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Getty Images

Emergency-services personnel at the scene of a Turkish Airlines jet that crashed while trying to land at Schiphol Airport on Wednesday.

Plane crash kills at least 9

Turkish Air flight lands short of Amsterdam runway; more than 50 hurt

By Daniel Michaels And Andy Pasztor

A Turkish Airlines Boeing 737 crashed short of a runway while landing at Amsterdam's Schiphol Airport, killing at least nine of the 134 people aboard and injuring at least 50, according to local officials and the airline.

The accident, which occurred in good weather and killed both pilots, is the third fatal accident involving a big jetliner in Europe since August. While it may be days or weeks before investigators get a clear picture of what happened, Wednesday's crash comes amid a recent rise in commercial accident rates across Europe, the Middle East and Latin America.

The frequency of major crashes of Western-built airliners in Europe jumped by more than one-third last year compared with 2007, according to the latest statistics released by the International Air Transport Association. The rate climbed to almost one accident per two million flights in 2008, compared with one in roughly three million flights throughout the preceding three years.

Although flying remains extremely safe across developed countries, there are other signs that traditional safety programs by airlines and aviation authorities are losing some effectiveness. Great Britain has among the world's lowest rate of air accidents, but incidents such as midair near-misses between planes have been rising recently, according to information gathered by the British Civil Aviation Authority and reviewed by The Wall Street Journal.

From a 10-year low of fewer than 14 "high-risk" incidents per million flights in the U.K. during most of 2004 and 2005, by the end of last year the rate roughly doubled to almost 29 incidents per million flights.

In the U.S., during just the past three months, a pair of high-profile incidents and the fatal crash of a commuter turboprop ended more than two years of what had been the safest period ever for the

Please turn to page 27

U.K. near cap plan for losses at banks

LONDON—U.K. Treasury officials and bank executives were working out details of an insurance plan aimed at putting a lid on banks' losses Wednesday night, in what is widely seen as the U.K.'s last chance to avoid a full-scale nationalization of the nation's two most troubled lenders.

By Sara Schaefer Muñoz, Alistair MacDonald and Dana Cimilluca

After several weeks of intense debate, the government was moving toward insuring a larger pool of assets and softening the terms of the insurance, in a sign that the U.K. wants to go easy to avoid further intervention.

The government is considering insuring £500 billion ($724 billion) or more in bank assets, most belonging to the state-controlled **Royal Bank of Scotland Group** PLC, a person familiar with the matter said. The terms of the insurance are likely to be significantly more lenient than those the U.S. government has imposed on some of its banks, the person said.

Treasury officials were expected to have an announcement ready to coincide with RBS's 2008 earnings report due Thursday morning.

The insurance plan has significant advantages for a government concerned about the political repercussions of

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HSBC is early guide To Asian loan losses

By Sara Schaefer Muñoz

LONDON—British bank **HSBC Holdings** PLC was among the first banks to signal the U.S. subprime crisis. Now, when the global bank reports 2008 results Monday, it could provide a window into the pace and scope of the economic downturn in Asia.

HSBC, one of the few large banks world-wide that hasn't yet needed government support, has nearly a fifth of its loan book in Asia, with about half of those loans—some $100 billion—in Hong Kong alone. In recent years, strong growth in the region has helped the bank offset losses elsewhere and weather the financial crisis much better than its peers.

But the dimming outlook for Asia is raising concerns that HSBC will become a beacon of the region's woes. Exports are falling and economic growth is evaporating across the region, with Hong Kong's economy contracting 2.5% in the last three months of 2008 compared with the year-earlier period. Analysts expect that to translate into waning profits and more souring loans for HSBC, putting pressure on the bank to either raise cash or cut dividends in an effort to boost the capital cushion it must maintain to absorb losses.

"When the Asian downturn kicks in more materially, that will clearly be bad news" for the bank, said Michael Helsby,

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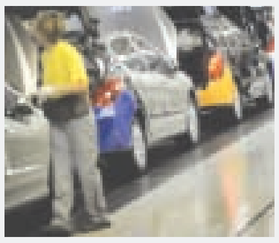

Auto focus

EU regulators scrutinize plans to bail out car makers
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7270.89	-1.09
Nasdaq	1425.43	-1.14
DJ Stoxx 600	172.31	-0.32
FTSE 100	3848.98	+0.85
DAX	3846.21	-1.27
CAC 40	2696.92	-0.41
Euro	$1.2706	-0.34
Nymex crude	$42.50	+6.36

LEADING THE NEWS

Fed chief plays down fears

Bernanke says U.S. can aid banks without nationalizing them

By Maya Jackson Randall and Brian Blackstone

U.S. Federal Reserve Chairman Ben Bernanke, trying again to dispel fears about nationalization, said federal officials already have the tools on hand to prop up banks that need additional capital.

In response to a specific question about **Citigroup** Inc.'s current woes, Mr. Bernanke told the House Financial Services Committee Wednesday, "We will see how their [government-run stress] test works out, and we'll see what evolves." Nationalization, he said, misses the point.

Asked if the Citigroup could end up nationalized, Mr. Bernanke said he doesn't see that happening. "It may be the case that the government will have a substantial minority share in Citi or other banks, but again we have the tools...to make sure that we get the good results we want in terms of improved performance" without the negative effects of a bankruptcy process or seizure, which would be disruptive to the markets, Mr. Bernanke said.

He added that he defines nationalization as the government taking over 100% of a firm and wiping out common shareholders. "I don't think we want to do that," he said. "I don't think we need to do that."

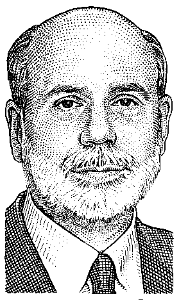
"There's not any need to do any radical change, rather we can use the tools we have to make sure that those banks are behaving in a way that's both good for business in terms of long-term viability but while also supporting the economy in terms of lending going forward," Mr. Bernanke said.

In response to questions, he noted that the goal of the Obama administration's revamped financial-rescue plan is to ascertain whether the nation's largest 19 or 20 banks have a sufficient amount of high-quality capital to meet the needs of their customers—even under a weaker economic scenario.

Banks found to need additional capital will have six months to raise private capital, and if they can't, the government will step in and purchase convertible preferred shares in those firms. Additionally, those shares could be converted to common shares to keep the banks well capitalized, he noted.

Meanwhile, Mr. Bernanke added that many smaller banks are in good condition.

Mr. Bernanke also defended the Fed's handling of the financial crisis so far. "We're not completely in the dark," he said in response to questions from Rep. Ron Paul (R., Texas), a frequent critic of Fed policy. "We know broadly speaking what needs to be done," Mr. Bernanke said.


Ben Bernanke

He also reiterated that he thinks the government's latest efforts will be successful. "We do have a plan here, and I think it's going to work," he said.

In describing the events last summer that prompted him and then-Treasury Secretary Henry Paulson to call on Congress to give the federal government new power to rescue the financial sector, Mr. Bernanke said things were "very, very" close to a major global meltdown. However, government efforts since then, such as new credit facilities and initiatives under the $700 billion financial-rescue plan, have helped prevent a major collapse of the global economy, he said.

The Fed chairman also warned that the "tremendous" problems in the housing market could drive down home prices too far. He said the challenges facing the mortgage market, combined with the enormous supply in the housing market, "could put us in real danger of driving housing well below fundamentals."

Mr. Bernanke acknowledged that as the government aims to help stem foreclosures and help borrowers modify or refinance their home loans, some have raised concerns about moral hazard. But, he added that the housing market is grappling with millions of foreclosures. That's likely more detrimental, not just to the borrower and the lender, but to the larger system, he said.

Meanwhile, Mr. Bernanke added that he doesn't see inflation as a near-term problem. "We don't expect inflation to be a problem for the next couple of years," he said.

Mr. Bernanke repeated Wednesday that the recession should end this year, and 2010 "will be a year of recovery," if actions taken by the government lead to some stabilization in financial markets.

On Tuesday, Mr. Bernanke testified before the Senate Committee on Banking, Housing and Urban Affairs, telling lawmakers that he doesn't believe any major banks are on the verge of failure and sought to quash speculation that banks would need to be nationalized, though he did leave open the possibility.

Some Democratic lawmakers have suggested the government was heading toward nationalization, though the Obama administration has tried to discourage that speculation. Mr. Bernanke's views carry significant weight because the Fed, a bank regulator, plays a critical role in financial-sector rescues and because of the central bank's reputation as being nonpartisan.

—Sudeep Reddy contributed to this article.

EU panel urges a new body to monitor financial risk

By Alistair MacDonald and Matthew Dalton

LONDON—A high-level European panel issued recommendations for an overhaul of the region's financial-regulation system Wednesday, stepping up a debate over how to prevent a repeat of the global financial crisis.

The panel, led by Jacques de Larosière , the former French central banker, called for the creation of a new regional supervisory council responsible for monitoring broader systemic risks, and for a gradual harmonization of regulatory rules within the region. The panel recommended leaving the day-to-day regulation of banks and other financial institutions to national regulators, in a move likely to disappoint some European policy makers who envisaged a central regulator.

The so-called de Larosière report, ordered up in November by European Commission President Jose Manuel Barroso, immediately drew criticism from some experts, who saw the two-tiered system as too cumbersome in a crisis. The regional supervisor, to be called the European Systemic Risk Council, would be led by the president of the European Central Bank and include central bankers from across Europe and some national regulators.

The council "would be an unwieldy body looking more like a small parliament than a decision-making body," said Daniel Gros, director of the Centre for European Policy Studies in Brussels. Several trade organizations, including the Association of British Insurers, welcomed the recommendations, with some saying they would improve the current fragmented system.

The issues raised in the report will be high on the agenda this April, when leaders from the Group of 20 industrial and developing nations meet in London to figure out how to fix the global financial system.

