News in Depth: Obama's revolutionary budget

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THE WALL STREET JOURNAL.

As RBS sinks, U.K. steps in again

Big bank moves to edge of nationalization as government agrees to insure assets, inject billions

LONDON—The U.K. government took banking giant **Royal Bank of Scotland Group** PLC to the brink of nationalization Thursday, agreeing to pump in billions of pounds and insure some £300 billion ($426 billion) in assets amid the diminishing list of bailout options available to banks and governments around the globe.

By Sara Schaefer Muñoz, Alistair MacDonald and Carrick Mollenkamp

In a gamble aimed at shoring up confidence in the British financial system, the U.K. Treasury chose to insure a larger pool of assets than expected, signaling that it is prepared to commit enough taxpayer money to see the country's banks through even a deep and prolonged recession. (See related articles on pages 20 and 28.)

To put RBS in a better position to begin lending again, the government also will provide as much as £25.5 billion to rebuild the bank's capital. The injection could increase the gov-

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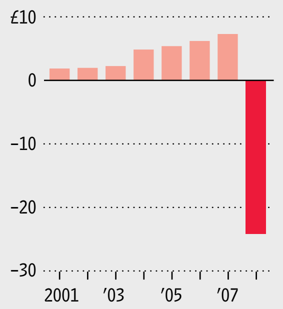
At a low point

Royal Bank of Scotland's net profit/loss, in billions



Source: the company

Chief Executive Stephen Hester announced a restructuring plan for the Royal Bank of Scotland.

UBS removes CEO amid big losses, tax probe

By Carrick Mollenkamp

Engulfed by big losses and embroiled in a tax-evasion investigation by the U.S. government, Swiss bank **UBS** AG on Thursday tapped Oswald Grübel to succeed Chief Executive Marcel Rohner.

Mr. Grübel is the 65-year-old former chief of crosstown rival Credit Suisse Group who retired in the spring of 2007.

The sudden departure of Mr. Rohner, who only took over in 2007, marks the second change at the top of UBS in less than two years and caps a string of other management changes at the bank. Mr. Rohner's departure comes after a run of bad news that included reporting the largest annual loss ever by a Swiss company, cutting about 11,000 jobs, and the need for a big aid package from the Swiss government.

Then last week, UBS settled an embarrassing U.S. criminal tax-evasion inquiry by turning over the identities of 250 private account holders to the U.S.—a historic piercing of the secretive Swiss banking world—and acknowledging that some bankers had committed fraud while assisting U.S. clients in evading taxes.

Some of the client activities involved in the case occurred during a time when Mr. Rohner ran UBS's private bank.

UBS and the U.S. Justice Department are now engaged in a parallel civil case in Miami that could force UBS to turn over the identities of the holders of 52,000 accounts.

A spokesman for UBS said Mr. Rohner wasn't available for comment.

In Mr. Grübel, UBS is turning to a retiree who lately had been spending time in Zurich and Spain while monitoring trading news at a computer terminal. His age may raise questions about how long he will stay, and even Mr. Grübel said, in an interview: "My reservations were, look, that's a job for a 45-year-old."

Mr. Grübel, a German citizen better known as Ossie, said he envisions a maximum stay of five years. "I am committed to the turnaround," Mr. Grübel said. "I also have no intention to stay any longer than is necessary."

But Mr. Grübel wasted no time showing he hasn't lost his touch for tough-nosed turnaround work with a pointed memo Thursday that delivered the message: I love your spirit in these difficult times—but I'll be cutting more jobs. At the same time, Mr. Grübel, a former bond trader, began working the phones to call key customers.

UBS stock rose 16% to 11.74

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Obama's budget transforms U.S. agenda

By Jonathan Weisman

WASHINGTON—U.S. President Barack Obama delivered a $3.6 trillion budget blueprint to Congress Thursday that aims to "break from a troubled past," with expanded government activism, tax increases on affluent families and businesses, and spending cuts targeted at those he says profited from "an era of profound irresponsibility."

The budget blueprint for the fiscal year beginning Oct. 1 marks a profound shift from nearly 30 years of America's governing philosophy, as the Obama administration seeks to reorder the federal government to provide national health care, shift the energy economy away from oil and gas, and boost the federal commitment to education.

To pay for it, the president would raise taxes sharply, not only on affluent families but on American companies doing business overseas, hunting for oil and gas deposits, or skimming a percentage of their clients' investment gains for their own compensation. In strikingly moral tones, Mr. Obama implored Americans to own up to the mistakes of the past while accepting profound sacrifices. "This is the legacy that we inherit—a legacy of mismanagement and misplaced priorities, of missed opportunities and of deep, structural problems ignored for too long," intones the sober, deep-blue-covered document, titled "A New Era of Responsibility."

A governing philosophy that began to take shape on Inauguration Day takes full flight in the 134-page blueprint for spending and tax policy that would cover a decade of change. Where Ronald Reagan once declared government the problem and not the solution, Mr. Obama asserts, "government must lead." Where Mr. Reagan believed

Please turn to page 14

'We need to be honest with ourselves about what costs are being racked up, because that's how we'll come to grips with the hard choices that lie ahead,' President Barack Obama said Thursday.

What's News

GM reported a $9.6 billion loss in the fourth quarter, capping a dismal 2008, as a stunning downturn throughout its global operations raised new concerns about the U.S. auto maker's viability. Page 3

■ **Talks intensified** in Germany on the need for potential aid for GM's Opel unit, as workers rallied to keep up political pressure for a bailout. Page 3

■ **U.S. orders** for big-ticket items dropped sharply, as a broad range of data pointed to an economy that has fallen deeper into recession. Page 9

■ **Business and consumer** confidence in the euro zone hit a record low as new orders dried up and concerns about job losses rose. Page 2

■ **U.S. stocks fell**, continuing to follow a rocky path. Shares in Europe got a boost from restructuring announcements from RBS and UBS. Page 18

■ **Allianz posted** a quarterly loss of $3.95 billion, hurt by big losses related to the sale of Dresdner Bank. Page 17

■ **BASF turned in** a fourth-quarter loss as demand for its products slumped more sharply than expected. Page 7

■ **Britain acknowledged** that its troops handed over two terror suspects in Iraq to the U.S., which then sent them to Afghanistan for interrogation.

■ **Iraq's Parliament** is considering budget cuts of about $4.2 billion as it tries to cope with low oil prices. Page 10

■ **Iceland's Parliament** moved to oust the central-bank chief, who had resisted appeals to resign. Page 2

■ **Ukraine's Yushchenko** agreed to hold talks with rival Tymoshenko on an agreement they hope will restart a stalled IMF loan program.

■ **Daimler won** approval to offer vehicle leases in China, a sign that Beijing plans to help auto makers use financing tools to lift demand. Page 4

■ **GKN said it plans** to cut more jobs as the automotive and aerospace-components maker reported a loss. Page 4

■ **Italy's IT Holding**, owner of the Gianfranco Ferré luxury label, was placed in bankruptcy administration. Page 5

■ **Engine trouble may** have caused the Turkish Airlines crash that killed nine in the Netherlands, an official said.

Editorial & Opinion

Western promises

We must help the post-communist countries, says John Kerry. Page 13

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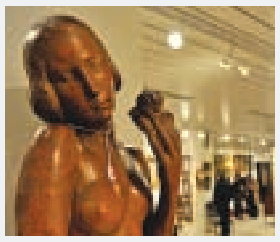


Browsing Brussels

Exploring the city's hidden art and antique treasures

Weekend Journal, page W8

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7182.08	-1.22
Nasdaq	1391.47	-2.38
DJ Stoxx 600	176.14	+2.22
FTSE 100	3915.64	+1.73
DAX	3942.62	+2.51
CAC 40	2744.84	+1.78
Euro	$1.2762	+0.44
Nymex crude	$45.22	+6.40

LEADING THE NEWS

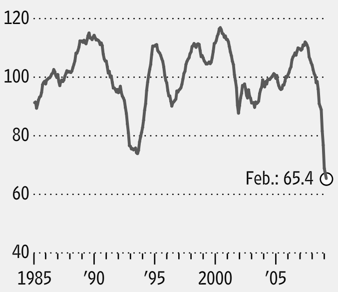
Business and consumers still losing confidence

Rising joblessness feeds worker fears; rates to head lower

By Paul Hannon

Sentiment sinks

Euro zone's overall economic-sentiment indicator fell in February, the lowest level since 1985



Source: European Commission

LONDON—Business and consumer confidence in the euro zone hit a record low in February as new orders dried up and concerns about job losses mounted.

The further decline in sentiment suggests economic growth will continue to slow over the coming months in the 16 countries that use the euro, and gives the European Central Bank fresh cause to consider a big cut in its key interest rate. The central bank meets next week and is likely to lower its key rate by half a percentage point to 1.5%.

According to a monthly survey by the European Commission, the European Union's executive arm, the overall Economic Sentiment Indicator for the euro zone fell to 65.4 in February from a revised 67.2 in January. It was the lowest level for the ESI since the survey began in January 1985.

Rising joblessness in Germany and France underscored the gloom. Some 90,200 French workers lost their jobs in January, the largest monthly jump ever. The number of jobless workers rose less rapidly than expected in Germany, with 63,000 becoming unemployed in February, but economists warned unemployment is likely to continue rising amid the economic slowdown.

The commission's survey showed consumer confidence was undermined by increased pessimism about the economic outlook and heightened fears of unemployment. The commission's headline measure fell to a record low of minus 33 in February from minus 31 in January.

Confidence in industry took the biggest hit in the month as new orders evaporated. The commission's measure for new orders fell to a record low of minus 57 from minus 49 in January, as did its measure for export orders. The overall measure of confidence in industry fell to a record low of minus 36 from a revised figure of minus 33 in January.

The outcomes for economic sentiment, industrial confidence and consumer confidence were all weaker than expected.

German consumers offered a rare positive note, as government car-scrapping incentives and lower consumer prices bouyed consumer sentiment in Europe's largest economy in March. German market-research group GfK's forward-looking consumer climate index rose to 2.6 points for March, defying expectations of a decline. It was helped by low inflation and the government's financial incentives.

But GfK cautioned that much depends on how badly the crisis hits Germany's labor market in coming months. "A very large rise in unemployment would also put a considerable damper on the consumer mood," it said.

The European Central Bank has indicated it will cut its key interest rate to 1.5% from 2% when its Governing Council meets March 5. ECB figures released Thursday indicate that banks in the euro zone continued to cut lending to households in January, although by a much smaller amount than in December.

