Corporate News: Shell's incoming CEO shakes up oil major's structure

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

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Editorial & Opinion

The end of Brown
Britain's government, not the constitution, needs changing. Page 15

Breaking news at europe.WSJ.com

German regulator ignored

Probe of Hypo rescue suggests government didn't heed watchdog's warnings

By David Crawford And Marcus Walker

BERLIN—Germany's financial regulator warned of serious problems at **Hypo Real Estate Holding** AG six months before the bank was rescued in a massive bail-out, but the regulator lacked powers to act and the government ignored its warnings, according to documents viewed by The Wall Street Journal.

The documents, brought to light in preparation for parliamentary committee hearings Thursday to examine the government's handling of the bail-out of Hypo and are likely to prove politically charged, ahead of national elections in September.

For months, Germany has lectured the U.S. and others on the need for stricter regulation of financial markets, holding itself up as a model. The German parliament probe into the €102 billion ($142.6 billion) rescue of Munich-based Hypo, however, suggests Germany struggled as much as the U.S. or Britain to control the risks the country's banks were taking.

Hypo's funding problems and huge losses on complex securities make it the worst of Germany's problem banks, but one of many. German banks could face total losses in the current financial crisis of €200 billion to €300 billion, according to several estimates, of which only around €100 billion has been written down so far.

Spokesmen for Hypo and the Bundesbank, Germany's central bank, declined to comment.

Overall, banks in Western Europe could lose about $1.4 trillion in this crisis, more than expected losses in the U.S. banking system, according to the International Monetary Fund.

"There is every indication that in Germany, there have

Please turn to page 31

Fridman wins TNK-BP top job

BP PLC asked one of its Russian billionaire partners to take over as acting chief of their **TNK-BP** Ltd. joint venture, a move observers said highlights the British giant's fading influence at the Russian unit after a bitter shareholder conflict last year.

By Gregory L. White in Moscow and Guy Chazan in London

Publicly, BP and its Russian partners played down the significance of the move and denied any tension at the 50-50 venture. They say that Mikhail Fridman, now chairman of TNK-BP, will add the title of acting CEO only through the end of the year while a permanent replacement is found.

In a statement Wednesday, BP CEO Tony Hayward said he welcomed the new arrangement. But people close to the situation said it marked another big concession by BP. During the conflict last year, BP criticized the management roles of some of the Russian shareholders as bad for corporate governance.

"They've turned over the keys to the castle to the attacking horde," a person close to TNK-BP said.

Analysts agreed. "BP have gone from a situation where they had de facto operating control of TNK-BP and their man was CEO to a situation

Please turn to page 31

Militants kill about 30 people in Pakistan attack

Agence-France Presse

UNDER SIEGE: Rescuers take cover from gunmen while trying to free a policeman fom the rubble of a police building in Lahore. Interior Ministry chief Rehman Malik said the strike appeared to be a reprisal to the military's attempts to drive the Taliban from the Swat Valley. **Page 12.**

Merkel tries to steer GM units into trust

By Marcus Walker And Alistair MacDonald

BERLIN—German Chancellor Angela Merkel hosted politicians and auto executives at a summit late Wednesday with the aim of reaching an agreement to place **General Motors** Corp.'s European car brands Opel and Vauxhall under a trust and provide them with state-backed financing until a new owner can be found.

The meeting at the chancellery wasn't expected to settle who that new owner will be, German politicians said before the talks began. The leading contenders to buy Opel and Vauxhall are Canadian auto-parts supplier **Magna International** Inc. and Italian car maker **Fiat** SpA, according to German officials.

German Foreign Minister Frank-Walter Steinmeier said Germany aimed to provide interim financing to the GM units. The bridge loans of about €1.5 billion, or roughly $2 billion, mainly would come from state-owned bank KfW **Bankengruppe** and regional lenders controlled by German states that are home to Opel factories.

Meanwhile, GM moved to pool its Opel and Vauxhall operations under its German-based Adam Opel GmbH business, a step aimed at allowing the sale of the European units to proceed even if GM files for bankruptcy protection.

Germany said it has re-

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Inside

Slow and steady

Prudent Chile thrives amid global economic downturn
News in Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8300.02	-2.05
Nasdaq	1731.08	-1.11
DJ Stoxx 600	210.41	+0.69
FTSE 100	4416.23	+0.10
DAX	5000.77	+0.30
CAC 40	3294.86	+0.76
Euro	$1.3916	-0.50
Nymex crude	$63.45	+1.60

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LEADING THE NEWS

Euro zone's slump eases

Contraction persists but pace is slowing, EuroCoin data show

BY ILONA BILLINGTON

LONDON—The euro-zone economy continued to shrink in May, but the pace of the contraction eased for the third straight month, providing more signs the recession could be easing.

The EuroCoin indicator, developed by the Centre for Economic Policy Research and the Italian central bank, improved to minus 0.89% in May from minus 1.09% in April.

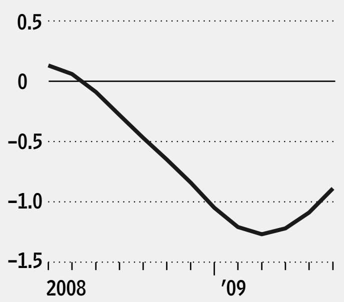
According to official statistics, the euro zone's gross domestic product fell by a record 2.5% in the first quarter from the fourth quarter of 2008, having contracted by 1.6% in the fourth quarter from the third quarter.

The improvement in the EuroCoin, however, is in line with the recent pickup seen in purchasing managers indexes. The preliminary May index showed an improvement in both the manufacturing and service sectors, pushing the composite index to an eight-month high of 41.9 this month from 41.1 in April.

EuroCoin was developed to provide a real-time estimate of the euro zone's GDP growth. It reflects various statistics covering industrial production, stock markets and financial data.

Green shoots

The EuroCoin, a monthly estimate of euro-zone economic activity



Note: Based on quarter-to-quarter change in GDP
Source: Bank of Italy via Centre for Economic Policy Research

Economists said the report added to positive signs that the economic slump in the 16-country euro zone could be bottoming out.

The Centre for Economic Policy Research said that although the index has now improved for three consecutive months, "prudence should be taken in drawing too optimistic conclusions from this."

BNP Paribas economist Ken Wattret said the May EuroCoin reading was still lower than at any point during the recession of the early 1990s. "Rebounding stock markets and survey data gave a boost to the EuroCoin indicator, while industrial production continued to exert a negative effect," he said in a note to clients.

But economists at Bank of America, citing improving forward-looking sentiment surveys, now say they believe that the euro-zone economy could be on the road to recovery as early as the third quarter. "However, getting there may be still be a rocky ride for markets and the economy," said Bank of America's Holger Schmieding.

Early signs of recovery are likely to keep the European Central Bank from cutting interest rates soon, with a number of the central bank's governing-council members declaring this week that current levels are appropriate. But, with the recession lingering, the central bank isn't expected to raise rates again soon.

On Wednesday, Vítor Constâncio, a member of the ECB's governing council, said the pace of the downturn is slowing but the euro-zone economy will still post a significant decline in output this year.

"There are some signs the pace of recession is abating, but, on the whole, the situation is negative. Growth this year will still be very much negative," Mr. Constâncio told journalists before speaking to the Portuguese parliament.

Still, even hard-hit economies such as Spain are seeing glimmers of good news. While Spanish retail sales continued to fall in April as spiraling unemployment reduced disposable income, the pace of decline eased as a result of lower inflation and interest rates provided some support for consumption.

According to data Wednesday from Spain's National Statistics Institute, April retail sales fell by 7.5% from a year earlier in calendar-adjusted terms, after declining by 8.2% in March and 9.1% in February.

In a note to investors, Ben May of Capital Economics said he saw signs of improvement in consumption across Europe, citing the slower pace of contraction in Spanish retail sales, rising consumer confidence in France and unchanged consumer confidence in Italy.

"The latest figures on the euro-zone consumer sector suggest that lower inflation and looser monetary and fiscal policy might be starting to boost consumer sentiment," Mr. May said.

—Jeffrey T. Lewis contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Thailand was an exporter of rice in 2008-2009. A International Investor article on Monday incorrectly said the nation was a net importer.

Panel is proposed to steer Europe banking stability

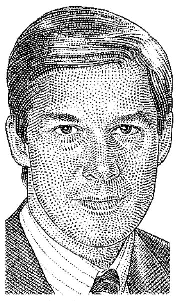
BY MATTHEW DALTON

BRUSSELS—Regulators proposed a new oversight role for the European Central Bank and the central-bank governors of the European Union's 27 member states in a move to ensure the stability of the region's financial system.

