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A brutal war ends after 26 years



Colombo on Monday, after soldiers killed rebel chief Velupillai Prabhakaran. Page 10.

Obama wants timetable on Iran talks

Benjamin

By Charles Levinson

WASHINGTON-U.S. President Barack Obama, meeting with Israeli Prime

Minister Benjamin Netanyahu on Monday, said the U.S. will give talks with Iran more time, but said there must be a "clear timetable at which point we say, these talks aren't making progress.'

Mr. Obama, in remarks after his meeting with Mr. Netanyahu, said the U.S. "should have a

fairly good sense by the end of the year ... whether there is a good-faith effort to resolve differences" with Iran. The U.S. wants to persuade

Iran that "it is not in their interest to pursue a nuclear weapon, and they should change course," Mr. Obama said. The U.S., he said, is "not foreclosing a range of steps, including much stronger inter-

Mr. Netanyahu Barack Obama has been seeking

from the U.S. clear timetables for its diplomatic outreach to Tehran, and assurances stiff sanctions would follow if talks fail. Israel fears Iran is within months of producing enough fissile material to produce an atomic bomb, though Israeli

and U.S. intelligence officials believe it could still take Iran years to assemble one.

Mr. Netanyahu said that if Iran acquired a nuclear weapon, it "could give a nuclear umbrella to terrorists. or worse, terrorists could acquire nuclear weapons."

Mr. Obama also pressed Israel to push forward with creating the conditions for building an independent Palestinian state. The U.S. leader specifically stressed to Mr. Netanyahu

the importance of ceasing Israeli settlement in Palestinian territories. "We have to make progress on settlements," Mr. Obama said. "Settlements ave to stopped."

 $\bar{M}r$. Obama has made Palestinian statehood among the central plans of

his emerging Middle East peace strategy. He has dispatched Secretary of State Please turn to page 31



How to fix economy is dividing Kremlin

By Gregory L. White

MOSCOW-Russia's industrial output plunged by 16.9% in April from a year ago, the sharpest drop in more than a decade, the government said Monday. Official forecasts now admit the recession could continue into next year.

Recently Russia had seemed to be getting some good economic news for a change: Oil prices are up, the ruble is rising and the stock market has doubled since January. But even these developments have economists worried, too.

"Oil prices now are as awful as they could be-not low enough to force real reform and not high enough to allow free

spending like before," says Vladimir Mau, a prominent economist who heads an advisory panel to a government team dealing with the financial

Pressure is high on the government to keep spending to support the flagging economy, while many economists and fiscal hawks inside the regime warn that the Kremlin needs to tighten its belt in order to cut the deficit and bring down surging inflation.

proach is prevailing will come by the end of this month, when President Dmitry Medvedev delivers his annual budget message, officially starting preparations of a draft to be ready by mid-summer. Prime Minister

A key indicator of which ap-Please turn to page 31

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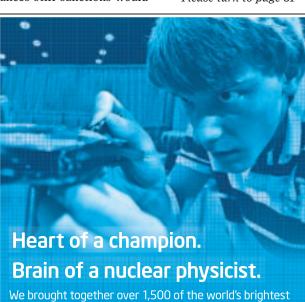
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DJ Stoxx 600	207.83	+2.42
FTSE 100	4446.45	+2.26
DAX	4851.96	+2.42
CAC 40	3245.39	+2.41
Euro	\$1.3490	-0.75
Nymex crude	\$59.03	+4.77



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LEADING THE NEWS

India's election results lift stocks by 17%

Without the obstacle of split government, reforms seem likely

By Jackie Range

NEW DELHI-India's new government may be poised to give the economy an extra boost just as it is showing some signs of recovery on its own, a combination that cheered investors and drove Indian stocks up more than 17% Monday.

The new political makeup, after the ruling Congress party and its allies sailed to victory in national elections Saturday, suggests an era of stability that could allow the government to pursue reforms in some sectors of the economy, such as retail and insurance.

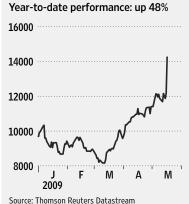
It could also encourage foreign investors who had been apprehensive at the prospect of a weak coalition government. And it might prompt the further sell-off of chunks of state-owned companies, a process that has largely stalled in the past five years, analysts and economists said.

'We believe the election verdict could be game changing for India as it enhances the scope for significant medium- and longer-term reforms that will boost the sustainable growth," Rajeev Malik, a Singaporebased economist at Macquarie Securities, said in a note.

"This, combined with the ongoing improvements in the Indian economy, will be highly positive for the economic outlook," he said. In an interview he added: "The single biggest factor holding back India's growth potential had been the poli-

The ruling United Progressive Alliance, led by the Congress party, emerged from the elections as the top political coalition with 262 seats, just 10 seats short of the 272 required for a majority in the lower house of Parliament. It is expected to form the new government by mid-

Sensex Monday's close: 14284.21, up 17%





Onlookers react to the display at the Bombay Stock Exchange building in Mumbai

Congress trounced the main opposition Bharatiya Janata Party. And while Congress worked to put together a new Cabinet Monday, the BJP said its leader, L.K. Advani, will continue in his post, averting for now a crisis of leadership in the right-wing party. Mr. Advani had offered to resign from the top post at the weekend, but party officials refused to accept his resignation and pressured him to change his mind.

In Mumbai, trading on stock exchanges was halted after the benchmark Sensex index on the Bombay Stock Exchange jumped 17.3% to 14284.21, its highest level in more than eight months. For the year to date, the Sensex is now up 48%, one of the strongest gains for a global market. India's rupee strengthened, with the U.S. dollar weakening to 47.96 rupees from a previous close of 49.38 rupees.

Even before the election results, some had been arguing that India's economy was set to turn a corner as interest-rate reductions took effect. India's economy had been growing at about 9% but is projected to slow to about 6% this year because of the global slump. If the economy perks up in the second half of the year, as some expect, it could help pull the world out of recession.

In the past five years, reforms have been stymied by government allies, especially among a collection of leftist parties. But with the new government no longer relying on those parties for power, it will have a freer hand to introduce new measures. Among the possibilities, economists say, are pension changes to encourage greater savings and wider adoption; increasing the foreign-ownership cap in local insurance companies to 49% from 26%; and widening foreign-investment access in retailing.

"If there is no pressure from coalition partners, then it is easier to roll out reforms, especially in the pension and insurance sectors." said Suresh Tendulkar, head of the Prime Minister's Economic Advisory Council, an Indian government think tank, in an interview.

Such changes, along with a slew of other measures, such as a government effort to improve public finances, accelerating infrastructure spending and increasing government resources through privatization look set to boost growth, Morgan Stanley economists said. They raised their growth outlook for the Indian economy, saying gross-domestic-product growth in the year ending March 31, 2010, could reach 5.8%, up from their previous estimate of 4.4%.

Kamal Nath, trade minister in the outgoing government, said India can expect to return to a growth trajectory of 8% with the help of fiscal-stimulus packages that aim to boost domestic demand. The government will focus on spurring the manufacturing sector as well as exportoriented sectors, such as textiles, gems and jewelry, which have been affected by a slump in global demand, Mr. Nath said in an interview with the CNBC-TV18 news channel.

Selling stakes in government companies could "tide over the need for stimulating the economy, while reducing fiscal distress," said Dharmakirti Joshi, an economist at Mumbai ratings agency Crisil. India's fiscal deficit doubled to 6% of gross domestic product in the year ended March 31 because of government stimulus spending. Stimulus measures included increased spending on rural employment, pay raises for government employees and waiving loans to impoverished farmers.

Indeed, the home minister in the outgoing government said Monday that the newly elected government will soon adhere to the financial discipline needed to shrink a gaping fiscal deficit. "I think a balance will be struck between stimulating demand and keeping the deficit within manageable limits.. we'll get back to the path of fiscal prudence very soon," P.Chidambaram told CNBC-TV18 in an interview. Mr. Chidambaram, who also served as finance minister, said that the Indian government is open to sales of stakes in government-owned banks and companies but that it will retain a majority stake in such institutions.

