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ECB cuts key interest rate to a record low of 2%

Central bank's trim by half-point hints of next cut in March

By Joellen Perry

FRANKFURT—The European Central Bank cut its key rate by a half percentage point to 2%, matching its lowest-ever level even as its president warned future cuts could come at a slower pace amid fears of taking rates too low.

A deepening recession in Europe's economic heartland pushed the ECB, which makes monetary policy for the 16 countries that share the euro currency, to deliver on Thursday its fourth cut in as many months. Euro-zone interest rates were last 2% in early December 2005. Turkey's central bank followed the ECB's lead, cutting its key rate two percentage points to 13% in a surprise move.

ECB President Jean-Claude Trichet said inflation risks had fallen and economic activity across the euro zone had been surprisingly weak since the central bank's last meeting in December. But he signaled that the bank's 22-member Governing Council, which was unanimous about Thursday's cut, is inclined to hold the rate steady in February. That would mark a break from a rate-cut campaign that began in October, when the central bank's key rate was 4.25%.

"Our next important rendezvous for monetary policy will be our March meeting," Mr Trichet said at a news conference following the de-

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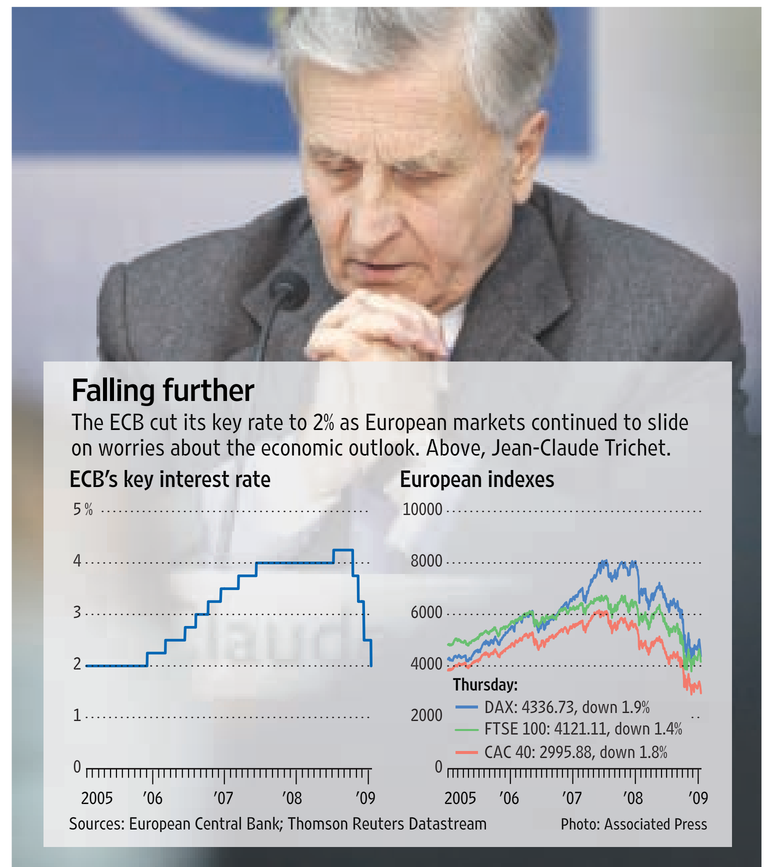

Falling further

The ECB cut its key rate to 2% as European markets continued to slide on worries about the economic outlook. Above, Jean-Claude Trichet.

What's News—

Business & Finance

The ECB trimmed its key interest rate to 2%, matching its lowest-ever level. Trichet said the euro-zone economy continues to be weak and signaled that further rate cuts could come at a slower pace as policy makers eschew very low levels. **Page 1**

■ **The Kremlin is considering** a plan to merge some of Russia's giant metals firms; the government would take a stake in the combined group. **Page 1**

■ **J.P. Morgan eked out** a $702 million profit despite deepening misery in a wide range of operations being hit hard by the global recession. **Page 2**

■ **European car sales** slumped to a 15-year low in 2008, according to registration data. **Page 2**

■ **Airbus is preparing** plans to reduce production if demand for jetliners drops sharply, the plane maker's CEO said. **Page 3**

■ **Europe's big countries** warned Moscow that relations could be damaged for the long term if it doesn't start gas pumping again soon. **Page 8**

■ **The ruble hit** a historic low against the dollar as the impact of the global economic crisis on Russia's economy grows. **Page 17**

■ **European shares** continued their slide as economic troubles pressured banks and prompted the ECB to cut rates. U.S. stocks rebounded from an early plunge to eke out gains. **Page 18**

■ **Private-equity firms** are weighing an investment in the cement company owned by the family of late German billionaire Adolf Merckle. **Page 3**

■ **Continental AG** is considering a $1.32 billion capital increase to cover an expected goodwill-impairment charge. **Page 3**

■ **Carrefour expects** consumer spending to be weak for months as the retailer's sales gains nearly stopped in 2008's fourth quarter. **Page 4**

■ **U.S. wholesale prices fell** for the fifth-straight month in December. **Page 9**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8212.49	+12.35	+0.15
Nasdaq	1511.84	+22.20	+1.49
DJ Stoxx 600	191.17	-1.70	-0.88
FTSE 100	4121.11	-59.53	-1.42
DAX	4336.73	-85.62	-1.94
CAC 40	2995.88	-56.12	-1.84
Euro	$1.3071	-0.0098	-0.74
Nymex crude	$35.40	-1.88	-5.04

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World-Wide

Democratic leaders in the U.S. House rolled out details of an $825 billion economic-stimulus package, which includes $550 billion in spending and $275 billion in tax relief. The plan faces hurdles before becoming law but provided the first blueprint of how Obama and congressional leaders plan to fight what they called "a crisis not seen since the Great Depression." **Page 1**

■ **Economists generally lined up** behind the size of Obama's stimulus plan but remained divided on its composition, a Wall Street Journal survey found. **Page 9**

■ **An airstrike killed** Hamas's security chief in Gaza in a tactical victory for Israel, while a separate strike on the U.N. headquarters in the territory drew international condemnation. **Page 11**

■ **Residents in Lebanon's** south say they don't want to be drawn into a second front with long-time enemy Israel. **Page 11**

■ **Eric Holder**, Obama's nominee for U.S. attorney general, told a confirmation hearing that waterboarding of terror suspects is torture. **Page 10**

■ **France's Sarkozy replaced** the ministers of immigration and labor in a cabinet reshuffle.

■ **Bulgarians rallied** outside Parliament for a second day to demand the government resign over alleged corruption and a deepening economic crisis.

■ **Pakistan said** it has arrested the entire Pakistan-based leadership of Lashkar-e-Taiba, which the U.S. and India blame for the Mumbai attacks. **Page 11**

■ **Gunmen abducted** three Red Cross workers in the Philippines, including a Swiss and an Italian, in the nation's worst foreign hostage crisis since 2001.

■ **The Dutch government** agreed to prosecute five suspected pirates captured by the Danish navy near Somalia.

■ **Islamist forces took control** of bases in the Somalian capital of Mogadishu as the last Ethiopian troops vacated the city.

■ **A US Airways plane crashed** into a river in New York on Thursday afternoon, and rescuers raced to the scene. An official said the plane struck a bird that disabled two engines.

EDITORIAL & OPINION

Blame it on Ukraine

Gazprom's deputy chairman, Alexander Medvedev, on the current gas dispute. **Page 13**

U.S.'s $825 billion plan urges tax cuts, spending

By Naftali Bendavid
And Elizabeth Williamson

WASHINGTON—Democratic leaders in the U.S. House rolled out details of an $825 billion economic-stimulus package Thursday to combat what they called "a crisis not seen since the Great Depression," but economists disagree on its potential effectiveness, and the plan faces hurdles before becoming law.

Details of the two-year package, which includes $550 billion in spending and $275 billion in tax relief, likely will change as it works its way through a series of committees as well as the full House and Senate. Nonetheless, the document provides the first blueprint of how President-elect Barack Obama and Democratic congressional leaders plan to fight the downturn, which has wiped out two million jobs and could put a further three million to five million people out of work, according to a statement summarizing the proposal.

Democrats said they emphasized government spending over tax relief because that was the best and fastest way to create jobs, which they see as the most urgent goal. Rep. David Obey (D., Wis.), chairman of the House Appropriations Committee, said the package is "the largest effort by any legislative body on the planet to try to take government action to prevent economic catastrophe."

Rep. Obey added that "even that may be insufficient" and suggested lawmakers should stand ready to take additional actions later this year to shore up the economy. "We may need to do even more," he said.

The prospect of big federal outlays for building roads, computerizing health records, remodeling schools and upgrading mass transit, not to mention the potential for significant tax concessions, have provoked lobbying by dozens of industries and individual companies. The House proposal highlighted some potential winners and losers.

Some of the biggest expenditures will go directly to the states, with $90 billion going to increase the federal share of payments for the Medicaid health program and $79 billion to help states avoid cut-

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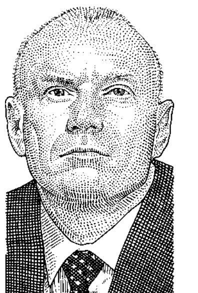
Economic jolt

■ Obama's 'Grand Bargain' needs sacrifices from all sides 9
■ Economists are divided on how the money should be spent 9

Moscow plan calls for stake in metals giant

By Gregory L. White

MOSCOW—The Kremlin is considering a plan to merge some of Russia's largest metals companies into a conglomerate in which the government would take a substantial stake, in exchange for writing off some debts of the tycoons who now control the companies, according to people familiar with the discussions.



Vladimir Potanin

If approved by the government and the companies, the plan would mark the first indication that the Kremlin is using the bailouts that it's offering the heavily indebted oligarchs to retake stakes in industrial assets. Under terms of the rescue deals, a state-controlled bank lent the tycoons billions to allow them to pay off foreign loans, but the bank took stakes in their companies as collateral.

The metals plan was discussed at a hastily called meeting late Tues-

Please turn to page 27

LEADING THE NEWS

J.P. Morgan profit plunges

Investment banking weighs on results; a big WaMu gain

BY ROBIN SIDEL

J.P. Morgan Chase & Co., the largest U.S. bank in stock-market value, eked out a $702 million profit in the fourth quarter despite misery in a wide range of operations being hit hard by the recession.

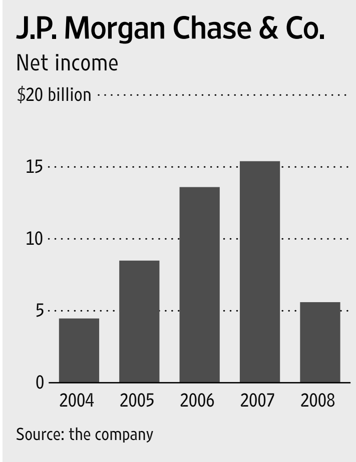
The New York company's net income, equal to seven cents a share, tumbled 76% from the year-earlier profit of $3 billion, or 86 cents a share. J.P. Morgan posted a loss in its investment bank and credit-card business, while adding $4.1 billion to loan-loss reserves in anticipation of future charge-offs.