José Manuel Barroso

The proposal on Wednesday from the European Commission, the EU's executive arm, largely follows recommendations made in February by a panel led by Jacques de Larosière, the former head of the Bank of France. The panel issued the recommendations on overhauling EU financial regulations in the aftermath of the global economic crisis.

Though 16 European nations share a currency and a central bank, most aspects of banking regulation remain the province of national authorities. The regulatory patchwork leaves big European banks, which in recent years have increasingly done business across continental borders, accountable to many different national regulators. The new plan calls for centralizing some oversight authority in the ECB.



Christian Noyer

The commission's plan calls for the creation of a panel, the European Systemic Risk Council, which would be headed by the president of the ECB and would include governors of the EU's 27 central banks.The panel would monitor broad risks in the region's financial system and intervene if necessary.

The commission's proposal would also strengthen national regulators' ability to coordinate the regulation of banks, securities firms and insurance companies across the EU. The commission aims to have the rules in place next year.

Critics in the U.K. have complained that the commission's plan would grant the ECB, which oversees the euro-zone economies, power over the U.K.'s financial markets. The U.K. is part of the EU but doesn't use the euro currency.

U.K. officials, seeking to preserve London's role as Europe's leading financial center, have opposed giving the European Systemic Risk Council direct powers over national supervisors. They also have criticized the idea of making the president of the ECB the leader of the risk council, saying the arrangement threatens the new panel's independence.

Commission officials said at a news conference that national governments would keep much of the regulatory power they have over their financial institutions. "This is not a centralization of power," said José Manuel Barroso, the commission's president. "We are not taking away national supervisors' day-to-day role."

A U.K. Treasury spokesman called the commission's proposals "a starting point for further discussions," adding: "Any reforms we make within the EU need to be workable, practical and consistent with the approach we are taking internationally" through the Group of 20 countries.

The proposal will be voted on by EU national governments at the European Council in June. The commission will then issue legislative proposals in autumn.

European Central Bank board member Christian Noyer said he supports the publishing of EU-wide stress tests for banks and would favor the ECB's coordinating the supervision of the Continent's financial system.

—Adam Bradbery and Gabriele Parussini contributed to this article.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Citigroup, SEC in settlement talks

Focus is how bank disclosed amount of troubled assets

By Susan Pulliam
And Randall Smith

Citigroup Inc. is in the early stages of negotiating with the U.S. Securities and Exchange Commission to settle an investigation into whether it misled investors by not properly disclosing the amount of troubled mortgage assets it held as the market began to implode in 2007, people familiar with the matter say.

The talks signal that the SEC could be moving toward resolving a number of civil probes that began in late 2007, when mortgage-related losses began mounting on the books of banks and Wall Street firms. A Citigroup spokesman said the firm's policy is not to comment on such regulatory issues.

The development comes as Wall Street firms attempt to recover from a credit-market meltdown that triggered hundreds of billions of dollars in losses that led to the demise of firms including Bear Stearns Cos. and Lehman Brothers Holdings Inc.

At the heart of the crisis have been questions about the value of assets on the books of financial firms, as investors increasingly became distrustful of firms' own estimates and regulators began examining measurement methods and disclosures.

Among issues being debated inside the SEC is whether, as a recipient of government-rescue funds, Citigroup should pay a large penalty in the case. There is concern at the SEC about the notion of financial firms in effect using taxpayer money to pay penalties, people close to the situation say. Citigroup received $45 billion from the government's Troubled Asset Relief Program and plans to raise an additional $5.5 billion in capital from private investors.

"The question is: Is the money being round-tripped, going from one part of the government to another part?" said Oliver Ireland, a partner in the financial-services practice at the law firm Morrison & Foerster LLP. If the government is "trying to shore up the capital of an institution so it can function in the marketplace, you've got to take that into consideration" in determining the size of any fine or penalty, Mr. Ireland said.

The debate comes as the SEC has drawn withering criticism from lawmakers for failing to detect the Bernard Madoff Ponzi scheme and for missing signs of the financial crisis before it hit. Two SEC enforcement lawyers have come under scrutiny by the agency's internal inspector general for stock-trading activities, in a matter that has been referred to the Justice Department.

The SEC also is considering bringing cases against individuals related to disclosure of mortgage assets, including top executives, people close to the situation say.

The Citigroup settlement discussions stem from an investigation that the SEC began in 2007 following Citigroup's third-quarter earnings. On Oct. 1, 2007, Citigroup unveiled a preliminary projection, two weeks before the formal report of its earnings, forecasting a 60% decline, based partly on a $1.3 billion loss on the value of assets tied to "subprime," or low-end, mortgages and leveraged loans.

On Oct. 15, 2007, after a downgrade of mortgage-backed securities by Moody's Investors Service, Citigroup said third-quarter profit fell 57%—with higher losses of $1.83 billion on the same category of mortgage assets and leveraged loans.

After another mortgage-asset downgrade on Oct. 17, 2007, by Standard & Poor's Corp., and more mortgage-market declines, Citigroup said on Nov. 4 that it faced new fourth-quarter losses of $8 billion to $11 billion on its subprime-mortgage exposure.

Citigroup also disclosed for the first time that it held U.S. subprime-mortgage assets totaling $55 billion—including $43 billion that hadn't been highlighted Oct. 15.

The larger-than-expected losses for the 2007 fourth quarter stunned Citigroup executives, directors and shareholders, and prompted Chief Executive Charles Prince to resign the same day. People close to Citigroup have attributed the higher loss level to market movements that accelerated in later October.

Citigroup reported about $50 billion in losses over the next five quarters, mostly stemming from mortgage-related assets.

The SEC opened similar inquiries into valuation and disclosure issues at Merrill Lynch & Co. and Lehman, among others. Merrill has been acquired by **Bank of America** Corp. and Lehman filed for bankruptcy in September 2008.

It isn't clear what civil charges, if any, the SEC would bring against Citigroup or other financial firms, or whether the agency will seek to reach settlements with multiple firms simultaneously. Complicating the issue is that different SEC teams in different offices are handling probes of different firms. SEC lawyers in Washington are examining Citigroup, for instance, while SEC lawyers in New York are investigating activities at Merrill.

The SEC's procedure varies for determining the size of penalties. In general, the agency examines the severity of an alleged violation, whether top management was involved and how widespread any infractions were. It also considers what percentage of revenue or earnings a penalty would represent.

The SEC also looks at penalties paid in comparable cases. One potential comparison would be the 2003 regulatory settlement with 10 Wall Street firms and banks that ended investigations into conflicts of interest among research analysts and allegedly improper trading of initial public offerings of stock, or IPOs. That settlement resulted in payments of $1.4 billion, ranging from $33 million to $400 million for each financial firm.

—David Enrich contributed to this article.

Bloomberg News

Citigroup is being investigated in the U.S. over whether it misled investors.

GM bondholders reject last-ditch offer to swap debt

By Sharon Terlep

General Motors Corp. bondholders soundly rejected a debt-swap offer critical to the auto maker's survival, pushing the company closer to a bankruptcy filing that could come in the next few days.

GM's board of directors will meet later this week to decide the ailing company's next move after bondholders dashed its best hope of pulling off an out-of-court restructuring, the company said Wednesday.

A GM spokeswoman said she is unaware of any plans to extend or revise the offer in an effort to win over more bondholders, as some had anticipated after GM cut a deal that gave its main union a far smaller stake in the company than initially proposed.

That smaller stake, along with a larger, controlling stake being given the U.S. government, could have left room to offer more equity to bondholders.

GM had offered to give bondholders 10% of the company in exchange for forgiving at least $24 billion of GM's $27 billion in unsecured debt. But the deal required the agreement of bondholders representing at least 90% of the debt, a threshold dictated by the U.S. Treasury.

The deal was a key element of GM's recovery plan along with deep concessions from the United Auto Workers union and a plan to shutter thousands of car dealers.

Without a bondholder agreement, GM will now likely turn to bankruptcy court. Chief Executive Frederick "Fritz" Henderson had said GM was almost certainly headed for Chapter 11 if the exchange failed.

Surviving on government loans as it burns through billions a month, GM was given until Monday by the Obama administration to restructure itself as a viable company or follow rival **Chrysler** LLC into bankruptcy court.

GM and Treasury officials, encouraged by Chrysler's progress in court over the past few weeks, believe that GM could emerge from bankruptcy in as little as 30 days.

