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Spanish winemakers are breaking the gender barrier

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Doha talks' collapse hints at an uncooperative future

ECONOMY & POLITICS | PAGE 9

Bristol-Myers makes bid to acquire rest of ImClone

Offer of $60 a share is 40% premium; vindicating Icahn

By Ron Winslow And Sarah Rubenstein

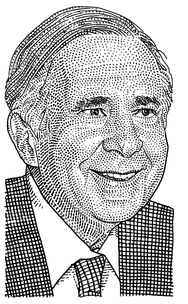
Bristol-Myers Squibb Co. made an unsolicited $4.5 billion offer for the 83% of ImClone Systems Inc. it doesn't already own, a move that could accelerate the integration of biotechnology companies into old-line pharmaceutical makers that are seeking to replenish aging product lines with cutting-edge medicines.

The success of the $60-a-share cash bid hinges largely on the response of financier Carl Icahn, who holds a 14% stake in ImClone. Mr. Icahn has re-energized the biotech company since taking over as chairman in October 2006, pushing out board members and naming a new chief executive.

ImClone shares surged $17.40, or 37%, to $63.84 in late trading on the Nasdaq Stock Market, a sign that investors expect the company to fetch a higher price. Bristol-Myers shares were off 31 cents, or 1.4%, at $21.20 on the New York Stock Exchange.

"I think that the $60 price is probably a reasonable starting point for negotiation," said Patrick Lee, a partner with hedge fund Palo Alto Investors, owner of about 860,000 ImClone shares, or 1% of the shares outstanding.

The offer represented a 40% premium over the average price of ImClone over the past month. Bristol-Myers Chief Financial Officer Jean-Marc Huet called the bid "full and fair" and wouldn't comment on whether the company would raise it. Bristol-Myers said it may sell some or all of its existing stake if the deal doesn't work out.



Carl Icahn

Neither Mr. Icahn nor other representatives of ImClone returned calls seeking comment.

The bid comes comes less then two weeks after Swiss drug maker Roche Holding AG made an unsolicited $44 billion bid for full ownership of biotech affiliate Genentech Inc.

ImClone's sole product is Erbitux, which is used to fight head, neck and colon cancers, and generated revenue of $1.3 billion in 2007. The New York company put itself up for sale in early 2006, when it was valued at about $2.4 billion, but took itself off the market seven months later, unable to fetch a price it wanted. The company said at the time that its prospects were brightening and remaining independent had become a better option.

Mr. Icahn moved to take control of the board two months later.

An acquisition agreement would cap a tumultuous seven-year relationship between the companies. It also would vindicate Mr. Icahn, who has been accumulating ImClone shares for most of the decade, dating back to when the stock was trading in the teens and 20s.

The company's history includes a notorious episode that began just weeks after Bristol-Myers bought its ImClone stake in September 2001, when the U.S. Food and Drug Administration decided not to accept the company's application for Erbitux. The news sent ImClone's shares tumbling, but suspicious stock sales ahead of the FDA decision ensnared founder Sam Waksal and his friend Martha Stewart in an

Please turn to back page

Key players try to resolve feud over TNK-BP

By Andrew Osborn And Guy Chazan

MOSCOW—The bitter shareholder dispute at BP PLC's flagship Russian investment TNK-BP Ltd. has reached an impasse. Publicly, neither side is blinking. Privately, the contours of a potential compromise are emerging, though trust remains wafer-thin.

Two of the main protagonists in the conflict, BP Chief Executive Tony Hayward and Mikhail Fridman, a Russian shareholder in TNK-BP, met in Prague on Wednesday, according to people close to the venture. Further talks are expected in the next week or so.

People on both sides of the dispute say a solution would involve TNK-BP's current chief executive, Robert Dudley, stepping down—a major concession on BP's part. BP continued to back Mr. Dudley as CEO, even after he was forced to leave Russia last week complaining of "sustained harassment," and BP has said he is running the company from an undisclosed location in Central Europe.

But one person close to TNK-BP said BP would be willing to see Mr. Dudley step down in exchange for the right deal. It might also, this person said, be willing to restructure TNK-BP profit-sharing agreements to sweeten the deal for the Russian

Please turn to back page

Associated Press

Pressure builds on Brown as Labour rivals lie in wait

By Alistair MacDonald

LONDON—The economy is slowing. His approval ratings are at a fresh low. His party has been crushed in elections for three Parliament seats in a row.

What, if anything, can U.K. Prime Minister Gordon Brown do to hold onto his job?

In recent days, the British media have stoked increasing speculation that rivals within Mr. Brown's Labour Party could force him to step down as head of the party and relinquish the role of prime minister. The dire political situation could prompt Mr. Brown to take drastic measures such as imposing a new tax on energy-company profits, raising taxes for the wealthy or giving more consumers money to pay soaring energy bills.

Mr. Brown could also try the old standby of reshuffling his cabinet—a move that would signal he is seeking a new direction but, opinion polls suggest, is unlikely to impress voters. Mr. Brown must call a general election where the public will get a chance to vote on him by the first half of 2010 at the latest.

If Mr. Brown takes any steps, they are likely to be before the Labour Party annual conference in late

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What's News—

Business & Finance

Euro-zone inflation rose to 4.1% in July from a year earlier, the highest level since Eurostat began collecting this data in 1997. The U.S. economy grew modestly last quarter. Page 2

■ **Bristol-Myers Squibb** made a $4.5 billion offer for the roughly 83% of ImClone it doesn't own. Page 1

■ **A compromise** may be developing in private in the TNK-BP shareholder dispute, though publicly the two sides have reached an impasse. Page 1

■ **Electricité de France** is expected to announce a bid for British Energy, valuing the U.K. company around $24 billion. Page 3

■ **GMAC reported** a $2.48 billion loss, highlighting troubles facing auto makers and setting the stage for steep losses by GM in its coming report. Page 5

■ **Chrysler Financial was racing** against a Friday deadline to organize $30 billion refinancing of working capital. Page 19

■ **Exxon Mobil posted** record earnings as net rose 14% to $11.68 billion in the second quarter. Shell said its net rose 33% to $11.56 billion. Page 4

■ **Wall Street** is rolling out new futures products as Washington lawmakers attempt to crack down on speculation in food, fuel and metals. Page 17

■ **Economic worries hit** U.S. shares. European stocks eased on disappointing earnings from BT Group and Unilever. Page 18

