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What's News

The deputy head of the U.K.'s financial watchdog resigned amid allegations he silenced the risk director at HBOS in 2004. In the U.S., bank chiefs told skeptical lawmakers they are using government funds to boost lending. Page 19

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Sovereign default?
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Breaking news at europe.WSJ.com

Shareholders reject Fortis deal

Revolt against $20 billion sale to BNP forces Belgian government back to the bargaining table

By John W. Miller

BRUSSELS—Shareholders of Belgian bank **Fortis** NV narrowly rejected a proposed $20 billion sale to **BNP Paribas** SA after a confrontation with board members—a rare popular revolt against the wave of government bank bailouts sweeping the globe.

The vote forces the Belgian government, which took control of Fortis in October to save it from bankruptcy, back to the bargaining table. The takeover has been controversial in Belgium, where Fortis is widely held by ordinary citizens, leading to the ouster of Prime Minister Yves Leterme in December.

The Belgian backlash is a vivid illustration of the eroded stakes left for shareholders as governments around the world pour money into battered financial institutions. While such moves typically dilute the holdings of existing investors, few have railed against the infusions because the alternatives seem even worse. Nationalization, for example, wipes out shareholders.

The tightening vise was evident when Barclays PLC shareholders grudgingly approved a $10.4 billion capital-raising plan from Middle East investors in November. The move heavily diluted Barclays shareholders but staved off a U.K. government takeover.

At Bank of America Corp., some shareholders are irate that executives didn't disclose Merrill Lynch & Co.'s deepening woes before the deal was approved in December in separate votes. Instead, Bank of America executives secretly hammered out an agreement in which the U.S. government agreed to pump an additional $20 billion into the Charlotte, N.C., bank as an inducement to go through with the Merrill deal. The infusion made the bank one of the two biggest beneficiaries of U.S. federal aid.

At Fortis, Wednesday's shareholder vote leaves Belgium with three options, say analysts: Let Fortis fend for itself, inject more cash or nationalize, or renegotiate a deal with the Dutch government and BNP Paribas with a better payoff for shareholders.

The first option is unlikely. On its own, Fortis has too much debt. A nationalization would be a risky move but it might be the Belgian government's only choice after failing twice to do a deal.

BNP Paribas has said it would drop its bid if shareholders voted no. It said in a

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Crisis in Afghanistan

Associated Press

DEADLY STRIKES: Security forces run toward the Justice Ministry after assailants attacked it and another government building in Kabul. **Page 10**

U.S. reaches a deal on stimulus package

By Greg Hitt And Jonathan Weisman

WASHINGTON—Congress and the White House reached agreement on a $789.5 billion economic-recovery package, clearing the way for final votes late this week on Capitol Hill.

Lawmakers haven't released specifics of the deal, but people familiar with the talks said the White House agreed to trim a payroll tax holiday, reduce proposed aid to ailing state governments and scale back initiatives to provide health care for laid-off workers.

In exchange for giving ground on those issues, White House and Congressional negotiators restored some $9 billion in funds for school modernization, which had been stripped out of the Senate bill.

A measure to shield certain middle-income taxpayers from the alternative minimum tax remains part of the package, people familiar with the talks said. But the final bill would sharply scale back some tax breaks for buying cars and houses that had been adopted by the Senate.

The agreement was announced by Senate Majority Leader Harry Reid (D., Nev.), who said Wednesday that the House and Senate had concluded negotiations. "We've been able to bridge those differences," he said. "This has been a give and take."

Sen. Susan Collins (R.,

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Online now

The results, fast

First news of earnings from BT, Rio Tinto and others
See europe.WSJ.com

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7939.53	+0.64
Nasdaq	1530.50	+0.38
DJ Stoxx 600	193.13	-0.36
FTSE 100	4234.26	+0.50
DAX	4530.09	+0.54
CAC 40	3027.72	+0.23
Euro	$1.2899	-1.25
Nymex crude	$35.94	-4.29

LEADING THE NEWS

Hints of stability emerge

Some data suggest the worst may be over for battered markets

Even as job losses mount and profits plunge, some glimmers of stabilization are emerging in global markets—and, more faintly, in the economy overall.

*By **Joellen Perry** in Frankfurt and **Jon Hilsenrath** in Washington*

In the U.S., Europe and China, separate surveys of manufacturing purchasing managers all inched upward in January, suggesting that contraction in manufacturing activity could be slowing. The interest rates at which banks lend to one another are easing. And some credit markets are thawing.

Analysts say rock-bottom official interest rates, promises of massive fiscal stimulus packages and central banks' other efforts to revive markets have helped ease some tensions in financial markets and may have put a floor under falling business confidence. And as the big government boosts continue working their way through the economy, they could lay the groundwork for the global economy to begin escaping the worst of the storm.

The current hints of stabilization come at very low levels, suggesting the year ahead will be rocky at best. And the hopeful signs could still turn ugly.

"Some of the numbers we had been seeing were just jaw-droppingly awful," said Ken Wattret, economist with BNP Paribas in London. "What we're getting now is a sense that the pace of contraction won't continue at that rate. But it's really a question of being less bad, rather than of being truly good."

A key barometer for financial-sector health—the London interbank offered rate—soared last fall after Lehman Brothers Holdings Inc. filed for bankruptcy, because banks quit lending to one another. On Wednesday, the three-month dollar Libor inched up to 1.23% on disappointment about the U.S. Treasury's financial-stability plan, but has been easing since the start of the year and is down sharply since its peak of 4.82% on Oct. 10.

Also in financial markets, issuance of high-rated corporate bonds is soaring, signaling that markets could be getting back on track to serving their core purpose—providing funds to firms that need them.

Short-term corporate credit markets have also shown signs of improvement. Private issuance of U.S. commercial paper has increased, and interest rates on these short-term financing agreements have come down, leaving firms less reliant on a special Federal Reserve facility serving commercial-paper borrowers.

Since the start of the year, companies world-wide have sold $264.4 billion of investment-grade corporate bonds that aren't guaranteed through a government program, according to research firm Dealogic. That is up from the fourth quarter of last year, when companies sold on average $82.9 billion of non-government-backed debt a month.

Stock prices also have been relatively flat since November, even as the economic news has deteriorated sharply.

"There are some signs of stability in the financial system," said Mark Zandi, chief economist at Moody's Economy.com. Financial conditions are a key building block of growth, so these signs of market stability are a potentially encouraging sign in the outlook.

The real economy is still weakening sharply. Payroll employment in the U.S. has fallen by nearly 600,000 jobs a month for three straight months, a pace that puts pressure on consumers to cut spending. Fourth-quarter gross-domestic-product figures for the 16-nation euro-zone, due Friday, are expected to show a contraction of as much as 1.5%, the bloc's worst ever.

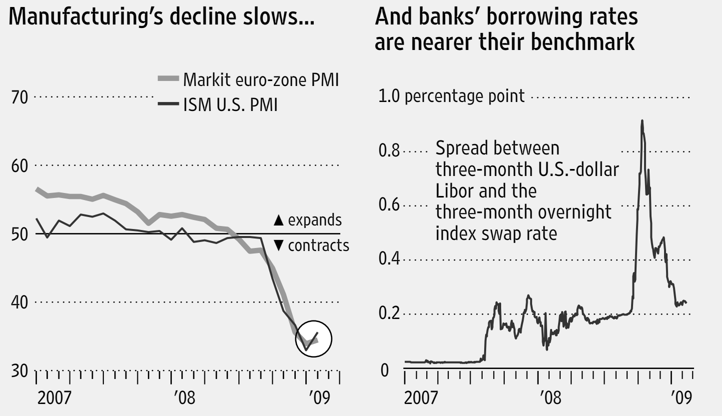
But there are remote signs that business confidence and activity may be stabilizing and that the fourth quarter may have been the worst, at least for some economies.

In the U.S., the Institute for Supply Management's January survey of manufacturing purchasing managers ticked up to 35.6 in January from 32.9 in December. The January level still implies deep pessimism among purchasing managers, but the small increase for the month suggests their outlook could be stabilizing at low levels.

A similar measure for the euro-zone manufacturing sector, the Purchasing Managers Index from Markit Economics, also nudged up in January to 34.4 from December's record low of 33.9. Though it was the first time the measure rose since August 2008, it remains well below the 50-point level separating expansion from contraction. China's official purchasing managers' index also staged its second monthly rise in January.

Glimmers of hope

Purchasing-managers indexes showed activity contracting a bit less, while the gap between interbank loan rates and the expected average federal-funds rate over the next three months has narrowed



Sources: Markit Group; Institute for Supply Management via Thomson Reuters; Thomson Reuters

Aigrain tenders resignation at Swiss Re

By Liam Pleven

Jacques Aigrain offered to resign as chief executive of **Swiss Reinsurance** Co., a week after the giant reinsurer got a $2.6 billion capital infusion from billionaire Warren Buffett's **Berkshire Hathaway** Inc., according to people familiar with the matter.

The Zurich-based firm is expected to announce Thursday that Stefan Lippe, an Aigrain deputy and the onetime chief underwriting officer for the world's second-largest reinsurer by premiums, will assume the top post.

The move comes as Swiss Re, like other large financial firms, is being battered by losses amid the global financial crisis. The company warned last week that it will report a loss of about one billion Swiss francs (about $865 million) for 2008, and Standard & Poor's put the firm's credit rating on watch for a possible downgrade.

