FINANCIAL TIMES

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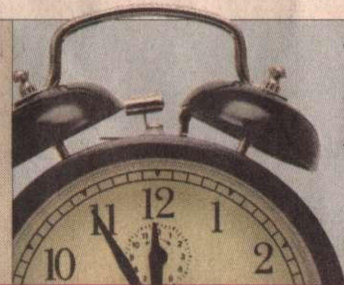
'The next stage in recovery must be a strengthened European growth strategy'

Gordon Brown **Comment** Page 13



Wake-up call
UK credit rating fears should sound alarm for America
Comment Page 13

World Business Newspaper

News Briefing

Ex-Morgan Stanley trader fined £140,000

A former Morgan Stanley trader was fined £140,000 and banned by the City watchdog after he traded ahead of clients to profit from their orders. It was the third trading-related punishment linked to the bank by the Financial Services Authority in the past month. **Page 17; Lombard, Page 18**

Iron ore ruckus looms

Chinese steelmakers and miners are heading for a showdown over ore prices after Rio Tinto agreed to cut prices by a third for Japanese steel mills, much less than the reduction Beijing is demanding. **Page 17; Lex, Page 16; Serious cracks, Page 34**

Brown changes tack

Gordon Brown will today seek to shift the political agenda from the focus on MPs' expenses, with a call for European reforms to fight the recession. **Page 2; A void to fill, Page 11; Gordon Brown, Page 13**

Online music fillip

Online music services received a boost to their business model after the UK royalty collection agency cut the charges they must pay artists for playing a track. **Page 3; EU music rights, Page 5**

City exits on cards

City finance professionals are so worried about the future that nearly 30 per cent are planning to leave London, according to a survey. **Page 4**

Sarkozy climate outcry

President Nicolas Sarkozy's desire to appoint an outspoken climate-change sceptic to a new French super-ministry of industry has drawn strong

Surprise departure as Shell set for revamp

New chief tackles issues caused by oil price fall

Head of gas and power steps down from board

By Ed Crooks and John O'Doherty

Royal Dutch Shell is poised to announce a wide-ranging restructuring as its new chief executive starts to tackle the problems caused by the oil price plunge.

The changes began yesterday with the sudden departure of Linda Cook, head of the gas and power division and a former contender for chief executive, who had left the company "by mutual agreement", Shell said.

Her division is expected to be merged into the exploration and production business under the restructuring, as part of a drive to cut costs and improve operating efficiency.

She had previously said she believed gas and power worked better as a separate unit.

Peter Voser, Shell's former

more than 30 per cent of senior managers were expected to go.

Shell refused to comment on any of the restructuring plans last night.

The fact that Mr Voser, who was investors' favoured choice as chief executive when he was appointed last year, has been given a mandate by Shell's board to make far-reaching changes before he is formally in post indicates a determination to address the company's problems quickly.

Shell's debt is set to rise sharply this year, albeit from a low base, as it funds its ambitious investment programme at a time when cash flows are under pressure.

The company also declined to comment on the sudden departure of Ms Cook, who steps down from the board next Monday.

Ms Cook will forgo a loyalty bonus of more than £800,000 by leaving, although the payment she receives on departure will offset that loss. The company refused to give details of the payment.

New justice First Hispanic nominated

Mandelson calls for GM to save two UK plants

By John Reed and Jean Eaglesham in London and Daniel Schäfer in Frankfurt

Britain has intervened in the political manoeuvring over the future of Opel/Vauxhall, explicitly linking its financial support for the spin-off of General Motors' European operations to the future of two UK car plants.

Lord Mandelson, business secretary, said he had held "substantial telephone conversations" yesterday with Fritz Henderson, GM's chief executive, and Carl-Peter Forster, chief executive of GM Europe, and had "made clear the UK government's commitment to all of Vauxhall's plants".

Britain is lobbying to prevent the German government from bowing to election-year pressure with a pledge to protect domestic jobs at the expense of Vauxhall's UK plants. "We're pedalling hard to get a commercial solution and not an overtly political one," a senior government insider said.

Lord Mandelson yesterday confirmed he had met Italy's Fiat and Canada's Magna, which are competing for a stake in GM Europe.

