News in Depth: How the slump, debt dashed bid to turn around Chrysler

THE WALL STREET JOURNAL.

VOL. XXVII NO. 63 | EUROPE | MONDAY, MAY 4, 2009

DOWJONES A News Corporation Company

europe.WSJ.com

What's News

Defensive selling is drying up, allowing stocks to rise despite grim economic and corporate news. Longer-term investors such as mutual funds and pension funds have become more comfortable with the outlook for the next several years. Page 19

- **Rising unemployment** in the euro zone suggests the economic recovery will be slow to arrive and weak, Eurostat said. Page 2
- **Berlusconi's second** wife is expected to seek a divorce after years of public sparring with her husband over his flirtations. Page 29
- **GM is likely** to ramp up its effort to restructure outside of bankruptcy, in the wake of Chrysler's filing. Page 4
- **U.S. vehicle sales** turned out even worse than expected in April, muting optimism that the auto market is poised to rebound. Page 4
- **KKR was finalizing** a $1.8 billion deal for AB InBev's Korean beer assets, signaling the market for leveraged buyouts is reopening. Page 20
- **Metro will focus on China** in plans to expand its personal-electronics unit, rolling out stores next year. Page 5
- **Sprint Nextel** is in final talks to outsource management of its cellular network to Ericsson. Page 5
- **Major chip companies** in Europe and Asia said the industry's woes may have reached a bottom, though conditions will remain challenging. Page 7
- **IATA said** flu fears have hit airlines' share prices, adding that industry losses reached $1 billion in the first quarter. Page 8
- **The U.K.'s combat mission** to Iraq has ended, leaving southern Iraq relatively stable but the British military's reputation damaged. Page 10
- **John R. Wilke**, a Wall Street Journal reporter known for his investigative work, died of cancer. Page 12
- **Russia sent more loans** to Kyrgyzstan, complicating U.S. efforts to persuade the country not to evict the U.S. from an air base there. Page 12
- **Jack Kemp**, an American politician who ran for vice president with Bob Dole in 1996, died at age 73.

EDITORIAL&OPINION

The Obama Agenda
If only the EU were to follow its plans as closely as the U.S. does. Page 15

Breaking news at europe.WSJ.com

Fiat's big gamble on Opel

CEO Marchionne seeks German support for an alliance with GM unit

BY STACY MEICHTRY

ROME—**Fiat** SpA Chief Executive Sergio Marchionne is expected to meet senior German government officials in Berlin on Monday, according to people familiar with the matter, in an attempt to get their support for a potential alliance between the Italian auto maker and **General Motors** Corp.'s German unit Opel.

Mr. Marchionne, who signed a partnership with **Chrysler** LLC in Washington days ago, is on an ambitious campaign to forge one of the world's biggest auto makers by crafting a three-way alliance among Fiat, Chrysler and Opel. In Berlin, he is due to meet German Foreign Minister Frank-Walter Steinmeier and German Economy Minister Karl-Theodor zu Guttenberg, the people familiar with the matter said.

Fiat's board of directors met Sunday and authorized Mr. Marchionne to seek a potential merger between Fiat and GM's European operations, including Opel and its U.K. unit Vauxhall, according to a statement issued by Fiat on Sunday.

Fiat has been in talks with GM for months over the purchase of a majority stake in Opel, according to people familiar with the negotiations. Mr. Marchionne believes Fiat needs to sharply increase its current production of 2.2 million cars a year to gain economies of scale that could make Fiat viable in the future. Merging with Opel, in addition to Fiat's alliance with Chrysler, would allow the Italian auto maker to reach Mr. Marchionne's goal of producing at least 5.5 million cars a year.

If a deal is reached, Fiat will consider creating a new publicly traded company that combines the auto maker's car unit, Fiat Group Automobiles, with GM's European operations, the statement said.

A deal with Opel isn't expected to impact the Chrysler

Please turn to page 31

Recession takes a toll on Berkshire Hathaway

Associated Press

BURSTING BUBBLES: Warren Buffett told shareholders in Omaha, Neb., that everyone made the same mistake on housing prices. **Page 19.**

Dollars remain premium for banks

BY CARRICK MOLLENKAMP

The U.S. dollar remains in heavy demand from banks around the world, a sign that trust among banks remains fragile.

While a number of indicators show that credit markets are thawing, economists, central bankers and investors are paying keen attention to the rate at which foreign banks are pulling dollar deposits out of their U.S. branches. That pace has set records for several months, according to the latest data from the U.S. Treasury Department.

The moves, analysts say, suggest banks still are scrambling for ways to finance investments in dollar-denominated securities such as U.S. mortgage-backed bonds.

Before the credit crisis hit in August 2007, foreign banks could freely borrow dollars from U.S. banks and one another. Bank affiliates also could sell short-term IOUs. Now banks are demanding bigger lending premiums for certain loans.

On the bright side, the banks' increased reliance on U.S. deposits is making them less dependent on central-bank lending programs, which were put in place as an emergency backstop. Still, it also demonstrates how brittle the lending markets remain. Until banks develop more trust among one another, even

Please turn to page 31

Spain avoids unrest as economy slumps

BY THOMAS CATAN

THE OUTLOOK

MADRID—Spain's unemployment rate has topped 17%, and economists expect it to hit 20% next year. But Depression-era scenes don't dot its landscape.

Spaniards aren't, en masse, sleeping under bridges. Tent cities haven't sprung up outside Spanish towns. Labor has yet to call a single major strike.

Europeans are notoriously quick to take to the streets to defend their economic interests. Yet, as the Continent endures its worst economic crisis since the end of World War II, things seem unusually calm.

Even Friday's May Day marches were more muted than expected.

Though hundreds of thousands of people across Europe took part in the annual demonstrations, calling on governments to support jobs and workers, overall participation was less than unions had hoped for considering the severity of the downturn.

Exact reasons for the subdued mood vary from country to country, but a common theme emerges: The very factors that make some European economies sluggish and inflexible during times of plenty also help cushion the downturn.

Spain exemplifies this. Dur-

Please turn to page 31

Inside

Riding high

European stocks are on a tear, but how long can it last?
Money & Investing, page 19

Markets

	CLOSE	PCT CHG
DJIA	8212.41	+0.54
Nasdaq	1719.20	+0.11
DJ Stoxx 600	200.30	Closed
FTSE 100	4243.22	-0.01
DAX	4769.45	Closed
CAC 40	3159.85	Closed
Euro	$1.3264	+0.08
Nymex crude	$53.20	+4.07

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Austria €3 - Belgium €3 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 25 - Finland €3.20 - France €3 - Germany €3
Greece €3 - Hungary Ft 590 - Ireland (Rep.) €3 - Italy €3 - Lebanon L£ 6000 - Luxembourg €3 - Netherlands €3 - Norway Nkr 29 - Poland Zl 12 - Portugal €3 - Slovakia €3.32/Sk 100 - Spain €3 - Sweden kr 29
Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

THE WALL STREET JOURNAL.

LEADING THE NEWS

Armenia's expat crisis

Economy struggles as remittances slow and workers return

By Marc Champion

YEREVAN, Armenia—Most countries hammered by the financial crisis ran into trouble because their banks crumbled, their exports collapsed or they ran up too much debt.

Armenia, a landlocked nation of three million in the Caucasus, has a different problem. Fiscally prudent and too isolated to be hit by early fallout from the crisis, the country is proving there is no haven from the downturn: The economy has been hit hard as Armenians who live abroad send less money home. Now, some expatriates are returning and looking for jobs, presenting new problems for the economy, but also new possibilities.

Returnees are adding to jobless lines, government social-security bills.

Armenia's banks were too small and local to get caught in the subprime meltdown, and they were banned by regulators from making the risky foreign-currency loans that have damaged economies across Eastern Europe. Exports have declined, but they were never a big part of the economy.

"Here you have an economy that was well-managed with a banking sector that was not exposed," says Aristomene Varoudakis, Armenia country manager for the World Bank. Yet gross domestic product fell 6.1% in the first quarter from a year earlier, after growing 7% last year, he says.

Samvel Harutyunian is one reason why. Last June, the 37-year-old driver moved from Yerevan to Moscow, lured by higher pay that he hoped would give his own family enough to live on and still send some home to relatives.

He made good money—around $2,500 a month—selling Turkish clothing at a market in Moscow's Sokolniki district, he says, though life wasn't easy. He, his wife, Angela, and their two children lived with her parents and their family—a total of 10 people crammed into a two-bedroom Moscow apartment.

By September, though, the market in Sokolniki had closed as the economic crisis and falling oil prices pushed Russian consumers to close their wallets. Mr. Harutyunian went home, and now works part-time as a driver for an American family.

Just how many of Armenia's expats are returning home as their host countries suffer in the downturn isn't known, Economy Minister Nerses Yeritsyan said in an interview. But he expects the number to be substantial. These returnees will add to unemployment lines and government social-security bills. Meanwhile, the $2.5 billion-plus a year in remittances that make up about a fifth of Armenia's GDP—up to 80% of them from Russia—are down 25% this year.

The fall in remittances has had a big impact on Armenia's economy. The majority of the money went to investment in housing, fueling a construction bubble that has now burst. Yerevan is filled with half-finished construction sites.