Economic reforms in India have a history of moving at a slower pace than investors desire, and the world economic crisis has reaffirmed the views of many politicians and technocrats that the go-slow approach has helped insulate the Indian economy. Nonetheless, foreign investment is likely to grow.

CLSA Asia-Pacific Markets in a research note predicted "a surge of portfolio capital into the Indian stock market," since many foreign investors had avoided Indian stocks, given the unpredictability of the electoral process. Increased foreign direct investment is expected too, thanks to the election result.

-Niraj Sheth, Krishna Pokharel and Abhrajit Gangopadhyay contributed to this article.

Yellowstone Club finds a buyer

By Robert Frank

CrossHarbor Capital Partners has reached an agreement to acquire the Yellowstone Club, the exclusive Montana resort that is in bankruptcy protection, for \$115 million to \$120 million, according to people close the deal.

The agreement comes after the Boston private-equity firm reached a settlement agreement with Credit Suisse Group AG, which had made a

\$375 million loan to the club.

As part of the deal, CrossHarbor will take on about \$80 million in debt and pay about \$35 million in cash. The deal includes other considerations that could total in the millions of dollars, these people said.

The agreement marks the end of a yearlong legal and financial battle for the control of the club, a private golf and ski resort that counts Bill Gates and other billionaires as members

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LEADING THE NEWS

Arcandor rejects deal

Department store focuses on state aid over offer from Metro

By Kirsten Bienk and Erin Fines

Arcandor AG, scrambling for state aid to refinance its debts, said Monday it was initially rejecting a proposal from rival Metro AG that the two companies combine their department-store chain operations.

Metro, which is opposed to any state aid for Arcandor, has suggested combining its Kaufhof department stores with Arcandor's Karstadtchain.

A person close to the situation late Sunday said that Metro was preparing an offer to merge its departmentstore business with that of Arcandor.

An Arcandor spokesman said the company doesn't believe a combination of the two department-store chains would solve its problems and it wants to concentrate on securing its own financing first. No talks have taken placeyet, but Arcandor would be

preparedtoengageintalksoncooperation between Karstadt and Kaufhof onceitsfinancingissecured, headded.

Arcandor has announced its intention to file for €650 million (\$877 million) in government-backed guarantees and a loan from a stateowned bank.

Analyst Robert Greil of Merck Finck & Co. said he believes the timing of Metro's proposal is directly related to Arcandor's effort to get state aid. He added that Arcandor's chance of getting aid may diminish if a solution with Kaufhof is an alternative that doesn't risk taxpayers' money.

Metro Chief Executive Eckhard Cordes will meet Economics Minister Karl-The-

odor zu Guttenberg in the next few days to discuss the future of Germany's department-store sector and Arcandor's application for state aid, a Metro spokesman said.

The Economics Ministry Monday confirmed it is negotiating with Arcandor on the guarantees, but no decisions have been taken. Mr. Guttenberg, in comments over the weekend, appeared to damp hope for Arcandor, saying "management mistakes mustn't be cause for the state to help out with assistance."

Arcandor, which booked a loss of €745.7 million in its fiscal 2008, needs to refinance €650 million by mid-June

and another €300 million by September as well as find €900 million to fund a planned revamp.

A combination of the Karstadt and Kaufhof chains likely would lead to the closure of a number of stores and significant job cuts, said NordLB analyst Wolfgang Vasterling, noting both stores are present in many markets. Karstadt operates 91 department

stores and 28 sports stores across Germany, while Kaufhof has 141 locations, according to company Web sites.

Eckhard Cordes

Aspokesman for the German Cartel Office said it is too early to discuss any potential combination. The spokesman noted a potential merger of this size would likely have to be submitted first to European Union authorities.

Telenor's woes deepen with latest accusation

By Will Bland And Andrew Langley

MOSCOW—Telenor ASA said Monday that a small investment company, Farimex Products Inc., has accused the Norwegian telecommunications firm of violating Ukrainian competition law.

Farimex has already sued Telenor over its holdings in Russian mobile operator OAO Vimpel Communications, winning a \$1.7 billion damages claim against Telenor in Russian courts. That triggered a freeze on the Norwegian company's shares in VimpelCom. Telenor has denounced the ruling as "illegal."

Telenor said that Farimex has now written to Ukrainian authorities accusing the Norwegian company of breaking competition law to protect the position of Ukraine's largest mobile operator, Kyivstar. Telenor owns 53% of Kyivstar, while Russian partner Alfa Group owns the rest.

Telenor says Farimex is acting

on behalf of Alfa. Alfa has rejected Telenor's claims that the Russian company is behind Farimex. Farimex is a British Virgin Islands company that holds a 0.002% VimpelCom stake.

The Norwegian company said that Farimex "claims that Telenor... hindered competition in Ukraine through delaying VimpelCom's acquisition of Ukrainian Radio Systems," a local mobile operator.

A Farimex representative said he couldn't immediately comment on the Ukrainian complaint.

The Ukrainian development comes as Norwegian Prime Minister Jens Stoltenberg heads to Moscow for talks that some hope could ease the dispute between Telenor and Alfa

Mr. Stoltenberg is due to meet his Russian counterpart Vladimir Putin on Tuesday, and the Norwegian government, which owns 54% of Telenor, has said that the Russian lawsuits against Telenor will be one of the most important issues on their agenda.



Tech firms gird for new antitrust regime

Silicon Valley companies beef up presence in Washington, assuming a tougher stance from new administration

By Don Clark And Jessica E. Vascellaro

Silicon Valley companies are bracing for a tough new phase of antitrust scrutiny, responding to signs of heavier enforcement by the Obama administration and continued pressure from abroad.

A stricter stance against companies that dominate their sectors is likely to test government-relations strategies technology giants adopted during the Bush administration.

Google Inc., one of the most prominent companies under the watch of antitrust regulators, says its lobbyists and executives since March have met with about 40 groups, including lawmakers, regulators and advertising agencies, to argue that its business practices don't reduce competition. A Google spokesman said the effort is a response to Google's "size and success" not to the new administration.

Intel Corp., which was hit last week by a \$1.45 billion fine by European Union antitrust authorities, has been running ads in Washington and Brussels since last year that stress its positive impact on innovation and job creation. In October, the giant chip maker for the first time recruited a government official: Peter Cleveland, who served as chief of staff to Sen. Dianne Feinstein (D., Calif.) and will head Intel's Washington office.

Antitrust lawyers in private practice expect to get more business. "During the Bush administration nobody was interested in hearing about that," said Gary Reback, a Silicon Valley attorney who has been involved in high-profile, high-technology antitrust cases and recently wrote a book on the subject. "As we go forward, we'll hear a lot more about it."

Many tech companies were already following lessons from the treatment of **Microsoft** Corp., which was accused of monopolistic tactics by the Clinton administra-



tion. The software giant fought government oversight but suffered harsh publicity and some major defeats in court.

Some companies followed with a more accommodating approach. Cisco Systems Inc. chose to meet frequently with officials to explain its business. Apple Inc. managed to head off likely criticism in Europe over its music-download restrictions by moving to drop them.

The Justice Department during the Bush administration, which forged a relatively lenient settlement with Microsoft, shied away from antitrust actions aimed at individual companies.

EU regulators became the most aggressive enforcers in recent years. Last week, authorities in Brussels cited Intel for offering rebates to computer makers and a major retail chain on the condition that they buy most of their chips from Intel rather than Advanced Micro Devices Inc. Intel has said it would appeal the ruling.

The EU action came two days after Christine Varney, named by the Obama administration to head antitrust enforcement at the Justice Department, withdrew Bush-era guidance that had helped defendants in antimonopoly suits.

High-tech companies that had adjusted to the Bush administration's antitrust doctrine are now feeling "a little bit of frustration," said D. Bruce Sewell, Intel's senior vice president and general counsel. The chip maker, which faces a Federal Trade Commission investigation in addition to the EU battle, says it has become less clear what business tactics will be viewed as permissible.