Preliminary data released Thursday show inflation in Germany was likely stronger than expected in February, but receding price pressures across the euro zone give the ECB scope to cut its key rate further. Euro-zone annual inflation in January was 1.1% and is expected to fall to 1% in February. The ECB aims to keep inflation just under 2%.

—Nicholas Winning and Emese Bartha contributed to this article.

Iceland ousts its central banker

By Charles Forelle

Iceland's parliament moved to oust central-bank chief David Oddsson, who had for weeks resisted appeals by the prime minister and public to resign.

Mr. Oddsson, Iceland's prime minister from 1991 to 2004 and central-bank chief since 2005, is widely blamed for a banking-system collapse that wreaked havoc on the island's economy. In January, the crisis claimed Iceland's entire government.

By law, the central-bank chief can't be fired, and Mr. Oddsson publicly declined Prime Minister Johanna Sigurdardottir's entreaties to step down. So she crafted a bill that reorganizes the central bank and requires that its governor have a master's degree in economics. Mr. Oddsson, a lawyer, doesn't have that credential.

The bill, which Parliament passed Thursday, now goes to President Olafur Grimsson for his signature—typically a formality—and is expected to take effect Friday.

Mr. Oddsson "will be out of a job starting tomorrow," the prime minister's spokesman said Thursday.

It isn't clear who will succeed Mr. Oddsson. Prime Minister Sigurdardottir has said she would like to cast an international net in searching for candidates. A spokesman for the prime minister said Thursday that for several months, an interim central banker will be in place while the government considers permanent candidates for the job.

Once an icon of Nordic prosperity, Iceland grew rich on banking, thanks in part to economic reforms championed by Mr. Oddsson while he was prime minister.

David Oddsson

The credit crunch last year brought a reversal of fortune. Foreign investors fled, pounding the country's currency, the krona. The banks—which had expanding rapidly by lending overseas—were left with debts in euro and sterling they couldn't pay. The government didn't have enough foreign currency to bail out the banks. Over a few days in October, all three of the country's big banks collapsed and were seized by the government.

Today, Iceland is facing a sharp rise in unemployment and inflation and a bleak contraction in economic output. It has accepted a $2.1 billion loan package from the International Monetary Fund.

Critics said the central bank failed in its role as lender of last resort, and maintained foreign-exchange reserves far too small for the country's bloated banking system. They also blame Mr. Oddsson for hastening the banks' collapse with ill-conceived rescue plans and an angry TV interview at the peak of the crisis in which he said Iceland wouldn't back the banks' foreign debts.

The central bank's press officer said Mr. Oddsson wouldn't comment.

Mr. Oddsson has rejected criticism, saying that reforms transferred much of the central banks' supervisory authority to another agency, and that he warned that the commercial banks were too extended. Much of the fault, he has said, lies with the banks' profligate lending.

Though he pledged in a fiery letter earlier in February ((FEB)) that he wouldn't leave office, Mr. Oddsson appeared resigned to his fate. Thursday, before the bill passed, he called a meeting of the central bank's staff and told them he wouldn't be around much longer.

CORRECTIONS & AMPLIFICATIONS

A Financial News chart Wednesday showing the U.K.'s top corporate brokers listed incorrect rankings. A corrected version appears on page 20.

Israeli Foreign Minister Tzipi Livni said she didn't support forcing Israel Arabs to be transferred to Palestinian control when she said in December that their "national aspirations lie elsewhere." A Feb. 6 Economy & Politics article said the comment was widely interpreted as endorsing such a policy, but didn't include Ms. Livni's subsequent clarification.

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

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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LEADING THE NEWS

GM posts $9.6 billion fourth-quarter loss

Viability concerns persist as auto maker closes dismal year

General Motors Corp. capped a dismal 2008 with a $9.6 billion net loss in the fourth quarter, as a stunning downturn throughout its global operations raised new concerns about the Detroit company's viability.

By Sharon Terlep, John D. Stoll and Neil King Jr.

For all of 2008 the company said it lost $30.9 billion, the second-worst financial performance in its 100-year history. GM warned investors it may not be able meet its auditors' "going concern" requirements, meaning the company could break covenants on billions of dollars in debt in coming months.

GM burned through $6.2 billion in cash during the last three months of 2008, and $19 billion over the course of the year, as the rate of sales declines outpaced the company's ability to cut costs.

GM had entered the year with more than $30 billion in liquidity reserves, or at least $16 billion more than the company needed to fund operations. That cushion disappeared as U.S. vehicle sales skidded to multidecade lows and a freeze in the credit markets prevented the company from raising funds.

GM ended 2008 with $14 billion in available liquidity—equal to how much cash the car maker plans to burn this year, Chief Financial Officer Ray Young said in a conference call. GM said it needs $11 billion to $14 billion on hand to fund day-to-day operations.

GM said revenue fell 17% in 2008 to $149 billion from $180 billion in 2007.

Its results were a bit worse than some analysts expected and pushed the cumulative net loss to $82 billion since Chief Executive Rick Wagoner began an intense restructuring in 2005.

GM is now subsisting on $13.4 billion in government bailout loans. Mr. Wagoner and other top executives met Thursday in Washington with members of President Barack Obama's auto task force to request as much as $16.6 billion more, including $4 billion that it needs to fund operations in March and April. GM also said it needs $7.5 billion in loans from the Department of Energy to build more fuel-efficient vehicles.

Administration officials involved in rescue negotiations with GM said Thursday the grim financial report was expected, and didn't ratchet up the sense of urgency over when or how the government may offer additional aid. Mr. Obama's full auto team, led by new Treasury advisers Steven Rattner and Ron Bloom, met with GM executives, said a person familiar with the talks.

GM officials have said the auto maker plans to use the meeting to discuss its viability plan, which it submitted Feb. 17 to the Treasury, and its liquidity needs, but it isn't expecting immediate action.

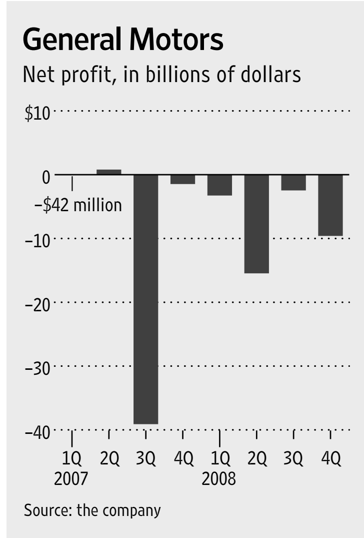
GM's auditors must make a decision on the company's "going concern" status by the end of March. The disclosure about its viability status could be GM's way to provide "encouragement to [Washington] to address the issue that is on the table and quiet some of the speculation concerning what the government will do," said Kimberly Rodriguez, an adviser with the consulting firm Grant Thornton.

Standard & Poor's equity analyst Efraim Levy said the dismal earnings report "reinforces for us the notion that GM will need multibillion-dollar government assistance to continue as a going concern."

Obama aides said the first week of meetings with Detroit executives have been intensive, with teams of experts within the Treasury Department and the White House working almost around the clock to understand the rescue plans put forward last week by GM and **Chrysler** LLC. The auto team met with a wide roster of car company executives as well as academics, automotive specialists and representatives from the United Auto Workers union.

Associated Press

General Motors Chairman and Chief Executive Rick Wagoner



"The goal is to make sure that we understand every nuance and assumption in the plan, and subject them to rigorous questioning, which is only appropriate," said one administration official involved in the talks.

The official stressed that the talks so far have been "all about due diligence and fact finding" and that any real decisions remain weeks away. The administration intends to reach a decision on whether to further bail out the companies by the end of next month. "We have made no decisions yet on whether federal assistance will be given, and if so, under what circumstances," the official said.

GM's Mr. Young said the company continues to work with the UAW and bondholders to reduce labor costs and debt obligations, as required by terms of its U.S. loans, but hasn't struck a deal. GM is looking to cut two-thirds of its $27 billion debt load through a debt-for-equity swap, and it is trying to convince the UAW to take stock instead of cash for at least half of the $10 billion it owes a trust fund for retiree health care.

GM also reported a substantial deterioration in the status of its pension funds. The company said its U.S. hourly and salaried pension commitments are underfunded by $12.4 billion because of weak market conditions and a reliance on the funds to pay for restructuring actions in recent years.

The earnings report also revealed a profound deterioration of GM's once-booming operations outside the U.S. It reported a fourth-quarter loss of $1.9 billion in Europe, $917 million in Asia and $181 million in Latin America. In recent quarters, GM has relied on strong operations overseas, notably in China, Russia and Brazil, to offset weakness in its core U.S. market.

"The impact of the credit crisis has started to spread to emerging markets," Mr. Young said. "It was a very, very challenging quarter."

The auto maker has said it needs at least an additional $6 billion in loans from non-U.S. governments for its viability plan to work.

German officials plan to meet Saturday to discuss possible aid for Opel, GM's largest European unit. Opel has said it needs at least $4.2 billion in capital to survive and become less dependent on GM.

GM has indicated it is open to selling a stake in Opel, and German politicians are under pressure from workers to bail out the car maker to help save 25,000 jobs, a number that more than doubles when parts suppliers and other Opel-linked companies are included.

GM last week filed for court protection for its Swedish subsidiary, Saab, against creditors. The auto maker purchased full ownership of Saab in 2000, but failed to make the unit a profitable and growing component of its sprawling operation. GM is expected to liquidate the unit, or spin it off as an independent company.

GM's problems remain centered in North America, where sales fell to $19.3 billion in the quarter, compared with $28.1 billion a year ago. GM lost $3.5 billion in North America during the fourth quarter and $14.1 billion during the year. Its problems in the region promise to worsen in 2009 due to a production shutdown by the company's plants in January.

Separately, Ford Motor Co. cut its first-quarter production estimates Thursday and lowered its annual sales forecast in another sign that it could be approaching the need for government loans. In an annual filing with the U.S. Securities and Exchange Commission, Ford also said its auditors wouldn't question the company's viability as a going concern at this time.

—Christoph Rauwald contributed to this article.

GM Opel workers stage protests

By Christoph Rauwald

FRANKFURT—Talks intensified in Germany on Thursday over the need for potential state aid for **General Motors** Corp. unit Opel, the U.S. car maker's largest European division, as thousands of Opel workers took to the streets to keep up political pressure for a bailout.

The protests came as Germany's economics minister, Karl-Theodor zu Guttenberg, prepares to meet Saturday with heads of German states with Opel plants in order to discuss possible state aid for the car maker. On Friday, Opel's board is meeting to discuss possible restructuring models and Opel's future ties to GM.