With low public-debt levels at just 15% of GDP, Armenia has plenty of room to borrow in response to the crisis, says Mr. Varoudakis. It is drawing $540 million from the International Monetary Fund, $550 million from the World Bank and an expected $500 million from its ally Russia. Russian companies control or operate much of Armenia's infrastructure, including railways, gas pipelines, a nuclear power plant and mobile telecoms.

Exports have been hit amid tumbling prices for Armenia's copper production. But last year, exports accounted for only about 10% of Armenia's GDP, compared with 47% for export-dependent Germany. The small size of the export sector is mainly a function of politics—two of Armenia's borders, with Turkey and Azerbaijan, are closed because of a continuing territorial dispute over Nagorno-Karabakh, an ethnic-Armenian enclave in Azerbaijan.

In October, Armenia set up a Ministry of Diaspora modeled after the Irish government's diaspora service, among others. About six million ethnic Armenians are estimated by diaspora organizations to live abroad. The country is trying to leverage the wealth and experience of Armenians abroad, says Diaspora Minister Hranush Hakobyan. The ministry is hosting four conferences this year to bring together Armenian architects—who met in Yerevan late last month—lawyers, bankers and doctors—hoping to encourage both investment in the country and the transfer of technology and knowledge. Among its goals: to tap knowledge from abroad to improve Armenian university courses, and to turn Armenia into a center of medical services for the Caucasus region.

"We don't export so many final-production goods, but we do export our people," says Mr. Yeritsyan, the economy minister.

Armenian fall

Percentage change from the first quarter of 2008

	1Q 2009
Gross domestic product	-6.1%
Industrial output	-9.5
Construction	-21.9
Unemployment	+5.3
Exports	-47.3
Imports	-22.2

Note: Figures are preliminary
Source: National Statistics Service of the Republic of Armenia

Growing unemployment augurs badly for Europe

By Paul Hannon
And Nicholas Winning

LONDON—The continued rise in unemployment across the 16 countries that use the euro suggests an economic recovery is going to be slow to arrive and weak when it does.

That will ensure that inflationary pressures will remain subdued in the euro zone for some time, with the currency area likely to experience a number of months of deflation, when prices are lower than they were a year earlier.

That prospect increases the likelihood that the European Central Bank will do more than just cut its benchmark interest rate to 1% from 1.25% when its governing council meets May 7, and will announce measures designed to boost shrinking bank lending.

The European Union's Eurostat statistics agency said Thursday that the euro zone's unemployment rate rose to 8.9% in March from 8.7% in February, the highest level since November 2005.

The currency area lost 419,000 jobs during the month, leaving 14.2 million people without work, more than the populations of Austria and Ireland combined.

More up-to-date figures for Germany—the euro zone's largest member—showed the rise in joblessness continued in April, with 58,000 jobs lost during the month.

Recent surveys have indicated that, while the pace of economic contraction is easing in the second quarter, growth is unlikely to resume until early 2010. Businesses are therefore likely to continue to cut payrolls for many months to come.

"Despite tentative signs that the decline of economic activity may soon slow, labor demand will be hit well into 2010," said Joerg Radeke, an economist at the Centre for Economic and Business Research.

Germany's government has strongly encouraged firms to make use of job-retention plans to prevent a surge in unemployment. About two million jobs are already earmarked for its short-shift program, under which public money is used to partially make up for temporary wage cuts and shorter working weeks.

Eurostat Thursday said the annual rate of inflation in the euro zone was unchanged at 0.6% in April. That's the lowest level since records began in 1996, and economists expect the inflation rate to resume its decline in May, after the upward pressure on prices as a result of the Easter vacation has passed.

The annual rate of inflation remained well below the level of around 2% that the ECB targets over the medium term. The bank has indicated that it will cut its key interest rate to 1% from 1.25% at the May 7 meeting

Many economists expect the euro zone to experience a period of deflation, in which prices are lower than a year earlier. In March, four euro-zone members, Spain, Portugal, Ireland and Luxembourg, reported that prices were lower than in the same month in 2008. In its flash estimate for April, Eurostat didn't give a breakdown of price movements by type of good or by nation. But figures released by Spain's national statistics agency earlier Thursday showed prices fell by 0.1% on the year, the same rate of deflation as in March.

The risk is that a period of deflation could become self-reinforcing, trapping the euro zone in a long contraction. As demand for goods fell, so would economic output, triggering further unemployment and another round of price falls and delayed purchases.

—Roman Kessler contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Each percentage point of U.S. gross domestic product is the equivalent of $140 billion. Thursday's Capital column incorrectly said each point was equal to $1.4 trillion.

INDEX TO BUSINESSES

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

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

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

Thai mogul blames foes in murder attempt

Protest leader says antichange forces conspired to kill him

By James Hookway

BANGKOK—A Thai media baron who was instrumental in toppling two governments said an alliance of military officials and politicians bent on thwarting political change was behind an attempt to kill him last month.

Sondhi Limthongkul's claim, while unproven, was notable in part because the businessman and protest leader absolved his political foe, former Prime Minister Thaksin Shinawatra, and said both men shared a common desire for change.

Mr. Sondhi made the allegation Sunday in his first public remarks since the murder attempt at dawn on April 17. Police say at least five men fired at least 84 rounds from military-grade assault rifles at Mr. Sondhi's car as he traveled to his office in Bangkok's historic old quarter.

Associated Press

Sondhi Limthongkul, Sunday, described what he said was a conspiracy to kill him.

Mr. Sondhi had to undergo surgery to remove shrapnel from his skull after the attack, which seriously wounded his driver. No arrests have been made.

The attack was a fresh twist in a continuing political struggle in Thailand over whether the nation should become a functioning, accountable democracy or a place where generals and politicians make deals to determine who wields power, as has been the case for much of Thailand's history. The rural poor are adding to the volatility by demanding that their voice be heard, too.

Mr. Sondhi, 61 years old, is playing a leading role in the debate. In 2005 and early 2006, he stirred mass protests against then-Prime Minister Thaksin, accusing him of corruption. The protests helped pave the way for the armed forces to remove Mr. Thaksin in a military coup later that year.

In 2008, Mr. Sondhi and his yellow-clad allies in the People's Alliance for Democracy helped force the collapse of a government led by Mr. Thaksin's brother-in-law by occupying and shutting down Bangkok's international airports for a week as army and police looked on.

Many commentators had expected Mr. Sondhi to link the attack on him to supporters of Mr. Thaksin. But at Sunday's news conference live on his ASTV satellite network, he said he believed the assault was plotted by a group of military officers and political backers opposed to both Mr. Thaksin's populist version of democracy and his own efforts to promote a culture of accountability. He didn't provide any names.

"I am certain that soldiers were behind this assassination attempt," Mr. Sondhi said, citing the way assailants positioned themselves around his vehicle and how they held their weapons.

Thai army chief Gen. Anupong Paochinda has said bullets found at the scene of the shooting had been issued to a military division. Gen. Anupong couldn't be reached for comment Sunday.

An army spokesman said the military would have no official comment on Mr. Sondhi's allegation until police investigators submit their report.

Mr. Sondhi on Sunday linked the causes of his allies in the People's Alliance for Democracy and Mr. Thaksin's supporters, or the "red shirts," as they are known, saying both are pushing for political change in Thailand.

Mr. Sondhi and the PAD are demanding greater accountability and the end of corruption and money-based politics, while the red shirts seek fresh parliamentary elections and want the army and Thailand's courts to stop interfering in the country's democracy.

Last month, some of Mr. Thaksin's followers rioted in Bangkok and forced the cancellation of a major international summit at a nearby seaside resort, embarrassing the government.

"The yellows and the reds are seeking something very similar, which is change. The only difference once we have achieved that change is how to go about creating a new politics," or a more effective way to run the country, Mr. Sondhi said.

He also said not everybody is on board with his program for a corruption-free "new politics," though he declined to give names.

If Mr. Sondhi's claim that the army was behind the assassination attempt is true, it could indicate that Prime Minister Abhisit Vejjajiva isn't fully in control of Thailand. It might also mean that members of the armed forces could be jockeying for a greater say in how the nation is governed.

Mr. Sondhi commands a large audience through his television and newspaper network and has largely been supportive of Thailand's armed forces and the coup they staged in 2006. He said at the time it was necessary to uproot Mr. Thaksin's lingering influence in Thai society.

Mr. Thaksin now is moving from country to country in the Middle East and Africa to evade extradition and imprisonment on a corruption conviction.

"What we may be seeing now is a realignment of alliances," said Thitinan Pongsudhirak, director of the Institute of Security and International Studies at Bangkok's Chulalongkorn University. "Some very powerful people supported Mr. Sondhi in the past, but now with Mr. Thaksin out of the picture he may have outlined his usefulness."

—Wilawan Watcharasakwet contributed to this article.

CORPORATE NEWS

Fiat lessons for Chrysler

Marchionne to apply experience to revive U.S. auto maker

BY STACY MEICHTRY

ROME—After months of negotiations, **Fiat** SpA Chief Executive Sergio Marchionne clinched an alliance with **Chrysler** LLC. Now the Italian executive faces a bigger challenge: restructuring one of Detroit's most troubled auto makers.

Chrysler on Thursday filed for bankruptcy reorganization at the behest of the U.S. government after failing to reach an agreement with some of its creditors.

