News in Depth: How an appliance mogul turned alleged Ponzi schemer

THE WALL STREET JOURNAL.

VOL. XXVII NO. 57 | EUROPE | THURSDAY, APRIL 23, 2009

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THE WALL STREET JOURNAL.

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Freddie Mac's acting finance chief, David Kellermann, was found dead inside his Virginia home in an apparent suicide. The 41-year-old executive was at the center of Freddie's struggles to cope with huge losses from home-mortgage defaults and investigations of its accounting policies. Page 3

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■ **GE CEO Immelt told** shareholders the firm will weather what he called the worst recession in 80 years. Page 6

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The real deal
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Breaking news at europe.WSJ.com

The grim outlook for Europe

Economy faces deeper recession, slower recovery

By Marcus Walker in Berlin and Joellen Perry in Frankfurt

Europe's economy faces a deeper recession and a slower recovery than the U.S. or other world regions. As a result, the European Union is becoming the region that is most hurting prospects for an early end to the global economic slump.

The EU's economy is set to contract 4% this year and an additional 0.3% next year, according to new forecasts published Wednesday by the International Monetary Fund. That's even worse than the outlook for the U.S. economy, which the IMF says will shrink 2.8% this year and stagnate in 2010.

Mounting expected losses have exposed European banks' weakness, and policy makers are struggling to come up with an aggressive response to the crisis. The worsening outlook for the 27-nation EU is a blow for many of the region's governments, who have argued that the U.S. is the center of the global economic storm and that Europe's problems are smaller. Because of that, plus fear of rising inflation and public debt, authorities in the euro zone have been slower than those in the U.S. or leading Asian economies to cut interest rates or adopt ambitious fiscal-stimulus measures.

Mounting distressed as-

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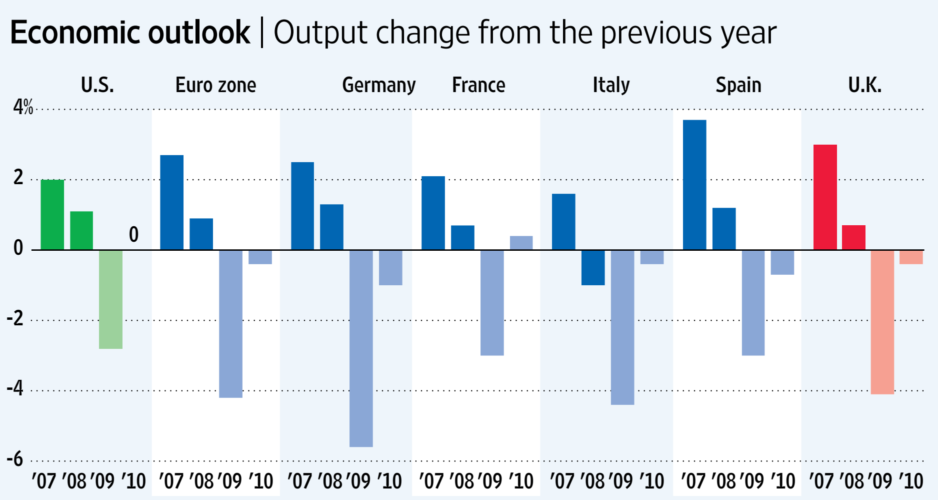
People look at job listings at a career fair in London

Reuters



Note: Figures for 2009 and 2010 are projections
Source: International Monetary Fund

U.K. budget plan to increase debt, pressure Brown

By Alistair MacDonald

U.K. Treasury chief Alistair Darling laid out a government-spending plan that will put the country deeper into debt than it has been in decades, underscoring the dismal economy, the heavy toll of the financial crisis and the political challenges facing Prime Minister Gordon Brown.

Hopes and fears

Mr. Darling said government borrowing will amount to £175 billion ($256.7 billion) in the coming year, or 12.4% of gross domestic product—much higher than the government's November estimate of £118 billion.

Mr. Darling's budget offers little in terms of deficit-reducing tactics, such as spending cuts or tax increases—aside from a new 50% income-tax rate for top wage earners, among the highest in the developed world.

The budget represents a gamble that a strong economic rebound will set right the biggest economic contraction since World War II, and reduce the need for future borrowing.

Mr. Darling said the U.K.'s economy will contract by 3.5% this year, but then return to growth of 1.25% in 2010 and

Please turn to page 31

Taliban move closer to Pakistan's capital

By Zahid Hussain

ISLAMABAD — Pakistan's Taliban seized control of another district in the country's northwest just 110 kilometers from the capital Islamabad after consolidating their hold on the Swat Valley, according to local government officials and residents.

The latest Taliban advance into the Buner district has spurred fears that a controversial peace accord, which allows the militants to enforce Shariah law in Swat, has emboldened them to expand their influence.

Militants have been moving into Buner since the Swat peace deal was signed with the government in February. But starting Tuesday night they seized control of the entire district, which has a population of more than one million people, local government officials and residents said. Heavily armed militants, streaming in from neighboring Swat, occupied government offices and set up their own checkposts. Terrified residents fled their homes.

Dozens of hooded fighters carrying rocket launchers and machine guns ransacked the offices of international aid and development agencies working in the district and took away their vehicles. Some employees of the agencies were also briefly taken hostage. The militants set up their headquarters in the town of Buner after driving

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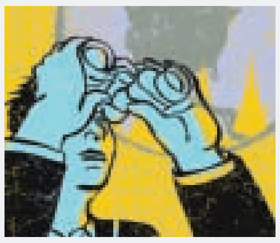

Floor debate

Companies show optimism, but is the worst over?
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7886.57	-1.04
Nasdaq	1646.12	+0.14
DJ Stoxx 600	192.38	+1.15
FTSE 100	4030.66	+1.08
DAX	4594.42	+2.06
CAC 40	3025.24	+1.72
Euro	$1.3003	+0.36
Nymex crude	$48.85	+0.62

LEADING THE NEWS

Roche reports a key trial for Avastin failed

Cancer-drug study raises questions on Genentech deal

By Jeanne Whalen
And Julia Mengewein

In a blow to **Roche Holding** AG, the Swiss drug maker said a closely watched trial of its cancer drug Avastin has failed, sending the company's shares down about 10% and raising questions about whether Roche paid too much in its $46.8 billion takeover of Genentech Inc.

Avastin, a drug originally developed by Genentech, failed to significantly prevent colon cancer from returning in patients in the early stages of the disease, Roche said. Avastin is already sold for several advanced-stage cancers, but Roche is aiming to extend its use to early-stage cancer, a move that would boost the drug's sales significantly.

Avastin's global sales rose 37% to 5.2 billion Swiss francs ($4.45 billion) last year, making it one of Roche's biggest sellers.

Roche shares fell 16 francs to 137.40 francs in Zurich. The company called the market reaction to the news overblown and said Avastin still has strong growth prospects. In a phone interview, Bill Burns, the head of Roche's pharmaceuticals business, said Avastin is still on track to achieve annual sales of eight billion to nine billion Swiss francs by 2011.

He said Roche is disappointed by the study results but still hopes Avastin can be useful in early-stage colon cancer. "There are clearly signs of activity here," he said of the drug's performance in the trial. Roche didn't release data from the trial, saying details will be presented at the American Society of Clinical Oncology conference, which begins next month.

The trial looked at about 2,700 patients who underwent surgery to remove their cancer, and were then divided into two groups. One group received chemotherapy alone for six months, and the other chemotherapy plus Avastin for six months, followed by an additional six months of Avastin alone. In the Avastin group, the drug failed to meet its primary aim of significantly lowering the risk of the cancer returning.

Drug effect

Roche Holding's daily share price

Wednesday's close:
137.40 Swiss francs, down 10%

Source: Thomson Reuters Datastream

The trial, called C-08, was a wild card in Roche's eight-month battle to buy full control of Genentech. Genentech shareholders weighed whether to accept Roche's offer for the company without knowing the results of the trial, which they believed could significantly affect the company's value. Ultimately, Genetech's board and shareholders accepted Roche's offer of $95 a share for the 44% of the company it didn't already own. Roche completed the buyout a few weeks ago.

The failure of the trial would likely have caused Genentech's stock price to fall significantly, at least in the short-term, analysts say. "Right now, at face value, probably they could have gotten Genentech at a lower price," Andrew Weiss, an analyst at Vontobel Group in Zurich, said. "Five years down the line, we'll have a far better understanding," he added, saying Avastin may well end up working in early-stage cancer.

Mr. Burns said Roche still feels it paid a fair price for Genentech, and repeated Roche's longstanding view that investors were too focused on the C-08 trial. Genentech's strategic value to Roche lies in many areas beyond this one trial, he said.

He added that Roche is still committed to continuing a clutch of trials of Avastin in other early stage cancers. Roche is spending big money on the program, with about 20,000 patients in these trials. Mr. Burns said the results of C-08 may cause Roche to adjust the other trials to increase their chances of success.

Roche is aiming to extend the drug's use to early-stage cancer to boost sales.

—Hans Schoemaker contributed to this article.

Glaxo's net income drops 13% amid stiff generic competition

By Jeanne Whalen
And Elena Berton

GlaxoSmithKline PLC said first-quarter net profit fell 13% due to stiff competition from cheaper generic drugs in the U.S., but it promised a reinvigorated performance in the second half of this year.

The world's second-largest drug maker by sales said generic competition with several of its big products resulted in U.S. prescription-drug sales declining 22% at constant exchange rates.

Chief Executive Andrew Witty said generic rivals to Glaxo products including Lamictal for epilepsy and Imitrex for migraines will continue to hurt U.S. sales in the second quarter. But sales should improve in the second half of the year as new products gain momentum, he said.

Mr. Witty added that he expects a continuing reshuffle of Glaxo's U.S. sales force to boost revenue, as sales representatives specialize in a smaller number of products and try to persuade frugal insurers and other drug buyers of the value of Glaxo drugs.

In the first quarter, net profit declined to £1.13 billion ($1.66 billion) from £1.31 billion in the year-earlier period, hurt by the weak U.S. performance and £115 million in research and development write-offs, including £90 million for a cancer drug that failed in tests.

