

Moscow rattles West with Georgia assault

Appeals are rebuffed as fighting spreads; limits of leverage

Russia appeared to expand its military campaign to new regions of neighboring Georgia Sunday as Tbilisi pulled back its battered troops, but efforts at a cease-fire

By Marc Champion in Tbilisi, Georgia, Andrew Osborn in Moscow, and John D. McKinnon in Washington

failed. Moscow's massive assault—its biggest use of force outside its borders since the 1991 Soviet collapse—marked a watershed in the Kremlin's increasingly assertive foreign policy and shocked Western leaders.

But Russian President Dmitry Medvedev, as well as his patron, Prime Minister Vladimir Putin, dismissed appeals from their Western colleagues to curtail the assault on a U.S. ally, underlining the limits of Western leverage over a newly confident Russia.

As the fighting spread to Abkhazia on Georgia's Black Sea coast, Russia's air, land and sea attack rattled governments from Washington to Kiev. Western diplomats began to worry aloud over the implications, not just for Georgia but for the entire region, of a new order in which Russia reserves the right to use force to impose its will on neighbors.

"We have made it clear to the Russians that if the disproportionate and dangerous escalation on the Russian side continues, that this will have a significant long-term impact on U.S.-Russian relations," Jim Jeffrey, a

top U.S. National Security Council official, said in Beijing Sunday.

U.S. President George W. Bush de-

Tense times

- Investors in Russia take a back seat to geopolitical aims19
- The Kremlin's actions pose a challenge to Bush and the U.S. .31
- Russian and Georgian athletes put Olympic ideals to the test ...31
- The U.S. scrambles as Georgian troops in Iraq head home31

livered that message in person to Mr. Putin at the Beijing Olympics over the weekend. People familiar with the conversations described them as heated but said Mr. Bush got nowhere.

Russian officials blame Georgia for starting the conflict with an attack last week on South Ossetia, a

Please turn to page 32



A South Ossetian military man holds a child near an armored vehicle in the village of Dzhava. Russia appeared to broaden its military campaign to new regions of Georgia.

Pressure grows for big changes over UBS woes

By Carrick Mollenkamp and Katharina Bart

When Marcel Ospel was forced out as chairman of UBS AG in April, his successor, Peter Kurer, penned a paean to the man who oversaw the Swiss financial giant's ill-starred foray into the world of investment banking: He called him the "architect of the modern UBS."

Now, as UBS prepares to an-

Costly settlement

UBS will buy back billions in securities from frustrated investors ..16

nounce its second-quarter results on Tuesday, one of the biggest questions facing the bank is just how much of Mr. Ospel's legacy Mr. Kurer and Chief Executive Marcel Rohner plan to undo.

The pressure is growing to make some radical moves, after a series of challenges:

- The bank's write-downs on bad credit investments are expected to reach \$43 billion.
- A settlement was announced Friday with U.S. regulators to buy back as much as \$19 billion in auction-rate securities.
- The bank's private-banking business is fighting to keep lucrative clients amid a tax-evasion investigation.

Among the options being aired: the sale of a UBS money-management unit in the U.S., formerly known as PaineWebber, and the separation of its troubled investment bank into an independent unit.

UBS has "a problem because they are dragging along an ailing business that they never had under control and maybe never will have,"

Please turn to page 2

Invasion escalates stakes for embattled president

By Marc Champion

TBILISI—Georgian President Mikheil Saakashvili is losing a lot of sleep these days.

On Sunday he had been up all night, at dawn ordering Georgian troops to withdraw in the face of an overwhelming Russian assault. Reports were coming in that Russian naval ships had landed more troops on the Black Sea coast.

"I was thinking about how this isn't about South Ossetia at all anymore, it is about saving Georgia as a nation," said Mr. Saakashvili in a phone interview Sunday night. Aides said he looked pale.

Having played high-stakes poker for nearly five years with the Russian bear in a way no other regional leader has dared, Mr. Saakashvili, a staunch U.S. ally, appears to be deep in the hole and with-

out his poker face.

Mr. Saakashvili said he didn't regret his actions. He dismissed Russian accusations of genocide and war crimes as propaganda and insisted that a general perception that he had provoked Russia by launching an all-out attack on South Ossetia's capital, Tskhinvali, was untrue.

Once a heavy assault on Georgian positions began Thursday, the news that 150 Russian tanks were approaching the region had forced him to act. "Our military said the only option we had was to use long-range artillery and move up to destroy the bridge" above Tskhinvali, Mr. Saakashvili, said.

The Russian assault that many Georgian officials and analysts believed is designed in part to drive Mr. Saakashvili from power has rallied

Please turn to back page



Mikheil Saakashvili

more energy. fewer emissions. with technology, we can do both. learn how we're addressing the global energy challenge at exxonmobil.com



ExxonMobil
Taking on the world's toughest energy challenges.

What's News—

Business & Finance

World-Wide

UBS is under growing pressure to make radical changes as it fights to keep lucrative clients amid a tax-evasion probe in the U.S. and an expected \$43 billion in write-downs. **Page 1**

■ **UBS agreed** to buy back \$19 billion of auction-rate securities, joining other firms settling cases alleging improper sales of those investments. **Page 16**

■ **American Airlines, Iberia** and British Airways will seek U.S. permission to expand their ties, while other carriers use alliances to cut costs. **Page 3**

■ **Investors' interests** may take a back seat to geopolitical ambitions as Russia brings its conflict with Georgia to the brink of war. **Page 19**

■ **Intel will rely** on its Core brand to market its newest generation of chip technology, which is set to be released in the fourth quarter. **Page 4**

■ **Some negatives** for U.S. stocks have turned positive, such as oil and the dollar, but a long list of challenges remains. **Page 19**

■ **More pain seems likely** for Europe's corporate earnings, with further downgrades seen in the auto sector, although tech looks bright. **Page 20**

■ **Proposals to revive** U.K. mortgage lending have met with concerns at the Bank of England and within the treasury. **Page 21**

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11734.32	+302.89	+2.65
Nasdaq	2414.10	+58.37	+2.48
DJ Stoxx 600	289.28	+2.39	+0.83
FTSE 100	5489.2	+11.7	+0.21
DAX	6561.65	+18.16	+0.28
CAC 40	4491.85	+34.42	+0.77
Euro	\$1.5035	-0.0337	-2.19
Nymex crude	\$115.20	-4.82	-4.02

Money & Investing > **Page 19**

Russia appeared to expand its military campaign in Georgia as Tbilisi pulled back its troops, but efforts at a cease-fire failed as Medvedev and Putin dismissed appeals to curtail the assault. The Kremlin's push is fueling concerns of a broader challenge to U.S. power globally. **Pages 1, 31**

■ **McCain and Obama** condemned Russian attacks on Georgia. McCain warned of long-term consequences, and Obama called for immediate mediation.

■ **A deadly attack** on Americans by an unemployed Chinese man in Beijing and violence in China's northwest tarnished the Olympics' opening days. **Page 12**

■ **Bush urged** Beijing to allow more religious freedom, shortly before a wide-ranging meeting with China's president. **Page 2**

■ **Pakistan's ruling-coalition** lead party is in secret talks with Musharraf aides to offer the president immunity from prosecution if he agrees to step down. **Page 10**

■ **Afghanistan's president** said U.S. and NATO airstrikes on Afghan villages are only killing civilians and should instead target terrorist centers in Pakistan.

■ **Iraq's foreign minister** said any U.S. security deal must contain a "clear timeline" for the departure of U.S. troops. A suicide bomber killed at least five people, including a U.S. soldier.

■ **Myanmar's Suu Kyi** was allowed to meet her lawyer for the first time in five years. Nearly one million cyclone survivors are vulnerable to food shortages. **Page 11**

■ **U.S. presidential ex-candidate** John Edwards acknowledged he had an extramarital affair. **Page 11**

EDITORIAL & OPINION

Russian imperialism
Georgian President Mikheil Saakashvili on what's at stake in the Caucasus. **Page 14**

THE WALL STREET JOURNAL

For information or to subscribe, visit www.wsj.com or call +32-2-741-1414 — Albania HRK 20 — Czech Republic Kč 110 — Denmark Dkr 22 — Finland €320 — France €290 — Germany €3 — Greece €290 — Hungary Ft 530 — Ireland (Rep.) €290 — Italy €290 — Lebanon LE 4000 — Luxembourg €290 — Morocco Dh 24 — Netherlands €290 — Norway Nkr 27 — Poland Zl 10.50 — Portugal €3 — Slovakia Sk 100/€32 — Spain €290 — Sweden kr 27 — Switzerland SF 4.80 — Syria SE 150 — Turkey Ytl 4.25 — U.S. Military (Eur) \$2 — United Kingdom £140

LEADING THE NEWS

American, BA, Iberia seek to expand ties

Airlines to ask U.S. for antitrust release in a bid to cut costs

BY DANIEL MICHAELS
AND SUSAN CAREY

AMR Corp.'s American Airlines and its two main European partners plan to ask the U.S. government as early as this week for permission to cooperate more closely on flights across the Atlantic.

The expected move is designed to help them cope with high fuel costs and stiffer competition. For travelers, closer ties among airline partners could ease flight connections and the use of frequent-flier awards and offer a wider array of destinations. Critics, however, say such cooperation stifles competition.

The request by American, British Airways PLC and Spain's Iberia Líneas Aéreas de España SA illustrates the growing emphasis airlines place on their global alliances. The three carriers are members of the 10-airline oneworld alliance, which competes with Star Alliance's 21 members and SkyTeam's 11 to carry passengers across their respective networks.

The alliance landscape is changing fast. Just weeks ago, Continental Airlines Inc. said it will switch to Star from SkyTeam because it stands to reap greater benefits in terms of traffic volume and global reach from the larger Star group. That follows approval granted in April to six SkyTeam members—including Air France-KLM SA, Delta Air Lines Inc. and Northwest Airlines Corp.—for the same sort of cooperation that American, BA and Iberia plan to seek.

The approval for what is known as antitrust immunity allows airlines to cooperate internationally on pricing, scheduling and marketing in ways normally deemed collusive and illegal. For now, American and BA are allowed to share passengers on some routes, but they compete head-to-head on flights between the U.S. and London's Heathrow Airport and can't share commercially sensitive information on capacity or pricing.

Their decision to apply for antitrust immunity now is notable because American and BA have twice requested the special status in past years but backed off when regulators asked for big concessions.

The situation is different today, American and BA say, because Heathrow has opened to new competition.

The preparations also come after BA and Iberia last month announced plans to merge, and as carriers world-wide are looking to leverage partnerships amid the industry's deepening crisis. Delta and Northwest also are seeking permission to combine.

Airlines have been using the alliances to boost revenue and cut costs. The three groupings are expanding efforts to help carriers jointly purchase supplies such as fuel, food and even information technology. Alliances are coordinating common space at airport terminals to reduce each member's overhead, and cooperating on marketing to grab more passengers and revenue.

Today's efforts by airlines to survive by cooperating marks a sharp contrast to their reaction in the last

downturn triggered by the 2001 terrorist attacks. Following that sudden shock, most carriers turned inward as they struggled to adjust. Now, with a new crisis brought on by soaring fuel prices, airlines are looking to the alliances, which are more mature, as a competitive weapon.

"I think the alliance has taken on more relevance," says BA Chief Executive Willie Walsh. "It's now right for BA to strengthen oneworld" by getting closer to American. The oneworld grouping is the smallest of the three global clubs by number of airlines.