Mr. Marchionne, who is expected to assume broad authority over Chrysler's operations, will be in a race to refresh Chrysler's empty product pipeline while the company burns through government loans.

Under the terms of the deal signed Thursday, the United Auto Workers union will hold a 55% stake in the Fiat-Chrysler alliance—potentially limiting Mr. Marchionne's ability to carry out deep restructuring.

"You've got to imagine that UAW is going to have a big say about where vehicles are built in the future," said Mark Fulthorpe, an auto analyst with CSM Worldwide.

Meanwhile, Mr. Marchionne is still expected to run the show at Fiat's headquarters in Turin, where one of the top issues on the agenda is forging other alliances—including possibly with **General Motors** Corp's. German unit, Opel.

The aggressive search for partners is part of Mr. Marchionne's recipe to try to ensure Fiat's long-term survival amid the financial crisis and economic downturn. He wants to eventually boost Fiat's annual production to around 5.5 million cars from its current level of 2.2 million—an increase in scale that he hopes will proportionately reduce the amount Fiat spends moving new models from the drawing board to the showroom. Together, Chrysler and Fiat will initially make four million cars annually.

"Our work is just beginning, but together with our new partners at Chrysler we look forward to delivering on the vast potential this alliance holds," Mr. Marchionne said in a statement issued Thursday.

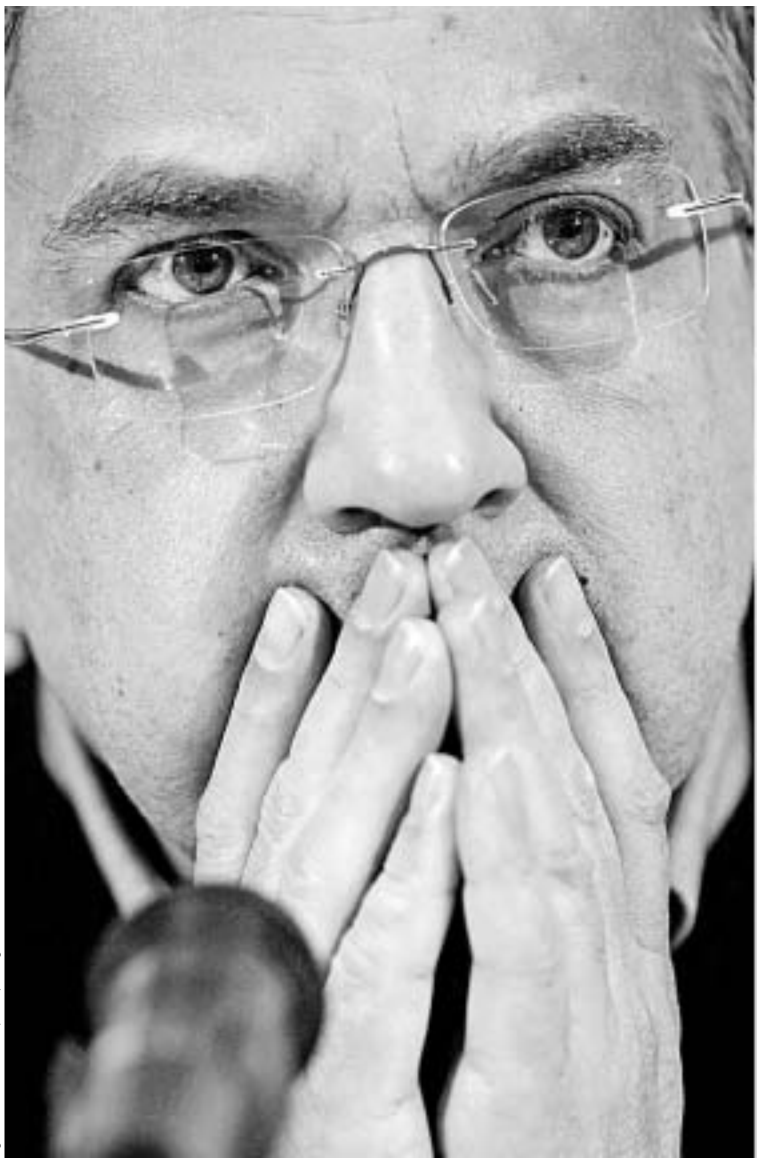
Mr. Marchionne has a history of maneuvering his way out of tight corners. When he arrived at Fiat in 2004, the Italian auto maker was saddled with $8.8 billion in debt. Fiat's management ranks were bloated, and its relations with unions had grown increasingly tense as the company came under pressure to cut costs by closing plants in Italy. The company was also stuck in a tense alliance with General Motors.

Mr. Marchionne "wasn't aware of how bad things were until he got in and started working. It was survival mode," said John Elkann, head of Italy's Angelli family and chairman of Fiat's controlling shareholder, Exor SpA.

Beyond his brief stint as a Fiat board member, Mr. Marchionne was an outsider to the car industry. He came to Fiat after heading SGS, a firm that specializes in inspecting and certifying goods being traded.

The executive's unfamiliarity with Fiat and the auto sector ended up giving Mr. Marchionne an edge. He successfully pressed General Motors, then the world's biggest auto maker, to pay Fiat $2 billion to get out of its alliance with the Italian company.

The payment bought Mr. Marchionne time to restructure Fiat, giving him the capital to roll out new models and grab back market share.



Agence France-Presse/Getty Images

Fiat CEO Sergio Marchionne, seen above at a March news conference, is expected to assume broad authority over Chrysler's operations.

GM to ramp up effort for its restructuring

BY JOHN D. STOLL

DETROIT—**General Motors** Corp. is expected this week to accelerate talks with the United Auto Workers union and move forward with a push to have about 2,600 dealers close their doors.

The giant auto maker also is likely to approach banks holding secured debt, hoping to work out terms to ease the company's debt burden.

Reaching agreement on these front is critical if GM is to restructure outside of bankruptcy court.

The company has new leverage as it re-engages in talks, thanks to the bankruptcy filing last week by **Chrysler** LLC. But differences between the two auto makers, mean that leverage can take GM only so far.

"The move with Chrysler signals to the GM creditors that bankruptcy is a viable option," said Lewis Rosenbloom, a bankruptcy lawyer with Dewey & LeBoeuf. Mr. Rosenbloom's firm does extensive work for GM and Chrysler. "The government is not just going to throw money at this without getting a consensual accord, so I think this is a harbinger of things to come."

The Treasury Department has given GM until June to work out a consensual restructuring plan and has indicated it may push the company into bankruptcy if the necessary deals don't materialize.

GM's hopes of staying out of court hinge on its ability to convince thousands of unsecured bondholders, owed $27 billion, to accept a small equity stake in the company in exchange for forgiving the debt. Several bondholders have said the equity exchange will fail if the terms aren't sweetened. But administration officials have said GM's offer is fair and better than what will be offered in bankruptcy court.

GM executives had been reluctant to embrace bankruptcy in recent months over fear that car buyers won't purchase from an auto maker in Chapter 11 proceedings. GM also fears that in bankruptcy court, the auto maker's restructuring could be stalled by disgruntled creditors seeking a better recovery on their claims against the company.

GM executives pointed to the long march that many auto companies—including Daewoo in Korea, which was eventually bought by GM, and former GM parts subsidiary Delphi Corp.—endured in bankruptcy court. Delphi filed for bankruptcy protection in 2005, still hasn't emerged and is believed to be on the brink of liquidation.

The Obama administration, however, has said it will support a GM bankruptcy so that it moves quickly, much like the government is promising in Chrysler's case.

But GM's case is much different.

In addition to confronting an issue with unsecured bondholders that didn't exist at Chrysler, GM is looking to shed or sell several divisions, including Saturn and Pontiac. GM is expected next Monday to notify the dealers who are targeted for closure, according to people familiar with the matter. Those dealers can either accept the offer, or take their chances in bankruptcy court.

The company has new leverage, thanks to Chrysler's bankruptcy filing.

The auto maker continues to talk with interested parties about purchasing Saturn and Hummer. Both of those sales have been slowed by the potential bankruptcy filing.

GM isn't just slimming down U.S. operations.

Last Monday, GM Chief Executive Fritz Henderson said the company may sell its entire stake in Opel, which is the heart of GM Europe's operations. Likely bidders for that unit include **Fiat** SpA and **Magna International** Inc.

Beyond shedding business units, GM has yet to ink a deal with the UAW on labor-cost reductions and retooling retiree health-care obligations. Those talks are expected to take all month. GM is offering its union a 39% stake and less than $10 billion in cash in exchange for the $20 billion the company owes a UAW trust fund responsible for paying health benefits.

U.S. auto sales stay in rut amid GM and Chrysler woes

BY SHARON TERLEP

DETROIT—U.S. vehicle sales turned out even worse than expected in April, muting optimism that the auto market is poised to rebound.

Auto makers blamed the high-profile troubles at **General Motors** Corp. and **Chrysler** LLC for dragging down sales last month across the industry. Chrysler sought bankruptcy protection on Thursday.

"We've been fighting all these rumors left and right and it doesn't help," GM sales chief Mark LaNeve said. "I thought we were going to close much better than we did."

Shaky consumer confidence and high unemployment levels also offset benefits of increased credit availability, deep auto discounts and U.S. government backing of warranties on GM and Chrysler vehicles.

