Leading the News: Germany unveils a 'bad-bank' plan of its own

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EU slaps Intel with record fine

Regulators levy $1.45 billion penalty for monopoly abuse, demand changes in chip sales

By Charles Forelle

European Union regulators hit **Intel** Corp. with a €1.06 billion ($1.45 billion) fine—the largest ever assessed for a case involving monopoly abuse—and called for changes in the way the company sells the microprocessors at the heart of most of the world's PCs.

Intel said it would appeal the fine, but Wednesday's decision confirmed the EU's role as jurisdiction of choice for U.S. tech companies seeking redress from larger competitors, even as the new U.S. administration says it plans to get tougher in pursuing monopoly practices.

The European Commission, the EU's executive arm, said Intel broke EU rules by using the threat of withdrawing rebates it offered to large computer manufacturers, its customers, to pressure them to buy all or most of their chips from Intel rather than rival **Advanced Micro Devices** Inc.

Intel also paid manufacturers to delay the launch of AMD-based computers and paid a retailer, **Media Saturn Holding**, to sell only Intel-based machines, the EU said.

"Intel has harmed millions of European consumers by deliberately acting to keep competitors out of the market for computer chips for many years," said Neelie Kroes, the EU's top antitrust regulator. "If we smell that there is something rotten in the state, we act."

The fine amounts to 14% of the $10.6 billion in cash and investments on the company's balance sheet. Intel also was ordered not to offer the conditioned rebates that the commission deemed problematic, but the regulator left vague how it would police that order.

Intel Chief Executive Paul Otellini said in a prepared statement that the company takes "strong exception to this decision," which he called "wrong." He also stressed a point that Intel has made regularly: that prices over the years have fallen for computers and chips. There has been "absolutely zero harm to consumers," he said.

Mr. Otellini didn't directly address rebates, but said thanks to investments in manufacturing facilities, "we can discount our products." He denied that Intel sells below cost. The Santa Clara, Calif., company had revenue of $37.6 billion in 2008. (Please see related article on page 6.)

Sven Jacobsen, a spokesman for Media Saturn Holding, declined to comment on his company's role. "Intel is one of our suppliers and we don't comment on a supplier," he said.

The decision is a blow to the image of the world's largest chip maker. Intel has strongly defended its business practices while blaming scrutiny of its actions on complaints by AMD.

But now three regulatory bodies that have examined evidence from computer makers—in Europe, Japan and South Korea—have dismissed Intel's arguments that it has merely offered discounts and

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Paul O'Driscoll for The Wall Street Journal

Neelie Kroes, the European Union's top antitrust regulator, said Intel deliberately kept competitors out of the computer-chip market. Above, Ms. Kroes holds a circuit board in Brussels Wednesday.

Wall Street's blitz softens charity glitz

By Mike Spector

How do you run a famous Wall Street gala fund-raiser when conspicuous consumption and investment bankers are no longer cool?

The Robin Hood Foundation faced that dilemma on Tuesday when it held its annual benefit in Manhattan. A year ago, the antipoverty charity's dinner raised $56.5 million, including a $420,000 bid for a trip to Australia to scuba dive and have lunch with Hugh Jackman.

Not this year. Robin Hood eliminated its luxury auction. The only prizes at New York's Javits Center were opportunities to feed hungry families, enroll children in charter schools and teach new parents to care for newborns. The group also shunned flashy table centerpieces for cardboard models of New York's skyline that noted grim statistics like the city's 8.1% jobless rate.

"Consider this...your Yom Kippur," quipped host Jon Stewart, referencing the Jewish Day of Atonement for the much-maligned money managers and Wall Street executives. "You're going to donate a lot of money. Not enough, obviously, to offset all the s— you've done, but a lot."

The toned-down fund-raiser reaped $72 million, topping last year's haul. Robin Hood, founded by hedge-fund manager Paul Tudor Jones II, used some Wall Street-style fi-

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Nasdaq	1664.19	-3.01
DJ Stoxx 600	200.72	-2.65
FTSE 100	4331.37	-2.13
DAX	4727.61	-2.61
CAC 40	3152.90	-2.42
Euro	$1.3598	-0.56
Nymex crude	$58.02	-1.41

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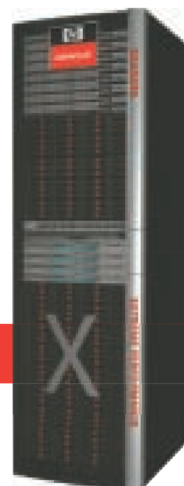

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LEADING THE NEWS

Pope backs Palestinians

Benedict advocates for end to embargo, supports statehood

BY CHARLES LEVINSON

Associated Press

Pope Benedict XVI, left, shakes hands with Palestinian President Mahmoud Abbas, right, Wednesday at the Palestinian headquarters in Bethlehem.

BETHLEHEM, West Bank—In front of thousands of faithful in the cradle of Christianity, Pope Benedict XVI on Wednesday issued his strongest statement yet of solidarity with Palestinians, expressing sorrow for their hardships and offering his prayers that Israel's blockade of Gaza will soon be lifted.

"In a special way, my heart goes out to the pilgrims from war-torn Gaza," the pope said during a Mass in Bethlehem's Manger Square, where Christians believe Jesus was born. "I ask you to bring back to your families and your communities my warm embrace and my sorrow for the loss, the hardship and the suffering you have had to endure."

The pope arrived in Bethlehem Wednesday morning, crossing through the 11½-meter-tall cement separation barrier that divides the city from Jerusalem. The pope was to spend all of Wednesday in the Palestinian territories, visiting a Palestinian refugee camp in the afternoon, before returning to Israel proper for the final two days of his pilgrimage. He is due to return to Rome on Friday.

"Please be assured of my solidarity with you in the immense work of rebuilding which now lies ahead, and my prayers that the embargo will soon be lifted," the pope said. Palestinian President Mahmoud Abbas attended the Mass.

Israel air, sea and ground forces pounded Gaza in December and January, killing more than 1,100 people, many of them civilians. The offensive was in response to rocket attacks from Gaza militants into southern Israel.

Israeli forces have enforced tight control over trade and travel across the border with Gaza, which is controlled by Hamas, a group the U.S. and Israel consider a terrorist organization. The restrictions have effectively sealed off the territory's economy from the rest of the world. Egypt also enforces tight security along its border with Gaza.

Human-rights groups and nongovernmental organizations have charged that aid shipments and other crucial supplies needed for rebuilding have been held up by the border restrictions. Israel cites security concerns for its tight controls. On Wednesday, the pope reiterated his support for Palestinian statehood after meeting privately with Mr. Abbas.

Speaking to Mr. Abbas, the pope said, "Mr. President, the Holy See supports the right of your people to a sovereign Palestinian homeland in the land of your forefathers, secure and at peace with its neighbors, within internationally recognized borders."

The pope also urged young Palestinians to "resist any temptation you may feel to resort to acts of violence or terrorism."

The pope has said his five-day visit is a religious pilgrimage, but it has proved impossible for the pope to avoid politics in this hotly contested land. "Long live the pope; Long live Palestine," the thousands of worshippers chanted as the pope stepped onto the stage.

CORRECTIONS & AMPLIFICATIONS

A **Bank of America** Corp. spokesman said the lender raised $7.3 billion by selling shares in **China Construction Bank** Corp. in a transaction that included **Hopu Investment Management** Co., **China Life Insurance (Group)** Co., **Temasek Holdings** Pte. Ltd. and **BOC International Holdings** Ltd. A Money & Investing article Wednesday didn't include BOC International.

A less predictable ECB adds to market confusion

BY JOELLEN PERRY

European Central Bank decisions may be getting less predictable—a prospect some say is helping undermine the confidence the markets need to recover.

Rare public dissent among ECB policy makers preceded the central bank's decisions last week to signal that its key rate could fall below 1% and to launch a €60 billion ($81.6 billion) program to buy low-risk corporate bonds. Now, central bankers in the 16-nation euro zone are sparring publicly about the cost of the bond-buying program and whether it should be expanded to include other assets.

While the open debates shed light on individual ECB policy makers' thinking, some analysts say they make the bank's decisions less predictable and increase market uncertainty at a time when many policy makers believe boosting investor confidence is key to helping the financial system heal.

The "unpredictability of the [ECB's] increasingly public disagreement," said James Nixon, economist with Société Générale in London, "is injecting a lot of uncertainty into the market at a time when it might not be best" to do so.

On Wednesday, Marko Kranjec, an ECB Governing Council member and governor of Slovenia's central bank, said in an interview with Bloomberg that the ECB's new program to buy a class of corporate bonds called covered bonds would "very likely" cost more than the €60 billion estimate ECB President Jean-Claude Trichet provided when he announced the program on May 7. Mr. Kranjec also said policy makers "don't exclude" buying other securities such as short-term corporate IOUs called commercial paper.

Mr. Kranjec's comments contrast with those of fellow council member Axel Weber, the outspoken head of Germany's central bank, who suggested in a speech Tuesday that he isn't prepared to broaden the program to other assets. Mr. Trichet has said policy makers will provide more details of how the program will work—including how the bank plans to pay for it—at their next rate-setting meeting in June.