Mr. Aigrain, a former banker at J.P. Morgan Chase & Co., came to Swiss Re in 2001 and got the top job in 2006. He helped engineer the purchase of General Electric Co.'s reinsurance business, expanding the firm significantly.

Under Mr. Aigrain, the company, whose core reinsurance business involves selling policies to other insurance companies that protect them against losses, moved into potentially more-risky investment-banking-style activities in recent years. Swiss Re became a pioneer in the newfangled arena of so-called insurance securitizations.

The firm's foray into selling credit-default swaps, a form of insurance against losses on other investments, has been particularly problematic. Swiss Re has recognized about six billion francs in losses on the swaps and other activities in 2008.

Mr. Buffett agreed last week to inject money into Swiss Re, helping bolster the company's capital and giving the billionaire investor a high-yielding bond that can be converted into stock in three years. If converted, Mr. Buffett's Berkshire Hathaway Inc. would hold 20% of the company.

CORRECTIONS & AMPLIFICATIONS

Shuanghuan Automobile Co. Vice President Cheng Bin says the heat wasn't turned off at the company's headquarters in Shijiazhuang, China, during an interview for an article on Chinese auto makers that was published Feb. 5. The article claimed that the heat was turned off to save costs, but the Journal didn't verify the information with the company.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Rio Tinto strikes a deal to sell debt, mine stakes

Chinalco will pay $19.5 billion in cash for 18% future stake

By Dana Cimilluca

Ailing mining giant **Rio Tinto** is set to disclose Thursday a landmark $19.5 billion cash infusion from **Aluminum Corp. of China**, a deal that would infuse the debt-laden mining company with the largest-ever corporate investment by a Chinese company.

According to people familiar with the transaction, Aluminum Corp. of China, known as Chinalco, would make a $7.2 billion investment in bonds that convert into Rio shares at prices well above current stock prices in London and Australia. Chinalco would also invest $12.3 billion in Rio iron-ore, copper and aluminum assets under terms of the deal, those people said.

The investments, along with an existing investment, eventually would allow Chinalco, of Beijing, to hold an 18% stake and eventually seat two board members at the world's third-largest mining company.

Rio said in a statement late Wednesday in London after details of the deal leaked that it is in negotiations with Chinalco "which may or may not lead to any agreement being reached." Its shares rose Wednesday 3.5%, or 66 pence, to 1,969 ($28.26) on the London Stock Exchange. They were up 6% to 52 Australian dollars (US$34.04) in Sydney.

Analysts expect a multi-billion asset writedown related to the Alcan deal.

The proposed deal is a stark reminder of China's growing global financial muscle and its continued thirst for natural resources needed for the production of steel and other materials. China's banks, which may help finance the deal, have escaped the credit crisis with much less damage than their western counterparts.

For Rio, the deal is the latest sharp turn on a year-long roller-coaster ride. It paid $38 billion to acquire Canada's **Alcan** Inc. in late 2007, a bet on growing demand for aluminum at a time when booming demand for metals thrust Rio into the spotlight. Soon after, a hostile bid from rival **BHP Billiton** helped drive its valuation to well over $100 billion.

Then, an abrupt dropoff in demand caused metals prices to sharply plummet. The BHP Billiton deal collapsed. Saddled with nearly $40 billion in debt, largely from the Alcan acquisition, the company has pursued a variety of options in search of emergency funding to stave off its debt problems. It had hoped to raise cash through asset sales to other companies, but a dismal environment for mergers and acquisitions made that all but impossible.

Rio hopes details of the investments will calm investors nervous that it would strike a sweetheart deal with the Chinese company. It will point to the conversion price on the bonds and the price Chinalco is paying for the other assets as evidence that the deal is better than the alternative: a heavily discounted share sale known as a rights issue. Rio will also argue that it is not giving up control of any of its businesses in the deal.

Chinalco is already a shareholder in Rio, having teamed with Alcoa Inc. of the U.S. last year in a $14 billion joint purchase of a 9% stake. That move, at the time, represented China's single largest corporate investment abroad.

The problems from Rio's Alcan deal are not in the past. Analysts expect Rio will announce a multi-billion asset write-down related to that deal when it releases earnings on Thursday.

Rio faces $8.9 billion of debt coming due in October. Rio decided to press forward with the deal, in spite of opposition from Chairman-designate Jim Leng, to settle concerns over its debt and cushion the company against further declines in demand for its products. Mr. Leng, who favored a rights issue, abruptly stepped down Sunday before taking up his post because of the dispute.

The Chinalco deal is not without risks for Rio. Australian regulators must give Chinalco the green light to raise its ownership to 18%. Perhaps more difficult for Rio Chief Executive Officer Tom Albanese and Chairman Paul Skinner, they must win over Rio shareholders, who also must sign off on the deal.

The deal could discourage future acquirers of the company and hamper its ability to negotiate price increases with Chinese customers, some analysts warn. A number of analysts have argued that Rio shareholders should have the ability to participate in any capital increase through a rights issue.

Other U.K. companies receiving big foreign investments, without including their shareholders, have faced criticism. **Barclays PLC** was forced last year to modify the terms of a cash injection from Middle East investors after the bank's shareholders complained of being shut out of the deal.

For Messrs. Albanese and Skinner, the issue is particularly sensitive. They had played down the need for a rights issue and had vigorously rebuffed BHP's advances. A Rio shareholder veto could put pressure on Mr. Albanese. Mr. Skinner has already said he would step down.

DAILY SHARE PRICE

Rio Tinto

On the London Stock Exchange
Wednesday's close: **£19.69, up 3.5%**
Year-to-date change: **up 32%**

Source: Thomson Reuters Datastream

French state shelters economy

By Sebastian Moffett

PARIS—France has long resisted textbook free-market economics—and it's weathering the downturn slightly better than its neighbors as a result.

Figures due to be released by the government Friday are expected to show that France, unlike other European economies—including Germany, the U.K., Italy and Spain—didn't fall into recession during the second half of 2008. Recession is commonly defined as two consecutive quarters of contracting GDP, and France's economy—unlike those of its neighbors—grew slightly in the third quarter.

To be sure, the picture isn't rosy. The government is expected to report that fourth-quarter GDP declined by around 1%, some economists estimate. The government also will release revised third-quarter figures.

The number of unemployed rose 2.2% in December from the previous month to 2.1 million. The most recent national unemployment rate, for November, was 7.9%.

The International Monetary Fund forecast that France's economy will shrink a little more than 1% over 2009 and 2010—half the contraction predicted for Germany and the U.K. More optimistic forecasts in December by the Organization for Economic Cooperation and Development also put France ahead of other big European economies.

Some economists say France is being cushioned by its bloated public sector and because it doesn't rely on a sole segment of its economy for growth. The Germany and Japan economies, in contrast, rely on exports to grow.

"France doesn't have a big problem of its own at the moment," says Nicolas Véron, a research fellow at Bruegel, a Brussels think tank. "It has traditionally been seen as a weakness that it doesn't have sector specialization. But in the current circumstances it is not a bad thing."

A large number of French people are employed by the government. Public spending was equivalent to 52.4% of GDP in 2007, according to the OECD, compared with 44.1% for Germany and 44.4% for the UK. The U.S. equivalent was 37.4%.

For years, economists have blamed France's substantial public sector—along with heavy regulation—for holding back growth. The French economy averaged 1.9% annual growth from 2002 to 2007, compared with 2.7% for the U.K.

Amid today's world-wide slowdown, the French recipe doesn't look so bad. Because most governments seldom shed workers quickly—particularly during a downturn—a bigger public sector means that a country's overall wages—and, thus consumption—tend to hold up.

President Nicolas Sarkozy, who pledged to make the country's economy more nimble, has made limited progress. France's social benefits still reach extraordinary lengths. For example, many entertainers, such as actors, qualify for enhanced unemployment benefits. Because their work often is irregular—some engagements are for just a single production and others for the summer festival season—the government helps smooth over bumps in their pay. About 100,000 people, ranging from circus performers to cameramen, have qualified as "intermittent show business workers." In 2005, the government spent more than €1.2 billion ($1.55 billion) on benefits for them.

Beyond high public spending, other practices that some economists considered hindrances to French growth now are credited with sparing the nation's economy an even worse hit.

French banks are relatively cautious and demand hefty downpayments before lending money to buy property. Though French house prices are forecast to decline in the coming year, the fall is expected to be modest compared with countries such as the U.K., where banks loaned more readily. France has far less consumer and mortgage debt than the U.K.

Also, France has big companies in different sectors, such as autos and pharmaceuticals. Countries dominated by a single sector—manufacturing in Germany, finance in the U.K.—face sharper downturns.

Economists warn that there is a long-term caveat to France's practices. When the world economy eventually recovers, France will return to a pattern of slower growth, says Laurence Boone, an economist at Barclays Capital.

"France will benefit less from the rebound in exports" than Germany, she said. "You can't say that the French model is better."

CORPORATE NEWS

Anheuser's creative czar will step down

Brewing giant won't replace veteran who pushed many celebrated beer ads; Madison Avenue takes notice

SUZANNE VRANICA

ADVERTISING

The driving force behind some of America's most celebrated beer ads, including TV spots featuring Louie the Lizard and the Whassup campaign, is stepping down from his post at **Anheuser-Busch InBev** by the end of the month.

"I've chosen to move on and explore new challenges," says Bob Lachky, chief creative officer of the brewer's U.S. arm and a 20-year marketing veteran. The 55-year-old Mr. Lachky won't be replaced, as Anheuser takes a more decentralized approach to marketing.