April sales totaled 819,540 cars and light trucks, a decline of 34% from a year earlier, according to market research firm Autodata Corp. The seasonally adjusted, annualized sales pace was 9.32 million vehicles, down from March's 9.86 million rate.

"Industrywide, April felt more like a dust bowl than a spring garden for new car sales," Jim O'Donnell, North American president for **BMW** AG, said in a prepared statement.

Every major auto maker reported dramatic declines from year-earlier levels. **Toyota Motor** Co., with a 42% slide, fell behind **Ford Motor** Co. in the monthly tally for the first time since early 2008, even as Ford's sales fell 32%. GM sales dropped 33% and Chrysler registered a 48% decline. **Honda Motor** Co. saw its U.S. sales drop 25% and **Nissan Motor** Co. was off 38%.

Sales had gotten off to a solid start in April, but anxiety around a Chrysler bankruptcy filing grew relentlessly. GM's plans to exact more painful cost cutting in its bid to survive also contributed to the unease among car buyers.

The Obama administration has given GM until June 1 to present a convincing restructuring plan or file for bankruptcy protection. Chrysler is working to emerge from Chapter 11 protection in no more than two months.

Chrysler Vice Chairman Jim Press said the auto maker's troubles didn't contribute to its sales decline. He said it stemmed from reduced liquidity at Chrysler Financial.

Chrysler plans to take out full-page newspaper ads this week to restore confidence among consumers, letting them know, "We're still here," Chrysler sales chief Steven Landry said.

Auto makers have heaped on incentives, which increased by 29%, or $680 per vehicle, last month compared with a year earlier, according to car-shopping site Edmunds.com.

But deals weren't enough to help even healthier, foreign-based auto makers. Toyota sales are off 38% year-to-date. The company predicts 2009 auto sales will come in at around 10 million sales, which would mark a 24% decline from last year, when sales fell to a 15-year low.

Toyota said Friday it plans to increase production of select vehicles after inventory levels dropped to a point that dealers stepped up orders.

"Although our April sales weren't much to call home about, there are signs that the industry sales contraction is nearing its end," Toyota division executive Bob Carter said in a conference call. "We are also encouraged by several economic indicators that point toward a modest recovery."

—Kate Linebaugh contributed to this article.

CORPORATE NEWS

Metro to expand in China

German retailer aims to surpass Best Buy as electronics giant

BY CECILIE ROHWEDDER

DÜSSELDORF, Germany—With an aggressive plan to expand in China despite the global recession, the chief executive of **Metro** AG says he believes the company can overtake **Best Buy** Co. as the world's biggest consumer-electronics retailer.

For Metro CEO Eckhard Cordes, the retailer's recently announced plans to enter China with its consumer-electronics unit, Media Saturn, mark the beginning of a growth spurt aimed at putting Metro's sales ahead of Best Buy's—even though Metro is currently about $20 billion in sales behind the American chain.

"In the medium to long term, we have the potential to make Media Saturn No. 1," Mr. Cordes said in an interview.

Metro, the world's fourth-largest retailer measured in sales, has stores in 32 countries—more than any global competitor including **Wal-Mart Stores** Inc., **Carrefour** SA and Best Buy, which operates in the U.S., Canada and China.

With combined sales of €19 billion ($25 billion), the Media Markt and Saturn chains are Europe's biggest electronics vendors. But sales at Media Saturn, which includes both chains, still lag behind Best Buy's sales of $45 billion in 2008.

The way to close the gap, Mr. Cordes said, is in China. With a local joint-venture partner, the German retailer plans to open a Media Markt store in Shanghai next year, rapidly followed by at least another 12 and, in the medium-term future, about 300 more in large metropolitan areas.

Best Buy currently has six stores under its own name in China and owns the Five Star chain of 165 stores in the country. Spokeswoman Susan Busch declined to comment on Mr. Cordes' ambition. "We are squarely focused on our own international growth strategy," she said.

Metro's attack shows how fiercely global retailers are competing in lucrative international markets, as growth in their already mature home countries slows with the downturn. Same-store sales at Media Saturn, long the star performer among Metro's four retail formats, fell by 1.7% in 2008.

Some analysts say Mr. Cordes' goal of dethroning Best Buy is overly ambitious. Skeptics also point to the Metro group's slow growth record in Asia, which it entered in 1996. It has struggled in Japan and opened fewer stores than initially planned in India, for various reasons including regulations and inadequate supply chains. It entered China in 2006.

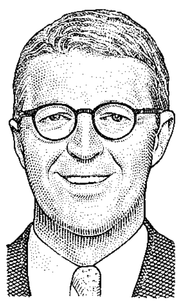
The rivalry between Metro and Best Buy is also set to heat up in Europe, where Best Buy owns half of British cellphone retailer **Carphone Warehouse Group** PLC, which operates in nine European countries.

The U.S. retailer also plans to open Best Buy stores in Britain in the spring of 2010, although it has already postponed those plans once. By 2013, it hopes to have 100 stores across Europe.

Metro's Mr. Cordes conceded that Best Buy has a better online business than Metro, which will start Internet selling only in the small Dutch and Austrian markets later this year. At the same time, Mr. Cordes said Metro's experience in 15 different European countries—including complex markets such as Romania and Turkey—gave it an edge in China, which also isn't a homogeneous market."

"It's not a completely unrealistic claim," said Thomas Roeb, a retail professor at the University of Applied Sciences in Bonn Rhein-Sieg. "Best Buy's success is largely an American success, while Metro has successfully expanded abroad."

Media Saturn is currently growing slightly faster than Best Buy, measured by new stores. In 2008, the group opened 71 new consumer-electronics stores, 61 of them outside Germany.



Eckhard Cordes

Best Buy is planning to open 65 stores this year, 20 of them outside the U.S. Once in a new country, Metro says it typically grows very quickly: for example, the retailer first ventured to Russia in 2006 and now operates 20 Media Markt stores there.

Mr. Cordes, who previously spent nearly 30 years at car maker **Daimler-Benz** AG, also said the retailer's large exposure to Eastern Europe wasn't hurting the company. Metro's business in the economically troubled region makes up about 27% of group sales—a portion that worries analysts and investors as Eastern European economies sink deeper into the downturn.

Mr. Cordes said first-quarter earnings, set to be published Tuesday would prove such worries unfounded. He said underlying same-store sales growth was positive in Eastern Europe in the first quarter. Metro is planning to open as many as 40 new stores in the region this year, including a supercenter in Ukraine and a wholesale store in Kazakhstan.

Eastern movements

Metro hopes to compete with Best Buy with its Media Saturn unit.

	Media Saturn	Best Buy
Annual sales, 2008	$25 billion	$45 billion
Countries present	15	3
Brand stores in China	0	6
Next big market	China	Britain
Based in	Ingolstadt, Germany	Minneapolis

Source: the companies

Sprint, Ericsson in talks on network outsourcing

BY AMOL SHARMA AND SARA SILVER

Sprint Nextel Corp. is in final negotiations to outsource management of its cellular network to **Telefon AB L.M. Ericsson** and transfer 5,000 to 7,000 U.S. employees to the equipment vendor in a cost-cutting move to help offset Sprint's dwindling subscriber numbers.

The two companies haven't finalized a contract and discussions could continue for a few more weeks, say people familiar with the matter, but Sprint could end up paying Ericsson—the world's largest supplier of wireless-network equipment by sales—as much as $2 billion over several years to maintain the thousands of cell sites that carry Sprint's wireless voice and data traffic. The deal is expected to slash the wireless carrier's network costs by about 20%, the people say.

Ericsson and Sprint declined to comment.

Sprint's board will review the transaction with Ericsson, once terms are final, and decide if the potential cost savings and other benefits justify the complex arrangement, one person familiar with the discussions said. The people cautioned it is still possible that Sprint may choose not to move forward with the outsourcing strategy at all.

The negotiations come as Sprint is trying to aggressively cut spending to counter revenue losses from its thinning subscriber base. The Overland Park, Kan., company, which reports earnings Monday, is expected to say it lost more than one million contract customers in the first quarter, though some analysts expect solid gains in less profitable subscribers who prepay for service.

Sprint doesn't break out its annual spending on network operations—which is part of a much larger $8.74 billion category called "cost of services" that includes items such as roaming and interconnection fees paid to other carriers. While reducing costs is a major reason Sprint is considering the transaction, it also sees network outsourcing as a way to free up resources to focus on areas like product development, marketing and strategic partnerships, the people familiar with the matter said.

"These deals shouldn't simply be done for the costs," said Camille Mendler, a vice president of enterprise research at Yankee Group. "It can't be a Band-Aid for a gushing chest wound."

Telecom operators in the U.S. have preferred to stay in control of day-to-day management of their networks, seeing that as a core function. But outsourcing is becoming more common in Europe and Asia. Carriers including **Hutchison Whampoa** Ltd.'s 3 unit and India's **Bharti Airtel** Ltd. have moved down that path either for mobile or fixed-line networks. Ms. Mendler estimates carriers will spend about $145 billion over the next five years on outsourcing and managed services deals.

Sprint would retain ownership of its cell towers under the Ericsson deal, and would continue to be responsible for capital investments. The carrier, which has a total of 49,000 employees after completing a round of 8,000 layoffs, would transfer thousands of workers scattered across the U.S., who maintain and fine-tune its cell sites nationwide.