The UK move came ahead of a decision by Berlin today to name one or more preferred bidders for GM's European arm. America's largest carmaker is expected to file for bankruptcy by next week.

French super-ministry of industry has drawn strong protests. Page 8

Europe's big spenders
French and German consumers are keeping up their spending in the face of the most severe recession to hit Europe, data and surveys showed. **Page 7; Martin Wolf, Page 13**

Hizbollah in IMF talks
Lebanon's Hizbollah has held talks with the IMF and the EU as it seeks to secure continued financial support for Lebanon should the political alliance it leads win next month's parliamentary elections. **Page 10**

HK steps up stimulus
Hong Kong's financial secretary announced HK$16.8bn (£1.4bn) in additional stimulus measures to help rescue the territory from its steepest economic decline in more than a decade. **Page 9**

North Korea warning
North Korea, defiant in the face of condemnation of its nuclear test, was reported to have fired two more short-range missiles off its east coast after warning such salvoes could continue until Saturday. **Page 6; Editorial Comment, Page 12; www.ft.com/northkorea**

McCafé plans brewing
McDonald's is aiming to overtake Starbucks as Europe's biggest coffee chain with plans to open several hundred McCafé stores selling pastries and cappuccinos this year. **Page 17**

US mood brightens
US consumer confidence surged to its highest level since September, lifting stock markets on both sides of the Atlantic. **Page 7; Markets, Page 34**

Curbs on Sharif lifted
Pakistan's supreme court lifted restrictions barring Nawaz Sharif, the former prime minister, from contesting elections. **Page 7**

better as a separate unit.

Peter Voser, Shell's former finance chief who is now chief executive designate and takes over from Jeroen van der Veer as chief executive on July 1, has been working on detailed plans to enable the company to cope with lower oil and gas prices.

Shell's top 200 managers are expected to be briefed on the changes at a two-day meeting in Berlin, starting today.

People familiar with the company said they also expected a drive to cut costs in support functions such as human resources and accounting.

Royaldutchshellplc.com, an independent website used by Shell staff, said yesterday that ment.

Mr Van der Veer paid tribute to Ms Cook, who joined Shell in Houston in 1980, for her "many important contributions to the success of our company".

Ms Cook said: "There is a lot to be proud of, in particular with respect to what the Shell team has achieved in global natural gas growth and the foundation we have built for the future."

Last week, Shell suffered an embarrassing vote of no confidence from shareholders who voted down the company's executive pay plan.

Lombard, Page 18
Three into two will go, Page 19
www.ft.com/ukview

US president Barack Obama announces he has nominated federal appeals court judge Sonia Sotomayor as the next Supreme Court justice, the first Hispanic and only the third woman put forward for America's highest court. Mr Obama said Ms Sotomayor, a native of New York's gritty South Bronx neighbourhood, had a background that gave her a 'practical understanding of how the law works in the everyday lives of the American people'. **Report, Page 8** AP

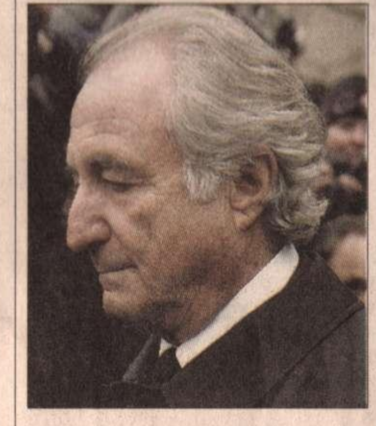
file for bankruptcy by next week.

Germany is expected to give final approval by tomorrow for €1.5bn (£1.3bn) of bridging finance to keep Opel/Vauxhall afloat via the sale of a strategic stake.

Beijing Automotive Industry Corp emerged as a fourth contender for Opel. The Chinese carmaker pledged not to cut jobs or close plants in Germany for two years, people close to the situation said. It also plans to inject €700m in equity into Opel and use less than the minimum €5bn in state guarantees the other bidders are demanding.