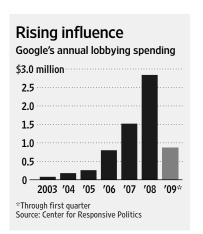
While working for the law firm Hogan & Hartson last year, Ms. Varney during a panel discussion said she was "deeply troubled" by Google's acquisition of DoubleClick, a company that serves Web ads, as well as by a proposed advertising deal between Google and rival Yahoo Inc. The deal was abandoned in November after the Justice Depart-

ment said it would attempt to block it.

Google has said the Justice Department inquired about a proposed class-action settlement Google struck with authors and publishers to digitize books and make them available online. Some authors and publishers contend the settlement makes it more difficult for other companies to launch similar services, an argument Google disputes. And Google General Counsel Kent Walker recently told reporters a discussion is pending with the FTC about whether Google Chief Executive Eric Schmidt's position as an Apple board member violates seldomenforced regulations against interlocking directorships.

Google's annual spending on lobbying rose to \$2.8 million last year from \$80,000 in 2003, according to the Center for Responsive Politics.

Some of Google's positions are laid out in a presentation that it has shared with officials and is posted on a company blog. It argues that ad-



Google, whose headquarters are pictured last May, says its business practices don't reduce competition.

vertisers still have "many choices in a dynamic market."

The Google spokesman, Adam Kovacevich, said the presentation was a reaction to recent experiences, such as the scuttled Yahoo deal, rather than to the new administration. He said Google has become more proactive about giving regulators a heads up about products that might raise questions. For example, Google told the FTC of plans to offer ads targeted at users' likely interests before it began to do so earlier this year, he said.

Mr. Sewell, of Intel, said the company has been beefing up its presence in capitals with the most potential regulatory impact: Washington, Brussels, Beijing, Moscow and New Delhi.

Intel, which in February pledged to invest \$7 billion to upgrade its U.S. plants over the next two years, headlines one of its newspaper ads "Investing in Innovation, Investing in America." A company spokesman said the ads are aimed at creating a positive image for general reasons but aren't particularly in response to antitrust issues.

—Elizabeth Williamson contributed to this article.

Aegis revenue falls 12% as slump buffets smaller ad firms

By Aaron O. Patrick

Media buyer **Aegis Group** PLC reported a sizable drop in first-quarter revenue after removing the effects of acquisitions, divestments and currency shifts, a sign that the global recession may be hurting smaller advertising companies more than their bigger rivals.

London-based Aegis said Monday that first-quarter revenue fell 12%. Its trading update, which doesn't include specific revenue or profit figures, comes on the heels of a similar statement Friday by Paris-based rival Havas SA, which reported an 8.4% decline in first-quarter revenue on the same basis.

Havas and Aegis both lost accounts last year, compounding the effect of a global recession that has savaged ad budgets. In June, computer maker Dell dropped Havas's Euro RSCG Worldwide from its Asia-Pacific account, which was awarded to WPP PLC. In November, the auto-making alliance of Renault SA and Nissan Motor Co.

switched its joint media-buying account from Aegis's Caret unit to Omnicom Group Inc.

Even though the account losses were publicly known, investors hadn't expected the companies' fist-quarter results to be so disappointing. Aegis shares fell 4.6% to 83 pence (\$1.26) in London, and Havas shares tumbled 15% to €1.95 (\$2.63) in Paris trading.

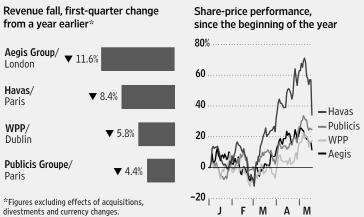
The results are a blow to French industrialist Vincent Bolloré, who owns almost 30% of Aegis and 32.9% of Havas, where he is chairman. Mr. Bolloré has said for several years the two companies should merge or cooperate more to give them the scale to compete against larger rivals.

Analysts said Aegis and Havas are more vulnerable to economic downturns because they rely on fewer clients than bigger marketing companies like WPP and Publicis Groupe SA.

WPP and Publicis have been hit by the recession too, but are shrinking less rapidly. Last month, Dublin-

Big is best

Revenue is falling less at the bigger, more-diversified advertising groups



based WPP, the world's largest ad company by revenue, reported firstquarter revenue fell 5.8% after stripping out the effect of acquisitions, divestments and currency movements. Paris-based Publicis re-

Source: the companies (revenues): Thomson Reuters Datastream (Stocks)

ported revenue fell 4.4% on the same basis in the first quarter.

Analysts say WPP and Publicis have another advantage: more diverse businesses. More than half of WPP's revenue comes from outside advertising and media buying, making its results less volatile.

Publicis has a large digital-marketing business, one of the few areas of the ad world that is growing. Havas gets most of its revenue from Euro RSCG. Aegis is dominated by its media-buying operations.

Aegis's executive chairman, John Napier, said the company's year-earlier first-quarter results were particularly strong, making comparisons with this year tough. "We think we are in the right place and doing well in terms of new business wins," Mr. Napier said.

Mr. Napier took control of Aegis last year, removing its chief executive, cutting 5% of staff, and vowing to reduce senior-executive bonuses to offset revenue declines. He has also tried to improve relations with Mr. Bolloré.

Asked about his position on a possible merger Havas, Mr. Napier said: "I don't have one." Mr. Bolloré couldn't be reached for comment.

—Kathy Sandler contributed to this article.

Hynix sets China venture

Korean chip maker to boost outsourcing of assembly, testing

By Jung-Ah Lee

SEOUL—Hynix Semiconductor Inc. said it will set up a joint venture in China in the third quarter and sell \$300 million of its packaging and testing equipment to the new company.

Hynix, which is based in South Korea, said the venture with staterun Wuxi Industrial Development Group Co. will allow Hynix to focus more on so-called front-end manufacturing of chips, rather than the back end, which is for testing and assembly. The project also will allow Hynix to focus on research-and-development investment.

Hynix said further outsourcing chip testing and assembly will help it save more than two trillion won, or about \$1.5 billion, over the next five years. The joint venture will raise the outsourced portion of its back-end manufacturing to as much as 50% from 30%, Hynix said. Hynix is the world's second-largest maker

Dr. Reddy's posts a loss as brands are written down

By Rumman Ahmed And Anant Vijay Kala

HYDERABAD, India—Dr. Reddy's Laboratories Ltd. swung to a consolidated net loss for its fiscal fourth quarter, hurt by write-downs related to its German operations.

The Indian drug maker said it expects muted revenue growth in the current financial year.

"We are giving you a guidance that on the back of the 39% [revenue] growth we achieved last [financial] year, we'll still grow by 10% and we'll improve profitability," Vice Chairman and Chief Executive G.V. Prasad said.

Mr. Prasad said he expects annual revenue growth of about 20% for the next three to four years.

Revenue for the year ended March 31 jumped to 69.44 billion rupees (\$1.41 billion) from a year earlier, driven primarily by the launch of a generic version of GlaxoSmith-Kline PLC's antimigraine treatment Imitrex in November 2008.

Excluding the contribution from sumatriptan succinate, the company's full-year revenue grew 24%.

Dr. Reddy's—listed in New York and Mumbai—posted a fourthquarter net loss of 9.78 billion rupees, compared with a year-earlier net profit of 926 million rupees a year earlier.

The company booked noncash charges of 3.17 billion rupees related to impairment of intangible assets and 10.86 billion rupees from goodwill impairment after a decline in the prices of generic drugs hurt the value of the brands it had acquired along with Betapharm in Germany.

Dr. Reddy bought Betapharm in February 2006.

Consolidated revenue jumped 50% to 19.85 billion rupees, thanks to strong sales at its global generics business.

of computer memory chips by revenue, after **Samsung Electronics** Co.

Chip makers have been suffering from a slump in demand for memory chips, leading the companies to cut capital investment over the past year. But they still need to invest to upgrade technology and lower manufacturing costs. The deal with Wuxi gives Hynix access to cash for operations and capital expenditures.

