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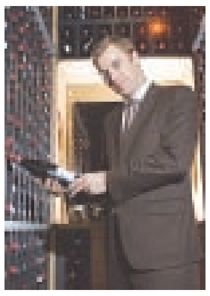

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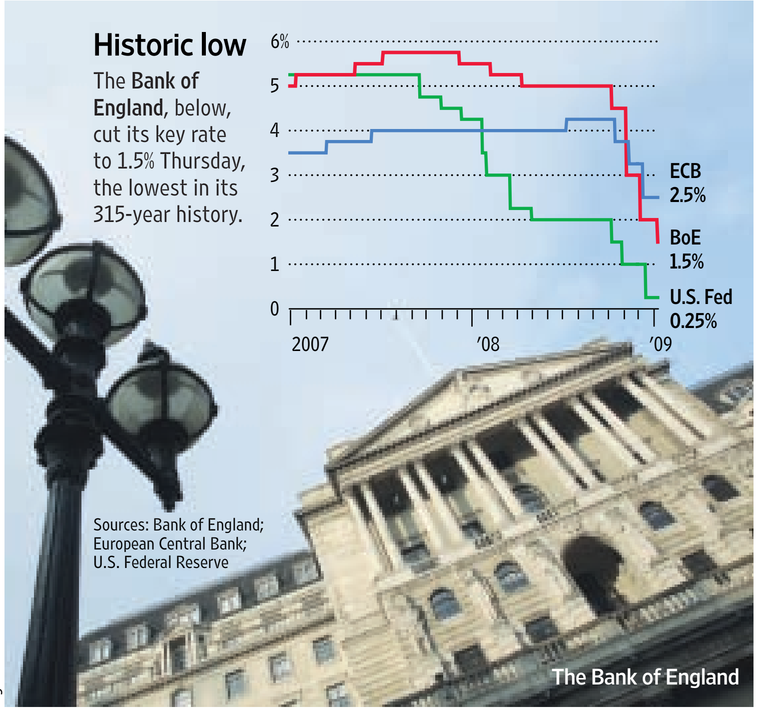
BOE makes historic cut

Key rate hits a low; German exports fall, new pressure on ECB



The Bank of England cut its key rate by a half percentage point to 1.5%, the lowest level in the bank's 315-year history, marking the latest in global policy makers' dramatic efforts to fend off the threat of deep recession.

Now, debate in Britain is following the direction set by the U.S. Federal Reserve last month, as officials grapple with handling monetary policy as interest rates approach zero. The Fed lowered its target interest rate to near zero in December and has launched roughly a dozen new lending and asset-purchase programs designed to support financial markets.

*By **Joellen Perry** in Frankfurt and **Alistair MacDonald** in London*

The moves from both the U.K. and U.S. central banks, combined with increasingly dismal European economic data, intensify pressure on the European Central Bank to speed up the pace of its own rate cuts.

The ECB, which decides monetary policy for the 16-nation euro zone, cut its key rate to 2.5% from 4.25% in October. But some policy makers have signaled reluctance to continue cutting aggressively, in part because of fears of spurring the kind of credit-fueled growth that preceded the current crisis.

Euro-zone unemployment rose to 7.8% in November from 7.7% in October, its highest level since December 2006, official figures showed Thursday. Slumping demand for cars and other manufacturing mainstays pushed exports in Germany, Europe's largest economy, to a 10.6% monthly fall in November, the sharpest since German reunification in 1990.

Thursday's move capped a series of recent dramatic decisions by the U.K. central bank. Since January 2008, the Bank of England has taken its rate from 5.25% to 1.5%, whittling three percentage points in the last three months.

Officials hinted in a statement accompanying their decision Thursday that they could slow the pace of cuts, but many economists still anticipate another half-percentage-point cut next month. Some see the

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What's News—

Business & Finance

The Bank of England cut its key rate to 1.5%, the lowest level in its history, as policy makers strove to ward off a protracted recession. The move steps up pressure on the European Central Bank to accelerate its rate-cutting efforts. Page 1

■ **Citigroup agreed** to a deal with Senate Democrats to proceed with a measure letting judges reset repayment terms for mortgage holders in bankruptcy court. Page 1

■ **Satyam plans** to keep operating but said the IT company is strapped for cash and its books are inaccessible. Page 1

■ **Russian natural gas** still wasn't flowing to the EU, as Moscow insisted Russian experts be allowed to monitor transit through Ukraine. Page 17

■ **Germany's RWE is** the leading contender to win the approximately $14 billion auction to buy the Dutch utility Essent. Page 17

■ **Germany will take** a 25% stake in Commerzbank after agreeing to spend an additional $13.6 billion to shore up the bank's finances. Page 2

■ **The U.K. unit of Aon** was fined $7.9 million by British regulators for weak controls on payments made overseas that could be used for bribes. Page 2

■ **The DJIA slipped** as weak sales weighed on Wal-Mart and other retailers. European shares fell on worries about the global economy. Page 18

■ **The OECD said** the U.S. and Europe risk prolonging the financial crisis by not first removing banks' bad loans before they are recapitalized. Page 20

■ **Audi's sales rose** 4.1% last year, powered by a new small SUV and the latest generation of the firm's A4 series. Page 4

■ **Air France neared** buying a 25% stake in Alitalia for about $410 million, a pivotal step in the Italian carrier's journey from bankruptcy. Page 5

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8742.46	-27.24	-0.31
Nasdaq	1617.01	+17.95	+1.12
DJ Stoxx 600	208.77	-1.54	-0.73
FTSE 100	4505.37	-2.14	-0.05
DAX	4879.91	-57.56	-1.17
CAC 40	3324.33	-21.76	-0.65
Euro	$1.3737	+0.0078	+0.57
Nymex crude	$41.70	-0.93	-2.18

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World-Wide

The U.N. halted aid deliveries to Gaza as Palestinians fled homes along the Egyptian border, fearing an Israeli push to take control of smuggling tunnels there. Militants in southern Lebanon, meanwhile, fired rockets into northern Israel, drawing an Israeli artillery barrage. A Lebanese cabinet minister and member of Hezbollah said the group wasn't involved. Page 10

■ **Khamenei banned** Iranian volunteers from leaving the country to carry out suicide attacks against Israel but said Tehran would help Hamas in other ways.

■ **Obama intensified his case** for a costly U.S. stimulus plan, but congressional lawmakers are beginning to chafe at his demands for speed. Page 3

■ **The U.S. Navy said** it will create a new antipiracy task force in response to attacks near Somalia, and is asking other nations' navies to join in. Page 11

■ **A suicide bomber struck** U.S. troops in southern Afghanistan, killing at least two soldiers and three civilians. Karzai said an earlier clash killed 17 civilians.

■ **The U.S. and its partners** have shortchanged Afghanistan by focusing on short-term goals with no cohesive strategy, an independent study found.

■ **Pakistan's Gilani fired** the national-security adviser, highlighting divisions in the government over how to handle the Mumbai investigation. Page 27

■ **Turkey's military chief met** with Erdogan following the detention of three retired generals and nine active-duty officers in a probe into an alleged coup plot.

■ **Roadside bombs killed** six Iraqi soldiers north of Baghdad, as officials expressed concern about rising violence in the run-up to Jan. 31 provincial elections.

■ **Greece swore in** a new government, with the prime minister pledging to shelter the nation from financial crisis while ensuring security after recent riots.

■ **Rebels led** by a high-ranking commander in eastern Congo denounced the authority of founding leader Nkunda.

■ **Opposition members** accused in a bomb plot in Zimbabwe said they were tortured into making false confessions.

Editorial & Opinion

Southern salvation?

North Africa could help to ease Europe's dependence on Russian gas. Page 13

Democrats, Citigroup set mortgage deal

By Elizabeth Williamson

WASHINGTON—**Citigroup** Inc. has signed on to a deal with top Democrats in the Senate to move forward with a measure that would allow judges to set new repayment terms for millions of mortgage holders who wind up in bankruptcy court, senators involved say.

The accord on the Senate version of a bill allowing "cramdowns," when bankruptcy judges force lenders to modify mortgages, was negotiated by Sen. Dick Durbin (D., Ill.), the Senate's second-ranking Democrat and the author of the Senate bill. Sen. Durbin, who has backed pro-consumer bankruptcy initiatives for years, has worked for more than a year on the cramdown bill.

The deal, Senate staffers say, is likely the first of several measures being crafted this year that propose to trim the principal owed by homeowners saddled with mortgages larger than the current value of their house. It marks a surprising change of direction by the financial-services industry. Banks have consistently fought such legislation, saying cramdowns would raise borrowing costs for all home buyers and jam courts with homeowners who

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Satyam fights to survive and unscramble its books

By Romit Guha and Rumman Ahmed

MUMBAI—**Satyam Computer Services** Ltd. said it can keep operating in the wake of revelations its former chairman faked results—but it is strapped for cash and its investigation into the true state of its finances is being hampered by the absence of the chief financial officer, who has tendered his resignation.

A day after the information-technology company, one of India's largest, stunned the financial world with founder B. Ramalinga Raju's confession of financial fraud, some remaining executives were scrambling to try to ensure the firm can maintain its operations. Satyam counts many of the world's largest companies as clients and employs 53,000 people.

B. Ramalinga Raju

The salvage task was complicated by the revelation by interim Chief Executive Ram Mynampati that Satyam's finance chief, Srinivas Vadlamani, hadn't come to the office Thursday. At a packed news conference in the southern Indian city of Hyderabad, amid heavy police presence, Mr. Mynampati said Mr. Vadlamani offered to resign. "In the current circumstances, he said he would prefer to sever ties with the company," Mr. Mynampati said. He added that the resignation hasn't been accepted and a successor had yet to be appointed.

"We've been in touch with Vadlamani, who has assured us of all cooperation to assess the company's correct financial situation," Mr. Mynampati said. He said individual senior managers of the company had been unable to assess the company's overall financial picture because the revenues from all businesses and other necessary information is "consolidated and centralized at the CFO office level."

"So, we don't have any visibility on that," he added. Mr. Vadlamani couldn't be reached to comment.

Mr. Mynampati asserted Satyam has a healthy receivables position but would need additional cash to meet outstanding payments due to vendors this month. He didn't say how much cash the company needs but described its liquidity position as "very unhealthy." He said the company was exploring various avenues for raising the needed funds, without providing details.

