. "It's hard to believe we're ever going back to the easy credit and free spending of the last 10 years," said economist Richard Berner of Morgan Stanley. He predicts consumer spending will grow at an inflation-adjusted 2% to 2.5% annual rate over the next several years, compared with 3.5% in the decade ended in 2007.

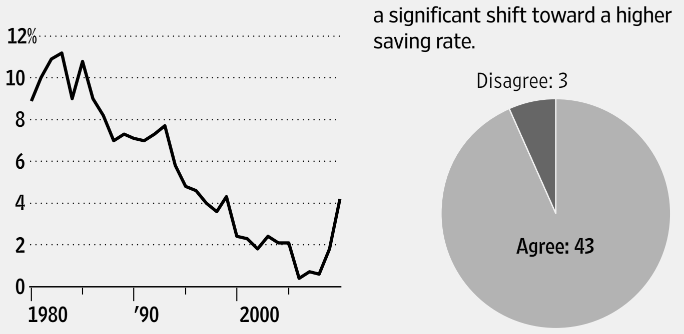
That means trouble for retailers, restaurants and luxury-goods makers that rely on U.S. consumers. But it could also restore some balance to a world economy that has relied—too much, many economists say—on Americans' debt-fueled spending and emerging markets' willingness to save and lend.

David Bailey, 45 years old, who lives in Boise, Idaho, with his wife and three young children, is like many who enjoyed several prosperous years as a small-business owner until the housing market—and then the broader economy—collapsed, leaving him saddled with debt but no income. His company, Bailey Engineering, which turns raw land into subdivision plots, hasn't generated any income in months. He has cut his staff of 16 to a handful. Faced with a massive loss in his real-estate investments, he has sold a vacation home he built himself a decade ago and is selling another property to its current renters. He has sold his

Changing their ways

Americans are saving more... Savings as a percentage of after-tax income*

Of 46 economists surveyed, most said we will look back at this as the moment American households made a significant shift toward a higher saving rate.



*Annual rate, except for March 2009

Sources: Commerce Department; WSJ March survey of economists

sport-utility vehicle to eliminate its $800 monthly payment and replaced it with a used minivan he bought with cash.

"I just want to get totally debt-free," he said. "I've completely changed in that regard. At this point I just want to make enough money to enjoy myself and my family—I'm not trying to get rich anymore," he said.

A U.S. Spending Monitor survey by Discover, the credit-card company, to be released Wednesday, suggests Mr. Bailey isn't alone. About 35% of consumers surveyed in March said they expect to reduce their debt levels over the next six months, and a third said they have already done so—even though their outlook on the economy has improved. One in three said they would put the money freed up by lower loan payments into savings. After doubling their outstanding debt between 2000 and 2007 to $13.8 trillion, U.S. households last year reduced their total debt outstanding for the first time since World War II, according to the Federal Reserve.

But will it last? A survey by AlixPartners, a business-advisory firm, found Americans plan to save 14% of their total earnings once the recession ends. Fred Crawford, the group's chief executive, said even if that number is "inflated by the emotions of the day," companies must "understand and plan for what could be a 'new normal.' " Two-thirds of those surveyed said they plan to buy less in the future, while more than half plan to buy less-expensive things.

Surveys can be lousy predictors, of course. "If you ask people how much they're going to save next month or next year you always get optimistic answers," said Ravi Dhar, director of Yale's Center for Customer Insights. "The same way smokers always say 'next year I'm going to stop.' "

But the severity of this downturn, the nearly $13 trillion loss of wealth since the recession began and the shaken confidence in the capitalist system is prompting a more powerful move toward frugality than usual. "It's the contagion effect," Mr. Dhar says, the same reaction that makes people travel less after a plane crash, or those who lived through the Great Depression conserve tin foil for decades. "The longer this lasts, the more it will have an impact on people's long-term behavior," he said. On top of that, getting credit is likely to be tougher for some consumers in the next decade than it was during the subprime-lending boom of just a few years ago.