Total sales climbed 19% to £6.77 billion from £5.69 billion a year earlier, boosted by the British pound's decline against most major currencies. Total sales fell 5% at constant exchange rates.

CORRECTIONS & AMPLIFICATIONS

In the last quarter of 2008, consumer spending on food fell by an inflation-adjusted 3.9% from the previous quarter. A News in Depth article Wednesday on food companies gave the decline as 3.7%, which was an earlier estimate from the Commerce Department.

Imagem Music Group, a music publisher that is buying the Rodgers & Hammerstein catalog, has annualized revenue of more than €100 million, or about $129 million. A Corporate News article Wednesday incorrectly gave the currency conversion as $126 million.

A graphic accompanying an Economy & Politics article Wednesday about the International Monetary Fund's April estimates of financial-sector losses showed estimated write-downs from 2007-2010 assigned according to where the loans and securities originated. The chart incorrectly failed to note this.

Photos taken on **Nintendo** Co.'s DSi game player can be sent to other DSi machines. The Mossberg Solution column on Wednesday incorrectly stated that photos can't be shared between DSi devices.

China has 2,185,000 active-duty members of its army, navy and air force, while the U.S. has 1,539,587 active-duty members of the Army, Navy, Air Force, Marine Corps and Coast Guard, according to the International Institute for Strategic Studies. A chart that accompanied a News in Depth article Monday about China incorrectly said the numbers were active-duty soldiers.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

Freddie's finance chief an apparent suicide

Mortgage titan's Kellermann stood out as jovial, popular

By James R. Hagerty And T.W. Farnam

VIENNA, Va.—David Kellermann, **Freddie Mac**'s acting chief financial officer, was found dead inside his home here early Wednesday in an apparent suicide.

Responding to a 911 call at 4:48 a.m., Fairfax County police found the body of the 41-year-old executive in the basement of the home he shared with his wife, Donna, and daughter, Grace, in the Hunter Mill Estates subdivision in Vienna, a suburb of Washington. A police spokesman wouldn't provide details on Mr. Kellermann's death, but said there were no signs of foul play.

Several colleagues described Mr. Kellermann as jovial, upbeat and very popular at the government-backed mortgage company, but one said he had recently appeared stressed at work. "He worked himself into a frazzle," a former colleague said.

Mr. Kellermann was at the center of Freddie's struggles to cope with huge losses from home-mortgage defaults and investigations of its accounting policies. Investigators from the Securities and Exchange Commission and Justice Department have been questioning officials of Freddie about possible accounting violations and other matters in recent months, the company disclosed in March.

While colleagues said they believed Mr. Kellermann probably would have been involved in answering those questions, there was no indication that he personally was a target of any investigation. "We know of no connection between this terrible personal tragedy and the ongoing regulatory inquiries discussed in our recent SEC filing," said David Palombi, Freddie's chief spokesman.

In a statement, the Federal Housing Finance Agency, or FHFA, which regulates Freddie Mac, described Mr. Kellermann as "a person of the utmost ethical standards who was hard-working and knowledgeable in his field." A Freddie statement praised him for his "extraordinary work ethic and integrity."

Mr. Kellermann, who joined Freddie in 1992 and has had a key role in accounting policy in recent years, was named acting finance chief in late September. He had been a senior vice president and corporate controller. As acting finance chief,

Executive was at center of company's struggle to cope with mortgage defaults.

he took the place of Anthony "Buddy" Piszel, now finance chief of First American Corp., a provider of real-estate data based in Santa Ana, Calif.

Along with rival **Fannie Mae**, Freddie is caught in a turbulent period that has pressured executives and left some demoralized. The two government-backed companies own or guarantee more than $5 trillion of U.S. home mortgages, around half of all those outstanding. That has exposed them to huge losses as home prices have crashed and millions of mortgages have gone into foreclosure.

The government seized control of Fannie and Freddie in September through a legal process known as "conservatorship," under which their regulator, the FHFA, is seeking to restore them to financial health. The companies reported combined losses of about $108 billion for 2008, and are being kept alive by infusions of capital from the U.S. Treasury, so far totaling about $60 billion.

Adding to the turmoil, David Moffett resigned in early March as chief executive officer of Freddie, forcing the company to search for a successor. Mr. Moffett, a former chief financial officer at U.S. Bancorp who became CEO in September, resigned partly because of frustration over the need to consult with regulators on nearly all significant decisions and to follow public-policy mandates that he didn't necessarily see as good for Freddie, according to people familiar with the decision.

The net worth of many Fannie and Freddie employees has been slashed by the fall in the companies' stock prices to less than $1 a share. In an effort to avoid an exodus of talent, the regulator last year directed the companies to set up a program under which they expect to pay about $210 million in retention bonuses to 7,600 employees over 18 months. Those bonuses, which will exceed $1 million for a few executives, have drawn angry protests from Congress and the public, because of the huge losses being reported by the companies.

Under that retention-bonus plan, Mr. Kellermann was due to receive $850,000. Of that amount, $170,000 was paid in December 2008, and the rest was to be paid in installments through early next year, assuming he remained at the company, according to a Freddie spokesman.

—Damian Paletta contributed to this article.

CORPORATE NEWS

Companies spy an end to fall in earnings

Some firms forecast economy is near bottom, but others say it is far too soon to make call; Geithner is upbeat

By Kelly Evans
And Vanessa O'Connell

For the first time since the recession began more than a year ago, a host of major companies said this week the economy is approaching a bottom. But their tentative optimism triggered a debate with other firms that say it's far too early to call a floor.

Delta Air Lines Inc. reported that its portion of filled seats for May and June is just slightly below year-ago levels—the period before the full force of the financial crisis struck. U.K.-based retailer **Tesco** PLC. said it is seeing improved sales in Poland and Hungary, both particularly hard-hit by Europe's woes, and said buyers were returning in Asia as well. And handbag and accessories maker **Coach** Inc. said sales at its North American stores have begun to stabilize to pre-Christmas levels.

United Technologies Corp., maker of Otis elevators and Pratt & Whitney jet engines, said Tuesday its first-quarter income fell by a quarter, but that the overall rate of decline in orders is slowing. While orders are still down, "they have stabilized across the businesses," CEO Louis Chênevert said. "For the full year, we still expect a better back half."

Meanwhile, U.S. Treasury Secretary Timothy Geithner struck an upbeat tone on the global economy in a speech Wednesday, saying he's already starting to see "some signs of stabilization of declines in output and trade." Still, the secretary said progress will take time and policy makers may have to adopt policies after market conditions evolve.

But **General Electric** Co. Chairman and CEO Jeff Immelt told shareholders Wednesday that it is "difficult to predict" the length and depth of the recession, but that GE is "set to thrive in a global economy that favors clean energy, affordable health care and services."

An assortment of powerful manufacturers and other companies said they feel it's far too soon to spot the floor. Chip maker **Advanced Micro Devices** Inc. late Tuesday expressed caution even though it saw first-quarter improvements. "I don't see how anybody can say that we've hit the bottom," given the broad economic uncertainty, said CEO Dirk Meyer, responding to a question on a conference call.

His words were considerably less upbeat than those of Paul Otellini, CEO of **Intel** Corp., AMD's chief rival, who said last week he believed "the worst is now behind us." Intel said revenue should be more or less flat in the second quarter, a period that's usually slightly slower than the first.

None of the data indicate a return to economic growth. In fact, given that last year's fourth quarter was particularly disastrous, it's relatively easy to achieve improvement on a quarter-by-quarter measure. Construction-equipment maker **Caterpillar** Inc. on Tuesday said it swung to a first-quarter loss and cut its full-year sales and profit forecasts, saying continued uncertainty makes it "extremely difficult to know how our customers will respond" the rest of the year, according to CEO Jim Owens.

Some policy makers see the earnings figures reaffirming their cautiously optimistic assessments of the economy. In a speech Monday night, Federal Reserve Vice Chairman Donald L. Kohn said the first three months of this year show that "consumption appears to have steadied some after a sharp drop" last summer and fall. "There are a few tentative signs that the pace of decline in some other key components of demand may be lessening," he said.

Any signs of stabilization at some companies are also notable given the finance industry's continued weakness. On Tuesday, the CEO of **Capital One Financial** Corp. said U.S. credit-card charge-off rates are going to "cross 10% in the next couple of months," up from 8.4% in first quarter. At the same time, **BlackRock** Inc., the nation's largest publicly traded asset manager, reported disappointing earnings, along with others including **Huntington Bancshares** Inc. On Monday, a Wall Street Journal analysis showed deeper-than-thought declines in overall bank lending.

"It remains our expectation that no significant turnaround will occur this year," said Stephen D. Steinour, Huntington's president.

Many economists agree it's too early to call a bottom. The U.S. economy posted a 6.2% annualized drop in the fourth quarter, the most in nearly three decades; it likely weakened almost as much in the first quarter.

Forecasters in the latest Wall Street Journal survey don't expect the current recession, which began in December 2007, to end for at least another six months, making it by far the longest downturn since World War II. Companies have shed more than five million jobs through March. The unemployment rate, currently 8.5%, is widely expected to hit double-digits by next year.

