Anticipating the long road to an alternative-energy future

JOURNAL REPORT: ENERGY R1-7

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THE BIG READ 14-15

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Rescue workers face the aftermath of Portuguese flooding

Associated Press

Firefighters and volunteers worked Sunday to free a trapped car that was carried by floodwaters outside Funchal, the capital of Madeira Island. Heavy rain caused flash floods across the island Saturday. Local government officials have confirmed at least 32 dead.

Acquisition to reshape oil services

By Ben Casselman And Jeffrey McCracken

Schlumberger Ltd. plans to acquire **Smith International** Inc. for about $11 billion in an all-stock deal that would be the largest acquisition in the U.S. so far this year and broaden Schlumberger's lead as the world's biggest oilfield-services firm.

The deal, which the companies announced Sunday, is expected to cement Schlumberger's position atop the oil-services industry, which helps oil producers locate and drill for oil deposits. After the deal Schlumberger would have revenue double that of its nearest rival, **Halliburton** Co., although most analysts expect Schlumberger to sell some assets for antitrust or other reasons. Schlumberger is already the sector's biggest company by revenue and market value.

Under the deal, Smith shareholders would receive 0.6966 Schlumberger share for each Smith share they own—a 37.5% premium over Smith's share price on Thursday, when news of the deal was first reported. Schlumberger also would assume Smith's $1.2 billion debt load.

The deal, which is still subject to shareholder approval, is expected to close in the second half of this year. Smith shareholders would own about 12.8% of the combined company.

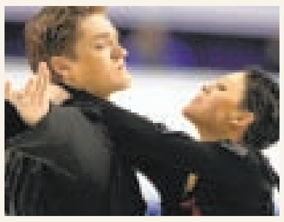
The $11 billion price tag, which values Smith at $44.51 a share based on Friday's close, was higher than most analysts expected. Dan Pickering, an analyst for energy-focused investment bank Tudor Pickering Holt & Co., said some Schlumberger shareholders might have preferred a cash-and-stock deal to an all-stock deal. But he said the deal makes sense for Schlumberger, which will now be able to package Smith's products with its own services to win more business.

"The deal makes sense operationally," Mr. Pickering said. "It's a bit more than I would have expected from a price perspective."

Markets had a mixed reaction to news of a possible deal

Please turn to page 19

The Quirk



The awkward Olympic moments of ice-dancing the tango with a sibling **Page 29**

World Watch

A comprehensive roundup of news from around the world **Pages 30-31**

Editorial & Opinion

The Dutch Social Democrats see "no good reason" to stay in Afghanistan. **Page 11**

Tories unveil bank-share plan

By Laurence Norman

LONDON—The U.K.'s opposition Conservative Party would, if voted into power, offer discounts on shares to all U.K. taxpayers when it sells the government stakes in leading U.K. banks, the party's economic spokesman said Sunday.

George Osborne also said special discounts would be available to lower-income and younger taxpayers to encourage them to participate.

"Taxpayers bailed out the banks so they deserve a people's bank bonus when the time comes to sell the government shares," Mr. Osborne said. "This is a golden opportunity to start building a savings society so that more people have a stake in the future of the economy."

In comments to the Sunday Times, confirmed by his spokeswoman, Mr. Osborne said the Conservatives "will look at special offers, discounted share sales and the like" for younger people and those on low incomes.

The Conservatives, led by David Cameron, are the current favorites to win an election that must be held by June 3, although their poll lead has slipped.

The U.K. government invested some £43 billion ($66.5 billion) in the **Royal Bank of Scotland** and **Lloyds Banking Group** at the height of the financial crisis, and the government capital injection has since risen to around £70 billion.

Taxpayers now own about 84% of RBS shares and some 43% of Lloyds.

The stakes are being managed by **U.K. Financial Investment** Ltd., which has said it could take a number of years to divest them.

Offering a discount to British privatization initial public offerings follows a tradition stretching back to the floatation of state assets in the 1980s, when Prime Minister Margaret Thatcher wanted to encourage retail-share ownership of former state utilities .

ritics say the plan raises doubts about whether the taxpayer will get the best price.

Liam Byrne, chief secretary to the Treasury, attacked the Conservative plan as a "gimmick."

A spokeswoman for Mr. Osborne responded that the Conservatives would only sell the bank stakes at a profit to the taxpayer.

■ RBS's CEO will turn down a 2009 bonus 5

PAGE TWO

More and more countries will join the tragicomedy of Greece's woes

[Agenda]

By Irwin Stelzer

The still-unfolding tale of Greece's fiscal woes has all the ingredients of both farce and tragedy, and is being played out on a world stage. The country's leader, an economist from a family of economists, is attacking his possible benefactors for wanting some indication that any funds they make available will not disappear down the sinkhole of Greece's public sector. Biting the hand that is about to feed to you, rather than first taking the food, takes ingratitude to a new level. Farce.

The most important potential benefactor, Germany, induced its citizens to surrender their stable deutschemark for the new euro by promising they would never have to fund the profligacy of their fellow euro-zone members. Voters say they will hold German Chancellor Angela Merkel to her predecessors' promises. Any inclination she might have to fund a bailout is reduced by Greek reluctance to accept outside (read, German) supervision of its future budgets. Having once been occupied by Germans, the Greeks are unhappy seeing Ms. Merkel's tanks on their lawn—symbolic tanks only, of course. History matters. Tragedy.

Meanwhile, it turns out that Greece, aided and abetted by Goldman Sachs and others, has sold several future revenue streams for current cash, and parked the liabilities far from the national balance sheet, while denying to European Union officials that it was engaged in any such process. Even the revenue stream from the sale of admission tickets to the

Corbis

Columns on the island of Delos, site of the first known sovereign default

Parthenon was on the block, but headlines of "Greece sells Parthenon" were too horrible for the nation's politicians to contemplate. Farce.

There's more, but it is important to resist the temptation to focus solely on Greece or the problems it creates for inventors and fans of the single currency. It

> **Any economic recovery in Spain is likely to be more robust than a snap-back in Greece.**

is the wider implications of this play that are important.

The first is that all sovereign balance sheets are in play. I don't know whether an overlooked volume, "Debt Defaults and Lessons from a Decade of Crises," by Federico Sturzenegger and Jeromin Zettelmeyer (from the Universidad Torcuato di Tella in Buenos Aires and the International Monetary Fund, respectively), has leapt to the top of the best-seller lists or not, but guess it hasn't. Too bad.

These economists point out, "All lending booms so far have ended in busts in which some of the beneficiaries of the preceding debt inflows defaulted or rescheduled their debts." The good news is that no western European country has defaulted since the period between the two World Wars. If history has a tendency to repeat itself, the bad news might be that "The first recorded default goes back at least to the fourth century B.C., when ten out of thirteen Greek municipalities ... defaulted on loans from the Delos Temple..."

Spain's balance sheet is one of those receiving closer scrutiny since the, er, peculiarities of Greek accounting were revealed. With reason. German banks are holding some $240 billion of Spanish paper, five times their exposure to Greece, and the largest exposure to Spanish debt by any country other than the U.K., according to the Bank of International Settlements.