Bob Lachky

His exit follows InBev's $52 billion purchase of Anheuser-Busch, a deal that created the world's largest brewer by sales. Since the pact was proposed last year, Madison Avenue has been buzzing about how the new ownership would affect Anheuser's creative firepower, its agency relationships and its ad budget. Anheuser spends about $500 million annually on ad time and space in the U.S.

Mr. Lachky says the new ownership has nothing to do with his exit and was something he has been thinking about for a year. It's a "generational transition," says Dave Peacock, president of Anheuser-Busch, the brewer's U.S. unit.

Still, the impact on the company's often award-winning advertising has yet to be seen. "Anytime you are moving players, there is a bit of risk you won't be able to do advertising as well as you have," says Allen Adamson, a managing director at Landor, a branding firm owned by **WPP**. "Having a client that knows how to motivate an ad agency is half the battle."

Over the years, Mr. Lachky has helped make Anheuser one of the most prolific marketers in the U.S., with the help of ads featuring party dog Spuds MacKenzie and the brewer's Clydesdales, as well as the Real Men of Genius campaign and "Dude," in which a young man repeatedly uses the catchphrase in reaction to whatever befalls him. Mr. Lachky is also known as the king of the Super Bowl, whose ad polls the brewer often wins.

Mr. Lachky's exit is likely to send chills down Madison Avenue, since executive changes in corporate marketing departments often result in changes to the roster of agencies a marketer uses. Mr. Lachky is most closely tied to **Omnicom Group**'s DDB, the brewer's lead agency, which has been the top shop on the lucrative account since 1994. The relationship between the two is seen as one of the most successful tie-ups in the advertising business.

The brewer says that no changes are planned because of Mr. Lachky's departure. "DDB is an extremely valued partner," Mr. Peacock says.

Despite his loyalty to DDB, Mr. Lachky has always used several agencies for ad work. Anheuser currently works with firms such as **Havas**'s Euro RSCG and Omnicom's Goodby, Silverstein & Partners. Mr. Lachky recently added **Interpublic Group**'s Deutsch to the brewer's ad roster.

Mr. Lachky isn't the first marketing honcho to leave the brewer since the takeover by InBev. Late last year, Tony Ponturo, a 26-year Anheuser veteran and vice president for global media and sports marketing, left the company.

The move sparked speculation in ad circles that the new owner could dismantle Anheuser's in-house media arm, dubbed Busch Media, and give the duties to a Madison Avenue media-buying firm. A spokesman for the brewer says it isn't planning on moving the media duties.

Mr. Lachky isn't leaving Anheuser empty-handed. He was poised to earn $19.5 million from the exercise of stock options and the sale of restricted stock as part of InBev's $70-per-share purchase of Anheuser, according to an Anheuser regulatory filing in October. Leaving involuntarily or through a "constructive termination" within two years of the deal's closing would entitle him to a $1.4 million severance payment, according to the filing. Mr. Lachky also earned various bonuses as an officer upon closing of the deal.

—David Kesmodel contributed to this article.

Associated Press

Party dog Spuds MacKenzie, featured in a 1987 Bud Light TV spot. The campaign was among Bob Lachky's many ad successes.

Peugeot to cut up to 12,000 jobs

BY LEILA ABBOUD AND DAVID PEARSON

Two days after pledging to protect jobs in France as a condition of receiving a massive aid package, French car maker PSA **Peugeot-Citroën** said it would cut its global work force by as many as 12,000 jobs this year.

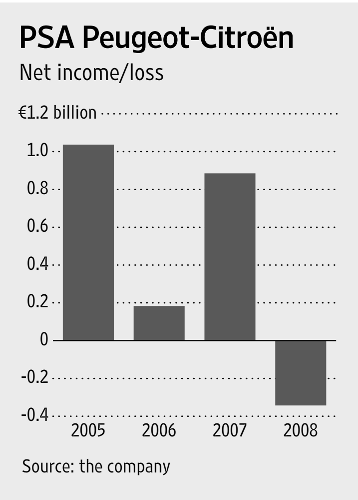
French President Nicolas Sarkozy said Monday that the government would give a five-year, €3 billion ($3.86 billion) low-interest loan to Peugeot-Citroën to help it weather the economic crisis. In exchange, the company pledged not to close factories or fire workers in France for the duration of the loan.

Yet in announcing a net loss of €343 million for 2008 Wednesday, Peugeot-Citroën Chief Executive Christian Streiff outlined plans to trim jobs to cope with an expected 20% drop in European auto sales this year.

The move could put Europe's second-largest car company on a collision course with the French government—and many of France's neighbors.

To honor its commitment to Mr. Sarkozy, Peugeot-Citroën said the departures would be done on a voluntary basis, with buyouts offered to French workers. The company said about 6,000 to 7,000 of the job cuts will come in France, which is home to more than half of its global work force of 207,000.

Yet nothing bars Peugeot-Citroën from resorting to compulsory layoffs outside France; the company has plants in the Czech Republic and Slovakia that it opened in recent years to take advantage of lower labor costs and taxes.



Mr. Streiff's job-cut plan could further inflame a conflict brewing among European car-making countries, which think France is unfairly protecting local companies. Germany, the Czech Republic, and Sweden have raised concerns that the French auto package was too protectionist. European Union officials Tuesday asked the French government for clarifications as to whether the measures violate the region's strict competition rules. A review could take months.

Mr. Streiff also risks raising the ire of Mr. Sarkozy. "He signed a commitment and I will make sure that it is respected," said the French president, while on a trip in Kuwait. "There is even a clause that says that if the commitments aren't respected, the interest rate at which the government lends will be raised."

Peugeot-Citroën's 2008 net loss of €343 million compared with a 2007 net profit of €885 million. The loss, which analysts hadn't expected, reflected €917 million in total charges, including depreciation of assets and restructuring costs at the automotive division. Revenue fell by 7.4% to €54.36 billion from a restated €58.68 billion in 2007. In Paris, shares in Peugeot-Citroën fell 2% to end at €14.10.

Auto-parts supplier Faurecia, which is 71%-owned by Peugeot-Citroën, helped dragged down results. The Paris-based car maker took a €431 million charge linked to Faurecia, which like many auto-parts companies, has been hit hard by the downturn. Faurecia announced Tuesday that it would launch €450 million capital increase, which Peugeot-Citroën will guarantee.

The losses come even though Mr. Streiff piloted a two-year cost-cutting program to wring €1.4 billion of expenses out of the business. The economic crisis, which has made consumers skittish about buying big-ticket items like cars, washed out the impact of this belt-tightening.

H&M names family heir, 33, as CEO, succeeding Eriksen

BY OLA KINNANDER

STOCKHOLM—**Hennes & Mauritz** AB said Wednesday that the 33-year-old son of the company's majority owner and grandson of the founder will take over as chief executive in July.

Many analysts had expected Karl-Johan Persson to eventually become chief executive of the fashion chain but said the timing was earlier than expected. He'll succeed Rolf Eriksen, who is retiring this year, as previously announced.

Karl-Johan Persson is the grandson of Erling Persson, who founded H&M in 1947. Karl-Johan Persson is also the son of Stefan Persson, 61, who is H&M's chairman and main shareholder. The Persson family owns 36.8% of the company's capital stock and 69.3% of the votes.

The younger Mr. Persson, who has worked for H&M in an operational role since 2005, has been a member of the board since 2006 and currently heads the company's expansion and business-development segment.

Stefan Persson said in an interview that his son has helped establish H&M in new markets, including negotiating contracts for new stores. Karl-Johan has also helped develop new businesses, such as the more-upscale fashion chain Cos, which opened its first boutique in 2007, in London, his father said.

"There won't be a revolution" with Karl-Johan at the helm, he said. "But what's good for shareholders is that the company will get an engaged owner as leader. That lays the ground for the company being handled responsibly long-term without the temptation of the 'quarter-by-quarter mentality', which is the case at so many companies nowadays." he said.

The Sweden-based company is the world's third-largest fashion retail chain by sales after U.S.-based **Gap** Inc. and Spain's **Inditex** SA.

H&M's plan to open 225 new stores this fiscal year remains in place, Stefan Persson said. He reiterated what has been H&M's mantra the past few months: the economic downturn is hurting sales but less so than for many of its competitors thanks to the retailer's low-price profile. The downturn is also creating new opportunities for it to gain market share and find store space in attractive locations.

"We're convinced we'll emerge stronger out of this downturn," Stefan Persson said.

Kaupthing Bank analyst Peter Wallin said the fact that Karl-Johan has worked with H&M's new business segment "indicates that the company will continue to be very open to broadening its business," as it has been under Mr. Eriksen.

Next week H&M is launching a new home-textile business.

CORPORATE NEWS

Sanofi sees growth through acquisitions

Drug maker's profit is dented by charges while sales rise 2.6%

BY JEANNE WHALEN

French drug company **Sanofi-Aventis** SA will seek small-to-mid-size acquisitions to boost its drug development and diversification, but isn't seeking a large acquisition akin to **Pfizer** Inc.'s $64 billion deal to buy **Wyeth**, Sanofi's new chief executive said Wednesday.

Christopher Viehbacher, who took over as CEO in December, outlined his strategy for the first time as Sanofi reported a 76% fall in net income in the fourth quarter, mostly because of €1.43 billion ($1.84 billion) in charges the company took after scrapping development of two cancer drugs and settling a patent dispute with **Barr Pharmaceuticals** Inc. Excluding the charges, adjusted net income rose 14% to €1.63 billion.