Mr. Walsh says oneworld has suffered in competition against Star and SkyTeam because American and BA, its two biggest members, have been forbidden to cooperate closely. For example, they may not

link their frequent-flier programs.

Airlines formed alliances because international treaties largely preclude them from merging across borders. When air travel began deregulating around the globe in the 1990s, carriers grew frustrated by limits on their expansion and started pairing up.

In 1997, UAL Corp.'s United Airlines, Germany's Deutsche Lufthansa AG and three other carriers formed Star, the first multi-airline link-up. SkyTeam and oneworld followed three years later. Today, the alliances together account for roughly two-thirds of world-wide air traffic.

American is the world's largest airline by traffic, but managers say even it can benefit from having more foreign partners. "Airlines are networks, and the alliances are sur-

rogates for what eventually should be global airlines," says Dan Garton, American's executive vice president for marketing.

For midsize carriers like ACE Aviation Holdings Inc.'s Air Canada, the boost from alliances is even bigger. Air Canada, a founding member of Star, now has tight links with United and Lufthansa. These allow it to add routes, increase frequencies and "do way more than we could ever dream to do on our own," says Benjamin Smith, Air Canada's chief commercial officer.

A further boon will be the entry of Continental into Star, Mr. Smith says, and a related plan for those four carriers to seek antitrust immunity to operate a trans-Atlantic joint venture.

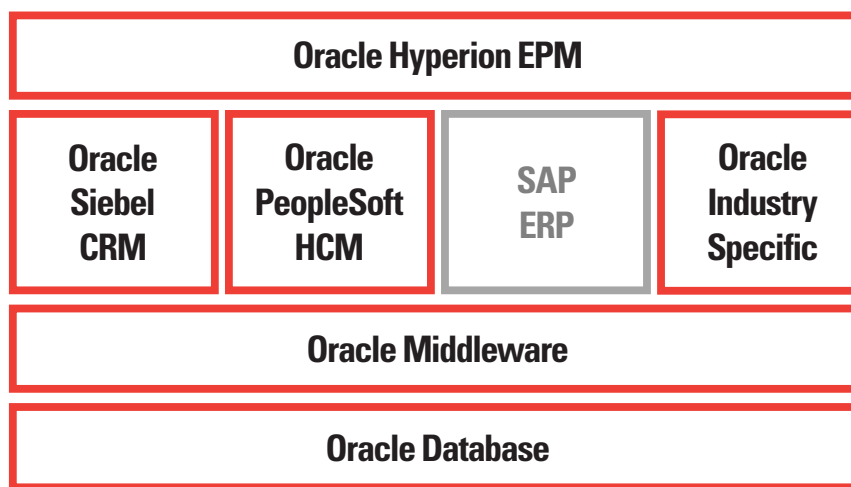
Not all carriers are fans of alliances. London-based Virgin Atlan-

tic Airways Ltd., which operates largely on its own despite the 49% ownership stake held by Star member Singapore Airlines, already is attacking BA and American for proposing to get closer. "If regulators let this alliance through in any way, they're permitting less competition," says Virgin spokesman Paul Charles.

While American's application with BA and Iberia likely will stir controversy, quiet work is proceeding inside all the alliances to strengthen ties. Star spokesman Markus Rüdiger says the alliance recently held a meeting to share best practices on saving fuel. "I think we've proved our value and are proving it even more now," Mr. Rüdiger says.

—Paulo Prada
contributed to this article.

Oracle Surrounds SAP



95% of SAP Customers Run Oracle Applications*

ORACLE®

oracle.com/goto/applications
or call +353 1 8031099

*Based on SAP customers listed in *Fortune* Global 100

Copyright © 2008, Oracle. All rights reserved. Oracle is a registered trademark of Oracle Corporation and/or its affiliates. Other names may be trademarks of their respective owners.

CORPORATE NEWS

OIL

BG, partners, find crude in Brazil's Santos Basin



BG GROUP PLC said it and its partners had made a "material" new discovery of light crude in Brazil's oil-rich Santos Basin, but wouldn't comment on the scale of the finding.

The British natural-gas company said the exploration well, known as Iara, discovered 30 degree API light crude oil about 230 kilometers off the coast of Rio de Janeiro.

BG holds 25% in the concession together with operator **Petroleo Brasileiro SA**, which holds 65%, and **Galp Energia SGPS**, with 10%. The discovery confirms Brazil as BG's most promising growth area, along with Australasia.

—Benoît Faucon

ENERGY

TNK-BP chief fined \$21 over labor issues in Russia



ANGLO-RUSSIAN oil joint-venture TNK-BP said a Moscow court fined its Chief Executive, Robert Dudley, left, 500 rubles, or about \$21, for violations of Russia's labor law.

The Federal Labor and Employment Service asked the court to look into a number of violations relating to labor protection and the use of a foreign work force.

The ruling is the latest episode in the battle for control of the company between TNK-BP's 50-50 shareholders, U.K. energy company **BP PLC** and a group of Russian tycoons.

—Jacob Gronholt-Pedersen

PHARMACEUTICALS

Zeltia to ask EU and U.S. to clear new use for drug



SPANISH pharmaceutical company Zeltia SA is seeking authorization to market its drug Yondelis to treat ovarian cancer in the European Union and U.S.

Zeltia, which develops pharmaceuticals from ocean species, said Phase III trials for the drug had "positive results" and were revised and corroborated by biotechnology unit **Pharma Mar** and U.S. partner **Ortho Biotech Products**. Pharma Mar will apply to the European Medicines Agency in the fourth quarter, while Ortho Biotech, a unit of **Johnson & Johnson**, will apply to the U.S. Food and Drug Administration before year end, Zeltia said. Zeltia already markets Yondelis for the treatment of advanced soft-tissue sarcoma.

—Bernd Radowitz

Companies keep mum over card breach

Customers not told about alleged theft by global scheme

BY JOSEPH PEREIRA,
JENNIFER LEVITZ
AND JEREMY SINGER-VINE
Boston

MOST U.S. STATES mandate that companies tell their customers when their credit-card data is stolen from their stores. The laws are designed to give consumers a chance to protect themselves against fraud or identity theft.

But when U.S. prosecutors disclosed last week that computer hackers swiped more than 40 million credit-card numbers from nine retailers in the biggest such heist ever, it was the first time that many shoppers had heard about it.

That's because only four of the chains clearly alerted their customers to breaches. Two others—**Boston Market Corp.** and **Forever 21 Inc.**—say they never told customers because they never confirmed data were stolen from them.

The other retailers—**OfficeMax Inc.**, **Barnes and Noble Inc.**, and **Sports Authority Inc.**—wouldn't say whether they made consumer disclosures. Computer searches of their Securities and Exchange Commission filings, Web sites, press releases and news archives turned up no evidence of such disclosures.

The other companies allegedly targeted by the ring charged last week were: **TJX Cos.**, **BJ's Wholesale Club Inc.**, shoe retailer **DSW Inc.**, and restaurant chain **Dave and Buster's Inc.** They each disclosed to customers they were breached shortly after the intrusions were discovered.

The disclosure issue emerged after the government charged 11 men in five countries with orchestrating a high-tech operation to steal credit-card numbers from 2003 to 2008.

After an increasing number of such thefts in recent years, more than 40 states have adopted laws requiring companies to give consumers early warning when their personal information is stolen. Companies typically have made disclosures by letter,



Boston Market said it didn't inform customers that their credit-card numbers were stolen because it never confirmed data were stolen from the restaurant chain.

whenever possible, and through public announcements on the Web sites and in releases to the media.

OfficeMax has denied having any knowledge of a breach, even though last week's indictments describe how the defendants broke into their networks. Boston Market and Forever 21 say their own investigations couldn't corroborate the government's findings. Federal officials say they stand by the information in the indictments.

The indictments allege that one of the suspects, Christopher Scott, and another man identified only by

initials broke into the wireless network of an OfficeMax store in Miami in 2004 and gained access to credit-card data. Mr. Scott declined to comment.

Authorities also said they discovered in 2005 that OfficeMax's computer systems had been breached by another group that obtained customer data and used it to make counterfeit credit cards.

Edward DeFazio of the Hudson County prosecutor's office in Jersey City, N.J., says investigators in the joint federal-state probe notified OfficeMax and other retailers that

their systems had been breached in a card-theft ring. Fourteen people were arrested in March 2006.

That month, OfficeMax acknowledged in a SEC filing that an "ongoing federal investigation involving legitimate debit-card use at various retailers that was later tied to fraudulent transactions outside the U.S." But the filing added that "we have no knowledge of a security breach at OfficeMax."

In a statement following last week's indictments, the Naperville, Ill.-based company said, "it would be inappropriate to express our views relating to an ongoing criminal investigation." It said it has cooperated with authorities in their probe and was "confident in the integrity and security of our systems."

Last week's indictments also describe "attacks on Forever 21," which operates more than 350 clothing stores. Prosecutors allege that sometime this year, Damon Patrick Toey, of Miami, broke into Forever 21's system and shared access with Albert Gonzalez, the group's alleged ringleader, "for the purpose of downloading credit-card information of customers of Forever 21." Mr. Toey couldn't be reached to comment. Mr. Gonzalez declined to comment.

Larry Meyer, spokesman for Forever 21, says that this spring, federal authorities notified the Los Angeles-based retailer that it was among several retailers whose computer systems were "potentially in-

filtrated" by a crime ring. Authorities "asked us to investigate for a breach," he says.

He says Forever 21 conducted an internal investigation but didn't find a sign of a breach. Therefore, he says, the company didn't notify customers that their credit-card information was potentially at risk. He says Forever 21 believes it is only obligated to make a disclosure if it finds a breach.

As a result of last week's indictments, he added that the company was in discussions with federal authorities.

The indictments also allege that Boston Market, a restaurant chain based in Golden, Colo., was also hit by credit-card thieves. Company spokeswoman Angela Proctor acknowledges that the company was notified by federal authorities in 2004 about a potential breach. She says it never disclosed the matter to consumers "because we couldn't find any definite information that we'd been breached."

Ms. Proctor now says it isn't likely the company will inform consumers.

Barnes and Noble, the New York-based bookseller, issued a release last week saying it "had not received inquiries from credit-card companies or customers about these alleged activities." A company spokeswoman declined to comment further.

Sports Authority, based in Englewood, Colo., didn't return phone calls.

Intel relies on Core brand to sell newest chip

BY DON CLARK

Intel Corp. is announcing branding plans for a new generation of chip technology, relying on a term the company has already spent heavily on popularizing.

Forthcoming chips for desktop computers, based on a design that is code-named Nehalem, will use the brand Core that is carried on some existing Intel products. Initial members of the product family based on Nehalem will carry the additional designation i7.

Intel's branding plans attract

wide attention, partly because the company often offers computer makers incentives for using brands associated with its products. In the past few years, Intel dispensed with the brand Pentium in favor of Core, a term that reflects the proliferation of multiple calculating engines—often called microprocessor cores—on recent products. Intel chips called Core 2 Duo have two microprocessors, while Core 2 Quad products have four.

Chips based on the Nehalem technology—scheduled to arrive in the fourth quarter—are initially expected to offer four processor cores

and simultaneously handle as many as eight computing instructions, known as threads. The difficulty of finding new terms to describe such complex increases in features was one motivation to move to a numerical designation with i7. The company said the term is the first in a series of more general indicators of the relative performance of chips—similar to model numbers on some cars.

"We are looking at everything to simplify our brand structure," said Bill Calder, an Intel spokesman.

Roger Kay, a market researcher with Endpoint Technologies Associ-

ates, said the latest move helps a bit, but there is still potential for some confusion. He thinks branding that identifies products by consumer or commercial applications might work better. "They never explained to me what the i7 really stands for," he added.

