Money & Investing: The European Commission gets tougher on hedge funds

THE WALL STREET JOURNAL.

VOL. XXVII NO. 62 | EUROPE | THURSDAY-SUNDAY, APRIL 30-MAY 3, 2009

DOWJONES A NEWS CORPORATION COMPANY

europe.WSJ.com

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Austria €3 - Belgium €3 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 25 - Finland €3.20 - France €3 - Germany €3
Greece €3 - Hungary Ft 590 - Ireland (Rep) €3 - Italy €3 - Lebanon LE 6000 - Luxembourg €3 - Netherlands €3 - Norway Nkr 29 - Poland Zl 12 - Portugal €3 - Slovakia €3.32/Sk 100 - Spain €3 - Sweden kr 29
Switzerland SF 5 - Syria SE 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

THE WALL STREET JOURNAL.

What's News

Ten Turkish soldiers died in two attacks blamed on Kurdish militants, dealing a blow to efforts to end the conflict that has killed over 40,000 people since 1984. Page 2

■ **The Fed signaled** it has no intention of pulling back from its efforts to revive the U.S. financial system. Page 3

■ **Confidence improved** in the euro zone, but stingy bank lending suggests a recovery is distant. Page 3

■ **Société Générale's** chairman resigned, citing personal attacks. He leaves headaches for his successor. Pages 4, 32

■ **U.S. stocks gained** on upbeat economic signs. In Europe, shares rose as investors welcomed some better-than-expected earnings. Page 18

■ **ArcelorMittal reported** a first-quarter loss and said it will offer $3 billion in shares and convertible notes. Page 6

■ **Western oil majors** have taken a hit from weak crude prices, but that has been partially offset by profits earned from energy trading. Page 2

■ **Time Warner posted** a 14% decline in earnings and said it expects to spin off all or part of AOL. Page 4

■ **Germany agreed** to consider accepting inmates from Guantanamo after meeting the U.S. attorney general. A Spanish magistrate launched a criminal probe into Guantanamo torture allegations. Pages 8, 10

■ **At least 41 people** died in car-bomb attacks in Baghdad's main Shiite district.

■ **Morgan Stanley's** chairman said banks must come up with ways to reward employees for long-term performance. Page 17

■ **AIG persuaded** a French executive to remain at the company, warding off a risk of defaults on $234 billion in derivative contracts. Page 20

■ **A trial opened** in Paris for 27 people charged with participating in the 2006 torture and killing of a French Jew.

■ **The WTO was set** to approve Thursday another term for Director-General Lamy, who is running unopposed.

■ **Siemens cut** its fiscal-year earnings forecast. Page 4

EDITORIAL & OPINION

Social unrest
Friday's May Day protests may be the start of a summer of rage. Page 11

Breaking news at europe.WSJ.com

NOTICE TO READERS
The Wall Street Journal Europe won't publish Friday due to Labor Day.

U.S. economy sinks again

GDP falls 6.1% in quarter as businesses cut back; stage set for recovery push

By Sudeep Reddy

U.S. economic output tumbled in the first quarter as businesses cut back sharply, marking the nation's worst six-month contraction in 51 years.

The 6.1% annualized decline in gross domestic product came as the home-building sector continued to deteriorate, business investment in buildings and equipment plunged and firms drew down inventories at the fastest pace since the start of the decade.

The deep decline raised hopes that the economy, after a severe purging, may be better positioned for a return to growth in the second half of the year. Clearing products from store shelves and warehouses, for instance, allows manufacturers to eventually ramp up production—a critical step in a recovery.

"With business and consumer confidence beginning to rebound, we think we're moving toward stabilization in the economy," said Joseph Brusuelas of Moody's Economy.com. "We expect to be at a point later this year where firms will feel much more comfortable... taking risks and cautiously rebuilding stocks."

The steep first-quarter contraction came from a severe pullback by businesses trying to get their output in line with a consumer sector hit hard by the longest recession since the Great Depression and the deepest six-month pullback since 1958. Almost half of the GDP decline was due to a steep drawdown in business inventories. While inventory adjustment is expected to continue on a smaller scale into the current quarter, the latest correction should put the economy in better position to stabilize by the third

Please turn to back page

Brown all but rules out more U.K. troops in Afghanistan

Associated Press

STANDING DOWN: A sniper from the Royal Regiment of Scotland moves through a field during Operation Sarak 1 in the Maywand region of Afghanistan last week. **Page 8.**

Lewis is in limbo following BofA vote

By Marshall Eckblad and Dan Fitzpatrick

Bank of America Corp. shareholders re-elected the bank's board of directors by a "comfortable margin," according to people familiar with the matter, even though the results of a separate vote to strip Chief Executive Kenneth Lewis of his post as chairman were too close to call.

Kenneth Lewis

Shareholders at the bank's tense annual meeting in Charlotte, N.C., its home town, were told that the company would disclose results of the vote over Mr. Lewis's title as soon as they became available. The Charlotte, N.C., bank said it needed more time to tally the results because so many votes were cast during the meeting. "This is the first time this has ever happened," Mr. Lewis said.

The cliffhanger highlighted a four-hour meeting during which Mr. Lewis repeatedly defended the bank's much-criticized purchases of Countrywide Financial Corp. and Merrill Lynch & Co., even as officials worked to tally

Please turn to page 31

Threat of swine flu nears pandemic level

By Betsy McKay

The World Health Organization on Wednesday raised its global alert level to phase 5, signaling that a pandemic is "imminent" as the swine flu continues to spread to new corners of the globe and as the U.S. reported its first death from the disease.

The United Nations public-health agency raised its global pandemic alert level on Monday to phase 4 from phase 3, recognizing that the A/H1N1 virus is spreading from person to person and urging countries to prepare for a pandemic. The move to phase 5 indicates that the virus is causing multiple outbreaks, or that there is widespread human infection.

With multiple outbreaks in Mexico and human transmission now occurring in New York City, where people at a school in the borough of Queens were infected after some students traveled to Mexico, the disease has moved closer to a pandemic, said Keiji Fukuda, the WHO's acting assistant director for health security and environment.

But he said it isn't clear how widely the disease is spreading in New York. "In New York City what we are seeing is clearly person-to-person transmission occurring in a large high school," Dr. Fukuda said. "What we are also looking for is whether we're seeing transmission out

Please turn to page 31

Inside

Beat around Busch

Unease brewing at Anheuser as new owners slash costs
News in Depth, pages 14-15

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8185.73	+2.11
Nasdaq	1711.94	+2.28
DJ Stoxx 600	197.28	+1.92
FTSE 100	4189.59	+2.27
DAX	4704.56	+2.11
CAC 40	3116.94	+2.16
Euro	$1.3271	+1.51
Nymex crude	$50.97	+2.10

LEADING THE NEWS

Two attacks hit Turkey

A revived militancy in the PKK feared after soldiers killed

By Nicholas Birch

ISTANBUL—Ten Turkish soldiers died Wednesday in two separate attacks blamed on Kurdish militants, dealing a blow to efforts to end a conflict that has killed more than 40,000 people since 1984.

Nine soldiers died just after dawn when a roadside bomb blew up their armored personnel carrier on a dirt road near the town of Lice, in Turkey's mainly Kurdish southeast. Gen. Ilker Basbug, Turkey's Chief of Staff, said Wednesday that the explosion was caused by a homemade bomb "either remote-controlled or detonated by cable."

Early in the afternoon, another soldier died when assailants opened fire on a unit returning from operations near Semdinli, a mountain town 480 kilometers southeast of Lice.

Gen. Basbug didn't blame any group for Wednesday morning's attack, but the killings are widely assumed to be the work of the Kurdistan Workers Party, or PKK, a former separatist group that has been at war with Turkey for 25 years. PKK spokesmen in the group's bases in Iraqi Kurdistan were unavailable for comment.

A leading Islamic-minded Kurdish intellectual, Altan Tan, said he fears the attacks are beginning of a period of hawkishness on the part of the state and the PKK. "Those who don't want peace, on both sides, are trying to sabotage it," he says.

Wednesday's attacks were the deadliest since 17 soldiers died in November in a PKK attack near Turkey's Iraqi border, and came as hopes for a political solution to the problem were beginning to fade.

Speaking in Turkey's Parliament in Ankara on April 6, U.S. President Barack Obama praised Turkey for lifting bans on the Kurdish language and hailed the new Kurdish channel on state television as "an important signal." About the same time, the PKK announced a cease-fire aimed at facilitating the political process.

But the detente was built on shaky foundations. From the start, Ankara's Kurdish opening was built on efforts to sideline a Kurdish nationalist party, the Democratic Society Party, or DTP, which has 21 deputies in Parliament but is ignored by the political establishment.

Mr. Obama spoke with the head of the DTP in Ankara on April 6, but Turkey's prime minister and army have refused to do so.

Since April 14, Turkish police have taken into custody for questioning some 200 members of the DTP, many of whose supporters sympathize with the PKK, in raids across the country.

"What we're seeing is an all-out state assault on the DTP," says Cengiz Çandar, a political commentator. "Whether you like them or not, they represent a majority of votes in Kurdish areas. You have to talk to them."

The latest attacks may be putting more pressure on the militants to end their campaign. For months, Iraqi Kurdish politicians have been planning a pan-Kurdish conference for later this year in northern Iraq, aimed at persuading the PKK to lay down its weapons, perhaps in exchange for more political clout.

In an interview after the attacks, Selahattin Demirtas, a leading DTP deputy, said the party would be holding rallies in coming days to call for a dialogue.

"We want a political solution," he said, "but that won't happen while the guns are talking."

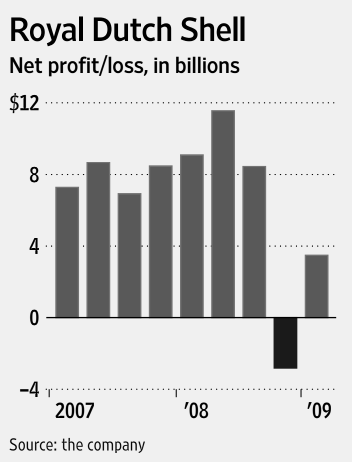
Turkish soldiers patrol a road near the town of Lice. Nine soldiers died nearby just after dawn, when a roadside bomb blew up their personnel carrier.

