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Global search for growth turns to U.S.

Government outlays may curb downturn; China damps hopes

By Joellen Perry And Shen Hong

DAVOS, Switzerland—Two questions will preoccupy the world's economic elite in this snowy hamlet: Will the massive sums of government money pledged to prop up national economies be enough to keep the world from slouching into a prolonged slide? And where will the growth come from, once bottom is touched?

DAVOS WORLD ECONOMIC FORUM

At the start of the five-day World Economic Forum, the broad outlines of answers are becoming clear. Economists say fiscal-stimulus packages from Washington to Beijing will cushion the downturn but fall short of preventing a worldwide recession. And global growth, when it comes, will still be powered in part by U.S. consumers—though they'll spend far less than they did in the debt-fueled years of the recent boom.

Chinese Premier Wen Jiabao will likely seek to lower expectations that China can extract the world from the economic crisis. He is the first Chinese leader to attend a Davos meeting in the event's 38-year history. Despite its rise as a global production hub, China—like emerging Asian economies such as India—remains too small, too poor, and too export-dependent to provide much of a buffer for the global economy in the next few years.

Asia's inability to compensate for the drop in U.S. consumption means any global recovery will be slow in coming and marked by lower growth rates than the world has seen in recent years.

"We thought we could keep growing [globally] at rates of 4% and 5% a year, but that's unsustainable," says Nouriel Roubini, a Davos regular who heads RGE Monitor, a financial and economic forecasting service in New York. Mr. Roubini's best-case scenario: After a recession this year, the world returns to more moderate global growth rates around 3.5% by 2011.

Governments around the world have pledged trillions of dollars—a precise tally is hard to come by—to blunt the impact of the financial crisis. U.S. Democrats hope to pass President Barack Obama's $825 billion economic-stimulus bill—a package of tax and spending measures over two years amounting to 3% of annual U.S. gross domestic product—by mid-February. China in November pledged $586 billion in spending on

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Reuters

Chinese Premier Wen Jiabao, right, during his visit in Bern prior to attending the annual World Economic Forum in Davos. The prime minister will likely seek to lower expectations that China can extract the world from the economic crisis.

What's News—

Business & Finance

German business confidence rebounded from a record low, and Italy's consumer sentiment rose. Germany's cabinet cleared a supplementary budget doubling its borrowing requirement and setting a second two-year fiscal stimulus plan. Page 2

■ **Siemens's first-quarter net** fell 81%, but revenue rose and operating profit increased at its three main divisions. Page 4

■ **The U.K. has offered** a package of measures to ease financing problems for auto makers and to encourage them to make greener cars. Page 4

■ **U.K. hedge-fund managers** defended their industry in Parliament as they were grilled on their role in the bank crisis. Page 23

■ **Germany is considering** nationalizing Hypo Real Estate as a prelude to radically scaling back its operations. Page 23

■ **U.S. stocks rose,** led by financial issues, but weak economic data limited gains. European indexes edged up. Page 24

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8174.73	+58.70	+0.72
Nasdaq	1504.90	+15.44	+1.04
DJ Stoxx 600	188.31	+0.25	+0.13
FTSE 100	4194.41	-14.60	-0.35
DAX	4323.42	-3.45	-0.08
CAC 40	2954.53	-0.84	-0.03
Euro	$1.3167	+0.0034	+0.26
Nymex crude	$41.58	-4.15	-9.08

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World-Wide

The global financial crisis has revived the IMF, which has committed about $50 billion in loans to try to rescue Pakistan, Iceland and a clutch of eastern European nations. What role the fund should play in reshaping the global economy will be a focus of attention at the World Economic Forum. Page 1

■ **U.S. Treasury Secretary** Geithner announced new rules to limit lobbyists' influence on financial-market rescue decisions even as he taps an ex-lobbyist as his chief of staff. Page 11

■ **Palestinian militants** detonated a bomb next to an Israeli army patrol on the Gaza border, killing a soldier, ahead of a visit by Obama's new Mideast envoy.

■ **Iceland's president asked** the head of the leftist Social Democratic Alliance to lead talks to form a new minority coalition government. Page 12

■ **Metropolitan Kirill was** elected the new patriarch of the Russian Orthodox Church.

■ **A hard-line Islamic group** seized the seat of the Somali Parliament and said it will establish Shariah law in the city.

■ **Died: John Updike,** 76, Pulitzer Prize-winning novelist, of lung cancer, in Massachusetts.

EDITORIAL & OPINION

Never again

It's time to end hypocritical Holocaust remembrances in Europe and beyond. Page 19

Santander to compensate clients for Madoff losses

By Jose de Cordoba in Mexico City and Thomas Catan in Madrid

Banco Santander SA Tuesday said it is offering thousands of its private-banking clients €1.38 billion ($1.82 billion) in compensation for losses arising from investments in Bernard L. Madoff's alleged Ponzi scheme, the first financial company to do so.

The offer by Europe's second-largest bank by market value, which doesn't apply to institutional investors, comes as Santander customers filed the first lawsuit seeking class-action status against the bank on Monday, accusing it and other defendants of gross negligence and breach of fiduciary duty.

In recent days, clients in Latin America have been quietly approached by Santander representatives with an offer to return their original investments in the form of preferred stock in the Spanish bank. Under the terms of the offer document, a copy of which was reviewed by The Wall Street Journal, the preferred shares will be issued by Santander and pay a 2% rate of annual interest.

In return, Santander's clients must promise not to sue and must keep all of their current business and deposits at the bank.

The offer shows the extent to which Spain's largest bank is worried about its reputation for having invested with Mr. Madoff and is trying to keep clients from taking their money elsewhere.

"We are offering commercial compensation with the clear objective of preserving the value of our private-banking franchise," José Antonio Alvarez, Santander's chief financial officer, said in an interview.

But the move mightn't be enough. Some of those who have privately received the offer were unhappy with its terms and vowed to hold out for a better deal.

"It's very difficult to give a recommendation," said Ernesto Canales, a Mexican corporate lawyer who has received calls from seven Santander clients asking for advice. "Although the offer on the table seems low, you can't guarantee what will happen in the courtroom."

It isn't clear how the offer will affect the lawsuit. Lawyers for the customers filing the suit have been seeking meetings with Santander's top management to press for a deal and are due to meet with bank officials on Feb. 6, the day after the bank announces its annual results.

Santander said the move would cost it about €500 million, the impact of which will be taken entirely in its 2008 results. Santander's Mr. Alvarez said the deal was by no means an admission of wrongdoing by the bank.

"This is a trade-off, which does not imply any recognition that things were done badly, because they weren't—they were done right," he said.

Santander's chairman, Emilio Botín, promised a "magnificent" set of annual results earlier this week and previously forecast the bank would make €10 billion in net profit

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New-look IMF still addresses old problems

By Bob Davis And Marcus Walker

DAVOS, Switzerland—The global financial crisis has revived the International Monetary Fund, which just a year ago was pushing to sell a chunk of its gold reserves because it was making so few loans it didn't have enough income. Now, it has committed about $50 billion in loans to try to rescue Pakistan, Iceland and a clutch of eastern European countries.

The IMF's role will be a focus of attention at this year's economic conference, where leaders of Pakistan and Latvia will discuss their experiences, as will the number two official at the IMF, John Lipsky. A number of panels will discuss what role the IMF should play in reshaping the global economy.

This is a new-look IMF. Gone are many loan requirements that developing nations found onerous, such as: privatize social security, open markets to foreign financial firms, break up local monopolies. The change has made turning to the IMF more palatable domestically; other nations, including Turkey, are now in talks with the IMF for loans. It may even ease the way for some heavily indebted Western European countries to seek IMF help later on.

"The change reflects a shift away from the thinking that the IMF can micromanage a country," said Anne-Marie Guld, an IMF senior adviser for Europe.

The IMF though is still far from

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THE WALL STREET JOURNAL.

LEADING THE NEWS

German business confidence edges higher

Small lift is a result of stimulus package and lower prices

BY ROMAN KESSLER

FRANKFURT—German business confidence rebounded slightly in January from a record low, as Germany's expanded fiscal stimulus as well as lower fuel prices and interest rates gave business expectations a small lift.

The closely watched Ifo survey

Consumer morale is expected to decline again as the job market worsens.

of business sentiment edged up to 83.0 in January from 82.6 in December, the lowest level since records began in 1991. Hans-Werner Sinn, president of the Ifo Institute, warned against calling an economic recovery based on the slight improvement: "It is too early to project an economic turnaround," he said.

Germany's government cabinet Tuesday approved a 2009 supplementary budget that doubles its new borrowing requirement and sets a second two-year fiscal stimulus plan that is valued at €50 billion ($65.9 billion). The lower house of parliament is expected to vote on the measures by Feb. 13.

Finance Minister Peer Steinbrück said that Germany can compete with its fiscal-stimulus package as similar measures are implemented in Europe and elsewhere in the world.