Separately, Intel said it plans on Monday to introduce four midrange microprocessors and cut prices on some existing chips. The new chips operate at speeds at up to three gigahertz, but allow computer enthusiasts to boost speeds using a process called overclocking.

CORPORATE NEWS

Bristol's takeover fight hangs on Erbitux

ImClone's value may rest on rights to follow-up drug

BY THOMAS GRUYTA

The battle for ImClone Systems Inc. may come down to the fight over who has rights to the follow-up to the company's sole but increasingly successful product, the cancer treatment Erbitux.

ImClone claims to own the complete rights to the next-generation Erbitux, which carries high expectations but isn't expected to come on the market until well into the next decade. That interpretation of ownership contradicts the company's own statement two years ago and is disputed by Bristol-Myers Squibb Co., which co-markets the current Erbitux in the U.S. and is seeking to buy the 83% of ImClone that it doesn't own for \$4.5 billion.

ImClone has said Bristol's offer "greatly undervalues" the company partly because of its product pipeline, of which the next-generation Erbitux is a key part.

Resolving the dispute could influence billions of dollars in sales in the next decade, ImClone's total value, the action of other possible suitors, and whether ImClone attempts to spin off its pipeline, a move the company said it was considering.

The disagreement centers on whether the next-generation Er-

bitux, called IMC-11F8, was derived in any way from the current Erbitux and if its development can be viewed as a "competing product," as defined by the 2001 agreement between the companies. If either of those are true, Bristol is entitled to rights to the drug.

ImClone claims the complete rights to the next generation of the cancer drug.

"My read is that the contract language is nebulous," Cowen & Co. analyst Eric Schmidt said. There is "clearly room for [Bristol] to claim one thing and [ImClone] the other."

Because of the confusion, the battle over IMC-11F8 could end up in front of an arbitrator and may take years to resolve—something that Bristol-Myers can avoid by buying ImClone, which may mean raising its offer of \$60 a share. Wall Street expects a higher offer for ImClone. As of 4 p.m. Nasdaq Stock Market composite trading Friday, ImClone was at \$63.94, off 26 cents.

The IMC-11F8 dispute comes as the first-generation Erbitux gains traction. Erbitux is approved to treat head, neck and colorectal cancer. It is expected to be filed for approval in lung cancer in the fourth quarter, and it is being studied in multiple other forms of the disease.

UBS AG projects 2008 global Erbitux sales of \$1.7 billion, up 31% from \$1.3 billion in 2007, and sees that rising to \$3.1 billion in 2011.

IMC-11F8 won't enter pivotal clinical trials—likely to last at least 2½ years—until the first half of 2009. Still, the success of the first-generation Erbitux reduces some risk on the follow-up because it has

a similar target. The key difference between the two is that the new drug is a human antibody, expected to be safer and have less-frequent dosing, while Erbitux is a hybrid of a human and mouse antibody.

The unknown over IMC-11F8's rights is likely to give pause to other potential suitors of ImClone or any spinoff of its pipeline. That's because other companies may be less willing to pay billions for a company if they then have to share the profits on a key future drug.

ImClone has asserted, as recently as late July, that it owns all the rights

to IMC-11F8, and in a statement recently said Bristol-Myers "may have no rights to market" the drug.

Bristol-Myers disagrees. "We believe we have the rights to 11F8 under our existing contractual agreement," a Bristol-Myers spokeswoman said.

The agreement, dating from 2001, says it covers Erbitux, along with "all fully humanized or human" versions, analogs or derivatives of the drug.

ImClone's recent comments even conflict with its own language from April 2006, when ImClone won an arbitration decision against Er-

bitux's international marketing partner, Germany's Merck KGaA, for the international rights related to IMC-11F8. The decision gave ImClone the rights to develop and commercialize the drug outside the U.S. and Canada, rights that Merck currently has with Erbitux.

At the time, ImClone stated that "commercial rights to this antibody in the U.S., Canada and Japan fall within the scope of ImClone Systems' commercial agreement with Bristol-Myers Squibb regarding Erbitux."

Officials from ImClone weren't available to comment, but the com-

pany may try to justify that statement by claiming it refers to Bristol-Myers' right of first refusal for all of ImClone's pipeline products, a right that expired in September 2006.

ImClone also may claim that IMC-11F8 is actually a separate drug, but that angle would force it to deal with the restrictions on developing a competing product that are contained in the agreement.

If it is a competing product, it must either be divested or ImClone must offer Bristol-Myers a chance to participate in the commercialization and development on a 50/50 basis.

SAKIP SABANCI INTERNATIONAL RESEARCH AWARDS

Ottoman legacy sheds light on contemporary Turkey

Among the 41 academics that submitted essays to the 2008 competition, the first prize went to Dr. Amy Singer from Tel Aviv University, second prize to Maureen Jackson, a doctoral candidate from Washington University, and third prize to Dr. Olivier Bouquet from Nice Sophia Antipolis University.

About the award

Sakıp Sabancı International Research Award is named in honor of the late Mr. Sakıp Sabancı, a prominent Turkish philanthropist and business leader. The corporation that he headed, Sabancı Holding, is one of the world's largest family owned businesses. Mr. Sabancı was also the founder of Istanbul's Sabancı University, one of Turkey's leading academic institutions.

The Award is designed to promote fresh thinking, new ideas, and original research relevant to Turkish studies conducted in any field of humanities and social sciences. It is administered by the Trustees of Sabancı University and the prize winners are selected by an independent, international jury. In 2008, the topic of the competition was "The Ottoman Legacy in Contemporary Turkish Culture, Institutions, and Values".

First Prize Went to Dr. Amy Singer

In 2008, the first prize went to Amy Singer, professor of Ottoman History in the Department of Middle Eastern and African History at Tel Aviv University, with her essay, "The Persistence of Philanthropy". Winner of the second prize was Maureen Jackson, a doctoral candidate at the Washington University Comparative Literature Department, with her essay "Crossing Musical Worlds: Jews Making Ottoman and Turkish Classical Music". The winner of the third prize was Olivier Bouquet, professor at Nice Sophia Antipolis University, and research fellow at the Modern and Contemporary Mediterranean Centre in Nice, with his essay "Old Elites in a New Republic: The Reconversion of Ottoman Bureaucratic Families in Turkey (1909-1939)".

The Award Entails a First Prize of 20,000 US dollars

While the competition was open to essays in various disciplines of social sciences and humanities, the jury prioritised essays that had a greater potential to be printed in leading publications. First prize was 20,000 US dollars, second prize 10,000 US dollars, and third prize 5000 US dollars.

Essays were assessed by an independent and international jury

Essays submitted to the Sakıp Sabancı International Research Awards are assessed by an independent and international jury each year. This year's jury panel included Dr. Sabri Sayarı from Sabancı University; Dr. Reşat Kasaba from the University of Washington; Dr. Şükrü Hanioglu from Princeton University; Dr. Şevket Pamuk from Boğaziçi University and the London School of Economics; Dr. Fikret Adanır from Sabancı University; Dr. Jacob Landau from the Hebrew University of Jerusalem; Dr. Caroline Finkel, honorary academic at the University of Edinburgh and the University of Exeter, and Dr. Jenny White from Boston University.

THE TOPIC OF THE 2009

COMPETITION IS: "Pluralism in Contemporary Turkish Society and Politics"

The topic designated for the 2009 Award is "Pluralism in Contemporary Turkish Society and Politics". The deadline for submissions is Friday, 27 February 2009. The competition is open to all scholars of social sciences and humanities working on contemporary Turkey.

Conditions for the 2009 competition are:

- All entries must be new and original works, not published previously in any form.
- Essays must be approximately 13,000 words, including title, citations, and endnotes. (References should be shown in the form of endnotes.)
- An abstract of 500 words and a short CV of the applicant is required.
- Entries must be submitted in English by means of e-mail, in the form of an attached Word or PDF document to the following address: sabanciaward@sabanciuniv.edu
- Each submission must include a cover page that includes the following information: The applicant's name, home institution and department, mailing and e-mail address and phone number.

Sabancı
Universitesi

CORPORATE NEWS

Berkshire's net falls 7.6%

Derivatives gains offset by weakness in insurance market

BY JEFF D. OPDYKE
AND JAY MILLER

Warren Buffett's Berkshire Hathaway Inc.'s second-quarter net income fell 7.6% as the conglomerate continues to deal with a weak insurance market.

The results, however, mark an improvement from the first quarter, when Berkshire's profit dropped 64% as underwriting income wilted and the company reported about \$1.6 billion in unrealized losses tied to derivatives. Berkshire reported \$689 million in derivatives gains in the second quarter.

Mr. Buffett spelled out earlier this year that Berkshire's derivatives contracts, which some say investors don't understand well, would likely "swing widely" because of the way accounting rules work.

At that time, though, he noted that over the life of the contracts—some stretching out to 2028—Berkshire will likely fare well. Most observers also expect Berkshire to profit from the derivatives unless stock markets crumble over the next two decades.

Mr. Buffett also told investors earlier in the year that "the party is over," saying he expects insurance earnings to fall off significantly in 2008. The second-quarter results of rivals such as American International Group Inc. bear out the weakness in the business of underwriting insurance policies.

Though Berkshire owns businesses ranging from See's Candy to Benjamin Moore paint, its various insurance companies still generate the bulk of its results.

The Omaha, Neb., conglomerate posted net income of \$2.88 billion, or \$1,859 per Class A share, compared with \$3.12 billion, or \$2,018 a share, a year earlier.

Berkshire reported per-share operating earnings, which exclude investment and derivative gains and



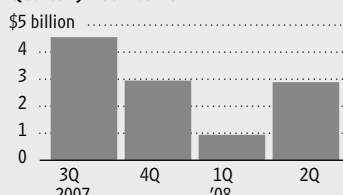
Associated Press

Berkshire Hathaway

Daily class A share price



Quarterly net income



Sources: WSJ Market Data Group; the company

◀ Warren Buffett, chairman of Berkshire Hathaway

losses, in the quarter of \$1,465 for its Class A shares, down from \$1,625 a year earlier. (Berkshire also has Class B shares trading that each represent 1/30th of a Class A share.)

The estimate by the three analysts with published earnings estimates was for per-share profit of

The results mark an improvement from the first quarter, when profit fell 64%.

\$1,370, according to Thomson Reuters. Revenue rose 10% to \$30.09 billion, while investment gains fell 60% to \$242 million.

Insurance underwriting took a big hit. Operating earnings in Berkshire's insurance-underwriting fell 43% to \$360 million. So far this year, Berkshire's underwriting business is down some 56%.

Insurance investment earnings rose 2.5% to \$884 million. Earnings at the company's noninsurance businesses rose 3.5% to \$1.09 billion.

Earnings excluding taxes and mi-

nority interests at the company's Geico car-insurance unit fell 8.3%. Premiums earned rose 5%.

Reinsurance unit General Re's profits fell 56% as premiums fell 5.7%. In January, Berkshire launched a municipal-bond insurer, Berkshire Hathaway Assurance Corp., to take advantage of disarray in that market.

Outside of the insurance industry, Mr. Buffett has been known to buy iconic American brands. In its latest big deal, Berkshire will contribute about \$6.5 billion to Mars Inc.'s \$23 billion buyout of gum and candy giant Wm. Wrigley Jr. Co. The European Commission cleared that transaction last week.

Berkshire has been busy with other deals as well. It will also become Dow Chemical Co.'s largest shareholder with the purchase of \$3 billion of convertible preferred securities.