Attention has been focused on Sanofi since the Pfizer-Wyeth deal, as Sanofi has been seen as the next drug company most likely to seek a large acquisition. Several of Sanofi's biggest drugs will face generic competition and lose sales in the next few years, and Mr. Viehbacher acknowledged Wednesday the company doesn't have enough new drugs in development at the moment to fill that gap.

To deal with that, Mr. Viehbacher wants to target more modest deals to increase Sanofi's presence in generic drugs, nonprescription medicines and vaccines, boost business in emerging markets and acquire new prescription drugs. He defined small acquisitions as those valued at as much as €5 billion, and mid-size acquisitions at as much as €15 billion.

Asked at a news conference whether he would consider a larger deal, Mr. Viehbacher said, "You can never say never, but it's certainly not my area of focus at the moment."

In the fourth quarter, Sanofi's sales rose 2.6% to €7.09 billion from €6.91 billion a year earlier, helped by the U.S. dollar's strengthening against the euro.

Reuters

CEO Christopher Viehbacher said Sanofi's generic-drugs investment would mostly focus on emerging markets, dodging fierce competition in the U.S.

Mr. Viehbacher said Sanofi will seek growth by buying and licensing more drugs from outside biotechnology companies, and by boosting the company's investment in generic drugs, nonprescription medicines and vaccines, which tend to show more stable long-term growth than the branded prescription drugs made volatile by the expiration of patents. Sanofi's investment in generic drugs would primarily focus on emerging markets, dodging fierce competition in the U.S. generics business, he added.

Mr. Viehbacher promoted Sanofi's chief financial officer, Laurence Debroux, to the new post of chief strategic officer and said the company would name a new chief financial officer in the next few weeks. Mr. Viehbacher also announced the hiring of Elias Zerhouni, former director of the National Institutes of Health in the U.S., to serve as scientific adviser to the CEO and Marc Cluzel, Sanofi's head of research and development. Dr. Zerhouni will help carry out a review of the company's drug development to be sure Sanofi is focusing on only the most promising projects, Mr. Viehbacher said.

In an interview, Mr. Viehbacher said he would like as many as half of Sanofi's drugs in development to eventually come from outside companies, versus about 10% today. He said he also expects Sanofi's total research-and-development spending to fall as a percentage of sales over time, from a current level of about 16%.

ArcelorMittal posts loss

Steelmaker to cut more jobs, dividend as demand bottoms

By Robert Guy Matthews

Hurt by the steep fall-off in demand for automobiles, appliances and construction, the world's largest steelmaker, **ArcelorMittal**, swung to a $2.6 billion loss in the fourth quarter, cut an additional 9,000 workers and halved its dividend even as it predicted some tightening in the market by the middle of the year.

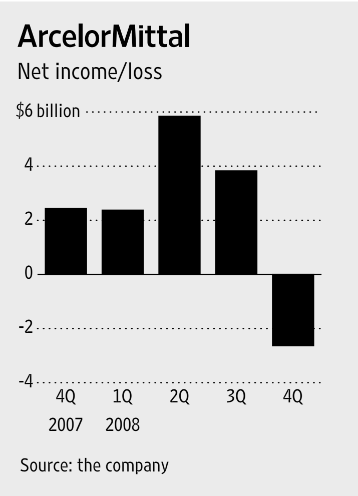
"I think we will see some technical shortage in the second quarter," Lakshmi Mittal, ArcelorMittal's chief executive officer, said in an interview. Steel inventories in the U.S., where nearly every major steel company has shuttered steel production lines, have just about hit bottom and existing demand will likely prompt prices to creep up, he said.

China, he said, has already seen prices for some steel products climb by about $100 a metric ton, or about 20%, since the beginning of this year.

Demand for iron ore, the key ingredient in the production of steel, is finally climbing higher, he said. Mr. Mittal predicted that China, the U.S. and emerging markets such as India should be the first parts of the world for demand for steel products to recover. Africa and Europe, though, should be the last areas to recover.

Agence France-Presse

ArcelorMittal CEO Lakshmi Mittal, shown Wednesday in Luxembourg, said steel product prices could tighten soon. The steelmaker disclosed a loss and job cuts.



Source: the company

To conserve cash until the market rebounds, ArcelorMittal laid off 3%, or 9,000 additional workers, and cut its 2009 dividend by 50% to 75 cents, reversing its pledge last year to maintain a $1.50 dividend. This week, about 1,000 of ArcelorMittal's steelworkers and their union protested the job cuts and vowed to fight further reductions.

ArcelorMittal, of Luxembourg, posted a loss of $2.6 billion in the final three months of 2008, compared with net income of $2.44 billion, or $1.72 a share, a year ago. The latest quarter includes $3.1 billion in after-tax items related to write-downs of inventory and raw material supply contracts, and provisions for work-force reductions and litigation.

Sales in the fourth quarter fell 21% to $22.09 billion from $28 billion. About 45% of the company's steel production had been cut in the quarter because of slack demand.

Mr. Mittal said that the company's priority is to reduce debt, much of it accumulated over the years as ArcelorMittal went on a buying binge.

In the fourth quarter, the steelmaker reduced its net debt by $6 billion to $26.5 billion. Mr. Mittal said that through further reductions, including capital expenditures and work-force cuts, another $4 billion in debt reduction is "easily achieved."

While commodity companies across the world are laying off workers, some miners, steelmakers and copper companies are contemplating buying distressed rivals, using the cash amassed through the first nine months of 2008, when the world's economy was red-hot and prices from everything from iron ore to aluminum to steel were hitting historic highs.

BHP Billiton, the world's largest miner, said that it was in the market to buy additional assets in Australia or South America. **Freeport McMoRan Copper & Gold** Inc. has also indicated that it wanted to expand its portfolio to take advantage of companies with high costs.

Rio Tinto, the world's third-largest miner, is in financial trouble and eager to sell off some assets to raise cash. On Thursday, the company reports its earnings but is also expected to announce some asset sales. Aluminum maker **Alcoa** Inc. which posted a $1.19 billion fourth-quarter loss is also trying to sell assets.

Mr. Mittal didn't rule out buying during this economic downturn.

"If you look at valuation of some assets, they are very attractive. The question is whether you can buy it at these prices and should we invest in buying or conserve more cash."

—Alex McDonald contributed to this article.

Credit Suisse posts loss but has upbeat outlook

By Katharina Bart And Gojan Mijuk

ZURICH—**Credit Suisse Group** swung to a fourth-quarter net loss, hit by major trading losses and 3.19 billion Swiss francs ($2.75 billion) in write-downs on structured products and big buyout loans.

The Zurich-based bank's net loss was 6.02 billion francs, down from a net profit of 540 million francs a year earlier. Credit Suisse, which unlike crosstown rival UBS AG hasn't accepted Swiss government assistance in coping with the financial crisis, gave an upbeat outlook Wednesday. Chief Executive Brady Dougan conceded the bank "didn't do everything right by any means" in 2008, but voiced optimism about 2009, which the bank says has seen a strong and profitable start across all divisions.

Still, Credit Suisse lowered or pushed back several targets, including its return-on-equity goal, which was cut to 18% from 20% previously.

Analysts said they were taken aback by Credit Suisse's trading losses, which Bernstein Research said were much steeper than warned in December. The bank incurred losses in almost every trading sphere, saying that many of its hedging instruments—such as credit default swaps that should have shielded it from losses on bonds—failed to provide it with the necessary protection as markets for these instruments dried up.

Net revenue swung to a 4.47 billion-franc loss from a year-ago 8.13 billion-franc surplus, as Credit Suisse racked up far wider trading losses—6.74 billion francs from minus 721 million francs year earlier. Expenses added to woes, rising 5% to 6.39 billion francs.

In December, the bank had flagged the loss after it lost three billion francs through November, alongside staff cuts of more than 10% of its overall work force as it trimmed credit and structured-product departments as well as proprietary-trading desks.

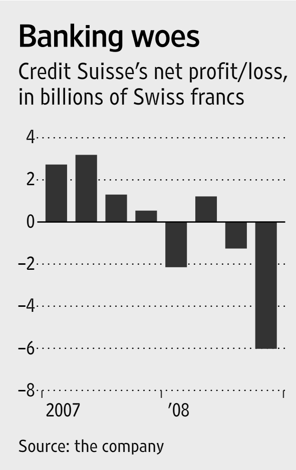
The restructuring came as Credit Suisse sought to aggressively limit exposure to risky assets.

The bank's leveraged-loan book was trimmed sequentially to 900 million francs in the quarter from 11.9 billion francs, while residential mortgages and subprime collateralized debt obligations were scaled back to 5.1 billion francs from 6.8 billion francs in the third quarter. Commercial mortgage holdings fell to 8.8 billion francs from 12.8 billion francs.

Unlike UBS, which is only now beginning to stanch massive outflows as wealthy clients exit, Credit Suisse's private bank has been largely resilient through the financial crisis, albeit posting lower revenue because of falling asset values and as clients unwind leverage.

Net new money in the unit was two billion francs for the quarter, which Helvea analyst Peter Thorne termed disappointing.

Credit Suisse joins European rivals Deutsche Bank AG, which last week swung to a €4.8 billion ($6.18 billion) loss, and UBS, which Tuesday posted the largest annual loss in Swiss corporate history.