"Following its successful rights offering last week, this [equipment] sale is expected to completely remove financial risk in Hynix," said

Lee Sun-tae, an analyst at Meritz Securities. Hynix raised 724.5 billion won in last week's offering.

With the new funding, Hynix is considering boosting investment to increase output of NAND flash-memory chips. Prices of NAND chips, which are widely used in music players and digital cameras, have risen this year after chip makers cut output.

Hynix has earmarked around one trillion won for capital spending this year.

Hynix shares rose 0.8% to 13,400 (\$10.69) won Monday in Seoul.



Hynix, based in South Korea, is establishing a joint venture in China to help outsource the testing and assembly of memory chips, shown above.

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Wal-Mart steps up its game

Company expands electronics offerings to woo upscale buyers

By Miguel Bustillo

Wal-Mart Stores Inc. is revamping the electronics departments in its more than 3,500 U.S. stores this week, ramping up an aggressive battle with Best Buy Co. and Amazon. com to seize customers up for grabs due to the demise of Circuit City Stores Inc.

Wal-Mart's roomier and more interactive electronics displays began arriving in stores Monday, showcasing the latest mobile phones and portable computers, and including standalone sections for popular brands such as Nintendo Co. and Apple Inc.

"Circuit City's business is up for grabs right now and we expect to get our share," Gary Severson, Wal-Mart's senior vice president of home entertainment, said in an interview at the company's Bentonville, Ark. head-quarters. Its push comes as the economic downturn has turned more affluent customers into Wal-Mart shoppers.

The world's largest retailer by revenue was expanding its electronics selection before Circuit City collapsed. Over the past five years, it moved away from entry-level televisions and DVD players from lesser-known manufacturers toward more sophisticated products such as Research in Motion Ltd.'s Blackberry smart phones

Wal-Mart executives said their stores will soon carry Palm Inc.'s Pre smart phone, a highly anticipated gadget, contrary to bloggers who claimed it would be a Best Buy retail exclusive.

Wal-Mart is adding to its assortment of higher-end televisions by manufacturers Sony Corp. and Samsung Electronics Co., and broadening its array of Blu-ray disc players and movies as it expands a strategy of selling top brands at lower prices than rivals offer.

Its moves are fueling fierce price competition. An Acer netbook, or small portable computer, that sells for \$328 on Walmart.com is \$329.99 on Amazon.com. Bestbuy.com sells a MSI Wind 10-inch netbook for \$309.99. The same machine was reduced to \$298 from \$308 on Walmart. com.

To be sure, Best Buy retains a lead in U.S. consumer electronics retailing with 22% of the total market, based on market-research estimates from Stevenson Co. But Wal-Mart has been

randon Inbodeaux for The Wall Street Journal

Wal-Mart is adding to its assortment of higher-end televisions by Sony and Samsung and broadening its array of Blu-ray disc players and movies.

quickly gaining. Circuit City filed for bankruptcy last November and closed its stores in March. Its closing left about \$11.1 billion in annual revenue up for grabs, estimated Deutsche

But Best Buy has seen fewer shop-

pers walking through its doors during the recession, while Wal-Mart is gaining shoppers. Wal-Mart also is leveraging a more subtle advantage it boasts over standalone electronics chains: a mom-heavy clientele. Retailers say women often have final say over household purchases of new video games and televisions.

Best Buy was assumed to be the biggest beneficiary of Circuit City's liquidation. But Morgan Stanley analyst Gregory Melich recently noted first-quarter market-share estimates show Wal-Mart and Amazon splitting much of Circuit City's television business.

A Best Buy spokeswoman declined to comment. Best Buy has said it miscalculated demand and ran short of televisions in January and February, which contributed to lower cales

Wal-Mart fought for years to be taken seriously by electronics makers.

Paul Ryder, an Amazon vice president overseeing its electronics business, said the Seattle, Wash., retailer is increasing the range of products it sells, so that it can offer often a wider selection of electronics than any physical store can carry.

Wal-Mart fought for years to be taken seriously by electronics makers that wanted to cultivate a top-of-the-line image. Apple, for instance, didn't sell its music players at Wal-Mart until it released the inexpensive iPod Shuffle, and released the iPhone at Wal-Mart only after it had been selling through Best Buy.

"A few years ago, the suppliers wouldn't even consider us for these kinds of technologies—they'd take it to Best Buy," Kevin O'Connor, Wal-Mart's vice president of consumer electronics, said as he stood beside a new display that showed off Blu-ray players and movies as part of a wall of flat-panel televisions. "But Wal-Mart is where the consumer is going."

Wal-Mart in June will start selling Dell Inc.'s new Studio One 19 touchscreen computers.

"In this environment, you want to associate yourself with big [retail] brands," said Michael Tatelman, vice president of sales and marketing for Dell's consumer business. "Wal-Mart has been incredibly collaborative."

As Wal-Mart senses an opening, it is expanding its mobile-phone assortment and adding an island where shoppers can pick up and try out laptops and netbooks. Wal-Mart previously kept the portable computers under lock and key for fear of shoplifting, a sore point with some manufacturers.

—Geoffrey Fowler contributed to this article.

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'Twilight' basks in DVD glow

As film disc sales sag for overall industry, teen flick bucks trend

By Lauren Schuker

DVD sales have plummeted recent months, but buyers have sunk their teeth into one title, teen vampire film "Twilight," illustrating how Hollywood marketing muscle can still defy recession-damped consumer trends.

Summit Entertainment's "Twilight" DVD has sold more than 5.2 million units since its release March 21. It sold 3.1 million copies on its debut day alone, making it one of the five fastest-selling DVDs ever on the first day of release, along with much larger blockbuster movies, such as "The Dark Knight" and "Pirates of the Caribbean: At World's End."

That impressive surge didn't happen by accident. Summit mapped out an intricate marketing campaign designed to make the film stand out from other, more highprofile releases coming out about the same time. That's because the studio—which is a small fry compared with the likes of General Electric Co.'s Universal or Time Warner Inc.'s Warner Bros.—had a lot riding on a successful DVD launch.

Hollywood still makes the bulk of its profits from home video sales. But that market, which grew more than 15% a year between 2000 and 2004, has begun to wilt recently. According to Adams Media Research, sales fell a sharp 9% last year and in the first third of this year declined another 8%, compared with the same period in 2008.

Many recent films, such as last summer's box-office hit "Sex and the City," have underperformed on DVD relative to what they grossed at the box office.

"Twilight" was a surprise hit for Summit, grossing more than \$380 million at the box office worldwide. But the studio, which released only six films last year, needed powerful DVD sales in order to compensate for a string of duds it had put



'Twilight' has sold more than 5.2 million DVDs since its release March 21, putting it in the league with blockbusters such as 'Pirates of the Caribbean' and 'The Dark Knight.'

out since it launched as a full-service studio in early 2007.

"With the DVD market having so many issues, making the 'Twilight' DVD a success required outside-the-box thinking," says Summit Chief Executive Rob Friedman.

Summit came up with a plan to stage midnight parties at retailers ranging from big-box discounter Wal-Mart Stores Inc. to teen specialty chain Hot Topic Inc. on the night of the DVD's release, featuring in-person appearances by "Twilight" stars such as Rachelle Lefevre and director Catherine Hardwick. Those events attracted crowds as large as 2,500 fans to stores in Dallas, Salt Lake City and Chicago.

"It became really important to make the DVD an event," says Nancy Kirkpatrick, president of worldwide marketing at Summit.

Summit also gave retailers unique versions of the "Twilight" DVDs to drum up excitement over the product. Wal-Mart carried a regular version of the single \$17 disc without bonus items, while every other retailer sold different, more expensive versions—for around \$19.99—featuring interviews with the cast and red-carpet footage.

On most movie titles, about 80% of DVD sales come from single discs rather than more expensive two-

disc sets with bonus content or Blueray versions, says Steve Nickerson, president of Summit's home-entertainment division. With "Twilight," Summit encountered a jump in sales of premium product, with only 30% of DVD sales coming from single discs and about 70% from premium versions.