Without an unexpected $1.1 billion gain related to the September acquisition of most of Washington Mutual Inc., the mortgage lender that had its banking operations seized by the U.S. government, J.P. Morgan would have had a net loss in the latest quarter.

The figures showed that the recession has "gone way beyond [what would be considered] normal, and even in a normal recession, the industry would be struggling with some of these issues," said James Dimon, J.P. Morgan's chairman and chief executive. The overall results were "very disappointing."

Still, analysts and investors generally breathed a sigh of relief that the results weren't worse, especially with **Bank of America** Corp. likely to get billions of dollars in additional government aid to help with its acquisition of Merrill Lynch & Co., according to people familiar with the situation.

Citigroup Inc.'s plans to downsize itself, expected to be announced Friday, also have spooked investors. Some believe the U.S. banking industry will need additional capital to ride out the recession. Additional cash infusions likely would dilute existing shareholders and is weighing heavily on their stock prices.



Source: the company

In late afternoon New York Stock Exchange composite trading, J.P. Morgan shares were down 2.3%, to $25.31. Bank of America fell 14%, to $8.75, while Citigroup was down 12%, to $3.97.

Mr. Dimon has been pessimistic about the U.S. economy for months, singling out rising unemployment as one of the most significant factors that will continue to sap the U.S. banking industry's profitability in 2009. That glum outlook persisted Thursday, with Mr. Dimon citing continued economic deterioration as a "distinct possibility" that is expected to result in "additional negative impact on our market-related businesses, continued higher loan losses and increases to our credit reserves."

Mr. Dimon also defended the industry against criticism that banks are sitting on government funds that are intended to be used for lending. J.P. Morgan, which received $25 billion late last year through the Troubled Asset Relief Program, said it extended more than $100 billion in new credit in the fourth quarter to consumers, businesses, municipalities and nonprofit groups.

"We're just trying to make the point that there are a lot of new loans being made all the time," Mr. Dimon said.

Revenue slipped 0.9% to $17.23 billion from $17.38 billion.

Much of the earnings pain came from J.P. Morgan's investment bank, which still is juggling last year's acquisition of Bear Stearns Cos. The investment bank had a loss of $2.4 billion in the fourth quarter, driven by a 17% drop in investment-banking fees and weak results in stock-and-bond trading. In addition, the bank took a $2.9 billion write-down to reflect the declining value of leveraged loans and mortgage-related assets on its books.

J.P. Morgan's credit-card business was another weak spot as consumers reined in spending, and delinquencies and defaults rose. The credit-card operation swung to a loss of $371 million from the year-earlier profit of $609 million.

J.P. Morgan wrote off 5.29% of its credit-card loans, up from 3.89% in the fourth quarter of 2007. The credit-card business is expected to deteriorate further, with J.P. Morgan estimating the charge-offs could rise to 8% by year end.

One of the few bright spots was J.P. Morgan's commercial bank. Net income for the unit rose 67% to a record $480 million. The news wasn't all good; Mr. Dimon said delinquencies and defaults are expected to rise.

For the first time, J.P. Morgan's results included the operations of Washington Mutual. J.P. Morgan bought most of the Seattle thrift's assets after federal regulators seized the company in September.

European car sales fell to a 15-year low in 2008

BY CHRISTOPH RAUWALD

FRANKFURT—European new-passenger-car registrations slumped to a 15-year low in 2008 as weak consumer confidence ate into demand for new cars amid the world-wide financial crisis.

New-car registrations, which reflect sales, fell 7.8% to 14.7 million last year from 2007, the European Automobile Manufacturers Association, or ACEA, said Thursday.

In December, new-car registrations plummeted 18% from a year earlier to 924,646 vehicles. "The December downturn was cushioned somewhat by the on average two more working days across the region," ACEA said.

The European car market, a key source of earnings for many global auto makers, was hit hard in 2008 as credit markets dried up, making funding harder to come by, and consumers delayed big-ticket purchases. Auto makers have cut production in recent weeks to avoid building up inventory.

U.S. auto maker **General Motors** Corp. faced the sharpest decline among major auto makers in Europe in 2008, with a 14% drop to 1.41 million new-car registrations. GM's core European Opel/Vauxhall brands experienced a 14% decline, while the company's Saab brand recorded a 23% fall. Chevrolet posted a 9.8% drop.

Japanese rival **Toyota Motor** Corp. also felt the pinch in Europe last year with a 12% fall to 814,581 cars. At the company's Lexus premium brand, sales dropped 26%.

Ford Motor Co. performed better than the overall European market in 2008, with a 5.2% decrease to 1.46 million cars. The core Ford brand posted a 4.1% drop, while registrations fell 11% at the Volvo premium brand.

Bumpy year

Europe's new-vehicle registrations in 2008

Company	Units	Change from year earlier
Volkswagen	3,026,550	–4.4%
PSA Group	1,865,407	–9.1
Ford	1,461,235	–5.2
GM	1,406,916	–14
Renault	1,286,120	–6.9
Fiat	1,179,989	–5.5
BMW	819,461	–3.5
Toyota	814,581	–12
Daimler	788,955	–5.9
Nissan	337,913	+8.8

Source: European Automobile Manufacturers Association

New-car registrations for **Volkswagen** AG, Europe's largest auto maker by sales, fell 4.4% last year to 3.03 million. Registrations for the core VW brand fell 3.8%, while the Audi AG premium unit eked out a 0.2% increase. However, the company's Spanish Seat brand reported a 13% fall last year, while the Czech Skoda brand posted a 6.1% decrease.

French auto maker **Renault** SA experienced a 6.9% fall in new-car registrations to 1.29 million last year, with the low-cost Dacia brand posting a 6.2% rise. Registrations at the core Renault brand declined 8.8%. Registrations for French peer **PSA Peugeot-Citroën** SA fell 9.1% to 1.87 million cars.

Registrations for Italy's **Fiat** SpA came in at 1.18 million cars last year, down 5.5% compared with 2007.

German premium car makers **BMW** AG and **Daimler** AG saw registrations fall 3.5% and 5.9% to 819,461 and 788,955 cars, respectively. Both luxury auto makers benefited from solid demand for their compact brands, the Mini and the Smart, respectively.

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Airbus plans for cutbacks

Top sales executive expects a 'soft year' for new plane orders

By Daniel Michaels
And David Pearson

TOULOUSE, France—Airbus, which just finished a record year of plane deliveries, is now preparing contingency plans to cut production if demand for jetliners weakens significantly, Chief Executive Tom Enders said Thursday.

The European plane maker, a unit of Franco-German **European Aeronautic Defence & Space** Co., delivered 483 planes in 2008—up 30 from 2007 and more than in any previous year. It also landed new orders for 777 planes, after cancellations. The figures for both orders and deliveries topped those at U.S. rival **Boeing** Co.

This year, Airbus still hopes to deliver almost as many planes despite global economic problems, Mr. Enders said at a news conference. "The intention is not to ramp down," he said. "The focus in 2009 will be to protect deliveries" to avoid having unsold aircraft sitting on the tarmac.

But Airbus could see as few as 300 new orders, predicted John Leahy, the company's chief commercial officer for customers and its top airplane salesman. "It's looking like a very soft year," he said. Now, both Airbus and Boeing are scrambling to ensure that all the planes slated for production this year have financially sound customers ready to pay for them. Planes are generally delivered several years after they are ordered, and airlines or leasing companies usually pay much of a plane's purchase price on delivery. But most customers need to borrow at least some of the funds to pay for a plane.

Tom Enders

Aviation financiers warn that the global credit crisis has erased from the market as much as $20 billion in funding for plane purchases. That means Airbus and Boeing may need to help fill the financing gap, even though they normally try to avoid lending to their own customers. They are planning to increase their customer financing, and are looking to government export credit agencies, such as the U.S. Export-Import Bank, for additional support.

Yet if airlines face sharply weakening customer demand or cannot arrange financing for deliveries, Airbus and Boeing may need to cut production, bankers and analysts say. Some say the companies might need to throttle back by as much as 20%.

"Airbus and Boeing definitely will have to cut production because there will be aircraft that cannot be funded," said Bertrand Grabowski, a managing director of German bank DVB Bank SE, which funds aircraft purchases.

Mr. Enders said he would be "content" if Airbus deliveries this year were "roughly in the same order of magnitude" as last year. Management is drawing up contingency plans, he added, in case production drops back to the 2007 level of 453, which would represent a 6% decline.

Continental capital increase is weighed to cover charge

By Christoph Rauwald

FRANKFURT—German auto-parts supplier and tire maker **Continental** AG said it is considering a €1 billion ($1.32 billion) capital increase as an option to cover an expected goodwill-impairment charge announced in December.

"The considerations are still at a very early stage," a company spokeswoman said Thursday, confirming remarks made by Chief Financial Officer Alan Hippe on the sidelines of a conference in New York. She added that it was too early to give a time frame for a final decision.

Last month, the Hannover, Germany, company said that it was renegotiating conditions for a credit facility of €10.8 billion related to its acquisition of Siemens AG's VDO automotive-electronics unit in 2007.

The company Thursday said that it was difficult to forecast how business will develop in 2009, and that under these circumstances it was logical to consider strengthening its equity capital.

It said it would have to pay between 1.35 and 1.45 percentage points more to refinance its debt if it remained at investment grade, and roughly two percentage points more if it is rated below that level.

However, Continental said its interest payments won't be substantially higher in 2009 despite higher costs for its credit financing, thanks to lower interest rates. Continental reiterated that its talks with banks aren't about getting extra money, but about adjusting the credit conditions to the changed market environment.

Suppliers of auto parts have been hit hard in recent months as global car makers have cut production in order to react to shrinking demand. Car sales in markets such as the U.S., Western Europe and Japan nose-dived in 2008, accelerating their downturn toward the end of the year. The outlook for this year is bleak.

Associated Press

Auto-parts and tire maker Continental is renegotiating its credit terms.

As credit has become harder to get, fears have risen among investors that closely held German engineering company **Schaeffler Group**, which agreed to buy Continental, might have difficulty financing the takeover. However, earlier this month Schaeffler concluded its efforts to take control of its bigger peer by paying €75 a share to shareholders.

Continental had accepted an unsolicited bid from Schaeffler in August, which at the time valued the company at about €12.1 billion. But Continental's share price has fallen since then. The stock closed down 20% Thursday at €19.60.

As part of the takeover deal, Schaeffler agreed not to take a majority stake in Continental before 2012. Schaeffler holds 49.9% of Continental's voting stock and has transferred additional shares tendered to banks as planned.

A spokesman for Schaeffler couldn't be reached to comment.

Continental said it still has more than €3.5 billion in cash as well as undrawn credit lines, adding that the company would generate positive free cash flow in 2009.

