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## What's News

**ALIG reported a \$61.66 billion loss for the fourth quarter, the biggest quarterly loss in U.S. history, and the government agreed to boost its investment in the insurer, providing an additional \$30 billion in capital as needed. [Page 2](#)**

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**■ Volkswagen indicated profit fell 20% in the fourth quarter and forecast lower earnings and sales in 2009. [Page 4](#)**

**■ China's Geely is likely to bid for Ford's Volvo brand in what would be a bold attempt to expand internationally amid the global downturn. [Page 4](#)**

**■ U.S. consumers are rapidly becoming thriftier, forcing painful readjustments in industries such as manufacturing and construction. [Page 32](#)**

**■ Crude-oil futures shed more than 10%, dipping below \$40 a barrel, as U.S. stock markets continued to sink under a barrage of poor data. [Page 20](#)**

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**■ Manufacturing activity in the euro zone had its worst month in over a decade. [Page 9](#)**

**■ Vivendi reported a quarterly loss, hit by a large write-down on the value of its stake in NBC Universal, but it expects growth in 2009. [Page 6](#)**

**■ Pearson posted a rise in 2008 profit and expects to at least maintain profit this year due to its limited reliance on advertising revenue. [Page 6](#)**

**■ Both of KKR's public investment vehicles posted bracing results. KKR may put off its own IPO. [Page 17](#)**

**■ The amount of foreign currency traded in London markets is at a record, providing vital revenue streams to banks and asset managers. [Page 21](#)**

**■ Secretary of State Clinton is telling Arab leaders she is doubtful that Iran will respond to U.S. overtures. [Pages 8, 9](#)**

**■ Russia's ruling party scored big victories in local elections but the opposition complained of cheating.**

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### EDITORIAL & OPINION

**Crisis-hit Europe**  
"Borrowing to invest" turned out to be a losing strategy. [Page 12](#)

Breaking news at europe.WSJ.com

## Stocks take a beating

European shares decline 5%, while Dow industrials sink below 7000

By NEIL SHAH

LONDON—European stocks took their sharpest fall in weeks Monday as investors fretted over the health of major banks despite various efforts to restore confidence in the financial system.

The pan-European Dow Jones Stoxx 600 index fell 5% to 164.30, its lowest level since March 2003, driven by sharp declines among Europe's banks and insurance companies. The percentage drop in the Stoxx 600 was the largest since Dec. 1.

The drop accelerated in the latter part of the day, after the Dow Jones Industrial Average in the U.S. slid below 7000 for the first time since 1997. Meanwhile, credit markets weakened and jittery investors rushed for the safe haven of government bonds, pushing prices up and yields down.

"It's another bloodbath," Jimmy Yates, a trader at CMC Markets in London, said in a note.

The Dow industrials sank to lows unseen in a dozen years. The Standard & Poor's 500-stock index and the Nasdaq Composite Index posted sharp declines, as well. (Please see related article on page 17.)

The global selloff came amid moves in both Europe and the U.S. that, though aimed at shoring up financial firms, served to exacerbate it.

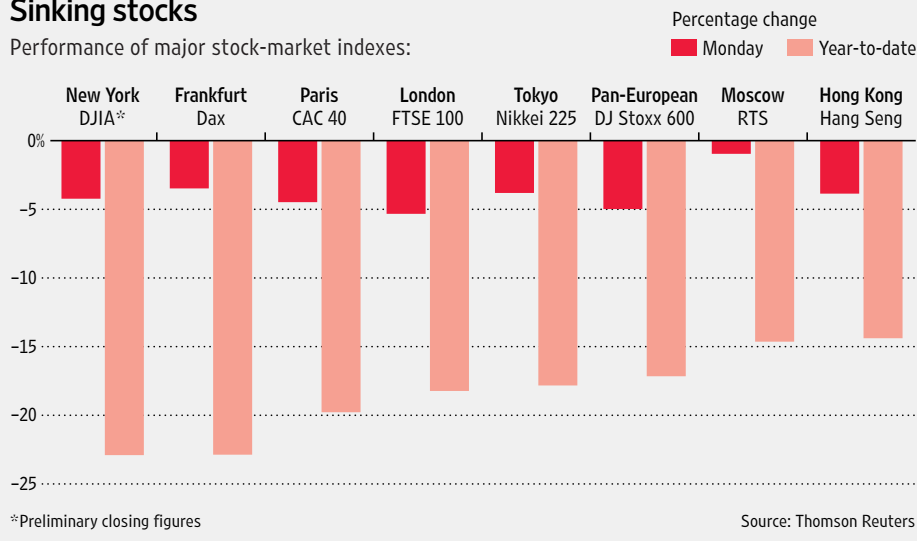
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Traders on the floor of the New York Stock Exchange

### Sinking stocks

Performance of major stock-market indexes:



## Yukos case watched for any Kremlin shift

By GREGORY L. WHITE AND ANDREW OSBORN

MOSCOW—As Russian prosecutors begin to present a new case against Mikhail Khodorkovsky on Tuesday, the highly politicized trial is being watched more for hints about today's murky Kremlin infighting than for the massive alleged embezzlement with which the jailed oil tycoon stands charged.

"The new Khodorkovsky trial raises the question: how much will power and politics in Russia really change," said Alexei Makarkin, an analyst at the Center for Political Technologies, a Moscow political consultancy. "There are some signals that show liberalization is possible, and

there are others from clans in power that show liberalization is dangerous."

The first case—which saw Mr. Khodorkovsky, then chief executive of Yukos and one of Russia's richest men, convicted of fraud and tax evasion, and Yukos, the country's largest oil company, broken up and largely nationalized—was a milestone in then-President Vladimir Putin's drive to tighten Kremlin control.

The new case against Mr. Khodorkovsky is a litmus test for his hand-picked successor, Dmitry Medvedev, a lawyer who has said that strengthening Russia's weak judiciary is a major priority in building a more demo-

*Please turn to page 31*

## HSBC pulls back as profit declines

By SARA SCHAEFER MUÑOZ AND CARRICK MOLLENKAMP

LONDON—As it reported a 70% drop in 2008 net profits, HSBC Holdings PLC unveiled a plan to raise £12.5 billion (\$17.9 billion) in capital it is counting on to ride out the financial storm's impact on Asia and a U.S. consumer-lending market it plans to exit.

The bank's plan to raise capital from existing investors via a so-called rights issue came as it reported a net profit of \$5.72 billion, down from \$19.1 billion in 2007. The drop was due to continuing losses from bad consumer loans in the U.S., write-downs on trading assets and a slowdown in Asia.

The bank also said it would cut its dividend by 30% and confirmed that it plans to dramatically curtail its consumer-lending division in the U.S. It purchased what was then Household International Inc. for \$14 billion in 2003, in what turned out to be a disastrous foray into subprime consumer lending. After heavy losses in 2007, the bank for 2008 reported an additional \$15 billion in impairments tied to HSBC Finance Corp., as well as a \$10.6 billion write-off of the unit's value.

Investors didn't welcome the news. Shares closed down 19%, at 399 pence, on the Lon-

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### Inside



#### At a crossroad

Volkswagen bucks the gloom in Europe's auto industry  
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### Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	6763.29	-4.24
Nasdaq	1322.85	-3.99
DJ Stoxx 600	164.30	-4.98
FTSE 100	3625.83	-5.33
DAX	3710.07	-3.48
CAC 40	2581.46	-4.48
Euro	\$1.2592	-0.80
Nymex crude	\$40.15	-10.30

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LEADING THE NEWS

# AIG's loss is biggest ever

*U.S. modifies bailout with more capital, large equity stake*

American International Group Inc. reported a \$61.66 billion loss for the fourth quarter, the biggest quarterly loss in U.S. history, and the U.S. government agreed to boost its investment in the insurer, providing an additional \$30 billion in capital

*By Liam Plevin, Matthew Karnitschnig, and Michael R. Crittenden*

on an as-needed basis. The Treasury Department and the Federal Reserve announced the overhaul of the government's bailout of the firm in a joint statement Monday. In addition to providing as much as \$30 billion in additional capital to AIG in return for preferred stock, the Treasury said it will convert its existing \$40 billion of preferred shares into new preferred shares that more closely resemble common stock. Under the new terms, the Treasury is to get a 77.9% equity interest via preferred stock on Wednesday. The new deal, the government's fourth for AIG, represents a nearly complete reversal from the one first laid out in mid-September. Back then, federal officials acted as a demanding lender, forcing the insurer to pay a steep interest rate for what was expected to be a short-term loan. Now the government is relaxing loan terms by cutting interest rates in hopes of preserving AIG's value.

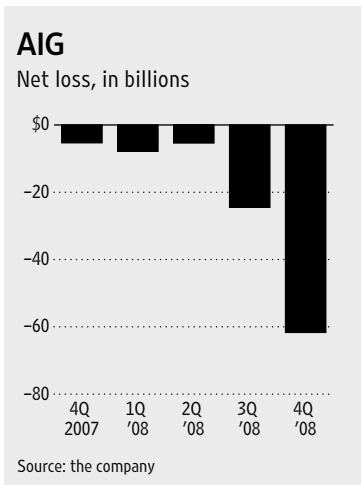
And the government isn't necessarily finished providing support. U.S. officials are expected to continue assisting AIG as needed in order to help the company shrink and dispose of some of its businesses, according to people familiar with the matter. "The company continues to face significant challenges, driven by the rapid deterioration in certain financial markets.... The additional resources will help stabilize the company, and in doing so help to stabilize the financial system," the Treasury and the Fed said in their statement.

The steps by the Treasury will be coupled with changes to the Fed's existing \$60 billion revolving credit facility for AIG. The Fed and the Federal Reserve Bank of New York plan to take as large as a \$26 billion preferred interest in two overseas AIG life-insurance subsidiaries—American Life Insurance Co. and American International Assurance Co.—and take as much as \$8.5 billion worth of bonds backed by life-insurance assets. AIG's outstanding debt to the government will go down by a similar amount.

In addition, the interest rate on the existing credit facility will be modified to reduce the existing floor.

AIG shares were up 7.1% at 45 cents in afternoon New York Stock Exchange trading.

AIG Chief Executive Edward M. Liddy said Monday that the insurer has drawn down about \$38 billion of the credit line extended by the government so far. "We'll continue to have access of approximately \$20 billion of available capital on to the existing \$60 billion government credit facility," Mr. Liddy said during a conference call with analysts.



