News in Depth: U.S. played it tough in forging Bank of America-Merrill deal

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Gloom drives central-bank actions

Bank of England cuts rates to record low 1%, while ECB anticipates future reductions

By Joellen Perry

FRANKFURT—The Bank of England cut its policy rate to a record low of 1% on Thursday and the European Central Bank signaled that its key rate could hit a record low of 1.5% next month, stoking debate about how European policy makers will boost their economies as interest rates approach zero.

The ECB, which sets interest rates for the 16 countries that share the euro, held its key rate steady at 2%. The pause was the bank's first since October, when it began cutting its key rate from 4.25%. ECB President Jean-Claude Trichet suggested more cuts to come in a news conference after the policy makers' meeting.

Noting that fourth-quarter growth figures are likely to be "very negative" and stressing that policy makers see "persistent weakness" in coming quarters, Mr. Trichet said, "I don't exclude that we could decrease rates at our next meeting."

The euro fell against the dollar on the news to close at $1.2812. Analysts expect the ECB will deliver a half-point cut to 1.5% next month, which would be the lowest in the central bank's 10-year history. Many analysts see the ECB's key rate at 1% by midyear.

But with interest rates globally around historic lows, the ECB still faces criticism that it is moving too slowly to shore up the euro zone's $12.2 trillion economy. Key rates in the U.S., Japan and Switzerland are already close to zero. Analysts expect the Bank of England, which took its key rate to its lowest since the bank's founding in 1694, will cut further in coming months.

The Czech Republic's central bank on Thursday cut its key rate by half a percentage point to match its record low of 1.75%, and South Africa's central bank delivered a full-percentage-point cut to 10.5%.

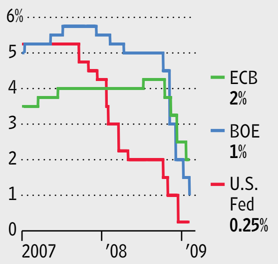
The ECB's 22-member Governing Council has been divided over how low and how quickly to cut its key rate. Mr. Trichet said the decision to hold rates steady was unanimous but also acknowledged that policy makers had "very different views"—a rare admission. He also stressed that "zero interest rates at this moment is not something we could consider appropriate" but, significantly, didn't discard the possibility entirely.

Further glum figures out Thursday underscored the depth of the euro-zone downturn. New German industrial orders continued their nosedive in December, as slumping demand for goods across the euro zone hit manufacturers in Europe's biggest economy. German companies won 25% less new business in December than a year earlier, a

Please turn to page 2

Closer to zero

Key interest rates



Sources: European Central Bank; Bank of England; U.S. Federal Reserve

Confidence in Kiev

Agence France-Presse

STILL IN OFFICE: After surviving a no-confidence vote in parliament, Ukraine's Prime Minister Yulia Tymoshenko hailed the outcome as a "resolution of trust in the government." Page 9

Financial woes damp Sarkozy's big plans

By David Gauthier-Villars

PARIS—French President Nicolas Sarkozy was elected 20 months ago on a promise to put money back in French people's pockets. Now, the financial crisis has put a wrench in those plans, threatening Mr. Sarkozy's reputation and popularity.

On Thursday night, Mr. Sarkozy went on national television to lay out the details of a €26 billion ($33.4 billion) stimulus plan aimed at countering what could be the worst recession France has seen in 15 years. In the televised interview, he said the plan, which is based on infrastructure projects, will help revitalize France's sluggish economy in the long run.

"I am betting on investment in companies to restart our economy. Not just to please companies but because companies mean jobs," Mr. Sarkozy said.

Still, workers and consumers fear it will take too long before Mr. Sarkozy's plan to build high-speed railroads, dig canals and renovate cathedrals generates jobs and revenue. They are clamoring for immediate tax cuts and higher pay. Last week, unions organized a nationwide strike, the biggest since Mr. Sarkozy took office.

Mr. Sarkozy's approval ratings fell five percentage points in February to 39%, according to a survey conducted on Wednesday by French polling agency CSA, with respondents saying the president isn't doing enough to meet their immediate needs.

Labor protests and falling

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Deutsche's poker star folded too late

By Scott Patterson and Serena Ng

The fall of Boaz Weinstein, once one of Wall Street's hottest traders, speaks volumes about why financial firms still are reeling from the fallout of shattered global markets.

As a chess master, poker and blackjack devotee and top trader at Deutsche Bank AG, Mr. Weinstein made big bets using complex financial instruments, generating large returns for the bank and about $40 million in annual pay for himself. But in 2008, the group he ran saddled the bank with $1.8 billion in losses, erasing more than two years of trading gains.

On Thursday, the German banking giant reported a 2008 loss of €3.9 billion ($5 billion), its first one-year loss in more than five decades and a reminder that financial firms are not out of the woods. In an earnings conference call, Josef Ackermann, chairman of the bank's management board, described the market environment as a "series of earthquakes with constantly changing epicenters."

The bank's losses underscore the challenges faced in the new financial order. Wall

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What's News

Ten EU commissioners head for talks Friday with Putin and other Russian cabinet members in Moscow, where they plan to air complaints over new trade barriers. The visit comes amid warnings by world leaders against protectionist measures as economies falter. Page 28

■ **Sweden's government aims** to overturn a ban on building new nuclear-power stations, as part of a new policy on climate and energy. Page 2

■ **Berkshire Hathaway** will provide $2.63 billion to help shore up Swiss Re, as part of its capital-raising plan that includes a share issue. Page 3

■ **Iraq's al-Maliki added** political heft as his party won local elections in nine of 14 provinces, shifting the balance of power in Iraq. Page 9

■ **U.S. stocks advanced** solidly Thursday, as financial stocks led a recovery from early losses. European shares edged lower. Page 18

■ **Unilever earnings jumped** 51%, driven by higher prices. The consumer-products giant declined to give 2009 and 2010 forecasts. Page 5

■ **Glaxo's net profit fell** 7.1%, hurt by a legal charge, and the drug maker said it will cut more jobs and costs. Page 5

■ **UBS's move to cut** bonuses is raising concern among clients and staff about the future of its investment-banking operations. Page 17

■ **Spanish bank Santander's** net fell 22%, weighed down by impairment charges and higher provisions. Page 17

■ **Ukraine's prime minister** survived a no-confidence vote, but the country's West-leaning leaders face hurdles amid a deepening slump. Page 9

■ **U.S. retailers reported** same-store sales fell 1.8% in January, but Wal-Mart's sales rose 2.1%. Page 4

■ **Luxury retailer LVMH** posted a 4% rise in 2008 annual sales and flat earnings, showing that size matters in surviving a downturn. Page 4

■ **China's Lenovo is replacing** its American CEO with Chairman Yang Yuanqing, and bringing back its co-founder to head the board. Page 7

■ **Somali pirates freed** a Ukrainian ship carrying tanks and other weapons after receiving a $3.2 million ransom.

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Obama's debacle
Democrats in Congress are rolling the president, says Karl Rove. Page 13

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Railway journeys that offer cruise-ship class
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8063.07	+1.34
Nasdaq	1546.24	+2.06
DJ Stoxx 600	194.50	-0.09
FTSE 100	4228.93	+0.01
DAX	4510.49	+0.39
CAC 40	3066.29	-0.09
Euro	$1.2832	-0.41
Nymex crude	$41.17	+2.11

LEADING THE NEWS

Sweden's energy reversal

Nuclear-power ban to end over concerns of price, dependence

By Guy Chazan

Sweden says it will overturn a ban on building new nuclear-power stations, in a further sign of how concerns about climate change and energy security are fueling a nuclear renaissance across Europe.

Swedes voted to phase out nuclear power in 1980, shortly after the Three Mile Island accident in the U.S. Since then, two of the country's 10 reactors have been shut down. But Sweden's coalition government said Thursday it will present a bill to parliament in March calling a halt to the phase-out and allowing nuclear construction, as part of a new climate and energy policy.

Sweden currently has 10 reactors, which produce just under half of the country's electricity.

If lawmakers approve the bill, Sweden will join a growing list of countries rethinking their opposition to nuclear energy as unease about global warming and oil prices outweighs fears about the safety of nuclear installations.

The shift took on greater urgency after the European gas crisis last month, when a pricing dispute between Russia and Ukraine led to a halt in supplies of Russian natural gas to Eastern Europe in midwinter, prompting fresh calls for the European Union to diversify its sources of energy away from Russia. The spat "helped people to understand what security of supply means ... and how risky it is to be so dependent on imports for your energy needs," said Luis Echávarri, director-general of the OECD Nuclear Energy Agency.

In the wake of the crisis, Slovakia, heavily dependent on Russian gas, moved to reopen an obsolete, Soviet-type nuclear reactor that it had closed as a condition of joining the European Union. It later reversed the decision after Russian gas started flowing again. Similarly, Bulgaria sought EU permission to resurrect two old reactors of Soviet design that it mothballed when it joined the bloc two years ago.

But even before the Russia-Ukraine spat, European countries were shifting their stance on nuclear power.

Italy, which prohibited nuclear power in 1987 after the Chernobyl disaster in Ukraine, moved last year to lift the ban. Poland, worried about its heavy dependence on coal for generation of electricity, has announced plans to build its first nuclear-power station. The U.K. last year gave the go-ahead for a new generation of nuclear-power stations to replace the nine due to be retired by 2023.

But some countries have ditched plans to expand nuclear capacity, as the economic downturn reduces the appetite for big, capital-intensive energy projects, damps demand for electricity, and brings down the price of alternatives such as oil, gas and coal. In December, South Africa's **Eskom** suspended bidding for the country's second nuclear reactor, saying the huge capital costs made the project nonviable.

European countries have been shifting their stance on nuclear power.

