THE WALL STREET JOURNAL.

WSJ.com

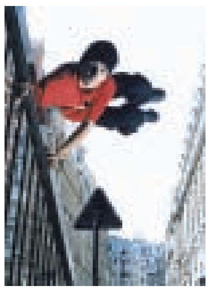
Dow Jones Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 255

FRIDAY - SUNDAY, JAN. 30 - FEB. 1, 2009



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U.S. weighs a new plan to bail out ailing banks

Government entity may buy some assets and guarantee others

BY DAMIAN PALETTA AND DEBORAH SOLOMON

WASHINGTON—U.S. Treasury Secretary Timothy Geithner discussed a plan with Federal Reserve Chairman Ben Bernanke and other top U.S. officials this week that carves certain assets out of the banking system while offering partial guarantees on other bad loans held on banks' balance sheets.

Such a design attempts to get at one of the central conundrums facing policy makers: how to rid banks of some bad loans without causing them to write down the value of other assets. By buying assets that already are marked down heavily and insuring those that aren't, policy makers could try and sidestep this issue.

The idea is one of just several being contemplated by government officials, and it appears to be a hybrid between several ideas under consideration for the past month. Government officials stressed that conversations still are fluid and that much could change, though many people expect a decision by next week.

The announcement is expected to be coupled with a broad program aimed at preventing foreclosures.

Mr. Geithner discussed the latest idea Wednesday afternoon at a meeting with Mr. Bernanke, Federal Deposit Insurance Corp. Chairman Sheila Bair, and Comptroller of the Currency John Dugan, according to people familiar with the matter. He met with his staff throughout the day Thursday and met with President Barack Obama in the afternoon, part of a weekly series of meetings on the economy.

The newest idea would set up a "bad bank," possibly run by the FDIC, which would buy certain assets that banks already held for sale, perhaps in their trading books. Because these assets are already

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What's News—

Business & Finance

Treasury's Geithner discussed a plan with Fed Chairman Bernanke and other top U.S. officials this week that carves certain assets out of the banking system while offering partial guarantees on other bad loans held on banks' balance sheets. The idea is one of several being contemplated. Page 1

■ **Ford registered** a quarterly loss of $5.9 billion and said it will draw on a credit line to bolster its cash position. Page 32

■ **European business morale** fell to a 24-year low in January, and unemployment jumped in Germany. Page 2

■ **Soros's comments sent** the euro lower. He said that unless the EU pushes for a global pact on soured assets, the currency may not survive. Page 20

■ **Shell will raise spending** and its dividend despite a steep slide in oil prices. Page 3

■ **Raytheon's defense division** reported a 10% rise in sales amid growth in U.S. Army programs. L-3's net rose 29%. Page 4

■ **Law firm Linklaters will cut** 100 to 120 nonpartner attorneys and paralegals as demand for legal work falls. Page 4

■ **AstraZeneca said** fourth-quarter profit fell 1.4% and disclosed that it plans to cut 7,400 more jobs world-wide by 2013. Page 4

■ **U.S. stocks** slumped as unease about the economy weighed on energy and industrial shares. European bank and airline stocks fell. Page 20

■ **U.S. companies kept** cutting jobs and reducing investment, as durable-goods orders fell 2.6% and 588,000 people made new jobless claims. Page 12

■ **Xstrata detailed** a $5.9 billion rights offering and unveiled a deal to buy Colombian coal operations from its major investor. Page 19

■ **Hennes & Mauritz intends** to expand despite the economic downturn's effect on even its less expensive clothing stores. Page 4

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8149.01	-226.44	-2.70
Nasdaq	1507.84	-50.50	-3.24
DJ Stoxx 600	190.79	-3.53	-1.82
FTSE 100	4190.11	-105.09	-2.45
DAX	4428.11	-90.61	-2.01
CAC 40	3009.75	-66.26	-2.15
Euro	$1.3078	-0.0168	-1.27
Nymex crude	$41.44	-0.72	-1.71

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World-Wide

The U.S. Senate girded for action on Obama's economic-recovery package, as prospects rose that at least some Senate Republicans would support the new spending and tax cuts. Top Senate Republicans are raising doubts about the Senate version of the package, which is approaching $900 billion. Page 3

■ **The U.N.'s ElBaradei** detailed measures the new U.S. administration should take to halt Iran's nuclear-weapons program, describing previous U.S. efforts as "a total failure." Page 10

■ **The new U.S. envoy** for the Middle East said the Western-backed Palestinian government must play a crucial role in cementing the shaky Gaza truce.

■ **The U.N. began** an emergency appeal for $613 million to help Palestinians recover from Israel's military operations in Gaza.

■ **Georgia's opposition parties** issued a joint declaration accusing Saakashvili of leading the country to catastrophe and demanding his resignation.

■ **Iraq plans to force** Blackwater Worldwide to exit the country, which could shift the fortunes of the private security industry and push the U.S. to find alternative contractors. Page 13

■ **A military judge** at Guantanamo rejected a request by the U.S. government to suspend a hearing for the alleged mastermind of the USS Cole bombing.

■ **Illinois Gov. Blagojevich** told his impeachment trial that he shouldn't be removed because of unproven criminal charges and complaints about his conduct.

■ **Prime Minister Wen said** China can't be blamed for fluctuations in currency markets, an apparent response to pressure from the U.S. Page 11

■ **Zimbabwe scrapped** foreign currency controls to allow business to be done in U.S. dollars and other currencies, admitting defeat in a fight against inflation.

■ **Afghanistan delayed** its presidential election by four months to Aug. 20 to give international forces time to bolster security.

■ **Somali pirates hijacked** a German gas tanker and its 13 crew in the Gulf of Aden, the third ship captured in the area in January.

EDITORIAL & OPINION

Strikeout
French walkouts to protest job cuts will hurt the economy. Review & Outlook. Page 14

Masked crusaders

Reuters

Workers like these in Lyon struck to urge France to do more to protect jobs and wages 3

European capitalism gets a halo

BY JOELLEN PERRY

DAVOS, Switzerland—One day after Chinese and Russian leaders fingered a free-wheeling U.S. financial system as the source of the global economic crisis, Europeans here are taking comfort in what they see as their kinder, gentler version of capitalism.

"In Europe, we have a social-market economy," said European Commission President José Manuel Barroso in an interview. "We have universal health care, a more generous system of social security, a general principle of almost free university education. And we want to keep that."

For years, Europe's more-regulated model of capitalism has been maligned by some economists as a study in second-rate market economics. Now, as world leaders seek a way out of the crisis—and aim to avoid repeating it—U.S.-style capitalism is under siege and the European model is getting another look.

America may be stealing a glance across the Atlantic. As the U.S. Senate gears up for next week's debate on its version of the $819 billion economic-stimulus package that the House passed Wednesday, Mr. Barroso said, "President Obama is moving toward a European-style model." Mr. Barroso, who runs the executive arm of the 27-nation European Union, cited the new administration's aim to boost health-care coverage, access to student loans and public-infrastructure spending as examples of the U.S.'s emerging European tilt.

After Wednesday's stinging suggestions from the Chinese and Russian leaders that the world might benefit from less reliance on the dollar, many Davos attendees said the crisis had dented the U.S.'s reputation. Few predicted the crisis would cost the greenback its status as the

Please turn to page 11

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Business morale in euro zone plummets

Job cuts, slow output and slump in lending feed the 24-year low

BY PAUL HANNON

Job cuts and reduced activity at euro-zone businesses helped to send business morale to a 24-year low this month, according to European Commission surveys. European business confidence is slumping, while unemployment is rising sharply in Germany.

Adding to concerns, other figures released Thursday showed that banks cut their lending to businesses in December. This was the first fall since records began in 1991, although banks have been cutting lending to households since October.

The low morale and slow credit flows suggest economic growth will slow drastically in coming months, giving the European Central Bank fresh cause to consider another cut in its key interest rate.

The overall economic sentiment of the euro zone in January fell to an index reading of 68.9 from 70.4 in December, bringing the measure to its lowest level since the commission began its sentiment survey in 1985. National measures hit a record low in Belgium, Germany, Italy, the Netherlands, Austria, Portugal, Slovakia and Slovenia.

As orders shrink, euro-zone factories have boosted their spare capacity to the highest levels since the survey began in January 1990, and businesses are increasingly opting to cut their payrolls.

In January, German businesses chose to cut jobs in a big way, swelling the numbers of unemployed in the euro zone's largest economy by 56,000, the German government labor office reported Thursday. That total was above the 33,000 who lost their jobs in December.

"Recession has finally arrived on the German labor market," said Martin Lueck, an economist at UBS. "We ... expect unemployment to go up sharply in 2009 and forecast the jobless rate to stand at 9% at year end." The unemployment rate rose to 7.8% from 7.7% in December.

Manufacturers and service providers in the euro zone told the commission in its survey they intend to cut payrolls in the coming months.

The Central Bank of Ireland said it expects Ireland's jobless rate to jump to 9.4% in this year, from 6.2% in 2008, as gross domestic product contracts by 4% in 2009, a deeper recession than the bank had previously estimated.

In a quarterly survey of manufacturers, the European Commission found that factories were running at 75.2% of capacity at the start of the first quarter, down from 81.6% at the start of the fourth quarter.

"The output gap is widening at an alarming pace," said Aurelio Maccario, an economist at UniCredit in Milan.

Confidence among banks and other financial-services companies collapsed in December, with the commission's measure falling to minus 22 from minus 9.

The European Central Bank's monthly figures for bank lending in the currency area, also released Thursday, explain why sentiment fell so far.

As 2008 drew to a close, banks were cutting back on lending to both households and companies.

Lending to companies fell by €15 billion ($19.7 billion), while lending to households fell by €20 billion. Bank lending to the private sector as a whole fell for the first time since records began in 1991, by €47 billion, or 0.4%.