"That \$20 billion is not now currently drawn. The balance on that outstanding government facility has been in the \$36 billion to \$38 billion range now for the better part of eight, 10, or 12 weeks, indicating that our liquidity issue has in fact stabilized," he said.

Also Monday, AIG posted a fourth-quarter net loss of \$61.66 billion, or \$22.95 a share, compared with a year-earlier net loss of \$5.3 billion, or \$2.08 a share. The latest results included restructuring charges and write-downs as the credit market's deterioration continued to slam AIG, especially in its exposure to commercial mortgage-backed securities. The quarterly loss broke the record set by Time Warner Inc. in 2002 amid its acquisition by America Online.

AIG said it will continue looking for buyers for those units it has already put up for sale and reviewing its options for other units, which may include a public offering.

# AIG fights U.S. on taxes as aid package increases

*By Jesse Drucker and Liam Plevin*

In the midst of its negotiation with the federal government over revised terms of its bailout, American International Group Inc. sued the U.S. on Friday over a disputed \$306 million in taxes, interest and penalties.

The suit steps up a battle with the Internal Revenue Service largely over AIG's use of a controversial type of "tax arbitrage" transaction that authorities are challenging around the world.

With the company essentially suing its owner, the suit highlights the awkwardness of national control of AIG, which the government rescued from potential bankruptcy in September. If through litigation "you're moving money from one pocket to another, why should we be paying lawyers to do that?" says David Weisbach, a tax-law professor at the University of Chicago.

"AIG is taking this action to ensure that it is not required to pay more than its fair share of taxes," said a company spokeswoman.

An IRS spokesman declined to comment.

In its lawsuit, filed in U.S. District Court in Manhattan, AIG for the first time laid out details about its role in the so-called "foreign tax generators" in dispute with the IRS, including the Cayman Islands subsidiaries it set up, the amounts borrowed from banks with which they did the transactions, and the names of the banks, including major banks in France, the Netherlands, Spain, Ireland and New Zealand. The general nature of the disagreement was previously disclosed in company securities filings and reported by The Wall Street Journal in May.

The U.S. government in September extended to AIG a loan of up to \$85 billion in exchange for a nearly 80% stake in the firm. It later boosted the total aid package to \$150 billion.

The foreign tax-credit transactions detailed in the lawsuit took place in 1997, but AIG said in a securities filing that it also expects the IRS to challenge similar deals from more recent years. The company paid the amounts in dispute and is now suing for a refund.

In a typical transaction, an AIG subsidiary would borrow money at favorable interest rates from an overseas bank and also earn investment income. It would pay foreign taxes and earn a foreign tax credit in the U.S. for those foreign taxes.

Simultaneously, the subsidiary would pay dividends to the foreign bank that lent it the money. The foreign tax laws generally exempted those dividends from taxation to the foreign bank. Since the foreign bank would get a tax credit, it could afford to lower its interest costs charged to borrowers like the AIG subsidiaries, according to numerous people involved in such transactions.

Tax authorities are concerned that the arbitrage of the two sets of tax laws allows companies to essentially double-dip, taking two tax benefits in two countries simultaneously, according to several people familiar with the objections the IRS is raising to such deals.

Proponents of such deals say they are smart business, merely taking advantage of differences in different sets of tax laws.

The transactions were popular among a slew of investment banks on Wall Street and overseas. New IRS regulations that took effect last year have essentially closed down new versions of such transactions, according to people who work on such deals.

The AIG lawsuit also details disputes with the IRS over some other issues, including the tax deductibility of some compensation paid to executives and the proper taxation after AIG restated some financial statements.

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## LEADING THE NEWS

# Ahold net rises 9%, defying slump

*Supermarket giant credits U.S. revamp; firm raises dividend*

BY CECILIE ROHWEDDER

Retailer Ahold NV defied the economic downturn with a sharp rise in profit as it revamped its stores to better attract cash-strapped consumers.

Amsterdam-based Ahold reported net profit of €285 million (\$361.3 million) for the fourth quarter, up 9% from a year earlier, and said it would raise its dividend for 2008 by 12%. The company attributed the strong performance to two years of sweeping changes at its U.S. business, which generates more than half of group sales. In the U.S., where Ahold owns the Stop & Shop and Giant supermarket chains, the company cut costs, lowered prices, simplified its selection of products and gave its stores a new look, yielding gains in market share, sales and profit.

But analysts said Ahold could face difficulty eking out further profit growth, having already reaped most of the gains from its restructuring. "Easy wins from the cost-cutting...may be complete," said Christopher Hogbin, senior analyst with Sanford C. Bernstein Ltd. in London, in a research note.

The company's shares rose 1.1% on the Amsterdam stock exchange, to close at €8.96.

Ahold's U.S. restructuring puts it in the forefront of a broader effort by retailers to adjust their strategies to a sustained slump in consumer spending. In both Europe and the U.S., retailers seeking to cut prices are having tough negotiations with consumer-goods companies. Last month, Belgian retailer Delhaize SA, which operates the Food Lion chain and other grocery stores in the U.S., removed about 300 Unilever NV products from Delhaize's Belgian stores after a disagreement on selection and pricing.

Ahold executives say they put the company in a better position than some of its competitors by starting the restructuring well before the

downturn. After a damaging accounting scandal in 2003 and years of sliding profitability at Stop & Shop, concentrated in New England and the New York area, and Giant-Landover, clustered around Washington, D.C., the company embarked on a painful restructuring program in September 2006, topped by a re-branding of the two store chains in August 2008.

"It was good timing—we are realizing the benefits of what has been a two-year journey," said Larry Benjamin, the chief operating officer of Ahold's U.S. operations.

The retailer cut the number of

products on its shelves in the U.S. by an average of 15%—in some categories, as much as 30%—and increased the share of store brands. The threat of dropping brands helped Ahold to negotiate favorable terms with the suppliers that remained. "Those who didn't give us what we wanted...were discontinued," said Mr. Benjamin.

The company has also responded to the slump with an unusually flexible pricing strategy. In the second quarter, for example, the retailer focused on boosting sales with price cuts and promotions. But with sales going relatively strong in

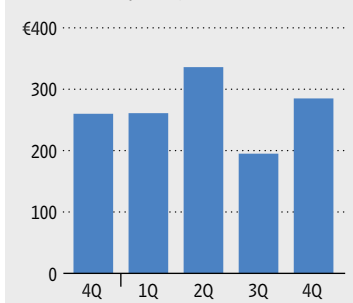
the fourth quarter, the company improved profit margins by offering fewer discounts.

For the full year, Ahold reported a retail operating margin of 5%. It didn't give a specific margin forecast for this year, but Chief Financial Officer Kimberley Ross said the company would aim for a long-term margin of 5%, as well as 5% annual sales growth.

For the full year, Ahold reported net profit of €1.1 billion, down 63% from the year before. Last year's figure was boosted by the sale of the company's U.S. food-services busi-

## Above expectations

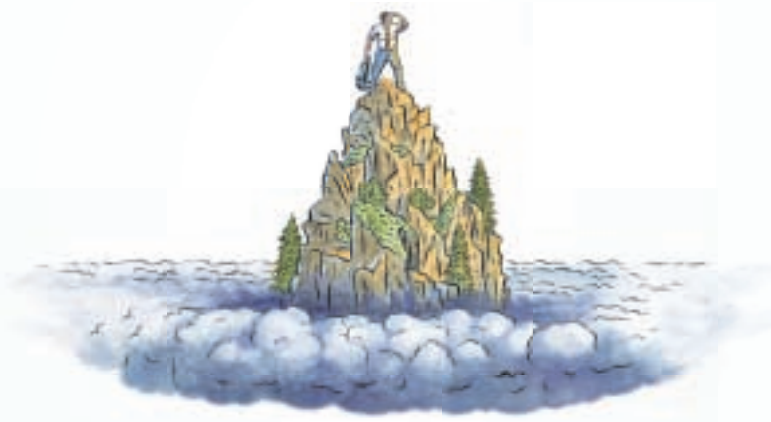
Ahold's net profit, in millions



Source: the company

ness. The company said it would pay a dividend of 18 euro cents per common share for 2008.

## RISE ABOVE THE RISK



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## Global chip sales decline by 29%, hit by recession

Global semiconductor sales fell 29% in January from a year earlier, slammed by the recession. Chip sales were \$15.3 billion, down 12% from December, marking the fourth straight monthly decline.

Amid falling demand and increased competition, chip makers have taken cost-cutting steps including production-line shutdowns, salary cuts and layoffs. The decline "reflected a continuing erosion of consumer confidence and the effects of the global economic recession," Semiconductor Industry Association President George Scalise said. Sales fell across all categories. However, "inventory levels are very low and there are some signs that forward visibility is improving," he said.

Asia-Pacific sales, which account for about half of global sales, fell 31% from a year earlier. Sales fell 26% in the Americas, 21% in Japan and 34% in Europe.

## CORPORATE NEWS

## VW signals 20% quarterly profit drop

Auto maker indicates falloff at year's end after a strong start, forecasts lower 2009 sales and earnings

BY CHRISTOPH RAUWALD

FRANKFURT—Volkswagen AG indicated its profit declined 20% in the fourth quarter, ending 2008 on a down note after a strong start to the year. The auto maker also forecast lower earnings and vehicle sales in 2009 as a result of the gloomy global economy.

“Based on the extremely weak business at the beginning of the year, earnings will not reach the high levels of previous years,” the German car maker said in a preliminary earnings report. The report outlined only full-year totals for net profit, revenue and other key results, and did not break out figures for the fourth quarter. A comparison of the full-year results with those VW reported for the first nine months of 2008, however, indicate the company suffered a considerable drop in business late in the year.

In the fourth quarter, profit attributable to VW shareholders fell 20% to about €963 million (\$1.21 billion), with operating profit declining 25% to about €1.4 billion and vehicle deliveries slipping 7% to 1.46 million vehicles, the report implies. Revenue in the fourth quarter was up slightly at about €28.4 billion.

VW's profit decline in the fourth quarter nevertheless defied the industry trend toward massive losses. In recent weeks, **Toyota Motor Corp.** reported a \$1.8 billion loss in the quarter ending Dec. 31. **General Motors Corp.** lost \$9.6 billion in the fourth quarter, and **Ford Motor Co.**



Volkswagen Monday forecast lower earnings and production this year. Wolfsburg factory workers assembling the Golf IV.

\$5.2 billion.