The situation in Germany shows U.S. auto giant GM's woes are reverberating through its overseas units. As part of its turnaround plan submitted to the U.S. government earlier this month, GM pledged to cut costs at its European operations by $1.2 billion. That has sent workers at Opel and Swedish GM unit Saab, as well as local politicians, scrambling to find ways to prevent factory closures and major job losses at GM Europe.

German politicians are under pressure from workers to bail out the car maker to help save the company's 25,000 jobs—a number that more than doubles when including parts suppliers and other Opel-linked companies.

GM has indicated that it is open to selling a stake in Opel. However, German policy makers so far have been divided over the state taking a stake in the car maker, with Chancellor Angela Merkel saying that possible liquidity guarantees would be the right tool to help companies like Opel.

GM's European division—which includes German Opel, Swedish Saab and U.K. unit Vauxhall—Thursday posted a $1.9 billion fourth-quarter loss, compared with a loss of $445 million a year earlier. The GM Europe loss contributed to a $9.6 billion net loss at the parent company, as sinking sales outweighed the positive impact of U.S. government aid.

The European division blamed the big loss on lower volumes across the region, a model mix that saw it lose market share, as well as unfavorable foreign exchange and commodity hedging.

Fourth-quarter revenue in Europe fell to $6.4 billion from $10.7 billion a year earlier, as GM Europe's market share dropped to 9.1% from 9.2% in a sharply contracting market.

GM's production in the quarter fell across all regions, but the contraction in Europe was most marked. Production totaled just 214,000 vehicles, compared with 457,000 vehicles a year earlier, as the car maker cut shifts and closed plants for long periods.

Meanwhile, GM executives are scheduled to meet with U.S. President Barack Obama's auto task force in Washington on Thursday. Top executives of **Chrysler** LLC met Wednesday with the task force, discussing the company's troubled finances, its proposed alliance with Fiat SpA and fuel-efficient vehicle development, said a person familiar with the session.

—John Stoll contributed to this article.

CORPORATE NEWS

Daimler cleared for car leasing in China

German auto maker expects to roll out new financing option first to corporate customers to stimulate demand

By Norihiko Shirouzu

BEIJING—**Daimler** AG has won approval to offer vehicle leases in China, a senior executive said, a sign that the country's government plans to help auto makers use financing tools to stimulate demand for cars.

The financial arm of Daimler's Mercedes-Benz car unit received the approval from the China Banking Regulatory Commission and plans to start offering vehicle leasing in Beijing next month, Ulrich Walker, chairman and chief executive of Daimler Northeast Asia, said in an interview Thursday.

Ulrich Walker

The German auto maker expects to offer the new financing option first to corporate customers, such as hotels, gradually expanding to other cities and private customers by the end of the year.

Mercedes-Benz began in 2006 offering loans to customers in China for vehicle purchases. The leasing service will let Chinese customers make monthly payments to use the car for two to three years, then return it to the company. Leasing is new in China, but China's government "is behind this type of financial tool to stimulate demand for cars," Mr. Walker said.

China's auto sales have been contracting since late last summer, after years of rapid growth. China's central government in late January unveiled a package of stimulus measures aimed at reviving auto demand, including a lower sales-tax rate on smaller cars and five billion yuan in subsidies to encourage rural residents to replace old vehicles. To accompany those moves, the government said it also plan to improve financing for consumer purchases of vehicles.

"Leasing is very much a part of the stimulus program," Mr. Walker said. In the current weak economic environment, Daimler believes leasing will make it easier for consumers to get cars and have a "positive impact" on sales, he said.

Extending credit for cars can be risky in China. Because of the dearth of data on credit history of consumers here, auto lending has been slow to expand. Only 10% of Mercedes Benz's customers in China currently use loans to buy cars, compared to 50% in the U.S. and Europe, according to the company.

Mr. Walker said it is too early to gauge how many additional sales the new leasing program might generate. But "there's a trend toward financing more cars, especially in the last three to four months," he said. "We expect our sales to grow here" in part as a result of offering leasing. He didn't elaborate.

The China Banking Regulatory Commission didn't respond to a request for comment.

Last year, Mercedes-Benz sold 38,770 vehicles in China, up 44% from 2007.

Associated Press

China's auto sales have been contracting since late summer. A worker bolted a tire at Daimler's Beijing factory in October.

Nissan to increase Japanese car production

By Yoshio Takahashi

TOKYO—**Nissan Motor** Co. said it will lift domestic auto output in March compared with this month, indicating that the Japanese car maker is making progress cutting inventories during a global slump.

Nissan, Japan's third largest auto maker by sales volume, has been reducing production since September in the face of a drastic decline in global demand for its cars. That effort has brought its inventories down to levels where the company feels comfortable increasing output in March, a Nissan spokesman said, without saying how much output would increase.

With its planned output increase next month, Nissan becomes one of the first Japanese auto makers to put the brakes on production cuts. **Toyota Motor** Corp. said last week it expects to raise its production at home in May from April, while **Mitsubishi Motors** Corp. this week said it will build more vehicles in Japan in March.

Japanese auto makers, like their international rivals, have been pummeled by the sharp decrease in global demand for cars amid a worldwide economic slowdown.

The most recent data show that for the world auto industry as a whole, U.S. auto sales plunged 37% to a 27-year low in January, while sales in Europe sank 27% and those in Japan tumbled 28% in that month. In 2008, industrywide global auto sales dropped 8.7% to 63 million vehicles.

Such declines have caused profits to disappear at Japanese auto makers, including Nissan. The company, 44%-owned by France's **Renault** SA, expects to post a net loss of 265 billion yen ($2.72 billion) in the year ending March, its first loss in nine years.

In response to sagging auto demand, Japan's top three car makers—Toyota, **Honda Motor** Co. and Nissan—plan sharp production cuts in the quarter ending in March. Nissan aims for a reduction of 59%, Toyota 54% and Honda 38%.

Through its planned output cuts, Nissan aims to lower its global inventories to 480,000 vehicles by the end of March. This will be a fall of 24% from 630,000 a year earlier and a drop of 33% from the recent peak of 720,000 at the end of November.

As it plans to make more vehicles in March, the maker of cars such as the Tiida compact doesn't plan to suspend operations at its Oppama plant near Tokyo next month, the Nissan spokesman said. This month it halted the plant's operations for nine-and-a-half days.

He declined to provide production schedules for other domestic plants next month.

Nissan's March output plan in Japan follows a reduction in domestic production by 59% from a year earlier in January and plans to cut Japan output by more than 70% in February.

Reuters

Nissan's reduced production since September and customer sales have pared inventories enough to permit the auto maker to increase output in March.

GKN swings to a loss as auto-parts business drops

By Steve McGrath

LONDON—Automotive and aerospace-components maker **GKN** PLC swung to a net loss in 2008 and warned of a further 2,400 job losses as its markets continue to deteriorate.

GKN posted a full-year net loss of £109 million ($155 million), compared with a net profit of £196 million a year earlier, even as revenue rose 13% to £4.38 billion from £3.87 billion. GKN booked charges of £153 million for restructuring and £124 million for value adjustments on its investments.

"We just need the world to start buying more cars," said Chief Executive Kevin Smith.

The global economic downturn was particularly hard on GKN's auto markets last year. The company is the world leader in producing driveshafts, the parts that transmit torque and rotation from engine to wheels. It also makes composite parts for European **Aeronautic Defence and Space** Co.'s Airbus A380 and Boeing Co.'s 787 aircraft, components for U.S. and European military aircraft and other civil jets as well as for jet engines.

GKN's aerospace and off-highway divisions did well in 2008, reporting a rise in sales of 22% and 32%, respectively. But it warned that these markets are weakening.

GKN said it expects the latest restructuring program to be completed by July 2010, costing it about £140 million in cash and £150 million in impairments. It is targeting a £190 million reduction in operating costs.

Tata sets release of Nano minicar for March 23

By Ankur Relia And Ameya Karve

MUMBAI—**Tata Motors** Ltd. has set March 23 as the launch date for its 100,000-rupee ($2,005) minicar, about three months behind initial schedule after the auto maker had to relocate its factory late last year.

Bookings for the Nano, the world's cheapest passenger car, will begin in the second week of April, India's top-selling auto maker said. The booking process and other details will be announced at the time of launch, it added.

Tata Motors had originally planned to launch the Nano in the fourth quarter of 2008. But it had to relocate its factory in the eastern state of West Bengal in October following violent protests from a political party and farmer groups over the farmland taken over for the plant.

The auto maker—which had invested about 15 billion rupees for the factory at Singur in West Bengal—subsequently said it will invest about 20 billion rupees in a factory to produce the Nano in the western Indian state of Gujarat.

The new factory will have an initial capacity to produce 250,000 cars per year, which can be doubled at a later stage, Tata had said. However, the status of the new factory in Gujarat isn't currently known.

The company had earlier said it will explore the possibility of manufacturing the initial batches of Nanos at its existing factories at Pune in western India and Pantnagar in northern India.

Ferré firm in bankruptcy

IT Holding becomes victim to downturn in high-end fashion

By Stacy Meichtry

ROME—**IT Holding** SpA, owner of the Gianfranco Ferré label, was placed in bankruptcy administration, a victim of the recession that is squeezing luxury-goods companies world-wide.

The Italian government will place IT Holding under the supervision of three government-appointed administrators who aim to keep the group operating, Industry Minister Claudio Scajola said in a prepared statement Thursday.

The move paves the way for the possible sale of IT Holding's brands, which also include the Malo label, according to a person familiar with the matter. Over the next few months, the administrators will draw up a restructuring plan aimed at helping IT Holding regain its financial footing through the potential sale of assets, this person said.

IT Holding's financial disarray shows how the decline in spending on pricey clothes world-wide is crippling luxury firms and manufacturers. IT Holding racked up more than €295 million ($375 million) in net debt to finance the expansion of Ferré and Malo, opening new stores and throwing costly fashion shows and parties.


Reuters

A model displays part of Gianfranco Ferré's Spring/Summer '09 collection.

Through its Ittierre licensing unit, IT Holding also made and sold clothing lines for other top Italian designers, such as Roberto Cavalli and Donatella Versace.

As luxury sales fell last year, however, IT Holding was unable to service its debt or make royalty payments to designers, such as Mr. Cavalli. IT Holding posted a net loss of €10 million for the first nine month of last year on sales of €468 million.