Source: the company

Brady W. Dougan, CEO of Credit Suisse

Associated Press

Danone profit, dairy volumes slip

By Aaron O. Patrick

U.S. consumers cut back on purchases of yogurt and other dairy products at the end of last year, **Groupe Danone** SA said—a worrisome trend for a global food industry that is focusing on developing healthy, more expensive food.

Danone said the fourth-quarter "marked slowdown" in the U.S. affected almost all of its dairy brands, which include la Crème yogurt and DanActive drinks.

By pushing up prices, however, Danone was able to increase revenue 3.5% in its fresh-dairy division, which is the company's biggest.

The Paris-based company Wednesday reported that full-year net profit fell 69% to €1.3 billion ($1.67 billion), in large part because of a gain it booked in 2007 on the sale of its cookie division to Kraft Foods Inc. That move was designed to reduce Danone's reliance on less-healthy products.

Sales increased 19% to €15.2 billion. Danone said it expects profit to increase 10% this year, excluding the affect of acquisitions and currency changes.

Danone didn't break out revenue or volume figures for the U.S. The company said total unit sales of yogurt and other products from its fresh-dairy division fell 0.3% in the fourth quarter.

Some analysts said the results were good, given the global recession. But investors appeared worried by the dairy sales; Danone shares closed 4% lower Wednesday in Paris.

Total fourth-quarter sales rose 10.4% to €3.68 billion, driven in part by the 2007 acquisition of baby-formula maker Koninklijke Numico NV. Like many European companies, Danone doesn't break out quarterly profit.

BlackBerry maker trims net view

BlackBerry maker **Research In Motion** Ltd. warned investors Wednesday to expect quarterly earnings at the low end of its forecast, despite strong subscriber growth, providing further evidence that RIM's drive to gain market share is eating away at its margins.

RIM shares were down $9.38, or 17%, to $47.66 in midafternoon trading on the Nasdaq Stock Market.

RIM's efforts to churn out a new slate of BlackBerry devices such as the touch-screen Storm and the high-speed Bold attracted more subscribers, allowing the Waterloo, Ontario, company to say it will beat by 20% its projection of 2.9 million additions in the quarter.

But the costs of rolling out and marketing those new devices ate into margins. The company projected per-share earnings for its fiscal fourth quarter, which ends Feb. 28, at the low end of its expected range of 83 cents to 91 cents.

Pirelli plans to restructure, raising capital, cutting jobs

By Jennifer Clark

MILAN—Tires-to-real-estate company **Pirelli & C.** SpA announced a capital increase of up to €400 million ($515 million) for its real-estate unit and said it would cut 2,000 jobs world-wide as it unveiled a three-year restructuring plan that aims to boost profitability.

The company said it will convert some of the €490 million in debt it is owed by Pirelli Real Estate into equity and will buy up any shares not bought by the unit's shareholders. Pirelli holds a 58% stake in **Pirelli & C. Real Estate** SpA. Marco Tronchetti Provera, Pirelli's chairman, chief executive and main shareholder, said the company doesn't plan to delist the unit should it end up holding a much larger stake.

Pirelli also said it is cutting 1,500 jobs at its tire unit, Pirelli Tyre, and 500 at its real-estate unit. At the end of 2007, Pirelli had a global work force of about 30,000. The tire unit also said it aims to save €300 million in the next three years with staff cuts, new raw-materials contracts and energy conservation.

Pirelli said it wants newly developed products—such as special car-exhaust filters that reduce pollution from diesel engines—to generate a larger share of total revenue.

"This year will be tough, but we believe we can increase margins even though revenue will fall by 7%," said Francesco Gori, CEO.

CORPORATE NEWS

Telenor and TeliaSonera warn of challenging year

By Gustav Sandstrom

STOCKHOLM—Nordic telecommunications operators **Telenor** ASA and **TeliaSonera** AB on Wednesday posted rising fourth-quarter sales but warned that slowing consumer spending might hit their businesses in the coming year.

"The telecom sector has so far been less affected by the global economic slowdown than other industries. However, we expect a more challenging business environment going forward," said Telenor Chief Executive Jon Fredrik Baksaas.

For the quarter ended Dec. 31, Norway-based Telenor reported an 11% increase in sales to 26.36 billion Norwegian kroner ($3.89 billion). However, net profit fell 71% to 2.21 billion kroner from 7.63 billion kroner, hit by foreign-exchange losses on Russian associate OAO **Vimpel Communications**' loan portfolio.

The company in the fall announced plans to buy a 60% stake in Indian mobile operator Unitech Wireless for $1.07 billion and said the deal will marginally increase revenue in 2009.

Meanwhile, Stockholm-based TeliaSonera posted a 26% rise in fourth-quarter net profit to 5.64 billion Swedish kronor ($683 million), up from 4.47 billion kronor a year earlier. The results were helped by a 13% sales increase to 28.1 billion kronor and stronger income from its associated companies OAO **MegaFon** and **Turkcell**.

TeliaSonera predicted rising sales in local currencies in 2009, but said currency fluctuations may hit the reported figures in Swedish kronor. It cautioned that it needs to "be prepared for a potentially drawn-out economic downturn that may affect consumer and corporate behavior."

Merrill Lynch said both companies' fourth-quarter results were fine but expressed long-term concerns for both stocks because of the operators' exposure to challenging markets, including Russia, Ukraine and Kazakhstan.

European telecommunications companies have proved relatively resilient amid the downturn as the defensive aspect of the cash-generative sector and assured dividend payouts have afforded some shelter from an unpredictable market.

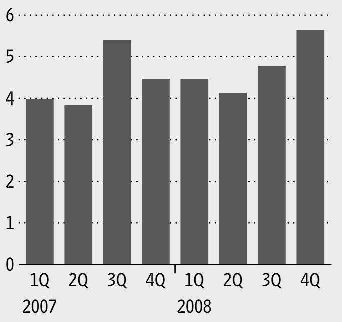
Still, even big competitors aren't immune to the global slowdown.

Vodafone Group PLC, the world's largest mobile operator by sales, said earlier this month that European organic revenue declined 2.8% in the company's third quarter and added that it experienced a marked slowdown in Turkey, but still reiterated its underlying full-year forecast.

Netherlands-based **KPN** NV in late January reported a drop in fourth-quarter net profit, but improved its cash flow and maintained its outlook for 2010. The next major incumbent, **BT Group** PLC, is to report third-quarter earnings Thursday.

Strong signal

TeliaSonera's net profit, in billions of Swedish kronor



Source: the company

British Airways and Iberia near decision about merger

By Christopher Bjork And Daniel Michaels

MADRID—**British Airways** PLC and **Iberia Líneas Aéreas de España** SA are poised to decide whether to go ahead with their proposed £3.16 billion ($4.59 billion) merger, according to people familiar with the situation.

When the board of the Spanish carrier meets Thursday it will have a fresh proposal on the table that could speed up the process, a person familiar with the matter said.

Such a proposal would include a new, tighter range on how to split shares in the combined company, and would outline a corporate-governance structure that would give the two carriers roughly the same power. The hope is that the new proposal will allow British Airways to give the nod or walk away from a deal as soon as possible.

An Iberia spokesman confirmed the board is to meet in Madrid Thursday for an update on the merger talks. BA's board was meeting Wednesday, and a BA spokeswoman said talks with Iberia "are progressing" but declined to comment further.

According to people familiar with the talks, negotiations on who would run the merged company are taking shape. Under terms being discussed, Willie Walsh, BA's chief executive, would have a leading role, the people familiar with the talks said. A dual structure with two CEOs is an option, they said.

BA hopes to make a decision before its investor day planned for March 5, a person close to the talks said. Pressure has been mounting on both sides to either conclude or terminate the talks they announced in July for an all-share merger.

At the time, BA investors expected to get at least 65% of the combined company, but BA's shares have fallen sharply since then, while Iberia's have been less volatile. In recent weeks, Iberia has even surpassed BA in market capitalization. As a result, Iberia's shareholders have pressed for a bigger portion of the merged entity.

BA's pension-fund deficit of £1.74 billion, a stumbling block for Iberia early in the talks, has become less of a problem, executives from both carriers have said.

Under current plans, each carrier would continue to operate with separate brands, allowing the carriers to name local heads of operations in London and Madrid.

—Kaveri Niththyananthan contributed to this article.

Wal-Mart eyes Chicago

Retailing giant seeks to expand presence in U.S. city

By Miguel Bustillo

Wal-Mart Stores Inc. is mounting a new push to expand in Chicago, hoping that its promises of jobs and sales-tax dollars will prove more tempting in the recession than when city leaders first rebuffed the discount chain earlier this decade.

The world's largest retailer, which so far has been able to build only one store in the third-largest U.S. city, hopes to open a half-dozen more in the coming years, according to the company and politicians familiar with its plans. It has been heavily courting Chicago leaders and is studying a dozen potential sites.

Wal-Mart, whose stores are largely concentrated in rural and suburban markets, has long struggled to penetrate the largest American cities amid fierce opposition from politicians sympathetic to organized labor and small business groups concerned the discounter would steal sales from smaller retailers.

But the company now sees the Windy City as a potential proving ground for urban development strategies it could later bring to other resistant markets, including New York and Los Angeles.

Wal-Mart still faces many of the same obstacles it has encountered in the past—notably labor unions deeply hostile to a company known for resisting worker attempts at unionization.

Wal-Mart's renewed Chicago push comes at a time when the company's U.S. new-store expansion is slowing and it has begun to feel the drag of the recession. Wal-Mart disclosed plans Tuesday to terminate 700 to 800 workers at its Bentonville, Ark., headquarters, following similar recent moves to cut administrative staff by rivals **Best Buy** Co., **Target** Corp. and **Sears Holdings** Corp.