Those strategies helped drum up interest in the "Twilight" property from retailers that don't usually carry a wide variety of DVDs. Betsy McLaughlin, chief executive of Hop Topic, says that while her company stocks few DVDs, she decided to sell "Twilight" after Summit agreed to hold midnight parties and allowed Hot Topic to sell an exclusive version of the DVD that included a film cell of "Twilight" stars Kristen Stewart and Robert Pattinson.

"Twilight's" success may pave the way for other DVDs coming out this spring. Home-entertainment firm Adams Media Research is projecting an 8% decline in home video sales for 2009. But Vice President Denis Cambruzzi says that estimate may prove conservative because 2009 box office is up about 16%, with hits like "Fast & Furious" and "X-Men Origins: Wolverine," and "those titles haven't landed on retailers shelves as yet."

Brazil food giants Sadia, Perdigão discuss tie-up

By Antonio Regalado And Kenneth Rapoza

SÃO PAULO—Brazil's meat-processing giant Sadia SA once made a hostile bid for rival Perdigão SA. Its fortunes have since changed, and now Sadia is looking for a partner from a position of weakness instead of strength.

The two companies, which together slaughter more than two billion chickens and other birds a year, said they are in discussions for a merger that would rescue Sadia and create one of the world's largest frozen and processed food companies.

The deal marks a new trend in emerging markets, where firms spent billions in recent years expanding into Europe and the U.S. Now, with local companies weakened by the financial crisis, Brazil is seeing a wave of mergers among national names.

Sadia, which makes frozen pizzas, lasagnaandchicken pockets, was crippled last year by a billion dollar loss caused mostly by risky exchange-rate bets against the U.S. dollar. The losses piled up when Brazil's currency, the real, unexpectedly slumped in September.

For Perdigão, whose popular packaged food brands sponsor soccer star Ronaldo, Sadia's stumble is a chance for it to take over its main competitor on Brazilian store shelves.

Brazil's government was unlikely to allow Sadia, with its more than 50,000 employees, to fail. Now, instead of rescuing Sadia, the government's development bank could help finance a merger with as much as \$750 million, Citibank analyst Carlos Albano estimated in a report released on Thursday. A development bank official declined to comment.

Financial terms of a potential deal weren't disclosed. Neither Sadia nor Perdigão returned calls seeking comment over the weekend.

Brazil's government doesn't want major companies scooped up by foreign firms, and has been pushing domestic mergers. In the past year, it helped underwrite the takeover of phone company Brazil Telecom by competitor Oi, creating a so-called national championable to compete head-to-head with foreign telecommunications firms.

A tie-up of Perdigão and Sadia, withabout \$11 billion in combined annual sales, would rank as the 10th-largest food company in the Americas, just behind **Heinz** Co., according to consulting firm Economatica.

Last week, São Paulo-based beef, pork and chicken processor Marfrig Alimentos SA, which bought up more than 15 foreign firms since 2006, said it is in discussions to ac-

quire local beef and leather-maker **Bertin** SA.

Such mergers could intensify the rivalry with U.S. firms such as Tyson Foods Inc., which last September announced an aggressive move into Brazil, buying three poultry firms. With low wages and costs, Brazil is attractive for food producers, and already exports more chicken than any country

Three years ago, Sadia made an unsuccessful bid to acquire Perdigão. But Sadiaitself became a takeover target after reporting just over a \$1 billion loss for 2008. The company fired several executives. But with pressure for a sale mounting, Luiz Fernando Furlan, chairman of Sadia, said on March 30 at the company's annual shareholder meeting that Sadia was in negotiations with Perdigão and needed to "partner with another company and form a third company."

In late April, Perdigão also announced that merger negotiations were on, although it cautioned last week that the firms had "not reached an agreement on the terms of the merger."

Despite that, many now see the deal as imminent. "We believe that the likelihood of this merger to materialize has significantly increased," Mr. Albano said in the Citibank report.

Boosted by merger rumors, Sadia shares traded on the New York Stock Exchange have doubled in value since hitting a low in March. In Friday trading on the NYSE Perdigão's shares were down 2.4%, while Sadia shares fell 4.2%.

A combined company would be loaded with debt—about \$5 billion—leading some to see risks for Perdigão. "At this point, we see more upside for Sadia than for Perdigão," said Soummo Mukherjee, a meat and beverage analyst for Moody's in São Paulo. "If this merger goes through, Perdigão could get a credit rating change and it will be negative."

Shares remain risky for other reasons, too. The two companies together buy around 15% of Brazil's corn production, and grain prices have soared due to competition from biofuels. The recent strengthening of Brazil's currency also cuts into export profits.

Although a combination of the two companies would create Brazil's dominant processed-foods firm, an antitrust challenge would be unlikely, analysts say, since the government appears to be on board with a merger. Only in a few areas—such as frozen pizza and margarine—could the firm be forced to sell product lines because of the size of the combined market share.

'Angels' sees strong global debut

By Peter Sanders

Hollywood extended its box-office streak over the weekend, as "Angels & Demons," the big budget follow-up to 2006's "The Da Vinci Code," took the top spot in the U.S. while doing even bigger business internationally.

"Angels & Demons," distributed by Sony Corp.'s Sony Pictures Entertainment, made \$48 million in North America, but took in \$104 million internationally, where it opened in 96 countries simultaneously.

In recent years, Hollywood has come to depend increasingly on foreign box-office sales to help recoup the hundreds of millions of dollars it spends on its tent-pole summer and holiday movies.

Though the movie didn't break the \$50 million mark domestically in its first weekend, Sony executives said they were happy with the take so far on a movie that cost \$150 million to make and millions of dollars more to market.

"Basically, it is firing on all cylinders and it's where we were hoping to be here and even better interna-

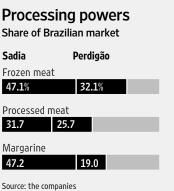


'Angels & Demons,' with Tom Hanks and Ayelet Zurer, above, took in \$48 million in North America and \$104 million internationally over the weekend.

tionally," says Rory Bruer, president of world-wide distribution at Sony Pictures.

The movie, which was adapted from the 2000 novel by Dan Brown, sees Tom Hanks reprising his role as symbologist Robert Langdon, who investigates a murder-mystery within the Catholic Church.

Sony Pictures executives have been saying for months they didn't expect the movie to replicate the initial box-office success of "The Da Vinci Code." In its first weekend, "The Da Vinci Code" brought in \$77 million domestically.



Perdigão and Sadia products at a São Paulo supermarket Sunday.



Baidu workers call off strike

Internet-search firm, Chinese staff meet over compensation

By Loretta Chao

BEIJING-Baidu Inc. workers called off their strike at China's top Internet search site although they hadn't reached an agreement with the company over new compensation policies.

Representatives of several hundred employees from two southern cities finished meetings on Monday with executives from Baidu's Beijing headquarters, including the head of human resources and an assistant to Chief Executive Robin Li. The workers said they will give the company three days to come up with a fair response and decide what to do after that.

The employees stopped working May 4 over salary cuts and new commission policies they said were designed to force people out of their iobs. Baidu, with about triple the share of Chinese Internet search revenue of Google Inc., set new sales targets at the start of this month and said it would withhold commissions from employees who don't meet them, according to the workers. Also, base salaries were reduced by about 30%, said the workers, who are demanding that the policies be canceled and that the company's regional manager be fired.

Baidu said Monday that the new, nationwide policies are designed to "incentivize our sales force and promote healthy growth in the long term."

"While there are some issues with certain employees in parts of our operation, we are currently ad-

dressing the issues and expect a prompt resolution," the company said.

Even if the strike is over, some analysts said its interruptions could affect the company's performance when it also faces a weak advertising market and still is recovering from bad publicity last year for carrying ads from unlicensed medical companies.

Fiona Zhou, analyst for research firm JL McGregor

& Co., says Baidu's commission policies make sense from an accounting perspective and could help improve operating profit. "But in the short term," she said, "the absence of these sales employees will definitely affect their second-quarter revenue." She said it is hard to quantify the impact but that Baidu "is completely dependent on their sales people."