The financial shortfall prompted IT Holding to place the licensing unit in bankruptcy protection in early February, leaving the clothing lines it produces under license in limbo just weeks before the start of Milan fashion week Thursday. On Wednesday Ittierre secured a €30 million line of credit from Italian banks including **Intesa Sanpaolo** SpA and **UniCredit** SpA, allowing the unit to continue operating under bankruptcy protection, Ittierre said.

The financial lifeline, however, came too late to allay the concerns of at least one Italian designer. Mr. Cavalli Tuesday pulled the plug on a Milan fashion planned for Thursday for the Just Cavalli brand.

IT Holding has begun cutting back on shows for some of the brands it owns.

IT Holding's journey into bankruptcy protection is the latest chapter in a series of setbacks that have hobbled the company in recent years. In June 2007, the namesake designer and founder of Gianfranco Ferré died of a stroke, forcing IT Holding to scramble to find a successor who could appeal to the brand's customers. The search stumbled with the hiring and subsequent firing of Swedish designer Lars Nilsson. The label is now designed by Tommaso Aquilano and Roberto Rimondi, who formerly designed for Malo.

Air-cargo traffic tumbles 23%

By Monica Mark

LONDON—The slump in international passenger and freight travel deepened in January for the third consecutive month—outweighing the benefits of lower fuel prices and airline-capacity cuts. And the downturn will continue, the International Air Transport Association said.

Passenger traffic declined 5.6% from a year earlier, compared with a 4.6% drop in December. Cargo markets continued an "alarming" slump, down 23%, the association said.

"Alarm bells are ringing everywhere. The industry is in a global crisis and we have not yet seen the bottom," IATA Chief Executive Giovanni Bisignani said Thursday.

The IATA, which represents about 230 airlines constituting 93% of global scheduled air traffic, kept its forecasts for global airline losses this year. It expects revenues to fall to $500 billion, down $35 billion, leading to a $2.5 billion loss for the industry.

Mr. Bisignani again called on governments to reduce regulatory-tax burdens on airlines—singling out the U.K. for a planned increase in air-passenger duty and the Netherlands for its planned departure tax—and to remove laws that prevent or hinder cross-border and cross-region takeovers.

Asian carriers, which represent around two fifths of the global cargo market, led January's fall, reporting a 28% drop. IATA said the overall cargo market will contract further as manufacturers continued to shed inventory and cut production.

Asia also led the decline in passenger demand with an 8.4% drop. North American and European passenger-traffic demand declined 6.2% and 5.7%, respectively. Latin America saw a 1.4% fall, while demand in Africa fell 2.6%. The Middle East was the only region where traffic rose, climbing 3.1%.

Shanghai Air gets $146.2 million lift

By Patricia Jiayi Ho

BEIJING—**Shanghai Airlines** Co. bucked the market downtrend Thursday after unveiling a 999.9 million yuan ($146.2 million) capital injection from the Shanghai government.

It is the latest Chinese air carrier to get government help in an industry hit by fuel-hedging losses and weakening international demand.

Shanghai Airlines' stock rose 2.9% to 5.39 yuan on its first day of trading since it suspended its shares Feb. 5, pending the disclosure of the fund injection. The Shanghai Composite Index fell 3.9% Thursday to 2121.25.

Analysts said China's aviation industry faces a difficult period despite government assistance and falling oil prices, as the global financial crisis hurts revenue.

"The amount is enough for the airline to plug its financial holes," said China Securities Co. analyst Li Lei. "Smaller airlines, such as Shanghai Airlines, are always more vulnerable to a downturn in the aviation industry."

Shanghai Airlines' fair-value loss from fuel-hedging contracts totaled 170 million yuan as of Dec. 31.

The company faces the risk of being delisted from the stock exchange if it can't return to profit this year after posting two years of losses, Mr. Li said.

The airline said in January that its 2008 net loss was likely to be more than double its 2007 net loss of 435 million yuan because of bad bets on fuel prices and weak demand. It is scheduled to report its results April 30.

Shanghai Airlines said Thursday it will sell about 222.2 million shares at 4.50 yuan each to Jinjiang International Holdings Co., a part of the State-Owned Assets Supervision and Administration Commission of the Shanghai Municipal Government.

The carrier said its gearing ratio, a measure of the company's debt, will drop by 5.9 percentage points from 91.35% after the capital injection.

China Eastern Airlines Corp. earlier said it will get a seven billion yuan injection from the government, and **China Southern Airlines** Co. will get three billion yuan.

Separately, China Eastern's chairman, Liu Shaoyong, said on the sidelines of a shareholders' meeting Thursday that the carrier is in talks with **Airbus** to delay delivery of some planes. China Eastern said in February that it aims to limit its 2009 jet deliveries to 13, though nearly 30 planes are scheduled for delivery this year under existing contracts with **Boeing** Co. and Airbus.

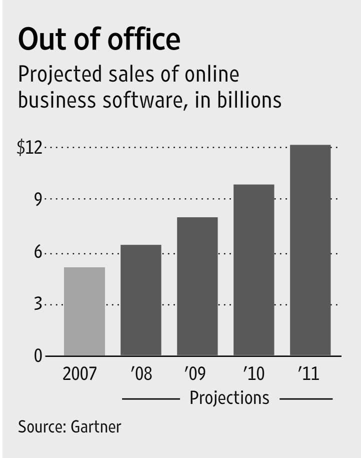
—Jin Jing and Rose Yu contributed to this article.

Gmail glitch points up online-software pitfalls

By Ben Worthen And Jessica E. Vascellaro

When **Google** Inc.'s online-email service shut off for more than two hours earlier this week, it brought to light concerns about whether businesses can safely rely on software that their employees access over the Internet.

Online software services like Google's Gmail—which run on vast computer farms managed by companies like Google and **Salesforce.com** Inc., rather than businesses installing and operating the software themselves—are a bright spot for the technology sector: Sales grew 27% in 2008 to $6.4 billion, according to research company Gartner. Such services are also often cheaper to operate and easier to get started on, making them attractive options during a recession.



Google's Gmail is one of the most widely used pieces of online software. Most users are familiar with the free version. Google also sells a suite of online-software services, including an advanced version of Gmail, to companies for $50 a year per user account.

But companies are finding that going online to do business-computing tasks via services like Google's or similar ones offered by **Amazon.com** Inc. and Salesforce.com, among others, comes with a risk: When something goes wrong, customers must sit idly waiting for someone else to fix the problem.

"Any time there is a failure it creates concern," said John Dohm, vice president of information technology at True Religion Apparel Inc.

In early February, the online warehouse-management system that True Religion uses was unavailable for two hours, making it impossible for the Vernon, Calif., company to fill orders. "There was nothing I could do about it," said Mr. Dohm.

The latest Gmail outage, which wiped out the service for 2½ hours beginning at 4:30 a.m. New York time morning, was caused by some new software having the unexpected side effect of triggering a bug in the Gmail code. That caused a data center to become overloaded when users were directed to it, said Dave Girouard, president of Google's enterprise division, in an interview Wednesday.

Google said it affected a large number of the tens of millions of people world-wide who use the service.

Hundreds of Gmail users flooded Google's product-support message board while the service was down. Wrote one: "its just appalling—I'm on deadline." Another user, identified as being in Spain, wrote: "get this going as I have a deadline to meet."

Such mishaps are inevitable with early-stage technologies, Mr. Girouard said, adding that Google is working hard to eliminate them.

Telefónica's profit soars 89%

By Jason Sinclair

MADRID—**Telefónica** SA Thursday posted an 89% jump in its fourth-quarter net profit from a year earlier, when earnings were hurt by restructuring costs, but lowered its forecast for 2009 as it refocuses amid the economic slowdown in some key markets.

Madrid-based Telefónica, Spain's largest telecommunications company by market capitalization and subscribers, said net profit was €2 billion ($2.54 billion) from €1.06 billion a year earlier.

Telefónica took a €146 million write-down in the latest quarter from its indirect stake in Telecom Italia SpA. It didn't break out the total amount of the year-earlier restructuring expenses.

Total revenue rose 2.6% to €14.8 billion.

Looking ahead, Telefónica said it expects operating income before depreciation and amortization, and revenue to increase between 1% and 3%.

Telefónica also reiterated a goal to earn €2.304 a share in 2010, and forecast growth in operating cash flow of between 8% and 11% in 2009.

Still, the company said the economic scenario had become "more complex." Telefónica has been forced to lower mobile and high-speed Internet rates in the face of stiffer competition and as consumers look for less-expensive alternatives amid a sharp economic decline in key markets, such as its home country, Spain.

To adjust to the new economic picture, Telefónica said it will scale back capital spending to €7.5 billion in 2009 from €8.6 billion last year.

In January, rival Vodafone Group PLC warned that full-year revenue would fall short of its forecasts and unveiled plans to cut £1 billion ($1.42 billion) in costs. The company also put the brakes on its expansion plan in emerging markets.

"Telefónica has turned in a good set of results," said Espírito Santo analyst Sandra Sousa. She said the company is hunkering down to focus on cash preservation, with its main challenge likely to come from worsening foreign-exchange effects because of the weakness of the pound and some Latin American currencies against the euro.

Société Générale SA said the results were solid, but the 2009 outlook is a disappointment.

Latin America remained resilient, with revenue up 8.5% in the latest quarter to €5.9 billion. Still, analysts say recent currency fluctuations and stiffer competition in Brazil are likely to decrease the region's contribution in the future.

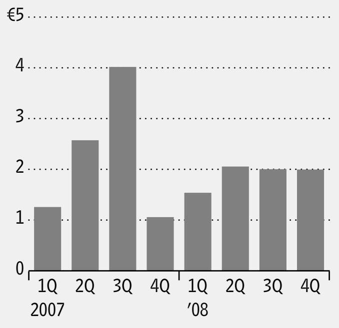
Telefónica's home market, Spain, has been one of the hardest hit by the economic downturn. Slowing uptake of mobile phone and DSL Internet net adds led to a 1.7% fall in quarterly revenue at the Spanish operations to €5.13 billion.

In the rest of Europe, where the company operates under the O2 brand, revenue fell 1.7% to €3.62 billion. The bulk of the unit's revenue comes from the U.K. and Germany.

Telefónica had roughly 259 million customers at the end of December, up 13% from a year earlier.

Strong reception

Telefónica's net profit, in billions



Source: the company

Randstad swings to loss as demand for workers falls

By Maarten van Tartwijk And Monica Mark

Netherlands-based recruiter **Randstad** NV swung to a fourth-quarter net loss, in part because of a charge tied to its takeover of rival Vedior, and said demand for both white- and blue-collar workers declined.