■ **Europe's telecom** sector hailed some good news, as both France Télécom and Telefónica posted revenue gains in their results. Page 6

■ **Unilever's customers** are responding to price increases by buying fewer products, raising concern it may slip back after years of restructuring. Page 6

■ **Deutsche Bank** said second-quarter net profit fell 64%, hurt by a further $3.6 billion in asset write-downs. Page 19

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11378.02	-205.67	-1.78
Nasdaq	2325.55	-4.17	-0.18
DJ Stoxx 600	283.76	-0.24	-0.08
FTSE 100	5411.9	-8.8	-0.16
DAX	6479.56	+19.44	+0.30
CAC 40	4392.36	-8.19	-0.19
Euro	$1.5603	+0.0042	+0.27
Nymex crude	$124.08	-2.69	-2.12

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World-Wide

Karadzic entered no plea in his first appearance in a Hague court, but he claimed that Richard Holbrooke cut a deal with him in 1996 and then sought to have him killed. The former U.S. envoy denied all of the Bosnian Serb ex-leader's claims. Page 10

■ **Russian President Medvedev** called on authorities to stop harassing companies, seeking to calm market jitters about the nation's investment climate. Page 9

■ **Israeli opposition leader** Netanyahu called for early elections, after Prime Minister Olmert's decision to soon step down under a cloud of corruption charges.

■ **Bush hailed** a new "degree of durability" in security gains in Iraq. A suicide car bomber killed three policemen in Mosul.

■ **Bush's top advisers aren't** immune from congressional subpoenas, a U.S. judge ruled.

■ **The ECB said** it will renew two three-month supplementary refinancing operations of $78 billion each, moving to further calm money markets. Page 3

■ **China will close** over 200 more factories near Beijing and curb traffic further if skies don't clear for the Olympics. Page 10

■ **The IOC's media head** suggested its president acquiesced to Chinese plans to censor Internet access at the Olympics.

■ **The U.S. and Libya are close** to reaching an accord to settle outstanding claims from 1980s terrorism tied to Libya. Page 10

■ **A Thai court convicted** former Prime Minister Thaksin's wife of tax evasion and sentenced her to three years in jail. Page 10

■ **China condemned** a U.S. House resolution criticizing its human-rights record, in a sign of diplomatic tensions ahead of Bush's Olympic visit. Page 11

■ **Sudanese President al-Bashir** said he will never deal with or appear before the International Criminal Court, where he faces charges of genocide in Darfur.

■ **Saturn's moon Titan contains** liquid hydrocarbons, making it the only body in the solar system besides Earth known to have liquid on its surface, NASA said.

Editorial & Opinion

Inside Olmert's mind

Could the Israeli PM actually be trying to stay in office by resigning his office? Page 13

THE WALL STREET JOURNAL.

LEADING THE NEWS

U.S. growth limps ahead

Economic stimulus, exports provide lift; job market weakens

BY KELLY EVANS AND SUDEEP REDDY

The U.S. economy grew modestly in the second quarter after a weak performance at the end of last year, revealing a pattern of choppy growth characterized by a weakening labor market and financial crises that are spooking consumers and businesses.

Economic stimulus payments to American consumers, along with strong export growth due to the weak dollar, helped gross domestic product grow at a 1.9% annualized rate, following a low 0.9% pace in the first quarter. The government, in revised data, said the economy contracted a slight 0.2% in the final three months of 2007, raising the prospect that a recession may have begun during that period.

"It's quite remarkable that we're still managing to get some growth," said Wachovia Corp. economist Mark Vitner, "[but] the fourth quarter and the first quarter of next year are going to be very challenging."

The employment picture continues to dim, with separate data released Thursday showing that new claims for unemployment benefits jumped by 44,000 last week to a seasonally adjusted level of 448,000, the highest in five years. Though special factors boosted the count, the underlying trend points to further deterioration in the labor market.

The government's July employment report, which will be released Friday, is likely to show the seventh consecutive month of job losses and perhaps another rise in the unemployment rate, currently at 5.5%.

The labor market is a key engine of economic growth, and its weakening is threatening the growth outlook into next year. Workers who are laid off cut back on buying major goods and services, forcing the companies that make those products and offer those services to cut their own operations.

Job market weakness is also restraining wage growth, even as consumer prices are on the rise. A separate Labor Department report Thursday showed that labor costs rose 0.7% during the second quarter. Compared with a year earlier, employee compensation rose 3.1% in the second quarter, after increases of 3.3% in each of the previous four quarters.

The decelerating wage growth, the lowest in two years, should relieve some pressure on the Federal Reserve to raise interest rates as inflation rises sharply. Most officials are watching wage growth closely for signs that rising overall inflation, driven largely by spikes in energy and food prices, is taking root through spiraling wage and product prices.

The Fed's policy committee is expected to keep its interest-rate target unchanged at 2% when it meets on Tuesday. For now, most officials, while concerned about rising inflation, are more worried about continuing trouble in the financial sector and its potential to weaken growth even more, through a pullback in bank lending. Fed officials expect growth to be slow in the coming months before picking up next year, and as a result, many forecasters expect the Fed will keep rates unchanged at least through the end of this year.

But while restrained employment costs are helpful for keeping inflation in check, stagnant wages could further curb consumer spending in the months ahead. Consumer spending has slowed but been surprisingly resilient over the past year; many now worry that it could slow sharply. "It's going to be a frugal future," said David Rosenberg, an economist at Merrill Lynch.

The deteriorating labor market is just one of several factors that could threaten economic growth in the coming months. The declining gross domestic product in the fourth quarter of 2007 suggests that a U.S. recession could have begun around the end of last year, even though the National Bureau of Economic Research, the nonprofit group that dates recessions, will likely not issue a verdict for many months.

"It comes down to four variables," Mr. Rosenberg said, that include employment, industrial production, inflation-adjusted personal income and inflation-adjusted sales to manufacturers and retailers. "Those are the four defining factors ... and with all deference to GDP, all four of these variables peaked sometime between October and February." Mr. Rosenberg said the recession likely started in January and could continue through the middle of next year.

The common rule of thumb for recessions is two consecutive quarters of contraction in GDP, although the 2001 recession, which lasted from March until November of that year, included two quarters of GDP contraction that weren't consecutive.

The length and character of the current slowdown will depend largely on what happens to the U.S. economy over the next six to 12 months. Growth toward the end of this year, when the boost from the government stimulus checks fades, looks particularly vulnerable.

