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## What's News

Central banks in Europe and the U.K. left key rates on hold at record lows, focusing on asset-purchase programs to galvanize their economies. Canada also held steady, while central banks in Russia and Iceland cut rates. **Page 9**

■ **Dutch voters are expected to give a populist, anti-immigrant party its first European Parliament seats.** **Page 12**

■ **Excessive speed is being investigated as contributing to the crash of Air France Flight 447, officials say.** **Page 12**

■ **Russia will push ahead with membership bids for the OECD and the WTO, as the downturn has left it capital-starved.** **Page 2**

■ **Putin blasted factory owners and town officials for not preventing the woes of Pika-yovo, which has been hit by plant closings.** **Page 10**

■ **Berlusconi defended his use of a state plane to ferry personal guests to his private villa amid a probe by Rome prosecutors.** **Page 2**

■ **U.S. stocks rose on a bounce back for financial firms and strength in energy and materials shares. European shares fell.** **Pages 20, 22**

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■ **U.S. retail sales slipped further in May as even discounters struggled to attract shoppers.** **Page 6**

■ **New-car registrations fell 25% in the U.K., but there were signs a government buying incentive is starting to gain traction.** **Page 6**

■ **The number of U.S. workers filing new jobless claims fell slightly last week, and total claims dropped for the first time since January.** **Page 12**

■ **Intel agreed to acquire software maker Wind River Systems for \$884 million, a bid to take its technology to new markets.** **Page 6**

■ **Lending rates in Latvia rose to a record as uncertainty remained about whether the country will be able to keep its currency peg.** **Page 19**

■ **Biogen said Carl Icahn won at least one seat on the board.** **Page 8**

■ **Kosovo was admitted to the World Bank, Prime Minister Hashim Thaci said.**

### EDITORIAL OPINION

**Obama in Cairo**  
The president repackages his predecessor's freedom agenda. **Page 14**

Breaking news at europe.WSJ.com

## Obama reaches to Muslims

U.S. president says America, Islamic world seek common solutions

By LAURA MECKLER

CAIRO—U.S. President Barack Obama called for a “new beginning” in the relationship between America and the Muslim world, with both sides fighting violent extremists like al Qaeda, working for a solution to the Israeli-Arab conflict and bolstering women’s rights and democracy.

His much-anticipated speech—first promised nearly two years ago when he was a long-shot presidential candidate—was filled with appreciation for Muslim contributions to the world and to America. It also included a plea that Muslim nations should see the U.S. as a force for good in the world.

### World-wide reaction

- Some Israelis critique tone .31
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“I consider it part of my responsibility as president of the United States to fight against negative stereotypes of Islam wherever they appear,” he said to applause in an ornate domed auditorium at Cairo University. “But that same principle must apply to Muslim perceptions of America. Just as Muslims do not fit a crude stereotype, America is not the crude stereotype of a self-interested empire.”

Large parts of his address appeared to be well received by the 3,000 guests invited to the university’s Great Hall. Audience members interrupted

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A television screen showed Barack Obama’s speech at a shop outside Jerusalem’s Old City on Thursday. The president called for a new beginning in the relationship between the U.S. and the Muslim world.

## For HSBC, big risks still loom in U.S.

By SARA SCHAEFER MUÑOZ AND CARRICK MOLLENKAMP

LONDON—When the subprime-mortgage crisis hit in the U.S., global banking giant HSBC Holdings PLC was among the first to get clobbered. Now it could be headed for round two.

Through its subsidiary, HSBC Finance Corp., HSBC is a big holder of risky U.S. consumer loans, a toxic portfolio on which it has already taken more than \$40 billion in impairment charges. This year, HSBC raised \$18.5 billion in fresh capital and said it would wind down most of HSBC Finance, moving to close a bad chapter in the parent bank’s 144-year history.

But because economic

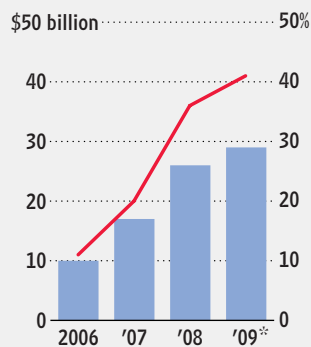
### A change in terms

HSBC real-estate loan modifications for struggling U.S. borrowers

■ Total value of re-modifications and/or re-ages (left scale)

■ Percentage of portfolio (right scale)

\*Through end of March  
Source: HSBC Finance Corp.



and housing data suggest many more U.S. consumers are likely to default, analysts are wondering how many billions of dollars more the bank may lose on loans it currently records as good. “There is the potential there for a large loss,”

says Adam Steer of research firm CreditSights.

HSBC entered the U.S. subprime market in 2003 with the purchase of lender Household International Inc. and quickly built up a large portfolio of assets consisting mostly of risky mort-

gage loans. As of March 31, HSBC placed a value of \$90 billion on those assets, well above the \$57.5 billion the bank believed the loans would fetch were it to sell them in the markets.

The bank’s rationale is that while things might look very bad now and cash-strapped investors are wary of buying such loans, chances are good that its customers will ultimately pay the loans back. An HSBC spokesman said the bank understands the value of the loans better than the market, because it sees day to day how borrowers are paying, and the “vast majority” in fact do pay back the loans.

Mr. Steer, though, isn’t so sure. In a research report, he and colleague David Hen-

## Rio Tinto scraps deal with Chinalco

Anglo-Australian mining giant Rio Tinto PLC walked away from a proposed \$19.5 billion deal with Aluminium Corp. of China, people familiar with the matter said, dealing a blow to China’s ambitions to buy access to raw materials crucial for its economic growth.

By Dana Cimilluca, Shai Oster and Peter Stein

The proposed deal would have given state-owned Aluminium Corp., known as Chinalco, an 18% stake in Rio Tinto, the world’s third-largest miner and owner of rich iron-ore and copper mines in Australia and elsewhere. It also would have extended a spending spree in which Chinese companies have laid out billions of dollars to acquire mining and energy assets around the world.

But Chinalco’s investment plans fell victim to a potent mix of shareholder opposition, economics and politics, partly reflecting fears—especially in Australia—of the consequences of giving China direct access to a huge trove of natural resources. The deal’s collapse came just days before Australian regulators were expected to set tough conditions for their approval of it.

Now, Rio Tinto must find another source of cash to pay off \$19 billion in debt coming due later this year and in 2010. In a statement Thursday, the company said it is “pursuing a range

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### Inside



### Time for escapism

Summer reads from Zafón to Updike to Marilyn Monroe. **Weekend Journal, page W8**

### Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8750.24	+0.86
Nasdaq	1850.02	+1.32
DJ Stoxx 600	209.47	-0.22
FTSE 100	4386.94	+0.08
DAX	5064.80	+0.20
CAC 40	3312.03	+0.07
Euro	\$1.4178	-0.01
Nymex crude	\$68.81	+4.07

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LEADING THE NEWS

# Berlusconi defends flights

*Partygoers traveled with him, officials, says Italian premier*

BY STACY MEICHTRY AND DAVIDE BERRETTA

ROME—Italian Prime Minister Silvio Berlusconi said on Thursday that he had used a state plane to ferry personal guests to his private villa—but that there was nothing improper as he and other government officials were flying on the jet.

Rome prosecutors earlier in the week launched an investigation into whether the premier allegedly abused his powers by arranging for partygoers—including a dancer and singer—to use government aircraft and for security escorts to travel to his villa on the island of Sardinia.

Giovanni Ferrara, the prosecutor leading the probe, told reporters on Thursday that he and his colleagues had launched the investigation after seizing hundreds of photographs that depict guests attending parties at the cactus-lined Villa Certosa, where Mr. Berlusconi often hosts foreign leaders with lavish dinners and shows.

Mr. Berlusconi said “all of these people were hosted at Certosa without a euro of cost to the state.” He was speaking on a morning talk show on Italy’s Canale 5 channel, which is part of the Berlusconi family’s media company Mediaset SpA.

The investigation adds yet another chapter to a string of controversies surrounding Mr. Berlusconi’s personal life—and its frequent overlap with his public role.

The premier’s wife, Veronica Lario, recently announced she was seeking a divorce from Mr. Berlusconi after accusing him of “consorting with minors” and of drawing telegenic young women into his political ranks. Mr. Berlusconi has also



Associated Press

Italian Premier Silvio Berlusconi views a monitor during the recording of a TV talk show in Rome. Prosecutors are investigating allegations that he abused his powers.

been under the microscope for his ties to an 18-year-old aspiring model. Mr. Berlusconi, who was photographed at the woman’s birthday party in April, has denied having a “spicy” relationship with her.

It is unclear whether the latest investigation will dent his popularity with Italian voters. Over his 15-year political career, Mr. Berlusconi has been under investigation—accused of crimes including corruption and false accounting—a number of times without the cases diluting his appeal. He has always maintained his innocence.

This week, polls show Mr. Berlusconi’s right-wing political coalition with a strong lead in the weeks leading up to elections for the European Parliament, which end Sunday.

Mr. Berlusconi has been acquitted in some trials against him. In others, charges were dropped when the statute of limitations on the cases ran out during appeals. Last year, Mr. Berlusconi pushed a new law through Parliament that grants immunity

from criminal prosecutions to Italy’s top officials—himself included.

The Rome investigation stems from hundreds of unauthorized photographs snapped by an Italian photographer depicting parties that Mr. Berlusconi threw at Villa Certosa in 2008. So far, only a handful of the photographs have trickled into Italian newspapers and magazines, however. Prosecutors seized the photos over the weekend after an attorney for Mr. Berlusconi filed a complaint alleging that the photos violated the prime minister’s privacy.