French banks also have a greater exposure to Spanish debt than to Greek IOUs—almost $200 million owed by Spain compared to $75 million owed to French banks by Greece. Of course, the risk of a default or some other restructuring disadvantageous to the banks is at the moment greater in the case of Greece than of Spain. And likely to remain so.

For one thing, Spain's debt-to-GDP ratio is only 54%, whereas Greece's is well above 100%. Since studies show that debt becomes a significant drag on growth in developed countries only when it reaches something like 90%, any economic recovery in Spain is likely to be more robust than a snap-back in Greece.

Not that the Spanish economy is a model of good performance. It has shrunk for seven straight months, the jobless rate is around 20%, the fiscal deficit is in double digits, and Standard & Poor's has lowered its ratings outlook to negative. But S&P apparently retains sufficient faith in Spain's planned austerity program to rate its debt double-A-plus, while Fitch and Moody's retain their triple-A ratings. Probably because of Spain's good history of fiscal management, perhaps because consumer spending recovered in the fourth quarter of last year, perhaps because the government is predicting that durable growth will return this year, investors are demanding less than a one-percentage-point premium over rock-solid German government bonds, compared with more than triple that for Greek paper.

The ripple effects of the Greek tragedy extend beyond Europe's banks. The high yields on Greek and other sovereign-debt bonds are attracting investors who otherwise stock their portfolios with corporate bonds or those of countries such as Brazil, forcing yields on those bonds up—a sort of "crowding out" of those issues. Globalization matters when money respects no borders.

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.

What's News

■ **The Dutch government's** collapse presages a likely withdrawal of the country's 1,940 troops in Afghanistan, in a blow to the NATO alliance. It could also mean elections by June in the Netherlands, which is undergoing one of its most turbulent political crises in memory. **4**

■ **Mergers and acquisitions** and stock-market listings from companies in emerging markets have staged a strong start to the year. **23**

■ **Robert Hanson is set** to start a China-focused fund, in a return to deal making for the son of the late U.K. industrialist Lord Hanson. **21**

■ **EMI is exploring** the possibility of joining with a third party to retain and revitalize Abbey Road Studios. **21**

■ **Ukraine's President-elect** Yanukovych is set to visit Moscow in early March, the Kremlin said, after Tymoshenko dropped a legal battle to block his inauguration. **4**

Inside

Google Buzz social-networking tool still falls a bit flat. **27**

A wobbly Tiger Woods promises to mend his ways. **28**

ONLINE TODAY

Most read in Europe

1. U.S.'s Surprise Olympic Rout
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4. For Credit Cards, A New Fee
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Iain Martin on Politics

blogs.wsj.com/iainmartin

"If Labour had any Blairite future, it was embodied in the now defunct leadership hopes of Purnell."

Iain Martin on the decision by Labour MP Purnell not to seek re-election

Continuing coverage

Get complete coverage of the Vancouver Olympics, including video analysis, at **wsj.com/olympics**

Question of the day

Vote and discuss: Will Tiger Woods's public apology help his image?

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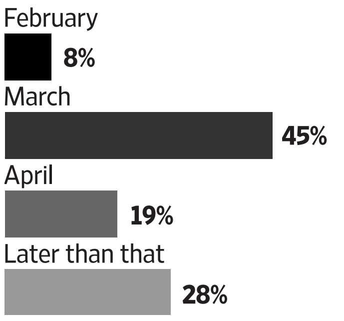
Previous results

Q: When will Tiger Woods return to pro golf?



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NEWS

Luger is mourned

Saakashvili joins 2,000 at funeral in Georgian's hometown

By Samantha Shields


Associated Press
David Kumaritashvili, father of the luger killed at the Olympics, cries at funeral.

BAKURIANI, Georgia—Tomas Pandzhakidze, a neighbor of the Georgian Olympian killed in a training accident before the Vancouver Winter Games, remembered the little boy sliding down the hill outside his house in this Caucasus Mountain community.

"We're a small town and we all cheered for him so much when he grew up to be a great sportsman," Mr. Pandzhakidze said, his eyes tearing up as the local hero, Nodar Kumaritashvili, was buried Saturday.

About 2,000 people gathered to pay their last respects to the 21-year-old athlete, who died Feb. 12 after losing control of his luge on the final turn of the Olympic track at the Whistler Sliding Centre and crashing into a steel support at 145 kilometers an hour.

The mourners, including Georgian President Mikheil Saakashvili, filed in and out of the Kumaritashvili home, where the dead athlete was draped in the Georgian flag.

The president hugged the sportsman's mother, Dodo, as she wept over the body.

Dozens of wreaths piled up outside the house, shops in town displayed large posters of Mr. Kumaritashvili in their windows, and a makeshift shrine was set up outside the tourist-information office.

Mr. Kumaritashvili's body was carried through town to the cemetery in an open coffin, flanked by a solemn procession.

His distraught mother followed, physically supported by female relatives.

His father, David, clutched a framed photograph of his son to his chest.

Friends, relatives and fans lined a street that has been named in Mr. Kumaritashvili's honor.

They paid tribute to his prowess as a luger and to Bakuriani's tradition of producing exceptional winter athletes.

A debate has emerged among sledders at the Games about whether the fast track where Mr. Kumaritashvili died is too dangerous, and whether some competitors had too few training runs on it. There were four crashes on Saturday night as the bobsledding competition began.

Felix Kumaritashvili, the luger's coach and uncle, said he thought safety measures at the track, the world's fastest, were at fault, dismissing the International Luge Federation's statement that blamed the accident on the athlete.

He said his nephew had trained extensively at most of Europe's luge tracks and two of Canada's.

"If they had made the changes they eventually made before the accident, Nodar wouldn't have died," said the uncle, who watched the fatal crash and accompanied the athlete's body home.

"Speeds on the track were getting up to 154 kilometers per hour and that's too fast for the sport," he added.

The International Luge Federation said Mr. Kumaritashvili failed to compensate properly when he slid into the last curve.

But its chairman, Josef Fendt, said later that the track was far faster than its designers ever intended it to be.

Officials shortened the track before the Olympics began to slow speeds and raised safety barriers to keep lugers on the track if they crashed.

Mr. Saakashvili, who had criticized the federation's judgment on the cause of the accident, made no statement Saturday after leaving the Kumaritashvili home.

Mr. Saakashvili's wife, Sandra Roelofs, said Georgia was grieving and she knew Canada was with the mourners.

"Investigations are going on and the main thing is that such a tragedy will not happen again," she told journalists outside the house.

Kristina Jangabegova, 17, and a small group of her friends gathered outside the house to help the family serve food and drink to the mourners.

"It's a terrible thing that's happened. The whole town feels it," she said. "You don't get many people like him."

Reuters

Finance Minister Wouter Bos, left, hands out roses at a city council election meeting in Utrecht, the Netherlands, on Saturday after the collapse of the government.