Lex, Page 16
Magna's sweetener and European View, Page 22

Santander settles



Santander has reached a settlement with the trustee trying to recover money for the victims of Bernard Madoff (above). It agreed to pay $235m (£147m) to resolve claims against two of the bank's hedge funds managed by its Optimal investment arm. The deal is the first big settlement for Irving Picard, the trustee, who is trying to get Mr Madoff's investment partners to return money.

Report, Page 23

Russian internet group makes $200m investment in Facebook

Social network site faces expansion costs

By David Gelles in San Francisco

Facebook yesterday said it had accepted a $200m (£125m) investment from Digital Sky Technologies, a private Russian internet investment group, valuing Facebook at $10bn.

The investment in the fast growing social network, in exchange for preferred stock, represents a 1.96 per cent equity stake. It is the first time Facebook has raised major funding since late 2007 when it took $240m from Microsoft, valuing Facebook at $15bn at the time.

DST indicated that it planned to purchase at least $100m of Facebook common stock from shareholders, allowing current and former employees to receive a payout for their work at Facebook. Details of this plan are expected in the coming months.

DST will not receive a seat on Facebook's board as part of either investment.

"They've had to go far afield for this capital," said Ray Valdes, an analyst at Gartner. "I'm sure there are investors closer to home that would be happy to invest in Facebook but not at that valuation."

DST, set up in 2005, has about 30 investments in Russia and eastern Europe. They include Mail.ru, Russia's largest web portal. DST sites account for 70 per cent of page views on the Russian language internet.

"Our investment in Facebook underscores our belief that social networks fundamentally change the way people interact and communicate," said Yuri Milner, DST chief executive. "Based on what we have learned in our home markets, we have begun to actively expand abroad."

Facebook recently recorded 200m active users but much of its growth is coming internationally, where the company is harder-pressed to monetise traffic. Capital costs are growing as the company pays to accommodate increased activity on the site.

"Facebook has been successful in gaining users but that has had the unfortunate result that it increases costs," said Mr Valdes. "As long as they grow, they will need additional capital to build out capacity."

Facebook projects substantial revenue growth this year. Mark Zuckerberg, chief executive, said yesterday that the company had been profitable before interest, tax, depreciation and amortisation for five quarters and expected revenue growth of 70 per cent this year.

He said Facebook would be cashflow profitable next year. Outside estimates put 2009 income at about $500m.

"Our revenue numbers are up and our growth continues to scale very rapidly," Mr Zuckerberg said.

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Selling price in Irish Republic €2.50

World Markets

STOCK MARKETS

	May 26	prev	%chg
S&P 500	910.33	887.0	+2.63
Nasdaq Comp	1750.43	1692.01	+3.45
Dow Jones Ind	8473.49	8277.32	+2.37
FTSEurofirst 300	865.14	857.71	+0.87
DJ Euro Stoxx 50	2468.45	2440.23	+1.16
FTSE 100	4411.72	4365.29	+1.06
FTSE All-Share UK	2247.79	2227.98	+0.89
CAC 40	3270.09	3236.16	+1.05
Xetra Dax	4985.6	4918.45	+1.37
Nikkei	9310.81	9347.0	-0.39
Hang Seng	16991.56	17121.82	-0.76
FTSE All World $	159.78	157.74	+1.29

CURRENCIES

	May 26	prev		May 26	prev
$ per €	1.399	1.401	€ per $	0.715	0.714
$ per £	1.594	1.590	£ per $	0.627	0.629
£ per €	0.877	0.881	€ per £	1.140	1.135
¥ per $	94.8	95.1	¥ per €	132.6	133.1
¥ per £	151.1	151.1	£ index	81.2	80.8
$ index	85.9	86.0	€ index	102.7	102.7
SFr per €	1.516	1.518	SFr per £	1.728	1.723

COMMODITIES

	May 26	prev	chg
Oil WTI $ Jul	62.45	61.21	1.24
Oil Brent $ Jul	61.24	60.21	1.03
Gold $	958.80	957.00	1.80

INTEREST RATES

	price	yield	chg
US Gov 10 yr	96.81	3.51	0.06
UK Gov 10 yr	106.75	3.67	0.05
Ger Gov 10 yr	98.90	3.63	0.03
Jpn Gov 10 yr	100.52	1.44	-0.02
US Gov 30 yr	96.66	4.45	0.07
Ger Gov 2 yr	99.68	1.43	0.01
	May 26	**prev**	**chg**
Fed Funds Eff	0.17	0.17	-
US 3m Bills	0.18	0.19	-0.01
Euro Libor 3m	1.27	1.27	0.00
UK 3m	1.18	1.19	-0.01

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Loss in translation as charges turn to meaningless jargon

Brooke Masters
LOMBARD

When is front-running not front-running? In the case of former Morgan Stanley trader Nilesh Shroff, apparently when you fail to make enough of a killing doing it.