That the ECB unveiled an asset-purchase program at all last week took many in the markets by surprise. Some policy makers had suggested before the meeting that they favored other approaches, such as lengthening the terms of the loans the central bank makes to commercial banks—a step the ECB also announced. Some, including Mr. Weber, had also been critical of letting the key rate fall below 1%—a possibility Mr. Trichet left open.

The magnitude of the economic and financial-sector shock likely underlies the new cacophony of ECB opinions. "The current environment is such that it's unavoidable to have a very large spectrum of views, given the uncertainty about the outlook [and] the effectiveness of the response," said Jacques Cailloux, economist with Royal Bank of Scotland in London.

But the public divisions undermine the ECB's longtime goal of presenting a united policy front. Unlike the U.S. Federal Reserve and the Bank of England, which vote on decisions and publish minutes showing votes, the ECB makes decisions by consensus and doesn't publish minutes of its meetings. In the past, Mr. Trichet has also stressed that the central bank places a premium on being predictable (while maintaining license to respond quickly if market conditions change).

The new uncertainty about the ECB's actions may be undermining market confidence at a crucial moment. An ECB report Wednesday suggested that reviving investor confidence is key to kick-starting bank funding markets that have dried up amid the crisis. Lacking steady access to traditional funding sources such as bond and interbank lending markets, the report said, European banks could curtail lending to households and firms, damping economic growth.

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Germany lambasted over 'bad-bank' plan

Little effort to boost capital of lenders; prolonging the pain

BY MARCUS WALKER

BERLIN—Germany's government presented its plan to help banks rid themselves of distressed assets by shifting them to "bad banks" in the hope of getting credit flowing again in Europe's biggest economy.

But analysts said the plan doesn't do enough to restore banks' capital or make lenders come clean on their losses. Instead, the plan aims to let banks spread out losses over as much as 20 years with the help of off-balance-sheet vehicles, analysts said, while avoiding upfront costs to taxpayers ahead of Germany's elections in September.

"This is another example of Germany's reluctance to take decisive action throughout this financial and economic crisis," said Paul Mortimer-Lee, chief economist at BNP Paribas in London. German banks still will be saddled with future losses of uncertain scale, which will harm their ability to lend, he said.

Germany's announcement came as the European Central Bank warned Wednesday that banks in the euro zone face funding problems as a result of the financial crisis that could take years to abate, holding back bank lending to households and businesses. The International Monetary Fund said on Tuesday that Europe needs to take bolder action to clean up its banking sector, so that banks' weakness doesn't jeopardize the region's chances of economic recovery.

The IMF said European banks have raised only about 40% of the $1 trillion that they need to cover losses since the beginning of the financial crisis and to maintain healthy capital levels.

Industrial production in the euro zone dropped nearly 8% in the first quarter, compared with the last quarter of 2008, according to data released Wednesday that confirmed the region's recession became more severe in early 2009. Other data suggest that the pace of Europe's recession is starting to slow, but most economists believe a return to growth remains a long way off.

German banks and banking associations have reacted cautiously to the draft law, with no lenders saying they intend to use it. In addition, the plan will cover only up to €180 billion ($245.52 billion) of banks' complex securities, but not other distressed-asset categories such as business loans. Germany's banking regulator estimates that the country's banks are sitting on more than €800 billion of problem assets.

Under Germany's bad-banks plan, which still needs Parliament's approval to become law, banks will have the option of putting structured products, such as mortgage-backed securities, into special-purpose vehicles at 90% of their present book value, which is often far above the assets' likely market value if sold today. In return, the vehicle would give its parent bank a note promising to repay it an equivalent amount in up to 20 years' time. The German state would guarantee the repayment in exchange for a fee from the bank, which would free up capital by swapping toxic assets for a risk-free note. The bank also could use the state-backed note as collateral when borrowing central-bank funds.

Funding crunch

Many funding sources for European banks have dried up amid the crisis and could be hampered for years. Funding sources during the crisis

Legend: Available; Signs of difficulties in gaining access; Impaired; Not relevant

Short-term financing	Precrisis	August 2007 to summer 2008	Lehman Brothers' failure	After government rescue plans	2009 outlook
Interbank	Available	Impaired	Impaired	Impaired	Signs of difficulties in gaining access
Certificates of deposits	Available	Available	Impaired	Signs of difficulties in gaining access	Signs of difficulties in gaining access
Deposits	Available	Available	Available / Signs of difficulties in gaining access	Available	Available
Central bank	Available	Available	Available	Available	Available
Long-term financing					
Nonguaranteed bonds	Available	Signs of difficulties in gaining access	Impaired	Impaired / Signs of difficulties in gaining access	Signs of difficulties in gaining access / Available
Guaranteed bonds	Not relevant	Not relevant	Available	Available	Available
Covered bonds	Available	Available	Impaired	Impaired	Signs of difficulties in gaining access
Securitization	Available	Impaired	Impaired	Impaired	Impaired

Note: Table is intended to reflect the overall situation in Europe and doesn't reflect specific national situations.

Source: European Central Bank

In addition, the bank would have to pay the vehicle the difference, spread out over as long as 20 years, between 90% of an asset's book value and its estimated ultimate value when it matures. If an asset's ultimate value turns out to be less than auditors' estimates, the bank will have to pay dividends to the German state instead of to shareholders until the full loss is covered. If assets perform better than expected, the bank gets the upside.

The result is that German taxpayers won't pay for banks' problems, a political requirement imposed by Germany's coalition government, which faces national elections in September. But critics said the price is that banks won't be forced to come clean quickly on their losses or raise enough capital to allow a return to normal lending.

Chancellor Angela Merkel's chief of staff, Thomas de Maiziere, said the plan would help banks by allowing them to push their losses into the future and to spread them out over many years.

"In the interests of the real economy, we are buying time for the eradication of contaminated assets," he told a news conference in Berlin.

The U.S.'s and U.K.'s plans for dealing with toxic assets do more than Germany's plan, albeit at a cost to taxpayers, said analysts.

"There's a fundamental conflict between protecting the taxpayer from bearing costs and cleaning up banks' balance sheets," said Mr. Mortimer-Lee. Germany's bad-banks plan, he said, is "an accounting trick rather than a real resolution of the problem."

Germany's public finances might do better if the state injects capital into German banks now, so that its economy and tax revenue recover faster, said Simon Tilford, chief economist at the Center for European Reform, a London think tank.

Spreading out banks' losses over time could help some banks to stay solvent, said Daniel Gros, director of the Center for European Policy Studies, a Brussels think tank. But the plan should have been compulsory instead of voluntary to make sure enough banks use it for enough assets, said Mr. Gros.

—Joellen Perry in Frankfurt contributed to this article.

Impairments push ING to a first-quarter loss

BY BART KOSTER

AMSTERDAM—**ING Groep** NV swung to a first-quarter net loss, as impairments on real-estate holdings and equity investments hit its insurance operations.

The Amsterdam financial-services company's banking business remained profitable, despite heavy provisions against loan losses. The company gave no outlook for the full year.

ING announced a net loss on Wednesday of €793 million ($1.08 billion), compared with a net profit of €1.54 billion a year earlier.

ING shares tumbled 10%, while the Amsterdam market fell 2% and the pan-European Dow Jones Stoxx 600 index lost 2.7%.

Though ING reported a net loss for the first quarter, the results were an improvement from the fourth quarter of last year, when the company posted a net loss of €3.7 billion.

ING recorded a €979 million underlying loss before taxes at its insurance unit, compared with a €690 million profit a year earlier. Its insurance new business value decreased 57% to €120 million, while revenue was down 28% at €1.28 billion.

At its banking operations, the company recorded an underlying profit of €698 million before taxes, down from €1.41 billion.

The bank added €772 million to loan-loss provisions in the quarter "due to deteriorating credit quality across all business lines and regions," it said, adding that risk costs will remain elevated for the rest of 2009.

ING's Tier 1 ratio, a key measure of a bank's financial strength, rose to 9.7% from 9.3% at the end of the fourth quarter.

Chief Executive Jan Hommen said the company's €500 billion investment-management business will be managed within the insurance division. He said ING wants to play a leading role in further consolidation in the world-wide investment-management sector and that it could link up with another player.

Mr. Hommen also said there is "much interest from bargain hunters" in the possible sale of several other ING business units, but that the company isn't in a hurry to sell and will do so only at a fair market price.

ING has said it will sell 10 to 15 business units for an expected €6 billion to €8 billion, as part of its strategic repositioning.

Mr. Hommen said the bank is "well on track with its cost-savings program of €1 billion in 2009," adding that at the end of March, €231 million of the savings had been realized. The bank has shed 5,380 jobs of a planned 7,000 cuts in total, Mr. Hommen said.

ING received a capital injection of €10 billion from the Dutch government in October and a €27.7 billion state guarantee on its Alt-A mortgage portfolio in January.

Mr. Hommen said ING "feels quite comfortable" about its capital position, but he refrained from giving an indication on when and how ING would repay the state support.

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CORPORATE NEWS

Telefónica reports 9.8% profit increase

Strength in Latin America helps offset weakness in European markets; currency concerns hurt mobile-phone unit

By Thomas Catan
And Leila Abboud

MADRID—Spain's **Telefónica** SA said Wednesday its first-quarter net profit rose 9.8%, as its unexpectedly buoyant businesses in Latin America helped offset falling revenue from recession-struck European markets.