"It won't prevent a recession, but it will clearly help contain it," Mr. Steinbrück told reporters.

Falling interest rates and fuel prices helped to boost Germany's business sentiment. But analysts warned against reading too much into the Ifo data, pointing to the continued fall in industry production and order bookings. Consumer morale also is expected to decline again in the coming months as the job market worsens.

For now, however, the Ifo data reinforce the European Central Bank's signaled intention to keep interest rates on hold next month. Market analysts expect the central bank to resume cutting its official policy rate from its current 2% level in March if the economic outlook worsens.

"More bad news is yet to break and the economy will shrink in the first quarter," said Jörg Krämer, Commerzbank's Frankfurt-based chief economist. He predicts the

Small gain

Ifo business-climate index in Germany, seasonally adjusted

Source: Ifo

ECB will cut its policy rate by a half percentage point again in March to 1.5%, followed by another cut to 1% by late spring.

Italy's ISAE research center said Tuesday that Italian consumer confidence rebounded in January, coming in higher than expected, as households' view of the overall economic situation improved after consumer-price inflation eased.

ISAE said the seasonally adjusted consumer-confidence index for Europe's fourth-largest economy rose to 102.6 from 99.6 in December. A separate report by Confindustria, Italy's largest business association, showed that the country's economic outlook remains bleak.

Italian industrial production, accounting for about one-third of gross domestic product, will show a record 17.6% annual plunge in January on a working-day adjusted basis, the business group said. For December 2008, it expects a 12.4% decline.

"The performance of [industrial] orders suggests that the deep crisis the Italian industrial sector is undergoing is destined to continue in the coming months," Confindustria said.

A study by the London-based think tank Centre for Economic Policy Research and the Bank of Italy showed that the euro zone's economic contraction deepened in January.

The CEPR said its EuroCoin indicator, which estimates the monthly growth of euro area GDP, fell to minus 0.21% in January from minus 0.15% in December, indicating that the euro-zone economy shrank at a more rapid pace as 2009 got under way.

—Andrea Thomas and Luca Di Leo contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Israel's military investigated an incident in which a United Nations spokesman alleged Israeli forces fired on a U.N. truck on Jan. 8. Israel said the investigation showed its forces had not fired on the truck. A Jan. 12 Leading the News article citing the U.N. allegation didn't include Israel's statement on the event.

The first name of the late British actor Sir Laurence Olivier was incorrectly spelled Lawrence in a page-one article Monday on the World Economic Forum in Davos.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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LEADING THE NEWS

U.S. Steel profit jumps

But company warns of operating loss in current quarter

BY ROBERT GUY MATTHEWS

U.S. Steel Corp. posted an eightfold increase in fourth-quarter earnings, making it the only U.S. steel producer to show improvement, but said it expects to post an operating loss as demand slumps.

Nucor Corp., meanwhile, reported a 71% drop in fourth-quarter earnings to $105.9 million, or 34 cents a share, from $364.8 million, or $1.25 a share, a year earlier, mainly as a result of higher priced scrap, which it uses to make steel. Nucor's sales fell 5.6% to $4.15 billion. Smaller rivals **AK Steel Holding** Corp. and **Steel Dynamics** Inc., posted losses.

U.S. Steel said net income surged to $308 million, or $2.65 a share, including gains from currency translations and a terminated partnership. The company posted net income of $35 million, or 29 cents a share, a year earlier. Sales increased slightly, to $4.56 billion from $4.53 billion.

While reporting sharply higher earnings, the largest steelmaker in the U.S. quickly damped expectations. "We expect an operating loss in the first quarter as results continue to reflect the extremely difficult global economic environment," Chief Executive John Surma said in a prepared statement Tuesday. He said he sees no clear clues of an economic recovery. "We see fits and starts and spurts but no sustained demand."

'We see fits and starts...but no sustained demand,' the firm's CEO said.

The steel industry is undergoing one of its most rapid reversals of fortune. Early last year, prices for hot-rolled and cold-rolled steel—basic components used in automobiles, machinery, infrastructure and most everything else made from steel—were at record levels. Steelmakers were running at full capacity, 24 hours a day, and steel buyers were building up inventories in hopes of beating what seemed like inevitable price increases. Steelmakers' earnings climbed in the first nine months of the year, bringing record annual profits for most.

But by the end of the third quarter, steel demand began falling dramatically as auto makers started to slash production and construction plunged. Steelmakers responded by laying off workers and idling mills. More cuts may follow as steelmakers adjust to new reports of weakness among their customers. Heavy-equipment maker Caterpillar Inc., for example, said Monday it is cutting more than 20,000 jobs.

Pittsburgh-based U.S. Steel said its domestic, as well as its foreign operations would be hit hard by downturns in the automotive, construction and equipment industries. The steelmaker's plants for flat-rolled steel operated at just 45% of capacity in the fourth quarter. Its European operations reported a fourth-quarter loss, and steel analysts expect Europe will take longer than the U.S. to recover from the global downturn.

A possible bright spot for the industry is the stimulus plan proposed by President Barack Obama. Steelmakers are lobbying Congress to insert "Buy America" wording in the stimulus proposal that would, in effect, favor U.S.-made steel for road and other infrastructure construction.

But in the meantime, steelmakers are looking to cut costs as steel prices continue to fall. Prices for hot-rolled and cold-rolled steel are about half what they were just eight months ago. U.S. Steel predicted that demand and prices will fall further this quarter. "Results for first quarter 2009 are expected to decrease substantially from fourth quarter 2008 primarily due to further declines in shipments as a result of lower customer demand [and] lower average realized prices," the company said.

U.S. Steel's shares were up 7.3% and Nucor's were up 7% in late-afternoon trading Tuesday on the New York Stock Exchange. AK Steel's shares were down 8.6%, also on the NYSE. Steel Dynamics, which reported its loss Monday night, saw its stock rise 16% Tuesday on the Nasdaq Stock Market.

Associated Press

Steel plants, such as the U.S. Steel Clairton Coke works in Pennsylvania, were running full tilt early last year. In the third quarter, demand began falling sharply.

CORPORATE NEWS

Prosecutors oppose bail in Satyam case

Indian technology outsourcer's board says Goldman, Avendus will advise it on options including a possible sale

Prosecutors pursuing the fraud at **Satyam Computer Services** Ltd. said Tuesday the Indian technology outsourcer's founder, B. Ramalinga Raju, should be denied bail because he could slow the investigation if released.

Their assertions came after an employee of a company managed by Mr. Raju's family told police that he had

*By **Eric Bellman** in Hyderabad and **Jackie Range** in New Delhi*

been instructed to hide documents connected to land purchases by the Raju family, according to prosecutors and a court document reviewed by The Wall Street Journal.

Police in the southern Indian city of Hyderabad, where Satyam is based, are investigating whether large amounts of funds were siphoned from Satyam to Raju family companies that invested in property. The investigation began after Mr. Raju earlier this month wrote to Satyam's board admitting that he had inflated the company's financial results for several years, including the creation of a fictitious bank balance in excess of $1 billion. He resigned as Satyam's chairman at the same time.

S. Bharat Kumar, a defense lawyer for the Raju family, rejected the claim made by prosecutors that Mr. Raju might try to tamper with evidence or intimidate witnesses. Mr. Raju is being held on charges of cheating, breach of trust and forgery. Mr. Kumar pointed out that Mr. Raju turned himself in, and wasn't trying to block the investigation. Mr. Raju would cooperate fully with authorities if granted bail, he said. He also rejected suggestions that funds were diverted for land purchases.

The court is expected to decide Wednesday on whether Mr. Raju is released on bail.

Over the weekend, D.V. Gopala Krishnam Raju, general manager of SRSR Advisory Services, an investment company run by B. Ramalinga Raju's younger brother, was arrested and charged with involvement in the fraud and with trying to tamper with evidence. According to court documents, the general manager told interrogators that he was asked to hide documents connected to the Raju family's land holdings. It isn't clear if D.V. Gopala Krishnam Raju is related to B. Ramalinga Raju.

Over the past two weeks, B. Ramalinga Raju's brother, B. Suryanarayana Raju, director of SRSR Advisory, "was instructing me in a hurried manner to shift all original documents to various places to conceal them from police," D.V. Gopala Krishnam Raju told police, according to the document.

The general manager took five boxes of documents relating to properties owned by more than 150 companies connected to the Raju family and moved them to new locations around Hyderabad, including apartments, offices, a guest house and a mango farm, according to the document.

Mr. Kumar, whose legal team also represents D.V. Gopala Krishnam Raju and B. Suryanarayana Raju, said his clients hadn't engaged in any evidence tampering or efforts to conceal documents, and that D.V. Gopala Krishnam Raju's statement had been

Associated Press

Satyam founder B. Ramalinga Raju, center wearing sweater, is escorted by policemen in Hyderabad, India, on Friday.

extracted "under coercion."