After reviewing the photos, however, Rome prosecutors opened an investigation earlier this week into whether Mr. Berlusconi abused his powers as prime minister, according to Mr. Ferrara. Mr. Ferrara said his office was seeking additional information, including the travel logs and passenger lists of government planes traveling between Sardinia and Rome.

—Alistair MacDonald in London contributed to this article

# Russia accelerates push to join OECD and WTO

Russia on Thursday promised to accelerate its membership bids for two major Western economic institutions, at a time when the global downturn has starved its economy of capital.

By Marc Champion in Brussels and Gregory L. White in St. Petersburg, Russia

Russian officials told the Organization for Economic Cooperation and Development in Paris that Moscow would submit a formal membership application later this month, according to a senior OECD official.

At the same time, Russian officials at an annual economic conference in St. Petersburg said they planned to speed up Russia’s accession to the World Trade Organization, after several years of putting that issue on the back burner.

“We’d like to complete this process by the end of the year,” said Deputy Foreign Minister Alexander Yakovenko, referring to joining the WTO. He said Russia’s application has so far taken a record 16 years.

Mr. Yakovenko said joining the OECD and the WTO—moves that would bind Moscow to new rules on investment, trade, corporate governance and other potentially sensitive issues—was part of Russia’s effort to become more attractive to investors.

Though less significant than belonging to the WTO, OECD membership also requires commitments to about 250 legally binding decisions the intergovernmental think tank has issued since it was formed after World War II.

The OECD’s 30 member states, including the U.S., agreed to invite Russia to join in May 2007, together with Chile, Estonia, Israel and Slovakia. The other four countries submitted application packages by last year. Russia, however, seemed in no hurry; oil prices were soaring toward \$150 per barrel, flooding the country with cash.

On Thursday, Russian officials said at a meeting with the OECD they would submit their applica-

tion package, expected to run to about 300 pages, at the organization’s annual ministerial meeting in Paris on June 24 and 25, according to Nicola Bonucci, the OECD’s director for legal affairs. “This would be a very important step towards accession,” said Mr. Bonucci.

At the WTO, countries such as Georgia or Ukraine could use the threat of a veto over Moscow’s membership bid to protest trade embargoes and other disputes. Joining the OECD is unlikely to be complicated by such resistance. But the OECD process is nevertheless likely to take time, as Moscow negotiates commitments that could require legislative and cultural change.

“We expect this to be a complex application. Russia is an important player, so when we talk about binding commitments under our code of liberalization, which sets principles for investment, we are talking about an important issue for Russia and for our members,” Mr. Bonucci said. “The same is true for rules relating to the environment, corporate governance, and the working group on bribery.”

## Putin visits town in crisis

■ Prime minister blames Deripaska for economic woes .....10

Even now, many analysts and foreign investors are skeptical Moscow will implement the kinds of economic liberalization and other changes that would significantly improve the climate for foreign investment. From a low of under \$40 a barrel earlier this year, oil is now trading above \$60 again, reducing some pressures on the Russian economy.

The moves toward the OECD and WTO also come as Moscow is trying to patch up its relationship with the West in the wake of its military intervention in Georgia last summer and a gas crisis last winter in which Moscow shut off natural-gas supplies to parts of the European Union during a price dispute with Ukraine.

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## LEADING THE NEWS

# Spain wins lost treasure

*Florida judge rules against discoverers of \$500 million haul*

BY THOMAS CATAN

MADRID—A U.S. judge has awarded a sunken treasure valued at \$500 million to Spain, ruling against the Florida-based exploration firm that found the record haul.

The decision marked a victory for Spain, which had accused Odyssey Marine Exploration Inc. of looting its national heritage.

"I'm pleased the judge has seen that the ship and the treasure belong to Spain," said Spain's Culture Minister, Ángeles González-Sinde. "This sets a precedent for the future."

Dozens of sunken colonial-era Spanish ships are thought to lie on the bottom of the Atlantic Ocean, many of them near U.S. shores. The Spanish government is keen to stop its wrecks from being picked over by the growing number of private trea-

sure-hunting companies.

Odyssey, which says it is a marine archaeology company and not just a treasure-seeker, vowed to appeal the decision. "I'm very surprised," the company's founder and chief executive, Greg Stemm, said in a statement. "Odyssey has done everything by the book."

Using underwater robots and sonar scans, Odyssey found the haul of nearly 600,000 gold and silver coins off the coast of Portugal in March 2007. The company flew the 17 tons of coins from Gibraltar to its base in Tampa, Florida.

Odyssey initially refused to say exactly where it had found the treasure, claiming that the site would be endangered by the disclosure. It also said it was impossible to say which ship the treasure had come from. It codenamed the site "Black Swan."

Spain, however, said the ship was the Nuestra Señora de las Mercedes, a Spanish galleon that, in 1804, exploded under cannon fire from the British fleet. Records showed the vessel was laden with some 900,000 silver and gold coins.

In an increasingly bitter feud, Spanish police seized two of Odyssey's exploration vessels as they set sail from the British colony of Gibraltar, arresting the captain of one ship.

In a written recommendation issued Wednesday, U.S. Federal Magistrate Judge Mark Pizzo sided with Spain by finding the shipwreck was indeed the Mercedes. He said the treasure was protected from seizure under the 1976 Foreign Sovereign Immunities Act and recommended it be returned to Spain within 10 days.

The judge swept aside Odyssey's argument that the ship wasn't covered by sovereign immunity because it hadn't been on a commercial mission when it sank. The company also unsuccessfully argued that granting Spain immunity would prejudice any claims by descendants of the 250 Spanish sailors who perished aboard the ship. Some of the haul may have been theirs, Odyssey reasoned.

Further complicating the two-year court battle, Peru also laid its own claim to the treasure, because



A crew from Odyssey Marine Exploration unloads silver coins taken in March 2007 from a shipwreck discovered off the coast of Portugal.

the coins were minted in the country at a time when it was part of the Spanish empire. Twenty-five descendants of the Spanish sailors who died on the ship have also claimed a piece of the treasure.

Judge Rizzo cast doubt on Peru's claim and said his court wasn't empowered to rule on it.

Odyssey is the best known of a growing number of companies that are using sophisticated technology to comb the ocean floor for shipwrecks. It has scored some rich finds in the past. In 2003, it discovered

the remains of the U.S. Civil War-era steamer, the S.S. Republic, 160 kilometers southeast of Savannah, Georgia. The 50,000 coins and other artefacts recovered from the wreck were valued at \$70 million.

It has also signed agreements with the British government to split the proceeds of any treasure it finds at the site of two of its wrecks—the H.M.S. Sussex, which sank in the western Mediterranean, and the H.M.S. Victory, which Odyssey announced it had discovered in the English Channel in February.

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CHRONOMAT B01



## CORPORATE NEWS

# United Airlines plans huge jet order

Boeing, Airbus to vie for possible purchase worth \$10 billion as air carrier moves to exploit market slump

BY SUSAN CAREY

United Airlines has asked Boeing Co. and Airbus to propose dueling bids for up to 150 new airliners—the latest example of major companies exploiting the recession to bargain-hunt.

For the two aircraft makers, the deal could be valued at more than \$10 billion at a time when both are watching other customers cancel or defer orders. By staging a winner-take-all competition, United's parent, UAL Corp., is hoping to obtain better terms than otherwise might be available, according to people familiar with the situation.

It's a notable move amid falling travel demand and a tight lending environment—on top of UAL's recent heavy losses and poor credit rating. But even in good times aircraft builders will go to considerable lengths to lock in an order, using in-house financing arms and other maneuvers to help airlines buy. Their goal: Ensure a steady appetite for their product in the notoriously volatile airline business.

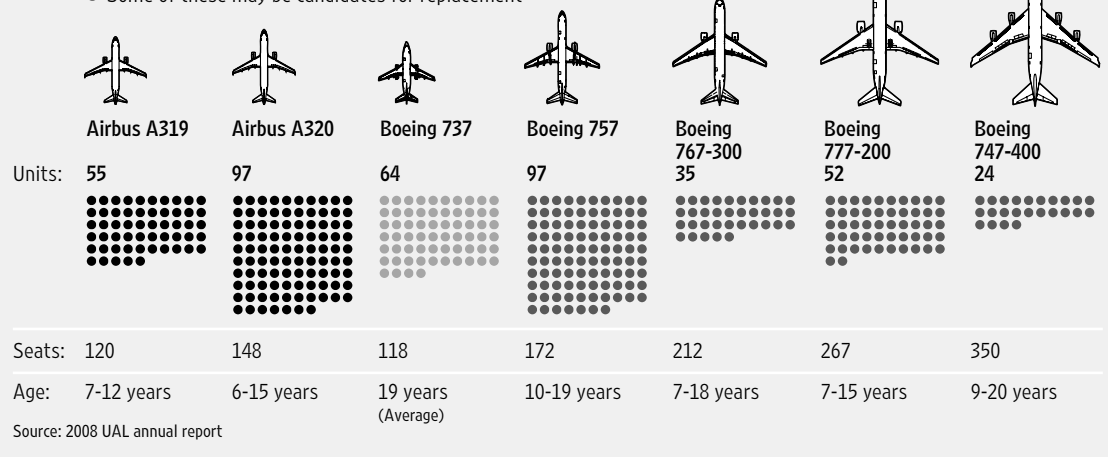
United is among myriad companies attempting to use the economic downturn—and in some cases, lower steel and other commodity costs—as a chance to expand or land better pricing. In February, chip maker Intel Corp. said it would spend \$7 billion over two years to expand three U.S. plants. German discount retailer Aldi plans to add 75 U.S. stores this year, far more than usual, to appeal to cash-strapped consumers.