Baidu workers visited government labor bureaus Thursday and

tional day because of the leap year,

and March 2008 traffic figures ben-

efited from Easter falling in the

month last year. Easter, which usu-

ally boosts economy travel, came

fects, passenger numbers declined

7.5% in March, compared with a 6%

decline in February, IATA said. The

number of passengers traveling in

economy class, meanwhile,

dropped 8.2% in March from a year

earlier, compared with an 8.3% de-

nected to the Asian-Pacific region

remained the weakest in March,

with a decline of 29% across the

North- and mid-Pacific. Premium

travel within East Asia dropped

29%, while routes between Europe

and East Asia experienced a 20%

decline. Only premium markets

within Africa continued to grow in

March, "albeit at a glacial pace" of

Premium travel in markets con-

After adjusting for these ef-

in April this year.

cline in February.

Friday complaining that the company violated their rights. An official at the Labor and Social Security Bureau in the Tianhe district of Guangzhou, one of southern China's biggest cities, said Baidu said the new policies were "normal internal adjustments" and that Baidu has no plans to make layoffs.

A striking worker said Monday that Baidu executives "have prom-

ised to solve the issue in a satisfactory way....We will wait and see." But he said the workers and the company "haven't come up with any specific plan or strategy to solve the issue."

Baidu, which reported revenue of \$469 million last year, had about 6,200 employees as of March.

Labor strikes aren't illegal in China but they are discouraged by the government, and the country's

government-backed labor union doesn't support them. Still, with job losses and labor disputes increasing with the economic downturn, labor activists say the number of strikes is on the rise in the country.

Robin Li

Government labor officials in Guangzhou said employees may submit complaints to their labor bureaus if they feel their rights have been violated.

The group warned that reve-

nues would be hit harder, as pre-

mium fares were dropping faster

than economy fares. In March and

the first quarter, IATA estimates,

revenue from premium passen-

gers on international markets fell

tance traveled on international

routes, which is measured in reve-

nue passenger kilometers, is drop-

ping at a faster rate than passen-

ger numbers. In March, revenue

passenger kilometers fell 11% as

the number of passengers flying

on major long-haul routes is declin-

ing at a faster rate than the num-

greater number of business pas-

sengers on long-haul markets, but

also seems to be due to a reduction

in distance traveled on leisure

trips," IATA said.

This is in part due to the

ber of short-haul passengers.

In addition, IATA said, the dis-

between 35% and 40%

0.4%. IATA said.

-Sue Feng contributed to this article.

GLOBAL BUSINESS BRIEFS

Alliance Boots PLC

About 1,500 jobs to be cut amid sharp profit increase

Alliance Boots PLC of the U.K. said it is cutting about 1,500 jobs, or about 10% of its work force, across its pharmaceutical-wholesale division in response to intense competition, difficult market conditions and major regulatory changes in some European countries. The cuts come as the pharmacy and beauty-products company reported a sharp rise in net profit and sales for the 12 months ended March 31, boosted by a solid performance at its healthand-beauty division and by acquisitions in Germany and France. Annual net profit jumped to £101 million (\$153.2 million) from £10 million a year earlier, helped by a 45% rise in revenue to £17.2 billion.

Independent News & Media

Independent News & Media PLC narrowly avoided defaulting on a bond payment Monday, persuading creditors to grant it an extra six weeks to restructure its debts. The Dublin-based newspaper publisher, radio broadcaster and outdoor advertiser said the move means no creditor can make any claim for payment against it until June 26. Independent News & Media said the extension on the €200 million (\$270 million) bond. which required the agreement of all its principal bank lenders and more than 75% of its bondholders by value, was necessary to facilitate continuing negotiations over financial restructuring. The standstill agreement can be extended beyond June 26 with the approval of the company's creditors.

Volvo AB

Mack Trucks Inc. signed an agreement with the United Auto Workers union to create an independent trust responsible for the health care of retirees, Swedish parent company Volvo AB said Monday, Volvo said it will fund the trust with \$525 million in cash, which will be paid over a fiveyear period. The agreement is part of a new collective-bargaining pact and requires approval by UAW members and a U.S. district court. If approved, the first payment of \$110 million will be made this quarter. The trust would allow continued healthcare benefits for current and future retirees while eliminating Mack's health-care liabilities, Volvo said. Mack, which is based in Allentown, Pa., currently supports some 9,000 retirees and dependents.

Kohlberg Kravis Roberts & Co.

Private-equity firm Kohlberg Kravis Roberts & Co. hired the former U.S. ambassador to Saudi Arabia as part of a push to build its business in the oil-rich Middle East. Ford M. Fraker joins New York-based KKR, which recently set up a subsidiary in Dubai to do Africa for KKR, last week said the buyout firm is currently studying

OAO Gazprom

Russian gas company OAO Gazprom on Monday proposed to cut its 2008 dividend to only one-seventh of the previous year's figure as it struggles with falling profit and high debt. State-controlled Gazprom's board suggested a payout of 0.37 rubles (one U.S. cent) per share, down from 2.66 rubles in 2007, the company said. The world's largest gas producer intends to spend 5% of last year's net profit, or about \$1 billion, on the payout. Gazprom's fourth-quarer net fell to \$1.1 billion, down 84% from a year earlier as the it battled sliding demand for its exports and the fall in the ruble. Net debt stood at \$41 billion on Dec. 31.

Carnival Corp.

Carnival Corp. said its fiscal-second-quarter earnings will be cut by about five cents a share from having to change cruise routes in the wake of the A/H1N1 influenza virus centered in Mexico. The Miami-based cruiseship giant steered passengers away from the country after the U.S. Centers for Disease Control recommended against nonessential travel to Mexico. That recommendation was lifted Friday, but Carnival said Monday that some of its routes won't return to their original form until June 15. In addition to the 5-cent profit impact from the changes through that date, Carnival on Monday said as much as an additional nickel per share could be cut from earnings from further impact from the illness. The company said 27 ships had to change routes from three of its brands. Carnival in March projected fiscal-second-quarter earnings of 30 cents to 32 cents a

OAO Severstal

The chief executive of OAO Severstal's North American operations said the Russian steelmaker has no plans to leave the U.S., despite the weak market. "We are here for good," said President and CEO Gregory Mason. "Severstal will continue to make steel in America." He is meeting with the company's investors in the U.S. to quash concerns that the steelmaker is planning to leave the country, after saving last week that it was idling operations in West Virginia and Ohio. Severstal is facing low demand and falling prices in its strongest markets, including Russia and Europe, and investors asked if the company planned to leave the U.S. to conserve cash. Mr. Mason said the company's balance sheet is strong enough to ride out the weak U.S. market.

WestLB AG

WestLB AG's chief executive, Heinz Hilgert, resigned Monday following a disagreement with the German bank's owners over how to restructure the lender. The bank didn't name a successor for Mr. Hilgert, who had held the job since lay 2008 and whose resignation was unexpected. Mr. Hilgert said his situation had become untenable after WestLB's majority shareholder, the regional association of savings banks, declined to back his restructuring proposal. The bank is seeking to transfer about €80 billion (\$108 billion) in risky assets off its balance sheet into a special-purpose vehicle. The proposal to offload risky assets. such as troubled financial instruments tied to student loans and government bonds, was "not met with sufficient support," Mr. Hilgert said.

Premium air travel declines 19%

By Kaveri Niththyananthan

The number of air passengers opting to fly premium class continued to decline in March, falling 19% from a year earlier, the International Air Transport Association said Monday.

However, the decline in premium travel, usually a lucrative source of profit for airlines. slowed since February, when the number of premium passengers fell 21%. Despite significant fare cuts, IATA said there was no sign vet of a bottom to premium-ticket declines. Only about 7% to 8% of passengers travel on premium tickets on international routes, but they generate 25% of revenue.

Total passenger numbers fell 9.3% in March from a year earlier, compared with a 9.6% decline in February. In contrast to air freight, "there is no indication in the data yet that the decline in passenger travel has reached a bottom," IATA said.

The industry group said that year-to-year comparisons were somewhat flawed by calendar effects. February 2008 had an addi-

THE WALL STREET JOURNAL.