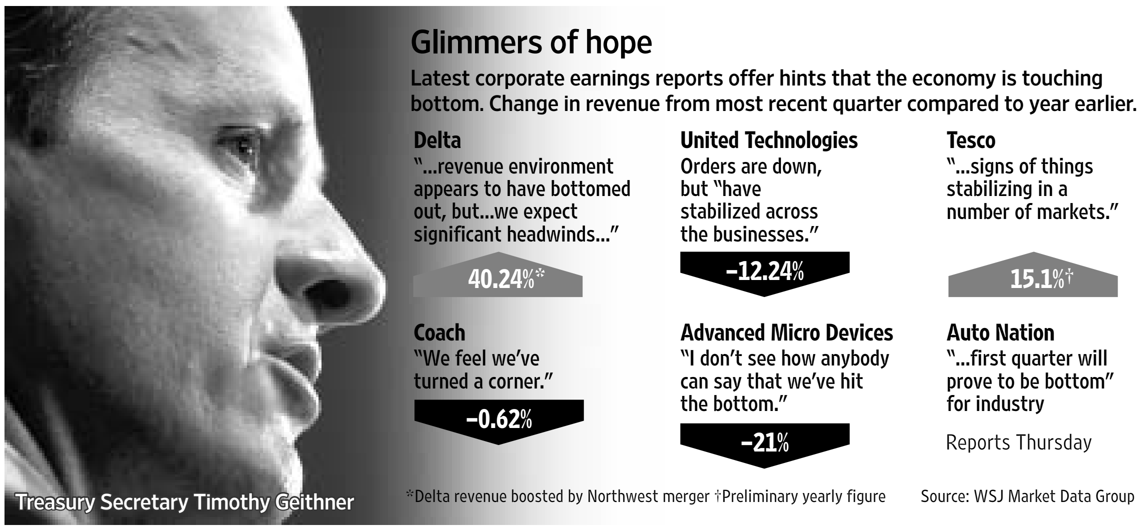
Still, the latest spate of earnings reports is starting to reveal glimmers of stabilization in the U.S. economy, particularly retail sales, consumer spending, and housing. Even the devastated auto industry is showing some signs of stability, said Michael J. Jackson, CEO of Ft. Lauderdale, Fla.-based **AutoNation** Inc., the country's largest chain of auto dealers.

"We believe the industry has definitely stopped going down," Mr. Jackson said. "There is a stabilization in new-vehicle sales taking place." Mr. Jackson said the first quarter will prove to be the bottom, with a "very gradual recovering" over the course of the year. AutoNation reports earnings Thursday.

Analysts credit the U.S. government's response to the crisis, including the $787 billion stimulus package and aggressive moves by the Fed, with helping to create conditions for an eventual recovery. Similar massive government spending in China is also widely cited as helping that country navigate the downturn.

Michael Darda, chief economist at Greenwich, Conn.-based MKM Partners, says the early indicators are "essentially pointing to a reversal in the economy sometime later this year."

—Don Clark, Neal Boudette, E.S. Browning, Paul Glader, Robert Guy Matthews, and Maya Jackson Randall contributed to this article.



Treasury Secretary Timothy Geithner

*Delta revenue boosted by Northwest merger †Preliminary yearly figure Source: WSJ Market Data Group

Volkswagen's profit takes a hit

By Christoph Rauwald

FRANKFURT—**Volkswagen** AG said it couldn't give a firm forecast for this year, citing market volatility, after it reported a 74% drop in first-quarter net profit as the slump in the global auto markets took its toll.

"Revenue in 2009 will be lower than in the previous year because of the decline in volume sales. Rising refinancing costs and a worsening of the country mix will serve as an additional drag on earnings," said Europe's largest auto maker by sales.

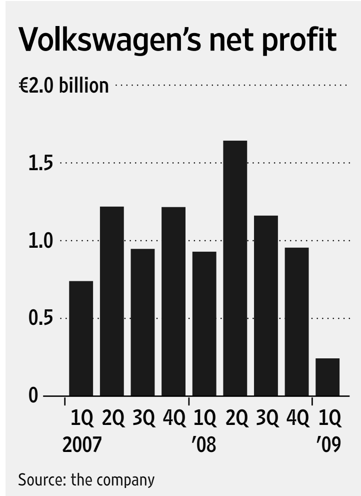
First-quarter net profit was €243 million ($314.4 million), compared with €929 million a year earlier. Revenue fell 11% to €24 billion from €27.01 billion as vehicle sales declined 16% to 1.35 million cars and trucks.

Executives previously indicated Volkswagen might post a loss for the first quarter, but the sale of its Brazilian truck operations added €600 million to operating profit, keeping it in the black.

Operating profit declined 76% to €312 million.

Analysts described VW's drop in revenue and profit as moderate considering the extremely weak market conditions.

Volkswagen so far has steered through the industry downturn better than rivals as the Wolfsburg, Germany, auto maker benefits from its geographical scope and production of a wide range of vehicle sizes. The company is benefiting from scrapping initiatives in several countries in Europe, and it is exposed to Brazil and China, two growth markets. It has little exposure to the U.S.



A Volkswagen Golf in a storage and loading tower in Wolfsburg, Germany

Investors expect further guidance on Volkswagen's strategy at the company's annual general meeting Thursday, along with an update on the future role of **Porsche Automobil Holding** SE after the Stuttgart, Germany, sports-car maker raised its stake in VW to 51% in January. Detailed first-quarter earnings are expected April 29.

Separately, French car maker PSA **Peugeot-Citroën** SA's first-quarter revenue declined 25% to €10.97 billion as the deepening economic recession hammered sales world-wide, leading the company to reiterate that it expects a loss and negative cash flow for the full year.

The company said that "while the various European incentive programs have had a beneficial impact on sales, notably in France and in Germany, the overall outlook remains volatile with limited visibility at this stage in the year."

Particularly difficult to gauge was whether government incentives to spur consumers to buy new cars will be extended beyond this year, Chief Financial Officer Isabel Marey-Semper said, adding that there was some market visibility for the second and third quarters, but not for the fourth.

—A.H. Mooradian in Paris contributed to this article.

Bayer hid details of plant blast

By Jared A. Favole

WASHINGTON—Bayer CropScience LP on Tuesday told a congressional investigative committee that concerns over bad publicity drove its attempts to limit disclosure of details of a deadly explosion in a West Virginia plant last year.

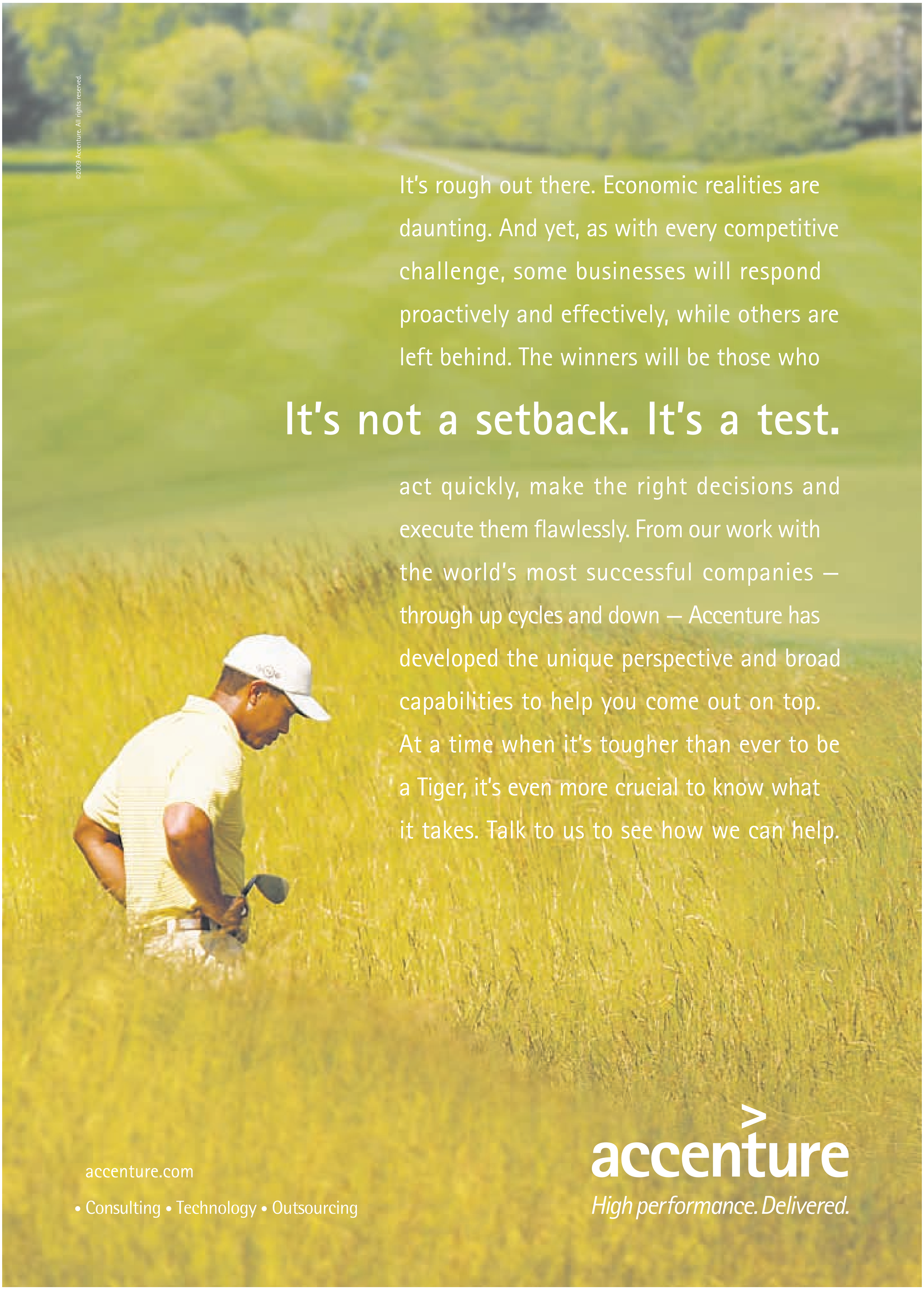
In a Tuesday hearing on the incident, the House Energy and Commerce Committee said its investigation showed that the plant's video equipment had been disconnected, and critical video footage of the explosion was missing. It also said the plant's air-safety monitors weren't working at the time of the blast.

An August explosion at one of Bayer's chemical buildings in Institute, W.Va., sent fireballs hundreds of feet into the air, killing two employees and injuring a handful of emergency responders. The blast involved the chemical methyl isocyanate, which is used to produce pesticides. In 1984, a leak of the same chemical from a former Union Carbide plant in Bhopal, India, killed 4,000 people.

Bayer CropScience, a unit of **Bayer** AG of Germany, said the air monitors weren't working because they were undergoing maintenance. It acknowledged that some video cameras had been disconnected, saying an "unidentified" subcontractor had disconnected the cameras though it was unclear when.