Mr. Mynampati is president of the company's commercial and

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LEADING THE NEWS

Germany gets Commerzbank stake

Lender's need for aid highlights struggle to absorb Dresdner

*By **Marcus Walker** in Berlin and **Mike Esterl** in Frankfurt*

The German government will take a 25% stake in **Commerzbank** AG after agreeing to spend another €10 billion ($13.63 billion) to short up the finances of the country's second-largest bank.

The move, announced Thursday, is the first time German authorities have taken a direct stake in a publicly listed bank since the global credit crisis erupted and follows similar steps taken in the U.S., the U.K. and other countries.

It also highlights Commerzbank's struggle to absorb Dresdner Bank AG after the two banks agreed to merge last summer in a bid to create a more powerful rival to **Deutsche Bank** AG, the country's largest lender.

German authorities are taking an aggressive approach to strengthening the country's financial system after hesitating before launching a €500 billion bank-bailout fund last autumn.

The latest measures give the government a blocking minority stake.

Commerzbank tapped the fund for €8.2 billion in early November to boost its finances after reporting large write-downs and losses. Under that deal, the government agreed to a "silent participation" in Commerzbank that didn't grant shareholder rights but included a share of future profits. Martin Blessing, Commerzbank's chief executive, said Thursday that the government funds will help "weatherproof" the combined Commerzbank-Dresdner group if global economic conditions deteriorate further. Commerzbank's takeover of Dresdner, first announced in August, should be completed in the next few days, he told reporters.

Mounting losses at Commerzbank and particularly at Dresdner's securities unit, Dresdner Kleinwort, toward the end of 2008 made the expanded bailout necessary, according to people familiar with the matter. "The worsening general economic situation in the last quarter has hit both banks," said one person close to the deal.

After Thursday's injection, Commerzbank's Tier 1 core capital ratio, a measure of a bank's health, will rise to about 10%, the bank said. That puts it in line with other major European financial groups that have been bailed out in recent months. Government officials pushed for the higher capitalization level in a meeting Wednesday, according to people familiar with the matter.

Commerzbank also moved Thursday to issue a government-backed bond totaling €5 billion as part of the government bailout package. Final pricing terms are expected Friday.

A Finance Ministry spokesman said the government's stake in Commerzbank shouldn't be seen as a partial nationalization, but as "a strong signal for a strong Commerzbank."

AFP

Commerzbank head Martin Blessing said the government funds will help "weatherproof" the combined Commerzbank-Dresdner group.

The government is expected to appoint two representatives to Commerzbank's supervisory board, according to people familiar with the matter. Commerzbank's supervisory board, akin to a U.S. board of directors,

Mounting losses at Commerzbank made an expanded bailout necessary.

has 10 shareholder representatives and 10 labor representatives.

Commerzbank had been seen in German banking circles as a foreign takeover target because it lacked critical mass. Dresdner's frequent heavy losses, meanwhile, had become a burden for **Allianz** SE, the German insurance company that had bought Dresdner in 2001 for about €24 billion.

Commerzbank and Allianz had to rework their original deal in late November as deteriorating economic conditions and falling stock prices threatened to unravel the tie-up. The reworked terms gave Commerzbank a nearly €5 billion discount—roughly half the original price—to take over Dresdner.

Credit-rating agency Moody's Investors Service's announcement last year of stricter rules for evaluating the credit risk of collateralized debt obligations threatened to burden Dresdner's balance sheet by requiring the bank to set aside more capital to cover risks, according to one person familiar with the matter.

Allianz said Thursday that it will boost Dresdner's capital by €1.45 billion by transferring collateralized debt obligations of Dresdner with a nominal value of €2 billion to Allianz, at a purchase price of €1.1 billion. Following the fresh capital injection by the government, Allianz's stake in the combined Commerzbank-Dresdner will drop to about 14% from 18% envisaged earlier.

Commerzbank shares plunged 14% in Frankfurt to €5.25, while Allianz shares closed down 5.4% to €66.67.

—Ulrike Dauer and William Launder in Frankfurt contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Royal Bank of Scotland Group PLC owns a direct stake of 4.3% in **Bank of China** Ltd. A Money & Investing article Thursday incorrectly said RBS's stake is 8.3%.

U.K. fines Aon for poor controls; fear about bribes

BY KERRY E. GRACE

The U.K. Financial Services Authority fined a unit of U.S. insurance broker **Aon** Corp. unit £5.25 million ($7.9 million) for weak controls on payments made overseas that could be used for bribes.

The fine is the largest amount levied by the U.K. regulator on matters related to financial crimes.

The FSA said that between January 2005 and September 2007, Aon Ltd., one of the largest insurance and reinsurance brokers in the London market, made "suspicious payments" amounting to $7 million to several overseas companies and individuals in Bahrain, Bangladesh, Bulgaria, Indonesia, Myanmar and Vietnam.

The financial-markets regulator said the company failed to implement effective controls to mitigate the risks involved in dealing with overseas firms. Aon's payment-authorization program didn't take into account higher levels of risk that some parts of its business were exposed to in the countries they operated in and didn't provide its staff with training about the risks of bribery and corruption, it said.

That led to weak controls over overseas payments, giving rise to an "unacceptable risk" that Aon could make potentially corrupt payments to win or keep business, the regulator added.

It said it found 66 cases of suspicious payments to nine overseas parties during that time and additional examples prior to that, when Aon wasn't regulated by the FSA. It also said Aon "failed adequately to question the purpose and nature" of the payments when it should have been "reasonably obvious" that there was a significant risk that the money could be used for bribes.

Aon said in a statement Thursday that the failings arose mainly from its aviation and energy sectors in business in high-risk, non-U.K. sectors. "The FSA has made it clear that Aon Ltd.'s conduct was neither deliberate nor reckless," it said.

Since becoming aware of the issues, the company and its senior managers have sought to fix their systems and controls so similar problems won't happen again, it added.

The FSA said Aon cooperated fully and agreed to settle at an early point in the investigation.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

AFP

U.S. President-elect Barack Obama made his economic-stimulus pitch Thursday during a formal speech at George Mason University in Fairfax, Virginia.

Obama urges lawmakers to act swiftly on stimulus

Passage of legislation sought within weeks; new warning on jobs

By Jonathan Weisman

FAIRFAX, Va.—U.S. President-elect Barack Obama, warning of "a crisis unlike any we have seen in our lifetime," implored Congress Thursday to move within weeks on a massive economic recovery package.

But congressional lawmakers are beginning to chafe at the president-elect's demands for speed and are showing signs that they will take their time to help shape a stimulus program pegged at $800 billion but likely to grow.

Mr. Obama's speech at George Mason University was his first formal address since his election and the official launch of his sales pitch, laid out before an audience of governors, mayors, lawmakers and aides. He warned that an employment report due out Friday will show 2008 to be the worst year since World War II. He embraced the role and power of government in language not heard since the Republican tide of 1994, declaring, "Only government can break the vicious cycles that are crippling our economy."

And he conceded that his American Recovery and Reinvestment Plan will "certainly add to the budget deficit"—already projected to be $1.2 trillion for this fiscal year. But, he said, the alternatives to bold and expensive action would be unthinkable.

"Equally certain are the consequences of doing too little or nothing at all, for that will lead to an even greater deficit of jobs, income and confidence in our economy," Mr. Obama said. "I'm asking Congress to work with me and my team, day and night, on weekends if necessary, to get the plan passed in the next few weeks."

With the president-elect still nearly two weeks from Inauguration Day, Congress has begun to march in its own direction. Lawmakers are eyeing two large pots of money, $300 billion in tax cuts and $500 billion in spending.

Rep. James Moran (D., Va.), a member of the House Appropriations Committee, said the panel plans to hold hearings all month to try to draft final legislation, but he said Mr. Obama's deadline of the scheduled Feb. 13 Presidents Day recess would be "almost impossible to meet." Rep. Bobby Scott (D., Va.) vowed that Congress wouldn't go on recess without an economic plan headed to President Obama's desk. But, he added, he didn't think Congress would be taking its Feb. 13 break on schedule.

Mr. Obama's team has laid out some components of his plan: a $500-per-worker tax cut; generous tax write-offs for businesses suffering losses in 2008 and 2009; incentives for business investment; tax credits for new hiring; around $100 billion for health care; billions for old-style building and renovation projects targeting roads, bridges, water systems and schools; and billions more to foster alternative energy, energy-efficiency efforts, and upgrading electrical grids.

His speech didn't offer more clarity on dollar figures, but he did lay out new goals: doubling the production of alternative energy in three years, upgrading the efficiency of more than 75% of federal buildings and two million private homes, and computerizing all medical records in five years. To his wish list, he also added requests not usually considered classical economic stimulus, such as teacher training and scientific and medical research. "Every day we wait or point fingers or drag our feet, more Americans will lose their jobs," he said in a pointed reference to Congress from a former senator increasingly taking on the trappings of the presidency.

But a plan once targeted for completion by Mr. Obama's Jan. 20 swearing-in is now facing uncertain delays and some opposition.

Exxon Mobil Corp. Chief Executive Rex Tillerson slammed the president-elect's alternative-energy pledge in a Washington speech Thursday, saying it would be impossible to double renewable energy production as energy demand sinks, credit for new investment dries up and technological advances lag.

"Let's be realistic about time frames, let's don't fool ourselves," Mr. Tillerson said. "If you include biofuels, which are already at [federal] mandate levels...doubling that would require you to have available cellulosic conversion technology, which does not exist today. In terms of wind, there simply is not the manufacturing capacity today to build wind turbines...they're already back-ordered."

House Minority Leader John A. Boehner (R., Ohio) said Congress must find a balance between economic stimulus and deficit awareness. "Yes, our economy needs help," he said. "But at the end of the day, how—how much debt are we going to pile on future generations?"

BMW works to clean up diesel's image

Auto maker's high-profile print and online campaign attempts to bring Americans in line with Europeans

BY SUZANNE VRANICA

Think clean. Think green. Think, um, diesel.