Buyout firms may seek HeidelbergCement stake

By Dana Cimilluca

Private-equity firms including **Goldman Sachs Group** Inc.'s buyout arm are considering an investment in **HeidelbergCement** AG, the building-materials maker owned by the family of late German billionaire Adolf Merckle, people familiar with the matter said.

At a time when the financial crisis has brought private-equity deals to a near standstill, Goldman has expressed interest in taking a stake in HeidelbergCement, possibly in partnership with U.S. buyout firm **TPG**, these people said. PAI Partners, the French buyout house, is considering a separate investment, they said.

Any investment would likely involve a minority stake, but could lead to the sale of a majority holding later, one person said. A 20% stake in the company could cost about €1 billion ($1.3 billion).

One of the world's largest makers of building materials, HeidelbergCement, whose shares have fallen 70% in the past year, has a market value of €3.6 billion. Thursday, its shares rose 1.7% to €28.78 in German trading.

The company has been viewed as a potential deal target since at least last week, when Mr. Merckle died in an apparent suicide as problems mounted in his family business empire, which has been battered by an ill-timed acquisition and misplaced stock bets.

HeidelbergCement is struggling under a debt burden of roughly €12 billion amid a worsening outlook for the construction industry. The company, which has some €6 billion in debt coming due next year, said Tuesday that it was in talks with lenders to extend its debt and would also seek to raise equity and sell assets. Planned asset sales could fetch €1 billion or more, one person familiar with the matter said.

News of a possible outside investment by a private-equity group may cheer HeidelbergCement shareholders, who sent its shares down 15% Wednesday, in part out of fear that it would raise money by selling new shares at a discount to the market price in a so-called rights issue.

HeidelbergCement loaded up with debt when it bought British building-materials company Hanson PLC for about £8 billion, or $11.7 billion, in 2007, near the top of the economic cycle. Recently, Mr. Merckle lost hundreds of millions on short positions in **Volkswagen** AG, in which he bet the stock would fall.

Instead, VW shares surged late last year in what market participants have described as one of the most dramatic short squeezes ever. In a short squeeze, investors who were betting against a company are forced into the market to buy back stock at higher prices to cover their bets.

HeidelbergCement, which had €11 billion of sales and roughly €2 billion of profit in 2007, operates in 50 countries and has 65,000 workers.

—Mike Esterl contributed to this article.

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CORPORATE NEWS

Satyam directors questioned purchases

Board minutes show members raised issues on deals for property companies before final approval was given

By Niraj Sheth and Jackie Range

NEW DELHI—Minutes from a crucial December board meeting at **Satyam Computer Services** Ltd. shed new light on how the giant outsourcer's directors wound up approving two deals that were a key part of the massive fraud that has since engulfed the company.

The minutes, a copy of which was reviewed by The Wall Street Journal, show that at least three directors asked questions about the proposed $1.6 billion acquisitions. But in the end, the deals were approved by the board after extensive presentations on the merits by senior Satyam management.

The two deals at issue were the acquisition by Satyam of two infrastructure companies—**Maytas Properties** Ltd. and **Maytas Infra** Ltd.—that are run by the sons of the founder and then-chairman of Satyam, B. Ramalinga Raju. Mr. Raju also had a financial interest in the companies.

The deals are significant because they set in motion a chain of events that culminated with Mr. Raju's confessional letter to the board last week that he had cooked Satyam's books for several years, including the creation of a fictitious bank balance in excess of $1 billion.

Mr. Raju said in his letter that the proposed acquisition of the Maytas companies was a last-ditch attempt to plug the hole created by the fraud in the company's balance sheet.

But when the deals were announced, many Satyam investors criticized the deals as ill-conceived and dumped their shares. The company's rapidly declining stock price forced Satyam to backtrack and rescind the deals, foiling Mr. Raju's plan to use them to conceal the fraud.

In the wake of his confession, Mr. Raju was arrested along with his brother, B. Rama Raju, the company's managing director and a board member. They have both been charged with forgery, cheating and fraud. Their lawyer declined to comment Thursday.

Police say they are pursuing whether board members knew of the fraud, according to court documents. "It is not possible [for] a single individual to commit such a massive financial fraud without the connivance of other directors," said a court petition filed Jan. 10 by Andhra Pradesh state police. "The role of the other directors and the auditors are to be probed thoroughly." Satyam is based in Hyderabad in the southern state of Andhra Pradesh.

The board minutes show that the Raju brothers didn't participate in the discussions at the Dec. 16 meeting over whether to approve the deals because they each hold stakes in the Maytas companies. Chairmanship of the meeting was handed to M. Rammohan Rao, who was then dean of the Indian School of Business.

The board heard presentations on the deals from three senior Satyam executives. They were Ram Mynampati, a director and president of Satyam's commercial and healthcare outsourcing business; Srinivasu Satti, head of mergers and acquisitions for Satyam; and then-Chief Financial Officer Srinivas Vadlamani. Messrs. Satti and Vadlamani weren't board members.

Excerpts from minutes recorded at a Dec. 16 Satyam board meeting that discussed a controversial acquisition proposal:

- Dr. Mangalam Srinivasan, director, enquired if there are any particular reason[s] either external or internal for this initiative and timing of the proposal. Mr. Ram Mynampati informed about the current down turn and challenging times in the market place.
- Prof. Krishna Palepu, director, stated that the proposed acquisitions have two complicated aspects – unrelated diversification and related party transactions.
- Prof. Rao then wanted to know the risks involved in this diversifying strategy. It was mentioned that there may be some risk but it can only be known from the market place.

Key people mentioned...

Mangalam Srinivasan, adviser to JFK School of Government at Harvard. Recently resigned from Satyam board.

Ram Mynampati, recently became ▶ interim CEO of Satyam, before being removed by the government last week.

Krishna Palepu, professor at Harvard Business School. Recently resigned from Satyam board.

M. Rammohan Rao, former Dean of Indian School of Business. Recently resigned from Satyam board.

AFP

"This is the time to adopt strategies for de-risking by diversification into different segments," Mr. Mynampati told the board, the minutes show.

Mr. Vadlamani presented the board with valuations on both companies, including one on Maytas Properties prepared by accounting firm Ernst & Young.

Mr. Satti promoted Satyam's expansion into infrastructure, noting that Satyam's "tools, processes and technology can be leveraged by the new business."

Mr. Mynampati, who is still with the company but is no longer a director, told reporters last week that he had been unaware of the financial irregularities at Satyam. He didn't return calls seeking comment Thursday.

In his confession, Mr. Raju said that "none of the board members, past or present, had any knowledge of the situation in which the company is placed." He also listed a number of top executives, including Mr. Mynampati, whom he said were unaware of the fraud.

Mr. Satti, through a company spokeswoman, declined to comment, saying he couldn't speak while the matter is still under investigation. He wasn't mentioned by name in Mr. Raju's confession letter.

Mr. Vadlamani, the chief financial officer, was taken into police custody in the city of Hyderabad last week, arrested on charges of fraud. His lawyers also weren't reachable. He wasn't mentioned by name in Mr. Raju's letter.

In a prepared statement, Ernst & Young said it had provided the valuation for another purpose and was "not given to understand by any party, explicitly or implicitly, during the valuation exercise, about Satyam's plans to acquire Maytas Properties."

Some independent directors raised questions at the meeting about the ties between the Raju family and Maytas. At the time of the meeting, six of the nine members were independent. "The proposed acquisitions have two complicated aspects—unrelated diversification, and related party transactions," said Krishna Palepu, a Satyam director and a Harvard Business School professor of corporate governance who participated in the meeting by phone conference, according to the minutes.

"It is very important that management makes the same compelling presentation to the investors as well," Mr. Palepu added.

Mr. Rao, the board member who chaired the meeting, voiced the need for a careful valuation of the companies from multiple sources. "There should be complete transparency and justification for the [valuation] methodology to be adopted," he said, according to the minutes.

Another independent director, Mangalam Srinivasan, said the board should have been involved earlier "to avoid the impression that the board is used as a rubber stamp." When Mrs. Srinivasan asked why the company was proposing the acquisition now, Mr. Mynampati told her the downturn in the technology industry made it "the right time to de-risk."

A person familiar with the meeting said management also raised the issue of a perceived takeover threat, although that issue isn't recorded in the copy of the minutes reviewed by The Wall Street Journal.

In Mr. Raju's confession letter, he said that in part he carried out the fraud because "the concern was that poor performance would result in a takeover."

In the end, the board unanimously approved the acquisition plans. Two directors, Mr. Palepu and Vinod Dham, who were granted a leave of absence because they weren't physically present, didn't vote, according to a person familiar with the meeting. The Raju brothers also didn't vote, according to the minutes.

Mr. Dham, the executive managing director of NEA-IndoUS Ventures, a Silicon Valley venture-capital firm that invests in start-ups in India, couldn't be reached for comment. Mr. Rao and Mrs. Srinivasan also couldn't be reached. The three directors resigned in December, without publicly citing reasons.

Mr. Palepu, who also resigned from the board in December, said in a statement Thursday that after the meeting he made recommendations to the board and management about steps to get the company back on solid footing, citing steps such as reconstituting the board and hiring an outside financial adviser.

He said that to get the company back on its feet, board members would have to spend much more time in the country for meetings and discussions, which he couldn't commit to. "This realization was what drove my decision to resign from the board," Mr. Palepu said. He said that he fulfilled his responsibilities fully and appropriately.

The two other independent directors who attended the meeting were T.R. Prasad, a former Indian cabinet secretary, and V.S. Raju, who is the former director of the Indian Institute of Technology at Delhi. Neither could be reached for comment.

The government sacked the directors who remained on Satyam's board as of last week and installed three new board members Sunday. On Thursday, it named three additional members: Tarun Das, an adviser to the Confederation of Indian Industry; T.N. Maharan, former president of the Institute of Chartered Accountants of India; and S. Balakrishnan of the Life Insurance Corp. of India. Earlier in the week the government installed Deepak Parekh, chairman of Housing Development Finance Corp., a major Indian finance company; Kiran Karnik, former president of information-technology industry body Nasscom; and C. Achutan, a former member of the Securities and Exchange Board of India, the market regulator.

—Eric Bellman in Hyderabad contributed to this article.

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Online Today
Tech workers in India comment on the disappointment of Satyam's cooked books, at **WSJ.com/Video**

Carrefour sees further hardship

By Cecilie Rohwedder

Retailer **Carrefour** SA reported sales gains ground to a near halt in the fourth-quarter and projected consumer spending would remain weak for months, adding pressure on new Chief Executive Lars Olofsson to revitalize the retail giant.

Sales slumped in recession-plagued West European countries such as Spain, which had boosted results last year, and at the supercenters that account for more than half of sales in its home market.

Paris-based Carrefour operates more than 15,000 stores across the globe and is the world's second-largest retailer as measured by sales, behind **Wal-Mart Stores** Inc.

"We don't expect any significant improvement from the trends we witnessed in the fourth quarter," Carrefour's chief financial officer, Eric Reiss, said on a conference call Thursday with investors. The company disclosed results after the markets closed. Shares had closed off 1.5% on the Paris exchange.