Adding to the pressure on Americans to save more in the future is the shrinking size of their retirement nest eggs—and the realization that they can't count on constantly climbing home prices and an ever-rising stock market to finance their retirement. Americans lost a fifth of the value of their 401(k) retirement accounts—some $603 billion—last year, according to the Employee Benefit Research Institute in Washington.

Some companies are already repositioning themselves for a more frugal consumer. "The current economic conditions have created a fundamental shift in shopping behavior," Kathryn Tesija, **Target** Corp.'s executive vice president of merchandising, said in a recent conference call with investors. "We are allocating more shelf space to nondiscretionary categories" like food, health care and baby products, she said, and drawing attention to the store's low prices. "Guests won't come to us for everyday necessities if those necessities aren't priced right."

American consumers are traditionally resilient, and may yet return to their old ways. But the borrowing boom of the early 2000s ended badly, and the searing memories may shape consumer attitudes for years.

U.S. prepares to analyze stress tests of banks

By Damian Paletta

WASHINGTON—Top U.S. bank regulators plan to meet early this week to discuss how to analyze the results of stress tests being conducted on the country's 19 largest banks, people familiar with the matter said.

Regulators announced the tests two months ago as part of an effort to determine how much assistance big banks might need to continue lending if the economic downturn worsens. The government is wrestling with how to bolster the lenders without appearing to prop up banks that are beyond repair.

Meanwhile, Treasury Secretary Timothy Geithner said Sunday that the Obama administration would consider removing management and boards at financial companies if the government were to offer "exceptional" assistance to keep the firms operating.

"When in the future—or I would say if in the future—banks need exceptional assistance in order to get through this, then we'll make sure that assistance comes with conditions, not just to protect the taxpayer, but to make sure this is the kind of restructuring necessary for them to emerge stronger," Mr. Geithner said on CBS's "Face the Nation." "Where that requires a change of management and the board, we will do that."

At this week's meetings on the stress tests, regulators also are expected to discuss how new changes to accounting rules might affect each bank's performance in the tests. The Federal Accounting Standards Board voted last week to make it easier for banks in some cases to limit losses on assets they don't intend to sell. Some government officials think this could significantly improve some banks' condition on paper.

Timothy Geithner

The announcement of the tests in February drove down bank stocks, as investors fretted that the government might use the tests to shut down or nationalize lenders. The Obama administration has said it won't let any of the banks undergoing the tests to fail.

The Federal Reserve is overseeing the stress-test-analysis process. People familiar with the matter said the final analysis isn't likely to be completed until at least the end of the month. Eugene Ludwig, chief executive of Promontory Financial Group, which advises financial firms, said the approach regulators take in analyzing the data and specifically, in comparing the data of different banks, "is a very big deal, because all loan portfolios, even with the same surface characteristics, don't perform the same at all."

"I think serious efforts will be made to respect the confidential nature of the test and its results," he said, but added that "there is a real danger that the results of the stress test are uncovered and this roils the markets."

Regulators designed the stress tests toensure that banks could survive—and continue lending—even if the unemployment rate were to rise above 10% and home prices were to fall by an additional 25%. The tests, which were conducted largely by economists and experts using mathematical models, seek to determine whether a bank would need more capital to continue lending under such circumstances. The government could direct banks to raise more capital if the economy worsens to ensure that they continue lending. If the banks can't do that, the Obama administration has said it would provide them with public funds.

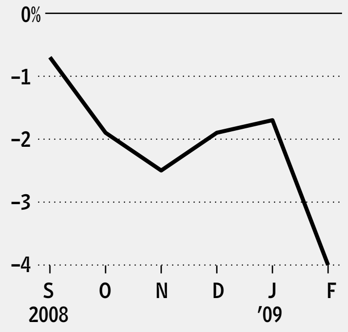
Marketplace

Carrying charges

A cost gap remains between 'legacy' and low-cost airlines > **Page 30**

Shopping slowdown

Euro-zone retail sales, change from a year earlier



Source: Eurostat

Euro-zone sales, producer prices fell in February

By Nicholas Winning And Ilona Billington

LONDON—Euro-zone industrial producer prices posted their biggest drop in annual terms for almost 10 years in February while retail sales fell by the largest amount since records began in 2000, adding pressure on the European Central Bank to further lower interest rates.