BMW AG's North American business is kicking off a major advertising

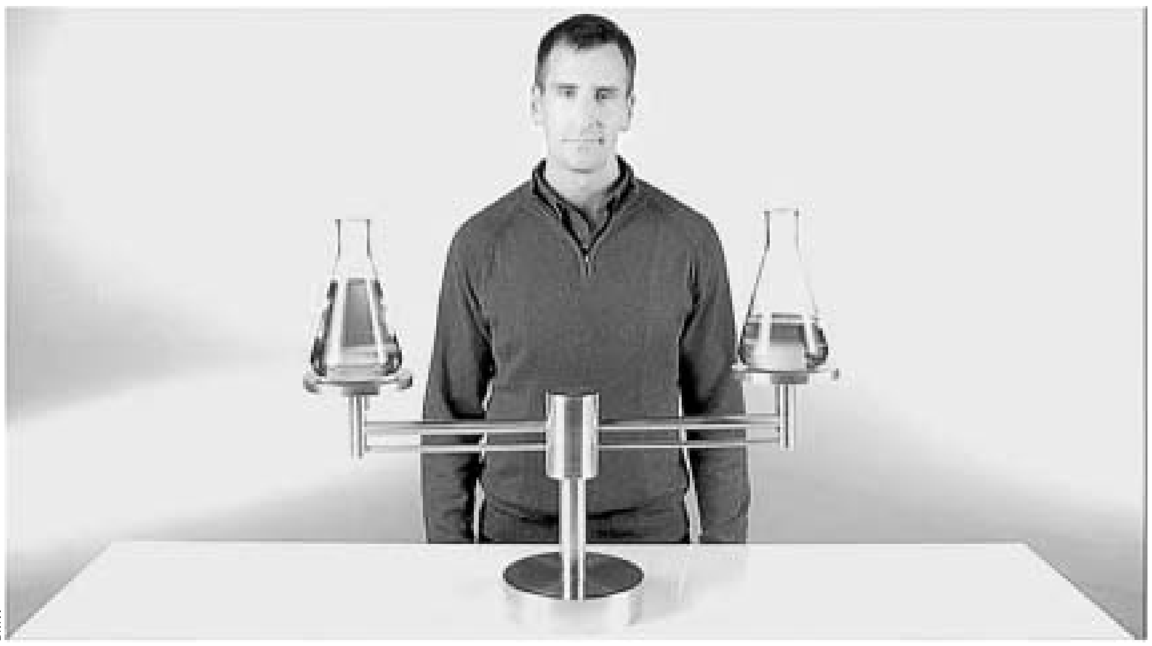
ADVERTISING

campaign, to begin airing this weekend, as part of an ambitious effort to promote two of its diesel vehicles: the X5 xDrive35d crossover and the 335d sedan.

Convincing Americans that diesel isn't a dirty word won't be easy. While Europeans have embraced diesel cars, thanks to tax breaks and a cleaner emissions profile than in years past, Americans haven't yet warmed up to the idea. Never mind that overall car sales have been anemic.

"When people think of diesel, they think dirty, noisy and smelly. It's the complete opposite of anything that is associated with green," says David Matathia, planning director at GSD&M Idea City, the ad firm owned by **Omnicom Group** that crafted the campaign. It's an image that has been cemented into the psyche of Americans since the 1970s, when demand for diesel cars briefly surged because of the energy crisis.

BMW says America's perception of diesel lags behind the reality. While most people associate the fuel with soot-spouting trucks, today there are cleaner diesel engines that run on low-sulfur fuel. "They are demonstratively better than they were 25 years ago," says Patrick F. McKenna, the German auto maker's U.S. marketing manager. Because diesel gets better mileage than gasoline, it emits fewer greenhouse gases. Diesel still releases pollutants that gasoline doesn't, but they can be minimized with filters.



BMW

BMW uses Brian Unger, of Discovery Channel's 'Some Assembly Required,' to weigh diesel's mileage against gasoline's.

To change diesel's negative perception, BMW is using ads that feel like a grammar-school science lesson. The teacher: Brian Unger, the host of "Some Assembly Required," a Discovery Channel show that explains how things such as toilets, crash-test dummies and plasma TV sets are made.

In one commercial, Mr. Unger uses a scale to weigh beakers of fuel. "If this is the amount of gas it takes to go 10 miles, then this is the amount of diesel that it takes to go the same distance," he says, showing off less liquid in the diesel beaker. In another spot, he holds up a tiny metal ball. "Imagine this is a gallon of fuel," he says. "If we all switched to diesel, we could save 90 million of these every single day." Millions of little metal balls begin to rain down on Mr. Unger.

It's the first time in a decade that BMW has enlisted the help of a pitchman. The campaign will also include print and online ads.

The ads are starkly different from the typical environmentally friendly pitch, which tends to be crammed with images of green trees and blue oceans. BMW says it intentionally made the ads simple and avoided chéd images to break out of green-ad clutter.

The new campaign comes at inopportune time. The U.S. auto industry is suffering from abysmal car demand as consumers tighten their belts, and car companies around the world feel the pain. Moreover, gas prices have plunged since the summer. That could make consumers leery of paying more for a diesel model and then still more for the fuel. Regular gasoline sold for a national average of $1.73 a gallon Wednesday, while diesel sold for $2.41 a gallon, according to the AAA auto club.

In addition, diesel pumps still can be hard to find in the U.S., and drivers sometimes have to fill up at pumps used by 18-wheelers. Diesel is up to 30% more fuel-efficient than gas, auto makers say, but since diesel is more expensive, the ultimate economic benefit to the driver may be small, or nil, in some cases.

The Munich car maker thinks the economy may play in its favor. Research shows that although people are cutting back, when they do spend they are "looking to make smart choices, and diesel is a smart choice," says Mr. McKenna. As far as filling up are concerned, "people still have fuel prices in mind for the long term," he says.

It's a challenge to put "diesel" up against the positive image that "hybrid" evokes in the minds of many Americans these days. Still, the association of a hybrid with a plush meadow or hip celebrities is itself partly a result of the hundreds of million of dollars the auto giants have spent on marketing those vehicles over the past few years.

While BMW won't reveal what it plans to spend on the campaign, the amount won't come close to the mounds of ad dollars that have been put into hybrid ads. BMW's entire ad spending in the U.S. in 2007 totaled $147 million, according to WPP's TNS Media Intelligence.

The company says it will be using new tricks to get its message across. For the first time in several years, BMW will air its new ads on high-profile network TV shows. The campaign will kick off during the season premiere of Fox's "24" this Sunday.

Audi posts the rare sales increase

BY CHRISTOPH RAUWALD

FRANKFURT—In a rare bright spot among auto makers, **Audi** AG Thursday said sales rose 4.1% in 2008 and were up 17% in December, powered by its new Q5 small sport-utility vehicle and the new generation of its A4 series.

The performance of Audi, the premium brand and key earnings contributor of **Volkswagen** AG, comes at a time when auto makers around the globe are slashing production as demand for new cars in major markets such as the U.S., Western Europe and Japan remains woeful.

Audi has been increasing sales in recent years by revamping core models like its best-selling A4 and the TT with sleek looks and better technology while also extending its model lineup to include sport-utility vehicles and sports cars like the R8.

Last year, Audi narrowed the gap with its two larger German rivals, partly because it is relatively less exposed to the eroding U.S. market. **BMW** AG and **Daimler** AG's Mercedes-Benz brand, the world's two best-selling premium auto makers, have been hit hard by the U.S. market downturn.

On Thursday, Mercedes-Benz said it sold 1.12 million cars in 2008, down 5.4% compared with 2007. BMW is expected Friday to release sales data for the full year. Both Mercedes-Benz and BMW had to revise downward their sales targets last year, while Audi didn't change its 2008 forecast.

Overall sales for the year for Mercedes-Benz Group, which includes Mercedes, AMG, Smart and Maybach cars, fell 2.3% as growing sales of the

Reuters

Audi attributed its sales growth in 2008 to rising sales in Europe and the Asian-Pacific region. Above, an Audi car dealer in Riga, Latvia, in November.

ultracompact Smart cars helped offset a weaker end to the year.

Profit figures for Audi are expected March 13, when parent Volkswagen reports earnings.

Audi said 2008, with sales of just over one million, was its 13th consecutive year of record sales. In December, it sold 82,800 cars. Audi's next long-term target is 1.5 million sales a year by 2015. Its growth last year was fueled mainly by rising sales in Europe and the Asia-Pacific region. In the U.S., Audi's sales fell 6.1% to 87,760 cars.

Ingolstadt-based Audi had initially planned to reach the target of 100,000 car sales in the U.S. in 2008 but abandoned that goal as market conditions deteriorated.

Persistent weakness in the U.S. could pose a problem for Audi in coming months. Audi aims to more than double its U.S. sales to 200,000 as part of an ambitious global expansion plan. But Chief Executive Rupert Stadler recently indicated that this target might not be reached by 2015 as initially expected if the unfavorable market conditions continue.

Audi executive-board member Ulf Berkenhagen said in November that beefing up its U.S. presence is crucial for Audi to reach its growth targets in coming years. "Growth won't be possible for Audi without North America," Mr. Berkenhagen said at an industry conference. North America accounts for about 12% of Audi's annual revenue. The U.S. is Audi's third-largest export market after China and the U.K.

GM confronts deadline on cost-cutting labor plan

BY SHARON TERLEP
AND JEFF BENNETT

General Motors Corp. said it needs to have key elements of a cost-cutting labor deal with the United Auto Workers in place by Feb. 17 to comply with last month's $17.4 billion federal bailout.

GM and **Chrysler** LLC are required to get their labor costs in line with the U.S. operations of foreign-based competitors under terms of the low-interest loans from the government to avoid bankruptcy. **Ford Motor** Co. didn't ask for funding but is expected to push for the same labor concessions granted to its rivals.

The deadline gives Detroit's auto makers and the union fewer than six weeks to negotiate changes to the four-year labor agreement reached in 2007 after short strikes against GM and Chrysler. While the loan deal gives GM and Chrysler until March 31 to finalize changes to the labor contract and get them approved by UAW members, the companies are required to present key elements on Feb. 17.

GM spokesman Tony Sapienza said the companies at that time must present plans to alter worker severance pay, compensation and work rules that govern the factory floor.

"We are working toward meeting that deadline," he said Wednesday.

Chrysler spokeswoman Mary Beth Halprin declined to comment on the deadline. "Discussions with our constituents have continued since we submitted our plan to the government on Dec. 2," she said.

The auto companies may be hard-pressed to cut a final deal by Feb. 17, given the complexity of issues involved in negotiations, according to people familiar with negotiations.