Exxon Mobil Corp. in March said it would raise spending on exploration and production in 2009 by 11%, to \$29 billion, despite tumbling oil prices.

Others are playing hardball with suppliers. Louise O'Sullivan of

## Fleet update | United Airlines is shopping to replace some of its aircraft

- Not being replaced at this time
- Already in the process of being retired
- Some of these may be candidates for replacement



Prime Advantage, a buying consortium for industrial-equipment makers, said her group's spring meeting had surprisingly strong attendance. "Some of the biggest [members] were there with grins on their faces," she said, because it "gave them the chance to hammer 40 to 60 of their suppliers in two days."

United has taken pride in its lack of aircraft orders in recent years, even as U.S. rivals started reopening their checkbooks. By ordering now, in the downturn, it hopes to be able to start taking delivery of the planes in a few years, when the economy is better. In the past, airlines have gotten stung by placing orders in good times, then having too many planes in a downturn.

United, which has a total fleet of 400 jetliners, sent a formal request to Boeing and Airbus on Tuesday,

people familiar with the matter said. The request focuses on replacing many of United's 111-airplane wide-body fleet, as well as some of its 97 aging Boeing 757 narrow-body planes, these people said.

Chicago-based United has hired aviation consulting firm Seabury Group LLC to help it negotiate with the builders.

Unlike some of its largest domestic rivals, United already flies both Airbus and Boeing planes, giving both manufacturers an incentive to try to grab a bigger share of a major airline's business. As part of its order, United is hoping to simplify its fleet by ending up with fewer different types of aircraft, a change that would cut its maintenance and crew-training costs.

A spokesman for Airbus, a unit of European Aeronautic Defense &

Space Co., declined to confirm or deny United's request. A Boeing spokesman declined to comment.

United could sign a major order as early as the fall, the people familiar with the matter said, if Boeing or Airbus agree to certain conditions. The most crucial would be financing arranged by the manufacturer that doesn't eat into United's cash, these people said. United also wants the flexibility to change the order later, according to these people.

By placing a firm order, an airline is committing to a buying and price schedule that stretches for years. However, contracts typically allow airlines to wriggle out of those deals with limited penalties.

If pitting Boeing and Airbus against each other doesn't yield a deal acceptable to United, the airline can wait because its fleet is, on aver-

age, a relatively young 13 years old. It already has retired more than half of its elderly Boeing 737s and plans to rid itself of the rest by year's end.

Boeing and Airbus still have multi-year order backlogs. But last year's spike in oil prices, along with the recession and financial crisis, brought on a series of order deferrals and a few outright cancellations by customers around the world.

Airbus in February said it would cut deliveries of its popular A320 narrow-body model to 34 a month from 36, starting next year. It originally had intended to ramp up to 40 units a month by 2010. In April, Boeing said it would trim its wide-body 777 production next year to five planes a month from seven.

For years, aircraft orders by major U.S. airlines were relatively rare. Following the 2001 terror attacks, carriers struggled with restructuring and bankruptcy. Overseas carriers did better, flooding manufacturers with orders. Carriers covet the fuel-efficiency of newer aircraft. The new models also let them cover routes they can't with existing planes.

U.S. orders have started to revive. AMR Corp.'s American Airlines, No. 2 in the U.S. by traffic, last fall announced its intention to order up to 100 Boeing 787 jetliners, if it can win agreement with its pilots' union on pay and other issues. This spring, American revived up deliveries of new 737-800s to replace some of its geriatric workhorse MD-80s.

United has been the odd man out since emerging from Chapter 11 bankruptcy protection in early 2006. In several conference calls with investors, as recently as April, it stressed that it had no new planes budgeted.

—Joe Barrett  
contributed to this article.

# Tengzhong's Hummer bid faces Chinese regulatory hurdles

BY RICK CAREW  
AND NORIHIKO SHIROUZU

The biggest hurdle to the historic sale of General Motors Corp.'s Hummer brand to a little-known Chinese manufacturer of dump trucks and industrial machinery may be receiving Beijing's seal of approval.

The Obama administration has already expressed strong support for the proposed sale to Tengzhong Heavy Industrial Machinery Co. But before it can buy Hummer, Tengzhong, based in Sichuan province, needs support from three different Chinese government agencies governing overseas investment, economic planning and China's tight controls on foreign exchange.

China's economic planning agency will have to weigh the Sichuan-based company's desire to buy the company against its policies to encourage more fuel-efficient vehicles and automobile-industry consolidation.

Meanwhile, a visit to Tengzhong's facilities, where workers make small batches of machinery parts at a time, highlight questions about the company's technical readiness to manufacture a complex passenger vehicle—especially if some manufacturing of the vehicles eventually shifts to China, as is "logical" if the bid succeeds, a person familiar

with the situation said.

Normally, China's high-profile outbound investments involve government ministries at every step of the process, because the buyers are owned by the central government. Tengzhong, however, is privately held, with few assets and no experience in commercial automobiles.

"There aren't many precedents for this transaction," says Jeanette Chan, a partner at law firm Paul Weiss in Hong Kong.

She notes new rules that came into effect May 1 require a number of approvals before Tengzhong and GM can sign a binding agreement. The rules stipulate that overseas investments of more than \$100 million require central government approvals, while provincial governments can sign off on smaller deals.

Central government agencies expected to review the deal include the Ministry of Commerce, the National Development and Reform Commission and the State Administration of Foreign Exchange. Of these, the commerce ministry's approval is most important; if its approval process runs smoothly, it will take at least 30 working days, Ms. Chan said.

While the company appears to have ties in the local government, that won't likely translate to any clout on the national level. On



Workers at Tengzhong's industrial complex near Chengdu, China.

Wednesday, Tengzhong's CEO Yang Yi said the company was "in the middle of the approval process."

Key criteria include whether the company will be able to fund the purchase and succeed in developing the business. Tengzhong hasn't released information about its finances, but it appears to be relatively small. Analysts expect Tengzhong to pay \$200 million to \$300 million for Hummer.

The two sides are still hammering out terms of the agreement in the U.S., according to a person familiar with the situation.

Tengzhong's bidding for Hummer comes at a time when China is committing increasingly to electrified vehicles and other energy-efficient alternative-energy vehicles. In January the government halved the purchase tax on cars with engines 1.6 liters and smaller to 5% to promote sales of smaller cars.

Last summer it raised consumption tax on gas-guzzling passenger vehicles. Taxes on passenger vehicles with engine sizes from three to four liters rose to 25% from 15%, and taxes on vehicles with four-liter or bigger engines doubled to 40%.

Meanwhile, a person familiar with the situation said that Tengzhong "would eventually" shift at least some production of Hummer vehicles to China from the U.S. Mr. Yang has said he is committed to keeping production of Hummer vehicles in the U.S. for the foreseeable future and hasn't elaborated on his longer-term manufacturing plans.

The move would benefit greatly from lower labor rates China offers. At one of the several production sites Tengzhong operates around the city of Chengdu, Xie Xiaolin, a vice president of Tengzhong, said his skilled production workers are

on average paid 2,000 yuan (about \$290) a month. Following a new deal with the UAW, workers building Hummers in the U.S. are paid at least \$45 an hour in compensation.

Moving production to China could supply the China market, but also eventually serve as an export base for other markets.

Analysts, however, say Tengzhong's expertise in producing heavy machinery products, such as dump trucks and road construction equipment, would likely be mostly useless in assembling passenger automobiles.

In one building at the Tengzhong manufacturing complex in Xinjin, an hour's drive south of Chengdu, workers at about a dozen production stations were machining a small batch of metal vibration- and shock-dampers for elevated highways and bridges. The production of a small number of products at one time means there is little need for inventory control or material-flow management to improve efficiency and lower costs. Such skills are essential in auto manufacturing because of the number of components cars are composed of and their large production scales.

A Tengzhong spokesperson didn't respond to a request for comment on the company's auto-manufacturing capability.

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Data refers to the 2008 Consolidated Balance Sheet and the 2008 Environmental Report.



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## CORPORATE NEWS

# U.S. retail sales stumble

*May results declined as shoppers shunned full-price outlets*

BY NICHOLAS CASEY

U.S. retailers continued to struggle with weak sales again last month as even heavy discounting at some pricier chains failed to lift the sector.

Discounters stood out as having the best results amid a bleak May. Some of the better performers were chains offering department-store cast-offs while luxury-goods companies and mid-priced department store chains continued to suffer.

TJX Cos. reported a 4% increase in stores open more than a year. Ross Stores Inc. posted a 4% increase, while Kohl's Corp. reported a 1% decline from a year-ago. Their showings illustrate "the discount apparel format is starting to emerge" from the decline in consumer spending, said Brendan Langan, an analyst at retail consultants Management Ventures Inc.

Still, sales at stores open at least a year, a closely watched measure of retail health, fell 4.4%, according to an index of 28 retailers compiled by Retail Metrics Inc. Results didn't include industry behemoth Wal-Mart Stores Inc., which stopped releasing its monthly sales figures. By the same measure, April sales declined a less steep 2.7%.

Among those reporting declines, Target Corp. said same-store sales fell 6.1%, Costco Wholesale Corp. posted a U.S. same-store sales drop of 1% excluding fuel, and BJ's Wholesale Club Inc. fell 6.8% from a year ago. BJ's, which had been delivering year-over-year sales gains, said it faced a difficult comparison against higher gas prices last year.

In part, all retailers faced a similar hurdle compared with results from a year ago: the lack of government stimulus checks to aid consumer spending. Government checks, meant to boost the econ-



A shopper looks over refrigerated items at a Costco in California last month. U.S. retailers posted bigger-than-expected sales declines for May.

omy, had a positive impact on sales throughout the summer of 2008. "We didn't have that boost this year," said Thomson Reuters retail analyst Jharonne Martis.