"The real risk in my opinion is that we're more likely to experience recession in the second half of the year," said Bernard Baumohl, managing director of The Economic Outlook Group LLC in Princeton, N.J. "The reason is that the only sector of the economy that has kept the U.S. out of recession has been exports ... were it not for trade, this economy would have [already] shrunk and been in recession."

Euro-zone data paint grim picture of economy

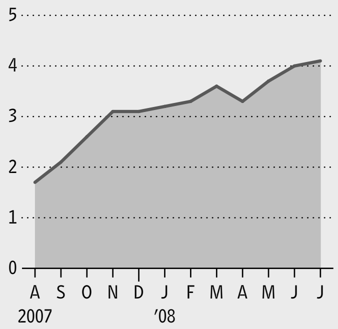
BY JOE PARKINSON AND EMMA CHARLTON

LONDON—The run of bad news from the euro-zone economy continued Thursday as consumer prices hit a high and the labor market showed signs of weakening.

Eurostat, the EU statistics agency, reported that the flash estimate for euro-zone inflation rose to 4.1% in July from a year earlier, up from June's annual pace of 4%. That is the highest level since Eurostat began collecting this data in 1997 and is more than twice as high as the European Central Bank's preferred medium-term range of "below, but close to" 2%.

Costs climb

Euro zone's consumer-price index, year-to-year percentage change



Source: Eurostat

Separate data showed the euro zone's seasonally adjusted jobless rate held steady at 7.3% in June from May's upwardly revised figure, but economists said hiring is likely to slow sharply as the impact of the global credit crunch takes its toll on the region's economy.

"The euro zone is living through a summer of misery," said Holger Schmeiding, an economist at Bank of America.

"A plunge in leading indicators is forcing even the more sanguine observers to concede that a technical recession, two consecutive quarters of declining [gross domestic product], can no longer be ruled out," he said.

The combination of rising prices alongside slumping demand and a weakening labor market has raised recession risk in the euro zone this summer, even as the U.S. economy shows early signs of improving health. The same combination underscores the dilemma faced by the European Central Bank.

ECB rate setters are concerned that the current rate of inflation will prompt workers in the euro zone to push for higher wages, which in turn could push prices up even more.

But most economists think the central bank will leave interest rates on hold this year, allowing time for the slowdown in demand and retreating commodities prices to whittle down inflation.

The preliminary inflation data provided no breakdown of which prices are rising most rapidly, but it is likely that higher energy prices are to blame. Economists said that with energy prices now declining, July's data could mark the peak of this inflation cycle.

"Price pressures should begin to moderate already next month, but a more decisive deceleration won't occur before the first half of next year," said Aurelio Maccario, an economist at UniCredit Bank.

A breakdown of the employment data showed a marked divergence between the euro zone's core and periphery. The jobless rate continued to rise in Ireland, Latvia and Spain, where it hit a four-year high. By contrast, the rate in Germany edged down, and in France it held steady.

But economists warned that hiring in the euro zone is set to slow significantly as the impact of sliding demand and sinking confidence hits the region.

"Over the next couple of months, the recovery of the labor market, which is a lagging indicator of economic activity, will likely come to an end," said Martin Lueck, an economist at UBS.

The euro zone's jobless rate has declined steadily from 9% in early 2005, as the currency bloc's economy has strengthened. It stood at 7.4% in June of last year.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

EDF-British Energy deal expected

French firm to offer about $24 billion; nuclear growth likely

BY DAVID GAUTHIER-VILLARS AND DANA CIMILLUCA

PARIS—**Electricité de France** SA is expected to announce Friday a bid for **British Energy Group** PLC that values the U.K. power company at £12 billion, or about $24 billion, people familiar with the matter said, in an attempt by the two to reach a compromise after five months of bargaining.

The French bid—which EDF's board sanctioned Thursday and which was expected to be approved by British Energy's board later in the day—is aimed at bridging the gap between EDF's conservative valuation of British Energy and the growing expectations of the U.K. company's shareholders. There is no guarantee the deal will be announced Friday and the timetable could still slip, another person said.

EDF will give British Energy shareholders a choice, the people familiar with the matter say. The French company will give shareholders the option of tendering their stock against a full-cash offer valued at about 765 pence a share. Alternatively, shareholders will have the option of handing over their shares in exchange for about 700 pence in cash per share, plus a certificate pegged to the performance of the company over the next 10 years.

The certificates will trade publicly with a value of about 65 pence each at the start. After a decade, holders will be entitled to receive cash payment contingent on British Energy's output and the level of power prices, these people said. "If British Energy shareholders believe their company has great potential, they can retain exposure by opting for the second offer," said a senior EDF official.

As talks between EDF and British Energy intensified over the past five months, the price became a central issue. The French government kept EDF on a tight leash for fear it would overpay. On the other side of the Channel, however, British Energy shareholders have said they remain determined to get the best out of their asset. If the bid goes through, EDF will sell a 25% interest in British Energy to U.K. utility **Centrica** PLC for about £3 billion, the people familiar with the situation said. This deal could be sealed as early as Friday, one of the people added.

EDF said it would hold a press conference Friday, but didn't specify the topic. British Energy has said it was in advanced discussions with one suitor. Centrica didn't return calls seeking comment.

British Energy is considered a prize asset because the government—which holds a 35% stake in the company—has said it is willing to revive the country's nuclear industry. The company owns industrial premises on which new nuclear-power plants could be built. Yet several suitors dropped out of the race for British Energy because buying the company implies taking over a fleet of aging reactors with a weak operating track record.

EDF executives have said they believe the French company has the expertises needed to improve British Energy's operation. EDF, which operates 58 nuclear reactors in France, is eager to participate in Britain's nuclear renaissance and aims to build four or five 1,600-megawatt reactors in the U.K.

TDK to acquire Germany's Epcos for $2.18 billion

BY KENNETH MAXWELL

TOKYO—Japanese components maker **TDK** Corp. said it will buy German electronic-parts maker **Epcos** AG in a deal valued at €1.4 billion ($2.18 billion) as it seeks critical mass in a sector that is crowded, but caught in a squeeze between falling prices and the slowing global economy.

The ambitious deal means TDK becomes the latest cash-rich Japanese company to splash out on overseas acquisitions to secure growth as the domestic economy flags.

TDK, better known for the magnetic-tape business it sold last year, said it will pay €17.85 per Epcos share, a 52% premium on Epcos's average closing share price over the past three months.