In addition to reducing labor costs, the union and auto makers must alter an agreement under which the union is to assume responsibility for retiree medical benefits. But even as top bargaining officials convened Wednesday, key aspects of the deal remained unclear. Detroit's auto makers and the United Auto Workers are scrambling to decipher the federal mandate requiring labor-cost reductions as the two sides prepare to launch a critical round of talks.

CORPORATE NEWS

Microsoft pushes search

Firm gets key deals; early Windows 7 is available for testing

By Nick Wingfield

LAS VEGAS—**Microsoft** Corp., facing a bleak economy and rivals that have outflanked it in the consumer market, announced a milestone for the next version of Windows and a raft of deals designed to boost its online-search business.

The company showed a preliminary version of Windows 7, the next major edition of its flagship operating system, available for consumers to test on their personal computers starting Friday. Microsoft also announced a five-year deal with Verizon Wireless to make its Internet-search service broadly available on the wireless carrier's mobile phones and a similar agreement with **Dell** Inc. covering that hardware maker's PCs. The Microsoft agreements displace an existing search deal that rival **Google** Inc. had with Dell and another that Google was previously negotiating with Verizon.

The plans were unveiled Wednesday evening at the Consumer Electronics Show here by Microsoft Chief Executive Steve Ballmer, in his first stint delivering a keynote speech at the annual trade show. For years, Microsoft chairman and co-founder Bill Gates had kicked off the event, but Mr. Gates last year stepped away from day-to-day involvement at the Redmond, Wash., company to focus on philanthropy.

Microsoft lavished the most attention on Windows 7, the successor to Windows Vista, which received poor reviews when it came out two years ago. Windows 7 has new features designed to make it work more easily with devices like digital cameras and home networks. Microsoft is placing a heavy emphasis on its speed, promising it will run well on everything from high-performance PCs to Netbooks, inexpensive laptops.

Microsoft's distribution deals with Verizon and Dell could provide a lift for its search business, which has lagged far behind Google.

The agreement with Verizon, starting in the first half of this year, will make Microsoft's search engine easily accessible from nearly all of the handsets from the carrier, a joint venture of **Verizon Communications** Inc. and **Vodafone Group** PLC.

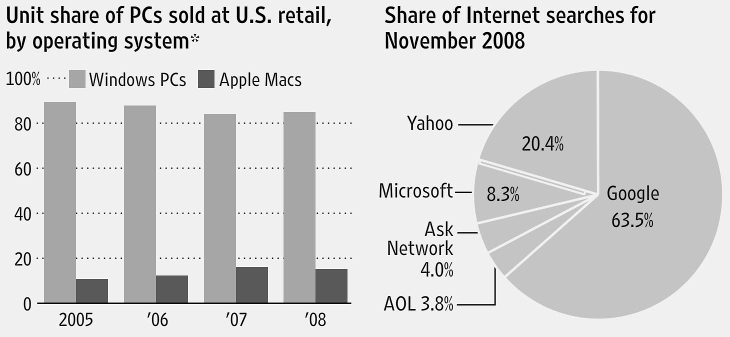
—Jessica E. Vascellaro contributed to this article.

Microsoft CEO Steve Ballmer delivers keynote address Wednesday at the Consumer Electronics Show in Las Vegas.

Associated Press

Polishing windows

Microsoft's share of operating systems sold to consumers, and all Internet searches, in the U.S.



*Data as of November for each year

Sources: NPD Group (share of PC market); comScore Networks (share of Internet searches)

WSJ.com

Online today

For updates from the CES tech show, visit the Digits blog at **blogs.WSJ.com/digits**

TDK, forecasting loss, plans to cut 8,000 jobs

A WSJ News Roundup

TOKYO—**TDK** Corp. said it would cut 8,000 workers and post its biggest net loss ever this fiscal year, due to falling orders and a stronger yen.

The Japanese electronic-component maker—known to consumers for its DVDs, audio tapes and other recording media—will cut the jobs as it closes four factories outside of Japan, said spokesman Kazutoshi Kogure. He declined to comment on which factories it would close.

TDK is the latest of Japan's big-name manufacturers to cut jobs and scale back production as the global economic slump unfolds. Others, including Toyota Motor Corp. and Sony Corp., have also announced cuts in recent months.

"Our clients are stuck with inventories because of slow sales, and honestly, we cannot foresee when the situation will start recovering," TDK President Takehiro Kamigama said at a briefing. "Components sales for mobile phones and automobiles are especially weak, and we are not seeing any products that may lead our business next."

Mr. Kogure said the job cuts will come mainly from regular employees, although contract workers and others in the TDK group of companies will also be included.

TDK had a total of 65,500 workers as of the end September, the last time it released an official figure.

For the fiscal year ending March, TDK now anticipates posting a group net loss of 28 billion yen ($302.2 million), a reversal from the 25 billion yen profit it forecast in October. The net loss would be TDK's first in seven years.

The company cut its revenue forecast to 673 billion yen from 795 billion yen and said it will likely swing to an operating loss of 26 billion yen this fiscal year.

TDK said that since the beginning of the third quarter orders have fallen more quickly than expected, which has led to a decline in capacity utilization below what it originally predicted. Its electronic components division has been running at less than half of capacity this month.

The rise in the yen against the dollar was also more than the rate of 100 yen that TDK has previously assumed. TDK now expects the dollar to average 90 yen in the January-March quarter.

The electronic-component maker will close four plants outside Japan.

TDK will close four electronic-component plants and a research-and-development facility. The company will also cut 8,000 jobs outside Japan, although the spokesman declined to say where the employees are located.

"The revised outlook is worse than expected," said Akihiko Uchino, a senior analyst at Mitsubishi UFJ Securities. "Its [hard-disk drive] heads business has a big impact on the company's profit," he added. "It was solid until November, but it deteriorated rapidly in December, so the fourth quarter will be worse than the third quarter."

The announcement came after the close of Tokyo stock trading, where TDK sank 7.9% to 3,500 yen.

Air France-KLM to bid for Alitalia

By Stacy Meichtry

Air France-KLM SA's board is expected to meet Friday to consider buying a 25% stake in **Alitalia** SpA, a move that would make Air France the Italian airline's biggest shareholder and mark a pivotal step in Alitalia's journey from bankruptcy protection.

The Franco-Dutch carrier was preparing to offer €300 million, or about $410 million, for the stake, valuing Alitalia at €1.2 billion, people familiar with the matter said Thursday. An Air France spokesman declined to comment.

Selling a stake would help Alitalia shore up its finances, while creating an alliance with a bigger partner would plug significant weaknesses in its operations, such as its small number of long-haul flights.

The move would also mark a reversal for Italian Prime Minister Silvio Berlusconi, who was elected last April after promising to keep the carrier squarely in Italian hands. Air France views the potential acquisition of a 25% stake as a step toward an eventual full takeover, according to people familiar with the matter.

Even in the near term, a tie-up with Air France would leave Alitalia in the hands of a partner that wants to shake up operations. Air France would seek to cluster Alitalia's operations around a single hub that could act as a gateway to popular destinations in the Middle East and Asia. The Franco-Dutch carrier favors Rome, in central Italy, because of its proximity to those regions and because it generates heavy tourist traffic. That scenario has drawn strong objections from Mr. Berlusconi's political allies in Italy's north, where Alitalia maintains a sprawling network of airports.

Staying independent for too long was a factor that drove Alitalia into bankruptcy protection in late August. Low-cost rivals such as **Ryanair Holdings** PLC have chipped away at Alitalia's market share while the Italian airline grappled with an aging fleet, high fuel prices and chronic labor unrest.

As politicians and unions bickered over whether to sell Alitalia, a national symbol, to a foreign rival, successive governments backed it with state funds. Alitalia was losing about €1 million a day and had racked up more than €1.2 billion in debt by the time it entered bankruptcy protection.

Mr. Berlusconi had been a fierce opponent of plans last year by his predecessor's government to sell the entire airline to Air France. Air France scrapped the offer when Mr. Berlusconi returned to power in April. Rome quickly appointed Italian bank Intesa Sanpaolo SpA to recruit Italian investors to privatize the carrier and managed to merge it with Air One SpA, Alitalia's biggest domestic rival. Mr. Berlusconi also issued a decree in August that rewrote Italy's bankruptcy laws to shield the investor group from Alitalia's creditors and to allow the government to shoulder most of the carrier's debts. The new law also gave Alitalia the ability to cut thousands of jobs.

Since August, with a leaner staff and less debt, Alitalia has drawn interest from **Deutsche Lufthansa** AG and **British Airways** PLC. Mr. Berlusconi backed a partnership with Lufthansa, which his allies said was more likely to make Milan, in northern Italy, a hub. Talks with Lufthansa, however, haven't produced a formal offer, while British Airways has said it is only interested in a commercial partnership with Alitalia, not an equity stake.

By Thursday, however, Air France appeared to be nearing a deal. The Franco-Dutch carrier was negotiating with Alitalia over how much revenue each carrier would earn from jointly-operated flights, according to a person familiar with the matter.

A fear among Mr. Berlusconi's allies is that an alliance with Air France would lead Alitalia to cut flights in Italy's business-rich north. Alitalia's private investors have tried to assuage those concerns over the past week during meetings with Mr. Berlusconi and his allies. A spokesman for Mr. Berlusconi couldn't be reached.

—Daniel Michaels contributed to this article.

U.S. stores post declines

Retailers' outlooks pared as recession hits December sales

By Miguel Bustillo
And Kelly Evans

U.S. retailers led by **Wal-Mart Stores** Inc. warned of lower sales and profits for months to come as grim declines in December sales emphasized the heavy toll the plunge in consumer spending is having on the U.S. economy.

The disappointing results punctured hopes of an early turnaround in spending and triggered a broader decline in the U.S. stock market Thursday.

Many retailers revealed that they had averted even worse sales figures by sharply discounting merchandise, which allowed them to keep inventories from piling up, but dramatically reduced their profit margins.

In addition to Wal-Mart, **Macy's** Inc., **Target** Corp., **Gap** Inc. and **American Eagle Outfitters** Inc. were among chains that warned of diminished quarterly or annual profits. Macy's reported a relatively modest 4% same-store sales decline but cut its earnings outlook to a fourth-quarter profit of between 90 cents and $1 a share, down from a range of $1.10 to $1.30 a share.