Dutch may withdraw troops

By John W. Miller

The collapse of the Dutch government Saturday presages a likely withdrawal of the country's 1,940 troops in Afghanistan, a major blow to the U.S.-led NATO alliance against the Taliban. It could also mean elections by early June in the Netherlands, which is undergoing one of its most turbulent political crises in memory.

The Dutch loss of enthusiasm for the campaign against the Taliban, as fighting rages for the town of Marjah, comes amid misgivings in other key nations. Already, Canada, which has the third-biggest force in Afghanistan, has said it will withdraw its 2,800 soldiers by the end of 2011. Allies such as France and Germany have committed only a few hundred of the thousands of additional troops demanded by the U.S.

Though a small country, the Netherlands carries symbolic weight, say U.S. and NATO officials. Its army is viewed by U.S. officials as one of the most fierce and efficient in the alliance. State Department officials praise its work in the province of Uruzgan, an important strategic area that borders Helmand, the scene of the battle for the town of Marjah involving 15,000 NATO troops.

"We need the Dutch force in Uruzgan," said the provincial governor of Uruzgan, Asadullah Hamdam, according to the Associated Press. "The Dutch are very active in reconstruction, and strengthening the Afghan National Army and the Afghan National Police."

Earlier this month, NATO secretary-general Anders Fogh Rasmussen sent a formal letter to the Netherlands requesting its troops stay on until August 2011. Prime Minister Jan-Peter Balkenende agreed, but Deputy Prime Minister Wouter Bos, leader of the country's Labor Party, didn't. He had made a campaign promise in 2007 to withdraw Dutch troops by the end of 2011. With 21 Dutch soldiers killed, public opinion souring on the war, and his party trailing in the polls, Mr. Bos needed to show boldness, analysts say. He has asked for the withdrawal of troops by year's end.

Mr. Balkenende tried last week to change Mr. Bos's mind. He proposed a reduced troop presence. U.S. Vice President Joe Biden called Mr. Bos. But after a tense, all-night cabinet meeting, Mr. Bos pulled out of the coalition Saturday morning.

"A plan was agreed to when our soldiers went to Afghanistan," Mr. Bos told reporters, referring to the mission in Uruzgan that was to end in August. "Our partners in the government didn't want to stick to that plan, and on the basis of their refusal, we have decided to resign." Mr. Balkenende was bitter. "Where there is no trust, it is difficult to work together," he said.

For now, the assumption is that Dutch forces will leave, say Dutch officials. "In the coming weeks the Netherlands will consult with NATO and its NATO allies to pave the way for the transfer of its lead responsibility in Uruzgan," the Dutch government said Sunday. "In addition, NATO and our allies will quickly be informed of the situation, once the consequences of the government's collapse in the Netherlands have been clarified."

It remains unclear what will happen to the 450 soldiers from the Netherlands in other parts of Afghanistan.

"All options are open," said a spokesman for the Dutch government. These troops comprise a so-called Air Task Force based in Kandahar and some defense clerks based in Kabul. It also includes a special-forces unit called Task Force 55, which is based in Uruzgan but isn't part of the big Dutch mission in that region.

In a television appearance on Sunday, Mr. Balkenende said he expected troops to leave by the end of this year.

There is a chance, however, that the Dutch could end up staying. As a small nation, the Netherlands is reliant on its international reputation and its strong relations with the U.S. Members of the parliament are coalescing in an effort to find a way for troops to stay.

"There is increasingly a real fear we've damaged our reputation in the international arena," says Rob de Wijk, director of the Hague Centre for Strategic Studies. "And there may be a willingness to change that."

Head of state of the Netherlands, Queen Beatrix, must decide on Monday whether to call national elections by June. If not, elections would take place next year. Meanwhile, Mr. Balkenende continues to serve as prime minister.

Early elections could prove a boon for anti-establishment right-wing leader Geert Wilders. His Party for Freedom currently controls eight seats in parliament, but is forecast to at least double that after a strong showing in the European Parliament elections last summer. Mr. Wilders is popular for his tough stance on immigrants.

Like Mr. Bos, he has supported pulling out Dutch troops by the end of 2010.

—Maarten van Tartwijk in Amsterdam contributed to this article.

Ukraine president-elect to visit Moscow in March

By James Marson

KIEV, Ukraine—Russian President Dmitry Medvedev called Viktor Yanukovych this weekend as soon as the Ukrainian president-elect's challenger dropped a legal battle to block his inauguration. According to the Kremlin, the two men agreed that Mr. Yanukovych would visit Moscow in early March.

On Sunday, however, Mr. Yanukovych's aides declined to confirm or deny anything about a visit, though his Web site posted the Kremlin announcement. Hanna Herman, a legislator and a deputy leader of Mr. Yanukovych's Party of Regions, said the president-elect's first priority was to form a new government and deal with domestic problems.

The call from the Kremlin on Saturday signals Russia's interest in reasserting a preferential relationship with its former Soviet neighbor. But the reaction in Kiev leaves it unclear in which direction Mr. Yanukovych will tilt Ukraine, a country of 46 million wedged between Russia and the West.

Ukraine embraced a Western agenda after the 2004 Orange Revolution, when mass protests alleging electoral fraud overturned Mr. Yanukovych's tainted victory in that year's presidential election.

Viktor Yushchenko won the revote and antagonized the Kremlin, which had openly backed Mr. Yanukovych, by pushing to advance negotiations to join the North Atlantic Treaty Organization and by supporting Georgia during its 2008 war with Russia.

In the recent campaign, the Kremlin played no favorite, and Mr. Yanukovych straddled the fence, calling for good relations with Russia and with the European Union. Ms. Herman had indicated last week that his first presidential trip abroad could be to Brussels.

Portugal strike poses threat to deficit effort

By Jeffrey T. Lewis

LISBON—Unions representing Portugal's public-sector workers are preparing a national strike to challenge a wage freeze that is key to government efforts to cut a towering budget deficit. But will the unions prevail?

The March 4 strike highlights political challenges faced by the government of Socialist Prime Minister Jose Socrates. In seeking to close a budget gap of 9.3% of gross domestic product in 2009—more than three times the European Union's 3% limit—the government is running into union culture.

Europe's weaker financial markets are groaning under the weight of supporting their vast budget deficits. Greece admitted late last year its deficit was four times than previously thought. Spain and Ireland also face financing problems.

This year's labor action comes after an effort in 2005 and 2006, including wage freezes and pension reforms, that generated a backlash from unions. But that action had little effect on the government, which was able to force through its program because it held a majority in parliament until last year. This time, the government has lost its majority but remains in office. It appears to be moving slowly, though it has the tacit support of the opposition.

The March 4 national strike was called by Frente Comum, a coalition of unions that together represents about 350,000 of Portugal's roughly 500,000 public-sector workers, out of a total population of 10.6 million.

"We're losing purchasing power. We're losing our labor rights," said Ana Avoila, Frente Comum's leader, adding that government workers have seen their purchasing power eroded by nearly 8% in the past decade. The union is calling for a wage increase of 4.5% this year.