In a sign of Carrefour's troubles during the quarter, even champagne sales dropped over the holiday period at its French supercenters, or hypermarkets—huge stores outside of town centers that sell groceries and nonfood items.

Discount giant Wal-Mart, Carrefour's competitor in some of the world's biggest markets, cut its fourth-quarter earnings forecast last week after defying the economic downturn for much of 2008.

In Britain, home-improvement chain **Home Retail Group** PLC, electronics retailer **DSG International** PLC and auto-equipment vendor **Halfords Group** PLC reported year-end sales drops on Thursday. A rare bright spot was clothing discounter Primark, a unit of **Associated British Foods** PLC, which posted an 18% rise in sales for the last four months of the year .

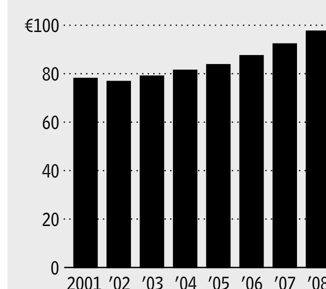
Carrefour's discount formats continued to struggle. Same-store sales at the group's deep-discount stores in France, no-frills supermarkets selling groceries at cut-rate prices, fell 3.9% in the last three months of 2008. "We were disappointed with our performance in hard discount," said Mr. Reiss, the finance chief.

In the fourth quarter, Carrefour's sales slowed to a 0.7% gain compared with a 10% gain a year earlier. Sales totaled €25.74 billion ($33.87 billion) in the quarter, and €97.56 billion for all of 2008, a 5.7% increase from 2007.

Carrefour had issued a profit warning last month in response to falling demand from consumers and from aggressive price promotions that it used to lure shoppers to its stores.

The company Thursday reaffirmed its target of a small rise in profit for 2008. It will report earnings for the year on March 12.

Steady incline
Carrefour's full-year sales, in billions of euros



Note: Includes value-added tax
Source: the company

CORPORATE NEWS

At Yahoo, talk of new talks

With Bartz as CEO, a Microsoft alliance returns as possibility

BY JESSICA E. VASCELLARO

Associated Press

The appointment of Carol Bartz as CEO is seen as a fresh start for Yahoo strategically because many of its former leaders had opposed any sale to Microsoft.

Yahoo Inc.'s appointment of Carol Bartz as chief executive removes several obstacles to a search deal with **Microsoft** Corp. But other hurdles have emerged and a deal is unlikely to be imminent, said people close to both companies.

During a company-wide Yahoo meeting Wednesday, Ms. Bartz said that she plans to spend a lot of time investigating whether to sell Yahoo's search business but that her "gut" was not to do that, according to people familiar with her statements. She added that she had spoken casually with Microsoft CEO Steve Ballmer since accepting her new job, these people said. They added that she didn't go into details of the conversation, which she suggested was informal.

A Microsoft spokesman declined to comment.

Yahoo directors aren't currently pressing for a quick deal, according to one person familiar with the matter. In addition, Microsoft is dealing with other issues that could distract it from any deal, such as trimming costs as the economy sours.

Speculation about a Microsoft-Yahoo partnership reopened Tuesday when Yahoo announced that Ms. Bartz, the former CEO of **Autodesk** Inc., would be its new chief.

The appointment of Ms. Bartz is seen as a fresh start for Yahoo strategically because many of its former leaders, including co-founder and former CEO Jerry Yang and President Susan Decker, who is stepping down, had opposed a sale of all or parts of the company to Microsoft.

Yahoo and Microsoft had struck up talks about a search deal last year, after Yahoo rebuffed Microsoft's offer to acquire the whole company. After a break in talks in June, Microsoft made another offer in July. Under those terms, Yahoo would have handed over its search business to Microsoft in exchange for $1 billion plus a guaranteed annual payment to Yahoo of $2.3 billion for five years, according to people familiar with the matter.

On Tuesday, Ms. Decker—who had long argued that separating Yahoo's search and display-ad business would be against its long-term interests — announced plans to resign. People familiar with the matter said she had softened her opposition to a deal more recently, as have other senior executives.

Mr. Ballmer has said repeatedly in recent months that he still wants to do a search deal with Yahoo. Still, Microsoft is also dealing with other issues such as readying Windows 7, the next version of the company's operating system that is expected out in final form by January 2010.

Furthermore, the weakened economy and uncertain outlook for advertising may complicate any Microsoft deal by making it more difficult to value Yahoo's search business.

Carol Bartz

Some Yahoo directors also don't feel "there's any pressure at all," said one person familiar with the matter, who added that they are putting the decision of whether to renew talks in Ms. Bartz's court. Board member Carl Icahn is thought to remain a proponent of a search deal, however. He didn't respond to a request for comment.

In a call with analysts Tuesday, Ms. Bartz said, "I don't expect it's going to take an extraordinary amount of time" to examine Yahoo's strategic options, but she indicated she is unwilling to cave in to outside pressure to act. "More than anything, let's give this company some frickin' breathing room. It's been too crazy—everybody on the outside deciding what Yahoo should do, shouldn't do, what's best for them. That's going to stop."While some analysts and investors are hoping a deal could be announced as soon as Yahoo reports fourth-quarter earnings Jan. 27, they acknowledge it is very difficult to handicap.

"At the end of the day, it is the function of two individuals, Steve Ballmer and [Ms. Bartz]," said Youssef H. Squali, managing director at Jefferies & Co. "She is the new leader and she is calling the shots as she sees fit."

Mr. Ballmer and Ms. Bartz know each other from their long involvement in the software industry, having participated in industry events together. That could help soothe relations between Yahoo and Microsoft, which have been strained by months of tense negotiations and public and private bickering.

Proponents of a search deal also argue it would allow Yahoo to quickly turn its attention to other areas of the businessin more urgent need of fixing, such as its display ad business, which is being further crippled by the deteriorating economy. Yahoo had been talking to **Time Warner** Inc.'s AOL about a possible merger that would allow the company to double down on the business of selling display advertising, but it is unclear where those talks stand.

—Nick Wingfield and Joann S. Lublin contributed to this article.

Falling beer demand hits brewers

BY MICHAEL CAROLAN

Evidence from two major brewers suggested that a global slump in demand for beer may be more severe than expected and that emerging markets such as Russia and China can no longer be relied on to drive growth.

SABMiller PLC, the world's second-largest brewer, after newly merged **Anheuser-Busch Inbev** NV, Thursday posted a surprise 1% drop in beer volume in the quarter ended Dec. 31, blaming the global economic slowdown for weakening demand in many of its markets.

While SABMiller's volume dropped 2.3% in the U.S.—including a 7.5% fall for the flagship Miller Lite brand—and rose 1% in its home South African market, newer beer markets such as Russia and Colombia saw sharp declines, with volumes down 22% and 6%, respectively. Even in China, one of SAB's key growth markets in recent years, volume was flat.

Meanwhile, Copenhagen-based **Carlsberg** AS said it is cutting a further 274 jobs in Denmark and the Baltic region in response to tougher market conditions. The company, which has about 40,000 employees worldwide, announced 80 job cuts in November.

Brewing is traditionally seen as a defensive industry during a recession but SABMiller's numbers suggest that may not be the case this time around, especially in emerging economies.

Brewers such as Anheuser-Busch InBev, SABMiller and Carlsberg have invested heavily in the emerging markets of South America, Eastern Europe and Asia in recent years, where sales growth has dwarfed that in more established beer-drinking regions, such as Western Europe and North America.

SAB's declining volume in Russia is of particular concern to Carlsberg investors. The Danish company is the country's largest brewer, having taken over the Russian operations of U.K.-based Scottish & Newcastle as part of a joint takeover of the brewer with **Heineken** NV last year. The Russian beer market was the prime attraction for Carlsberg. Since its acquisition, however, the Russian economy has gone into a steep decline.

Carlsberg now generates more than half its sales in Russia.

—Ola Kinnander and Matthew Dalton contributed to this article.

Former German leader to join TNK-BP's board

BY JAMES HERRON

LONDON—Former German Chancellor Gerhard Schröder and two other independent directors will join the board of **TNK-BP** Ltd. as part of a deal brokered between **BP** PLC and its Russian partners in the joint venture.

Gerhard Schröder

BP and its partners, several Russian billionaires, decided to include three independent directors on TNK-BP's 11-member board to serve as vital swing votes on big decisions, a move that reduces the risk of a deadlock.

The two sides had a long and bitter dispute last year over corporate governance and strategy at the joint venture.

The other two independent directors are James Leng, the incoming chairman of **Rio Tinto**, and Alexander Shokhin, president of the Russian Union of Industrialists and Entrepreneurs.

The new board has some high-caliber people and should be well received, said NCB Stockbrokers analyst Peter Hutton.

James Leng

As Germany's chancellor, Mr. Schröder cultivated close relations with Vladimir Putin, Russia's former president who now serves as its prime minister. While he was chancellor, Mr. Schröder gave crucial support to Nord Stream, a pipeline designed to carry gas directly from Russia into Germany under the Baltic Sea. After stepping down as chancellor in 2005, Mr. Schröder accepted a post as chairman of Nord Stream.

Earlier this week, Mr. Leng was tapped to succeed Paul Skinner as chairman of mining giant Rio Tinto in April. Mr. Leng is a deputy chairman at India's Tata Steel Ltd. Analysts at Liberium Capital said in a note to clients that he is well regarded for his expertise in corporate restructuring and tricky negotiations.

Mr. Shokhin is the mouthpiece of Russia's richest businessmen, known as the oligarchs, several of whom are major shareholders in TNK-BP and will sit on its board. He often takes the role of intermediary between the oligarchs and power brokers in the Kremlin.

BP has nominated to the board Andy Inglis, the chief executive of BP's upstream business; David Peattie, the head of BP's Russian operations; Iain Macdonald, BP's deputy chief financial officer; and George Robertson, the former secretary general of the North Atlantic Treaty Organization.

The directors nominated by the Russian side, the Alfa-Access-Renova Consortium, are **Alfa Group** Chairman Mikhail Fridman; **Renova Group** Chairman Viktor Vekselberg; **Access Industries** Chairman Len Blavatnik; and the chairman of **Pamplona Capital Management**, Alex Knaster.

BP Chief Executive Tony Hayward said the new board will safeguard the interests of all shareholders in TNK-BP.

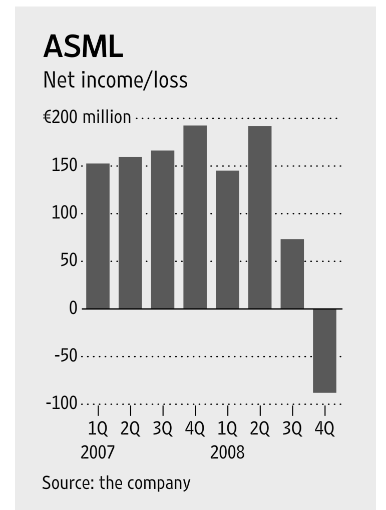
People familiar with the matter have said that former OAO **Norilsk Nickel** Chief Executive Denis Morozov will be named as TNK-BP's new head. TNK-BP's chief operating officer, Tim Summers, is acting CEO.