Separately, Volkswagen's majority shareholder, Porsche Automobil Holding SE, said Monday that its fiscal first-half revenue was down 13% but that its pretax profit for the period, which ended Jan. 31, would come in higher than in the year-earlier's first six months.

On a full-year basis, VW reported a strong performance in 2008. Net profit for the year rose 15% to €4.75 billion from €4.12 billion in 2007. Pretax profit rose 1% to €6.61 billion from €6.54 billion, as revenue increased 4.5% to €113.81 billion from €108.9 billion.

“We met our target and surpassed our record results for 2007

even though conditions were tougher,” Chief Executive Martin Winterkorn said in a statement.

The Wolfsburg, Germany, auto maker is scheduled to release detailed earnings for its individual brands and the fourth quarter on March 12. Volkswagen—the world's third-largest auto maker by sales after Toyota and General Motors—benefited from the launch of several new models, the solid performance of its Audi AG premium brand and improved efficiency stemming from a restructuring about three years ago.

Volkswagen Chief Financial Officer Hans Dieter Pötsch said recently that he didn't rule out posting

a loss for the first quarter of 2009 as the company's operating performance is expected to be significantly weaker than in the year-earlier period. Industry executives have so far been reluctant to make forecasts for a possible market rebound, even though government initiatives in major markets such as Germany and France are expected to spark demand, especially for small cars.

“The precise result, however, can only be released with the half-year financial report scheduled for the end of March, as the VW pro rata result for the fourth quarter of 2008 is not yet available,” Porsche CEO Wendelin Wiedeking said.

The luxury-car maker became

Volkswagen's majority shareholder in January, after it raised its stake in the bigger car maker to 50.76%. Porsche plans to increase its stake further.

Volkswagen's results come at a time of struggle for the European car industry. The Spanish car manufacturers' association, Anfac, on Monday said that new-car registrations in the country plummeted 49% in February from a year earlier, to just 62,107 vehicles. In France, new-car registrations dropped by 13% from February 2008, according to figures released by the French car manufacturers' association.

At the same time, the European Commission, the European Union's executive arm, said Monday that the Spanish government's plan to provide a €4 billion aid package to its ailing automobile industry doesn't seem to contain protectionist measures.

The commission had initially had “some concerns” that there might be protectionist conditions attached to the aid, such as asking the car makers to maintain production facilities in Spain, said a spokesman for the commission.

He also said that “there is no discrimination” in Italy's plan to give around €2 billion to its car industry, as the aid seemed to be open to all companies and not just those that have signed a special deal with the government.

—Jason Sinclair in Madrid, David Pearson in Paris and Andrea Thomas in Berlin contributed to this article.

## China's Geely sets sights on Volvo

BY NORIHIKO SHIROUZO

BEIJING—Geely Holding Group is likely to submit a bid to acquire Ford Motor Co.'s Volvo brand, people familiar with the situation said, in what would be a bold attempt by the Chinese auto maker to expand internationally amid the global downturn.

Geely is expected to submit a bid for the Swedish car maker as soon as next week, two people familiar with the situation said. There are at least three other possible bidders, one of which is also a Chinese company, according to one of the people.

Ford and Geely have been talking about Volvo for several weeks, the two people said. According to one of those individuals, Geely Chairman Li Shufu met with senior Ford executives in mid-January, around the time of the Detroit auto show, in Dearborn, Mich., where Ford is based. Other representatives of the two companies have held separate talks in recent weeks, the person said.

Ford had no immediate comment, but a person close to the company acknowledged the Chinese company had been in talks with Ford for more than a year over a possible Volvo deal.

Wang Ziliang, a spokesman for Geely, declined to comment Monday. In early February, Mr. Li, speaking through an assistant, denied a news report that his company was holding talks with Ford about buying Volvo.

Many analysts believe this could be the start of a wave of consolidation in the auto industry brought on

Potential acquisition	Geely	Volvo
Revenue	HK\$137.2 billion (2007) \$17.7 billion*	304 billion kronor (2008) \$33.7 billion*
Vehicle sales, 2008	204,205	374,297
Employees, 2007	7,000	24,384
Headquarters	Hangzhou, China	Göteborg, Sweden

\* At current exchange rate

Source: the companies

by the economic crisis and the lowering of consumer demand due to tighter credit. In December, Fiat SpA Chief Executive Sergio Marchionne predicted that only six major auto makers would survive globally.

Three European auto brands—General Motors Corp.'s Saab and Opel, and Ford's Volvo—have effectively been put on the block in recent weeks as the U.S. auto giants try to cut costs and restructure.

A Geely bid for Volvo would be an unusual and risky move for a Chinese auto maker to take advantage of the global downturn and leap forward with its international ambitions.

Chinese companies have made a string of investments in natural re-

sources, but so far have largely avoided buying major assets in other industries such as finance and manufacturing, despite often fire-sale prices.

Chinese auto companies have acquired foreign assets in the past—with mixed success—but never on Volvo's scale. On Friday, Chen Bin, a senior official with the National Development and Reform Commission, China's main economic planning agency, publicly warned about the risks that acquiring a struggling foreign auto concern would pose for Chinese car makers.

—Leila Abboud and Matthew Dolan contributed to this article.

## Mitsubishi, Peugeot to sell electric car in Europe by '11

BY DAVID PEARSON AND YOSHIO TAKAHASHI

Mitsubishi Motors Corp. of Japan and French partner PSA Peugeot Citroën SA said Monday they plan to launch an electric car model in Europe by late 2010 or early 2011 in response to stricter carbon-dioxide emissions regulations.

Mitsubishi Motors will produce the zero-emissions vehicle, which will be based on its small Imiev electric car. The company plans to launch the Imiev in Japan this year, and it is looking at other potential markets for the vehicle in addition to Europe, including the U.S.

A spokesman for Peugeot Citroën said that, if European demand for electric vehicles develops significantly, production of the vehicles could be located closer to the market.

Mitsubishi plans to sell the Imiev in Europe under its own brand, and Peugeot Citroën will market it under the Peugeot nameplate.

Citroën, Peugeot's sister brand, will be showing an all-electric version of its C-Cactus concept car at the Geneva Motor Show this week.

Lithium Energy Japan, a joint venture of GS Yuasa and Mitsubishi Motors' parent company, Mitsubishi Corp., will supply the batteries that will power the vehicles.

Peugeot and Mitsubishi's move comes after French car maker Renault SA said last month that it

aims to become the market leader for low-emission internal combustion engines and no-emission electric powertrains. With its Japanese partner, Nissan Motor Co., Renault is developing a range of all-electric powertrains to cover vehicles ranging from city cars to large vans, said the company's senior vice president for powertrain engineering, Jacques Prost.

Peugeot Citroën and Mitsubishi Motors already cooperate in making a range of midsize sport-utility vehicles. Last year, they disclosed plans to start making these vehicles based on Mitsubishi's Outlander in Russia.

The industry still faces a bumpy road to an era of full-blown battery-powered cars. Gasoline prices have come down, potentially damping the public's willingness to embrace alternative-fuel vehicles. Safety has also come into question, as some lithium-ion batteries—widely believed to be the key to making viable electric cars—have shown a tendency to overheat and sometimes catch fire.

Auto makers with eco-friendly vehicles include Toyota Motor Corp. and General Motors Corp. Toyota's Prius hybrid is a gasoline-fueled car with an electric engine that propels the car at low speeds and assists the gasoline engine when accelerating. GM's Chevrolet Volt is an electric car with a small gasoline engine for backup power.

## CORPORATE NEWS

# Small tech show offers new ideas

*Emphasis on saving time, money rises as gatherings shrink*

BY DON CLARK

A twice-yearly technology showcase has attracted a smaller group of entrepreneurs, but demonstrators this week are plowing ahead with new products and services—most aimed at saving people time and money.

A unit of Citrix Systems Inc., for example, is using the Demo conference in Palm Desert, Calif., to introduce a Web service to help users record and edit presentations or other sequences of actions and sounds created on their computers. The GoView service, which was offered in a free test version Monday, can create copies of online meetings, which save on travel costs—and could serve as a YouTube-like repository for all kinds of computer-based demonstrations, said Brett Caine, general manager of the Citrix Online unit.

A San Francisco start-up called Home-Account Inc., meanwhile, is responding to recent turmoil in the mortgage market with services to help people analyze their home loans, evaluate refinancing options and improve their credit scores. Mark Goldstein, the company's chief executive, stresses that it never takes fees from banks or mortgage bankers, and plans instead to charge a \$9.95 monthly membership fee.

Zuora Inc., a Redwood City, Calif.,



Qualcomm Inc.

Qualcomm is using the Demo conference to give an update on a display technology called Mirasol, featured in the golf-range finders made by G-Core above.

specialist in online billing services, is unveiling an add-on service for Facebook Inc. that helps developers of software applications for the social-networking service charge monthly subscription fees.

The three companies were among initial presenters at the Demo conference that runs Monday and Tuesday. One session Monday was titled "Doing More with Less," and another is called "Stimulating the Economy."

"Everything is being refocused on boosting revenue and cost cutting," said Chris Shipley, the show's executive producer.

Those goals hold true for new offerings at the show as well as reactions of potential exhibitors to the recession. Indeed, some start-ups are going out of business or cutting back

on spending to the point that paying to exhibit at Demo is an expense they can't afford, Ms. Shipley said.

The show, operated by International Data Group, is expected to draw about 40 exhibitors, compared with 70 at the last event in September. Organizers expect about 500 attendees compared with 750 at the previous event.

Many of this year's offerings are designed to make communications more efficient. A start-up called Cc: Betty Inc. is trying to help email users track and organize the typical swarm of messages that arrive about a work project or other topic. Just copy a mythical assistant called Betty in the address field, and related messages, photos, maps and other data are grouped together in a special

Web mailbox that a group of workers can share, said Michael Cerda, the company's chief executive.

Another focus is application programs for Apple Inc.'s iPhone and other hand-held communicators. Promptu Systems Corp., for example, is demonstrating a program called ShoutOut that lets users dictate text messages rather than typing them out on the iPhone's touch screen.

While hardware isn't a major focus of the show, chip maker Qualcomm Inc. is using Demo to give an update on a display technology called Mirasol that uses very low power and is viewable in bright sunlight—important attributes for cellphones and other mobile devices. The San Diego company will show off two new devices that use the technology, a cellphone from Taiwan-based Inventec Corp. and a device from a Korean company called G-Core Co. that calculates the range of golf shots.