Europe's largest fixed- and mobile-telecommunications company by market value, Telefónica is being hurt by a deep economic slump in its home market of Spain. The company's European mobile-phone operator, O_2, has also been hit by the economic downturn in Britain and the falling value of the British pound.

Telefónica has cut prices on mobile contracts in Spain to hold market share.

But the Madrid-based telecom company confounded fears that its Latin American business would also falter, and signaled bright prospects ahead for the continent.

"We notice that the crisis [in Latin America] is less severe, began later and is much more focused on foreign trade than in other parts of the world," Telefónica Chief Financial Officer Santiago Fernandez Valbuena said in an interview.

Europe, by contrast, "is a mixed bag," he added. "Things are clearly more complicated in Spain."

Telefónica said net profit for the first quarter rose to €1.69 billion ($2.31 billion) from €1.54 billion a year earlier. The brighter outlook for Latin America and a cost-cutting drive helped the company stick to its full-year forecasts for 2009.

World-wide, the company's revenue slipped 1.4%, to €13.7 billion from €13.9 billion. But there were stark differences between Europe and Latin America, where Telefónica is strongest.

Revenue in Latin America rose 4.8% amid resilient consumer spending in the region. However, revenue dropped 4.2% in Spain as the country suffered a deep recession, soaring unemployment and fierce competition from low-cost operators.

Revenue fell 6.6% in the company's other European operations, hurt by weak consumer spending and the steep depreciation of the British pound. Telefónica's O_2 unit is Britain's largest mobile-phone operator.

Investors have considered Europe's major telecom operators as defensive investments over the past year even as the economic downturn deepened across the continent. They have fared better than most retail or consumer-goods companies because their customers are often locked into subscriptions for telephone or Internet access.

But signs of strain are emerging. **Deutsche Telekom** AG issued a profit warning in mid-April, while revenue at **France Télécom** SA was mostly flat in the first quarter. **Telecom Italia** SpA's net income decreased 4.5% to €463 million in the first quarter as fixed-line revenue slumped in Italy and growth slowed in Brazil.

The economic downturn has led Spain's telecom giant to take cost-cutting steps that would have once seemed unimaginable. In late March, Telefónica and archrival **Vodafone Group** PLC agreed to start sharing some mobile-network infrastructure across Europe to help save "hundreds of millions of euros" over the next decade. Under the project, the two companies could share antennas and base stations in Spain and Germany, consolidate networks in Britain, and expand into other markets.

Telefónica also has said it would cut capital expenditures, which includes funds to expand networks or upgrade equipment, by about 12% to below €7.5 billion this year. Most of the cuts would come in mature European markets, it said; investment in Latin America would continue.

In Spain, Telefónica has been forced to cut prices on mobile contracts in a bid to preserve its market share. Spain's recession, which has pushed unemployment above 17%, has led more people to sign up with discount mobile-phone providers instead of bigger players. Telefónica has promised to reduce the bills of Spanish fixed-line and mobile subscribers who are unemployed by as much as €20 a month.

The price war in mobile telephony could lead more Spaniards to drop their fixed-line phones, which would take a further chunk out of Telefónica's profits, said Robin Beinenstock, analyst at Sanford C. Bernstein & Co. "The Spanish consumer is looking at ways to cut their telephone bills," said Ms. Beinenstock.

Partly as a result of these moves, Telefónica's revenue-per-customer in Spain—where it generates about one-third of its revenue but more than half of its free cash flow—tumbled by 9.5% in the first quarter.

The company admits it will have trouble holding on to subscribers in mature European markets such as Spain—and that is why it is pinning its hopes in Latin America. Telefónica has long been a key investor in the region, with businesses in countries including Mexico, Brazil, Argentina, Chile, Colombia, Peru and Venezuela.

"In Europe, it's harvesting time, not seeding time," said Mr. Fernandez Valbuena, the company's finance chief. "Our growth model is a Latin model, because it's Latin America that's growing."

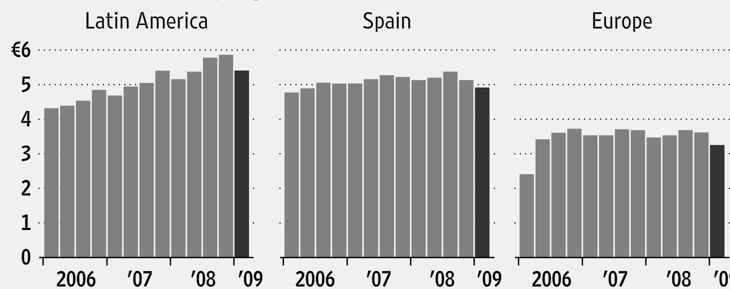
—Jason Sinclair in Madrid contributed to this article.

Agence France-Presse

César Alierta, Telefónica CEO

Weakening

Faced with a tougher environment in Europe, Telefónica is pinning its hopes for growth on Latin America



Source: the company

Court favors eBay in L'Oréal suit

By Max Colchester

PARIS—A French court ruled that **eBay** Inc. can't be held legally accountable for the sale of counterfeit **L'Oréal** SA perfumes and face creams on its auction Web site in France.

The ruling, which comes two years after the French cosmetics giant filed a lawsuit against eBay, encompasses all brands for which L'Oréal makes beauty products, including Yves Saint Laurent, Lancôme, Garnier and others.

The French ruling is the latest turn in a longstanding feud between eBay and luxury-goods companies over whether the auctioneer is doing enough to clamp down on the sale of fake handbags, perfumes and cosmetics on the Internet. In another case, a French court ruled last year that eBay should pay damages to French luxury companies **LVMH Moët Hennessy Louis Vuitton** SA and **Hermès International** SA after it judged that the online auction site hadn't done enough to prevent the sale of high-end counterfeit products, including handbags.

In Wednesday's ruling, Judge Elisabeth Belfort said eBay couldn't be held accountable for sales of—and advertisements for—fake L'Oréal products on its Web site. Through its anticounterfeiting measures, eBay has "fulfilled its obligations of loyalty to other operators on the market," Ms. Belfort added. The court also ruled that in the future, eBay and L'Oréal should cooperate more in their efforts to fight the sale of fake goods online.

Alexander von Schirmeister, director general of eBay France, said the company wasn't to blame if fakes were posted on its site. However, should a company show that a particular vendor was selling counterfeit goods, eBay is responsible for removing the items, Mr. von Schirmeister said.

EBay says it spends $10 million a year fighting counterfeiters and employs 2,000 people to scour the site for fakes. "These measures cannot be 100% effective if brands do not cooperate with us," said Mr. von Schirmeister in an interview.

In a statement, L'Oréal said it would be "very willing" to cooperate with eBay to find a solution.

In 2007, L'Oréal launched trademark-infringement suits against eBay in four European countries. The response in Europe has been disjointed, with courts in different countries offering conflicting views on eBay's antiforgery measures.

A court in Belgium last year ruled in favor of eBay, saying it had done enough to crack down on the sale of fakes—a decision L'Oréal appealed. Decisions are still awaited in Spain and the U.K.

In a separate case regarding the sale of fake L'Oréal perfumes and products without their packaging, a German court ruled in favor of the French cosmetics group against eBay.

Personal Technology

Screen grab

Walter S. Mossberg hones in on Verizon Wireless's new netbook > **Page 33**

E.ON says electricity demand is being hurt by recession

By Jan Hromadko

FRANKFURT—**E.ON** AG's profit jumped 18% in the first quarter, but the German utility cautioned that the global recession is taking its toll on electricity demand.

E.ON, the world's largest investor-owned utility by market value, said the economic downturn has resulted in falling energy demand, particularly from industrial customers, while currency depreciation has hit the company's businesses in the U.K., Sweden and Hungary.

E.ON said its 2009 earnings outlook is significantly more uncertain than in previous years, as economic developments are difficult to predict. But the Düsseldorf-based company stuck to its forecast, saying it still aims for adjusted earnings before interest and taxes, or Ebit, to come around the €9.88 billion ($13.5 billion) it achieved last year. It expects adjusted profit to decline by about 10% mainly because of higher interest costs related to its large investment program.

In the latest quarter, E.ON reported profit of €2.46 billion, compared with €2.08 billion a year earlier. The results were boosted by €1.5 billion in gains on the value of derivatives used to hedge against price fluctuations. Adjusted for such items, profit would have been €1.80 billion, slightly lower than €1.84 billion a year earlier.

Sales rose 14% to €25.94 billion, driven by the first-time consolidation of newly acquired businesses in Italy, Spain and France as well as higher realized average power prices.

UniCredit analyst Karin Brinkmann said the results came as a slight disappointment given that E.ON had the benefit of first-time consolidation of newly acquired businesses and returned to operating profitability in the trading business.

"The fact that this has completely been offset by currency effects and lower power and gas demand is disappointing," she said.

M.M. Warburg analyst Ulrich Huwald said the company's previously announced cost cutting plan should bring some relief on earnings as the year progresses.

E.ON said its effort to save €1.5 billion a year is shaping up as planned. The company expects the savings to take full effect by 2011.

CORPORATE NEWS

Allianz quarterly net plunges 98%

Insurer can't rule out more write-downs; 'challenging' outlook

By Ulrike Dauer

FRANKFURT—**Allianz** SE reported a 98% drop in first-quarter net profit, pressured by write-downs on financial investments, claims costs and charges related to its sale of Dresdner Bank.