The European Union statistics agency Eurostat said producer prices in the 16 countries that use the euro fell 0.5% from January and 1.8% from February 2008, the biggest annual fall since April 1999. It was the seventh consecutive monthly decline in prices. Euro-zone retail sales were down 0.6% from January and fell 4.0% from February 2008.

The data are likely to support expectations that the ECB will loosen monetary policy further, after cutting rates by a quarter-percentage point on Thursday.

Economists also said the data show that consumers in the euro zone continue to act cautiously as unemployment rose to an almost three-year high in February.

"With some headline inflation measures already below zero, the ECB could have a fight on its hands to get CPI inflation back near 2% in 2010," said Colin Ellis, a European economist at Daiwa Securities SMBC.

The ECB has lowered its main interest rate to 1.25% from 4.25% in October, but it has been less aggressive in its monetary policy than the U.S. Federal Reserve and the Bank of England.

New figures the ECB released Monday showed that interest rates on loans to businesses and households in the euro zone fell in February from January, reflecting recent rate cuts. Interest rates on deposits placed by businesses and households also declined, the data showed.

—Emese Bartha in Frankfurt contributed to this article.

ECONOMY & POLITICS

CAPITAL JOURNAL ■ GERALD F. SEIB

North Korea's missile tests Obama's relationship with China

IT'S PRETTY obvious that North Korea's firing of a long-range missile will test U.S. President Barack Obama's ability to strong-arm the regime of Kim Jong Il, who has elevated erratic behavior to an art form.

Less obvious, but perhaps even more important: North Korea's weekend shot tests the new president's ability to work with China, the country that has far and away the most leverage on North Korea yet seems less willing to use it than it was just a couple of years ago.

It's no exaggeration to say China today represents North Korea's lifeline. It is the North's leading trading partner, primary source of energy and principal facilitator in the outside world. In fact, new trade figures show the North only growing more dependent on China. So when Mr. Obama called for the international community to act promptly to punish North Korea after its missile test, he was essentially asking China to go along with the idea of slapping down Pyongyang and its "dear leader."


Barack Obama

On the surface, at least, the initial results can't be too encouraging to the president. The United Nations Security Council was summoned together for an emergency Sunday meeting to decide how to respond to a missile firing that appeared to be not only an attempt to perfect a nuclear-weapons-delivery vehicle, but also a violation of a 2006 U.N. resolution. But the Security Council broke up without so much as issuing a statement, much less passing any new resolutions or sanctions. That's largely because China balked.

WHAT WAS STRIKING wasn't merely that reluctance to act, but also the stark difference in tone between the U.S. and China. Within hours of the firing, Mr. Obama declared: "This action demands a response from the international community, including from the United Nations Security Council, to demonstrate that its resolution cannot be defied with impunity."

China replied by saying, essentially, "Now, now, let's not get too excited." Its ambassador to the U.N., Zhang Yesui, declared: "Our position is that all countries concerned should show restraint and refrain from taking actions that might lead to increased tensions." It's still early in the diplomatic game, of course, and China may merely be saying that it would rather deal with the problem not at the U.N. but in the so-called six-party talks, in which the U.S., China, South Korea, Russia and Japan have been sitting across from North Korea for the past five years, trying to find a path away from the nuclear abyss.

Whatever the forum, though, the first predicate for meaningful action will be some level of agreement between the U.S. and China.

John Bolton, who was the American ambassador to the U.N. under President George W. Bush, says flatly that the Chinese "are the only ones who can stop the North Korean nuclear program....I think they are the only country that has any real leverage over North Korea."

Indeed, it was only China's anger over a North Korean nuclear test in 2006, and its agreement to punish Pyongyang, that produced U.N. Security Council Resolution 1718, the most meaningful international sanctions yet imposed.

But Mr. Bolton also sees a China still engaged in wishful thinking about the nuclear danger. "Their view is they just keep hoping that the U.S. and North Korea will come to a deal and it will just go away," he says.