In one of the most unusual offerings, an entrepreneur named David Jacobs is describing a new version of software that was inspired by his struggle to find an organ donor when his kidneys failed. His start-up, called Silverstone Solutions Inc., has been working to help hospitals speed the process of matching patients with compatible living donors of kidneys—a tough mathematical problem that involves screening test results for blood types, antigens, age and other factors that could cause the body to reject a donated organ.

Mr. Jacobs said the system has already been used by a San Francisco hospital to match 23 pairs of donors and recipients, and he hopes to offer it to other institutions.

## Amazon alters stance on audio for its Kindle 2

BY GEOFFREY A. FOWLER AND JEFFREY A. TRACHTENBERG

Amazon.com Inc. changed course on a feature in the latest version of its Kindle electronic-book reader that reads out loud in a computer-generated voice, saying it would allow publishers and authors to decide on a book-by-book basis whether to enable automated reading.

The Authors Guild had raised objections to the text-to-speech function when Amazon unveiled the Kindle 2 last month because it appeared to violate valuable audiobook rights.

"Many rightsholders will be more comfortable with the text-to-speech feature if they are in the driver's seat," Amazon said in a statement Friday.

The Authors Guild backed the move. "We want there to be text-to-speech functionality with e-books, but it should be done with the approval of authors," said Paul Aiken, executive director of the Authors Guild.

Mr. Aiken said that several major publishers discovered that the contracts they had with authors didn't give them the right to sell e-books with audio functionality. It's possible

**The Authors Guild objected to enabling the Kindle 2's audio function on all books.**

# Toyota sees output falling 12% in coming year

BY YOSHIO TAKAHASHI

TOKYO—Toyota Motor Corp. expects its world-wide production to drop roughly 12% in the next fiscal year to its lowest level in seven years, reflecting the prolonged woes confronting the auto industry.

The world's biggest car maker by volume told its suppliers that it projects manufacturing roughly 6.2 million vehicles in the fiscal year starting April 1 compared with an estimated 7.08 million this business year, a person familiar with the matter said Monday.

The volume doesn't include vehicles produced by its Daihatsu Motor Co. and Hino Motors Ltd. subsidiaries.

The company's outlook comes at a time when collapsing auto demand due to the global economic slump forces Toyota, like its global rivals, to rush to cut back production by halting part of its output lines and hold off on manufactur-



Toyota's production cut would bring the car maker's output to its lowest level in seven years. Tundra full-size pickups sat at a Florida dealership in January.

ing capacity increases.

Falling auto demand and damage from a strong yen have caused Japan's major auto makers to predict grim earnings figures. Toyota

itself is forecasting its first net loss in 59 years this fiscal year ending March 31.

Data released Monday showed that overall February auto sales

sank 32.4% in Japan, the seventh straight month of declines, according to the Japan Automobile Dealers Association.

Recent statistics have revealed a similar picture in major overseas markets, with overall auto sales skidding 37% in the U.S. and European sales sagging 27% in January.

Toyota's projected production level for its next fiscal year would be its lowest since the fiscal year that ended March 2003. It would follow this fiscal year's estimated 19% slide to 7.08 million vehicles.

However, analysts said that Toyota's expected output cuts are in line with expectations. Mamoru Kato, an analyst at Tokai Tokyo Research Center, said the next fiscal year's production was expected to be reduced to between 6 million and 6.5 million vehicles.

Other Japanese car makers are also likely to build fewer vehicles in the next fiscal year.

## GM bondholders pursue U.S. government guarantees for new debt

BY JOHN D. STOLL AND JEFFREY MCCracken

Major holders of General Motors Corp.'s unsecured debt have requested a meeting with President Barack Obama's auto-industry task force to discuss the possibility of federal guarantees for billions of dollars in new debt GM may issue, said several people briefed on the plan.

As part of its \$13.4 billion U.S.

loan agreement struck in December, GM is required to launch a debt-for-equity exchange with the goal of eliminating about \$16 billion of its \$27 billion in unsecured debt.

Government backing of the new debt, which would be issued along with equity in a bond exchange, may better motivate the bond owners to turn in their holdings. Many may see little incentive to deal with GM outside of bankruptcy court, these peo-

ple said. A GM spokesman couldn't be reached for comment.

Some large bondholders were asked by the auto task force to submit a request for a meeting, according to these people. The bondholders and the United Auto Workers union, which is trying to cut a deal with GM over billions of dollars in health-care obligations, are at odds over what concessions the auto maker should demand from the par-

ties. The UAW also is seeking a meeting with Mr. Obama's task force.

The task force was formed in February to administer the \$17.4 billion in loans the Treasury gave GM and Chrysler LLC.

The makeup of the GM bondholder group is diverse, ranging from college endowment funds to insurance companies to hedge funds. There are believed to be thousands of GM bond owners.

ble that the majority of the titles Amazon sells via the Kindle fell into this domain, he said. Agents, authors and publishers will now have to review contracts and strike new licensing agreements. "It will be a process of amending tens of thousands of book contracts to include text-to-speech rights," he said.

Amazon didn't say how many of its more than 230,000 Kindle titles would be affected, but said it believed many authors and publishers would decide it is in their commercial interests to leave the text-to-speech function enabled.

The company insisted that the feature is legal. "No copy is made, no derivative work is created, and no performance is being given," it said in the statement. Amazon owns Audible, one of the largest producers of professionally performed audiobooks.

Blind and disabled readers, many of whom have embraced the voice feature, say that the ability of the Kindle to read to them improves the accessibility of books. Marc Maurer, president of the National Federation of the Blind, said in a statement that the Authors Guild's position was "harmful to blind people."

"The blind and other readers have the right for books to be presented to us in the format that is most useful to us, and we are not violating copyright law as long as we use readers, either human or machine, for private rather than public listening," he said.

The Authors Guild's Mr. Aiken said that he believes the needs of the visually impaired will be accommodated. "There is a way to work this out so that the visually impaired can have text-to-speech access," he said.

## CORPORATE NEWS

# U.S. defense firms try 'soft power'

*Anthropologists, peacekeeping offer promising new line*

BY AUGUST COLE

As the U.S. begins to rely more on civilians to achieve its strategic goals abroad, the biggest defense companies are increasingly going to be showing up in hot spots around the world.

In Afghanistan, BAE Systems Inc., a major maker of armored vehicles, is providing social anthropologists to the Pentagon to accompany U.S. forces on village patrols. In Africa, Lockheed Martin Corp. and Northrop Grumman Corp.—two companies accustomed to building satellites and military planes—have trained peacekeepers through State Department programs valued at hundreds of millions of dollars.

Helping the U.S. deploy "soft power," long the purview of smaller firms, is evolving into one of the most promising lines of new business for big Pentagon contractors. These companies are strengthening their relationships with the State Department and the U.S. Agency for International Development, both of which will play a key role in President Barack Obama's efforts to tackle foreign-policy issues such as terrorism, poverty, drugs and crime.

In its first budget, presented Thursday, the Obama administration pledged to double U.S. foreign assistance to \$50 billion. The Defense Department is also a big spender on training and reconstruction, particularly in Iraq and Afghanistan. The White House wants \$130 billion for wartime operations in 2010, a portion of which would be set aside for soft-power initiatives.

In 2006, Lockheed acquired Pacific Architects & Engineers Inc., a government contractor involved in



U.S. defense companies are finding new ways to help the Pentagon. A Northrop Grumman trainer, right, teaches Senegalese troops in an undated photo.

everything from peacekeeping in Darfur to helping write the Afghan constitution. It was an unusual move for the Defense Department's biggest contractor and signaled to the industry the importance of diversifying into the new field. Lockheed has also recently bought logistics specialists that fit into this strategy.

"We recognized five or so years ago that the industry was changing and that the government was looking at more than just hard power," said Linda Gooden, executive vice president of Lockheed's fast-growing Information Systems & Global Services division, which saw its revenue rise 14% in 2008 to \$11.61 billion.

Defense Secretary Robert Gates has repeatedly stressed that more than just military might need to be employed against U.S. adversaries such as al Qaeda and the Taliban. One of his strongest messages came in November 2007, when he told a

Kansas State University audience, "I am here to make the case for strengthening our capacity to use soft power and for better integrating it with hard power."

Mr. Gates made clear that economic development, rule-of-law programs and strategic communications were among the "essential ingredients" for long-term success in Iraq and Afghanistan.

The term soft power was coined by Joseph Nye, a professor at Harvard University's John F. Kennedy School of Government and a former official at the State and Defense departments. "Soft power is getting what you want through attraction," he said.

Secretary of State Hillary Clinton signaled the Obama administration's intentions to blend soft power with traditional military might in an approach that Prof. Nye and industry officials have begun calling "smart power."

"If you just philosophically looked at the way this administration thinks, you're going to see a much more integrated approach to how our government engages around the world," said Walt Havenstein, president and chief executive of BAE Systems Inc., the U.S. arm of the British defense company BAE Systems PLC.

BAE Systems has a \$120 million contract to provide social anthropologists to the Pentagon. Underscoring the danger of some of these jobs, three of its contractors involved in this work in Iraq and Afghanistan have been killed.

Through U.S. government contracts in Africa, Lockheed is training troops in eight African countries and transporting them to Sudan for peacekeeping operations. It also recently finished building two military training bases in Southern Sudan.

In December, L-3 Communications Holdings Inc. acquired International Resources Group Ltd., a Washington-based economic-development firm that is a big departure from L-3's military-advisory business.

The deal was the latest sign that the industry expects business to grow in the coming years as the companies use many of these contracts as an entry point to sell an array of services.

Bolstering the government's ranks of foreign-service officers and development experts will take time. In the interim, the companies want to step in, whether it is staffing new global health programs or continuing to operate in current hot spots. U.S. military forces are on their way out of Iraq, but civilian contractors are expected to remain there, training military and police forces, as well as assisting the government to rebuild infrastructure and improve basic services like education. Meanwhile, the addition of 17,000 U.S. troops in Afghanistan will likely bring an increase in companies working alongside on the civilian reconstruction and development missions.

## Vivendi sustains loss, but offers upbeat outlook

BY JETHRO MULLEN

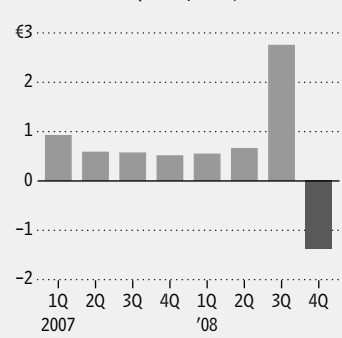
PARIS—Media and telecommunications company Vivendi SA reported a loss for the fourth quarter, hit by a massive write-down on the value of its stake in NBC Universal, but said it expects to post strong profit growth in 2009.