Europe's largest primary insurer by market capitalization gave no earnings target for 2009, saying Wednesday that the environment for financial-services companies will remain "challenging," adding it can't rule out further impairments or credit defaults on corporate bonds.

However, it said the company's "underlying fundamentals" are healthy and that it was "able to withstand a prolonged difficult market environment."

Allianz said its net profit fell to €29 million ($39.6 million) in the quarter ended March 31 from €1.15 billion a year earlier. Revenue rose 2.8% to €27.7 billion.

The quarterly results show that latent earnings pressures remain despite the sale of Dresdner, which could be a driver of further negative news, Barclays Capital analysts wrote. Allianz sold Dresdner Bank to Commerzbank AG last year for about €5.1 billion.

Allianz's shares fell 7.8%, to €69.74, amid concerns over the insurer's results and worries that problems at U.S. operations could widen.

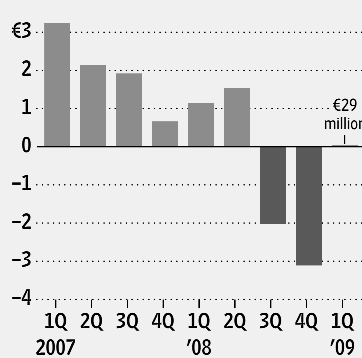
The company said a 30% decline in stock markets would bring its solvency ratio down to 143%. The ratio, a measure of its ability to meet long-term obligations, fell to 159% at the end of March from 161% at the end of December, but still was above the 100% regulatory requirement.

Operating profit was down 36% to €1.42 billion, pressured mainly by write-downs on investments in the company's life/health-insurance portfolio and higher costs for damage claims such as winter storms, forest fires and losses in credit insurance that hurt underwriting results in property and casualty insurance.

Separately, Italian insurer **Assicurazioni Generali** SpA said Wednesday that its first-quarter net profit fell 88% from a year earlier, mainly because of the lower value of equity investments, while premiums were steady.

The insurer said net profit in the quarter ended March 31 dropped to €104 million from €910.3 million a year earlier.

—Sabrina Cohen contributed to this article.



Allianz didn't provide earnings projections, saying the environment for financial-services firms will remain 'challenging.' Above, its offices in Frankfurt.

MGM Mirage will sell shares to pay down debt

By Kerry E. Grace

MGM Mirage announced plans to sell $2.5 billion in stock and notes, with some of the proceeds going to a tender offer to buy $1.05 billion in debt that matures later this year, as the highly leveraged casino operator again amended its senior credit facility, easing some terms further.

MGM Mirage, controlled by billionaire investor Kirk Kerkorian, is struggling to pay down more than $14 billion in debt and is considering selling off properties to meet looming obligations. Major bondholders such as activist investor Carl Icahn and private-equity fund **Oaktree Capital Management** have called for a bankruptcy filing.

The stock sale comes as numerous companies have announced secondary offerings in recent weeks to take advantage of the equity-market rebound. MGM has surged more than sixfold in the past two months, but remains off by three-quarters in the past year. The stock was down 26%, or $3.17, to $9.24 Wednesday afternoon.

Kirk Kerkorian

According to the amended pact, the company will repay $750 million in credit-line borrowings, and potentially more if the offerings' proceeds exceed $2.5 billion.

MGM announced plans to sell 81 million shares—the company has about 277 million outstanding—with 54%-owner **Tracinda** Corp. indicating it would purchase 10% of the offering.

The note sale is intended to be made through a private placement in two tranches due 2014 and 2017. The notes will be secured by a first-priority lien on all the assets of the Bellagio Hotel and Casino and the Mirage, two of MGM Mirage's key Las Vegas Strip properties acquired early this decade when MGM acquired Mirage.

MGM last amended its senior credit facility in mid-April to allow it to pay the full construction costs on its Las Vegas City Center project. Investors have been concerned about a possible default on the credit pact after MGM's auditor raised doubts about its ability to continue as a going concern. Prior to that, its lenders had granted a waiver of covenants on its senior credit facility through Friday.

All three major ratings agencies have cut MGM's credit ratings repeatedly in the past few months because of its debt woes. Fitch Ratings said Friday the company was likely to initiate a debt exchange as part of any restructuring plan. MGM has said it plans to unveil solutions on how it will clean up its balance sheet in the next several weeks.

Last week, MGM reported first-quarter earnings fell 11% as a gain from the sale of Treasure Island masked lower revenue from canceled conventions and reduced customer spending because of the recession.

Sainsbury profit sinks 12% amid write-down

By Lilly Vitorovich

LONDON—**J Sainsbury** PLC on Wednesday posted a 12% drop in fiscal full-year net profit as it wrote off the value of investment property, but said sales were up on strong demand for its own-label products.

Sainsbury's customer base has grown during the economic slump, largely thanks to the migration of some shoppers from upscale grocers **Marks & Spencer Group** PLC and Waitrose. Like others across the grocery sector, Sainsbury has also been cutting prices to stimulate sales.

The U.K.-based grocer said net profit for the year ended March 21 fell 12% to £289 million ($441 million) from £329 million a year earlier, hit by a £124 million write-down on its investment property with joint-venture partners **British Land** Co. and **Land Securities Group** PLC.

Profit before taxes and exceptional items—the key figure tracked by the U.K. market—rose 11% to £543 million from £488 million.

Total sales, excluding value-added tax, rose 6% to £18.91 billion from £17.84 billion.

Sainsbury, the U.K.'s third-biggest supermarket chain by sales behind **Tesco** PLC and **Wal-Mart Stores** Inc.'s Asda Group Ltd., said it is on track for gross space growth of more than 5% in fiscal 2010, following 4% growth in the year ended March 21. The grocer plans to open 50 convenience stores in the current financial year and a further 100 the following year.

"We are performing well and have significant opportunities for further growth," Chief Executive Justin King said in a statement.

Mr. King reiterated the company's target of 3% to 4% same-store sales growth, excluding fuel, over the medium term.

Sainsbury said its property portfolio, including the share of joint-venture properties, was valued at about £7.5 billion at year end.

Sainsbury said it is conducting a search for Chairman Philip Hampton's successor. Mr. Hampton recently became chairman of Royal Bank of Scotland Group PLC.

The grocer underscored its confident outlook by declaring a slightly higher-than-expected final dividend of 9.6 pence a share, up from nine pence a year earlier. That takes the total for the year to 13.2 pence from 12 pence.

J Sainsbury intends to open 50 convenience stores in the current fiscal year. Above, shoppers leave one of the grocer's London supermarkets in January.

UniCredit net falls; markets unit swings to profit

By Sabrina Cohen

MILAN—**UniCredit** SpA said first-quarter net profit fell 58% on a decline in fees and commissions, but a slight rise in net interest earnings and operating income limited the decline.

Italy's second-largest bank by market capitalization behind **Intesa Sanpaolo** SpA reported net profit of €447 million ($610 million) for the quarter, down from €1.06 billion a year earlier.

Total operating income rose 1.7% to €6.56 billion from €6.45 billion.

The Milan-based lender said net interest income rose 3.5% to €4.7 billion from €4.54 billion a year earlier, though net fees and commissions fell 25% to €1.85 billion.

UniCredit's markets and investment-banking unit posted operating profit of €367 million, compared with a €690 million loss in the year-earlier period. The unit has been going through a major restructuring program because of the financial crisis.

At a group level, UniCredit cut its staff by 3,787, or 2.2%, in the quarter, mainly at its retail and Central and Eastern European divisions.

However, Chief Executive Alessandro Profumo said that the "Central and Eastern Europe division is still quite profitable," ruling out efforts to scale back that business. "There are no changes in terms of strategic positions," he said.

UniCredit said its core Tier 1 ratio, a key measure of financial strength, was 6.4% at the end of March. Unlike most European banks, UniCredit hasn't yet received financial help from governments in the countries in which it operates. However, it has said it intends to apply for about €4 billion in aid from the Italian and Austrian governments.

The lender said that gross nonperforming loans rose to €44.8 billion from €36.7 billion in the year-earlier period.

The bank posted "a solid set of results given the tough economic environment," said Anna Benassi, head of equity research at Banca Leonardo.

Separately, Banca IMI, Intesa Sanpaolo's investment-banking and corporate-markets unit, said its first-quarter net profit more than doubled because of higher net interest income and operating income.

Banca IMI said net profit increased to €118 million from €61.5 million a year earlier. Net interest income rose to €240 million from €150 million.

Intesa Sanpaolo planned to report first-quarter results Thursday.

Fiat milestones laid out

Car maker could own 51% stake in Chrysler once it meets goals

BY NEAL E. BOUDETTE

DETROIT—**Fiat** SpA will be allowed to expand its ownership of **Chrysler** LLC up to a majority stake if the Italian auto maker meets certain goals, including producing its engines in the U.S., according to documents Chrysler submitted in bankruptcy court.

Under the terms of their alliance, Fiat will get an initial 20% stake in Chrysler and can increase its holdings in increments of five percentage points up to 35% if it hits three milestones by Jan. 1, 2013, the filings show.