Separately, two partners of accounting firm Price Waterhouse, who are being held in connection with the accounting scandal at Satyam, have been suspended pending the outcome of the investigation, Price Waterhouse said in a statement Tuesday. Price Waterhouse is an Indian arm of PricewaterhouseCoopers, the international accounting giant.

Satyam's government-appointed board of directors on Tuesday said it appointed **Goldman Sachs** and **Avendus Capital** to advise on strategic options, including a possible sale of the company. It also has completed most of its discussions on the financing needed to meet immediate operational expenses, Satyam said in a statement, adding the company will pay January salaries as scheduled.

The board has already received several proposals from other companies including private-equity firms, said T.N. Manoharan, a board member. One of the interested parties, Indian construction company **Larsen & Toubro** Ltd., has a "reasonable chance" of acquiring Satyam after raising its stake in the software exporter to 12%, A.M. Naik, Larsen's chairman and managing director, said in a conference call with analysts.

—Ankur Relia in Mumbai contributed to this article.

Siemens reiterates its outlook

By Archibald Preuschat

MUNICH—**Siemens** AG said its fiscal first-quarter net profit fell 81% from a year earlier, when results were boosted by a big gain, but the German conglomerate posted solid revenue and operating-profit figures, sending its shares higher.

The company also reiterated its expectations for full-year operating profit, though it said reaching its targets would prove more challenging. Siemens shares were up 2.8%.

For the quarter ended Dec. 31, Siemens reported a net profit of €1.2 billion ($1.58 billion), down from €6.43 billion a year earlier, when it booked a gain of about €5.4 billion related to the sale of its VDO automotive unit to **Continental** AG.

Peter Löscher

However, operating profit from the company's core three divisions—industry, energy and health care—rose 20% to €2.01 billion. Revenue rose 6.7% to €19.63 billion from €18.4 billion.

Chief Executive Peter Löscher said Siemens had started the fiscal year well and the first-quarter performance kept the company within the corridor for its full-year targets. Still, he cautioned that those targets can be achieved only if there are no major cancellations and prices don't fall further—factors that analysts said remain risks, given the uncertain economic environment.

Siemens's energy division was the major growth driver in the quarter, helped by a strong order backlog. Operating profit at the unit more than doubled to €756 million from €347 million a year earlier, when it booked charges of more than €200 million. The energy division includes power generation, transmission and distribution.

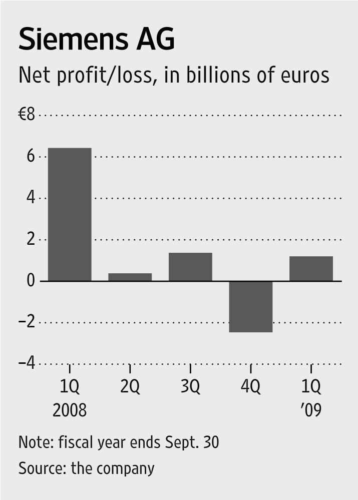
Operating profit at the health-care unit, which includes diagnostic imaging and IT solutions, rose to €342 million from €332 million.

However, the industry sector, which includes motors and drives and the Osram lighting business, posted a decline in operating profit to €907 million from €994 million.

Siemens said it still targets fiscal 2009 operating profit from its three main divisions in a range of €8 billion to €8.5 billion, up from €6.52 billion last year. But Mr. Löscher cautioned that reaching targets had become more ambitious, adding that "it will not get any easier for us this year and, for that matter, in the next year."

As a measure of the challenge ahead, order intake, which indicates future revenue, fell 8% to €22.22 billion in the first quarter.

Like peers such as **Philips Electronics** NV of the Netherlands and **General Electric** Co. of the U.S., Siemens has undergone a wide-scale restructuring, including asset sales, job cuts and general cost cutting, to better position itself for growth.



Last week, General Electric said revenue fell 4.8% and net profit declined 44% in the corresponding quarter, partly weighed down by restructuring and other charges, and amid analysts' concern over whether its finance unit, GE Capital, can survive the global financial crisis.

Monday, Philips posted its first quarterly loss in five years as sales of its consumer-lifestyle and lighting products fell.

Siemens also has been shedding noncore businesses to focus on its main divisions. The company said late Monday that it is selling its 34% stake in French nuclear-reactor joint venture Areva NP to its partner, **Areva** SA.

—Adam Mitchell in Paris contributed to this article.

U.K. to help auto makers get access to more credit

By Alistair MacDonald

LONDON—The U.K. government said Tuesday it will guarantee more than £2 billion ($2.8 billion) in loans to support the country's ailing auto industry, building on a broader stimulus plan aimed at limiting the damage of a deepening recession.

Peter Mandelson, the U.K. business minister, announced a package of measures to ease financing problems for auto makers and to encourage them to produce more environmentally friendly cars. The measures include loans of up to £1.3 billion from the European Investment Bank, a lending arm of the European Union, and government guarantees on a further £1 billion in lending for vehicle makers and their suppliers.

Mr. Mandelson also has asked the government to help car companies' financing arms get access to credit. This effort could include guaranteeing securities into which banks bundle car loans, people familiar with the matter say. The financing arms also want access to a Bank of England facility that would allow them to swap hard-to-sell assets for government bonds.

The package, smaller than some had expected, is the latest in a series of steps the government has taken to shore up its economy, which fell sharply into recession in the final quarter of 2008. So far, the government has spent or pledged more than £600 billion in loan guarantees, capital injections, emergency financing, tax breaks and other measures.

The U.K. joins a growing list of countries that have taken steps to rescue auto firms as their financing options dry up and consumers cut back on big purchases.

In December, the U.S. Treasury promised $17.4 billion in financing to **General Motors** Corp. and **Chrysler** LLC. The French government provided €1 billion ($1.32 billion) in loans to the financial arms of **PSA Peugeot Citroën** SA and **Renault** SA, plus a €1,000 bonus for car owners who replaced vehicles more than 10 years old with new models. Germany offered a €2,500 subsidy to people who scrapped old cars for new, fuel-efficient models, waived some road taxes and opened a planned €100 billion loan-guarantee fund to German car makers.

Car makers welcomed the U.K. package, though some politicians criticized it as too small compared with those of other major developed nations. Ken Clarke, from the opposition Conservative party, called the measures "pretty small beer."

The country's car market has been particularly hard hit by the crisis, with new registrations down 27.2% in the fourth quarter of 2008 from the same period a year earlier.

—David Gauthier-Villars and Marcus Walker contributed to this article.

CORPORATE NEWS

Tesco names finance chief

McIlwee succeeds Higginson, who gets a new role at retailer

By Lilly Vitorovich

Reuters

A shopper carries groceries from a Tesco store in Manchester, England. The U.K. retailer Tuesday named Laurie McIlwee as its new finance director.

LONDON—Retailer **Tesco** PLC Tuesday named distribution director Laurie McIlwee as its finance director, effective immediately.

Mr. McIlwee, 46 years old, has been with Tesco, the U.K.'s biggest retailer by revenue, since December 2000. He succeeds Andrew Higginson, who is taking the role of chief executive of retailing services.

Mr. Higginson, 51, will lead the expansion of Tesco's services business after the retailer bought out Royal Bank of Scotland Group PLC's half of Tesco Personal Finance this past July. He also will retain his responsibilities for Tesco group strategy.

Mr. McIlwee's appointment is a "great example of the strong internal talent coming through the business at every level," said Chief Executive Terry Leahy.

"Laurie has a strong track record here and overseas and is highly respected. He has a great grasp not only of finance, but of operations and strategy," Mr. Leahy said in a brief statement to the London Stock Exchange. "His appointment will further strengthen our board and support our plans for the long-term growth of the group".

Mr. McIlwee begins his new post at a difficult time for the retailer. Earlier this month, Tesco posted the slowest year-end sales growth in its home market since the early 1990s.

Numis analyst Nick Coulter called Mr. McIlwee's promotion "a solid internal appointment that should be well received."

The new finance chief is "not particularly well known to the City but he has presented to analysts on the supply chain in his role as distribution director," said Mr. Coulter.

The two executives weren't immediately available to comment on their new roles.

In July, Tesco paid RBS £950 million ($1.33 billion) for its 50% stake in their personal-finance joint venture. At the time, Mr. Higginson said that offering the services of a full retail bank could help Tesco generate a total annual profit of £1 billion "in the foreseeable future."

The retailer, which had been on a quest to diversify its profit base, also runs telecommunications and Internet-shopping operations.

Mr. McIlwee, a chartered management accountant became Tesco's distribution director in January 2005. Mr. Higginson joined the board as group finance director in 1997 and added group strategy in 2003.

Top Safilo shareholder considers sale of a stake

By Sofia Celeste And Stacy Meichtry

ROME—The controlling shareholder of Italian eyeglass maker **Safilo** SpA has entered talks with potential investors to try to sell part of its stake in order to improve Safilo's finances as the global economic downturn grips the luxury industry.