But the drive for an expedited bankruptcy could be challenged by GM's investors and dealers. GM's offer of a 10% stake in the restructured company would have left bondholders with cents on the dollar of what they are owed.

GM won't repurchase any of the notes it sought and will instead decide an alternative route, the company said in a statement.

Many bondholders, including individuals and institutions, called the offer unfair relative to what the company was offering other stakeholders, including the union and the U.S. government. A group calling themselves the Main Street Bondholders lobbied on Capitol Hill, saying the plan would wipe out the savings of tens of thousands of individuals.

Some thought a labor deal GM struck last week with the UAW was a signal the company may sweeten its offer to bondholders because it gave the union less equity than initially proposed—17.5% of a reorganized GM rather than the 39% originally envisioned—in exchange for retiree health care concessions. The deal could leave the U.S. owning as much as 70% of GM.

GM's Mr. Henderson acknowledged at the outset of the bond exchange offer that it would be a long shot, but said the company was prohibited by the Treasury from offering these investors a larger GM stake.

The government's plan also calls for paying off in full GM's secured lenders, including banks **Citigroup** Inc. and **J.P. Morgan Chase** & Co., which are owed about $6 billion. That would remove one potential obstacle to a speedy bankruptcy reorganization.

Meantime, about 60,000 UAW-represented GM workers are voting on the new labor pact, with results expected Thursday. The union also agreed to more job buyouts and a ban on strikes until 2015.

Getty Images

Surviving on government loans as it burns through billions a month, GM has until Monday to restructure itself as a viable company.

German consumer prices dropped 0.1% in May

By Roman Kessler
And Joellen Perry

FRANKFURT—Germany became the latest euro-zone country to post an annual decline in its inflation rate Wednesday, foreshadowing an expected record low for the euro-zone measure later this week.

German consumer prices fell 0.1% in May from the year before, according to a preliminary government estimate. In April, the annual inflation rate rose by 0.8%. The fall in the measure, which is used to compare price trends across the 27-nation European Union, was sharper than many economists expected.

The annual price drop in Germany, Europe's largest economy, follows negative inflation showings in euro-zone economies including Spain and Ireland earlier this year. Annual inflation across the 16-nation currency bloc is expected to slow to 0.2% or less in May from 0.6% in April, the lowest since records began in 1996; the data are due Friday.

The European Central Bank, which sets interest rates for the countries that use the euro, believes energy prices will push the euro-zone inflation rate into negative territory for a few months this summer. But policy makers stress inflation will turn positive again later this year.

Economists, however, increasingly have warned that the bloc's deep recession means the threat of deflation—a prolonged period of falling prices—is rising.

Germany's unexpected May decline was largely attributed to energy prices, but rising unemployment amid the global recession could help keep the rate negative in coming months.

"Massive excess capacities world-wide and the bleak labor market outlook in Germany clearly signal abating inflationary pressures in the short term," said UniCredit SpA economist Alexander Koch in Munich. Mr. Koch expects German prices to fall on average in 2009 after rising 2.6% in 2008.

Germany's Federal Labor Office is scheduled to report May jobless data Thursday. Analysts expect a seasonally adjusted increase of 69,000. In the past few months, the number of people counted as jobless has risen by more than 500,000 from a low of around three million in November. It is expected to be well above four million in 2010.

CORPORATE NEWS

New Shell CEO starts shake-up

Centralized organization is designed to eliminate project delays and cost overruns

BY GUY CHAZAN

Royal Dutch Shell PLC's incoming chief executive, Peter Voser, put his stamp on the Anglo-Dutch oil major with a wide-ranging revamp of the company's structure that could affect thousands of employees.

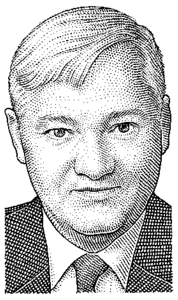
The shake-up shows Mr. Voser, who takes over from current CEO Jeroen van der Veer July 1, already moving to cut costs at Shell and adjust it to lower oil prices that have put major oil companies' earnings under pressure.

Wednesday's announcement came a day after Shell said Linda Cook, head of its gas and power business and once seen as a top contender to replace Mr. van der Veer, was leaving the company.

In a message to staff, Mr. Voser said Shell's organization was too complex, its culture too consensus-oriented and its costs "simply too high."

Simplifying the structure could speed up decision-making and ensure projects came on-stream faster and execution improved. That's a key objective for a company that has been heavily criticized for delays and cost overruns at some of its most high-profile oil-and-gas ventures.

The overhaul comes at a critical time for Shell. The company's $32 billion capital investment program for this year is one of the biggest in the industry, and it has staked its future on a crop of expensive, long-life projects in places like Canada's oil sands. Some questioned that strategy last year when the price of oil plunged from its record high of $145 a barrel to close to $30. Crude has since bounced back to around $60, but Shell is still having to take on more debt to cover its spending plans and pay its dividend.



Peter Voser

Mr. Voser unveiled his changes at a meeting of Shell managers in Berlin, saying in a statement they would have a "major impact" on Shell. A company spokesman declined to say how many jobs would be cut in the realignment, but said "thousands of staff would be impacted."

Shell said it will merge its exploration and production, gas and power and oil sands units into two new divisions. Upstream Americas, covering North and South America, will be headed by Marvin Odum, currently president of Shell Oil in America, while Malcolm Brinded, now head of exploration and production, will lead the larger Upstream International, covering the rest of the world.

Shell also said it is creating a new business—Projects & Technology—to manage the design of all major new projects, previously the responsibility of Shell's various operating units. The company hopes that by centralizing procurement and contracting it will save money and improve project execution.

Shell's downstream division, which groups together refining, marketing and chemicals, would also be expanded to include trading and alternative energy except wind, which will be under Upstream Americas.

Analysts were lukewarm on the changes, which echo a similar overhaul at **BP** PLC, pushed through after CEO Tony Hayward took the helm of the company two years ago. They said the gas side of the business, especially the production of liquefied natural gas, is already closely intertwined with oil exploration and production, so merging them would make business sense.

But Barclays Capital said in a note that while the new structure would be "beneficial in terms of accountability and cost control," it didn't have "quite the simplicity of [Shell's] two leading competitors," **Exxon Mobil** Corp. and **Total** SA.

Jason Kenney, an analyst at ING Bank, said the "proposed new start...is perhaps too late to support outperformance versus peers." He said he preferred France's Total, "which is already a streamlined, focused company with sound cost management in place today."

In some ways, the changes being instituted at Shell reflect a desire to emulate Exxon, which is viewed as much more centralized than the European oil majors. That was reflected in Mr. Voser's note to Shell employees, in which he said "fewer people will make strategic decisions," and the company would push to standardize and simplify its business processes. Mr. Hayward made a similar pledge when he unveiled BP's restructuring two years ago.

"It's clear the idea of a group-wide procurement system has worked well with Exxon and **Chevron** Corp., so it's a case of Shell catching up with its peer group," said Christopher Wheaton, who manages an energy fund at RCM/Allianz and is a Shell shareholder. He said he was "cautiously optimistic" that the restructuring would deliver efficiency gains.

Knopf readies big push for Swedish thrillers

BY JEFFREY A. TRACHTENBERG

Stieg Larsson's "The Girl With the Dragon Tattoo," a thriller translated from Swedish that has gone on to sell a robust 225,000 hardcover copies in the U.S., was one of 2008's most successful debut novels.

Now, out to capitalize on the growing interest in the late Mr. Larsson, **Bertelsmann**'s Alfred A. Knopf imprint is launching a six-figure U.S. marketing effort to support his second book, "The Girl Who Played With Fire," as well as the paperback edition of the first. Mr. Larsson completed a trilogy of mysteries six months before his death in 2004 at age 50.

ADVERTISING

The Knopf campaign is notable because publishers are traditionally stingy when it comes to promoting their books, preferring instead to focus on Web contests, author home pages, word of mouth and generating reviews.

Industry insiders say most book-related advertising doesn't seem to deliver significant sales gains and, they say, there's a reason for that. "What they do is buy a single ad, but that's not a campaign," says Carol Fitzgerald, president of the Book Report, a closely held company that operates Web sites related to book publishing. "You have to do everything."

The number of books that get advertising is probably less than 5%, says Michael Norris, a book-industry analyst at media-research firm Simba Information. "It's too expensive, and too hard to reach readers," he adds.

The Knopf campaign is scheduled to start in June and will run until late September. More ads are likely in November, around the holiday season.

2009 Alfred A. Knopf

At top, a mock-up of an ad for the new Stieg Larsson thriller 'The Girl Who Played With Fire.' Bottom, 'The Girl With the Dragon Tattoo,' the first in the trilogy.