Gap said comparable store sales declined at double-digit rates at its Gap, Banana Republic, and Old Navy outlets. It trimmed the year's profit outlook to between $1.27 and $1.30 a share, from $1.30 to $1.35 a share.

Overall retail sales in December dropped 1.7% compared to last year, according to the trade group International Council of Shopping Centers, which said that combined with even drearier November figures, holiday sales dropped 2.2%, the worst since it began collecting data in 1970.

"Wal-Mart is hitting the wall, Costco is caught in the crossfire, and the only ones that really seem to be immune are some of the supermarkets and drugstores," said Burt P. Flickinger, managing director of retail consultancy Strategic Resource Group. He said retailers are only a third of the way into a 1,000-day recession. "Things are going to get worse, said Mr. Flickinger.

That Wal-Mart was showing signs of weakness surprised analysts and signaled that no retailer was immune from sliding consumer confidence. Wal-Mart almost single-handedly propped up the U.S. retail sector in mid-2008 as many middle-class consumers traded down to the discount retailer from more expensive department stores and supermarkets.

But last month its U.S. sales grew just 1.7%, below analysts' consensus expectations of a 2.8% gain. Wal-Mart also disclosed a 10.4% drop in international sales due to unfavorable currency exchange rates, highlighting the volatility of an international operation that now accounts for a fourth of Wal-Mart's annual revenues and is the focus of the company's growth strategy.

Wal-Mart said it now expected January sales would be flat to a 2% gain. It lowered its fourth quarter profit estimate to a range between 91 cents and 94 cents, down from an initial estimate of between $1.03 and $1.07. The company had already warned the number would drop after it agreed to settle 63 class action suits alleging worker wage and hour violations last month.

Associated Press

U.S. retail sales were broadly lower last month as shoppers such as Kara Kollar, shown on Dec. 26 with a cart full of Christmas gift returns, reduced spending.

Discounter **Target** Corp. reported a 4.1% decline in same-store sales but said holiday markdowns pressured profits.

The retail figures underscore how quickly the once-resilient U.S. consumer has crumbled and become a major drag on economic growth.

Consumer spending, which fuels nearly three-quarters of U.S. growth, has retrenched sharply in recent months as households grapple with falling real estate and stock-market wealth, rising unemployment, and choked-off access to credit.

Consumer confidence slumped in December to the lowest level since the Conference Board began its series sixty years ago. The U.S. shed just over 1.9 million jobs through November, and economists say another half-million jobs were likely lost in December, with the unemployment rate rising from its current 6.7%.

On Thursday, the U.S. Labor Department said the number of Americans drawing unemployment benefits rose to 4.6 million for the week ended Dec. 26, the highest since 1982. The accelerating labor market weakness comes as the U.S. is already more than a year into the current recession, which is likely to be the longest since the Great Depression.

Even sectors like the housing market, where sales have been in decline since 2005, show no signs yet of bottoming. Home prices have fallen by about 25% from their peak, according to the latest S&P/Case-Shiller data. U.S. stocks ended 2008 down by about 40% on average, wiping out much of the wealth households used in recent years to finance their spending.

Now, increasingly common layoffs and wage freezes are worsening the spending decline, forcing households to reduce spending not only to match falling wealth but also to match falling income. The result is the weakest consumer spending environment in decades right as struggling retailers needed holiday-shopping dollars the most.

—Kevin Kingsbury and Ben Casselman contributed to this article.

Christmas results boost J Sainsbury

By Lilly Vitorovich

LONDON—U.K. supermarket chain **J Sainsbury** PLC reported better-than-expected sales for its fiscal third quarter, underpinned by its best Christmas results to date.

Grocers typically do well over the holiday season as consumers splurge on food and drinks.

Sainsbury's sales from stores open at least a year, excluding fuel, rose 4.5% from a year earlier for the period ended Jan. 3. The results were driven by customer demand for the company's less-expensive store-brand goods and the migration amid the economic downturn of some shoppers from more-upscale grocers **Marks & Spencer Group** PLC and Waitrose, a unit of **John Lewis** PLC.

Sainsbury booked a 4.8% rise in total third-quarter sales from all stores, or 5.3% excluding fuel.

The company's "basics" brand—the smallest of its three-tier labels—reported a 40% rise in sales in the third quarter from a year earlier as consumers sought less-expensive alternatives. Its more upmarket store brand, "Taste the Difference," booked a slight decline in sales, Chief Executive Justin King said.

Sainsbury, the U.K.'s third-biggest retailer by sales, after **Tesco** PLC and **Wal-Mart Stores** Inc.'s Asda, is the first publicly listed supermarket chain to report Christmas sales.

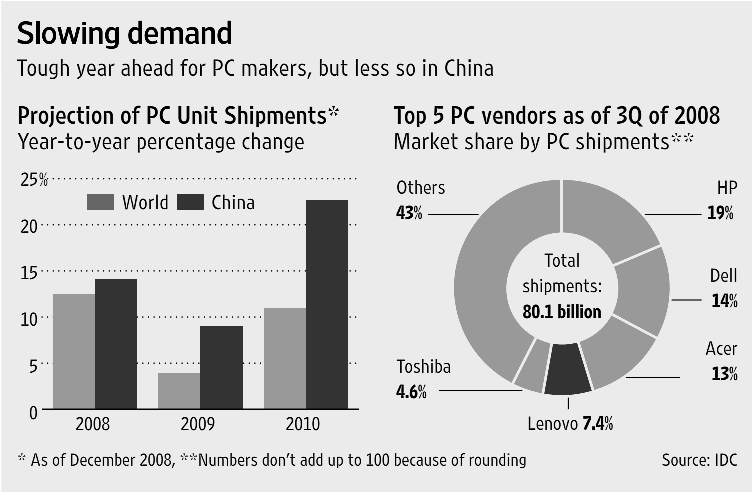
Chief Financial Officer Darren Shapland said Sainsbury remains "comfortable" with current market forecasts for full-year profit.

CORPORATE NEWS

Lenovo forecasts a loss

Computer maker says it will cut jobs, slash executive pay

By Loretta Chao



BEIJING—**Lenovo Group** Ltd. Thursday forecast a loss for the just-ended quarter and said it would cut 11% of its work force and slash executive pay.

Analysts expressed doubts that the restructuring measures by the world's fourth-largest computer maker would boost its competitiveness, and the company's Hong Kong-listed shares plunged 26%, closing at 1.91 Hong Kong dollars (25 U.S. cents) after ending at HK$2.58 Tuesday. On Wednesday, trading was suspended.

In a statement, Lenovo said it expects to report a loss for its fiscal third quarter that ended Dec. 31. It aims to save US$300 million by March 2010 by steps including laying off 2,500 employees world-wide in the current quarter, including a number of senior executives. Executive compensation will be cut between 30% and 50%, including bonuses and other incentive payments, in the coming year.

"The actions we are taking today are not easy," Bill Amelio, Lenovo's chief executive, said in the statement, adding that they "are necessary for Lenovo to compete in today's economy."

Lenovo has struggled to gain market share outside of China, and has only recently started an aggressive push into the consumer PC segment, which is growing faster than the commercial one.

"The restructuring is very necessary but it [was] a given," said Charles Guo, an analyst with J.P. Morgan Chase in Hong Kong, noting that almost every company is cutting staff. "If the revenue drops by 10% to 15%, all these cost savings will be gone," he said.

Lenovo's China and Asia-Pacific operations, which have been separate businesses, will be consolidated and led by Chen Shaopeng, who currently runs Greater China operations. The restructuring moves will "better align" resources with shifting customer demands," the statement said. Lenovo estimates the restructuring will cost about $150 million, most of which will be taken in the current quarter.

Investors have been expecting changes as Lenovo loses traction outside China, its core market. The company, which in November reported a 78% decline in net profit for its fiscal second quarter, has warned that business would continue to suffer as the global economy slows.

Lenovo's failure to gain ground in major consumer markets, including the U.S., is disappointing and points to internal problems, Mr. Guo said.

Bryan Ma, an industry analyst for research firm IDC in Singapore, said Lenovo is "being hit on all sides, whether it's the economy, PC demand, or internally speaking, getting their operations together and developing products." It was " late to the consumer party," he said.

"Although the integration of the IBM PC business for the past three years was a success, our last quarter's performance did not meet our expectations," Lenovo chairman Yang Yuanqing said in the statement. "We are taking these actions now to ensure that in an uncertain economy, our business operates as efficiently and effectively as possible."

Globally, Lenovo's market share measured by shipments shrank to 7.7% in the July-September period from 8.2% a year earlier, according to IDC.

In China, where the company earns more than 40% of its total revenue, Lenovo faces increasing competition from **Hewlett-Packard** Co. and **Dell** Inc. In the third quarter of 2008, H-P's market share in China by shipments was 11.6%, up from 10.4% a year earlier, and Dell's was 9.3%, from 7.3% a year earlier. Lenovo's share increased marginally, to 29.4% from 29.1%, IDC said.

Other PC makers also are moving to increase efficiency as demand slows. Over the past year, Dell has laid off about 9,000 workers as part of a long-term plan to save $3 billion in annual costs. On Thursday, Dell said it is moving manufacturing operations in Ireland to Poland.

In the latest half year, Lenovo's share price has hit levels last seen before the company acquired IBM's personal computer business in 2005. The stock peaked at HK$8.76 in November 2007.

After acquiring IBM's PC business, Lenovo has rolled out a number of major changes, filling its ranks with Western executives from IBM and Dell and opening factories in Mexico and Poland. In two past restructurings, more than 2,400 jobs were slashed. But analysts say the company has been unable to significantly grow its non-China business.

As companies tighten technology spending, Lenovo's big Taiwan competitor, Acer Inc., has made gains in the consumer PC segment world-wide with low-price laptops. Acer has remained the world's third-largest PC vendor, after pulling ahead of Lenovo in 2007 through the acquisition of Gateway Inc. for $710 million. According to IDC, Acer had 12.5% of the world-wide market in the third quarter of 2008, up from 8% a year earlier.

Lenovo has looked at candidates for another acquisition that could offer distribution channels to expand outside China. But so far, merger discussions have failed. In December, Lenovo and Brazilian computer hardware and software maker Positivo Informatica SA confirmed they ended talks about a potential 2.2 billion Brazilian real (US$968 million) merger.