The deal could eventually involve some layoffs, the people familiar with the matter said, but Sprint is hoping Ericsson will keep as many of its personnel as possible as it builds out its U.S. outsourcing business and courts additional customers such as **AT&T** Inc. and **Deutsche Telekom** AG's T-Mobile USA.

—Dana Cimilluca contributed to this article.

MAN AG's earnings tumble 44%

BY CHRISTOPH RAUWALD

FRANKFURT—**MAN** AG reported a 44% slump in first-quarter net profit as demand for new trucks collapsed.

"It remains difficult to forecast developments in the coming quarters. We do not believe that the economic situation will improve in the short term," the German truck maker and engineering company said, reiterating previous comments that the commercial-vehicle market could shrink 50% this year amid the economic downturn.

"If the difficulty of obtaining financing also continues, the slump may be even more pronounced. In this case, negative earnings in the commercial vehicles business area cannot be ruled out," MAN said Thursday.

Net profit dropped to €179 million ($237.4 million) from €319 million a year earlier. The latest figure included a €125 million gain from discontinued operations after the sale of a 70% stake of its Ferrostaal unit. Operating profit plummeted 76% to €100 million.

Revenue fell 27% to €2.56 billion from €3.48 billion. Order intake dropped 53% to €2.3 billion.

The Munich-based company's diversified operations—it also produces turbo machines and diesel engines—have put it at an advantage compared with companies that make only trucks.

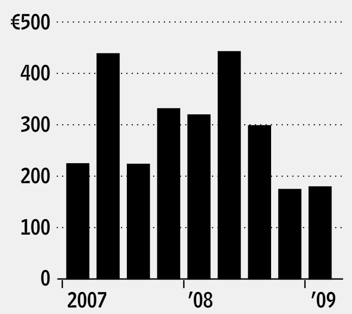
Chief Executive Hakan Samuelsson told reporters he didn't rule out acquisitions to strengthen the diesel and turbo-machines units, but said the company's focus was on organic growth.

The company said the truck market and demand for marine engines remain extremely weak. It reported solid power-plant business at its diesel-engines unit.

MAN's supervisory board chairman, Ferdinand Piech, who holds the same position at MAN's largest shareholder, Volkswagen AG, told reporters recently that the market downturn was accelerating efforts to establish closer cooperation within the planned alliance of MAN, Volkswagen's truck operations and Swedish truck maker Scania AB.

MAN AG

Net profit, in millions



Source: the company

P&G, Colgate get pinched

As sales decline, firms raise prices to stem profit slide

BY ELLEN BYRON

Shoppers continue to pare spending even on basic household staples, resulting in lower-than-expected sales for **Procter & Gamble** Co. and **Colgate-Palmolive** Co. The consumer-products giants are responding by raising prices to keep profits from plunging.

P&G said that rather than splurge on premium-priced brands like its Tide detergent and Pampers diapers, consumers are choosing less-expensive versions, including its own Gain detergent and Luvs diapers. Some shoppers are forgoing discretionary purchases all together.

"There is some trade down, there's obvious pocketbook pressure," P&G Chief Executive A.G. Lafley said in a conference call Thursday. "Frankly, more consumers will try private-label brands and retailer brands than would try them in more normal economic times."

Kimberly-Clark Corp. last week reported lower sales of discretionary everyday basics such as paper towels and facial tissue.

To offset higher commodity prices and global currency swings, P&G and Colgate raised prices in the quarter through March. P&G said higher prices increased its total sales by 7%. Colgate raised prices by 8%.

Despite pressure from retailers to lower prices for cash-strapped shoppers, neither company conceded much willingness to do so.

Higher prices hurt sales volumes, especially in emerging markets, but still paid off for the companies.

"While painful, pricing to protect the structural economics of our business is the right thing to do," P&G Chief Financial Officer Jon Moeller said.

Analysts said higher prices could backfire. "Investors are certainly concerned by unit-volume trends, especially on the Procter side, and wondering whether they're going to have to lower price points or kick up promotions," said Bill Pecoriello, CEO of ConsumerEdge Research LLC, a consumer-products research boutique in Stamford, Conn.

Associated Press

P&G hasn't been able to turn the tide of consumers switching to lower-priced alternatives to its premium household brands.

P&G blamed lower sales on inventory cuts by retailers worldwide. Colgate said consumers still are pulling items from their cupboards before buying new items.

To keep consumers loyal to their brands, Colgate and P&G are developing new and improved products and intend to ramp up ads that emphasize why their brands offer more value. Still, Colgate cut its first-quarter advertising spending by about 24%.

Beauty products were a particular blemish for P&G last quarter, with the division's sales falling 9% to $4.3 billion. Discretionary items were hardest hit, especially luxury fragrances and salon hair-care products.

Investors have said P&G should stick to the household necessities it knows best. But Mr. Lafley defended the company's emphasis on beauty, saying it is a "brand- and innovation-driven industry" that is shifting away from department stores to P&G's home turf.

"There are a lot of things that are dead right for us, and I don't get too excited by a quarter or two, or even a year or two, if it is the right fit."

Mr. Lafley signaled a willingness to exit some of P&G's current categories and consider acquisitions, though he didn't provide specifics.

He said there has been "significant interest" in acquiring P&G's pharmaceutical business, but the company is still weighing a variety of options for the operation.

P&G reported net income of $2.61 billion, or 84 cents a share, for its fiscal third quarter, down 3.6% from $2.71 billion, or 82 cents a share, a year earlier. Revenue fell 8% to $18.42 billion.

Analysts polled by Thomson Financial forecast earnings of 80 cents a share on revenue of $18.9 billion.

P&G's organic sales, which exclude the impact of acquisitions, divestitures and foreign exchange, increased 1%, short of the company's forecast gain of 2% to 5%.

P&G cut the high end of its already-lowered outlook for the fiscal year that ends June 30. It now projects earning $4.20 to $4.25 a share, compared with its January forecast of $4.20 to $4.35 a share.

"The quality of results looks worse than expected and we expect questions about the sales outlook to remain," Goldman Sachs analyst Andrew Sawyer said in a research note.

At Colgate, first-quarter net income including noncontrolling interests rose 9.8% to $536.5 million, or 97 cents a share, from $488.5 million, or 86 cents a share.

Revenue decreased 5.7% to $3.5 billion.

Beauty company **Revlon** Inc. posted first-quarter profit of $12.7 million, compared with a year-earlier loss of $2.5 million.

Revenue fell 2.7% to $303.3 million.

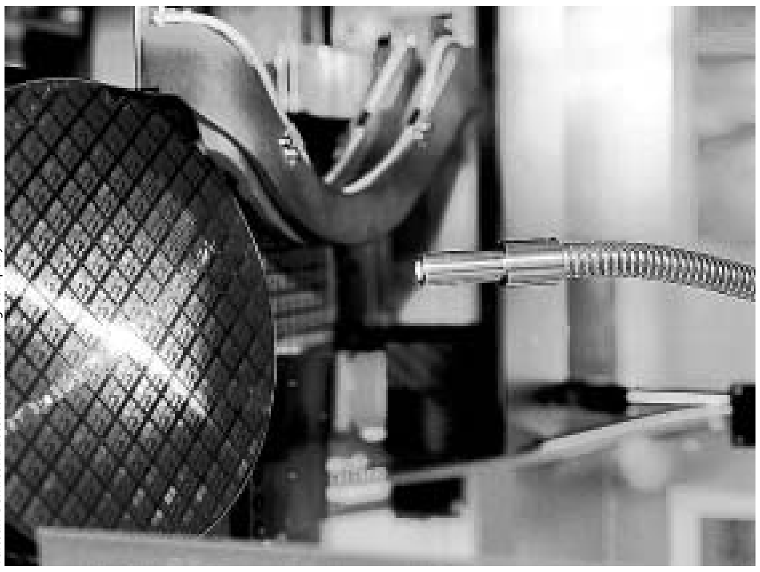
—Anjali Cordeiro contributed to this article.

CORPORATE NEWS

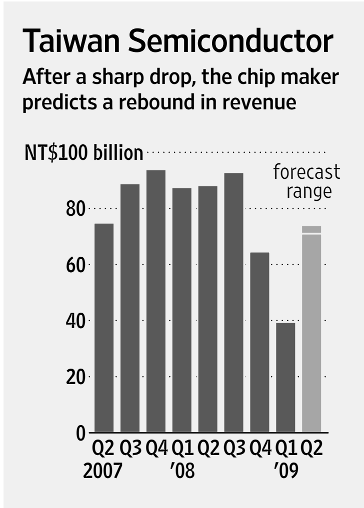
Chip makers think bottom is near

Infineon and Nanya see demand uptick and improved results

By Adrian Kerr And Jessie Ho



Taiwan Semiconductor Manufacturing Company



Source: the company

Major semiconductor companies in Europe and Asia Thursday said the industry's woes may have reached a bottom, though conditions will remain challenging for the rest of the year.

After reporting weak results for the first three months of 2009, chip makers such as Germany's **Infineon Technologies** AG and Taiwan's **Nanya Technology** Corp. said they saw an uptick in demand and forecast improved results in the current quarter.