Chip-equipment firm ASML reports loss as demand sinks

BY ROBERTA B. COWAN

ASML Holding NV, a key supplier to **Intel** Corp. and other chip makers, swung to a fourth-quarter net loss Thursday, hurt by falling semiconductor demand and weak memory-chip prices as customers struggled to get credit.

The Veldhoven, Netherlands, company posted a net loss of €88 million ($115.8 million) for the three months ended Dec. 31, compared with a net profit of €193 million a year earlier. Sales fell 48% to €494 million from €955 million.



Source: the company

ASML booked restructuring and impairment charges of €138 million in the quarter as it sought to lower its cost base and introduced more cost-competitive scanner models in reaction to the falling demand. The company last month issued a profit warning and said it would cut 1,000 jobs, or 10% of its work force, to better cope with the slowdown. ASML said its restructuring would save about €50 million a quarter.

ASML makes lithography systems, which map out tiny electronic circuits on silicon wafers, and counts Intel, **Samsung Electronics** Co. and **Taiwan Semiconductor Manufacturing** Co. among its customers. Its main competitors are **Nikon** Corp. and **Canon** Inc. of Japan.

Almost all major chip makers have cut their financial estimates over recent months amid sharply falling demand for computers and other consumer electronics.

ASML lowered its expected sales range for the first half of this year to between €180 million and €200 million, down from a previous forecast of €250 million. It didn't give any other forecasts for 2009.

CORPORATE NEWS

Apple's Steve Jobs takes medical leave

Short on details, news raises concern about company's fate

BY YUKARI IWATANI KANE

Just a week after reassuring investors and employees about his health, **Apple** Inc. Chief Executive Steve Jobs disclosed he has a "more complex" medical condition and would take a leave of absence until the end of June.

Mr. Jobs's disclosure, in a letter directed to Apple employees, provided no details about what was ailing him and raised new questions about a company that is so closely identified with its co-founder. Apple shares fell 7% in late trading Wednesday on the news.

Mr. Jobs, 53 years old and a pancreatic-cancer survivor, said he was passing day-to-day management of the Cupertino, Calif., company to Chief Operating Officer Tim Cook. Mr. Cook filled in for Mr. Jobs in 2004 when the Apple chief took a leave to battle his cancer.

"As CEO, I plan to remain involved in major strategic decisions while I am out. Our board of directors fully supports this plan," Mr. Jobs wrote in his letter.

Last week, Mr. Jobs said he was suffering a "hormone imbalance" that had caused dramatic weight loss, but said he had begun "relatively simple and straightforward" treatment and would continue as CEO.

A person familiar with the situation said that Mr. Jobs didn't have a recurrence of cancer and that he was taking a leave of absence because the treatment to fix the problem of not being able to absorb proteins was more complex than initially believed.

His health has been closely scrutinized by Wall Street since his bout with cancer, which Mr. Jobs said has been treated successfully by surgery. Concerns about his health were reignited last year when he appeared on stage at an event looking gaunt and intensified last month when he said he would skip the Macworld trade show earlier this month.

Mr. Jobs didn't respond to a request for comment. Apple board members declined to comment or couldn't be reached. An Apple spokesman declined to provide more details about Mr. Jobs's health.

The disclosure immediately sparked new concerns about how much information Apple was keeping to itself on Mr. Jobs's health. Medical and corporate-governance experts earlier this month had challenged Mr. Jobs's disclosure about a hormone imbalance as too general and had criticized Apple for not providing fuller background on the state of the CEO's health. Several medical experts suggested the hormone imbalance could be related to the tumor surgeons removed from Mr. Jobs's pancreas.

The announcement raises questions about "whether we have been getting the full story for the past year" about Mr. Jobs's health, added Jeffrey Sonnenfeld, a senior associate dean at Yale University's School of Management. Wednesday's letter "is less forthcoming" than the Jan. 5 one, but the Apple leader should have revealed "what the new health issues are."

Apple declined to comment, but in the letter, Mr. Jobs says that he just learned "during the past week" that the health-related issues are more complex than he had thought.

Mr. Jobs's health is key to Apple. He is deeply involved in all aspects of the company's business and is widely credited for reviving the then-struggling computer maker in the late 1990s with hit products such as the iMac desktop computer. More recently, Apple has churned out the iPod digital music player and the iPhone and cemented a place as a leading consumer-electronics maker.

The news, released after the close of regular trading in the U.S., sent Apple's shares down $2.58, or 3%, to $82.75 Thursday afternoon on the Nasdaq Stock Market.

Some investors said they were reeling from the disclosure. Charlie Wolf, a financial analyst with Needham & Co., said the "Steve Jobs health" factor could cause the stock to fall 10% to 15%. He added, however, "If it were life threatening, I would anticipate that Steve would have resigned or the board would have called for his resignation."

"This is the biggest wake-up call for the investor community to come to the reality that there will be a post-Steve Jobs Apple," added Gene Munster, an analyst with Piper Jaffray. "The most important question from the stock perspective is will product innovation continue, and there's no reason to think it won't."

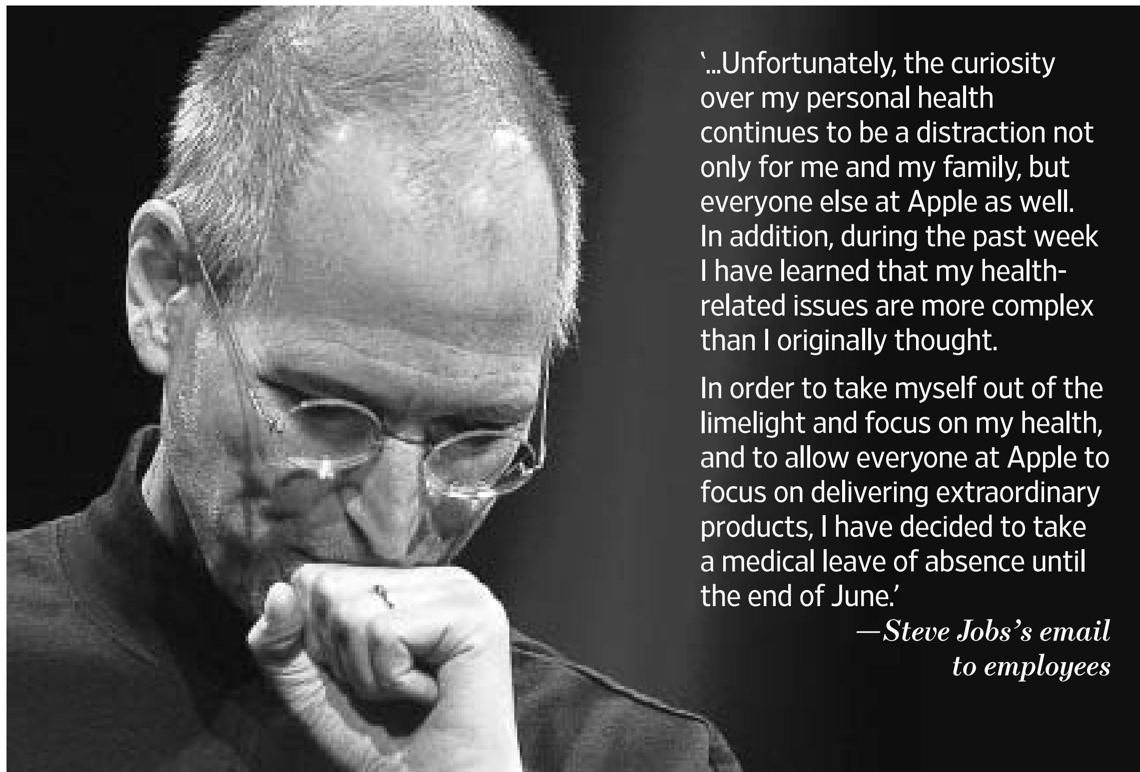
While Mr. Jobs takes an unusual hands-on role in design decisions, people familiar with the company's inner workings say the company's design team should be able to keep churning out innovative products, barring an exodus of top talent.

Mr. Jobs serves more like an "editor in chief" in refining and improving ideas for Apple gadgets, according to former Apple executives such as Bill Bull, a retired Apple engineer who worked for Mr. Jobs in the 1980s and again in the late 1990s. The hands-on work of Apple's innovations depends more directly on subordinates such as Jonathan Ive, an Apple senior vice president who oversees the company's industrial design team.

Scott Forstall, another senior vice president, leads the team responsible for the iPhone's operating system and other software. Other crucial figures at Apple now include Ron Johnson, senior vice president of Apple retail, who has masterminded the success of Apple's stores.

Mr. Cook, who now assumes day-to-day responsibility, is a long-time lieutenant. He joined Apple in 1998 after stints at Compaq Computer Corp. and other companies and was charged with straightening out the messy operations of the Silicon Valley company.

—Joann S. Lublin, Jacob Goldstein and Nick Wingfield contributed to this article.



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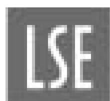

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CORPORATE NEWS

Posco seeks a new CEO

Korean steelmaker expects weak results for the first quarter

By Kyong-Ae Choi

SEOUL—South Korean steelmaker **Posco** said it is seeking a new chief executive to guide the company through the global economic crisis as it posted a smaller-than-expected net profit in the fourth quarter.

The company, the world's fourth-largest steelmaker by output, said net profit rose 1.1% to 721 billion won ($532.5 million) from 712.99 billion won a year earlier, helped by higher steel-product prices.

Before the earnings report was posted, the company said Chief Executive Lee Ku-taek is stepping down before the end of his contract to make way for a new management team. Shareholders are to vote on the company's chosen successor for the CEO post at a meeting on Feb. 27.

The new chief executive will face difficult trading conditions as the company expects the first quarter to deliver the worst results of 2009, a view echoed by analysts.

"First-quarter operating profit will be just around one trillion won due to lower output, higher costs and weaker demand," said Yang Ki-in, an analyst at Daewoo Securities.

In the fourth quarter, operating profit climbed 60% to 1.397 trillion won from a year earlier. Sales increased 53% to 8.305 trillion won from 5.434 trillion won.

Sources: the company, Reuters (photo)

Workers at a production line at Posco in Pohang, South Korea ▶

Chief Financial Officer Lee Dong-hee said global steel demand will likely be stagnant for the first time since 1998, although the company is hopeful that demand for Posco products will see some recovery toward year end. He didn't elaborate on what would drive that demand.

Although it came in below expectations, the company expressed satisfaction with the result.

"Despite the won's sharp depreciation and other unfavorable market conditions, we have managed to report solid quarterly results, helped by cost cuts and high value-added products," Mr. Lee said at an investor-relations session after the earnings announcement.