The campaign will include print ads in such publications as the New Yorker, the New York Times and The Wall Street Journal, mass-transit advertising in New York, Washington, Boston and Los Angeles and ads on such Web sites as USAToday.com, Politico.com, WSJ.com and NYTimes.com.

There also will be a marketing push on the social-networking site Facebook and the micro-blogging service Twitter, as well as in-store promotions in big bookstore chains.

"We need to broaden our existing readership," says Paul Bogaards, a Knopf spokesman.

The campaign will help kick-start the June 23 release of the paperback version of "The Girl With the Dragon Tattoo" by Knopf's sister imprint, Vintage. Vintage is publishing two paperback editions of the book totaling 600,000 copies. In late July, Knopf plans to issue 300,000 hardcover copies of "The Girl Who Played With Fire." The coming third book in the trilogy could also benefit.

"It's really a departure from what we've done in the past," says Stephanie Kloss, Knopf's advertising director. "We felt we needed something that looks different from traditional book advertising."

Hauser Advertising, a Pacific Palisades, Calif., firm best known for its work on behalf of entertainment companies, created the campaign. Cliff Hauser, its owner, says Knopf wanted the promotion to have a movie sensibility.

"They felt the main character in the series is a cross between Lara Croft and a female Jason Bourne, and they wanted a campaign that would be more like something you'd do for a film," he says.

The Larsson books star Lisbeth Salander, a computer hacker and social misfit. "She's a heroine for our times," says Sonny Mehta, editor in chief and chairman of the Knopf Doubleday Publishing Group. "Messed up, defiant, indomitable and without a trace of pity. She's also technologically savvy."

Rather than being text-driven, the campaign has strong visual elements. An ad for "The Girl Who Played With Fire" looks like a movie promo, with a prominent central image of a burning match and a dragon, complete with comments from critics.

Polo net declines on restructuring as sales slip 1%

BY RACHEL DODES

Polo Ralph Lauren Corp. reported a 57% decline in profit for its fiscal fourth quarter on restructuring charges as the recession continued to weigh on high-end retail sales.

The apparel maker on Wednesday said sales in the quarter fell 1%, to $1.22 billion, from a year earlier despite heavy discounting by department stores and its own Ralph Lauren boutiques.

Roger Farah, the New York-based company's president and chief operating officer, said this downturn is different from others he has experienced because "the high-end customer seems to be the one most affected."

Polo, considered a bellwether for luxury-retail performance, declined to provide financial guidance for the current quarter. It offered a conservative outlook for the rest of its fiscal year, forecasting wholesale revenues to decline at a "low double-digit" percentage rate. Sales at stores open for at least a year, a key measure of retail health, are expected to continue their slide, with a projected "mid-teens" percentage decline.

For the fiscal fourth quarter ended March 28, Polo posted net income of $45 million, or 44 cents a share, compared with $104 million, or $1 a share, a year earlier. The fourth-quarter results included $69 million, or 42 cents a share, in asset-impairment and restructuring charges associated with closing six stores and eliminating 500 positions throughout the company, mostly in the U.S.

The cuts are expected to save $25 million this year, which will be used to "free up resources" to invest in higher-growth regions such as Southeast Asia. The company regains ownership of its Chinese license at the beginning of 2010 and is currently expanding its organization there, Mr. Farah said, adding that "over the long term, we think China will be a tremendous opportunity for the company."

For the year, net income fell 3% to $406 million on revenue of $5.02 billion.

Barclays Capital analyst Bob Drbul said the company's outlook is "pessimistic, but perhaps realistic," given the weakness in luxury retail. "There are some risks...but they are taking strong actions and delivering solid results," he said.

Retail sales for the year rose 1% to $1.94 billion on new-store openings.

Personal Technology

Small advances

Netbooks using Linux have improved, but still have a ways to go > **Page 29**

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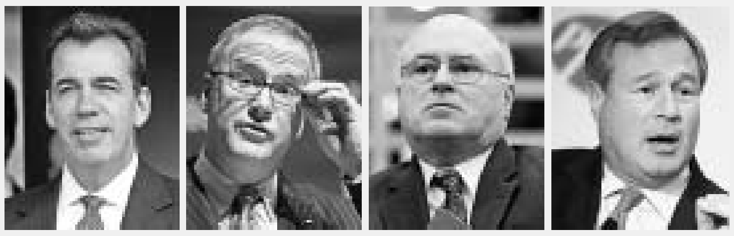
Drug CEOs switch tactics

Chiefs back overhaul of health care in bid to help select cuts

By Jonathan D. Rockoff

Offense, not defense

Major drug-company CEOs and 2008 U.S. pharmaceuticals sales, in billions



David Brennan	John Lechleiter	Richard T. Clark	Jeffrey Kindler
ASTRAZENECA	ELI LILLY	MERCK & CO.	PFIZER
$13.51 billion	$10.40 billion	$13.37 billion	$18.95 billion

Source: Company SEC filings   Photos: Associated Press (Brennan, Clark, Kindler); Getty Images (Lechleiter)

Drug-company executives are aiming to prevent steep cuts in prescription prices by joining the effort to overhaul the U.S. health-care system.

Their approach contrasts sharply with their behavior 15 years ago, when they helped defeat President Bill Clinton's reform efforts from the outside. "This is not the 1990s, when the industry was playing defense," says John Lechleiter, **Eli Lilly** & Co.'s chief executive. "We're playing offense. We're at the table."

The pharmaceutical executives are using their new access to try to steer lawmakers away from measures that could reduce drug margins, pressing instead for cost reductions by hospitals and insurers.

In their meetings at the White House and on Capitol Hill, as well as in speeches and op-ed articles, industry executives and lobbyists have backed such steps as shifting insurance coverage toward prevention, which could increase sales for heart, diabetes and other drugs that patients take long term.

AstraZeneca PLC Chief Executive David Brennan argues that prescription drugs account for "just about 10% of the overall cost" of health-care spending in the U.S. "That hasn't changed in 40 years," he says, "and right now that is going down."

Instead of worrying about drug prices, Mr. Brennan says that a health-care overhaul should tackle the insurance co-payments that he says deter patients from taking the drugs they need. Reforms, he adds, shouldn't force doctors and patients to choose a drug based on cost if the more expensive treatment would have a better outcome.

The pharmaceutical industry "has a strong interest in working the benefit-design side rather than the price side," says Dan Mendelson, president of Avalere Health, a consulting firm that keeps health-care companies, patient groups and medical foundations abreast of developments in Washington.

Pfizer Inc. Chief Executive Jeffrey Kindler says he backs "comprehensive health-care reform in this country" and is willing to make compromises. But he opposes a public insurance plan except for the poor who otherwise can't afford insurance, saying it would crowd out private insurers and take "the form of price controls" that fail to reward companies for their expensive and risky investments in drug development.

Of course, just extending health-insurance coverage to millions of uninsured Americans is likely to benefit drug makers. Les Funtleyder, an industry analyst at Miller Tabak & Co., estimates such a move could increase the $291 billion in annual U.S. prescription-drug sales by $15 billion to $18 billion.

To help accomplish their goals, the drug makers spent $47.4 million on lobbying in the first quarter, up 36% from a year earlier, according to company-disclosure reports filed with Congress and analyzed by the nonpartisan Center for Responsive Politics. **Pfizer** Inc. more than doubled its spending on lobbying in the period to $6.1 million.

Earlier this month, drug makers joined doctors, insurers and hospitals in a pledge to rein in health-care cost increases by $2 trillion over the next decade. **Merck** & Co. Chief Executive Richard Clark, who attended the White House announcement, said that the company was "ready to do our part to achieve" an overhaul.

Nonetheless, the drug makers have been pushing through hefty price increases. Prices for many drugs were up more than 15% in the first quarter from a year earlier, according to data from Credit Suisse.

Pharmaceutical companies say the increases are fair and necessary as drugs mature, but analysts say the companies are trying to eke out as much revenue from the treatments as they can before patents expire and health-care reform drives down prices.

Peter Rost, a former marketing executive at Pfizer who is now an industry critic, says the increases are a way to soften the impact of future price cuts. "Ahead of these give-backs, they dramatically raise prices," Dr. Rost says. "They always do that."

Meanwhile, drug-industry executives worry that an overhaul of the health-care system could lead to too much government intervention. In addition to possibly establishing a government-sponsored insurance plan, lawmakers might give Medicare—the existing public program for the elderly and disabled—the authority to negotiate the prices for drugs dispensed through its Part D benefit. That could limit the prices pharmaceutical companies can charge.