—Justin Scheck in San Francisco and Gao Sen in Beijing contributed to this article.

Dell shifts Irish facilities to Poland to cut costs

By Quentin Fottrell

Associated Press

Dell said its Limerick operation will remain the logistics hub for Europe.

DUBLIN—**Dell** Inc. said Thursday that it is moving its Irish manufacturing operations to Poland by early 2010, a move that will result in the loss of 1,900 jobs, or about half the company's Irish work force.

The U.S.-based computer and information-technology company is Ireland's second-biggest foreign employer the country's biggest exporter and, according to some economists, has at its peak over the past 10 years contributed up to 5% of the country's gross national product.

The company, which established its manufacturing facilities for Europe, the Middle East and Africa in Ireland in 1990, said the move is part of a $3 billion company-wide cost-cutting initiative announced last year.

Economists say the move is another sign that the Irish economy, fueled by the twin engines of a construction boom and multinational investment since the 1990s, is losing its edge to less-expensive Eastern European countries.

Dell said 1,300 sales and marketing jobs will remain in Dublin, as will 1,000 Limerick-based jobs in logistics, solutions, procurement, engineering and product development.

"This is a difficult decision, but the right one for Dell to become even more competitive, and deliver greater value to customers in the region," Sean Corkery, vice president of the company's Europe, Middle East and Africa operations, said in a statement.

Ireland provides an attractive 12.5% corporate tax rate for multinational companies based in the country, but Dell said the transfer of operations aims to simplify operations, improve productivity and reduce costs.

Alan McQuaid, economist at Bloxham Stockbrokers, said the size of the job cuts is disappointing. "If you're starting to lose jobs in multinationals it doesn't augur well for the economy as a whole," he said. "This is a warning that we need to remain competitive."

Ireland's National Competitiveness Council has highlighted key areas where the country had lost competitiveness. They include productivity, labor and energy costs, increased business regulation and overall infrastructure quality.

The American Chamber of Commerce in Ireland said the decision by Dell to cease manufacturing operations in Limerick "is a significant blow to the city, the mid-west region and to the Irish economy." It said Dell was the last multinational company manufacturing personal computers here, despite intense competition from other countries. "It's a tribute to the management and staff that this investment was retained in Ireland for so long," it said.

IDA Ireland, the state agency charged with attracting foreign-direct investment mostly in services and research and development, reported 130 new investment announcements of more than €2 billion ($2.73 billion) last year.

However, earlier this week the agency reported 10,044 job losses last year at IDA-sponsored companies and 8,837 new jobs, creating a net fall of 1,207 jobs at IDA-sponsored jobs during 2008.

Taiwan chip firms resist merger

By Jessie Ho

TAIPEI—**Powerchip Semiconductor** Corp. said Thursday it is working on a revised proposal to get financial assistance from the government, but the plan doesn't include acquiring smaller rival **ProMOS Technologies** Inc.

The development poses a setback to the Taiwan government's efforts to take advantage of the industry downturn to consolidate the island's struggling memory-chip makers. The government had earlier hinted that companies able to consolidate and secure core production technologies would likely have higher chances of getting the aid.

ProMOS said Thursday that it and Japan's **Elpida Memory** Inc. have submitted their own plan to secure government assistance, and the two companies plan to cooperate on technology in the future.

The cooperation is a condition for government assistance, ProMOS spokesman Ben Tseng said.

Elpida is a strategic partner of Powerchip, which is Taiwan's largest maker of dynamic random access memory chips by revenue. The two companies jointly own Taiwan-based chip maker **Rexchip Electronics** Corp.

Powerchip spokesman Eric Tang said the company is also working with Elpida to submit a revised proposal for government aid. The government rejected their initial proposal in late December, saying it wasn't in the long-term interests of the industry.

Powerchip had said it would include a possible cooperation with ProMOS in its proposal because the government wanted an industry consolidation, but Mr. Tang said Thursday the revised proposal will rule out the acquisition of ProMOS.

In a further sign that personal computer demand has been hurt by the global economic slowdown, Taiwan's **Asustek Computer** Inc. Thursday cut its fourth-quarter shipment targets.

Asustek, which makes products such as notebook computers and motherboards under its own brand name, said it now expects fourth-quarter shipments of motherboards to decline by 20% from the previous quarter, a deeper decline than the 10% drop it forecast in late October.

—Yuzo Yamaguchi in Tokyo contributed to this article.

MGM Mirage delays opening of hotel, scales back project

By Tamara Audi

MGM Mirage is scaling back its massive City Center project under construction on the Las Vegas Strip as part of its emerging strategy to cut costs, raise cash and sharpen focus.

The gambling giant said it will delay the opening of the 400-room Harmon Hotel & Spa by one year until 2010 and cancel 200 residential units it planned to build there.

The changes will shave $200 million from City Center's cost. The company had previously announced that design changes to the project would save $400 million, reducing the total budget to $8.6 billion from $9.2 billion.

MGM Mirage owns City Center with Infinity World Development Corp., a subsidiary of **Dubai World**, a major investment arm of the Persian Gulf state of Dubai.

The companies said the rest of City Center—which includes a 4,000-room hotel and casino, a Mandarin Oriental hotel, two condo towers, a condo-hotel and a retail complex—will open as planned in late 2009.

For more than a year, Las Vegas has struggled with declining profits as consumer spending has plunged and the number of visitors has declined. Casino companies have laid off thousands and scrambled to cut costs to be able to pay down billions in debt they took on to build gambling palaces when demand was soaring. Analysts and casino operators have said they expect 2009 to be another difficult year.

Last month, MGM Mirage agreed to sell its Treasure Island casino and hotel to Kansas billionaire Phil Ruffin Sr. for $775 million. The company, which owns some of the most popular and best-known casinos on the Las Vegas Strip, like the Bellagio and the MGM Grand, may shed other properties to raise cash.

CORPORATE NEWS

Disney takes aim at boys

Animation channel is rebranded in push to crack the market

By Peter Sanders

Walt Disney Co. is making a push to crack a market that few media companies have been able to conquer—boys aged 6-14.

Next month, the company will launch a boy-focused entertainment brand called Disney XD, consisting of a new cable television channel, a comprehensive Web site with games, music, videos and social networking.

For Disney, the move marks a new push designed to replicate some of the success it has scored in recent years with its largely girl-targeted entertainment franchises such as Hannah Montana, High School Musical and the Jonas Brothers.

The company has been able to package those stars into marketing juggernauts that extend across all of the company's platforms, from the movie studio to the record label and theme parks. Those franchises have become an increasingly important component of the company's profitability.

But it hasn't hit the same heights with the similarly aged boy market. "I think boys are just harder, in general, to get galvanized behind any one thing," says Jane Buckingham, president of the Intelligence Group, a market-research firm in Los Angeles.

Disney has produced properties that attract boys, including the "Cars" and "Pirates of the Caribbean" franchises. But until now, the company hasn't tried to package them together in such a way as to consistently target the young boy market.

"We looked at the landscape and feel that girls are being served—if not super-served, and preschoolers are also well served, but boys really haven't been," says Rich Ross, president of Disney Channels Worldwide.

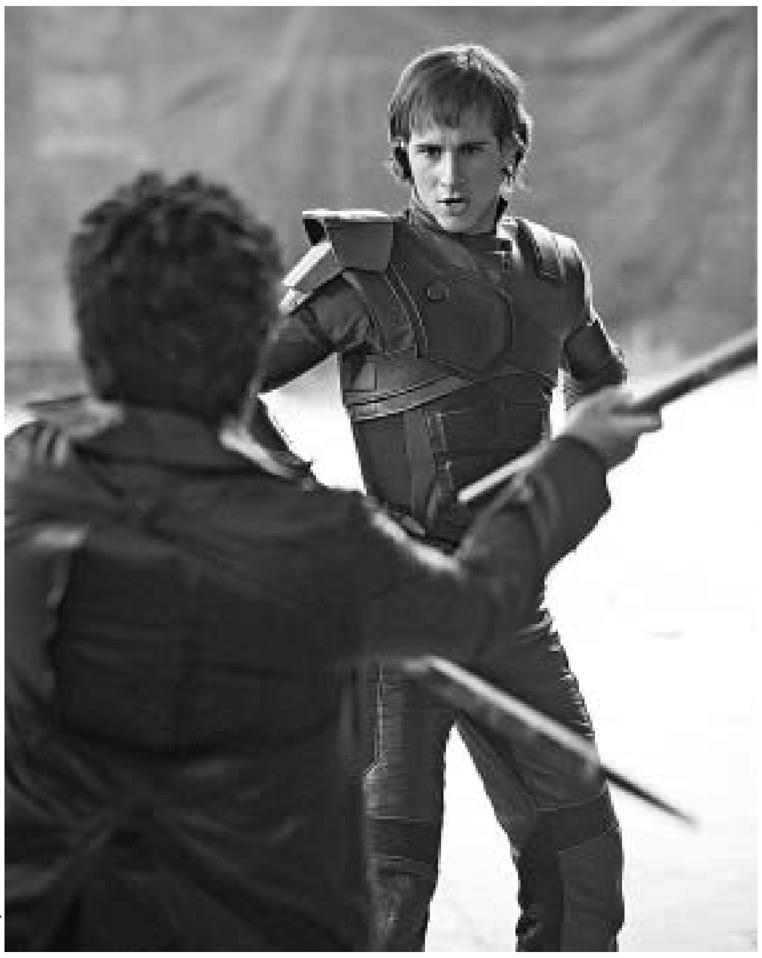
Using both television and a new Web portal, Disney hopes to introduce boys to a host of new live-action and animated shows, original movies, new music acts and games. And Disney executives also hope to leverage boys' love of sports, using the company's ESPN brand, which will likely collaborate on original programming and other sports-themed topics for Disney XD. (Disney says the letters don't refer to anything.)

On Feb. 13, Disney will rebrand its existing animation channel, Toon Disney, as Disney XD and will launch the new action-adventure show "Aaron Stone," that it hopes will become the channel's centerpiece. The show melds aspects of what the company says boys are interested in: action, adventure and videogames.

Toon Disney is currently available on both basic cable and digital packages in about 72 million households. The Disney Channel is seen in about 97 million U.S. households. Disney XD will air traditional advertising spots, according to Disney officials.

But the launch of Disney XD comes amid a major advertising downturn, which could pose a challenge as the company hopes to attract advertisers both online and television.