"The main theme is that consumers only shop where they found the best price," she said.

## The lack of stimulus checks issued by the government hurt consumer spending.

Consumers last month weren't just looking for deals, but also appeared to be purchasing smaller items. Home improvement retailer Lowe's Cos. said it saw strength last month among outdoor products with lower price-tags.

"People want to spruce up their appearance of their home without shelling out \$2,000 on a new floor," said Brian Sozzi, a retail watcher at Wall Street Strategies Inc.

May's steeper slide may show retailers efforts to woo shoppers with discounts are being ignored. Hot

Topic Inc., the teen retailer, discounted its denim prices by as much as 30% and 40%. Abercrombie & Fitch Co. shifted from its full-price strategy by erecting big summer clearance signs in front of stores.

Yet neither returned high dividends: Same-store sales at Hot Topic slid 6.4% last month, and Abercrombie & Fitch reported a 28% decline, far more than analysts had predicted.

"The fact is, consumers are immune to some of these discounts," said Mr. Sozzi.

Aeropostale Inc. offered a rare bright spot among middle-tier, teen apparel retailers, posting a 19% increase in same-store sales. Buckle Inc. posted a 13.4% increase, its 22nd month of double-digit gains.

In the luxury sector, Saks Inc. and Nordstrom Inc. reported steep declines, reflecting the continued woes for high-end retailers. Same-store sales at Saks dropped 22.6%, citing drops in virtually every category. Nordstrom said its sales fell 13.1% compared with a year ago.

Mid-priced department stores did not fare much better. Dillard's Inc. said same-store sales fell 12%, Bon-Ton Stores Inc. reported a 12.1% decline while at Macy's Inc. same-store sales fell 9.1%

# Intel to buy Wind River, charging into software

BY DON CLARK

Intel Corp. agreed to buy Wind River Systems Inc. for about \$884 million, a surprise move that gives the chip maker a significant software business and could help take its technology to new markets.

The transaction also makes Intel a direct competitor with Microsoft Corp., though mainly in industrial and consumer businesses that don't affect the technology giants' long-time partnership in the personal-computer industry.

Wind River, of Alameda, Calif., has the leading market share among software suppliers for so-called embedded applications used in cars, office equipment, industrial controls, telecommunications gear and consumer-electronics devices. The company is known for an operating system called VxWorks but has more recently built a business around varieties of the Linux operating system.

Intel, of Santa Clara, Calif., already sells most chips that serve as calculating engines in computers. Paul Otellini, its chief executive officer, has vowed to use a low-end chip called Atom to make the company a bigger player in pocket-size devices, consumer-electronics gear and the embedded applications that are Wind River's specialty.

Intel has already built up a sizable internal software-development operation, which recently created a free Linux variant called Moblin for use with Atom in mobile-computing and other markets. But Wind River will for the first time give Intel a way to turn software into a potential source of revenue and profit.

Wind River will operate as a separate unit and continue to deliver programs that work on other chips in addition to Intel's, which make up the bulk of its business now. "They are trying to build a software business, which makes this a monumental transaction," said John Bruggeman, Wind River's chief marketing officer.

Bill Kircos, an Intel spokesman, downplayed the potential competition with Microsoft; for one thing, he said, Wind River mainly competes in markets where the main alternative for companies is internally developed software. He added that buying Wind River, instead of continuing to work with them as an independent partner, will allow Intel to help step up the software company's investments around Atom and other Intel chips.

Another possible motivation is defensive—keeping Wind River out of the hands of other giants, including chip makers such as Qualcomm Inc., said Roger Kay, an analyst at Endpoint Technologies Associates. "It's a parry and thrust thing," he said.

Mr. Bruggeman would not discuss any other potential suitors, though he said "you have to imagine this is a hotly contested space."

Intel agreed to pay \$11.50 a share in cash for Wind River, 44% above the closing price of that company's shares on Wednesday. Wind River shares jumped 44% to \$11.52 in afternoon trading on the Nasdaq Stock Market.

Wind River has about 1,600 employees and reported revenue of \$359.7 million in the fiscal year ended Jan. 31.

# Debt at Bharti Airtel, MTN seen swelling by \$6.3 billion

BY COSTAS PARIS AND P.R. VENKAT

Bharti Airtel Ltd. and MTN Group Ltd. could see their debt rise a combined \$6.3 billion if the merger under consideration takes place, two people familiar with the talks said.

The people said a merger of the telecommunications concerns would boost India-based Bharti's debt by about \$3.6 billion and MTN's debt by about \$2.7 billion.

The figures are slightly lower than estimates from the Fitch ratings service, which predicted Wednesday that under the terms presented to the market, Bharti could see additional net debt of \$4 billion and MTN of \$2.9 billion.

Bharti, India's largest telecom by user base had \$2 billion in debt, at the end of March. MTN's interest-bearing debt was \$5.2 billion at the end of December.

Negotiations for a \$23 billion merger of Bharti and South Africa's MTN are progressing smoothly and a deal could be reached by mid-July, the people familiar with the talks said. "The two parties are conducting due diligence and at this point there are no concerns about the deal being derailed," the first person said. "If it continues like this there should be a final agreement by mid-July, if not earlier."

MTN declined to comment on the progress of negotiations and its

plans for funding the transaction, saying only that talks were at an early stage. A Bharti spokesman declined to comment.

Bharti said last week that it has revived merger discussions with MTN and will be in exclusive talks with the company until July 31.

Under the current plan, the Indian company would get a 49% stake in MTN. The South African telecom and its shareholders would get roughly a 36% stake in Bharti.

South Africa's Public Investment Corp., MTN's biggest shareholder with a 13.5% stake, said Tuesday that while it backs the merger in principle, it believes Bharti could improve its offer. PIC also wants to know how much influence MTN would have in the merged entity.

Those close to the talks said PIC is unlikely to block the deal.

Discussions last year over a tie-up collapsed over how the companies would structure the deal. "The line from the top people to the negotiating teams is to be flexible in order to avoid last year's impasse," the second person said.

Singapore Telecommunications Ltd. owns about 30% of Bharti.

Bharti and MTN say a merger would create a company with more than 200 million customers in Africa, the Middle East and India with annual revenue of \$20 billion.

—Romit Guha and Robb M. Stewart contributed to this article.

# U.K. car registrations slid in May

BY JONATHAN BUCK

LONDON—U.K. new-car registrations fell 25% last month, but there were signs a government buying incentive is starting to gain traction.

New-car registrations dropped to 134,858 vehicles from 179,272 a year earlier, marking the 13th straight month of falling sales, the Society of Motor Manufacturers and Traders said Thursday. The decline was evident across all sales types, although private demand was down a relatively modest 13.8%. In part, that reflected that a fall in sales was already evident last year, easing this year's comparison. But it also likely signaled a revival of demand under a government initiative encouraging consumers to scrap old vehicles for new ones.

"We have seen an encouraging start to the scrappage incentive scheme, with 35,000 orders being placed since it was announced, although it will take time to feed into registration figures," Paul Everitt, the society's chief executive, said in a prepared statement.

The May figures didn't fully re-

flect the plan, which offers consumers £2,000, or about \$3,200, in discounts on the cost of a new vehicle if they scrap a car that is more than 10 years old. The incentive kicked in for cars registered beginning May 18.

Based on the level of acceptance so far, government funding for the plan could be exhausted by the end of August, a spokeswoman for the automotive society said. Car owners should act "sooner rather than later," she said, explaining that there was no indication the plan would be extended.

The industry group lobbied for the scrapping incentive to spur demand for new vehicles after sales collapsed amid the recession and tight financing. Germany and France, which implemented scrapping incentives months ago, have reversed declines in sales. Registrations in Germany, which analysts say offers the most generous incentives, climbed 40% last month, while those in France accelerated 12%.

But Italy, which also has scrapping program, saw May registrations fall 34% from a year earlier, only a slight improvement from a

35% drop in April. Registrations in Spain also improved from April, but were 39% below a year earlier.

In the U.K., registrations over the past 12 months shrank by 555,663 vehicles to 1.84 million.

The May figures are "probably the last of the bad numbers," said Mike Tyndall, auto specialist at Nomura in London, as the scrapping incentive starts to take effect and comparisons from last year become easier.

Ford Motor Co.'s market share rose to 16.5% from 14.8% even as its registrations fell 16% from a year earlier to 22,293 vehicles. Its Fiesta and Focus models were the best sellers in May and in the first five months of the year.

Vauxhall registrations fell 40% to 15,386 vehicles, a sign that the troubles besetting U.S. parent General Motors Corp. had dented consumer confidence in the British brand. Its share of the U.K. market shrank to 11.4% from 14.3%.

"The prospects of Vauxhall are worrying [U.K.] consumers," said Mr. Tyndall, who noted that GM's Adam Opel GmbH European unit had performed reasonably well in other markets.

## CORPORATE NEWS

# Newspapers try a different tune

To beat antitrust rap, media outlets take cues from songwriters

BY RUSSELL ADAMS  
AND SHIRA OVIDE

Ailing news organizations seeking to make money from both online readers and the Web sites that republish their stories are looking at the way music publishers collect a fraction of a cent for every song played in public, from the corner bowling alley to the stage of "American Idol."

That model, a major topic of discussion at a private meeting of newspaper executives last week, raises an important question: Can newspapers band together to demand payment from Web sites that use their content?

The answer is yes, provided they are careful about the law.

Any efforts by competing businesses to join forces risk running afoul of antitrust law, which forbids teaming up in ways that could limit consumer options and increase prices. The music industry has faced claims of anticompetitive practices, but has successfully preserved its system partly by limiting any single entity's control over access to songs.