"We think the [acquisition] price is appropriate, given expected synergy and the potential of future growth," TDK President Takehiro Kamigama said.

The purchase is the largest acquisition by a Japanese company in the electronics sector so far this year and the third biggest of all time, according to data from Thomson Reuters.

It brings the overall price tag for overseas acquisitions by Japanese companies so far this year to an eye-popping $31.5 billion, the data provider said—more than double the amount paid out in the same period of 2007.

Analysts said they are concerned that TDK may be rushing into a deal with little apparent overlap in part because its deterioration in earnings may be forcing it to seek leadership in a fragmented sector populated by many midsize players.

Citing a steep slide in price and the strength of the yen, TDK Thursday reported net profit in its fiscal first quarter ended June plunged to 4.45 billion yen ($41.2 million) from 16 billion yen a year earlier.

"Investors are wondering how [TDK and Epcos] would create synergy," said one Tokyo analyst.

While Epcos essentially makes parts used in electronics system in autos, Tokyo-based TDK is now focusing on parts that read and write data on computer disk drives.

"It's unclear how much growth potential Epcos has," the analyst said.

TDK sales for the quarter fell 7.8% to 190.62 billion yen from 206.7 billion yen.

ECB will renew two operations for refinancing

BY MONICA HOUSTON-WAESCH

FRANKFURT—The European Central Bank Thursday said it would renew two three-month supplementary refinancing operations of €50 billion ($78 billion) each, to build on progress in calming money-market tensions.

The decision renews two extra three-month operations that mature on Aug. 14 and Sept. 11, respectively. The first renewal will be settled on Aug. 14 and mature on Nov. 13, and the second will be settled Sept. 11 and mature on Dec. 11.

On Wednesday, the ECB said it would widen the scope of its dollar tenders in conjunction with the U.S. Federal Reserve.

CORPORATE NEWS

AEROSPACE

Safran to sell mobile unit to Sofinnova as net sinks

Safran

DIVERSIFIED aerospace-equipment maker **Safran** SA said it will sell its unprofitable mobile-phone unit to **Sofinnova**, a French venture-capital company specialized in high technology, as it posted a 27% drop in first-half earnings.

Net profit fell to €156 million ($243 million) from €215 million in the year-earlier period, chiefly because of losses at the mobile-phone unit, Sagem Mobile. Revenue increased 2.8% to €5.06 billion.

Safran is effectively paying Sofinnova to take the business off its hands. Sagem Mobile will be renamed Sagem Wireless, and Safran will retain a 10% stake in the company.

—David Pearson

STEEL

Arcelor makes proposal for southern Iraq facility

ArcelorMittal

ARCELORMITTAL submitted a proposal to rehabilitate a big steel facility in southern Iraq, Iraq's Minister of Industry and Minerals Fawzi Hariri said.

The facility in Basrah, Iraq's second-biggest city, will require between $500 million and $1 billion to upgrade and possibly expand following looting and damage in the aftermath of the U.S.-led war in 2003. Luxembourg-based ArcelorMittal wasn't available to comment.

So far, the attention of foreign investors looking to operate in Iraq has focused on oil companies, because of the country's huge proven reserves.

—Spencer Swartz

AIRLINES

Lufthansa cancels flights, but Games stay a priority

Associated Press

TRAVELERS destined for the Olympics are a top priority for **Deutsche Lufthansa** AG, the airline said, after it canceled 28 more international flights as a walkout by ground crew entered its fourth day. A spokeswoman said flights into Beijing had the highest priority this weekend; the 2008 Beijing Olympics start Aug. 8.

On Thursday, the airline canceled 128 flights, or about 6% of its total capacity. So far, though, the spokeswoman said, no flights to Beijing have been canceled.

The Verdi union and Lufthansa also held informal talks Thursday to try to end the strike.

—A WSJ Roundup

Shell reports 33% profit increase

Oil prices fuel jump; capital investment expected to rise 50%

BY BENOÎT FAUCON
London

ROYAL DUTCH SHELL PLC posted a 33% rise in second-quarter net profit as the sharp rise in oil prices more than offset production lost from unrest in Nigeria and higher costs in its refining operations.

The Anglo-Dutch company, one of the world's largest oil majors, also said Thursday it would plow much of the cash into acquisitions and new projects, announcing the largest investment target in its history, totaling as much as $36 billion in 2008.

The investment program—larger than the gross domestic product of Azerbaijan last year—follows similar moves by other oil majors and comes as consumers have been blaming a lack of investment in new production for the high oil prices.

Shell posted a net profit of $11.56 billion, or $1.87 a share, up from $8.67 billion, or $1.38 a share, a year earlier.

The rise reflected how booming oil prices have been boosted by a range of global factors, including tensions between Iran and the West. They have more than offset the continued disruptions in Shell's Nigerian operations, where attacks in the restive African country cost Shell about 195,000 barrels of oil a day in the quarter, similar to year-earlier levels.

The company's revenue totaled $131.42 billion in the quarter, up 55% from $84.9 billion.

Total oil and natural-gas production was down 1% to 3.05 million barrels of oil equivalent a day, from an average of 3.09 million barrels of oil equivalent a day a year earlier. The numbers exclude Canada's oil-sands production.

But overall, "this is another set of competitive earnings for Shell shareholders. Good operating performance, combined with increased oil and gas prices, offset the impact of weaker downstream conditions in the second quarter," Chief Executive Jeroen van der Veer said in a statement.

At a news conference, the CEO moved swiftly to fend off calls for a windfall tax, saying the company needed the cash to pump more crude for oil-thirsty markets. "We are making very large profits; I know that. But we are making very large investments," Mr. van der Veer said.

The company said net capital investment for the full year is expected

Second-quarter net profit at Italian oil company Eni jumped 52% to $5.36 billion.

to be in the range of $35 billion to $36 billion, about 50% more than a previous forecast and the level in 2007. The new estimates include a 5.9 billion Canadian dollar (US$5.77 billion) takeover bid for Canadian natural-gas producer **Duvernay Oil** Corp. and recent acquisitions of exploration sites around the world amounting to the size of the Netherlands.

Crude-oil prices climbed steadily through the first half of the year, reaching a record at $147 a barrel in July. More recently, prices have been falling, with crude trading down $2.69 a barrel at $124.08 Thursday on the New York Mercantile Exchange.