Like the Disney Channel, which helped launch the careers of such household names as Britney Spears, Justin Timberlake and Shia LaBeouf, executives want XD to serve as a springboard for fresh faces.



Disney

Disney hopes the action-adventure show 'Aaron Stone,' will be the centerpiece of the newly branded Disney XD channel.

MGA can sell Bratz dolls through 2009

By Nicholas Casey

A U.S. federal judge ruled Wednesday that **MGA Entertainment** Inc. could continue to sell its Bratz dolls through Dec. 31 before being forced to turn over the franchise to its rival, **Mattel** Inc.

The fate of the doll has been up in the air for months since a jury last summer ruled that the Bratz doll had been conceived by a designer who had been working at Mattel, the maker of Barbie, at the time.

The decision represents a partial victory for MGA because it stays a previous ruling that would have forced the toy company to relinquish its control of the dolls as early as February. However, in the order, Judge Stephen G. Larson of the U.S. District Court for the Central District of California noted that his decision wasn't final, and that he could reconsider the timing again.

The judge said he will consider a request from Mattel to instead put the doll franchise in the hands of a court appointed body that would collect doll revenues as MGA launches an appeal.

The court also appointed an auditor to review MGA's finances for the past three years. The books of closely held MGA have remained largely a mystery and Mattel has accused MGA in court papers of funneling funds into an offshore corporation.

Coffers lower, Princeton cuts costs

Princeton University announced budget cuts to offset a steep expected drop in its endowment, becoming the latest wealthy college in the U.S. to institute austerity measures.

Still, the Ivy League school said it expected to raise tuition and fees next fall by only 2.9%, the smallest increase in 43 years, to provide some relief for cash-strapped families.

In line with Harvard, Yale and other top private schools, Princeton on Thursday predicted a steep drop of 25% in its endowment for its fiscal year, which ends June 30. That would amount to a reduction of about $4.1 billion.

Princeton's endowment, worth $16.3 billion on June 30, ranks fourth in higher education, behind Harvard, Yale and Stanford.

To pare costs, the school will cap raises and administrative budgets will be reduced by 5%.

GLOBAL BUSINESS BRIEFS

Continental AG

Engineering firm Schaeffler completes dicey takeover

Closely held German engineering company **Schaeffler Group** said Thursday that it concluded its takeover of bigger peer **Continental** AG by paying out €75 ($102.20) a share to shareholders. Continuing disputes between the two companies had added to concerns among investors about the deal as the global auto industry is facing a dramatic downturn and credit markets have turned sour. Continental in August accepted an unsolicited bid from Schaeffler that at the time valued the company at about €12.1 billion. Schaeffler made several concessions to win over Continental's management, including raising its offer and guaranteeing it wouldn't take a majority stake before 2012. Schaeffler said it now holds 49.9% of Continental's voting stock and has transferred additional shares tendered to financial institutions as planned.

Nissan Motor Co.

Nissan Motor Co. of Japan said Thursday it is cutting 1,200 jobs in the U.K., about a quarter of its work force in the country, in response to the downturn in the auto market. The company, which employs 5,000 workers at its plant in Sunderland in northeast England, plans to cut shifts as part of a plan to adjust volume to meet a fall in demand. The company's U.K. unit produced 385,000 vehicles in 2008.The job cuts will include 400 workers on temporary contracts. Nissan said it notified the Local Works Council and the Unite union of the cuts. Vehicle sales in Western Europe have dropped dramatically in recent months amid a credit squeeze and a widespread economic downturn.

Hays PLC

U.K. specialist recruiters **Hays** PLC and **Michael Page International** PLC are set for a difficult year as deteriorating economic conditions and turmoil in the financial sector affect almost every industry and geographic market. Thursday, Hays, the U.K.'s largest recruitment company by market capitalization, reported a 6% decline in second-quarter net fees, or 10% on a like-for-like basis, and smaller rival Michael Page said that fourth-quarter gross profit was lower in all regions. Michael Page, which trimmed its work force by 9.3% in the fourth quarter, said it will cut further jobs. The company slightly raised its full-year pretax profit forecast to £140 million ($212 million), which would mean a 4.8% decline from 2007, as it picked up market share from failed rivals.

UniCredit SpA

Italian bank **UniCredit** SpA said Thursday it has appointed Karl Guha as its new chief risk officer. He will also become a member of UniCredit's management committee. The 44-year-old Mr. Guha, a Dutch and American citizen, worked for almost 20 years at ABN Amro in various positions. He succeeds Henning Giesecke, who left his position on Dec. 31, but will continue to operate within the group as chief risk officer of the German-based HVB. UniCredit has been hit hard by the financial crisis because of write-downs and its exposure to foreign markets. It had to lower its 2008 targets twice in the final quarter of last year. In December it said that it expects to make a full-year net profit of €4 billion ($5.5 billion).

Bank of Ireland PLC

Bank of Ireland PLC said it was scaling back its residential-mortgage operations in the U.K. to cut costs. The move will save the bank £30 million ($45.3 million) annually and will result in a restructuring charge of £40 million. The bank said that it will close two offices in England, in Reading and Solihull, and that it will consult with as many as 600 employees on job cuts. It will still offer mortgages via its joint venture with the U.K.'s post office and its 44 branches in Northern Ireland. It said the U.K. residential mortgage book, which stood at £29 billion as of Sept. 30, is expected to "reduce significantly."

Air France-KLM

Air France-KLM said Thursday its passenger traffic increased 1.3% in December, fueled by the leisure segment. Long-haul traffic also held up well, rising 1.6% from a year earlier. The French-Dutch carrier's load factor, a measure of how full its planes were, edged up 0.3 percentage point to 78.9% in December, with capacity up 0.9%. Cargo traffic, meanwhile, slumped 20%, reflecting the economic slowdown. In the nine months ended Dec. 31, Air France-KLM's passenger traffic rose 2.8% from a year earlier, while cargo traffic fell 6.1%. Meanwhile, **Finnair** Oyj said full-year traffic rose 10% last year, pushed up by a 17% rise in Asian traffic. Irish flag carrier **Aer Lingus Group** PLC, which is trying to avert a takeover by rival Ryanair Holdings PLC, said it carried 4.6% fewer passengers in December than a year earlier.

Roche Holding AG

Drug maker **Roche Holding** AG of Switzerland Thursday entered an agreement with privately-held U.S. company Plexxikon Inc. to develop and sell an experimental drug for the treatment of a genetic kidney disease. The deal is valued at as much as $335 million. Roche, based in Basel, will pay Plexxikon $60 million upfront for the global rights for a drug candidate codenamed PLX5568 as well as a number of undisclosed potential drug candidates. Plexxikon, based in Berkeley, Calif., could receive a further $275 million over the term of the partnership if certain milestones in the development of treatments for polycystic kidney disease, are met, the companies said. Polycystic kidney disease is characterized by the growth of cysts in the kidneys.

Crucell NV

Shares of Dutch vaccine producer **Crucell** NV opened 36% higher Thursday after it confirmed it was in merger talks with U.S drug maker **Wyeth.** Crucell, which makes vaccines for influenza, children's diseases and hepatitis B, said late Wednesday it was in "friendly discussions with Wyeth that may lead to a combination of the two companies." A deal, which could be reached as early as next week, according to a person familiar with the matter, could value Crucell at more than €1 billion ($1.36 billion). The potential merger is also a sign of the relative strength of big pharmaceutical companies, as their size helps them weather the global economic and financial turmoil better. Petercam analyst Jan Van den Bossche said Crucell is in a good negotiating position with Wyeth.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.N. lets antifraud task force dissolve

Delays in retaining investigators following Russian objections could put 175 uncompleted probes at risk

By Steve Stecklow

The United Nations hasn't renewed funding for a special task force that uncovered about $630 million in alleged contract fraud, and efforts to retain some of its investigators have been delayed following objections from the Russian government.

The delays could put at risk 175 investigations that the task force had not completed, according to Inga-Britt Ahlenius, who oversees the U.N.'s main investigative division, the Office of Internal Oversight Services, or OIOS.

Some of those investigations involve Russian nationals and companies, according to a person familiar with the matter. The task force also followed up on a case in which a former U.N. purchasing agent from Russia pleaded guilty in 2005 to federal charges of soliciting bribes from U.N. contractors, this person said.

Russia introduced a U.N. resolution last month that would have barred the U.N. from hiring members of the task force for three years. The resolution was defeated, but the hiring of some investigators has become mired in bureaucracy. A spokesman for the U.N.'s Russian mission didn't respond to requests for comment.

The task force—which was created in 2006 in the wake of a scandal in the U.N.-administered oil-for-food program in Iraq—was never intended to be permanent. The U.N. had only funded it through Dec. 31. But the prospect that its investigations will be dropped raises questions about the U.N.'s commitment to police itself, some U.S. officials say. As previously reported last month, an American-backed drive to protect U.N. employees who attempt to expose wrongdoing is also faltering.

The contract-fraud unit, known as the Procurement Task Force, investigated bid-rigging, bribery and other abuses at U.N. headquarters and in peacekeeping missions abroad.

The United Nations' Procurement Task Force

Some achievements of the task force, which operated from 2006 to 2008 and specialized in investigating contract fraud:

- Identified about $630 million in allegedly tainted U.N. contracts
- Brought successful criminal convictions of a U.N. employee and a contractor
- Initiated disciplinary actions against 17 other U.N. employees, including at least five who were dismissed
- Suspended or removed more than 45 private companies from the U.N. contracting process
- Identified more than $25 million that it says was wasted or ended up unjustly enriching vendors

Source: U.N. records and interview

In its three years of operation, the task force racked up successful criminal convictions of a U.N. employee and contractor, initiated disciplinary actions against 17 other U.N. employees, and suspended or removed more than 45 private companies from the U.N. contracting process, according to records and interviews. It identified more than $25 million that it says was wasted or ended up unjustly enriching vendors.

U.S. prosecutors have credited the task force's spadework with helping them to convict in June 2007 a former U.N. procurement official, Indian national Sanjaya Babel, on fraud and bribery charges. He was found guilty of helping a friend secure about $100 million in U.N. contracts in exchange for a discount on two luxury Manhattan apartments and cash. A contractor pleaded guilty to bribery in the case.