Pharmaceutical executives argue that such steps would hamper drug makers' ability to pay for costly research into new treatments. "It would knock our legs out," says Lilly's Dr. Lechleiter.

Linda Douglass, a spokeswoman for the Obama administration, says the administration isn't negotiating with drug companies or other health-care industries. Rather, it is focused on working with lawmakers who are writing legislation and trying to figure out such issues as how to finance an overhaul. Allowing Medicare to negotiate the price of drugs dispensed through the Part D program, for example, "just hasn't come up yet," she says.

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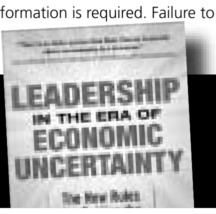

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CORPORATE NEWS

Nintendo looks outside box

Goal is to expand Wii library with help of other publishers

By Yukari Iwatani Kane And Daisuke Wakabayashi

Nintendo Co., in a bid to keep up momentum for its Wii console, is pushing to increase the number of Wii videogames made by outside publishers, including combat and sports titles that target serious players.

Reggie Fils-Aime, the company's U.S. president, said in an interview Tuesday he hoped to increase the percentage of games made by outside publishers to about 70% of the Wii's library of games, up from about 55% now. That would be about the same ratio as the split for its portable Nintendo DS device.

He also said Nintendo doesn't plan to cut the cost of the Wii, whose $250 price hasn't changed since its debut. "Price cuts are a short-term incentive," he said. "In the long run, you need software to excite people."

Since the company launched the Wii in November 2006, it has sold more than 50 million units worldwide, with much of its popularity driven by casual games that Nintendo created itself.

For example, the Nintendo-developed Wii Play has been the top selling game. It has sold 10.7 million copies in the U.S., more than three times as many units as the top game by an outside publisher, Guitar Hero III: Legends of Rock by **Activision Blizzard** Inc., which has sold 2.9 million copies, according to market-research firm NPD Group.

But now Nintendo is putting more effort than ever in encouraging publishers to make games for the Wii to ensure a steady flow of diverse games.


Getty Images

Nintendo U.S. chief Reggie Fils-Aime, shown in July, said there are no plans to change the Wii console's $250 price tag in the U.S.

"In order to achieve high levels of sales of hardware, we need all genres in the market," said Mr. Fils-Aime.

As part of that effort, Nintendo is taking an unusual step in allowing videogame publisher **Electronic Arts** Inc. to release two sports games that take advantage of a new hardware accessory more than a month before Nintendo's own marquee game is released.

EA plans to sell Tiger Woods PGA Tour 10 in North America and Europe, packaged with the Wii MotionPlus, an attachment for the Wii's wireless controller that makes it more sensitive to movement. In Europe, EA plans to sell a second game, Grand Slam Tennis.

Both EA games will launch in early June, ahead of Nintendo's own game for the attachment, Wii Sports Resort, which will debut in late July.

"We really liked what we could get from the MotionPlus," said EA's chief executive John Riccitiello.

Such moves are particularly important for Nintendo, which has had a relatively limited library of games by outside developers until recently. That's partly because most game developers didn't expect the Wii to become the industry's dominant game machine and were devoting resources to creating titles for **Sony** Corp.'s PlayStation 3 and **Microsoft** Corp.'s Xbox 360.

Nintendo has also been hurt by the perception that the Wii's success benefits Nintendo's own games, and not other software publishers. Some game publishers privately gripe that Nintendo has an unfair advantage in part because it knows first what Wii hardware accessories are coming and can target games to best capitalize on the new equipment. Nintendo President Satoru Iwata disputed that perception in March, citing data by NPD that the best-selling platform for third-party games has been the Wii.

ANZ raises $1.97 billion to buy RBS's Asia assets

By Lyndal McFarland

MELBOURNE, Australia—**Australia & New Zealand Banking Group** Ltd. raised as much as 2.5 billion Australian dollars (US$1.97 billion) by selling new shares to help fund a bid to buy Asian banking assets from **Royal Bank of Scotland Group** PLC.

The stock was sold to institutional investors. The bank also plans to offer A$350 million in shares to retail shareholders.

The money will also boost ANZ's capital position and help cushion against rising bad debts. The bank warned that charges for bad debts will rise about 20% in the second half of its financial year from the first half.

ANZ said it has lodged a nonbinding bid to buy "selected" assets from RBS, which is selling retail and commercial banking businesses in eight countries around the region, including the key markets of India, China and Hong Kong. The bank didn't say which assets it bid for, but said a deal could weigh on earnings per share in the near term.

Shares of RBS lost 2.5% Wednesday in London. RBS declined to comment on ANZ's fund raising.

A person familiar with the matter said RBS is still in talks with all parties that have shown interest in its assets.

These include ANZ, **HSBC Holdings** PLC and **Standard Chartered** PLC, the person said, adding that even if all parties hadn't submitted bids yet, it didn't mean talks had been broken off.

Another person familiar with the matter said Wednesday that HSBC hadn't submitted a bid, diminishing the prospect of a bidding war for the assets.

Despite volatile global financial markets, ANZ is pushing ahead with plans to become a "super regional" lender in Asia as it seeks new avenues of growth.

ANZ sold the A$2.5 billion in stock at A$14.40 a share, a 7.5% discount to its last traded price of A$15.57. Trading was halted on Wednesday morning.

The bank said the offer was "significantly oversubscribed," attracting support from a range of institutions.

The A$350 million share offer for retail investors will be open to shareholders registered as of June 1. Strong interest in the offer could help limit any downside to ANZ's shares when they resume trading Thursday.

Southern Cross Equities analyst T.S. Lim said HSBC and Standard Chartered may not be interested in all the assets on the block, which could allow ANZ to secure some businesses. These might include RBS's Indonesian and Singaporean units, he said.

If the RBS transaction proceeds, ANZ said its Tier 1 capital ratio immediately afterward would remain above its target range of 7.5% to 8%.

ANZ's major Australian rivals have all boosted their capital positions in recent months, looking to build a buffer against rising bad loans as Australia heads towards its first recession in almost 20 years.

"The banking outlook remains uncertain and difficult to predict especially with respect to credit provisions, revenue and the market value of securities and derivatives," ANZ said.

While Australia's major banks have largely avoided the credit-related troubles of their international peers, bad debts are rising quickly and offsetting growth in revenues across the sector.

ANZ said it expects second-half provisions for bad debt will be around 20% higher than the A$1.44 billion recorded in the six months to March 31. Pressure is mounting in the commercial segment, it said.

—Cynthia Koons in Sydney contributed to this article.

Accenture to shift tax locales

By Jesse Drucker

Accenture Ltd. is seeking to become the latest company to switch tax-haven locales.

On Tuesday, the consulting and outsourcing firm said its board of directors had unanimously approved switching the company's place of incorporation from Bermuda to Ireland.

The move comes amid a crackdown on tax havens by the Obama administration and congressional Democrats, who are targeting companies with substantial U.S. operations that are incorporated in tax havens like Bermuda to lower their overall tax burden.

"There are continued questions about companies incorporated in Bermuda," said Jim McAvoy, an Accenture spokesman. In its regulatory filing announcing the planned move, the company said it was motivated by legislative proposals that could increase the company's taxes, negative publicity about companies incorporated in Bermuda, and by other factors such as the growing importance of the company's European business.

In a trend that has gained momentum over the past six months, numerous U.S. companies are reincorporating from tax-friendly locations like Bermuda and the Cayman Islands to Switzerland and Ireland, in an effort to cope with what are expected to be significant changes in how the U.S. taxes multinational corporations.

Tyco International Ltd., **Foster Wheeler** Ltd., **Weatherford International** Ltd., **Transocean** Inc., **Covidien** Ltd., and **Ingersoll-Rand** Co. have all announced plans or finalized plans to make such moves over the past six months.

Many of these companies have said taxes were a reason behind the move, but have also emphasized other strategic reasons for the changes.

Such moves could help companies preserve the tax benefits they had in Bermuda and the Cayman Islands, while using Switzerland or Ireland's tax treaties with the U.S. to protect them from possible adverse legislation, according to tax experts who have advised companies on the moves. Bermuda imposes no corporate income tax. Switzerland has a corporate income tax, but doesn't levy it on profits earned by subsidiaries overseas. Ireland also has a corporate income tax but doesn't impose it on various intracompany transactions, thus making the tax relatively easy to avoid, say tax professionals.