Dow will use the proceeds to help finance its purchase of Rohm & Haas Co. Berkshire also stands to profit handsomely with the sale of Anheuser-Busch Cos. to InBev.

Berkshire Hathaway's results were released after the market closed on Friday. In after-hours trading, Berkshire class A shares were at \$115,418, down \$332 each.

Yahoo unveils opt-out ad feature

BY JESSICA E. VASCCELLARO

Yahoo Inc. said it will allow users to stop receiving targeted ads based on factors like what Web pages they visit or other ads they click on, following a congressional probe into whether such online advertising violates consumer privacy.

The Sunnyvale, Calif., Internet company announced the opt-out feature as it responded to a letter the House Energy and Commerce Committee sent it and more than 30 other technology companies last week. The letter asked the companies, including Google Inc. and Microsoft Corp., to respond to a number of questions related to their ad-targeting practices—including how many of their customers have received ads targeted to their Web browsing habits and whether those ad systems draw on sensitive personal data like health information.

Google said it planned to submit its response to Congress on Friday. Microsoft didn't respond as to its plans for answering the letter.

Google, Microsoft and a number of Yahoo's competitors already al-

low customers to opt out of ads targeted to their Web browsing behaviors. Yahoo has previously offered the feature for ads it serves on partner sites like eBay Inc. and is extending the option to everywhere it sells the targeted ads, including services like Yahoo News and Yahoo Mail.

The Internet companies are stepping up self-regulation as legislators broaden their inquiries over whether targeting advertising could compromise consumer privacy.

The topic has been a hot-button issue in the years since Internet companies began serving targeted ads. Recently, companies have been ramping up their targeting capabilities as they compete for advertisers seeking to reach specific types of customers and try to avoid irking consumers with irrelevant ads.

The arms race is drawing scrutiny. Congress and some individual states are considering possible legislation that would require Internet companies to ask people's permission before collecting data in some instances. Meanwhile, privacy issues remain a focus of regulators as they review a number of proposed

mergers and partnerships between Internet companies that could consolidate more data in one place.

Lawmakers raised potential privacy concerns around Internet companies' collection of personal data last month during hearings about a proposed search advertising partnership between Yahoo and Google. The Department of Justice is also reviewing the deal.

While offering targeted advertising remains an important growth area for Web companies, offering an opt-out option doesn't give them much to worry about. Consumers don't appear to have exercised existing opt-out options to a great degree. In answering Congress's questions, Yahoo wrote that 75,000 users visited the opt-out page of the Yahoo privacy center in July, a tiny fraction of its user base.

Anne Toth, Yahoo's head of privacy and vice president for policy, said Yahoo chose to extend its opt-out policy to help build trust with consumers. But she anticipates that most consumers will still prefer to receive targeted ads because they find them more relevant.

Richemont and partner to spin off tobacco assets

BY STACY MEICHTRY,
MARTIN GELNAR
AND ROBB M. STEWART

Cie. Financière Richemont SA will spin off its tobacco holdings, transforming the conglomerate into a pure luxury-goods group as the sector braces for tougher economic times.

Geneva-based Richemont and South Africa's Remgro Ltd. said they will spin off most of their jointly held 30.1% stake in British American Tobacco PLC by late October. South Africa's Rupert family controls both companies.

The spinoff comes at a delicate time for Richemont, owner of Cartier, and for the luxury-goods industry as a whole. The deal lets Richemont avoid a change in Luxembourg's tax laws that threatened to penalize the group's tobacco investment. However, the move also leaves Richemont increasingly exposed to the ups and downs of the luxury industry in more uncertain economic times.

Richemont Chairman Johann Rupert said demand for the group's pricey goods, such as Swiss-made watches, continued to outstrip supply. "Our incapacity to fill demand is still quite substantial, so it serves as a cushion," he said in an interview. After the spinoff, Richemont will have net cash of more than €1 billion (\$1.5 billion) to expand, including acquisitions, he said.

Richemont's 19.4% stake in BAT, which has a market value of more than €8.5 billion, and Remgro's 10.7% stake in BAT are jointly held in Luxembourg investment vehicle

R&R Holdings.

Dividends from the tobacco stake have generated a steady revenue stream that has helped cushion Richemont against downturns in luxury spending. Luxembourg's plans to introduce a 15% tax on withheld dividends in 2010, however, forced Richemont to rethink that business model.

The spinoff allows Richemont and Remgro shareholders to directly invest in the BAT stake. Remgro and Richemont will collapse R&R Holdings and distribute about 90% of the combined holding in BAT to their respective shareholders, and inject the remainder into a new international investment fund, Reinet Investments S.C.A.

The fund, which will be controlled by the Rupert family and headed by Mr. Rupert, will be listed on the Luxembourg Stock Exchange. Mr. Rupert said he expected the global financial crisis to create investment opportunities for funds as valuations fall. "Everybody is trying to sell assets," he said. "They have excess debt, and we have excess cash," he said.

The deal is expected to be sealed in November after Richemont and Remgro shareholder approvals.

Analysts following Richemont welcomed the move as it should remove the "conglomerate discount" on the Swiss company's shares. "It's a relatively clean transaction in which shareholders will get 90% of Richemont's BAT stake directly, so I think it will be welcomed by the market," Landsbanki Kepler analyst Jon Cox said.

United Airlines pilots blame management for engine woes

BY SUSAN CAREY

In a letter to the acting head of the Federal Aviation Administration, the chief of United Airlines' pilot union said four recent engine failures or compressor stalls on United 737 aircraft may signal that "maintenance standards have deteriorated at United as operational decisions are increasingly driven by economic considerations."

Capt. Steve Wallach, chairman of the Air Line Pilots Association branch at United, said in the letter last week that all the emergencies, which occurred shortly after takeoff, were resolved without incident or injury when the pilots returned to the airports.

The union official appealed to Robert Sturgell, acting administrator of the FAA, to press senior United management decisions which have caused events such as four engine failures in two weeks.

United, a unit of UAL Corp., doesn't dispute that four 737s had engine shutdowns from July 12 to Aug. 3, and said it is investigating, spokeswoman Jean Medina said Friday. She conceded that the failure rate is higher than normal but said United's "engine performance and maintenance requirements exceed all federal safety standards."

She disputed the union's assertion, made in a separate memo to the 6,500 pilots, that United has out-

sourced this particular maintenance work.

FAA spokeswoman Laura Brown said the agency was informed by United about the engine shutdowns and has investigated them. While the failure rate is "somewhat abnormal," FAA inspectors still are looking into whether the incidents are unrelated or are due to a common problem.

The CFM56 engines are manufactured by a joint venture of General Electric Co.'s GE Aviation unit and Safran SA.

A GE Aviation spokesman said he had no details about the incidents.

United and its pilots have been at odds in recent months over the airline's refusal to reopen their current labor contract before early 2010, when it comes up for renegotiation.

The contract was forged when UAL was struggling in bankruptcy-court protection earlier this decade, and contains many pilot concessions on pay, work rules and pensions.

The situation heated up in June when United in June said it was going to retire all 94 of its Boeing Co. 737s and six other aircraft by the end of 2009, and send furlough notices to 950 active pilots and 500 or so who are on medical or military leaves.

Late last month, United sued ALPA and four individual pilots for allegedly orchestrating an illegal sickout and no-overtime campaign that forced the airline to cancel hundreds of flights for lack of crews.

CORPORATE NEWS

Lockheed settles missile probes for \$4 million

BY ANDY PASZTOR

Lockheed Martin Corp. agreed to a \$4 million civil penalty and pledged to beef up internal controls to settle allegations that it sought to sell certain missiles and provided classified information to the United Arab Emirates without required U.S. government approvals.

Without admitting wrongdoing, the Bethesda, Md., aerospace and defense company signed a consent decree with the U.S. State Department resolving two separate investigations. The company initially disclosed the problems to the government on its own. The agreement marks the second time in eight years that Lockheed has settled export-control cases pursued by federal investigators.

The first settlement announced Friday involved company actions dating back to 2003. It stems from a number of sales proposals midlevel company officials made to the U.A.E. about Hellfire missiles. In one instance, according to the company, some classified material was passed on. A company spokesman said Lockheed officials mistakenly thought no prior U.S. approval was necessary because the U.A.E. already had purchased the same type of missiles.

The second settlement, involving more recent alleged export-control violations, involves certain classified material a company official passed to the U.A.E. about the Joint Air-To-Surface Standoff Missile.

Lockheed agreed to pay \$3 million to the U.S. and use the other \$1 million to improve internal controls of the business unit affected. In announcing the settlement, the State Department said the company's voluntary disclosures were mitigating factors, but the potential harm to "national security and foreign policy interests" required some punishment.

The financial terms are significantly less than the combined \$32 million settlement five years ago by Boeing Co.'s satellite-making unit and Hughes Electronics Corp., then controlled by General Motors Corp. The companies were accused of helping the Chinese government obtain classified information about rocket and satellite technologies.

Cosco attempts to calm worries, curb stock selloff

BY P.R. VENKAT
AND JOHN JANNARONE

China-based Cosco Corp. called a meeting with analysts Thursday to stanch a selloff in shares and to allay fears that the shipbuilder will drift off course after the sudden exit of its president.

The first wave of selling was triggered by news that two South Korean shipbuilders had canceled over \$800 million in orders after some European customers failed to make payments for vessels.

Cosco then surprised the market with an announcement that its 56-year-old president, Ji Hai Sheng, architect of its business model, had "retired," although the company subsequently clarified that he was being transferred. Singapore-listed Cosco is a unit of China's Cosco Group.

DreamWorks principals near India deal

Reliance agreement would set the stage for new film venture

BY LAUREN A.E. SCHUKER

A deal between the principals of DreamWorks SKG and one of India's largest entertainment conglomerates to set up a new film company is on the brink of completion, according to people familiar with the matter.

Under the agreement, Mumbai-based Reliance ADA Group would invest about \$500 million equity in the new movie venture and another \$500 million in debt through J.P. Morgan Chase & Co., giving DreamWorks co-founder Steven Spielberg the financial backing he needs to split from Viacom Inc.'s Paramount Pictures.

People familiar with the situation say an agreement will likely be reached this week, allowing Mr. Spielberg and his DreamWorks team to leave Paramount as early as November. David Geffen, another co-founder, can trigger his exit from Paramount at the end of this month. Mr. Spielberg and his close collaborator, DreamWorks Chief Executive Stacey Snider, can leave Paramount 60 days after Mr. Geffen's move. It is uncertain whether Mr. Geffen will be part of the new venture.

Though the partnership between a Mumbai-based conglomerate and some of Hollywood's biggest names seems unlikely, the new venture comes at a time when the film industry is looking for foreign investors to replace money from Wall Street that poured into film financing in recent years but now has dried up.

Once the partnership between Re-

liance and the DreamWorks team is completed—probably this week, after DreamWorks' "Tropic Thunder" opens—focus will shift to distribution. Mr. Spielberg is said to be looking closely at General Electric Co.'s Universal Pictures, where he began his career, to distribute the venture's films going forward, though no agreement has been reached.

Mr. Spielberg and the DreamWorks team may have to work with Paramount for some time. The two share the rights to many projects, including the coming sequel to the blockbuster "Transformers," although Mr. Spielberg may try to take some of those projects with him when he departs.

DreamWorks, whose recent hits include "Dreamgirls" in 2006 and last year's "Blades of Glory," will produce a slate of about six films a year under the new agreement with Reliance. The Indian conglomerate, with

interests in telecommunications, financial services, and entertainment, is hoping to use the new partnership with Mr. Spielberg and his DreamWorks team to build a name in Hollywood and, then, a global media empire.

