Leading the News: Airbus cuts planned production of A380 superjumbo jets

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The EU parliament rejected an overhaul of the bloc's fragmented phone and Internet rules, approving by a 407-57 vote an amendment preserving individuals' rights online. Telecom companies had hoped to ease sales across national borders Page 2

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- BNP Paribas had strong quarterly revenue growth, but loan write-downs sent net down 21%. Page 19
- The Dow industrials rose as bank stocks rallied amid a flurry of reports on stress-test outcomes. European shares gained. Page 20
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- NATO launched military exercises in former Soviet Georgia Wednesday after criticism from Russia and a brief mutiny in the Georgian military Tuesday.
- A rights activist and 14 others were freed on bail Wednesday after Zimbabwe's leaders intervened.
- South Africa's parilament elected ANC leader Jacob Zuma as president.
- An American journalist jailed in Iran on espionage charges ended her two-week hunger strike for health reasons, her father said.
- Oil major Total posted a 36% fall in profit, reflecting less production and sharply lower crude prices. Page 5

EDITORIAL&OPINION

The same old hatred
In France and much of Europe, Israel is the Jew among nations. Page 13

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U.S. airstrikes cast a pall over summit

Reuters

'MY PERSONAL REGRET': U.S. Secretary of State Hillary Clinton, with Afghan President Hamid Karzai, left, and Pakistan President Asif Ali Zadari, vowed a probe over Afghan civilian deaths. Page 11.

Stress tests are dividing strong, weak

The healthiest U.S. banks are beginning to separate themselves from their weaker rivals and are slowly pulling away from the government's embrace.

By **David Enrich, Damian Paletta** *and* **Daniel Fitzpatrick**

As a result of the government's 2½-month investigation into the health of the U.S.'s 19 largest financial institutions, **J.P. Morgan Chase** & Co., **American Express** Co., and **Bank of New York Mellon** Corp. won't be told to raise additional capital, according to people familiar with the matter.

By contrast, regulators have told **Bank of America** Corp. it must take steps to address a roughly $34 billion capital shortfall, the biggest gap among its peers. Citigroup Inc. needs to fill a gap of $5 billion to $6 billion. Also in need of boosting capital: Alabama's largest bank, **Regions Financial** Corp.

The formal results of the government's "stress tests" will be released Thursday after the close of trading, and are expected to include a wealth of information about the industry's potential losses.

The move marks the beginning of a new phase for both the banking sector and President Barack Obama's administration, which hopes the stress tests will serve as a turning point in the industry's recovery. One reason investors and depositors fled large banks several months ago was because of the uncertainty as to whether the institutions were even solvent.

"I think this will be a confidence-instilling announcement," Federal Deposit Insurance Corp. Chairman Sheila Bair told a Senate panel Wednesday. "There will be additional needs for capital buffers for some institutions, but I think there will be mechanisms to do that within the next six months."

Until this point, both the Bush and Obama administrations had gone out of their way to paint all banks equally, a posture designed to instill confidence at a point when financial markets tottered. Now, some of the stronger banks will be permitted to repay their bailout aid and escape the related restrictions on compensation and dividend payments.

White House spokesman *Please turn to page 31*

BofA's big shortfall

- Government 'stress test' finds bank needs $34 billion in additional capital .... Page 2

Porsche, VW agree to merge operations

By Christoph Rauwald

FRANKFURT—**Porsche Automobil Holding** SE and **Volkswagen** AG, two storied names in German car making, said they will merge operations, uniting 10 auto brands into a single company.

Following a meeting Wednesday of the Porsche and Piech families, who own Porsche, the auto maker said a task force representing both companies will hammer out details of the new company's structure over the next four weeks.

Porsche, which holds a 51% stake in VW, said the families discussed proposals laid out by the executive boards of Porsche and VW—including "capital measures"—and agreed that the two operations should be united.

Volkswagen said in a separate statement that it welcomed the two families' decision and pledged to support the task force working on the new company's structure.

Porsche, where the two families control 100% of the voting stock, said the task force will include representatives of VW's second-largest shareholder, the German state of Lower Saxony, and labor representatives from both companies.

The merger plan marks an end to Porsche Chief Executive Wendelin Wiedeking's ambitious plan to raise the stake in VW to 75% and push for an agree-

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Inside

A house divided

At fallen mortgage titan, tragedy amid the turmoil
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Nasdaq	1759.10	+0.28
DJ Stoxx 600	208.02	+1.44
FTSE 100	4396.49	+1.37
DAX	4880.71	+0.57
CAC 40	3283.51	+1.81
Euro	$1.3302	-0.40
Nymex crude	$56.34	+4.64

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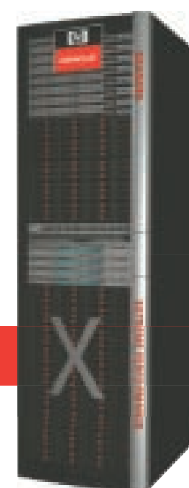

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LEADING THE NEWS

BofA's stress-test gap: $34 billion

Regulators' decision to trigger scramble to plug capital hole

BY DAN FITZPATRICK
AND DAMIAN PALETTA

Regulators have told **Bank of America** Corp. that the company needs to take steps to address a roughly $34 billion capital shortfall based on results of the government's stress tests, according to people familiar with the situation.

Regulators began notifying the 19 financial companies subjected to the government tests of the results Tuesday. An official announcement of the results is expected after the close of U.S. stock-market trading Thursday.

At Bank of America, the government's findings are likely to set off a scramble over how to fill the capital hole at the U.S.'s largest bank by assets.

The Charlotte, N.C., bank already has received $45 billion in capital from the federal government, some of it to help the bank cover losses stemming from its purchase of securities firm Merrill Lynch & Co. in January.

The exact amount of the needed infusion couldn't be determined late Tuesday, and Bank of America officials either declined to comment or couldn't be reached, but the amount of capital now needed by Bank of America could exceed what it can raise by selling assets or more shares to the public.

As a result, the bank may have no choice but to convert the government's preferred shares into common stock.

That would boost the company's capital to the level mandated by regulators but could also leave the U.S. government as one of Bank of America's largest shareholders. In the process, the value of the stock held by existing shareholders likely would be sharply diluted.

If the U.S. government ends up with more common stock in Bank of America, it also could test the Obama administration's assertion that banks receiving "exceptional" assistance might face the removal of management or directors.

Government officials have always viewed Bank of America's predicament slightly differently than problems at other banks. The bank's troublesome acquisitions of Merrill and mortgage lender Countrywide Financial Corp. likely saved the government from expensive and messy cleanups that could have exacerbated the financial crisis last year.

Still, patience with Bank of America Chief Executive Kenneth Lewis has worn thin, at least with many shareholders, following the bank's steep losses and controversy over his handling of the Merrill deal.

Last week, Bank of America shareholders voted to strip Mr. Lewis of his duties as chairman. The company's board has shown no signs publicly that its support for Mr. Lewis is wavering.

Bank of America executives objected to preliminary findings of the tests, in which the bank was told that it may need to raise more capital.

The final results suggest that the government wasn't willing to budge substantially from its initial results, despite Bank of America's response.

It isn't clear what Bank of America did to try to sway regulators from the preliminary findings, or whether executives still are trying to do so.

Bank of America has suggested privately that it views a government stake as its last option, and would pursue that scenario only after its other alternatives are exhausted. The bank already is hunting for a buyer for the First Republic banking unit, acquired as part of the Merrill purchase, and is considering selling asset-management unit Columbia Management.

Bank of America also has said that it could sell shares in China Construction Bank to address any capital needs. A lockup provision on roughly a third of its stake in the Chinese bank is set to expire Thursday. Executives have discussed the possibility of a new share offering if Bank of America's stock price climbs higher, according to people familiar with the situation.

Late Wednesday afternoon in New York, Bank of America shares were up $1.74, or 16%, at $12.85.

Reuters

CEO Kenneth Lewis will face pressure as he looks to raise the needed capital.

As recently as April, Mr. Lewis insisted that Bank of America didn't need more capital. But at last week's annual meeting, he was more circumspect. "We think we're fine, but it's now out of our hands," Mr. Lewis said.

—Deborah Solomon contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Travelocity.com is owned by **Sabre Holdings** Corp. The name of Travelocity's parent company was misspelled as Saber Holdings in a Marketplace article in some editions Wednesday.

EU rejects overhaul of phone, Internet rules

BY JOHN W. MILLER

BRUSSELS—The European Union's Parliament rejected an overhaul of the bloc's fragmented phone and internet rules Wednesday by adding an amendment, lobbied for by bloggers, that gives accused Internet pirates the right to a hearing before authorities shut down their Web access.

The move, approved 407 votes to 57, was criticized by telecom companies who had hoped it would ease the selling of their services across national borders. Analysts and EU officials said parliamentarians, who often go unnoticed in Europe, were seeking publicity ahead of elections June 4 to 7.

Under the EU's complex law-making process, the so-called telecom package is dead until at least late 2010, EU officials said. It could have become law Wednesday only if the Parliament had accepted the entire package.

Representatives of the EU's 27 national government will vote June 12 to decide whether to accept the Parliament's change. They are likely to reject the idea, possibly prolonging negotiations into the next decade.