For the three months ended Dec. 31, Vivendi had a net loss of €1.38 billion (\$1.75 billion), compared with a net profit of €521 million a year earlier, after writing down its 20% stake in NBC Universal, its media and entertainment joint venture with General Electric Co. by €1.5 billion.

Revenue grew 27% to €7.62 billion from €6.01 billion, boosted by the acquisition of Neuf Cegetel by Vivendi's French telecommunications unit SFR as well as the merger of Vivendi's videogame division with Activision Inc.

### Sharp decline

Vivendi's net profit/loss, in billions



Source: the company

Vivendi owns Universal Music Group, one of the world's biggest music companies, as well as majority stakes in telecommunications operators SFR and Maroc Telecom, pay-television company Canal+ and videogame giant Activision Blizzard Inc. It declared a dividend for 2008 of €1.40 per share, up 7.7% from a year earlier, and will maintain its distribution rate of at least 50% of adjusted profit for 2009, said Chief Executive Jean-Bernard Levy.

"Despite the current market conditions, I approach 2009 with confidence and vigilance," Mr. Levy said in a statement. "The profitable growth is expected to continue."

Adjusted earnings before interest and tax are expected to grow more than the 4.9% reported for 2008, the CEO said on a conference call. However, due to the "unpredictable situation," Mr. Levy said he wasn't in a position to confirm Vivendi's 2011 goal of €3.5 billion to €4 billion in adjusted profit.

"The results look good," said Conor O'Shea, an analyst at Kepler Capital Markets, adding that the outlook "is pretty positive."

Vivendi could be interested in making acquisitions in the pay-TV sphere, but hasn't found the right opportunity so far, said Mr. Levy.

He declined to comment further on Vivendi's interest in Digital+, the satellite-TV unit of Spanish media company Promotora de Informaciones SA, and played down the possibility of the company's carrying out a big merger or acquisition in the coming weeks and months.

Shares in Vivendi declined 11 European cents to €18.85 in Monday trading in Paris. The stock is down nearly 29% in the past 12 months, but it has outperformed both the DJ Stoxx 600 European telecommunications index and the DJ Stoxx 600 European media index.

# Pearson expects profit to be steady this year

BY KATHY SANDLER

LONDON—Publisher Pearson PLC posted a 2.8% increase in 2008 net profit and said it expects to at least maintain profit this year as its limited reliance on advertising revenue shields it from the worst of the media slowdown.

The company, which owns the Financial Times newspaper and Penguin Books, said net profit rose to £292 million (\$418 million) from £284 million a year earlier. The bottom line was weighed down by a loss and tax charge related to last year's sale of Data Management, Pearson's data collection and scanning business, for \$225 million. Full year revenue rose 16% to £4.81 billion.

Pearson, which also publishes educational textbooks in the U.S., bucked the media downturn as its higher-education business in the U.S. balanced a weak market for textbooks, and the fall in advertising at the Financial Times was offset by subscription and digital revenue.

The publisher said that it expects tough market conditions to continue in 2009, but that it will benefit from early actions "to revise products and supply lines, reduce costs and sustain investment." It expects to achieve earnings per share at or above the

2008 adjusted level of 57.7 pence.

Compared with other publishers, Pearson is less dependent on advertising revenue. This has shielded it from the most virulent fallout of the media slowdown, but the company has also taken steps to cut costs in anticipation of a worsening economic climate.

In the U.S., where states are cutting budgets amid the economic downturn, Chief Executive Marjorie Scardino said she expects the economic stimulus package outlined by President Barack Obama to benefit the company, although this isn't yet factored into its outlook.

She said that Pearson's U.S. business would still be fine without the package, but added that "about half

of the \$100 billion in the education category is going to go to states, to help them stabilize their budgets," and pay for the projects that Pearson already has with them. The remaining \$50 billion will benefit the company when they get channeled into educational reforms, she said.

At the Financial Times, the business most exposed to advertising, circulation revenue grew 16% in 2008 and online-subscription revenue grew 9%. However, advertising revenue at the newspaper fell 3%, dragged down by a 13% fall in the fourth quarter, a trend that has continued into the first two months of 2009. Pearson said that it expects advertising to remain tough in 2009, but that online and circulation

growth is likely to continue.

Ms. Scardino told reporters that the company's advertising revenue had been positive in 2008 up to the final three months, and that even the recent decline was less severe than the company had expected. She added that Pearson has diversified its business so that advertising accounts for only 4% of revenue across the whole company.

Pearson said it has moved to improve margins, cut costs and find new ways to exploit digital channels at Penguin, its consumer book-publishing business. The digital market for eBooks, spurred by Amazon.com's Kindle electronic book reader, helped Penguin sharply increase in eBook sales in the U.S. last year.

## CC Media, outdoor unit report losses

BY KERRY E. GRACE

A deteriorating advertising market dragged Clear Channel Outdoor Holdings Inc. and parent company CC Media Holdings Inc. into the red.

CC Media is the entity through which private-equity firms Bain Capital Partners LLC and Thomas H. Lee Partners LP acquired radio-sta-

tion giant Clear Channel Communications Inc. in July for \$17.9 billion.

CC Media reported a net loss of \$5 billion for the fourth quarter. A year earlier, as Clear Channel Communications, it posted net income of \$320.6 million. The latest results included \$5.27 billion in write-downs, nearly \$1.7 billion of which was on federal licenses and permits that

have lost value in the ad downturn. Revenue fell 14% to \$1.61 billion.

Billboard advertiser Clear Channel Outdoor recorded a fourth-quarter net loss of \$3.03 billion largely because of asset impairments, compared with year-earlier net income of \$106.6 million. Clear Channel Outdoor's revenue decreased 16% to \$785.5 million.

## CORPORATE NEWS

# Visa seeks to usurp cash as king

Check card is focus of \$140 million push to run in 44 nations

BY SUZANNE VRANICA

VISA is set to begin a \$140 million ad campaign that seeks to persuade consumers from New York to New Delhi that cash isn't king.

Starting this week, the world's biggest payments network is dumping its three-year-old "Life Takes Visa" slogan in favor of "More People Go with Visa." The company, which is rolling out its first unified ad campaign outside the U.S., says the new tagline will work better in non-American markets.

Figuring out how to craft ads that work in many corners of the world isn't the only hurdle that company faces. Advertising during the recession "is tough for all brands," but a credit-card brand like Visa, "has to be even more sensitive," says Rob Schwartz, global creative director of the Visa account at Omnicom Group's TBWA/Chiat/Day.

The public perception of credit-card companies has taken a beating in the U.S., where credit-card debt has ballooned, reaching roughly \$984.5 billion at the end of last year, according to industry tracker Nilson Report.

That's partly why Visa and TBWA chose to tread lightly as they created the new campaign. Consumers won't be seeing a string of Visa ads that promote making expensive purchases with their credit cards.

Instead, the campaign—which starts Wednesday in the U.S. and will kick off in 43 countries, including India, Mexico and New Zealand, over the next few weeks—will largely promote Visa check cards, which deduct funds directly



from a card user's checking account.

In most non-U.S. markets, the ads will use the "More People Around the World Go with Visa" tagline. But the ads won't run in Europe, where Visa Europe, operates independently, and does its own marketing.

Visa's multinational ad push, which includes print, TV, outdoor and Internet ads, is designed to persuade consumers that debit cards "are more convenient, safer and secure than cash," says Antonio Lucio, Visa's chief marketing officer. The ads promote the use of Visa check cards for smallish purchases like smoothies, music or going out for pizza.

"It's not about spending more, it's about using Visa for those things that are important to you every day," Mr. Lucio says.

One special-effect-laden spot features a father and daughter at an aquarium. "When is the last time you went to the aquarium ... with your daughter ... on Tuesday?" says actor Morgan Freeman, who was cast for the voiceover work. "Visa check card is easier than cash or checks," the ad concludes.

Why tout debit cards? Visa, along

with rival MasterCard, make money from the fees they charge banks to process credit- and debit-card payments.

Unlike card issuers like Bank of America and J.P. Morgan Chase, both Visa and MasterCard have been somewhat insulated from the risk of consumers defaulting on their credit-card bills because the two companies are card processors, not lenders.

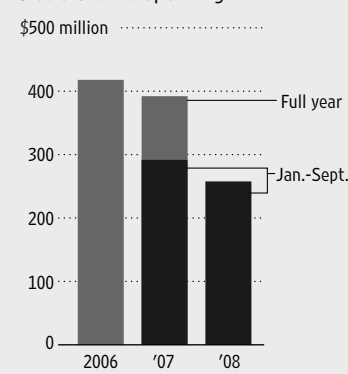
Still, they are being pinched by the slowdown in consumer and corporate spending. Visa recently reported better-than-expected fiscal first-quarter results but lowered its outlook for annual revenue growth to a high single-digit percentage.

Visa isn't giving up on urging consumers to use credit. Several credit ads targeting small businesses and affluent consumers will run in the spring. But Visa, which declined to provide details of those ads, says it is pushing them back because of the tough economic climate.

The campaign, which began to take shape this past summer amid growing turmoil in financial markets, required more ad research and testing than Visa has done in the past. It also subjected the ads to roughly

## Pushing plastic

Visa's U.S. ad spending



Source: TNS Media Intelligence

35 focus groups around the U.S.

As a result, it made major adjustments. The campaign, for example, was expected to begin with an ad dubbed "Go Festo," which featured upbeat music and promoted traveling to far-off lands. The focus groups thought the ad didn't fit the mood of the U.S.

So Visa scrapped the ad in the U.S. and created "Lets Go," a commercial that will kick off the campaign Wednesday. The spot features the sun rising and people starting their day as the voice of Mr. Freeman begins in the background. "A fresh start, a chance to go in a new direction," he intones. The spot also talks about "giving back," a familiar theme in today's recession-tinged culture. The "Go Festo" ad will be the first ad to appear in countries outside the U.S.

Another adjustment: Visa will cut back on marketing spending, in part due to the recession. The company declined to provide specific numbers. Visa's U.S. ad spending for the first nine months of 2008 slipped 11.6% from a year earlier to \$257.7 million, according to the latest data from TNS Media Intelligence.