Among other recommendations, the report opposed calls from some policy makers to give the European Central Bank the power to oversee the 16-nation euro zone's banks. The report says such a role, which would involve dealing with officials from the bloc's national governments and choosing which banks to bail out in a crisis, would threaten the ECB's political independence.

The report envisages a second layer of Europe-wide regulation, with three separate authorities to oversee the region's banks, insurers and securities markets. These authorities would act as mediators among national supervisors, and license regional institutions such as credit-rating companies.

The issues raised in the report will be high on the agenda at the G20 meeting in April.

Separately, the head of the U.K.'s financial regulator criticized politicians for encouraging the kind of light-touch regulation that many now say helped engender the current crisis. Adair Turner, chairman of the Financial Services Authority, told a committee of British politicians that there were "political assumptions of the time which suggested that the key priority of regulators was to keep it light rather than ask searching questions."

He also warned banks to expect an increase of "several" times in the amount of capital they must set aside against potential losses, and said the FSA is considering the possibility of banning certain financial products, such as risky types of mortgage loans.

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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

LEADING THE NEWS

Ukraine ratings are cut

Downgrade by S&P follows Kiev's failure to clear IMF hurdle

By Lidia Kelly
And Clare Connaghan

Standard & Poor's downgraded Ukraine's sovereign debt deeper into junk status Wednesday, escalating concerns about a deepening financial crisis in Central and Eastern Europe.

The ratings agency, which downgraded Latvian debt a day earlier, cited growing doubts that Kiev can fulfill aid requirements set by the International Monetary Fund, putting its two-year $16.4 billion standby loan agreement from November in doubt.

S&P said it had lowered its long- and short-term foreign-currency sovereign credit ratings on Ukraine to CCC-plus/C from B/B, and its local-currency ratings to B-minus/C from B-plus/B. S&P added that the outlook is negative.


Associated Press

President Viktor Yushchenko on Wednesday said Ukraine has the resources to repay its debts, and urged the country's prime minister to help meet IMF fiscal demands.

The downgrade underscored concerns in financial markets about the exposure of banks from the 16-country euro zone to credit default in Eastern Europe. The German DAX stock index shed much of its early gains Wednesday amid renewed concern of a deepening financial crisis in Central and Eastern Europe.

Eastern Europe's crisis can worsen, says EBRD

By Paul Hannon
And Michael Wilson

The European Bank for Reconstruction and Development warned that the economic crisis "is threatening to throw nearly two decades of economic reform into reverse" in Central and Eastern Europe.

EBRD President Thomas Mirow said that international support will be needed to make sure that doesn't happen. The bank was established in 1991 to invest in countries in Eastern Europe and the former Soviet Union to help their transition to market economies. Its warning reflects growing concern about the economic strains in Eastern Europe as economies slow and credit tightens. On Wednesday, Poland's central bank cut key interest rates by 0.25 percentage point, balancing the need to support its plunging currency against symptoms of a slowing economy.

The EBRD itself has become an early victim of the East's problems, reporting Wednesday that it had a net loss of €602 million ($773 million) in 2008, its first since the Russian financial crisis in 1998. The loss is largely the result of declines in the value of its equity investments. In dollar terms, the loss was almost three times as large as the loss in 1998.

The scale of the turnaround in the EBRD's financial fortunes reflects the speed with which economic conditions and equity markets have deteriorated.

Even Germany, the sovereign borrower against which other borrowers in the 16-country currency zone are judged, is feeling the pressure. Credit default swap spreads, which measure default risk, on German debt are quoted around 0.92 percentage point, their widest level ever, according to CMA Datavision.

That reflects investor concerns about the general transfer of risk onto public balance sheets. Austrian and German banks are the top two lenders in the region, with $273 billion and $212 billion, respectively.

—Christopher Emsden contributed to this article.

CORPORATE NEWS

Marketers cheer return of Tiger Woods

PepsiCo, GE, LVMH are among those seeking boost from comeback to golf; 'a much-need distraction'

BY SUZANNE VRANICA

Tiger Woods is returning to golf after an eight-month hiatus, and many marketers are looking for a boost from the comeback of the endorsement king.

Gatorade, which has had a formal relationship with Mr. Woods since 2007, is set to run a print ad in Sports Illustrated featuring a fan in the gallery holding up a homemade sign that reads: "Welcome Back Tiger."

ADVERTISING

The ad hits U.S. newsstands Wednesday, to coincide with Mr. Woods's triumphal return, which starts with the WGC-Accenture Match Play Championship. The **PepsiCo** sports beverage is planning to relaunch its Tiger Focus drink in the coming weeks.

"Professional golf without Tiger Woods is like a Hollywood blockbuster without a leading man," said Jeff Urban, a Gatorade senior vice president of sports marketing, in a statement.

A knee injury that required major surgery forced Mr. Woods to take a break from golf in June, shortly after his defeat of Rocco Mediate during the U.S. Open at Torrey Pines in San Diego. Since then, TV ratings for golf have plunged, according to Nielsen, and many U.S. companies have been left trying to figure out how best to market their wares with the sport's biggest star absent from the game.

During his time away, many advertisers, including sports-apparel maker **Nike**, continued to use Mr. Woods or his image in their marketing. But the average number of viewers who watched network broadcasts of eight golf tournaments without Mr. Woods dropped 47% compared with the previous year, when Mr. Woods was playing, according to Nielsen.

Pepsi Co.

Gatorade is among marketers running ads tied to Tiger Woods's return to golf.

With his return this week, media outlets are working overtime to leverage the buzz. "The Golf Channel and NBC are actively trying to monetize the return of Mr. Woods," says Sam Sussman, director of sports activation at Starcom, a media-buying firm owned by **Publicis Groupe**. "Tiger's return is a much-needed distraction from the tough economic pressure the PGA and others are facing."

Indeed, **General Electric**'s NBC wasted no time in publicizing Mr. Woods's return, broadcasting a special promotional spot just hours after the golfer announced on Feb. 19 that he planned to compete in the WGC-Accenture tournament. Since then, the network, which will air the final rounds of the tournament this weekend, has shown little let-up.

Mr. Woods has been the top-earning American athlete on Sports Illustrated's Fortunate 50 list for several years, raking in about $128 million annually from salary, winnings, endorsements and appearances. He is the front man for a long list of marketers, including watch maker Tag Heuer, consulting firm **Accenture** and Nike. Sports Illustrated estimates that Mr. Woods has earned about $800 million on and off the course over his 13-year career and should become the first billion-dollar athlete in the next two years.

Tiger Woods

So, marketers are trying to make up for lost time. Tag Heuer, which is owned by French luxury-goods giant **LVMH Moët Hennessy Louis Vuitton**, is kicking off a direct mail and billboard campaign next week to promote a sweepstakes offering consumers the chance to play golf with Mr. Woods. Tag Heuer has had a deal with Mr. Woods since 2002.

Nike was set to launch a spot Wednesday on TV networks like **Walt Disney**'s ESPN and the Golf Channel, which will air the first rounds of the WGC-Accenture tournament. "We knew when Tiger returned it would be a big, if not the biggest, sports story of the year," says Cindy Davis, president of Nike Golf.

The new Nike ad features golfers, including Stewart Cink and Trevor Immelman, soaking up the limelight in Mr. Woods's absence, as the Lesley Gore song "Sunshine, Lollipops and Rainbows" plays in the background. The golfers are swarmed by bikini-clad women demanding autographs, make red-carpet appearances and land on the cover of golf magazines. Then, Mr. Woods enters, and the party's over. The ad was crafted by **Wieden + Kennedy**.

Mr. Woods's return couldn't come at a more opportune time. The recession has already taken a bite out of the sports-marketing world. North American companies are expected to increase spending on sports, arts, cause and entertainment marketing by just 2.2% to $16.97 billion this year, according to IEG, a **WPP**-owned company that tracks sponsorship deals. That would be the weakest growth rate in 24 years. Last year, such spending rose 11%.

Advertising executives who specialize in sports marketing believe that golf could be particularly vulnerable to the slump because the sport is heavily dependent on ads and sponsorships from automotive and financial-services firms, both in crisis.

Even Mr. Woods isn't immune from the downturn. Last year, **General Motors** ended its longtime deal with the golfer, who it tapped in 2000 to promote its Buick brand. But he recently signed a deal with **AT&T**.

—Elizabeth Holmes contributed to this article.

Apple's board faces shareholders

BY BEN CHARNY

Apple Inc. board members defended the company's disclosure last month of a medical leave by Chief Executive Steve Jobs, and said he remains deeply involved in the company's strategic matters.

"We believe we have met all disclosure obligations," Apple director Arthur Levinson told shareholders. Mr. Levinson, the chief executive of **Genentech** Inc., added that "nothing has changed" since Mr. Jobs said he would take a medical leave.

At Wednesday's meeting, Mr. Jobs was re-elected to the board of directors, as were seven other current members. Although Mr. Jobs was absent, shareholders sang "Happy Birthday" to him, as he celebrated his 54th birthday this week.

After the meeting, some shareholders expressed frustration at the board's refusal to disclose more than what is already known about the company's succession plans, and Mr. Jobs's health.

"I'm disappointed the board was not more forthcoming," said Brandon Rees, a representative of the AFL-CIO Reserve Fund, which owns Apple shares.

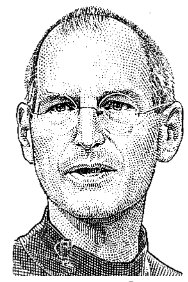
Louis Malizia, assistant capital strategies director for the International Brotherhood of Teamsters, shared the sentiment. "I feel like I don't know any more than I did" before the meeting, he said.