Fiat will get the first increase once it starts producing Fiat engines in the U.S. and another if it introduces a Fiat-developed vehicle in the U.S. market that can go 40 miles on a gallon (about 17 kilometers per liter) of gasoline. Fiat can get a third bump up if Chrysler is able to post more than $1.5 billion in sales outside of North America, according to a "Master Transaction Agreement" that was filed Tuesday in the U.S. Bankruptcy Court in Manhattan.

The agreement also gives Fiat the option to purchase an additional 16% of Chrysler. If Fiat meets all three goals and exercises the option, it could eventually end up with a 51% stake in Chrysler.

Fiat won't be able to take full control of Chrysler, however, until the American auto maker pays off the loans it has received from the U.S. government. Prior to that point, Fiat's ownership will be capped at 49.9%, the agreement says. And until the loans are repaid, any Fiat stake above 35% will be held in a trust controlled by the U.S. Treasury.

The agreement also says the partnership between the two companies will be governed by a six-person Alliance Cooperation Board made up of three representatives from each company.

Separately, Chrysler will regain possession of its sprawling headquarters in Auburn Hills, Mich., as part of the restructuring plan laid out in bankruptcy court.

The 504-acre, roughly 200-hectare, site is now owned by **Cerberus Capital Management** LP, the private-equity firm that acquired Chrysler in 2007. Under that deal, Cerberus took possession of the headquarters and then mortgaged it to borrow $225 million from a unit of **Citigroup** Inc.

According to documents filed with the court, Chrysler's reorganization plan calls for the auto maker to pay off the $225 million owed Citigroup and retake ownership of its headquarters. Cerberus is giving up its equity stake in Chrysler as part of the government-led restructuring.

The heart of the headquarters complex is a 15-floor tower connected to a technology center that housed more than 10,000 employees before waves of job cuts roughly halved their numbers. Chrysler describes the office building as the second largest under one roof after the Pentagon.

Quality complaints dog Chrysler

BY KEVIN HELLIKER

Michelle Payan loves the styling and roominess of her 2006 Chrysler 300 sedan, but a defective air conditioner and transmission have turned her against the brand. "I'm not buying another Chrysler," says Ms. Payan, a 26-year-old insurance-claims adjuster in Phoenix.

In announcing **Chrysler** LLC's government-negotiated bankruptcy filing, President Barack Obama expressed hope that new-car seekers would consider buying American. But American car buyers are more accustomed to seeking advice from Consumer Reports. In its annual automotive issue last month, the magazine recommended 166 models—not one of them a Chrysler, Dodge or Jeep, the three Chrysler nameplates.

"Their products had bad fuel economy, noisy interiors, poor ride quality, the worst finish in the industry and their seat comfort is not good," says David Champion, director of automotive testing for Consumer Reports, a nonprofit product-analysis publisher that has seven million subscribers. On reliability, Mr. Champion added, only two Chrysler models scored above average: the Dodge Caliber and Jeep Patriot.

A reputation for poor quality continues to plague all three Detroit auto makers—Chrysler, **Ford Motor** Co. and **General Motors** Corp. But while Ford and GM are largely battling outdated perceptions of questionable reliability, "at Chrysler it's a reality," says George Peterson, president of AutoPacific Inc., which each year surveys about 40,000 car owners.

Doug Betts, a Chrysler vice president and chief customer officer, predicts that Chrysler's performance in third-party rankings will show sharp improvements starting this year. He says enhanced spending on the Jeep Patriot and Compass, as well as the Dodge Ram pickup, already are apparent to customers, and will soon be reflected in performance reports. .

The nearly 1.5 million vehicles it sold last year indicate that many Americans like the company's Chrysler, Dodge and Jeep brands. By all accounts, all car makers are producing better and better cars, meaning that even low-rated models boast high quality by historical standards.

Chrysler

'The harsh ride, noise, poor driving position, and lack of creature comforts take their toll on the driver,' says Consumer Reports about the Viper.

Moreover, Chrysler stands out for styling and design, offering what many critics regard as the industry's most distinctive-looking lineup of sedans, sport-utility vehicles and pickups. In February, Shawn Avants traded his problem-free 10-year-old Dodge Dakota for a 2009 Dodge Ram pickup. "I love the styling of my new Ram," says Mr. Avants, a Kansas telecommunications worker.

But at a time when Ford and GM are both seeking—and obtaining—endorsements from third-party reviewers like J.D. Power & Associates and Consumer Reports, Chrysler is largely striking out, even in the market that it pioneered: the minivan. "Overall, the Town & Country is a disappointment," Consumer Reports says of the popular Chrysler model.

J.D. Power rankings are based on surveys with vast numbers of drivers. Consumer Reports bases its recommendations on engineering and laboratory tests as well as feedback from hundreds of thousands of drivers.

Chrysler has performed only marginally better in the reliability rankings of J.D. Power. In the 2009 Power study of reliability over three years on the road, the Chrysler brand performed above average, but the Jeep and Dodge brands fell well below it. In the most-recent Power study measuring initial quality in new cars, all three Chrysler nameplates performed below average, with Jeep ranking 36th out of 36 brands.

The government-directed reorganization plan of Chrysler calls for it to merge with **Fiat** SpA and start making Fiats in the U.S. In Europe, Fiat has received low rankings in reliability studies, but its performance has been improving.

Yet there is hope. The redesigned 2009 Dodge Ram is winning rave reviews for performance and style, and is expected to win endorsements if it proves largely free of defects.

And Chrysler has a history of staging comebacks from product-driven financial quandaries. The quality problems of the Dodge Aspen (and its sister, the Plymouth Volare) contributed to the crisis that led Chrysler to seek a government loan in 1979. After recovering from that brush with bankruptcy, Chrysler entered a nearly two-decade period of winning kudos for its cars, trucks and minivans.

—Alex Kellogg and Timothy W. Martin contributed to this article.

Bloomberg News

Intel CEO Paul Otellini, shown in April, said Tuesday that the decline in PC sales this year won't be as steep as some research firms project.

Intel CEO Otellini says chip orders are firming

BY DON CLARK

SANTA CLARA, Calif.—**Intel** Corp. executives said conditions in its existing businesses aren't as bad as people think, while efforts to move into new sectors are starting to gain traction.

Paul Otellini, Intel's chief executive officer, said in April that demand for its computer chips appeared to have "bottomed out" in the first quarter. At a meeting with analysts here Tuesday, Mr. Otellini said the company's recent order pattern indicates that business in the current period is "a little better" than the company expected.

The Intel executives spoke a day before European Union regulators levied a €1.06 billion ($1.45 billion) fine against the company for monopoly abuse and called for changes in the way it sells its microprocessors. Intel said it would appeal that decision.

On Tuesday, Sean Maloney, an Intel executive vice president in charge of sales and marketing, noted that computer demand at the moment appears to be strongest for products sold to consumers. By contrast, demand for computers purchased by companies—particularly PCs—remains weak, he said.

Perhaps the biggest criticism of Intel's performance in the past decade is its failure to diversify effectively. The company continues to make most of its money from sales of chips that serve as calculating engines for desktop and portable PCs and server systems.

Mr. Otellini and other Intel executives cited evidence that they said points to progress in four new markets. The first is represented by netbooks, a fast-growing category of portables that often cost $300 or less and typically use a low-end Intel chip called Atom. Intel also is targeting chips for smart phones, for consumer-electronics products and for "embedded applications," which include industrial and office equipment.

While Intel has discussed using its chips to target those new sectors before, executives put new emphasis on how software will help take Intel's technology into new markets. An example is Moblin, a version of Linux that Intel has been pushing for smart phones and netbooks.

Renee James, the vice president in charge of Intel's software efforts, said Intel had purchased a company called **OpenedHand** Ltd., which she said would aid development of new software around the popular Atom chip. Details of the deal weren't disclosed.

Besides driving the growth of netbooks, Intel is trying to spur demand by helping to move stylish "thin and light" laptops into mainstream price points, Mr. Maloney said. He didn't quantify system pricing, but such portables typically cost well over $1,000, while most laptops sold cost well below that. "Thin is in," Mr. Maloney said.

Cisco to join Clearwire in building WiMax network

BY ROGER CHENG

Wireless provider **Clearwire** Corp. signed up another high-profile partner, **Cisco Systems** Inc., as it races to roll out its next-generation broadband U.S. network.

Clearwire said Cisco would make devices for customers of a high-speed wireless network Clearwire is building based on WiMax technology. Clearwire has also tapped Cisco to provide the network backbone to its nationwide service. Financial terms weren't disclosed.

Separately, Clearwire reported first-quarter revenue of $62.1 million, up 21% on a pro forma basis reflecting the inclusion of Sprint's WiMax business. It posted a narrower loss, $71.1 million compared with $76.4 million.

Cisco, of San Jose, Calif., joins forces with a few other Silicon Valley giants, including **Intel** Corp. and **Google** Inc., in backing WiMax, a technology that rivals the LTE standard that wireless carriers such as Verizon Wireless and **AT&T** Inc. have chosen for their next-generation networks.

Cisco's gear will go into the physical link between the radio antennas and Clearwire's core central office. Much wireless-traffic congestion can be found on the older ground networks that also carry cellular calls.

Unlike Intel and Google, Cisco isn't making an investment in Clearwire. While adding the networking company to its alliance will help Clearwire, Soleil Securities analyst Michael Nelson said he continues to have "significant concerns regarding its business model and cash burn in the face of a weak macro environment."