# Ten Speed Press joins Random House stable

BY JEFFREY A. TRACHTENBERG

Less than three months after consolidating its six major book-publishing groups into four, Random House Inc., the U.S. publishing arm of Bertelsmann AG, said it acquired Ten Speed Press, a small but well-known California publisher of nonfiction titles, for an undisclosed price.

The deal, which has closed, comes even as publishers are coping with smaller initial orders from many of their retail accounts, as U.S. book chains and independents pare

back expenses in hopes of riding out the recession.

Ten Speed Press, based in Berkeley, Calif., publishes more than 100 titles a year in such areas as cooking, spiritual, children's and pop culture. The deal is the first approved by Markus Dohle, who was named chief executive of the Random House publishing arm in May 2008. At the time of his appointment, Mr. Dohle said he was determined to find ways to expand the business.

Since then, the book-publishing industry has been battered by the recession, and most of the major publishing houses have laid off employees in recent months and trimmed costs.

The acquisition suggests that even at a time when the book business is reeling, the largest publishers are still on the hunt for acquisitions with strong lists. Education Media & Publishing Group Ltd., based in Dublin, is looking for a buyer for its Houghton Mifflin Harcourt trade-publishing division, which publishes such writers as Philip Roth and Jacques Pépin.

Ten Speed Press, founded in 1971 by Philip Wood, operates four im-

prints, including Ten Speed Press, Celestial Arts, Crossing Press and Tricycle Press. Among its most successful titles are Mollie Katzen's "The Moosewood Cookbook" and Richard Nelson Bolles's classic about job hunting, "What Color is Your Parachute?" Ten Speed Press has an active backlist of more than 1,000 titles.

In an interview over the weekend, Mr. Wood attributed the decision to sell to continuing personal-health concerns. "Random House will be a good fit," he said. "

# Founder steps down as CEO of Blackwater's parent

BY AUGUST COLE

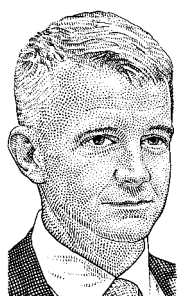
Erik Prince, who founded security contractor Blackwater Worldwide and remained defiant after the company became embroiled in controversy following a deadly 2007 shooting incident in Baghdad, is stepping down as chief executive of the parent company.

The 39-year-old Mr. Prince will retain his post as chairman but move away from daily oversight of the company he started 11 years ago. The closely held venture earned more than \$600 million in revenue last year, with about a third of that com-

ing from a major U.S. State Department contract to protect diplomats in war zones.

"I'm a little worn out by the whole thing, the politics of it all," Mr. Prince said during an interview at the company's headquarters in McLean, Va. "Me not being part of the equation reduces the 'X' on the thing."

The move comes at a turning point for the security industry. The Obama administration plans to withdraw most U.S. combat troops from Iraq by next summer, and the Iraqi gov-



Erik Prince

ernment is assuming legal authority over Defense Department and State Department contractors.

With this new legal authority, the Iraqi government is effectively forcing the company to leave by denying it a needed license to work there. That led to the State Department's announcement in January that it won't renew Blackwater's contract.

The parent company, EP Investments, in February announced it was changing its name to Xe, in part to distance the company from

the stigma attached to the Blackwater moniker. Mr. Prince said the new name is derived from the abbreviation for Xenon: "It's an inert, noncombustible gas." Blackwater references were also dropped from the names of its affiliated business units.

Other management changes are being made. Joe Yorio, 44, an executive from shipping company DHL with an Army Special Forces background, will become president of Xe, succeeding longtime employee Gary Jackson. Danielle Esposito, 32, a veteran employee, will become chief operating officer and executive vice president," he said.

## GLOBAL BUSINESS BRIEFS

### Havas SA

Net profit rises 25%, aided by client gains, cost controls

Havas SA said Monday that 2008 net profit rose 25%, driven by client gains and cost controls, and the French media company posted better-than-expected fourth-quarter organic revenue growth despite the advertising-market slump. Net profit climbed to €104 million (\$131.8 million) in 2008 from €83 million in 2007, as revenue increased 2.6% to €1.57 billion from €1.53 billion. Havas didn't provide a forecast for 2009 but said it aims to win new business despite the difficult economic environment and transform it into higher revenue. Organic revenue growth—which strips out acquisitions, disposals and currency movements—was 2% in the fourth quarter, down from 9.8% growth a year earlier.

### OAO Vimpel Communications

Telekom Austria AG on Monday said Chief Executive Boris Nemsic had resigned to become the head of Russian peer OAO Vimpel Communications, or VimpelCom. Mr. Nemsic, 51 years old, had been CEO of the Austrian telecommunications provider since 2006. Mr. Nemsic couldn't be reached for comment, but a spokeswoman said he had received an offer from VimpelCom that he couldn't turn down. VimpelCom's shareholders, Telenor ASA and Alfa Group's Altimo, had been looking for a Russian manager with experience working in the consumer sector. Mr. Nemsic, a Bosnian Croat, will be the first foreigner to head a major Russian telecom company.

### Danisco AS

Danish ingredients company Danisco AS Monday cut its full-year earnings guidance and lowered the value of assets at its sweetener unit. It also said it was launching cost-saving initiatives, including a salary freeze for 2009 and 200 job cuts in Western Europe and North America. The company, which has completed the sale of its sugar unit to Nordzucker AG of Germany, said it expects to break even in its fiscal year that ends April 30, with revenue of 13 billion Danish kroner (\$2 billion). Danisco previously had forecast profit of 950 million kroner. It also said it was reorganizing its sweetener unit, reducing the value of assets by 100 million kroner and goodwill by 460 million kroner.

### Monsanto Co.

European Union environment ministers defeated a proposal that would have forced Austria and Hungary to lift their bans on growing certain genetically modified crops. The European Commission, the EU's executive arm, had tried to get EU governments to back efforts to force the two nations to allow farmers to grow MON810, U.S. seed maker Monsanto Co.'s genetically engineered corn product. Austria also has a ban on Germany-based Bayer AG's T25 corn. Both varieties have been authorized for planting in the EU. The commission's proposal was rejected by 22 of 27 member states on Monday, meaning the two nations can maintain their bans.

—Compiled from staff and wire service reports.

## ECONOMY &amp; POLITICS

## U.S. is set to call on allies for more help

Obama pledges consultation on Afghanistan, Iraq—but in turn, Washington will ask for contributions

BY GERALD F. SEIB

It's time for America's allies to put their money where their moaning has been.

Many of America's friends, particularly in Europe, have long used their disagreements with former President George W. Bush as an excuse to do less than they could to help the U.S. The litany of complaints is familiar: The former president was a cowboy, a unilateralist, a man who cared too little for diplomacy and too much for military action.

Those complaints made it easy to do less to help the U.S. in Iraq, Afghanistan, Pakistan and Iran.

Now those same allies are gushing over the arrival of President Barack Obama, swooning over his affinity for diplomacy, cooing over his pledges to consult. But those attributes come with a price—a price the Obama administration is about to start trying to extract.

The administration's message to the allies is going to be that they need to do more to help in crucial areas now that they can no longer use Mr. Bush as a reason to resist. The administration is seeking what officials refer to as a "grand bargain" with allies: Yes, we'll listen more closely to your views and desires, but you in turn have to pony up with more help.

Mr. Obama's announcements in recent days that he is beginning a drawdown of troops from Iraq and sending an additional 17,000 troops to Afghanistan represent the real kickoff of the Obama foreign-policy transition. Those moves will be followed up by requests to America's friends to chip in more. The requests will become very specific between now and the convening of a summit meeting of

North Atlantic Treaty Organization countries in the first week of April.

The U.S. will be making what is known in diplomatic parlance as "asks"—that is, it will be asking for some specific actions from friends. Here's a look at five areas where those asks will be coming:

• **Afghanistan:** This is the big one. The administration considers stabilizing Afghanistan as key to the struggle against Islamic extremism, and it wants specific allied help. The U.S. provides about half of the 56,000 NATO troops in Afghanistan, plus some troops operating outside the NATO operation, plus the 17,000 additional troops about to head in.

Now the Obama administration wants NATO allies to offer more troops of their own—to help with security, to train Afghan forces, and to free U.S. troops to interdict arms crossing the border with Pakistan—as well as more help building up the Afghan central government. In particular, the U.S. would like the allies to agree on naming a single Western official who can coordinate all political and reconstruction efforts there.

• **Iraq:** As the U.S. downsizes its military mission and shifts it from combat to training the Iraqi army, it wants allied help in training both Iraqi soldiers and police officers. It also would like international help in overseeing and endorsing parliamentary elections later this year, which will be crucial in building the government's legitimacy. The administration also wants Arab friends—particularly Kuwait and Saudi Arabia—to more fully embrace the Iraqi government of Prime Minister Nouri al-Maliki to build its regional legitimacy.

• **Pakistan:** There may be no strategically important country more imperiled by the global economic decline than Pakistan. It's a poor coun-



An Iraqi man waves the national flag during the transfer of authority over a security station from U.S. to Iraqi forces. As the U.S. pulls troops out of the country, it is seeking other nations' help in training Iraqi officers and overseeing elections.

try made more so by the current crunch, and that increases the chances of dangerous destabilization.

So the U.S. wants allies to chip in. It wants more Western economic aid, and would like Russia and China to lower trade barriers as a way to boost the Pakistani government of President Asif Ali Zardari.

• **Iran:** President Obama is open to talking to Iran, which the allies like. But the U.S. will be reminding its friends that talks to curb Iran's nuclear program won't do much good unless it's clear to the Iranians that failure in those talks will come with a price tag.

That price tag has to be greater economic and diplomatic pressure. So the

administration will be looking for clear signals from allies that economic sanctions on Iran will get tougher if talking doesn't produce results. One starting point might be for Germany to scale back its considerable trade and investment ties with Iran.

• **Prisoners in Guantanamo Bay.** Most allies loathe the American military prison at Guantanamo Bay used to house terrorism suspects without trial, and they have cheered the Obama administration's declaration that it will close the facility.

But the Guantanamo issue is a classic illustration of the need to be careful of what you wish for. In return for getting what they want in the closing of the prison, America's

friends now will be asked to take some of the prisoners being released, and assume the burden of making sure they don't become terrorists on the loose. One sign of progress came a few days ago when the British government said it would take back Binyam Mohamed, an Ethiopian-born Guantanamo prisoner who holds British residency.