The annual meeting, held at Apple's Cupertino, Calif., headquarters, marked the first time shareholders had a chance to quiz board members directly since Mr. Jobs said in mid-January he was pursuing medical treatment that would require him to take time off of work. Except for a brief statement at the time, the board has been silent on the matter.

The meeting is the first that Mr. Jobs, a co-founder of the company, has missed in a decade. In addition to Mr. Jobs's absence, **Google** Inc. CEO and Apple board member Eric Schmidt wasn't at the meeting.

News about Mr. Jobs's health has been a concern since he disclosed several years ago he had been treated successfully for pancreatic cancer. Mr. Jobs is considered integral to the company's success and is credited with reviving the company upon his return about 12 years ago.

Few CEOs are as important to their companies or so closely identified with them as Mr. Jobs is with Apple. The executive is considered both the face of Apple and its chief innovator. For example, Jobs is cited as the lead author of Apple's all-encompassing patent for its hit iPhone.



Steve Jobs

On Jan. 5, Mr. Jobs disclosed in a letter posted on Apple's Web site that he was suffering from a "hormone imbalance" and that the remedy was "relatively simple and straightforward." The same day, the board expressed support for Mr. Jobs. But nine days later, Mr. Jobs announced he was seeking a more complex treatment that would require him to leave the company until June.

Apple's board, which includes former Vice President Al Gore, has remained silent since the brief Jan. 5 note. Board members have either declined to comment or failed to return requests for comment on the situation.

In Mr. Jobs's absence, Apple has pushed other executives, namely Chief Operating Officer Tim Cook and Senior Vice President Phil Schiller, as the public faces of the company.

"There are still some concerns" about Mr. Jobs's health, said Shaw Wu, an analyst at Kaufman Brothers. "Many people see it as a private matter, but on the other hand, he's such an important part of the company."

Cadbury sees sales growing; net falls due to drinks spinoff

BY AARON O. PATRICK

Chocolate maker **Cadbury** PLC posted a 10% decline in annual profit on the spinoff of its drinks division, but forecast resilient growth in the year ahead.

The U.K. company's net income fell to £364 million ($527 million) in 2008 from £405 million a year earlier. Last year's result included four months of earnings from **Dr Pepper Snapple Group** Inc., which was spun off as a separate company on the New York Stock Exchange in April.

Chief Executive Todd Stitzer said Wednesday that revenue growth in 2009 would likely be around the "lower end" of the company's 4%-6% target. Investors were reassured the outlook hadn't deteriorated more and bid up Cadbury shares 3% to £5.23 in London trading. The broader share market rose 1.5%.

Cadbury, one of the world's largest confectionary companies, has seen its shares hit in recent months over concerns that consumers are cutting back on chocolate and gum, including Cadbury's Green & Black's and Trident.

Under pressure from shareholders, Cadbury is trying to aggressively reduce costs. Last year, Mr. Stitzer decided to remove a layer of regional managers and analysts to save money. The company is also in the process of opening a large gum factory in southern Poland, which should increase profit margins, which are lower than some of its competitors. From 2010, Cadbury plans to make chocolate at the site, a former Cold War military base.

The company increased prices by more than 10% in some countries in the fourth quarter, Mr. Stitzer said, anticipating costs would increase this year. The price of a key chocolate ingredient, cocoa, surged recently as diseases hit major crops in Ivory Coast and Ghana.

Excluding results from the drinks division and one-off costs, Cadbury's revenue rose 15% to £5.38 billion and profit rose 30% to £403 million, helped by a weaker British pound. Like many European companies, Cadbury doesn't publish quarterly results.

Cadbury was the industry's biggest company until last year, when Mars Inc. and Wm. Wrigley Jr. Co. merged. At a news conference, Mr. Stitzer said Cadbury isn't giving up on being the "biggest and the best" confectionary group but will focus on being the best in the short term.

FOCUS ON AUTOMOBILES

EU reviews national auto rescues

Regulators to decide if bailouts comply with bloc's rules

By Charles Forelle
And Leila Abboud

BRUSSELS—European Union regulators promised to decide quickly whether several European governments' bailout plans for ailing car makers comply with the bloc's competition rules.

But the regulators said they don't plan to propose a pan-European aid package for the auto sector, despite calls for coordinated action to help stem the effects of a dramatic decline in demand across the Continent.

France, Germany, Italy, Spain, Sweden and the U.K. have proposed rescue plans for their car industries. France, in particular, has come under fire from regulators and other countries for making €6.5 billion, or about $8.5 billion, in low-interest loans to car manufacturers contingent on the companies not closing factories in France for the duration of the aid.

EU Competition Commissioner Neelie Kroes said Wednesday that her office was in "close contact" with the French and that "there should be a solution" soon.

The car sector has emerged as a flash point in Europe, as concerns mount that governments are resorting to protectionist measures to preserve domestic jobs and businesses. With sales of new cars in free fall since October, car makers have sought help from local governments and called for action at the EU level.

That has left the EU in a difficult position as it tries to preserve a level playing field for companies in the common market. When countries began crafting massive financial-sector bailouts last year, the EU tried to stand guard to prevent distortions of competition but ended up largely clearing the countries' plans quickly.

The European Commission, the EU's executive arm, has limited powers to provide direct assistance of its own. "The commission will not be presenting any European plan to shape the structural changes necessary in the European car industry," said EU Industry Commissioner Gunter Verheugen, a German who long has been an ally of auto makers.

Luc Chatel, France's minister for consumer affairs and industry, said on Tuesday that France had tried to drum up support for a Europe-wide aid plan late last year but that the effort didn't go anywhere. "We couldn't wait any longer," he said.

Mr. Chatel said France's aid package wasn't protectionist because it was open to all car makers on French soil. France lent €3 billion each to **Renault** SA and **PSA Peugeot Citroën** SA and offered a total of €500 million to other companies with operations in France. So far, however, foreign companies such as **Toyota Motor** Corp. and **Daimler** AG, which makes its tiny two-seater Smart car in France, haven't applied for the loans. Only Renault Trucks, an AB **Volvo** unit that makes and sells trucks in France, has said it is in talks with Paris over a possible application.

Getty Images

Peugeot Citroën's loan requires that the firm not shut French factories. Employees worked on a Peugeot line in September.

France buys stake in Valeo, using bailout funds

A WSJ News Roundup

PARIS—The French state on Wednesday took a stake in troubled car-parts maker **Valeo** SA and said it wanted to put government officials on the board of a newly merged bank, in its latest efforts to help domestic companies survive the financial crisis.

President Nicolas Sarkozy has been active in defending French companies' interests during the financial crisis, creating a strategic fund to help those in need of extra cash and lending money to banks and car makers. His critics say his approach is protectionist but Mr. Sarkozy has responded by saying the European Union should protect its industries in the same way the U.S. does.

The government's strategic investment fund, created in November to stop key companies from being swallowed up by the crisis, unveiled its first investment on Wednesday, buying a 2.35% stake in Valeo for €19 million ($24.4 million) and adding it could buy more.

"Valeo is a French leader; its position is strategic, in particular on technologies for reducing CO2 emissions," Gilles Michel, the head of the government fund, known as FSI, said in a conference call. "By taking a stake, the FSI contributes to the stabilization and reinforcement of the shareholders."

Mr. Michel said he was working on several other requests for funding that would be announced over the next few weeks. The fund has an investment capacity of €6 billion but the aim is to increase it to €20 billion this year.

Mr. Michel said the state now owns, jointly with state-controlled bank Caisse des Dépôts et Consignations, 8.33% of Valeo's capital and 10.55% of its voting rights.

The investment was carried out after Valeo Chief Executive Thierry Morin contacted the government fund in mid-January, Mr. Michel said. Earlier this month, Valeo posted a loss of €207 million for 2008, hit by the slump in automobile production in the second half of the year and restructuring costs, and said it expects to remain in the red at the operating level in the first half of 2009.

Mr. Michel said the government fund is a medium-to long-term investor in Valeo but will eventually withdraw from the company's capital "after a few years." He said no decision had been made about whether the government would appoint officials to the company's board.

However, the state will be asking for board seats at the bank resulting from the merger, announced Monday, of Banques Populaires and Caisses d'Epargne, government spokesman Luc Chatel said Wednesday. The state will eventually hold 20% of capital in the new entity, which will create the second-largest bank in France. A formal announcement is expected Thursday when both banks publish their results.

Japanese car makers report lower January output

By Yoshio Takahashi

TOKYO—Japan's top three car makers said they produced fewer vehicles in Japan in January as they cut output for export to contend with faltering world-wide auto demand.

Toyota Motor Corp., the world's largest car maker by volume, said its Japan factories produced 40.3% fewer automobiles in January from a year earlier with 209,224 vehicles—its biggest monthly domestic output drop at least since 1988, a Toyota spokesman said.

Nissan Motor Co., Japan's third-largest car maker, reduced monthly domestic production by 59% in January to 47,477 vehicles. It was its lowest monthly output volume since at least 1971, a Nissan spokesman said.

The country's second-biggest car maker, **Honda Motor** Co., said its domestic plants made 77,224 vehicles in January, 23% fewer than at the same time last year. Honda's reduction was relatively moderate compared to those of the two local rivals as the company has been relatively slow to cut output to lower inventories.

The reductions constitute a major setback for the growth ambitions of the three car makers.

The trio already expects to swing into red territory for the first time in years.

Honda is forecast to book a loss in the fiscal second half ending March 31, 2009, and Toyota and Nissan are due to report losses for the full fiscal year ending March 31, 2009. The companies have suffered from a strong yen and collapsing auto demand in the U.S., Europe and Japan.

The January figures reflect the firms' plans to cut domestic production for the three months ending March 31 by 40% to 60% from a year earlier.

They are likely to continue making fewer vehicles year-to-year into the next fiscal period starting this April.