Traditionally, telecom equipment comes from players such as **L.M. Ericsson Telephone** Co. or **Alcatel Lucent**.

Drug makers' lobbying bets climb

Health-care debate in U.S. spurs a rise in industry spending

By Alicia Mundy
And T.W. Farnam

The drug industry, already the biggest-spending lobby in Washington, is placing an even bigger bet on the influence game.

Potential windfalls and pitfalls in the expected overhaul of the health-care system have energized drug companies, which spent $47.4 million on lobbying in the first three months of 2009. That's up 36% from the first quarter of 2008, according to company disclosure reports filed with Congress and analyzed by the nonpartisan Center for Responsive Politics.

Drug makers are one of the few major industries to increase lobbying outlays in the U.S. during the economic downturn. Overall, many companies and institutions have trimmed back, leaving spending essentially flat from a year ago.

The drug industry wants a role in shaping legislation that would expand U.S. health-care coverage. Companies could profit if more people gain health insurance that includes prescription-drug coverage, but dangers lurk for the industry in proposals that could expand competition from low-cost generic drugs or weaken patent protection.

Many other industries and advocacy groups are also spending millions of dollars to sway the health-care debate. Insurers, doctors, hospitals and unions have all addressed the topic. The unions' wish list includes more employer-sponsored health insurance and longer benefits for workers who have been laid off.

The American Hospital Association and individual hospitals spent $18.4 million on lobbying in the first quarter of this year, down from $19 million a year earlier. Labor unions spent $10.3 million combined, a figure that includes lobbying on other issues. The figures don't include other types of spending by the groups to influence opinion, such as grass-roots organizing and encouraging members to send letters to Congress.

Several pharmaceutical companies more than doubled their investment in lobbying in the first quarter of this year, according to the data. Eight major pharmaceutical companies—including **Bayer** AG, **GlaxoSmithKline** PLC and **Merck** & Co.—each reported increases of more than 40% in lobbying over the previous year. **Pfizer** Inc. spent $6.1 million in the first quarter, more than double the $2.8 million the company spent in the same period of 2008.

Pfizer said in a statement that it met with congressional offices and administration officials on how to expand coverage for uninsured Americans, improve quality by emphasizing prevention and reward innovation.

The industry's major trade association, the Pharmaceutical Research and Manufacturers of America, spent $6.9 million, up 92% from $3.6 million in the same period last year.

The U.S. economic-stimulus bill passed in February allocates $1.1 billion for comparative-effectiveness research to determine which treatments and drugs are best for certain ailments. Some see the research as a way to help the government and private insurers cut back on expensive medicines that do poorly in comparative studies, though the official purpose isn't cost cutting.

"Everybody should use that information to make valid decisions about the effectiveness of medicine," said former Rep. Billy Tauzin, the head of PhRMA.

The drug industry at one time cultivated a close alliance in the U.S. with the Republican Party. But since the 2008 election, drug companies' political action committees have favored the Democratic Party in their political contributions, giving $1.2 million to Democrats and $1 million to Republicans, according to data from the Federal Election Commission that were analyzed by the Center for Responsive Politics. In the same period after the 2004 presidential contest, the drug industry gave $944,000 to Republicans and only $332,000 to Democrats.

"Over the last four years we have become less partisan and perhaps nonpartisan," said Mr. Tauzin.

PhRMA has been working with liberal political-advocacy groups as well, drafting a statement of shared principles with patient-advocacy group Families USA.

Currying favor

First-quarter lobbying spending by selected industries and change from a year earlier

Industry	Spending	Change
Pharmaceutical manufacturing	$47.4 million	36%
Insurance	$41.4 million	–2%
Electric utilities	$34.3 million	–2
Automotive	$15.6 million	–8
Securities and investment	$18.7 million	–21
Real estate	$17.1 million	–23

Source: Center for Responsive Politics

Pioneer posts wider loss, sees another off year

By Yuzo Yamaguchi

TOKYO—**Pioneer** Corp. said its fiscal full-year net loss broadened and forecast that the current year would be its sixth straight in the red.

The Japanese maker of audio products and car-navigation systems said its net loss for the fiscal year ended March ballooned to 130.53 billion yen ($1.35 billion) from 19.04 billion yen a year earlier.

Pioneer said it expects to post a net loss of 83 billion yen for the current fiscal year, reflecting costs of 47 billion yen for a restructuring.

The company reiterated that it is preparing to apply for an injection of an unspecified amount of public funds. It also isn't ruling out the possibility of building capital ties with **Mitsubishi Electric** Corp., which will develop software for car-navigation systems jointly with Pioneer. "We are not in talks [with Mitsubishi] for now but in the future we may consider" a cash infusion from its business partner, said Pioneer President Susumu Kotani.

Mitsubishi Electric has no plans to infuse cash into Pioneer, a Mitsubishi spokesman said.

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CORPORATE NEWS

Cheerios maker is warned

U.S. regulator says cereal's health claims violate federal law

By Jennifer Corbett Dooren

The U.S. Food and Drug Administration slapped **General Mills** Inc. with a warning over its Cheerios cereal, saying the box's claims about heart benefits contain "serious violations" of federal law.

In a May 5 warning letter sent to the company and posted on the FDA's Web site Tuesday, the agency said statements that the product is "clinically proven to help lower cholesterol" make the product a drug under federal law.

Stephen Sundlof, the director of the FDA's food-safety center, said the agency has noticed a tendency by food companies to cross the line into the drug category by making specific health claims on packaging.

He said the FDA is ready to send out more warning letters if it finds more violators, although it has "no specific campaign" to go after food manufacturers.

General Mills spokesman Tom Forsythe said the Cheerios box's message saying the cereal can "lower your cholesterol 4% in six weeks" has been used for more than two years. The box cites a clinical study involving Cheerios as part of a diet low in saturated fat and cholesterol.

Cheerios boxes include a claim that the cereal can cut cholesterol in six weeks.

Mr. Forsythe said the broader claims on the box about heart health have been permitted by the FDA for 12 years. "The clinical study supporting Cheerios' cholesterol-lowering benefit is very strong," he said.

The FDA said such specific cholesterol-lowering claims can be made only for drugs, and it suggested that if General Mills wants to keep the box labeling as is, it should file a new-drug application for Cheerios.

Mr. Forsythe said the company would work with the agency to reach a "resolution" on the Cheerios labeling.

"We try to make a bright line here between what can be said about a drug and what can be said about a food," said Dr. Sundlof. He said a more general claim about reduction in heart-disease risk from eating whole-grain foods may be permissible as long as specific language is used.

The FDA also took issue with a company-sponsored Web site mentioned on the Cheerios box. The Web site discusses the benefits of eating whole grains, but the FDA said some of the health claims about reducing cancer and heart-disease risk don't comply with agency rules.

The FDA said General Mills must "promptly" correct the violations outlined in the letter or the agency could take enforcement action, such as seizing products.

Dr. Sundlof said the FDA's review of Cheerios was prompted by a September 2008 letter from the National Consumers League that expressed concerns about the labeling on Cheerios.

The FDA isn't the only Washington agency in the Obama administration taking a close look at food makers' health claims. Last month, the Federal Trade Commission settled a complaint with Kellogg Co. involving claims that its Frosted Mini-Wheats cereal was clinically shown to improve children's attentiveness by nearly 20%.

FTC Chairman Jon Leibowitz said the commission would start paying more attention to national advertisers.

Petrobras ready for Chinese deals

By Patricia Kowsmann

Petróleo Brasileiro SA is prepared to have Chinese state-owned oil companies invest in its oil exploration and production projects in Brazil, a person familiar with the situation said.

The state-run Brazilian oil company is open to such a move as part of a package deal involving $10 billion in Chinese financing for Petrobras announced in February.

Petrobras also is in talks with four Chinese companies on how much crude oil the Brazilian company would supply as part of a credit-for-oil deal, the person said. The deal is expected to be announced by next week when Brazilian President Luiz Inacio Lula da Silva visits China.

In February, Brazil and China agreed on a framework for the loan and oil supplies, and details are now being worked out. If a final agreement is hammered out, it would be one of a string of similar deals Beijing has struck with energy producers world-wide in recent months, including billion-dollar deals with Kazakhstan and Russia.

As part of the Brazil-China talks in February, Petrobras agreed to sell refiner **China Petrochemical** Corp., known as Sinopec, 60,000 to 100,000 barrels a day of heavy crude oil, equivalent to around 5% of Petrobras' daily output.

The discussions have now been expanded to include possible sales of up to 200,000 barrels a day, with other Chinese companies brought into the equation. Financial terms of the loan and oil sales are still being worked out, but both have a 10-year term, the person said.

The four Chinese companies in the talks to buy between 100,000 and 200,000 barrels a day of heavy crude are **PetroChina** Co.'s unit Chinaoil; Sinopec's unit Unipec; **Sinochem** Corp.; and **Zhuhai Zhenrong**, the person said. The companies weren't available to comment.

Petrobras needs the money for the exploitation of big oil and gas discoveries off Brazil's coast, which could turn Brazil into a major oil exporter. The company has said it will spend $28 billion through 2013 to explore and drill in the deep-water fields.