Randstad, one of the world's biggest employment agencies, said that visibility remained low for the first quarter of 2009, and warned that with revenue rapidly decelerating, it would even be challenging to maintain targets for profit margins typical in earlier downturns.

The unprecedented drop in demand in the fourth quarter of 2008 and January 2009 "reflects the major economic difficulties our clients currently face," said Chief Executive Ben Noteboom.

The employment agency posted a net loss of €233 million ($297.4 million) for the three months ended Dec. 31, compared with a net profit of €118.5 million a year earlier.

Randstad said it booked a €500 goodwill impairment on its Vedior business and expects to book an additional €25 million restructuring charge in the first quarter related to its French operations. Randstad acquired Dutch rival Vedior in May in a €3.2 billion deal.

Chief Financial Officer Robert-Jan van de Kraats said the €500 million impairment was based on a worst-case scenario for the staffing sector in coming years.

Randstad's revenue rose 63% to €3.96 billion in the fourth quarter from €2.43 billion a year earlier, boosted by the acquisition of Vedior. Stripping out the acquisition, revenue would have decreased 14%.

The company said that the contraction in its business started in September and has accelerated since October.

Randstad's revenue fell sharply in all its markets in the fourth quarter, especially in France, the U.K. and Southern Europe. Its staffing and in-house services were hit hardest, while its health-care and education divisions, which are less affected by the economy, maintained growth.

Swiss rival Adecco SA's sales fell 6% in the third quarter because of declining demand, and the company said it wouldn't meet its 2009 forecast. Adecco releases fourth-quarter earnings March 4.

The downturn is taking a toll on jobs in the 16 countries that share the euro currency. The European Commission, the European Union's executive arm, expects the euro-zone unemployment rate to climb to 9.3% this year from 7.5% last year. In France, 90,200 workers lost their jobs in January, the largest ever monthly jump.

Separately, specialist U.K. recruitment company **Hays** PLC said demand for permanent placements was continuing to weaken across all regions, though temporary placements were proving more resilient. The company's net profit fell 20% in its fiscal first half, ended Dec. 31, to £70.6 million ($100.2 million).

Hays Chief Executive Alistair Cox said the group was focused on increasing its market share in the public sector, which represents 20% of the business globally. "Government spending is under pressure, but it isn't necessarily about 'is the government growing?' but about our ability to penetrate their market share," he said.

CORPORATE NEWS

Repsol reverses to loss

Drop in oil values weighs on results; costs to be reduced

By Bernd Radowitz

MADRID—**Repsol YPF** SA of Spain swung to a fourth-quarter net loss, dragged down by a deduction of €1.05 billion ($1.33 billion) to reflect the falling value of the energy company's oil inventories.

The oil-and-natural-gas company on Thursday posted a loss of €105 million, or nine European cents a share, compared with a net profit of €740 million, or 61 cents a share, in the year-earlier quarter.

Revenue from continuous operations before financial expenses fell to €11.7 billion from €15.21 billion. Repsol, based in Madrid, didn't provide a net revenue figure.

Repsol Chairman Antonio Brufau said the company plans to cut costs by €1.5 billion this year, of which €1 billion is related to lower investment costs. Repsol earlier this month said it may delay €350 million in investments for the development of a block in Peru. The company will, however, leave strategic spending intact, Mr. Brufau said. Among investment considered strategic is the drilling of five wells off the coast of Brazil this year.

Mr. Brufau also said that an attempt by Russian oil company OAO **Lukoil** to buy a large stake in Repsol is likely to be "history." The chairman said his comment was a personal opinion, adding that large acquisitions are difficult in the current economic environment.

Agence France-Presse

Repsol Chairman Antonio Brufau, at a news conference in Madrid above, said the Spanish oil and natural-gas company may delay planned investments in Peru.

Mr. Brufau said he hopes Repsol's current shareholder structure will be maintained this year, and construction company **Sacyr-Vallehermoso** SA is likely to keep its 20% stake in Repsol in the medium or long term. He added that Sacyr isn't facing the same financial difficulties it had three or four months ago.

The chairman said he expects an official reserve announcement soon for Brazil's promising BM-S-9 block, in which Repsol has a 25% stake. The block is operated by Brazil's state-run Petroleo **Brasileiro** SA with a 45% stake, while U.K.-based **BG Group** PLC holds 30%.

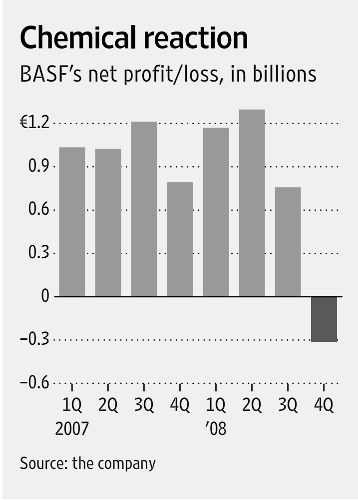
Repsol's adjusted profit, excluding inventory effects, was €549 million in the fourth quarter, compared with €616 million in the same period a year earlier.

"Downstream results are a bit better, upstream is in line and financials are better," Banesto analyst Robert Jackson said. The company's announced dividend of 52.50 European cents a share for 2008 could have been bigger, he said.

Mr. Brufau on Thursday said the size of dividends in 2009 will depend on how profit develops. The company will give priority to fiscal discipline this year, he added. Future results also depend on how oil prices develop, which is difficult to predict, Mr. Brufau said.

BASF swings to a loss but vows to keep dividend

By Allison Connolly



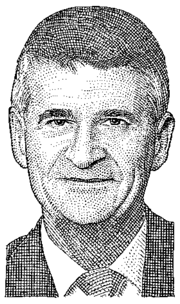
FRANKFURT—**BASF** AG turned in a fourth-quarter loss as demand for its products slumped more sharply than expected in major markets. But the German chemical maker pledged to maintain its dividend.

BASF said its net loss came to €313 million ($398 million), compared with net income of €793 million a year earlier. Analysts had expected a loss of €5.4 million.

Sales fell 2.7% to €14.31 billion from €14.7 billion in the year-earlier period, beating analysts' forecast of €13.33 billion.

For 2009, BASF expects a further drop in sales and "an even greater decline" in profit. It said it will accelerate restructuring and efficiency programs, close less profitable plants, including coatings sites in the U.S., Asia and Europe, and eliminate at least 1,500 jobs world-wide this year.

Roughly 3,000 of the company's workers already are on short-time hours and production at several plants has been scaled back.



Jürgen Hambrecht

BASF Chief Executive Jürgen Hambrecht said customers are ordering for the short term, and in smaller amounts, as they use up existing inventory, and that he so far hasn't seen a reversal of that trend.

"As a result, the chemical industry is continuing to shrink," he said.

Still, the company said it would maintain its annual dividend of €1.95 a share.

Earnings before interest and taxes, excluding special items, was €526 million in the latest period, compared with €1.76 billion a year earlier. That fell short of analysts' estimates of €560 million.

Commerzbank analyst Stephan Kippe said in a note that management's comments about 2009 were in line with previous remarks, and that the stable dividend would likely boost market sentiment, despite the wider-than-expected quarterly loss.

BASF shares rose 7.4% to €22.62 Thursday in Xetra trading in Frankfurt. The stock has fallen sharply this year.

Analysts expected a significant drop in BASF earnings and sales as industry demand slumped further during the quarter.

The biggest decline was seen in the company's plastics division, where sales fell 24% for the quarter while chemicals sales were off 7.6%. The only sector to see growth was oil and gas, with sales rising 40%.

For 2008, BASF had net of €2.91 billion, down 29% from €4.07 billion a year earlier. Sales rose 7.5% to €62.3 billion from €57.95 billion a year earlier.

German utility RWE's profit falls

By Jan Hromadko

German power producer **RWE** AG reported a 4.1% drop in 2008 net profit but raised its medium-term profit forecast thanks to cost-cutting efforts.

Net profit fell to €2.56 billion ($3.25 billion) from €2.67 billion a year earlier. The latest figure was dragged down by a €600 million impairment charge related to the initial public offering of RWE's American Water Works Co. unit early last year.

Sales rose 15% to €48.95 billion from €42.51 billion. The company, Germany's largest power producer by generation capacity, didn't break out fourth-quarter results.

Chief Executive Jürgen Grossmann said RWE expects sales to rise this year, while earnings will likely be stable. The company has already sold almost its entire 2009 electricity production at fixed prices, he said.

The company has said that its cost-cutting and efficiency-improvement program will help drive up earnings by about €450 million by the end of this year.

Through 2012, the Essen-based company now sees operating profit rising between 5% and 10% on average a year. The company earlier forecast an increase of 5% a year.

However, RWE cautioned that the new medium-term forecast dependent on the recession not having a "long-lasting negative impact on wholesale electricity prices." The forecast is based on an average realized German electricity price of at least €60 a megawatt-hour.

Analysts welcomed the company's raised outlook. But some questioned the company's power-price assumption in light of current prices. Forward-baseload prices for delivery in 2012 are being traded at between €48.10 a megawatt-hour and €49.10 a megawatt-hour, on the Germany-based European Energy Exchange.

Mr. Grossmann, however, said the company expects power prices will rise from the current low levels. Fundamental factors that have driven energy prices in the past few years will quickly gain importance again, he said. These factors include global population growth, increased competition for fewer energy sources and inadequate investment in upstream oil and gas and the construction of new power plants.

RWE said that the planned €8.24 billion takeover of Dutch utility **Essent** NV, announced last month, isn't reflected in the new medium-term targets. The company has said the acquisition would make it the fourth-largest energy company in Europe, with 22.5 million power customers, 12.5 million gas customers and a total generation capacity of around 51 gigawatts across the continent.

RWE, Germany's second-largest utility by market value, behind **E.ON** AG, also said it plans to maintain its investment program. RWE plans to invest an average of €6.5 billion a year between 2008 and 2012.

Telstra cuts forecast, CEO leaves

By Sam Holmes

Australia's largest telecommunications company, **Telstra** Corp., posted a slight decline in fiscal first-half net profit, cut its earnings forecast and announced the departure of its chief executive.

Telstra reported Thursday a net profit of 1.92 billion Australian dollars (US$1.24 billion) for the six months ending Dec. 31, down from A$1.93 billion a year earlier.

The Melbourne-based telecom also said CEO Sol Trujillo, who joined Telstra in 2005, will leave the company June 30.

A new CEO hasn't been named, but Telstra Chairman Donald McGauchie said the search would include "internal and external and international" candidates.

Analysts have mentioned Telstra Chief Financial Officer John Stanhope and David Moffatt, group managing director of consumer marketing and channels, as potential candidates for the top job.