In January, the three companies sharply reduced output in their home market as exports dropped particularly to the U.S., Europe and primary markets in Asia.

Toyota's exports tumbled 56.2% from a year earlier in the month, with exports to the U.S. posting a steep 80.3% drop.

Nissan's exports fell 62.1%, with those to North America and Europe down 84.7% and 70.4% respectively.

Honda said its exports fell 46.3% in the month.

Big Three meet with task force on auto concerns

Top executives of **Chrysler** LLC met with U.S. President Barack Obama's auto-industry task force Wednesday, about a week after the auto maker asked the federal government for as much as $5 billion in additional loans to keep it afloat.

Chrysler Chairman Bob Nardelli, Vice Chairman Tom LaSorda and Chief Financial Office Ron Kolka were among those slated to attend the meeting, according to a person briefed on the matter. **General Motors** Corp. executives are expected to meet with the task force on Thursday.

By Matthew Dolan, Neil King Jr. and John D. Stoll

Earlier in the week, members of the task force met with top procurement executives from the three Detroit auto makers to discuss growing concerns about U.S. car-parts makers.

GM's Bo Andersson, **Ford Motor** Co.'s Tony Brown and Chrysler's Scott Garberding met separately with task-force members, including a key adviser, Ron Bloom, on Monday, said several people familiar with the meetings. The government representatives discussed a range of options with the executives, these people said.

Spokesmen at GM, Ford and Chrysler declined to comment on the matter.

Ron Bloom

In recent months, auto-parts suppliers have been raising the alarm about their financial condition, and the industry's trade group, the Motor & Equipment Manufacturers Association, submitted its own rescue plan to the U.S. Treasury on Feb. 13. A week later, the group sent a letter to President Obama asking that "immediate attention" be paid to their plight, arguing at least a million jobs were at jeopardy.

Concern about the shakiness of the auto-parts industry is consuming enough of the administration's attention that it could delay resolution of GM's and Chrysler's bailout requests, said a person close to the talks. That could push the bailout talks past the March 31 deadline outlined in the terms of the $17.4 billion in loans the two companies were granted in December, this person said. GM and Chrysler are lobbying for additional U.S. aid.

Increasingly, lenders are refusing to extend credit to parts makers that do major business with the three Detroit car maker.

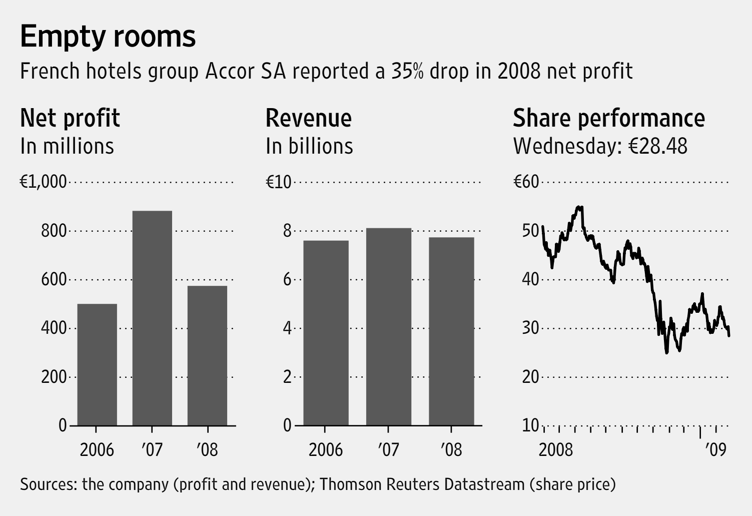
GM, in a viability plan it submitted last week to the Treasury, proposed the government create a credit-insurance program for the receivables that suppliers book from U.S. auto makers. Receivables are expected payments for shipments. GM estimates the insurance program would require about $4.5 billion through 2011. Such a move could reassure banks that let suppliers use receivables as collateral for financing deals.

Separately, **Delphi** Corp., the largest parts supplier to GM, won court approval Tuesday to terminate health benefits for about 15,000 retired salaried employees. Delphi has been operating under Chapter 11 protection from creditors since late 2005.

Accor issues dismal view

Company's net falls by 35% on pressure at its U.S. hotels

By Geraldine Amiel



PARIS—**Accor** SA warned that it expects market conditions to deteriorate further in the first quarter. The hotel and services company also reported that net profit fell 35% last year as its economy hotels in the U.S. came under pressure.

The France-based company, which operates the Sofitel, Ibis and Motel 6 chains, said net profit was €575 million ($738.6 million) in 2008, compared with €883 million in 2007. The year-earlier results were boosted by capital gains related to property sales. Total revenue dropped 4.7% to €7.74 billion from €8.1 billion as sales from the U.S. economy-hotels sector declined.

Chief Financial Officer Jacques Stern said business in the U.S. and the U.K. is "not good," although he expects economy hotels in France and Germany to be resilient this year. The company didn't give a forecast for 2009.

Accor said it aims to cut prices to cope with the economic downturn, which is putting extreme pressure on the hotel industry. The economy end of the sector had initially held up well as travelers traded down from more expensive hotels, but Accor's comments confirm that the downturn has widened.

In response, the company will cut prices to match those of competitors in markets where it isn't leading, said Chief Executive Gilles Pélisson. The company will also cut spending on expansion and renovations and cut costs.

Spending on renovations will be cut by €125 million this year, while support costs will be trimmed by €75 million this year and €25 million next year. Accor will also reduce its expansion capital spending to €400 million for 2009-2010, from an initial €500 million, although Mr. Pélisson said spending on economy hotels will be raised.

Mr. Pélisson said Wednesday that it is more important than ever to keep the company's main businesses together under one roof. His comments came after six of the company's board members, including former Chairman Serge Weinberg, resigned late Tuesday because of investor pressure to split its hotels and vouchers businesses.

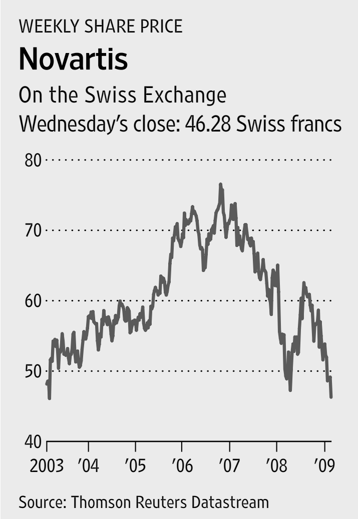
Other board members who resigned included Augustin de Romanet de Beaune, chief executive of state-controlled financial institute Caisse des Dépôts, and Baudouin Prot, chief executive of French bank BNP Paribas SA.

The investors want Accor to split off its prepaid-voucher-services unit.

–Ruth Bender contributed to this article.

Novartis profit to get hit from stronger dollar

By Anita Greil



ZURICH—Drug maker **Novartis** AG warned late Tuesday that first-quarter earnings will take a hit from the renewed strength of the dollar.

Novartis said adverse currency movements are likely to eat between eight percentage points and 10 percentage points of net profit growth in the first three months of the year. Stripping out currency effects, first-quarter sales so far have developed in line with its expectations of about 5% growth in 2009, Novartis said.

Two other Swiss companies reporting in dollars, electrical engineering company **ABB** Ltd. and seeds and crop-protection maker **Syngenta** AG, said Wednesday that they don't see a need to change earnings forecasts as a result of the dollar's recent appreciation.

Syngenta said a negative impact from the strong dollar is already factored into its full-year outlook. ABB said that, in times of erratic currency movements, the company is able to shift production from one country to another and balance the currency fluctuations.

Chief Executive Daniel Vasella also warned that he expected more pressure on drug prices. With governments accumulating debt to bail out the banking sector and other ailing industries, they will be keen to save costs elsewhere, he said.

Beyond that, governments are facing rising health-care bills as Western societies are growing older, which leads to an increase in demand for medicines, Mr. Vasella added. The combination of these two factors will probably lead to more pressure from governments on pharmaceutical companies to lower drug prices, he said.

Analysts said negative effects from the strengthening dollar were partially priced into estimates, and the comments probably won't lead to drastic changes in forecasts.

Areva net drops 21% amid charge

By Adam Mitchell

PARIS—French nuclear-engineering group **Areva** SA Wednesday said 2008 net profit fell 21% as it took a charge relating to delays and cost overruns at a nuclear-reactor site in Finland. But the company said its revenue and operating income would rise in 2009.

State-controlled Areva, whose businesses cover the complete cycle of atomic power, has been picking up new orders. It requires roughly €10 billion ($12.85 billion) over the next four years to finance investments in uranium mines, nuclear-fuel production plants and heavy-parts manufacturing. To that end, it unveiled on Wednesday a €2.7 billion investment program for 2009, supported by the French government. It will be funded by, among other things, the disposal of nonstrategic assets, Areva said.

There will also be €600 million in cost cuts over the year, relating to purchasing and overhead expenses, Areva said.

Areva, which is promoting its third-generation Evolutionary Power Reactor, or EPR, around the world, said full-year net profit fell to €589 million, from €743 million in 2007.

Areva said it took a €749 million charge relating to a Finnish nuclear reactor.

In 2008, Areva said it took a €749 million charge relating to the Finnish reactor known as OL3. The reactor will be the first operational EPR to be built, but it has been beset by delays and tension between the plant's suppliers, Areva and **Siemens** AG, and their customer, the Finnish utility **Teollisuuden Voima Oyj**, or TVO. Separately, Siemens said in January it will exercise its option of selling its 34% stake in the Areva NP nuclear-reactors joint venture to Areva, which owns the remainder.

Based on a valuation of €2.05 billion, that option would take Areva's net debt to €5.5 billion, as compared with €4 billion at the end of 2007, Areva said.

Areva said last month that full-year 2008 sales rose 10% to €13.16 billion from €11.92 billion in 2007.