Nuclear comeback

Some European countries are changing their nuclear power policies to avoid fossil-fuel dependency and greenhouse-gas emissions

	Nuclear power as a pct. of total electricity supply	Some of the current nuclear policies
France	77%	
Slovakia	55	considered reviving old nuclear reactor
Belgium	54	is phasing out nuclear power
Sweden	**47**	**has reversed ban on newbuild**
Czech Republic	32	ruling party wants to lift ban on newbuild
Finland	29	finishing a new nuclear plant
Germany	23	some pressure to stop nuclear phase-out
U.K.	16	has announced a big nuclear newbuild program
Italy	0	government wants to lift ban on nuclear
Poland	0	is planning to build its first nuclear power plant

Source: Nuclear Energy Agency

Gloom is driving rate cuts

Continued from first page

worse-than-expected result. Spanish industrial production slipped a record 19.6% in December from a year earlier.

The International Monetary Fund expects the euro-zone economy to shrink by 2% this year. Annual inflation, which hit 1.1% in January, is likely to fall further before rising again toward year end, according to most forecasts, including the ECB's. The ECB aims to keep inflation just under 2%.

Bank of England policy makers said that Thursday's cut—which brought the total reduction in the bank's key rate to four percentage points since October—should help offset a "substantial risk" the U.K.'s annual inflation could undershoot the central bank's 2% target. The U.K. economy shrank 1.5% in the fourth quarter, its largest contraction since 1980. The IMF projects a 2.8% contraction this year.

Data out Thursday highlighted the U.K.'s dire straits. New-car registrations in January fell 31% from a year earlier. House prices last month rose unexpectedly by 1.9% from December, according to lender HBOS PLC, but still fell a record 17.2% from the year before.

U.K. monetary policy makers also acknowledged that the country's prior rate cuts haven't fed through entirely to the U.K. economy, but said in its statement that the moves will "in due course ... have a significant impact." Many U.K. banks said they would pass Thursday's rate cut on to mortgage holders.

Treasury chief Alistair Darling said on Tuesday that the government would consider splitting off banks' toxic assets into separate "bad banks" to help spur bank lending, if its latest multibillion-pound package of measures to shore up banks' finances doesn't work.

Mr. Trichet said the ECB's quarterly bank lending survey, due Friday, would show a "further tightening" in credit conditions for loans to households in the fourth quarter, but he suggested lending standards should loosen in this year's first quarter.

With official European interest rates nearing zero, the focus is shifting to whether and when policy makers will follow the U.S. Federal Reserve and take other steps—such as purchasing assets directly—to boost the economy. On Jan. 19, the U.K. government said it will issue Treasury bills to let the Bank of England buy up to £50 billion ($72 billion) of corporate bonds, commercial paper and other assets.

Mr. Trichet stressed that the ECB—which has committed to lend banks unlimited amounts of short-term funding at fixed interest rates and loosened the standards on the collateral it accepts for those loans—has already embarked on "nonstandard measures."

But he hinted that the ECB might not be finished. Some ECB policy makers have suggested the central bank would face particular hurdles in purchasing government or corporate debt, since it makes monetary policy for 16 different countries. Mr. Trichet dismissed such concerns, saying "we do not have constraints that could explain why we could not do any nonstandard measure."

Amid growing international criticism of a "Buy American" provision in the U.S. economic stimulus package that would require projects funded through the legislation to be built with U.S.-made steel and iron, Mr. Trichet also launched a broadside against protectionist measures in general. He called such moves a "big mistake," and said they are "exactly the opposite of what should be done."

—Marcus Walker in Berlin and Natasha Brereton in London contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Eastman Kodak Co. expects a loss from continuing operations of $200 million to $400 million this year. A Corporate News article Thursday incorrectly said the company expected a loss of $400 million to $600 million.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Buffett to add capital at Swiss Re

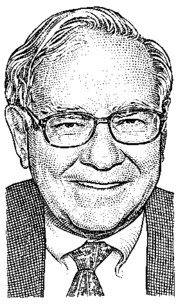
Berkshire could hold 20% stake in future; a vote of confidence

By Neil Shah and Goran Mijuk

U.S. billionaire Warren Buffett agreed to provide $2.63 billion to help shore up the finances of **Swiss Reinsurance** Co., in a vote of confidence in the European insurance industry.

Mr. Buffett's **Berkshire Hathaway** Inc. will make the investment in Swiss Re as part of an effort by the world's second-largest reinsurer by premiums to raise new capital. Mr. Buffett will receive a high-yielding bond that can be converted into stock in three years, potentially giving Berkshire Hathaway, which already has at least a 3% stake in Swiss Re, a 20% holding in the company.

Swiss Re's stock price tumbled 28% after the company announced the capital-raising plan, which involves raising an added two billion Swiss francs ($1.73 billion) by issuing new shares. The company also warned it will report a larger-than-expected loss of about one billion francs for 2008, prompting credit-rating firm Standard & Poor's Ratings Services to put it on watch for a downgrade. Swiss Re also proposed slashing its dividend to 10 centimes a share, down from four francs a year ago.



Warren Buffett

Mr. Buffett's move represents a bet that Swiss Re, which specializes in taking on the risks of other insurers as opposed to selling policies directly to clients, will be able to survive what is a difficult period for it and other insurers. Europe's insurers have been rocked in recent months as market declines have cut the value of the securities and corporate bonds in which they typically invest their clients' premiums.

"Warren Buffett's agreement to invest in Swiss Re is a testament to the strength of our franchise," Chief Executive Jacques Aigrain said.

At the same time, Mr. Buffett is being rewarded handsomely for the risk he is taking on. The three-billion-franc bond will pay an annual interest rate of 12% in perpetuity, unless he decides to convert it into stock at a price of 25 francs a share. Berkshire Hathaway also will receive a fee of two billion francs for providing Swiss Re with an added five billion francs in reserves if needed to cover possible losses in its property and casualty business.

"It's a vote of confidence in Swiss Re, but it's also a vote of confidence in Warren Buffett himself," said Richard Hewitt, an analyst at Dresdner Kleinwort in London. "He's got nothing to lose."

Mr. Buffett's investment also could signal confidence that the rates companies such as Swiss Re charge for reinsurance will rise. Rates on contracts up for renewal Jan. 1 didn't rise as broadly as some had expected, but many other contracts are due to expire in coming months. By pumping more money into the reinsurance market, though, Berkshire may alleviate some of the upward pressure on rates, said Josh Shanker, an analyst at Citigroup Inc.

Swiss Re has been struggling to right itself after acting more like an investment bank during the credit boom under the guidance of Mr. Aigrain. Its biggest misstep was selling default insurance on risky investments, such as mortgage bonds, using derivatives called credit-default swaps. The company has since shut down this business, but has already been forced to recognize some six billion francs in losses on the default insurance and other activities in 2008.

Analysts remain concerned about further losses from Swiss Re's portfolio of more than 55 billion francs of corporate bonds and other securities. A 10% drop in the value of Swiss Re's investments in complex securities alone could shave off around four billion francs from the company's capital, according to Sal Oppenheim research.

The company said its shareholder equity—a figure that reflects its capital strength—fell more than 37% to around 20 billion francs at the end of December 2008 from nearly 32 billion francs at the end of 2007.

Swiss Re's stock has fallen 57% this year as investors have worried about its souring investments and possible efforts to raise capital. Thursday, Swiss Re's shares fell 28%, to 21.70 francs.

Standard & Poor's said it expects to come to a decision on Swiss Re's credit rating within two weeks.

—Liam Pleven contributed to this article.

52-WEEK SHARE-PRICE PERFORMANCE

Swiss Re

Thursday's close: 21.70 Swiss francs, down 28%. 52-week change: down 71%

Source: Thomson Reuters Datastream

CORPORATE NEWS

Diversity helps LVMH weather downturn

Luxury-goods maker turns in sales gain, flat profit for 2008 as breadth of offerings eases economic slowdown's effect

By Max Colchester

LVMH Moet Hennessy Louis Vuitton SA posted a slim increase in 2008 annual sales and flat profit, showing that size matters when it comes to surviving the global economic downturn.

The company's diversified portfolio, which includes Hennessey Cognac, fashion house Louis Vuitton and the Sephora cosmetics retail chain, helped stem the effects of the slowdown. As it was, the company declined to project results for 2009, citing the uncertain economy.

The Paris-based group, the world's biggest luxury retailer by revenue, said sales increased 4% to €17.2 billion ($22.1 billion) for the year ended Dec. 31, compared with the previous year, and that full-year profit was flat at €2 billion. Results were damped partly by unfavorable currency fluctuations, particularly in the first half of the year

For the fourth quarter, LVMH's sales increased 4% to €5.2 billion—a better performance than most competitors, all of whom have lamented the consumer belt-tightening during the holiday period. LVMH is often considered a bellwether for the luxury-goods industry.

"These are a strong set of results," said Luca Solca, luxury analyst at Bernstein Research. "It shows that scale is very important in this industry, especially in a downturn."

Associated Press

Sources: the company (income); Thomson Reuters Datastream (prices)

◀ Ensemble from the men's fall-winter 2009/2010 collection by French fashion house Louis Vuitton shown in Paris

Mr. Solca said LVMH's resilience is linked to the group's strong presence in a range of products, from skin cream to spirits and jewelry, coupled with the performance of star brands such as Louis Vuitton and Hennessy Cognac.

Overall, the luxury-goods industry, which for the first part of 2008 had proven quite resistant to the global financial crisis and its economic repercussions, has been struggling lately, especially in the U.S. Another luxury-goods producer, **Cie. Financiere Richemont** SA, owner of Cartier, recorded a 7% decrease in sales in the fourth period of 2008 and warned that it saw "no cause for optimism" in the current economic climate. Italian jeweler **Bulgari** SpA said sales fell 10% in the same fourth-quarter period.

LVMH Chief Executive Bernard Arnault remained upbeat about managing in the economic situation, saying that the group would maintain investments in marketing and new products over the coming year. "We are looking to increase our market share," he said during a news conference. Mr. Arnault added that he would try to keep layoffs at the company to a minimum but didn't provide specifics.

Mr. Arnault said LVMH's global presence had helped offset slumps in weaker markets. Sales rose 2% in the U.S. and fell 10% in Japan. Elsewhere in Asia, LVMH saw a 19% increase in revenue.