A Wal-Mart spokesman said the cuts in merchandising, marketing and real estate operations reflect the retailer's plans for fewer new stores and more remodeling of existing stores. As part of the restructuring, Wal-Mart said it plans to add an undisclosed number of jobs at its apparel office in New York.

The company acknowledges that opposition remains strong in Chicago, but believes it can make a better case for more stores now.

The average wage of workers in the existing Chicago Wal-Mart is more than $11 an hour. Wal-Mart claims that Chicago residents spend half a billion dollars a year at its stores outside city limits, crimping the city's tax revenue.

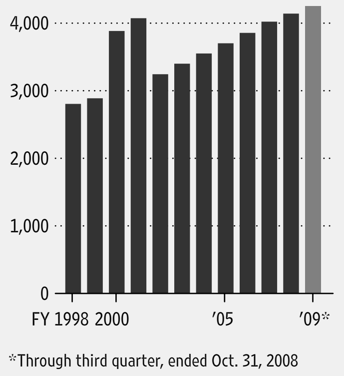
"I think people are starting to understand we can be relevant in the urban area and improve the quality of life," said John Bisio, Wal-Mart's Chicago director of public affairs and government relations. "The economy being what it is, the city and various aldermen have reached out to us to inquire about our desire to expand what we have."

Labor leaders promise to continue fighting fiercely to block the retailer. "They're trying to take advantage of an economic crisis to move into these urban markets, but the dynamics have not changed," said Jerry Morrison, executive director of the Service Employees International Union's Illinois council.

Among the locations Wal-Mart is eyeing is a site in the largely African-American South Side district of Alderman Howard B. Brookins Jr. "When we said 'no' to Wal-Mart, we could afford to thumb our nose at people because the city was flush with cash," said Mr. Brookins. "Now, that bubble has burst."

Slowing expansion

Number of U.S. Wal-Mart stores



*Through third quarter, ended Oct. 31, 2008

Source: the company

CORPORATE NEWS

TK/The Wall Street Journal

Live Nation Entertainment's Irving Azoff, left, and Michael Rapino hope to convince consumers that the merged company isn't out to gouge them.

Ticketmaster-Live Nation will get 'vigorous' review

Lawmakers ask DOJ to halt the merger of music-venue giants

By Brent Kendall

The U.S. Justice Department's antitrust division pledged Wednesday to take a close look at the planned merger of **Live Nation** Inc. and **Ticketmaster Entertainment** Inc.

Critics of the merger, which would create Live Nation Entertainment Inc., say it raises antitrust concerns because one company would gain considerable power in the live-music industry.

"The antitrust division is committed to vigorous enforcement of the merger antitrust laws and will conduct a thorough investigation of the proposed Ticketmaster/Live Nation transaction," a Justice Department spokeswoman said.

Three U.S. senators asked the Justice Department to undertake a detailed examination of the proposed deal. Sen. Charles Schumer (D., N.Y.) called on the DOJ to block the merger, saying the merged companies would control 80% of the concert-ticket market. "This level of concentration could very well mean higher prices and higher fees for concertgoers," Sen. Schumer said.

Ticketmaster CEO Irving Azoff, who will be executive chairman of the new company, said its combined resources would give it clout to bring in more corporate-sponsorship money, adding that sponsorships could help lower ticket prices.

Based on present valuations, Live Nation Entertainment Inc. would have a stock-market value of $816 million and combined debt of $1.67 billion, the two U.S. companies said. Their combined annual revenue would be about $6 billion.

AIG looks to peddle car unit

By Liam Pleven

American International Group Inc. is in talks to sell its personal car-insurance unit to **Zurich Financial Services**, according to people familiar with the matter, in what could be the biggest asset sale since AIG was bailed out by the U.S. government.

The deal for the car-insurance unit—known as 21st Century, which sells insurance over the Internet—hasn't been finalized and could still fall apart, one person cautioned. Another said the purchase price was expected to be more than $2 billion; that would be more than twice what AIG fetched for any deal done since the bailout for which a purchase price was disclosed.

AIG is selling off businesses to help repay a loan of as much as $60 billion it received from the government as part of the federal rescue and had $38.6 billion outstanding as of Feb. 4. The government initially stepped in when AIG faced potential bankruptcy in September.

AIG has struggled to complete sales at strong prices amid the financial crisis, so a successful deal for the car-insurance unit would be a step forward, particularly if it can fetch a significant amount. According to Thomson Reuters, 21st Century was valued at $1.9 billion in September 2007, when AIG bought the 39% of the company it didn't previously hold.

Zurich already owns Farmers Group Inc., which manages one of the largest personal car- and home-insurance networks in the nation, and serves more than 10 million households.

Farmers is particularly prominent in California and Texas, and Zurich has indicated an interest in expanding its personal-insurance business east of the Mississippi River.

—Dana Cimilluca contributed to this article.

GLOBAL BUSINESS BRIEFS

Publicis Groupe SA

Advertising firm's net falls; push into digital continues

French advertising company **Publicis Groupe** SA reported a 1.1% decline in 2008 net profit, but Chief Executive Maurice Levy said the company would show the best profitability in the sector in 2009. Net profit for 2008 inched down to €447 million ($576 million) from €452 million in 2007, mainly due to losses at recently closed-down Web TV channel Honeyshed and other impairment charges. Organic revenue growth—a closely watched metric in the advertising industry that strips out acquisitions, disposals and currency movements—was 1.1% in the fourth quarter, down from the 4.2% growth posted a year earlier. Mr. Levy said Publicis, which owns Saatchi & Saatchi, continues to push into digital markets and emerging markets, which should "at least partially, offset declines in other regions and activities."

Lufthansa AG

European Union regulators said they doubt **Lufthansa** AG is paying a high enough price for **Austrian Airlines** AG and that they have launched a probe into the carrier's restructuring and sale. Lufthansa plans to pay €366 million ($472 million) to buy the Austrian government's 41.56% stake in the country's struggling carrier. The deal also sees Austria take on €500 million of Austrian Airlines' debt and leaves the door open to more payments in the future. The European Commission, the EU executive branch, said it "doubts that the price to be paid by Lufthansa reflects the market price for what is being sold." It said it also suspects that the deal could violate EU subsidy rules that restrict government handouts for businesses that risk collapse as well as rules that require governments to act like normal market investors.

Advanced Micro Devices Inc.

Advanced Micro Devices Inc. failed Tuesday to gain enough shareholder votes to proceed with the spinoff of its manufacturing operations, delaying the process until next week as it waits for more investors to respond. The Sunnyvale, Calif., company, which competes with chip giant Intel Corp., has touted a spinoff of its chip-production business as a defining move to reinvent the company and focus primarily on chip design. The deal would also give AMD a cash infusion. At mid-afternoon Wednesday, AMD shares were up 5 cents at $2.16 in composite trading on the New York Stock Exchange after declining 11% on Tuesday.

Hypo Real Estate Holding AG

Hypo Real Estate Holding AG is taking a further €10 billion ($12.88 billion) in guarantees from Germany's bank rescue fund, underscoring the urgency of talks between politicians and bankers to stabilize the lender. The property financier said the additional funding took its total guarantees provided by the state to €52 billion. Hypo had to be rescued by a consortium of banks and the German government late last year with €50 billion of credit in addition to the state guarantees. Officials from the German government, the Soffin rescue fund, Hypo and its large shareholder, U.S. investor **J.C. Flowers** & Co., are wrestling with how best to prop up the lender's capital base. Flowers, which owns around a quarter of Hypo, will hold talks with the German government Thursday, a Flowers spokesman said.

Applied Materials Inc.

Applied Materials Inc. predicted worsening conditions for semiconductor makers and their suppliers, including a 50% drop this year in spending on equipment for turning silicon wafers into chips. The Silicon Valley company, besides reporting a previously projected fiscal first-quarter loss on a 36% drop in revenue, said Tuesday its revenue in the current period would likely decline 30% from the quarter just reported. Applied, the biggest seller of tools for making chips, has already responded with sharp cuts, including layoffs announced in November. On Tuesday, the company disclosed that those cuts will total about 14% of its work force, or about 2,000 workers. Applied added that it is continuing with temporary plant shutdowns, cutting the salaries of senior executives and eliminating bonuses for this year.

Reckitt Benckiser PLC

Reckitt Benckiser PLC's posted a 36% jump in fourth-quarter net profit, thanks to stronger sales and acquisitions, and, unlike rival Unilever PLC, forecast robust growth for 2009. Net profit rose to £393 million ($570 million) from £289 million a year earlier, while sales soared 33% to £1.83 billion. Stripping out the effect of acquisitions and currency fluctuations, fourth-quarter sales were up 8%, lower than the 10% rise seen in the previous quarter but ahead of expectations. Stripping out currency fluctuations, the maker of products such as Lysol and Clearasil, said it is targeting sales growth of 4% and a rise in post-tax profit before exceptional items of between 8% and 10% in 2009. The comparable figures for 2008 were growth of 13% and 12%, respectively. Anglo-Dutch rival Unilever PLC last week scrapped its sales and margin targets.