According to the Financial Services Authority, Mr Shroff "deliberately disadvantaged his customers" by buying and selling baskets of stocks ahead of their orders on seven different occasions between June and October 2007. In one October transaction, nearly 80 per cent of the stocks in the basket moved against the client while Mr Shroff was trading. The client would have been out £98,000 if Morgan Stanley officials had not stepped in to protect him. But the FSA case against Mr Shroff stops short of describing his activities as "front-running", a form of "market abuse". Instead he was charged with "pre-hedging" trades without permission from his customer, a far blander allegation. Under a 2004 case involving Morgan Grenfell (now part of Deutsche Bank), pre-hedging is not even illegal as long as the trader gets authorisation from the client in advance.

FSA officials say that Mr Shroff's activities did not technically qualify as front-running for enforcement purposes because they do not believe the customer's order would have had a "significant overall effect on price".

Such logic is a bit like saying that stealing someone's wallet does not qualify as theft if there is only £5 inside. The amount clearly matters when determining the overall harm done, but the wallet is still gone.

For the wider market, the practical effect of such hair-splitting appears minor. Mr Shroff has been banned from the industry and fined £140,000, the largest amount ever paid by an individual who has also been banned. Morgan Stanley was not charged because it already had rules against trading ahead of customers. But investors lose something crucial when charges are watered down into meaningless jargon.

Virgin territory

There are natural limits to Virgin Atlantic's gravity-defying numbers. Annual pre-tax profits may have nearly doubled from £34.8m to £68.4m, but the operating numbers show the airline hardly immune to the crunch. Profits from continuing operations, excluding exceptionals, fell from £44.4m to £25.9m, with the latter figure boosted by a £68m foreign exchange gain.

Of greater interest is what the airline has to say about the state of the market. The industry is largely caught in a vicious combination of falling traffic (though Virgin kept its passenger numbers roughly stable for the year to February) and, more painfully, falling yields.

Gaining market share in that context is, while better than the alternative, no great solace if the overall market is declining, though clever fuel hedging can take some of the sting out of it. But true to form, Virgin can usually find some kind of silver lining to talk about. Hence its emphasis on "some of the lowest fares ever", which allows the company to segue neatly into one of its favourite topics, that of competition and its opposition to British Airways' planned venture with American Airlines. Twenty-five years of being a thorn in the side of BA (happy birthday Sir Richard Branson), and no sign of tiring yet.

Collateral damage

Leadership contests inevitably have losers, but the news that Linda Cook, passed over for the top job at Royal Dutch Shell, will leave the company has consequences beyond the energy sector.

Her departure leaves Shell with just one woman on its 15-member board and underscores the paucity of women at the top of UK corporations. Just 11.7 per cent of FTSE 100 board members are women.

By comparison, 15.2 per cent of US Fortune 500 directors are women, and Norway recently enacted a law requiring corporate boards to be 30 per cent female. There is a good business case to be made for diversity: the non-profit group Catalyst found that US large companies with three or more female directors provided average returns on equity well above their peers, which, if nothing else, represents an intriguing correlation.

Nor should much credence be given to the circular argument that companies cannot appoint more women because there are too few female candidates with prior corporate experience.

If companies expanded their searches to include the non-profit and public sectors, they would find more women. As a bonus, such directors might prove more immune to the "groupthink" that proved so fatal to UK banks. As for companies that demand yet another FTSE-tested director: Ms Cook is apparently now available.