Earlier this year at the Cannes Film Festival, Reliance's entertainment division, Reliance Big Entertainment, said it would spend more than \$1 billion in the next 18 months to create its entertainment empire as well as a series of investments in Hollywood projects, including production houses run by big-name talent such as George Clooney and Brad Pitt.

Since selling DreamWorks to Viacom for \$1.6 billion in 2006, Messrs. Geffen and Spielberg have developed a fractious relationship with Paramount's Chief Executive Brad Grey.

—Eric Bellman
contributed to this article.



Knowledge



Understanding

KNOWLEDGE IS VITAL. BUT KNOWLEDGE IS NOTHING WITHOUT UNDERSTANDING.

Everyone knows you need a hook to catch a fish. But when you understand enough about fish to persuade them to swallow it, you're on the way to building a real business.

That's understanding. That's The Wall Street Journal Europe.

25
YEARS
THE WALL STREET JOURNAL.
1983 — EUROPE — 2008

SUBSCRIBE FOR 6 MONTHS AT THE SPECIAL PRICE OF € 113

✓ Please start my **6-month subscription** to The Wall Street Journal Europe now for only **€113**. That's **66% off** the cover price. Credit card customers will receive a €50 / £30 Amazon gift certificate.

Subscription details

- URL: www.services.wsje.com/media
- E-mail: subs.wsje@dowjones.com
- Phone: +32 2 741 14 14
- Fax: +32 2 741 14 59
- Address: Subscriber Relations, The Wall Street Journal Europe, Blvd Brand Whitlock 87, 1200 Brussels, Belgium.

Your tracking code is HSDEB000F. Always indicate your delivery details, payment preferences and tracking code.

Subscription price*

Eurozone	Switzerland	United Kingdom
€ 113	CHF 176,4	£ 54,6

©2008 Dow Jones & Company, Inc. All rights reserved.

Contact, delivery and payment information

Mr/Mrs/Ms Full Name:

Job Title**:

Delivery Address:

City:

Postcode:

Country:

Tel:

Email:

Signature:

Date:

Credit card no.:

Expiry date:

Visa Amex

Eurocard/Mastercard

Please invoice me

We may provide your information to third parties, including companies outside of the EU, in order to fulfill your subscription request, process data and provide you with promotional information from WSJE, its affiliates and other carefully selected companies.
 I do not wish to receive promotional materials from other carefully selected companies.
 I do not wish to receive promotional materials from WSJE or its affiliates.
 * For other currencies, please call us free at 00 800 9753 2000 or +32 2 741 14 14.
 ** Optional. All other information is required. Failure to provide obligatory information will result in subscription delays. Hand delivery subject to confirmation by local distributor. Offer only open to new subscribers.
 Please allow 2 weeks for delivery to commence.

DOWJONES

CORPORATE NEWS

Royal Bank of Scotland posts \$1.54 billion loss

Credit write-downs lead to first deficit since the 1960s

BY RAGNHILD KJETLAND

LONDON—Royal Bank of Scotland Group suffered a first-half net loss of £802 million (\$1.54 billion), its first loss since the bank listed in the 1960s and one of the largest losses ever posted by a U.K. bank.

RBS took hefty write-downs before its record-breaking £12 billion rights issue in the spring. The U.K.'s second-largest bank by market capitalization posted £5.93 billion in first-half write-downs on credit exposure.

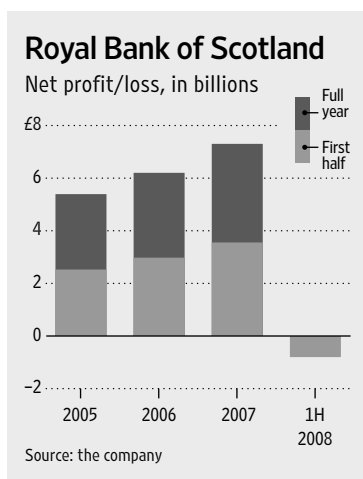
The net loss compared with a profit of £3.56 billion a year earlier.

Revenue, comprising net interest and noninterest income, amounted to £13.73 billion, down 7% from £14.69 billion a year earlier.

However, there was relief that things weren't worse than expected. RBS shares traded up 7.5 pence, or 3.2%, at 240.5 pence.

Bernstein Research said the loss was lower than the market had expected. It noted RBS is threatened by more write-downs and a possible U.K. recession, but, said "the company has taken a conservative stance on write-downs and has the benefit of diversification away from the U.K."

Including ABN Amro, which RBS bought together with Dutch-Belgian Fortis NV and Spain's Banco



Santander SA, and assuming it was part of the group all of last year, the pro forma net loss was £761 million, compared with a £3.65 billion profit a year earlier.

RBS is targeting a core Tier 1 ratio, or a ratio of equity held against risky assets, of more than 6% in 2008. The capital increase lifted that ratio to 5.7% at the end of June. RBS is divesting itself of businesses to boost it further and needs about £1.5 billion in capital gains to get above 6%.

Chief Executive Fred Goodwin said the bank is still in talks about selling its insurance operations but hasn't reached an agreement. Germany's Allianz SE said Thursday that it had decided against a bid. Previous first-round bidders include U.S.-based Allstate Corp. and Travelers Cos.

GM to lend Delphi more to help it out of bankruptcy

BY PATRICK FITZGERALD AND SHARON TERLEP

General Motors Corp. has agreed to advance Delphi Corp. an additional \$300 million, on top of \$650 million already promised, as the auto maker's costs related to helping its former parts unit exit bankruptcy protection escalate.

Delphi said GM may increase its loans to its top supplier to reimburse Delphi for labor-related costs and other liabilities. GM had agreed to assume these liabilities under a settlement entered into during the Chapter 11 case. The \$950 million represents a portion of the amount GM would have paid Delphi had the supplier emerged from Chapter 11. GM will receive a top priority claim under bankruptcy law for the advances.

The agreement comes on the heels of GM reporting a \$15.5 billion loss for the second quarter, \$2.8 billion of which was related to adjusting the accounting for its relationship with Delphi.

On Friday, Delphi said its second-quarter net loss narrowed as smaller charges more than offset a 28% de-

crease in GM's North American production. The company also said it expects revenue in 2008 to be "significantly lower" than the \$22.3 billion in revenue that it recorded for 2007.

Delphi reported a net loss of \$551 million, or 98 cents a share, compared with a year-earlier net loss of \$821 million, or \$1.46 a share. Revenue fell to \$5.2 billion from \$6 billion.

The auto supplier filed for bankruptcy protection in 2005, but hasn't been able to exit Chapter 11 as planned after investors backed out of a deal to pump \$2.55 billion into the company. To date, GM has taken \$11 billion in charges related to Delphi since 2005.

GM had agreed to provide a chunk of the \$6.1 billion in debt financing the parts supplier needed to exit bankruptcy protection. Delphi turned to its former parent after struggling to line up the financing amid a credit crunch that dried up the market for bankruptcy-exit loans.

Because it would heighten the auto maker's influence at the Troy, Mich., auto supplier, GM's participation was a deal-breaker for Delphi's investor group, headed by hedge fund Appaloosa Management. Without the backing of outside investors, Delphi is mired in Chapter 11 without a clear exit strategy.

GM spokeswoman Julie Gibson said the company agreed to increase the loan in July, at about the time the auto maker was patching together its own plan to boost liquidity by \$15 billion through 2009.

—Jay Miller contributed to this article.

GLOBAL BUSINESS BRIEFS

PKO Bank Polski SA

Polish lender's net rises 47% on gains in interest income

Warsaw-based PKO Bank Polski SA said Friday that its second-quarter net profit jumped 47% as fast-growing consumer loans and deposit margins boosted net interest income. Net profit rose to 897.2 million zlotys (\$411.5 million) from 611.1 million zlotys a year earlier while net interest income was up 37% to 1.49 billion zlotys from 1.09 billion zlotys. State-controlled PKO said it was able to continue fast expansion of its mortgage and consumer-loan business, as its total loan portfolio grew 29% to 65.08 billion zlotys. Mortgage loans rose 30% to 33.88 billion zlotys from 26.16 billion zlotys a year earlier, but growth slowed from the first quarter's 37% annual pace, as rising interest rates curbed housing demand.

Sanofi-Aventis SA

French pharmaceutical company Sanofi-Aventis SA said its experimental heart treatment Multaq had received priority review from the U.S. Food and Drug Administration—a ruling that could help speed up the drug's launch. Multaq, which has the potential to become a multibillion dollar product if it gets approved, was submitted to regulators in the U.S. and Europe in June. Sanofi developed Multaq, generically known as dronedarone, as a treatment of a heart condition called atrial fibrillation, or irregular heartbeat. Sanofi-Aventis resubmitted the drug, which was initially rejected by the FDA in 2006, after a more-recent study suggested Multaq reduced the risk of death in patients with the condition.

Alitalia SpA

The Italian government is in talks with a "big foreign company" as part of its rescue plan for the loss-making airline Alitalia SpA, Premier Silvio Berlusconi said late Thursday. However, on Friday Franco-Dutch airline Air France-KLM SA as well as German carrier Deutsche Lufthansa AG denied they are in talks with the Italian airline. Italy, which owns a 49.9% stake in the carrier, has been looking to sell Alitalia, which loses more than €1 million (\$1.5 million) a day, for more than 18 months. Faced with union and some Italian political opposition, Air France-KLM buried a planned merger with the Italian airline earlier this year. Also on Friday, the Association of European Airlines reported that in June, passenger traffic at Alitalia fell 22% from a year earlier.

OAO Norilsk Nickel

The board of this Russian miner elected Vladimir Strzhalkovsky as chief executive, despite opposition from core owner United Co. Rusal. Mr. Strzhalkovsky's candidacy had been proposed by ZAO Interros, the holding company of tycoon Vladimir Potanin, which controls around 30% of Norilsk. Mr. Strzhalkovsky arrives from Russia's state tourist board and is a veteran of the KGB. Rusal, an aluminum producer controlled by fellow billionaire Oleg Deripaska, owns just over 25% of Norilsk. Mr. Strzhalkovsky's appointment, which takes effect Monday, is likely to deepen the rift between main shareholders Messrs. Potanin and Deripaska, two of Russia's most powerful businessmen.

Bridgestone Corp.

Bridgestone Corp. reported a 30% drop in first-half net profit and cut its profit forecast for the year, blaming surging prices for rubber and other raw materials. The Tokyo-based company said first-half net sagged to 37.24 billion yen (\$337.9 million) from 52.94 billion yen a year earlier. Operating profit slid 18% to 83.66 billion yen. Sales edged up 1.6% to 1.641 trillion yen as price increases and higher sales of high-performance tires as well as special tires such as those for construction vehicles offset the impact of the stronger yen. Bridgestone now expects 66 billion yen in net for the year.

Schroders PLC

Schroders PLC posted a 27% drop in first-half pretax profit because of a lower asset base, write-downs and weak performance from its private-equity and group business. The U.K.-based asset manager said pretax profit fell to £135.7 million (\$260.5 million) from £185.6 million a year earlier. Net profit fell 28% to £100.7 million. The value of its funds under management dropped to £130.2 billion from £137.6 billion a year ago. In the first quarter, Schroders had write-downs of £33.5 million as the value of its investments fell amid weak equity and fixed-income markets. "There's always a possibility of further write-downs in a very difficult market," Chief Financial Officer Stephen Brooks said. Chief Executive Michael Dobson said that Schroders may buy more companies to help expand its business. "With valuations down sharply, there may be consolidation in the industry," he said.