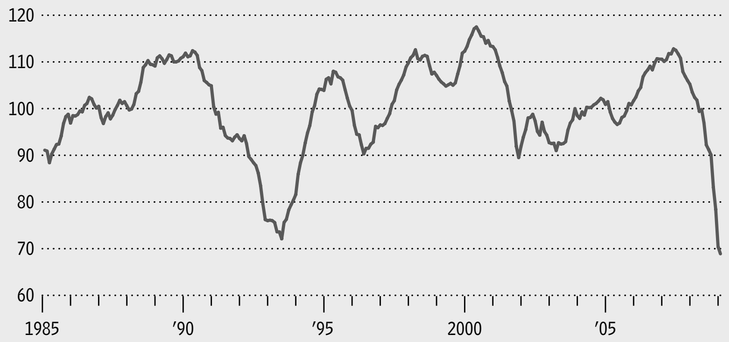
"It has taken 16 months for the financial-market crisis to have a significant impact on banks' ability to lend to the ... corporate sector," said Daniele Antonucci, an economist at Merrill Lynch. "These numbers provide more evidence that credit constraints are becoming more severe."

The euro-zone economy contracted by 0.2% in both the second and third quarters. Surveys and economic indicators indicate that the recession continued into the fourth quarter.

The International Monetary Fund on Wednesday forecast that the euro-zone economy will contract by 2% this year, with Germany's economy shrinking by 2.5%.

Unsentimental journey

The euro zone's indicator of business and consumer sentiment dropped to 68.9 points in January, the lowest since records began in 1985



Source: European Commission

International Investor

Widening rift

Chinese frustration about the U.S. financial system mounts > **Page 24**

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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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

LEADING THE NEWS

New stage for stimulus bill

Some Republicans are likely to support legislation in Senate

By Greg Hitt

WASHINGTON—The Democratic-controlled Senate girded for action next week on U.S. President Barack Obama's economic recovery package, as prospects rose that at least some Senate Republicans would support the new spending and tax cuts.

Top Senate Republicans are raising doubts about the Senate version of the package, which is approaching $900 billion. "In a time of trillion-dollar deficits, we cannot afford Washington business-as-usual," Senate Minority Leader Mitch McConnell (R., Ky.) said Thursday. "Are these projects really necessary? Will they stimulate the economy? Should we ask the American people to foot the bill?"

Maine Sen. Olympia Snowe, who holds a Republican seat on the tax-writing Finance Committee, is emerging as a strong supporter. "We must simply begin to restore confidence among the American people in the future of our economy," she said in a statement issued after she voted this week for the tax-relief package during Finance Committee action.

After Sen. Snowe, congressional aides suggest four to six other Republican senators could be potential supporters.

Not a single Republican voted Wednesday for the House's $819 billion package, which provides an array of tax cuts and a heavy dose of new spending, including investments in everything from new roads and bridges to an expansion of jobless benefits and food assistance for the poor.

The vote reflected philosophical differences over the role of government in the private sector. But for

Partisan power

■ Package passes in U.S. House, but one side isn't on board 16
■ Fast action on sweeping legislation comes at a cost 17

Republicans it was also an effort to ensure Democrats have ownership of the issue, forcing them to take the blame if the plan fails and the economy continues to weaken.

In the wake of Wednesday's House vote, Mr. Obama himself suggested the legislation could be revised to bring on Republicans.

For example, Maine's other Republican senator, Susan Collins, said she wants to work "with my colleagues on both sides of the aisle to come up with a final stimulus package that will indeed jump-start our economy." But she worries that not all of the proposed spending—an aide points to a proposal research on pandemic flu—is appropriate for the stimulus package. "We need to try and achieve the right balance, the right size, and the right mix of tax relief and spending proposals," Sen. Collins said. "I am not at all certain that we have achieved these goals in this bill."

Sen. Arlen Specter (R., Pa.) said he wants "to be helpful to the new administration," but he, too, worries about the spending, as well as the rapid pace of action. The White House wants approval by mid-February. "I have grave doubts that that's a wise course of action," he said.

Senate debate on the package is expected to begin Monday and could take several days. Heading into next week, Democrats have eased tensions by setting the stage for an open amendment process, which will allow Republicans to offer a number of alternatives. They have also already made an effort to reach out to Republicans, agreeing to a proposal by Iowa Sen. Charles Grassley (R., Iowa) that would hold millions of middle-income taxpayers harmless from the alternative minimum tax, a levy originally designed to hit the wealthy.


Agence France-Presse

President Barack Obama suggested that his proposed economic-recovery package could be revised after House Republicans unanimously voted against it Wednesday.

Senate Majority Leader Harry Reid (D., Nev.) predicted a number of Republicans will eventually climb on board by the time the bill makes it through the Senate and negotiations conclude on a final compromise package. "It's easy to sit back and nitpick about 'Why did they do this, why did they put more here?' " Mr. Reid said. "But we've done the best we can, and we think it's going to be very good for the country."

To raise pressure on senators, a coalition backing the recovery package, which includes labor and environmental groups, announced Thursday it will air ads around the country to encourage Republicans "to support the Obama plan for jobs, not the failed policies of the past." The ads will run in Maine, New Hampshire, Iowa and Alaska.

—Naftali Bendavid contributed to this article.

Despite low oil prices, Shell to boost dividend and spending

By Guy Chazan

LONDON—Amid deep gloom in the oil patch, **Royal Dutch Shell** PLC struck a discordantly bullish tone Thursday, saying it was raising dividends and capital spending this year despite a steep slide in the oil price and a weak global economy.

That cheered investors, who have worried that some oil companies may be forced to cut their payout if oil prices stay low for months or years to come.

The move was in sharp contrast to **ConocoPhillips**, which has been hit much harder by the global slowdown and said Wednesday it is cutting staff and slashing its capital budget. On Thursday, **Chevron** Corp. said it would hold the line and spend $22.8 billion on capital projects in 2009, nearly identical to its spending last year. The California-based company has warned its profits would drop amid lower energy prices and refining margins. It reports earnings on Friday.

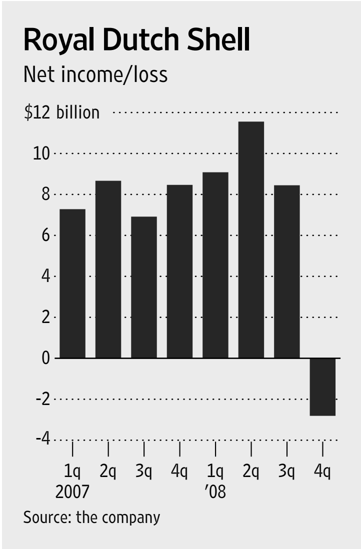
Shell announced a net loss of $2.81 billion in the fourth quarter, largely as a result of lower oil prices. It said its overall net profit for 2008 was $26 billion. Shell's net profit on a current cost of supply basis—a measure that strips out changes in the value of inventories and is closely watched by investors—stood at $4.79 billion, down 28% from a year earlier. The results were largely in line with analysts' expectations.

With recession damping demand for energy, the price of oil has fallen by more than $100 a barrel since last summer, badly denting Big Oil's revenues. Yet industry costs have remained stubbornly high. Jeroen van der Veer, Shell's chief executive, said that while crude was now back to the same level it was trading at five years ago, costs have doubled since then. He said conditions in the downstream part of the business—refining, marketing and petrochemicals—were as tough now as they were in the early 2000s, when crude was around $25 a barrel.

"That is a hard landing, and it puts a lot of pressure on the industry," he said. Costs would come down—they already had for onshore drilling rigs and steel—but only after a lag of 12 to 18 months, he added.

Yet despite the tough environment, Shell would stick to a policy of paying "competitive and progressive dividends" and making "significant investments," Mr. van der Veer said. He announced a dividend of $0.42 per share for the first quarter of 2009, up 5% from a year earlier, and said capital spending this year would rise to between $31 billion and $32 billion, compared with $30 billion in 2008.

While majors like Shell and Conoco are continuing to spend, however, many smaller producers are slashing spending in the face of tumbling revenues. **Occidental Petroleum** Corp. on Thursday became the latest independent oil company to announce such a move, saying it would reduce its capital budget by 25%, to $3.5 billion in 2009. The company said it is canceling some drilling contracts, even when it needs to pay termination fees.



But even as they cut spending, smaller producers may enjoy an advantage over their giant counterparts in their ability to focus on smaller but still profitable projects. Occidental, the first large independent producer to report fourth-quarter earnings, said it earned $443 million in the fourth quarter, down 69% from a year earlier but a sharp contrast to the losses posted by Shell and Conoco for the quarter. Revenue for the quarter fell 27% to $4 billion.

"The coming months will be challenging for all companies in all industries," Occidental Chief Executive Ray Irani told investors. But he said, the company's "low-risk, low-leverage profile" would allow it to remain strong.

Analysts welcomed Shell's plan on its dividend and spending, in what they described as a clear sign of the company's confidence in the business. They noted that Shell's strong balance sheet and healthy cash flow meant it was better placed than others to sustain its payout, even in a low oil-price environment. "[It] sends an encouraging sign of commitment to the market," wrote Peter Hutton of NCB in a note to clients.

Although Shell said it would spend more this year than last, it has also postponed some decisions on major investments in the hope that costs may come down. These include Carmon Creek in Canada; Mars B, an oil project in the Gulf of Mexico; and the Pierce field in the U.K. Last year, it also announced it was putting off a decision to expand its Athabasca oil sands development in northern Canada.

Peter Voser, Shell's chief financial officer, said it cost $38 a barrel to produce oil in Canada's oil sands, with energy costs accounting for around a fifth of that. With crude now trading at around $40 a barrel, that puts the economics of oil sands under intense pressure, and several oil sands operators have announced delays or cancellations of big projects.

—Russell Gold and Ben Casselman contributed to this article.

Nationwide strike disrupts services in France

By David Gauthier-Villars

PARIS—Striking labor unions brought parts of France to a near halt on Thursday, just months after President Nicolas Sarkozy declared victory over the country's culture of frequent work stoppages.