The world's largest contract chip maker by revenue, **Taiwan Semiconductor Manufacturing** Co., posted a 94% drop in quarterly profit but forecast higher margins and revenue in the current quarter, signaling conditions are improving.

The company, considered a bellwether due to its diversified client base that includes **Texas Instruments** Inc. and **Intel** Corp., said it expects the industry's revenue in 2009 to fall 20%, rather than the 30% drop its executives had previously discussed.

"We believe the second half of 2009 will be better than the first half of 2009," TSMC Chief Executive Rick Tsai said Thursday. "Our customers are still cautious. However, they are cautiously revising up their forecasts."

Meanwhile Europe's largest chip maker, **STMicroelectronics** NV, cautioned that while semiconductor sales have risen in the past three months, the difficult period isn't yet over.

Chip makers have been hit hard by plunging consumer demand for electronic gadgets. As people tighten their spending, they buy fewer mobile phones, computers and navigation systems powered by microchips. Mobile-phone sales are set to contract about 10% this year.

But U.S.-based Intel, the world's largest chip maker, in early April said sales of personal computers had bottomed out during the first quarter.

Carlo Bozotti, chief executive of Switzerland-based STMicroelectronics, said the company saw improvements in sales to the wireless sector, and in Asia. There are also indications of some recovery of the automotive sector, he said.

"We have recently begun to see some indicators of improvement in booking activity and visibility," Mr. Bozotti said in a conference call. He cautioned that it is "still too early to determine how sustainable these signs are across all applications and geographies."

STMicro reported a net loss of $541 million for the quarter ended March 31, compared with a net loss of $84 million a year earlier. Revenue dropped by 33% to $1.66 billion, as sales fell across all segments. It was STMicro's fifth consecutive quarterly loss.

Chip companies may have some time to wait for a full recovery. **Microsoft** Corp. Chief Financial Officer Chris Liddell said recently he sees no immediate letup in the difficult business environment, and analysts caution wholesalers and retailers will continue selling off their inventories to raise cash.

Results for the quarter ended March 31 revealed the depth of the industry's troubles.

TSMC's net profit for the three months fell to 1.56 billion New Taiwan dollars (US$46.4 million) from NT$28.14 billion a year earlier. Revenue dropped 55% to NT$39.5 billion.

But TSMC said it continued to receive rush orders from customers during the quarter, especially from mainland China.

TSMC said it expects revenue of between NT$71 billion and NT$74 billion in the second quarter, up at least 80% from the first quarter.

Infineon narrowed its fiscal second-quarter loss to €258 million (US$341.9) from a net loss of €1.96 billion a year earlier, when a charge tied to its unit **Qimonda** AG, which since filed for insolvency, hurt its bottom line. Sales were down 29% to €747 million.

Infineon said it now expects its fiscal third-quarter sales to rise 10%, driven predominantly by its wireless operations, but with growth expected in all units.

However, the uptick won't be enough to arrest the decline in earnings, which Infineon said will fall more than 20% for its fiscal full year, after a net profit of €4.3 billion in fiscal 2009.

Falling prices continued to punish memory-chip makers in Taiwan in the first quarter. Nanya, Taiwan's largest maker of dynamic random access memory chips by revenue, reported a wider first-quarter net loss of NT$10.51 billion, up from a net loss of NT$8.78 billion a year earlier. It was Nanya's eighth consecutive quarterly loss.

"The demand is recovering, and I think the upward momentum will continue through the third quarter," said Nanya spokesman Pei Lin Pai.

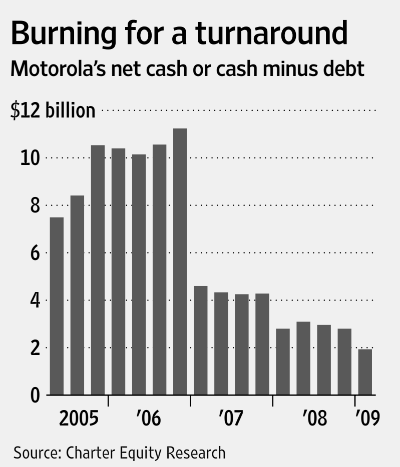
Mr. Pai said economic stimulus measures around the world and China's subsidies for purchases of computers in rural areas will continue spurring demand for DRAM chips, which are widely used in personal computers.

—Daniel Ong Kian Hong contributed to this article.

Motorola burns cash amid slow cellphone sales

By Sara Silver

The company is rolling out new phones, such as its MOTOSURF A3100.



Source: Charter Equity Research

Motorola Inc. burned through $1.3 billion in cash in the first quarter, as the credit crunch crimped the telecom-equipment maker's ability to sell off accounts receivable, while cellphone sales plunged.

In reporting its financial results Thursday, the Schaumburg, Ill., company said it is trying to make up for declining sales in most of its businesses with faster cost cuts, but those, too, have drained cash for severance payments and other restructuring charges.

Co-Chief Executive Greg Brown predicted that the company, whose total cash dropped to $6.1 billion from $7.4 billion at the end of 2008, would consume less cash in the second quarter and generate cash in the second half. But that depends on seasonal improvement in certain businesses and doing a better job of managing its cash reserves. Since December, the company has scrapped its dividend, frozen pensions and stopped contributing to retirement plans.

"The businesses will improve. We will also implement further improvements to working capital and we will be prudent with our cash overall," Mr. Brown said in an interview Thursday.

Motorola posted a first-quarter net loss of $228 million, or 10 cents a share, compared with a loss of $190 million, or nine cents a share, a year earlier. Results included a charge of seven cents a share related to cost cuts. Sales retreated 28% to $5.37 billion, well below what Wall Street expected.

Motorola is trying to turn around its Mobile Devices unit amid the biggest sales decline in the cellphone market since the modern industry began in 1983. Cellphone shipments world-wide dropped 13% in the first quarter, to 245 million units, according to the research firm Strategy Analytics, as carriers lowered inventories and consumers held back on new purchases.

The company's Mobile Devices unit saw sales drop to $1.8 billion, down 45% from a year earlier, and its operating loss reached $509 million, widening from a loss of $418 million in the year-earlier quarter but narrower than the $595 million it lost in the prior quarter.

Co-Chief Executive Sanjay Jha said the company is on track to roll out new high-speed devices based on the Android software of **Google** Inc. in time for the all-important Christmas sales season in the U.S. and Latin America, and another set for China in time for the Lunar New Year.

"Everything rides on the phones they are going to release in Q4," said analyst Ed Snyder of Charter Equity Research.

Mr. Jha declined to give details on why consumers would choose Motorola's smart phones over the BlackBerry devices of **Research in Motion** Ltd., or the iPhone of **Apple** Inc., which have bucked the trend of declining sales. In an interview, he said the company would be spending later this year to launch its products and to rebuild the Motorola brand.

"It's a long shot, since the competition's pretty tough, but it's their only shot," said analyst Mark McKechnie of Broadpoint American Technologies.

Motorola postponed plans to make the unit a separate company while it hemorrhages cash.

Looking ahead, the company projected a second-quarter loss of three to five cents a share.

—Roger Cheng contributed to this article.

Crestor, cost cuts give AstraZeneca a boost in profit

By Elena Berton

LONDON—**AstraZeneca** PLC reported a 43% increase in first-quarter net profit, helped by cost cuts and stronger sales of the cholesterol drug Crestor and the high-blood-pressure treatment Toprol-XL.

The Anglo-Swedish drug maker maintained its outlook for 2009, saying the decision not to raise its forecast reflects its continued cautious stance about the prospects for the pharmaceutical sector this year.

"We are not recession-proof," Chief Financial Officer Simon Lowth told reporters Thursday.

Analysts at Deutsche Bank said there was a chance the outlook may be upgraded with the second-quarter earnings, if results remained favorable.

First-quarter net profit increased to $2.15 billion from $1.5 billion a year earlier.

Revenue was virtually flat, rising 0.3% to $7.7 billion, as the strengthening U.S. dollar offset a strong performance from emerging markets. At constant exchange rates, revenue would have risen 7%, helped by Crestor sales and the withdrawal of some generic competitors to Toprol-XL.

'We are not recession-proof,' said Chief Financial Officer Simon Lowth.

"AstraZeneca is the only dollar-reporting pharmaceutical stock to have beaten expectations at top- and bottom-line level," said Panmure Gordon analyst Savvas Neophytou, noting that all of AstraZeneca's key performance indicators performed well.

Sales of Crestor rose 35% in the quarter to $969 million. AstraZeneca hopes its use can be further widened to certain patients at risk of heart disease, and has asked the U.S. Food and Drug Administration to amend the Crestor label to reflect this benefit.

Meanwhile, smaller U.K.-based drug maker **Shire** PLC on Thursday reported better-than-expected increases in first-quarter profit and revenue, aided by higher sales of its hyperactivity drugs and treatments for rare diseases as well as tight cost control.

In a conference call, Shire Chief Executive Angus Russell also ruled out selling the company's hyperactivity-drug portfolio, in response to suggestions in a broker's report that the company should spin out the business.

"I don't quite follow the logic of selling the franchise," he said, pointing out that these products will continue to drive Shire's growth for many years.

Shire said its net profit in the quarter rose 66% to $213.5 million from $128.6 million a year earlier, while revenue was up 14% to $818 million.