Lowe's posts 22% drop in profit

By Ann Zimmerman AND MARY ELLEN LLOYD

A belief that the worst of the housing downturn is over prompted home-improvement retailer **Lowe's** Cos. to raise its profit outlook for the year, even as results for its fiscal first quarter continued to slide.

posted a 22% decline in first-quarter earnings Monday amid weak demand for big-ticket projects. But Wall Street had been bracing for worse. Strong sales of gardening and other outdoor products, coupled with less of the discounting that weakened fourth-quarter results, delivered profit of 32 cents a share in the quarter ending May 1.

Lowe's now expects fiscal-year

earnings of between \$1.13 and \$1.25 a share, up from February's estimate of \$1.04 to \$1.20. "With consumer confidence having rebounded off its historic lows and some encouraging signs in housing, we may have hit the bottom, but how long we bounce along the bottom still isn't clear," Chief Executive Robert Niblock said in an interview.

Mr. Niblock said he expects housing sales declines to hit bottom in the first half of the year, housing prices to hit their lows in the first half of next vear, and the unemployment rate to peak in the middle of 2010.

Lowe's posted earnings of \$476 million for the quarter, down from \$607 million, or 41 cents a share, a year ago. Revenue fell 1.5% to \$11.83 billion, as same-store sales fell 6.6%.

Executive Travel Program The Mooresville, N.C., retail chain Guests and clients of 320 leading hotels receive The Wall Street Journal Europe daily, courtesy of THINK MEDIA OUTDOOR www.thinkmediaoutdoor.be

business in the Middle East and North Africa, as a senior adviser, the company said. Hiring Mr. Fraker could help KKR make inroads into Saudi Arabia, the Middle East's largest economy, where he built strong links and relationships with senior officials while U.S. ambassador. Makram Azar, head of the Middle East and North

-Compiled from staff several private-equity opportunities in the Middle East. and wire service reports.

ECONOMY & POLITICS

Afghan girls' illness prompts theories

As inquiry continues, poison looms as one cause while some experts posit idea of mass psychological disorder

By Matthew Rosenberg

CHARIKAR, Afghanistan— Three times in the past three weeks at three different schools in Afghanistan, dozens of girls have been rushed to hospital after collapsing or becoming ill.

In all three schools, the students say just before falling ill they smelled an odor that some described as cheap perfume or sweet flowers. Others said rotting garbage or cigarette smoke. A few of the students collapsed; others complained of headaches, dizziness, vomiting and stinging in the eyes.

That much is beyond dispute. But what caused about 200 schoolgirls, most of them teenagers, to fall ill abruptly and quickly recover in two northern Afghanistan towns remains a mystery.

Some Afghanis say they fear the Taliban, which is opposed to education for girls and has made the country a terrifying place for many women—has found a new weapon to keep girls from school: poison.

But with no conclusive evidence of that, a small number of experts and officials say they wonder if instead, the girls are suffering from a mass psychological disorder, brought on by the very real fear of being attacked for going to school.

"At first, we all thought it was poison. What else could cause this?" said Muhammad Qassim, the health director of Parwan province, where two of the affected schools are located.

Blood tests on the victims turned up nothing, he said in an interview. "We have to consider everything," he said.

The incidents underscore the precarious situation of women in Afghanistan eight years after the Taliban was driven from power by a U.S.-led invasion.

"We frame this in the larger perspective of Afghanistan and what we see is a growing acceptance of violence against women and girls," said Wenny Kusuma, the Afghanistan country director for the U.N. Development Fund for Women.

Neither Ms. Kusuma nor any Afghan official endorses a psychological explanation for the girls falling ill. No psychological examinations are planned, and the Interior Ministry says it won't comment officially until completing its investigation, probably this week.

For now, Afghan officials maintain poison is the most likely explanation. Authorities have arrested six people, although they haven't released any details about the suspects or filed charges against



Eight-year-old Rukiya, above, in her classroom in eastern Afghanistan last week. Only a few dozen of the school's nearly 600 female students showed up after dozens of girls fell sick with an illness that authorities are investigating. At right, students on hospital beds after abruptly falling ill at a different girls' school in Charikar, north of Kabul, on May 11. The cause of the illness remains a mystery.

U.S. Army Col. Scott Spellmon, whose forces are aiding the investigation, said Afghan and American authorities are testing brown powder found at all three schools. They should have results in a few days, he said.

Most Afghan authorities haven't expressed doubts that the girls suffered physical maladies.

"I was feeling weak, I couldn't stand up," said Abida Hussain, 19 years old, a student at the second school to be hit by the sudden illnesses on May 11.

Mass hysteria fueled by real fears isn't as outlandish as it sounds, experts say.

She passed out and came to a short time later in a hospital, where she and more than 60 other students and teachers from her school were brought.

Nearly two weeks earlier, on April 29, about 40 students at another Charikar school were hospitalized. And on May 13, more than 100 students were hospitalized with similar symptoms in the town of Muhmud Raqi, about 30 kilometers away

Most of the students have since returned to all three schools, officials say

The Taliban has burned scores of girls' schools in the east and south of the country, where the group is strongest. Late last year, militants in the southern city of Kandahar—a hotbed of Taliban activity—sprayed acid in the faces of girls who were on their way to school. The Taliban denied any role in that attack and has said it didn't poison the schoolgirls in the north.

While the two provinces where the latest school incidents have taken place—Parwan and Kapisa—are among the safest in Afghanistan, the area has grown more violent. A suicide car bombing in Charikar in late December killed two people, and rumors swirl of armed men moving at night across the region's plains to reach hideouts in the snowcapped mountains.

Earlier this year, suspected insurgents left a message at a school near Charikar warning it to stop educating girls, officials say. That has left many people in the provinces fearful, a key factor in bringing on mass psychological disorders, experts say.

The theory isn't as outlandish as it sounds, they say. Cases of so-called mass hysteria brought on by real fears and marked by actual physical illnesses have been documented from Mexico to Kosovo.

Experts say the circumstances—the vague symptoms and quick recoveries, as well as the fact that most people at the schools were unaffected—bear little resemblance to mass poisonings.

Alastair Hay, an expert in chemical-weapons attacks, said the incidents appeared similar to a case of "mass hysteria" he investigated at a school in Kosovo in 1990.

Like the Afghan school girls, ris-

ing tensions between the Serbs and Albanians in Kosovo had given the students a reason to be fearful. Some 3,000 Albanians fell ill and doctors initially suspected poison planted by Serbs.

The symptoms were similar to the ones seen in Afghanistan—dizziness, hyperventilation and, in a few, a loss of consciousness. Most, too, recovered within 24 hours and no evidence of poison was found. The case was documented in the Lancet, a British medical journal.

Mr. Hay, who is a professor at the University of Leeds in Britain, said it is unlikely anyone who received a dose of poison strong enough to become unconscious would recover in a day or two after being briefly treated with a saline drip and oxygen, as the girls in Afghanistan were.

"It's almost like pneumonia," he said in a telephone interview. If the poison "is sufficient to cause collapse that means someone is very seriously ill and is going to be hospitalized for days or weeks."

He also said that any poison powerful enough to sicken people would afflict nearly everyone who came into contact with it, not just a few dozen of the hundreds or thousands of girls who attended the three schools.

Still, many doctors and experts say they are hesitant to make a psychological diagnosis in such cases. They fear missing another, more tangible, cause, and are put off by its sexist overtones.

Afghan officials have offered another explanation. The governor of Parwan, Abdul Basir Salangi, described the incidents as "just hysteria"

"The people themselves are making this a big issue," he said in a telephone interview, noting that his province was safe and only two or three girls were really sick.

Doctors who treated the students disagree. A handful of girls briefly slipped into comas, they say, and others were admitted to hospitals shivering, shaking and vomiting, their sweat soaking through the bed sheets.

"We all saw they were sick," said Badalshah Abrar, who runs the pharmacy at Charikar's hospital. Two of his daughters—one 16 and the other 17—were sickened in the April 29 incident.