The shareholder, **Only 3T** SpA, is searching for a partner that can bolster the financial health of Safilo, which produces eyeglasses for fashion brands such as Giorgio Armani and Gucci under license. Only 3T SpA, owned by Italy's Tabacchi family, announced the talks in a statement Tuesday.

The sale of a stake in Safilo was among "the hypotheses" being discussed in the talks, according to a person familiar with the matter. The statement didn't disclose the potential investors or the size of the stake under discussion.

Although the industry's big-spending customers initially cushioned luxury-goods makers against the crisis, that buffer is now wearing thin as sales decline in the world's biggest markets.

As brands adapt to falling demand by cutting back on their orders, the manufacturers that supply fashion houses have been left with too much production capacity and heavy debt loads. Safilo, based in the northern Italian city of Padua, has responded to slumping demand by slowing production and placing many of its workers on leave—a move that forces the Italian state to subsidize wages while the workers are suspended.

Luxottica, another Italian eyeglass maker, announced plans earlier this month to place about 6,000 workers on temporary, state-subsidized leave for a total of four days during January and February.

The financial troubles at Safilo have been mounting over the past year. In the fall, Safilo cut its full-year net-profit target for 2008, as well as its target for earnings before interest, taxes, depreciation and amortization.

Safilo could face higher fees to service its debt after its credit ratings were downgraded by three different agencies in the final months of 2008. Safilo's net debt stood at €566.8 million ($746.8 million) as of Sept. 30, the latest figure available.

"The main issue that the company is currently facing is the drop in consumer spending," said Paolo Leschiutta, a Milan-based analyst from Moody's.

Clariant cuts jobs as sales fall 5%

By Katharina Bart

Chemicals company **Clariant** AG posted a 5% drop in full-year sales, cut a further 1,000 jobs and canceled its dividend in the face of the global economic slump.

Clariant's sales fell to 8.1 billion Swiss francs ($7.12 billion) last year as the economic downturn hurt demand in the fourth quarter. The Basel, Switzerland, company is scheduled to report full earnings Feb 17.

Clariant said it will take a charge of 180 million francs against fourth-quarter earnings related to its textile and leather operations—the result of deteriorating markets and an uncertain outlook. "The demand in some of Clariant's customer industries such as textile, leather, automotive and construction decreased dramatically...other markets such as agrochemicals, oil services or deicing showed resilience against the downturn," the company said.

The layoffs announced Tuesday come on top of 2,200 already on the chopping block. Clariant has a work force of about 20,000. Clariant's staff-member association for Switzerland, AVCS, criticized the job cuts and called for further discussions with its representatives.

Clariant also canceled its 2008 dividend, after paying 25 centimes a share for 2007.The company, which is responding more aggressively to the economic downturn since Chief Executive Hariolf Kottmann took the helm in October, flagged 2009 as a transition year, during which it plans to work toward strengthening its balance sheet, reducing debt and generating cash. The company aims to achieve an industry-average return on invested capital by 2010, a figure it is currently well below.

"Clariant's focus on cash is a sensible move, given companies should ensure they have sufficient funds during a credit crisis, when it is difficult to raise cash," said Vontobel analyst Patrick Rafaisz.

The Swiss company's moves follow similar measures from German rivals, such as **BASF** SE, which last week intensified restructuring efforts after what it called "disappointing" December and January business. **Bayer** AG, meanwhile, is seeking employee talks on curbing working hours at its Material-Science unit.

—Julia Mengewein contributed to this article.

Astellas offers $1 billion to acquire CV Therapeutics

By Shara Tibken

Astellas Pharma Inc. announced an unsolicited takeover offer for biotechnology company **CV Therapeutics** Inc. valued at $16 a share, or nearly $1 billion.

Astellas—a pharmaceutical company based in Tokyo—said it originally made a proposal to CV Therapeutics' board in November, but the board rejected the offer and declined to discuss the transaction with Astellas.

The offer of $16 a share represents a 41% premium to CV's Monday closing price of $11.35 on the Nasdaq stock market. CV Therapeutics has about 61.3 million shares outstanding. In Tuesday afternoon trading, CV stock had risen 40% putting it just under the offer price.

"We are disappointed that the CV Therapeutics board of directors has rejected outright what we believe is a very compelling all-cash proposal that would deliver stockholders significant immediate value that we believe far exceeds what CV Therapeutics can achieve as a stand-alone company," Astellas President and Chief Executive Masafumi Nogimori said in a news release.

Mr. Nogimori added that he believes CV Therapeutics' angina treatment Ranexa would complement Astellas's U.S.-based hospital and cardiology business.

In a letter to CV Therapeutics, Astellas said it believes it could conclude its due-diligence review and execute a definitive agreement in about three to four weeks.

CV Therapeutics, based in Palo Alto, Calif., declined to comment on Astellas's offer.

In November, CV Therapeutics reported a narrower third-quarter net loss than in the previous year and said revenue nearly doubled mainly due to sales of Ranexa.

Ryanair withdraws Aer Lingus offer

By Quentin Fottrell

DUBLIN—Ireland's low-budget airline **Ryanair Holdings** PLC has withdrawn its application to buy **Aer Lingus Group** PLC for €748 million ($986 million), the European Union said Tuesday. It is the second time that a Ryanair attempt to take over the Irish flag carrier has failed.

The withdrawal of Ryanair's €1.40-per-share bid didn't come as a surprise, since most major stakeholders in Aer Lingus had opposed the deal. Last week, the Irish government, which has a 24.8% strategic stake in Aer Lingus, rejected the carrier's offer, citing price and competition concerns. Aer Lingus's board had also rebuked the bid.

The Impact and Siptu trade unions, which together represent most of Aer Lingus's staff, had argued a deal would create a monopoly and Siptu warned that it would "almost certainly mean significant increases in air fares in the long term." Ryanair doesn't recognize trade unions. Ryanair already owns 29.8% of Aer Lingus.

Last week, **UAL** Corp.'s United Airlines and Aer Lingus announced an unusual linkup for transatlantic flights between the U.S. and European destinations outside Ireland and plans to create a separate joint-venture company. Some analysts said the move might help thwart the Ryanair approach.

"These deals are Aer Lingus's version of consolidation," said Dermot Mannion, Aer Lingus's chief executive.

Ryanair first attempted to buy Aer Lingus in October 2006 for €1.48 billion. The bid failed because the Irish government and employee shareholders stood firm and regulators said a deal would be anticompetitive as it would give Ryanair more than a 70% share of the Irish short-haul market.

—Matthew Dalton in Brussels contributed to this article.

Texas Instruments slashes staff

By Don Clark

Texas Instruments Inc. said it will cut its work force by 12%, or 3,400 employees, as the big chip maker reacts to economic conditions that it says are getting worse.

TI, based in Dallas, announced the work-force reductions along with financial results for the fourth quarter, which included an 86% plunge in profit from a year earlier, on revenue that fell 30%. TI also projected gloomy results for the current period, raising the possibility it may post a net loss for the quarter.

"The macroeconomic weakness that affected all of our business segments we see continuing in the current quarter as well," said Ron Slaymaker, a TI vice president.

TI said about 1,800 workers will be laid off, and another 1,600 will leave through retirements and other voluntary means. It said it expects to take a $300 million charge related to the cost-cutting moves. The job cuts, along with layoffs in TI's wireless business announced in October, are expected to save about $700 million a year when completed, the company said.

The company posted net of $107 million down from $753 million a year earlier. Revenue fell to $2.49 billion from $3.56 billion.

—Kathy Shwiff contributed to this article.

Delta Air Lines posts loss

Lower fuel costs, Northwest deal will boost 2009

By Corey Dade

Associated Press

Delta became the world's largest carrier by traffic after completing a deal to acquire Northwest Airlines in October.

Delta Air Lines Inc., while reporting a wider fourth-quarter loss, said lower fuel prices and its acquisition of Northwest Airlines Corp. will more than offset an expected drop in travel and help produce a profitable 2009.

Delta, which became the world's largest carrier by traffic after completing the Northwest deal in October, expects a 4% decline in passenger revenue this year and is reducing its capacity by 6% to 8% to match the weaker demand. The Atlanta-based company also said its unit costs could rise by 7% this year, excluding fuel.

Delta's shares were off 19% at $8.01in afternoon trading on the New York Stock Exchange.

Yet Delta executives were unbowed in taking aim at a full-year operating margin of 6% to 8%, touting $1.5 billion in cost savings projected to come from the capacity reductions and integration of the two airlines.

The wild card in whether Delta or other airlines withstand the anticipated revenue decline is the volatile cost of jet fuel, which reached historic highs last year and caused large losses across the industry before beginning a steep dive.