Under the budget plan presented Jan. 26, government workers, including teachers and healthcare professionals, will have salaries frozen. The freeze is one of several measures to reduce the deficit in 2010, including lower subsidies for buying new cars and changes to pension rules to penalize early retirement among public-sector employees. A new tax on executive bonuses in the financial sector was one of the few changes to boost revenue.

Before the 2010 plan was presented, debt-ratings agencies had been calling for a big reduction this year to meet the EU's demand that the spending gap be under the 3% limit by 2013. Instead, the proposed budget contained a reduction of only one percentage point this year and investors responded with a sharp sell-off of Portuguese government bonds.

Portugal faces its next test on international financial markets Wednesday when it tries to sell €1 billion in five-year bonds. The Portuguese government has nonetheless shown in recent weeks that it can still raise funds, selling €1 billion of 12-month treasury bills and €3 billion in 10-year bonds.

The finance ministry is now preparing its so-called Stability Plan—an annual financial report for the European Commission—which is supposed to explain how the government will reach the 3% goal.

—Jonathan House in Madrid and Emese Bartha in Frankfurt contributed to this article.

EUROPE NEWS

RBS chief to forgo ’09 bonus

Stephen Hester was to receive an award of around $2.5 million; seeking to deflect anger

Getty Images

RBS Chief Executive Stephen Hester

By Sara Schaefer Muñoz

LONDON—Stephen Hester, the chief executive of **Royal Bank of Scotland Group** PLC, will become the latest top U.K. bank executive to turn down a bonus for 2009, a person familiar with the matter said, a move that comes amid continuing public and political anger over banker compensation.

Mr. Hester will forgo his bonus in an attempt to deflect public outcry from the bank’s payouts to other staff and executives, which Mr. Hester wants to make sure remain competitive, this person said. Mr. Hester had been set to receive an award of around £1.6 million ($2.5 million), this person. The overall 2009 bonus pool at the struggling bank is set to be £1.3 billion.

Mr. Hester’s decision comes after both the chief executive and president of **Barclays** PLC, John Varley and Robert E. Diamond Jr., said last week they would give up their 2009 bonuses in the wake of public concern following the financial crisis, even though Barclays took no direct aid from the U.K. government.

That isn’t the case at RBS, where the bonus debate has been intensified by the fact that the bank is 84%-owned by U.K. taxpayers after a bailout in 2008 and an additional infusion of government capital late last year.

The move could pressure the top executives at the U.K.’s other top banks, **HSBC Holdings** PLC and **Lloyds Banking Group** PLC, to also give up their 2009 awards.

A spokesman for Lloyds said that the bank’s remuneration committee had made no decisions regarding potential bonus awards.

A spokesman for HSBC said that the bank couldn’t comment on remuneration ahead of its 2009 results, which will be reported on March 1.

Brown faces accusations of bad temper

By Alistair MacDonald

The U.K. election campaign, focused for months on topics like the economy and bankers’ bonuses, veered Sunday to a more personal issue for Prime Minister Gordon Brown: his temper.

Mr. Brown was accused, in separate accounts, of temper fits and the bullying of staff members. The accusations—one in an excerpt from a new book, the other from a charity hot line that receives complaints about bullying behavior—unleashed a debate about his character.

Mr. Brown and several political allies rejected the accusations.

The Observer newspaper carried material from a book on Mr. Brown by its political commentator, Andrew Rawnsley, that alleged the prime minister has acted aggressively with staff, including grabbing them by the lapels of jackets, shoving them aside and shouting at them. The book alleges that Sir Gus O’Donnell, the head of the civil service, was so concerned that he launched an investigation into incidents and talked to Mr. Brown about his attitude toward staff.

A spokeswoman for Sir Gus said it is “categorically not the case” that he ordered a probe or talked to Mr. Brown about his behavior. A spokesman for Downing Street said: “These malicious allegations are totally without foundation.”

A host of senior politicians took to the airwaves to deny that Mr. Brown was a bully, with Peter Mandelson, the influential business secretary, saying Mr. Brown “gets angry but chiefly with himself” and is a man “who doesn’t bully people.”

Later Sunday, the British Broadcasting Corp. reported that the founder of a charity offering counseling to people who feel they have been bullied in the workplace said they had received “three or four” calls from staff within Downing Street over the last “three of four.”

“We are not suggesting that Gordon Brown is a bully; what we are saying is staff in his office working directly with him have issues, and have concerns,” Christine Pratt, the founder of National Bullying Helpline, told the BBC.

A Downing Street spokesman said that at no time has the National Bullying Helpline contacted them about these allegations.

The charity’s Web site lists two opposition Conservative Party politicians as being among its patrons. It couldn’t be reached Sunday night for comment.

Rethinking the low-inflation mantra

Higher rate would give Fed more room to act, some argue, but risks abound and U.S. policy is unlikely to change

By Jon Hilsenrath

For the past quarter century, inflation has been a bogeyman that eats wealth and causes instability. But lately some smart people—including the chief economist at the International Monetary Fund and a senior Federal Reserve researcher—have been wondering aloud if a little more of it might actually be a good thing.

For several reasons, however, the idea isn't likely to gain traction any time soon.

THE OUTLOOK

The new argument for inflation goes like this: Low inflation and the low interest rates that accompany it leave central banks little room to maneuver when shocks hit. After Lehman Brothers collapsed in 2008, for example, the U.S. Federal Reserve quickly cut interest rates to near zero, but couldn't go any lower even though the economy needed a lot more stimulus.

Economists call this the "zero bound" problem. If inflation were a little higher to begin with, and thus interest rates were a little higher, the argument goes, the Fed would have had more room to cut interest rates and provided more juice to the economy.

Right now, the Fed and other big central banks have their sights set on inflation of around 2%. Economists had used a "Three Bears" approach to come up with this number—for a long time it seemed like it was not too hot and not too cold. But low and stable inflation could in theory mean something steady at a slightly higher rate.

IMF chief economist Olivier Blanchard, in a recent paper, said maybe the U.S. central bank's future inflation goal should be 4% instead. John Williams, head of the San Francisco Fed's research department, argued last year that higher targets might be needed to provide a cushion for future crises.

The proposals underscore a broader rethink that is rumbling through the economics profession in the wake of the financial crisis. Many of the things economists thought they knew turned out to be wrong.

It's a timely conversation. On Friday, the Labor Department said consumer prices excluding food and energy fell in January, the first monthly decline since 1982. Neither Mr. Blanchard nor Mr. Williams was calling for higher inflation now, but their argument opened the door to that discussion.

There are other reasons some would welcome a little more inflation now. Governments in the U.S. and elsewhere, and many U.S. households, are sitting on mountains of debt. A little more inflation could in theory reduce the burden of servicing and paying that off, because while debt payments are often fixed, the revenue and income that households and governments generate to pay it off would rise with inflation.

But there are problems with the welcome-more-inflation argument.

The first is that it isn't yet clear that the "zero bound" on interest rates that Mr. Blanchard worries about is the economy's biggest problem. Thus addressing it might not be worth the costs that would be associated with higher inflation.