A nationwide strike, led by public-sector unions but joined by some in the banking, automobile and other industrial sectors, closed schools and disrupted services. Workers held marches in most major cities, saying they were protesting tough living conditions, including low wages and fear of losing their jobs. They also had a variety of individual complaints: Teachers wanted smaller classes and transport workers higher pay.

"I marched with 20,000 people this morning," Alain Cambi, a national delegate with the railway union Sud Rail, said in a telephone interview from a rally in Saint Etienne, in southern France. "You'd have to be quite deaf not to hear people's suffering."

The strike, the biggest national protest since Mr. Sarkozy took office, was also a battle over the president's attempts to change the country. After Mr. Sarkozy was elected in May 2007 on promises to put France back to work, he introduced the so-called minimum service law: Some trains would run during a transport strike and children would be able to spend the day at school during a teachers' strike. In July, he smiled and told an audience from his UMP party that now, "when there is a strike, no one notices."


Nicolas Sarkozy

Unions said Mr. Sarkozy couldn't claim that was the case on Thursday.

Only one-third of regional trains ran in the Paris area, the Marseille subway shut down and only half of long-distance trains circulated. In addition, about a third of short-haul flights were canceled and many schools were closed.

Ahead of the strike, Mr. Sarkozy had said it was "normal" that people with grievances would want to protest. Late Thursday, the president said in a statement that he will meet union delegates in February "to agree on a program of reform to be conducted in 2009 and on the methods to implement it."

Labor unions said they will confer next week to see whether to call for another day of protest soon.

CORPORATE NEWS

Hennes is still set on expansion

Fashion retailer plans to forge ahead despite December sales that suffered from slump

By Cecilie Rohwedder

Associated Press

Hennes & Mauritz said it plans to open 225 stores this year. Above, the company's flagship store in New York.

Fashion retailer **Hennes & Mauritz** AB aims to forge ahead with a fast-paced global expansion, despite December sales figures showing that even its inexpensive clothing stores are getting hit by the economic downturn.

The Swedish company, which operates the H&M chain in the U.S. and 32 other countries, said Thursday that sales in stores open at least a year dropped 7% in December after rising in the previous three months. That dented investors' hopes that its relatively cheap offerings would continue to benefit as cash-strapped consumers change their spending habits.

Nonetheless, H&M said it would stick to its ambitious expansion plans, signaling that it aims to stay in a race with rival **Inditex** SA of Spain, which operates the Zara clothing chain, to be the world's second-largest clothing retailer after **Gap** Inc. The company said it plans to open 225 stores this year, including its first branch in Beijing. The move will add as many as 7,000 jobs to the company's work force of 68,000, at a time when other retailers are slashing jobs and preparing for a long and difficult downturn.

Investors sent H&M shares down 2% in Sweden after the sales announcement. The performance was "a major surprise on the negative side," said Christian Nagstrup, an analyst with Jyske Bank in Denmark. H&M said it expects sales to grow 8% this month.

Both H&M and Inditex have managed to defy the gloom in the retail industry, in part because they built up ample cash and took on little debt during the good times.

Both also have withstood the worsening economy better than many midmarket and upscale retailers because they appeal to style-conscious shoppers who frequently update their look, and they have attracted cash-conscious consumers trading down from more expensive stores.

Last fall, H&M opened its first stores in Tokyo, while Inditex set up shop in Cairo.

Slowing sales, though, could pose a challenge to H&M's expansion drive, analysts say. H&M's December sales drop marks a turn for the worse from the preceding quarter.

In the three months through Nov. 30, the company's fourth quarter, total sales rose 15% to 30.85 billion Swedish kronor ($3.83 billion), from 26.84 billion kronor in the same quarter a year ago.

Net profit for the quarter rose 9.4%, to 5.09 billion kronor from 4.65 billion kronor a year ago. For its full fiscal year, H&M reported net profit of 15.29 billion kronor, up 13% from 13.59 billion kronor in 2007.

—Ola Kinnander contributed to this article.

Raytheon net drops, but battle unit is strong

By Kerry E. Grace

Raytheon Co.'s fourth-quarter net income fell 30% on a year-earlier gain as the defense contractor reported strength in its key technology segment.

Among the company's specialties is homeland security, which governments usually consider essential to their spending, even in an economic downturn.

Raytheon posted net income of $421 million, or $1.02 a share, down from $598 million, or $1.37 a share, a year earlier. Excluding pension costs in the latest quarter and prior-year gains, earnings from continuing operations rose to $1.13 from $1.02.

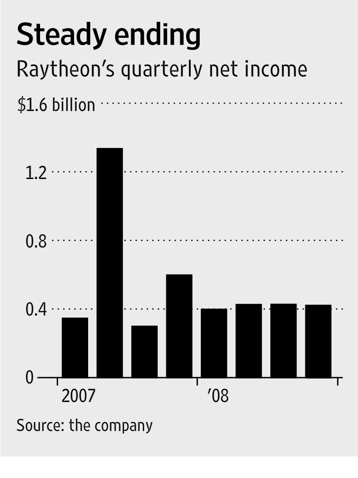
Revenue increased 1.5% to $6.09 billion from $6 billion. Analysts polled by Thomson Reuters expected earnings of $1.11 on revenue of $6.21 billion.

Raytheon's integrated defense systems division, which provides technology for ground, sea and air battle coordination, reported earnings up 16% on a 10% increase in sales due to growth in U.S. Army programs. Intelligence and information systems division profits rose 2% on flat revenue.

The company's space and airborne systems segment, however, saw profit fall 5.1% as sales slid 4.3% due to lower volumes.

Total bookings were $8.53 billion, down 7.1%. The company's backlog increased 6.2% to $38.88 billion, which Raytheon said was a record.

Raytheon, which affirmed its 2009 outlook, last month entered into a $3.3 billion contract with the United Arab Emirates for U.S.-made Patriot missiles after months of negotiations.



Goldman Sachs said this month that the Obama administration may not be as bad for defense stocks as it initially thought. The firm says it sees President Barack Obama as unlikely to cut defense programs and jobs as the administration tries to fight rising unemployment.

Many defense programs, such as aerial tankers, fighters and ships, are up for review as the administration puts together the Pentagon budget, according to U.S. Defense Secretary Robert Gates. "The spigot of defense spending that opened on 9/11 is closing," he said.

Separately, L-3 Communications, a defense-technology company, reported fourth-quarter net income of $267 million, up 29% from $207 million in the year-earlier quarter.

Linklaters to cut 100-120 legal jobs as demand falls

By Ashby Jones

The global recession continued to hit large law firms on Thursday, as **Linklaters** LLP, a firm with about 2,400 lawyers world-wide, announced it was eliminating between 100 and 120 nonpartner attorneys and paralegals.

A spokeswoman for the firm confirmed that a number of partners would also be leaving the firm, but she declined to comment further.

Big law firms have been pummeled of late by the economic downturn, and many have resorted to layoffs, a step the industry largely avoided in previous downturns. The Linklaters cuts are among the largest to date. "We are acting now to reduce our headcount in order to meet anticipated demand," said the firm's managing partner, Simon Davies, in a prepared statement.

Linklaters has 26 offices across the globe, but traces its roots to London. It's regarded one of the U.K.'s five "Magic Circle" law firms, a group considered to be among the world's most prestigious and powerful. Two other Magic Circle firms, **Clifford Chance** LLP and **Allen & Overy** LLP, have also cut lawyers in recent months.

Tony Williams, a law-firm consultant in London, says that the dropoff in transactional work, such as mergers and acquisitions, have hit the London firms hard. "These firms are billion-pound businesses and have got big furnaces to keep burning," he says. "If the deal flow drops, firms start to sputter." Mr. Williams said he thought the firms were taking prudent steps in light of what is gearing up to be a sluggish 2009.

Earlier this week, two U.S. firms on the West Coast also announced significant layoffs. Wilson Sonsini Goodrich & Rosati laid off 45 lawyers, and Morrison & Foerster LLP cut 53 lawyers and 148 staff members. "These decisions are exceedingly painful, but necessary to assure that we address the current economic challenge from a position of financial conservatism and strength," said a Morrison & Foerster spokeswoman.

AstraZeneca pares 7,400 positions as sales flatten

By Elena Berton

LONDON—**AstraZeneca** PLC reported a 1.4% decline in fourth-quarter net profit and unveiled plans to cut a further 7,400 jobs world-wide by 2013.

Chief Executive David Brennan said AstraZeneca doesn't plan a merger or large acquisition, but added that he does see opportunities for partnerships and collaborations that would strengthen the company's pipeline.

Net profit declined to $1.25 billion in the latest quarter from $1.27 billion a year earlier, weighed down by restructuring costs and impairment charges. Sales rose slightly to $8.19 billion from $8.17 billion, with growth curbed by the strengthening dollar. Stripping out currency fluctuations, sales rose 4%.

AstraZeneca, the U.K.'s second-largest drug maker by sales after **GlaxoSmithKline** PLC, said it now aims to cut a total of 15,000 jobs by 2013, or more than 20% of its work force of 67,000. Staff reductions are expected across AstraZeneca's operations, including research and development.

Combined with other cost-cutting moves announced last year, AstraZeneca said the overall efficiency program should deliver savings of $2.5 billion a year at a cost of $2.9 billion.

Most big drug makers have been cutting thousands of employees in recent years as the global market for pharmaceuticals grows tougher. Sales growth in big markets including the U.S. has slowed significantly, and companies are having a hard time bringing new products to market. Insurers and other drug buyers are also growing more frugal, refusing to pay for drugs that don't offer enough benefit to justify their price.

Pfizer Inc.'s takeover of rival **Wyeth** this week has reignited speculation that other major drug makers may follow its example and consider a large deal to overcome the considerable revenue decline expected to affect most of the big pharmaceutical companies as today's blockbuster drugs go off patent in the next five years.

But AstraZeneca isn't planning such a move, Mr. Brennan said. "We don't have large acquisitions in our strategy," the CEO said in a conference call with reporters.