Over the years, various pieces of U.S. antitax-haven legislation specifically targeted countries that don't have tax treaties with the U.S., such as Bermuda. That could put companies incorporated in countries that do have tax treaties with the U.S.—such as Ireland—in a better position, according to tax experts who have consulted on such moves.

In 2001, Accenture reorganized from a partnership to a public company and incorporated in Bermuda. Mr. McAvoy said that Accenture was never incorporated in the U.S., has no corporate headquarters, and added: "Accenture has always paid its taxes in the countries where the income is generated." The switch to Ireland still must be approved by the company's shareholders; a vote is expected in the next three to four months.

Accenture—the former consulting arm of defunct accounting firm Arthur Andersen—paid taxes at an effective rate of 29.3% during 2008, securities filings show, down from the typical combined federal and state statutory rate of 39.5%. According to the company filing, 5.9% of this difference was due to lower taxes on its "non-U.S. operations." Accenture said its tax rate wasn't unusually low.

Accenture board members have debated changing the site of the company's incorporation for years, according to a person close to the situation. Directors "considered many different locations" besides Ireland, this person added. But the board didn't consider moving Accenture to the U.S. "What shareholder would ever vote to incorporate in a country that taxes your world-wide income?" the person asked. Despite the move, the company said it had no plans for its executives to move to Ireland.

—Joann S. Lublin contributed to this article.

SanDisk, Samsung reach accord

By Don Clark

Samsung Electronics Co. and **SanDisk** Corp., after lengthy negotiations, agreed to a patent licensing deal that heads off the threat of litigation between two major players in the market for chips known as flash memory.

The deal extends an existing licensing pact between the companies and provides Samsung rights to key SanDisk patents on what could be an important advance in flash-chip technology. Shares of SanDisk—which Samsung targeted last year for an unsolicited takeover bid that it later dropped—rose 15% on the news Wednesday.

Financial details of the pact weren't disclosed. But the companies said fixed payments and royalty rates are expected to be about half those of recent years under their current agreement, which expires Aug. 14.

Analysts estimate that South Korea's Samsung has been paying hundreds of millions of dollars a year to SanDisk in patent royalties, though the amounts have gone down lately as fierce competition has caused flash-memory prices to plunge. Edwin Mok, an analyst at Needham & Co., puts Samsung's payments at about $350 million in 2008 and $250 million this year; based on the companies' remarks, he estimates that Samsung would pay SanDisk around $125 million a year starting in 2010.

Though SanDisk will receive less money, the deal eased fears the two companies would sue each other, said Daniel Amir, an analyst at Lazard Capital.

CORPORATE NEWS

Lockheed wins secrets trial

L-3 plans to appeal verdict requiring it to pay $30 million

BY ANDY PASZTOR

Getty Images

Lockheed Martin's spat with L-3 Communications revolved around data linked to the P-3 patrol aircraft. A German navy P-3 is shown above landing in November.

Lockheed Martin Corp. won a $30 million jury verdict against **L-3 Communications** Corp. over the use of Lockheed proprietary data to refurbish P-3 maritime patrol aircraft for South Korea.

Capping a roughly three-week trial in Atlanta federal district court, the jury last week found that L-3 violated a Georgia trade-secrets statute and breached a nondisclosure agreement in connection with its work as a subcontractor to **Korea Aerospace Industries** Ltd. The work on the 2004 contract with the South Korean government involved upgrading the avionics and other parts of that country's fleet of P-3 aircraft.

Although the jury concluded that L-3 willfully and maliciously misused Lockheed's data, it didn't award punitive damages. As part of the verdict, Lockheed won the right to a permanent injunction barring L-3 from improper use of P-3 data in the future.

An L-3 spokeswoman said Tuesday the company intends to file an appeal.

L-3 had argued that the data at issue were readily available through proper means for many years. In response, Lockheed produced evidence indicating that over the years the company took vigorous steps—including sending out a cease-and-desist letter—to prevent companies from improperly distributing or using its P-3 proprietary data.

The P-3, which was designed by Lockheed, is used by the U.S. Navy and international customers.

Before trial, U.S. District Court Judge Charles Pannell Jr. dismissed L-3's claims that Lockheed committed corporate libel as part of its campaign to protect data.

After Lockheed initiated its action, L-3 filed a lawsuit alleging that Lockheed breached some agreements and tried to stifle competition to protect P-3 data.

The L-3 spokeswoman said the jury awarded $30 million in damages for "misusing" some Lockheed data and $7.2 million in damages for other claims alleging breach of agreements. But she said the jury stipulated the total award as $30 million.

Air travel shows no sign of recovery

BY JONATHAN BUCK

International air traffic in April declined less than in preceding months, but the head of the International Air Transport Association warned Wednesday that there was no indication that a recovery was about to start.

"The worst may be over," IATA Director General Giovanni Bisignani said in a statement. "However, we have not yet seen any signs that recovery is imminent."

International air traffic, measured in revenue passenger kilometers, in April fell 3.1% from a year earlier following an 11.1% drop in March, IATA said. However, the industry group cautioned that last month's figures were skewed by the inclusion of Easter holidays, which boosted the numbers by at least two percentage points.

It added that preliminary data for May suggest a renewed double-digit decline, at least for European airlines, which last month saw traffic fall 2.7%, while capacity contracted 2.6%. In North America, traffic in April fell 4.2%, closely matching a 4% cut in capacity. The traffic figure compared to a 13.4% drop in March and was attributed to an acceleration of fare discounting on North Atlantic routes.

Traffice in the Asian-Pacific region fell 8.6% despite a 7.4% reduction in capacity.

Middle Eastern carriers continue to buck the trend. They saw traffic rise 11.2% and added 12.3% in capacity. For Latin American carriers traffic increased 7.5%, outstripping a 6% capacity expansion.

Traffic gains were at the expense of yields in most regions. The decline in traffic overall still outstripped a 2.5% cutback in capacity. The average passenger load factor, which measures how full an airline's planes are, climbed to 74.4% in April from 72.1% a month earlier.

Cargo traffic in April dropped 21.7% from a year earlier, the fifth straight month of year-on-year declines of more than 20%, which IATA said appeared to be a solid floor.

India moves forward on fighter-jet contract

BY NITIN LUTHRA

NEW DELHI—The Indian air force has completed the evaluation of six types of fighter jets from U.S. companies **Lockheed Martin** Corp. and **Boeing** Co. and other manufacturers for a contract valued at more than $10 billion.

India also invited bids, valued at an estimated $2 billion, for 22 combat helicopters and for 15 heavy-lift helicopters.

India plans to buy 126 jets and the helicopters to modernize its mainly Soviet-vintage defense fleet. The Indian air force has 1,700 aircraft, including helicopters and transport planes, according to its Web site.

Lockheed's F-16 Falcon, Boeing's F/A-18, **Russian Aircraft** Corp.'s MIG-35, **Saab** AB of Sweden's JAS-39 Gripen, the Eurofighter Typhoon and **Dassault Aviation** SA's Rafale are in the running for the fighter-jet contract. The Eurofighter is a program of Britain, Germany, Italy and Spain. Dassault was allowed to rejoin the bidding process after an earlier bid by the French company was rejected because of noncompliance with some operational requirements.

Air force chief Fali Homi Major told reporters Wednesday that the Defense Ministry is expected to clear the report on the jets soon and that field tests can begin within three months after ministry approval.

Russia's **Kamov** OAO and **Mil Moscow Helicopter Plant** JSC, the AgustaWestland unit of Italy's **Finmeccanica** SpA, and the Bell Helicopter unit of the U.S.'s **Textron** Inc. have expressed interest in the attack-helicopter contract. The Eurocopter unit of **European Aeronautic Defence & Space** Co. has pitched its Tiger attack helicopter for the contract, while Boeing is offering its Apache AH-64D Longbow model.

For the heavy-lift helicopter, Boeing is pitching its twin-rotor Chinook. Sikorsky Aircraft, a unit of **United Technologies** Corp. of the U.S., also plans to bid.

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GLOBAL BUSINESS BRIEFS

Nationwide Building Society

Net profit declines 67% amid provisions, bad debts

U.K. mortgage lender **Nationwide Building Society** reported a 67% drop in net profit for the fiscal year, hit by bad debts and the cost of contributions for government insurance against losses, and said 2009 and 2010 will continue to present a difficult trading environment. Net profit fell to £162 million ($258 million) in the year ended April 4 from £495 million a year earlier. Net interest income declined 2.1% to £1.76 billion. Nationwide recorded impairment losses on loans and advances of £394 million, up from £106 million, and made additional provisions for liabilities of £249 million. A contribution of £241 million to the government's financial-services insurance plan also dented profit.