Testifying at Tuesday's hearing, Bayer CropScience President and Chief Executive Bill Buckner said the company's initial response "created confusion and concern" but was well-intentioned. He said Bayer had sought to keep details of the incident confidential in part because of "a desire to limit negative publicity," and that the company didn't want the chemical to become part of the public debate as it is a "primary and integral building block" for Bayer's pesticides.

The company denied allegations made in the committee's investigation report that it had destroyed evidence related to the blast. The report alleged that Bayer had destroyed parts of a blast mat, or shield, that covered a tank holding large amounts of methyl isocyanate. Bayer spokesman Bryan Iams said the company has replaced the damaged shield, but that the original cover remains on site.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It's rough out there. Economic realities are daunting. And yet, as with every competitive challenge, some businesses will respond proactively and effectively, while others are left behind. The winners will be those who
It's not a setback. It's a test.
act quickly, make the right decisions and execute them flawlessly. From our work with the world's most successful companies — through up cycles and down — Accenture has developed the unique perspective and broad capabilities to help you come out on top. At a time when it's tougher than ever to be a Tiger, it's even more crucial to know what it takes. Talk to us to see how we can help.
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CORPORATE NEWS

LVMH sales rise slightly

Louis Vuitton gain offsets revenue drop for jewelry, spirits

BY MAX COLCHESTER

PARIS—Revenue at **LVMH Möet Hennessy Louis Vuitton** SA edged up in the first quarter as strong sales of Louis Vuitton offset declines at other brands of the world's biggest luxury-goods company.

The results underscore how established fashion brands—with their presence in emerging markets and huge advertising budgets—are weathering the luxury-goods industry's worst downturn in years better than smaller competitors.

Sales at the fashion unit, which includes Louis Vuitton as well as the much smaller Fendi and Kenzo brands, rose 11% to €1.59 billion ($2.06 billion), driving LVMH's total revenue for the quarter to €4 billion, a 0.4% year-to-year rise.

The fashion gains offset sales declines for expensive jewels, wines and spirits. Sales at LVMH's watches and jewelry business, which includes the Hublot and Tag Heuer watch labels, fell 27% to €154 million, the company said. The champagne, spirits and wine division, which includes Dom Pérignon Champagne and Hennessy Cognac, also suffered, with sales falling 16%, to €540 million.

Associated Press

First-quarter sales at LVMH's fashion unit rose 11%, offsetting declines in the company's other businesses. Above, customers enter a store in Paris last month.

"Megabrands are producing results ahead of the market average," said Luca Solca, a luxury analyst at Sanford C. Bernstein.

LVMH said Louis Vuitton, which is famous for its LV monogrammed and limited-edition handbags, performed well across all regions. The brand posted double-digit sales gains in Asia, excluding Japan, during the first quarter, the company said. LVMH didn't break out profit for the quarter and didn't provide an outlook for the coming year.

"This is a very tough economic environment," said Jean-Jacques Guiony, LVMH's chief financial officer.

Much of the luxury-goods industry has coalesced around big, multi-label players such as LVMH and Gucci Group, part of **PPR** SA of France, and Cie. **Financière Richemont** AG of Switzerland.

These three companies own an array of luxury labels, and make make most of their sales and profits from a few star brands. PPR said Tuesday that its key Gucci brand had outperformed other labels in its fashion portfolio during the first quarter of the year.

BP venture bids for stake in Sibir

BY GUY CHAZAN

BP PLC's Russian venture has launched a bid for a stake in Russian-based oil firm **Sibir Energy** PLC.

The move shows how the global economic crisis is triggering consolidation in the oil-and-gas sector, as large energy companies move in on smaller rivals. One of Sibir's key shareholders, Chalva Tchigirinski, was affected by financial woes late last year.

The businessman faced margin calls on loans secured against his stake in Sibir last year when tumbling oil prices and the global credit crunch triggered a collapse in the Russian stock market.

In October, Sibir said it had agreed to buy some of the cash-strapped tycoon's real-estate assets to protect his stake in the company and advanced him $115 million. In February, trading in Sibir's shares was suspended after it emerged the true sum was almost three times higher. Earlier this month, the Sibir board fired Henry Cameron, Sibir's chief executive, and started legal proceedings against him and Mr. Tchigirinski to recover as much as $400 million it claims is owed to the business.

TNK-BP's bid also shows how the venture has recovered since the settlement of a dispute between BP and a group of Soviet-born billionaires, which roiled the company last year. Among other accusations, the Russian partners claimed BP was holding TNK-BP back from making acquisitions and expanding internationally.

Agreement on the Sibir bid was reached last week at a meeting in Moscow between BP Chief Executive Tony Hayward and the Russian shareholders. "We're fully behind TNK-BP on this," a BP spokesman said. "It shows how our interests are now aligned with the Russian partners."

A person familiar with the matter said that once TNK-BP gained the support of minority investors, it would seek to acquire stakes owned by the key shareholders. Yet that might prove difficult: Mr. Tchigirinski's stake is currently held by state-controlled Sberbank as collateral on loans to the businessman that remain unpaid.

Credit Suisse International said in a statement that it is offering to purchase shares in Sibir on behalf of TNK-BP. The offer would value the company at $2.3 billion. TNK-BP declined to comment, referring all questions to Credit Suisse. Mr. Tchigirinski couldn't be reached to comment.

In a statement, Sibir said no approach had been made by TNK-BP or its advisers. It also said it had received an informal approach from another party. Discussions are at a "very preliminary stage," and there could be no guarantee that an offer for Sibir would be forthcoming. A person familiar with the matter named the other party as state-owned OAO **Rosneft**, Russia's largest oil producer.

Sibir has a large oil field in Siberia, which it operates in a joint venture with **Royal Dutch Shell** PLC; a stake in a Moscow refinery; and a network of retail gasoline stations in the Moscow area. Its total production is about 80,000 barrels a day.

GE chief says firm will 'weather' cycle

BY PAUL GLADER

ORLANDO, Fla.—**General Electric** Co. Chief Executive Jeffrey Immelt said the company is preparing for a once-in-a-generation "reset" as it tries to weather what he called the worst recession in 80 years.

Speaking at GE's annual meeting Wednesday, Mr. Immelt tried to appease investors disheartened by the company's recent performance. The meeting came after a rough year for GE, largely because of growing losses inside its finance unit, which had been providing roughly half of the Fairfield, Conn., firm's profits. Last week the company posted a 35% drop in earnings for the first quarter, hurt by 58% profit decline in its GE Capital unit.

Many of the shareholders were upset about GE's plan to cut its dividend by 68% for the second half of the year, to 10 cents per quarter. The dividend cut, announced earlier this year, is the company's first since the Great Depression. It "was the toughest decision we have ever wrestled with," said Chief Financial Officer Keith Sherin.

Mr. Immelt said the finance arm will shrink to concentrate on more profitable sectors that are better connected to other GE businesses. He said the financial services industry would be changed dramatically by the crisis, emerging with fewer competitors and more regulation.

H&M pushes ahead with store expansion

BY MEI FONG

BEIJING—**Hennes & Mauritz** AB, the world's third-largest fashion chain by revenue, says it is on track to open 225 new stores this year, despite the global slowdown.

H&M has acquired several stores from bankrupt competitors, but spokesman Nils Vinge said, "We certainly have the resources and capacity to have 225 net openings, opening more [stores] than we are closing."

He was speaking on the eve of the opening of H&M's first Beijing store, which will be the 15th outlet in China. The Swedish company has added to its outlets at a pace of between 10% and 15% a year. Last year, the company opened 234 stores while closing 18.

Like others in the industry, the chain—which specializes in "cheap chic" inexpensive fashions—has been hit by the global economic crisis, reporting a 12% drop in fiscal first-quarter net profit, to 2.58 billion Swedish kronor ($319.3 million), from the same period a year earlier.

The retailer has been working to expand its global footprint to offset weakening sales in Europe and the U.S. Aside from plans to open five or six new outlets in China this year, the company will also open H&M outlets in key markets such as the Middle East and Japan. In 2010, the company will open its first store in South Korea. As of February, it had over 1,748 outlets.

H&M's first Beijing location will open Thursday to coincide with the launch of its latest designer collaboration with designer Matthew Williamson. Like other mass-market retailers, H&M has run small apparel lines in collaboration with famous designers, such as Karl Lagerfeld and Commes des Garcons.

China sales, while growing, make up about 840 million Swedish kronor, or less than 1% of total group sales. The country is more important to H&M as a sourcing area, with Chinese factories supplying a third of the company's inventory.

The company will be the first major foreign retailer opening a store in Beijing's newly renovated Qianmen strip south of Tiananmen Square, an area dominated by local and state-owned enterprises. Conservationists had protested the opening of the strip, a set of period-style looking buildings, which necessitated the destruction of some of the city's ancient hutong alleyways.

U.S.-based **Gap** Inc. and Spain's **Inditex** SA, which owns the Zara chain, are the world's two largest apparel retailers by revenue.

Bloomberg News

H&M will be the first major foreign retailer opening a store in Beijing's newly renovated Qianmen strip south of Tiananmen Square.

Altria's net plunges 77% although revenue increases

BY TESS STYNES AND ANJALI CORDEIRO

Altria Group Inc.'s first-quarter net income fell 77% because of the year-earlier spinoff of its international operations as cigarette volume declined 14%. Sales, however, were higher.

The cigarette maker, which reiterated its 2009 profit view, said U.S. market share for its Marlboro brand rose 0.5 percentage point to 42.4%, while its total market share fell 0.3 percentage point to 50.9%.

Credit Suisse said the share gain for Marlboro was a positive factor, although overall volume declines appeared to be worse than investors may have been expecting.

Cigarette makers have raised prices to offset a recent excise-tax increase and expanded their smokeless tobacco offerings as Americans continue to puff less. Fitch Ratings recently said the declines could accelerate, with price increases cutting U.S. volume as much as 7%, putting total volume declines this year as high as the low-double digits on a percentage basis.

The maker of Marlboro cigarettes and other tobacco products reported net income of $589 million, or 28 cents a share, down 77% from of $2.52 billion, or $1.16 a share, a year earlier. Excluding restructuring and acquisition costs, earnings from continuing operations rose to 39 cents a share from 37 cents.