For 2009, AstraZeneca forecast flat revenue in constant currency terms, while flagging core earnings per share, which exclude restructuring costs and charges related to the 2007 purchase of U.S. biotech company MedImmune, in a range of $5.15 to $5.45 a share.

Sales of cholesterol-lowering drug Crestor, one of AstraZeneca's best-selling products, rose 23% in the fourth quarter to $987 million. Sales of asthma treatment Symbicort were also strong, up 18% to $514 million in the quarter.

AstraZeneca announced plans to apply for approval of four experimental drugs in 2009. They include lung-cancer drug Zactima; painkiller PN400, which is developed with **Pozen** Inc.; blood thinner Brilinta, previously known as AZD6140; and a combination pill containing cholesterol drugs Crestor and **Abbott Laboratories**' TriLipix.

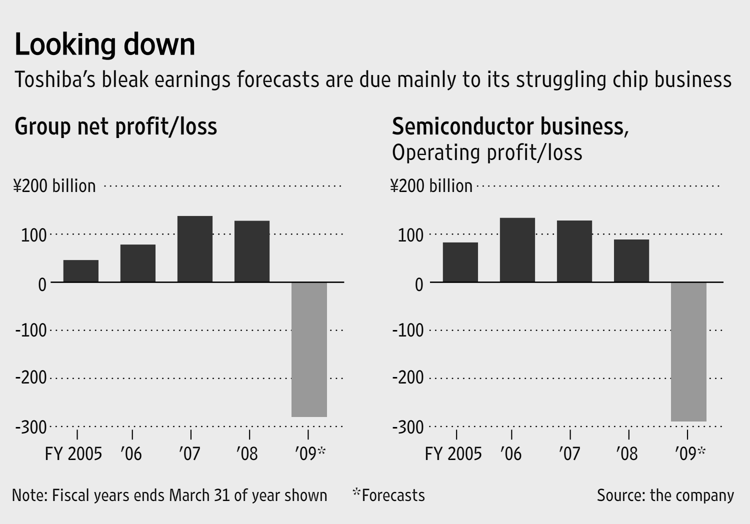
AstraZeneca's key experimental drug, diabetes treatment Onglyza, is under regulatory review in the U.S. and the European Union.

CORPORATE NEWS

Toshiba to slash costs 15%

Chip maker to shift more production to cheaper markets

By Daisuke Wakabayashi



TOKYO—Projecting the biggest annual loss in the company's history from a sharp decline at its chip division, **Toshiba** Corp. said it plans to slash costs by 15%, shift semiconductor production to cheaper markets and cut 4,500 temporary jobs in Japan.

Battered by a strong yen and a sharp slowdown in consumer spending, Toshiba lowered its full-year earnings estimates for the second time in four months. It now forecasts a net loss of 280 billion yen ($3.1 billion) in the fiscal year ending March 31, from an earlier estimate of a net profit of 70 billion yen. The loss would be the biggest since Toshiba started reporting earnings in 1949.

The steepest losses are coming from its semiconductor business, where it expects to post a 290 billion yen operating loss this fiscal year. Last April, the company was projecting a 90 billion yen profit at the division.

To reduce 300 billion yen in costs, Toshiba said it plans to cut chip production in Japan while increasing overseas output. It didn't give details on how much production will be cut.

It will also postpone the construction of two new flash memory plants in Japan and cut its capital spending forecast this fiscal year by more than $1.5 billion, and then reduce total capital spending by more than 60% next year. Such drastic cuts in spending on chip factories and equipment highlight the dire circumstances gripping an industry known for its steep investment cycles.

Earlier this month, South Korea's **Samsung Electronics** Co. reported its first quarterly loss since 2000 due in part to losses at its chip division. Other chip makers are turning to government assistance or mulling tie-ups with competitors.

Atsutoshi Nishida, Toshiba's president, said Toshiba would also "proactively pursue" alliances with other Japanese chip makers to consolidate segments of the semiconductor market.

Deep jobs cuts in Japan have been rare in the past, but Japanese companies, especially those reliant on exports, are increasingly cutting jobs at home because of the yen's sharp rise. A strong yen reduces overseas revenue while inflating costs of products made in Japan and sold abroad.

The dollar, which was above 120 yen in 2007, is now at around 90 yen.

What's more, Japanese electronics firms including Toshiba ramped up production in Japan in recent years despite high labor costs and difficulty in laying off workers. Companies, helped by a weaker yen and a cheaper work force of temporary workers, pointed to the risk of intellectual property theft at overseas factories and praised the productivity of Japanese workers.

Now, with global demand grinding to a halt and a stronger yen, many Japanese companies are saddled with excess capacity and inflated costs. They are letting go tens of thousands of staff and are starting to close domestic factoriesn.

Toshiba said sales in the quarter ended Dec. 31 fell 21% from a year earlier, while net losses totaled 121 billion yen, compared with an 80 billion yen profit in the year-ago period. It said it won't pay a dividend to shareholders this fiscal year.

GM halts its 'jobs bank'; Chrysler wrings suppliers

By Jeff Bennett And Alex P. Kellogg

DETROIT—**General Motors** Corp. and **Chrysler** LLC moved to reduce costs as required by the terms of the U.S. government bailout loans they were granted to keep both auto makers from running out of cash.

GM on Wednesday said it has reached an agreement with the United Auto Workers union to end the so-called jobs bank program, in which laid-off workers continued to get most of their pay.

Separately, Chrysler issued a letter to at least some of its suppliers saying "all production suppliers" will have to cut their prices by April 1. The letter doesn't specify the size of the cuts Chrysler is seeking.

Ending the jobs bank and winning concessions from constituents—such as suppliers, the UAW and dealers—are among the requirements the auto makers must fulfill to remain in compliance with the terms of the loans they started receiving in January. So far, GM has received $9.4 billion and is in line to get an additional $4 billion in February. Chrysler has received $4 billion and hopes to borrow $3 billion more by the end of March.

Both companies are also required to negotiate with their banks and bondholders to reduce their debt, and must limit executive pay. They must present restructuring plans by Feb. 17 that show they can become "viable."

On Wednesday, the U.S. Treasury released loan contracts showing that the two companies also must provide the government with detailed monthly financial reports through 2010 and submit annual reports from 2010 through 2014.

Ending the jobs bank means 1,600 GM workers will be classified as laid off and must apply for state and federal unemployment benefits. Workers will receive some GM-subsidized payments along with their unemployment benefits, which means they will continue to earn about 72% of their pay.

The move will allow cash-strapped GM to use state unemployment benefits to help cover some of the costs of paying the workers. Chrysler ended its jobs bank program Monday, forcing about 1,000 workers to seek unemployment compensation. The UAW had previously agreed to suspend the jobs bank in a bid to help GM and Chrysler win government aid.

"All production suppliers" will have to cut their prices by April 1, Chrysler said.

Chrysler informed suppliers of the price cuts in a letter Monday from its head of purchasing. The letter also said Chrysler is freezing what the company will pay for raw materials, even if costs rise. The existence of the letter was earlier reported by Automotive News.

Some suppliers said they hadn't received the letter. A supplier senior executive familiar with the letter said the price cuts will hurt many parts makers that are already ailing. Automotive suppliers are seeking $10 billion from Washington themselves to help them weather the tough times.

Sony net skids 95% on falling prices

By Yuzo Yamaguchi

TOKYO—Battered by the strong yen and sliding consumer demand, **Sony** Corp. Thursday reported fiscal third-quarter net profit skidded 95% and reiterated it will likely swing into its first net loss in 14 years in the fiscal year ending March.

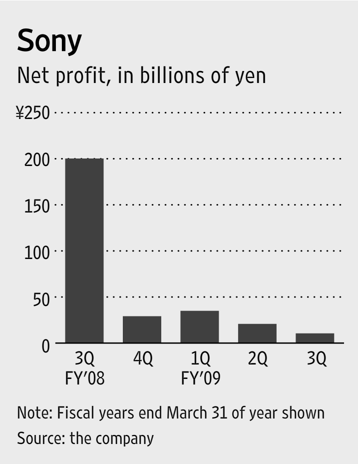
The Tokyo-based electronics giant said net profit for the October-December period dropped to 10.4 billion yen ($115.2 million) from 200.2 billion yen a year earlier. Revenue fell 25% to 2.15 trillion yen from 2.86 trillion yen. It posted an operating loss of 18 billion yen, compared with an operating profit of 236.2 billion yen in the same period a year earlier.

The slide in third-quarter net profit was in line with the forecast Sony issued last week, when it warned it now expects a 150 billion yen net loss this fiscal year, compared with a 369.4 billion yen net profit a year ago. That underscored the urgency of a global restructuring program Sony announced last December: cutting 16,000 jobs around the world, half of them full-time positions. Sony hopes to save 250 billion yen in costs in the next fiscal year starting April, while booking 170 billion yen in total charges to cover the cutbacks.

Losses in its core TV operations remain a challenge. Sony booked a loss of 43 billion yen from its TV operations in the October-December quarter, hurt by deteriorating pricing conditions and the strong yen.

Sony said in a separate, joint statement with Japanese electronics peer **Sharp** Corp. that the pair will delay by a year a planned a joint venture to produce and sell liquid crystal display panels. The venture now won't be set up until March 2010, they said.

Overall, Sony said the electronics operations made an operating loss of 15.9 billion yen in the third quarter. It eked out an operating profit in its video-games division of 389 million yen, down 97% from a year earlier.



Nintendo cuts expectations for profit, Wii sales

By Kenneth Maxwell

TOKYO—**Nintendo** Co. cut its full-year earnings estimate by 33% due in part to the strong yen's impact on overseas sales, while slightly lowering full-year projections for its Wii game console sales because of a slowdown in consumer spending.

The videogame maker said its net profit fell 18% to 212.5 billion yen ($2.35 billion) in the first nine months of its fiscal year ending March 31 as foreign-currency losses totaling 174 billion yen weighed on the bottom line. Kyoto-based Nintendo generates close to 90% of its sales overseas.