THE UNDERLYING problem is that the longstanding American goal on the Korean peninsula—reunification of the North and South—is precisely what the Chinese fear. Beijing doesn't oppose reunification so much as frets over the unpredictable turmoil that might ripple out from a toppling of the Kim regime: internal unrest, conflict between North and South, and Korean refugees by the hundreds of thousands fleeing into China.

Yet China's leverage over the North is, if anything, greater than it was in 2006, and mounting. The Institute for Far Eastern Studies, a South Korean think tank, reports that North Korean imports from China soared by 46% in 2008 over the previous year, according to Chinese government figures. More than half of those imports came in the form of "mineral resources"—mostly, that is, energy. Without China, even fewer lights would go on in the North Korean night.

The institute says the North's increased international isolation has made its trade with China even more important. The giant trade deficit it runs with Beijing is exacerbated by "isolation from the rest of the international community, leaving it little choice but to continue trading at prices set by the Chinese."

This very economic dependence, though, likely makes the Chinese reluctant to push too hard with additional economic sanctions—which might well strike at the North's banking system—lest the whole house of cards collapse into uncontrollable chaos. "Maybe the Chinese feel that the six-party talks are still the answer, and they don't want to push ahead too aggressively for fear that everything will unravel and we'll get no place," says Leonard Spector, deputy director of the James Martin Center for Nonproliferation Studies.

Figuring out a strategy to deal with the North Korean nuclear threat is a challenge, to be sure. But it's only the second one on Mr. Obama's list. The first is to come to agreement with China on that strategy.

A new Pyongyang policy

Neighboring nations consider penalties for North Korea test

BY EVAN RAMSTAD

SEOUL—North Korea's neighbors began weighing penalties against the country for its long-range missile test over the weekend, with South Korea saying it may start to develop bigger missiles and Japan considering an extension of economic sanctions.

North Korea on Sunday conducted its third test of a long-range missile, defying a test ban imposed by the U.N. Security Council and critics around the world. In a meeting Sunday afternoon in New York, the 15-nation council discussed options for a response to punish North Korea. At this point, Russia and China may not back a resolution against North Korea, diplomats said.

The three-stage rocket failed during its second stage and plunged into the Pacific Ocean about 1,300 kilometers east of Japan, according to analysts in the U.S., Japan and South Korea. On Monday, Russia, a country more friendly to North Korea than the other three, also announced that the missile appeared to fail before reaching its third stage, according to news reports.

Even so, the launch represents an advance in Pyongyang's decadeslong effort to develop sophisticated weapons. It also showed that North Korea continues to build its capabilities without regard for international condemnation or consequences.

Diplomats in several countries are struggling to balance steps that would have an effect on Pyongyang while avoiding the appearance of overreacting to a development that posed no immediate military danger.

In South Korea, officials are considering a program of long-range missile development, Prime Minister Han Seung-soo told a legislative hearing. Such a step would require permission from the U.S. because a mutual defense treaty between the allies prevents Seoul from research on missiles that can go farther than 300 kilometers.

Unlike Japan, South Korea hasn't joined in the U.S. missile-defense research program. In the weeks leading up to North Korea's launch, Japan and U.S. military officials said they believed they now have the capability to shoot down the missile—which they didn't attempt during Sunday's launch.

In Tokyo, officials said Monday that Japan will likely decide on Friday whether or not to extend existing economic sanctions toward North Korea. Since 2006, Japan has extended the sanctions every six months, but is now considering extending them for a full year.

North Korea's news agency on Sunday said the missile flew to space and placed a satellite in orbit and that the launch was watched by the country's dictator, Kim Jong Il. Although the missile didn't meet North Korea's claims, it flew farther than two long-range missiles tested in 1998 and 2006.

—John Murphy in Tokyo and Joe Lauria at the United Nations contributed to this article.