The ambitious package of laws, two years in the making, included setting up an EU-wide telecoms regulator in Brussels, and laws giving customers the right to quickly change companies while keeping the same phone number and stopping Internet providers from slowing down the Web sites of competitors like Skype.

Big European phone and Internet companies supported the package because it would have harmonized rules, making it easier for firms to sell their services across national borders. Wednesday's vote is "highly regrettable," says Michael Bartholomew, director of the European Telecommunications Network Operators Association, a Brussels-based lobby group.

French parliamentarian Guy Bono says he suggested the amendment guaranteeing judicial review before shutting down Web accounts to "stand up for the rights of all Internet users." France is mulling a law that would close the Internet account of anybody caught pirating music or movies.

Mr. Bono's idea gathered steam online. Blackout Europe, a 10-language Web site, whose slogan is "We believe in a free Internet," orchestrated the campaign, and parliamentarians received thousands of emails, said EU officials.

"Several MEPs wanted to make a statement on upholding these rights" ahead of the election, says Pieter Cleppe, head of the Brussels office of Open Europe, a London-based think tank critical of the EU. Only a third of Europeans know elections are taking place next month, and turnout has fallen six straight times.

Malcom Harbor, the British Conservative Parliament member whose committee prepared the laws, says the amendment was passed "with the elections in mind." The Parliament, he says, "doesn't even have the right to tell EU members how to run their judicial systems."

Viviane Reding, the EU commissioner who co-wrote the new rules, tried to put a positive spin on the vote. She welcomed the Parliament's "strong endorsement" and declared her support for the amendment.

National governments criticized the Parliament's vote. "We regret that the Parliament didn't respect the previous compromise," says Michèle-Ann Okolotowicz, a spokeswoman for the French mission to the EU. "For consumers, it's unfortunate."

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LEADING THE NEWS

Airbus cuts jet output

This year, deliveries of A380 superjumbo to fall to 14 from 18

BY DANIEL MICHAELS

Airbus cut its planned production of A380 superjumbo jetliners this year to 14 planes from 18, in a move that threatens to further delay the long-troubled plane's prospects for turning a profit.

Unlike previous setbacks, which were caused by problems building the world's largest passenger plane, Airbus blamed the latest reduction in output on the global economic crisis and its impact on airlines.

"Customers approached us, and we are adapting our schedule to their needs," said Airbus spokesman Stefan Schaffrath. As recently as mid-March, Airbus had said it expected to deliver 18 A380s this year.

The cut is at least partly linked to previously announced delivery deferrals at Australia's **Qantas Airways** Ltd. and Dubai's **Emirates Airline,** people familiar with the matter said.

Airbus said the reduction will have "no significant impact" on earnings before interest and taxes this year. Airbus, a unit of Franco-German **European Aeronautic Defense & Space** Co., said it "will take mitigating actions against the negative effects" of the shift on free cash flow, such as purchasing fewer components.

Airbus said it plans to deliver "more than 20" superjumbos next year. Airbus Chief Executive Tom Enders last May said Airbus hoped to deliver between 30 and 40 superjumbos in 2010. Airbus has firm orders from 16 customers for 200 A380s, which carry a catalog price of $327 million each, although early customers received significant discounts, airline officials have said.

The superjumbo has been plagued by troubles since its first flight in 2005, when Airbus announced that initial deliveries would be six months late. Airbus later announced more delays due to production problems that pushed the plane program more than two years behind schedule and several billion dollars over its original $12 billion budget.

Airbus initially said the program would break even when it sold 270 superjumbos. In late 2006 it raised that figure to 420 planes, and has since stopped communicating a break-even figure. Extrapolating from currently announced production rates, Airbus will deliver roughly 155 superjumbos by the end of 2013, according to AeroTransport Data Bank, a French company that tracks airplanes.

Mr. Schaffrath at Airbus said the European jet maker sees a market for 1,200 very large aircraft over the next 20 years. Airbus currently has roughly 90% of that market, which includes an updated version of U.S. rival **Boeing** Co.'s older 747.

The cut in A380 output comes amid a string of production cuts on smaller models at Airbus, Boeing and Brazil's **Empresa Brasileira de Aeronautica** SA as airlines worldwide struggle with plunging passenger demand.

Airbus in February said it would cut deliveries of its popular single-aisle models to 34 planes a month from 36 and consider further cuts.

Boeing in April said it would cut production of its large 777 model to five planes a month starting in mid-2010 from seven planes a month now. Embraer early this year also announced production cuts.

Airbus on Wednesday reiterated plans to deliver roughly as many planes overall this year as it did last year, when it produced 483 jetliners, a record level.

The superjumbo cuts come as Airbus was continuing deliveries to Emirates, Qantas and **Singapore Airlines** Ltd., which already fly the plane, and preparing for the first deliveries to **Air France-KLM** SA later this year and Germany's **Deutsche Lufthansa** AG early next year.

Qantas, which already has three superjumbos in its fleet, said last month that it will take its next three A380s this year but defer the following four. One of those four was planned to be delivered this year and the rest in 2010, according to a person familiar with the airline's plans.

Emirates President Tim Clark said in March that the airline expects to get seven A380s in its current fiscal year, but one of those deliveries has shifted from December to next January.

—Stefania Bianchi contributed to this article.

Delayed arrival

The Airbus A380 superjumbo jetliner has faced repeated setbacks:

- **Dec. 19, 2000:** EADS confirms plans for its Airbus unit to build A380 at a budget of roughly $12 billion.
- **April 27, 2005:** First A380 flight; Airbus says plane will be delivered six months late, in second half of 2006.
- **June 13, 2006:** Airbus announces second six-month delay in first A380 delivery due to wiring problems.
- **Oct. 3, 2006:** EADS announces A380 delays of up to one more year, cost overrun of €4.8 billion..
- **Oct. 15, 2007:** First A380 delivery, to Singapore Airlines.
- **May 13, 2008:** Airbus announces further delays of up to 3 months in A380 deliveries in 2009 and 2010.
- **May 6, 2009:** Citing customer demand, Airbus cuts A380 output to 14 planes in 2009 from 18 and around 20 in 2010.

Source: Airbus

Reuters

Qantas's first Airbus A380 was delivered in Sept. 2008

Euro-zone retail sales post record declines

BY JOE PARKINSON AND NICHOLAS WINNING

LONDON—European businesses remain optimistic about the economy despite fresh evidence that the retail and manufacturing sectors continue to feel the pinch of the global slowdown.

Business in Europe's manufacturing and services sector shrank at a slightly slower pace last month, while other sectors of the economy continue to contract rapidly.

The Markit Economics research group said Wednesday that its composite purchasing managers index for the euro zone rose to 41.1 in April from 38.3 in March. A measure below 50 in the index reflects contracting business activity in the 16-country euro zone.

Business expectations were the most optimistic in 15 months for Spain, and in 10 months for Germany and France. Expectations for activity surged to 54.5—their highest level in nine months, indicating that businesses expect activity to expand over the course of next year.

"Business levels clearly continued to contract sharply as we entered the second quarter, and firms are having to cut prices to compete in the face of falling demand, which will hurt profits," said Chris Williamson, chief economist at Markit. "But businesses seem to sense that the worst is now over with confidence climbing to a 10-month high."

Official data out Wednesday indicated that euro-zone retail sales posted a record drop in annual terms in March, amid a record year-on-year slump in sales of food, drink, and tobacco.

Sales volumes dropped 0.6% from February and 4.2% from March 2008, the biggest annual fall since comparable records began in 2000, the European Union statistics agency Eurostat said.

The decline in Spanish industrial production accelerated in March, protracting the slump in the country's economy. The Spanish statistics office reported Wednesday that industrial output fell 25% in calendar-adjusted terms, following a 22% decline in February and a 21% fall in January.

In the U.K., which like Spain has been hit by a housing slump, house prices fell 17.7% in April from a year earlier, lender Lloyds Banking Group PLC said when announcing its latest Halifax housing index.

"Rising unemployment, low consumer confidence and the reduced availability of credit are all expected to exert downward pressure on the housing market over the next few months," said Martin Ellis, Halifax housing economist.

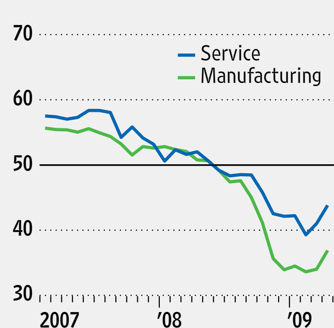
The bad news recorded in the manufacturing and retail sectors is likely to step up pressure on the European Central Bank to cut its key rate to 1% from 1.25% when it meets Thursday.

ECB policy makers have indicated they may lengthen the terms of the loans they make to banks in order to stimulate borrowing and lending across the economy.

—Ilona Billington contributed to this article.