Analysts have long highlighted Nintendo's foreign-currency exposure as a potential earnings brake to the runaway popularity of its Wii game machine and Nintendo DS handheld device. Nintendo maintains billions of dollars worth of assets in U.S. dollars and euros, incurring currency losses when it adjusts the value of those assets in yen.

For the fiscal year ending March, Nintendo now expects 230 billion yen in net profit, which is down from an October forecast of 345 billion yen. The projected earnings are an 11% decline from last year's 257.3 billion yen profit. Nintendo didn't disclose separate results for its fiscal third quarter.

AutoNation resists pressure to load up on Detroit vehicles

By John Kell

AutoNation Inc. said its fourth-quarter sales tumbled 34%, while its net income rose with the help of a tax gain.

The U.S. auto dealership chain also said it is resisting efforts by **General Motors** Corp. and **Chrysler** LLC to prop up sales by getting dealers to order more cars and trucks.

The two auto makers have "implemented wholesale incentive programs where they basically say to get the incentives for the inventory you want, you have to buy more inventory," Chairman and Chief Executive Mike Jackson said Thursday in a conference call to discuss fourth-quarter financial results.

"I think this is the wrong thing to do," he said. "We are not playing that game."

Auto sales have slumped as the economic downturn has damped consumers' appetites for large purchase, with 2008 industry sales hitting levels last seen in the early 1990s. And AutoNation is expecting worse, pegging 2009 industrywide sales at about 11 million, compared with nearly 13.5 million last year.

The Ft. Lauderdale, Fla., company reported net income of $67.1 million, or 38 cents a share, for the fourth quarter, up from $51.7 million, or 28 cents a share, a year earlier. The latest quarter included items yielding a net gain of 28 cents a share. Besides the tax gain, there was a benefit from the repurchase of the company's senior notes.

Revenue dropped to $2.74 billion from $4.14 billion a year earlier.

Gross margin rose to 17.6% from 16%.

New-vehicle revenue dropped 41% and used-vehicle sales fell 33%. By contrast, total U.S. industry new-vehicle retail sales dropped 49%, AutoNation said, citing CNW Research data. Meanwhile, parts and service sales were down 8.3%.

Mr. Jackson said despite the severely depressed sales environment, AutoNation continues to generate "solid" cash flow, which allowed the company to reduce its non-vehicle debt by $155 million and close the quarter with a $110 million cash position. He said the company remained in compliance with all financial covenants in its debt agreements.

Falling sales and uncertainty over the future of the Detroit Three and their brand has threatened the sustainability of auto dealers. Lower availability to credit, amid the squeezed financial sector, is another hurdle the industry must overcome as the industry loses sales from consumers that aren't being approved for loans.

–Sharon Terlep contributed to this article.

CORPORATE NEWS

Airlines weigh fuel relief against decline in traffic

Many expect profits, but oil and recession are still wild cards

BY SUSAN CAREY

Discount airline JetBlue said it expects to generate free cash and a profit this year. Other carriers were less definitive.

Four more U.S. airlines reported fourth-quarter losses, capping a tough year in which the industry cut capacity to deal with record-high fuel prices and more recently a sharp economic downturn.

This year, however, airlines generally hope receding fuel prices will trump a fall-off in travel demand and allow a return to profitability. But that is a big bet given gyrating oil prices and the unknown nature of this recession.

Volatile crude prices gave airlines fits last year, as oil's descent in the latter half led to losses on hedging contracts they had entered to guard against rising jet-fuel costs.

JetBlue Airways Corp. reported a fourth-quarter loss Thursday, but finance chief Ed Barnes said he expects the discount carrier this year to generate free cash and a profit. Other executives were less definitive.

"Since 9/11, it's the most volatile market we've seen and the most difficult to predict," said Larry Kellner, chief executive of **Continental Airlines** Inc., which also posted a quarterly loss. "The revenue outlook is not encouraging."

So far, the industry's capacity reductions have enabled carriers to raise prices and report fairly healthy gains in unit revenue, or the amount taken in for each seat flown a mile. They also are boosting revenue by raising fees and charging for services that once were included in the price of a ticket. Scott Kirby, president of **US Airways Group** Inc., said his company hopes to generate up to $500 million in such ancillary revenue this year, irrespective of the economy.

But there are headwinds, including the challenge of holding down unit costs as capacity is cut and previously profitable international routes turn weaker. The International Air Transport Association, a global trade group, said Thursday that it expects total industry revenue to contract by $35 billion this year, to $501 billion. The group said passenger demand fell 4.6% in December and international cargo traffic plunged more than 22%.

Continental said it is concerned about a deterioration in its premium international business, its business bookings and even some leisure markets. The Houston-based company said its domestic routes lose money and its overseas routes, which represent half its capacity, remain profitable but less so than in the past.

While Continental, the fourth-largest U.S. airline by traffic, figures its annual fuel bill will drop $2 billion this year, it said it is anybody's guess whether oil will climb to $150 a barrel or decline to $20 a barrel. Crude oil settled Thursday at $41.44 a barrel, down 72 cents in New York.

Continental's fourth-quarter loss widened to $266 million, or $2.33 a share, from $32 million, or 33 cents a share, a year earlier. The latest quarter included charges of $170 million, including a $125 million loss on fuel contracts with Lehman Brothers Holdings Inc., which filed for bankruptcy in September. Revenue fell 1.5% to $3.5 billion.

US Airways, the No. 6 U.S. carrier by traffic, reported a net loss of $541 million, or $4.74 a share, compared with a loss of $79 million, or 87 cents a share. Revenue was nearly flat at $2.76 billion. The latest red ink included $321 million in charges, with $234 million in losses reflecting adjustments to its fuel hedges.

The Tempe, Ariz., company expects it will pay $1.7 billion less this year on fuel than in 2008.

US Airways plans to reduce its mainline capacity by nearly 6% in the current quarter. Mr. Kirby, the president, said weakness in business-customer bookings that began in the fourth quarter has carried into this year, and the carrier's international flights are starting to underperform the domestic network.

Discounter JetBlue, ranked seventh, said its February and March bookings are "significantly lower." The Forest Hills, N.Y., company said it plans to pare its first-quarter capacity by 5% to 7% and may sell planes.

JetBlue's pretax loss widened to $49 million from $3 million in 2007's final quarter, including a noncash charge of $53 million related to the decline in value of some auction-rate securities. The company said it is evaluating the tax deductibility of the charge and will report net results later. The latest result also included $58 million in hedge losses.

CORPORATE NEWS

Glaxo warns of charge, hinting at a settlement

Drug firm sets aside $400 million related to a marketing probe

By Jeanne Whalen

GlaxoSmithKline PLC warned that its 2008 earnings will be hit by a $400 million legal charge, in a sign that the pharmaceutical company could be approaching a settlement in a five-year-old federal investigation into marketing of antidepressants and other drugs.

Glaxo said the charge was related to the ongoing investigation, which is looking at "marketing and promotional practices for several products for the period 1997 to 2004." Those products include the antidepressants Wellbutrin SR, according to the company; Paxil is another, according to people familiar with the matter.

Glaxo, which first disclosed the investigation in 2004, said the charge would cause its earnings per share for the year to fall more steeply than its previous forecast. The earlier forecast had seen a decline in the mid-single-digits.

The Glaxo investigation began at the U.S. Attorney's Office in Colorado, but is now being led by the U.S. Attorney's Office in Massachusetts, a Glaxo spokesman said.

In 2007, the Massachusetts investigators were looking into Paxil, including how Glaxo portrayed the risk of suicidal behavior among patients to doctors and the Food and Drug Administration, according to lawyers interviewed by investigators at the time.

Glaxo has also disclosed in annual reports that investigators probed whether Glaxo promoted Wellbutrin SR for uses not approved by the FDA, a practice known as "off-label" promotion.

Glaxo's decision to take the charge against earnings comes at a time when other big pharmaceutical companies have been striking settlements related to similar investigations. Earlier this month, **Pfizer** Inc. agreed to pay $2.3 billion to settle a federal investigation into whether it engaged in off-label promotion of the painkiller Bextra. Also this month, **Eli Lilly** & Co. agreed to pay $1.4 billion to settle similar charges involving to its antipsychotic medicine Zyprexa.

The Glaxo spokesman declined to comment on the status of the investigation or the drugs involved.

In its statement Thursday, the company said the charge "is based upon the company's most recent evaluation of the matter," and that the ultimate liability depends on "the outcome of the investigatory process and potential litigation."

Officials at the U.S. Attorney offices in Colorado and Massachusetts declined to comment.

Glaxo has said in annual reports that the investigation is looking at nine of its largest selling drugs at the time, which included various forms of Paxil and Wellbutrin, as well as the diabetes drug Avandia and the asthma inhaler Advair.

Investigators are looking at Glaxo-funded medical education and clinical trials involving the drugs, and at Glaxo's hiring of doctors for various services related to the drugs, according to the company's annual reports.

Air cargo traffic dwindles as world trade slows down

By Jonathan Buck

LONDON—International air-cargo traffic fell 23% in December from a year earlier, signaling a broader drop in world trade, and the head of an aviation-industry group called for structural changes to allow airlines to cope with the economic crisis.

December's drop in global cargo traffic "is unprecedented and shocking," Giovanni Bisignani, director general of the International Air Transport Association, said in a statement. "There is no clearer description of the slowdown in world trade," he added. Air cargo carries 35% of the value of goods traded internationally.

Giovanni Bisignani

This year is shaping up to be one of the toughest ever for international aviation. IATA forecasts a combined industry loss of $2.5 billion for 2009, compared with a $5 billion loss in 2008. It predicts a decline of 3% in passenger volumes and a drop of 5% in cargo traffic.

Industry revenues are expected to contract by $35 billion to $501 billion from $536 billion. IATA represents about 230 airlines that account for 93% of scheduled international air traffic.

"We don't want bailouts," Mr. Bisignani said. "But we need to change the ownership rules. Almost every other business has the freedom to access global capital and the ability to merge across borders where it makes sense. To manage in this crisis, airlines need the same management tools," he said.