Iberdrola SA

Spain's Iberdrola SA said it had been granted a license to operate in Portugal's gas market. The license allows Iberdrola to buy and sell natural gas and liquefied natural gas to wholesale and retail customers in Portugal. Iberdrola, which already operates in the country's electricity market, now enters a market that has been liberalized for clients with a consumption higher than one million cubic meters per year since July. Construction of the company's first combined-cycle natural-gas plant is expected to start in the northern town of Figueira da Foz by the end of this year. The new power station, which is slated to begin operating in late 2009, will have a capacity of 850 megawatts and will increase Iberdrola's power-generating capacity in Portugal to more than 1,000 MW.

Ford Motor Co.

Ford Motor Co. will operate two Visteon Corp. car-parts plants beyond an original 2008 deadline after potential deals to sell the factories fell through. The Saline, Mich., and Sandusky, Ohio, plants will remain open as a search continues for potential buyers, Ford said in a federal filing Friday. Another plant in Indianapolis will also continue operating as it is wound down through 2010. The plants were taken back from Visteon in October 2005 and are operated by Ford's Automotive Components Holdings LLC unit. Ford, like other auto makers and parts suppliers, is finding it increasingly difficult to sell off U.S. plants or business units in the slumping market for cars, pickups and sport-utility vehicles. Ford's Automotive Components division took back 17 factories to help the financially struggling Visteon, a Ford spinoff and one of the auto maker's largest suppliers.

Telecom Italia SpA

Telecom Italia SpA posted a 24% drop in first-half net profit because of poor margins in Brazil and Germany, prompting a cut in the full-year outlook for the two foreign operations. Net profit fell to €1.14 billion (\$1.71 billion) from €1.5 billion a year earlier, as revenue was down 3.3% to €14.84 billion. Stiffening competition and falling profitability on both mobile and fixed services hit core markets of Italy's largest telecom operator. The company's closely watched net debt rose to €37.17 billion as of June 30, from €35.4 billion at the end of March. Shares in Telecom Italia have lost about 44% in the past year, sparking disappointment among some of its major shareholders over a lack of a clear industrial strategy. The company confirmed its previous forecast for its domestic operations.

Pfizer Inc.

Pfizer Inc. said it agreed to settle litigation with Canadian generic-drug maker Apotex Inc. related to Pfizer's cholesterol drug Lipitor. In a report to the U.S. Securities and Exchange Commission, Pfizer didn't provide details of the agreement but said the settlement, which is subject to some conditions, was signed last month. Pfizer has been involved in patent litigation with Apotex to prevent the selling of a generic version of Lipitor in Canada. Apotex was the only current challenger to Lipitor in Canada. Pfizer recently settled patent-infringement litigation with India's Ranbaxy Laboratories Ltd. that is intended to keep a generic version of Lipitor off the U.S. market until November 2011, or 20 months later than some had expected.

Lions Gate Entertainment

Lions Gate Entertainment Corp. swung to a fiscal-first-quarter profit on double-digit revenue increases in all of its core businesses and lower theatrical costs. The Canada-based producer and distributor of independent films and the hit television show "Mad Men" reported net income in the quarter ended June 30 of \$7.1 million, or six cents a share, compared with a net loss of \$53.1 million, or 45 cents a share, a year earlier. Revenue climbed 50% to \$298.5 million. Analysts' mean estimates were for a loss of five cents a share on revenue of \$313 million. Overall motion-picture revenue jumped 51% on growth in the theatrical, DVD, television from motion pictures, international and Mandate Pictures segments.

McDonald's Corp.

McDonald's Corp. reported an 8% increase in July global same-store sales, with results increasing across all regions, including 6.7% in the U.S. due to a focus on breakfast, chicken, beverages and the Big Mac sandwich. Systemwide sales rose 16% world-wide, or 9.5% in constant currency. European same-store sales rose 7.6% due to strong results in France, the U.K. and Russia. The company said locally relevant summer offerings appealed to customers during the month. The Asian-Pacific, Middle East and Africa region saw 7.2% growth. Latin America saw double-digit gains. In March, McDonald's reported same-store sales in the U.S. fell for the first time in five years, but the company has posted solid increases since then.

—Compiled from staff and wire service reports.

THE WALL STREET JOURNAL.

Executive Travel Program

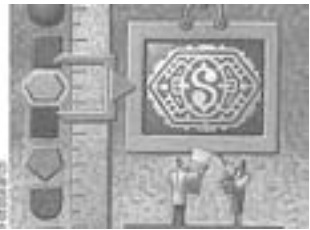
Guests and clients of 320 leading hotels and car rental agencies receive The Wall Street Journal Europe daily, courtesy of

addictlab.com
global creative think tank

ECONOMY & POLITICS

U.S.

Productivity stays strong as cuts ease labor costs



PRODUCTIVITY stayed strong in the second quarter and labor costs slowed as U.S. businesses cut jobs and squeezed more output from each worker.

Nonfarm business productivity rose at an annual rate of 2.2%, the Labor Department said. The first-quarter gain was 2.6%. Unit labor costs ticked up 1.3%, compared with a 2.5% rise in the first quarter.

The data suggest that businesses aren't raising wages in response to rising prices. The absence of a so-called wage-price spiral gives the Federal Reserve more leeway to keep rates low without letting inflation get out of control.

—Anton Troianovski

FRANCE

Three explosive devices defused in Basque region



BOMB SQUADS defused three explosive devices planted Friday at tourist areas in France's southwest Basque region on the Atlantic coast, officials said.

Rescue services received an anonymous phone call, warning that bombs had been left at five tourist sites in the Basque country near the Spanish border, the prefecture in the Pyrenees Atlantiques region said. There was no immediate claim of responsibility.

About 1,200 people were evacuated from the sites—the casino in Biarritz, a hotel in Bidarray, vacation villages in Arcangues and Anglet, and a high-speed train.

—Associated Press

U.K.

Home repossessions rose to 12-year high in 1st half



THE NUMBER of U.K. properties repossessed jumped to its highest level for 12 years in the first half of the year, as homeowners' finances were squeezed by the credit crunch and rising living costs, the Council of Mortgage Lenders said.

The council said 18,900 properties were taken into possession by lenders in the first six months of the year, the highest level since the first half of 1996, and up sharply from 12,800 in the first six months of 2007. But the trade association said it was maintaining its forecast for 45,000 total possessions this year.

—Nicholas Winning

U.S. poised for weak end to year

Consumer caution and global slowdown confound forecasts

BY KELLY EVANS

THE U.S. economy, facing a consumer-spending slowdown and a weakening global economy, is poised for an unpleasant finish to 2008.

The pattern of growth that is emerging this year—a mediocre first half followed by a weaker second half—is the reverse of what most forecasts showed at the beginning of the year.

"We now believe the economic weakness in the U.S. will likely worsen," Kenneth Chenault, chief executive of American Express Co., said last month when it posted second-quarter earnings short of analyst estimates.

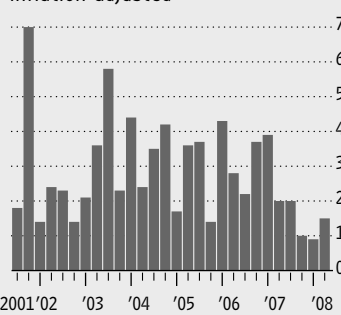
Economists have downgraded growth forecasts in recent weeks. "We are on the cusp of a renewed deceleration in growth," Goldman Sachs economists said, noting that a contraction in consumer spending is likely over the second half of this year and that "the risk that foreign-demand weakness will wash back onto U.S. shores is clearly growing."

Households are grappling with layoffs, stagnant wages, falling home values and tighter credit. The

Engine trouble

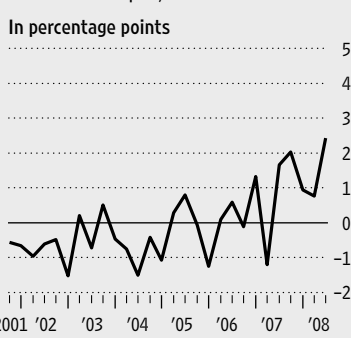
The big driver of U.S. economic growth, consumer spending, has been losing steam as the credit crisis deepens. Recent GDP growth has been powered by a new force, the combination of rising exports and falling imports, fueled by dollar weakness. Now, global economic weakness could cause this engine to stall.

Personal consumption expenditures, quarterly change at a seasonally adjusted annual rate; inflation-adjusted



Source: U.S. Commerce Department

Net exports' contribution to the growth of inflation-adjusted U.S. economic output, or GDP



U.S. government's economic-stimulus program, which was intended to give households a boost in the middle of the year, may not have done enough to stave off recession. The payments coincided with a run-up in fuel prices, so a portion of the checks were gobbled up at the gas pump. So far, most of the money appears to have gone to savings and debt rather than to immediate spending in stores.

"The air is coming out of the balloon pretty quickly here," said Brian Bethune, a senior economist with Global Insight, a Lexington, Mass., forecasting firm. "Consumers are just throwing in the towel."

Retail sales in July were weaker than expected at many chain stores, suggesting the May and June sales boost from the stimulus checks is quickly fading. Talbots Inc., Kohl's Corp. and Gap Inc. were among those retailers reporting double-digit sales declines last month.

Discounters, including Wal-Mart Stores Inc. and Costco Wholesale Corp., fared better, but Wal-Mart U.S. President Eduardo Castro-Wright warned that spending could slow: "With the end of the stimulus checks, we know consumers are spending more cautiously," he said.

Consumer spending is poised to weaken just as foreign growth—a vi-

tal offset to sluggish domestic demand—also shows signs of slowing.

Surging export growth, coupled with falling demand for imports, added 2.4 percentage points to second-quarter growth in U.S. gross domestic product—marking the largest contribution in nearly three decades. Without that contribution, GDP would have slipped 0.5%.

Last month the "beige book" survey of regional economic conditions compiled by the regional Federal Reserve banks found that producers worried about weakening overseas demand. In the Chicago area, export-oriented firms "noted a recent slowing in the pace of growth, particularly in demand from Europe." Boston-area manufacturers indicated that "foreign demand growth may be slowing," while in Dallas some manufacturers specifically cited "weak demand in Western Europe."

And Norbert Ore, an executive at Georgia-Pacific Corp. who oversees the Institute for Supply Management's monthly survey of U.S. manufacturing activity, called declining exports "the biggest risk we face as an industry."

European Central Bank President Jean-Claude Trichet, in holding euro-zone interest rates steady at 4.25% last week, said that while he remains focused on inflation,

data point to weaker growth.

Japan, meanwhile, may already be in recession. Second-quarter GDP data, set to be released Tuesday, are expected to show the world's second-largest economy contracted.

J.P. Morgan's index of global manufacturing activity contracted in July for the second straight month, turning in its worst performance in five years as new orders fell to their lowest level since late 2001. Production in Japan and the U.K. contracted at the sharpest rate since the 1998 Asian financial crisis, while euro-zone production had its fastest fall since early 2002. Spreading weakness means that the U.S., the euro zone, and Japan, which together make up nearly two-thirds of global GDP, are flirting with recession. Fast-growing economies like China, India and Brazil could follow.

Weak exports could lead to further deterioration in the U.S. labor market as companies lose business, according to Joseph Lupton, a senior economist at J.P. Morgan. "The bottom line is it's going to be a weak second half."