Since funding for the unit ended, two of the unit's 18 investigators have found other jobs within OIOS. Ms. Ahlenius says she wants to hire nine people, including about six from the task force, for six months to help conclude the unfinished investigations. But those hirings have been held up in the U.N. bureaucracy.

"If we can't get these people on board, we can't continue the investigations," she says. She added that OIOS, which currently has about 75 investigators, lacks experts in contract fraud. From 40 to 50 of the 175 probes outstanding are considered high-priority, according to a confidential OIOS document.

Angela Kane, the U.N.'s under-secretary-general for management, whose department oversees hirings, says: "We want to make sure that everything, particularly with the sensitivity of the situation, follows the rules and regulations of the United Nations."

Also in limbo is the status of the task force's chief, Robert Appleton, a former assistant U.S. attorney in Connecticut. Mr. Appleton had served as special counsel to the oil-for-food investigative committee headed by former Federal Reserve Chairman Paul A. Volcker, which had recommended creating the task force. "He has done wonderful, excellent work for close to three years," Ms. Ahlenius said.

Mr. Appleton applied to be OIOS's director of investigations more than a year ago. But after a hiring panel selected him and three other finalists from a pool of 73 candidates, another board recently decided to restart the process, because all four finalists were American males, say U.N. officials.

"According to U.N. rules, there has to be some geographical choice, and women have to be part of the process," said Michele Montas, a spokeswoman for U.N. Secretary-General Ban Ki-moon. U.N. officials say the hiring process could take another three months or more. Mr. Appleton, who declined to comment about his application, is no longer on the U.N. payroll.

Bloomberg News/Landov

The task force racked up successful criminal convictions of a U.N. employee and contractor and initiated disciplinary actions against 17 other U.N. employees.

During its existence, the task force has faced criticism from several countries. In 2007, Singapore publicly complained about the treatment of one of its nationals, Andrew Toh, an assistant U.N. secretary-general in the management department, who was accused of mismanagement and failing to provide financial information sought by the task force. Mr. Toh, who denied any wrongdoing, resigned from the U.N. a year ago. He couldn't be reached for comment.

More recently, Russia opposed an audit board's recommendation to incorporate "the skills of the Procurement Task Force in OIOS," arguing the department already has such capability, according to U.N. minutes. "The bottom line is the Russians didn't want these folks to be rehired," said a U.S. official, who declined to be identified.

Business groups and Obama enjoy a honeymoon, for now

By Gerald F. Seib

CAPITAL JOURNAL

Rarely has a U.S. president—to say nothing of a *Democratic* president—been thrown into the arms of the business community on his way in the door as has Barack Obama.

It's a shotgun marriage, to be sure, compelled by the financial-markets crisis, the collapse in housing and the hemorrhaging of auto makers. The question now is whether the two partners can live together productively, or will slide into marital squabbling.

We may get some quick hints. One of Mr. Obama's early agenda items once he's in office, aides say, will be sitting down with a select group of the country's business leaders to talk shop. He is likely to find the business community lending a hand in pushing the big stimulus package he outlined in an economic speech Thursday. The plan's emphasis on tax cuts has pleasantly surprised business leaders, and many are fans of the "infrastructure spending" part of that package. Business leaders also are practically begging to be part of a quest for a better education system.

The biggest source of long-term friction, on the other hand, likely will be global warming. The environmental team Mr. Obama has assembled scares business leaders almost as much as his pragmatic economic team reassures them. There will be a potentially nasty early fight over legislation designed to help unions organize, which could chill the relationship. A wild card is the administration's attitude on trade, which is hard to gauge.

Overall, business leaders are more sanguine about their ability to work with the Obama administration than to work with the Democratic-controlled Congress. Indeed, Mr. Obama may well find himself playing domestic conciliator, trying to broker peace between feuding clans in the business world and Congress.

One thing is certain: Traditional thinking about relations between a Democratic administration and the business community needs to be thrown out. This is a new era.

For starters, in many ways the government now *is* the business community, or at least a part of it. When the government is a direct stakeholder in the nation's auto and financial industries, and is becoming the life-support system for the housing industry, it seems almost anachronistic to talk about a divide between government and business.

Bernadette Budde

What's more, many more Democratic voters now are stakeholders in the business community. Bernadette Budde, the chief political analyst for the Business Industry Political Action Committee, points out that exit polls found that fully two-thirds of November's voters said that either they or their spouse have investments in the stock market. Because voters now are so broadly integrated with the business sector, she says, "we were going to be part of the new administration's base no matter who that was."

Ms. Budde thinks the Obama team's decision to devote perhaps 40% of its giant economic-stimulus package to tax cuts bodes well for business-administration cooperation at the outset. "Tax cuts is the one area where we feel pretty good about what we've heard from the administration," she says.

Similarly, she thinks there is significant business backing for spending stimulus funds on infrastructure. "We have great needs with ports, roads, the basics," she says. "It's not just bridges. We need to rethink the whole system of transport."

A third area where she sees potential cooperation is energy, where the business community shares both the Obama desire for a significant move toward energy independence and his concern that slumping oil prices will make the nation relax in pursuit of it.

Others offer similar analyses. Bruce Josten, executive vice president for government affairs at the U.S. Chamber of Commerce, says there is a broad convergence of interest between business and the incoming administration on the stimulus package. Businesses and the administration alike have the same primary need, which is to restart economic growth, and both see stimulus spending as part of the formula: "We're strong supporters of the shovel-ready infrastructure buildout. We're strong supporters of the green-industry buildout."

Similarly, he says businesses hurt by the collapse of financial markets are as eager as the new administration for a rational new regulatory system to oversee them.

The great mystery overhanging all this is whether business and the administration are destined to be partners or pugilists in the coming debate over fixing the health-care system. By campaigning on a platform that called for neither a government mandate that all be insured, nor the dismantling of the employer-based health-insurance system, Mr. Obama has pointedly left open the door to compromise. Whether he and the business community walk through that door together will emerge as one of the more intriguing questions in the new Washington.

ECONOMY & POLITICS

U.N. suspends Gaza aid

Agency worker killed, convoy is attacked; thousands flee south

By Charles Levinson

JERUSALEM—The United Nations said it was suspending food aid deliveries to the Gaza Strip on Thursday as thousands of Palestinians fled their homes along the Gaza-Egyptian border ahead of what they feared would be an Israeli push to take control of smuggling tunnels there.

Militants in southern Lebanon, meanwhile, fired four rockets into northern Israel, drawing an Israeli artillery barrage and raising the specter—if the attacks continue—of a second front alongside Israel's 13-day assault on the Gaza Strip.

A Lebanese cabinet minister and a member of the militant and political group Hezbollah told the Associated Press the group wasn't involved in the incident. Hezbollah and Israel fought a 34-day war in 2006, and Hezbollah's leadership has condemned Israel's Gaza offensive. Israeli officials downplayed the incident.

Western and Arab diplomats said the U.S., U.K. and France reached an agreement with the Arab League nations Thursday afternoon on the text of United Nations Security Council resolution seeking to halt the fighting in Gaza. The resolution was expected to be passed during a Security Council meeting later in the day.

As fighting continued, Israel occupied more of the open farmland around Gaza's southern urban areas and moved into the outskirts of its second-largest city, Khan Younis, a military spokesman said.

The fighting in the territory continued to take a gruesome human toll as aid workers used a second, three-hour humanitarian cease-fire to reach, for the first time, neighborhoods that have seen some of the heaviest fighting.

Health officials in Gaza said 50 bodies were recovered Thursday from rubble. The International Committee for the Red Cross said it found four small children, too weak to stand up, lying next to their dead mother and 11 other corpses in a house that had come under heavy Israeli shelling.

The U.N. decision to temporarily halt aid deliveries came after an Israeli tank shell killed one of the agency's local employees and soldiers fired on a clearly marked U.N. armored convoy during the three-hour humanitarian cease-fire, a U.N. statement said.

Reuters

During an Israeli assault, smoke rises over Gaza. Health officials there said that 50 bodies were recovered from rubble Thursday.

Palestinian health officials said 758 Palestinians, including 257 children and 56 women have died in Israel's air, sea and ground attacks. Israel said about 390 of those killed were Hamas fighters.

Two Israeli soldiers died on Thursday, one from an antitank rocket in central Gaza and the other in a gun fight in northern Gaza, the military said. Twelve Israelis have now died, including eight soldiers in combat.

Western and Arab diplomats said the U.N. resolution, in addition to calling for a cease-fire, was expected to build on the peace process that Egyptian President Hosni Mubarak has been leading in Cairo. An Israeli delegation arrived in Egypt Thursday to take part in the talks, and Israeli Prime Minister Ehud Olmert was expected to arrive Friday. Palestinian Authority President Mahmoud Abbas was expected to travel to Cairo Saturday.

The U.S. and Israel have been demanding that any final truce agreement include guarantees that Hamas won't be allowed to rearm after the conflict. The Egyptian peace process is expected to focus on establishing mechanisms to better secure Gaza's borders and to prevent the smuggling of arms and contraband into the Palestinian territory through underground tunnels linked to the Sinai Peninsula.

The U.S has blocked the passage of a Security Council resolution for nearly a week, arguing that the initial text put forward by the Arab League didn't do enough to address Israel's concerns about Hamas's rearming.

Israel's readiness to enter into ceasefire talks may be a reflection of what it sees as battlefield progress. The Israeli offensive has succeeded in reducing rocket fire on the Jewish state, accomplishing one of its stated war aims. About 20 Gaza-fired rockets have hit Israel on each of the past two days, down from 35 on Tuesday and a high of 86 on the third day of Israel's offensive.

Israel said its war planes have bombed half the 300 smuggling tunnels connecting Egypt to Gaza and have captured 135 Hamas prisoners.

But Israel may find the diplomacy that follows the shooting war poses a bigger challenge. Israel goes into negotiations seeking to ensure that Hamas stops firing rockets into Israel and halts the flow of arms through smuggling tunnels from Egypt into Gaza.

Hamas wants Israel to withdraw its forces from Gaza and reopen the border crossings, so the flow of commercial goods into and out of Gaza can resume. That was Hamas's chief reason for declaring the six-month cease-fire dead last month and intensifying rocket barrages against Israel. Israel said it was those attacks that triggered its military operation.

—Farnaz Fassihi in Cairo and Joshua Mitnick in Tel Aviv contributed to this article.