Weaknesses in LVMH's vast portfolio did emerge. The company's wine and spirits division reported a 3% decline in sales to €3.1 billion, hurt by falling demand for Champagne, especially in the U.S. The group also warned that its watch and jewelry business struggled in the last quarter of 2008 as demand for high-price baubles tapered off.

The group's fashion and leather-goods business remained the company's strong suit, with sales of Fendi bags and Louis Vuitton purses helping to boost sales 7%. The perfume and cosmetics division also performed well, aided by the strong performance of its Christian Dior line.

Analysts say LVMH isn't immune to a downturn. The last slump, in the wake of the 2001 terrorist attacks in New York, nearly wiped out the group's profit, and last December the group canceled the opening of a Louis Vuitton flagship store in Japan.

In a sign of the uncertainty of the times, LVMH said it wouldn't set targets for 2009. Mr Arnault said it was too early to predict the group's performance this year.

"I hope are sales will continue to grow forever, but in this climate, you never know," he said.

U.S. retailers post weak sales, but Wal-Mart bucks trend

A WSJ News Roundup

U.S. retailers reported another month of weak sales as the recession pressured consumer spending, though discount giant **Wal-Mart Stores** Inc. rebounded with results above expectations.

For January, sector-wide sales at outlets open at least a year declined 1.8% on average, the fourth-straight monthly decline, according to a Thomson Reuters survey of 35 retailers. But results at several chains weren't as bad as some analysts had forecast.

"While sales remain down overall, shoppers are giving signs that they do not necessarily intend to cut still deeper into their retail spending," said Frank Badillo, senior economist at market watcher TNS Retail Forward.

Wal-Mart's U.S. same-store sales last month rose 2.1%, excluding gasoline; it had projected at most 2% growth. Although it had a relatively weak December, the world's biggest retailer benefited from rising customer visits as cash-strapped shoppers sought bargains. Same-store sales at its Sam's Club warehouse chain rose 2.4%.

"Despite members being cautious with discretionary spending, demand for food and consumables drove solid sales increases during the January period," said Doug McMillon, who was Sam's Club chief before assuming the helm at Wal-Mart International on Feb. 1.

Wal-Mart said it will begin supplying quarterly, rather than monthly, sales forecasts because "consumer swings" are making the predictions more difficult. For the 13-week period that started Saturday, the company sees U.S. same-store sales growing by 1% to 3%.

The retail sector's troubles reflect the continued deterioration of consumer confidence, which has tumbled to record lows and contributed to the biggest drop in consumer spending in decades. Mounting job losses, coupled with slump in the U.S. housing market, have Americans cutting back on consumption.

Aggravated by the worsening economy, trouble spots remained at some underperformers in the retail sector. **Target** Corp. said its fiscal fourth-quarter earnings won't meet analysts' expectations because of markdowns and account-receivables woes. Its same-store sales fell 3.3% in January, which the company said was in line with its expectations.

Apparel and department-store chains have been weak performers for some time and that continued. **Macy's** Inc., which announced Monday that it would cut almost 4% of its work force, reported a less-than-expected 4.5% decline in same-store sales. **J.C. Penney** Co. posted a 16% decline.

Among apparel chains, **Gap** Inc. reported a 23% same-store sales decline, led by a 34% plunge at its long-ailing Old Navy chain. Discounter **TJX** Cos. posted a 4% drop, while **Limited Brands** Inc., the parent of Victoria's Secret and Bath & Body Works, reported a 9% decline.

Associated Press

Many U.S. retailers have been forced to mark down prices as the economic downturn continues to damp consumer spending.

Luxury-goods retailers have taken it on the chin as the effects of the economic downturn work their way up the income ladder. **Saks** Inc.'s same-store sales fell 24% last month, and the company said its profit margins are narrowing because customers are focusing on promotional and clearance-priced merchandise. Earlier in the week, **Neiman Marcus** Inc. reported a 24% drop in comparable-revenue for January.

There were some bright spots, including at teen retailers **Aeropostale** Inc., up 11%, and **Buckle** Inc., which exceeded analysts' expectations with a 15% increase.

—Kevin Kingsbury contributed to this article.

Inditex, Tata Group to open Zara stores in India

By Christopher Bjork

MADRID —Spanish fashion retailer **Industria de Diseno Textil** SA agreed to a joint venture with India's **Tata Group** to open Zara boutiques in India.

Inditex will own 51% of the venture and the Indian conglomerate's Trent Ltd. will hold the rest.

The venture plans to open the first stores in 2010 in New Delhi, Mumbai and other cities. A local partner is usually considered a requisite for doing business in India.

"We see great opportunities for Zara in a country which is becoming increasingly fashion conscious," said Trent Managing Director Noel Tata.

Inditex, which has built a global retail empire by responding quickly to fashion trends and changing customer behavior while keeping prices competitive, has recently pushed into high-growth markets in Asia, opening stores across that region twice as quickly as the group's average.

Inditex—which also owns the Massimo Dutti, Pull and Bear and Bershka brands, among others—has more than 4,200 stores and employs more than 86,000 people. The retailer operates in 73 countries.

The Indian retail market is valued at around $360 billion and is growing about 8% a year, according to Hemant Kalbag, India-based vice president of global market research firm AT Kearney.

Retailers world-wide have cut forecasts in recent months and reduced growth plans, hit by the global economic downturn. But Inditex plans to maintain growth next year, opening roughly two stores a day.

Inditex reported an 11% jump in sales to €7.35 billion ($9.45 billion) in the nine-month period through October.

—Luis Morais and Santiago Perez contributed to this article.

CORPORATE NEWS

Unilever net jumps 51%

Price increases help boost bottom line, but outlook is murky

By Aaron O. Patrick

Reuters

The profit increase at Unilever, which makes consumer products such as Flora spread, was partly overshadowed by its decision to keep mum on earnings forecasts.

LONDON—Higher prices drove consumer-products giant **Unilever** to a big jump in fourth-quarter profit, but new chief executive Paul Polman declined to give an earnings forecast for 2009 and 2010, saying the economic crisis made such predictions "inappropriate."

At the same time, Mr. Polman signaled a strategic shift is at hand just a month after he took over. He said Unilever would make volume sales a bigger priority, suggesting he doesn't believe the company can continue to rely on price increases to drive revenue as the recession proceeds.

Unilever's fourth-quarter net profit jumped 51% to €1.19 billion ($1.53 billion), driven in part by the decision by Mr. Polman's predecessor, Patrick Cescau, to push through price increases of more than 9% even as the economic crisis swept the world. Other factors included asset sales, such as the sale of its Bertolli olive oil unit.

Fourth-quarter revenue rose 3% to €10.15 billion. Underlying sales growth was up 7.3%, a big jump and higher than analysts expected. For the year, Unilever's net profit jumped 28% to €5.29 billion and revenue rose 1% to €40.52 billion.

While boosting profit, Unilever's price increases drove away customers. Unilever sold 1.6% fewer items in the quarter. Other big food companies pushed through price increases last year in response to rising commodity prices too, although few were as aggressive as Unilever.

Mr. Polman, who became CEO Jan. 4, said Unilever would prioritize selling more items, known as volume growth, over what the industry calls "underlying sales growth," or sales adjusted for the effects of currency changes, acquisitions and divestments.

The shift suggests Mr. Polman believes Unilever needs to sell more items, and concentrate on making more popular foods, bathroom products and other items. Unilever owns the Magnum, Dove and Knorr brands, among others. Mr. Polman declined to comment on future price rises.

"The first thing we will do is to protect our volumes," he said at a press briefing in London. "We can do that without compromising our operating cash flow and margins."

Unilever's profit increase was partly overshadowed by Mr. Polman's decision not to tell analysts how much he expects the company to make in 2009 and 2010.

The move may lift some of the pressure on Mr. Polman to deliver good results during the recession. But it worried investors, who fear Unilever may be suffering more from the financial crisis than previously thought. Unilever shares fell 5.9% to £13.96 ($20.19) in London trading.

Until Thursday's announcement, the company's shares had fallen only 11% over the prior 12 months as investors bet that consumers would continue to buy the company's low-priced products during the recession.

"No 2009 guidance hardly instills confidence in the business looking forward to 2009," Sanford C. Bernstein analyst Andrew Wood said in an email.

A Dutch national and former top executive at Nestlé SA and Procter & Gamble Co., Mr. Polman is the first Unilever CEO from outside the company. Some of the first details of his strategy emerged Thursday as he briefed journalists and analysts. He has introduced a pay freeze for all managers and cut the 2009 travel budget by 30%. A plan announced in 2007 to close 60 or 70 factories by 2010 may be accelerated by a year. The financial crisis will force Unilever to become more efficient, Mr. Polman said.

Unilever will no longer target an increase in profit margins to 15.8% by 2010 from 14.6% in 2008, Chief Financial Officer Jim Lawrence said at the briefing.

Glaxo profit falls; more jobs to go

By Jeanne Whalen

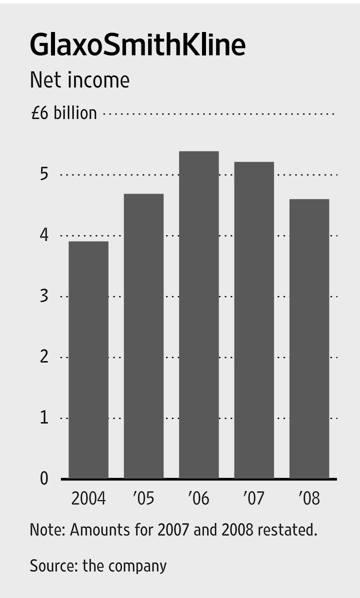
GlaxoSmithKline PLC, hurt by competition from low-cost generics and a legal charge, reported a 7.1% drop in fourth-quarter net profit, and said it will cut more jobs and costs.