With oil prices off sharply from all-time highs set last summer, Delta said it has budgeted for an average price of $50 a barrel in 2009, compared with $100 a barrel last year. If the price holds, Delta said it will shave $5 billion from its 2008 fuel costs.

"Our revenues would have to decline more than 20% to offset those benefits," Delta Chief Executive Richard Anderson told analysts. "We're naturally hedged against reductions in revenue by reductions in fuel. So we think there is upside."

The optimism was in stark contrast to Delta's dismal fourth-quarter results, as well as those of other major U.S. airlines. All the carriers saw revenue devoured by bad fuel-hedging bets amid the sudden drop in oil prices, followed by weakened passenger traffic in the U.S. and overseas.

The parent companies of American Airlines and United Airlines last week also reported bigger-than-expected losses. American, second in size to Delta, said it is cutting mainline capacity by 6.5% this year. United, the third-largest carrier, plans a 9.5% reduction.

For the quarter ended Dec. 31, Delta said it had an adjusted loss of $340 million, or 50 cents a share, with revenue rising 43% to $6.7 billion, boosted by the addition of Northwest. The quarter's loss widened to $1.44 billion, or $2.11 a share, on one-time charges, including $904 million in employee stock awarded in the merger. In the year-earlier quarter, Delta had a net loss of $70 million, or 18 cents a share.

The unstable oil markets hurt Delta as it placed wrong bets on its fuel hedges ahead of crude's rapid decline in the second half of 2008. Included in the losses was $507 million in cash losses on fuel hedges that settled in the quarter.

DuPont cuts guidance as weakness continues

By Shirleen Dorman And Doug Cameron

DuPont Co., as expected, posted a fourth-quarter net loss on a $500 million restructuring charge. While the chemical company also cut its 2009 earnings guidance Tuesday amid slowing global chemical demand, it said it expects to retain pricing power despite falling raw-materials costs.

The U.S. company said the tough market conditions in the final quarter of 2008 are likely to continue in the first three months of the year.

DuPont reported a net loss of $629 million, or 70 cents a share, compared with year earlier net income of $545 million, or 60 cents a share, a year earlier. Excluding a per-share restructuring charge of 42 cents in the latest quarter, DuPont had a loss of 28 cents a share, in line with DuPont's December outlook for a loss of 20 cents to 30 cents a share.

Net sales fell 17% to $5.82 billion, in line with the company's December forecast for a sales decline of at least 15% amid slumping volumes.

Chemical companies have been scrambling to cope with rapid deterioration of demand as major customers in the construction, automotive and textile industries have been slashing inventories.

In response, DuPont has embarked on a broad cost-cutting effort that is expected to save $730 million and increase earnings by $130 million this year. During 2008, the company cut fixed costs by $425 million, surpassing its goal of $400 million.

Chief Executive Ellen Kullman said the company "enters 2009 addressing challenging economic conditions head-on," and "intensely focused on productivity."

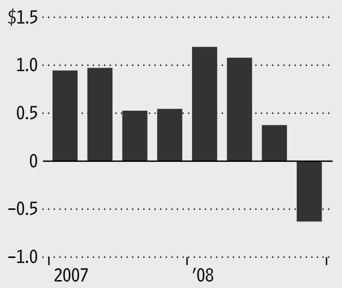
DuPont reduced its 2009 earnings forecast by 25 cents, to $2 to $2.50 a share. For 2009, DuPont expects about $1 billion in reduced working capital.

DuPont is more diversified than most of its rivals and produces seeds and fertilizers as well as a variety of chemicals and materials used in products from Kevlar body-armor to Tyvek house wrap and Corian counter tops.

The giant agricultural business saw sales slip 2% to $1.2 billion. Increased prices and seed market share gains in Latin America were offset by volume declines in crop protection and ingredient products.

Earnings drop

DuPont's quarterly net income/loss, in billions



Source: the company

Sales declined at the rest of the company, led by a 30% sales drop in its performance-materials business.

With demand for its paints weighed by continued weakness in the global auto sector and the U.S. housing market, only DuPont's agribusiness segment is expected to see a rise in sales this year.

DuPont dismissed any suggestions that it was engaging in a price war on corn seed. "We will continue our pricing discipline in 2009," said DuPont's chief financial officer Jeff Keefer.

Wireless gains lift Verizon's net

By Amol Sharma

Verizon Communications Inc. posted a 15% increase in fourth-quarter profit on strong wireless growth, but a slowdown in spending by businesses took a toll on the company's land-line operations.

The company's wireless joint venture with **Vodafone Group** PLC reported a revenue increase of 12% from year earlier to $12.8 billion, partly because of growth in data services like text messaging, email and Internet access.

Verizon, based in New York, introduced the touch-screen BlackBerry Storm, a rival for **Apple** Inc.'s iPhone, in late November and has sold one million units of the device, according to Verizon President and Chief Operating Officer Denny Strigl.

Some users have complained about early glitches with the Storm, but "We're very happy with the device. We think it's doing well," Mr. Strigl said in an interview. He estimated that Verizon could have sold about 200,000 more Storms if inventory wasn't limited at its debut.

Verizon added a net of 1.2 million wireless customers in the quarter, bringing its total to 72.1 million, not including those it added through the acquisition of Alltel Corp., which closed this month. Verizon and **AT&T** Inc. have benefited from struggles at **Sprint Nextel** Corp., which has seen millions of customers defect in the past year.

Still, Verizon's results showed signs of a wider industry slowdown. Verizon added 5.8 million wireless customers for the year, down from 6.9 million in 2007.

The recession hurt the unit that markets phone and broadband services to businesses, which saw revenue slide 2.2% to $3.6 billion. The company said businesses are delaying purchasing decisions and require fewer services as they lay off employees.

Overall, Verizon posted quarterly net income of $1.24 billion, or 43 cents a share, up from $1.07 billion, or 37 cents a year earlier. Revenue rose 3.4% to $24.65 billion.

Home Depot shutters Expo, eliminates 7,000 positions

By Ann Zimmerman

Home Depot Inc. said it is shuttering its 34 Home Expo Design Centers that catered to bigger-ticket remodeling projects, more evidence of how deeply the housing slump and credit crunch are hurting the home-improvement industry.

To shore up the company's finances, Home Depot slashed its 2009 capital expenses budget by 44% to $1 billion, further reduced new store openings, instituted a wage freeze among officers and cut support staff and officers at its Atlanta headquarters. Coupled with the Expo store closings, Home Depot will lay off 7,000 workers.

Home Depot, the largest U.S. home improvement chain based on sales, said the move will allow it to provide surviving store workers with merit pay increases and bonus checks, and to continue contributing to 401(k) retirement plans.

"None of us has seen anything like this economic environment," Home Depot Chief Financial Officer Carol Tomé said in an interview. "We're making tough decisions that will allow us to take care of our associates."

Home Depot affirmed its previous guidance of an 8% drop in sales for fiscal 2008 and a 24% slide in earnings, before special charges. It reports its results Feb. 24.

The company said shutting the Expo centers will result in a pretax charge of $532 million, with $390 million recognized in the fourth quarter and the rest recognized in 2009 and beyond. About $153 million in store closing and severance costs is expected to be offset by the proceeds from liquidated inventory.

The Home Expo Design Centers never performed strongly, even during the housing boom.

The company said Home Expo stores, plus the company's other specialty improvement stores slated to close, including five YardBirds outlets, notched sales in 2008 of $920 million and would post a loss of $50 million. They were projected to lose $80 million next year.

Home Depot plans to open 12 of its core home-improvement stores next year, down from the 30 to 40 stores it previously expected.

The company also said it will take two additional pre-tax charges in the fourth quarter related to its sale of Home Depot Supply in 2007.

Dow seeking time on Rohm & Haas

By Ana Campoy

Dow Chemical Co.'s Chief Executive Andrew Liveris said Tuesday his company is working toward closing its acquisition of **Rohm & Haas** Co., but that it would be unable to close the deal unless it secures all the necessary funding.

Mr. Liveris said that going through with the deal right now would damage the company's shareholders, employees and customers.

"That is a responsibility that is higher than any other responsibility," he said. "Why would you put two more American companies at risk in this most horrible of markets?"

Mr. Liveris said extending the terms of a one-year loan it had planned to use to help fund the purchase was "super critical to the consummation of the deal."

"We have to have it happen so the combined company is viable," he said in an interview. "If you don't have funding, how can a deal be viable?"

Dow advised Rohm & Haas Sunday that it would miss the Tuesday deadline to close the transaction because of turmoil in the credit markets and the failure of a joint venture with a Kuwaiti company that would have provided it with cash to fund the purchase.

In response, Rohm & Haas asked a Delaware court to force Dow to go through with the deal, and accused the company of stalling the regulatory process to clear the deal.

Mr. Liveris declined to elaborate on whether Rohm & Haas had a legal right to file the lawsuit, but said he understood why it had done so. He said Dow would file a reply to it next week.