Investment certificates in Areva have lost more than half their value over the past six months, as lower hydrocarbon prices have deflated some investors' enthusiasm for nuclear power, and uranium prices fell.

Areva's investment certificates closed in Paris down 2.2% at €314.38 each, off €7.05.

—David Gauthier-Villars contributed to this article.

Henkel earnings rise sharply on acquisition, Ecolab sale

By Natascha Divac

FRANKFURT—German household consumer-goods maker **Henkel** AG posted a sharp rise in fourth-quarter net profit, boosted by an acquisition and a stake disposal, but gave no forecast for 2009, saying it expects a difficult market environment.

In the three months ended Dec. 31, net profit soared to €863 million ($1.1 billion) from €244 million a year earlier, as Henkel booked a €1.7 billion gain from the sale of its stake in Ecolab Inc. in November.

Sales at the company, which makes products such as Persil detergent, Right Guard deodorant and Dial soap, rose 11% to €3.54 billion from €3.19 billion, thanks mainly to Henkel's acquisition of National Starch businesses in April 2008. Organic sales in the company's adhesives segment dropped 9.2% in the fourth quarter, hit by falling demand from the construction and automotive sectors.

"We know that 2009 is not going to be an easy year. At the moment, it is difficult to predict how the economy as a whole is going to develop," said Chief Executive Kasper Rorsted. Henkel said it will freeze its acquisition budget and make further cost cuts, including the lowering of production capacity amid reduced demand.

Analysts reacted positively to the report, although many said it was difficult to assess because of the numerous special effects. Henkel's figures are positive overall, after disappointing recent reports from competitors such as Beiersdorf AG and Sika AG, said brokerage Bankhaus Lampe.

Henkel shares, listed on the blue-chip DAX, rose 6.2% on Wednesday. The stock has dropped almost 40% over the past year.

For the full year, Henkel said sales increased 8.1% to €14.13 billion from €13.07 billion a year earlier, while organic revenue growth, which strips out exchange-rate fluctuations and acquisitions, was 3% and thus at the lower end of the company's forecasted 3% to 5% range. Net profit was up 11% at €646 million, from €583 million a year earlier.

The company kept its dividend at last year's level of 51 European cents per share. Mr. Rorsted said Henkel will focus on cash-flow generation this year, explaining the more-than 30% drop in planned investment volume.

Henkel is sticking to its 2012 targets, saying it still expects average organic sales growth of 3% to 5% a year and an adjusted earnings before interests and taxes margin of 14%.

–Natali Schwab contributed to this article.

Personal Technology

Rekindled interest

Walter S. Mossberg gets a good read on Amazon's new ebook device

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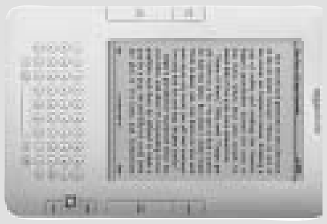


Santander in talks to sell Cepsa stake

By Christopher Bjork

MADRID—**Banco Santander** SA said Wednesday it is in talks to sell its 32% stake in oil company Cia. Española de **Petróleos** SA, or Cepsa, in a deal valued at as much as €3 billion ($3.85 billion).

The bank didn't say who the potential buyer was, but a person familiar with the talks said it is United Arab Emirates-based **International Petroleum Investment** Co., or IPIC.

The discussed price range for the potential sale is between €30 and €35 for each Cepsa share, Santander said in a filing to Spain's stock-market regulator. At a price of €35 a share, Santander's stake in Cepsa would sell for €3 billion. Before the announcement, shares in Cepsa traded at €52.1, significantly above the price being negotiated. The stock was briefly suspended from trading, and reopened at €37.73, down 28%.

Santander held talks with IPIC in recent months, but these stalled amid differences on the valuation of Cepsa, in which French energy company **Total** SA holds almost 49%. IPIC declined to comment. Santander said no agreement has been reached.

The bank has also been negotiating the sale of a further 5% of Cepsa on behalf of **Union Fenosa** SA. A spokesman for the Spanish electricity company had no immediate comment, but Fenosa has previously said that it wants to sell the stake.

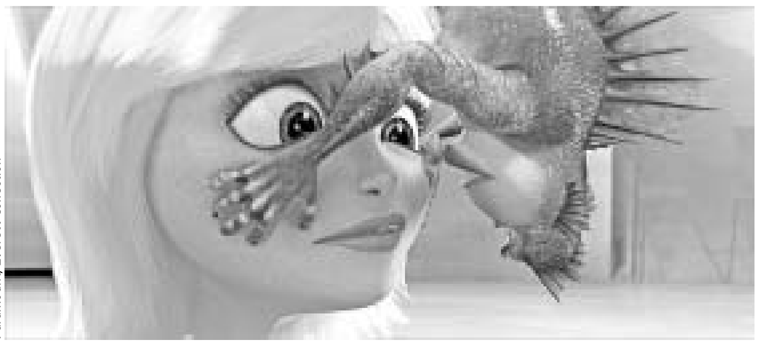
The confirmation of Santander's sale intention should cause Cepsa's share price to fall to about €30, said Fernando García, analyst at Espírito Santo Research. The possible sale is unlikely to influence the share price of Fenosa, he said, adding that the utility's stock is likely to remain at about €18.05, the price **Gas Natural SDG** SA is paying to acquire Fenosa.

—Bernd Radowitz contributed to this article.

CORPORATE NEWS

DreamWorks Animation reports 45% drop in net

By Lauren A.E. Schuker



Paramount/Everett Collection

DreamWorks Animation is banking on 'Monsters vs. Aliens,' which opens late next month, to drive revenue. The film will kick off the company's 3-D strategy.

DreamWorks Animation SKG Inc.'s fourth-quarter profit fell 45% as the movie studio struggled to match the success it had in the year-earlier quarter with "Shrek the Third."

The company said net income dropped to $51.6 million, or 58 cents a share, compared with $94.1 million, or 98 cents a share, a year earlier. Revenue for the quarter, at $199.8 million, was down 31%, missing analysts' expectations.

More than half DreamWorks Animation's revenue for the period came from "Kung Fu Panda," a summer movie hit that launched a new franchise for the studio and has brought in more than $630 million world-wide since its release in June.

In 2008, a year in which Hollywood's box-office receipts were flat, DreamWorks Animation had two of the top-grossing family films. In addition to "Kung Fu Panda," it also released "Madagascar: Escape 2 Africa."

Even so, the company's net income for the year dropped 35% to $142.5 million as revenue fell 15% to $650.1 million.

DreamWorks Animation, based in Glendale, Calif., is unique among Hollywood studios because it focuses exclusively on family fare and releases only a small number of films each year. In the past, that focus has allowed it to deliver more consistent returns than many competitors who bet on a range of films targeted at different audiences.

Many Hollywood studios have been hurt over the past few months by declining DVD sales. But DreamWorks Animation said that sales of "Panda" and "Madagascar" DVDs are holding up. "Panda" sold about 11.2 million units world-wide last year.

"We are not seeing the same level of erosion as our competitors, and we have not been impacted to the same degree," said DreamWorks Animation Chief Executive Jeffrey Katzenberg. "I just think it's the nature of our product—family films watched by kids dozens and dozens of times."

Looking ahead, the company expects its "Madagascar" sequel and the coming "Monsters vs. Aliens" to drive 2009 revenue. DreamWorks Animation will release "Monsters" domestically on March 27 on more than 2,000 3-D screens, fewer than originally planned. The film will kick off the company's 3-D strategy, which Mr. Katzenberg said will "reset the bar" for what moviegoers expect from a computer-generated animated film.

Senators question music merger

By Ethan Smith

The chief executives of **Live Nation** Inc. and **Ticketmaster Entertainment** Inc. faced a barrage of criticism and questions about their proposed merger from a Senate subcommittee Tuesday, in a sign that the $2.5 billion deal could face an uphill battle for regulatory approval.

Michael Rapino

The hearing was the first public scrutiny the deal has come under so far. Since Live Nation, the world's largest concert promoter, and Ticketmaster, the biggest ticketing company, announced their intention to merge this month, the plan has been criticized by competitors, politicians and consumer groups.

Some fear that the combined company, to be known as Live Nation Entertainment, would be able to control every aspect of the live-music value chain, from artists to fans. The Justice Department's antitrust division is conducting its own review of the all-stock merger deal.

In his testimony before the subcommittee, Live Nation CEO Michael Rapino cited economic conditions as the justification for the merger. "I have two choices," Mr. Rapino said. "I can hope the economy gets better, or I can seek a more proactive approach," like the proposed merger.

Ticketmaster CEO Irving Azoff justified the deal in part by saying, "The music business is in far worse shape than most people realize."

But two independent concert promoters who compete with Live Nation and an expert on antitrust issues insisted that the real reason for the merger is to further increase the two companies' dominance of the concert market.

"If this merger is allowed to proceed, the combined entity will have the ability to suppress or eliminate competition," said Jerry Mickelson, the chairman and executive vice president of **Jam Productions** Ltd., a Chicago concert promoter. "The whole game here is control."

The senators on the subcommittee occasionally piled on. Panel chairman Sen. Herb Kohl, Democrat of Wisconsin, chastised Messrs. Rapino and Azoff for not acknowledging the profit motive. "I'm disturbed that you're unwilling to discuss the main reason for your merger."

Sen. Charles Schumer, Democrat of New York, peppered Mr. Azoff with questions about a recent episode in which Ticketmaster's Web sites tried to sell Bruce Springsteen fans tickets at vastly inflated prices instead of "primary tickets" at face value. Sen. Schumer asked Mr. Azoff to agree that Ticketmaster should sell TicketsNow, the ticket-resale subsidiary. Mr. Azoff demurred but said he had taken steps to separate Ticketmaster's main operation from TicketsNow.