Slowdown eases

Purchasing Managers Indexes in the euro zone



Note: Reading above 50 indicate expansion; below 50 contraction
Source: Markit Economics

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CORPORATE NEWS

Delhaize, Ahold report sales growth

Supermarket chains, with strong focus in the U.S., benefit from dollar's rise and adjustments to prices

BY PEPPI KIVINIEMI

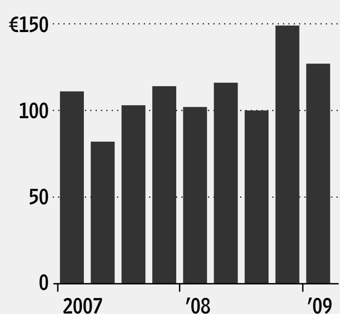
BRUSSELS—Supermarket operator **Delhaize Group** SA posted a 24% rise in first-quarter net profit, boosted by robust sales, tight cost controls and the stronger U.S. dollar.

Belgium-based Delhaize—which generates most of its profit and sales in the U.S., where it operates the Food Lion, Hannaford and Sweet Bay chains—said net profit increased to €127 million ($169.2 million) from €102 million a year earlier.

Sales rose 13% to €5.09 billion, as U.S. sales increased in value when translated into euros from dollars. The dollar appreciated 15% against the euro when comparing the two periods. Excluding the impact of currency fluctuations, sales would have been up 3%.

Delhaize

Quarterly net profit, in millions



Source: the company

Meanwhile, Netherlands-based grocer **Ahold** NV, which also does most of its business in the U.S., reported a 15% increase in first-quarter sales, thanks to robust sales across its key chains, Stop & Shop and Giant-Landover, as well as the stronger dollar. Ahold said its sales increased to €8.65 billion from €7.51 billion a year earlier. In constant currencies, they would have been 6.2% higher.

Delhaize confirmed its outlook for 2009, saying it still expects operating profit to rise as much as 3% from the previous year. The company, which in addition to its U.S. activities also operates Delhaize supermarkets in Belgium, said its operating margin, which analysts follow closely to track the overall profitability per product sold, came in at 4.9%, up from 4.6% a year earlier.

Gross margin increased to 26.1% of revenue from 25.3% a year earlier. The company said the improvement in margins was mainly due to higher-margin private-brand revenue and lower transportation costs.

Bank Degroof analyst Ivan Lathouders said he was especially impressed by the increases in both margins, derived from efficiency improvements. "Most retailers are currently competing on low prices, but some companies have to erode their savings base to be able to do so," Mr. Lathouders said. This is clearly not the case with Delhaize, which earns higher margins from sold goods than most of its competitors, he said.

The company said that sales growth at stores open more than a year was good on both sides of the Atlantic. In the U.S., comparable sales were up 2%, while in Belgium they were up 1.7%—a "clear sign that our price repositioning is bearing fruit," said Chief Executive Pierre-Olivier Beckers.

In the U.S., net sales came in at €3.6 billion, up from €3.1 billion a year earlier. Sales in the company's Belgian home market, where it competes with French heavyweight **Carrefour** SA and hard discounter **Colruyt** NV, totaled €1.09 billion, up from €1.07 billion.

At Ahold, sales at key U.S. chains Stop & Shop and Giant-Landover rose 3.6% to $5.32 billion. Translated into euros, net sales in the U.S. rose 19%, with same-store sales up 3.1% at Stop & Shop and 3.6% at Giant-Landover, Ahold said.

Chief Executive John Riston in March said that Ahold's strong performance in the U.S was mainly the result of the rebranding of its Stop & Shop and Landover grocery chains and the completion of its two-year Value Improvement Program, under which Ahold lowered prices at its U.S. stores and cut costs across the company.

At Ahold's Albert Heijn unit in the Netherlands, sales were up 12% at €3 billion, partly thanks to the conversion of former Schuitema stores it acquired from CVC Capital Partners Ltd.

—Maarten van Tartwijk in Amsterdam contributed to this article.

Reuters

Sales growth on both sides of the Atlantic is a 'clear sign that our price repositioning is bearing fruit,' said Delhaize CEO Pierre-Olivier Beckers, pictured in March.

Amazon unveils a bigger Kindle

BY GEOFFREY A. FOWLER AND SHIRA OVIDE

Amazon.com Inc. introduced a larger—and more expensive—Kindle electronic-book reader, and announced deals with major textbook and newspaper publishers to expand the market for the device.

The new Kindle DX, which is designed to display pages about the size of standard letter-sized sheet of paper, will cost $489 and begin shipping this summer.

For $130 more than earlier versions of the Kindle, it's unclear how many college students and other consumers will embrace the new device. But Jeff Bezos, Amazon's chief executive officer, said the company couldn't do much about the pricing.

"Kindle DX on the inside is a very significant computer," Mr. Bezos said in an interview. "It is a very expensive device to manufacture."

Kindle owners don't have to pay for the wireless service that lets them download materials, Mr. Bezos said, while U.S. buyers of **Apple** Inc.'s $199 iPhone have to commit to a two-year service contract. "We are offering it as inexpensively as we can," he said.

Unlike the iPhone or a low-priced laptop, the Kindle cannot show video or color images; it is designed to mimic the experience of reading printed black ink on paper. Mr. Bezos said Amazon is finding the Kindle is bought by "readers, not gadget people."

The Kindle DX features a 9.7-inch screen, more than doubling the screen real estate available in current models, and also can automatically display Adobe Acrobat files. Those features make it better suited for executives who often print out reports, for reading newspapers and for viewing academic textbooks, Mr. Bezos said.

The Seattle e-commerce company, which has seen the pace of growth in its sales of traditional media slow in recent years, is hoping to turn the Kindle into a mass-market device for distributing digital media. Amazon first rolled out the Kindle in late 2007 and updated it earlier this year.

As part of the efforts to broaden the Kindle's appeal, The Washington Post and the **New York Times** Co.'s flagship paper and its Boston Globe will test offering the new Kindle at a reduced rate for a small number of subscribers.

The publishers characterized their involvement as an experiment and offered few details about pricing and criteria for subscribers to qualify for reduced-rate Kindles. Amazon also announced partnerships with textbook publishers including Cengage Learning, Pearson and Wiley, to sell their textbooks on the Kindle DX.

—Jeffrey A. Trachtenberg contributed to this article.

Bloomberg News

The new Kindle DX has a larger screen, which measures 9.7 inches on the diagonal, designed for reading textbooks and newspapers. It costs $489.

Lafarge posts quarterly loss while Holcim net drops 80%

BY MARTIN GELNAR AND WILLIAM HOROBIN

Lafarge SA and **Holcim** Ltd., the world's No. 1 and No. 2 cement producers by sales, respectively, Wednesday said their first-quarter results were hit by falling demand and adverse weather in the northern hemisphere, and predicted a tough year ahead.

In the past few years, Lafarge and Holcim have made considerable efforts to strengthen their operations in emerging markets, which typically show higher growth rates than industrialized countries because of pent-up demand.

Lafarge last year acquired Orascom Cement in Egypt, and Holcim gained a leading position in the Indian cement market.

But rising volumes in Asian and Latin American emerging markets couldn't offset a downturn in demand in mature markets, particularly in the U.S., the companies said.

Paris-based Lafarge, which also has large gypsum operations, said it swung to a first-quarter net loss of €17 million ($22.7 million) from a net profit of €150 million a year earlier, as revenue fell 9.3% to €3.63 billion from €4 billion.

The loss was due to lower sales and operating profit as well as a surge in finance costs tied to its €17.7 billion debt pile, which is up from €16.1 billion a year earlier.

The company lowered its forecasts for this year, saying it now expects a 2% to 5% fall in cement volume, compared with an earlier estimate of a drop of as much as 3%.

Meanwhile, Holcim, a globally active Switzerland-based cement producer, reported an 80% drop in net profit to 74 million Swiss francs ($65.3 million) from 370 million francs a year earlier. Sales declined 18% to 4.52 billion francs from 5.51 billion francs, depressed by the strength of the franc against other currencies.

Holcim's debt rose to 16.7 billion francs from 15 billion francs at the end of 2008. The company said recently announced restructuring measures were slow to take effect and added it expects a difficult year, though it didn't provide a detailed outlook.

Despite their downbeat comments for 2009, both companies were optimistic that demand would rebound in 2010, when government stimulus programs are expected to accelerate infrastructure projects around the world.

Analysts were pleased that both companies were able to keep prices more or less stable or increase them in some cases.

"Of course, prices tend to come down when the economy contracts, but cement is a regional market and there's a limit to the downward trend in prices," Bank Vontobel analyst Patrick Laager said.

In April, another major cement producer, **Cemex** SAB de CV of Mexico, cut its estimates for 2009 operating profit.

Total SA earnings fall 36%

Oil firm to maintain investment, says production will rise

BY ADAM MITCHELL

PARIS—French oil major **Total** SA on Wednesday reported a 36% fall in first-quarter net profit, reflecting less production and sharply lower crude prices.

But France's biggest company by market value said it expects new production to come onstream later this year and said it will be able to maintain investment and dividend policy despite a "weak environment."

Total said net profit fell to €2.29 billion ($3.05 billion) in the three months ended March 31 from €3.6 billion a year earlier.

The average price of Brent crude in the first quarter was $44.50 a barrel, Total said, a decline of 54% from a year earlier and 20% below the average price in the fourth quarter.

Its hydrocarbon production fell to an average of 2.32 million barrels of oil equivalent a day in the first quarter, down 4.3% from a year earlier. The biggest factor hindering production was cuts by the Organization of Petroleum Exporting Countries, Total said.