Under the music-industry model, a venue or media outlet that wants to use a songwriter's work can purchase a yearly blanket license from the organizations that control the public performance rights to the compositions. The two largest organizations, the American Society of Composers, Authors and Publishers and Broadcast Music Incorporated, together represent the writers of millions of songs. Ascap and BMI distribute the money to songwriters and music publishers based on a complicated formula designed to ensure that a major television network pays

a higher fee than a bar in Texarkana. The news industry's versions of radio stations and nightclubs are the Web sites that rerun stories, or big chunks of them, copied from newspaper sites. What portals like Google do—run headlines and snippets of stories—so far has been immune to copyright claims, though the argument has been made successfully in Europe that even that type of reuse entitles publishers to a fee. Some publishers hope to make the same case in the U.S.

Unauthorized users of complete news stories, however, still make for a large market. According to a limited study by the tracking service Atributor, for each person who reads a news story on an authorized Web site, five people access the same story on an unauthorized channel.

To follow in the footsteps of the music industry, news organizations would need an intermediary similar to Ascap.

One potential obstacle for news publishers is that the Ascap model has been upheld in courts on the basis that without acting collectively, artists wouldn't be able to police and get compensated for the use of their content. It has been relatively easy for artists to argue that they can't individually monitor every jukebox, for

example, where their work is played.

While news organizations would have a tougher time making that claim, antitrust attorneys say there is a compelling argument that not creating such an arrangement will diminish the organizations' ability to survive and compete.

News organizations also would have to reassure regulators that whatever Ascap-like intermediaries they develop wouldn't have exclusive rights to content, and that individual Web sites would still be able to purchase stories directly from publishers.

Ascap, which was formed in 1914, came under fire in the first half of the 20th century from both broadcasters and songwriters, who accused the organization of fixing prices and ignoring certain genres of music. It was out of those concerns about monopolistic practices that BMI was created by a consortium of radio broadcasters in 1940 so that Ascap wouldn't be the only game in town.

Herbert Hovenkamp, a professor at the University of Iowa College of Law who specializes in antitrust issues, says he doesn't foresee a challenge to the intermediary model, as long as there are no exclusive agreements and the arrangement accomplishes something individual publishers otherwise could not.

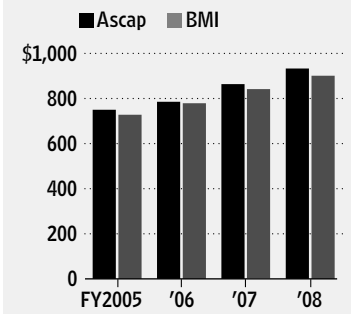
"My guess is it would go just fine in front of the courts," Mr. Hovenkamp says.

In addition to searching for a means of collecting new money from Web sites, some news organizations would like to be able to freely discuss with other publishers a collective shift to charging readers for access to their Web sites, efforts that could have antitrust implications. Many publishers are concerned that if they individually erect pay walls around their content, readers will flee to free alternatives. But legal experts say publishers need to avoid setting prices or telegraphing business plans to their rivals, steps that could expose them to charges of collusion. As a precaution, news executives had an antitrust attorney monitor their meeting last week.

It isn't clear whether newspapers will move ahead with any joint arrangements, or whether they will be successful if they do. Publishers have a spotty track record on business collaboration, including the failed New Century Network, a 1990s joint venture of newspapers' online services.

What is becoming apparent is that publishers shouldn't count on government support for looser antitrust rules, a step that would give news organizations a freer hand to

Striking a chord  
Collected music-licensing  
revenue, in millions



Note: Ascap's fiscal year ends Dec. 31; BMI's ends June 30.  
Source: Ascap; BMI

pursue collective business arrangements. In recent public appearances, a top Justice Department official cast doubt on the government's appetite to give newspapers special treatment. A Justice Department spokeswoman declined to comment further.

Regulators are keeping the question alive, however. The Federal Trade Commission, which shares oversight of antitrust enforcement with the Justice Department, plans to hold workshops later this year on the future of news organizations. The agenda includes the issue of whether "additional, limited antitrust exemptions may be necessary under these unique circumstances."

—Ethan Smith  
contributed to this article.

## DirecTV chief Carey returns to News Corp.

BY SHIRA OVIDE

News Corp. said it hired Chase Carey, the chief executive of DirecTV Group Inc. and a former News Corp. executive, as a top lieutenant to Chairman and Chief Executive Rupert Murdoch.

Mr. Carey, 55 years old, succeeds President and Chief Operating Officer Peter Chernin, who is leaving the company when his contract expires at the end of June. Mr. Carey will assume the same titles, effective July 1. News Corp. said Mr. Carey is expected to join the company's board as deputy chairman.

Mr. Carey's return continues the News Corp. executive shuffle sparked by the February disclosure of Mr. Chernin's departure. Mr. Chernin, a well-regarded executive, oversees News Corp.'s television and film production and serves as Mr. Murdoch's point man for Wall Street.

Mr. Carey's departure comes at an important juncture at DirecTV. Liberty Media Corp., the conglomerate controlled by cable mogul John Malone, last year acquired effective control of the satellite broadcaster. Liberty recently disclosed plans to put its DirecTV stake and other assets into a separate public company.



## HOGENAKKAL WATER SUPPLY AND FLUOROSIS MITIGATION PROJECT

ASSISTED BY JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)



### Invitation for pre-qualification for Package No. IV under International Competitive Bidding (ICB) Pre-qualification invitation No. : PCE/HWS & FMP / 3 / 09-10 dated 30.05.2009

The Government of Tamil Nadu has received financial assistance (loan) from Japan International Cooperation Agency (JICA) towards the cost of Implementation of Hogenakkal Water Supply and Fluorosis Mitigation Project for DHARMAPURI and KRISHNAGIRI districts in Tamil Nadu. Tamil Nadu Water Supply and Drainage Board (TWAD Board) is the implementing Agency, which intends to utilize a portion of proceeds of loan to payments for the execution of various civil works.

The TWAD Board intends to pre-qualify contractors/firms for the following Bids under ICB:

Package No	Name of Work	Type of Contract
IV	Supply, Laying, Jointing & Testing of Conveying Main and Distribution network of Pipes of varying sizes and materials from 1500 mm to 63 mm Dia of MS, PSC, DI, HDPE and PVC, Construction of elevated R.C.C MBRs, OHTs and ground level sumps for a major multi stage pumping water supply project. Supply, Erection & Testing of Pump Sets including sump and pump houses, Flow Control Devices, Valves, Construction of public fountains and maintenance of all the above works for an Operational period of five years. From Madam MBR to Hosur and enroute Habitations under the Panchayat Unions of Veppanapalli, Kelamangalam, Thally, Shoolagiri & Hosur and Town Panchayats of Kelamangalam, Denkanikottai & Mathigiri and Hosur Municipality	UNIT RATE

Pre-qualification is open to firms, voluntarily formed joint ventures/consortia and independent contractor from eligible source countries (all countries).

Eligible applicants may download the Pre-qualification documents free of cost from the following websites: (i) [www.twadboard.gov.in](http://www.twadboard.gov.in) (ii) <http://tenders.tn.gov.in>. It can also be obtained in person from 03.06.2009 to 13.07.2009 from the Office of the Project Chief Engineer, (HWS & FMP), 4/516, Parvathi Illam, Railway Station Road, Dharmapuri-636 702, Tamil Nadu by paying Rs. 1040/- or US\$ 21 (including taxes) by cash / D.D. in favour of the Executive Engineer, PIU, TWAD Board, Dharmapuri, payable at Dharmapuri.

Submission of documents for Pre-qualification shall be in a sealed envelope, either delivered by hand or by registered mail or by courier to the Project Chief Engineer, HWS & FMP, TWAD Board, 4/516 Parvathi Illam, Railway Station Road, DHARMAPURI-636 702, Tamil Nadu, India, on or before 15.07.2009 at 15.00 hrs.

The Sealed envelope containing the pre-qualification documents shall be superscribed with the words "JICA assisted Hogenakkal Water Supply and Fluorosis Mitigation Project - Application for Pre-qualification for Contract Package No. IV under ICB"

The applications for pre-qualification received within the prescribed time shall be opened on the last day of receipt the date, viz., 15.07.2009 at 15.30 hrs. in the presence of those applicants or their authorized representatives choose to be present at that time.

The undersigned reserves the right to reject any or all the bids without assigning any reasons therefor.

Place : Dharmapuri

Date : 30.05.2009

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**TAMILNADU WATER SUPPLY AND DRAINAGE BOARD**

## CORPORATE NEWS

# U.S. probes tech hiring

*Possible agreements not to poach workers are investigated*

BY JESSICA E. VASCCELLARO  
AND JUSTIN SCHECK

The Justice Department is investigating whether a number of large U.S. companies violated antitrust laws by establishing agreements not to recruit each other's employees, according to people briefed on the investigation.

The department has sought information from companies in the technology and biotech sectors, including Google Inc., Apple Inc., Yahoo Inc., Microsoft Corp., Intel Corp. and Genentech Inc., these people said. It is unclear which of the companies might be targets of the probe.

A Justice Department spokeswoman declined to comment.

Spokesmen for Google and Genentech said their companies had been contacted about the probe and are cooperating. "Our understanding is that a number of companies received this request for information from the U.S. Department of Justice," the Genentech spokesman said.

A spokeswoman for Yahoo declined to comment, as did a spokesman for Apple.

The inquiry, reported by the Washington Post Tuesday evening, is the latest sign that the Obama administration is acting on its promise to enforce antitrust laws more aggressively. And it is further evidence that the administration intends to keep tech companies, in particular, in its sights.