Telstra's relations with the Australian government have been marred by tension over regulatory matters since Mr. Trujillo's arrival, as the American-born executive sought to usher the company through its final phase of privatization in 2006.

The company lowered its guidance for growth in its full-year earnings before interest and tax to between 3% and 5%, compared with a previous range of 6% to 8%.

Net at cigarette maker BAT rises 26% on strong sales

By Michael Carolan

LONDON—**British American Tobacco** PLC Thursday posted a 26% increase in fourth-quarter net profit, and said it had so far experienced no harm from the downturn.

BAT, which makes Lucky Strike, Kent, Dunhill and Pall Mall cigarettes, said net profit was £604 million ($858 million), compared with £481 million a year earlier.

Revenue jumped 26% to £3.42 billion from £2.71 billion. Sales benefited from favorable exchange-rate movements and the acquisitions of Tekel and Skandinavisk Tobakskompagni last year.

"It's a very good performance and ahead of our long-term goals," Michael Prideaux, director of corporate and regulatory affairs, said in an interview. BAT targets high single-digit percentage growth in earnings per share in the medium to long term.

Mr. Prideaux said that, so far, the downturn in the global economy had "no impact on trading." He cautioned that customers might move from premium brands to less-expensive brands, but said the company hadn't seen any evidence of this yet. In 2008, sales of premium brands grew 5%, Mr. Prideaux said, adding that there was "no sign of slackening."

Even if some customers move to less-expensive brands, Mr. Prideaux said BAT's strength in mainstream and value brands means it should pick up any market share lost by its premium brands, even if it squeezes profit margins.

"We're taking a lot of momentum into whatever's coming," he said, "we do think we're resilient."

Analysts have expressed concern about the company's emerging-market exposure amid the global consumer downturn. Emerging markets account for about half of BAT's profit.

Mr. Prideaux said the company's emerging markets exposure remained a "key source of strength" for BAT, having seen no decline in trading in these regions. He said the company's equal split between developed markets and emerging markets ought to be appealing to shareholders in uncertain times.

BAT nevertheless suspended its share-buyback program, because it will concentrate on paying down its debt in the current environment, said Mr. Prideaux, especially after last year's two large acquisitions.

CORPORATE NEWS

Natixis's net loss widens

Financial crisis, Madoff hurt value of bank's assets

A WSJ News Roundup

PARIS—French bank **Natixis**, whose main owners are seeking to merge, said its net loss almost doubled in the fourth quarter from a year earlier as it fell victim to the alleged fraud of Wall Street money manager Bernard Madoff and the value of its assets was hit by the financial crisis.

Chief Executive Dominique Ferrero declined to give an outlook for 2009. The Paris-based bank said it won't pay a dividend for 2008.

But the stock price rose 8.7% in Paris, partly in anticipation of the merger and injection of cash by the French government in its two main shareholders.

Natixis, created with much fanfare by two large retail banks in 2006, said Thursday that its fourth-quarter net loss widened to €1.62 billion ($2.06 billion) from a €900 million net loss a year earlier. Revenue slumped 43% to €228 million, from €402 million.

For all of 2008, the bank lost €2.8 billion, compared to a net profit of €1.1 billion in 2007. Full-year revenue decreased 52% to €2.93 billion from €6.04 billion in 2007.

Natixis said it made loan provisions of €375 million in the fourth quarter to cover client funds invested with Mr. Madoff's firm. It also said it will curtail most proprietary activities and complex derivatives activities. For that purpose, Natixis has formed a specific structure within the bank to segregate these activities, managed by a specialist team, which will gradually divest these assets until they are completely sold.

Natixis has been among the French banks hardest hit by the turmoil in U.S. subprime-mortgage markets. The problems prompted French President Nicolas Sarkozy to seek to speed up the merger plans of lenders Caisse d'Epargne and Banque Populaire, which jointly control about 70% of Natixis and are unlisted.

The two banks announced their long-anticipated merger Thursday in a deal that would create one of the country's largest retail banks with 34 million customers and a network of 7,700 branches.

The government will inject as much as €5 billion through nonvoting preferred shares and other instruments, which could give it up to a 20% in the newly formed bank, they said.

Natixis last year raised €3.7 billion through a rights issue to restore its balance sheet and revamped its corporate and investment bank.

Court lifts leash in Helmsley will

By Mike Spector

NEW YORK—Real-estate tycoon Leona Helmsley's fortune doesn't have to be left to just dogs, a New York judge has ruled.

Manhattan Surrogate Judge Troy Webber, in a Feb. 19 ruling, said trustees managing the fortune of the deceased hotel mogul can distribute the funds to charitable causes they deem appropriate.

Ms. Helmsley, who died at 87 years old in August 2007, had left instructions in her will to administer funds from the Leona M. and Harry B. Helmsley Charitable Trust to "purposes related to the provision of care for dogs." The wording in the mission statement, filed in 2004, ignited a court battle over whether the money could only be given to dog-related causes.

In his ruling, Judge Webber rejected the notion that the money was restricted to dog-related causes, noting that relevant legal documents empower the trustees to allocate the money to other causes. The trustees may "apply trust funds for such charitable purposes and in such amounts as they may, in their sole discretion, determine," Judge Webber wrote.

The 2004 mission statement, in addition to instructing money to be left for dogs, also instructed trustees to funnel money to "other charitable activities."

Howard Rubenstein, a spokesman for the trust, said in a statement released late Wednesday that the ruling vindicated the trustees, who petitioned the court to "determine the scope of their discretion... after world-wide reports erroneously asserted that the Trust's funds could only be applied to dog-related charities."

Mr. Rubenstein said the trustees have been working to identify potential grantees of the trust's funds in anticipation of the ruling. The grants, which could be announced next month, will go to "areas such as health care, medical research, human services, education and various others," Mr. Rubenstein said. He didn't say whether dog-related causes might get any of the money.

Wayne Pacelle, president and chief executive of the Humane Society, said Ms. Helmsley's estate should still be used to help animals.

Ms. Helmsley's fortune had been estimated at $5 billion to $8 billion after her death. Ms. Helmsley's trustees couldn't be reached to comment.

—The Associated Press contributed to this article.

Sears profit falls 55% on weak sales

By Mary Ellen Lloyd

Sears Holdings Corp.'s fiscal fourth-quarter profit slumped 55% as the U.S. retailer recorded weak sales and $336 million in asset write-downs and restructuring charges.

The owner of Sears and Kmart chains posted net income of $190 million, or $1.55 a share, for the quarter ended Jan. 31, down from $426 million, or $3.17 a share, a year earlier. Excluding items, the latest earnings were $360 million, or $2.94 a share, in line with Sears's January projection.

Revenue dropped 12% to $13.28 billion as U.S. same-store sales slumped 11% at Sears and 5% at Kmart.

"We anticipate the year will become even more challenging for the company and remain cautious in 2009," UBS Investment Research said in a note to clients.

Results excluding one-time items, however, were better than Wall Street forecasts, thanks in part to an improved gross-margin rate at Kmart. Cash balances fell, but domestic inventory levels at quarter-end were better than expected. Despite the addition of $120 million in footwear as Kmart began operating its own footwear department in January, overall domestic inventory declined 11% to $8.1 billion, greater than the sales decline and better than Sears's January forecast of $8.5 billion.

Sears on Thursday also said it plans to close an additional 24 stores. The Hoffman Estates, Ill., company had announced 22 store closings in late 2008 and said in December more closings among its 3,900 stores were possible.

Sales of digital cameras decline

By William M. Bulkeley

Market research firm IDC said U.S. digital-camera sales declined even more sharply than expected in the fourth-quarter holiday season, falling 12% to 15 million units.

Worsening the pain for camera makers and retailers, the market skewed toward the low end as consumers became more price sensitive, according to IDC. The firm had projected a 9% decline just two months ago.

IDC said it hasn't yet compiled estimates of dollar volume in the quarter. It hasn't compiled world-wide figures yet either.

That positioning helped **Eastman Kodak** Co., reclaim the No. 1 spot in the fourth quarter, after trailing earlier in the year. **Canon** Inc. slumped to No. 2, and **Nikon** Inc. captured the No. 3 spot, passing **Sony** Corp., IDC said.

IDC analyst Chris Chute noted that Sunday, **Ritz Camera Centers** Inc., the U.S.'s largest photo specialty chain retailer, had filed for bankruptcy-court protection.

GLOBAL BUSINESS BRIEFS

Deutsche Post AG

Net loss of $4.02 billion is reported amid U.S. cuts

Deutsche Post AG said late Wednesday that it swung to a fourth-quarter net loss as its DHL Express unit's retreat from the U.S. market weighed on the bottom line. The German-based mail and logistics company posted a net loss of €3.16 billion ($4.02 billion), compared with a year-earlier net profit of €253 million. Quarterly revenue fell 3.3% to €14.02 billion from €14.5 billion. The company didn't give an outlook for 2009. Its shares fell 5.9% to close at €7.86 in Frankfurt. Chief Executive Frank Appel cautioned that "2009 will be a year of hardship for the entire logistics industry," adding that the company plans to focus on cutting costs and generating cash. Deutsche Post said in November it would cut about half of the 18,000 U.S. jobs from the DHL unit and reduce its air and ground operations in the U.S.

Abertis Infraestructuras SA

Abertis Infraestructuras SA of Spain posted a 9.4% drop in 2008 net profit Thursday, as a weak economy and adverse weather conditions hit highway traffic, but said it expects recent acquisitions to offset growth pressures this year. Full-year net profit fell to €618 million ($786 million) from €682 million in 2007. The Barcelona-based operator of toll roads, airports and telecommunications infrastructure said it booked a €29 million charge related to the elimination of some tax deductions linked to U.K. operations. Revenue rose 1.6% to €3.68 billion, as toll increases offset a 3.6% drop in traffic on the toll roads that Abertis operates. Highway traffic has a strong correlation with economic trends, mirroring consumption patterns.

Christie's Inc.

Beijing slammed auction house **Christie's** Inc. for selling two imperial bronze sculptures it says should have been returned to China and vowed to continue to reclaim other similarly looted relics. Beijing said the sale of two 18th century bronzes as part of an auction of works owned by the late designer Yves Saint Laurent on Wednesday would affect Christie's interests in China. The fountainheads—heads of a rat and a rabbit—sold for €28 million ($36 million) to an unidentified telephone bidder or bidders. Christie's auction of the two bronzes didn't break any laws or international agreements. The auction house said it regretted the administration's move and stood by the sale of the fountainheads, saying the pieces' legal ownership had been "clearly confirmed."