San Francisco could lose newspaper

By Shira Ovide
And Russell Adams

Signaling the U.S. newspaper industry's deterioration from malaise to crisis, **Hearst** Corp. said it may close the San Francisco Chronicle unless it can quickly slash costs at the money-losing daily.

Hearst said it will seek "critical cost-saving measures," including a steep reduction in the Chronicle's work force, which numbers about 1,500. If it can't reach its cost-saving target "within weeks," Hearst said it will seek a new owner for the Chronicle. And—at a time when few investors are willing to shell out money for large U.S. newspapers—the company said it will close the paper if it can't find a buyer.

The possible closure of the Chronicle, the 12th-largest U.S. paper and Northern California's largest daily, illustrates the acceleration of the newspaper industry's decline.

Advertising revenue is dropping faster than publishers can slash staff, stock dividends and other costs. Unlike many big newspaper chains, Hearst has a healthy balance sheet, but the closely held company says the Chronicle has posted significant losses since 2001, including a loss of more than $50 million last year.

Hearst also owns consumer magazines including Cosmopolitan and Esquire, a 20% stake in the ESPN cable channel and other papers.

Hearst acquired the San Francisco Chronicle in 2000 for about $660 million, and it has sunk more than $1 billion into the paper, including the purchase price and its operating losses over the last decade.

GLOBAL BUSINESS BRIEFS

Virgin Media Inc.

Currency, asset impairment lead to wider quarterly loss

U.K. television and telephony company **Virgin Media** Inc. reported a wider fourth-quarter net loss on impairment charges and negative currency effects. Virgin Media, which is listed on the Nasdaq but operates solely in the U.K, posted a net loss of £241.4 million ($349.7 million) compared with a net loss of £163.2 million a year earlier. The company attributed the wider net loss to impairment charges related to a review of its digital home-shopping business, Sit-Up, other intangible asset charges and foreign-currency losses. The strength of the dollar and euro compared with sterling also meant that long-term debt rose by £107 million to £6.27 billion. Revenue inched down 1.9% to £1.03 billion. The company said that it added 57,100 new customers for its broadband services, down from 106,200 last year, but that customer drop-out reached a record-low 1.2%.

Daimler AG

Daimler AG said sales of its Mercedes-Benz brand in mainland China rose 11% in January from a year earlier to 3,245 units. While Mercedes-Benz sales represent a small corner of China's auto market, the rise contrasts with a 7.8% drop in China's overall passenger vehicle sales in January and expectations for flat or single-digit overall growth in car sales in China this year. In 2008, Mercedes-Benz sales rose 44% in China to 38,700 units. January sales were boosted by the German auto maker's sport-utility vehicles, whose sales rose more than 80% from a year earlier. Sales of Mercedes' flagship model, the S-Class, rose 26%, the company said. **Chery Automobile** Co. and **Honda Motor** Co. also said this month that their China sales rose in January. To help rev up demand, China last month introduced lower vehicle taxes for cars with engines smaller than 1.6 liters.

Panasonic Corp.

Electronics maker **Panasonic** Corp. said it aims to double its European sales of white goods to 80 billion yen ($827 million) in the fiscal year starting April 2013 from the fiscal year that ended in March 2008). The target is based on its plan to begin selling five China-made models of washing machines and refrigerators in seven countries including the U.K., France and Germany in March. Panasonic will expand the sales of such products to other European countries gradually. It will also open a research facility in Germany in April.

Merrill Lynch & Co.

Fourth-quarter losses at Merrill Lynch & Co. totaled $15.84 billion—more than $500 million higher than a prior estimate of $15.31 billion from new owner **Bank of America** Corp. The bigger loss, disclosed in a regulatory filing Tuesday, reinforces the problems confronting the nation's largest bank by assets as it integrates Merrill and tries to weather the financial crisis. Larger-than-expected fourth-quarter losses at Merrill forced Bank of America to accept an additional $20 billion in U.S. aid, bringing the government's total assistance to $45 billion. Bank of America Chief Executive Kenneth Lewis said in a memo to employees this week that the bank doesn't need more federal money, and said, "I don't believe we'll need any more in the future."

Lenovo Group Ltd.

Lenovo Group Ltd. said it plans to shave about 450 jobs in China, or 2.7% of its China workforce, by the end of March as part of cost-cutting measures. The Beijing-based computer maker said the latest layoffs are in addition to the 2,500 job cuts it announced last month. Lenovo, which four years ago bought the personal-computer operations of International Business Machines Corp. in a landmark deal, has been refocusing on the Chinese market in response to the worsening global economic crisis. The just-announced staff cuts include employees who work on Lenovo's global supply chain, in human resources and information technology, according to a spokeswoman. In January, Lenovo said it planned to cut 11% of its total global workforce of about 23,500 people.

Sanofi-Aventis SA

Sanofi-Aventis SA said it has succeeded in taking over Zentiva NV after a seven-month battle, as the French company now holds 94% of the Czech generic-drug maker's share capital. The acquisition gives Sanofi operations in Eastern Europe, Turkey and Russia. Sanofi first bid for the Czech company in June 2008, trumping an earlier offer from another shareholder, Czech financial company **PPF Group** NV. The Paris-based pharmaceutical company offered 1,150 Czech koruna ($52) for each Zentiva share, valuing Zentiva at around €1.8 billion ($2.3 billion). "This operation is a typical example of the kind of acquisition that I want our company to make, as part of our efforts to diversify and strengthen our business in areas where there are attractive growth opportunities," Sanofi Chief Executive Chris Viehbacher said.

Axel Springer AG

German publisher **Axel Springer** AG, one of Europe's largest print media companies, said Wednesday that it posted a record profit for 2008, lifted by higher sales and a divestment gain. The Berlin-based publisher of daily Bild reported net profit of €571.1 million ($733.6 million) for 2008, compared with a year-earlier net loss of €288.4 million. The latest results were boosted by a gain of €427 million related to the disposal of a minority stake in ProSiebenSat.1 Media AG to majority shareholders Kohlberg Kravis Roberts & Co. and Permira. The 2007 earnings had been weighed down by a write-down on Axel Springer's stake in postal service-company PIN Group. Revenue grew 5.8% to €2.73 billion. The company didn't break out quarterly results. Axel Springer publishes more than 150 newspapers and magazines in 32 countries.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Obama vows to lead economic recovery

In an address to Congress, president says the U.S. will emerge stronger; push on health, energy, education

By Jonathan Weisman

Associated Press

U.S. President Barack Obama used his address to Congress Tuesday to highlight government efforts to stoke an economic recovery.

WASHINGTON—President Barack Obama, in his first formal address to the U.S. Congress, straddled the divide between fear and hope Tuesday night, declaring the "day of reckoning has arrived" for an indulgent nation but vowing to lead a recovery from the deepest recession since World War II.

The speech, 52 minutes long, punctuated by more than 60 ovations, was billed as a rhetorical salve to a nation battered by layoffs and plunging stock prices—and a tempering of pessimistic rhetoric from the Oval Office over the past few weeks.

Despite the recession and a large budget deficit, Mr. Obama promised to press forward with major initiatives in health care, energy and education. He warned the nation's major banks, teetering on the brink of collapse, that he will "force the necessary adjustments" to push them back to viability, even as he conceded those banks will likely need even more money from the federal government than the $700 billion in the initial bailout.

The president said he'll address the burgeoning costs of entitlement benefits for health care and retirement, and hinted at a Social Security plan that would include tax-free savings accounts for everyone.

Insisting that he could pursue his wide-ranging agenda, and at the same time cut the deficit in half, Mr. Obama singled out programs he will try to cut from the budget, from agricultural subsidies to military weapons systems, and taxes he said must be raised, on affluent individuals and businesses that shield overseas profits from the Internal Revenue Service.

But the speech was intended to be more about broad themes—about trying to give Americans some optimism amid the gloom.

It was a note he struck early in his address when he declared, to sustained applause from lawmakers, cabinet officials, military leaders and Supreme Court justices in the Capitol's packed House: "While our economy may be weakened and our confidence shaken; though we are living through difficult and uncertain times, tonight I want every American to know this: We will rebuild, we will recover, and the United States of America will emerge stronger than before."

After speaking of that brightening future, the president tried to turn the page on a past era he hoped would not stain his administration or bring down his ambitious agenda. The blame, he said, lay both in former President George W. Bush's Washington and outside it, and in a time when a budget "surplus became an excuse to transfer wealth to the wealthy instead of an opportunity to invest in our future."

He went on to portray an age when "regulations were gutted for the sake of a quick profit at the expense of a healthy market" and "people bought homes they knew they couldn't afford from banks and lenders who pushed those bad loans anyway."

Mr. Obama tried to put a hard stop to what he portrayed as a ruinous decade and to assure listeners that with shared sacrifice and a new sense of responsibility, Americans can emerge stronger than ever. The "day of reckoning has arrived, and the time to take charge of our future is here," Mr. Obama said. "Now is the time to act boldly and wisely—to not only revive this economy, but to build a new foundation for lasting prosperity."

The president spent much of his address explaining what his administration has already done: one of the largest economic-stimulus plans in history; an expansion of children's health insurance; a new effort to rescue the banking sector, and plans to prop up the housing market.

Mr. Obama said he was saving the main policy details of his agenda for his budget blueprint, which is scheduled for release Thursday. But his nods to those policies—many shaped during the presidential campaign, before the downturn consumed his early agenda—were ambitious.

He vowed to tame health-care costs while expanding access to insurance, and promised to not let the opportunity for comprehensive reform slip away, as has been the case for many presidents before. "Health-care reform cannot wait, it must not wait, and it will not wait another year," he said. On energy, he cheered environmentalists by asking Congress to send him legislation with a market-based cap on carbon production that will control climate change and increase production of renewable energy.