The Justice Department continues to investigate whether Google's proposed settlement with authors and publishers to resolve a copyright dispute over its book-search service violates antitrust laws, according to people familiar with the matter. And the Federal Trade Com-

mission has inquired into whether the fact that two directors—Google Chief Executive Eric Schmidt and former Genentech CEO Art Levinson—sit on both the Apple and Google boards violates antitrust laws.

The latest investigation casts a wider net, looking at the hiring practices of companies in multiple industries, say the people familiar with the inquiry.

According to one person familiar with the latest investigation, businesses frequently agree, as part of business deals or merger agreements, not to poach each other's employees. But the Justice Department is looking into whether companies have established blanket agreements to refrain from poaching, which may be considered collusion, this person said.

David Balto, a former FTC policy director, said the underlying issue is whether agreements between companies affect the ability of employees to change jobs and negotiate for higher wages.

## GLOBAL BUSINESS BRIEFS

## ING Groep NV

**Asset sales over five years should fetch \$8.5 billion**

ING Groep NV plans to raise at least €6 billion (\$8.5 billion) within five years by selling assets, the Dutch bank and insurer said Thursday. Chief Executive Jan Hommen had previously said he planned to "de-risk" the company by selling assets to strengthen its balance sheet, but had given no time frame or target amount. In a presentation to analysts in Frankfurt and posted on its Web site, ING said it would sell 10 to 15 smaller businesses, but didn't say which ones. The company also said it plans to exit 10 of the 48 countries it has operations in, again without specifying. At the same conference, Belgian peer KBC Group NV said it will cut a further 500 jobs, or 35% of total headcount, at its investment bank by the end of 2009.

## William Morrison Supermarkets

William Morrison Supermarkets PLC said Thursday that sales at stores open at least a year rose 8.2% in its fiscal first quarter, but didn't raise its full-year outlook. The increase in sales, which exclude fuel and value-added tax, for the 13 weeks to May 3 follows a 9.2% rise in the six-week Christmas period, and an 8.2% increase for the year ended Feb. 1, 2009. However, Finance Director Richard Pennycook said it was too early in the year to be raising the retailer's outlook. "We're obviously pleased to have the momentum but, by the fourth quarter, comparatives get very tough," he said. Morrison, the U.K.'s largest grocer by sales, is benefiting from its focus on fresh and locally sourced food as well as price cuts and promotions. Chief Executive Marc Bolland said that Morrison's policy was to keep investing in price promotions.

## Voestalpine AG

Austrian specialty steelmaker Voestalpine AG reported a 26% drop in net profit for its full fiscal year Thursday and warned the current year would be worse, marked by weak demand and cost cuts but also lower raw-materials prices. Net profit fell to €529.8 million (\$749.9 million) for the 12 months ended March 31 from €718.2 million a year earlier. Sales, meanwhile, rose 11% to €11.63 billion thanks to an acquisition and a strong first half. The company proposed a dividend of €1.05 a share, down from €2.10 a year earlier. "In fiscal 2010, the economic environment will create the most difficult business year in decades for Voestalpine," the company warned. Voestalpine said it expects a fall in raw-materials and energy costs and a gradual recovery of demand, starting in the fiscal second half.

## Telenor ASA

A Moscow judge late Wednesday rejected a request from Telenor ASA that would have prevented bailiffs from selling the Norwegian company's shares in Russian mobile operator OAO Vimpel Communications. Telenor said it would appeal the decision. The case first went before the Moscow City Arbitration Court almost two months ago, but the judge had adjourned the hearing several times before delivering his judgment. A Siberian court has ordered Telenor to pay VimpelCom \$1.7 billion in damages, after ruling that the company obstructed that operator's expansion into Ukraine. Telenor is appealing that ruling, but most of its VimpelCom shares have been frozen by bailiffs as collateral against the damages.

## Harmony Gold Mining Co.

South-Africa-based Harmony Gold Mining Co. said it had found the bodies of 15 more illegal gold miners, bringing to 76 the number of deaths following an underground fire in an abandoned shaft. Tom Smith, chief of operations for the company's southern region, said the bodies were found by miners starting work Thursday at the mine's Eland shaft near Welkom in Free State province. They had been left by other illegal miners at an underground station. Over the weekend, 36 prospectors died, and on Tuesday 25 bodies more were brought to the surface. Illegal miners are often hired through organized crime rackets that produce about \$250 million in gold a year. The miners, often unqualified, make their way through a warren of tunnels to the ore.

## United Co. Rusal

Russian aluminum giant United Co. Rusal is unlikely to sign a formal deal to restructure its debt with foreign creditors by the June 11 deadline, the company's minority shareholder said Thursday. Viktor Vekselberg, who owns an 18% stake in Rusal, said he hopes the standstill agreement between the company and its creditors will be extended. Mr. Vekselberg said a deal may be reached soon after June 11. In April, a Rusal representative said the company hoped to restructure its \$7.4 billion debt with international banks. Rusal declined to comment Thursday, and a representative of Oleg Deripaska, the controlling shareholder of the company, wasn't available to comment.

## EasyJet PLC

U.K.-based budget carrier easyJet PLC said it carried 3.95 million passengers in May, up 1.8% from a year earlier. The airline's load factor, which measures the proportion of seats it filled with paying passengers, was up 0.3 percentage points at 83.5%. German rival Air Berlin PLC, meanwhile, posted an 8% drop in passenger numbers for May and said it raised €38.8 million (\$54.9 million) in new capital. The carrier's load factor fell by 3.8 percentage points to 77%. Air Berlin said it had placed about 6.6 million new shares at €3.50 each with institutional and professional investors, raising €23 million. The issuance represents close to 10% of Air Berlin's share capital. The airline's largest shareholder, ESAS Holding A.S., agreed to take an extra four million shares from a separate capital increase, with additional proceeds of €15.8 million.

## Publicis Groupe SA

Standard & Poor's Ratings Services put Publicis Groupe SA on watch for a ratings downgrade, citing the French-based global advertising agency's heavy exposure to General Motors Corp. GM's ad-buying agent, Publicis unit Starcom Mediavest Group Inc., was listed as GM's sixth-largest creditor with a \$121.5 million exposure, in Monday's bankruptcy filing. Publicis was also listed as a separate creditor and is owed \$25.2 million. S&P said risks to Publicis's ratings include GM's possible decision to discontinue its contract with the company, its financial exposure stemming from media-buying commitments and possible losses on its outstanding receivables from GM. Publicis couldn't immediately be reached for comment.

—Compiled from staff and wire service reports.

# Biogen says dissidents won a seat

BY MIKE BARRIS  
AND KEITH WINSTEIN

Activist shareholder Carl Icahn has won at least one seat on the board of Biogen Idec Inc., according to a preliminary count, with one seat still too close to call, Biogen said.

Mr. Icahn claimed after Biogen's annual meeting on Wednesday that he won two seats.

According to a preliminary tally released by Biogen on Thursday afternoon, shareholders elected one of the four Icahn nominees—Alexander J. Denner. Also elected were current Biogen directors Robert W. Pangia and William D. Young.

Biogen said it would wait for an independent vote tabulation before announcing the winner of a fourth board seat.

Meanwhile, the company said Thursday that Mr. Icahn's proposal

to change Biogen's state of incorporation to North Dakota has failed to gain shareholder support. It also said it "appears" his proposition to fix the company's board size at the current 13 members also fell short of votes needed.

North Dakota in 2007 adopted a law that makes it easier for shareholders to contest decisions by a company's management.

Mr. Icahn's goal was to shake up the biotechnology company's 13-member board. His fight was backed by an influential proxy adviser and, observers believed, by Biogen's largest shareholders. But the New York billionaire—who lost last year's proxy contest with Biogen—faced an uphill battle to persuade smaller shareholders that he could revive the drug maker's stagnant shares, analysts said.

Mr. Icahn owns 5.6% of Biogen,

which sells three drugs for cancer and multiple sclerosis. He wants the company to consider unwinding the 2003 merger of Biogen and IDEC Pharmaceuticals and he has criticized the company for its drug-development efforts.

Biogen's cash cow, Avonex, last year lost its position as the top-selling MS drug in the U.S. to a rival from Teva Pharmaceutical Industries Inc. and faces possible generic competition. Biogen also faces an imminent decline in royalties on the cancer drug Rituxan. Meanwhile, MS drug Tysabri has been linked to 10 cases of a deadly brain infection, pummeling Biogen's share price.

In a recent letter to shareholders, Biogen said it has "focused on doing smart deals and not on volume." It said Mr. Icahn proposed the split-up only to grab attention and the idea would be harmful and unworkable.

# General Dynamics agrees to buy Axsys

BY AUGUST COLE

General Dynamics Corp. is buying Axsys Technologies Inc. for \$643 million, in a deal that underscores the growing interest among defense giants to capitalize on the Pentagon's rising demand for battlefield surveillance systems.

Similar deals are expected later this year after the Obama administration recently requested billions

more in its 2010 Defense Department budget for spending on technologies that directly help forces in Iraq and Afghanistan find and fight insurgents. At the same time, some of the Pentagon's most costly weapons programs are being wound down or cancelled, putting pressure on the biggest contractors to expand other lines of national security-related business.

General Dynamics' offer of \$54 a share is an 8% premium to Axsys's closing share price Wednesday of \$50. General Dynamics expects sales at Axsys this year to be about \$280 million. The deal, which should close during the third quarter, will add to General Dynamics' profits starting in 2010, the company said.

Other big contractors, such as Lockheed Martin Corp. and Boeing Co. have also recently been buying smaller firms specializing in everything from cybersecurity to logistics to unmanned aerial vehicles.

General Dynamics, based in Falls Church, Va., already has a robust presence in the military technology and communications systems market. Axsys, of Rocky Hill, Conn., will

add its expertise in infrared sensor technology and powerful optical devices, which are found on aircraft like the Global Hawk unmanned spy plane as well as armored vehicles used by Army infantry.