CORRECTIONS & AMPLIFICATIONS

Local retail advertising revenue grew 30% at the Times Leader of Wilkes-Barre, Pa., in the first three months of this year, according to Richard Connor, the newspaper's publisher. A Marketplace article Wednesday incorrectly said revenue at the paper grew 30% during that period.

Oil firms' energy trading helps ease pain of prices

By Guy Chazan and Russell Gold



Western oil majors have taken a hit from the slump in crude prices, but that's been partially offset by the big profits they've earned from energy trading.

BP PLC and **Royal Dutch Shell** PLC both reported first-quarter earnings this week that comfortably beat analysts' forecasts. One factor was the success of their oil trading operations.

Shell said Wednesday its trading profits were higher in the first quarter than in the preceding three months, though it declined to quantify them. "It is about trading our volumes and using our storage," Peter Voser, Shell's chief financial officer, told analysts Wednesday. "We have used some working capital actually to drive trading during Q1, and to a certain extent in Q2."

A day earlier, his counterpart at BP, Byron Grote, said the first quarter had seen "some very strong overall contributions" from supply and trading operations. It was, he said, "about $500 million higher than what we would consider the normal range of quarterly volatility."

Oil companies' profits have been hammered by the tumbling price of crude, which has fallen by nearly $100 a barrel since reaching a high of $145 last summer. Shell said its adjusted net profit totaled $2.96 billion in the first quarter, down 62% year-on-year.

But they've been able to partly compensate for the low oil price by taking advantage of a crude market that has since October been in what's called contango, a price structure where near-term contracts are cheaper than contracts for delivery in the future. Contango usually indicates that the market expects prices, in this case because of growing economic activity, to rise in the future.

Oil companies are ideally placed to profit from this trade because they have plenty of storage capacity in the form of tanks and pipelines to stockpile the oil while waiting for prices to rise. Other, smaller traders would have to pay high rates for storage.

In a typical contango play, a company that bought oil on the spot market at $49.92 a barrel as of Tuesday's close, and at the same time sold a futures contract for September delivery at $53.19 was able to lock in a profit of $3.27 a barrel. In mid-January, the difference widened to $15.21. Contango has narrowed in recent months, but the trade still pays off handsomely, even factoring in storage and financing costs.

"It's almost like printing money," says Torbjorn Kjus, oil market analyst at DnB NOR Markets in Norway.

BP has been a particularly active player, exploiting the enormous storage capacity it has around Cushing, Oklahoma, a huge pipeline and trading hub and the price settlement point for the U.S. benchmark, West Texas Intermediate.

"Contango at Cushing is one of the lowest risk trades out there," says Andy Lipow, a Houston consultant and principal of Lipow Oil Associates LLC. "Your biggest risk is if your oil is hit by lightning."

Shell, on the other hand, has been leasing supertankers to store oil in places like the North Sea. Most companies only book very large crude carriers to transport oil from the field to the refinery, whereas Shell is booking them for months at a time, at huge cost, to float at sea. But the contango is currently so steep that it pays off.

New York-based **Hess** Corp. said Wednesday it had lost money on its refining and oil-production operations, but recorded a $19 million gain on trading. **ConocoPhillips** said last week that the lion's share of the $1 billion it recently borrowed was spent on building up inventories for the contango trade.

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

INDEX TO PEOPLE

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

LEADING THE NEWS

U.S. Fed stays course amid cautious optimism

By Jon Hilsenrath
And Brian Blackstone

Even though the intensity of the U.S. recession appears to have eased in recent weeks, the Federal Reserve signaled it has no intention of pulling back from its aggressive efforts to revive the financial system.

The Fed said it would push forward with an asset-purchase program that will substantially increase its holdings of mortgage-backed securities and Treasury securities in the months ahead, and suggested it could increase those purchases if markets and the economy veer further off track.

The Fed's policy-making arm—the Federal Open Market Committee—also said in a statement that it would keep its target short-term interest rate, the federal-funds rate, near zero for an "extended period."

"Although the economic outlook has improved modestly since the March meeting, partly reflecting some easing of financial market conditions, economic activity is likely to remain weak for a time," the Fed said. It added that the pace of the economy's contraction appeared to be "somewhat slower" than had been apparent a few weeks ago.

The statement echoed recent comments by Fed Chairman Ben Bernanke, who said in a speech earlier this month that there had been "tentative signs that the sharp decline in economic activity may be slowing." He pointed to data on housing, consumer spending and new-vehicle sales. The so-called beige book, a Fed survey of regional Fed banks, reiterated that cautious optimism.

Still, the economy seems far from clear of danger. Earlier Wednesday, the Commerce Department reported that gross domestic product, a measure of the nation's economic output, dropped at a 6.1% annual rate in the first quarter, almost equaling the fourth quarter's 6.3% contraction. The two quarters combined for the worst six-month performance in more than half a century.

Similarly, the labor market has shown little, if any, sign of stabilizing, with the economy shedding jobs at a clip of more than 650,000 per month, and investment is in free fall as companies adjust to weaker demand.

Still, there were signs of life in the GDP report that support the Fed's slightly more-optimistic tone. Consumer spending advanced at a 2.2% rate in the first quarter, the first increase since last spring. Moreover, a good deal of the GDP drop came from a contraction in business inventories, which could support growth in coming quarters if firms restock. Other figures on consumer confidence and housing have also shown stabilization or improvement, albeit from very weak levels.

Officials expect a recovery to unfold later this year, but at a modest pace, and worry that it remains vulnerable to new economic shocks.

Considering the amount of slack that has built up in the economy as unemployment has risen and factories have curtailed output, they also think inflation is a remote risk, giving them leeway to continue to support the economy with low rates and asset purchases.

The Fed signaled this Wednesday by repeating that it expects inflation to remain subdued amid economic slack and could fall below desired levels.

At last month's FOMC meeting, which concluded March 18, officials were alarmed at the deteriorating outlook and surprised Wall Street by ramping up their purchases of mortgage-backed securities and announcing new plans to buy Treasury bonds. That in turn led to lower private-sector borrowing costs and sparked a jump in mortgage refinancing.

Officials said Wednesday that they could change those purchases—which are now one of their main instruments of policy—as the economic outlook changes.

"The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets," the FOMC said Wednesday.

The Fed still has a long way to go before it completes its planned acquisitions of Treasury securities, mortgage-backed securities and debt issued by **Fannie Mae** and **Freddie Mac**, the government-backed providers of funding for mortgages.

As of Tuesday, it had purchased $74 billion of Treasury securities, a quarter of the $300 billion it expects to purchase by September. It had purchased or committed to purchase a net $381 billion of mortgage-backed securities, roughly a third of its $1.25 trillion in such purchases it plans.

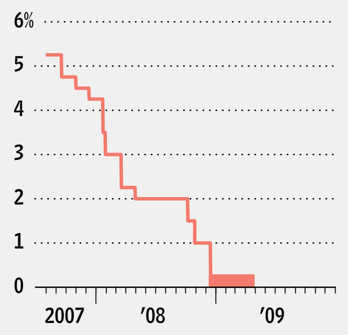
As of April 22, the Fed also had extended $6.38 billion of loans through its Term Asset-Backed Securities Loan Facility. The program was originally conceived to jump-start consumer-lending markets. Under the program, the Fed provides cheap credit to investors who use the central-bank financing to purchase securities backed by auto loans, credit-card debt and other consumer debt.

Fed officials have seen a mixed response to the program. Interest rates on this kind of debt have declined in recent weeks, as officials hoped would happen when they conceived the program. There also has been renewed issuance of asset-backed securities. But the issuance has been small and use of the Fed program is much lower than officials anticipated.

Ben Bernanke

Fed-funds target rate

Rate: between zero and 0.25%



Source: Thomson Reuters Datastream

Euro-zone confidence lifts

Recovery will be slow as banks continue to curb lending

By Paul Hannon

LONDON—European business and consumer sentiment rose this month from record lows, but stingy bank lending and other factors suggest a recovery is still a distant prospect.

Business and consumer confidence in the 16 countries that use the euro improved in April for the first time in two years, according to a monthly survey by the European Commission, rebounding more strongly than economists had expected.

The overall economic-sentiment indicator for the euro zone rose sharply to 67.2 from 64.7 in March, a figure that was revised up from 64.6.

But a major factor driving Europe's economic contraction remains as severe as ever. The European Central Bank Wednesday released figures showing that banks in the currency area cut their lending to both companies and households in March.

That suggests the ECB will have to do more than cut interest rates again when its governing council meets May 7. One alternative to cutting rates is the purchase of securities to raise the level of cash in the economy, often called quantitative easing.

But ECB executive board member Lorenzo Bini Smaghi said Wednesday that the bank is unlikely to follow the U.S. Federal Reserve and the Bank of England and implement quantitative easing.

Economists hav said that another option would be to add to money supply by direct purchases of commercial paper, putting cash directly into the hands of businesses. Instead, Mr. Smaghi said the ECB will aim to revive the euro interbank money market, a goal it has pursued since the credit crunch began in mid-2007 but without notable success.

According to ECB figures, banks cut lending to businesses by €12 billion ($15.77 billion) in March, having cut it by €4 billion in February. They also cut lending to households by €5 billion in March, after increasing it by €2 billion in February. "It seems that banks remain reluctant to lend to the wider economy," said Ben May, an economist at Capital Economics.

ECB council members have long indicated that the central bank will cut its policy rate to 1% from 1.25% on May 7. They also have indicated that other measures will be announced to revive lending.

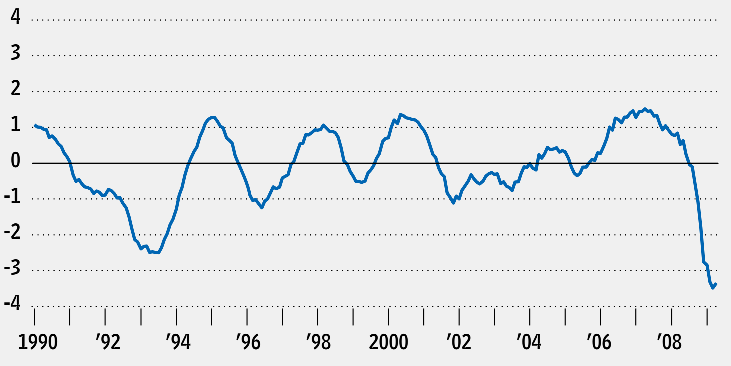
Elsewhere, Spain's central bank said the recession probably deepened in the first quarter after the collapse of its decade-long construction boom. Spain's central bank said it calculates that Spanish gross domestic product fell at a 1.8% quarterly rate and at a 2.9% annual rate in the first quarter.