And the president talked at length about education, promising to reform the fundamentals of U.S. schools, adding new accountability as well as new dollars, while challenging all Americans to get at least one year of education or training beyond high school.

Mr. Obama entered the House chamber with high approval ratings and a series of legislative successes already under his belt. With an audience of 313 Democrats and Democratic-leaning independents in the House and Senate, against 219 Republicans, he played to a friendly crowd.

His praise for the $787 billion stimulus plan that passed with virtually no Republican support drew lavish applause from Democrats and stony silence from the Republicans. His vow not to saddle future generations with a crushing government debt drew cheers from Republicans, who blame the president's stimulus plan for adding significantly to that debt burden—then partisan applause from Democrats when he stressed he inherited most of that debt.

The Republicans signaled their reaction through Louisiana Gov. Bobby Jindal, who delivered the party's official response, pledging to work with the president.

The rising Republican star took a pass at criticizing Mr. Obama, saying, "We don't care what party you belong to if you have good ideas to make life better for our people."

Instead, he focused his shots at unnamed "Democratic leaders" who passed the $787 billion stimulus bill. "What it will do is grow the government, increase our taxes down the line, and saddle future generations with debt," Mr. Jindal said.

The president faces a slate of challenges that even his top aides say they weren't prepared for on Inauguration Day. The Dow Jones Industrial Average has fallen nearly 10% since he took office. The financial sector is in worse shape than previously thought. Consumer confidence has dropped to record lows.

That sense of crisis helped propel passage of the president's stimulus package. But now, White House aides said, Mr. Obama wants to restore the same sense of hope that buoyed his campaign.

—Laura Meckler and Naftali Bendavid contributed to this article.

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Online Today

See an analysis of the words used in other first congressional addresses in times of economic uncertainty, from FDR to Ford to Bush, plus see photos and video and grade Obama's speech, at **WSJ.com/Politics**

President lifts tone, seeks to reach average Americans

By Gerald F. Seib

CAPITAL JOURNAL

Every day staffers bring President Barack Obama about 10 letters picked from the blizzard the White House regularly receives, so he can get a sampling of the economic grief average citizens are describing.

Tuesday night, in his first address to a joint session of Congress, Mr. Obama was talking more to those letter-writers beyond the Capitol than to the lawmakers arrayed before him.

Confronted with dire economic conditions, the president faced a choice between making his big speech a Bill Clinton-like policy manifesto or a Franklin Roosevelt-like fireside chat. He chose the latter.

His speech wasn't much designed to sell lawmakers on an economic-stimulus plan—which, after all, they already have passed—or to explain to them the details of a budget plan they have yet to see.

Instead, it was structured above all to convince average Americans that all the pieces of his recovery plan really do fit together. Thus, the president told the residents of Main Street why they should want Wall Street rescued, despite the anger they feel toward bankers and financiers. He sought to reassure the good people of America that bad people won't be rewarded with tax dollars for irresponsible behavior.

And—belatedly, in the eyes of Mr. Obama's critics—his remarks were designed to tell Americans it's OK to be optimistic. One of the great questions hanging over the speech beforehand was which Barack Obama would show up to deliver it: the lyrical maestro of hope from the presidential campaign, or the more recent grim prognosticator of tough times ahead.

Mr. Obama has been walking a fine line. On one hand, he has been bluntly warning people of tough times ahead so their expectations of success don't get inflated. On the other hand, he's tried to convince them he knows how to fix things. If anything, though, he has erred on the side of being too downbeat.

White House aides are acutely aware that he was, as a result, accused of scaring the citizenry and talking down the very economy he's tying to pull out of the ditch. So Tuesday night, while there still was plenty of what one aide called "sober, realistic talk," there also was an uplifting ending, complete with a Frank Capra-style call for fellow citizens to "confront without fear the challenges of our time and summon that enduring spirit of an America that does not quit."

A principal goal of the presentation was to husband the greatest asset the White House has right now, which is the willingness of the public to give the president a chance to make it all work. "People are rooting for him," one senior aide said simply before the speech began.

But that isn't a guaranteed or permanent condition. Obama aides know its continuation requires translating complicated economic debates into understandable terms, as well as channeling the anger and fear Americans feel to the president's benefit lest it be turned against him.

Nowhere was this effort to channel anger more clear than in the president's explanation of his efforts to stabilize the financial system. Mr. Obama tried, in effect, to beat up on Wall Street to improve his chances to save Wall Street.

White House officials know that economic success depends heavily on their ability to help turn the banking system's credit spigots back on. So a big chunk of Mr. Obama's speech was devoted to explaining to Americans why that effort is so important, and why they should support efforts to lubricate the very financial system many of them have come to despise.

The problem, one senior Obama aide notes, is that public anger at Wall Street and the banking world is "red hot" right now. Convincing taxpayers to support the financial system is a tough sell, particularly considering that the president noted in passing that he's likely going to need to ask for more than the $700 billion already allotted for the task.

Thus, the White House has calculated that it must first convince taxpayers that none of their money will end up rewarding bad behavior, that people who made bad decisions will pay a price, and that the system's excesses will be stopped. That explains the president's emphasis in his speech on ending an "era of irresponsibility."

ECONOMY & POLITICS

U.K. retail stays strong

Consumers spend as prices, taxes, interest rates fall

By Natasha Brereton

LONDON—Consumer spending may be a stronger support for the U.K.'s economy than expected and a money-supply boost might give stimulus measures enough time to work, Bank of England Monetary Policy Committee member Andrew Sentance said in an interview.

The U.K. economy is in recession, having shrunk by 1.5% in last year's fourth quarter and 0.7% in the third. Official figures published Wednesday showed that a drop in U.K. household spending was a large impetus behind that, falling at its fastest pace since 1991 in the last three months of 2008.

But even while spending has fallen in many areas, the U.K.'s retail sales have remained relatively strong. A survey by the Confederation of British Industry released Tuesday recorded an improvement in sales volumes at U.K. retailers.

Retail sales represent about 30% of consumer spending. The rest incorporates expenditure on everything from education and health, to hotels and restaurants and the amount U.K. tourists spend abroad.

"In general, consumer spending has played a stabilizing role in U.K. recessions," Dr. Sentance said. "There are quite a few good reasons why we might expect that to be the case in the current environment."

Those reasons include a boost in disposable incomes from the fall in energy and other commodity prices, a cut in sales tax and the reduction in mortgage-interest payments as a result of interest-rate cuts.

Inflation has decelerated, but less than many had forecast. Consumer-price inflation eased to 3% in January, having peaked at 5.2% in September. That compares with the euro zone, where the inflation rate fell to 1.1% in January from a peak of 4.0% in July.

Andrew Sentance

One reason for the slight decline might be the pound's weakness. The pound dropped about 26% against the dollar during 2008, raising the price of imports.

The BOE has long said it wants to see the U.K. economy rely more on exports and less on domestic consumer demand. But with the government's fiscal largess and the central bank's sharp monetary easing, U.K. authorities may be standing in the way of that process.

With its key interest rate at 1%, the nine-member MPC unanimously decided to ask for permission to boost the money supply through purchase of government bonds and other securities. The government and central bank are expected to release details this week on how the policy would be implemented.

Increasing the money supply would help keep consumer and business confidence high enough to give the rate cuts and government stimulus measures time to work, said Dr. Sentance. At the same time, the BOE doesn't want to add too much fuel, leading to runaway inflation.

"We'll be trying to make as measured a judgment as we can, recognizing that this is a more uncertain area of policy," he said.

Many analysts feel the European Central Bank is behind the curve in fighting the downturn by not cutting interest rates quickly enough. The European Central Bank is likely to lower its key rate to 1.5% from 2% next week, taking the policy rate to the lowest in the bank's 10-year history. But some policy makers have expressed reluctance to lower rates much further.

ECB Governing Council member Axel Weber said a key rate "of 1% is for me the lowest limit," in an interview released Wednesday with German daily Die Welt. But Dr. Sentance praised the international policy response, saying he'd "put the risk in the other direction."

"I would really want to draw attention to the fact that wherever you look in the world there has generally been quite a strong policy response to the present situation, and that can only be helpful over the medium term for global economic growth," he said. "But we know that it takes time for those measures to feed through."

Russia tries to fund new deficit

By Lidia Kelly

MOSCOW—Russia's first budget deficit in a decade will hit 8% of gross domestic product this year, Finance Minister Alexei Kudrin said Wednesday, adding that further budget concessions are needed to allow spending to contain the economic crisis.

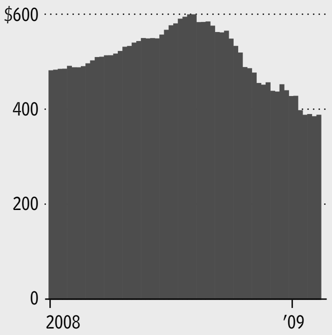
Speaking at the annual State Treasury meeting, Mr. Kudrin said the country faces a very painful year. "A deficit of 8% is the maximum amount we can afford in the current situation," he said.

A bigger shortfall would fuel inflation beyond the already high forecast of 13% to 14% for this year, he added.

Most money to cover the budget deficit would come from a fund consisting of windfall oil revenue. Windfall oil revenue comes from taxes exporters pay when oil rises above $27 a barrel. To replenish the fund, Russia's central bank will have to print extra rubles to purchase currency reserves from the Finance Ministry.

Nest egg

Russia's international financial reserves, weekly data in billions



Source: Central Bank of the Russian Federation

The Kremlin has been working on the new budget—amid much debate—since early January. The budget will be ready by March 8, Mr. Kudrin said, but it is a work in progress, as about one trillion rubles ($27.89 billion) of earlier planned spending must be reallocated to meet the 8% GDP deficit target and fund measures to cope with the financial crisis.