However, the company highlighted new output expected in the coming months. "The giant Akpo field in deep-offshore Nigeria started up at the end of the quarter and will contribute significantly to production for the rest of the year," Chief Executive Christophe de Margerie said.

Four other major projects should start up this year, Mr. de Margerie said, listing Tahiti in the Gulf of Mexico, Tombua Landana in Angola, and two liquefied natural gas projects—Yemen LNG and Qatargas II train B.

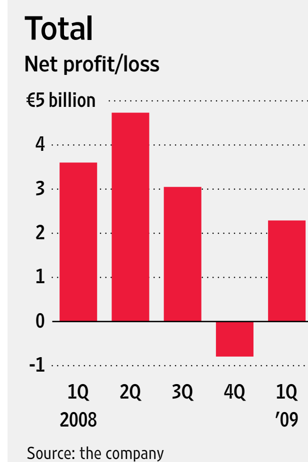
Total said first-quarter profit—adjusted to exclude inventory changes, nonrecurring items and the company's equity share of the amortization of intangibles related to the Sanofi-Aventis merger—fell 35% to €2.11 billion from €3.25 billion a year earlier. Adjusted profit is closely watched by analysts.

Sales fell 32% to €30.04 billion from €44.21 billion.

Total's profit decrease comes after peers **Royal Dutch Shell** PLC and **BP** PLC recently reported declines of 62% and 59%, respectively, in first-quarter net profit as lower oil prices hurt results from their exploration-and-production operations.

Credit Suisse Group said in a note that Total's results are "robust," adding that the company had the lowest year-to-year decline in U.S. dollar earnings of the oil majors and a balance sheet that remains strong despite low oil prices.

Société Générale SA analyst Aymeric de Villaret said Total's results, even if they came in "at the top of the consensus range," were unlikely to boost the shares strongly, given that results from Eni SpA, BP and Shell also were above expectations. Shares of Total rose 1.5% to €39.75 in Paris.



Total oil depot, outside Paris

Associated Press

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Mizuho Securities and Shinko Securities are pleased to announce the completion of a merger on 7 May 2009 to form a stronger, more versatile organization under the Mizuho Securities name.

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FOCUS ON AUTOMOBILES

BMW unit sales fall 21%

Auto maker reports $203.9 million loss, sees no sign of bottom

By Christoph Rauwald

FRANKFURT—**BMW** AG swung to a first-quarter net loss as demand for luxury cars stalled amid the recession, and said that it is still impossible to give a reliable forecast for the full year because of market volatility.

"In view of the difficult conditions still prevailing on the financial markets, we remain focused in our efforts to improve our liquidity position," Chief Executive Norbert Reithofer said in a statement.

The world's best-selling premium auto maker by sales reported a net loss of €153 million ($203.9 million), compared with a year-earlier net profit of €485 million.

In a conference call, Mr. Reithofer declined to say whether the first quarter was the trough in 2009. "There are still no signs that markets have stabilized," he said. Other industry executives recently have signaled that sales and earnings should gradually improve in the course of the year.

BMW's closely watched earnings before interest and tax swung to a €55 million loss from a €827 million profit. Revenue declined 13% to €11.51 billion.

Both figures beat market expectations, and BMW shares were up 3%.

BMW said it streamlined cost structures further during the first three months of the year, reduced inventories and cut back working capital in the auto segment. The company slashed production 34% in the quarter to 267,637 cars.

Still, it said the cost cuts couldn't compensate for the decrease in revenue, and its gross profit margin fell to 9.1% from 16%.

"We were able to generate a positive free cash flow of €220 million," Mr. Reithofer said. BMW's liquidity stood at €10 billion at the end of the first quarter.

Mr. Reithofer told reporters in March that he would focus on liquidity rather than profitability this year and aimed to keep a close eye on the company's inventories, reducing fixed costs and optimizing working capital.

Total sales of the company's BMW, Mini and Rolls-Royce brand cars were down 21% to 277,264 vehicles. The company reiterated that vehicle sales are expected to fall in 2009 amid a drop in the overall market of 10% to 20%. The Munich-based company has said it views 2009 as a year of "transition," before several important new model launches are expected to fuel demand again from 2010 onward.

BMW's first-quarter loss mirrors lower earnings at its rivals, as major auto markets around the globe contracted in the first three months of the year amid recession.

Reuters

Sales of BMW, Mini and Rolls-Royce brand cars fell 21% in the first quarter as the Munich-based company slashed production 34%.

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DOWJONES

VW plans to open Indonesia plant, escaping tariffs

By Tom Wright

Volkswagen AG plans to open a new assembly plant in Indonesia with an initial investment of €35 million, or roughly $45 million, a sign that the Southeast Asian nation's still-robust consumer spending is keeping the country attractive to foreign companies.

The planned facility, an hour east of Jakarta, the capital, will begin assembling the Touran, a compact multipurpose vehicle, and could eventually employ between 2,000 and 4,000 people, said a person with knowledge of the discussions. The company, based in Wolfsburg, Germany, plans to initially invest in assembly and paint operations, spending €35 million or more. It may later begin full manufacturing at the factory, its first facility in East Asia outside China, the person said.

Christoph Adomat, a spokesman for Volkswagen, confirmed that the assembly facility would initially produce several hundred passenger cars starting in the summer, with output steadily increasing thereafter.

The investment comes after Volkswagen failed to reach an agreement in 2007 over an alliance with **Proton Holdings** Bhd., Malaysia's state-owned car maker. That deal would have potentially given the German auto maker access to Proton's manufacturing facilities.

Toyota Motor Corp. **Ford Motor** Co. and **General Motors** Corp. have production facilities in Thailand. Toyota, which manufactures in Indonesia, dominates that market. Although total Indonesian vehicle sales are forecast by Toyota's local affiliate to fall 30% this year from a record 600,000 units in 2008, the company expects the market to recover next year. Also, overall consumer spending has held up better in Indonesia than many other Asian countries.

Economists predict Indonesia's economy will grow around 3% this year, down from 6.1% last year, but still a top performer in the region.

Volkswagen cars currently are imported into Indonesia, meaning they are hit by tariffs of more than 200%. By assembling locally, Volkswagen's cars will be significantly less expensive for consumers.

FOCUS ON AUTOMOBILES

Renault weighs partnership for Saturn

Auto maker in talks to distribute its cars via Penske alliance

BY JOHN D. STOLL

General Motors Corp. is in talks about turning its Saturn division over to a partnership between **Penske Auto Group** and **Renault** SA that opens the door to the French auto maker using the brand as a launch pad for further growth in North America, two people familiar with the matter said.

Renault is one of several auto makers and other suitors interested in the Saturn brand. GM is surviving on $15.4 billion in government loans and is under pressure to restructure its balance sheet, union contracts and operations by June 1 or face a bankruptcy filing.

GM has held separate talks about Saturn with Detroit auto titan Roger Penske, who is interested in running the Saturn dealer network as part of a Renault agreement or with another auto maker. Mr. Penske is one of the world's largest auto dealers through his ownership of Penske Auto Group. He also owns a logistics company and has a major presence in auto racing.

GM is looking to scale back operations in the U.S. after nearly running out of cash in December, and it has been searching for a buyer of the 20-year-old Saturn business since February. It currently plans to quit building Saturn's five models by the end of 2009, effectively choking off the supply for dealers.

Associated Press

Renault and Penske are in talks about taking over GM's Saturn division. Above, a service area at a Saturn dealership in Ohio.

Some of these dealers have been working to save Saturn by either forming investor groups or helping GM find a buyer for the brand. GM may be open to building Saturn products on a contract basis under the right circumstances.

In addition to the Penske and Renault talks, GM is considering several options for Saturn, including closing the brand all together.

Saturn suitors are unlikely to put cash into a deal, but would need to take on liabilities, and the costs of running the business, including production. They would also have to flesh out a showroom of vehicles that meet Saturn customers' high expectations for service and quality.

Under a deal being considered by Renault, which controls Japan's Nissan Motor Corp. and Korea's Samsung Motors, the French auto maker could eventually use the Saturn network of 400-plus dealers to sell its own cars, including vehicles made by Renault or Samsung Motors and sold as Saturns, the people familiar with the matter said. The Saturn brand has a strong reputation for customer service but has been hindered under GM due to a lack of consistent innovation.

By essentially giving the brand to another auto maker, GM could potentially preserve jobs in the U.S. and avoid the messy dispute with dealers that could come if it just killed Saturn.

Renault could eventually build Saturn vehicles in the U.S. if the brand supports solid sales volumes, one person said. But, at this point, the deal is not done and any move with Saturn needs the blessing of the U.S. Treasury Department.

A Renault tie-in with Saturn could help further Chief Executive Carlos Ghosn's goal of getting a better foothold in the U.S. market. The company already boasts a large presence in the region thanks to Nissan's sprawling operations based in Tennessee. A deal with GM or a Penske-run Saturn network could give Mr. Ghosn an American brand name and an outlet for vehicles designed in Korea or Europe that compete on fuel-efficiency and value.

In Paris Wednesday, Mr. Ghosn ruled out a direct purchase. "We want things to be totally clear. We are not interested in acquisitions and we are not interested in [GM's Adam] Opel," he said.