Mr. Liveris also said he found accusations that Dow interfered with the Federal Trade Commission's regulatory process "offensive." He added that his company was within its rights to talk to the federal agency about the merger with Rohm & Haas.

Dow, which negotiated the merger agreement under pressure from a competing bid from **BASF** AG and in better economic times, agreed to very strict terms that don't easily allow it to walk away from the deal.

DAVOS: WORLD ECONOMIC CRISIS

Barclays executives are latest to say, 'no thanks'

Financial woes take toll on attendance by leading bankers

DAVOS, Switzerland—Two top executives from **Barclays** PLC of the U.K. became the latest prominent bankers to decide against going to global capitalism's big annual conference in Switzerland, as the financial crisis takes its toll on the major finance houses.

By Marc Champion, Carrick Mollenkamp and Spencer Swartz

Barclays President Robert E. Diamond, and Frits Seegers, CEO of global retail and commercial banking, pulled out of the World Economic Forum's meeting in Davos on Tuesday. The five-day meeting starts Wednesday.

The news that they will stay home comes one day after Barclays said it was moving up the publication of its 2008 results to Feb. 9 from Feb. 17. The work to get that done required attention in London, according to a person familiar with the situation.

The two join other prominent bankers who have decided not to make the trek to Davos this year, including **Citigroup** Inc. group CEO Vikram Pandit and **Goldman Sachs Group** CEO Lloyd Blankfein. Others, such as former Merrill Lynch & Co. chief executive John Thain were forced to pull out. Mr. Thain resigned under pressure from **Bank of America** Corp., which recently bought Merrill, last week.

Robert E. Diamond

Other prominent figures who pulled out Tuesday include Axel Weber, governor of the Bundesbank, Germany's central bank. A representative for Mr. Weber said he was sick.

Michael Ducker, president of **FedEx** Corp., also pulled out. A spokeswoman for FedEx cited family reasons.

Last-minute cancellations aren't unusual at Davos and this year's crop isn't out of line with previous years, said a spokesman for the forum. Overall, he said, attendance is up, at a record 2,600.

"It's a very difficult environment we know, but we expect a good turnout," said Klaus Schwab, the forum's founder.

But in the banking field, this year's turnout among major CEOs is thinner than usual. By not showing up, senior executives may be avoiding an uncomfortable spotlight and winning points with politicians. But it isn't always good business, bankers familiar with the Davos event say.

"I think it's a mistake from a business perspective," says one senior banker who had been scheduled to appear. "You have a lot of clients there who you're scheduled to meet and who will now end up meeting with—and potentially giving business to—your rivals." In the case of major banks, the client list at Davos can run well over a hundred.

Barclays sped up the reporting of the results to counter a steep slide in its stock price over more than a week. On Monday, after Chairman Marcus Agius and CEO John Varley said in a joint letter the bank was off to a good start in 2009, Barclays shares rose 73%. Mr. Agius, one of the more respected bankers in the City, London's financial district, will be in Davos.

Both Messrs. Diamond and Seegers are the type of bankers who thrive in Davos. Unlike CEO Varley, Messrs. Diamond and Seegers are more outgoing. Davos offered them and the bank a chance to avoid traveling the globe to see clients since many would all be in one place.

The two also are among Europe's more powerful bankers, helping oversee a balance sheet totaling £1.3 trillion ($1.816 trillion).

The decision to stay home may have been based in part on the fact that the two men didn't want to be seen as hobnobbing at a Swiss ski resort and have their pictures published in Britain's aggressive tabloids.

A recent article in the Mail on Sunday newspaper showed U.K. Treasury officials laughing in Scottish regalia while celebrating the birthday of Scottish poet Robert Burns—not exactly an image consonant with a financial crisis.

Messrs. Diamond and Seegers had been scheduled to attend a Barclays-hosted dinner on Wednesday, where London Mayor Boris Johnson is due to give the keynote speech. Mr. Diamond was expected to speak Friday morning on a panel titled "Scenarios for the future of the global financial system," together with European Central Bank President Jean-Claude Trichet, among others.

Senior executives may be avoiding an uncomfortable spotlight.

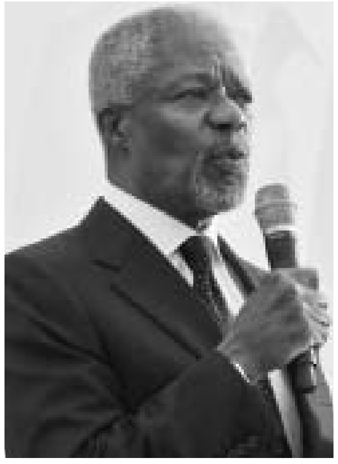
DISPATCHES FROM DAVOS

Updates from the World Economic Forum

Kofi Annan's Davos Diary

Kofi Annan, former secretary-general of the United Nations and Nobel Laureate, is writing a daily diary for us during the World Economic Forum annual meeting in Davos. Mr. Annan is chairman of Alliance for a Green Revolution in Africa, and member of the Africa Progress Panel. Here is his entry from day one:

Compared to the 40 heads of state and hundreds of political and business leaders heading to the World Economic Forum, I only have a short trip in front of me today. It's just 500 kilometers from my office in Geneva to Davos, although that's a long journey within Switzerland.



Kofi Annan: 'We need to ensure the poorest ... are not forgotten.'

For all of us, however, there will be plenty to reflect on while we travel. This year's WEF takes place against a very gloomy, uncertain background. It would be easy for what's been dismissed as a "Rich Men's Club" this week to be so preoccupied with their own problems that they ignore those of the rest of the world. We must ensure this doesn't happen.

It's vital for everyone that the discussions at Davos look outwards, not inwards. For what this unprecedented crisis has shown is no country, no matter how prosperous or powerful, can now alone protect itself against the challenges of an interconnected world. We can only do this by working together. And solutions won't be effective or lasting unless they are seen to be fair.

So we need to ensure the poorest in the planet—who will be hardest hit by the financial crisis—are not forgotten. The U.S. Congress is discussing a $825 billion stimulus package for the American economy this week. This compares with the G-8 Gleneagles pledge to find an extra $50 billion by 2010 to tackle global poverty—a promise still not met.

We need to coordinate the global economic response so it supports jobs, incomes and opportunities in Africa and across the developing world. There must be the same new collective approach, based on the principles of fairness and opportunity for all, to the other challenges we face including climate change, food security and Africa. In every crisis, there is opportunity. At Davos, the task is to show we recognize our world has changed for good.

— Kofi Annan

Shakespearean Lesson in Survival

How do bad guys get to the top in business? Back when the Enron and WorldCom scandals were dominating headlines, Richard Olivier, son of the British actor Sir Laurence Olivier, decided to develop a leadership workshop to answer that question using the Shakespearean tragedy "Macbeth."

Mr. Olivier believes "Macbeth" also works for the bankers and other highfliers who triggered the current credit crisis—not to mention Bernard Madoff.

"Macbeth is a noble warrior who apparently believes in serving his kingdom, but is spectacularly derailed, caught by his own ambition. He is never happy with what he has got and always wants more," says Mr. Olivier, who runs a business giving Shakespeare-based leadership seminars.

That can apply to every banker who ignored risks to chase returns in recent years—and many homeowners taking out unrealistic mortgages too, says Mr. Olivier. "I grew up with a theater family and I saw this on the stage too, where ego carries people away," he says.

—Marc Champion

Survey: CEOs are in crisis mode

Chief executives globally are suffering a "crisis of confidence" in decision-making and say economic recovery will be sluggish over the next three years, PricewaterhouseCoopers said Tuesday in its annual survey of business leaders.

The findings, based on interviews with 1,120 chief executives from 50 countries, raise fresh questions about the health of companies' financial performance in coming months, a point CEOs highlighted in the survey.

Just 21% of chief executives said they were confident about raising revenues over the next year, the U.K. accounting firm said in its 12th annual global CEO survey. That's down from 50% in PwC's previous survey. The latest survey was conducted in the last quarter of 2008 and covered CEOs from a range of industries.

"The speed and intensity of the recession has rocked the psyches of CEOs and created a global crisis of confidence," said PricewaterhouseCoopers's chief executive, Samuel DiPiazza Jr.

Mr. DiPiazza said chief executives are "most concerned" about their companies simply surviving the global economic downturn, which has thrown the U.S., Japan, and several European nations into economic recession.

"Even in once rapidly emerging markets, companies are now coping with issues like unavailable credit, sluggish capital markets, and collapsing demand," he said.

—Spencer Swartz

DAVOS BLOG: More live updates will be posted at WSJ.com/Davos

Zurich Financial's new gauge

Insurer launches tool to help firms assess nation-level risks

By Goran Mijuk

DAVOS, Switzerland—Using the World Economic Forum as a platform, Swiss insurer **Zurich Financial Services** AG launched a risk-management tool that should enable corporate clients to better assess country-specific risks such as drought, rising sea levels or pandemics.