Posco raised its mainstay hot-rolled coil prices by 63% in 2008 to reflect higher raw-material prices, but in December it cut production by 200,000 metric tons to keep inventory low amid declining prices and weakening demand from customers. In January, the company plans to reduce output by 370,000 tons.

The won—which weakened to an average of 1,364.31 won versus the dollar in the fourth quarter from 920.61 won a year earlier—helped raise the prices Posco paid for iron ore and coking coal.

Posco is aiming for sales of 27 trillion won to 30 trillion won for 2009. It also aims to cut costs by 958.4 billion won during the year, a figure the company described as challenging, and which is higher than last year's savings of 738.2 billion won.

Posco shares fell 5.3% Thursday to 359,000 won in Seoul, in line with the benchmark Kospi Index's 6% loss.

"Uncertainties coming from the management change, weak forecasts for the first quarter and a weak stock market collectively weighed on the steelmaker's shares," said Moon Jeong-up at Daishin Securities.

Court sides with J&J in stent case

By Keith J. Winstein

Johnson & Johnson won another round against **Boston Scientific** Corp. in long-running patent litigation over heart stents. The decision makes it more likely that Boston Scientific will have to make a $700 million payment to J&J.

Since 1997, the companies have been locked in litigation over the popular medical devices, which are tiny scaffolds that prop open clogged arteries. J&J, which sold the first heart stents in the U.S., has patents on the basic devices and has won infringement suits against Boston Scientific.

But Boston Scientific also has scored victories against J&J concerning patents it holds on adding medicine to the outside of a stent to keep arteries from reclogging after a stent is implanted. Such coated stents have edged out older, bare stents.

On Thursday, a U.S. appeals court in Washington threw out one of Boston Scientific's victories. The court, which hears patent-related cases, ruled that Boston Scientific's patent on coated stents was "obvious" and invalid, in light of a previous patent held by medical-device maker **Medtronic** Inc. that also discussed coating a stent with drugs.

That finding weakens Boston Scientific's chances of avoiding a $700 million payment it was ordered to make to J&J in September related to older patents. Boston Scientific is appealing that decision. The company has pledged part of a $2 billion line of credit in order to satisfy the judgment.

Roche to trim 780 jobs over next years

By Anita Greil

ZURICH—Swiss drug maker **Roche Holding** AG plans to cut 780 production jobs over the next two to three years, warning that the pharmaceutical industry won't be immune to the effects of the worsening global economy.

Chief Financial Officer Erich Hunziker said the cuts will build on a restructuring that is already cutting 1,152 jobs, in part through the sale and closure of factories.

Mr. Hunziker said he is confident that Roche is well positioned to deal with the worsening economy. Even in a downturn, demand for health care will increase, he said.

But funding will become more challenging, meaning the pharmaceutical industry will still feel the impact this year and beyond, he said. "Funds available for health care are, and will be, limited."

Mr. Hunziker said that the Swiss drug maker has fewer drugs facing the loss of patent protection than its rivals and that several of its key products have major growth opportunities outside the U.S.

Economy takes toll on PC sales

The dismal economy caught up with the personal-computer industry this holiday season.

PC shipments world-wide dropped 0.4% in the fourth quarter from a year earlier, the first year-to-year decline in six years, according to IDC. Rival market-research firm Gartner Inc. offered a slightly more upbeat estimate Wednesday, reporting that fourth-quarter shipments world-wide rose 1.1%.

PC sales in the U.S. were particularly weak, with shipments falling 3.5%, according to IDC. Gartner said U.S. shipments dropped 10.1%.

The poor showing represents a "pretty dramatic drop" in the market compared with the year-earlier quarter, when world-wide sales grew 15.5%, said IDC analyst Loren Loverde. He said sales of netbooks—laptop PCs that sell for less than $500—were the market's single bright spot.

GLOBAL BUSINESS BRIEFS

Eli Lilly & Co.

Drug maker to settle probe of Zyprexa for $1.42 billion

Eli Lilly & Co. agreed to pay $1.42 billion to settle a probe into alleged improper marketing of the antipsychotic drug Zyprexa, the U.S. Justice Department said Thursday. The announcement and amount were expected, as Eli Lilly said in October it had set aside $1.42 billion for a potential settlement. Zyprexa, which is approved to treat schizophrenia and bipolar disorder, has been Lilly's top-selling drug, earning the company more than $37 billion in world-wide sales since its U.S. approval in 1996. The Indianapolis-based company said it will pay $800 million to settle civil suits, including $438 million to the federal government and $362 million to states. It will pay $615 million to resolve the criminal probe, and plead guilty to a misdemeanor for promoting Zyprexa as a dementia treatment.

Tiffany & Co.

Tiffany & Co. again cut its earnings outlook, citing holiday sales that plunged amid a harsh economic environment. The New York-based jeweler said sales at stores open at least a year fell 24% in November and December from the year-earlier period, marked by a 35% drop in the U.S. Its total sales shrank 21% to $687.4 million. Chief Executive Michael Kowalski said customers spent cautiously across the entire range of Tiffany's jewelry. "We believe these conditions will continue well into 2009," he added. Tiffany cut its fiscal-year forecast for earnings, excluding special items, to between $2.25 and $2.30 a share. In November, the jeweler had lowered the projection to a range of $2.30 to $2.50. Tiffany expects net sales of $2.85 billion, about a 3% decline from a year earlier.

Assa Abloy AB

Sweden's **Assa Abloy** AB, the world's largest lock maker by sales, Thursday announced a 1.18 billion Swedish kronor ($140.3 million) restructuring program that includes shutting down 15 production units and laying off 1,800 employees. The plan expands previously announced measures and will affect 600 more jobs than revealed earlier. It also brings up costs from the 800 million kronor initially announced. Assa Abloy had 33,051 employees at the end of September. Assa Abloy's announcement follows moves to cut more than 14,000 jobs at truck maker **Volvo** AB; 1,200 at telecommunications company **TeliaSonera** AB; 1,000 at engineer **Alfa Laval** AB; 3,000 at consumergoods maker **Electrolux** AB; and 1,000 at auto-parts maker **Autoliv** Inc., among others.

Fraport AG

Frankfurt Airport, one of Europe's busiest air-transportation hubs, saw passenger numbers fall 5.3% in December from a year earlier, the airport's operator said Thursday. **Fraport** AG said Frankfurt Airport was affected by the weakening global economy last month and had just below 3.8 million passengers. Freight and mail traffic fell 25% to 142,500 metric tons. For all of 2008, passenger numbers at Frankfurt Airport fell 1.3% to 53.5 million. Freight and mail traffic, meanwhile, declined 2.7% from 2007 to about 2.1 million metric tons. For all of Fraport's airports, 2008 passenger numbers rose slightly to 78.1 million. Full-year freight traffic fell 1.3%. Fraport also owns airports in Antalya, Turkey; Lima, Peru; and Varna, Bulgaria.

Holcim Ltd.

Holcim Ltd., one of the world's largest cement makers, said Thursday that it will scale back its 2009 investment plans as it braces itself for tough conditions, but that it is likely to profit from government stimulus initiatives. Holcim's credit-rating outlook has been cut by agencies such as Moody's amid concerns the Switzerland-based company might generate a negative cash flow during the downturn. Holcim is closing cement and asphalt plants in the U.S., the U.K., Spain, Thailand and the Philippines. The step is likely to lead to a reduction in Holcim's work force. Maintenance investment in 2009 will fall to about 400 million Swiss francs, or about $358 million, from about 1.2 billion francs in 2008, Holcim said. Investment in new projects should be about 2.5 billion francs, off from about 3.5 billion francs.

Edison SpA

Italian power and gas company **Edison** SpA said Thursday it could sell as much as 25% of the Abu Qir Egyptian natural-gas field if the price is right. Several companies have expressed interest in the stake but no decision has been made yet, said Umberto Quadrino, Edison's chief executive. Edison won the tender for the Abu Qir field in a $3.1 billion deal in December. The company said it will pay **Egyptian General Petroleum** Corp. a bonus of $1.41 billion for the exploration, production and development of the offshore Abu Qir field, adding that it estimates necessary investments of about $1.7 billion. Edison said the field will allow it to more than double its annual gas output to 2.6 billion cubic meters by 2013.

Luxottica SpA

Italian luxury-eyewear maker **Luxottica** SpA will start a four-day temporary layoff that will affect about 6,000 workers in six factories across northern Italy, as economic turmoil takes its toll on the luxury sector, the Italian leather, textile and shoe union said Thursday. "In some factories there could be more days," said Giuseppe Colferai, FILTEA-CGIL's regional leader in Belluno. Luxottica is the world's largest eyewear maker by sales and makes sunglasses for brands like Prada and Chanel. The government-sponsored layoffs will be implemented in increments of two days in January and February, FILTEA-CGIL said. Car maker **Fiat** SpA said earlier this month that it will lay off about 2,000 office workers for the first two weeks of February.

Equitable Life

The U.K. government admitted regulatory failure in its handling of the near-collapse of insurance company **Equitable Life** in 2001 and said it will pay compensation to "disproportionately affected" policyholders. Payouts could cost the government hundreds of millions of pounds, but that is well short of the £5 billion ($7.29 billion) called for by policyholders. "We agree that there has been maladministration in particular areas and also that government action is merited as a result," Chief Secretary to the Treasury Yvette Cooper told members of Parliament. Ms. Cooper said the government will look most favorably on claims where the policyholder lost large amounts of money and where losses made up a large amount of their income.

—Compiled from staff and wire service reports.

FOCUS ON ENERGY

Europe's Big 3 warn Russia on gas

Pump gas soon or risk relations, say U.K., Germany and France

Europe's big countries weighed in to try to force a resolution to the Continent's natural-gas supply crisis, warning Moscow that relations could be damaged for the long term if it doesn't start gas pumping again soon.

Thursday's interventions by Germany, France and the U.K. came after more than a week of diplomacy and threats by top European Union officials have yielded few results.

*By **John W. Miller** in Brussels and **Marcus Walker** in Berlin*

Despite a series of oral and signed agreements, Russian gas exports via Ukraine remained cut off for a ninth day Thursday, leaving parts of the EU without gas to heat homes or operate factories. That failure has triggered growing criticism of the EU's lack of a strong foreign policy, or permanent heavy-hitting leadership, roles that only national governments seem able to fill.

"Confidence in Russia could be lost in the long term," Chancellor Angela Merkel of Germany told reporters after meeting U.K. Prime Minister Gordon Brown in Berlin on Thursday and issuing a joint statement with him on the issue. Ms. Merkel will meet Russian Prime Minister Vladimir Putin in Berlin Friday. Mr. Brown was due to meet Ukraine President Viktor Yuschenko in London on Thursday night.

The French foreign ministry, meanwhile, appeared to shoot down a Russian proposal to hold an energy summit to break the deadlock in Moscow on Saturday. "Conditions are not ripe" until gas flows have been resumed, said foreign ministry spokesman Eric Chevallier. Ukraine asked for a more neutral location for the summit.