In recent years, Mr. Ghosn has held serious alliance negotiations with GM and Chrysler but failed to strike a deal. In 2006, after spending months researching a tie-up, GM rejected a proposed equity alliance with Renault-Nissan, saying that the deal was better for Mr. Ghosn than for GM.

Chrysler reviews its dealerships

BY JEFF BENNETT AND ALEX KELLOGG

Chrysler LLC told a select group of dealers that it is weighing the strengths and weaknesses of its roughly 3,200 dealerships as it tries to prune several hundred of them from its sales network.

In a meeting with the company's national dealer council, which represents the dealerships, Chrysler executives said the auto maker is reviewing each dealership's location, the condition of its facility, finances and sales to determine which are the strongest and most desirable, according to dealers with knowledge of the meeting.

On Wednesday, Chrysler separately disclosed new cash incentives to spark sales. The auto maker said it will provide as much as $4,000 toward purchases of 2009 models. Other programs offer current Chrysler owners as much as $1,000 toward most 2008 and 2009 vehicles and as much as $1,000 toward financed purchases for eligible credit-union members.

Tuesday's dealer meeting came as a handful of creditors continued to oppose any sale of the auto maker's assets to **Fiat** SpA, of Italy. In the court overseeing Chrysler's bankruptcy, a group of investors holding about $300 million of Chrysler's $6.9 billion in secured debt pressed its argument that the sale of Chrysler assets should be blocked.

Most other secured creditors, including several large banks that have been given financial aid by the federal government, have agreed to forgive the debt in exchange for $2.25 billion in cash. Later this week, Chrysler is expected to present the court with a list of creditors it would like to pay off, including many dealers who are owed money by the auto maker, say dealers who have talked to the company.

Getty Images

Chrysler told a group of dealers it is weighing the strengths and weaknesses of its 3,200 dealerships. Above, new vehicles sit at an idled Illinois plant last week.

Fiat and Chrysler engineers, meanwhile, are meeting this week at Chrysler's headquarters in Auburn Hills, Mich., to move forward on their alliance, people working with Chrysler said.

At the same time, the company's former financing affiliate, Chrysler Financial, is moving ahead with plans to wind down its lending operations. Company executives told employees at a meeting Friday that Chrysler Financial will need only minimal staff in the near future to handle the servicing of existing loans and leases on Chrysler vehicles, people who attended the meeting said.

Chrysler has signed a new agreement to have GMAC LLC, the lender affiliated with **General Motors** Corp., replace Chrysler Financial as its financing partner. Chrysler Financial has stopped offering loans to dealers and has drastically scaled back its consumer loan financing.

"Chrysler Financial remains focused on running its business operations, and we are currently examining the results [the Chrysler bankruptcy] will have on our company," the company said. A Chrysler spokeswoman declined to comment.

Chrysler filed for bankruptcy protection last week after it failed to win a debt-reduction agreement from some of its creditors. The company intends to restructure itself by shrinking its dealer network and merging with Fiat.

Chrysler has asked the U.S. Bankruptcy Court in Manhattan for clearance to pay $753 million owed to dealers for sales incentives. In court documents, it said it only intends to pay dealers it hopes to keep in its network.

—John D. Stoll and Neal E. Boudette contributed to this article.

Geely submits a bid for GM's Saab unit

BY NORIHIKO SHIROUZU

BEIJING—**Geely Automobile Holdings** Ltd. submitted a bid to acquire **General Motors** Corp.'s Saab unit, people familiar with the situation said, in a new sign of the young Chinese auto maker's intention to capitalize on the tumult in the car industry to expand internationally.

Geely is one of "three to four" serious bidders and appears to be the only bidder from China, one of the people said. He said a second Chinese auto maker considered bidding but didn't follow through with an offer.

The bid for Saab comes just weeks after it submitted a separate bid for **Ford Motor** Co.'s Volvo unit, also based in Sweden. It wasn't immediately clear what prompted Geely to bid for a second auto maker. The Saab bid could be designed to pressure Ford to respond to Geely's bid for Volvo, or to raise Geely's chances of obtaining a foreign car maker in case the Volvo effort falls through.

A team of executives from Geely traveled to Sweden during the past few weeks to tour Saab's production and research-and-development facilities, and to meet with members of the Swedish auto maker's management team, according to two people familiar with the situation. Geely then submitted a bid for Saab, the people said.

Details of Geely's bid for Saab couldn't be determined. Geely Spokesman Wang Ziliang declined to comment.

Eric Geers, a Saab spokesman, said Saab invited ten possible buyers to travel separately to Trollhattan, Sweden, over the past several weeks to show them Saab's facilities and meet executives. He said the ten included a "mix of investors and auto makers," but he declined to confirm that Geely was one of them, or to say how many of the ten candidates turned in offers. He said GM and Saab hope to choose a buyer by "early summer."

A person close to GM confirmed that Geely was one of the companies that toured Saab's facilities.

Geely has said recently it is interested in using international acquisitions to gain access to technologies and sales networks, and to circumvent trade barriers it might otherwise face as a Chinese auto maker.

Still, its bid for Saab, especially while it is also pursuing Volvo, could be risky for the relatively small Chinese company. Saab has been mostly unprofitable since GM invested in the brand in 1990, and GM said late last year it planned to sell Saab as part of its turnaround efforts. In February, Saab filed to reorganize under court protection in Sweden, a process similar to Chapter 11 bankruptcy protection in the U.S.

Mr. Geers said if an auto maker or an investor is bidding for Saab to shift its production out of Sweden, that might not bode well with the Swedish government, which Mr. Geers said is moving to provide loan guarantees to bail Saab out of its financial trouble.

CORPORATE NEWS

Canada, Europe reach 'open skies' airline deal

Agreement allows point-to-point flights without restrictions

REUTERS NEWS SERVICE

PRAGUE—Canada and the European Union signed an "open skies" deal Wednesday under which airlines from the two trading partners will be able to fly freely between any airport in the 27-country EU and any in Canada.

"This will generate major benefits for consumers and airlines ... and will make the EU-Canada aviation market one of the most open in the world," European Commission President José Manuel Barroso told a news conference.

The deal will replace an existing patchwork of bilateral agreements between Canada and European states that include restrictions on routes, prices and the number of weekly flights.

The agreement will also ease restrictions on control and ownership of airlines and follows a similar pact between the EU and the U.S. in March of last year.

The deal came at the start of talks on a trade pact valued at an additional $27 billion each year to the combined economies of Canada and the EU, suffering from weakening trade amid the financial crisis.

"We were trying to reach this agreement somewhere from the 1970s," Canadian Prime Minister Stephen Harper said of the trade deal. "Finally this agreement we have is a glimmer of light in the darkness of the global recession."

A study by the European Commission, the EU's executive arm, suggested the aviation agreement would generate an additional 500,000 million passengers in its first year, plus more than 1,000 jobs and economic benefits of at least €72 million ($95.9 million).

Canada already plans to raise the foreign ownership limit to 49% of an airline's voting stock from 25%—a move welcomed by the country's main carriers, **Air Canada** and **WestJet Airlines** Ltd., which want more investment.

In a later phase of the deal, investors will be able to set up and control airlines in each other's markets, and in a final stage, airlines will be able to fly freely within each other's markets and onward from there to other regions.

L'Oréal's luxury brands slow as its cheaper lines gain steam

BY MAX COLCHESTER

PARIS — **L'Oréal** SA, the world's largest cosmetics maker, reported flat sales for the first quarter of 2009 as consumers shied away from its luxury skin creams and shampoos in favor of its cheaper brands.

The maker of products ranging from Giorgio Armani perfume to Lancôme skin cream and Maybelline eye shadows said sales increased 0.3% to €4.37 billion ($5.83 billion) in the first three months of 2009. Jean-Paul Agon, L'Oréal's chief executive, said that he would not offer specific guidance for the year but that results would "improve" during 2009.

The company did not break out profits for the quarter.

Like other cosmetics companies, L'Oreal has suffered as department stores and professional hair salons hold back on ordering new products. The company was also hit by a reduction in duty-free sales, which it said fell 30% in the first quarter, as travelers—who are more scarce—reined in spending on items such as perfume.

Taking into account the effect of currency fluctuations, sales fell 9.3% in Western Europe and 5% in North America. This shortfall was partly offset by an increase in revenue in Asia.

The company said it would weather the slump by continuing to reduce costs.

Sales at L'Oréal's luxury cosmetics division, which includes Yves Saint Laurent perfumes and Lancôme skin creams, decreased 17.5%, taking into account currency fluctuations, to €926 million as demand dropped in key markets such as Russia and Dubai. The consumer products unit held up better—with sales up 1% to €2.19 billion — as customers continued to buy its drugstore lines, such as Garnier hair products.

L'Oréal said it would weather the slowdown by continuing to reduce costs. The company said that it had put in place all the cost-cutting measures it had outlined at the end of last year. These include cutting 500 jobs in the U.S and the closure of a plant in Monaco.

"This has been a tough quarter," said Mr. Agon. "But we should see an improvement in the next few quarters."

On Tuesday German consumer goods company **Beiersdorf** AG, which makes Nivea skin cream, said net profit for the f irst quarter was down 31% to €100 million.