The task isn't easy, said Mr. Kudrin, a 12-year veteran of the Finance Ministry, because Russia will also see 2009 budget revenue drop 42% from earlier estimates to 6.349 trillion rubles, amid plunging oil prices. Prime Minister Vladimir Putin, whose popularity is starting to flag as Russians endure the worst crisis in a decade, ordered a new budget to be based on an oil price of $41 a barrel—compared with the $95-a-barrel average price assumed earlier. "Not many countries face such drastic budget revisions," Mr. Kudrin said.

Late last week, President Dmitry Medvedev criticized the government for an "unacceptably slow" response to the economic crisis.

Estonia convicts a spy for Russia

Associated Press

TALLINN, Estonia—An Estonian court convicted a former top security official of treason Wednesday for passing domestic and North Atlantic Treaty Organization secrets to Russia in the Baltic country's biggest espionage scandal since the Cold War.

Herman Simm, the former head of security at the Estonian Defense Ministry, was sentenced to 12 years and six months in prison in a trial that was kept secret until the verdict was announced Wednesday. It also ordered him to pay 20.2 million kroons ($1.7 million) in damages to the Defense Ministry.

The Harju County Court didn't specify which country the 61-year-old handed the secrets to, but chief prosecutor Norman Aas said Mr. Simm "collected and forwarded classified Estonian and NATO information" to Russia's foreign-intelligence service from 1995 until his arrest last year.

Investigators said Mr. Simm received about 1.3 million kroons in exchange for the classified documents. Most of them concerned Estonia's defense policy, defense systems and foreign relations, but they also included information on NATO communication systems, investigators said, adding they have been working with the alliance on the case.

Estonia joined the NATO alliance in 2004. NATO spokeswoman Carmen Romero declined to comment about the case, saying the alliance doesn't discuss intelligence matters publicly.

FRANCHISING

THE MART

No early China rebound

Despite credit boost, steel prices decline and trade shrinks

By Andrew Batson

BEIJING—Hopes for an early recovery in China's economy are starting to unravel, undercutting the optimism that has helped to make the country's stock market the world's best performer this year.

In recent weeks, some companies and investors had seized on a surge in bank lending and an upturn in steel prices—a key indicator in China's industry-heavy economy—as signs that a massive government stimulus program was already taking hold.

But now steel prices are falling again, and closer examination of the recent bank data suggests that many of the loans won't immediately fuel economic growth. Meanwhile, trade has continued to contract, as demand for Chinese exports from the U.S. and Europe wanes, and Chinese companies and consumers, in turn, buy fewer foreign goods.

The upshot is that a real pickup in China's economy could still be several months away, or longer. That's bad news for a global economy in which China is the only major power still growing.

"It would be a mistake to think that China could decouple from the rest of the world, or carry the rest of the world on its shoulders," said Bruce Kasman, chief economist for J.P. Morgan. "A sustained recovery in China is dependent on better news globally."

China's government has put about 230 billion yuan ($34 billion) into stimulus projects so far, with more to come. Many economists think it will take time for that jolt to work its way through the economy, and don't expect major effects to show up until late this year.

Reversal

Chinese steel prices are shedding recent gains as demand fails to materialize. China's demand for imports has also dropped sharply.

Domestic steel price index, weekly data

Source: Mysteel

Local companies, more optimistic about the stimulus package, began bidding up steel prices and freight rates in December. Investors did the same with Chinese stocks: The benchmark Shanghai Composite Index at one point this month was up 30% for the year, though it has come down a bit since.

By the beginning of February, steel prices had gained about 15% from November lows.But much of that steel was stockpiled, rather than immediately used in factories or construction sites. Inventories of some steel products rose more than 30% in January from December, the China Iron & Steel Association said in a report last week.

The anticipated demand hasn't yet materialized, and those inventories are weighing on the market. Average steel prices dropped 6.3% last week, after falling 3.2% the week before, according to Mysteel, a Shanghai-based research firm.

Getting a solid read on the Chinese economy has been particularly difficult in recent weeks because the weeklong Lunar New Year holiday fell earlier this year than in 2007, distorting annual comparisons of key indicators in January.

Other data reinforce the sense that economic activity has yet to revive. Industrial output in the business hub of Shanghai fell 12.7% from a year earlier in January—even after adjusting for the holiday. (Nationwide, industrial statistics haven't yet been published for January.) Also, imports nationwide fell 43.1% in January from a year earlier—a drop that, allowing for the holiday, suggests slowing demand.

"Domestic demand for imports is still very weak, as the housing-construction slump continues, and the fiscal stimulus-induced investment demand has yet to come through," said UBS economist Wang Tao.

The huge expansion in lending in January—banks made 1.62 trillion yuan in new loans, twice as much as last year—was widely seen as a positive sign. But other data on deposits suggest companies are hoarding their casht, so those loans may not be immediately fueling growth.

Further doubts have been raised by the unusual nature of recent loans. Short-term bills accounted for 42% of new corporate lending in January. Because companies can borrow those bills for a lower interest rate than they earn on deposits, some economists think the surge comes more from financial engineering, not borrowing.

Meanwhile, major Chinese port operators are reporting even lower volumes of containers coming through in February than in January, Citigroup analysts Ally Ma and Brian Lam wrote in a report this week. Based on those data and other indicators, an annual decline of 20% or more in Chinese exports in coming months "seems inevitable," the analysts wrote.

Pakistan leader imposes federal rule in Punjab

By Zahid Hussain

ISLAMABAD—Pakistan was plunged into fresh political turmoil Wednesday when President Asif Ali Zardari dismissed the provincial government in Punjab and imposed federal rule in the province after the Supreme Court upheld a decision barring the nation's opposition leader from holding elected office.

The Supreme Court's decision upheld a lower court ruling barring Nawaz Sharif from elected office because of a prior conviction.

Nawaz Sharif

The move heightened political tension in the nation as the government seeks to quell an Islamist militancy that has stretched toward the capital. The court's decision is expected to put pressure on the nation's fragile democratic process.

Pakistan returned to elected civilian rule just a year ago after nine years of military rule. Mr. Sharif currently holds no elected office but is the leader of the opposition because he leads the party with the second-largest bloc in the national parliament.

Asif Ali Zardari

The court also removed Mr. Sharif's brother, Shahbaz Sharif from his post as chief minister of Punjab, Pakistan's largest and most powerful province, upholding another earlier court decision that found irregularities in his election to the provincial parliament. A presidential spokesman said the federal rule would stand for two months.

Mr. Sharif, a former prime minister, accused Mr. Zardari of influencing the court ruling. "It is a political decision given on the directives of Mr. Zardari," he said at a news conference at his residence in Lahore. "It is a conspiracy to keep me out of politics." He called his supporters to resist the government action to impose federal rule in Punjab.

The government denied that it influenced the court decision. "It is purely a legal issue and the government has nothing to do with it, " said Khurshid Shah, a federal minister.

The decision against the two men doesn't change the balance of power in Pakistan's national parliament, where Mr. Zardari's Pakistan People's Party runs the government.

Mr. Sharif had declined to appear before the court saying he didn't recognize the judges because they were appointed by former President Pervez Musharraf under a national emergency rule in December 2007. Mr. Sharif is supporting a movement led by lawyers for the reinstatement of former chief justice Iftikhar Mohammed Chaudhry who was dismissed by Mr. Musharraf's government.

Mr. Sharif's government was ousted in a military coup in 1999 and he was sentenced to life imprisonment by an antiterrorism court for ordering the hijacking of a passenger plane carrying Mr. Musharraf, who was the chief of army staff at that time. Mr. Sharif later was exiled to Saudi Arabia.

Analysts said the court decision would have far-reaching consequences for the country's fragile democratic process and for the war on terrorism. "Political instability will directly affect the government's ability to fight terrorism," said Aysha Siddiqa, a political and defense analyst.

The verdicts triggered a drop in Pakistan's benchmark stock index on the expectation of political tensions and possible street violence.

Mumbai gunman is charged with murder, waging war

By Eric Bellman

MUMBAI—Indian police on Wednesday charged the only surviving gunman from the November attacks in Mumbai with murder and waging war against India.

Investigators filed more than 11,000 pages of evidence with a criminal court in Mumbai, charging Mohammed Ajmal Kasab with 12 crimes, at least two of which carry the death penalty.

Police said the document includes testimony from more than 2,200 witnesses as well as confessions from Mr. Kasab and transcripts of the conversations between the attackers and their handlers—who police say were managing the attacks from Pakistan.

"We are very, very confident that we will obtain a conviction," Rakesh Maria, a joint commissioner of police in Mumbai told reporters.

The charge sheet states that Mr. Kasab and nine alleged accomplices who were killed during the attacks were trained and supported by 37 others. All but two of those involved in the attacks were Pakistani nationals, Mr. Maria said.

Two Indians accused of helping the attackers, Faheem Ahmed Ansari and Sabauddin Ahmed, surveyed the targeted sites before the attacks and passed on what they saw, police said. Both men were already in custody in connection with another attack when the Mumbai assaults were launched in late November.

The three-day siege, which left more than 170 people dead including the attackers, targeted luxury hotels, a train station, a Jewish center and other sites in India's business capital.

During the attacks, the 21-year-old Mr. Kasab was caught on film at Mumbai's railway station holding a gun.

The charge sheet blames the attack on Lashkar-e-Taiba, an Islamist militant group that many believe was created by Pakistani intelligence agencies in the 1980s to fight India rule in the divided Kashmir region. However, the documents presented Wednesday don't allege direct involvement of the Pakistani government or its intelligence agencies, Mr. Maria said.

He said the police are still investigating whether the attackers had received grenades made in a factory used by the Pakistani military.