BT Group PLC

U.K. telecommunications company **BT Group** PLC has scrapped pay rises and most bonuses for 2008, which was marred by the poor performance of its Global Services division. "There are no bonuses relating to financial targets ... as all financial targets were missed," BT said. Chief Executive Ian Livingston will receive a £343,000 ($546,296) bonus for the year, based on his performance relating to customer service and environmental and social measures. He will convert this bonus into shares. Hanif Lalani, the head of Global Services, asked not to be considered for a bonus. Previous Chief Executive Ben Verwaayen received a termination payment of £700,000, a £300,000 bonus and a £277,000 salary for the period he worked in 2008-2009.

Air Berlin PLC

German carrier **Air Berlin** PLC said Wednesday its first-quarter net loss widened because of a drop in passengers and travelers, who have become reluctant to spend amid the economic crisis. The Berlin-based airline said it lost €88.4 million ($123.6 million) in the first three months of the year compared with a loss of €59.6 million a year earlier. The number of passengers dropped 6.2% in the quarter to 5.5 million. "The reduced branchwide demand for flight services, in combination with the Easter flight season falling in April rather than in the first quarter, contributed to this development," the airline said. Revenue improved, however, rising 1.2% to €661 million thanks to improved average earnings per passenger, the company said.

Électricité de France

Électricité de France SA plans to raise about €1 billion ($1.4 billion) through a bond offering targeted at the country's small savers and investors. In an interview on French radio Wednesday, Pierre Gadonneix said the bond would be used to finance the renovation of electric plants in France. "We need to build plants that generate electricity from renewable-energy sources. So we're looking at 10, 15 years of heavy investment programs in the electricity sector," he said. The bonds will be offered to French retail investors from June 17 to July 10, and will have a maturity of four or five years, he said, without specifying the interest rate they would pay. The utility has raised more than €11 billion over the last six months through bonds sold to institutional investors.

Bank of New York Mellon Corp.

A Russian judge Wednesday adjourned a $22.5 billion suit brought against **Bank of New York Mellon** Corp. by the country's customs service until June 10, asking the two sides to reach a settlement by that date. Russia's Federal Customs Service is seeking to recover damages related to a U.S. Justice Department investigation in which a BoNY vice president allegedly helped to transfer $7 billion out of Russia in the late 1990s. The Moscow Arbitration Court judge has been encouraging the two sides to reach a settlement since November. The bank said the custom service's claims are meritless, but that it is "open to reasonable discussions" to reach a settlement. Steven Marks, who is representing the customs service, accused BoNY of showing a "lack of any good faith."

France Télécom SA

France Télécom SA dropped its attempt to buy out minority shareholders in the mobile-phone unit of Egyptian affiliate Mobinil, after the Cairo stock-exchange regulator rejected the French company's proposed offer. France Télécom said it is exploring all legal options, as the regulator also hasn't enforced execution of an international arbitrator's ruling against its Egyptian partner, **Orascom Telecom Holdings** (S.A.E). The dispute stems from a March ruling by the International Chamber of Commerce ordering Orascom to sell France Télécom its 28.75% stake in Mobinil for €530 million ($741 million), giving the French company full control. Orascom hasn't handed over the shares and the regulator hasn't required it to do so.

Staples Inc.

Staples Inc.'s fiscal first-quarter earnings fell 33% as consumers shunned bigger-ticket items like office furniture. Aside from the downsizings and closings of businesses that have come with the recession, Staples faces competition from lower-cost vendors, ranging from online discounters to giants like Wal-Mart Stores Inc. The office-supply retailer reported a profit of $143 million, or 20 cents a share, for the quarter ended May 2, compared with $212.3 million, or 30 cents a share, a year earlier. The latest quarter included two cents in charges from its acquisition of Corporate Express last year. Revenue increased 19% to $5.82 billion, but fell 16% if results from Corporate Express were included.

Sanofi-Aventis SA

The vaccines division of French pharmaceutical company **Sanofi-Aventis** SA said Wednesday it has received the key ingredient to make a swine-flu vaccine. Sanofi Pasteur said the so-called seed virus provided by the U.S. Centers for Disease Control and Prevention allows it to begin a development process, expected to take about two weeks, in preparation for industrial production of the vaccine. Sanofi Pasteur said it will be prepared to begin mass production "as soon as directed by public health agencies." But it will likely take months to make the first batches of the vaccine. The World Health Organization hasn't yet asked vaccine makers to start making a swine-flu vaccine, which would affect production of regular-flu vaccine.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Expanding insurgency roils Somalia

New president's efforts to establish peace run up against attacks by militant groups energized by foreign recruits

By Sarah Childress

Stepped-up attacks by Somali militants are challenging the new president's campaign promises to bring peace and order to the country.

President Sheikh Sharif Sheikh Ahmed's road map for stability involved more public relations than firepower: erode the popular base of the country's extremist Islamist insurgency and win over other, influential warlords.

But in recent weeks, Al Shabab, a loose collection of Islamist militants including hardened insurgents, disaffected youth and other extremists, has intensified its assaults. On Wednesday, nine people died after insurgents fired mortars at the presidential palace in Mogadishu. The mortars missed their target and fell instead on a residential area. The violence underscores the difficult task for Mr. Ahmed, who took office in January.

Somalia has long been a tangle of shifting alliances. President Ahmed was once part of a government that declared jihad on its neighbor, Ethiopia. Now, he is a moderate working for peace.

During his first few months in office, Mr. Ahmed pressed warlords—many weary of fighting—to support the administration. His government and the United Nations say he is making progress there.

The government's broader strategy has been to weaken Al Shabab by providing opportunities for education and jobs to young men who might otherwise, in the words of a government spokesman, be enlisted by insurgents for "seventy dollars and a mobile phone."

Those plans are on hold, however, amid strife in the capital, Mogadishu. In recent weeks, Al Shabab and another militant group, Hisb-ul-Islam, banded together to overturn the government, clashing with Somali forces in a fresh push toward Mogadishu. The fighting has prompted more than 45,000 Somalis to flee the capital, according to the United Nations Refugee Agency.

So far, Somali and African Union forces have managed to keep the insurgents at bay, holding significant portions of Mogadishu under government control.

But Mr. Ahmed's government is growing increasingly worried about what it says is a new flow of foreign fighters supporting the insurgency. This week, Mr. Ahmed appealed to the international community to help stop the flow of foreign militants—some from Pakistan and the U.S.—into the country.

The U.N.'s special representative on Somalia, Ahmedou Ould-Abdallah, who recently visited Mogadishu, said foreign fighters have blurred the lines defining the conflict. "We don't know who is with whom," he said.

A spokesman for the government, Abdirisak Aden, said the leadership is committed to "dialogue and reconciliation," with any faction interested in helping to rebuild the country. "But the government needs to differentiate from these foreign fighters," Mr. Aden said. "Our concern is how to fight these elements."

The international community pledged more than $200 million in assistance at a recent donor conference. It likely will take months for that money to reach Somalia.

The African Union's mission in Somalia has slightly more than 4,000 troops charged with establishing peace in Mogadishu. These troops have become a target for insurgents, who lay roadside bombs for their tanks.

Nicolas Bwakira, the special representative for the mission, said the recent attacks included some of the worst violence he had seen in the country since March 2007, after the Ethiopians invaded and Somalia had no effective government. But this time, Mr. Bwakira said, the militants' violence signaled their frustration, not strength.

"We have a government supported by the population," he said. "The [insurgents] see that they are losing ground. ... So in order to undermine and derail the political process they have to engage in a vicious war."

Reuters

Somali Islamists loyal to the transitional federal government walk past bullet-riddled buildings during a patrol in northern Mogadishu on Tuesday. President Ahmed, who took office in January, has pledged to bring peace and order to the country.

U.S. set for new financial regulator, but who?

By David Wessel

CAPITAL

The worst financial crisis since the Great Depression is about to prompt the most far-reaching renovation of the rules and institutions that regulate finance since the 1930s. And the change won't wait for the economy to recover. The Obama administration is rushing to finish a proposal for reshaping financial regulation and wants Congress to act on it by the fall.

The current crisis exposed two huge vulnerabilities. One is that a handful of financial institutions grew so large and so intertwined that the failure of just one put the entire world financial system at risk. There are two basic never-again solutions: either break them into smaller pieces or better regulate them to make them less prone to collapse. The political winds in Washington are blowing toward the latter.