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GLOBAL BUSINESS BRIEFS

British Airways PLC

Traffic increases 0.9%; premium travel drops

British Airways PLC said it reversed traffic declines last month and filled a higher proportion of its available seats because of capacity cuts. Traffic rose 0.9% from a year earlier to 9.36 billion revenue passenger kilometers. BA carried 2.8 million passengers, up 1.3%. The figures were boosted by Easter, a key period for leisure travel, which was in April this year but in March last year. BA's lucrative premium traffic dropped 18%. Dublin-based **Ryanair Holdings** PLC reported a 12% increase in passengers carried to 5.3 million. Its load factor, a measure of how full its planes are, rose three percentage points to 82%. Budget carrier **easyJet** PLC, London, said it carried 3.8 million passengers, up 6.3%. EasyJet's load factor increased 4.2 percentage points to 84.2%.

Adecco SA

Adecco SA posted an 83% drop in first-quarter net profit as demand for temporary and permanent employment continued to deteriorate. The world's largest employment company in terms of sales said net profit fell to €23 million ($30.6 million) in the three months ended March 31 from €138 million a year earlier. Revenue fell 26% to €3.7 billion from €5.03 billion. The most pronounced declines were registered in Italy and the U.K., where sales fell 42%, followed by France, Adecco's biggest single market, where revenue fell 32%. The Zurich-based company also warned of difficult months ahead as staffing markets are expected to remain weak, especially in Europe. In March, the jobless rate in Europe hit 8.9%, the highest level in nearly four years.

Carlsberg A/S

Carlsberg A/S's first-quarter net loss widened as the brewer took a hit from higher financing costs related to its joint acquisition with **Heineken** NV of Scottish & Newcastle. The Copenhagen-based maker of Tuborg, Baltika and Kronenbourg beers posted a net loss of 212 million kroner ($38 million), compared with a loss of 129 million kroner a year earlier. Sales jumped 26% to 11.8 billion kroner. Carlsberg and the Netherlands' Heineken bought Newcastle in 2007 in a move to gain full control of Baltic Beverages Holding, Russia's biggest beer producer. Carlsberg said it gained market share in Eastern Europe and Asia, but that it expects a "modest decline" in Russia this year. Chief Executive Joergen Buhl Rasmussen said the group is on track to achieve its full-year forecast.

Henkel AG

Henkel AG said its first-quarter net profit fell 47% on slumping demand for adhesives. The Düsseldorf-based maker of products such as Persil detergent and Loctite glue said net profit fell to €117 million ($155.9 million) from €219 million a year earlier. Sales rose 3.1% to €3.26 billion, helped by the acquisition of National Starch businesses in April 2008. Chief Executive Kasper Rorsted said the earnings were hurt by a drop in orders from auto makers for its adhesive products. However, Mr. Rorsted said Henkel's laundry and home-care units, along with cosmetics and toiletries, showed improvements. Henkel said it expects consumer businesses to continue developing in the second quarter, while it anticipates a slight improvement in the adhesives sector.

Skanska AB

Skanska AB flagged continued weak demand as the construction company said its first-quarter net profit halved. The Stockholm-based company said fell 51% to 432 million Swedish kronor ($54 million) from 873 million kronor a year earlier. Revenue fell 2.2% to 30.86 billion kronor. "In all our markets, the demand for building construction is continuing to weaken, both in residential and other private construction," the company said. However, Skanska, which is laying off about 3,400 employees from its nearly 60,000-strong work force, signaled the beginning of a recovery in the U.S. Chief Executive Johan Karlstrom said the U.S. government's stimulus package has begun to spur demand for infrastructure projects. Skanska said it still sees its full-year volume falling 10% in local currencies.

Gas Natural SDG SA

Spain's **Gas Natural SDG** SA reported a 5.1% rise in first-quarter earnings as a strong performance in its gas-supply business compensated for lower electricity prices. The company said net profit rose to €353 million ($470.4 million) from €336 million a year earlier. The March 1 integration of the company's 50.02% stake in **Union Fenosa** SA also boosted results. Gas Natural may benefit more from the takeover than originally thought, Chief Executive Rafael Villaseca said during a conference call. He said cost savings and revenue synergies from the merger could exceed the €290 million over three years that was forecast when the takeover was announced last year. Gas Natural boosted its stake in Fenosa to 95.2% in April and expects to complete its takeover in September.

OAO GAZ Group

Russian auto maker OAO GAZ Group said Wednesday that it agreed to sell British van producer LDV Group Ltd. to Malaysia's Weststar Group, a move that appears likely to preserve business and save jobs at the British company's struggling Birmingham plant. GAZ Group, controlled by Russian tycoon Oleg Deripaska, said in a statement the deal had been facilitated by a £5 million ($7.5 million) bridge loan from the British government, which will support LDV's operations while the sale to the Malaysian producer and distributor closes. GAZ Group said LDV—formerly Leyland DAF Vans—withdrew an application for administration, a form of bankruptcy protection, filed in April after LDV failed to secure funding. It didn't provide the financial details of the sale.

E.ON

E.ON AG Chief Executive Wulf Bernotat said he will step down after his contract expires in May 2010. Mr. Bernotat told shareholders at the German utility's annual general meeting that he won't renew his contract for personal reasons. He added that he turns 62 years old in 2010 and seeks a "new professional challenge." Mr. Bernotat has been CEO of E.ON since 2003. His existing contract was extended early in 2007, but his second term was shortened because of his age. Under Mr. Bernotat's leadership, E.ON became the world's largest investor-owned utility by market value. In the past two years, Mr. Bernotat led a rapid expansion across Europe, buying assets in Italy, Spain, France, Russia and Sweden while also broadening the company's renewable-energies activities.

Biovail Corp.

Biovail Corp. took steps to boost its cash resources, including a long-expected dividend cut, to support development of its new drug strategy. The company, which is based in Ontario, said it will cut its quarterly dividend payment to nine cents a share from its previous 37.5 cents a share. It also bought the U.S. rights to antidepressant Wellbutrin XL from **GlaxoSmithKline** PLC for $510 million. Investors expressed skepticism, however. In afternoon trading Wednesday, Biovail shares were down $1.47, or 13%, at $9.93 on the New York Stock Exchange. Meanwhile, Biovail posted earnings of $39 million, or 25 cents a share, down from $56.4 million, or 35 cents, a year earlier. Revenue fell 17% to $173.3 million. Product sales declined 16% to $165.4 million, hurt in part by lower revenue from Wellbutrin XL.

Electronic Arts Inc.

Videogame publisher Electronic Arts Inc., which has been struggling with high development costs and a weak lineup of games, reported a smaller loss its fiscal fourth quarter, helped by cost-cutting and a focus on fewer titles. Marketing and sales expenses fell 10% from a year ago; administrative costs fell 17%. EA executives were upbeat about the current quarter, during which the company will be releasing a slate of games, several of them for Nintendo Co.'s popular Wii console. The Redwood City, Calif., company reported a net loss of $42 million, or 13 cents a share, for the fourth quarter ended March 31, compared with a loss in the year-earlier period of $94 million, or 30 cents a share. Revenue declined 24% to $860 million.

Orbitz Worldwide Inc.

Orbitz Worldwide Inc. reported Wednesday that its first-quarter loss widened sharply on a write-down related to declines in the company's stock price. Without the $332 million write-down, however, results were stronger than expected. Businesses and consumers have been scaling back travel amid the weak economy, and those cutbacks hurt companies such as Orbitz, which allows customers to book hotels and flights at discount rates through its site. The company posted a loss of $336 million, or $4.02 a share, widening from a year-earlier loss of $15 million, or 18 cents a share. In the past year, through Tuesday, Orbitz stock had fallen more than 70%. Revenue decreased 14% to $188 million.

Marsh & McLennan Cos.

Marsh & McLennan Cos. swung to a first-quarter profit, reversing a year-earlier loss caused by a $425 million write-down of its Kroll security business, but the company reported weaker operating results due to woes at its consulting business. Economic volatility is boosting business at the firm's core insurance brokerages as customers look for help managing risk, but the recession has weighed on operations, such as the consulting and technology segments. Marsh reported a profit of $176 million, or 33 cents a share, compared with a prior-year loss of $210 million, or 40 cents a share. Excluding items such as the Kroll write-down, earnings fell to 40 cents a share from 45 cents. Revenue decreased 13% to $2.63 million.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Stress tests shine light on banks

U.S. officials hope results will lift cloud of uncertainty and boost sector's strong players

By David Wessel

After financial markets close Thursday, the U.S. government and the nation's 19 largest banks will reveal results of the very stressful stress tests that bank supervisors have been conducting.