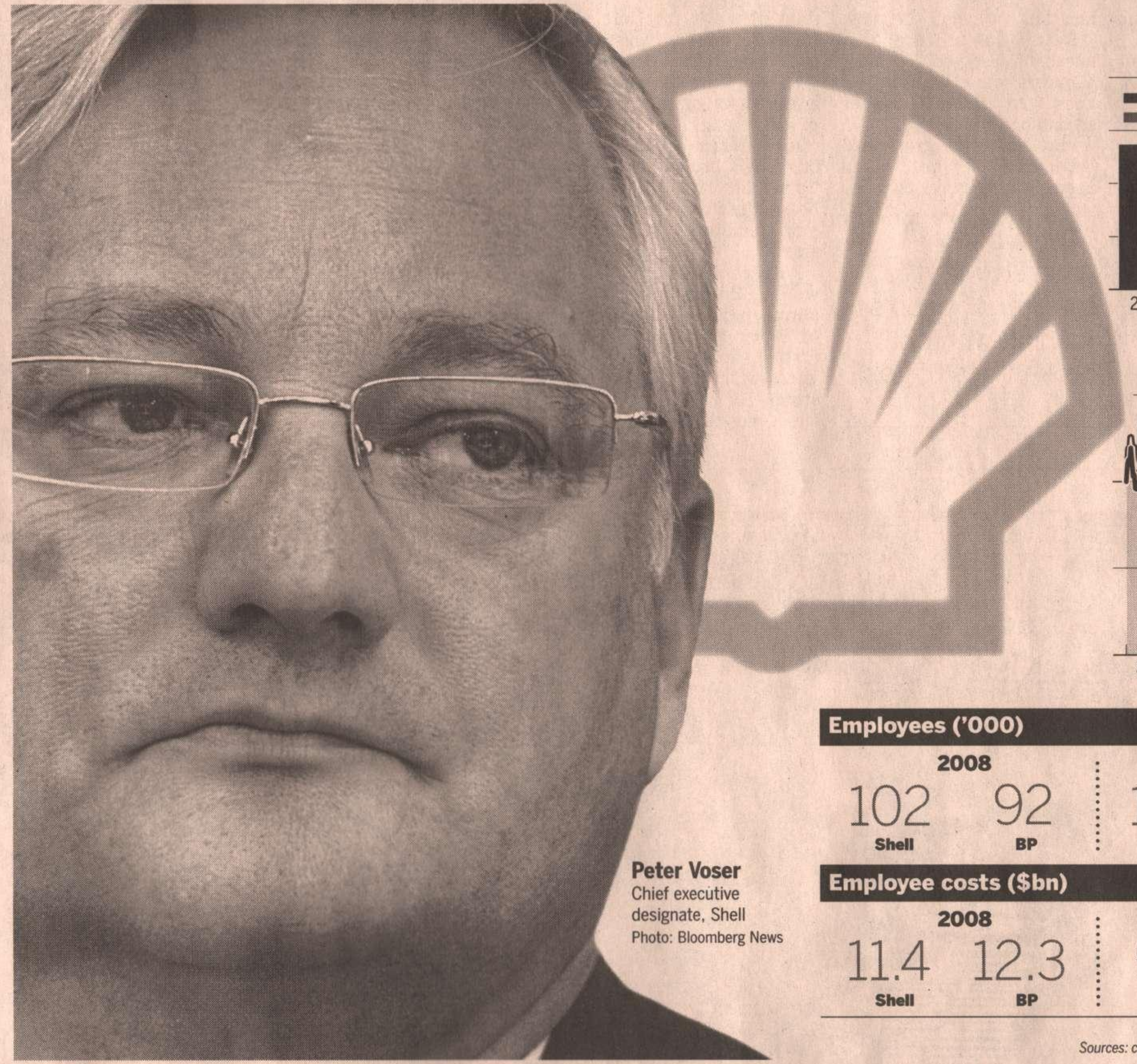
brooke.masters@ft.com
Virgin: charis.gresser@ft.com
To comment, visit www.ft.com/lombard
Andrew Hill is away