Following the recent oil and gas discoveries off Brazil's coast, the government suspended auctions of exploration rights in those areas, essentially blocking investment by foreign companies. Petrobras was then left to find ways to finance the exploration costs.

Brazil's President da Silva, who will have Petrobras Chief Executive Jose Sergio Gabrielli with him during a three-day visit to China starting Monday, is expected to sign a range of agreements with his Chinese counterpart Hu Jintao.

Russia's VimpelCom posts loss

By Andrew Langley

MOSCOW—Russian telecommunications operator OAO **Vimpel Communications** said Wednesday that it would halve the proportion of sales it reinvests in its networks after it swung to a fourth-quarter net loss, but added it remained confident that its main mobile business would hold up.

VimpelCom reported a net loss of $816 million for the three months ended Dec. 31, compared with a year-earlier net profit of $368 million.

Weighing on earnings were a $1 billion foreign-exchange loss stemming from a revaluation of its U.S. dollar-denominated debt and a $443 million write-down of goodwill related to last year's $4.3 billion purchase of Golden Telecom.

Revenue rose 27% to $2.56 billion as additional sales from Golden's business more than offset a drop in the average monthly amount spent by VimpelCom's mobile customers.

Mirroring a similar move at rival OAO **Mobile TeleSystems**, VimpelCom Chief Executive Boris Nemsic said capital spending in 2009 would total 12% to 15% of revenue, down from about 25% last year. Due to recent sharp fluctuations in exchange rates, capital spending, which is denominated largely in foreign currencies, will be reviewed on a quarterly basis, Mr. Nemsic said.

Russian companies have been battening down the hatches for a tough year as lower commodity prices and tight credit slam the economy.

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GLOBAL BUSINESS BRIEFS

Novartis AG

Drug maker hires banker as its next finance chief

Novartis AG named former AstraZeneca PLC manager Jonathan Symonds its deputy chief financial officer, as part of a plan to appoint him the drug maker's finance chief. Mr. Symonds, a Goldman Sachs Group Inc. banker, will join Switzerland-based Novartis on Sept. 1 and report to Chief Financial Officer Raymund Breu, who will retire March 31 after 35 years at the company. Mr. Symonds's "financial expertise, broad industry experience and deep knowledge of the health-care industry make him especially suited to take on the responsibilities" of Novartis's finance chief, said Daniel Vasella, the drug maker's chairman and chief executive officer. Mr. Symonds, 50 years old, spent eight years as AstraZeneca's finance chief.

Ryanair Holdings PLC

In a move to cut costs, **Ryanair Holdings** PLC announced new fees as it abolishes check-in desks in favor of online ticketing. The Dublin-based budget carrier said it will introduce a £5 ($7.63) or €5 ($6.82) online check-in fee per person per flight on new bookings. The airline also said it will fine passengers €40 or £40 for not printing out their boarding pass before arriving at the airport. Previously, Ryanair offered free online ticketing but charged an extra £10 or €10 to check in at the airport. Ryanair spokesman Stephen McNamara said the airline hopes to shut down all of its traditional check-in desks at 146 airports by Oct. 1 at the latest. He said the move to online-only check-in will "allow Ryanair to lower our airport and handling costs and pass these savings to all passengers in the form of even lower air fares next winter."

Allied Irish Banks PLC

Allied Irish Banks PLC Chairman Dermot Gleeson resigned, saying a change in management will bring a new era of accountability at the bank. Speaking at the bank's annual general meeting Wednesday, Mr. Gleeson apologized and said property-lending decisions at AIB "have compounded the effects of the worst economic downturn in living memory," adding, "With hindsight, I regret some of the lending decisions that were made, particularly in relation to property development here in Ireland." Mr. Gleeson also said investors overwhelmingly voted to approve a €3.5 billion taxpayer bailout proposed by the government three months ago. AIB said the government will receive a 25% stake and €280 million in annual dividends.

Deutsche Bahn AG

Germany's national railway operator shuffled senior management following a scandal over checks on employee data. **Deutsche Bahn** AG said it accepted the resignation of three board members to "make possible a credible and convincing new beginning," but stressed that the three bore no personal responsibility. The scandal had already prompted the resignation of long-time Chief Executive Hartmut Mehdorn. Over recent months, it emerged that data on much of Deutsche Bahn's work force, such as addresses and bank details, were compared several times with details of supply firms, without informing employees. The scrutiny was billed as an effort to prevent corruption.

Nikon Corp.

Nikon Corp.'s fiscal full-year net profit fell 63%, as the yen's strength and flagging demand for devices that use semiconductor chips and liquid-crystal-display panels offset solid digital-camera sales. The precision equipment maker, best known for its digital cameras, said net profit fell to 28.06 billion yen ($291.2 million) in the fiscal year ended March, compared with a net profit of 75.48 billion yen for the previous year. Revenue fell 8% to 879.72 billion yen, while operating profit dropped 64% to 48.18 billion yen. For fiscal 2010, Nikon expects a net loss of 17 billion yen and an operating loss of 12 billion yen, partly because the yen's strength is likely to cut into overseas sales.

Ssangyong Motor Co.

Ssangyong Motor Co. of South Korea said its first-quarter net loss widened from a year earlier because of a sharp decline in sales amid the economic slowdown. The auto maker, which has been under bankruptcy protection since February after a severe cash shortage, said its net loss for the three months ended March 31 widened to 265.6 billion won ($214.4 million) from 34.2 billion won a year earlier. Its operating loss widened to 125.6 billion won from 27.6 billion won, as sales fell 66% to 233.7 billion won from 677.6 billion won. "Lower demand and damaged credibility following its entrance into court receivership in February dealt a heavy blow" to the company's results, Ssangyong said.

Applied Materials Inc.

Applied Materials Inc. swung to a loss in its fiscal second quarter, as sales fell 53% amid a tough environment for the chip sector. The loss was the second straight for the semiconductor equipment maker after a string of profit dating from 2003, but Chief Executive Mike Splinter said demand "appears to be rising off a bottom." The Santa Clara, Calif., company had a loss of $255.4 million, or 19 cents a share, for the quarter ended April 26, compared with year-earlier earnings of $302.5 million, or 22 cents a share. Revenue tumbled to $1.02 billion, and gross margin fell to 15.2% from 45%. New-equipment orders, closely watched for the company, fell 73%.

Citigroup Inc.

Airports operator BAA Ltd. said **Citigroup** Inc.'s consortium has been eliminated from the auction for London's Gatwick Airport, leaving two bidders. BAA said Citigroup "was uncompetitive on price and there were no assurances on deliverability." It said it was continuing talks with remaining bidders. BAA is owned by Spain's **Grupo Ferrovial** SA. Citi was bidding jointly with Vancouver Airport and John Hancock Life Insurance Co. under the name Lysander Gatwick Investment Group and had earlier said it was out of the running. The group said it was puzzled by BAA's decision. A person familiar with the situation said Lysander's bid was the lowest, at £1.18 billion. The remaining bidders are Global Infrastructure Partners, which includes London City airport owners **General Electric** Co. and **Credit Suisse Group**, and a group comprising Manchester Airports Group and Borealis Infrastructure.

—Compiled from staff and wire service reports.

SPECIAL ADVERTISING SECTION

INVESTING IN TURKEY

GETTY IMAGES/Scott E Barbour

Solid financial system serves as country's economic shield

The measures to minimize and manage risk, introduced after 2001, have given Turkish banks strong balance sheets for the current economic crisis.

Country continues to pursue policies that are designed to ensure long-term fiscal soundness and achieve high sustainable growth

By **Catherine Bolgar**

FRIEDRICH NIETZSCHE said, "What does not destroy me, makes me strong."

So it is that Turkey, which was wracked by a banking crisis eight years ago, has one of today's healthier financial systems. And this is helping the country protect its economy from the effects of the global downturn.

In the wake of the 2001 crisis, Turkish banks weren't allowed to take the kinds of risks that ended up getting U.S. and European banks into trouble last fall. Though Turkish banks had some loans in the real estate sector, they were a small part of overall loans and nothing like the risky subprime mortgages seen elsewhere.

Turkey hasn't had the explosion of credit seen in many other countries, says Ben Faulks, London-based analyst for Turkey at credit ratings company Standard & Poor's. "Banks haven't borrowed so much abroad, and lending hasn't been as rapid as in many Eastern European countries."

At the time the crisis hit much of the world's financial system, Turkish banks had strong balance sheets, says Ismail Erturk, senior lecturer in banking at the Manchester Business School in the U.K. "They were not exposed to the housing market in Turkey. Due to the restructuring of Turkish banks after the 2001 financial crisis, the kind of banking they were doing by default had to be very simple — collecting deposits and investing in traditional banking assets like government bonds."

Measures to minimize and manage risk introduced after 2001 have paid off in the current situation, says Gazi Ercel, governor of Turkey's central bank between 1996 and 2001 and principal of Ercel Global Advisory in Istanbul. Banks had just begun to extend mortgages and consumer credit more widely, but such lending amounted to only 10% of gross domestic product. By comparison, the amount borrowed by consumers in the U.S. was almost

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INVESTING IN TURKEY

Solid financial system serves as country's economic shield

CONTINUED FROM PREVIOUS PAGE ▼

equal to the country's GDP.