Daily Mail & General Trust PLC

U.K. publisher **Daily Mail & General Trust** PLC said Wednesday that revenue for its fiscal first quarter rose 2%, boosted by a stronger dollar and the company's business-to-business operations. In the three months ended Dec. 31, revenue rose to £568 million ($824 million). The publisher of the Daily Mail and its sister Sunday newspaper said it plans further job cuts at its regional-newspaper division, which has been hardest hit by the industry-wide advertising slump, but Chief Executive Martin Morgan declined to put a figure on the number of job losses. The company said the £100 million in cost and revenue savings it announced in November will be exceeded. Daily Mail & General Trust already shed about 480 employees, or 6% of its U.K. work force, in the three months through December.

News Corp.

News Corp. unit News International said Tuesday it is cutting about 65 jobs at its U.K. national newspaper titles. The cuts are the latest in a round of cost-saving measures and restructuring at U.K. newspaper publishers as they attempt to offset a sharp downturn in advertising revenue amid the global economic slowdown. "There will be around 65 jobs cut in the Sun, the Times, the Sunday Times and the News of the World," said a News International spokeswoman. News International also publishes the free evening newspaper thelondonpaper, which isn't affected by the job cuts. News Corp. also owns Dow Jones & Co., the publisher of The Wall Street Journal.

Sibir Energy PLC

Russian oil company **Sibir Energy** PLC said it will recoup $115.4 million by scrapping controversial deals to buy real estate from its co-owner, Chalva Tchigirinski. Sibir's shareholders will vote on Feb. 27 to cancel the real-estate deals, the company said. London-listed Sibir had earlier agreed to spend a total of $370 million to buy distressed real-estate assets from Mr. Tchigirinski in order to save him from "imminent margin calls" on bank loans secured against his shares in the company. But late last month, Sibir said it had called off real-estate acquisitions. Under the deal, Sibir has been granted power of attorney of Mr. Tchigirinski's real-estate assets as security for a $115.4 million debt advanced by Sibir to Mr. Tchigirinski.

BT Group PLC

U.K. telecommunications company **BT Group** PLC has benefited from illegal state guarantees for its pension liabilities, and must repay some £16.6 million, or $24.1 million, to the government's pension-protection fund, said the European Commission, the European Union's executive branch. The U.K. government guaranteed the pension rights of BT employees at the time of privatization, which could be called upon if BT went bankrupt and there weren't enough assets to cover pension rights. Although these guarantees in themselves aren't unlawful, they have allowed BT to be exempted from a subsequent U.K. law forcing pension funds to pay levies to a pension-protection fund. This fund guarantees pensions when sponsor companies go bankrupt.

Edison SpA

Edison SpA, one of Italy's biggest energy companies, said its net profit fell 30% last year, hit by higher taxes. Net profit dropped to €346 million ($445.8 million), down from €497 million in 2007, when earnings had been boosted by a fiscal benefit. Total revenue increased to €11.6 billion from €8.86 billion. The Milan-based company, which is controlled by **A2A** SpA and **Electricité de France** SA, said it will propose a dividend of 5 European cents a share on 2008 profit, unchanged from the year before. Edison is talking to banks to partly fund the development of the Egyptian gas field Abu Qir, which it recently won in a tender. The company is unlikely to turn to the bond market, but it hasn't ruled it out, Chief Executive Umberto Quadrino said.

Nike Inc.

Nike Inc. said it is considering a 4% reduction in its global work force, affecting about 1,400 employees, as it plans to realign operations amid the difficult economic climate. The shoe and sports-apparel company, which didn't disclose details about the possible layoffs, said it will complete the review by the end of its fiscal year in May. In December, Nike reported its fiscal second-quarter net income grew 8.8%. Sales were robust in foreign markets such as Japan and China, but were weak in the U.S. and parts of Europe. Two years ago, the Beaverton, Ore., company reorganized along global sport categories. Nike said its latest review is "an evolution of that strategy," which aims to reduce management layers, among other things.

—Compiled from staff and wire service reports.

Netanyahu, Livni vie to lead Israel

Despite narrow election loss, former prime minister seen leading in prospects of forming ruling coalition

By Charles Levinson

TEL AVIV—Former prime minister Benjamin Netanyahu narrowly lost Tuesday's parliamentary vote here to Foreign Minister Tzipi Livni. But the election boosted a collection of parties Mr. Netanyahu can tap as partners in a ruling coalition. That has analysts here predicting he, not Ms. Livni, will be asked by Israel's president to form the next government.

Mr. Netanyahu is no sure bet. He and Ms. Livni spent Wednesday courting potential coalition partners. Chief among them is Avigdor Lieberman, whose nationalist party captured third place.

During his campaign, Mr. Netanyahu singled out Iran as Israel's No. 1 foe. But if he does wind up leading Israel's next government, he may find relations with Washington another daunting challenge.

U.S. President Barack Obama's administration has signalled it will aggressively push Israel-Palestinian peace efforts. But Mr. Netanyahu and many of his potential right-leaning coalition partners have ruled out a number of compromises that Palestinians see as essential for peace, setting up a possible conflict with Washington.

U.S.-Israel relations aren't just a matter of diplomacy here, but also central to domestic politics. Most Israelis consider the U.S. the nation's lone reliable ally, diplomatically, economically, and militarily. Past Israeli leaders who have been seen to strain that relationship have been ousted by voters, including Mr. Netanyahu himself in 1999.

Associated Press

Likud Party leader Benjamin Netanyahu addresses supporters at Likud election headquarters in Tel Aviv on Wednesday.

"Whoever's in charge of the next government, the question everybody is asking, is 'How are they going to deal with Barack Obama?'" says Mitchell Barak, a former adviser to Mr. Netanyahu.

Meanwhile, Ms. Livni, who could still manage to put together a ruling coalition herself, made the issue of peace with the Palestinians, in exchange for land and a two-state solution, a central theme in her campaign. She owes her upset victory Tuesday night largely to last-minute support from voters who traditionally backed Israel's left-leaning parties.

She has emerged as Israel's leading pro-peace moderate as a result. But even if she comes out on top at the head of the next government, it will also likely depend on right-leaning parties.

State Department spokesman Robert Wood told reporters Wednesday the U.S. was looking forward to working with whatever new government is formed.

As prime minister from 1996 to 1999, Mr. Netanyahu had a rocky relationship with President Bill Clinton, according to published accounts by some of Mr. Clinton's former aides. Former Clinton officials involved in the peace process describe Mr. Netanyahu as a pragmatic politician, who wasn't ideologically opposed to peace concessions, but was unwilling to stand up to his political base.

"He was always more willing to bow to pressure from his right wing, than to pressure coming from Washington," says Martin Indyk, the U.S. ambassador to Israel during Mr. Netanyahu's first term as prime minister.

Mr. Netanyahu exacerbated tensions with the White House by meeting with Mr. Clinton's Republican foes at the height of the Monica Lewinsky scandal, a move that soured the two leaders' relationship.

Some Clinton Administration officials are now working for Mr. Obama. President Clinton's point man on Mideast peace, Dennis Ross, for example, is expected to be tapped by Mr. Obama to oversee Iran policy. Writing in his memoirs of Mr. Clinton's first official meeting with Mr. Netanyahu, Mr. Ross said, "Netanyahu was nearly insufferable, lecturing and telling us how to deal with the Arabs."

Dore Gold, an advisor to Mr. Netanyahu, says reports of strain between Messrs. Clinton and Netanyahu have been exaggerated. Mr. Gold also said Messrs. Obama and Netanyahu share common ground on several issues, including Iran. Mr. Netanyahu's aides say his two previous meetings with then-Sen. Obama went smoothly.

Recently, instead of showing open defiance in the face of U.S. peace efforts as he did in 1996, Mr. Netanyahu has been touting an "economic peace plan" that calls for bolstering Palestinians' economic fortunes, a plan he hopes the U.S. will embrace.

"Netanyahu knows that President Obama wants to pursue peace in the Middle East and he knows that Israelis will not favor a prime minister who can't handle a popular U.S. president effectively, so I think he'll want to avoid recreating similar circumstances to his last term," says Martin Indyk, who was U.S. ambassador to Israel during Mr. Netanyahu's term as prime minister.

Economic woes spur Russia's gestures toward openness

By Alan Cullison

MOSCOW—Russian President Dmitry Medvedev revived a long-dormant human-rights council and invited a handful of Kremlin critics to join, the latest in a series of small gestures toward political openness in recent weeks.

Mr. Medvedev's moves have stirred some hopes for possible relaxation of Kremlin control over society. But his mixed messages suggest a quick thaw is unlikely, and senior politicians say the Kremlin is only sharpening tools for political control in a time when economic troubles are fueling social tension.

Dmitry Medvedev

Mr. Medvedev said he was reviving the human-rights council, founded five years ago to improve the often-strained ties between government and civil society, because its advice would "help to unite people with different positions." He has often paid lip service to the idea of an open political system since he became president last year, but so far he has shown little follow-through.

The president has hewed to the policies of Vladimir Putin—whom he named prime minister. Domestic critics continue to be harassed and marginalized. Police have cracked down on antigovernment demonstrations, which have spread in recent months. Violence against opposition activists also is on the rise, human-rights groups say.

Mr. Medvedev has agreed to discuss revising Russia's laws restricting nongovernment organizations, or NGOs, at the council's first meeting this spring, according to Russian media reports.

That would mark a turnaround for Mr. Medvedev, who echoed Mr. Putin last year in suggesting that foreign-financed NGOs were spying on Russia. However, Mr. Medvedev's position could be softening. The Kremlin recently withdrew a treason bill from parliament that had been submitted by Mr. Putin's cabinet; the bill was denounced by human-rights advocates as so vaguely worded that it could have defined any government critic or worker for a foreign organization as a spy.