After the Fed pushed interest rates to near zero in December 2008, Chairman Ben Bernanke found alternatives to more interest-rate cuts: buying mortgage-backed securities and Treasury bonds and funneling credit to auto-loan, student-loan and credit-card markets. Those additional steps were no panacea, but they helped end the recession even if they didn't produce growth fast enough to bring unemployment down quickly.

"Is that the stuff of a zero-bound disaster?" the Atlanta Fed's top economist, David Altig, recently wrote on his blog. "Put me down on the petition to not experiment with higher inflation to avoid a problem that was not so clearly a problem."

There is also a thornier problem. Suppose for a moment that Mr. Blanchard is right, and central banks around the world would be better prepared to fight future crises with a little higher inflation. Getting from 2% to 4% could be a very messy process. Investors, businesses and households might well conclude a one-time shift to a higher inflation target actually means less commitment to stable inflation. Expectations of higher inflation could become a self-fulfilling prophecy. Instead of getting 4% inflation, central banks could end up with 5%, or 6% or 7%.

A higher inflation goal "would have a fairly immediate and disruptive effect" on markets, said Bruce Kasman, chief economist at J.P. Morgan Chase.

Mr. Bernanke has acknowledged the allure of a higher inflation goal. In written answers to lawmakers in December, he said a higher inflation target could in theory make it possible for the Fed to push inflation-adjusted interest rates lower, stimulating borrowing and economic growth. But the opposite could happen, too. The prospect of higher inflation could cause interest rates to shoot up and make the burden of future borrowing even heavier.

Mr. Bernanke concluded he didn't want to mess with people's fragile expectations. He said switching to a higher target would risk causing "the public to lose confidence in the central bank's willingness to resist further upward shifts in inflation, and so undermine the effectiveness of monetary policy."

The 2% inflation goal that is so popular with central bankers around the world might not have been the ideal target in retrospect. But it looks like everybody is tied to it, for better or worse, for the foreseeable future.

Fairly flat prices bode well for U.S. economy

By Sara Murray
And Kris Maher

Consumer prices in the U.S. are barely rising, a boon to shoppers for everything from computers to clothing and a big reason that the Federal Reserve is willing to keep interest rates exceptionally low a while longer.

Because of a spurt in energy prices, the consumer-price index rose 0.2% in January and has climbed 2.6% over the past 12 months, the Labor Department said Friday.

But stripping out volatile food and energy prices, as policy makers do to gauge underlying trends, consumer prices actually fell by 0.1% in January, the first time that has happened since 1982. That so-called core-inflation measure was up a meager 1.6% in the past 12 months.

"There is just no inflation pressure in the U.S., so our focus has to be on growth and jobs," said William Dudley, president of the Federal Reserve Bank of New York, at an event Friday in San Juan, Puerto Rico.

The absence of inflation partly soothed market fears—sparked Thursday by an increase in an interest rate that the Fed charges on emergency loans to banks—that the Fed might be on the verge of raising other short-term interest rates, especially its benchmark federal funds rate.

That Fed-influenced rate, which banks charge on loans to one another, has been near zero for more than a year, and the Fed vows to keep it there for "an extended period." Trading in futures markets Friday indicated that traders now are betting the Fed will hold off on raising that key rate until October.

The unusual decline in core consumer prices in January wasn't large or lasting enough to be called deflation, a broad and damaging fall in prices across the economy. But it underscores the expectations of several Fed officials that inflation could continue to trend down even as the economy recovers.

Low inflation is welcomed by the bond market and consumers, but it is putting pressure on some businesses because it makes it hard for them to raise prices. Companies from **Wal-Mart Stores** Inc. to fast-food chain **Jack in the Box** Inc. have complained that lower prices are behind declines in sales.

With prices of some raw materials and other items rising, many businesses are facing a squeeze, with some costs rising and stingy shoppers unwilling to pay more in stores or restaurants.

Wal-Mart, the Bentonville, Ark.-based retailer, on Thursday blamed falling prices of groceries and electronics for its drop in U.S. sales for the quarter ended Jan. 31.

Giant Eagle Inc., a 220-store grocery chain in Pennsylvania, West Virginia, Ohio and Maryland, in September announced price cuts averaging 23% on more than 100 produce items. The Pittsburgh-based chain said the reductions would save consumers $32.5 million a year, with bargains that included reducing a 4-pound bag of oranges from $5.99 to $3.99.

Other forces also are keeping a lid on prices. Tommy Ziegler, a salesman and buyer for Bekins Inc., an appliance retailer in Grand Haven, Mich., has been cutting prices to augment state-funded energy rebates in hopes of stimulating sales.

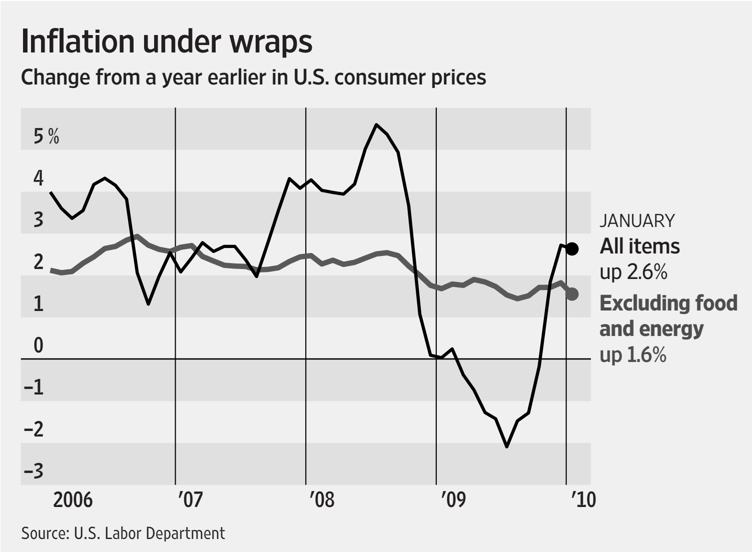
On a top-selling dishwasher, for instance, he recently cut the price to $699 from $750, and he is offering to match a $25 rebate from the state and to knock $75 off the cost of installation.

"I try to highlight one or two products in each category just to give that customer the extra incentive to say, 'We've been holding off to buy—but let's do it,' " said Mr. Ziegler.

The price squeeze has hit some industries harder than others. Jack in the Box, the fast-food chain with more than 2,200 stores, saw its earnings fall sharply in the quarter that ended Jan. 17, as consumers grew more reluctant to eat out. A divergence in costs is one reason: Over the last 12 months, the price of food eaten at home has fallen 2%, while the price of eating out has jumped 1.6%.

"We believe high unemployment rates for our key customer demographics continue to be the biggest factor impacting our sales," said Linda Lang, Jack in the Box's chief executive, in a call with analysts. "In addition, we are continuing to see aggressive discounting throughout all segments of the restaurant industry."

Lower grocery prices, she added, are also inspiring more people to eat at home



For many households, low prices aren't loosening purse strings, however, because unemployment remains high and wages aren't improving.

After adjusting for inflation, average hourly earnings for workers on private payrolls outside of farming were unchanged in January at $10.32 an hour, the Labor Department said Friday.