Reuters

German Chancellor Angela Merkel, right, issued a joint statement with U.K. Prime Minister Gordon Brown, left, in Berlin Thursday on the Russia-Ukraine gas conflict.

A tougher line from Germany may be what is needed to break the deadlock, analysts said. Germany is Russia's most important customer for gas and often an ally for Moscow in Europe. A senior German official noted that throughout the Cold War, Soviet gas supplies to Western Europe were never cut, making this a first. Though Europe lost some gas during a similar crisis in 2006, disruptions were limited and Russia restored supplies almost immediately.

German policy makers said they hope to convince Moscow that it can't afford to alienate the EU since Russia needs Western investment and technology to modernize its economy. Whether that will be enough to persuade Mr. Putin, however, is unclear. Ms. Merkel conceded on Thursday that Germany has "no complete alternative" to Russian gas. Germany gets about 37% of its natural gas from Russia.

Ms. Merkel blames both Kiev and Moscow for the disruption, according to people familiar with her thinking. In particular, Berlin views as unjustified Ukraine's refusal to pay for so-called technical gas, needed to run the equipment that pumps Russian exports through the system, until its price dispute with Russia's OAO **Gazprom** is resolved. Gas experts said Russia also appears to be making it deliberately difficult for Ukraine to transport gas to the EU.

Russia was trying to put together a solution to the dispute over technical gas late Thursday, asking its Western customers to help fund the gas needed to refill Ukraine's export pipelines and cover the cost of the technical gas. Paolo Scaroni, CEO of **ENI** SpA, met Mr. Putin in Moscow Thursday evening and said he hopes to reach a deal with other major European buyers of Russian gas to advance the cost of technical gas through the end of March. At current prices, that would cost roughly $500 million.

If that effort succeeds, Mr. Scaroni said, Russian gas could be flowing again to Europe over the weekend. The Western customers would be repaid in gas once Kiev and Moscow reach a deal, he said. "The idea is to involve the European customers in an issue which [Russia and Ukraine] tried to solve by themselves without success," he said.

Ms. Merkel's coming out on Thursday "is a victory for those who maintain that Europe needs a high-profile representative to function in foreign policy," said Dominique Moisi, a senior adviser at the French Institute for International Relations. "The EU has no influence without incarnation in a strong figure."

In August, French President Nicolas Sarkozy drew plaudits for his active role in brokering a cease-fire deal between Russian and Georgia, while his country held the EU's rotating presidency. The current holder, the ex-Soviet bloc Czech Republic, wields less clout, especially in Moscow.

—Andrew Osborn in Moscow and Stacy Meichtry in Rome contributed to this article.

Oil and gas boom spurs an increase in fraud

By Brad Reagan

Thousands of U.S. investors who sought a piece of the action when oil and gas prices were soaring fell victim to fraudulent schemes that federal and state regulators are now scrambling to address.

The Securities and Exchange Commission says complaints from energy investors who suspect they were swindled more than doubled between 2004 and 2007, and were on pace to double again last year. Though the agency declined to produce exact figures, it is clear from court documents that thousands of investors sunk hundreds of millions of dollars into fraudulent investments.

The offenders were typically fraudulent private drilling partnerships, in which investors buy small stakes in wells in the hopes that they will produce royalty income for years. Such sketchy offerings are less prevalent these days, with oil prices in the midst of a precipitous slide: The price of a barrel of crude oil has fallen from a peak of $147 in July to less than $36 on Thursday morning in New York. But the fallout from the boom is only now being felt full force.

Victims are spread across the country. "We've had a real hard time getting a handle on it," says Jim Strode, Kentucky's securities division director. Mr. Strode says his office has more than 10 open oil-and-gas investigations, most involving dozens and even hundreds of investors. Likewise, Colorado securities commissioner Fred Joseph says oil and gas is still "the fraud du jour" among seasoned con men in his state.

In November, the SEC convened a task force to coordinate prosecutions and train investigators on how to spot fraudulent oil-and-gas offerings.

While inherently risky, most private drilling partnerships are legitimate. Some financial planners recommend them because of their tax advantages, which include being able to write off drilling costs and offset a percentage of income received.

Though oil prices had been rising for years, the market became ripe for fraud in the past year, as oil prices climbed to their peak, gas prices similarly soared, and the stock market headed downward. That made individual investors particularly susceptible to pitches from energy promoters.

The average victim is "the 55-year-old watching the news ticker and worried if his retirement fund is going to be enough," says Rose Romero, regional director of the SEC's Fort Worth, Texas, office.

In one case, the SEC last month filed a civil lawsuit alleging that Dallas-based Star Exploration Inc. and other related ventures fraudulently raised more than $12 million from more than 160 investors.

The complaint alleges that the company's owner and president, 42-year-old James Gurgainers, raised money for drilling projects when he knew the wells were dry holes, and that he diverted at least $700,000 of the money raised for his own use, including gambling excursions. Mr. Gurgainers couldn't be reached for comment.

It can often be difficult for regulators to determine what constitutes fraud as opposed to a risky investment gone bad. The key is to prove a departure between what the promoters promised to do with the money raised versus what they actually did, says Denise Voigt Crawford, the Texas securities commissioner.

In some fraud cases, the promoters never drill at all; in others, they devote a disproportionate amount to sales commissions and other in-house expenses not related to production. Still others are Ponzi schemes in which early investors are paid high returns with money raised through new investors until the pyramid is either discovered by authorities or collapses on its own.

The common element, regulators say, is that promoters walk away with hefty profits while investors get little or no return on their money.

In June, the SEC shut down Consolidated Management Group LLC of Wichita, Kan., and filed a civil lawsuit against nine of its officers for what it described as "a massive oil and gas fraud" involving $156 million taken from more than 1,300 investors. The operation involved a web of 22 joint ventures, including one that claimed to take advantage of the shortage of drilling rigs by refurbishing old rigs and leasing them out, according to the SEC.

The SEC recovered transcripts of conference calls in which salesmen promised prospective investors annual returns of as much as 40%, plus a stake in an upcoming public offering.

In fact, Consolidated and its affiliates returned only $7 million to investors while paying the nine officers $18 million in salary and commissions, SEC documents allege.

As part of a settlement with the SEC, the nine officers agreed to an injunction while their assets were frozen and ultimately distributed to investors, though they didn't admit to any wrongdoing. The officers couldn't be reached for comment.

The victims of oil-and-gas fraud are often slow to come forward. For one, it can take several years before they realize they have been had. They are also sheepish about their own gullibility. However, experts note that the glossy brochures, seismic-imaging reports and professionally drafted prospectuses that promoters use are persuasive.

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Low crude prices, reduced supplies give refiners edge

By Ana Campoy

U.S. oil refiners have finally started making money on gasoline—by making less of it.

Since mid-November, refiners have been churning out fewer liters of gasoline a day than the previous year, on average. Last week, they produced even less gasoline than the previous week, according to government figures released Wednesday.

Meanwhile, refining margins, or the difference between the price refiners pay for crude and the price they get for the gasoline they sell, are shooting up—to more than $12 a barrel on Tuesday from two cents a barrel at the beginning of the year in the Gulf Coast spot market.

On Wednesday, San Antonio-based refiner **Tesoro** Corp. said it expects to beat analysts' fourth-quarter earnings forecasts as its margins widened due to lower crude prices and historically low gasoline inventories on the West Coast, where the company has many of its plants. Tesoro, the third-largest refiner in the U.S., forecast earnings of 60 cents to 75 cents a share; analysts polled by Thomson Reuters had been predicting per-share earnings of 48 cents.

The reversal in refiners' fortunes has to do with tumbling oil prices. Crude stockpiles have grown to record levels, pushing oil future prices down more than 16% since the beginning of the year.

But because of production cuts, gasoline inventories aren't nearly as ample, so futures prices for the fuel rose nearly 16% in the same period despite lackluster demand.

"Demand is weak but supply is getting tighter as more refiners are slowing production of gasoline," said Fadel Gheit, analyst with Oppenheimer & Co.

On Thursday morning in New York, crude-oil futures fell $1.81 to $35.47 on the New York Mercantile Exchange, while prices for gasoline futures fell 3.88 cents to $1.13 a gallon, or 30 cents a liter.

At the pump, gasoline prices inched up less than a cent to a national average of $1.792 a gallon on Wednesday, according to auto group AAA. A month ago, the price was $1.66 a gallon.

Still, drivers needn't worry that lower gasoline output will cause a major spike in prices at the pump, analysts say. The U.S. Energy Information Administration expects a gallon of gasoline to sell for $1.75 to $1.76 until April. Jim Ritterbusch, from oil-trading advisory firm Ritterbusch & Associates in Galena, Ill., says that supplies lost in the U.S. could be easily replaced with imports from Europe.

And crude oil prices, the other major determinant for gasoline prices, are expected to remain weak as the global economic downturn dries up demand for fuels.

"The outlook is very bearish altogether," said Antoine Halff, analyst at the brokerage firm NewEdge USA.

Turning crude oil into gasoline was a money-losing business for most of the fourth quarter of 2008. In response, **Frontier Oil** Corp. geared its refineries to increase production of other fuels, such as diesel. And **Valero Energy** Corp. sharply cut back gasoline production.

—John Kell contributed to this article.

ECONOMY & POLITICS

Most economists back size of stimulus

Differences emerge in survey on how best to trigger long-term growth: most 'bang for the buck,' or immediate relief

By Phil Izzo

Economists in the monthly Wall Street Journal forecasting survey generally agree with the size of President-elect Barack Obama's stimulus package but remain divided on where the money should be spent.

Congress released on Thursday details of the $825 billion package, including tax cuts and increased government spending. Like the political debate over the plan, economists differed on how best to trigger long-term growth—more "bang for the buck" versus the need for more immediate relief.

On average, the 55 economists surveyed this month, before the details of the plan were released, said the money should be evenly split between tax cuts and government spending. That stands in contrast to Americans surveyed in the latest Wall Street Journal/NBC poll, who by a nearly 2-to-1 ratio preferred government spending to create jobs over tax cuts.

Reuters

President-elect Barack Obama's $825 billion stimulus plan is an attempt to fill the gap in output caused by the recession.

The proposal released Thursday seeks about a third of the money to go to tax breaks, while the rest would be devoted to government spending, which span infrastructure plans to boosts for health care and information technology.

Respondents, on average, said the stimulus plan—which spans two years—should be more than 5% of gross domestic product, which translates to about $750 billion. That figure is similar to initial suggestions floated by Obama advisers before being increased on Thursday.

However, some economists also felt no stimulus was needed, while another camp said the government might want to consider pumping up to 15% of GDP, or more than $2 trillion, into the economy.

"In an ideal world you'd like to have shovel-ready infrastructure projects to get the most bang for the buck, but that takes a lot of time and there aren't that many projects ready to go," said Paul Ashworth of Capital Economics. "Tax cuts give you benefit immediately. You have to balance the trade-off between most timely and most effective."