Mr. Medvedev also held a surprise meeting last month with the editor of Novaya Gazeta, an independent newspaper and frequent government critic, that lost a reporter last month in an apparent contract killing.

Mr. Medvedev's deportment at the meeting suggested he was unapologetic about Russia's political system. He denied the government had any influence at state-run television, which ignores the Kremlin's political opponents, and said he had remained silent about the murder for 10 days because he didn't want "my words to influence the investigation."

Still, Mr. Medvedev's expression of sympathy contrasted with Mr. Putin's response to the murder of another Novaya Gazeta reporter in 2006. Then Mr. Putin was mostly silent, and when asked to comment he disparaged the work of the journalist, Anna Politkovskaya, as "insignificant."

Some analysts say Mr. Medvedev's moves could be an effort to build an image that is independent of his patron, Mr. Putin, who continues to dominate public life. Polls show public dissatisfaction with the government is rising as Russia's economic problems worsen.

"This is why, symbolically and functionally, he is carefully trying to influence opinion now," said Dmitry Oreshkin, a political analyst who said he learned of his appointment to the human-rights panel from news reports. "They are doing it very carefully."

Committee members remain concerned that Mr. Medvedev's move is more decorative than meaningful. Mr. Putin created the council in 2004, but members complained that both Messrs. Putin and Medvedev let it languish while the government declined to confirm members.

Oleg Orlov, head of Memorial, one of Russia's most prominent human-rights groups, resigned from the committee in 2006 after Ms. Politkovskaya's murder, saying he could no longer bear to work with Mr. Putin, whose muted response to the killing he considered "disgusting."

Mr. Orlov said it was positive that the council had been revived and said the panel could bring "small benefits." However, he said it had achieved "little" in its previous incarnation. Mr. Orlov added that he is concerned that its reappearance could be a Kremlin attempt to portray President Medvedev as a reformer, something Mr. Orlov said he wasn't.

"Everyone has understood that he's not a liberal," he said.

Mr. Orlov said he personally wouldn't rejoin the council if invited but said he didn't condemn his colleagues for trying to achieve something in difficult circumstances.

"Do you know how unpleasant it is sitting on such a council when there's such a president?" he asked.

Russia expects 8% budget deficit

Associated Press

MOSCOW—Russia's budget deficit could swell to 8% of gross domestic product in 2009, costing the country about $70 billion, the Kremlin's top economic adviser said Wednesday.

The figure given by Arkady Dvorkovich was higher than previous forecasts. Last week, he said the deficit would likely be around 6% of GDP.

To compensate for the deficit, Russia this year would be ready to use about half the $137 billion it has in a reserve fund, Mr. Dvorkovich said. Some of that money will be spent to support banks.

The reserve fund accumulated money in recent years when oil prices were high. But oil prices have fallen to about half the level on which the 2009 budget was balanced.

The government is considering redrafting its budget on the basis of oil prices at $41 a barrel, down from the originally projected $95.

ECONOMY & POLITICS

Taliban kill 20 in Kabul

Attack on ministry in high-security zone linked to Pakistan

Reuters

The scene of one of several attacks in Kabul on Wednesday, where suicide bombers and gunmen killed 20 people at Justice Ministry buildings. Eight attackers died.

By Matthew Rosenberg

Gunmen wearing suicide vests stormed Afghanistan's Justice Ministry and set off bombs in another building in Kabul on Wednesday, leaving at least 20 people dead, in an apparent show of strength by the Taliban on the eve of a visit by the new U.S. special envoy to the region.

The daylight attack in Kabul's heavily guarded center highlighted the dire security situation in the country a day ahead of the scheduled arrival of envoy Richard Holbrooke, who has been in Pakistan since Monday.

The Taliban has been gaining dominance in rural areas and far-flung provincial centers where the government's writ is weak or nonexistent, but Wednesday's attack showed the group's ability to reach beyond those strongholds in southern and eastern Afghanistan.

It isn't clear how the attackers breached a maze of cement barricades and sandbagged checkpoints manned by armed guards. That they reached the city's center suggested Taliban infiltration of the Afghan security forces, a persistent problem that has plagued the U.S. effort to undermine the insurgency, said a Western diplomat in Kabul.

Afghanistan's intelligence chief, Amrullah Saleh, said the assailants sent three text messages to Pakistan "calling for the blessing of their mastermind" before launching the attack. He provided little evidence to back his claim of a Pakistani link, but there are strong ties between militants in both countries.

There was no immediate response from Islamabad to allegations that its nationals were involved.

The suggestion of a Pakistani link threatened to further complicate relations between the U.S., Afghanistan and Pakistan. Most of the Taliban's and al Qaeda's leadership is believed to be hiding in Pakistan, and Washington has long pressed Islamabad to take more forceful action against them.

The attack was one of the most brazen in the Afghan capital since a U.S.-led war removed the Taliban from power in 2001.

It began midmorning when a suicide bomber set off his explosives at the entrance to the Justice Ministry in an apparent attempt to kill as many security guards as possible.

That explosion cleared the way for four other assailants to storm in. "The gunmen were running into the hallway, they were shooting at anyone," said Mohdullah Khan, a 36-year-old ministry employee.

Mr. Khan said he escaped by quickly flipping off the light in his ground-floor office and scrambling out a window.

In a near-simultaneous attack, two suicide bombers detonated their explosives inside the Justice Ministry's prisons directorate in northern Kabul, authorities said.

The four gunmen appeared to control the main ministry building for some time, and sporadic bursts of gunfire could be heard as they battled security forces. At the height of the fighting, Justice Minister Sarwar Danesh told the Associated Press by cellphone that he was holed up in the building, where a number of gunmen were also hiding.

Another ministry employee, Shamsullah Jawaid, said he saw an attacker using a walkie-talkie to communicate with the other gunmen.

Mr. Jawaid said his driver, who was in his office, tried to shut the door, but "they kicked it from outside and managed to enter the room and shot my driver." Mr. Jawaid said he had been shot and wounded in one leg, and his driver was killed.

As fighting raged inside the building, Afghan police and soldiers swarmed through the center of the city and ambulances raced down streets, ferrying the wounded to hospitals.

The attack showed the Taliban's ability to reach beyond its strongholds.

Ten people were killed at the Justice Ministry before police gunned down the attackers, Interior Minister Hanif Atmar told reporters. Bomb experts soon after defused the unexploded suicide vests. A fifth attacker was shot dead by security forces outside the nearby Education Ministry.

"In total, 20 people have been killed, 57 have been wounded," Mr. Atmar said. His tally didn't include the eight gunmen.

A Taliban spokesman, Zabiullah Mujaheed, said the attacks were in response to mistreatment of Taliban prisoners held by Afghanistan.

"We have warned the Afghan government to stop torturing our prisoners," Mr. Mujaheed told the AP in a phone call. "Today we attacked Justice Ministry compounds."

It wasn't clear if the attack was timed to Mr. Holbrooke's visit. But it was a stark illustration of the challenges he and the rest of Mr. Obama's team face as they try to shape a new U.S. policy on Afghanistan.

Mr. Obama has declared the war a top priority and is planning to double U.S. forces in Afghanistan by deploying another 30,000 soldiers in an effort to beat back the Taliban, who control wide swaths of the country.

The new deployments, however, don't address the source of the insurgency in the rugged Pakistani tribal belt that runs along the border with Afghanistan. The Taliban and al Qaeda have put down deep roots in the region since 2001 and are believed to use it as a staging area and logistics hub.

While U.S. and Afghan officials have praised recent Pakistani efforts to take on the Taliban in tribal areas, they accuse elements in Pakistan's Inter-Services Intelligence agency of protecting the Taliban's leadership, with whom Islamabad once enjoyed close relations.

ISI officials insist the Taliban's leadership spends most of its time in Afghanistan, but senior officials privately acknowledge that the agency maintains contacts with the group's leaders, including Mullah Omar and Jalaluddin Haqqani.

Mr. Haqqani's faction was accused of orchestrating the truck bombing that destroyed the Indian Embassy in Kabul last year. U.S. and Indian officials have said that operation was mounted with ISI assistance, a charge Islamabad denies.

Mr. Holbrooke got a taste of how little control Islamabad maintains over its border regions on Wednesday when a bomb went off in Peshawar, which lies astride the tribal areas, around the same time he was visiting the city.

The U.S. envoy appeared to be nowhere near the site of the attack, which killed a secular lawmaker and wounded six other people, police said.

U.S. efforts in Afghanistan hit another snag last week when the president of Kyrgyzstan said he would evict U.S. forces from an air base used to support the war. President Kurmanbek Bakiyev made the announcement in Moscow after securing Russian aid—creating the impression he was doing Moscow's bidding.

Russian Foreign Minister Sergei Lavrov said that Russia is open to the possibility of letting the U.S. and the North Atlantic Treaty Organization transport weaponry across its territory to Afghanistan. But he suggested that Russia–NATO relations—frozen after Russia's war with Georgia last year—would have to be restored first.

Moscow has allowed non-lethal cargo from European nations to cross its territory on the way to Afghanistan and said last week it would let the U.S. do the same.

Kyrgyz President Bakiyev insisted Wednesday he was ejecting U.S. forces for purely economic reasons because the U.S. refused to pay more rent, the Associated Press reported. The United States now pays $63 million a year for use of the base, the AP reported.

A parliamentary vote on approving the closure has been delayed, suggesting negotiations on a settlement may continue.