Shell showing three into two will go

OIL & GAS

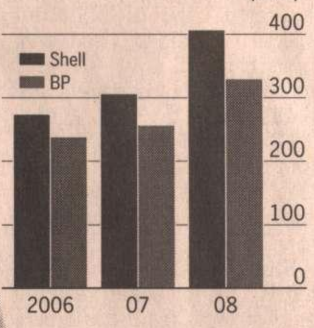
News analysis

The new chief is reshaping the company by cutting back the divisions, writes **Ed Crooks**

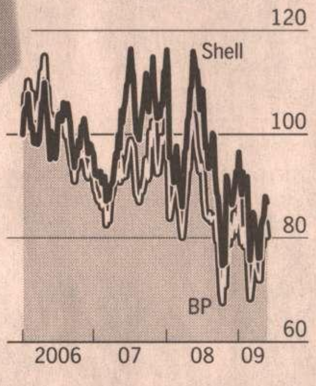


Peter Voser
Chief executive designate, Shell
Photo: Bloomberg News

Operating costs ($bn)



Shell/BP
Share prices rebased



Employees ('000)

	2008		2004	
	Shell	BP	Shell	BP
Employees ('000)	102	92	113	103
Employee costs ($bn)	11.4	12.3	9.8	9.6

Sources: companies; Thomson Reuters Datastream

Peter Voser, who takes over as chief executive at Royal Dutch Shell on July 1, is not wasting any time in reshaping the company the way he wants it.

After spending five years as chief financial officer, it would be surprising if he did not have some reasonably well-formed ideas about what he wants to do.

The departure of Linda Cook as head of gas and power presages a more fundamental shake-up at Shell. Those changes can be expected to include a systematic attack on the company's costs.

Rumours have been going round the company for months that Shell's three divisions – exploration and production; gas and power, and downstream, including refining, marketing and chemicals – could be folded into two. Ms Cook's departure has has shown that move is imminent.

It is expected that exploration and production and gas and power will be combined into a single division.

The merged business is then expected to be split in two, with an American division run by Marvin Odum, now head of Shell Oil, the US subsidiary, and the rest of the world run by Malcolm Brinded, now head of exploration and production.

Ms Cook has spoken in the past about the importance of having the separate division to focus on activities such as liquefied natural gas, which provides a large and growing proportion of Shell's business. She may have been unwilling to see it merged into a larger unit.

Last year's decision to downgrade the job of the head of downstream – making it no longer a board-level position after the retirement of Rob Routs, the previous such a shake-up.

An integration of E&P with gas and power would mirror the re-organisation introduced at rival BP by Tony Hayward, the chief executive who took over two years ago.

BP has made a higher-profile attempt to attack costs than Shell, saying it planned more than 5,000 job cuts.

Jeroen van der Veer, Shell's chief executive who steps down at the end of June, told the FT last month he expected the company's headcount – 102,000 at the end of last year – to fall over the course of the year.

However, he refused to set losses, saying such targets could create a focus for staff discontent. Under Mr Voser, that softly-softly approach is

> Integration of E&P with gas and power would mirror the re-organisation at rival BP

likely to harden.

Although the rise in the price of oil from less than $33 a barrel to about $60 today has relieved some of the darkest fears about the companies are still suffering from high costs built up during the good times.

Even at $60 a barrel, a cost structure based on $100 oil causes problems, and the volatility of commodity prices suggests there is a real risk that crude will fall back again.

Shell has particular issues because of its enthusiasm for high-cost "unconventional" production. Among projects coming on stream around the turn of the decade, which will drive production growth over the next few years, are developments in Canada's oil sands, LNG, and converting gas to

All of those are high-cost operations requiring huge investment, expected to reach up to $32bn this year.

> Oil companies are still suffering from high costs built up during the good times

Sustaining that investment, while cash flows are squeezed, means Shell's debts are rising fast.

Gearing, defined by the company as net debt as a employed, is set to rise from 7 per cent at the end of 2008 to the "low 20s" by the end of this year.

That increase is bearable for a huge, financially sound company such as Shell, but Mr Voser will not want debt to keep rising at that rate for much longer.

A renewed squeeze on costs carries risks: Shell, like other oil companies, may fail to develop the capacity it needs for future growth. But the severity of the global downturn means it is probably inescapable.