Average weekly wages were up 0.3% last month to $349.77 as workers put in more hours. Over the past year, weekly earnings have fallen 1.5%.

"The price of gas and food, the things you need, doesn't seem to come down," said Paul Bettencourt, 48 years old, from Dracut, Mass.

Mr. Bettencourt, a former car-dealership manager, now works three jobs. He sells radio advertising to small businesses, sells real estate nights and weekends, and started a business helping people shop for cars.

He is holding off on upgrading appliances in his 10-year-old house and delaying buying a new Apple laptop that costs about $1,700. "I just don't have the money," he said.

At the same time, Mr. Bettencourt said he thinks prices for luxuries like travel have come down considerably. "As far as I'm concerned, the whole country is on sale. People that have money can get absolute deals."

—Michael S. Derby contributed to this article.

WORLD NEWS

Clearing province could take a month

NATO acknowledge Afghan resistance

By Alan Cullison

KANDAHAR, Afghanistan—Coalition forces say it could take at least a month to clean out and secure hotly contested parts of Afghanistan's Helmand province, indicating the slow if steady pace of progress as the offensive against the Taliban enters its second week.

North Atlantic Treaty Organization officials had earlier predicted it could take a month to clear booby traps and improvised explosives from Marjah, a center of rebel resistance in Helmand.

Lately officials have acknowledged that troops there are meeting some pockets of unusually stiff resistance.

U.S. and Afghan troops were converging yesterday on a western quarter of Marjah, officials said, where a group of remaining Taliban had concentrated and were apparently making a stand.

NATO reported one soldier killed during a shootout in the offensive Sunday, bringing the number of NATO dead to 13 since it began its push into the area.

Separately, a U.S. soldier was killed early Sunday north of Kandahar in southern Afghanistan, a death that NATO officials said wasn't related to the offensive.

That soldier was killed while on foot patrol by an explosive device that gravely injured another soldier, officials said.

> Political pressures are putting coalition leaders under pressure to show some kind of progress.

General Zahir Azimi, spokesman for the Afghan ministry of defense, said yesterday that the offensive is "on schedule." He added that NATO and Afghan forces are proceeding slowly because they want to avoid civilian casualties and explosive devices.

But political pressures are also putting coalition leaders under pressure to show some kind of progress against the Taliban.

In a setback for NATO, the Dutch prime minister said that his country's 1,600 troops would probably leave Afghanistan this year because of domestic opposition to their presence in the country.

The Dutch, who have been concentrated in the relatively stable province of Uruzgan, have been lauded by the U.S. State Department as a stabilizing force in the region and a possible model for the U.S. military in its approach to counterinsurgency.

NATO has lately hailed the arrest of Taliban leaders in neighboring Pakistan as a long-awaited sign of cooperation that could deprive the Afghan insurgency of a haven.

NATO forces said yesterday that they captured a suspected Taliban commander in Helmand as part of their breakup of a network of Taliban who were ferrying improvised explosive devices, or IEDs, into the zone of the offensive, though Sangin, in northern Helmand.

But other signs remain of persistent cooperation with the Taliban by Afghan security services even within Afghanistan's security services, which NATO would like to stand up for the fight on its own against the insurgency.

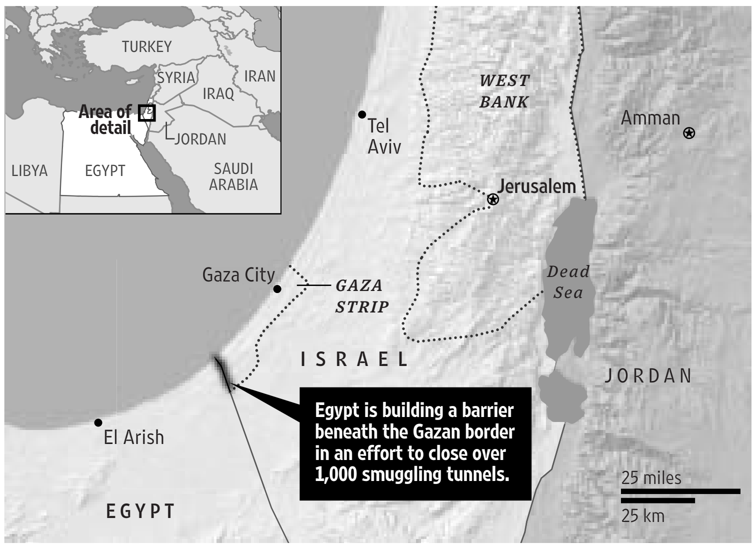
Yesterday, officials in the southern province of Zabul announced that they had arrested eight police officers who had deserted and were trying to flee to Pakistan where they planned to join insurgents.

Agence France-Presse/Getty Images

A U.S. Marine with Charlie Company guards an abandoned market in the northeastern outskirts of Marjah

WORLD NEWS

European Pressphoto Agency (left); Associated Press (right)



A Palestinian worker rests inside a smuggling tunnel, left. Metal slabs lay on the ground last month on the Egyptian side of the border where Cairo has started building its barrier.

Egypt tightens Gaza barrier

Closing off smuggling tunnels threatens delicate balance for Hamas since war's end

By Charles Levinson

RAFAH, Gaza Strip—Egypt is pressing ahead with construction of an underground barrier between it and the Palestinian-controlled Gaza Strip, an effort to close more than 1,000 smuggling tunnels—the enclave's only significant trading channel to the outside world.

The move by Cairo threatens to harden a blockade of Gaza, put in place by Egypt and Israel after Hamas won Palestinian-wide elections in 2006. The siege was tightened in 2007 when the militants took control of Gaza in a bloody rout of its rival Palestinian faction, Fatah.

The tunnels have allowed Hamas to avoid the worst impact of the blockade. If the Egyptian barrier successfully shuts this lifeline to the outside world, it could threaten a delicate status quo that has grown up here since the Gaza War ended in January 2009.

That war began when Hamas resumed launching rockets at Israel in late 2008 after a six-month cease-fire because Hamas felt Israel hadn't lived up to its end of the bargain by relaxing the siege.

Israel responded with a 23-day assault because it was neither willing to tolerate more rocket fire nor open up the border crossings as Hamas wanted. Thus the tunnel boom after the war—although it allowed Hamas to rearm—also let both sides avoid making difficult compromises without enduring a humanitarian crisis or more violence. Last year was one of the least violent years in memory along the border.

Egypt has long helped to enforce the siege by keeping official border crossings with Gaza mostly closed, but it turned a blind eye to tunnel trade. Last year, Cairo had a change of heart after a series of incidents led Egyptian security officials to conclude that the tunnels were attracting groups and individuals to its territory that could pose a threat to Egypt itself.

In April, Egyptian authorities arrested a group of Hezbollah operatives, whom it accused of planning to target Suez Canal shipping, among other things.

"It came to the attention of our security services that those tunnels were being used in ways that threaten Egyptian security," said Hossam Zaki, a foreign ministry spokesman.

Egypt began work on the border fortifications around the start of the year. That coincided with the collapse of Egypt-brokered talks between Hamas and Fatah. Egypt has blamed Hamas for the collapse of the talks, which are seen as a stepping stone to any Israeli-Palestinian peace accord.