High oil prices also boosted earnings at Italian oil company **Eni** SpA, which said Thursday that second-quarter net profit jumped 52% to €3.44 billion ($5.36 billion) from €2.27 billion a year earlier. The earnings were also lifted by higher output after a round of acquisitions. Net sales rose 37% to €27.11 billion from €19.78 billion.

Eni indicated that its shopping spree, totaling more than €9 billion since 2007, isn't over as it considers buying out a Spanish joint venture.

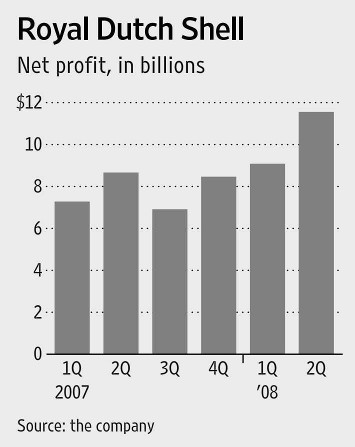
The Rome-based company is looking at the equally owned natural-gas venture it has with Spain's **Union Fenosa** SA, as it holds a preemptive right to it, Eni Chief Executive Paolo Scaroni said in a conference call with reporters. The Union Fenosa gas venture accounts for about 15% of the Spanish natural-gas market, providing Eni with a strategic toehold in Spain.

Spain's **Gas Natural SDG** SA agreed Wednesday to buy a large stake in Union Fenosa and said it would later make a bid for the rest of the company. Eni expects to enter talks with Gas Natural in September over the venture, Mr. Scaroni said, adding that the company "might trigger" the preemptive right for change of ownership.

Meanwhile, Spanish-Argentine oil company **Repsol YPF** SA said its second-quarter net profit rose 11% to €905 million from €818 million a year earlier, as high oil prices compensated for exchange-rate-related losses. Net operating income grew 19% to €16.73 billion.

—Liam Moloney, Bernd Radowitz and Alex MacDonald contributed to this article.

Shell



Exxon Mobil posts record $11.68 billion net

BY ISABEL ORDONEZ

Exxon Mobil Corp. posted a 14% increase in second-quarter profit, boosted by high oil prices that more than offset a significant drop in production and weak refining earnings.

The world's largest publicly traded oil company said its net income rose to $11.68 billion, or $2.22 a share, from $10.26 billion, or $1.83 a share, a year earlier. Per-share earnings were helped by Exxon's continued repurchasing of its stock. The latest quarter included a $290 million, or five-cent-a-share, tax charge from a Supreme Court decision on the 1989 Valdez oil spill.

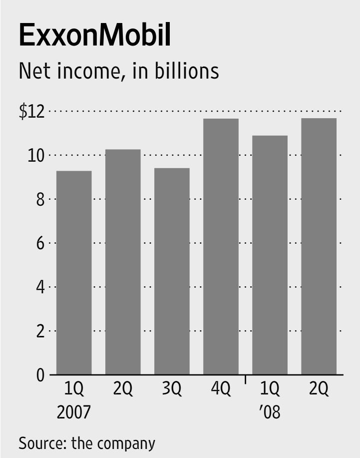
The Texas company once again set the standard for the highest quarterly profit of any U.S. company, breaking its own record for net income of $11.66 billion from the fourth quarter.

But net income missed Wall Street expectations. The mean estimate of analysts surveyed by Thomson Reuters was for earnings of $2.52 a share. Revenue increased 40% to $138.07 billion, but analysts were expecting $144.39 billion.

Exxon shares were down $2.98, or 3.5%, to $81.40 in afternoon trading Thursday on the New York Stock Exchange.

Record oil prices continued to bolster Exxon's bottom line, extending a string of profitable quarters for the industry as a whole.

Exxon reported an 8% drop in production, with the loss of Venezuelan operations last year, a Nigerian labor strike and the effects of production-sharing contracts accounting for much of the decline. Profit in the refining segment fell 54% as the price of gasoline and other products didn't keep pace with the price of oil. Earnings in the chemical industry were down 32%, also on margin declines.



"These results are much lower than expected and put a lot of pressure on the company's management to do something," said Fadel Gheit, an analyst with Oppenheimer & Co. "They will either have to make an acquisition or to boost their share-buyback program."

Exxon continued its ambitious stock-repurchase plan, spending $8 billion to reduce outstanding shares by 1.7% in the quarter.

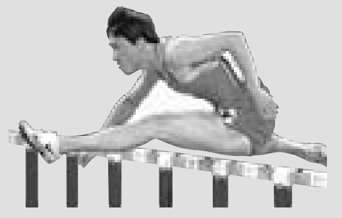
Exxon spent $7 billion on capital and exploration projects, a 38% increase, as it looks to find more oil and more alternatives to oil.

—David Benoit contributed to this article.

Marketplace

Main event

Sports marketer IMG scores an exclusive deal in China > **Page 27**



CORPORATE NEWS

Chrysler chases partners

Talks with Tata, Fiat come amid cost cuts and a decline in sales

By Neal E. Boudette And Jeff Bennett

Amid a drop in sales and negative outlook, Chrysler is considering a host of **cost-cutting moves**, including alliances with foreign auto makers and early-retirement packages.

Chrysler LLC is scrambling to slash costs and line up partnerships with foreign auto makers to shore up its finances amid a painful downturn in sales and a deteriorating outlook for the company, people familiar with the matter said.

In recent weeks, the auto maker has had discussions with **Tata Motors** about having the company sell and possibly assemble Jeeps in India, these people said.

Separately, Chrysler has had talks about leasing one of its U.S. plants to produce cars for Italy's **Fiat** SpA, they said. Chrysler has been exploring alliances since it was acquired a year ago by **Cerberus Capital Management** LP, and has mapped out a deal to make trucks for **Nissan Motor** Co. Both sets of talks are preliminary and may not lead to deals, these people said.

In the wake of the deep downturn in its U.S. vehicle sales in the past few months, Cerberus has become more concerned about Chrysler's ability to turn around on its own and has stepped up efforts to reach out to foreign car companies, these people said. The talks with Tata and Fiat, news of which were reported by Reuters on Wednesday, are taking place in parallel discussions with other auto companies, they said.

At the same time, Chrysler is tightening spending and rethinking some development projects, people close to Chrysler said. One now under scrutiny is an effort to produce a new, fuel-efficient V6 engine, they said. With gas prices at $4 a gallon and car-buyers flocking to four-cylinder models, Chrysler is reconsidering how many of these so-called Phoenix engines it will need in the future, they said. The company has plans to make the Phoenix engine in three plants.