Chief Executive Andrew Witty reiterated Thursday that Glaxo isn't seeking a big acquisition akin to **Pfizer** Inc.'s roughly $64 billion deal to buy **Wyeth**, adding that it took six or seven years for Glaxo's research-and-development team to recover from the 2001 merger that created the company.

"The disruption and distraction caused by these things is much bigger than people think. It's like an earthquake," he said in a meeting with reporters, adding that "the market has not rewarded these transactions very well in recent years."

Instead of large deals, Glaxo will continue to seek acquisitions of, and alliances with, small biotech companies or academic labs, he said. Glaxo now has 35 such alliances, and 35 of its own labs engaged in drug discovery. Over the past year, Glaxo has scrapped about a third of the early-stage development projects under way at its in-house labs to focus on the drugs most likely to succeed, Mr. Witty said.

The Glaxo chief said he also is considering small acquisitions to bolster the company's business in emerging markets and nonprescription medicines.



In the U.S., Glaxo said it is trying to tap into consumers' increasing desire for inexpensive medicines by selling a new asthma inhaler exclusively at outlets of **Wal-Mart Stores** Inc. The inhaler contains the same drug that Glaxo sells elsewhere, but is somewhat cheaper, at $9 for 60 doses. The inhaler is sold under Wal-Mart's store brand, Relion.

Glaxo said it will step up a cost-cutting program that has already eliminated 8,700 jobs over the past 18 months, or about 8% of the company's work force. Mr. Witty wouldn't specify how many more jobs will be cut, saying that the company wants to inform employees and unions first; analysts say thousands more jobs are likely to be axed.

Mr. Witty said annual pretax savings from the program will rise to £1.7 billion ($2.46 billion) by 2011 from a previous forecast of £700 million.

Net profit in the quarter fell to £982 million from £1.06 billion a year earlier, hurt by a £517 million legal charge tied partly to a U.S. probe of the company's marketing practices. Sales rose 16% to £6.91 billion from £5.97 billion, helped by the pound's weakness against various currencies.

For the year, sales rose 7%, in pounds, to £24.35 billion, but they fell 3% in local-currency terms.

Glaxo didn't give a forecast for 2009 earnings and said it will no longer provide "short-term numerical earnings guidance." Mr. Witty said he wants Glaxo managers and investors instead to focus on the company's long-term performance.

New-car registrations tumble 31% in the U.K.

By Jonathan Buck

LONDON—U.K. new-car registrations in January fell 31% from a year earlier and auto makers urged the government to consider introducing a plan to encourage motorists to scrap older vehicles and buy new, fuel-efficient models.

The bleak figures came as **Ford Motor** Co. said it will cut jobs in the U.K., shedding as many as 850 workers, or about 7% of its 12,900-strong work force in the country, as part of a restructuring. It also plans to review a 5.3% pay rise agreed to in November.

Several countries in Western Europe already have introduced plans to encourage consumers to buy new cars. France, for example, offers €1,000 ($1,285) toward the cost of newer, low-polluting cars to owners who scrap vehicles that are more than 10 years old.

"The U.K. motor industry is urging [the] U.K. government to introduce a similar scheme and help sustain jobs and businesses throughout the sector," Society of Motor Manufacturers and Traders Chief Executive Paul Everitt said in a statement.

Some industry observers fear such plans offer only a short-term spike in sales. But it appears car makers would be grateful for any respite from the current downward spiral.

The British government has taken some steps to ease the industry's plan. Last month, it announced £2.3 billion ($3.3 billion) in loan guarantees to support the car industry, but payments can't be made until the plan is cleared by the European Union. Auto makers have reserved judgment.

Peter Mandelson, secretary of state for business, enterprise and regulatory reform, said the government will offer guarantees to unlock loans of as much as £1.3 billion from the European Investment Bank. It will also offer guarantees to support as much as a further £1 billion of lending to cover investments not eligible for EIB support.

A cut in the rate of U.K. value-added tax to 15% from 17.5% effective Dec. 1 may have helped slow the decline in new-car registrations, the U.K. car-makers group said last month, but it hasn't arrested it.

New-car registrations last month fell to 112,087 vehicles from 162,097 in January 2008.

"Consumers remain concerned the general economic gloom will impact upon them directly," the car-makers group said. "With jobs being lost, consumers appear unwilling to spend on large discretionary items like cars."

Car makers have slowed or halted production across Europe to avoid a buildup of inventory, and idled or shed workers to reduce costs. Honda Motor Co. last month sent home 4,200 workers at its Swindon, England, plant at the start of a four-month shutdown to cope with the slump in demand.

The U.K. car-makers group further trimmed its forecast for registrations in 2009 to 1.72 million vehicles from its previous prediction of 1.78 million. That would represent a year-to-year drop of 19%, or about 410,000 vehicles. The U.K. car market in 2008 recorded its worst sales performance since 1996 as credit markets dried up.

Ford increased its market share year-to-year in January to 19% from 16%, even as sales dropped to 20,951 from 26,490. Its new Fiesta was the top-selling model for the third successive month.

General Motors Corp.'s Vauxhall brand saw its market share edge up to 14% from 13% even as sales fell to 15,600 from 21,676.

Separately, the European automakers association on Thursday urged the European Union to suspend free-trade talks with South Korea, saying the deal would give South Korean auto makers full access to the EU market without opening up South Korean markets enough in return.

EU car makers fear competition from less-expensive South Korean imports made by auto companies such as **Hyundai Motor** Corp. and **Kia Motors** Corp. if EU tariffs are lifted as a result of the free-trade agreement. EU officials have said they want to have a deal with South Korea finalized in March.

The European Commission, the EU's executive arm, said in response that the deal would eliminate tariffs on cars shipped to South Korea within three years, end regulatory barriers that limit imports and still allow the EU to protect its market in the case of a surge of imports from South Korea.

—Matthew Dalton in Brussels contributed to this article.

France cuts the price of entry into cellular-phone market

By Jethro Mullen

PARIS—A new entrant to the French mobile-phone sector will be able to obtain the use of a block of frequencies for about €206 million ($265 million), the French junior minister for industry and consumer affairs, Luc Chatel, said Thursday.

Such a price is within the means of **Iliad** SA, Iliad's founder and largest shareholder, Xavier Niel, said on French business radio station BFM. The broadband provider wants to move into the mobile-phone market, challenging the three established operators—**France Telecom** SA's Orange, **Vivendi** SA's, and **Bouygues** SA's Bouygues Telecom.

The government said last month that it wants to allot the frequencies originally set aside for the country's fourth mobile license in three separate blocks before the summer, with one reserved for a new entrant. Previous attempts to allocate all the frequencies under one license for €619 million proved unsuccessful, despite interest from Iliad.

"Guided by a concern for fairness regarding the existing operators," the government will make one block available at a third of the previous overall fee, Mr. Chatel said. New entrants that apply for that first block of frequencies will undergo "a beauty contest," taking into consideration a number of factors, the minister said. Those factors include the breadth and speed of deployment, the coherence and credibility of the project and the capacity to stimulate competition beneficial to the consumer.

Nordic paper firms warn of weakening demand

Stora Enso, UPM and M-Real report losses for the quarter

By Gustav Sandstrom

Paper companies across the Nordic region Thursday reported fourth-quarter losses, hit by restructuring charges and write-downs, and warned about weakening demand in the coming year.

Stora Enso Oyj posted a net loss of €655 million ($842 million), compared with a net loss of €138 million a year earlier. Sales at the Finnish company declined 23% to €2.6 billion from €3.37 billion.

It said it will reduce the salaries of its executive-team members and board of directors this year and proposed a lower 2008 dividend.

"The drop in customer demand in the last quarter of 2008 turned out to be as severe as we expected," said Chief Executive Jouko Karvinen. "The operating environment for at least the early part of 2009 will be just as challenging as the end of 2008."

Rival **UPM-Kymmene** Oyj, a producer of magazine paper, swung to a net loss of €286 million, compared with a net profit of €29 million a year earlier. Sales fell 7.6% to €2.32 billion from €2.51 billion.

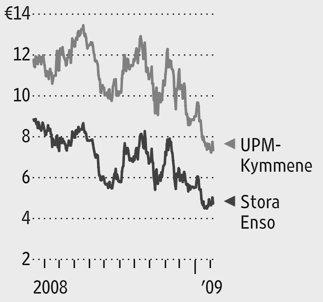
"Lower deliveries in all of UPM's business areas and higher energy and wood costs had a negative impact on the result," the company said. It predicted that demand for its products will fall in 2009 because of the economic downturn in its main markets.

Meanwhile **M-Real** Oyj, another Finnish paper maker, predicted a "clearly negative" operating result for the first quarter of 2009 as it posted a fourth-quarter loss of €163 million from continuing operations. Swedish rival **Holmen** AB reported a 21% decline in net profit to 271 million Swedish kronor ($33 million), also hit by higher costs and lower prices.

Paper worker with jumbo roll at Coating mill

Paper losses

52-week share performance of Stora Enso and UPM-Kymmene on the Helsinki Stock Exchange



Source: Thomson Reuters Datastream
Photo: Stora Enso

Cisco saw orders fall more rapidly during January

By Ben Worthen

Cisco Systems Inc. posted a 27% drop in quarterly profit and warned that businesses are increasingly scaling back their technology spending.

The big Silicon Valley maker of networking gear said revenue fell 7.5% in its fiscal second quarter, which ended Jan. 24. It also signaled that conditions had worsened, predicting revenue in the current period could drop 15% to 20% from a year earlier.

"It is now clear that we are in a global economic slowdown," Chief Executive John Chambers said Wednesday in a call with analysts. He said it is difficult to make an accurate prediction given the current economic climate, but added that "we will obviously be impacted."

The forecast for the third quarter calls for revenue of $7.8 billion to $8.3 billion. Analysts, on average, expected revenue of around $8.7 billion, according to Thomson Reuters.

The San Jose, Calif., company is one of the first to report earnings that include January, and its results are a closely watched barometer of corporate-technology spending.

Overall, Cisco's orders for the second quarter shrank 14%, but in January orders were down 20% from a year ago.