The German government confirmed it now expects GDP to contract by 6% in 2009, having previously forecast a contraction of 2.25%.

Meanwhile, British consumer confidence rose in April, polling company GfK NOP said.

Sentiment journey

European business and consumer sentiment rose from record lows in April



Source: Eurostat

CORPORATE NEWS

Société Générale's Bouton quits

Chairman cites personal attacks after trading scandal, options flap; end of stormy period

By Sebastian Moffett

PARIS—**Société Générale** SA Chairman Daniel Bouton announced his resignation, more than a year after a trading scandal damaged the French bank's reputation.

In a statement to staff Wednesday, Mr. Bouton said that personal attacks on him since the trading loss "affect me, but most of all, they risk harming the bank" and had led to his resignation. "Like any manager, I have certainly made mistakes, but the strategy adopted by Société Générale has made it one of the finest banks in the euro zone," he added.

Mr. Bouton had been in a nonexecutive role since last May, so his resignation won't affect the day-to-day operations of the bank. These are run by Chief Executive Frédéric Oudéa, who is seen by observers as a candidate to take on the chairman's role, too.

Instead, the resignation was seen as an attempt by the bank to put an end to a tempestuous 15 months. Analysts say the mystery is how Mr. Bouton was able to stay at the bank for so long even as the heads of many U.S. financial institutions had been forced out after trading losses.

In January 2008, Société Générale disclosed it had lost €4.9 billion ($6.44 billion)—the biggest net trading loss by one person in banking history—at the hands of a low-level employee who the bank alleges had engaged in unauthorized and unhedged trading for nearly two years.

Mr. Bouton, who was both chairman and chief executive at the time, offered immediately to resign but was asked by the board to stay on. A few months later, he became the bank's nonexecutive chairman, and Mr. Oudéa became CEO.


Bloomberg News

In announcing his resignation, Société Générale Chairman Daniel Bouton, shown last year, said the bank is 'one of the finest.'

This year, the bank came under popular attack amid the economic downturn for accepting government aid while awarding stock options to bosses. As the credit crisis spread in October, the French government announced it would provide €10.5 billion to the country's banks to help them continue lending to individuals; Société Générale received €1.7 billion of those funds.

Then, as French workers took to the streets this year to demand that the government introduce measures to boost their spending power, the bank announced a plan to reward bosses, including Mr. Bouton, with stock options. It was only after President Nicolas Sarkozy called the move "a scandal," that Mr. Bouton and others agreed to renounce the options.

Alain Pommier, a delegate of the union Confédération Française Démocratique du Travail, said the options announcement reflected a lack of transparency and injustice within the bank. "Now there is a crisis of confidence at all levels of the bank," Mr. Pommier said. "Of course he should resign."

French government spokesman Luc Chatel described the resignation as a nonevent. "I don't think it will affect things at Société Générale and in the banking world," he said in a radio interview.

Until the trading scandal broke, Mr. Bouton, 59 years old, had presided over a period of growth for the bank. He joined in 1991 after graduating from the prestigious École Nationale d'Administration and working for the French Finance Ministry. In 1997 he became joint chairman and CEO, and presided over an expansion into emerging markets, especially in the former communist states of Eastern Europe.

Mr. Bouton also gained a reputation as a defender of Société Générale's independence—in particular in 1999, when he fought off a takeover bid by rival Banque Nationale de Paris, which later became BNP Paribas through a separate deal. In the wake of the trading scandal last year, BNP considered a takeover bid for Société Générale. Now, BNP is busy with its planned takeover of Fortis Bank Belgium.

Mr. Bouton will formally resign on May 6, when Société Générale is expected to announce his successor.

Time Warner primed to spin off ailing AOL unit

By Shira Ovide

Time Warner Inc. said it anticipates a possible spinoff of all or parts of its AOL unit, the clearest sign yet that the company plans to move past its disastrous 2001 merger with AOL.

Time Warner said in a regulatory filing that it expects to start a process to spin off "one or more parts of the businesses of AOL to Time Warner's stockholders, in one or a series of transactions." The company cautioned that its board hasn't made a decision on AOL's future yet, and Time Warner continues to review strategic options for the unit. Time Warner added that it may yet pursue an alternative other than a spinoff.

The company also said it notified **Google** Inc. about plans to purchase the Internet company's 5% stake in AOL. Google paid $1 billion in 2006 for the stake, but it has since sharply written down the value of its investment. Earlier this year, Time Warner said Google plans to exercise its right to sell the stake, giving Time Warner the option to buy it.

The disclosures came as Time Warner posted a 14% drop in first-quarter profit as declines at AOL and its magazine-publishing businesses offset stronger results at its film and cable-television networks.

Net income fell to $661 million, or 55 cents a share, from $771 million, or 64 cents a share, a year earlier, adjusted for a reverse stock split. The latest results included nine cents a share from discontinued operations related to the Time Warner Cable business, which was fully spun off. Results from a year earlier included 18 cents a share from the cable operations.

Revenue slid 7% to $6.95 billion, assuming the cable operations weren't part of either year's results.

As the first of the big media conglomerates to report first-quarter performance, Time Warner's results reflected the recessionary pressures on traditional media businesses: shriveling advertising spending that is showing signs of bleeding into cable TV and a squeeze on DVD sales, which are responsible for most profits at film companies.

In March, Time Warner completed a spinoff of its cable business, which last year generated nearly half of the New York company's operating income before depreciation and amortization. The move focused Time Warner on its media and entertainment businesses, which include film and TV production, cable-TV networks and the Time Inc. magazine unit.

AOL's advertising showed signs of stabilizing in the first quarter. Ad revenue fell 20%, close to the pace in the fourth quarter. Time Warner said that advertising revenue for the rest of 2009 is expected to be lower than the same period of 2008. Time Warner also said it expects to record $90 million in restructuring charges for AOL during the rest of the year.

Time Warner has been paving the way for a possible spinoff of all or parts of AOL. Last month it hired Tim Armstrong, a well-regarded Google executive, as AOL's new chief executive. Time Warner also is amending debt agreements to help clear the way for an AOL spinoff.

—Kerry E. Grace contributed to this article

Lufthansa posts loss as recession damps air travel

By Jan Hromadko

FRANKFURT—**Deutsche Lufthansa** AG said Wednesday it swung to a net loss in the first quarter as the global recession hit demand for air travel and cargo services.

Still, the German flagship airline reiterated its full-year outlook, saying it expects to report an operating profit for 2009, though it will come in considerably below the 2008 level of €1.35 billion ($1.77 billion).

"In the absence of signs that demand will recover in the short term, a decline in revenue is also expected for the full year, which will be accompanied by a considerable reduction in the operating result," Lufthansa said.

For the three months ended March 31, Lufthansa reported a net loss of €256 million, compared with a year-earlier net profit of €44 million. Sales fell to €5 billion from €5.6 billion.

The airline reported an operating loss of €44 million, compared with an operating profit of €172 million a year earlier.

Siemens pares earnings forecast

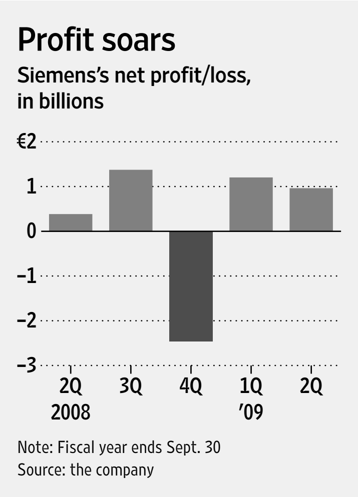
By Archibald Preuschat

BERLIN—**Siemens** AG cut its fiscal-year earnings forecast as the economic crisis continued to take a toll, but it said fiscal-second-quarter net profit surged from the prior year, when it was hurt by charges.

The German industrial conglomerate said Wednesday it expects operating profit from its core business in the fiscal year ending Sept. 30 to exceed last year's €6.6 billion ($8.68 billion). The previous forecast, given nine months ago, aimed for an operating profit of €8 billion to €8.5 billion.

The reduced forecast wasn't a surprise. Analysts had already marked down their projections to below management's previous target. Despite the lower guidance, Siemens shares jumped €3.87, or 8.2%, to €51.32.

Siemens expects a weaker performance even in its energy sector, the primary driver of profit growth in the second quarter ended March 31. It also anticipates a worsening environment in its health-care market and expects short-cycle businesses in its energy sector, and to a greater extent its industry sector, including Osram lighting, to remain weak in coming quarters.



Chief Executive Peter Löscher said there is no indication that the global economy has seen the bottom yet.

Siemens's second-quarter net profit surged to €962 million from €384 million a year earlier. The 2008 figure reflected charges totaling €857 million for delays in turnkey projects.

Operating profit at Siemens's core sectors of energy, industry and health care was up 43% to €1.84 billion from €1.29 billion.

Order intake in the second quarter was €20.86 billion, down 11% from a year earlier, though sales grew 4.8% to €18.96 billion from €18.09 thanks to strong order intake in recent quarters. As of March 31, Siemens's order backlog stood at €87 billion.

Comparison of the second-quarter results is made more complex because Siemens booked charges a year earlier for delays in major turnkey projects that it had invoiced on a fixed-price basis. As a result, operating profit in the energy sector surged to €818 million from €6 million a year earlier. Sales in the segment grew 28% to €6.36 billion from €4.96 billion.

In contrast with U.S. peer General Electric Co., Siemens said it had no major cancellations, but did have some project postponements, Chief Financial Officer Joe Kaeser said.

Siemens's health-care sector increased operating profit by 4.1% to €355 million from €341 million, while sales grew 9.6% to €2.98 billion from €2.72 billion.

Netherlands-based Philips Electronics NV, which also competes with Siemens in the health-care segment, earlier this month posted a bigger-than-expected first quarter net loss partly because of its health-care business.

CORPORATE NEWS

P&G makes a play for men

Company considers upscale products for spas and salons

BY ELLEN BYRON

Procter & Gamble Co. is giving its beauty and grooming division a makeover.