Aso prepares new stimulus budget

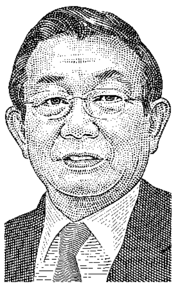
BY TAKASHI NAKAMICHI

TOKYO—Japan's Prime Minister Taro Aso has ordered the country's largest supplemental budget, containing more than 10 trillion yen ($99.73 billion) of fresh spending, to boost the world's second-largest economy, Finance Minister Kaoru Yosano said Monday.

While the supplemental budget to fund the government's next stimulus package was expected, Mr. Aso's decision to order a budget so big despite the nation's fiscal state shows how determined the government is to turn Japan's economy around. It also signals Mr. Aso's hope to lift his public-approval ratings, currently below 30%, ahead of general elections that must be held this year.

Mr. Yosano, who said in an interview last week that Japan's economic-stimulus measures would "far exceed" 2% of its gross domestic product, said Monday that the prime minister had ordered him to create a supplemental budget totaling 2% or more of GDP, making it Japan's largest supplemental budget.

That 2% amounts to 10.152 trillion yen based on the value of Japan's total output of goods and services in 2008, not adjusted for inflation, Cabinet Office data show. The previous-largest supplemental budget, gauged by specified expenditure, was in 1998, when the third supplemental budget of that fiscal year provided for disbursements of 8.5 trillion yen, according to a finance ministry official.


Kaoru Yosano

Mr. Aso wants the government to funnel new money mainly to five areas, Mr. Yosano said: financial safety nets for temporary workers; support for companies raising funds; promoting solar-power generation; improving health services and medical care; and helping local governments spur regional economies.

Government staff plan to hammer out the new package by Friday, Mr. Yosano said, adding that no decisions have been made about when to submit the budget for parliamentary approval. He said he has no specific estimate yet on the amount of new bonds the government will sell to raise money for the package.

Mr. Aso's move comes about a week after he formally ordered what will be the government's fourth stimulus package since late August. The three previous packages were valued at 75 trillion yen in total and included around 12 trillion yen in spending and tax cuts. However, economists consider them insufficient to jolt the economy out of its worst recession in the postwar era.

The International Monetary Fund has set a target of 2% of GDP for global policy makers when creating stimulus measures for 2009 and 2010. Earlier in the year, the fund estimated Japan's stimulus for 2009 at 1.4% of GDP. Tokyo's new budget will likely take the figure to well above 2%.

Series of attacks kills seven in India

ASSOCIATED PRESS

GAUHATI, India—Three explosive attacks struck India's restive northeastern state of Assam, killing at least seven people and wounding dozens Monday, a day before an election campaign visit by the prime minister.

A spokeswoman for Prime Minister Manmohan Singh said the trip would go ahead despite the attacks, believed to be the work of the separatist United Liberation Front of Asom.

"This is a coordinated attack" by the militant group, said G.M. Srivastava, the state's top police official.

The blasts occurred on the eve of the 30th anniversary of the founding of the United Liberation Front of Asom, which has been linked to many acts of terrorism in Assam and usually stages attacks around this time of year.

The first bomb was tied to a motorbike and exploded in a crowded market in the state capital, Gauhati, killing seven people and wounding at least 56, said Mr. Srivastava. The blast left several cars on fire amid piles of smoldering wreckage.

After the immediate panic subsided, angry crowds threw stones at police officers, who they said were slow to arrive at the scene and had failed to protect the public.

Hours later, a second bomb, this one tied to a bicycle, went off in a market in the town of Dhekiajuli, 210 kilometers north of Gauhati, Mr. Srivastava said. At least four people were wounded, he said.

In a third incident later in the day, suspected militants threw a grenade at a police station in the town of Mankachar on the India-Bangladesh border, said senior police official Bhartha Mahanta. Two police officers were injured, one critically, Mr. Mahanta said.

Suspected militants also threw a grenade at a police station in Udalguri in northern Assam that failed to explode, he added.

The premier's spokeswoman, Deepak Sandhu, said the prime minister's trip, to campaign for elections due later this month, hadn't been canceled.

Mr. Srivastava said police had received information that the front had been planning a major attack in Gauhati. The United Liberation Front of Asom wants an independent state for ethnic Assamese and is the largest among dozens of militant groups in the region.