Cisco's corporate customers have steadily cut the amount they have spent on technology over the past year, though some of those losses have been offset by phone and cable companies, which have bought Cisco gear in order to keep pace with increasing Internet traffic. But in the January quarter these U.S. companies placed 30% fewer orders than the year-ago quarter, Cisco said.

"No one is looking for a turnaround yet," said Jeff Evenson, an analyst at Sanford C. Bernstein & Co. He added that Cisco appears to be doing a good job of controlling its costs, which offsets the decline in sales.

Mr. Chambers has pledged to reduce Cisco's spending by $1 billion this fiscal year by implemented a hiring freeze, reducing travel and similar measures. On Wednesday, Mr. Chambers said some job cuts are likely, though not across-the-board layoffs.

Mr. Chambers said he is standing by his long-term growth goal of 12% to 17% for the company, but added the caveat that the prediction assumed that the economy would return to its normal growth rates.

Despite the recession, Cisco has continued to move into new markets. Examples include consumer-electronics, such as a home speaker system unveiled in January, and Cisco is believed to be developing a server system that would take it for the first time into the computer business.

Cisco ended the quarter with about $29.5 billion in cash, and Mr. Chambers has said he sees the downturn as a chance to expand. Cisco has also used its cash to help finance purchases for its customers. The company said that it provided $2.1 billion in financing for its customers in the first half of 2009.

Net income in the second quarter totaled $1.5 billion, or 26 cents a share, down from $2.06 billion, or 33 cents a share, a year earlier. Revenue declined to $9.09 billion from $9.83 billion.

CORPORATE NEWS

Lenovo CEO steps down

PC maker posts loss; Chinese executives take back control

By Jason Dean

BEIJING—**Lenovo Group** Ltd., the Chinese company that vaulted onto the international stage four years ago by buying the personal-computer operations of **International Business Machines** Corp., is refocusing on its roots.

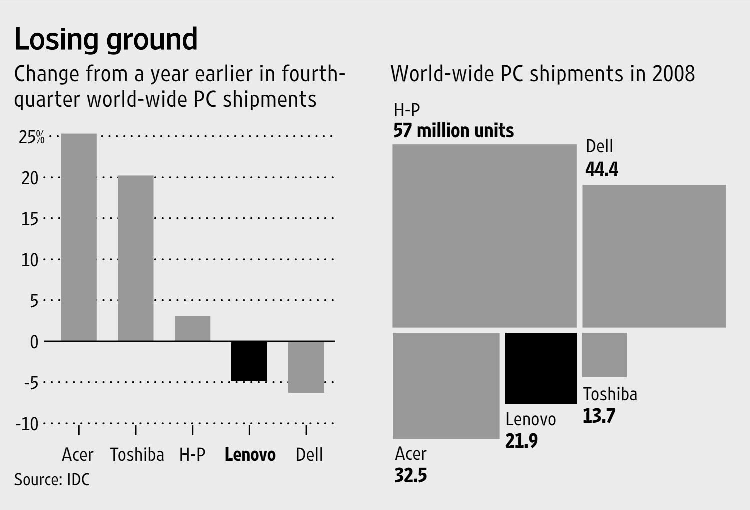
Lenovo said Thursday it is replacing its American chief executive with Chairman Yang Yuanqing, and bringing back its co-founder to head the board, putting China's most prominent technology company back in the hands of the executives who established it. Bill Amelio, a former **Dell** Inc. executive who joined Lenovo as CEO shortly after the IBM deal in 2005, has resigned after the end of his three-year contract, the company said.

Bill Amelio

Replacing Mr. Yang as nonexecutive chairman is Liu Chuanzhi, who helped start Lenovo's predecessor company 25 years ago and was Lenovo's chairman until 2005. In an interview, Mr. Liu said the new management team will refocus Lenovo's efforts on China and other emerging markets. He said the management changes were driven by the worsening global economic crisis, and by the former IBM business's reliance on big corporate customers at a time when consumers have been the industry's big growth driver.

The changes, which took effect immediately, came as Lenovo reported a net loss. While it remains dominant in its home market, Lenovo has struggled in international markets, which still account for more than half of its sales, losing market share to rivals like **Hewlett-Packard** Co. of the U.S. and **Acer** Inc. of Taiwan.

Lenovo's current difficulties highlight not only a broader slump in the global PC industry, but also the challenges facing Chinese companies as they try to expand abroad. The IBM acquisition was a landmark deal that created one of China's first true multinational companies and landed Lenovo, already seen as a national champion in China, among the upper ranks of the global PC industry.



Mr. Amelio's hiring—it is extremely rare for a Chinese company to place a foreign executive in a top job—was seen as reflecting Lenovo's eagerness to internationalize itself. Having successfully run Dell's Asia-Pacific operations, Mr. Amelio was tasked at Lenovo with integrating two companies that had vastly different cultures, languages and pay structures—not to mention dual headquarters in Beijing and North Carolina.

Lenovo's situation "points up that going international is hard enough without adding the challenge of merging not only two corporate cultures, but two national cultures as well," said David Wolf, CEO of Wolf Group Asia, a Beijing-based marketing strategy firm. The management change and Lenovo's renewed focus on China "makes financial sense" now, but "it does call into question the wisdom of the original acquisition," he said.

Mr. Liu emphasized that Lenovo remains "firmly committed" to being an international company. He pointed to the promotion, also Thursday, of Rory Read, an IBM veteran who is now a Lenovo senior vice president, to the new position of president and chief operating officer. And executives said Mr. Yang will remain based at Lenovo's office in North Carolina, where he has lived for several years.

Yang Yuanqing

Since the IBM acquisition, "Lenovo has focused in the international markets on IBM's products and customers, which are mainly large corporate customers," Mr. Liu said. "But in the current economic crisis, corporate customers have been the most affected. So right now, we should emphasize China and emerging markets, and consumer customers."

In China, where Lenovo has an extensive distribution system, the company has focused on individual consumers and small businesses, offering a relatively narrow product line that keeps its costs low. Lenovo executives think that approach can be used effectively in other emerging markets like India and Russia.

Lenovo executives praised Mr. Amelio, who will remain as an adviser to the company until September. Mr. Liu said the 51-year-old U.S. executive had already begun moving the company in its new strategic direction, but that "the sudden change in the circumstances means that we need to move faster." Mr. Amelio, in a Lenovo statement, said he is "pleased with what we have accomplished."

The 64-year-old Mr. Liu helped start Lenovo's predecessor company in 1984, when he and a group of colleagues from China's Institute of Computing Technology founded one of the country's first computer businesses with government funding of less than $25,000. That company eventually became Legend Holdings Ltd., which in turn created Lenovo and remains its biggest shareholder, with a stake of about 45%. Mr. Liu is currently Legend's vice chairman.

Mr. Yang, 44 years old, joined Legend in 1989, and became CEO in 2001. He helped build the company's Chinese business, managed its international rebranding as Lenovo in 2003, and, with Mr. Liu, engineered the IBM acquisition in 2005. That China experience gives Mr. Yang "unique leadership ability" where Lenovo now wants to focus, Mr. Liu said.

Lenovo's Hong Kong-traded shares ended down 2.7% after the announcement Thursday at 1.46 Hong Kong dollars (19 U.S. cents).

In its latest fiscal quarter ended Dec. 31, Lenovo reported a loss of US$97 million, down from a net profit of US$172 million in the year-earlier quarter. Shipments of its PCs in the quarter fell 5%, while revenue dropped 20% to US$3.59 billion, from US$4.49 billion a year earlier.

GM, Chinese auto maker holding talks on venture

By Patricia Jiayi Ho And Norihiko Shirouzu

BEIJING—**General Motors** Corp., which is currently surviving on U.S. government loans at home, is in expansion mode in China, holding talks with state-owned auto maker **FAW Group** Corp. on a possible new joint venture to make light commercial vehicles.

GM said Thursday that it is in talks with FAW Group, one of China's biggest car makers, to set up a "potential partnership." A GM spokeswoman in Shanghai declined to provide further details, saying the talks are continuing.

According to people familiar with the situation, the talks involve creating a joint venture to produce large light commercial vehicles, such as vans and trucks, similar to Ford Motor Co.'s Transit van.

News of the talks comes after GM in December opened a new passenger-vehicle plant in the northeastern Chinese city of Shenyang. The Shenyang plant is the fifth factory GM runs with main Chinese joint-venture partner **SAIC Motor** Corp.

In addition, GM has a three-way joint venture with SAIC and **Wuling Automobile** Co. that produces and markets micro minivans. FAW, which would be GM's third vehicle-production partner in China if a deal is concluded, already has passenger-vehicle joint ventures with **Volkswagen** AG and **Toyota Motor** Corp.

GM hopes growth in China, among other emerging markets, can help offset market-share losses in the U.S. China has been the world's second-largest car market in recent years, but last month vehicle sales in China exceeded those in the U.S. for the first time.

As GM tries to expand manufacturing capacity in China, growth in auto sales here has slowed considerably. Last year auto sales grew only 6.7%, ending a decade-long run of double-digit sales growth.

Last year began with monthly sales growth rates in the double-digits. But in August, demand for autos started to show signs of weakness, and it began contracting rapidly in the last two months of the year. In December, auto sales, including passenger cars and commercial vehicles, fell 11.6% to 741,600 units. GM believes demand in the China's auto industry will likely remain soft this year and in 2010.

Separately, GM's Thai unit said it would seek financial support from the government and local banks to help fund the development of a 15 billion baht ($429.5 million) pickup truck project. GM representatives have held talks with the Thai Industry Ministry, but declined to elaborate on the discussions.

—Leigh Murray in Bangkok contributed to this article.

EU charges several firms over alleged steel cartel

By Peppi Kiviniemi

BRUSSELS—The European Commission said Thursday that it sent formal antitrust charges to several steel companies in October on suspicion that they were operating a cartel in prestressed steel products.

The charges, known as a "statement of objections," lay out the commission's concerns in detail. All the companies have since responded to the allegations, the commission said.