As sales falter in its $27.8 billion global division, P&G plans to restructure the unit to make a greater play for men and could develop new products for high-end retailers, salons and spas, according to an internal company memo reviewed by The Wall Street Journal.

The division's chief, Ed Shirley, is the highest-ranking employee from the 2005 acquisition of Gillette and the move appears to be an effort by the notoriously bureaucratic P&G to adopt some of Gillette's operational agility.

Fixing its beauty business unit, which generates a third of the company's total sales and earnings, is a priority for P&G.

"We have announced organizational changes designed to support our plans for growth," a P&G spokeswoman said.

During boom times, the company bet the allure of products such as Olay skin cream, Pantene shampoo and Hugo Boss fragrances would generate fatter profit margins than its laundry detergent, toilet paper and other household staples. But in recent quarters, P&G's beauty-division sales have sagged as shoppers tighten their belts and a major shampoo initiative fell flat. In the quarter ended Dec. 31, beauty sales fell 4% to $4.9 billion compared with the year-earlier period, while earnings for the unit fell 10% to $799 million. Grooming sales fell 7% to $2 billion.

Investors await news of the beauty unit's latest financial results—due out Thursday when P&G reports quarterly earnings—as a significant indicator of consumers' willingness to spend on discretionary items.

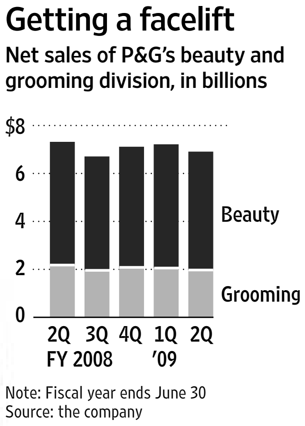
According to the memo sent to P&G staff last week, the company plans to reorient its beauty business by gender, "to better serve 'Him and Her,' rather than its typical organization around product categories.

"Our principal beauty focus has been winning with women, yet we're not broadly serving male consumers' needs outside of Gillette and fine fragrances," Mr. Shirley, P&G's vice chairman of global beauty and grooming, wrote in the memo. The new structure is expected to take effect July 1.

P&G's Gillette razors and blades already dominate mass-market retailers by a wide margin, but in the memo P&G suggests it may launch upscale shaving products sold in "prestige and luxury" outlets.

Additionally, P&G eyes expansion into professional salons that could include "skin care, cosmetics and fragrances," the memo states. Currently, P&G sells hair color, shampoos and other products to professional salons.

In this recession, however, some analysts wonder if P&G might be better off sticking to basic household necessities rather than discretionary beauty products.



Note: Fiscal year ends June 30
Source: the company

Donald George/The Wall Street Journal

P&G's lineup includes beauty cream for women and razors for men.

SAP profit declines 16% as software sales slump

BY HILDE ARENDS

FRANKFURT—**SAP** AG's first-quarter profit fell 16%, with the business-software company hurt by restructuring charges and challenging economic conditions.

Net profit fell to €204 million ($268.1 million) from €242 million a year earlier.

Revenue fell 2.6% to €2.4 billion from €2.46 billion.

Software revenue, a closely watched indicator of demand, plummeted 33% to €418 million. The company, based in Walldorf, Germany, cited a "difficult operating environment world-wide due to the global economic downturn."

The business-software sector has been struggling as customers cut back on software upgrades and new products to cut costs.

"While visibility for software revenues remains limited, we continue to take the necessary steps to protect our margin in this tough operating environment," said Co-Chief Executive Leo Apotheker, said in a statement.

Leo Apotheker

SAP's earnings were reduced by €160 million in restructuring charges related to previously announced job cuts affecting 2,200 jobs in the first quarter. For the year, the company forecasts €200 million to €300 million in charges for total job cuts of 3,000, bringing its work force to 48,500. The thinning program, started in October, is expected to save €300 million to €350 million annually starting next year.

SAP, which is the world's leading provider of business software by market share and competes with **Oracle** Corp. and **Microsoft** Corp., declined to give a full-year outlook for its software and software-related service revenue, but reiterated its forecast for 2009. Oracle last week agreed to buy **Sun Microsystems** Inc. for $5.6 billion.

Mr. Apotheker said Wednesday in a TV interview that SAP "won't hesitate" if sensible acquisition opportunity arises.

Mumbai police probe plot to disable Ambani helicopter

BY ERIC BELLMAN

MUMBAI—An alleged act of sabotage on the helicopter of Indian billionaire Anil Ambani has spawned a criminal investigation. The mechanic who uncovered last week's attempt to tamper with the aircraft's engine was run over by a commuter train Tuesday, in what police say they believe was a suicide.

On Wednesday, a senior Mumbai police officer said there is no evidence so far that the alleged sabotage was an assassination attempt by business rivals of Mr. Ambani, a telecom and media magnate who heads **Reliance Communications** Ltd.

A spokesman for Mr. Ambani declined to comment on the investigation.

Police launched their investigation after the mechanic on April 23 found that gravel had been poured into the engine of a helicopter used by Mr. Ambani. A complaint filed with police by the helicopter's pilot said the mud and pebbles in the engine would have caused a crash landing and were evidence that "some persons, possible business rivals, were attempting to take away the life of Mr. Anil Ambani."

Deven Bharti, an additional commissioner of the crime branch of the Mumbai Police, said that while police expect to find the people responsible for the tampering soon, "we don't want to draw conclusions at this stage." Police are continuing to figure out who sabotaged the craft, he said.

Police interviewed the mechanic, Bharat Borge, as part of the probe. Police said witnesses saw a man, who was the mechanic, step in front of a train. Mr. Borge was carrying a note, according to police, who said he wrote that he was under stress as investigators as well as others were making him feel as if he might be the culprit in the case.

Associated Press

Anil Ambani, an avid runner, takes part in the Mumbai Marathon in January.

Mr. Bharti of the Mumbai police said Wednesday that investigators were still questioning two or three people from **Air Works Engineering** Pvt. Ltd., the maintenance company that took care of the helicopter.

Ravi S. Menon, the Mumbai-based director and group head of Air Works, said the company is cooperating with the investigation.

Mr. Borge had found the problem with the Bell 412 helicopter, owned by a unit of Reliance ADA Group, that was scheduled to take Mr. Ambani to work in Mumbai from his home.

Mr. Ambani's fortune is estimated at more than $10 billion. His flagship company Reliance Communications is India's second-largest cellphone company by subscribers. Mr. Ambani, 49 years old, also has interests in power, finance, cinemas and films. His Reliance Big Entertainment has pledged hundreds of millions of dollars to help the principals of Steven Spielberg's DreamWorks SKG make movies.

—Sonya Misquitta contributed to this article.

Sanofi net rises, but pipeline to shrink

BY ELENA BERTON

Sanofi-Aventis SA said it will drop 14 candidates from its pipeline of experimental drugs as it reported a 19% increase in first-quarter net profit, thanks to tight cost controls.

The overhaul, which will leave Sanofi-Aventis with 51 candidates in its portfolio, had been expected since February, when Sanofi Chief Executive Chris Viehbacher said the drug maker had begun a review of its research and development operations.

The Paris-based drug maker said it will refocus its resources on more promising late-stage products, including the pediatric vaccine Hexaxim and the cancer treatment aflibercept.

Sanofi posted net profit in the latest quarter of €1.58 billion ($2.08 billion), up from €1.33 billion.

Net sales increased 2.5% to €7.11 billion from €6.93 billion, reflecting the appreciation of the dollar against the euro. At a constant-exchange rate, sales slipped 0.2%.

One of Sanofi's top performers in the quarter was the diabetes treatment Lantus, which saw its sales jump 27% to €747 million on a constant-exchange basis.

Mr. Viehbacher said the decisions to discontinue some mid- and late-stage projects were based on a drug's efficacy, whether there were some safety issues with a drug or a drug didn't deliver enough value to patients. The late-stage experimental drugs being discontinued include the antidepressant saredutant and a treatment for high cholesterol levels.

Sanofi is also returning the rights to develop cancer vaccine TroVax to its partner, U.K. biotech company **Oxford BioMedica** PLC as a part of the overhaul.

Peter Cartwright, an analyst at London-based brokerage Fiske, said he wasn't surprised by the outcome of the pipeline review.

"All drug companies are taking a harsh look at their R&D pipeline," Mr. Cartwright said.

Turning to Sanofi's acquisition strategy, Mr. Viehbacher said the company isn't in active talks at the moment but continues to look for interesting takeover targets.

Earlier this month, Sanofi acquired Mexican generic-drug maker Laboratorios Kendrick, Brazil's Medley SA and BiPar Sciences Inc., a closely held U.S. biotech company.

—Nicolas Parasie in Paris contributed to this report.

Bharti Airtel's earnings climb 21%

BY ROMIT GUHA
AND R. JAI KRISHNA

BANGALORE—**Bharti Airtel** Ltd. posted a 21% rise in fiscal fourth-quarter net profit on record subscriber gains, but key indicators showed that stiff competition took a toll.

Bharti Airtel, India's largest mobile phone operator by number of subscribers, has been expanding aggressively into rural markets and lowering tariffs, leading to a decline in average revenue per user and minutes of usage. The company is trying to stay ahead of rivals in India, whose addition of about 10 million users a month makes it the world's fastest-growing telecommunications market.

Bharti Airtel said net profit climbed to 22.39 billion rupees ($444.7 million) in the quarter ended March from 18.53 billion rupees a year earlier, based on U.S. accounting standards. Revenue rose 26% to 98.25 billion rupees after the company added 8.4 million customers, its highest for a quarter since the New Delhi-based company launched mobile operations in 1995.

ArcelorMittal posts loss

Steelmaker plans to raise $3 billion to shore up finances

BY ROBERT GUY MATTHEWS

ArcelorMittal swung to a $1.06 billion first-quarter loss as steel demand worsened and said it will offer $3 billion in shares and convertible notes to lower debt and strengthen its balance sheet.

But the steelmaker, the world's largest by production, said it is seeing signs of recovery in some markets, including China, South America and the United States. The company nevertheless might consider permanently closing U.S. plants that serve the automotive sector if that industry doesn't rebound.

ArcelorMittal's first-quarter net loss amounted to 78 cents a share, compared with net income of $2.4 billion, or $1.69 a share, a year earlier. Sales fell 49% to $15.12 billion from $29.81 billion.