In getting the economy back on its feet in 2001, Turkey's government had to reduce its deficit and debt. Public debt was about 37% of GDP at the end of 2008, according to the International Monetary Fund — as good as most European countries. It was 71% in 2002.

"Turkey continues to pursue policies that will ensure long-term fiscal soundness, improve tax efficiency and achieve high sustainable growth underpinned by an up-to-date infrastructure and a well-trained work force," said Didier Reynders, minister of finance for Belgium, in a statement to the IMF's financial committee last month. (Belgium represents Turkey at the IMF.)

But while Turkey's policies have reduced its exposure to the current global crisis, the country hasn't escaped unscathed.

Manufacturing has been hit the worst by the slowdown. Just as exports led Turkey to impressive growth — GDP grew 7.2% a year on average between 2002 and 2006 — the fall in exports is core to the IMF's projection that GDP will contract 5.1% this year.

The automotive sector has been hit particularly hard, as car sales drop around the world. One of Turkey's biggest factories belongs to Ford Motor Co. Output fell 59% in the first quarter from a year earlier.

And as in the rest of the world, the construction sector has slowed down. The building boom was driven by rising housing prices, which have cooled, along with the willingness of banks to lend. Commercial lending, for such projects as shopping centers, also has slowed. However, Turkey never had the kind of real estate bubble seen in some other countries, says Mr. Ercel, the former central bank governor.

"At this point in time, the government should enter the picture with infrastructure projects," he says. "We badly need to increase infrastructure investment for roads, energy and the like with participation by the public sector." However, he notes, the tax system in Turkey is weighted toward value-added and other consumption taxes rather than taxes on personal and corporate income, which make up only about 15% of tax revenues. That makes tax revenue procyclical — up a lot in a boom and down a lot in a crisis. The system "should have been changed five to seven years ago," he says.

The growth of private consumption is slowing — if not falling. Estimates range between 2.7% growth this year (compared with 4.1% in 2007) and a decline. This, however, has a benefit to the economy in the form of lower imports and a consequent narrowing of the current-account deficit, which had been climbing quickly in recent years, to around 6% of GDP (economists' alarm bells tend to go off around the 5% mark).

Countries with large current-account deficits, notably in Eastern Europe, got into trouble as the financial crisis took hold, Manchester Business School's Mr. Erturk says, and Turkey's deficit also was initially viewed with alarm. That has

MUSTAFA OZER/AFP/Getty Images

Turkey has more than 80,000 companies with small and medium enterprises making up 99.6% of all businesses.

changed. The current-account deficit for the first quarter of this year was $1.16 billion (€850 million), compared with $12.3 billion in the first quarter of last year.

Inflation, which had been a growing menace, has fallen. Last summer, it was around 11%, but has contracted to under 7% as oil and fuel prices dropped around the world. That gives the central bank more room to maneuver, and it has radically cut overnight interest rates to 9.75% from 16.5% six months ago. "The central bank has done a good job of containing or reducing the effects of the crisis on Turkey," former central bank governor Mr. Ercel says.

The dominance of small and medium-size businesses in the country's enterprise landscape, also brings advantages in combating the effects of the global downturn. Turkey has more than 80,000 companies with small and medium enterprises making up 99.6% of all businesses, says Mr. Ercel. The few large companies mostly are located in Western Turkey, in big cities, while smaller enterprises are prevalent in Anatolia. Despite their small size and lack of resources, these family businesses not only hang on through the downturn but also help relatives. "The social coverage from families is obvious," he says.

Another plus is the liquidity of Turkish businesses. Most Turkish companies were stockpiling cash before the crisis, which is helping them now, says Mr. Erturk of the Manchester Business School. "You don't see many companies that are terribly bad in terms of balance sheets. So they still have resources. But the problem is how to use those resources to grow capital and achieve growth and invest in profitable ventures."

Shahbaz Mavaddat, Istanbul-based director Southern Europe and Central Asia for the Washington-based International Finance Corporation, an affiliate of the World Bank Group that encourages private enterprise in less-developed countries, sees much potential in private-sector involvement with infrastructure projects, particularly those concerning energy.

"Turkey's size and potential in wind, hydro and geothermal resources make it an ideal country to make a positive contribution to climate change," he says. "In addition, Turkey's location between the Caucasus, Central Asia, the Middle East, Europe and North Africa makes it a natural energy-transit hub and its full potential as an energy corridor for oil and gas pipelines is yet to be realized."

The Geneva-based World Economic Forum's Global Competitiveness Report for 2008-2009 ranked Turkey No. 63 out of 134 countries, compared with No. 53 out of 131 countries a year earlier. Turkey lost points on education, innovation and labor-market efficiency. Productivity is the lowest among the member countries of the Organization for Economic Cooperation and Development. However, Turkish companies have won accolades for business sophistication — plenty of good local suppliers, good control of international distribution, ability to produce goods higher on the value chain.

As in many parts of the world, foreign direct investment is down after a sustained period of growth. FDI inflows rose sharply between 2004 and 2007 — almost eightfold, to $22 billion. But Turkey's FDI inflows declined between January and November 2008 to just over $16 billion from just under $19 billion during the same period in 2007, and are expected to shrink further in 2009 as the global slowdown hits foreign investors, a reason that is unrelated to the country's own economic fundamentals.

Top banker takes a hard look at country's financial sector

KOÇ FINANCIAL Services is the banking and insurance arm of Istanbul-based Koç Holding, Turkey's largest conglomerate, and is a 50-50 partnership with Milan-based UniCredit. At the end of April, KFS named **Tayfun Bayazit** as its new CEO. He previously served as CEO of the group's bank Yapi Kredi, and now becomes the bank's chairman. In an interview with Andrew Finkel, Mr. Bayazit describes how Turkey's financial sector and his own organization are coping with a turbulent global environment.

Q: Turkey lived through its own economic crisis in 2001. Does this make it more vulnerable or less vulnerable to events beyond its shores?

A: Many of the questions rightly being asked of banks world-wide are the very things Turkey asked itself after 2001. We learned prudence, for example, not to lend in foreign currencies to consumers. So we have not, unlike some other countries, been caught out this time. The thing which makes Turkey attractive to investors, the fact that it is still underleveraged, works to its advantage in a crisis. Financial markets still lack sophistication, but this means we don't have derivatives and all those toxic instruments. On the other hand, Turkey is a part of the globalized economy and suffers from the shrinking demand for its exports and a business environment in which expectations are low. From 2003, Turkey became an important beneficiary of capital flows into emerging markets. This helped finance corporate growth and plug the current-account deficit. Of course, the credit crunch hurts. But we are by no means the worst affected.

Q: What are the implications of the global financial crisis for your own institution?

A: Our own strategy and what we advise our customers, is the same. There will be an end to this crisis. It will probably be in 2010, but we can't bet on it now. Given the high cost of borrowing due to increased risk premium, we are cautioning our customers not to invest aggressively. Getting through the current period means controlling our costs and better controlling our risks. Business models [his own and those of his clients] will have to be questioned under the circumstances.

Q: So you are more conservative?

A: A year ago, when a company would come to us wanting to invest in a hydroelectric power project, for example, it would have been feasible to have 20%-25% equity and 75% debt. But now, loan maturities are shorter and we are demanding equity ratios closer to 50%. In 2007, we decided that the way to reach key consumer and small-business markets was to expand physically. Last year we opened a record 185 branches. This year, so far we've opened none. At the same time, we are trying to make sure that a short-term crunch does not turn into a long-term crisis. This means sitting down, particularly with small businesses which are the future of Turkish banking and working on a restructuring plan.

Q: Turkey emerged from the crisis in 2001 through tight fiscal control. Are you concerned that this control may be slipping?

A: Turkey had a very crowded political agenda in 2008, and the agreement with the International Monetary Fund expired in May 2008 and new negotiations stalled. This resulted in a loss of focus on economic management and structural reform. The fiscal balance would have suffered in any case because of the need for some stimulus in the face of the global crisis. However, we shouldn't lose sight of the fact that the miraculous improvement in Turkey's economy between 2003-2007 was the result of sticking to structural reforms, rehabilitating the banking sector and maintaining unprecedented fiscal prudence. New fiscal stimulus has to be limited [to retain international confidence] and has to be carefully thought through. Going back to the old days of uncontrolled government spending is not an option. At the same time, Turkey has a sizable grey [untaxed] economy. Expanding the tax base and improving collection will make a significant difference.

Q: What are the prospects for Turkish banking?

A: The good news is that Turkey has plenty of potential. The bad news is that this potential will be realized later than we originally envisaged. There was significant investment in the sector between 2005-2008. UniCredit, U.S.-owned GE Finance, Brussels-based Dexia, London-based HSBC, Amsterdam-based ING, National Bank of Greece all expanded into Turkey. They did so with a long-term perspective, but even that horizon has receded because it is going to take Turkey longer to mature [to justify the sums foreign banks paid to get into Turkey].

Q: Might we see foreign banks pulling out?

A: We might, but this would have been the case even without the crisis. But of course European banking has changed. Governments are now more involved and there are different decision-making mechanisms. In some cases, the people who took the decision to invest in Turkey, are no longer at the helm. Happily, this is not the case with UniCredit. CEO Alessandro Profumo and the team which first looked at Turkey saw great potential and still believe that we can profitably expand our banking operations here.

Tayfun Bayazit