Finnish steel company **Rautaruukki** Oy said it received charges from the commission alleging that the company's former subsidiary Fundia had participated in a cartel between 1996 and 2001. Rautaruukki divested itself of Fundia's business operations in 2006.

If found guilty, the companies can be fined as much as 10% of their annual global revenue by the commission, the European Union's executive arm.

Boeing Dreamliner orders shrink

By J. Lynn Lunsford

A Dubai-based aircraft-leasing company set up specifically to handle the Boeing 787 Dreamliner has decided to cancel 16 of the 21 jets it had on order.

The change, which was reflected on **Boeing** Co.'s order books Thursday, marked the second time this month that a customer has walked away from the long-awaited airplane. Russia's S7 Airlines recently canceled an order for 15 Dreamliners for unspecified reasons.

The Dreamliner, once touted as the model of how all future airplanes would be developed, has become a source of embarrassment for Boeing officials, who have been unable to get the plane delivered on schedule. The plane, which had been supposed to enter service in May 2008, is now running almost two years late.

Like many launch customers, Dubai's LCAL had hoped to have the first of its planes in service by now. The original order was valued at about $3.6 billion at list prices. Boeing said LCAL, like other airline and leasing customers, "was preparing for tough challenges caused by the growing global recession," as well as unnamed "other factors."

An LCAL spokesman said that the "the postponement of the revenue stream from projected aircraft leases contributed to our investors' decision to cancel." He declined to provide further details.

LCAL, which has the Al-Jomaih Group of Saudi Arabia as one of its main shareholders, was the first leasing company to place an order for the 787. At the time, LCAL officials had hoped to be in a prime position to charge a premium for the airplane as customers without pending orders jockeyed to get their hands on Dreamliners.

Although the Dreamliner order book remains strong at 879 airplanes from 58 customers, many have expressed growing frustration at the slipping schedule.

Luxottica sees drop in 2009 net

By Sofia Celeste

Luxottica SpA posted a 4.2% rise in fourth-quarter sales. But the Milan-based company warned that net profit for last year will likely show a 16% fall as demand for the eyewear it makes for luxury houses like Chanel, Prada and Versace slowed world-wide.

Revenue rose to €1.24 billion ($1.59 billion) from €1.19 billion a year earlier, the world's largest eyewear maker by sales said Thursday. Retail revenue rose 4.6% to €776.8 million, while wholesale revenue from brands made under license as well as Luxottica's own brands rose 3.1% to €459.7 million.

The company warned that full-year net profit is likely to show a drop to about €400 million and that this year would remain challenging. "We want to make sure we have the appropriate resources to take advantage of all the opportunities that the coming years may offer, while being extremely selective with our investments," said Chief Executive Andrea Guerra.

Late last year, Luxottica already issued a profit warning on its 2008 earnings as consumers tightened their purse stings on big-ticket items. The company in January announced four days of temporary layoffs that would affect more than 6,000 workers, amid falling demand.

One of Luxottica's biggest issues is that retailers are scaling back on orders, said Peter Farren, a London-based analyst at Bryan Garnier. This trend is expected to continue into 2009, Mr. Farren said.

CORPORATE NEWS

Web ads improve aim

New technologies that target messages gain with marketers

BY JESSICA E. VASCELLARO AND EMILY STEEL

As marketers scale back their ad budgets, some new technologies that make it easier for marketers to track the impact of their online advertising are gaining ground.

ADVERTISING

Products based on these technologies—such as customized ads that show different products to different users, Web ads hidden inside links in text, and online coupons—are part of what is called "performance-driven advertising." That's because the products aim to improve and more precisely measure how a particular ad performs.

While no one format is likely to emerge as a silver bullet for marketers seeking to use their ad dollars more efficiently, the advertising industry is betting on these technologies to increase online advertising spending. Altogether, the U.S. online-ad market is expected to increase 9% to $25.7 billion in 2009, slowing from its year-earlier growth rate of 11%, according to estimates from research firm eMarketer.

Internet retailer **Overstock.com** is becoming a big user of performance-driven ad products. The Salt Lake City company is planning to spend about $15 million, or 20% of its overall marketing budget for this year, on personalized ads from **Choicestream**, which makes product-recommendation software, says Overstock Chief Executive Patrick Byrne.

To devise the personalized ads, which Overstock started testing a few months ago, Choicestream relies on data the retailer provides about what customers browse and purchase on its site. Choicestream uses the data to select what personalized products and offers to insert into Overstock ads as they appear to potential customers.

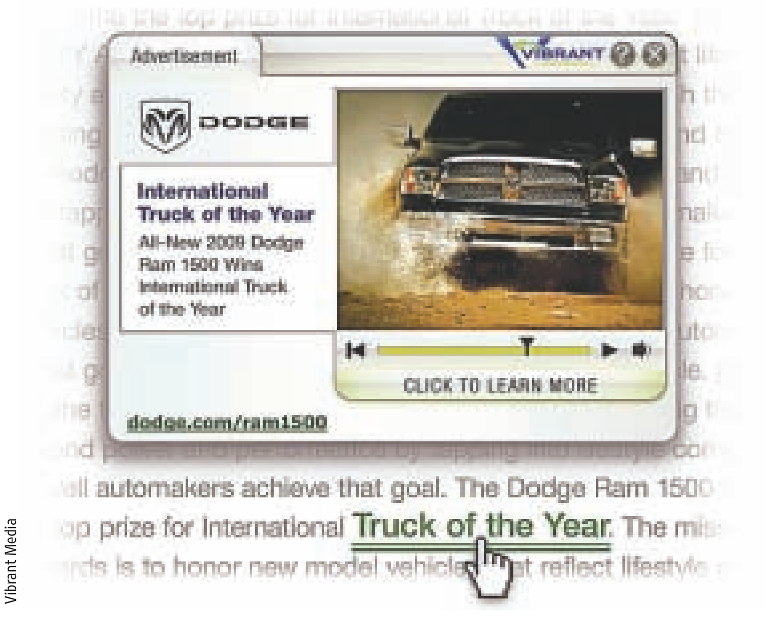
Mr. Byrne says that while Overstock hasn't had much luck with online display advertising in the past, the new, personalized ads drove a sevenfold increase in clicks on the ads and a threefold increase in sales relative to other display ads.

Internet giant **Yahoo** and **Teracent**, which develops online display-ad technology for clients like **Hewlett-Packard**, offer customized ad products similar to Choicestream's. Yahoo's version, called Smart Ads, debuted in 2007. Michael Walrath, a senior vice president at Yahoo, says demand for Smart Ads has grown during the economic downturn, even though fourth-quarter revenue was relatively flat from the previous year. A new Yahoo service that allows advertisers to target their display ads to users who have searched for particular terms has also gotten a good reception, he says.

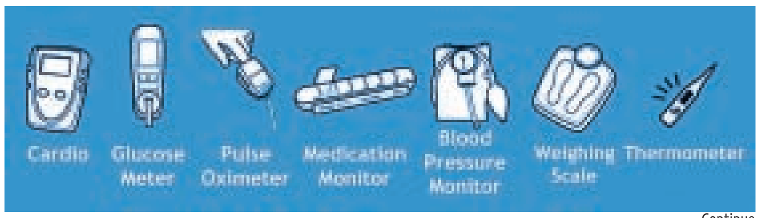
Companies like Choicestream, Yahoo and Teracent hope to steal some thunder from search advertising, which remains one of the biggest and fastest-growing ad formats. Since search ads are related to what a person is searching for on the Web, consumers often find them more relevant than other ads, and advertisers typically find them more cost effective.

But as budgets tighten, other formats that can prove they are worth their price are gaining momentum too. **Coupons Inc.**, which makes software to help companies create and distribute online coupons, is among the companies that are benefiting. It has seen a recent surge in interest from advertisers looking for more cost-effective online marketing options, says CEO Steven Boal.

Committed revenue for the year at **Vibrant**, which creates in-text ads, has doubled from a year ago, says the company's CEO and cofounder Doug Stevenson. In-text ads appear when a computer user hover a mouse over links that appear in the text on a Web page. Vibrant charges advertisers only when someone clicks on their ads.



An in-text ad by Vibrant for Chrysler's Dodge Ram pickup. Such ads appear when a computer user's mouse hovers over a link embedded in a Web page.



Users can add data from health devices to personal records on Google.

Google, IBM promote online health records

BY JESSICA E. VASCELLARO AND WILLIAM M. BULKELEY

Google Inc., moving to improve its online health-record service, is teaming with **International Business Machines** Corp. to allow patients to add data generated from home-health monitoring products, such as blood-pressure cuffs and glucose meters.

The companies said software developed by IBM, with consumers' permission, can shift the data into a personal health record in Google Health, the search giant's service for helping consumers manage and store their health information online. Other software lets the patient transfer the information from there to an electronic medical record kept by providers like health-care companies and primary-care physicians.

At a time when the administration of U.S. President Barack Obama has made electronic health records a priority and included funds in the stimulus plan to encourage providers to adopt records, the collaboration between the two companies has the potential to "kick-start" use of online monitoring of chronic diseases, said Dan Pelino, general manager of health care and life sciences for IBM.

Both IBM Chief Executive Samuel Palmisano and Google CEO Eric Schmidt have been prominent in business leaders' meetings with Mr. Obama on high-tech stimulus measures.

Still, the electronic health-records industry—and Google's attempt to help spur and organize it—are in a very early phase. While major insurers have migrated medical records for tens of millions of patients online, only a few hundred thousand patients have claimed and actively updated their information through their providers or other services like Google Health and **Microsoft** Corp.'s HealthVault, estimates Harry Wang, a research analyst for Parks Associates.

Sameer Samat, director of Google Health, declined to say how many patients have uploaded their own personal health information into Google's system or imported records from partners.