The company said its plants are operating at about 50% capacity, a generally unprofitable level, and added that it will continue to shift production to lower-cost plants from its higher cost facilities.

"Steel demand continues to be very weak," said Chief Executive Officer Lakshmi Mittal. "Volume and pricing deteriorated more in the first quarter," compared with the fourth quarter of 2008.

ArcelorMittal joins U.S. Steel Corp., China's Angang Steel Co. and Nucor Corp. in reporting a first-quarter loss. But Luxembourg-based Arcelor was more upbeat than its competitors about a potential market turnaround.

Inventory levels in the U.S. are the lowest in decades, said Mr. Mittal, and he expects prices for some products will begin to rise there. The company said it already is seeing price increases in some parts of the world for stainless steel and rebar, which is used to stengthen concrete and other materials.

Arcelor also said construction markets in the Middle East and South America are starting to rebound, and the Chinese stimulus package is beginning to increase demand there, according to Mr. Mittal. In addition, ArcelorMittal expects its raw-materials costs to decline in the second quarter.

Mr. Mittal said the steel industry's recovery is inevitable, but he added that the company "would remain cautious."

That cautiousness is partly why ArcelorMittal said it would issue $3 billion in common stock and convertible notes.

"We are four months into this crisis, and we feel this is the right time for the company to address its balance sheet and accelerate its net debt reduction," said Chief Financial Officer Aditya Mittal.

ArcelorMittal's debt rose $200 million to $26.7 billion in the quarter, but the company said it would reduce debt to $22.5 billion by year-end.

Associated Press

Unused rolls of steel sat at an ArcelorMittal plant in France in December. The company said its plants are operating at 50% of capacity but it sees signs of recovery.

Fortescue profit and output drop; outlook weakens

BY ROSS KELLY

SYDNEY—**Fortescue Metals** Ltd. reported a steep fall in fiscal third-quarter earnings and downgraded its annual production guidance by 15% as excessive rain cut output and wilting demand for iron ore reduced prices.

The Australian miner said iron ore mined in the three months ended March 31 fell 23% to 6.65 million metric tons from 8.46 million tons in the previous quarter. Earnings before interest tax, depreciation and amortization fell 61% to US$75 million, from US$193 million in the previous quarter.

Revenue fell to US$381 million from US$482 million, while cash operating costs per ton of ore mined rose to US$32.02 from US$26.55 as wet weather increased the dampness of feedstock.

A significant downturn in the global iron-ore market has crimped iron-ore demand and reduced prices. But Perth-based Fortescue, which recently received regulatory approval for a 664 million Australian dollar (US$469.2 million) investment in the company by China's **Hunan Valin Iron & Steel Group** Co., sells ore on annual contracts. Those contracts are expected to be renegotiated over the next several weeks.

A benchmark price, usually negotiated from April 1, hasn't been set so Fortescue is selling its ore at an interim price, which ranged between US$60 and US$70 per dry metric ton over the January-March quarter.

Fortescue scaled back drill and blast mining during the quarter to focus more on surface mining. But surface mining production was hit by severe rain in the key Pilbara region in late February and March. The company said it won't be able to make up that lost production and set its full-year sales guidance at 26 million metric tons, down about 15% from previous guidance.

Fortescue said it had US$191 million in cash at March 31 and US$51 million in security deposits.

CORPORATE NEWS

Tire maker reports loss

Continental predicts a gradual recovery over rest of the year

By Christoph Rauwald

FRANKFURT—German auto-parts supplier and tire maker **Continental** AG said Wednesday that it swung to a net loss in the first quarter as vehicle production contracted sharply, but added that business has picked up significantly in April and is expected to recover further during the course of the year.

"In terms of revenues, the first quarter was a disaster," Chief Executive Karl-Thomas Neumann said in a telephone interview. He said that after a gradual improvement in 2009, Continental "also expects to see growth in 2010."

Mr. Neumann added, however, that the recovery was starting from a low level after the steep market downturn of recent months. "We probably won't see the level of 2007 again for a long time," he said.

Continental reported a net loss of €267 million ($350.9 million), compared with a year-earlier net profit of €167 million. Revenue fell 35% to €4.3 billion.

The loss was smaller than expected as cost cuts appeared to have the desired effect, said Bankhaus Lampe analyst Marc Gabriel.

Associated Press

Continental CEO Karl-Thomas Neumann called first-quarter revenue 'a disaster.'

Continental has initiated a program to trim costs, including plans to close several plants, in an effort to adjust capacity to demand.

Mr. Neumann said that keeping full-year forecasts will pose "a major challenge" but that amid improved market conditions, "we are confident that we shall be able to meet this challenge successfully."

The CEO said fixed costs have been trimmed by several hundred million euros and that cuts in variable costs amount to billions of euros.

"We are expecting a clear revival in sales and operating results in the second quarter of 2009 compared to the very weak first quarter," Mr. Neumann said. Plant closures in the tire divisions and the ContiTech unit will lead to restructuring expenses in coming quarters, he said.

Continental's adjusted earnings before interest and tax swung to a loss of €46.6 million in the first quarter from a profit of €582 million a year earlier.

Net debt stood at €11 billion at the end of March. "Our uppermost goal remains that of reducing debt. We still anticipate substantial free cash flow in 2009," Mr. Neumann said. That will be achieved by omitting a dividend and by making substantial cuts to capital spending and expenses, he said.

Mr. Neumann said a joint concept for future cooperation with **Schaeffler Group** will be presented within 100 days. Schaeffler and Continental are squeezed by combined debt of about €20 billion after Schaeffler's takeover of Continental and Continental's earlier acquisition of **Siemens** AG's automotive-electronics unit, VDO.

Schaeffler so far has failed to find an investor for the tie-up with Continental; the deal faces a tough test amid the industry downturn and financial-market woes. Schaeffler is seeking aid from the German government, but expects to find an investor after the economy has recovered.

Taiwan PC makers signal bottom

By Daniel Ong Kian Hong And Perris Lee Choon Siong

TAIPEI—Taiwan's three major personal-computer makers reported mixed results in the first quarter, but all of them signaled that the market may have bottomed out and conditions are slowly improving.

Acer Inc. posted a 31% drop in profit as consumers shifted to lower-priced computers amid a slowdown in the global economy. Contract laptop manufacturers **Quanta Computer** Inc. and **Compal Electronics** Inc. fared better than Acer, due in part to foreign-exchange gains.

Global PC makers have been suffering from tepid demand as the economic slowdown world-wide makes consumers wary about upgrading their computers. To ensure that they maintain growth, many have launched low-priced models, but those have squeezed manufacturers' operating margins.

Acer, the world's number three PC brand by shipments behind **Dell** Inc. and **Hewlett-Packard** Co., said first-quarter net profit dropped to 2.03 billion New Taiwan dollars (US$60.1 million) from NT$2.95 billion a year earlier. Its first-quarter revenue fell 6.5% to NT$119.09 billion from NT$127.38 billion.

Acer Chairman J.T. Wang said the weak economy has forced consumers to look for cheaper computers. Acer's operating margin in the first quarter fell to 2.2% from 2.9% in the fourth-quarter of 2008. Its operating margin for the full year will likely remain at the same level, Mr. Wang said.

By contrast, Quanta Computer, the world's biggest contract maker of laptop PCs by revenue, posted an unexpected 9.5% rise in first-quarter net profit to NT$4.38 billion from NT$4.0 billion a year earlier, boosted by foreign-exchange gains of NT$1.69 billion.

Its first-quarter revenue fell 23% to NT$156.0 billion from NT$202.64 billion a year earlier.

Quanta expects shipments in the second quarter to rise more than 10% from the January-March period.

Its smaller rival Compal said first-quarter net profit fell 13% to NT$2.80 billion from NT$3.21 billion a year earlier. Revenue rose 7.4% to NT$109.18 billion from NT$101.64 billion a year earlier.

Compal booked foreign-exchange gains of NT$463 million in the quarter.

Analysts said Quanta and Compal fared better during the quarter as they weren't as aggressive in pushing so-called netbooks—low-priced laptops that sell for as little as US$200.

Acer stands by its target to ship between 10 million and 12 million netbooks in 2009, and 32 million to 35 million laptops including netbooks, Acer President Gianfranco Lanci said.

He said laptop shipments will likely increase 35% to 40% from a year earlier in the second quarter, exceeding the 25% to 30% growth expected for the company's total PC shipments.

UMC posts loss, aims to buy chip firm

By Jessie Ho And Alex Pevzner

TAIPEI—**United Microelectronics** Corp. reported a third consecutive quarterly net loss as orders fell, but it signaled that market conditions are expected to improve in the current quarter.

The company said its board approved the purchase of the 85% stake it doesn't already own in Chinese chip company **HeJian Technology (Suzhou)** Co. for US$285 million to gain a piece of China's fast-growing chip market.

UMC, the world's second-largest contract chip manufacturer by revenue after **Taiwan Semiconductor Manufacturing** Co., reported a net loss of 8.16 billion New Taiwan dollars (US$241.5 million) for the first quarter, compared with a net profit of NT$205.8 million a year earlier. Revenue fell 55% to NT$10.84 billion.

Typically the first quarter is the slowest selling season for chip makers.

With orders improving, UMC Chief Executive Shih-Wei Sun said he expects the company to return to a net profit in the second quarter.

UMC expects wafer shipments in the second quarter to more than double from the first quarter, when the company shipped 384,000 eight-inch-equivalent wafers.

It expects the average selling price of its chips to fall less than 5% from the first quarter, with the capacity-utilization rate leaping to 75% from 30%.

UMC will acquire HeJian—a Chinese chip maker set up by former employees of UMC—by merging with **Infoshine Technology** Ltd., HeJian's holding company, which is registered in the British Virgin Islands.

GLOBAL BUSINESS BRIEFS

Bayer AG

Earnings tumble by 44% as demand for plastics falls

Germany's **Bayer** AG reported a 44% drop in first-quarter net profit as demand for its polymers and plastics slumped. Net profit fell to €425 million ($559 million) from €762 million a year earlier. Revenue dropped 7.5% to €7.9 billion. Sales at Bayer's MaterialScience unit dropped 35% as demand for products such as car seats and drywall declined. Bayer HealthCare, which generates nearly half of Bayer's sales, posted a 3% increase in revenue thanks to strong demand for cancer drug Nexavar, for which sales rose 36%. CropScience, which manufactures herbicides and fungicides, recorded a 7.2% rise in sales. Chief Executive Werner Wenning said the company saw "the first signs of a modest recovery" at MaterialScience.