Traditionally, airline mergers and acquisitions have faced significant regulatory hurdles. British Airways PLC, AMR Corp.'s American Airlines and Iberia Líneas Aéreas de España currently are seeking antitrust immunity from the U.S. Department of Transportation to expand their cooperation, for example. This is the third time that BA and American have sought antitrust immunity. They backed off in the past when regulators asked for big concessions. (See related article on page 10.)

International passenger traffic fell 4.6% in December from a year earlier, IATA said. Carriers in the Asian-Pacific region saw the sharpest decline in international traffic at 9.7%.

"Airlines are struggling to match capacity with fast-falling demand," Mr. Bisignani said. "Until this comes into balance, even the sharp fall in fuel prices cannot save the industry from drowning in red ink."

GLOBAL BUSINESS BRIEFS

Thomson SA

With debt breach looming, a sale of units is planned

French media-technology company **Thomson** SA said Thursday that it is likely to breach covenants on some of its debt, and that it will start talks with creditors and potential investors to try to repair its balance sheet. Thomson shares closed down 16%. The company, whose customers include major Hollywood film studios and France Télécom SA, also outlined plans to shed operations that generated about €1 billion ($1.31 billion) of revenue in 2008, as it seeks to concentrate on providing services to creators under its Technicolor brand. The tough environment Thomson faces was highlighted as the company posted preliminary fourth-quarter revenue of €1.47 billion, down 8.2% from a year earlier, stripping out the effect of currency fluctuations.

Novo Nordisk A/S

Novo Nordisk A/S said Thursday that fourth-quarter net profit more than doubled, helped by strong sales of insulin and the absence of a year-earlier charge, and raised its long-term financial targets. The Copenhagen-based pharmaceutical company, the world's largest maker of insulin, posted a net profit of 2.33 billion Danish kroner ($411 million) for the three months ended Dec. 31, up from 977 million kroner. The year-earlier results were hit by 1.3 billion kroner in charges related to a discontinued product. Sales rose 15% to 12.58 billion kroner from 10.95 billion kroner. Novo Nordisk said it is now targeting an operating margin of 30%, up from 25% previously. It raised the target for return on invested capital to 50% from 30%.

Banco de Sabadell SA

Spain's **Banco de Sabadell** SA Thursday said it swung to a net loss in the fourth quarter, as deteriorating market conditions led it to pump the remaining capital gains from an asset sale into provisions against future bad loans. The bank posted a net loss of €88.3 million ($116 million), compared with a net profit of €177.9 million a year earlier. Net interest income rose 11% to €374.8 million. "Given the deteriorating macroeconomic outlook, Sabadell is pledging all of its capital gains from the sale of 50% of its insurance unit to boost solvency," the bank said. It took a €296.7 million asset write-down and made a €320.3 million provision for potential future losses. Nonperforming loans rose to 2.35% at December's end, from 1.59% in September and 0.47% a year earlier.

Union Fenosa SA

Spanish electricity company **Union Fenosa** SA Thursday posted a 4.6% increase in fourth-quarter net profit thanks to gains and higher pool prices. Net profit rose to €295.2 million ($387.8 million) from €282.1 million a year earlier as revenue was up 21% at €1.96 billion. Full-year net profit jumped 20% to €1.19 billion from €989.4 million a year earlier, boosted by €287 million in gains from the sale of stakes in Manila Electric Co. and two Spanish telecommunications operators. The company spread the extraordinary gains over all four quarters of the year. Full-year revenue was up 20% at €7.19 billion. Profits came out better than expected, but likely won't have any impact on the company's share price as investors focus on **Gas Natural SDG** SA's acquisition of the company, said Banesto analyst Antonio Cruz.

Suez Environnement SA

French utility **Suez Environnement** SA Thursday reported a 5.4% rise in 2008 revenue, helped by higher prices and new services in water, but said it has adapted its short-term priorities to the economic downturn. The Paris-based water and waste utility, spun off by Suez before it became part of GDF Suez SA, said revenue rose to €12.36 billion ($16.24 billion) from €11.73 billion a year earlier. Earnings before interest, taxes, depreciation and amortization, or Ebitda, increased 4% to €2.1 billion from €2.02 billion a year earlier, said the company. While sticking to its longer-term strategy, the company said it will slow investments and accelerate its cost-reduction program in the short-term amid the difficult economic environment.

UBS AG

UBS AG is legally bound to pay out the bulk of the two billion Swiss francs ($1.75 billion) it has earmarked as bonus payments for bankers, a spokesman for the Swiss government said Thursday. The Zurich-based bank has ignited a firestorm over its plan to pay out the bonuses for 2008 despite a streak of quarterly losses, which prompted the Swiss government to inject six billion francs into the bank in October. UBS is contractually bound to pay out 1.3 billion francs of the total, government spokesman Oswald Sigg said. "The cabinet emphasizes that UBS's overall variable-compensation plan is 80% lower than in 2007," Mr. Sigg said. UBS said that the two billion-franc total isn't a final figure and that the bank will provide an overview of the payments when it reports earnings Feb. 10.

Areva SA

French state-controlled nuclear company **Areva** SA said Thursday that its fourth-quarter sales rose 5.2%, led by a strong performance in the transmission and distribution division. Areva, which is promoting its third-generation Evolutionary Power Reactor around the world, said fourth-quarter sales totaled €4.06 billion ($5.33 billion), up from €3.86 billion a year earlier. Areva's order backlog increased 21% to €48.2 million in 2008, slightly exceeding the company's target of a 20% increase. Looking ahead to 2009, Areva said it expects "further significant growth in revenue and backlog." Earlier this week, German industrial conglomerate Siemens AG said it will exercise its option of selling its 34% stake in the Areva NP nuclear-reactor joint venture to Areva, which owns the remainder.

JCDecaux SA

French outdoor-advertising company **JCDecaux** SA Thursday said revenue for 2008 rose 2.9%, boosted by a good performance of its street furniture and transport businesses despite worsening economic conditions. Full-year revenue rose to €2.17 billion ($2.85 million) from €2.11 billion a year earlier, representing 6.3% organic growth, mainly driven by emerging markets. Fourth-quarter revenue inched up 1% to €605.4 million from €599.7 million, hindered by the weakening of sterling against the euro, which failed to offset the recovery of the U.S. dollar and the Chinese yuan. The company warned that 2009 "will be very challenging," adding that it will intensify tight cost management, but that it will continue to "invest selectively."

Colgate-Palmolive Co.

Colgate-Palmolive Co. reported a 20% increase in fourth-quarter net income. The New York company, whose products include its namesake toothpaste and dish soap, posted net income of $497 million, or 94 cents a share, compared with $414.9 million, or 77 cents a share, a year earlier. Revenue edged up 0.6% to $3.66 billion, as unit volume increased 1%. Excluding the effects of acquisitions, divestments and the stronger dollar, sales rose 9%. Global pricing increased 7.5% but wasn't sufficient to offset rises in raw-material prices. North American sales rose 1.5%. Sales were helped by product launches, which contributed to market share gains across all categories. Latin American sales rose 5.5%, with a 5% increase in volume.

Telecom Italia SpA

Telecom Italia SpA controlling shareholder Telco said Thursday it wrote down its 24.5% stake in Italy's largest telecoms operator, posting a first-half loss of €1.5 billion ($2 billion). Unlisted holding company Telco—which groups Italian banks **Mediobanca Group** and **Intesa Sanpaolo** SpA, insurer **Assicurazioni Generali** SpA, the Benetton family and Spain's **Telefónica** SA—said the value of its investment in Telecom Italia was written down by €1.4 billion. Telecom Italia shares are now booked at €2.2 each, still way above the current market value of €0.99. Telefónica and the four Italian investors, which bought control of Telecom Italia in 2007, said in July they had lost around €5 billion on their initial investment. Since the Telco deal was sealed, Telecom Italia's share price has fallen about 60%.

3M Co.

3M Co.' s fourth-quarter net income fell 37%, reflecting a restructuring charge, lower margins and falling international sales. The company also cut its 2009 outlook because of economic uncertainty and challenges in its markets. Chief Executive George Buckley said the manufacturer, whose products range from Post-It notes to power lines, planned to reduce capital spending by about 30% this year and is working to conserve cash. Industrial conglomerates and manufacturers have warned about profits recently, noting that customers have sharply reduced orders. Overall revenue at 3M decreased 11% to $5.51 billion in the latest quarter, hurt by a stronger U.S. dollar. For the latest quarter, 3M's net income fell to $536 million from $851 million a year earlier.

Fiat SpA

Lorenzo Sistino, the head of **Fiat** SpA's automotive unit, predicted Thursday that the Italian car market is going to shrink between 35% and 40% in January and Fiat's sales for the month will be in line with the rest of the domestic market. Speaking on the sidelines of an event in Milan, Mr. Sistino, who was recently appointed head of Fiat Auto, said the company doesn't expect the market to recover very soon because potential clients are waiting for possible state aid packages. Due to crumbling car sales, Fiat was forced to shut most of its Italian plants for January and February at least, leaving 50,000 people at home with reduced salaries.

—Compiled from staff and wire service reports.

DAVOS: WORLD ECONOMIC CRISIS

IMF considers issuing bonds for first time

Effort is designed to counter crisis; Japan loan finalized

By Bob Davis

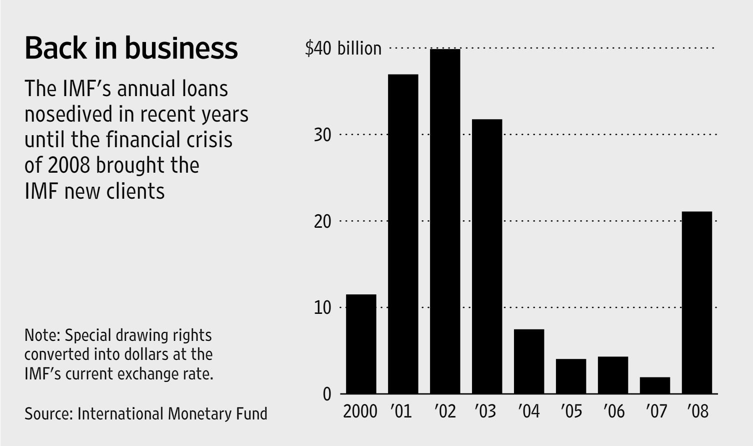
DAVOS, Switzerland—The International Monetary Fund is finalizing a $100 billion loan from Japan and is considering issuing bonds for the first time in its history, as part of an effort to double the financial resources it has to fight the global financial crisis.