Revenue rose 2.6% to $4.52 billion, mainly because of its acquisition of smokeless-tobacco maker UST Inc. Revenue excluding excise taxes fell 5.8%.

Gross margin rose to 45.1% from 38.9% on lower costs.

Altria's U.S. cigarette business was hurt by lower volume as revenue excluding excise taxes fell 6.6%.

At its smokeless-tobacco unit, volume fell 5.3%, and the segment posted an operating loss amid $128 million in acquisition-related charges and discounts to promote UST brands.

CORPORATE NEWS

AT&T profit falls 9% despite wireless gains

Apple's iPhone lures new subscribers to wireless service

By Roger Cheng

AT&T Inc.'s first-quarter net income fell 9%, but continued demand for **Apple** Inc.'s iPhone helped to drive growth in the company's wireless business.

Wireless competition in the U.S. is heating up with prepaid service providers attracting customers looking to cut costs and avoid contracts. AT&T appeared to weather the competitive and economic storm in the first quarter, adding 1.2 million net new wireless subscribers—three quarters of whom signed a long-term contract.

The iPhone was the biggest factor. Dallas-based AT&T activated 1.6 million new iPhone accounts during the quarter. The company had added 4.3 million iPhone subscribers in the second half of 2008.

"In Apple we trust," said Roger Entner, who runs the communications practice at Nielsen Co. Given the number of new customers versus iPhone activations, it appears virtually every new subscriber added the smart phone, Mr. Entner said.

AT&T posted net income of $3.2 billion, or 53 cents a share, compared with $3.52 billion, or 57 cents a share, a year earlier. The latest results included five cents a share in pension and retiree benefit expenses.

Revenue fell 0.6% to $30.57 billion, disappointing investors looking for slight growth.

The wireless business reported a 13% increase in profit and nearly 9% gain in revenue. The rate of customer cancellations held stable at 1.2% despite increasing pressure for customers to cut costs.

While the iPhone has been a valuable tool for adding customers, it's also been a costly one. AT&T pays a subsidy to Apple for every iPhone it activates. Mr. Entner estimates the subsidy totaled $400 million for the latest period.

"We said that our upfront investment in iPhone customers would depress margins in the short-term," AT&T Chief Financial Officer Rick Lindner told analysts on a call. "But given the attractive customer profile, it would support margins in the quarters and years ahead, and that's what you see in our first quarter results."

The iPhone effect is dissipating as AT&T worked through the initial increase of subsidy payments and realized the benefits of customers with a higher monthly cellphone bill. Analysts said that the increased data revenue helped AT&T bank more profit.

"As those iPhone customers get on the network and generate revenue, that should provide further lift to margins in the balance of the year," said William Power, an analyst at Robert W. Baird & Co.

AT&T wasn't completely immune to the competition. Ahead of the company's earnings, several analysts lowered their expectations for new prepaid customers as a result of more aggressive rival offers.

The wireline business, meanwhile, continues to falter, hit particularly hard by the economy as customers drop their home-phone line in favor of a cheaper cable-phone service or wireless. Revenue slipped 5.4%, but operating income fell 27.4%.

Offsetting those declines, however, were additions to its high-speed Internet and television businesses. AT&T added 359,000 wired Internet connections in the period, an increase from the fourth quarter. Its U-Verse TV service added 284,000 customers—a slight increase from the December period.

McDonald's profit rises 4% as currencies crimp revenue

By Paul Ziobro

McDonald's Corp. said it is winning new customers with its focus on classic products such as Quarter Pounders and Chicken McNuggets, helping the chain drive first-quarter same-store sales growth and narrowly top analyst expectations despite a big hit from unfavorable foreign-exchange rates.

McDonald's on Wednesday reported that profit for its latest quarter rose 4% as same-store sales rose 4.3% across the globe, including increases of 4.7% in the U.S., 3.2% in Europe and 5.5% in the Asia/Pacific, Middle East and Africa region. Overall revenue slipped to $5.08 billion from $5.61 billion, reflecting currency impacts and the sale of company-owned restaurants.

There are signs that fast-food chains are fighting over a smaller pie. Morgan Stanley earlier this week suggested that the fast-food industry is becoming a "zero-sum industry" as companies battle for the same pool of customers.

In an earnings call with analysts, McDonald's Chief Executive Jim Skinner said the company would hold firm to its pricing strategy, even if competitors use declining food prices to offer better deals at their stores. "I don't see us dictating any change in strategy around that," Mr. Skinner said.

The company is continuing its push into specialty coffees, where it has added the McCafe brand to about 10,000 stores and is on track to complete its U.S. rollout in the next two months. Sales of its beverages could pick up steam once a national ad campaign launches in the coming weeks.

McDonald's reported that it earned $979.5 million, or 87 cents a share, in the first quarter, up from $946.1 million, or 81 cents a share, in the year-earlier period. The latest results included a 4-cent-a-share gain from the sale of a minority interest in Redbox Automated Retail, putting the results a penny ahead of consensus estimates of 82 cents a share.

Currency translation hit quarterly earnings by 8 cents a share. McDonald's added that if exchange rates stay roughly where they are, the annual impact will be 32 cents a share.

Aerospace gains help Northrop net increase by 47%

By Mike Barris

Northrop Grumman Corp. posted a 47% jump in first-quarter net income as its aerospace division registered earnings and sales gains despite an industrywide slump.

The company also raised its 2009 earnings forecast by 15 cents to $4.65 to $4.90 a share.

Northrop Grumman, which continues to battle Boeing Co. for a $35 billion U.S. Air Force fuel-tanker pact, posted net income of $389 million, or $1.17 a share, compared with $264 million, or 76 cents a share, a year earlier. The company booked a 61-cent charge in the year-earlier quarter. Revenue increased 7.7% to $8.32 billion. Analysts expected earnings of $1.08 a share on revenue of $7.98 billion.

"We're pleased with our first-quarter financial results, and we're confident that our products and capabilities continue to be extremely well-aligned with current and emerging national-security priorities," said Chairman and Chief Executive Ronald D. Sugar.

U.S. defense contractors are experiencing slumps at their aviation businesses as customers delay or cancel orders. Analysts have said the industry may be hurt as the administration of U.S. President Barack Obama realigns priorities. Revenue rose at all of Northrop's business segments, with its aerospace business seeing a 4% rise in sales, mainly on higher volume for unmanned-aircraft programs, and a 2% profit increase.

Boeing cuts forecast

By Doug Cameron And Ann Keeton

Boeing Co. cut its full-year earnings forecast as it reported a 50% drop in first-quarter profit, weighed down by charges and lower aircraft prices.

The Chicago-based company and rival Airbus are working through record order books, but weak airline traffic and tight financing for customers have unleashed a wave of deferred orders.

Boeing booked 60 aircraft deferrals in the first quarter and is working on more than 60 additional deferrals, Chairman and Chief Executive Jim McNerney said Wednesday in a conference call.

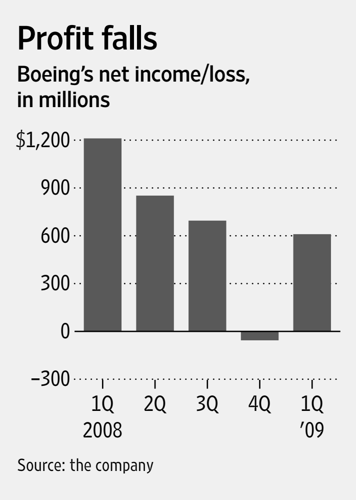
Boeing lowered its earnings forecast for the year to $4.70 to $5 a share from $5.05 to $5.35 a share. The forecast includes a charge of 14 cents a share for lower prices on aircraft deliveries. The company booked a five-cent charge for the same reason in the first quarter.

The company on Wednesday reported first-quarter net income of $610 million, or 86 cents a share, down from $1.21 billion, or $1.62 a share, a year earlier.

Revenue rose 3.2% to $16.5 billion.

Operating profit for commercial aircraft fell 58% to $417 million. Defense-business operating profit fell 18% to $709 million.

Boeing earlier announced production cuts for its most-profitable wide-body aircraft. The falling global air-freight market, expected by the industry to drop 20% this year, has led Boeing to cut production on its 777.



But Boeing said its policy of overbooking for the narrow-body 737 means current production levels are appropriate.

The company doesn't expect it will need to cut production on the 747-8, its supersize freighter.

"Adjusting production rates is part of this business. We'll have to keep reading and reacting," Mr. McNerney said. Deferrals are more likely than cancellations, he said. "We have seen very few signs that customers are running away." If the economy picks up, Boeing could consider increasing some production a year from now, he said.

Boeing said it remains on track for the first flight of its delayed 787 model to take place later in this quarter. Boeing's total order backlog at the end of the first quarter was $339 billion, down 4% from a year earlier.

CORPORATE NEWS

Electrolux loss widens amid drop in demand

Shares rise as CEO notes U.S. market may be stabilizing

BY GUSTAV SANDSTROM

STOCKHOLM—**Electrolux** AB on Wednesday reported a wider first-quarter net loss as demand for appliances such as refrigerators and washing machines continued to fall, but saw its shares rally after it said it is seeing early signs of a turnaround in the key North American market.

The company said it expects overall demand for its appliances to be down again in 2009, but Chief Executive Hans Straberg said statistics indicate that the U.S. market is stabilizing. "You can say that the downturn is decelerating, but we haven't seen the bottom yet," he said in an interview.

The cautiously optimistic comments echo similar sentiments in recent weeks from companies such as **Nokia** Corp., **Intel** Corp. and **Tesco** PLC, which have said that while the downturn will continue, there are some signs the worst may be over.

Electrolux shares were up 16%, outperforming a 2.2% rise in the broader Stockholm market.

Appliance makers world-wide have been badly hit by the economic downturn, which has hurt consumer demand just as raw-material costs have been rising. The world's largest appliance company, **Whirlpool** Corp., which reports first-quarter earnings April 27, predicted in February that North American appliance sales will fall to their lowest level in a decade this year.

Appliance makers have responded to the downturn by cutting jobs and production, launching new products and raising prices.