Natixis SA

Natixis SA said Chief Executive Officer Dominique Ferrero is to be cast aside as the investment bank continues its restructuring after incurring billions of euros in losses last year. Natixis is more than 70% owned by two mutual banks that are in the process of merging: Caisse Nationale des Caisses d'Epargne and Banque Fédérale des Banques Populaires. Natixis said François Pérol, CEO of the merging parent banks, took the decision not to renew Mr. Ferrero's mandate, which is to expire April 30. Natixis will propose Laurent Mignon, 45 years old and a partner at financial-services company Oddo & Cie, as new CEO. Mr. Ferrero, 62, will remain an adviser to Mr. Pérol. Messrs. Ferrero and Mignon weren't available to give interviews, a Natixis representative said.

Publicis Groupe SA

French advertising company **Publicis Groupe** SA reported a 4.4% drop in first-quarter organic revenue. The decline in organic revenue, a metric that strips out acquisitions, disposals and currency movements, was less severe than the 5.8% drop U.K.-based rival WPP Group PLC posted Tuesday. Publicis, the owner of Saatchi & Saatchi, said digital growth helped to offset media-budget cuts in other areas. Total revenue rose to €1.08 billion ($1.42 billion) from €1.06 billion a year earlier. The company said it will continue to manage costs tightly. "Staff cuts are becoming significant," said Chief Executive Maurice Levy. Publicis reiterated that it aims to post the best margin of the sector in 2009 despite a steep revenue decline from car advertising.

Suez Environnement SA

Paris-based water and waste utility **Suez Environnement** SA posted a 9.4% drop in earnings before interest, taxes, depreciation and amortization for the first quarter as the economic downturn weighed on its waste business. Suez Environnement, which became a separately listed company in July 2008 as part of the GDF Suez SA merger, said Ebitda fell to €436 million ($573 million) from €482 million a year earlier. Revenue fell 2.8% to €2.83 billion. The year-earlier figures are calculated as if Suez had already existed as a separate company. Ebitda was hit by €9 million in charges related to fuel hedging. The company said it will stick to its 2009 target of "low single digit" growth in revenue and Ebitda, adding that it would cut more costs and scale back investment.

France Télécom SA

France Télécom SA posted a 7.1% drop in earnings before interest, taxes, depreciation and amortization Wednesday but stuck to its full-year outlook. Ebitda dropped to €4.3 billion ($5.65 billion) from €4.63 billion a year earlier. Revenue was down 2.6% at €12.69 billion from €13.03 billion. Earnings and revenue were pulled down by currency fluctuations and challenging economic conditions, particularly in Spain, the U.K. and Poland. Domestic revenue, which accounts for nearly half of total sales, was up 1.9%. France Télécom confirmed its target of generating €8 billion in free cash flow in 2009, saying it could further adjust capital expenditure if necessary. The confident outlook contrasted with Deutsche Telekom AG, which last week issued a profit warning.

Norsk Hydro ASA

Norsk Hydro ASA said there is little prospect of a short- or medium-term upturn in its markets, as it swung to a first-quarter net loss, hit by low aluminum prices and weak downstream markets. The Norwegian aluminum and power company reported a net loss of 347 million Norwegian kroner ($51.9 million), compared with a year-earlier net profit of 1.1 billion kroner. Revenue fell 22% to 16.85 billion kroner. The company has already curtailed 500,000 metric tons, or 30%, of its 2008 upstream production. Chief Executive Richard Brandtzaeg said the company "will continue to take necessary measures, adjusting our operations and costs to the challenging market situation." Norsk Hydro said its $5.6 billion Qatalum smelter in Qatar was on schedule to start up at the turn of the year.

TNK-BP Ltd.

BP PLC's Russian oil joint venture TNK-BP Ltd. increased its output in the first three months of 2009, but net profit dropped more than 80%. According to BP's first-quarter results published Tuesday, the joint venture's net income for the quarter fell to $268 million from $1.49 billion a year earlier. Production of oil and gas rose 3.9%, TNK-BP's Interim Chief Executive Tim Summers said. Earnings before interest, taxation, depreciation and amortization stood at around $1.5 billion, Mr. Summers said. TNK-BP could be seeking acquisitions later this year, he added. "If we can deal with these [difficult times] better than our competitors, it will open up new M&A opportunities," Mr. Summers said without elaborating. TNK-BP had a cash balance of $1.9 billion at the end of March .

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K. focuses on rebuilding Afghanistan

Extra troops will deploy during August elections, but Brown says longer-term additions to NATO force are unlikely

BY ALISTAIR MACDONALD

U.K. Prime Minister Gordon Brown all but ruled out sending more troops on a long-term mission to shore up NATO operations in Afghanistan, in a blow to U.S. requests for greater help from its allies.

The U.K., which has been the U.S.'s biggest ally in Iraq and Afghanistan, said it was in part shifting its strategic focus away from front-line military action in favor of building security and democratic institutions in Afghanistan and Pakistan.

Gordon Brown

U.S. President Barack Obama's plea for extra support at a North Atlantic Treaty Organization summit in Germany this month was met with contributions of just a few hundred troops from Belgium and Spain and of military police trainers from France. The largest commitment came from the U.K., which said it would provide hundreds of extra troops to support Afghan elections in August.

Since then, the U.K. has been mulling a more permanent increase in troop levels, a person familiar with the matter said. On Wednesday, Mr. Brown confirmed the U.K. will contribute 700 extra troops to provide security for the August vote, but he said support levels will be brought back down to the current levels of 8,300 in the autumn.

"I believe that, with the deployment of over 8,000 troops ... and with the additional costs ... we are shouldering our share of the burden on Afghanistan," he told the House of Commons Wednesday. Mr. Brown said, however, that the U.K. would keep the situation under review based on conditions "on the ground."

On Wednesday, Australian Prime Minister Kevin Rudd said he will send an extra 450 troops to Afghanistan, bringing his country's total commitment there to around 1,550.

Mr. Brown said that as the U.S. moves more resources into the south of Afghanistan, where British troops have seen heavy fighting, the U.K. will over time shift the balance of its operations toward training the Afghan army and police and to development aid. The U.K. will help build the Afghan national army to 134,000 from over 80,000 by late 2011, Mr. Brown said. Already a major international donor to Afghanistan, the U.K. plans to spend more than £500 million ($730 million) there over the next four years.

Like Mr. Obama, the prime minister is widening his Afghanistan strategy to include Pakistan. Britain will increase aid to Pakistan, including new money to help build counterintelligence services, and redeploy some spending to the country's border regions with Afghanistan.

"We can no longer consider the terrorist threats arising from in the two countries in isolation from each other," he told the House of Commons. Three-quarters of the most serious terrorism plots investigated in the U.K. have links to Pakistan, the British government says.

Associated Press

U.K. snipers and an observer in position during an April operation in Afghanistan, in an image from the U.K. defense ministry.

Although the U.K. is drawing down its troop levels in Iraq to several hundred by the end of July from 4,000 currently, increasing troop levels in Afghanistan is a difficult move for Mr. Brown, whose cash-strapped government is trying to cut spending and pare record debt. In last week's budget, the government said that current commitments in Afghanistan would cost the U.K. £3 billion for the year 2009-10, up from £2.6 billion in the current year to end April.

Some British officers have said that the armed services are already stretched too far, and that the government is asking them to play the role of a superpower without giving them the resources to do so. Since the Labour government came to power in 1997, the size of the British armed forces has been cut by 20%. Last year defense spending was equivalent of 2.8% of GDP, compared with almost 5% in the U.S., according to Jane's International Defence Review.

Moreover, support for the war in Afghanistan is fading; many Britons say that U.K. forces are being asked to do more than their European neighbors' troops. On Tuesday, the death of a soldier in volatile Helmand province took the British death toll in Afghanistan to 153.

U.S. to press Syria on Iraq, Israel

BY JAY SOLOMON AND NADA RAAD

WASHINGTON—The Obama administration is dispatching two high-level envoys to Syria next week for a second round of talks with President Bashar Assad's government focused on securing the Iraqi border and supporting the broader Arab-Israeli peace process, said officials briefed on the trip.

The diplomats' visit is the latest sign of a growing rapprochement between Damascus and Washington under President Barack Obama, which is partially driven by the U.S.'s desire to weaken Syria's strategic alliance with Iran.

Syrian officials said this week that they hope the diplomatic thaw could lead to an easing of U.S. trade sanctions enacted by the Bush administration aimed at curbing Damascus's support for militant groups operating in Lebanon and the Palestinian territories.

"If the American president does not renew the sanctions, Syria would consider this the right way for better relations," Syrian Central Bank Gov. Adib Mayaleh said in an interview in Washington Wednesday

The U.S. outreach toward Syria comes as a United Nations court announced in Beirut Wednesday the release of four Lebanese generals detained in connection with the 2005 murder of former Prime Minister Rafik Hariri.

U.N. investigators alleged that the four officers conspired with Syrian intelligence operatives to kill Mr. Hariri using a massive truck bomb. The generals' release is now seen undercutting U.N. efforts to secure indictments for the murder and a boon for Syria's political allies inside Lebanon.

Mr. Hariri's death fueled nationwide street protests that forced Mr. Assad to end Syria's decades-long military occupation of Lebanon. A pro-Syrian political bloc, headed by the Lebanese militia Hezbollah, is currently battling a pro-Western coalition headed by Mr. Hariri's son for votes in June parliamentary elections.

Lebanon Wednesday freed four generals detained in the Hariri murder.

"This decision will give the Hezbollah-led alliance a kind of aggressiveness, while the Hariri-led majority would be embarrassed in front of their supporters," said Nawaf Kabara, political science professor at the University of Balamand in Beirut.

Hezbollah issued a statement praising the U.N.'s decision to release the generals. Fireworks erupted in areas of Lebanon under the militia's control.

The two U.S. envoys visiting Syria next week, acting Assistant Secretary of State for Near Eastern Affairs Jeffrey Feltman and National Security Council official Daniel Shapiro, will be making their second trip to Damascus in less than two months.