GLOBAL BUSINESS BRIEFS

BG Group PLC

Quarterly profit rose 56%, driven by the LNG division

BG Group PLC Thursday posted a 56% jump in fourth-quarter net profit and gave a strong outlook for its core businesses and financial position. Net profit soared to £756 million ($1.09 billion) from £486 million a year earlier. The bottom line was boosted by the oil and gas company's liquefied natural gas unit, where operating profit more than doubled to £456 million from £163 million. Total revenue jumped 27% at £2.96 billion from £2.33 billion. Strong demand from key markets expanded margins, even though total oil and gas production fell 4% to 623,000 barrels of oil equivalent a day from year earlier, said the U.K.-based company. Chief Executive Frank Chapman said he expects LNG profit to hold up well in the future, despite the severe economic downturn.

Warner Music Group Corp.

Warner Music Group Corp. posted a surprise profit for its fiscal first quarter. Warner Chief Executive Edgar Bronfman Jr. said the company remained confident about achieving its long-term goals, although it faced "difficult economic conditions and tough prior-year comparisons." Warner, New York, recorded net income of $23 million, or 15 cents a share, for the period ended Dec. 31, compared with a year-earlier net loss of $16 million, or 11 cents a share. Revenue decreased 11% to $878 million from $989 million, a drop of 6.3% on a constant-currency basis. Recorded music revenue fell 12%while digital revenue — which now makes up 20% of total revenue — rose 18%.

Atos Origin SA

Computer-services company **Atos Origin** SA Thursday posted a 9.1% drop in fourth-quarter revenue, reflecting the sale of its trading-systems operations. Revenue fell to €1.41 billion ($1.81 billion) from €1.55 billion a year earlier, as Atos sold off its Italian activities and most of its Atos Euronext Market Solutions operations in recent quarters. Stripping out acquisitions, disposals and currency fluctuations, revenue was up 3.6%, said the Paris-based company. Atos, which managed the IT systems for the Olympic Games, said it received order entries totaling €1.5 billion in the fourth quarter. In the past year Atos endured a messy spat between management and two of its major shareholders, Centaurus Capital LP and Pardus Capital Management LP, which culminated in the two funds obtaining board representation.

Crucell NV

Dutch biotechnology company **Crucell** NV swung to a net profit in the fourth quarter and said it expects 2009 operating income to grow 20%. Crucell's earnings were published ahead of schedule because the results beat expectations. Investors have been speculating about a potential takeover since talks between Crucell and Wyeth collapsed late last month after Wyeth agreed to be bought by Pfizer Inc. Chief Executive Ronald Brus declined to comment on the speculation. For the quarter, Crucell reported profit of €19.2 million ($24.7 million) compared with a net loss of €4 million a year earlier. Revenue was up 23% to €93.7 million, driven by continued strong sales of pediatric, travel and endemic vaccines, as well as higher license revenue.

Sanyo Electric Co.

Sanyo Electric Co. swung to a net loss in its fiscal third quarter, joining a string of Japanese technology companies undermined by the global economic downturn and the strong yen. The company, which makes products from television sets to rechargeable batteries, posted a net loss of 14.3 billion yen ($159.9 million) for the three months through December, compared with a net profit of 12.8 billion yen a year earlier. Sanyo said its performance was hit by "increasingly difficult market circumstances, especially for products such as digital cameras [and] semiconductors." Semiconductor operations lost about 11.1 billion yen for the nine months through December. For the fiscal year through March, Sanyo still expects to break even, though it anticipates a 20 billion yen loss in its semiconductor business.

Hynix Semiconductor Inc.

Hynix Semiconductor Inc. posted a wider net loss for the fourth quarter, its fifth straight quarterly loss, due mainly to sharp falls in chip prices . Hynix said it expects that industry consolidation will ease oversupply this year, although demand remains sluggish. Hynix, Icheon, South Korea, posted a net loss of 1.328 trillion won ($963.3 million), from a net loss of 462 billion won a year earlier. Consolidated sales fell 18% to 1.512 trillion won. Hynix took 318 billion won in foreign-currency exchange losses . The company posted an operating loss of 782 billion won—its worst performance since it began reporting quarterly results in 2003. The average selling price of its dynamic random access memory chips fell around 43% from the prior quarter.

easyJet PLC

EasyJet PLC may scale back its fleet-growth plans if the economic climate worsens during 2009, the British low-cost airline said, echoing demands made last year by founder Stelios Haji-Ioannou. The carrier, which raised its first-half revenue forecast last month, currently plans to expand its fleet to 197 planes by 2011 from 165 as of September last year and has placed a major order with European Aeronautic Defence and Space Co. unit Airbus. Mr. Haji-Ioannou has said that he is concerned about the airline's prospects for this summer and has urged its fleet growth to be capped. Chairman Colin Chandler confirmed he plans to retire as he approaches his 70th birthday. A search for a successor has started.

Fiat SpA

Police clashed with about 100 **Fiat** SpA auto workers protesting layoffs on Thursday and arrested seven for identification, police said. The workers from the Fiat Auto plant at Pomigliano, near Naples, tried to block the A1 highway, Italy's main north-south highway, as part of the protest. Officers shoved protesters to clear the road, a police spokesman said. However, demonstrators said blows were delivered. No injuries were reported. Fiat is cutting production in the face of weak demand. Fiat said on Wednesday it would halt output at its Mirafiori plant at Turin for another two weeks in March, keeping about 5,000 workers at home.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Elections shift power in Iraq

Maliki gains political clout, auguring strong showing in December's parliamentary race

By Gina Chon

Reuters

An election worker moves ballot boxes in a Baghdad counting center. About 51% of registered voters cast ballots last week.

BAGHDAD—Iraqi Prime Minister Nouri al-Maliki gained political heft with his party's victory in elections in nine of 14 provinces, shifting the balance of power in the country and making his party a strong competitor for national elections at the end of the year.

The Independent High Electoral Commission announced preliminary results Thursday, but official results may not be known for weeks. About 51% of registered voters cast ballots on Saturday, choosing from among more than 14,000 candidates for 440 provincial council seats. The elections were seen as a barometer of how political blocs will fare in the parliamentary race in December.

Mr. Maliki's State of Law slate of candidates won handily in two of Iraq's largest provinces, where the prime minister launched military crackdowns on Shiite militias last spring. The State of Law party obtained 38% of the vote in Baghdad and 37% of the vote in the oil-rich region of Basra. Mr. Maliki wasn't a candidate in these elections but was a nation-wide symbol for the State of Law slate, which he organized specifically for the elections. Mr. Maliki is a member of the Islamic Dawa Party, which didn't field any candidates in the local elections.

Nouri al-Maliki

Sadiq Rikabi, a close adviser to Mr. Maliki, said the elections represented a victory for Iraq. The prime minister is proud of the trust placed in him and his party by the Iraqi people, Mr. Rikabi said. He declined to discuss possible alliances with other parties but said Mr. Maliki's candidates wanted to have good relations with provincial council members from other parties.

State of Law candidates came in first in Najaf, home to one of the holiest cities in Shiite Islam that has been a stronghold of Mr. Maliki's rival, the Islamic Supreme Council of Iraq, or ISCI. Mr. Maliki's list won 16.2% of the vote while ISCI, the largest Shiite political party here, was second with 14.8%. ISCI campaigned extensively before the elections, relying on its religious ties to woo voters. Mr. Maliki emphasized a strong central government over religion in his campaign, which is why he formed the State of Law party.

"I chose Maliki's list because he is the one who made our country better," said Baghdad resident Sarah Mohammed Jabr, a 19-year-old student.

—Jabbar al-Obaidi and Zaineb Naji in Baghdad contributed to this article.

Economy, rivalry weaken Ukraine's leaders

By Alan Cullison

KIEV—Ukraine's prime minister survived a no-confidence vote in parliament, but a deepening economic slump and a rivalry among erstwhile allies spell trouble for the country's westward-leaning leaders.

Prime Minister Yulia Tymoshenko hailed the outcome of the vote Thursday as a "resolution of trust in the government." The motion, put forward by pro-Russian factions in parliament, gathered 203 votes in the 450-seat assembly, short of the 226 required to pass.

The move to undermine Ms. Tymoshenko comes as she and her one-time ally, President Viktor Yushchenko, have seen their images dented by personal rivalry.

With the approach of presidential elections in the next year, each has turned to blaming the other for a botched response to the economic crisis. Millions of layoffs are expected in Ukraine's heavy industries in the coming months, and unemployment is expected to hit levels unseen since the fall of the Soviet Union.

The disarray threatens Western hopes that this France-size nation on Russia's border could become a beachhead for democratic values in the former Soviet Union. Diplomats say Mr. Yushchenko and Ms. Tymoshenko have all but given up governing, and their rivalry is jeopardizing Ukraine's ability to meet criteria of the International Monetary Fund, which extended to Ukraine a $16.5 billion rescue package last year.

In parliament, Ms. Tymoshenko stuck by her budget's forecast for growth in the economy, despite analyst projections that it could shrink by as much as 10% this year. "It is simply too easy to become reconciled to a fall," she said. "I believe Ukraine is strong, with resources and reserves and if the proper actions are taken at this difficult time, we can achieve this indicator as planned."

Ukraine has been hard hit by the economic crisis and the collapse in prices of metals and fertilizers, its main exports. Ukraine's industrial production fell by 26% in December and its currency has lost a third of its value since the summer.

Moscow has been using the economic crisis to strengthen its hand in the region, and last month forced Ukraine to agree to sharply higher prices for natural gas after a standoff in which it cut off shipments. The increased cost is expected to pummel the economy further.

Mr. Yushchenko and Ms. Tymoshenko have often feuded since the Orange Revolution that swept them to power in 2004, but the approaching presidential elections has worsened matters. Mr. Yuschenko's administration has labeled Ms. Tymoshenko a populist and spendthrift who is misleading the country with budgets and promises she can't fulfill.

In the latest salvos, Mr. Yushchenko appeared on national television to warn that Ukraine risks mass layoffs, unpaid wages and a "social catastrophe" for which Ms. Tymoshenko is to blame.

Economic slump

Ukraine's industrial production growth, year-to-year

Source: Renaissance Capital, Moscow

Ms. Tymoshenko in turn accused the president of spreading "a mix of untruths, panic and hysteria."