Stockholm-based Electrolux, which sells refrigerators, dishwashers and vacuum cleaners, reported a net loss of 346 million Swedish kronor ($40.4 million) for the three months ended March 31, compared with a year-earlier loss of 106 million kronor. The loss wasn't as wide as analysts had expected, helping boost the company's share price.

Electrolux booked restructuring charges of 424 million kronor as it continued to trim capacity in Europe.

First-quarter sales increased 7% to 25.8 billion kronor, as a stronger dollar boosted reported revenue from the U.S.

Iberdrola net declines 34% as electricity demand falls

BY BERND RADOWITZ

MADRID—Spanish electricity company **Iberdrola** SA said Wednesday that fewer gains, along with falling domestic electricity demand and prices, led to a 34% decline in its first-quarter net profit.

Iberdrola said net profit fell to €793 million ($1.03 billion) in the three months ended March 31 from €1.2 billion in the year-earlier period, during which it booked gains of €535.9 million from asset sales, mainly from the disposal of its 3.8% stake in Portuguese oil company Galp Energia. For the first quarter of this year, however, it posted just €26.6 million in gains from asset sales. Without the effect of the difference in gains, profit would have fallen 2.7%, the company said.

Iberdrola's net revenue in the first quarter rose to €7.64 billion from €6.3 billion a year earlier.

The company maintained its forecast for investments of €4.2 billion this year and said it will take advantage of new opportunities linked to renewable energy development incentives in the U.S. and Europe.

Iberdrola also plans to sell assets valued at more than €2.5 billion this year, Chairman Ignacio Galán said in a conference call. Real-estate assets and some gas operations are among those marked for sale, Mr. Galán said, without elaborating.

The disposals will be mainly used to reduce the company's net debt, which reached €31.18 billion at the end of the first quarter.

Banco Español de Crédito analyst Antonio Cruz said the company's first-quarter results came in above expectations, although they reflect a difficult operating environment at the start of this year.

Mr. Galán said the company expects 2009 profit to be similar to 2008 levels, once the effect of gains is excluded. "The situation can only get better," Mr. Galán said, adding that margins will improve as they start to reflect lower prices for raw materials, such as natural gas. Electricity demand is also expected to recover gradually throughout the year, Mr. Galán noted.

Nestlé sales slip despite price hikes

BY MARTIN GELNAR

ZURICH—Switzerland's **Nestlé** SA on Wednesday posted a 2.1% drop in first-quarter sales as price increases failed to offset stagnating volumes and the effect of a strong Swiss franc.

Revenue at the world's largest food and beverages company by sales and market capitalization fell to 25.17 billion Swiss francs ($21.54 billion) from 25.72 billion francs a year earlier.

Sales fell in five of Nestlé's eight product categories, and the company said the franc's strengthening against most currencies dented the top line by 5%. Price increases of more than 3% offset some of the negative currency effect.

The maker of Nescafé coffee and Kit Kat chocolate bars said organic growth, an industry measure comprising volume growth and price increases, was 3.8%.

Sales declined in Europe and Asia, Oceania and Africa while revenue in the Americas region rose, boosted by the dollar's rise against the Swiss franc—the only major currency to have shown such a tendency.

Coke holders reject proposal on pay packages

BY VALERIE BAUERLEIN

DULUTH, GA. — **Coca-Cola** Co. shareholders rejected proposals calling for limits on executive compensation, an independent board chairman and the establishment of a board committee on human rights.

The company's annual meeting here continued its recent tradition as a gathering place for corporate activists, who this year raised concerns about water use in India and pressed Coke to label its Dasani bottled water as originating from municipal sources, among other issues.

This year's meeting was held near the company's Atlanta headquarters for the first time in 17 years and attracted 550 people, significantly more than some recent annual meetings in Wilmington, Del., where Coke is incorporated.

The tone of the meeting was often upbeat, as CEO Muhtar Kent lauded the soft-drink giant's continued growth amidst a global economic storm. Mr. Kent officially assumes the role of chairman on Thursday, and thanked outgoing Chairman E. Neville Isdell for his "vision, skills and talent" in rebuilding the company's operations and optimistic outlook after taking over in 2004.

In response to audience questions about whether Coke would buy its biggest independent bottler, after rival PepsiCo Inc. launched a bid for its two biggest bottlers, Mr. Kent reiterated his support for the Coke system. Mr. Kent said Coke's relationship with its biggest bottler, **Coca-Cola Enterprises** Inc., is working well, especially in the wake of recent improvements to supply-chain management and the model for selling concentrate and syrup. Quarterly results also showed the merits of Coke's system, he said, particularly as Coke's North American volume fared better than its rival. "You can see how we are outperforming our competition in the marketplace," he said.

Mr. Kent said he is "bullish" on Coke's prospects for global sales growth, particularly as more people move to urban areas and join the middle class.

The two-hour gathering became rowdy at times, as activists occasionally yelled over Mr. Isdell's reading of shareholder proposals.

Caspar Hoffman, a 24-year-old student at City University of New York, was escorted from the meeting after he shouted protests and would not be seated. Mr. Hoffman, a volunteer with an organization called Campaign to Stop Killer Coke, said he was attempting to draw attention to allegations that several years ago bottlers in Colombia committed or condoned violence against union officials and employees.

Mr. Isdell said an independent investigation found no evidence of such violations in Colombia. He also said the company considers the correct handling of human rights, child labor and water sustainability issues as critical to its ongoing mission.

Outside, protestors were relegated to a "free speech" zone more than 100 yards from the meeting site.

Shareholders rejected four proposals in this year's proxy. A compensation proposal gained traction, though: The company said 64% of shares voted were cast against an advisory resolution to allow shareholders annual ratification of executive compensation packages.

GLOBAL BUSINESS BRIEFS

OAO Mechel

Russian miner agrees to buy Bluestone Coal of the U.S.

Russian miner **OAO Mechel** said Wednesday that it agreed to buy U.S. coal producer **Bluestone Coal** Corp. in a $436 million deal that would give it a foothold in North America. "The addition of Bluestone's production assets and large, high-quality coking coal reserves and resources establishes Mechel as one of the largest producers of coking coal in the world and provides us with additional scale that will drive added efficiencies through our business," said Mechel's chief executive officer, Igor Zyuzin. Mechel, whose stock is listed in New York, said it would acquire the West Virginia-based coking coal producer for cash and preferred shares, also assuming $132 million in debt in the process.

Carrefour SA

French retailer **Carrefour** SA said it is launching a low-cost range of products to attract cash-conscious consumers hurt by the recession and to win market share on its home turf. "Carrefour wants to improve its image on price," said Gilles Petit, head of the French division. The Carrefour Discount range is designed to compete with deep-discount stores, he added. Carrefour is the world's second-largest retailer by sales after Wal-Mart Stores Inc. Carrefour is responding to "all the people today who are keeping a close eye on their budget," Mr. Petit said. Chief Executive Lars Olofsson has said his priority is to improve performance in France, which accounts for about 40% of Carrefour's sales. The retailer operates more than 5,500 stores in France.

Volvo AB

Sweden's **Volvo** AB said it is laying off 1,543 more workers in Sweden due to weak demand for its trucks, construction equipment and engines. Since September, the company has dismissed about 16,300 workers, about half of those in Sweden. It had 101,381 workers at the start of 2009. Volvo's truck division, the world's largest truck maker by sales after Daimler AG, is giving notice to 655 employees. The construction-equipment unit is laying off 125 workers and 100 consultants. Volvo Penta, which makes boat engines, is dismissing 108 employees. The powertrain division, which coordinates Volvo's engine-related operations, is laying off 655 workers. A Volvo spokesman said negotiations had already started with union representatives.

Elan Corp.

Dublin-based biopharmaceutical company **Elan** Corp. reported a widened first-quarter net loss Wednesday, as it booked restructuring and U.S. tax charges, but its operating loss narrowed and revenue rose on higher sales of Tysabri, a multiple sclerosis drug. The drug maker's net loss widened to $102.6 million from an $85.5 million loss a year earlier. However, revenue rose 14% to $245.1 million, helped by a 48% increase in sales of Tysabri, as well as contract manufacturing revenue. The company gave no update on the results a strategic review being conducted by Citigroup Global Markets Inc., but said its best option would be a partnership with a larger pharmaceuticals company. In January, Elan said the review could lead to a minority investment, a strategic alliance, a merger or a sale.

Tele2 AB

Nordic telecommunications operator **Tele2** AB said the economic downturn was starting to hurt its operations as it reported a 13% fall in first-quarter net profit. Net profit fell to 640 million Swedish kronor ($74.8 million) from 738 million kronor a year earlier, hit by foreign exchange losses. Sales rose 6.2% to 10.12 billion kronor. Tele2 said the economic slowdown is now hitting its operations in some areas of Russia, Sweden, and in the Baltics, where gross domestic product looks set to fall by at least 10% this year. "The economy isn't turning around yet, it's starting to hit the real economy, the consumers," said Chief Executive Harri Koponen. "Europe will continue this tumbling through 2009" and consumer confidence isn't likely to pick up until the latter part of 2010, he said.

Daimler AG

A German court on Wednesday threw out a lawsuit from shareholders seeking damages over what they claimed was DaimlerChrysler AG's failure to make a timely announcement of former Chief Executive Jürgen Schrempp's plans to quit. The announcement at the time sent the company's shares higher, hurting investors who had sold in preceding days. Stuttgart state court judge Eberhard Stilz said the company, now known as **Daimler** AG, doesn't have to pay any compensation. The court was considering shareholders' claim for damages over the alleged impropriety for a second time. Judges already rejected the claim in 2007, ruling that the company had no obligation to announce the departure before its supervisory board made a formal decision.

Heineken NV

Dutch brewer **Heineken** NV on Wednesday reported a 24% rise in first-quarter revenue thanks to the Scottish & Newcastle acquisition and higher prices, but it reported a drop in organic revenue as the economic downturn hit volumes. Sales rose to €3.05 billion ($3.95 billion) from €2.47 billion as the addition of Scottish & Newcastle boosted volumes by 12%. Yet, excluding the acquisition, revenue fell 1% amid a 6.3% decline in volumes. The company blamed bad weather and higher taxes as well as the economic situation. Volumes fell 9.8% in Western Europe, 12% in Central and Eastern Europe, and 8.9% in the Americas. In Africa and the Middle East, volume rose 16%. Sales rose 3.4% in the Asian-Pacific region.