A Chrysler spokeswoman declined to comment on the company's plans for the Phoenix engine.

At the same time Chrysler has started exploring whether other auto makers would be interested in using part of a Dundee, Mich., plant that makes four-cylinder engines, people familiar with the matter said.

In other cost-cutting moves, Chrysler is preparing to offer early retirement packages for salaried employees, possibly as early as August, people familiar with the matter said. The offers are part of an effort to trim its white-collar work force by 1,000.

Disney rides theme parks to a 9% rise in net profit

By Peter Sanders

Disney's theme parks and resorts **remain strong** despite a weakened U.S. economy.

Walt Disney Co. continued to fend off the bad economy with fiscal-third-quarter net income that increased 9% from a year earlier, thanks to the continued health of its theme parks and cable networks and the help of one-time gains.

Disney's parks and resorts unit has been closely watched for signs that it has been hit by high gasoline prices, the housing downturn or other elements of the sluggish economy. Yet despite a few signs of stress, the business remained strong, with the parks and resort unit's revenue up 5% to $3.04 billion.

For the quarter ended June 28, Disney reported net income of $1.28 billion, or 66 cents a share, compared with $1.18 billion, or 57 cents, a year ago. Revenue increased 2% to $9.24 billion. The results included gains from the acquisition of the Disney Stores and the sale of Movies.com, which contributed four cents to the quarter's earnings per share. Analysts polled by Thomson Reuters had expected the entertainment company to report 61 cents a share, but their estimates didn't include the one-time gains. Excluding those, Disney still narrowly beat Wall Street's expectations.

The company said attendance at its U.S. resorts was off a bit from last year because this year's busy Easter holiday fell during the previous quarter. At the Disneyland Resort in California, both hotel occupancy and per-capita spending were down slightly from last year, but higher nightly room rates at the hotels helped offset the decline. Per-capita spending at Walt Disney World in Florida was up 3%, while hotel occupancy, at 92%, was down 1% from the year-earlier period.

"We aren't immune to the challenging economy but we continue to be pleased with the level of business activity we've seen so far," Chief Executive Bob Iger told analysts.

GMAC posts quarterly loss as lease business turns sour

By Sharon Terlep

Financial giant **GMAC** LLC reported a $2.48 billion net loss for the second quarter amid a dramatic reversal of fortune in its auto-financing business, underscoring the deep trouble facing U.S. auto makers and setting the stage for **General Motors** Corp. to report a massive loss of its own Friday.

A year ago, GMAC, which is owned by GM and **Cerberus Capital Management** LP, reported net income of $293 million on the strength of its auto-financing operations. It has been relying on auto-financing profits to soften the blow of losses in a home-mortgage unit that has lost billions of dollars on subprime home mortgages. But in the second quarter, GMAC's auto business lost $717 million, mainly because high gasoline prices have depressed the value of used trucks and sport-utility vehicles and turned leases on them into loss makers. A year ago, GMAC's auto business had net income of $395 million.

After GMAC reported its earnings, Standard & Poor's cut its credit rating on the lender as well as its ratings on GM, **Ford Motor** Co. and **Chrysler** LLC, and their financing units, Ford Motor Credit and Chrysler Financial.

The agency cut all the ratings one notch to single-B-minus, which is six notches below investment grade. S&P warned it would consider further downgrades if U.S. light-vehicle sales drop below 14 million units this year or next, or if higher gasoline prices lead to an even more substantial decline in light-truck demand.

During a conference call, S&P also said it would consider downgrading Ford and GM further if cash levels dropped below $15 billion or total liquidity fell below $20 billion. On June 30, Ford's gross cash reserves stood at $26.6 billion. GM had total cash and marketable securities of $23.2 billion on March 31.

Many auto makers—including **Toyota Motor** Corp. and **Nissan Motor** Co. as well as the Big Three—are racking up losses or reporting declining earnings in North America because of a steep drop in overall vehicle sales in the U.S. this year. They are also being hurt as high fuel prices spur consumers to opt for small cars and to shun trucks, which the car companies depend on for big profits.

As a result, auto leasing has turned into a trouble spot. In leasing deals, companies such as GMAC buy cars and essentially rent them to customers. After the leases expire, they sell the vehicles as used. Used trucks and SUVs now sell for so little the leasing companies lose money on them.

GMAC's auto-financing loss included a write-down of $716 million related to unprofitable leases. The company said it recovered only 75% of the expected returns from SUV leases in June. Earnings in its home-mortgage unit, ResCap, also worsened, rising to a net loss of $1.86 billion, compared with a loss of $254 million in the same quarter a year ago.

GMAC's loss suggests GM had a dismal second quarter. The same economic conditions weighing on GMAC—plunging home values, shaky consumer confidence, a credit crunch and sinking U.S. auto sales—will weigh on GM's financial results.

—Neal E. Boudette contributed to this article.

Telecoms dial up revenue

FT, Telefónica boast growth even as net moves sharply lower

BY JETHRO MULLEN AND JASON SINCLAIR

France Télécom SA and **Telefónica** SA on Thursday gave some solace to the European telecommunications sector as both companies reported steady revenue growth in spite of significant drops in earnings due to year-earlier gains.

The French company said first-half net profit fell 19% to €2.68 billion ($4.17 billion) from €3.31 billion a year earlier, when it had benefited from deferred tax assets in France and a change in the income-tax rate in the U.K.

Its revenue for the latest period rose 1.5% to €26.30 billion, compelling the company to announce it will pay its first interim dividend in September.

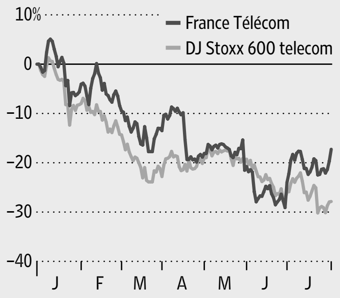
At Telefónica, second-quarter net sank 20% to €2.06 billion from €2.57 billion, while revenue increased 1.2% to €14.25 billion. Last year's earnings were boosted by the sale of U.K. radio operator Airwave, from which it gained a total of €1.3 billion in 2007.

The French and Spanish telecommunications markets were under scrutiny by investors after being singled out as weak spots last week, when U.K. mobile company **Vodafone Group** PLC forecast full-year revenue at the low end of its previous outlook.