TUI AG

German tourism, travel and shipping company **TUI** AG said it has agreed to take a larger stake in the Hamburg consortium that acquired its container-shipping unit Hapag-Lloyd AG. TUI also said it is willing to provide Hapag-Lloyd with additional credit facilities of up to €1 billion ($1.27 billion). It said the transaction still values Hapag-Lloyd at about €4.45 billion. TUI will increase its stake in the consortium to 43.33% from 33.33% and will buy these additional shares from **Kühne Holding** AG, which remains a part of the consortium. TUI can sell its additional stake at any time, but the consortium has a pre-emption right as well as the obligation to acquire the stake. At the time that the ownership of Hapag-Lloyd changes, TUI will get €1.6 billion in liquidity.

Parmalat Finanziaria SpA

A U.S. judge ruled that separate lawsuits by **Parmalat Finanziaria** SpA bondholders and shareholders and Enrico Bondi, the chief executive of the restructured company, can proceed against auditing firm **Grant Thornton International** over the collapse of the Italian dairy company in 2003. The investors and Mr. Bondi argued the company and its U.S. business should be held liable for alleged fraud by Grant Thornton's Italian business involving its auditing of Parmalat. The judge didn't rule on the merits of their arguments. Grant Thornton International had argued that the firm had no controlling relationship with the Italian auditor and its activities. In January, the judge denied similar requests to dismiss a case against Deloitte Touche Tohmatsu and its U.S. unit.

Thales SA

French defense electronics company **Thales** SA reported Thursday a 36% drop in net profit in 2008 to €650 million, ($829.6 million) chiefly due to a €432 million capital gain a year before and a one-off charge in 2008 against the troubled Airbus A400M military airlifter program. Earnings before interest and tax rose by 2% to €877 million, while revenue increased 1% to €12.67 billion. Order intake rose by a strong 14% last year to €14.30 billion. Chief Executive Denis Ranque said that despite the stormy economic environment of 2009, he expects to "maintain or improve" its operating profit margin. Last fall, Thales said that it wouldn't achieve its objective of a 2008 operating margin of 7.25% due to an €80 million charge related to the A400M program.

Dragon Oil

Dragon Oil PLC, a small oil company partly owned by the Dubai government, Thursday said it is investigating possible procurement "irregularities" by some former senior executives. Dragon Oil, about 52%-owned by the Gulf emirate's government via state-run **Emirates National Oil** Co., said its probe centered on possible improper conduct between certain former senior managers in its marketing and contracts department, without elaborating. The company said Dubai government authorities had been informed of its investigation. It started the probe on the advice of its management team and following a scheduled internal audit review. Dragon Oil's auditor, KPMG, is also assisting with the investigation. Dragon Oil said it will delay publication of its year-end results that were scheduled for release March 4.

Ranbaxy Laboratories Ltd.

The U.S. Food and Drug Administration said a factory owned by **Ranbaxy Laboratories** Ltd. falsified data and test results in approved and pending applications to market new drugs. The FDA said it is halting the review of drug applications made at the Indian generic-drug maker's Paonta Sahib plant. In September, the FDA banned Ranbaxy from importing more than 30 generic drugs into the U.S. because of manufacturing violations at two company plants in India, including Paonta Sahib. Such drugs include generic versions of the cholesterol-lowering Zocor and heartburn treatment Zantac. The FDA said it hasn't identified any health risks associated with the drugs. Ranbaxy said it "will continue to cooperate" with the FDA.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Associated Press

Job seekers wait in line to enter a job fair in San Mateo, Calif., Wednesday. The number of Americans filing new claims for unemployment insurance rose to 667,000 last week.

Signs get worse in U.S.

Unemployment, durable-goods figures show further weakness

By Conor Dougherty

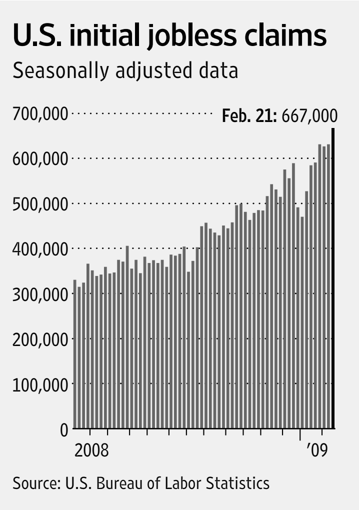
U.S. orders for big-ticket items from heaters to computers plunged in January, as consumers and businesses slashed spending. Separate U.S. reports showed new-home sales fell and unemployment-insurance rolls struck a quarter-century high, all dismal signals that pointed to an economy that has fallen even deeper into recession.

A broad spectrum of economic reports showed declines, as business investment plunged, consumers cut back and manufacturers shut factories and cut employees. Each week in February, more than 600,000 people filed new claims for unemployment insurance. Housing starts and consumer confidence hit new lows.

"It's a deteriorating economy, and that's going to go on for a while," said Kurt Karl, chief U.S. economist for Swiss Re in New York.

Orders for durable goods—broadly defined as goods designed to last three years or more, such as cars and appliances—were down 5.2% in January from a month earlier, the sixth consecutive monthly decline, according to the U.S. Commerce Department. The decline in December orders was revised to 4.6% instead of the 3% decline previously reported. As demand continues to fall in the U.S. and elsewhere, companies are reducing inventories and manufacturers are cutting back production.

The decline in orders touched almost every category, including appliances, computer products, metals, cars and car parts. Orders for nondefense capital goods excluding aircraft, which are seen as an indicator for companies' demand for capital equipment like cranes or computers, fell 5.4% during January.



But even as companies have slowed orders and worked down inventories, they have struggled to get ahead of falling consumer demand. Companies reduced durable-goods inventory by 0.8% in January, the first decline in this cycle, but shipments fell further.

The revised decline in durable-goods orders for December is the latest in a string of indicators, including exports and consumer pending, that suggest 2008 ended bleaker that previously reported. Friday's report on fourth-quarter gross domestic product is likely to show that in the last three months of 2008 the U.S. economy contracted more than the 3.8% annualized drop previously reported. More worrying, the continued erosion of the economy through January and February suggests it is contracting even more in 2009.

With sales and orders declining, companies have continued to slash payrolls, putting added stress on the already overburdened unemployment system. A separate report Thursday showed the number of Americans filing new claims for unemployment insurance rose to 667,000 last week, according to the Labor Department. New jobs are harder to find: More than five million people collected unemployment insurance in the week ended Feb. 14.

More bad news came from the housing sector, where the recession has its origins. New-home sales fell 10.2% in January, to a seasonally adjusted annual rate of 309,000. That would be the lowest since at least 1963, when the data started.

The number of unsold new homes fell, but a key measure of inventory—new homes divided by the sales pace—increased. The amount of time new homes are staying on the market rose to 9.3 months, the longest since August 1982 when, like now, the economy was mired in recession.

Death toll jumps in Afghanistan

By Yochi J. Dreazen

WASHINGTON—A roadside bombing in Afghanistan Wednesday that killed four British soldiers highlights a disturbing trend: Coalition fatalities, which have declined in past winters, instead have been spiking to record levels amid increasingly fierce fighting throughout the country.

The explosion occurred a day after four U.S. soldiers were killed elsewhere in southern Afghanistan. The two blasts pushed the February 2009 coalition death toll to at least 23, a higher level than in any previous February.

The deaths come as the Obama administration scrambles to reverse Afghanistan's deterioration, which is emerging as the new administration's top foreign policy concern. President Barack Obama approved the deployment of 17,000 additional American troops to Afghanistan last week, and U.S. commanders expect to deploy 13,000 more before year end. Those additions will nearly double the approximately 35,000 U.S. troops in Afghanistan now.

U.S. commanders in Washington and Kabul acknowledge that the coalition death toll will likely rise even higher in coming months as the American reinforcements arrive in Afghanistan and mount new offensives against Taliban strongholds in southern and eastern Afghanistan.

"I have to tell you that 2009 is going to be a tough year," Gen. David McKiernan, the top American commander in Afghanistan, said last week. He said coalition forces are stuck in a "stalemate" with the resurgent Taliban.

Violence in Afghanistan has closely tracked the seasons since the start of the war in 2001, decreasing during the harsh winter months and picking up in the spring.

There were 27 coalition deaths in December 2008, compared with nine the previous December and four in 2006. January saw 24 fatalities, up from 14 in January 2008 and two the previous year. In February 2008, there were just seven fatalities, compared with 23 so far in February 2009.

CAPITAL JOURNAL ▪ Gerald F. Seib

Tax increases will test the depth of Obama's support by wealthy

One of the intriguing surprises of the 2008 U.S. election was that a majority of the wealthiest Americans went against type to support the Democrat, Barack Obama, even though he told them, clearly and explicitly, that he would raise their taxes.

It will be interesting to see how that support holds up now that theoretical tax pain is creeping closer to reality.

The president's relationship with wealthier Americans is being thrown into sharp relief by his new budget proposal, released Thursday. On one front, high-end taxpayers got a bit of a respite, because the president has decided not to roll back the Bush-era tax cuts for upper-income taxpayers until 2011.

Barack Obama

But on another front, the budget came with a painful and unexpected surprise for them: American households making over $250,000 would see the rate at which they can deduct mortgage-interest payments reduced to 28% from the current 35%, costing them $318 billion over 10 years. That chunk of money is to be used to start expanding health-care coverage to all Americans. The president also proposes higher taxes for high-income Americans on capital gains, and on wealthier farmers.

This is the sort of thing that might set off a bit of class warfare—except that, in this case, the class being hit includes an awful lot of Obama supporters. In last November's voting, exit polls showed, Mr. Obama actually won a majority of the votes from Americans in families making $200,000 or more annually. He got 52% of their votes, compared with 46% for Republican John McCain.

In 2004, by contrast, the Republican George W. Bush cleaned up with the wealthiest Americans, winning them 63% to 35% over Democrat John Kerry.

So the views and support of wealthier Americans are of more than incidental importance to the president. Their election performance suggested many were declaring a willingness to shoulder a somewhat higher tax burden to fix social problems and balance the government's books.

Now, though, one of the problems with anything that looks like a soak-the-rich strategy is that a lot of people who felt rich just six months ago don't feel quite that way now. Magnanimous feelings about paying higher dues for a better society likely have been reduced by the hammering that their college savings and retirement accounts have taken.

"Of course that makes it harder," says Rob Shapiro, a fellow at NDN, a Democratic think tank, and chairman of Sonecon, an economic-consulting firm. "This is a long way from enactment, and this is a very hard political lift in the context of everything else."