David Baxt, who heads the aerospace and defense practice at Jefferies & Co. and represented Axsys in the transaction, said he expects more acquisitions like this to take shape now that this deal is done. "I think people wanted to see where pricing would end up" and if a large defense contractor stepped up to buy Axsys, he said. "There's a lot more of this stuff out there."

Michael Urfirer, one of the founders of Stone Key Partners, which represented General Dynamics, said that the Obama administration's focus on cybersecurity as well as military and intelligence technologies will keep driving further deals as companies reposition themselves. "We think you're going to see an increasing level of activity," he said.

Axsys has about 1,000 employees and they will become part of General Dynamics' Advanced Information Systems unit.

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## ECONOMY &amp; POLITICS

## Central banks in Europe hold steady

ECB, Bank of England focus on bond-buying efforts; Canada stands pat while Russia and Iceland lower rates

BY JOELLEN PERRY

FRANKFURT—European central banks left key rates at record lows Thursday amid tentative optimism that the worst of the recession has passed, and focused on plans to buy bonds to help heal credit markets.

The European Central Bank, which sets interest rates for the 16-nation euro zone, held its key rate at 1% and said it will launch a €60 billion program to buy low-risk bonds in July.

ECB President Jean-Claude Trichet, speaking at a news conference following the central bank's decision, forecast the pace of the bloc's sharp slowdown will ease this year. "After a stabilization phase, positive quarterly growth rates are expected by mid-2010," Mr. Trichet said.

Mr. Trichet suggested policy makers haven't ruled out further rate cuts or an expansion of the asset-purchase program, but hinted that decision-makers are likely to sit tight for a while to assess the effect of the steps they have taken. Mr. Trichet called the current 1% policy-rate level "appropriate." Most analysts expect the rate to stay at 1% through year-end.

The world's big central banks have brought key rates nearly as low as they can go and now are focusing on other means of shoring up still-struggling economies.

Thursday's data had some bright spots: April retail sales in the 16 countries that use the euro

rose for the first time since September, boosted by sales of food, drinks and tobacco, the European Union's statistics agency Eurostat reported. In the U.K., mortgage lender Halifax reported that house prices posted their strongest gain for six-and-a-half years in May, rising 2.6% on the month.

The Bank of England also kept its key rate on hold at 0.5% Thursday, the lowest in the bank's 315-year history, amid signs the U.K. economy is stabilizing.

Bank of England policymakers left the size of their £125 billion asset-purchase program unchanged. But analysts say they suspect the program will get another boost in coming months as inflation pressures wane.

Canada's central bank, meanwhile, left its key rate on hold at a record low of 0.25% and reiterated its commitment to keep it at that level until the middle of next year as long as inflation remains tame.

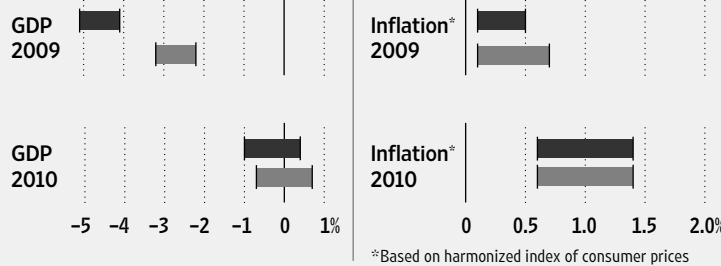
Other central banks with ample room to cut rates did so. Russia's central bank cut its key rate Thursday for the third time in six weeks, lowering it by a half-percentage point to 11.5%.

Iceland's central bank Thursday cut its key rate for the fourth time in as many months by one percentage point to 12%, despite a recent warning from the International Monetary Fund that lower rates could weaken the currency and spur inflation in the nation, whose banking system collapsed last year.

## Tough road ahead

Euro-zone central bank staff project the slowdown will be worse this year but growth will return in 2010.

■ Range of euro-zone central bank staff projections, June 2009  
■ Range of ECB staff, March 2009



A day after criticizing central bankers, German Chancellor Angela Merkel telephoned Mr. Trichet Wednesday, according to a person familiar with the conversation.

Ms. Merkel "confirmed to me she was fully respecting the independence of the ECB, fully backing what we were doing," Mr. Trichet said at Thursday's news conference.

On Tuesday, Ms. Merkel reserved her sternest critique for the Fed and Bank of England—who have been more aggressive in cutting key rates and buying assets—but also aimed at the ECB's foray into bond buying, suggesting the euro-zone central bank "bowed somewhat to international pressure."

Some in Europe took Ms. Merkel to task for her comments. "Politicians ... should refrain from com-

menting on the ECB, which should be doing more," said Marc Stoecker, chief economist for Europe's top business lobby, at a news briefing Thursday.

The ECB president, as expected, unveiled details of the bank's plan to buy €60 billion in covered bonds. The highly-rated securities remain on issuers' balance sheets; if the issuer goes bust, the bondholder gets the underlying assets.

ECB policy makers have clashed over the size and scope of the program in recent weeks, but agreed Thursday to buy bonds backed by both public and private-sector assets, in a move analysts said could ease financing conditions both for governments and firms.

Mr. Trichet emphasized that

the ECB's asset-purchase program remains less ambitious than those launched by the Fed and Bank of England, where policy makers have been buying government and private-sector bonds for months in a bid to boost the supply of credit in the economy.

Mr. Trichet suggested the ECB, by contrast, hopes to keep the supply of money in the euro-zone economy steady and is aiming at reviving a hard-hit market rather than bringing down longer-term interest rates. Mr. Trichet declined to specify how the bank might offset its bond purchases, leaving the option of a credit boost open.

New, gloomier central-bank forecasts for growth and inflation underscore the depth of the euro-zone economic downturn under way.

Central-bank staff anticipate the bloc's economy will shrink by around 4.6% this year, well below a March forecast of a contraction around 2.7% and worse than many private-sector forecasts. For 2010, staff forecast average output will shrink by around 0.3%, compared with a March forecast of flat growth.

Euro-zone central-bank staff expect inflation this year to be around 0.3%, just under a March projection of about 0.4% and well below the ECB's aim of inflation just under 2%. Staff expectations for inflation in 2010 remain unchanged at 1.0%.

—Marcus Walker in Berlin contributed to this article.

## Hong Kong vigil remembers Tiananmen 20th anniversary

BY JONATHAN CHENG

HONG KONG—Tens of thousands of Hong Kong residents held a candlelight vigil Thursday to commemorate the 20th anniversary of the Tiananmen Square crackdown, as Beijing and the rest of mainland China remained under a clampdown around the politically sensitive day.

Hong Kong's annual vigil marks the world's largest remembrance of the deadly Chinese government crackdown on a 1989 pro-democracy demonstration in Beijing, and is the only major one held publicly on Chinese soil. Hong Kong police estimated late Thursday it drew about 62,800 attendees. Organizers said about 150,000 people attended, which they said was the largest since the first vigil 19 years ago.

"We're here to say that we still remember," said Alex Cheng, a 64-year-old driver who has attended every year for 20 years. "China's leaders have to come out and apologize for their actions."

As the attendees raised candles and traditional Chinese instruments played, demonstrators chanted, "Vindicate the student movement of 1989! Find those who are responsible for the massacre! Establish a democratic China!"

The major gathering in a local park contrasted with the near-silence on the mainland in the face of tight security and a media and Internet clampdown. In Beijing, tourists were allowed into Tiananmen Square, but the atmosphere remained tense as uniformed police



Tens of thousands of people staged a candlelight vigil in Hong Kong on Thursday to observe the anniversary of Tiananmen.

watched passersby, and officers in civilian clothing stood at intervals along nearby Chang'an Avenue. Elsewhere around the city, many important buildings were guarded.

Chinese officials Thursday strongly criticized remarks the day before by U.S. Secretary of State Hillary Clinton, who issued a statement remembering "the tragic loss of hundreds of innocent lives" during what

she called "the violent suppression of demonstrations in Tiananmen Square."

China's foreign ministry expressed "strong dissatisfaction" with Ms. Clinton's comments.

"We urge the U.S. side to put aside its political prejudices and correct its wrongdoings so as to avoid bringing interference and damage to Sino-U.S. relations," a ministry

spokesman said, according to the official Xinhua news agency. China had made great strides in economic and social development over the past three decades, he added.

As memories of the event have faded, and as China's explosive growth has brought prosperity to Hong Kong as well as the mainland, the annual candlelight vigil has seen turnout wane in recent years. But on

Thursday crowds filled the park amid renewed attention.

The question in Hong Kong of how to remember the event burst into the public square last month, when the city's top official, Donald Tsang, told the city's legislature he represented Hong Kong people in saying that the incident happened a long time ago, and that China's growth had brought prosperity to Hong Kong. The comment drew a backlash, and Mr. Tsang apologized for his comment, calling it a slip of the tongue.

The vigil also comes just after the publication of a secret memoir by the late Communist Party secretary Zhao Ziyang, who sympathized with the student movement and was ousted shortly after the crackdown. Chinese-language editions of the memoir, based on audiotapes smuggled out of China and published in Hong Kong last month, have been sold out here.

The anniversary comes at a time when Hong Kong is economically dependent on mainland China but continues to hold strong feelings about Beijing's handling of the student movement. According to a poll from Hong Kong University, 69% of citizens feel the Chinese government's handling of the movement was wrong, the strongest response since 1996. At the same time, the polls show that 46% of respondents think China needs economic development more than democratic development.

—Loretta Chao in Beijing contributed to this article.