Higher sales of Adderall XR in the latest quarter, before the launch of a generic version, as well as robust growth from the newer hyperactivity drug Vyvanse helped to boost revenue, offsetting the effects of the stronger U.S. dollar against other currencies.

CORPORATE NEWS

Ericsson profit falls 35%

Cellphone venture, restructuring costs weigh down results

BY ADAM EWING

STOCKHOLM—**Telefon AB L.M. Ericsson** reported a 35% drop in first-quarter net profit, hit by continued losses at its Sony Ericsson mobile-phone joint venture and restructuring charges.

The maker of mobile network equipment said the recession so far has had minimal impact on telecommunications operators but declined to give more specific forecasts, saying only that some have become more cautious with longer-term investments.

The Swedish company said net profit for the three months ended March 31 fell to 1.72 billion kronor ($212.9 million) from 2.65 billion kronor a year earlier. Net sales increased 12% to 49.57 billion kronor from 44.18 billion kronor, boosted by currency gains. Ericsson's gross margin was 36.3%, beating expectations of 35.8%.

Sony Ericsson, a handset joint venture with Japan's **Sony** Corp., continued to weigh down Ericsson's results in the period, reporting a loss of €293 million ($388.2 million) for the first quarter. Ericsson's networks unit had sales of 33.5 billion kronor and had a 10% operating margin, up from 9% a year earlier.

The company said its plan is on track for 10 billion kronor in annual savings by the second half of 2010. Ericsson kept its relatively optimistic view of the infrastructure market for 2009.

"The effects of the global economic recession on the global mobile network market are so far limited," said Chief Executive Carl-Henric Svanberg, though he admitted that it is tough to tell how operators would react in the continued economic slowdown.

He said investment in wireless networks largely continues, and rollouts of networks and technologies are accelerating in markets such as the U.S., China and India, adding that operators generally have strong net cash flow positions, a key metric for investors during the downturn. He said operators in markets that have seen local currencies fall sharply, such as in Russia and Ukraine, are more cautious when it comes to improving their networks.

Cash flow from operations swung to a 2.9 billion kronor loss from a 4.7 billion kronor gain last year, weighed down by a $1.1 billion payment to create the ST-Ericsson joint venture with STMicroelectronics NV and by 700 million kronor in restructuring and pension payments.

Sony Ericsson

Ericsson, maker of network gear like this broadband laptop card, said the recession so far has had little impact on telecom operators.

Flu fears pressure airline shares

BY KAVERI NITHTHYANANTHAN

LONDON—Fears over swine flu have hit airlines' share prices, wiping out most of April's rise, while combined net losses for the industry in the first quarter reached $1 billion, the International Air Transport Association said Friday.

"A degree of optimism returned to financial markets in April, at least until concerns about the outbreak of swine flu in Mexico hit share prices," said IATA, a trade group for the airline industry.

Bloomberg's world-wide airlines index rose 15% in April from the previous month, but was still down from a year earlier, IATA said. But in the past few days, fears over swine flu reduced that increase by between five and 10 percentage points.

First-quarter combined losses for the sector are in line with forecasts for $4.7 billion net losses for 2009, with earnings before interest and taxes also falling.

Early capacity cuts by U.S. passenger airlines increased financial performance, but outside the U.S., most airlines are reporting wider first-quarter losses, IATA said.

In February and March, almost no aircraft were put in storage, with 30 being retired. More than 210 new aircraft were delivered. "Fleet expansion has meant recent capacity cuts have come from lower aircraft utilization," IATA said.

Telenor wins step in Russia dispute

BY GREGORY L. WHITE

MOSCOW—Norway's **Telenor** ASA won a victory in a long-running conflict with its Russian partners, but still faced the threat of losing its main Russian investment. Amid the pressure, Telenor's partners continue to seek a settlement, according to people close to the discussions.

Telenor contends it is the victim of a pressure campaign by the **Alfa Group**, a powerful oil-to-banking conglomerate controlled by a group of Russian billionaires. Alfa charges that Telenor has put its interests ahead of those of the local telecoms companies they both own stakes in—Russia's OAO **Vimpelcom** and **Kyivstar** in Ukraine.

Telenor and Alfa have been fighting in courts in Russia, Europe and the U.S. for years.

Early last week, a New York judge ruled Alfa, facing tens of millions of dollars in fines for defying the court, had finally complied with rulings in a case brought by Telenor involving Kyivstar.

But in Russia, the Moscow Arbitration Court Thursday put off a decision on whether to suspend enforcement of a $1.7 billion judgment against Telenor. Russian bailiffs have already frozen Telenor's 29.9% stake in OAO **Vimpelcom**, Russia's No. 2 mobile-phone company, in preparation for sale to cover that judgment.

Kodak kills dividend as sales slow

BY WILLIAM M. BULKELEY

Eastman Kodak Co.'s first-quarter net loss widened to about triple last year's level as the recession cut sales of both film and digital consumer products by nearly a third.

Kodak said Thursday it will eliminate its century-old dividend, cut executives' pay and order unpaid one-week furloughs for most employees. In the quarter, Kodak's cash shrank 40% to $1.3 billion.

Kodak said that its net loss for the quarter widened to $353 million from $115 million in the year-ago quarter. Kodak sales fell 29% to $1.48 billion.

GLOBAL BUSINESS BRIEFS

Areva SA

Air France chairman named to lead supervisory board

French state-controlled nuclear company **Areva** SA has appointed **Air France-KLM** chairman Jean-Cyril Spinetta to chair its supervisory board, the company said. Mr. Spinetta, 65 years old, succeeds former supervisory board chairman Frederic Lemoine, who resigned earlier this month. Mr. Spinetta was chairman and chief executive of Air France-KLM from the company's creation in 2004 until this January, when he handed over the chief executive role to Pierre-Henri Gourgeon. Areva mines uranium, produces nuclear fuel and builds reactors. It also recycles nuclear waste. The company is managed by an executive board led by CEO Anne Lauvergeon. The supervisory board has 15 members and oversees the executive board.

BG Group PLC

BG Group PLC posted an 8% decline in first-quarter net profit, becoming the latest oil-and-gas company to report reduced earnings after a drop-off in demand and lower hydrocarbon prices. The British company said net profit totaled £706 million ($936.5 million), down from £767 million a year earlier. Total revenue fell 2.5% to £3.01 billion from £3.09 billion. BG joined other oil-and-gas companies in beating bearish expectations. Its profit was above analysts' forecasts as liquefied-natural-gas sales and lower operating costs provided relief. Jason Kenney, a U.K.-based analyst at ING Financial Markets, said BG "continues to prove resilient in a difficult market." The results come after oil giants **Royal Dutch Shell** PLC and **BP** PLC reported declines of 62% and 59%, respectively, in first-quarter net profit as lower oil prices hurt results from their exploration and production.

Viacom Inc.

Viacom Inc.'s first-quarter net income fell 34% on continuing advertising woes and weakness in its filmed-entertainment division. The company added, though, that it had seen signs of stabilization in the U.S. advertising market. The media company, which owns cable-TV channels such as MTV and Comedy Central, has been making deals with advertisers that market their products across television, the Web and mobile devices. But recently it has seen lower ratings at some of its cable channels. Among problems worrying analysts are higher start-up losses at its pay-TV venture and lower sales of "Rock Band" videogame hardware. The company posted net income of $180 million, or 29 a share, down from $274 million, or 42 cents a share, a year earlier. The prior-year results included a two-cent impairment charge. Revenue decreased 6.8% to $2.91 billion.

British Sky Broadcasting Group

Satellite-television service **British Sky Broadcasting Group** PLC on Thursday reported a profit for the first nine months of its fiscal year as consumers spent more time at home because of the recession. For the nine months ended March 31, BskyB reported a net profit of £169 million ($250 million), compared with a year-earlier net loss of £118 million. Revenue increased to £3.96 billion from £3.71 billion. BSkyB is 39%-owned by Rupert Murdoch's **News Corp.**, which also owns The Wall Street Journal publisher Dow Jones & Co.

BASF Group

Germany-based chemicals company **BASF Group** reported a 68% drop in first-quarter net profit, though the results came in better than analysts expected thanks to a strong performance in agrochemicals. The company confirmed its pessimistic full-year outlook and said it would cut more jobs as the dramatic decline in demand for chemical products continues. Quarterly net profit fell to €375 million ($497 million) from €1.17 billion a year earlier. Sales fell 23% to €12.22. The company said it expects coming quarters to be "extremely challenging," preparing shareholders for a possible dividend cut.

Pearson PLC

U.K.-based book and newspaper publisher **Pearson** PLC said Friday that its first-quarter revenue rose 26%, helped by the weak pound, but it expects tough market conditions to persist in some areas for the rest of 2009. "The economic environment makes us cautious about this year, but we're encouraged by the start we've made," Chief Executive Marjorie Scardino said. Revenue for the quarter ended March 31 totaled £1 billion ($1.49 billion), up from £800 million a year earlier. At constant exchange rates, revenue would have risen 1%. Pearson generates about 60% of sales in the U.S. The company, which owns the Financial Times newspaper and Penguin Books, said it expects continued growth in its testing, higher education and international education businesses and in subscription-based revenue at the FT Group. It expects challenging conditions to remain for U.S. school publishing, financial advertising and the consumer-book industry for the rest of 2009.

Tata Motors Ltd.