However, France Télécom, whose operations stretch from the U.K. to Madagascar, still expects revenue to grow 2% to 3% in 2008 on a

Telecom sector

Year-to-date performance of France Télécom vs. the Dow Jones Stoxx 600 telecom index



Source: Thomson Reuters Datastream

like-for-like basis—despite an expected second-half slowdown in some markets, said Chief Financial Officer Gervais Pellissier. The company also said it will pay an interim ordinary dividend of 60 European cents a share on Sept. 11—a practice it said it will continue every year from now on.

Investors responded favorably to the results and dividend pledge and France Télécom shares rose 3%, or 59 cents, to €20.37 in Paris, as the CAC-40 index declined.

Shares in Madrid-based Telefónica, Spain's largest telecom company, firmed seven cents to €16.73, after losing 5.6% of their value in a single day last week, when Vodafone reported a steep decline in mobile revenue in Spain.

Telefónica avoided a significant slowdown, with mobile-service revenue up 0.5% to €2.13 billion, excluding handset sales. Total revenue in Spain rose 0.8% to €5.20 billion. But in the U.K., another major market, total revenue fell 4.8% to €1.74 billion.

The company is undergoing a restructuring program as it makes cuts in its shrinking domestic wireline business and refocuses on mobile telephony and high-speed Internet. By the end of June, Telefónica had 182.7 million world-wide mobile customers—54% more than a year earlier. Brazil, Mexico, Peru and Germany were the countries that picked up the most new mobile clients, the company said.

The total number of broadband customers rose 25% to 11.5 million as the company moved current Internet users to high-speed connections and added new ones. Telefónica said it had 245.1 million customers world-wide at the end of June, 15% more than a year earlier.

U.K.-based **BT Group** PLC also reported earnings on Thursday, saying net in its fiscal first-quarter ended June 30 sagged 35% to £397 million ($786.6 million) from £607 million a year earlier—largely the result of the company's share-buyback program. Revenue increased 2.9% to £5.18 billion.

However, BT also said that free-cash outflow had soared to £734 million from £152 million a year earlier, and that its pension deficit as of June 30 was £600 million, including tax, compared with a surplus of £2 billion at the end of March. The company warned that margins on earnings before interest, taxes, depreciation and amortization in its BT Global Services, one of its key businesses "may fall slightly in 2008/2009 in part due to currency movements."

BT shares tumbled 12% to 173.90 pence in London, while the FTSE-100 index eased.

—Erica Herrero-Martinez contributed to this article.

Sanofi's profit and sales decline

BY ELENA BERTON

Sanofi-Aventis SA reported lower quarterly earnings and sales, hit by the weakness of the U.S. dollar, and said some drugs have been withdrawn from trials.

Meanwhile, for rival **AstraZeneca** PLC, which reports its results in dollars, the currency's weakness proved a boon. Its quarterly net profit was up 14%, also helped by strong sales of the cholesterol drug Crestor.

France-based Sanofi-Aventis said second-quarter profit fell 10% to €1.01 billion ($1.57 billion) from €1.13 billion a year earlier.

Total sales fell 3.6% to €6.69 billion as negative effects from the weak dollar offset growth in sales of the blood thinners Lovenox and Plavix, the diabetes treatment Lantus and vaccines.

Sales of Lovenox, the company's top-selling drug, grew moderately to €637 million, slowed down by wholesaler stocking in the U.S. and product shortages in Europe.

Shares in Sanofi-Aventis were down €2.23, or 4.7%, to €45.07 on Thursday. The drop came despite the fact that the company slightly raised its full-year earnings forecast thanks to cost cuts. It said it now expects adjusted earnings per share to rise about 8% in 2008, up from a previous outlook of 7%.

Turning to its pipeline of experimental drugs, Sanofi-Aventis said it filed for the heart treatment Multaq with regulators in the U.S. and Europe at the end of June, after a recent study suggested Multaq can reduce the risk of death in patients with a heart condition known as atrial fibrillation, or irregular heartbeat. The drug maker previously said it planned to resubmit the drug, which the U.S. Food and Drug Administration rejected in 2006, by the end of September.

However, two antidepressants—amibegron and SSR149415—and two cardiovascular drugs were discontinued. Sanofi-Aventis said the

AstraZeneca raised its 2008 forecast for core earnings per share by 15 cents.

decision to submit another antidepressant, saredutant, to regulators will depend on the results of two studies, due to be completed in the first half of 2009.

Deutsche Bank analyst Michael Leuchten said that while the discontinued products account for only about 1% of his revenue forecasts for 2012, as more late-stage drugs are discontinued, the coming patent loss of Sanofi-Aventis's blockbuster products is turning more threatening.

In contrast to Sanofi-Aventis's lackluster earnings, U.K.-based AstraZeneca said net profit increased to $1.62 billion in the second quarter from $1.43 billion a year earlier.

Total sales were up 9.4% to $7.96 billion, as growth of 35% in Crestor sales to $916 million offset a weaker performance of the top-selling heartburn drug Nexium.

AstraZeneca raised its 2008 forecast for core earnings per share by 15 cents, to a range of $4.60 to $4.90, partly because of the benefits brought by the weaker dollar. Core earnings exclude restructuring costs and charges related to last year's purchase of the U.S. biotech company MedImmune.

The company's stock was up 3.3% to £24.68 ($48.90).

Smaller U.K. drug maker **Shire** Ltd. reported a narrower second-quarter net loss of $79 million, compared with a loss of $1.81 billion a year earlier, as sales rose 35% to $776 million from $574.9 million. The company was still in the red because of acquisition-related charges.

Shire said sales were boosted by recently launched products—such as Lialda, a treatment for ulcerative colitis, and the genetic therapy Elaprase—as well as the flagship hyperactivity drug Adderall XR. The company said it expects full-year sales growth of at least 20%, up from a previous forecast of mid- to high-teens growth.

Unilever's earnings fall as price rises hurt sales

BY AARON O. PATRICK

For at least six months, **Unilever** has been steeply raising its prices on food, shampoo and other items. Consumers are starting to push back.

The consumer-goods giant Thursday reported that the number of products it sold slipped 0.5% in the second quarter from a year earlier. Unilever raised the average price of its thousands of products 7.4% during the quarter, driving many customers away.