But the Obama budget opens more than a political test. It's really the opening wedge into a long-simmering social debate over distribution of wealth. A staple of Democratic economic critiques for the past several years has been the argument that economic growth in the Bush era, unlike in past growth periods, didn't particularly help the middle class, while benefiting upper-income Americans to a far greater degree.

In fact, Mr. Obama's budget document ushers in this debate, and in fairly stark terms. In its opening section, the budget plan declares: "With loosened oversight and weak enforcement from Washington, too many cut corners as they racked up record profits and paid themselves millions of dollars in compensation and bonuses. There's nothing wrong with making money, but there is something wrong when we allow the playing field to be tilted so far in the favor of so few."

It calls this decade "the first economic recovery since World War II where real median household income did not rise above its previous peak....Between 2000 and 2007, median income among households headed by those under 65 fell by $1,951."

Moreover, the budget declares that government policies made inequities in income distribution worse: "For the better part of three decades, a disproportionate share of the Nation's wealth has been accumulated by the very wealthy....Yet, instead of using the tax code to lessen these increasing wage disparities, changes in the tax code over the past eight years exacerbated them."

Republicans reply that attempts to tax the wealthy not only drag down the economy but usually hit the wrong target. "This move to go and tax the so-called rich, that's small business," says Rep. Eric Cantor, the second-ranking Republican in the House. "That is the wrong thing to do when you are in a tough economy, to make it more difficult for businesses and small businesses that create 70% of the jobs."

That is the intellectual and ideological backdrop for what now figures to be a heated political debate.

The practical backdrop is simpler. There aren't that many places Mr. Obama can go to find the revenue needed to both get through the current economic crisis and start expanding health coverage—especially if he wants to stay true to his pledge to largely protect the lower 95% of wage-earners. And it won't get easier. As Mr. Shapiro notes, no one thinks high-income taxpayers alone can bail out both Medicare and Social Security from the long-term funding crises they face. That will take a broader fix. This is the beginning, not the end, of a long debate about taxes and wealth in America.

Budget cuts loom in Iraq

Lawmakers consider curbing spending 7% as oil prices tumble

By Gina Chon

BAGHDAD—Iraq's parliament is considering budget cuts of about $4.2 billion, or 7% of this year's spending plan, as it scrambles to cope with low oil prices.

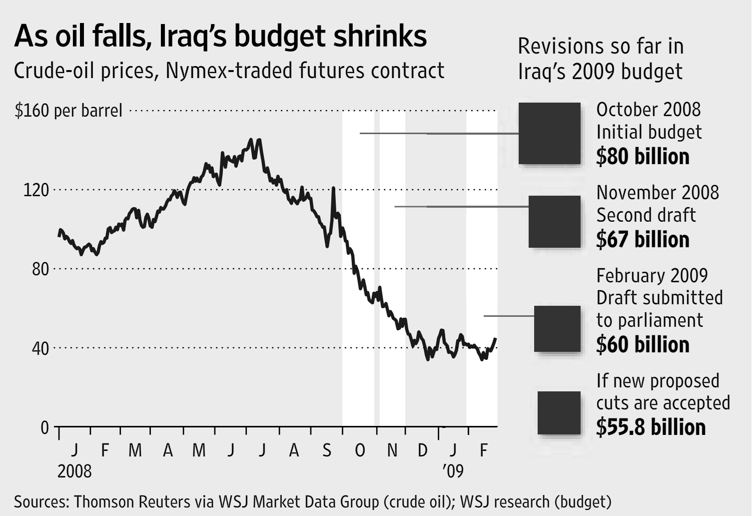
Lawmakers are proposing a host of cost-saving measures, including more cuts in a food-ration program that was a staple of Iraqi life under Saddam Hussein. The government has frozen hiring, one official said.

The belt-tightening comes at a time when Prime Minister Nouri al-Maliki has made reconstruction and economic gains a centerpiece of his administration. Voters in local elections in January abandoned many of Iraq's religious parties, saying they were frustrated by unfulfilled economic promises, including job creation and the restoration of services such as power, water and garbage collection.

Finance officials started revising budget spending last year, as oil prices declined. Iraq depends on oil for 90% of its revenue.

In the fall, Iraqi finance officials cut 16% off an initial, proposed 2009 budget of about $80 billion. Later, they lopped off an additional 10%, bringing the proposed budget to the current roughly $60 billion level.

The initial budget was based on oil at $80 a barrel and the current draft is based on $50. That still seems lofty considering that U.S. crude, which trades at a premium to Iraqi blends, is now at just over $40 a barrel. The finance ministry submitted the plan to parliament earlier in February, and lawmakers could vote on it as early as this weekend.



Sources: Thomson Reuters via WSJ Market Data Group (crude oil); WSJ research (budget)

Although a budget has yet to be approved, this year's spending commitments already are outpacing expected oil revenue. Earlier this year, Iraq set aside $19 billion of its $34 billion budget surplus money to cover the expected deficit.

Iraq's creaky bureaucracy may end up helping the country cope in the short term with the budget crunch. Because it lacks computers, budget planners and accountants, Iraq has been slow to spend money earmarked for projects. Cash that has been committed may sit in federal or ministerial bank accounts for months or years before being spent.

That has meant that building projects already started across the country haven't been affected. But as Iraq ramps up spending capacity, today's budget cuts could start to threaten planned reconstruction projects.

The U.S. no longer does large-scale reconstruction projects in Iraq, such as building power plants, and is focusing its efforts on capacity building and training. According to a Congressional Research Service report from November, total U.S. reconstruction assistance went from $8.5 billion in 2007 to $5.1 billion in 2008 to almost $1.7 billion for 2009, which includes funds that have yet to be allocated.

Because of Iraq's difficulties in spending its own budget money, U.S.-funded reconstruction projects sometimes helped to fill the gap. But with those funds now decreasing, Iraq will face even more pressure to rebuild with ebbing resources.

Previous budget cuts have been so severe in some critical areas that some lawmakers worry they may have gone too far. Budget planners cut the electricity ministry's capital-expenditure budget to $1.1 billion, from $6.4 billion. The cuts left ministry officials scrambling to pay some bills, including a $5 billion commitment to buy gas turbines for power generators from foreign companies.

"What can we do with $1 billion?" an electricity-ministry spokesman said. "That is nothing compared to all the work we have to do to fix power."

Iraq, British firm sign oil-drilling joint venture

By Gina Chon

BAGHDAD—Iraq's Ministry of Oil and the British-based Mesopotamia Petroleum Co. signed a joint venture to drill for oil in Iraq, marking the first partnership between a state-owned Iraqi oil company and a foreign firm.

The venture, to be called Iraqi Oil Services Company LLC, will employ about 1,500 workers, and more than 90% of those employees will be Iraqis, the two parties to the deal said.

The state-owned Iraqi Drilling Co. will own 51% of the new company and Mesopotamia will own 49%. Officials say they hope the company will begin operating in six months.

The two parties will invest a total of $400 million in Iraqi Oil Services. The company will have an initial budget of $90 million, allowing it to purchase 12 new drilling rigs, among other activities. The company will provide drilling operations to Iraq's state-owned oil companies, and will focus on the southern oil fields around Basra, where the company will be based.

Royal Dutch Shell PLC, along with **Mitsubishi** Corp., is planning a joint venture with the state-owned South Gas Co. to capture and process natural gas, currently burned in oil fields around Basra. Shell and South Gas signed a preliminary agreement in September, and Mitsubishi later joined in the investment, but the roughly $3 billion deal has yet to be finalized.

U.K. consumers feel pain but express more confidence

By Paul Hannon

LONDON—U.K. consumer confidence staged a surprise recovery in February, the only indication so far that the government's efforts to stimulate the economy may be working.

According to the results of a monthly survey released by polling firm GfK NOP, the headline measure of consumer confidence rose to minus 35 from minus 37 in January. The increase in confidence was a surprise, with economists surveyed by Dow Jones Newswires last week having forecast the measure would fall to minus 40.

According to the survey, consumers became significantly more optimistic about the general economic outlook for the next 12 months, while at the same time downgrading their assessment of the state of the economy over the past 12 months. That indicates they are feeling the U.K.'s recession, but believe a recovery by early 2010 is possible. Both the government and the Bank of England have said that is a likely outcome.

"The public certainly recognize that it's been a tough year, with the lowest-ever score for the general economic situation over the past 12 months," said Rachael Joy, an analyst at GfK NOP. "However, looking to the future, we saw an uplift in consumers' views of both their personal situation and the general economy over the next 12 months."

Consumers have many reasons to be fearful. Job losses are likely to continue to rise as the economy shrinks and Nationwide Building Society reported house prices fell by the largest annual fall since records began in 1991, inflicting a sizable dent in the net worth of most Britons.

The government and the BOE will likely view the rise in consumer confidence as a tentative validation of their efforts to stop the U.K. sliding further into a downturn.

The BOE has cut its key interest rate by four percentage points since early October. It also indicated it is willing to boost money supply by buying government bonds and other securities to support demand.

Meanwhile, the government continues to roll out initiatives designed to reverse the decline in bank lending, announcing details Thursday of a plan to insure banks against losses on bad assets.

Latvia's new leader cautions that its finances are on the brink

A WSJ News Roundup

Latvia's prime minister designate, Valdis Dombrovskis, said in his first day on the job Thursday that the Baltic state could fall short of money by the summer.

Further budget slashing is needed for the European Union's most troubled economy, Mr. Dombrovskis said, adding to the steady stream of negative news flowing out of emerging Europe. The head of Romania's central bank also said Thursday his country will ask the International Monetary Fund and the European Union for loans.

Latvia, for its part, has already been forced to turn to the International Monetary Fund, the European Union and Nordic governments for a combined €7.5 billion in emergency funding.

"The state is on the verge of bankruptcy," Mr. Dombrovskis told reporters Thursday, after Latvia President Valdis Zatlers appointed the 37-year-old European Parliament member to form a new governing coalition following the previous government's collapse last week.

Mr. Dombrovskis, of the center-right New Era party, served from 2002 to 2004 as the country's finance minister. He is regarded as a fiscally conservative reformist.

Latvia's economy is expected to fall more than 10% this year—a drop that will likely be the steepest in the EU. But with the global economic climate still deteriorating, Latvia's economic and public finance outlook has continued to dim.

Ratings agency Standard & Poor's Corp. downgraded Latvia debt to "junk" status Tuesday, while Fitch Ratings Inc. said downgrades await if the country wavers on its IMF program commitments.