Those items represent the start of the new U.S. list of asks. With the Bush irritant gone, U.S. officials now suspect allies will instead plead poverty caused by the global economic slump to resist some pleas for help. A big test of the Obama grand bargain will be whether it can overcome that new excuse for inaction.



Barack Obama

## U.S. doubts Iran will respond to overtures, Clinton says

BY JAY SOLOMON

SHARM EL-SHEIKH, Egypt—Even as the Obama administration pledges to engage Iran over its nuclear program, Secretary of State Hillary Clinton is telling key Arab leaders that she is "doubtful" Tehran will respond to diplomatic overtures.

On the sidelines of an international conference here on aid to the Palestinian territories, Mrs. Clinton

met with her counterpart from the United Arab Emirates, Sheikh Abdullah bin Zayed Al Nahyan.

According to a senior U.S. official, Sheikh Abdullah raised his concerns with Mrs. Clinton that the U.S. could reach some agreement with Iran on key strategic issues without Washington consulting its Arab allies.

Mrs. Clinton assured him that this wouldn't be the case. "Our eyes are wide open" when it comes to Iran, Mrs. Clinton told Sheikh Abdullah, the U.S. official said. Mrs. Clinton added that the U.S. "was a doubtful Iran would respond" to calls for an international dialogue, despite repeated overtures from President Barack Obama and other senior U.S. officials.

Mrs. Clinton told Sheikh Abdullah that Washington's willingness to engage Iran seemed to be unnerving Tehran's leadership. The U.S. official quoted Mrs. Clinton as saying: "The worst nightmare for Iran is for the international community to be unified and the U.S. willing to engage."

Mrs. Clinton also briefly met with Syrian Foreign Minister Walid Moallem at the aid conference, signaling a potential diplomatic thaw between Washington and Damascus.

The Bush administration pulled its ambassador to Syria in 2005 after Damascus was accused of involvement in the murder of former Lebanese Prime Minister Rafik Hariri, a charge it denies. The Obama administration has pledged to try to engage Syria in a bid to stabilize Lebanon and the Palestinian territories.

Mr. Moallem said in an interview that he hoped the U.S. would move to reappoint an ambassador to Syria.

At the conference, Secretary Clinton pledged \$300 million in humanitarian assistance for the Gaza Strip, but uncertainty remains over how the funds will be disbursed.

Mrs. Clinton and other Western leaders insist that their financial assistance to Gaza be distributed solely through the Palestinian Authority headed by President Mah-

moud Abbas.

Efforts led by Egypt to reconcile Mr. Abbas and the militant Palestinian group Hamas, which controls the Gaza Strip, have yet to realize a unity government for the Palestinian territories. Without such a pact, delegates at the conference have said they will face serious obstacles in delivering funds into Gaza.

"We have worked with the Palestinian Authority to install safeguards that will ensure our funding is only used where and for whom it is intended and does not end up in the wrong hands," Mrs. Clinton said in a speech before the conference. "Our response to today's crisis in Gaza cannot be separated from our broader efforts to achieve a comprehensive peace."

In addition to the \$300 million for Gaza, Mrs. Clinton pledged \$600 million in financial assistance for the Palestinian Authority. Roughly \$200 million will be for budgetary support, while the remaining \$400 million is to assist development projects, largely in the West Bank.

Palestinian Authority Prime Minister Salam Fayyad is seeking \$2.8 billion in international assistance to

support a reconstruction and recovery plan following Israel's 22-day military operation against Gaza. Hamas wasn't invited to the conference.

Mr. Fayyad and other Arab leaders acknowledge the need for Mr. Abbas's Fatah party to reconcile with Hamas in order to stabilize the Palestinian territories' economy. "Imposition of the plan will be greatly assisted by political reconciliation and a government of national unity," Mr. Fayyad said.

The Obama administration has largely supported reconciliation efforts between Fatah and Hamas. But the U.S. has emphasized that it could engage directly with such a unity government only if Hamas recognized Israel's right to existence, something the militant group has so far refused to do.

Delegates pressured Israel to lift its siege on Gaza's borders that has greatly slowed the delivery of reconstruction materials. Many expressed concern that the election last month of a right-leaning government in Israel headed by Likud party leader Benjamin Netanyahu could further undercut efforts to rebuild Gaza and kick-start a broader peace effort.



Hillary Clinton

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## ECONOMY &amp; POLITICS

# Obama sets health team

*Kansas governor and a policy expert would lead overhaul*

BY LAURA MECKLER

WASHINGTON—President Barack Obama kicked his effort to overhaul the U.S. health-care system into high gear Monday, nominating Kansas Gov. Kathleen Sebelius as secretary of health and human services, picking a new candidate to head his White House office on health reform, and preparing for a summit on health-care issues this week.

Gov. Sebelius, a Democrat from a Republican state, has a reputation for working with the GOP. She must be confirmed by the Senate; key lawmakers there have expressed early support for her.

The president said Nancy-Ann DeParle, a health-policy expert who served in the Clinton administration, would head the White House Office for Health Reform, helping steer Mr. Obama's ambitious health-overhaul legislation through Congress.

"Health-care reform that reduces costs while expanding coverage is no longer just a dream we hope to achieve, it's a necessity we have to achieve," Mr. Obama said Monday.

Thursday's White House summit is expected to include some 120 members of Congress, lobbyists and regular Americans, who will talk about problems in the system.

There is growing consensus among various parties that the country's health-care system needs to be overhauled, both to reduce costs and to find a way to cover the 45 million people in the U.S. without health-care insurance. But key elements in the plans being developed on Capitol Hill are likely to prompt sharp debate.

During his presidential campaign, Mr. Obama proposed a system where people could buy insurance in a government-organized marketplace, where private plans and a new government-run plan would compete. Subsidies would be available to many based on income. Large businesses would have to offer insurance or pay into a fund to cover their workers. Small businesses would get a tax credit if they offered insurance.

At the time, Mr. Obama rejected



Kansas Gov. Kathleen Sebelius was named President Barack Obama's nominee for U.S. secretary of health and human services.

the idea of requiring all Americans to get insurance, but he said all children would be required to have coverage.

Now that he is in office, Mr. Obama isn't talking about any of those details, although officials said he still supports them.

But solving the trickiest questions won't be easy. Among the coming debates:

- Should large businesses be required to offer workers coverage?

Most large businesses already offer coverage, so this might not seem like an onerous requirement. But the issue is more complicated.

If the government were to require businesses to offer insurance, it would have to set a standard for what counts as insurance. Would a bare-bones plan with limited coverage qualify? Businesses are likely to wince at the idea of government setting standards for the benefits they must offer.

- Should individuals be required to buy insurance?

Many experts believe that in order to cover all Americans, there must be a mandate that people get insurance. Otherwise, some—such as young, healthy people—may not bother. During the presidential campaign, Mr. Obama rejected the idea of requiring individuals to buy insurance, on the grounds that people would buy it on their own if costs fell.

At the same time, Mr. Obama and many Democrats want new rules prohibiting insurance companies from rejecting people who are already sick, or charging them more. The industry argues that it can't be expected to accept many expensive, new customers without also getting the business offered by new healthy, cheap-to-insure customers.

- Should a public plan be created to compete with private insurance companies?

Many Democrats insist on having a public option. Some say it would provide a test of whether Americans prefer a government-run system similar to what exists in Canada. But opponents say a public plan would skew the playing field because government would always be able to undercut private insurance companies.

- How to pay for it all?

Mr. Obama has been vague about how the country's future health-care system should be structured, but he was detailed last week about how he wants to pay for it. He proposed raising \$634 billion over 10 years through tax increases on the wealthy and cuts to existing government health-care spending. Each of those provisions is likely to be controversial, and more funding will be needed if the government is to provide subsidies to all Americans who need them.

# European output falls for ninth straight month

BY PAUL HANNON AND JOE PARKINSON

LONDON—The European manufacturing sector is feeling the pain from the economic downturn, with fresh signs of weakness in the 16 countries that share the euro, as well as in the U.K., Switzerland, Poland and elsewhere in Eastern Europe.

Manufacturing activity in the euro zone saw its worst month in more than a decade in February, the ninth consecutive month of contraction—putting more pressure on policy makers to stimulate growth. The purchasing-managers index for the euro zone's manufacturing sector fell to 33.5 in February from 34.4 in January, data from economic research group Markit Economics showed Monday. That is the lowest reading in the survey's 12-year history.

The surveys asks purchasing managers to rate such business factors as output expectations, employment and pricing power. An index reading above 50 signals growth in the sector, while a level below 50 signals contraction.

The U.K. and Switzerland, which don't use the euro, posted similar declines. The recent decline in Switzerland's PMI survey accelerated in February, with the index hitting a record low of 32.6 points. In the U.K., manufacturing PMI fell to 34.7 in February from 35.8 in January, Markit said.

The PMI for Poland rose slightly, while Hungary's rebounded from January's record low, but both measures signaled that factory output fell at a rapid pace.

With European industry curbing production and slashing jobs, pressure is growing on governments and central banks to provide more relief. The European Central Bank and the Bank of England on Thursday are expected to cut interest rates again, in addition to other measures meant to boost credit and get more money circulating in the economy. Econo-

## Production plunge

Manufacturing activity in the euro zone slid to its lowest level ever in February



Note: An index reading above 50 signals growth in the sector, while a level below 50 signals contraction.

Source: Markit

mists expect the ECB to cut its key rate to 1.5% from 2% and the Bank of England to slash its rate to 0.5% from 1%. Many governments also are under pressure to step up stimulus programs to preserve jobs.

"The [PMI] survey confirms that already exceptionally weak euro-zone manufacturing activity suffered a renewed downward lurch in February," said Howard Archer, an economist at IHS Global Insight.

A breakdown of the data showed that output, new orders and employment intentions indicators fell to a record low. Markit said input prices fell at a record pace for the fourth consecutive month. Meanwhile, the European Union's official statistics agency Eurostat said Monday that the annual rate of inflation in the euro zone rose to 1.2% from 1.1% in January, ending a sequence of six straight months of decline.

But with manufacturers cutting their prices for the fourth month running, and at the fastest pace in the survey's history, economists expect annual inflation growth to resume heading toward zero.

# Guinea-Bissau's president slain after army chief dies

BY WILL CONNORS

LAGOS, Nigeria—The president of the tiny West African nation Guinea-Bissau was killed by soldiers early Monday morning in what initially appeared to have been a revenge attack hours after the country's army chief of staff, a rival of the president, was killed in a bomb blast.