Israel has praised Egypt's stepped-up efforts to combat smuggling. Egypt says its security was threatened by a growing flow of illicit goods and militants through its territory.

Recent Palestinian anger at the Egyptian construction has turned violent, including a Jan. 6 shooting that left an Egyptian border guard dead, allegedly by a Palestinian sniper.

The tunnels were dug in the 1980s to smuggle drugs, weapons and other illicit goods into Gaza. But in the past year or two, they have blossomed into what is essentially a regulated port of entry for the Hamas-administered Gaza government, through which 80% of the enclave's imports arrive, according to United Nations officials. Without the tunnels, Gazans would have no reliable means of getting goods. "We feel pain and anger towards Egypt over the steel wall on our border," said Ismail Haniya, prime minister of the Hamas-led government in Gaza.

Maj. Rafaat Salama, commander of a newly formed police unit responsible for overseeing the tunnels offers a window onto the tunnels' evolving role.

The unit was established in August and has since doubled to 300 members. A longtime Hamas fighter, Maj. Salama joined the Palestinian police in 2006 after Hamas's victory in Palestinian elections. At the time, Israel and Egypt—with U.S. backing—limited the flow of goods into Gaza, in a move to pressure the group, which is designated a terror group by Washington and Israel.

After the putsch in 2007, Maj. Salama was named deputy police chief in Rafah. Egypt and Israel tightened their blockade, allowing only carefully vetted humanitarian aid through official overland routes.

The tunnel business boomed.

Hamas at first adopted a hands-off approach to the tunnels, and Palestinian operators saw opportunity. In 2008, they began courting prominent Gaza City businessmen as investors and customers in new tunnels.

Along with basic commodities and consumer goods, Hamas and other militant groups used the tunnels to import weapons.

In December 2008, in response to rocket attacks by Gaza-based militants on southern Israel, Israel launched its 23-day assault. In the war's aftermath, Israel further tightened its siege.

But demand for reconstruction material soared. More tunnels sprung up. As the government began to police and regulate the tunnels trade, businessmen who once shunned them reconsidered.

In a tailored sports coat and button-down oxford shirt, Gaza-based cement wholesaler Abdel Salam al-Masry says he is no smuggler. But sensing a surge in cement demand after the war, he took his first trip to the tunnels in February 2009.

"I came down and started asking a lot of questions," he says. Today, he says he brings an average of 150 to 200 tons of cement, ordered from Turkish and Egyptian companies, through three different tunnels each day.

He pays $100 a ton for the cement to suppliers and $150 more to tunnel owners. He resells the cement in Gaza at a $10 markup—about $260 a ton. Tunnel owners, in turn, pay about $2,500 in annual fees to the Rafah municipality for each tunnel.

In November, Maj. Salama was named commander of the tunnels unit. Today, the onetime militant is a bleary-eyed bureaucrat, acting as chief customs official, tunnel safety inspector, and arbiter of labor disputes.

Egypt has provided few details on the exact nature of its barrier. Mr. Zaki said it is an "underground construction" that will be completed within a year. He said it will stop at least 60% of the contraband going to Gaza.

IDFC chief expects power to give a surge to India future

By Eric Bellman

MUMBAI—Indian borrowing to build infrastructure has rebounded and will continue to expand as the government and companies build bridges, roads and power plants at an unprecedented pace, confident that the worst of the global debt crisis has passed, said the chief executive of India's largest infrastructure-financing company.

In an interview, Rajiv Lall, chief executive of **Infrastructure Development Finance Co.**, said much of the surge in business is coming from the power sector.

"The pipeline for privately sponsored power-generation projects is absolutely humongous," he said. "We are generally conservative as an organization, [but] I think we have now come to the conclusion that power generation is going to be the next telecom of the Indian infrastructure story."

India has experienced a revolution in its telecommunications infrastructure during the past five years as billions of dollars of investment in cellular networks have brought phone service to hundreds of millions of Indians who never had phones.

The energy industry in India has at last reached a tipping point, said Mr. Lall, with better government regulations, smart financing and private companies that can build the megaprojects lined up to bring a wave of new generation capacity to the subcontinent.

He estimates $20 billion a year will be spent on new power plants over the next four years, adding at least 30% to India's power generating capacity.

From almost no net-profit growth in the fiscal year ended March 31, 2009, IDFC expects about 20% growth this year and 30% next year, he said.

The country's return to a rapid buildup of infrastructure is crucial.

The growth that India needs to lift more of its citizens out of poverty is getting choked by regular blackouts and clogged roads, as well as lack of schools and hospitals for its population of more than one billion. When the global debt crisis forced IDFC to almost freeze new lending in late 2008, IDFC's profit growth decelerated to next to nothing.

In the third quarter ended Dec. 31, its net profit soared 46% from a year earlier to 2.7 billion rupees ($58.5 million).

To keep the momentum going, IDFC and its Indian infrastructure peers need the government to become more efficient at executing big projects, Mr. Lall said.

One area they need deregulated further: all the rules connected to acquiring land for infrastructure projects.

"How land is aggregated, how it is made available for the purpose of infrastructure development. There's a huge amount of murky, political economy that underlies, underpins the whole process," he said. "Simplification of that—which is a very difficult thing to do, given the political economy of that process—is something that we really, really need to work on."

—Arlene Chang contributed to this article.

WORLD NEWS

Arrest of prosecutor stresses Turkey

Move inflames long-running battle between ruling party and judiciary charged with enforcing the constitution

By Marc Champion

ISTANBUL—Political tensions in Turkey escalated last week after one senior Turkish prosecutor arrested another, stoking a power struggle between the religious conservative government and secular establishment.

The chief public prosecutor of Erzincan in northeastern Turkey was arrested Wednesday. According to state news agency Anadolu Ajansi, he was charged with misconduct, intimidation and being a member of an alleged terrorist conspiracy to topple the government.

The arrest was ordered by a special prosecutor pursuing a case against the alleged conspiracy—an effort that critics say has widened into a national crackdown on opponents of Turkey's ruling Justice and Development party, or AKP. The arrested prosecutor, Ilhan Cilhaner, had previously opened an investigation into religious sects.

Mr. Cilhaner's arrest inflamed the long-running battle between the AKP and Turkey's judiciary, which is charged with enforcing the country's strongly secular constitution. Many critics of the AKP see the country's basic law as deeply flawed but also the last defense against a government with Islamist roots they believe threatens modern Turkey's secular foundations.

The country's Supreme Board of Judges and Prosecutors, backed by Turkey's top courts, protested Mr. Cilhaner's arrest, stripping power from the special prosecutor and three other prosecutors involved.

In response, President Abdullah Gül called for rapid reform of the judiciary. Deputy Prime Minister Bülent Arınç, in comments Thursday, called the prosecutors' demotion a "judicial coup." He said the government might call a referendum on whether to rewrite the constitution.

Any attempt to do so could prove explosive. The EU and many Turks back changing the constitution, which was drafted in the early 1980s, in the wake of a military coup.