U.K.-based Jaguar Land Rover said Friday that it will begin selling its range of sedans and sport-utility vehicles in the Indian market later this year. "It is an important strategic move for Jaguar Land Rover and will enable us to realize our competitive potential in this significant market," Jaguar Land Rover Chief Executive David Smith said in a statement. Jaguar Land Rover is part of India-based **Tata Motors** Ltd., which will import the vehicles. Tata Motors acquired Jaguar Land Rover from **Ford Motor** Co. last year.

Electricité de France SA

Electricité de France SA will control the building of the Penly European Pressurised Reactor nuclear facility and **GDF Suez** SA will have a significant minority stake, French Prime Minister François Fillon said after meeting with the companies on Friday. EDF runs France's 58 nuclear reactors, but President Nicolas Sarkozy wants GDF Suez to become another exporter of French EPR technology. EDF will hold 50% plus one share of the capital in the construction of the plant in northern France. GDF Suez will also discuss selling part of its 33.3% plus one share in the firm to French oil major **Total** SA. A further 16.66% share of the capital will be open to other electricity companies. Mr. Fillon's office issued the statement after meeting EDF head Pierre Gadonneix and Gérard Mestrallet, boss of GDF Suez. EPR facilities are state-of-the-art nuclear plants, although companies involved in setting them up have often faced cost overruns.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. follows Dutch lead in Afghanistan

Netherlands' mission is development, not just fighting; a role model for lessons in combating the Taliban

BY JAY SOLOMON

STROE, the Netherlands—The Obama administration, which wants to send hundreds of additional civilian personnel into Afghanistan, is looking at the Dutch military's operations there for lessons on how to combat the Taliban.

The civilian deployment is part of a U.S. focus on economic development meant to weaken support for the Taliban and dry up finances it derives from the opium trade. The civilians will complement the deployment in the coming months of 21,000 new troops, many of whom will be posted to southern provinces where the Taliban are thriving.

The Obama administration, however, is having trouble finding civilian experts at the State Department to send to Afghanistan. Pentagon officials said they may need military reservists to fill any shortfall in the 500 to 600 civilians Secretary of State Hillary Clinton is seeking for Afghanistan.

The Netherlands, with nearly 2,000 personnel in southern Uruzgan province, has better integrated the efforts of its military and civilian personnel than the U.S., senior U.S. officials say.

Dutch soldiers preparing here for deployment to Afghanistan say they are ingrained with the concept that economic development will be their primary mission, rather than solely pursuing extremists and Taliban fighters. Diplomats from the Netherlands' foreign ministry help to command the Dutch team in Uruzgan, home to 350,000 Afghans, and aid workers are embedded in the Dutch effort.

Dutch Minister of Defense

A Dutch soldier in Afghanistan talks with local people, in a photo provided by the Netherlands' defense ministry.

"Over time, there's been a focus on pure development" in the Dutch forces, said Col. Gert-Jan Kooij, chief of operations for the Royal Netherlands Army's 13th Mechanized Brigade, which is deployed in Uruzgan. "We need to provide defense, but the priority is on development and diplomacy."

Soldiers training in a wooded area 90 minutes outside The Hague describe their command largely as a protection force. They hope they can provide Dutch diplomats and aid workers enough security to build the roads and agricultural projects needed to dry up local support for the Taliban and other militant groups.

The soldiers say that approach has contained violence. Nineteen Dutch personnel have died in Afghanistan since the Netherlands deployed in March 2006, according to iCasualties.org.

"Dutch soldiers and civilians have done excellent work," Mrs. Clinton said last week after meeting her Dutch counterpart, Maxime Verhagen, in Washington. "In fact, the Dutch '3D' approach—defense, diplomacy, and development pursued simultaneously ... is a model for our own efforts and the future efforts in Afghanistan."

The U.S. praise for the Dutch mission, say Obama administration officials, reflects Washington's growing recognition of the need for political and economic tools to subdue Afghanistan's insurgency. U.S. military personnel still dominate American reconstruction efforts in Afghanistan, though President Barack Obama has signaled his intent to change this dynamic.

The aid workers whom the U.S. State Department is seeking to deploy will work on building local economies based on agriculture and small business that don't rely on the opium crop. Experts will also seek to better establish rule of law and local police forces, U.S. officials said.

There are 10 U.S. military personnel to every one U.S. civilian working for the U.S. government in Afghanistan, say State Department officials.

Mrs. Clinton is seeking to provide incentives to American diplomats and aid workers to join provincial reconstruction teams.

"We want to get more people out there working with the Afghan ministries on the ground," said a senior U.S. official who traveled to Afghanistan recently to plan for the civilian effort.

Some officials working on Afghanistan note that the Dutch contingent has a somewhat easier time in Uruzgan because the province hasn't been a Taliban stronghold like Helmand and Kandahar provinces, and doesn't have as large an opium crop. Still, many agree Dutch forces have been effective in understanding that the civilian components of a counterinsurgency strategy need to be intertwined with the military.

—Yochi J. Dreazen contributed to this article.

U.K. quits Iraq as cutbacks curb international missions

The U.K. ended its combat mission in Iraq on Thursday after six years and 179 deaths, leaving the south of Iraq in relative stability but the British military's reputation suffering collateral damage.

*By **Alistair MacDonald** in London and **Charles Levinson** in Baghdad*

The U.K. military—with a centuries-old reputation as a powerful fighting force—has been severely cut in recent years, reflecting the country's diminished role in global affairs since World War II. Despite the cuts, London has made heavy demands on the military, which has fought alongside the U.S. in global hot spots such as Iraq and Afghanistan.

Facing a dour economy and staggering government debt, the U.K. is widely expected to shrink its military power further still, despite criticism at home that the forces are so poorly funded they are ill-equipped for the roles they are asked to play. Such cuts are sapping strength from U.S.-backed military efforts in places like Afghanistan.

The U.K. government says it remains committed to the military—still one of the world's largest—but wants armed forces tooled to fight modern conflicts, such as countering terrorist activities in failed states, rather than large-scale battles.

On Thursday, Britain's 20th Armoured Brigade finished its last patrol in southern Iraq. By July, the U.K. wants to whittle the 4,000 troops it has left in Iraq to 400, who will stay on to train the Iraqi military. The departure follows a move Wednesday by Prime Minister Gordon Brown to essentially rule out sending more troops on a long-term mission to shore up the North Atlantic Treaty Organization's operation in Afghanistan.

The U.K.'s defense ministry says it has contributed to a raft of accomplishments in Iraq. Three times as many people in the city of Basra and the surrounding area have access to piped water than in 2003, the ministry says; 10% more children go to school; and in 2005 the country held its first democratic elections in more than 30 years.

"Thanks to your efforts the Iraqis are firmly in the lead for security in Basra and have proved to be fully up to the task," the army's chief of the general staff, Gen. Sir Richard Dannatt, told military staff Thursday.

The achievements of the armed forces—which are more used to lionization of their role in conflicts such as the World Wars—have been questioned at home and abroad in recent years. The British army has been criticized for being too passive in Iraq. But the U.K. government has taken most of the rap for this, for withholding both political backing and resources from the military.

"The government was trying to get a pint out of a half-pint glass, and I think Iraq has hurt the army's reputation significantly," says Col. Tim Collins, whose rousing and sobering speech to his troops before he led them into battle in Iraq in 2003 made him a cult hero in the U.K.

Since 1997, when Labour came to power, the number of people in the U.K. armed forces has been cut 20% to around 200,000. During that period, Britain has fought in former Yugoslavia, Iraq and Afghanistan, and maintained a presence in Germany with NATO troops and in former and current colonies such as the Falklands.

Last year defense spending was equivalent to 2.8% of the U.K.'s gross domestic product, compared with almost 5% in the U.S., according to Jane's International Defence Review.

When, in 2003, Britain joined the U.S. and other coalition forces in invading Iraq and deposing Saddam Hussein, there was much talk about its continued fighting prowess. But as a war between armies was replaced by grinding counterinsurgency, U.K. forces—despite their success fighting guerrilla campaigns in places such as Northern Ireland—were withdrawn over time from the front lines to an airport base on the outskirts of Basra, in southern Iraq.

Many Basra residents still blame the British withdrawal in 2007 for leaving a power vacuum, quickly filled by radical Shiite militias and criminal gangs. In March 2008, when Iraqi security forces moved in to take Basra back from the militia, they used only minimal British assistance, instead relying on U.S. forces.

Analysts and former members of the forces say the British army and government underestimated the task in Iraq, and that soldiers had neither the political mandate, strategy or resources they needed. At the start of the war in 2003, the U.K. had 46,000 personnel in Iraq. By January 2004, that had shrunk to 8,500.

The U.K. was too quick to adopt a light touch in Iraq, says Prof. Michael Clarke, a director of London think tank the Royal United Services Institute. It tried to allow Iraqis to take control, rather than imposing a strategy on them, he says.

"We judged the best way of breaking the cycle of violence was to withdraw from Basra and put the Iraqis in the security lead," a U.K. defense-ministry spokesman says. "The Iraqi-led operation ... was the culmination of our long-term strategy."

The U.K. also points to the improved situation in Basra.

"We live a normal life today and people stay out late without fear," says Ahmed Jassem, who owns a music shop in the city's center.

—Yochi J. Dreazen in Washington contributed to this article.