She has been trying to fire the head of Ukraine's National Bank, an appointee of Mr. Yushchenko, accusing him of favoritism and corruption. Her critics say she wants to get control of the National Bank, which is Ukraine's central bank, so she can fulfill her campaign promises.

The leaders have managed to cobble together enough legislation to secure the help of the IMF, but Ukrainian debt trades at default levels amid fears that the government spending is out of control and no politician has the will to control it.

An IMF mission has been in Kiev for the past two weeks to determine whether to release the second tranche of its loan. Fund officials have made no statements on the government's plans, including parliament's passage of a 2009 budget before the New Year with a 3% deficit despite an IMF stipulation that the plan be deficit-free.

Mr. Yushchenko's low approval ratings have crept to the low single digits in the past few months. Ms. Tymoshenko's ratings, though higher, are also softening amid signs voters are looking for people not associated with the fights of the past.

"Leaders continue to fight among themselves even as the house is burning down," said Ella Libanova, head of Ukraine's Institute for Demographics and Social Research. Voters "are looking for someone who is relatively unknown."

Former parliament speaker Arseny Yatsenyuk, 34 years old, saw his ratings rise after he was sacked by parliament in November, and has been taking support from both Mr. Yushchenko and Ms. Tymoshenko. Mr. Yatsenyuk has said he wants to start his own political party.

The fracture of the government has also benefited a figure who has been mostly locked out of power in recent years—Viktor Yanukovych, the pro-Russian candidate who tried to steal the 2004 vote that sparked the Orange Revolution. Mr. Yanukovych, who pushed for the no-confidence vote Thursday, has predicted that this year marks Ukraine's "last Orange winter."

Total strike ends, but U.K. workers plan new protests

By Angela Henshall

LONDON—Contract workers on strike at the Lindsey oil refinery over the use of foreign labor voted unanimously to return to work after striking a deal with refinery operator **Total** SA.

The deal earmarks 102 jobs for the U.K. contractors. While it ends the dispute at the 200,000-barrel-a-day Lindsey refinery in Immingham, in eastern England, it has given unions more ammunition to push for further industrial action over the use of foreign labor.

Some contractors plan to take their fight next week to other energy plants employing foreign workers, and have scheduled protests outside construction sites for gas-fired power stations in Staythorpe, in Nottinghamshire, and the Isle of Grain, in Kent.

Keith Hazlewood, national secretary for the GMB union, said unions were pleased that members' grievances at Lindsey had been recognized.

"At least people are beginning to understand what we have been saying," Mr. Hazlewood said. "We now plan to follow this up with a series of meetings and demonstrations."

Both Total, of France, and the U.K. government have made concessions in an attempt to prevent further wildcat strikes, which have involved thousands of workers at energy plants in the past week.

U.K. Prime Minister Gordon Brown promised to review workers' rights, while the construction and engineering industry association issued new guidelines for companies using non-U.K. contractors and labor on engineering construction sites.

U.K. Business Secretary Lord Peter Mandelson welcomed the resolution of the dispute at Lindsey but warned there can be no backtracking on the U.K.'s European Union commitments. "We have to address the public's anxiety and frustration," Mr. Mandelson, a former EU trade commissioner, said in a speech Thursday. "But the solution is not to pull the door shut."

Some workers remain concerned. Around 60 protesters stood in the rain outside French conglomerate **Alstom** SA's U.K. headquarters in central London on Thursday. Many held banners evoking the prime minister's phrase "British jobs for British workers."

Union officials and some protesters say their argument isn't a xenophobic one, but rather a protest against what they see as British workers not being allowed to compete for jobs against workers brought in at lower wages from other countries.

"I don't care where people are from. This is about giving British workers a fair crack of the whip," said Steven Wilson, a steel fixer who is working on an extension to the London Underground.

Earlier Thursday, around 530 striking contractors at ScottishPower's Cockenzie and Longannet power stations in Scotland and **Drax Group** PLC's power station in Yorkshire returned to work. ScottishPower is a unit of **Iberdrola** SA. They followed contractors at **ConocoPhillips**'s 221,000-barrel-a-day Humber refinery and **Ineos Group Holdings** PLC's Grangemouth refinery earlier in the week.

—Alistair MacDonald contributed to this article.

ECONOMY & POLITICS

Centrists take on stimulus

Moderate senators have limited success in steering package

By Gerald F. Seib

One of Washington's biggest problems in recent years has been that it resembles a doughnut: It's got a hole in the center.

Thanks to the debate over the economic-stimulus package, there has been an attempt in the Senate this week to fill that hole in the political center. The effort has had some modest success, but just as often has been fitful and frustrated.

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Indeed, this attempt to build a centrist bloc of support for the stimulus package has done as much to show the difficulty in building bridges between left and right as to actually create those bridges. The bottom line: Those from both parties who want to bolster the middle of the political spectrum still have work to do.

This quest to find solid ground in the center has been led in large measure by Sen. Susan Collins (R., Maine), a proud, card-carrying moderate.

In the past couple of days Sen. Collins and a dozen or so other senators from both parties—who occupy what might vaguely be called the center ground in the political spectrum—have tried to band together to pull the stimulus package to a place where it's more likely to attract some Republican votes.

Their goal has been to cut the $900 billion price tag by carving out some spending projects.

They've even been encouraged by President Barack Obama, who met with Sen. Collins privately Wednesday and who clearly would trade some stimulus spending for more Republican votes to give his signature economic plan a broader base of support.

This effort is important because it represents the initial flexing of muscles by moderates from both parties, who, on paper at least, would seem to have the potential to be real power brokers in the era of Obama.

That potential power flows in large measure from the simple math of the Senate. As strong as the Democratic majority is as a result of the latest election, it still comes up just short of the 60 votes needed to break filibusters. That means that, on the really important votes, they need to attract at least a Republican or two to their side and have to avoid losing any of their own members.


Susan Collins

This gives leverage—or should, at least—to the moderate Republicans that Democrats need at times like these, as well as to more conservative Democrats who might jump off the party's bandwagon if it veers too far to the left. The moderates' modest numbers would seem to matter less than the position they occupy in the balance of power.

The stimulus debate has been the first opportunity for the moderates to translate this position into real power. The unlikely leader of the effort, in many ways, has been Sen. Collins. She and her Maine Senate colleague, Olympia Snowe, will almost always represent the two Republican votes most within reach of the Democratic majority. That gives them the power to demand movement in their direction in return.

On the stimulus bill, the system that emerged to try to make this happen was a team formed by Sen. Collins on the Republican side, and conservative Democratic Sen. Ben Nelson of Nebraska. They schemed between themselves over ways to reduce the spending portion of the stimulus package, and then shuttled their ideas back to a kind of rump group of about a dozen sympathetic lawmakers from both parties.

On the Republican side, that group has included Sens. Arlen Specter of Pennsylvania, Kit Bond of Missouri, George Voinovich of Ohio and John McCain of Arizona, who, in his post-presidential-campaign phase, has returned to playing the role of unpredictable maverick.

On the Democratic side, the group includes Sens. Mary Landrieu of Louisiana, Kent Conrad of North Dakota, Mark Warner of Virginia, Evan Bayh of Indiana, Claire McCaskill of Missouri and Jon Tester of Montana.

Somewhere in that mix should lie a potential centrist bloc that could really matter. And indeed, the group appears likely to succeed in trimming some spending out of the stimulus bill.

But a broader moderate wave doesn't seem to be taking shape. The stimulus bill isn't being rewritten in a sweeping way; the group seems more likely to affect it at the margins.

The reality is that there really are only three Republican senators regarded by their Democratic colleagues as true moderates: Sens. Collins, Snowe and Specter. And even that small group is hampered by tensions between the two senators from Maine.

In the end, the number of Republicans who will see enough changes to actually vote for the stimulus bill likely still amounts to only a handful. Moderate Democrats, meanwhile, seem likely to swallow misgivings and vote for the stimulus package at debate's end.

As a result, the dream of stimulus passing the Senate with an overpowering majority seems to be dying. "The idea of getting 80 votes in the Senate"—that is, votes from the 58 Democrats and more than 20 Republicans—"is now a distant memory," says Sen. Chuck Schumer of New York, a Democratic leader.

The center may yet rise again, but the stimulus debate hasn't given it much of a boost.

Productivity rises as jobs are cut

By Conor Dougherty

Companies in the U.S. continue to slash jobs and output, but are producing more goods with fewer workers, a sign that the labor market could stay sluggish for some time.

Productivity, or output per hour, jumped in the fourth quarter, the U.S. Labor Department said Thursday, rising at a 3.2% seasonally adjusted annual rate in the last three months of 2008 compared with 1.5% in the prior period. Although an increase in productivity is usually a good sign for U.S. economic growth—more output per worker helps drive growth—the news isn't as cheery as it appears.

Productivity increased because total U.S. nonfarm output fell at a 5.5% rate in the fourth quarter while total hours worked by employees fell at a sharper 8.4% rate, the steepest decline since 1975. It is a sign that companies cut hours aggressively last quarter as the U.S. economy slumped.

Companies "are moving very aggressively in terms of positioning themselves for a recession they expect is going to be bad," said Nariman Behravesh, chief economist for forecasting firm IHS Global Insight.

The number of Americans filing new claims for unemployment insurance rose by 35,000 last week to a seasonally adjusted 626,000, the highest in a quarter-century and the first time weekly claims have crossed 600,000 in the current recession. Meanwhile, workers who have lost their jobs are finding it harder to find a new one: Nearly 4.8 million people collected unemployment insurance for the week ended Jan. 24, the most since at least 1967, when the Labor Department began tracking the series and the U.S. population was about two-thirds as large as it is today.


Reuters

People talk to job recruiters at a career fair Tuesday in Los Angeles. Last week's 626,000 initial unemployment claims represent the highest level since 1982.

Separately, the Commerce Department said Thursday that orders for manufactured goods fell 3.9% in December, to $362.4 billion, the fifth consecutive monthly decline.