It wasn't clear who was in charge of the country after the government confirmed that President João Bernardo "Nino" Vieira was killed in the attack. Local news reports quoted army officials as saying they were in control and would respect the country's constitution. The military denied a coup attempt.

The capital of Bissau was calm, and traffic flowed normally Monday, according to the Associated Press.

Tensions had been boiling between the president and the army for months. In November the president's home was attacked by machine-gun fire and rocket-propelled grenades. In January, a special task force created to protect Mr. Vieira after the attack on his home was accused of attempting to assassinate Gen. Batiste Tagme na Waie and was disbanded.

Guinea-Bissau is one of the poorest countries in the world, and ranks third-to-last on the United Nations' human-development index. Its main export crop is cashew nuts. In recent years, the country has become a stop-over for drug smugglers shipping cocaine from Latin America to Europe. It earned millions of dollars in direct investment suddenly and mysteriously in the past few years, according to a United Nations drug-office report, money that U.N. and other experts said they believe was linked to drug-cartel money-laundering schemes.

Guinea-Bissau has experienced a string of coup attempts and political upheaval since it gained independence from Portugal in 1974, and Mr. Vieira's political career was emblematic of the country's instability and the fractious relationship between its politicians and military leaders.

Mr. Vieira first gained power through a coup in 1980, then won the presidency through the country's first multiparty elections in 1994, only to be overthrown and forced into exile after firing the army's then-chief in 1999. He returned to the country in 2005 and was again elected president.

# U.S. says Iran has matter for bomb

BY JAY SOLOMON

A senior Pentagon official said Iran has amassed enough fissile material to produce at least one nuclear weapon, signaling a growing international consensus on the extent of Tehran's nuclear activities.

Last week officials from the International Atomic Energy Agency, the United Nations nuclear watchdog, said that they believe Tehran has amassed enough low-enriched uranium to produce one nuclear bomb, though the agency said Iran would still face numerous technical challenges to produce the highly enriched, or weapons-grade, material needed for a nuclear bomb.

In recent years, Washington and the IAEA have often differed over significant international nuclear issues, including the extent of Iraq's nuclear program. Tehran maintains its nuclear program is



A nuclear Iran would be 'a very, very bad outcome,' Adm. Michael Mullen said.

make a bomb, Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, said Sunday on CNN's "State of the Union."

The State Department struck a less definitive tone on the issue. "There are differing views ... sometimes inside government," spokesman Robert Wood said Sunday. "We are concerned they are getting closer."

Secretary of State Hillary Clinton is making her first diplomatic trip to the Middle East this week, and Iran's nuclear program is expected to be high on her agenda in talks with Israel, Russia and European countries. The U.S. has signaled it might slow down its development of a missile shield in Europe if Moscow were to provide greater assistance in international efforts to curb Tehran's nuclear ambitions. Washington says the missile shield is largely aimed at protecting Europe from Tehran's long-range weapons.

purely for civilian purposes.

"We think they do, quite frankly," have enough fissile material to

## ECONOMY &amp; POLITICS

# India balloting to begin April 16

## Economic slowdown, national security top list of voter concerns

BY NIRAJ SHETH

NEW DELHI—India will hold its first national elections in five years in the spring, setting up a political contest that will hinge on the economic slowdown, rising inflation and the country's wary relations with its nuclear-armed neighbor, Pakistan, after the November terrorist attacks in Mumbai.

In the balloting, which begins April 16, "the economy is the tipping point," says Mahesh Rangarajan, a political analyst and history professor at Delhi University. "The bottom line is that there is some 80% of the population that lives on \$2 a day. Slowdown means a lot to them. Those are the guys that get hit."

India's gross domestic product—which rose 9% last year—grew only 5.3% in the quarter ended Dec. 31. Government estimates for growth for the year ending March 31 are around 7%, and slowing is expected.

The main contenders are the Indian National Congress party, which heads the current ruling coalition, and the opposition Bharatiya Janata Party.

"You have the Congress and BJP weaker than they've ever been," says Seema Desai, Asia analyst for the New York-based Eurasia Group, a research firm. "They don't have a clear message. They don't have a clear platform."

This opens the possibility of a third front comprised of smaller, regional parties. The likelihood of that depends much on Kumari Mayawati, the charismatic leader of the Bahujan Samaj Party and chief minister of Uttar Pradesh state, India's largest by population.

Ms. Mayawati's party has branched out beyond its base of lower-caste Hindu voters to higher castes as well as Muslims, making it a potential decisive bloc if the party wins as many as 50 seats in Parliament, political observers say.

In the campaign, the Congress party is expected to tout the economic-relief programs it advanced during its five years as the leading party in the governing United Progressive Alliance.

One is a national law that guarantees a job for at least 100 days to unemployed adults in rural households. Another is a \$14 billion loan-waiver program for farmers—one of the country's largest voting blocs. The program forgives loans from state-run banks to farmers unable to pay back their debt.

"The empowerment of the weaker sections of society has been an article of faith for the Congress party," Congress chairwoman Sonia Gandhi said at a recent party convention. While the party's programs have been huge in scope—and cost—critics say the efforts have been undermined by mismanagement and corruption. A Congress party spokesman didn't return calls seeking comment.

Marketing the programs effectively could be Congress's biggest challenge. So far it hasn't been able to leverage much political goodwill from the programs, analysts say, in part due to the high price tag.

That job could fall to Rahul Gandhi, scion of the Nehru-Gandhi dynasty that has run Congress since Indian independence in 1947. Though he has remained on the sidelines for most of the current government, Mr. Gandhi is expected to

take a lead role in the campaign.

Party officials say they hope the 38-year-old can appeal to voters looking for new blood among India's political elite. Manmohan Singh, the current prime minister who would return to the position if the Congress party wins, is 76, and the BJP prime ministerial candidate L.K. Advani is 81.

The BJP has pointed to weakening economic growth and volatile inflation under the Congress party's rule. "The kind of policies that were pursued intensified the impact of the global recession on India instead of restraining it, which led to the worsening of the situation," Mr. Advani said in a recent speech.

The BJP has yet to unveil a comprehensive economic platform but has made a number of populist promises to woo rural voters. Its main job, political analysts say, will be to tap an anti-incumbency trend by pinning the blame on the current government.

National security is on voters' minds, in part due to the Mumbai attacks in November. The BJP has called the Congress-led coalition "soft on terror" and advocated a harder line against Pakistan, where the attacks were planned. Mr. Advani has suggested that India withdraw from a joint terrorism agreement that Mr. Singh signed with Pakistan's then-President Pervez Musharraf in 2006.

To rally voters worried about terrorism, the BJP has recruited Narendra Modi, the firebrand chief minister of the western Indian state of Gujarat. Mr. Modi, 58, is responsible for the BJP's cam-

paigns in the key states of Gujarat and Maharashtra, where Mumbai is located.

He is a polarizing figure in Indian politics—revered by Hindu conservatives but abhorred by liberals. Mr. Modi is a social and political conservative, who favors a hard line on national security and dealing with Pakistan. The party's decision to put Mr. Modi in the national spotlight could backfire among moderate Indian voters, observers say.

Terrorism is unlikely to be as big a vote-winner for the BJP as the party hopes, analysts say. Disillusioned voters put the blame for terrorism on the political class as a whole rather than any particular party. In fact, the Congress party is billing itself as the "safe hands" that India needs at the helm.

The BJP says voters will recognize that the Congress party hasn't taken decisive action against terrorist threats. "The UPA government has left an insecure India as its legacy," says Ravi Shankar Prasad, a party spokesman and member of India's upper house of Parliament.

For security and logistical reasons, all voters across the nation won't cast ballots on the same day. Rather, polls will be open in different areas on five dates, ending May 13. Final tallies will be announced on May 16, the election commission said.

A governing coalition needs the support of 273 parliamentarians among the chamber's 545 seats. Achieving that could be difficult for either of the two largest parties. Both have won fewer seats in recent elections—Congress has 152 in the current parliament—and almost certainly will have to find partners to form a government.



Sonia Gandhi



Manmohan Singh

## Indian exports fell in January by most since '98

BY NEELABH CHATURVEDI AND MUKESH JAGOTA

NEW DELHI—India's exports fell by their sharpest pace in over a decade in January as the worsening global downturn crimped demand for products, but the trade gap narrowed as oil imports slumped.

Merchandise exports fell 15.9% from a year earlier to \$12.3 billion, the commerce ministry said Monday. This marks the worst performance since June 1998 when exports had fallen 16.1% from the previous year.

Imports in January shrank 18.2% from a year earlier to \$18.4 billion, evidence that India's once booming economy is cooling after years of frenetic growth.

Oil imports contracted 47.5% from a year earlier to \$4.5 billion, while non-oil imports fell 0.5% to \$13.9 billion. India imports about 70% of its oil requirements.

The trade deficit narrowed to \$6.1 billion from \$7.6 in December and \$7.8 billion a year earlier.

India's exports have now fallen for four successive months as key trading partners such as the U.S. and Europe have fallen into recession.

The weak outlook for external demand prompted India's federal government to trim its export target for the financial year ending March 31 to between \$170 billion and \$175 billion, from \$200 billion earlier.

However, the sharp fall in global crude oil prices and weakening investment demand may bring down imports, easing concerns over the trade deficit, analysts said.

"The good news as far as the current account deficit is concerned, is that we are probably at the bottom now," HSBC said in a note to investors.

"This reflects a likely improvement in the merchandise trade position on the back of the oil price collapse, weaker domestic growth and the extra oil and gas output," HSBC added.

## Seoul's outlook for exports bleak despite surplus

BY KANGA KONG

SEOUL—South Korea's trade balance swung to a surplus in February from a deficit in January, but economists said the outcome was due mainly to one-time factors.

The outlook for exports in the coming months, however, remains bleak. "The Eastern European economies are apparently set to repeat all the financial turmoil witnessed in the U.S., and China, South Korea's largest export destination, shows no signs of recovery yet," Standard Chartered economist Chun Chong-woo said.

The Ministry of Knowledge Economy said February exports fell 17.1% from a year earlier to \$25.85 billion, while imports slid 30.9% to \$22.55 billion, resulting in a trade surplus of \$3.3 billion. The surplus was the widest since June 2007, when it was \$3.49 billion. In January, exports fell by a record 33.8%, while imports were 31.9% lower.

There was a milder decline in exports in February due to one-off factors such as more work days in the month as well as an unusually large volume of ship exports.

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