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TNK-BP to test out CEO candidates

OIL & GAS

By Isabel Gorst in Moscow

BP and its Russian partners in TNK-BP, the 50-50 oil joint venture, are to put their nominees for chief executive head-to-head to compete for the post, after failing to agree on a candidate to run Russia's third-biggest oil company.

The plan being thrashed out in hourly telephone conversations between shareholders yesterday would see at least two outsiders brought in to senior positions at TNK-BP and invited to prove their credentials to head the company.

The novel approach underscores the difficulties the two sides have encountered in agreeing a replacement for Robert Dudley, the former chief executive, who was forced to resign last December after a bitter dispute over the management of TNK-BP.

It will be closely watched by investors amid concern that Russian shareholders have moved to dominate management at TNK-BP in the wake of the dispute.

BP has already nominated Pavel Skitovich, a director of Interros, the investment company controlled by Vladimir Potanin, as its candidate to serve as chief executive, but its choice was rejected by Russian shareholders.

A source close to the TNK-BP board said Mr Skitovich lacked oil industry experience and "was not yet of CEO calibre".

He will be offered a senior post to compete for the role of chief executive alongside Maxim Barsky, the former general director of West Siberian Resources, an independent Russian oil company.

Mr Barsky, whose name is understood to have been proposed by the group's Russian shareholders, has already been offered the post of chief strategist at TNK-BP.

Other candidates may also join the race intended to result in appointment of a permanent chief executive within six to nine months.

BP said talks under way with Russian shareholders were "amicable" but "very fluid."

"All parties are very keen for this to move on and for a new CEO to be nominated," he said.

Russian shareholders have dropped their objections to allowing Tim Summers, the former chief operating officer of TNK-BP, who has served as interim chief executive since Mr Dudley departed, to continue in the role after his six-month contract expires next week.

However, they have ruled out accepting Mr Summers, who was hired from BP, as a permanent chief executive.

Lex, Page 16

Moscow trained

Pavel Skitovich was trained as a diplomat at the prestigious Moscow State Institute for International Relations and was serving as a vice-consul in Uganda when the Soviet Union collapsed in 1991. He moved into the business sphere in 1993, taking up a post as a senior

Home favourite

Maxim Barsky belongs to the generation of entrepreneurial young Russian businessmen who sought education in the west before returning to high-flying careers in Russia. The son of an oilman, Mr Barsky studied at Berkeley University in California before opening a brokerage in New York to

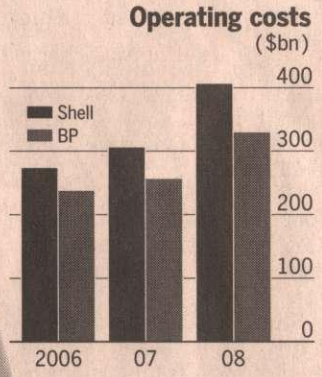
Shell showing three into two will go

OIL & GAS

News analysis

The new chief is reshaping the company by cutting back the divisions, writes Ed Crooks

Peter Voser
Chief executive designate, Shell
Photo: Bloomberg News



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Other candidates may also join the race intended to result in appointment of a permanent chief executive within six to nine months.

BP said talks under way with Russian shareholders were "amicable" but "very fluid."

"All parties are very keen for this to move on and for a new CEO to be nominated," he said.

Russian shareholders have dropped their objections to allowing Tim Summers, the former chief operating officer of TNK-BP, who has served as interim chief executive since Mr Dudley departed, to continue in the role after his six-month contract expires next week.

However, they have ruled out accepting Mr Summers, who was hired from BP, as a permanent chief executive.

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Moscow trained

Pavel Skitovich was trained as a diplomat at the prestigious Moscow State Institute for International Relations and was serving as a vice-consul in Uganda when the Soviet Union collapsed in 1991. He moved into the business sphere in 1993, taking up a post as a senior consultant at Coopers & Lybrand before doing a stint as a financial analyst

Home favourite

Maxim Barsky belongs to the generation of entrepreneurial young Russian businessmen who sought education in the west before returning to high-flying careers in Russia. The son of an oilman, Mr Barsky studied at Berkeley University in California before opening a brokerage in New York to guide western investors trading Russian equities as Moscow's stock market