The tool includes 160 countries from Afghanistan to Zimbabwe and looks at 24 risks such as terrorism, corruption, war and migration. Zurich Financial's clients, who consider investments in risk-prone areas, can gauge the probability as to how a specific country or region can be affected by calamities such as rising sea levels or the spread of certain diseases in warm and tropical countries.

"We don't plan to use this data to increase premium levels. But we could, further down the road, ask for fees for such a value-added service," said Zurich Financial chief economist Daniel Hofmann, adding that client demand for such services has been on the rise.

Many of Zurich Financial's corporate clients are expected to attend the Davos forum, which starts Wednesday.

In order to avoid paying out hefty claims and reducing the damage to the economy, insurers are pushing for better building standards along coastlines or fire-safety measures in private buildings.

Also, they are trying to raise client awareness to avoid risks in the first place.

Zurich Financial said the risk-management tool is using real loss data as well as descriptive data and qualitative judgments. Often, in emerging or poor countries in Asia and Africa, insurance data are hard to come by and experts need to make estimates in order to assess the potential risks and losses. The data also are key for insurers to assess premium pricing.

In order to avoid paying out hefty claims, insurers are pushing for better building standards along coastlines or fire-safety measures in private buildings.

Zurich Financial, along with other global insurers, is affected by rising catastrophe claims. Last year, world-wide losses due to catastrophes such as earthquakes totaled more than $200 billion. Among the deadliest and costliest catastrophes are windstorms such as hurricanes, which often hit densely populated areas.

Search for growth turns to U.S.

Continued from first page

projects including power-grid upgrades and highway construction. On Tuesday, Germany's cabinet approved a second stimulus package, part of the 27-nation European Union's pledge to spend 1.5% of GDP, or about €200 billion ($260 billion).

In total, the funds surpass a recommendation from the International Monetary Fund that governments world-wide spend 2% of GDP on stimulus. But it still won't be enough to stanch the bleeding. The IMF is expected to issue projections Wednesday showing global growth will be less than 1% this year.

"A deep recession for 2009 is already baked into the cake," says Kenneth Rogoff, a Harvard University economics professor and Davos speaker who calls the fiscal-stimulus packages a necessary but temporary boost. "We've had an asset bubble burst that's not going to turn around no matter how much governments spend," he says.

The greater risk is that the global contraction lasts several years—a scenario that could materialize if governments don't complement fiscal stimulus with equally ambitious plans to clear banks' books of bad assets and get credit flowing through the system.

"The long history of international financial crises tells us if you don't clean up the mess in the banking system decisively," says Mr. Rogoff, "you're not going to escape a long stagnation."

Pinning hopes on emerging markets such as China to pull the world out of the downturn seems misguided. With about half of its growth still export-driven, China is also getting slammed by the global downturn. Amid fizzling demand, China's expansion slowed to an annual rate of 6.8% in the final three months of last year, down from 9% in the third quarter and marking a seven-year low. For all of 2008, growth slowed to 9% from 13% the year before—making it unlikely China can maintain its longstanding 8% annual growth rate.

Chinese policy makers face a steep challenge in turning the country's growth more toward domestic demand. Job losses are mounting, for one. And patchy social protections such as meager health-care insurance and social-security funding, push Chinese consumers to save big chunks of their earnings.

Even China's massive stimulus program "won't get consumer-led growth going until they really build out a safety net," says Stephen Roach, Asia chairman for Morgan Stanley. "I'm hopeful it can happen in the next few years. But you don't create a consumer culture overnight."

U.S. consumers—who by some estimates have powered around a tenth of global growth in recent decades—have begun shutting their wallets. U.S. spending growth in the third quarter of last year fell for the first time in 17 years. Economists say the share of consumption in U.S. GDP—which hit post-World War II highs around 70% earlier this decade—could fall by five percentage points in the next five years.

But if the U.S. stimulus puts a floor under the economy and a bank-rescue package restarts credit engines, economists say, U.S. consumers will start spending again, albeit at lower rates.

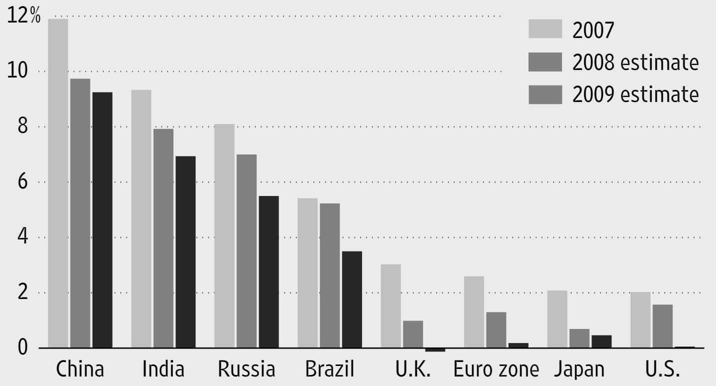
"The government can't take the place of the consumer for very long," says Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley. Mr. Rosen is slated to speak Thursday on a Davos panel called "Can the World Live with the Frugal American?"

"It will be a recovery based on less credit and a more careful view of spending within one's means," says Mr. Rosen. "But it will be a recovery."

Market view

The recession that started in the U.S. in 2008 spread to Europe and Japan and battered emerging markets. The World Bank estimates that world trade will contract by 2.1% this year, while overall growth will increase by just 0.9%. That's much less than the 2.5% growth considered the mark of a global recession. The numbers may turn out to be even weaker because China's economy is starting to sputter too.

Annual GDP growth for selected countries



Source: International Monetary Fund

CORPORATE NEWS

Nomura, failing to hedge, reports $3.8 billion loss

Lehman integration also hurts results; outlook remains grim

By Atsuko Fukase And Alison Tudor

TOKYO—**Nomura Holdings** Inc. said it posted a record net loss of $3.8 billion in the fiscal third quarter, hit hard by its failure to hedge against turmoil in the financial markets and the cost of integrating Lehman Brothers Holdings Inc.

This was the largest shortfall since Nomura began disclosing quarterly earnings results based on U.S. accounting standards in 2001. Nomura had a profit of 21.8 billion yen ($244.9 million) in the year-earlier quarter.

Japan's biggest brokerage by assets, which posted a net loss for the fiscal year ended March 31, said the outlook for the full fiscal year ending this March remained grim.

During a conference call, Nomura Chief Financial Officer Masafumi Nakada said the group expects to make a significant full-year loss as a result of the financial crisis and economic slowdown.

"Nomura was unable to avoid the prevailing headwinds," Mr. Nakada said.

With operations weak across the board, revenue fell 99% to 2.71 billion yen in the quarter ended Dec. 31 from 400.37 billion yen a year ago.

Nomura said it will reduce costs by 10% in an effort to return to profitability in the next fiscal year, ending March 2010. Annual bonuses for directors and executive managing directors, as well as performance-linked monthly compensation, have been cut. The company will forgo making a dividend payment in the fourth quarter.

Nomura acquired the European and Asian operations of Lehman Brothers last year in a bid to hasten its transformation from a mainly domestic broker into a global investment bank. Mr. Nakada said there has been greater demand for advice on financing and business reorganization as rival companies have reduced investment-banking operations.

So far, Nomura has booked 60.3 billion yen of costs related to Lehman and will write off a similar amount before its financial year end. The costs of integrating former Lehman employees are eating into revenue at a time of volatility in financial markets.

Nomura said a breakdown in its hedging strategies due to fluctuating global markets resulted in 147 billion yen of bond- and stock-trading losses for the quarter.

The 84-year-old firm also booked a laundry list of smaller losses during the quarter, ranging from 32.3 billion yen from investments in an alleged Ponzi scheme organized by Bernard Madoff to 43.1 billion yen of exposure to the Icelandic banking sector, which defaulted on interest payments.

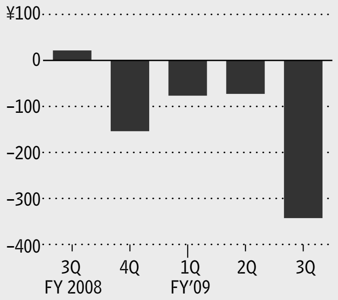
Nomura also recorded an impairment charge of 62.3 billion yen on its 15% stake in New York investment fund Fortress Investment Group LLC.

Even income before tax at Nomura's staple retail brokerage business dropped 57% from the previous quarter. In recent years, banks have used their brokerage businesses to help fund the expansion of their wholesale banking business.

Even after slashing its assets by nearly 40% over the past two years, the brokerage said it will continue pruning noncore businesses.

Nomura

Net profit/loss, in billions of yen



Note: Fiscal years end March 31 of year shown

Source: the company

Friends Provident sales fall, but it touts capital position

By Vladimir Guevarra

LONDON—Insurer **Friends Provident** PLC posted an 11% drop in full-year sales but said that its capital position remained strong and that it will keep paying dividends.