Lou Crandall of Wrightson ICAP suggested that aid to state and local governments should be a top priority, and efforts to avoid layoffs.

The labor market faces considerable strain, as the economists on average forecast the unemployment rate will peak at 8.9% some time at the end of this year, up from the 7.2% rate recorded in December. Separately, they expect the economy to shed another 1.2 million jobs over the course of this year.

The need for action is highlighted in the continued deterioration in the economic picture this year. The economists lowered their GDP forecasts again, expecting, on average, a 3.3% decline in the first quarter of 2009 followed by a 0.8% drop in the second. Slow growth is seen returning by the third quarter.

Mr. Obama's plan is an attempt to fill the gap in output caused by the recession. GDP declined 0.5% in the third quarter; the economists surveyed forecast an even more pronounced decline in the fourth quarter when it is reported this month.

When asked which economic variable they are watching most closely for signs the economy has touched bottom, a plurality of 28% chose credit spreads, which represent the differences among yields of different public and private debt instruments. Spreads were thrown for a loop as credit seized last year. In recent weeks, some signs of improvement have emerged.

Some economists are hopeful that an economic-stimulus package combined with moves by the Federal Reserve and the Treasury's Troubled Asset Relief Program can help spark a recovery.

However, 26% of economists said they would be watching consumer spending for signs of recovery, and Wednesday's dismal retail-sales report suggests consumption has further to fall. Meanwhile, 18% chose the labor market as an indicator of recovery and Thursday jobless claims jumped back over half a million, indicating continued weakness. Another 16% picked home prices, which still haven't shown strong signs of finding a bottom.

Obama needs a 'Grand Bargain' to fix U.S. deficit in future

By Gerald F. Seib

CAPITAL JOURNAL

Odd as it sounds amid a wheezing economy, mounting bankruptcies and rising unemployment, President-elect Barack Obama and his aides realize they'll actually be dealing with the easy part of their economic challenge when he takes office next week. After all, getting Congress to agree to spend billions of dollars and cut billions more in taxes to stimulate the economy right now is, politically speaking, relatively easy.

The harder part will be trying to follow that up by creating what is coming to be known in Obama circles as a Grand Bargain: getting everyone to agree to clean up the nation's budget mess in a really big way, one that doesn't just fix the problems being created now, but also addresses the frightening long-term problems America was going to face anyway to pay for Social Security and Medicare in coming decades.

For this Grand Bargain to work, all sides would agree to sacrifice some part of their agenda. The price they would agree to pay would be unhappiness—temporary, perhaps, but real—among their constituents and favorite special interests. Their reward would be a cure for problems everybody knows they'd have to deal with a few years down the road.

In other words, the Obama view is that the country has reached a momentous point in its economic history, like it or not. Why not try to see whether the nation can turn pain into an opportunity to make an equally momentous change in the way it conducts its affairs?

This is why the opening of the Obama era next week will be a time of both great peril and great opportunity. The risk of further economic meltdown and government overreach are both very real. But times of great problems also can be times of great clarity, when all see and agree that big problems simply can't be avoided.

President George W. Bush, by comparison, could never get Congress or the nation to buy into his call to reform Social Security, noble though the effort might have been. To be blunt, the problem just didn't seem all that pressing to enough people. Life was good; the problem could be pushed into a corner.

These times are different. The test of Mr. Obama's presidential leadership is whether he can convince his own party, the Republican opposition and the public that pain also represents an opportunity to do more than muddle through.

Things won't start out quite so grandly next week, of course. Mr. Obama will start by trying to build a three-legged stool to stabilize the economy here and now.

The first leg of the stool is to be an economic-stimulus package in the range of $800 billion. The second leg is to be the second, $350 billion half of the financial-markets rescue package Congress approved last year, used to both stabilize the wobbly banking system and head off a new wave of home foreclosures that could arise as more people lose jobs.

The third leg—largely underappreciated for now, but a high priority for the new president—is a legislative package to overhaul regulation of the financial markets. The Obama team considers that step crucial to maintain political support for the other parts of the rescue plan. It worries that without confidence that there is a new regulatory system to create greater transparency for investors, both Congress and the public will begin to feel that tax dollars are being thrown down the same black hole that swallowed the nation's 401(k)s.

When all that is done, the federal government's budget deficit will be an ugly sight to see, north of $1 trillion.

That will pose both a problem and an opportunity. If the deficit problem is that acute, the case for overhauling government to make it more efficient and less wasteful also is more pressing. That means there could, for example, be real support for changing the way the Pentagon handles acquisitions, finding government programs that can be eliminated and attacking congressional earmarks more seriously.

But those aren't the places where the big money is to be found to address the yawning deficit. The big money lies in the defense budget, in interest on the national debt and in entitlement programs, specifically Medicare and Social Security.

Even before the new deficit migraine arrived, simply keeping those programs afloat in their current form was going to create a giant headache anyway. The government traditionally uses about 18% of the gross domestic product to fund its programs. Even before the big bailout costs, the Office of Management and Budget had estimated that, in theory and without policy changes, that would rise to something like 40% by 2080; the deficit alone would consume 22% of GDP.

Here's where the Grand Bargain could come in. Like Humpty Dumpty, the budget is going to be broken anyway. In putting it back together, would retirees be willing to accept that idea of having more prosperous seniors pay a monthly premium to receive their Medicare health coverage? Would liberals accept cuts in their favorite social programs? Would conservatives accept the idea of a carbon tax, to both raise big money for entitlements and prod the nation to move more quickly away from fossil fuels?

Those would be the big tradeoffs. Washington may shy away from them once again. But the Obama era of big problems at least creates the opening for that kind of big debate.

U.S. wholesale prices decline further

By Kelly Evans

U.S. wholesale prices sank further last month, a sign of how quickly the inflationary pressures of last summer have reversed.

Producer prices fell a seasonally adjusted 1.9% in December from the previous month, the Labor Department said Thursday, led by lower energy prices. It marks the fifth-straight monthly decline and a stunning reversal in just a few short months from the price pressures seen in mid-2008.

The lower prices bring some much-needed relief to hard-pressed businesses as the U.S. recession marches on—but they also reflect weakness in global demand for goods. Manufacturing activity is down sharply in the world's biggest economies. U.S. producer prices in December were down 0.9% from the previous year, the biggest yearly drop since 2001.

Energy prices fell 9.3% last month from November as wholesale gasoline prices tumbled 25.7%. Food prices declined 1.5%. The declines are expected to be passed on to consumers, as businesses work to attract customers. The Labor Department will release its December consumer prices on Friday.

Excluding food and energy, core producer prices held up last month, rising 0.2% from November and 4.3% from the previous year—the largest annual gain in two decades. But core prices are expected to decline in the months ahead.

Holder labels waterboarding as torture

Attorney general pick tells Senate panel Cuba prison to close

By Evan Perez
And Brent Kendall

WASHINGTON—Eric Holder, President-elect Barack Obama's nominee for attorney general, told a Senate confirmation hearing that waterboarding of terrorism suspects is torture and vowed that the new administration would close the Guantanamo Bay prison as soon as it can.

Mr. Holder answered quickly when asked whether he labeled as torture the waterboarding technique, which induces the sensation of drowning and was used by Central Intelligence Agency interrogators on at least three terrorism suspects. "Waterboarding is torture," he said.

Mr. Holder also told the Senate Judiciary Committee that cases of detainees being held at the U.S. military base in Cuba would be reviewed and that military commission trials would have to be revamped or replaced to expand detainees' due-process rights.

Attorneys general under President George W. Bush have avoided calling waterboarding torture. Attorney General Michael Mukasey's confirmation in 2007 ran into trouble after he declined to give an answer on the question.

Mr. Holder said he hopes to improve the Justice Department's efforts to fight terrorism, restore the department's credibility and wage an aggressive fight against financial fraud.

Eric Holder

The 57-year-old corporate lawyer took some tough questions early in the hearing from Sen. Arlen Specter, the top Republican on the panel. Sen. Specter challenged Mr. Holder on whether the nominee had given a full account of his role in several incidents from his time as the No. 2 Justice official under President Bill Clinton.

Critics have raised questions about Mr. Holder's role in last-minute pardons issued by Mr. Clinton. Mr. Holder didn't stop—and some critics say he aided—the Clinton White House when it circumvented Justice procedures in granting a pardon for fugitive financier Marc Rich.

Mr. Holder acknowledged making mistakes in handling the pardons, which generated months of investigations and hearings after he left office. "Given an opportunity to do things differently, I certainly would have," he said. "I will be a better attorney general for having the Marc Rich experience."

Mr. Holder said the new administration plans to close the Guantanamo prison. He acknowledged it would take some time to determine which detainees could be sent to other countries, how many could be tried and what should be done with others who are too dangerous to release but can't be tried. He said the military commissions now being used to try detainees "have to be substantially revamped to provide the due-process rights that are consistent with who we are as Americans."

For senators from both parties, a major concern is the perceived damage done to the Justice Department's reputation during the Bush administration. Alberto Gonzales resigned as attorney general in 2007 amid a political scandal over the firings of prosecutors. A series of reports produced by the department's own internal watchdogs concluded that hiring and firing decisions became tainted by partisan considerations in violation of civil-service laws.

In a break with the Bush administration, Mr. Holder said he could support legislation to shield journalists in certain circumstances from having to reveal their confidential sources. "It is my belief that a carefully crafted law to shield the press...is appropriate," he said.

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U.S. businesses to get tax breaks in stimulus plan

By Jesse Drucker
And Martin Vaughan

The U.S. stimulus package unveiled Thursday includes $275 billion in tax cuts, including a variety of big tax breaks for businesses.

One break would allow businesses to take larger deductions on capital investments they make this year and next, instead of spreading them over several years. That is intended to encourage companies to speed up capital spending. The break—called "bonus depreciation"—has been tried before, in 2002 and 2008. But a lengthy Federal Reserve study on the 2002 break found that it had "only a very limited impact...on investment spending, if any."

Another proposal would allow companies to use so-called tax losses to offset taxable U.S. profits earned in the past five years. Typically, companies can carry back such losses only two years. Companies that racked up losses last year and this year would be able to use those losses to wipe out tax obligations from the good times and get big refund checks from the Treasury Department. The home-building industry unsuccessfully lobbied for such a break last year.

But it appears that companies receiving funding from the Troubled Assets Relief Program won't be eligible for the break, a blow to some big financial-services firms, such as **Citigroup** Inc.

The package also seeks to prospectively repeal a controversial tax break for banks granted by the Treasury Department decision in September, which allows banks to use losses stemming from their loan portfolios more quickly.

For individuals, the plan would cut taxes for most workers this year through a $500 tax credit that would be delivered by reducing paycheck withholding, a key proposal from Mr. Obama's team. But to reduce the cost of the proposal, House lawmakers pared down that benefit so that higher-income workers are excluded.

Missing from the House Bill is a proposal to create a $3,000 business-tax credit for new hiring. It also doesn't include a one-year provision shielding middle-income taxpayers from the Alternative Minimum Tax this year.