## ECONOMY &amp; POLITICS

## U.S. pledges aid for refugee crisis in Pakistan

BY JAY SOLOMON

ISLAMABAD, Pakistan—The Obama administration pledged an additional \$200 million in emergency aid to Pakistan in a bid to quell a mounting refugee crisis that has left millions of people homeless, and called on other governments to do more.

U.S. officials stressed on Wednesday that a quick and coordinated international response to Islamabad's emergency was crucial to underpinning recent gains Pakistan's army has made against the Taliban in regions such as the Swat Valley, a one-time tourism haven overrun by the Islamist militia in recent months.

The Obama administration is now pressing Pakistan President Asif Ali Zardari to secure and rebuild Swat, while directing his military against Taliban and al Qaeda fighters based in the North and South Waziristan districts of Pakistan's tribal areas.

"We believe that the actions taken by the Pakistani government and the military in recent weeks have been necessary, essential and have improved the situation," Richard Holbrooke, the Obama administration's point man on Pakistan, said in Islamabad Wednesday. "But the fighting is still going on, there is a lot more to go...I think the other countries can and should do more."

The Obama administration's recent pledge brings to more than \$300 million the amount committed by Washington to easing Pakistan's refugee problems. Mr. Holbrooke stressed that the \$200 million still requires congressional approval.

U.S. and United Nations officials voiced frustration Wednesday about the lack of wider international response so far for Pakistan. U.N. staff in Islamabad said they have received only a fraction of the \$543 million sought in an emergency appeal announced for Islamabad last month.

Major European and Arab nations have yet to make sizable donations, they said.

The Obama administration is hoping that its quick and high-profile response to the refugee crisis can win it points with the Pakistani public.

Mr. Holbrooke toured refugee camps in Pakistan Thursday and planned to visit major Arab states on a fundraising tour for Islamabad later in the week.

# Putin visits ailing town

*Pikalyovo officials, factory owners are to blame, premier says*

BY ANDREW OSBORN

MOSCOW—Prime Minister Vladimir Putin visited a town ravaged by the global downturn and blamed one of Russia's most prominent tycoons, Oleg Deripaska, as well as local officials for its dismal condition.

In the visit—much of which was broadcast on state television—the prime minister cast himself as Russia's crisis-manager-in-chief, aiming to pacify the inhabitants of Pikalyovo and ensure the town's problems don't spread elsewhere.

Some political analysts said the visit was a powerful signal to other businessmen and regional officials to keep a lid on social discontent. Russia has hundreds of similar towns that rely on just one or two factories for survival.

Pikalyovo, a Soviet-era town about 210 kilometers southeast of St. Petersburg, has been in turmoil since the start of the year when the three main factories that employ about one-fifth of its 21,000-strong population shut down. In May, the town's utility shut off all hot water and heat, due to unpaid bills. The biggest of the three factories, OOO Baselcement, is owned by Mr. Deripaska, who controls a sprawling, highly indebted conglomerate that ranges from industrial metals to construction.

Yevgeny Ivanov, a senior executive in Mr. Deripaska's conglomerate, said the Baselcement factory would restart production by month's end, producing alumina, which is used in the manufacture of aluminum, and cement. A person close to Mr. Deripaska said the tycoon was disappointed the situation had become so serious.

Mr. Putin didn't name Mr. Deripaska when subjecting him and the



The visit by Vladimir Putin, above, was broadcast on state television as the prime minister cast himself as the man to solve the crisis.

owners of the two smaller factories to a public dressing down. "You made thousands of people hostages to your ambitions, to your unprofessionalism, and, maybe, simply to your greed," Mr. Putin told them in an emergency meeting. "Where is business's social responsibility?" he asked them. "It's absolutely unacceptable."

**'Our company has become a hostage of the situation,' Baselcement says.**

Mr. Deripaska, once estimated to be Russia's richest man and now fighting to save his businesses from creditors, stared at the floor as Mr. Putin spoke.

Mr. Putin demanded that Mr. Deripaska sign a contract with a supplier aimed at restarting the Pikalyovo plant.

Mr. Putin chided local officials, saying they had scurried around before his visit when they should have

solved the town's problems long ago.

He ordered workers' unpaid back wages to be settled by the end of the day and said the government would force the three factories to combine into one unit as they were in Soviet times. He said the factory owners had a short period to agree before the government intervened.

Pikalyovo's idled workers have become increasingly militant in recent months, culminating in a protest Tuesday that blocked a busy highway, backing up traffic for more than 320 kilometers. Mr. Putin condemned that action, saying it was illegal and that similar actions won't be tolerated, regardless of the circumstances.

Svetlana Andreyeva, a Baselcement spokeswoman, said Mr. Putin's criticism wasn't aimed specifically at Mr. Deripaska. Mr. Putin "perfectly understands what's going on," she said. "Our company has become a hostage of the situation."

Baselcement blames the owners of the two other factories for the crisis. They deny they are to blame.

—Daria Solovieva in Moscow contributed to this article.

## Japanese firms slash spending

BY ANDREW MONAHAN

TOKYO—Japanese capital investment fell at its sharpest rate on record in the first quarter, government data showed, as recession-stricken manufacturers continued to slash spending, though signs have emerged that corporate conditions have improved recently.

Business investment plunged by 25.3% during the January-March period, the fastest pace since comparable data became available in mid-2002, the Ministry of Finance's quarterly survey of corporations' financial statistics showed.

Hiroshi Watanabe, a senior economist at Daiwa Institute of Research, said he thought capital expenditure hit bottom in the quarter ended March and would "recover ahead, but slowly," with improvement in sales and profits.

Corporate sales fell 20.4%, for the fifth straight quarter of decline, while current profits plunged 70.1% on year, marking the seventh straight quarter of decline. Both were record drops.

The tumble in profits was caused largely by a record drop in manufacturers' profits, which more than doubled, the data showed. That marked

### Spending slash

Japan's capital investment, change from previous year



Source: Ministry of Finance, Japan

the first recurring loss on record, a reflection of the heavy losses suffered as overseas and domestic demand remained in the doldrums.

The quarterly survey also showed that pretax profits decreased by 70.1% year-to-year, marking the seventh straight quarter of decline.

Economists closely watch the capital investment figure because the government will use it in revising the preliminary first-quarter gross domestic product data. Corporate investment in factories and

equipment accounts for around 15% of Japan's GDP.

In part due to manufacturers slashing such spending, the country's GDP dropped at a record 15.2% in annualized terms in the January-March quarter, preliminary data showed. While the drop in capital expenditure was slightly less severe than expected, prompting some to expect an upward revision to the GDP, other analysts expected a negative contribution from inventories to lead to a downward revision.

Hirokata Kusaba, economist with Mizuho Research Institute, said he expected the figure to be revised down to a 15.5% fall.

That most likely marks the bottoming of the economy, analysts agreed, with production picking up as companies finish clearing inventories. In April, Japan's industrial output rose 5.2%, the sharpest pace in over half a century.

But some economists remain pessimistic over how long the damaging falls in capital expenditure would continue, with Mr. Kusaba saying he expected the slide "to continue through the April-June period."

—Takashi Mochizuki contributed to this article.

## OAS opens path for Cuba's return with U.S. support

BY JOSÉ DE CÓRDOBA AND DAVID LUHNOW

The Organization of American States, with U.S. support, revoked a 1962 Cold War measure suspending Cuba, opening the way for the Communist nation's return to the 34-member body—as long as Cuba observes the OAS's democratic principles.

The U.S. backing of the measure was hailed by many OAS members as a historic opening of relations. "The Cold War has ended this day in San Pedro Sula," said Honduran President Manuel Zelaya.

The shift could allow the U.S. to reap credit for the apparent thaw, even if Cuba—which has often condemned the organization as a tool of U.S. policy—doesn't take up the invitation. And it might enable the U.S. to draw on support from other hemispheric nations to press Cuba to allow more freedom.

But the moment of unity appeared fragile—a case of different countries reading the same text differently. The text of the deal says Cuba would have to open a "process of dialogue" in line with OAS "practices, proposals and principles."

Ecuador took that to mean Cuba can return with no "conditions." But the U.S. said Cuba won't only have to ask for readmission, it also will have to abide by the OAS's principles of human rights and democracy, as guided by the organization's democratic charter, which insists on multi-party elections and a free press.

The measure passed unanimously after two days of diplomatic wrangling in the Honduran city of San Pedro Sula. Many Cuban allies, led by countries such as Venezuela and Nicaragua, wanted the suspension lifted and Cuba allowed back in the OAS without any conditions.

Many others saw the U.S. move as shrewd diplomacy by the White House. The lifting of the 1962 suspension removes the onus from the U.S. of being a bully, while maintaining, this time with Latin American support, pressure on the island to enact democratic reforms.

"This is a creative solution that addresses the region's desire to bring Cuba back into the conversation, but left for another day how and under what conditions Cuba comes back in," said Philip Peters, a Cuba analyst at the Lexington Institute think tank in Washington.

"This establishes a track forward that has multiple steps to it," said Dan Restrepo, a member of the National Security Council. "Simply put, the OAS has to agree that Cuba is abiding by the same rules that everyone else is abiding by."

The Obama administration's move came under criticism from some quarters. "This weak resolution undermines the OAS's foundation by only paying lip service to the principles upon which the Democratic Charter stands," said Sen. Bob Menendez, a Cuban-American Democrat from New Jersey.

Eliot Engel, a New York Democrat and chairman of the House Foreign Affairs Subcommittee on the Western Hemisphere, said: "The ball is now in Cuba's court to abide by the principles of human rights and democracy embodied in the Inter-American Democratic Charter."

The decision could prove to be a trap for Cuba. Fidel Castro, the island's retired dictator, has recently made the OAS a favorite target. He has said the island will never return to the OAS.

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