Federal Reserve policy makers appear concerned about the second half. In a statement following the Tuesday decision to hold its interest-rate target at 2%, the Fed policy-setting committee omitted a reference from its prior statement suggesting that the risks of weaker growth had diminished. The Fed reiterated its view that "tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters."

Still, there may be a silver lining: Slowing global demand is helping to bring down the cost of oil and other commodities. Falling prices could offer relief to consumers and ease some companies' cost pressures. That could also ease inflation concerns at the Fed, giving it more leeway to bolster the economy through lower interest rates.

WSJ.com

Online today:

Time to use the "R" word?
WSJ's Kelly Evans says a weakening economy may lead to recession, at
WSJ.com/Video

OECD forecasts top economies will slow further

BY PAUL HANNON

LONDON—The world's leading developed economies are set to slow more sharply in the months ahead, according to the Organization for Economic Cooperation and Development's indicators of future activity. The OECD said its composite leading indicator fell to 96.8 in June from 97.4 in May and was down five points compared with the year-earlier month.

The leading indicators for six of the Group of Seven economies fell

The leading indicators point to 'strong' slowdowns in France and Italy.

from the previous month, although Japan's indicators were unchanged. Over the year, the indicators for all seven economies were down sharply. "OECD composite leading indicators...for June 2008 indicate a continued weakening outlook for all the major seven economies," the Paris-based think tank said.

Some G-7 economies will fare worse than others over the remainder of this year and into 2009. The OECD said that while its leading indicators point to slowdowns in the U.S., Japan, Germany, the U.K. and Canada, they point to "strong" slowdowns in France and Italy.

Italy appears set to remain the worst performing G-7 economy. Figures released earlier Friday by the official statistics agency Istat showed the country's gross domestic product shrank 0.3% during the second quarter of 2008, having also contracted in the fourth quarter of 2007.

With two of the three big euro-zone economies set to slow sharply, the OECD said the leading indicators also point to a strong downturn in the currency area as a whole.

That will help cement investors' expectations that the European Central Bank won't raise its key interest rate again. The ECB Thursday left its key rate unchanged at 4.25%.

Managing

Going green

More U.S. corporate boards note environmental issues > Page 30



ECONOMY & POLITICS

U.S. hopefuls to face bolder China

McCain and Obama map paths to engage and to get tough

BY ELIZABETH HOLMES
AND JONATHAN KAUFMAN

A wave of Chinese nationalism is ensuring that whoever is elected president of the U.S. will face an ever more assertive and self-confident China.

In response, both the McCain and Obama campaigns are offering up China policies that combine a desire for continued engagement with tougher talk on trade and some human-rights issues.

Since 2001, U.S. foreign policy has been dominated by the antiterror campaign and the war in Iraq. But Washington's relationship with Beijing remains a top priority, because of China's huge volume of trade with the U.S. and its increasingly important role in global security issues.

In China, years of strong economic growth, excitement over the Olympics and continued sensitivity over issues such as Tibet have made for a population that is proud, nationalistic—and increasingly prickly.

"We are like a teenager," said Scarlett Li, an Internet entrepreneur in Beijing. "But this is a teenager that one day will become a very powerful man, so you want to make sure he understands you, that you are not just criticizing him every day."

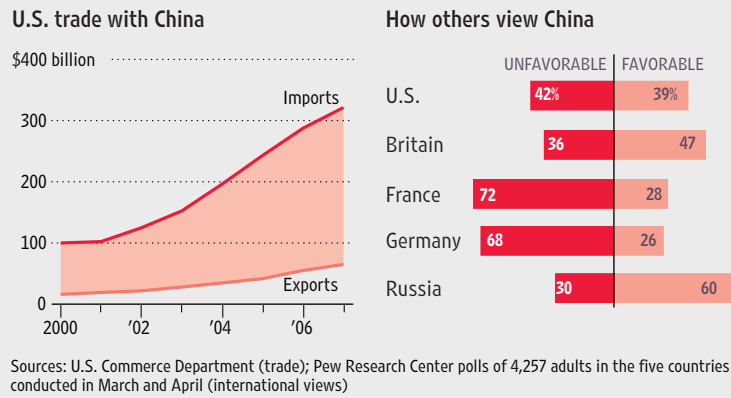
The campaigns of both Sen. Barack Obama and Sen. John McCain say they recognize the change. When the Doha Round of global trade talks collapsed last month, over disagreements that China and India had with the U.S. on access to agricultural markets in the developing world, China looked "very surprisingly self-assured and almost cocky," said Michael Green of Georgetown University, who served on the National Security Council under President George W. Bush and heads Sen. McCain's Asia foreign-policy team. "The combina-



Barack Obama

Rising China – rising friction?

As China grows as a world power, Chinese self-confidence is increasing but so are worries among U.S. voters



tion of arrogance and insecurity can be dangerous."

Internet sites in China have been deluged in recent months with nationalistic postings by ordinary citizens angry about Western protests during the Olympic torch relay and Western criticism of Chinese suppression of Tibetan demonstrations.

Jeffrey Bader, Sen. Obama's top China adviser, said China's rising self-confidence comes at a time when "the United States is not at the peak of the game.... That puts us on a different playing field." Mr. Bader handled negotiations on China's and Taiwan's accession to the World Trade Organization during President Bush's first term.

Even as they stake out different policies on such issues as Iraq and the economy, the candidates are finding common ground on China—though their tone differs somewhat on trade, with Sen. McCain emphasizing free trade and working within current agreements, and Sen. Obama sounding a warier note, emphasizing the importance of monitoring China carefully.

Both candidates say that to show support for Tibet, they wouldn't have been present at the Olympic Opening Ceremonies in Beijing on Friday, which President Bush attended. Both voice support for Tai-

wan and express concern over China's global ambitions, especially in Africa. And, despite their differences, both are taking a tougher stance on trade than the Bush administration. Trade has emerged as an important issue in industrial states.

Sen. McCain, speaking in Pennsylvania on Tuesday, delivered some of his harshest comments to date on how he would handle any future Chinese trade and consumer-safety violations.

"The next time...products come in the United States that are manufactured overseas and endanger the health and the well-being of our citizens, that will be the last of those," the Republican presidential candidate said.

Sen. McCain said one problem is that the U.S. hasn't enforced agreements made in its trade pacts with other countries. "I want to tell you, I will strictly enforce them," the Arizona senator said.

Sen. McCain has pledged to bolster trade relations with other Asian countries, a move that his foreign-policy adviser, Mr. Green, said could help strengthen the U.S.'s bargaining power with China.

Sen. Obama regards China as a "significant economic player," said Mr. Bader, but believes the current trade relationship is "severely unbalanced."

Mr. Bader said the Democratic presidential contender would press for more vigorous monitoring of trade agreements and use the World Trade Organization "more aggressively" to resolve trade disputes. As president, the Illinois senator would push for changes to China's intellectual-property-rights system and Beijing's policy of subsidizing industry. Piracy of goods, including U.S.-made ones, is rampant in China.

Sen. Obama has supported legislation aimed at pressuring China to revalue its currency, Mr. Bader said, but as president, he wouldn't turn first to legislation to resolve trade issues.

In survey results released this week by the Pew Research Center, 42% of Americans said they have an unfavorable view of China, compared with 39% with a favorable view. That represented a slight change from last year, when 42% polled had a positive view of China and 39% a negative view.

Coverage by China's government-controlled news media has generally been balanced. Articles on Sen. Obama highlight his pathbreaking role as the first black presidential nominee from a major party, while those on Sen. McCain often highlight his long experience.

"McCain has rich experiences in foreign affairs and national security areas, as well as mature political viewpoints," a recent article posted on the Xinhua news site said. "If McCain can really become the next U.S. president, he won't be a blank paper for other people to draw on in terms of the country's foreign affairs."

Privately, many Chinese, especially the younger generation, express fascination with Sen. Obama—a reflection, perhaps, of a system in which political leaders tend to be much older and political change is often glacial.

"I like Obama—he is much more dashing," a student at Nanjing University in eastern China said. "We could never have a leader like him in China."

—Sue Feng
contributed to this article.

Mayawati starts bid to become India's premier

BY PAUL BECKETT

NEW DELHI—Kumari Mayawati, one of India's most controversial and powerful politicians, on Saturday effectively launched her candidacy to be the next prime minister following national elections that must be held before next May.

Ms. Mayawati, who is universally known only as "Mayawati," is the chief minister of India's biggest state, Uttar Pradesh. She has risen to prominence as a champion of Dalits, the Indians at the bottom of the caste hierarchy also known as untouchables. Ms. Mayawati is a Dalit.

"When I can become the chief minister of the most populous state four times, why can I not become the prime minister of the country even if I am born in a Dalit family?" she told workers at a national convention of her Bahujan Samaj Party in the state capital of Lucknow Saturday, according to the Press Trust of India. A spokesman said Sunday that Ms. Mayawati was unavailable for further comment.

The BSP's power is concentrated in Uttar Pradesh and derives its voting base chiefly from Dalits. However, Ms. Mayawati, 52 years old, has been trying to expand its appeal to gain national prominence. She also has transformed the party from its original constituency, made up almost solely of Dalits, to appeal to higher castes, including Brahmins. Their support was key in installing her as the chief minister of Uttar Pradesh in elections last year, the fourth time since 1995 she'd gotten the post.

Currently, the BSP has only 17 legislators in the national Parliament and is far outnumbered by the two largest national parties: Congress, which leads the ruling United Progressive Alliance coalition, and the Bharatiya Janata Party. But it is very likely that neither of these parties will gain a majority in Parliament when national elections are held in the next several months. By law, they must be held by May. It is also possible that a so-called third front of other parties could try to cobble together enough legislators to form a ruling coalition.

Under almost every scenario, smaller parties are expected to play important roles as power brokers, adding their votes to support a ruling coalition. It is under that scenario that Ms. Mayawati could potentially become a prime-ministerial candidate, extracting the position as the price of the BSP's support, especially if the BSP significantly improves its ranks in Parliament.

Ms. Mayawati would be a very controversial candidate, not just because she would be India's first Dalit prime minister but because she has consistently been dogged by allegations of corruption. She is currently the subject of an investigation by India's Central Bureau of Investigation, which is looking into how she accumulated sufficient wealth to make her one of the highest income-tax payers in the country. She has said her wealth stems from the donations of supporters and that the investigation is politically motivated.

—Krishna Pokharel
contributed to this article.



Kumari Mayawati



John McCain

Pakistan leader stands firm despite pressure

BY ZAHID HUSSAIN

ISLAMABAD, PAKISTAN—As Pakistan's ruling coalition prepares a charge sheet for the attempted impeachment of President Pervez Musharraf, the Pakistan People's Party, the leading coalition partner, is in secret negotiations with Mr. Musharraf's aides to offer the former general immunity from prosecution if he agrees to step down.

Rehman Malik, interior minister and confidante of PPP leader Asif Ali Zardari, is in contact with the president's office, said a senior government official. But there hasn't been any breakthrough yet, and Mr. Musharraf remains defiant that he won't quit the office.

"The president will not step down and face the impeachment," Mr. Musharraf's spokesman Rashid Quershi said on Dawn News, a private televi-

sion network, Sunday. It was the first public statement by any presidential staff member since coalition leaders announced their decision last week to try to impeach Mr. Musharraf.

Also, the president has told his allies that the chief of the army, Gen. Ashfaq Kayani, had assured him of his support. Gen. Kayani was hand-picked by Mr. Musharraf to succeed him as army chief when Mr. Musharraf relinquished that post in December. Since then, Gen. Kayani has tried to keep the army out of politics.