OAO Gazprom

Gazprom Neft, the oil arm of Russian state-controlled gas company OAO **Gazprom**, extended Russia's push into European refining and marketing on Wednesday by buying Italian oil operations from **Chevron** Corp. Gazprom Neft will buy a plant in Bari, southern Italy, that produces 36,000 metric tons of lubricants a year for cars, trucks and other industrial uses. It will also acquire fuel-marketing and sales operations in Rome. Russian oil producers have been expanding their presence in Western Europe in recent years, in a Kremlin-backed move to extract more value from Russian crude. Chevron and Gazprom Neft didn't reveal the price of the deal. Gazprom Neft will also get the right to use the Texaco brand in the Italian market until 2010.

—Compiled from staff and wire service reports.

South Africans turn out to vote

Former ANC devotees voice frustration, say they will back other parties to check its power

By Sarah Childress
And Nicolas Brulliard

Associated Press

South Africans lined up for hours to cast their votes in Katlehong township east of Johannesburg on Wednesday.

JOHANNESBURG—South African voters stood in line for hours on Wednesday to cast their ballots in the most competitive election since the first postapartheid vote.

Final results won't be announced until Saturday or Sunday, a spokesman for the electoral commission said. But preliminary results will trickle in late Wednesday and Thursday. Voting went smoothly Wednesday, with few irregularities and no major reports of violence or other disturbances.

A win is virtually guaranteed for the ruling African National Congress, which has won a majority in every election since 1994. But the party is at risk of losing the two-thirds majority it holds in parliament. Some formerly diehard ANC voters, frustrated by what they see as slow delivery of services and corruption in the ANC, have said they would stay home, or vote for a rival party.

"The people we vote for are only satisfying themselves," said Pule Mudau, an unemployed 36-year-old who lives in Alexandra, a poor township of Johannesburg. Mr. Mudau, one of many who have been waiting for a government-subsidized home for a decade, plans to vote for an opposition party. "I voted for the ANC twice already, and there's no change."

In upscale Sandton, Ronnie Kunutu, 50 years old, and his son Thabo, a university student who is voting for the first time, said they supported the ANC but would vote for an opposition party to check the ANC's power.

"A two-thirds majority is not a good thing," Ronnie Kunutu said. "It can be abused. We [vote] with the hope that people will deliver as expected. Once in power, they get drunk and forget what people want from them."

But the ANC still has a powerful hold over many black South Africans who revere the party for its liberation past. The ANC drew 100,000 people to a rally over the weekend to court these voters. Nelson Mandela, the former party leader, made a surprise appearance.

James Masiela, a 46-year-old ambulance driver, said he voted for the ANC for the fourth time since 1994. He said the party earned his vote the moment it brought an end to apartheid and has done much to keep his loyalty since then by providing housing, schools and basic services to his community a few hours north of Johannesburg.

"I'm still satisfied, even right now," Mr. Masiela said. "At home I've got electricity, we've got the houses and then we've got the water there. I think it's much better."

Sakhiwo Mgcani got up early to cast his ballot for the ANC to help ensure its win. The 25-year-old carpenter disagrees with the criticism that the ANC hasn't done enough to help the people. "It all takes time," he said. "They can't do things all at once."

IMF says that global recession is deepening

By Tom Barkley
And Bob Davis

WASHINGTON—The global economy is in the grips of a deepening recession that isn't likely to turn around until sometime next year, the International Monetary Fund said Wednesday. The IMF, which had been slow to apply the word to the current downturn, also released a new definition of global recession.

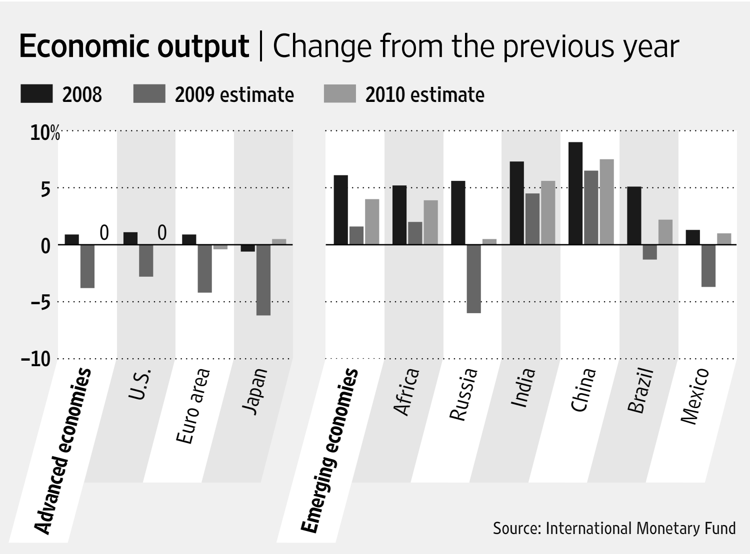
Overall, the world economy is now expected to contract 1.3% this year—a sharp reduction from the IMF's January estimate of 0.5% growth for 2009—and then register just 1.9% growth in 2010, well below the global growth rate before the economic crisis hit.

"By any measure," the IMF's twice-yearly World Economic Outlook concluded, "this downturn represents by far the deepest global recession since the Great Depression."

Examining the results, U.S. Treasury Secretary Timothy Geithner said that "only 17 of the 182 economies followed by the IMF are expected to grow faster this year than they did last year. Some 71—including 30 of the world's 34 advanced economies—are expected to shrink."

Ahead of a gathering of Group of Seven finance ministers and central bankers later this week, as well as the spring meetings of the IMF and the World Bank, the IMF urged global leaders to keep up the momentum that began at the Group of 20 summit earlier this month.

The fund is anticipating that G-20 countries will pursue fiscal stimulus measures totaling about 2% of gross domestic product this year and 1.5% next year, but said that may not be enough.



"It is now apparent that the effort will need to be at least sustained, if not increased, in 2010, and countries with fiscal room should stand ready to introduce new stimulus measures as needed to support the recovery," the IMF said.

That's likely to be a subject of debate at the G-7 meeting; European leaders thus far are resisting U.S. pressure to pursue additional stimulus measures.

Advanced economies, which are expected to contract 3.8% this year and experience no growth in 2010, should also continue to pursue rate cuts and unconventional monetary measures to support demand and counter deflationary pressures, the fund said.

The U.S., which remains the "epicenter" of the crisis, is expected to contract 2.8% this year, with no growth next year. Much of the expectation for a U.S. recovery to begin by the second half of 2010 hinges on the success of the government's plan to partner with private-sector investors to remove bad debts from bank balance sheets, the fund said.

The euro area is forecast to experience an even deeper recession, declining 4.2% this year and 0.4% in 2010, as the drop in exports increasingly takes a toll on domestic demand. The U.K. is expected to contract 4.1% in 2009 and 0.4% next year.

Jörg Decressin, the IMF's chief of world economic studies, said that Germany is better poised than other major European economies to add more stimulus measures and should consider getting a package ready. "Germany stands out as the one which has the most room," he said, when compared with Spain, Italy and France.

Japan is expected to suffer the most among advanced economies this year, contracting 6.2% on the back of falling exports. A 0.5% recovery is anticipated for 2010.

Meanwhile, emerging economies overall are expected to remain in positive territory, growing at a 1.6% pace in 2009 and 4% next year as a group. But an increasing number are sliding into recession, with Eastern European countries faring the worst.

China is expected to post a solid 6.5% growth rate this year and 7.5% in 2010, but those are still slightly lower than January's forecasts of 6.7% and 8%, respectively—and much lower than China has chalked up in recent years.

Informally, past IMF chief economists have called global growth of lower than either 3% or 2.5%—depending on the chief economist—a recession. It hadn't called the current downturn a global recession yet, partly because it didn't have a good definition.

Now, IMF economists have a precise way to measure global recession: a decline in real per-capita world GDP, backed up by a look at indicators such as industrial production, trade, capital flows, oil consumption and unemployment.

In terms of the new definition, this is the fourth global recession since World War II, and the deepest by a long shot. The earlier recessions were in 1975, 1982 and 1991. All were one-year recessions when measured by purchasing power parity, which takes into account the different cost of goods and services in different countries.

Japan enjoys rare good news in trade, output

By Yuka Hayashi

TOKYO—Japan is seeing some easing of the pain in recent economic data, even while economists remain cautious about the prospects for any long-term growth.

Sharp drops in exports and manufacturing output are letting up, raising hopes that the economy could see signs of an uptick, possibly as soon as the April-June quarter, recent indicators show. Forecasts, however, still point to weak consumer demand domestically and world-wide in the longer term.

A rapid cool-down in global consumer demand for cars and electronic gadgets since last fall had pushed down Japan's exports sharply, throwing the nation into its worst recession since World War II. But the recent improvements, economists say, suggest manufacturers have come out of the worst phase of inventory adjustments.

Japanese manufacturers had been focused on cutting production and exports as inventories piled up in response to shrinking demand. Thanks to such efforts, much of the excess inventory has now been eliminated.

"What that means is, over the next few months, companies will adjust the levels of production and exports upward," says Richard Jerram, a Macquarie Group economist in Tokyo. "So you are going to see very sharp improvements on a short-term basis."

Still, the numbers the government unveiled Wednesday for March trade were gloomy. The value of exports tumbled 45.6% from a year earlier. As exports fell faster than imports, Japan posted its first annual trade deficit in 28 years for the fiscal year ended in March, a very negative development for a nation that had relied on external trade to fuel growth since the start of the decade.

But compared with February, March exports were up 2.2%, marking the first month-to-month increase in 10 months. And although shipments bound for the U.S. shrank 51% in March from a year earlier, that figure was better than the 58% drop in February. China-bound exports were down 31.5%, compared with a 39.7% fall in February.

The production index for the manufacturing sector is expected to rise in March and April, after falling for five straight months through February, according to data from the Ministry of Economy, Trade and Industry. The shipment-to-inventory ratio for electronic components and devices, often seen as an early indicator for the manufacturing industry as a whole, has been improving since hitting a bottom in December.