Mr. Abrar is adamant that his daughters were poisoned. They're still going to school, "but I don't know if I will keep them in classes," he said.

Afghan president's brother survives attack on convoy

Associated Press

KABUL—Rocket-propelled grenades and machine-gun fire rained down on a motorcade carrying the brother of Afghan President Hamid Karzai Monday in an apparent assassination attempt, the brother said. A bodyguard was killed.

Ahmad Wali Karzai said his convoy was on the way to Kabul from eastern Nangarhar province when gunmen attacked them in Surobi, a

mountainous area about 40 kilometers from the capital. He wasn't harmed.

Mr. Wali Karzai was returning from a trip to the eastern city of Jalalabad, where he went Sunday to thank provincial Gov. Gul Agha Sherzai for not running against his brother in this year's presidential election.

Gunmen fired on the cars after they entered the Surobi pass, said Abdul Jalal Shamal, the Surobi district police chief.

"All the sudden we heard shooting," Mr. Wali Karzai said, adding that two police officers were thrown from the pickup truck following his vehicle. He said he realized one of the bodyguards had been shot when they went back to collect the officers, who were unharmed. They rushed the bodyguard to hospital but he died while

being treated.

Mr. Wali Karzai, president of the provincial council of the southern Kandahar province, didn't comment on who might want to kill him.

Kandahar province is the spiritual birthplace of the Taliban, the hardline Islamic militiamen who ruled Afghanistan from 1996 to 2001 and are now waging an insurgency against President Karzai's

government. The president has escaped several assassination attempts himself since he took power after the fall of the Taliban regime.

Mr. Wali Karzai said he was certain that he was the target of the attack because the gunmen fired only on the front of the convoy. Members of parliament and other government officials who were part of the delegation were riding farther back in the convoy, he said.

ECONOMY & POLITICS

Sri Lankan troops kill rebel chief, ending war

Tamil leader shot in final escape bid; preparing to rebuild

By Peter Wonacott

NEW DELHI—Sri Lankan soldiers on Monday killed Velupillai Prabhakaran, the man who founded the Tamil Tigers rebel movement, led it through Asia's longest civil war and pioneered terrorist tactics from suicide vests to sea and air attacks.

The death of Mr. Prabhakaran effectively brought to an end the 26-year war that has ravaged parts of the idyllic South Asian island of 20 million. It provided hope that hundreds of thousands of civilians put in harm's way or forced to flee intense recent fighting will now be safe.

Still, Mr. Prabhakaran's influence on global terrorism will remain: He wasn't just the heart and soul of the Tamil Tigers, say security analysts, he was a teaching inspiration to other terrorists.

"The Tamil Tigers were the most creative terrorist group in the world," said Rohan Gunaratna, head of the International Centre for Political Violence and Terrorism Research in Singapore. "And they shared their expertise."

The 54-year-old was shot with other senior leaders as they attempted to drive through a government security cordon in an ambulance, according to military and government officials. The government troops had surrounded the last of the Tiger rebels in a slice of territory about the size of a football field and were closing in. Hours after the foiled escape, officials said they had

confirmed the body was that of Mr. Prabhakaran.

"He's dead," said Sri Lanka's foreign secretary Palitha T.B. Kohona.

Sri Lanka's president, Mahinda Rajapaksa, told India's External Affairs Minister Pranab Mukherjee by phone that the Tigers' armed resistance "has come to an end," an Indian foreign ministry statement said.

The absence of a ruthless foe is a boon to the prospects for peace in Sri Lanka. It gives the government an opportunity to rebuild the nation's insurgency-racked north—just as it is now trying to do in the nation's East, a former Tiger stronghold—and to reconcile with Sri Lankans who have supported the Tamil separatist movement.

Like the East, the north relies on fishing and agriculture, two industries that have been hit hard by the fighting. Aid groups have poured into Sri Lanka's eastern province. The rebuilding of roads, markets and government offices has begun, but law and order problems remain and have un-

dermined a quick recovery. The war has also been tough on Sri Lanka's tourism, while the global financial turmoil has roiled markets for its tea. The government recently applied for \$1.9 billion in assistance from the International Monetary Fund.

Sri Lankan officials say

their first priority is to feed and give medical attention to hundreds of thousands of Tamils displaced during months of intense fighting. Longer sid term, the government will attempt to repair the north's shattered economy and introduce local elections in order

to usher in a new generation of moderate Tamil leaders. Ethnic Tamils make up about 17% of Sri Lanka's population.

"We are trying to address the enor-

mity of destruction as soon as we can," said Mr. Kohona, Sri Lanka's foreign secretary.

The fighting has displaced more than 200,000 people. United Nations officials have estimated more than 6,000 civilians have died from the beginning of the year. Many have been caught in crossfire and artillery barrages. The government said last month it stopped using heavy weapons to minimize civilian casualties, but both

sides have blamed each other for continued indiscriminate killing.

For more than three decades, Mr. Prabhakaran sought to create a separate state for Sri Lanka's Tamil minority. In 1976, he founded what is formally known as the Liberation Tigers of Tamil Eelam, or LTTE, one of several separatist groups at the time. The militants fought to safeguard mostly Hindu Tamils from Sri Lanka's majority Sinhalese, who are largely Buddhist and accused of discriminating against ethnic Tamils.

Mr. Prabhakaran proved more ruthless than fellow militants, refusing to lay down arms as others talked with the government about peace; he also launched attacks against rival groups, according to Suresh Premachandran, a Tamil militant at the time who went on to become a member of Sri Lanka's Parliament.

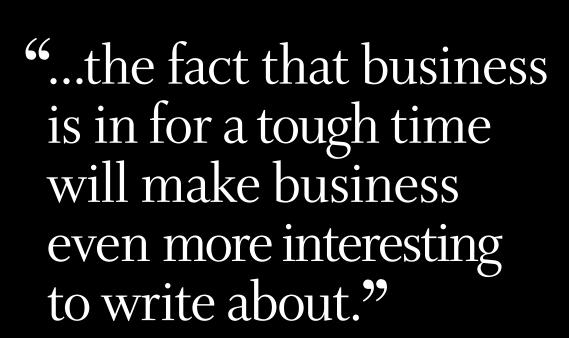
While Mr. Premachandran and other Tamil militants moved uneasily into the political mainstream, Mr. Prabhakaran stuck to guerrilla warfare. Clashes with the government in 1983 sparked a civil war that has cost about 100,000 lives and frustrated the efforts of other countries to end to the conflict.

Retired Lt. Gen. A.S. Kalkat, who led India's peacekeeping forces in Sri Lanka during the late 1980s, said Mr. Prabhakaran was a formidable adversary. He recalls launching a commando raid on Mr. Prabhakaran's headquarters. The Tamil Tiger leader escaped through a series of tunnels that were connected to underground bunkers. "He was a very wily fighter," said Mr. Kalkat.

The Tamil Tiger chief tapped that ingenuity in going after his enemies. In 1991, a female suicide bomber assassinated Indian leader Rajiv Gandhi at a campaign rally in the Southern state of Tamil Nadu with a suicide vest. The Tigers invented the vest, according to Mr. Gunaratna, the security analyst, and then later shared the secrets of how to make them with Afghanistan's Taliban, among other groups.

Mr. Prabhakaran's innovations may have offered cues to other terrorist groups, say security analysts. The rebels developed a maritime wing, known as the Sea Tigers, which were mostly explosives-packed fishing trawlers dispatched for suicide missions. In recent months, Sri Lankan troops captured more sophisticated elements of the LTTE navy: submarines.

Under Mr. Prabhakaran, the Tamil Tigers became one of the only militant outfits with an air wing. The "Air Tigers," which flew several tiny touring aircraft with undercarriages built to drop bombs, hit the capital of Colombo several times in the last year. The most recent strike came in February when a Czech-made Zlin Z 143 destroyed the government's main tax building.



 HENRY R. LUCE, FOUNDING PUBLISHER OF FORTUNE MAGAZINE in a memorandum to the Board of Directors of Time Inc., November, 1929



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