The primary focus of their trip, according to the officials briefed on it, will be to secure Syrian assistance in sealing its border with Iraq. U.S. officials have regularly criticized Damascus for turning a blind eye to the flow of foreign fighters transiting Syria en route to Iraq. Even this month, U.S. officials said, a Tunisian militant entered Iraq through Syrian territory before conducting a suicide bombing in Baghdad.

Syria denies the charges, but its diplomats said they are eager to better coordinate with Mr. Obama's team on Iraq. The first round of negotiations, said these officials, developed common ideas between Damascus and Washington and now they hope to put these strategies into operation.

"We both agree that it's in our countries' interests to stabilize Iraq," said Imad Moustapha, Syria's ambassador to the U.S., who wants Syria to be a central player in President Obama's stated goal of achieving a comprehensive Arab-Israeli peace.

President Assad entered into indirect peace talks with Israel last year aimed at ending their conflict over the disputed Golan Heights region.

But Syria is also a principal financier of Hezbollah and hosts in Damascus the political leadership of Hamas, the militant Palestinian organization that Washington designates as a terrorist organization.

Germany to consider taking detainees from Guantanamo

BY DAVID CRAWFORD

Germany's Interior Ministry agreed to consider accepting inmates from Guantanamo Bay, the U.S. detention center for terrorism suspects in Cuba, ending months of debate in Berlin.

The change of position from Interior Minister Wolfgang Schäuble, who had resisted the idea, came after a meeting Wednesday with U.S. Attorney General Eric Holder.

After the meeting, Mr. Holder told reporters in Berlin that he would "relatively soon be reaching out to specific countries with specific detainees." He also visited London and Prague on a European tour aimed at preparing the groundwork for Guantanamo's closure.

Mr. Holder said 30 detainees have been cleared for release from Guantanamo, out of the 241 people still at the U.S. military prison. He said he was surprised to find that none of his European counterparts refused outright to take inmates.

The German Interior Ministry said in a statement that it would give "careful consideration" to any U.S. request, although the preferred option was that Guantanamo inmates be returned to their home countries or be accepted by the U.S. The U.S. hasn't made a specific request for the release of any Guantanamo inmate to Germany, the statement said.

Mr. Schäuble had previously said Germany shouldn't accept Guantanamo detainees, arguing that it was a U.S. problem to fix. By contrast, German Foreign Minister Frank-Walter Steinmeier said in January that Germany would be willing to take in individual detainees if it helped U.S. President Barack Obama to close Guantanamo.

A German Interior Ministry spokesman declined to discuss details of Mr. Schäuble's meeting with Mr. Holder.

European governments have long called for the closure of Guantanamo, citing the lack of legal protections at the offshore prison. Several European countries have said they will consider accepting detainees from Guantanamo, while France made a commitment to accept one inmate during Mr. Obama's visit to Europe this month

Previewing a speech he was to make in Berlin Wednesday evening, Mr. Holder acknowledged that "mistakes have been made" with regard to Guantanamo, and pledged the current administration would follow the rule of law.

Mr. Holder said that while the U.S. is now seeking new homes for about 30 Guantanamo inmates, the Department of Justice is reviewing evidence against other inmates, some of whom could face trial in federal court.

Obama engaged yet elusive

President defies easy labels so far; not a typical liberal

By Gerald F. Seib

CAPITAL JOURNAL

Just as the times of Barack Obama defy the easy descriptions and old labels, so too does the man himself.

Indeed, if the first 100 days of Mr. Obama's term have proven anything, it is that he is a hard man to classify. He has confounded, at one time or another, people at just about every spot across the political spectrum. He likes big and activist government, but he isn't a classic liberal. He is more of a social engineer than a guardian of the old welfare state.

He's phenomenally popular among Democrats, but has found the most support for some of his foreign-policy moves among Republicans. He's pulling combat troops out of Iraq, but more slowly than he once promised—and at the same time has laid plans to add more troops in Afghanistan than the Bush administration envisioned.

Asked whether there is yet a discernible Obama doctrine in foreign affairs, a longtime national-security operative pauses and responds: "If there is a doctrine, it would have to be engagement." Which is more a tactic than a doctrine.

He sometimes sounds like a protectionist, but so far has acted mostly like a free-trader. He talks a lot about fiscal discipline, yet is overseeing the nation's first trillion-dollar deficits. He's made history as America's first African-American president, yet probably talks less about race than did the last Democratic president, Bill Clinton.

Moreover, one gets the feeling that if Mr. Obama does defy easy definition, that's just fine with him. Ronald Reagan truly wanted to be known as a genuine conservative, and Mr. Clinton as a "new Democrat," and George W. Bush as a "compassionate conservative." There is no such label for Mr. Obama, at least not yet, and neither he nor his administration seems eager to create one.

In the hundreds of days yet to come, there may well be some danger down this path for the president and his team. A new Wall Street Journal/NBC News poll shows that the new president is broadly popular and seems to have produced an upswing in national confidence—but also reveals that a growing number of Americans describe him as "very liberal," which surely isn't what the White House wants.

In fact, Mr. Obama doesn't quite fit the traditional definition of a liberal, but rather represents something different. He is indeed a believer in the power of government. But he differs from liberals of yore who saw government programs as the goal for most problems; he seems to see government as the way to prompt the changes he wants in the economy or society so a government program, in the end, isn't necessary.

Amid the hundreds of billions of dollars he has proposed spending to try to conquer a deep recession, for example, he has done little to create make-work government jobs, as Franklin Roosevelt did during the Great Depression, or to add to welfare benefits, as Lyndon Johnson did during the Great Society. Instead, he's devoting billions in economic stimulus money to create specific kinds of jobs that will advance other social goals, such as staffing up a new alternative-energy industry and rewiring schools.

The president doesn't appear to want to save General Motors and Chrysler simply for the sake of saving the jobs there or keeping them out of bankruptcy. Indeed, under the rescue he's proposing, tens of thousands of those jobs still will be lost, tantamount to what would happen in bankruptcy.

Instead, he's more interested in using government intervention to force a change in the kinds of cars those companies make. His argument: Putting more environmentally friendly cars on the road will both save the companies and help the country, its environment and its energy security in the long run.

By the same token, throughout the crisis in the financial industry, Mr. Obama has shown little interest in using government bailout money to nationalize banks, though he's had ample opportunity and outside encouragement to do so (and not all from the left). Running banks doesn't appear consistent with his idea of how government should exercise power.

Getty Images

U.S. President Barack Obama gathers his thoughts in a holding room at the Capitol in Washington before his swearing-in on Jan. 20.

He is, however, quite interested in using government power to start reducing the inequality in income between those at the top of the economic ladder and those in the middle and bottom, by taxing those at the top and redirecting the funds to tax breaks for those down the line.

Similarly, his approach to health care is a kind of center-left hybrid. He doesn't propose the all-out, universal government health-insurance plan that liberals in his party want, yet is willing to include in his budget a $630 billion down payment on a plan that provides a government safety net to help everyone who can't get insurance find some; as that price tag suggests, his approach is still plenty ambitious. Similarly, he says that any health-overhaul effort include a new government-provided "public plan" to compete with employer-provided plans. Yet he also wants to make the effort reassuring by telling those who like the health plan they have that they can keep it.

The danger in not having a clear ideology is, of course, that others define you in their terms—and that certainly is a risk the president is running as Republicans portray him as moving steadily leftward. The federal budget deficit is, and likely will remain, the Republicans' Exhibit A in an effort to portray Mr. Obama as an old-fashioned tax-and-spend liberal.

Ultimately, what Mr. Obama appears to want most is for his countrymen to see him as pragmatic. And indeed, that is likely what he will have to be now, for his presidency is shifting into a new stage.

"The first three months of any presidency are usually the easy times, the easy decisions," says Kenneth Duberstein, who was Mr. Reagan's chief of staff. "Now it's managing results." And that might be the most sobering thought of all heading into day 101.

Moment is ripe for Obama to fix health care

By David Wessel

CAPITAL

Amid battles to prevent the collapse of the American banking system, conquer the worst recession in his lifetime, and defeat the enemy in Iraq and Afghanistan would seem an unpropitious moment for President Barack Obama to renovate the American health-care system. But Mr. Obama is determined to try, and chances that he will have something to boast about by year's end look surprisingly good.

Mr. Obama doesn't want to play only defense, fixing problems he inherited. He is drawn to what Jews call "tikkun olam" or "perfecting the world." He is also politically shrewd: He wants to accomplish something tangible while his popularity remains high. Preventing a depression is crucial, but "it could have been worse" is not a winning slogan.

As the U.S. borrows trillions from abroad, Mr. Obama knows he needs a business plan that keeps lenders from treating the U.S. as the world's largest subprime borrower; slowing health spending is key. This year, Mr. Obama may be able to dedicate savings from one part of the health-care system to expand coverage elsewhere; by next year, he may be forced to devote any such savings to reducing the deficit.

So that's why he is pushing it now. Here are four reasons, and a big if, why he may fare better than Bill and Hillary Clinton did in 1994.

Unhappiness with the status quo is greater. Despite expansions of government health insurance, more Americans lacked health insurance going into the recession than in 1994, and the number has risen since. Health costs continue to rise faster than nearly everything else, now equal to 17.6% of total U.S. output, up three percentage points from 1994. (And each percentage point amounts to $1.4 trillion.) Employers and the government's Medicare and Medicaid are seeing unsustainable increases in health spending. And—this is politically important—so are American families, as premiums, copays and deductibles climb.

The White House kumbaya heath-care summit in March was a visible manifestation that health providers, insurers and employers believe this may be the Year of Health Reform. Harry and Louise, the characters in the devastating commercials that the health insurers used to defeat Hillary Clinton in 1994, have decided it's smarter to ride the train than lie down in front of it.

White House political tactics are smarter. The American health-care system is complex; any legislation to change it will be complex. So the Clintons offered a complex plan, and it was ridiculed and attacked at its vulnerable points even by Democrats. Counseled by Washington insiders and Clinton veterans, Mr. Obama will issue no detailed plan. He will offer elements, and work with Congress so whatever emerges will be as much their plan as his. The parliamentary move to allow health legislation to pass the Senate with 51 votes (instead of the 60 it usually takes in the Senate) gives Mr. Obama and his congressional allies added leverage.