The basic law includes clauses that have been widely used to repress ethnic and religious minorities in Turkey, as well as free speech. But critics of the AKP fear the document would be rewritten to reshape the nation in line with the party's religious beliefs.

"The rule of law itself is under threat," Deniz Baykal, leader of the main opposition Republican People's Party, told reporters Thursday. He accused AKP sympathizers in the judiciary of acting as hit men to crush secularist colleagues. "It's the first time in our history that a court storms another court."

Turkey's chief prosecutor said he would examine whether the government was applying improper pressure on the judiciary. If the country's courts agree that the party is in conflict with the constitution and threatens the state's foundations, they could rule to shut it down, though such an outcome for now appears unlikely.

Analysts said investors didn't appear to react to Mr. Cilhaner's arrest, believing the two sides would continue to avoid escalating the conflict. The top 100 companies on the Istanbul stock exchange closed up 1.66% Friday, after falling with global markets during the week. Standard & Poor's went ahead with a widely expected upgrade of Turkey's sovereign credit rating to BB on Friday, citing a strong financial sector and solid fiscal polices.

Tensions between the judiciary and AKP run deep. Turkey's courts banned the AKP's predecessor Islamic parties and sought to ban the AKP in 2007. Turkish courts blocked the government's attempt to lift restrictions on the wearing of head scarves in universities. The revelation last fall that the government was tapping the phones of senior judges caused further bad blood.

More broadly, Turkey's religious and secularist elites have been engaged in a bloodless, virtual civil war since 2007.


Agence France-Presse/Getty Images

Turkey's judiciary, which enforces the constitution, is facing off against the ruling AKP and President Gül, seated center.

INTERVIEW

Gerard Kleisterlee has spent his entire career with the electronics firm

Agence France-Presse

A search for simplicity follows Philips Electronics' revolution

Growth is at the heart of the company's new strategy, as formerly unwieldy conglomerate narrows its focus

[Gerard Kleisterlee]

By Anna Marij van der Meulen And Harm Luttikhedde

There was a time when Philips Electronics NV straddled the electronics industry. From its headquarters in Amsterdam, the Philips empire made everything from light bulbs, to semiconductors, to electric shavers. At one stage, the company even dabbled in the music business, employing such artists as Sting and Elton John on the PolyGram label.

But as turnover grew, profits fell, often to alarming levels. In 2001, when it reported a loss of €2.48 billion ($3.37 billion)—the largest in the history of the company—the board turned to a Philips "lifer," Gerard Kleisterlee.

Mr. Kleisterlee is an unlikely revolutionary. Not only has he spent his entire career with the electronics firm, his father worked for the company, too.

But a revolution is what he has overseen, transforming Philips from an unwieldy conglomerate with more than a dozen different divisions into a company focused on end consumers, selling them lighting, consumer electronics and health-care equipment.

As at fellow conglomerate rivals **General Electric** Co. and **Siemens** AG, which have both restructured operations to help weather the economic slump, revolution hasn't been easy. There have been layoffs, factory closures and disposals, most notably the 2006 sale of Philips's semiconductor business to private-equity buyers for more than $10 billion.

But today, Philips is healthy. Last month it turned a profit of €251 million compared with a loss of €1.17 billion a year earlier. Meanwhile, fourth-quarter sales were €7.26 billion, slightly down from €7.62 billion a year earlier.

Though it's gray and snowing outside, Mr. Kleisterlee is in a relaxed mood, sitting comfortably in a leather chair in his office at Philips headquarters.

"Philips never came out of a crisis like this before," he says. "After three difficult quarters results are on track again. We, therefore, don't have to look back and ask ourselves where restructuring or change of our businesses is needed. Our results in 2009 showed our current strategy works, and I feel therefore no need to change or update this strategy."

The current strategy is focused on three divisions: lighting, which, among other things, makes lighting products for consumers, the automotive industry and public places; healthcare, which produces such things as scanners for hospitals or home health-care products; and consumer lifestyle, which makes products ranging from shavers to televisions.

At the heart of the strategy, now more than ever, is growth, and this is where the strategy still needs to prove itself.

Philips is well aware it needs to grow in the longer term to increase its net profit, but Mr. Klesiterlee is convinced the company has everything in place to do so.

"We are well positioned to benefit fully from an economic upturn," he says. "We have lined ourselves up, strategically, in areas were there's demand, in what the world needs. The world needs more affordable healthcare; the world needs more energy-efficient lighting solutions. And consumers, as soon as they have got more to spend, will make more conscious decisions, one that is more aware of a healthy lifestyle. That's what we aim for."

"If the portfolio in 2007 [when Philips set its strategic goal to boost revenue by more than 6% a year], was like it is today, we would have targeted more than 6% revenue growth," Mr. Kleisterlee said.

It's been quite a journey for the 63 year old. After studying electrical engineering at Eindhoven Technical University on a scholarship from Philips, he joined the medical division in 1974.

He worked his way up, making his name heading Philip's operations in Taiwan and China, which he left in 2000 to become chief operating officer.

A year later, the tech bubble burst, the company was losing money and Mr. Kleisterlee had been appointed chief executive. With hindsight, he says it was a period during which the company often tried to do too much.

Although he says current activities should enable strong growth, he is reluctant to set new targets as long as economic circumstances remain uncertain.

"The financial system is not stable yet," he says. "Half of the economic growth comes from government stimulus packages, and it remains to be seen how viable the economy will be without these measures....Apart from growing organically, the health and well being of the company is also looking at acquisitions."

One of his major focuses is on outdoor lighting, as a large part of the world's energy consumption is spent on street lighting. "Governments show a lot of interest in doing something about this," he says. Moreover, this segment sees the quickest transition to LED, because when local authorities make investment decisions, they want the latest technology.

Fast growth is also foreseen in certain subsegments of the company's divisions. Respironics, a provider of products for the global sleep and respiratory markets, which Philips acquired in 2008, is expected to show double-digit growth soon, Mr. Kleisterlee said.

Other areas, like the commercial real-estate market, aren't expected to move until the end of this year.

Other than outdoor lighting, there is also a desire for acquisitions in the lighting-control solutions business as well as in the area of oncology, cardiology and healthcare related to women.

Apart from making the company less complex, Philips is also transforming from a high volume electronic-components maker into a company focusing on delivering end-products and, increasingly, solutions.

This trend started in its healthcare activities, in which Philips enters into long-term agreements with hospitals where it provides imaging needs for a fixed monthly fee, but this is also spreading to its lighting business.

Mr. Kleisterlee says the company is currently close to a deal with an airport where it will manage all aspects of lighting for a number of years, and it recently struck a deal with U.K. retailers **Tesco Group** PLC and **J. Sainsbury** PLC where it will help them use LED lighting for their freezers to help them lower their electricity bill.

"We want to play a bigger part in providing solutions in the area. That's why we bought light-control companies and acquired a leading position in the North American luminaries business by buying Genlyte."

Mr. Kleisterlee is due to retire next year. But having transformed the company thus far will he be inclined to stay on?

"Never say never," he says.