"The simplest and most practical way forward is to pursue raising funds on a conditional basis [from Japan] or to get an agreement to issue securities," said John Lipsky, the IMF's deputy managing director, who was holding a series of meetings with IMF borrowers at the Davos economic forum.

The IMF has felt the need to double its lending ability to about $500 billion.

Mr. Lipsky said the IMF, which now has a total of about $250 billion to lend, wasn't running short of money despite making commitments to lend about $50 billion in recent months to Pakistan, Iceland and a clutch of Eastern European countries. But the IMF has felt for months that it needs to double its lending ability to about $500 billion to bolster confidence that it could handle other lenders. The IMF's executive board is expected to take up the issue of whether to approve any new avenues of funding early in February.

Asked whether Western European countries, outside tiny Iceland, might turn to the IMF for loans if the crisis worsens, Mr. Lipsky said, "in the current circumstances, the right approach is 'never say never.' "



A new $100 billion loan program could quickly tax IMF resources. In October, the IMF said it would make three-month loans to countries facing liquidity problems, but the countries would have to have policies the IMF judges to be sound. The IMF wouldn't require those borrowers to make the often-severe changes in their policies that it has demanded for decades. Inside the IMF, the loan program has been dubbed "E-Z loans."

But thus far, no country has applied for such a loan, partly because the term of the loan is so short and partly because countries may feel that any IMF loan signals to the market that the nation may have greater problems ahead. Mr. Lipsky said the IMF is looking at how to revamp the program.

To fund these loans and others, the IMF wants more money. Since at least November, Japan has offered to lend the IMF $100 billion, but the two sides haven't been able to craft a deal. Mr. Lipsky said the IMF now "is finalizing our negotiations with Japanese authorities."

He said the Japanese loan would be structured in a way similar to two IMF programs called the General Arrangements to Borrow and the New Arrangements to Borrow, which provide as much as $50 billion in additional funding if the IMF runs through its $200 billion in core financing. The supplementary money is meant to deal with emergencies, as would the new $100 billion Japanese loan program.

By working through the IMF, Japan would be taking a different route than it did during the Asia financial crisis of a decade ago. Then, Tokyo talked of establishing an Asian Monetary Fund, which could have been a competitor to the IMF. Under heavy pressure from the U.S., Japan dropped the idea. This time, by working through the IMF, Japan could help provide financing for financially troubled countries—many of which import Japanese goods—without kicking up opposition abroad.

Mr. Lipsky said the IMF also is examining whether to issue bonds to help raise part of the $150 billion the IMF wants, apart from the Japanese loan. Although the World Bank has long financed itself through bonds, the IMF depends on loans from its member nations for financing. The IMF is considering whether to sell some—perhaps most—of the prospective bonds to central banks and other government agencies, rather than to the general investing public, according to a person involved in the discussions.

Traditionally, the U.S. and Europe have blocked other attempts by the IMF to issue bonds, figuring it would make the IMF too independent of their direction, said former IMF chief economist Michael Mussa.

But the scope of the financial crisis has stretched the financial resources of wealthy nations, giving a new impetus to an IMF bond initiative. Asking the IMF's 185 member nations to increase their lending commitments also is probably impractical given the financial troubles many nations have at home. Issuing bonds is "an avenue that merits our consideration," Mr. Lipsky said, and IMF staff is now working out technical issues.

British Airways expects decision on Iberia soon

By Natasha Brereton

DAVOS, Switzerland—**British Airways** PLC's chairman said Thursday the airline would soon decide whether to proceed with its planned merger with **Iberia Líneas Aéreas de España** SA.

"I would be very concerned if we weren't able to make a call at least in the first quarter," BA's Martin Broughton said, speaking on the sidelines of the World Economic Forum. "We need to decide, 'Are we going, or are we not going?' "


Martin Broughton

The British and Spanish carriers announced a £3.16 billion ($4.49 billion) all-share merger in July, with terms still to be set. However, BA's £1.74 billion pension-fund deficit and its recent share-price drop emerged as challenges, and the merger talks have slowed in recent months as Iberia has pushed for a greater share of a merged entity.

"I wouldn't say that the pensions issue is resolved, but we chose to discontinue discussions on any other aspect until they were satisfied on the pension," Mr. Broughton said. "It is quite clear to me that they [Iberia] have got a great deal more comfortable with the pension issue, so we have now reopened discussions on all the other issues," Mr. Broughton said.

Mr. Broughton acknowledged that the disproportionate fall in the two companies' share prices—which affects market capitalization—was perplexing. Trying to hit a fair merger ratio, he said, is "tricky."

BA has seen its hand weakened by a 47% fall in its share price since talks were disclosed July 29. Iberia's shares have fallen 4% over the same period.

Though the merger has hit a stumbling block, Mr. Broughton said the two airlines believe it is "the right deal to do," but warned that if the deal wasn't in the best interest of shareholders, BA would walk away.

The chairman also said that BA wouldn't stop its merger plans at Iberia, adding that any alliance would see BA as the "jewel in the package."

"From when we first started the negotiations or discussions with Iberia, we always made it clear that the only basis on which we were prepared to negotiate was this was the first step in building a global airline group," he said.

Mr. Broughton also said it remains a possibility that BA would merge with Australian carrier **Qantas Airways** Ltd. BA had been in merger talks with Qantas but negotiations broke down in mid-December.

Mr. Broughton added he is confident the company would gain antitrust immunity status for a planned alliance with **AMR** Corp.'s American Airlines and Iberia, but said the new U.S. administration could create delays.

BA signed a joint business agreement with American and Iberia and applied for antitrust immunity status in August. Granted immunity status, the deal would bypass monopoly laws in the U.S., allowing BA, American and Iberia to work together on scheduling and pricing. The planned tie-up would also be a revenue-sharing deal. However, Mr. Broughton wasn't keen on the idea of making any concessions—namely giving up slots—to guarantee a successful outcome.

Mr. Broughton said he would be happy for BA to break even in its next fiscal year, ending in 2010. This past week, the U.K. flag carrier warned it expects to post an operating loss of about £150 million for the year ending March 31, hit by the drop in sterling's value and the economic slump.

—Kaveri Niththyananthan contributed to this article.

THE DAILY DAVOS

Updates from the World Economic Forum

Moralizing makes up for lost morals

Thursday in Davos began with blue sky outside—and more repent-your-sins inside the conference halls, which started to resemble tent-revival meetings.

Capitalism has seen better days.

Early-morning sessions included "Can the world live with the frugal American," where Zhu Min, group executive vice president at the Bank of China, and others tackled American credit-card debt. That session ran on a parallel track with one focused on the breakdown in computation modeling.

But the real value assessment was midmorning as Tony Blair and Shimon Peres along with executives such as Stephen Green, chairman of U.K. bank **HSBC Holdings** PLC, discussed the disappearance of morals before a standing-room-only crowd in a main conference call.

All seemed to agree business ethics went off track, and regulation needed a review, too. Mr. Green told the story of how a British train system had prepared for a snowstorm. Yet when the snow arrived, it was annnounced that the train operator had prepared for the wrong form of snow. In other words, there was plenty of regulation. It was just the wrong kind.

PepsiCo chief Indra Nooyi, Mr. Green and others did say capitalism was needed to power emerging markets and scientific research. Ms. Nooyi also said the majority of "Main Street" had good values.

"The other part of the economy needs some work," said Ms. Nooyi, who argued that innovation in the financial world got too far ahead of regulation.

—Carrick Mollenkamp

OPEC's Cuts May be Unkind

Top oil chiefs said the oil sector is at risk of cutting too much investment amid the global economic downturn and may end up laying the foundation for sharply higher prices when economic activity eventually recovers.

Abdalla Salem El-Badri, the secretary-general of the Organization of Petroleum Exporting Countries, said $40- and even $50-a-barrel oil prices were too low for OPEC nations to keep investing in future production capacity. OPEC could cut more output to support prices, which are at around $41.66 a barrel, Mr. El-Badri said.

Echoing Mr. El-Badri, BP PLC Chief Executive Tony Hayward said the "big challenge" for global oil companies was continuing investment in new pumping capacity.

"I absolutely agree with the secretary-general" on the threat that falling investment would hurt production and cause much higher crude prices in the future, Mr. Hayward told an audience. "Demand will recover and unless we are able to invest, prices will rise sharply."

—Spencer Swartz

Erdogan Storms Off Stage

Davos is often used as proof that despite superficial differences, the global elite is really just a cozy club. But not when Israel's the topic.

Turkish Prime Minister Recep Tayyip Erdogan walked off stage red-faced after a sharp exchange with Israeli President Shimon Peres over the fighting in Gaza, calling it "very wrong."

Mr. Erdogan tried to rebut Mr. Peres as the discussion was ending, asking the moderator, Washington Post columnist David Ignatius, to let him speak once more. Mr. Erdogan said in Turkish that "I remember two former prime ministers in your country who said they felt very happy when they were able to enter Palestine on tanks. I find it very sad that people applaud what you said," he said. When Mr. Ignatius tried to cut Mr. Erdogan off—"We really do need to get people to dinner"—Mr. Erdogan said, "Thank you very much. I don't think I will come back to Davos after this."

The confrontation saw Messrs Peres and Ergodan raise their voices—highly unusual at Davos. Forum founder Klaus Schwab huddled with Mr. Erdogan in a corner of the Congress Center. "I have know Shimon Peres for many years, and I also know Erdogan. I have never seen Shimon Peres so passionate as he was today."