CAPITAL

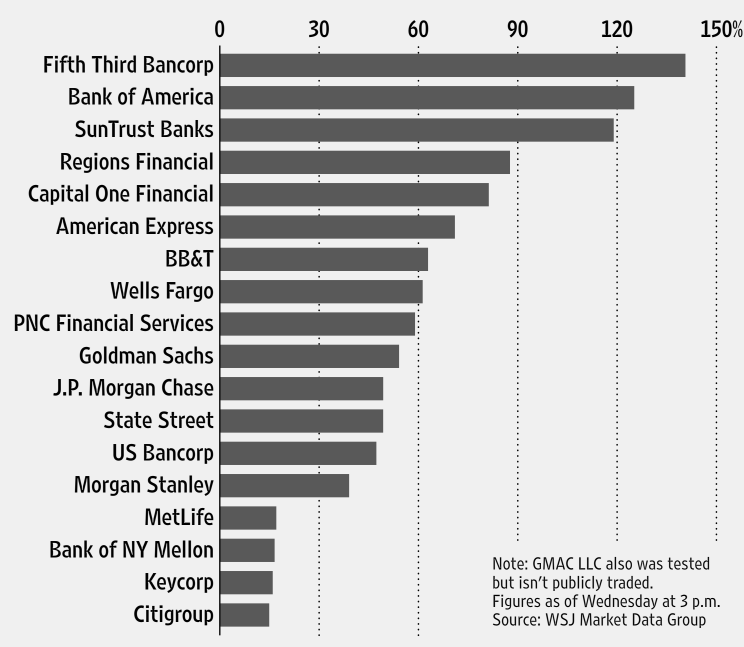
By calibrating the capital cushion each big bank needs in order to withstand even-worse-than-anticipated losses over the next two years and then making banks raise that money, Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke have at least two goals: to dispel the fog of uncertainty that hangs over banks and assure everyone that, even if conditions worsen, the U.S. economy and its banks will survive this crisis.

The stress tests won't resolve the crisis. But here's what we'll know at the end of the day that we don't know now:

How much more blood the government expects big banks to shed.

For nearly three months, more than 150 federal employees have been scrutinizing bank books, questioning bankers' projections of losses category by category and comparing each bank's expectations to others. The government now knows hugely more about the 19 banks, which represent about two-thirds of all U.S. bank assets, than anyone else. It won't share all it learned, and critics still will insist the Treasury and Fed are insufficiently gloomy. But disclosing and applying a common set of economic assumptions and accounting conventions across the big banks to come up with a total will bring much needed clarity.

The latest International Monetary Fund estimates put total losses at a stunning $4.1 trillion for all financial institutions around the world, counting losses already recognized and those not yet acknowledged. The stress-test tally is narrower: as-yet-unacknowledged losses that 19 big U.S. banks face in the next two years if conditions are bad, but not catastrophic. Private estimates range widely from about $300 billion to $1 trillion; the comparable IMF figure is about $400 billion. The government tally likely will fall in the middle, probably toward the lower end of the private range.



Bank of America branch in Charlotte, North Carolina, yesterday.

Associated Press

So that's the first big headline number: total potential losses beyond those the banks already have taken. Subtract that sum from banks' existing capital, add profits they'll make this year and next and you get the second big headline number: the total capital the government wants banks to raise in the next six months. That sum, Mr. Bernanke assured Congress this week, will be manageable; that's reassuring, as long as the estimate is credible.

Which banks are strong, and which aren't.

In the initial phase of its bank rescue, the government deliberately didn't distinguish between weak and strong. In October, it forced the nine biggest banks to take taxpayer capital whether they needed it or not. The point was to avoid stigmatizing the weak.

Now, the government—while insisting it will do whatever it takes to keep all 19 banks alive—wants to distinguish between weak and strong. Market worries about the viability of the weak are contagious and hurting the ability even of the strong to raise money and resume lending. The stress tests are intended to end that. Stress testers, for instance, didn't apply an across-the-board formula to gauge potential losses of commercial-real-estate loans; instead, they looked at each bank's loans and projected bigger losses at some and smaller at others—and those differences will be made public.

The Geithner-Bernanke strategy is to reassure markets about the strength of the strong so they aren't dragged down by the weak, and to show a six-month road map for shoring up the weak—with taxpayer money if needed. That makes sense, as long as it doesn't provoke a run on the weakest of the 19.

How banks will fill the holes.

Many, maybe most, of the 19 big banks will be told to raise more capital. Given the hassle, and congressionally mandated restraints on executive pay, no bank CEO prefers to take more taxpayer money. So they have good reason to offer credible alternatives.

Messrs. Bernanke and Geithner would be thrilled if even a few banks could sell common stock to investors. Despite the welcome upturn in bank stocks in the past three weeks, that would be tough.

So bankers, even if unhappy with the government's stress-test verdict, will outline plans to sell assets—both whole businesses and smelly loans and securities—and to convert private and existing government preferred stock into common shares. That's not as solid as selling new shares, but it saves money on dividends (thus increasing bank profits and fattening capital cushions), makes selling new common shares in the future easier and is said by investors to improve the quality of bank capital. In the end, some banks will end up taking more taxpayer capital: which ones and how much may not be immediately clear.

The conclusion of the stress test should reduce some of the debilitating uncertainty that is undermining confidence in the banks and, thus, their ability to lend. If the numbers are believable, the results will infuse debate over the depth of the banks' woes with sorely needed facts. If the process was as thorough as described, there should be fewer big surprises lurking in bank books.

That's all for the good. But ultimately, particularly if the economy deteriorates, President Barack Obama may tell Congress he needs more money for the banks than they've approved already. If so, he can honestly say that he tried everything else first.

Fed discussed buying bonds as far back as '03

By Brian Blackstone

WASHINGTON—Federal Reserve decisions in 2007 and 2008 to embark on nontraditional methods to stimulate the economy, such as buying bonds, appeared unusual at the time.

But those methods were actually debated as far back as 2003, when officials cut official rates to the lowest level in decades. Those cuts raised questions at the time about how officials should respond to a weak economy and to deflationary forces when rates are near zero.

It appears that even six years ago, Fed Chairman Ben Bernanke—who was then a Fed governor—was thinking about unconventional policy tools, including purchases of long-maturity bonds.

"We are not by statute or practice restricted to affecting only the overnight rate, which would obviously mean that, when that rate gets to zero, we're out of business," then-Fed Chairman Alan Greenspan said during the June 2003 Federal Open Market Committee meeting.

Transcripts of the 2003 FOMC meetings were released Wednesday by the Fed.

In June of that year, officials lowered the target federal-funds rate for interbank lending by 0.25 percentage point to 1%, which was a five-decade low.

At its next meeting in August, it signaled to Wall Street that investors could count on low interest rates for some time by stating that "policy accommodation can be maintained for a considerable period."

In hindsight, the deflation risk seemed overblown, and the downturn officials were battling turned out to be quite mild by historical standards.

A commonly held view now is that by lowering interest rates so aggressively then—and keeping them there for an extended period—the Fed unwittingly contributed to the ensuing housing bubble, the collapse of which it's still wrestling with now.

The Fed has responded to the current downturn by slashing the federal-funds rate to a range near zero and drastically expanding its balance sheet through lending programs and direct asset purchases.

In that June 2003 meeting, Mr. Bernanke said that he didn't favor targeting specific interest rates. "But if the policy is one in which we essentially try to lower the whole path of long-term interest rates, and we enforce that with a package of complementary actions that includes trying to manage expectations along the term structure and taking a series of other actions such as purchasing long-term bonds and other kinds of instruments, I think that's one of the first things we ought to be doing," he said.

Obama budget to cut programs, spur opposition

By Jonathan Weisman

WASHINGTON—U.S. President Barack Obama's detailed 2010 budget plan, due out Thursday, will propose modest cuts and consolidations in programs across the government. But even those trims are likely to provoke opposition from lawmakers and interest groups.

White House budget director Peter Orszag and his deputy, Rob Nabors, laid out 121 programs Mr. Obama wants eliminated or consolidated next year in a meeting with senior Democratic lawmakers Thursday. That would bring spending down by $15 billion compared with what it would have been without those cuts.

Half the cuts would come from defense, especially Pentagon weapons programs. The other half would trim or consolidate programs that have strong support among progressive activists who cheered Mr. Obama's election.

Programs to be eliminated or consolidated would include education and job-training programs that Democratic aides said will have fierce advocates among traditionally Democratic constituencies. AIDS activists are fuming that an expansion of developing-world health programs favors other health needs over HIV/AIDS.

Liberal think tanks are worried about a proposed partnership with state governments to root out fraud in joint state-federal programs such as Medicaid and children's health insurance.

Pentagon weapons cuts will account for much of the reduced spending.

The program eliminations and consolidations being proposed are already raising skepticism among Republicans and Democrats alike. Mr. Obama has said he will target education programs that he believes are duplicative and wasteful. So did former President George W. Bush.

Indeed, about 40% of the programs Mr. Obama has targeted for elimination or consolidation come directly from a similar list proposed by Mr. Bush over the last two budget seasons on Capitol Hill. Congress largely ignored them.

A senior Democratic aide in the House said Mr. Obama's list will likely suffer the same fate unless he backs it up with a legitimate effort to slow the growth of entitlement programs such as Medicare and Social Security. Only that effort will really make a dent in budget deficits expected to pile $7 trillion of debt onto the government over the next decade, if Mr. Obama secures all his initiatives.

Stacy Dean, director of food-assistance policy at the liberal Center on Budget and Policy Priorities, said advocates for the poor are willing to accept the Obama administration's efforts to ensure the integrity of some federal programs, like unemployment insurance, supplemental security income under Social Security and Medicare, if only to try to overcome widely held suspicions that the programs are fraught with abuse.