"If this trend continues, there is a good chance Japan's GDP growth will turn positive for the April-June quarter," says Kyohei Morita, a Barclays Capital economist in Tokyo.

He warns, however, that the January-March number, due out May 16, will be "horrendous" because of the sharp deterioration in the trade balance during the quarter. He thinks real GDP may have shrunk at an annualized pace of as much as 20%, compared with a contraction of 12.1% in the October-December quarter.

Despite the signs of a rebound in exports and manufacturing, a gloomy outlook for Japan's domestic demand keeps economists cautious about the nation's growth potential in the longer term.

U.S. cybersecurity push

Military command to coordinate defense of Pentagon networks

By Siobhan Gorman
And Yochi J. Dreazen

WASHINGTON—The Obama administration plans to create a military command to coordinate the defense of Pentagon computer networks and improve U.S. offensive capabilities in cyberwarfare, according to current and former officials familiar with the plans.

The initiative will reshape the military's efforts to protect its networks from attacks by hackers, especially those from countries such as China and Russia. The new command will be unveiled within the next few weeks, Pentagon officials said.

Associated Press

U.S. Defense Secretary Robert Gates, pictured last week, plans to announce the creation of a new military 'cyber command,' military officials say.

The move comes amid growing evidence that sophisticated cyberspies are attacking the U.S. electric grid and key defense programs. The Wall Street Journal on Tuesday reported that hackers breached the Pentagon's biggest weapons program, the $300 billion Joint Strike Fighter, and stole data. Lawmakers on the House Oversight and Government Reform Committee wrote to the defense secretary Tuesday requesting a briefing on the matter.

Lockheed Martin Corp., the project's lead contractor, said in a statement Tuesday that it believed the article "was incorrect in its representation of successful cyber attacks" on the F-35 program. "To our knowledge, there has never been any classified information breach," the statement said. The Journal article didn't say the stolen information was classified.

President Barack Obama, when he was a candidate for the White House, pledged to elevate cybersecurity as a national-security issue, equating it in significance with nuclear and biological weapons. A White House team reviewing cybersecurity policy has completed its recommendations, including the creation of a top White House cyberpolicy official. Details of that and other proposals are still under debate. A final decision from the president is expected soon.

A draft of the White House review steps gingerly around the question of how to improve computer security in the private sector, especially key infrastructure such as telecommunications and the electricity grid. The document stresses the importance of working with the private sector and civil-liberties groups to craft a solution, but doesn't call for a specific government role, according to a person familiar with the draft.

Defense Secretary Robert Gates plans to announce the creation of a new military "cyber command" after the rollout of the White House review, according to military officials familiar with the plan.

Pentagon officials said the frontrunner to lead the new command is National Security Agency Director Keith Alexander, a three-star Army general. In a rare public appearance Tuesday at a cybersecurity conference in San Francisco, Gen. Alexander called for a "team" approach to cybersecurity that would give the NSA lead responsibility for protecting military and intelligence networks while the Department of Homeland Security worked to protect other government networks. His spokeswoman said he had no additional comment.

Former President George W. Bush's top intelligence adviser, Mike McConnell, first proposed the creation of a unified cyber command last fall. The military's cybersecurity efforts are currently divided between entities like the NSA and the Defense Information Systems Agency, which is responsible for ensuring secure and reliable communications for the military. The Air Force also runs a significant cybersecurity effort.

Advocates believe the new command will be able to avoid duplication and better leverage the technical expertise of the agencies and the military services' cyberwarriors.

How harsh interrogations spread

By Jess Bravin

WASHINGTON—Senior Bush administration officials made possible the spread of aggressive interrogation methods from Guantanamo to Afghanistan and Iraq, according to a report released by the Senate Armed Services Committee.

Bush officials "solicited information on how to use aggressive techniques" and "redefined the law to create the appearance of their legality," concludes the report, which, according to committee chairman Carl Levin (D., Mich.), was approved without objection from Democrats or Republicans on the panel. The report says the Bush officials suppressed or ignored conflicting legal advice from senior military officers to ensure that practices would be available to interrogators.

Associated Press (2)

Jay Bybee, left, and John Yoo were U.S. Justice Department lawyers who wrote some key memos justifying the CIA's use of aggressive interrogation tactics.

The 232-page report, compiled after years of investigation by committee staff, was adopted in November, but it wasn't until Tuesday that the Defense Department approved the release of an unclassified version, Sen. Levin said. The report adds to the picture of an administration scrambling after the terror attacks of Sept. 11, 2001, to construct a "new paradigm" for dealing with enemy prisoners, in the words of former White House Counsel Alberto Gonzales, who later served as attorney general.

The Justice Department legal opinions released last week, in which Justice lawyers authorized harsh interrogation methods, denied the application of antitorture laws. By the end of Mr. Bush's presidency, the department conceded that many of its earlier legal views were in error.

John Yoo, a University of California, Berkeley, professor who was a key legal mind behind the Justice opinions under Mr. Bush, on Tuesday reiterated his view that the legal logic was justified. "We are in a state of war with the al Qaeda terrorist network," Mr. Yoo said Tuesday at a forum in California. "If we are at war…is it all that surprising that this circumstance will call forth the most vigorous aspect of presidential power?"

Obama extends invites to Middle East leaders

By Jay Solomon

WASHINGTON—U.S. President Barack Obama, already pursuing an ambitious foreign-policy agenda, launched what aides called a sustained push to forge an Arab–Israeli peace by inviting Israeli, Egyptian and Palestinian leaders to the White House for separate meetings in coming weeks.

The Obama administration's announcement Tuesday comes amid aggressive lobbying by Arab governments calling for the U.S. to pressure Israel into accepting an independent Palestinian state as part of a broader strategy to stabilize the Middle East.

Mr. Obama will likely encounter a reluctant partner in new Israeli leader Benjamin Netanyahu, who has voiced skepticism about the merits of a separate Palestinian homeland. Any pronounced U.S. effort to induce concessions from the Israelis on the Palestinian issue could fuel tensions between Washington and its closest Mideast ally, analysts said.

Barack Obama

Mr. Obama said Tuesday following a meeting with Jordan's King Abdullah II that he expected both the Israelis and Palestinians to make "gestures of good faith" in a bid to revitalize the Middle East peace process.

Mr. Obama has pledged to directly engage in efforts to settle the Arab-Israeli conflict. He has criticized former President George W. Bush for waiting too long to engage on the issue and has said Washington needs to take a long-term approach.

Mr. Obama's involvement could mark a shift from Mr. Bush's reluctance to pressure Israel to make concessions to the Palestinians. Mr. Bush and former Secretary of State Condoleezza Rice did push aggressively for a Palestinian state, but didn't get directly involved until the last two years of Mr. Bush's term. They also resisted brokering Syrian-Israeli peace talks, something Mr. Obama has committed to. Bill Clinton, conversely, took a much more direct role in facilitating peace talks, but was alternately criticized both for not ensuring a crackdown on Palestinian militancy and for not winning enough concessions from Jerusalem.

Mr. Obama's foray into the Middle East adds to his already expansive foreign-policy agenda launched in recent weeks, including efforts to engage longstanding enemies Iran and Cuba, and pledges for new global efforts on arms control and climate change, while simultaneously prosecuting wars in Iraq and Afghanistan.

In the Mideast, Arab governments have been calling for a halt to all Israeli construction in territories claimed by Palestinians and a loosening of travel restrictions on Palestinians. Israel, meanwhile, is seeking greater Arab assistance in choking off the supply of arms to Palestinian militants. Jerusalem also wants Arab governments to pressure Palestinian groups to recognize Israel's right to exist.

U.S. and Middle East officials said Mr. Obama's meetings with Mr. Netanyahu, Egyptian President Hosni Mubarak and Palestinian Authority President Mahmoud Abbas are likely to take place between mid-May and early June. White House spokesman Robert Gibbs said Tuesday that he hoped these meetings could build on the dialogue Mr. Obama held with King Abdullah, whose government is a central player in the Arab–Israeli peace process.

Efforts to broker a deal have been undercut by the split leadership in the Palestinian territories: Mr. Abbas and his Fatah party control the West Bank, while Hamas, with which Mr. Obama has refused to talk, controls Gaza.

Arab governments have been stressing to the Obama administration in recent weeks their belief that the creation of a Palestinian state is central to their efforts to combat a rising trend of radicalism in the Middle East, fed by Iran. Tehran is the principal arms supplier and financier of militant Palestinian organization Hamas, as well as the Lebanese militia Hezbollah, Arab diplomats say. And Tehran is exploiting Israel's rising conflict with Hamas as a tool to undermine the Arab leaders who have sought to make peace with Jerusalem.

Many Arab leaders are also advising Mr. Obama to directly broker peace talks between Israel and Syria as a means to weaken Iran. Damascus is Tehran's closest ally in the region, Arab officials say, but has shown a willingness to weaken this alliance if progress is made in settling Syria's conflict with Israel over the disputed Golan Heights region.

"Iran is successfully positioning itself as the champion of the Palestinian issue," said an Arab diplomat who has met with senior U.S. officials in recent days. "We either move towards peace or further lose the region to extremists."

Mr. Netanyahu is seen as sharing the Arab government's focus on Iran's increasing power. But members of his government have expressed a reluctance to quickly move to establishing a Palestinian state at a time when Mr. Abbas's own authority is in question. Instead, Mr. Netanyahu has expressed a desire to strengthen the Palestinian Authority's economic and political prospects before addressing the issue of statehood.

Some supporters of Israel criticized Mr. Obama's statements Tuesday for not acknowledging Israel's desire for peace. The Anti-Defamation League, in particular, said the president's statement that "now is the time to take steps" to end the conflict implied a lack of Israeli willingness.

"We find this comment disturbing because it leaves the impression that Israel has not acted for peace," te ADL said in a statement. "In fact, in the year 2000 Israel made a generous offer for peace. … The Palestinians said no and turned to violence and terror."

Economy & Politics

Fatal vision

Just why did a Bolivian killed by police return from Hungary? > **Page 12**