—Associated Press

DAVOS: WORLD ECONOMIC CRISIS

Humiliation accompanies new humility

Executives become simulated refugees; 'Mustafa' of Gucci

By Alessandra Galloni And Bob Davis

DAVOS, Switzerland—Gucci Group Chief Executive Robert Polet switched off his BlackBerry, wrapped his head in a bandage and became Mustafa, a 40-year-old refugee in desperate search of his six lost children. As a war raged outside his barbed-wire-encased refugee camp, Mustafa slept on the muddy floor of a canvas tent and drank water out of a tin bowl.

"Please, please, help me find my children," he begged as an armed guard pinned him down to the ground, a rifle to his neck.

Robert Polet

The simulation of a refugee camp—a one-hour exercise co-sponsored by the United Nations High Commissioner on Refugees—is one of the more earnest manifestations of the please-forgive-me spirit at Davos this year.

"What a humbling experience to feel so defenseless," said Mr. Polet, who runs one of the world's biggest luxury-goods companies, as he brushed off the dirt from his corduroys and stepped out of his role at the end of the simulation in a concrete basement near the main conference center. "Davos is Davos and there are subjects we come here to discuss. But certainly this economic crisis has brought a back-to-reality mood."

This conference of global highfliers has long been known for excess of glitz, parties and private planes. This year, there is some regret, too.

The global recession has sapped the confidence of bankers, corporate executives and other onetime evangelists of globalization who gather here. There is little Hollywood attendance, too, with no Angelina Jolie or Sharon Stone, who have participated in the past. On the ground, there have many more panels on what went wrong in the economy and fewer sessions on lighter subjects such as creativity or the arts.

Jim Wallis, a several-time Davos attendee who runs Sojourners USA, a Christian social-justice network, says that instead of being relegated to panels that dealt solely on religion or social issues, he has been invited to speak on big-ticket panels—including one on the values of capitalism with former British Prime Minister Tony Blair and Indra Nooyi, CEO of PepsiCo Inc.

Many here have flown in on private jets. But the conference's organizers are now urging everyone not to take public transportation and to walk the icy streets of tiny Davos instead: All participants have been given a pedometer to count their steps. Dinners, panels and bleary-eyed nightcaps have been marked by self-flagellation. Some 100 conference-goers were asked to vote on the question: "What policy assumption led to the greatest damage to the global economy?" The winner, with 50.8% of the vote was "self-regulation of markets."

At a dinner with business and political officials to examine the U.S. financial meltdown, Morgan Stanley's chairman for Asia, Stephen Roach, responded to the question, "How could bankers be so stupid?" by posing his own questions: "How could regulators be so stupid? How could borrowers be so stupid? How could politicians be so stupid? C'mon guys, how could all you been so stupid?"

Associated Press

PepsiCo's Indra Nooyi, left, and Tony Blair participate in a plenary session at the World Economic Forum in Davos on Thursday.

Not all the glitz is gone, of course. **Google** Inc. is planning to host its annual dancing and booze party on Friday night and another evening of revelry has been scheduled by Bollywood actors and directors. Still, the economic crisis is looming large here, prompting some to switch venue—at least for a couple of hours.

The idea behind the refugee simulation is to give people a taste of the life led by 32.9 million displaced people around the world who live in refugee camps for weeks, months or even more than a decade, says David Begbie, who together with his parents works for the Hong Kong-based Crossroads Foundation Ltd, which stages the simulations. Refugee camps are often set up spontaneously by displaced people and have little oversight. Even camps run by the United Nations are often beset by corrupt guards, says Mr. Begbie.

The nonprofit organization, which was founded 13 years ago, sends humanitarian aid to homeless people, disaster victims, refugees and others in need from China to Afghanistan to Cambodia. In Davos, Crossroads has teamed up with UNHCR and a Davos nonprofit called Global Risk Forum to provide the simulation for the conference-goers.

The simulations, which use Crossroads volunteers as actors and props from theme parks—is held four or five times a day for groups of 15-30 participants. Everyone is given a role to play.

Mr. Polet, a former Unilever executive who runs some of the world's most expensive fashion labels including Gucci, Bottega Veneta and Yves Saint Laurent, is in Davos to attend panels, speak at one session on how the crisis has changed consumer behavior and network.

On Thursday, he became Mustafa—a farmer who had been caught in the middle of a war and, in fleeing, had lost track of his wife and six children. Before the session started, Mr. Polet was told to leave his phone and BlackBerry behind. He was given an identity card, a little bit of money—represented by a yellow piece of paper in a Ziploc bag—and a bandage for his head.

As he and other refugees walked to the camp—a structure of concrete floor, hay, barbed wire and canvas tents strung on ropes—armed militia ambushed them, ordering everyone to lie flat on their stomachs amid the sound of exploding bombs. Mustafa, in his brown corduroys and tweed jacket, lay with his head in hay for several minutes as a soldier pointed a gun to his back. Then, during the journey to the camp, one of the refugees—a Crossroads actress—stepped on a make-believe landmine and was carried away, artificial blood streaming down her leg.

Nighttime fell (the lights were switched off) and Mustafa was ordered into a canvas tent, where he curled up on the ground and closed his eyes. Sounds of children wailing and women screaming filled the air.

But at one point, Mustafa got up and began pleading with the soldiers to find his children. When he refused to get back in the tent, the soldiers pushed him onto the ground, holding rifles to his head. "You said you would find my children. I'm not going anywhere until you do," insisted Mustafa.

The UNHCR says it timed the event for Davos, figuring it could rope in some corporate chieftains who might come through with contributions of money or technology. But the global downturn gives the event added piquancy, says UN High Commissioner António Guterres, who went through one of the simulations himself.

"We should have the same level of determination in saving lives as in saving banks," Mr. Guterres said.

—Joellen Perry contributed to this article.

U.N. official calls U.S. policies on nuclear Iran a 'failure'

By Marc Champion

DAVOS, Switzerland—The United Nations official responsible for keeping tabs on Iran's nuclear program detailed measures the new U.S. administration should take to halt Tehran's nuclear-weapons program, describing previous U.S. efforts as "a total failure."

Mohamed ElBaradei, director general of the International Atomic Energy Agency, said in an interview Thursday that U.S. President Barack Obama should be able to take the initial steps to halt the expansion of Iran's nuclear-fuel program—which can be used for civilian or military purposes—within six months.

In the interview at the World Economic Forum here, Mr. ElBaradei said those steps would include opening "direct dialogue at a high level, with no preconditions" with Tehran. The U.S. should then negotiate a "freeze for freeze" agreement, in which Iran would halt any expansion of its nuclear-fuel program, while the U.S. and other nations would halt the expansion of United Nations Security Council sanctions on Iran. Previous efforts to negotiate such a deal have failed.

Mohamed ElBaradei

After that, Mr. ElBaradei acknowledged, the challenges facing the new administration would be enormous. Any agreement would have to be a "grand bargain" that addresses Iran's security concerns and its desire to be accepted as a regional player. Mr. Obama also would need to change the political atmosphere across the Middle East and persuade other nations, including Iran, that nuclear weapons are no longer the ticket to prestige and security.

"He has to pick up the pieces, which he inherited," Mr. ElBaradei said.

Mr. ElBaradei, an Egyptian national who won a Nobel Peace Prize jointly with the IAEA in 2005 for his work at the Vienna-based organization, crossed swords repeatedly with the previous U.S. administration of George W Bush. The U.S. opposed Mr. ElBaradei's reappointment for a third four-year term at the agency in 2005.

Israeli Deputy Prime Minister Shaul Mofaz also once called for Mr. ElBaradei to be sacked for burying "his head in the sand" over Iran's nuclear program.

Mr. ElBaradei was enthusiastic about Mr. Obama's early steps in office, such as announcing the closure of the Guantanamo Bay detention center for suspected terrorists, and granting his first television interview as president with an Arab channel.

Mr. Obama could take other steps fairly quickly to secure a new relationship with Iran, even during a financial crisis, said Mr. ElBaradei. Those measures include starting to cut nuclear arsenals, along with Russia. Currently, there are more than 20,000 nuclear warheads around the world.

Another important move would be to ratify the Comprehensive Nuclear Test Ban Treaty. Mr. ElBaradei has said before he believes it won't be possible to prevent nuclear proliferation so long as the current nuclear powers show no sign of disarming.

Nuclear forces

Estimated nuclear-warhead stockpiles, as of October 2008.

Country	Stockpile
Russia	14,000
U.S.	5,400
France	300
China	240
U.K.	185
Israel	80
Pakistan	60
India	50
North Korea	<10
Total	**20,325**

Note: Includes operational weapons and ones awaiting dismantlement

Source: Federation of American Scientists

Other tougher steps would include addressing the Israeli-Palestinian crisis and negotiating the grand bargain with Iran, which would exchange security guarantees for the lifting of U.S. sanctions for Iranian cooperation on the nuclear and other U.S. concerns, such as support for terrorist groups.

"I think it's unfair to expect too much of Barack Obama, because a lot of that stuff takes a lot of time. But he can do a lot in changing the atmosphere," said Mr. ElBaradei.

The challenges such a policy would face were evident already on Thursday, when Mr. ElBaradei appeared on a panel in Davos to discuss global expectations of the Obama administration.

Speaking in Farsi, Iran Foreign Minister Manouchehr Mottaki, also on the panel, said "Americans talk more than enough. They should now listen to others." Iran would want to see the Obama administration first change U.S. policies in practice and apologize for past acts, including the nuclear bombing of Hiroshima and Nagasaki at the end of World War II. If so, said Mr. Mottaki, "then certainly [Mr. Obama] would find a welcome."

Also on the panel, French Foreign Minister Bernard Kouchner expressed his exasperation with Iran. He said European Union nations had for years been attempting to negotiate with Iran, offering trade, technology and other benefits. "We were talking and talking, but got nowhere," he said.

Mr. ElBaradei said European efforts had failed because they hadn't gone far enough in their offers, largely due to opposition from the U.S. administration.