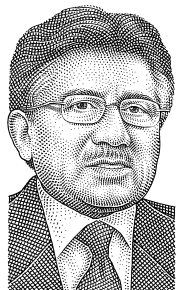
However, a senior military official said the army high command is getting increasingly concerned by the political turmoil triggered by the power struggle. A major question is whether the impeachment process could draw the military back into the political fray.

Mr. Musharraf, who seized power in a bloodless coup in 1999, ef-

fectively became politically isolated after his rivals swept parliamentary elections in February. The governing coalition led by the party of slain former Prime Minister Benazir Bhutto decided Thursday to move to impeach Mr. Musharraf, saying he plunged Pakistan into political and economic crises during nearly nine years of single-handed rule.

The charge sheet is expected to include accusations that he repeatedly violated the constitution, ordered military operations in western Baluchistan and ordered last year's raid on the radical Red Mosque in Islamabad, an action that killed more than 100 people. The impeachment process could also include questions about Mr. Musharraf's support for the U.S.-led global war on terror.

"The charge sheet will detail ways that Musharraf violated the constitution and the gross misconduct that the president has done," Law Minister Farooq Naek told reporters Sunday.



Pervez Musharraf

ECONOMY & POLITICS

Hamdan juror elaborates

Officer says evidence didn't support claim driver was a terrorist

BY JESS BRAVIN

The Guantanamo Bay U.S. military jury that sentenced Osama bin Laden's driver to just five additional months—instead of the 30-year minimum sought by the government—intended no message to the White House nor comment on its military-commission system, according to an officer who served on the panel.

Instead, the panel looked at the evidence against Salim Hamdan and found it didn't support prosecutors' depiction of a hard-core al Qaeda terrorist.

"Salim Hamdan was working for a bad organization and he knew that," the juror said. Jurors came to view him like other young people who get mixed up in criminal organizations because they are ignorant or lack other opportunities, rather than through a deep-seated ideology.

Jurors' identities were withheld from the press during the trial. The military judge said after sentencing they could discuss the trial with reporters.

The jury acquitted Mr. Hamdan of both counts of conspiring in al Qaeda attacks. It convicted him of five counts of providing material support for terrorism, which the judge combined into a single count for sentencing. Free to impose anything up to life imprisonment, the jury selected 66 months, which leaves just five months after credit for 61 months of pretrial incarceration.

Mr. Hamdan's job principally involved driving Mr. bin Laden and other al Qaeda figures around Afghanistan. At times he also carried

weapons and radios. Captured in November 2001 by Afghan militiamen under U.S. command, Mr. Hamdan soon became cooperative and provided information to U.S. interrogators about the al Qaeda organization.

Although the government's years-long legal struggle to punish Mr. Hamdan already has included one trip to the Supreme Court, jurors were barely aware of the case's historic background, the juror said. The five men and one woman were selected from a U.S. Pentagon-appointed 13-member pool on July 21, after questioning by prosecution and defense attorneys.

A Navy captain was foreman. Other members included two colonels and three lieutenant colonels from the Air Force, Army and Marine Corps.

The juror said the panel members resolved to keep feelings about Sept. 11, 2001, from affecting their judgment. "I think we all had to reconcile that before we got on the plane" to Guantanamo, the juror said.

Each side played its expected part, the juror said. "The defense would say the accused made the mistake of being in the wrong place at the wrong time," while "the prosecutors would give the image of him being a hardened terrorist."

In favoring the defense's depiction, "it came down to the evidence that we were allowed to see," the juror said. Nothing suggested Mr. Hamdan had any role planning or organizing terror attacks. Moreover, the juror said, Mr. Hamdan's demeanor in court made an impression.

"He looked very mild mannered," the juror said of the defendant, who wore traditional Yemeni dress under a blazer.

Before the jury began considering the sentence, Mr. Hamdan made an unsworn statement apologizing

to any who were harmed by his acts. Perhaps that was self-serving, the juror said, but the panel was impressed with Mr. Hamdan's actions after the sentence was announced: He stood and apologized again and thanked the jury and judge.

"I thought it was unusual, considering the crimes he was accused of," the juror said. "The reality is, he didn't have to get up at all, he could have just sat there."

Prosecutor John Murphy, an assistant U.S. attorney from Louisiana, sought to equate Mr. Hamdan with Mr. bin Laden's most horrible deeds. "The penalty should be so significant that it forecloses any possibility that he renews his ties with terrorism," Mr. Murphy said.

The jury rejected that premise. Mr. Hamdan may have been guilty of providing support to a terrorist organization, but considering the evidence, "where was his act along the spectrum?" the juror said.

The administration of President George W. Bush maintains it can hold prisoners classified as unlawful enemy combatants, such as Mr. Hamdan, indefinitely. Under this policy, Mr. Hamdan won't necessarily be released when his sentence ends. Rather, the government may decide to continue imprisoning him on grounds that he remains a threat.

The juror said holding Mr. Hamdan past his sentence is acceptable if officials believe it necessary. "You have to trust the government to a certain degree," the juror said. "I would take their word for it, because, yes, I do believe in the government."

Mr. Hamdan's sentence will be up in January, the same month that President Bush leaves office. Asked if the jury intended any message by this timing, the juror seemed amused. "People probably are trying to read too much into it," he said of the panel's decision.

Italy says GDP shrank; focus turns to Germany

BY SOFIA CELESTE

ROME—Italy became the first big euro-zone country to report its economy contracted in the second quarter, raising expectations that Germany and perhaps the euro zone as a whole could follow this week.

The Italian statistics agency Friday reported that gross domestic product shrank 0.3% from the first quarter, which was worse than expected, returning the country to the brink of recession after a narrow escape earlier this year.

"We expect GDP to shrink again in the third quarter, which will therefore characterize the current juncture as a formal recession," said Luigi Speranza, an economist at BNP Paribas.

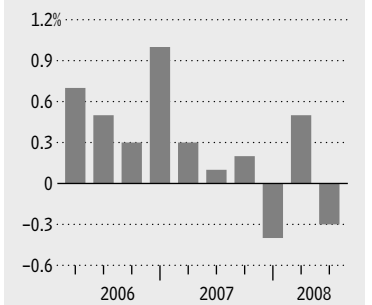
A recession is usually defined as a contraction of GDP for two or more successive quarters.

"You can say that Italy is contributing to the euro zone's negative growth," said Fabio Fois, an economist with Barclays Capital in London. "We are the weakest in the market...but it really depends more on Germany," he said. Germany is Europe's largest economy and accounts for about a third of euro-zone GDP.

German government sources last month told Dow Jones that the economics ministry estimated sec-

Flirting with recession

Italy's GDP contracted in the second quarter—potentially dragging down euro-zone growth



Source: Istat

ond-quarter real GDP may have contracted by 0.75% to 1.5% from the previous quarter.

Germany's industrial production and manufacturing activity slowed sharply this summer.

Germany and France both will report their second-quarter GDP figures Thursday, when the full euro-zone average also will be released.

"We see a high chance of a fully-fledged recession in the euro zone as a whole," Mr. Speranza said.

—Christopher Emsden in Milan and Andrea Thomas in Berlin contributed to this article.

Ex-U.S. candidate admits affair

BY SUSAN DAVIS

Former Democratic presidential candidate John Edwards admitted Friday that he had an extramarital affair after his wife, Elizabeth, had suffered her first bout of cancer. He had previously denied reports of involvement with the former aide.

The admission undermines his ability to continue as a leading figure in the Democratic Party. It isn't clear what role, if any, the couple will play at the Democratic National Convention in Denver later this month.

Mr. Edwards's confession—which was aired in an interview Friday night on ABC News—marks a remarkable fall from grace for the Democratic Party's 2004 vice-presidential nominee. He had been a leading contender for the party's 2008 presidential nomination.

"It is inadequate to say to the people who believed in me that I am sorry, as it is inadequate to say to the people who love me that I am sorry," Mr. Edwards said in a statement. "In the course of several campaigns, I started to believe that I was special and became increasingly egocentric and narcissistic. If you want to beat me up, feel free. You cannot beat me up more than I have already beaten up myself."



John Edwards

Even after Mr. Edwards exited the race in January, he was considered influential enough that Sens. Barack Obama and Hillary Clinton eagerly sought his endorsement. Mr. Edwards endorsed Sen. Obama in May. A spokesman for the Obama campaign declined to comment.

Mr. Edwards has in recent weeks maintained a public profile with a national antipoverty tour. Until recently, he was considered a possible running mate for Sen. Obama or a candidate for a cabinet post such as attorney general if Sen. Obama won the election.

In the ABC interview, Mr. Edwards stressed that the affair began when his wife's cancer was in remission. His marriage was a cornerstone in the narrative that led him to pursue the presidency. The couple's 31st wedding anniversary was July 30.

Elizabeth Edwards became a public figure in her own right following a battle with breast cancer that began in November 2004. The cancer returned in March 2007. Mrs. Edwards has said it is treatable, but not curable.

The tabloid newspaper National Enquirer reported in October 2007 on Mr. Edwards's affair with Rielle Hunter, a 44-year-old film producer hired in 2006 to produce Web videos for the presidential campaign.

The newspaper pursued the story for months, including a December 2007 report that Ms. Hunter was pregnant, and another story last month that Mr. Edwards recently visited her at a hotel in Beverly Hills, Calif.

When previously asked about the Enquirer report, Mr. Edwards repeatedly denied it, at once denouncing it as "tabloid trash."

Mr. Edwards admitted to the affair Friday, but denied that he is the father of the baby. He told ABC that he informed his wife of the affair in 2006, and that the timing of the baby's birth makes it impossible for him to be the father.

"He hasn't taken a paternity test, but said in his statement that he is willing to do so in order to prove he is not the father. A former Edwards aide has claimed responsibility for fathering the child. There is no father's name listed on the baby's birth certificate.

While the National Enquirer assigned seven full-time reporters over a seven-month period to report the story, most major media outlets ignored it, reluctant to report on a tabloid news story or to invest the resources to investigate Mr. Edwards.

But in Mr. Edwards's home state of North Carolina, local papers started reporting on the rumors in the past two weeks and called on the former senator to respond.



Three months after Cyclone Nargis, Myanmar faces deadly food shortages. Above, people transport donated rice to storm-affected areas.

Cyclone Nargis survivors face food crisis in Myanmar

BY A WSJ STAFF REPORTER

YANGON, Myanmar—Almost one million people who survived the deadly cyclone that ripped through this country in May will remain vulnerable to food shortages until the October rice harvest, aid workers here said.

Three months after Cyclone Nargis caused an ocean swell that left 138,000 dead or missing, the waters are yet to fully recede in many villages across the hardest-hit Irrawaddy River delta, the nation's rice bowl.

Some 925,000 people affected by the flooding are still relying on food aid, the United Nations estimates. The U.N.'s World Food Programme, which is coordinating the flow of food from international donors, is scrambling to procure enough supplies in the run-up to the harvest, said Chris Kaye, the program's country director for Myanmar in

Yangon, the nation's largest city.

Myanmar's military rulers initially agreed to let the U.N. procure 20,000 metric tons of rice domestically for distribution in the delta. But in the lean period before the harvest, they decided to halve the amount to ensure enough supplies for other parts of Myanmar, a nation of 52 million people.

That has forced the World Food Programme to import rice at a time of tight global supplies because of export bans from big producers such as Vietnam. The agency is working to make up for the shortfall by importing rice from Thailand and elsewhere but may have to ration supplies during the coming two months anyway.

Aid workers also are concerned about a government decision to stop all U.N. helicopter flights into the delta beginning this week as the recovery effort gathers pace.