Czech Senate passes Lisbon Treaty

EU pact advances, but Irish ratification remains an obstacle

By Marc Champion

BRUSSELS—The European Union on Wednesday came a step closer to adopting a controversial treaty aimed at strengthening the bloc, after the Senate of the Czech Republic voted to ratify it.

The so-called Lisbon Treaty is a stripped-down version of the EU's first, failed attempt to adopt a constitution. If ratified by all 27 EU states, the treaty would for the first time create an appointed EU president, who would serve a maximum of one five-year term. It would also give the bloc stronger foreign-policy tools, and make it easier to pass new EU legislation in some areas.

Opponents such as Czech President Vaclav Klaus—whose signature is still needed to complete the Czech ratification—say the Lisbon Treaty embodies the EU's democratic failings and would enable its centralized institutions to seize more powers from national governments.

Most EU countries have now ratified the treaty; the only significant holdout remaining is Ireland. Irish voters rejected the document—comprising a collection of over 140 pages of amendments to other EU treaties and an additional 100 pages of protocols and annexes—in a referendum last year. The Irish government has said it will hold another referendum on the treaty by November.

Mr. Klaus told reporters in Prague on Wednesday that his signing the treaty was "not on the cards" until Ireland has accepted it. Poland's conservative president, Lech Kaczynski, has taken a similar position. Analysts and politicians in both countries say it's unlikely the two presidents would stand in the way if Ireland were to approve it by November.

Reuters

President Vaclav Klaus speaks on Wednesday after the Czech Senate ratified the Lisbon Treaty. Mr. Klaus says he won't sign the treaty until Ireland approves it.

The Czech vote was significant for EU officials and other supporters of the treaty, who are worried that any rejections by other countries might encourage voters in Ireland to block the treaty for a second time in November. That would kill the treaty and could spur a new round of potentially damaging infighting within the EU.

"This is very good news," European Commission chief José Manuel Barroso said of the Czech Senate's ratification in a statement.

Before Wednesday's vote, Czech Prime Minister Mirek Topolánek had asked members of his conservative Civic Democratic Party to ratify the treaty despite their misgivings, in order to show Czech commitment to European integration. Rejection would add to the Czech Republic's shame, he said, referring to the recent ousting of his own government at a time when it held the EU's rotating presidency. Mr. Topolánek is set to step down as premier on Friday in favor of a caretaker government until October elections.

Mr. Topolánek also said ratification of the Lisbon Treaty was required to clear the road for enlargement of the EU, which the Czech Republic strongly favors. France and Germany, which favor the treaty's adoption as a means of strengthening the EU, have said they won't agree to the bloc's further expansion until the treaty is in force.

The Czech Senate approved ratification of the Lisbon Treaty by 54 votes to 20.

EU, U.S. reach deal on beef with hormones

By Matthew Dalton

BRUSSELS—The European Commission and the U.S. announced a provisional deal in a long-running dispute over the European Union's ban on hormone-treated beef, a move that ends for now the threat of retaliatory duties from the U.S. on a range of EU products.

The deal doesn't directly address the main controversy in the dispute: the U.S. practice of feeding hormones to cattle to make them bigger. The U.S. says eating beef from cattle fed these hormones is safe, while the EU says one of these hormones causes cancer and others pose a health risk.

Under the deal, the commission, the EU's executive arm, will give duty-free access to an additional 20,000 metric tons of hormone-free U.S. beef in each of the next three years, on top of the existing duty-free quota of 11,500 tons for U.S. beef. That additional amount will increase to 45,000 tons in the fourth year.

The U.S. won't impose sanctions on EU products including Roquefort.

In return, the U.S. won't impose threatened sanctions of $79 million on a number of EU food products such as Roquefort cheese and Italian mineral water. The current U.S. sanctions resulting from the dispute are valued at about $38 million, but the U.S. is allowed to increase these duties to $116.8 million, which it decided to do at the beginning of the year.

Without the pact negotiated by EU Trade Commissioner Catherine Ashton and Ron Kirk, the U.S. trade representative, those tariffs would have come into force after Saturday.

"An agreement is in our mutual interest, and we will now discuss this with our respective stakeholders and constituencies in an effort to finalize it as soon as possible," they said in a joint statement.

The deal must be approved by officials from EU countries, who will discuss the issue Friday, a commission spokesman said.

In 1996 the U.S. challenged the EU ban at the World Trade Organization, saying science doesn't support the EU's claim that consuming these hormones in the quantity present in beef is dangerous. The WTO ruled in favor of the U.S. in 1998, allowing the U.S. to impose sanctions. In April 2008, the WTO said the EU hadn't presented enough evidence to justify the ban.

Hong Kong defends quarantine to contain flu

By Peter Stein

HONG KONG—The seven-day quarantine imposed on nearly 300 people at a local hotel has reignited a debate over the effectiveness and fairness of a key technique used by disease fighters, particularly in Asia.

No new cases of the A/H1N1 virus, also known as human swine flu, have emerged in Hong Kong since the quarantine at the Metropark Hotel was imposed Friday, an apparent vindication of the policy. Yet big gaps in implementation suggest the city may have been lucky.

Government officials aren't boasting yet. "We hope that the measures we have taken would be able to contain this virus infection for the time being, but we cannot be complacent," York Chow, Hong Kong's secretary for food and health, said Tuesday.

Even as fresh evidence suggests the danger posed by A/H1N1 may be less than originally thought, the Metropark quarantine will likely be examined for lessons on handling disease outbreaks.

Many democratic governments are loath to impose quarantines, which curtail the freedom of individuals for the sake of the community. Authorities in Mexico, the U.S., Europe and elsewhere have avoided imposing quarantines as they try to contain the virus, also known as swine flu.

Asia's experience with a deadly outbreak of severe acute respiratory syndrome in 2003, however, contributed to a greater willingness to accept quarantines. Quarantines were widely used to contain SARS in Hong Kong, mainland China, Taiwan and Singapore.

Over the past week, officials in mainland China quarantined more than 70 travelers from Mexico and a handful of Americans and Canadians even though there has been no confirmed case of the new disease in the mainland.

China already has lifted some quarantines; on Wednesday, dozens of Mexicans quarantined at hospitals and hotels in China to ward off the spread of the flu virus arrived home in Mexico in a government-chartered plane.

China's Health Ministry said dozens of people placed under quarantine across the country after being on the same flight as a Mexican traveler later diagnosed with swine flu would be released Thursday as planned if they showed no symptoms.

Lin Ji, a health official with China's health department in Jilin province, said the government had decided to lift a quarantine for a group of Canadian students two days early, following pressure from Canada.

Singapore, which ordered 12 people who were in Mexico recently to be in home quarantine, says it will lower its alert status to yellow from orange on Monday if the status quo is unchanged.

Singapore Health Minister Khaw Boon Wan said SARS—less infectious than today's virus but far more deadly—"was like a big elephant ... and we can shoot it with an elephant gun." The A/H1N1 virus, he said, "is like locusts, thousands of them. An elephant gun won't work."

One challenge in enforcing quarantines is that the threat of detention encourages some people to evade detection. Hong Kong officials say that 30 to 40 hotel guests who were supposed to be covered by its quarantine can't be accounted for. Some may still be in Hong Kong. One official says a number have likely left the territory; Hong Kong officials contacted overseas authorities in an attempt to track them down, he added. Local police are searching for those who might be hiding with family or staying in other hotels.

Associated Press

A woman among the hundreds of people held under government quarantine at the Metropark Hotel in Hong Kong looks out a window of the hotel Wednesday.

Some 36 people who sat near the sick Mexican traveler on a China Eastern Airlines flight from Shanghai last week were also subject to the quarantine order, but a government spokesman said seven of them had already left Hong Kong. The rest were hospitalized or quarantined.

There's also the question of whether Hong Kong's quarantine was justified by the seriousness of the threat to public health. Evidence in recent days suggests most cases of the disease are mild, though health officials warn that could change. At least 1,750 people in more than 20 countries have been sickened; to date, more than 40 people are estimated to have died. On Wednesday, Swedish authorities confirmed the country's first case and said the individual, who recently returned from the U.S., is now healthy. Poland also confirmed its first case, according to TVN-CNBC television.

Hong Kong's government "overreacted and took bad advice," said Lo Wing-lok, a doctor specializing in infectious disease. "Locking up people in a hotel for seven days just because of one case of flu is draconian," said Dr. Lo, who is an adviser to the government through his membership on a scientific committee on emerging diseases at Hong Kong's government-run Center for Health Protection.

On Tuesday, Hong Kong Chief Executive Donald Tsang defended "a need for strict action when we discovered the first case" in order "to contain a virus which we don't know much about." He and other officials have apologized to those detained for the inconvenience.

Malik Peiris, a microbiologist and flu expert at the University of Hong Kong, acknowledges the shortcomings of quarantines but says he believes it is justified: "I don't think the inability to track down every individual implies the whole thing was useless, or you shouldn't try."

He says that while the virus appears to pass from human to human much the way seasonal flu does, the fact that it doesn't spread widely everywhere it appears gives some hope that it can be stopped through intervention. If you're only 90% successful in imposing a quarantine, Prof. Peiris adds, you still have a very high probability of success. "It's all a matter of probabilities." *—Jonathan Cheng contributed to this article.*

Marketplace

Small wonders

Recent experiments peel back quantum veil—to find more mystery > **Page 29**