The company said Tuesday that total sales fell to £1 billion ($1.4 billion), down from £1.14 billion in 2007, hit by a 20% drop in U.K. pensions sales that more than offset a 24% rise in sales from Lombard, Friends Provident's high-end insurance business.

The insurer said it had surplus capital of £850 million at the end of December, down from £1 billion at end-October, after paying the 2008 interim dividend and buying a 30% stake in Malaysian insurer AmLife Insurance.

Friends Provident's reassurance on its capital position and dividend was welcomed by analysts who recently warned that an economic slowdown in Europe could force insurers to cut dividends and deplete capital.

The news also comforted investors, with shares gaining 11%.

GLOBAL BUSINESS BRIEFS

EADS

Germany may aid Airbus with export guarantees

The German government is considering aiding Airbus, a unit of **European Aeronautic Defence & Space** Co., with state export guarantees, known as Hermes guarantees, and other export instruments, an economics ministry spokesman said Tuesday. "It would be quite possible to maybe support Airbus from this program," ministry spokesman Steffen Moritz told reporters, quoting German Deputy Economics Minister Peter Hintze. He declined to specify the amount of potential aid. The comments come after a French finance ministry spokesman said Monday that the French government was putting finishing touches on a plan to lend around €5 billion ($6.59 billion) to banks to finance cash-starved buyers of Airbus jets.

KPN NV

KPN NV reported a sharp fall in fourth-quarter net profit, but said it wasn't suffering from the global economic downturn and expects growth this year. Net profit dropped to €295 million ($389 million) from €1.58 billion a year earlier, when KPN booked a tax gain of €1.2 billion. Sales inched up 1.6% to €3.72 billion from €3.66 billion. The Dutch telecommunications company said that fewer customers are canceling fixed lines in the Netherlands, and that operating profit at its Dutch arm grew slightly for the first time in years. The company reiterated its forecasts for 2010 of €15 billion in sales and €5.5 billion in operating profit, which would mean growth of around 3% and 9% from 2008 levels.

Fortis NV

Belgian court experts backed the government's move to sell off assets of bailed-out bank **Fortis** NV to France's **BNP Paribas** SA, but suggested the state give back to shareholders the stake it kept for itself. In a report made public Tuesday, the experts suggested the government should hand over its 25.1% stake in the banking business to the holding company that used to own it. The court of appeal last month froze the fire sale of Fortis—once Belgium's largest bank—saying shareholders should have been consulted and experts should check if the price was fair. The preliminary report by the experts said there was no real alternative to selling 74.9% of Fortis's Belgian banking and insurance operations to BNP Paribas for €14.5 billion ($19.1 billion).

Balfour Beatty PLC

U.K. construction company **Balfour Beatty** PLC said Tuesday it has secured a new contract, valued at around £750 million ($1.05 billion), to develop London's Heathrow Airport for operator BAA Ltd. Balfour Beatty will provide pre-construction advice and construction services to BAA, a unit of Spain's **Grupo Ferrovial** SA, for a major part of the works associated with the Eastern Campus Development Program at Heathrow Airport. The works will realign the taxiways and create new aircraft stands in the areas to the east of Terminals 1 and 2 to include the Heathrow East Satellite Project. Balfour Beatty is currently working on the design, management and construction of the first phase of the project, which is scheduled for completion at the end of this year.

Bristol-Myers Squibb Co.

Bristol-Myers Squibb Co. swung to a fourth-quarter profit from a year-earlier loss that was weighed down by charges, as the drug maker's sales rose 3.8% on the strength of anticlotting drug Plavix. Bristol, based in New York, reported net income of $1.24 billion, or 63 cents a share, compared with a year-earlier net loss of $89 million, or five cents a share. The latest results included a $582 million gain from the sale of its minority stake in ImClone Systems, which was acquired by **Eli Lilly** & Co. Excluding items, Bristol said earnings came to 46 cents a share, up from 30 cents a share a year earlier. Sales rose to $5.25 billion from $5.06 billion. Plavix, which the company co-markets with **Sanofi-Aventis**, posted sales of $1.47 billion, up 7% from a year earlier.

Hershey Co.

Hershey Co.'s profit and sales growth in the fourth quarter signals demand for chocolate is still strong, despite the slowing economy. But the Pennsylvania chocolate maker has noticed a reversal of a longtime trend: a significant slowdown in sales of higher priced "premium" chocolates. Consumers already have been trading down to the company's Reese's Peanut Butter Cups, Hershey's chocolate bars and Kit Kat wafers. That helped boost sales and profit in the fourth quarter. Hershey posted net income of $82.2 million, or 36 cents a share, up 51% from a year earlier. Revenue increased 3% to $1.38 billion. Hershey said it expects sales growth of 2% to 3% in 2009. Shares of Hershey stock rose 4% to $36.55 in mid-afternoon trading.

ING Groep NV

Dutch bank **ING Groep** NV is cutting millions of dollars from its Formula One program this season as part of a cost-cutting effort triggered by the global financial crisis. ING is in the final season of a three-year sponsorship deal with **Renault** SA and will review that deal this year, said company spokesman Nanne Bos. Renault ended fourth in the F1 constructors' standings last season, and Fernando Alonso was fifth in the drivers' championship with back-to-back wins in Singapore and Japan and a second-place finish in the season-ending Brazilian Grand Prix. Nelson Picquet Jr. was 12th. The cost-cutting will mainly be from F1-related advertising, said Mr. Bos. It won't affect the bank's sponsorship of the Renault team or four of this season's races.

Honda Motor Co.

Honda Motor Co. said it will scale back vehicle production even further—its second output cut in less than two weeks—as auto demand falls at a faster pace than the company expected. Japan's second-biggest car maker by sales volume now plans to reduce its domestic production by an additional 21,000 vehicles, bringing its domestic production for this fiscal year to 1.15 million units. Such a fall would mark a 12% year-to-year drop and would also be down from its previous plan to make 1.17 million vehicles. Honda also said it will cut its North America production plan by an additional 29,000 vehicles to 1.26 million units, down 12% from a year earlier. The latest cutback comes just 10 days after the maker of the Civic and Accord sedans said it would reduce production in Japan and the U.K., in line with the plans of many other auto makers to avoid building inventories.

Intel Corp.

Intel Corp. lost its appeal to halt an antitrust probe by the European Commission into accusations that the chip maker abused its market position. The commission has accused Intel of paying rebates to a major retailer to encourage it not to carry computers using chips from smaller rival **Advanced Micro Devices** Inc. Intel in October asked the Court of First Instance, Europe's second-highest court in October, to delay the investigation while the company sought access to additional documents to better defend itself. The court ruled that access to the additional documents wasn't necessary. Intel had skipped a commission deadline to defend itself against AMD's allegations, and the commission now has no legal obligation to accept subsequent documentation. An Intel spokesman said it was considering its options and that it believes its practices are lawful and beneficial to consumers.

De La Rue PLC

De La Rue PLC said Tuesday that Stephen King will resign as finance director and as an executive director. The company, which prints more than 150 national currencies as well as travelers' checks, stamps and passports, tapped Simon Webb as finance director-designate, effective Feb. 2. Mr. King's departure follows that of former Chief Executive Leo Quinn, who resigned in November. The two were instrumental in the disposal of De La Rue's Cash Systems business, the return of capital to shareholders and the start of the company's restructuring. Mr. Webb, who will become finance director and an executive director April 1, joins De La Rue from Enodis PLC, where he has been deputy chief financial officer since 2007.

Fujitsu Ltd.

Fujitsu Ltd. said it will end hard-disk-drive head production by the end of March in a move to keep alive discussions with **Toshiba** Corp. about a sale of its entire hard-disk-drive business. Toshiba is interested in the business, as it may be able to capitalize on economies of scale. However, hard-disk drives are an unprofitable business for Fujitsu, likely costing it more than 10 billion yen ($112.3 million) in the fiscal year ending in March. The move is part of Fujitsu's effort to restructure to focus on its high-margin software businesses and move away from hardware operations, such as hard-disk drives and chips.

Yahoo Japan Corp.

Yahoo Japan Corp. reported an 11% increase in group net profit for the October-December quarter and said it expects profit for the full fiscal year to grow. The Internet-service provider, a joint venture of U.S.-based **Yahoo** Inc. and Japan's **Softbank** Corp., said net profit in its fiscal third quarter climbed to 19.13 billion yen ($214.9 million) from 17.18 billion yen a year earlier, helped by advertising. Its operating profit for the three-month period rose to 33.15 billion yen from 31.29 billion yen. For the fiscal year ending in March, the company said it expects its net profit to range from 75.53 billion yen to 76.53 billion yen. Profit a year earlier was 62.62 billion yen.

—Compiled from staff and wire service reports.