The message is smarter too: If you like your current health insurance, Mr. Obama promises, it won't change. White House polling finds that employed Americans worry more about the cost of their health insurance than the prospect of losing it in a layoff. So watch for the president to emphasize not how many uninsured he will cover, but how he will hold down ordinary Americans' health tab.

Associated Press

Sen. Teddy Kennedy sees health care as a final chance for a political victory.

Democrats in Congress want to do this—now. Mr. Obama and White House Chief of Staff Rahm Emanuel really want a deal this year, but so do Max Baucus, the Senate Finance Committee chairman; Teddy Kennedy, who sees this as the last political victory of his life; and the House and Senate leaders Nancy Pelosi and Harry Reid. To get a bill, they may even surrender on some elements long seen by liberal Democrats as non-negotiable. (An example: To cut the cost, offer decent, but bare-bones, health insurance to those who lack it rather than delivering on the promise to offer every American a plan as good as members of Congress have.)

Democrats were arrogant in 1994; they had controlled Congress for four decades. They lost control in 1994. Today, they see a president more popular than they are, their fortunes tied to his. They sense the public wants results, not rhetoric.

The price tag doesn't look so daunting. Offering taxpayer-subsidized insurance to those who lack it is very expensive. But next to shoring up the banks ($750 billion-plus), health care doesn't stand out. "We used to think health reform would cost a lot, but in light of all the recent bailouts and stimulus packages, it doesn't seem so big anymore," says John Rother, head of policy and strategy at AARP, the senior citizens' lobby.

But there is a big if. It is easy to say that we need to make the American health-care system more efficient and to reward quality and not quantity of care. This is hard. It is not as pain-free as Mr. Obama often implies. Expanding coverage means paying some health providers less, not just differently. It means saving money on Medicare and spending the money on those under 65 years old. And it means raising someone's taxes. He hasn't persuaded people of that yet.

Write to me at capital@wsj.com or discuss at wsj.com/capital.

Obama orders probe on flyover of New York City

By Peter Spiegel And Christopher Conkey

WASHINGTON—U.S. President Barack Obama ordered an internal investigation into the decision to conduct a low-flying photo shoot of a presidential 747 over New York City, calling the incident a mistake and saying "it will not happen again."

The review of the flight, which rattled windows and spread fear of another 9/11-style attack in lower Manhattan, is expected to focus on the White House Military Office, the unit responsible for approving the flyover. White House spokesman Robert Gibbs said any possible disciplinary action would be determined after the review.

"It was a mistake," Mr. Obama said before a meeting with Federal Bureau of Investigation leaders. "It was something we found out about along with all of you, and it will not happen again."

The incident continued to provoke finger-pointing across the government, with most of the criticism aimed at Louis Caldera, a former Army secretary who now heads the White House Military Office and took responsibility for approving the flyover Monday. Mr. Caldera occupies a position overseeing various military units that provide services to the president such as transportation, communications and medical personnel. The White House declined to make him available for an interview.

—John McKinnon contributed to this article.

Russia opens up on crash

Probe concludes officials didn't heed environmental laws

By Andrew Osborn

Associated Press

The crash site in Siberia of a helicopter carrying officials who were later found to be illegally shooting wild animals from the air. Seven died in the January crash.

MOSCOW—When photos surfaced of a January helicopter crash in Siberia that appeared to involve government officials on an illegal hunt, wildlife campaigners assumed the Kremlin would hush up the incident.

Yet state-run media covered the story, a senior official in the region resigned, and federal prosecutors investigated. This month, they concluded the local government had failed to enforce environmental laws.

The Kremlin's unexpected openness about the accident handed a rare moment in the public eye to Russia's fledgling green movement, which often struggles to be heard. But Kremlin-watchers say there's more to it.

President Dmitry Medvedev—anxious about rising social unrest in regions where the economic crisis is putting hundreds of thousands out of work—has used the incident as part of his effort to focus public anger on regional officials, analysts say.

In recent months, Mr. Medvedev has fired four regional governors—harsh even by the standards of his hard-line predecessor Vladimir Putin. Mr. Medvedev has devoted large chunks of his speeches on the economic crisis to chastising local officials.

The Kremlin denies that it used the helicopter incident for any political aim. "There are thousands of other incidents like this that don't cause such a stir," says one Kremlin official. "This one did, for some reason."

The hunt—for endangered wild mountain sheep, or argali—came to light after the helicopter crashed into a snowy mountainside in Siberia on Jan. 9. Among the seven dead were two regional officials and two federal officials, including Alexander Kosopkin, President Medvedev's representative in the lower house of parliament.

Soon after, a local Internet news service published photographs showing the helicopter wreckage ringed by several sheep carcasses that wildlife campaigners said were clearly the endangered argali. The government-friendly newspaper Izvestia looked into the practice of VIP hunting. At first, local officials denied the crash occurred during a hunt. Then they said it was a hunt, but that the party had licenses to kill goats and deer—though not from the air, which is illegal.

An internal Federal Air Transport Agency telegram, leaked in the press and later confirmed by the agency, told a different story. It said the passengers had been shooting wild animals from the air.

Demonstrators in Moscow and Siberia rallied to protest poaching. They directed their anger at local officials, rather than the late Mr. Kosopkin, perhaps hesitant to criticize someone who had been so close to the center of power.

Federal prosecutors delved into the region's compliance with environmental laws, and this month said they had found numerous violations, including poaching. The investigators criticized local officials for failing to enforce the law, calling for some to be punished.

Many illegal helicopter hunts take place across Russia each year, says Igor Chestin, director of the Russian branch of the global World Wildlife Fund. He wants Mr. Medvedev to pronounce his moral judgment on the practice. "It would be a signal that the law is equal for everyone," he says.

A Kremlin official said the president couldn't comment until the circumstances of the crash had been officially and definitively clarified.

Spanish judge probes U.S. torture allegations

By Thomas Catan

MADRID—Spain's best-known investigating magistrate has begun a formal criminal probe into allegations that the Bush administration tortured prisoners at Guantanamo Bay.

Judge Baltasar Garzón said in a decision filed this week that he had initiated an investigation into the "perpetrators, instigators, necessary collaborators and accomplices to" what four former detainees say was torture at the U.S. naval base in Cuba, according to a copy of the ruling seen by The Wall Street Journal.

The Bush administration has in the past strongly denied torturing detainees at its prisons in Guantanamo, Afghanistan and elsewhere. It has said that "enhanced interrogation techniques" such as waterboarding, or simulated drowning, were legal.

The investigation is separate from another that was launched earlier this year by Judge Garzón into allegations that six former Bush administration officials sanctioned the torture of terror suspects. Spain's government prosecution service has moved to dismiss that investigation, arguing the country's justice system isn't qualified to lead a "general inquiry into policies put in place by the previous U.S. administration."

A Spanish investigating judge is empowered to launch formal investigations, though that doesn't mean a case would come to trial.

U.S. Attorney General Eric Holder, when asked about the new Spanish investigation, said the U.S. was committed to the rule of law and would examine any requests for legal assistance on an individual basis.

Spanish law enshrines the doctrine of "universal justice," under which crimes against humanity alleged to have taken place anywhere can be tried in its courts. In practice, however, government prosecutors have tried to rein in the country's judges, who have unsettled Spanish diplomats by taking up controversial cases involving events from China to Israel.

Spain's Attorney General Cándido Conde-Pumpido warned recently that such cases could turn Spain's National Court into a "plaything."

But Judge Garzón, who leapt to fame a decade ago when he had the former Chilean dictator Augusto Pinochet arrested in London, has a history of going his own way in a long string of contentious cases.

The latest investigation is based on allegations of torture by four former Guantanamo inmates, a Spaniard, a Moroccan, a Palestinian and a Libyan. The four have alleged in statements to Spanish police and investigators that they suffered mistreatment during their captivity in the U.S.-run prison camp.

The four men were previously acquitted in Spain on charges of belonging to al Qaeda and have been released.

In his ruling, a copy of which was reviewed by The Wall Street Journal, Judge Garzón cited the documents recently declassified by the Obama administration as possible evidence that the four men were subject to torture by the U.S. government.

The documents "have revealed what was previously suspected: an authorized and systematic plan of torture and mistreatment of people, deprived of their liberty without charge and without the basic rights of all detainees," Judge Garzón wrote in his ruling.

Pyongyang threatens to test a missile after U.N. penalty

By Evan Ramstad

SEOUL—North Korea on Wednesday said it may test another nuclear device or more missiles to retaliate for a penalty imposed by the U.N. Security Council after the country on April 5 launched what it says was a space-bound rocket but most others believe was a long-range missile.

North Korea said it wanted an apology from the Security Council or it would take "self-defense measures" that include "a nuclear test and intercontinental ballistic missile tests."

The latest announcement was the most threatening of several critical remarks North Korea has issued since the Security Council on April 13 issued a statement condemning the North's launch. The council's statement had less diplomatic force than resolutions passed when North Korea tested missiles and a nuclear device in 2006.

Even so, North Korea initially called the U.N. penalty an "unbearable insult." A day after the penalty, it expelled international monitors from its nuclear facilities and said it would withdraw from the six-nation, aid-for-disarmament talks that began in 2003 as well as restart the weapons facilities it disabled as part of that diplomatic process.

The overall effect of its actions and statements means that North Korea is back on a path to advance its nuclear-weapons program with another test of an atomic device—a dramatic reversal from the course it was on in October when the U.S. removed the country from its list of state sponsors of terror. At that time, North Korea was tearing apart the nuclear complex that provided fuel for its atomic weapons and allowing inspectors from the International Atomic Energy Agency to watch.

North Korea assumed a confrontational posture again with the April 5 launch, which it says delivered a satellite into space. Other countries that monitored the launch said the three-stage rocket or missile traveled for about 13 minutes and then plunged into the Pacific Ocean instead of reaching space.

North Korea has only tested a nuclear device once before, in October 2006, and it yielded a small explosion relative to first tests of nuclear weapons in other countries. The country warned of that test for several weeks ahead of time.

As part of the six-nation denuclearization talks last year, North Korea told diplomats from the other five countries—China, Japan, Russia, South Korea and the U.S.—that its weapons development program had produced 36 kilograms of plutonium fuel, enough to make a handful of nuclear explosive devices.