The other vulnerability, as Federal Reserve Chairman Ben Bernanke put it recently, is "that an approach to supervision that focuses narrowly on individual institutions can miss broader problems that are building up in the system." Both in and out of government, there's a strong consensus to name an overarching overseer of financial stability—both to keep an eye on institutions so big that their collapse would hurt everyone and to prevent and treat financial infections spreading throughout the system, such as complicated instruments that imprudently rely on house prices rising forever.

But who should be this financial stability regulator? The growing consensus, though not the universal one, is the Fed, despite congressional concerns that the Fed already has too much power.

An alternative pushed by Sheila Bair, head of the Federal Deposit Insurance Corp., would create a council of regulators and give it power to overrule any individual regulator. The White House and the Treasury dismiss this idea. The Fed itself displays a delicious ambivalence. On one hand, Fed officials express concern that if they get the designation they will be an easy target when the next crisis hits. On the other, they recoil at the notion that any other agency get the job.

But how much power to give the Fed? Here's where it gets interesting. In the past week, two private-sector groups emphatically said the Fed should be the sole financial stability regulator. The groups are the Committee on Capital Markets Regulation, a collection of Wall Street executives and academics led by Harvard law professor Hal Scott, and the Squam Lake Group, 15 academics convened by Dartmouth finance professor Kenneth French. Neither could agree on what the Fed should do beyond, as the Squam Lake Group put it, "gathering, analyzing and reporting information about significant interactions between and risks among financial institutions."

The Fed now oversees big bank-holding companies. The Capital Markets panel said the central bank could supervise a designated set of systemically important financial institutions of all kinds. Or it could supervise all financial institutions of any size. Or it could surrender direct supervision for any individual institutions to a new British-style Financial Services Authority. Committee members couldn't decide. Three Squam Lake Group members, speaking in Washington, said the group hadn't reached consensus on whether the Fed should have more or less authority over individual institutions.

Within the White House, Treasury and Fed, there's a growing sense that someone other than the Fed—perhaps the FDIC—should get the chore of closing or selling off big financial institutions outside of bankruptcy, a role the FDIC now plays for banks. The appetite for demolishing existing agencies or, for instance, merging the Securities and Exchange Commission and the Commodities Futures Trading Commission has waned; the politics are simply too tough.

So the big question is how the administration, and eventually Congress, will define the Fed's financial-stability job. The Fed could be instructed to prick asset bubbles before they explode, a prospect that frightens the Fed because it may be impossible. More likely, it will be given the only slightly more limited job of maintaining the financial plumbing system, regulating big institutions and markets that could threaten financial stability, and setting the size of the capital cushion big institutions must maintain.

But the details are crucial: Will the Fed be told to make a list of "systemically important" institutions to oversee? Or is such drawing of a circle somewhere between impossible and stupid? Will big firms have an unfair advantage because markets know the Fed will protect them? Or will they be forced to hold more capital or pay fees to the government? Will the Fed become chief supervisor of big insurers, who now have no federal regulator? What about very big hedge funds? Will the Fed be able to overrule other bank regulators or ban certain practices across all companies? Will big diversified financial firms still report to different regulators for each line of business? Will the Fed surrender oversight of smaller banks or consumer protection?

The reaction to the Great Depression gave us the Securities and Exchange Commission, created deposit insurance, divided commercial banking from investment banking, and shifted power inside the Fed to Washington. The response to the Great Panic of 2008 surely will bring similarly long-lasting changes. We just don't yet what they will be.

Write to me at capital@wsj.com. Discuss at wsj.com/capital.

Germany moves to tighten laws over gun control

Associated Press

BERLIN—Germany's cabinet approved legislation that would tighten gun restrictions, two months after a teenager shot and killed 12 people.

The law, which requires parliamentary approval, would mean stricter checks on weapons owners and a higher age limit for users of large-caliber weapons.

Calls for tougher laws followed the March 11 shooting spree in which Tim Kretschmer, 17 years old, used a pistol taken from his father's bedroom to kill students and teachers at his former school and elsewhere before he killed himself.

The Interior Ministry said the legislation also foresees an amnesty under which people could hand in illegally held weapons until the end of 2009. The government's plan calls for expanding inspections to determine whether people with weapons licenses are locking up their guns at home securely, as required.

The gun Mr. Kretschmer used had been unsecured, but his father had a permit to own it and belonged to a local gun club.

Under the new law, the government plans to increase to 18 from 14 the minimum age at which people can use large-caliber weapons at shooting clubs.

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ECONOMY & POLITICS

Saudi oil minister sees global demand climbing

Al-Naimi says OPEC should hold steady on crude production

By Spencer Swartz

VIENNA—Saudi Arabia, the world's biggest oil exporter, credited the recent rise in crude prices to optimism over possible early signs of global economic recovery.

Saudi Oil Minister Ali al-Naimi said Wednesday that customers in Asia and the U.S. recently started asking for more crude to meet rising industrial demand.

"We're seeing [added demand] from some of our customers for more oil and we're providing it," Mr. al-Naimi told reporters here a day before the Organization of Petroleum Exporting Countries meets in the Austrian capital to review oil-production policy.

The cartel's ministerial monitoring committee, which analyzes market conditions, will recommend that the group keep oil output steady, an OPEC delegate said.

Mr. al-Naimi's comments mark his most positive reading of the global oil market since 2008, and follow months of trepidation after crude prices and oil production fell sharply.

"There is a lot of optimism in what I am saying because I see the recovery coming," he added.

Ali al-Naimi

With prices at a six-month high of around $63 a barrel, OPEC doesn't want to saddle consumers with higher energy costs and jeopardize economic recovery by cutting production.

Oil prices could top $75 a barrel in coming months, Mr. al-Naimi said, as bulging crude inventory starts to fall and demand recovers. On the New York Mercantile Exchange Wednesday, light sweet crude for July delivery settled up $1 to $63.45 a barrel—its highest close since Nov. 5.

OPEC, whose 12 member nations supply about 40% of the 83 million barrels consumed globally each day, has in past months implemented its broadest production cuts under its quota system.

The cartel has cut output by about 3.4 million barrels a day, as part of plans announced late last year to reduce supply by 4.2 million barrels a day. The cuts have helped fuel the recent increase in crude prices.

Oil ministers have an interest in talking up prices. All OPEC member states have been hammered by the decline in crude prices and production since the summer. Crude prices are down more than 60% from a record of $147 a barrel in July.

Crude-oil futures
Daily settlement price on the continuous front-month contract

Source: Thomson Reuters via WSJ Market Data Group

The economies of Saudi Arabia, the United Arab Emirates and Kuwait are expected to contract slightly in 2009 for the first time in many years, according to the International Monetary Fund. The economies of other OPEC members, such as Venezuela, are in even worse shape, the IMF says.

But as one of OPEC's moderate voices—and with many of the world's biggest oil consumers, including large energy companies and governments such as China's, as customers—Saudi Arabia is well placed to weigh in on tentative signs of budding oil consumption.

Mr. al-Naimi, the kingdom's oil chief since 1995, didn't provide hard figures on exactly how much added crude Saudi is providing to some of the country's roughly 70 customers. Saudi Arabia is producing just under eight million barrels a day, roughly in line with recent months and with its OPEC quota, he said.

Mr. al-Naimi reiterated that it would take months for oil-market fundamentals to recover despite encouraging signs in recent weeks from customers. Crude inventory remains at a two-decade high, and world oil consumption this year is likely to register its biggest drop in nearly 30 years.

"The market is currently out of balance but it's starting to get back in balance. ... We see offshoots of recovery, but the offshoots are small," Mr. al-Naimi said, adding that it is too early to talk of OPEC formally raising production.

Separately, the head of Nigeria's national oil company, Mohammed Barkindo, said about a million barrels of daily oil-pumping capacity remains out of service in the West African nation after militant attacks on energy infrastructure.

—Tahani Karrar in Vienna contributed to this article.

Malaysia's economy contracts

KUALA LUMPUR—Malaysia's economy shrank a worse-than-expected 6.2% in the first quarter from a year earlier because of a steep fall in exports and manufacturing, data showed Wednesday.

Central bank Governor Zeti Akhtar Aziz said economic conditions remain tough and the economy is likely to register a similar performance in the current quarter.

The first-quarter contraction is the country's first in nearly eight years and the worst since the fourth quarter of 1998, when GDP fell 11.2% from the previous year. It reverses 0.1% growth eked out in the fourth quarter of 2008.

Economic conditions, however, are expected to improve in the second half, Ms. Zeti said.

Prime Minister Najib Razak was expected to announce a revision to the full-year GDP forecast on Thursday. Economists predict a median contraction of 1.6% for 2009.