Patrick Cescau

While the price increases helped compensate for the lower sales volumes and kept up the company's overall revenue, investors are worried the decline could mean the company is slipping after years of painful restructuring. Unilever shares fell 8.1% to £13.88 ($27.50) in London trading Thursday. Based in London and Rotterdam, Unilever makes such products as Lux soap, Hellmann's mayonnaise and Ben & Jerry's ice cream.

Second-quarter net profit fell 21% to €909 million ($1.42 billion) from €1.14 billion a year earlier on currency changes and asset sales. The result was in line with analysts' forecasts. Revenue fell 1% to €10.4 billion from €10.5 billion.

Chief Executive Patrick Cescau said the company's strategy of focusing on developing markets, paring its portfolio and introducing healthier foods is working. He said he didn't plan to make any major changes, including reversing price increases, although he may be "tweaking a little bit of tactics."

The company may introduce cheaper lines and look for ways to lower its costs on products. For example, making more low-fat margarines requires less vegetable oil, removing a major cost. "We help you with your diet, and you help us with our margins," Mr. Cescau said.

Like other big European food companies, including **Cadbury** PLC, **Groupe Danone** SA and **Nestlé** SA, Unilever has passed on higher commodity prices to consumers. But it seems to have been punished more severely. In the second quarter, yogurt maker Danone increased prices around 6% and still sold more products, with sales by volume rising 2%. Some analysts say Unilever is in a tougher position than its rivals because of its heavy use of plastic, which is made from oil products, and rapeseed, sunflower and palm oil, which are rising faster than many other commodities.

SABMiller posts weak sales on slowing global demand

BY DAVID KESMODEL

Beer giant **SABMiller** PLC reported weaker sales in its fiscal first quarter, hurt by the shaky U.S. economy and slowing demand in other markets.

SABMiller, the world's largest brewer by volume, said world-wide beer shipments fell 1.6% in the quarter ended June 30, excluding sales at brewers acquired within the past year. A year earlier, the London beer maker posted 13% volume growth.

Shares of SABMiller fell 54 pence in London to £10.49 ($20.84).

Sales volume at Miller Brewing, the company's U.S. arm, slid 2%, including a 1.6% decline for flagship brand Miller Lite.

Sales volume in China fell 5%, reflecting lower demand because of significant price increases, as well as the Sichuan earthquake in May. Volumes fell 10% in the Czech Republic and 4% in Colombia as higher prices curbed demand. Beer makers have been raising prices to offset higher costs for raw materials such as barley and glass.

SABMiller, the brewer of Pilsner Urquell, Grolsch and Cristal, did not release profit figures. The brewer only reports those numbers at the end of each half-year.

The company's U.S. arm continues to face "a difficult economic environment," and consumer spending has been weak in the Midwest, a stronghold for the brewer, said **MillerCoors** LLC spokesman Julian Green. Miller's U.S. unit merged with that of Molson Coors Brewing Co. on June 30, forming MillerCoors.

One problem SABMiller faced in the latest quarter is that its so-called economy brands, such as Milwaukee's Best Light, aren't as popular as **Anheuser Busch** Cos.' Busch Light and Natural Light products, said Benj Steinman, editor of industry newsletter Beer Marketer's Insights. Such brands carry greater importance in an economic downturn.

The softer U.S. economy has crimped sales of wine and spirits, as well as beer, this year. Total alcohol sales, by volume, rose 1.3% in U.S. food, drug and mass-merchandise outlets through July 13, according to market-research firm Information Resources Inc. That compares with an increase of about 1.9% for all of 2007. The data exclude sales at **Wal-Mart Stores** Inc., which doesn't provide its figures to research firms.

Total U.S. beer shipments rose 0.9% in the first half of this year, according to the Beer Institute, an industry trade group.

Corporate News

Calorie wars

Pepsi again challenges Coke, this time with a new natural sweetener > **Page 7**

Drink wars' new flavor

Pepsi, Coke look to natural sweetener in marketing push

BY BETSY MCKAY

A little more than a year after **Coca-Cola** Co. disclosed the development of a natural sweetener it said might start a new generation of calorie-free drinks, **PepsiCo** Inc. claims it has beaten Coke to the punch.

Pepsi plans to introduce an enhanced-water drink within the next few weeks that contains a sweetener very similar to the one Coke has. Both sweeteners are derived from a promising but controversial herb called stevia. Neither has been approved by the Food and Drug Administration for use in the U.S. and would not necessarily replace other sweeteners. As a result, Pepsi, of Purchase, N.Y., said the new SoBe Life drink will be rolled out first in several Latin American markets, starting in Peru.

Coke teamed with **Cargill** Inc. to market its stevia-based sweetener in its beverages. Coke plans to introduce a soft drink with the new sweetener in a few U.S. markets before year end, pending formal FDA approval of the sweetener, according to a person familiar with the company's plans. A spokesman for Atlanta-based Coke declined to comment on its plans.

Pepsi's rush to get a drink into consumers' hands ahead of Coke opens the latest act in a decades-old competition. The rivalry underscores the importance food-and-beverage companies place on being first to discover, brand and get a lock on the holy grail: a sweetener that is natural, has no calories and tastes good. Companies are looking at other potential new sweeteners.

Pepsi calls its sweetener PureVia; Coke and Cargill use the name Truvia.

There is no guarantee that what Pepsi and Coke say tastes great in the lab will work with consumers, so the hoopla may deflate. Stevia is known for a licorice-like aftertaste, and while the new purified version is much better, it still bears an aftertaste, said Loren Miles, chief executive of **Natur Research Ingredients** Inc., a company promoting a competing sweetener made from brazzein, a West African fruit. Mass-market consumers "will still have difficulty accepting this platform if it continues to have this aftertaste," he said. (His evaluation is based on his tasting of Cargill's tabletop version of the sweetener.)

Pepsi's SoBe Life contains PureVia, a **stevia-based sweetener.**

Forms of stevia have been consumed for years. Experts say the new sweetener is about two to three times more expensive than other sweeteners, in part because of its current small scale. But both Pepsi and Coke say their new sweeteners are based on technology that extracts and purifies to a high degree a particularly sweet-tasting compound, called rebaudioside-A, of the stevia plant.

"This is probably the biggest change in the formulation of beverages since the initial days of artificial sweeteners," said Massimo F. d'Amore, chief executive of PepsiCo's beverage business in the Americas.

Companies with which Pepsi and Coke are working are already starting tabletop versions of their sweeteners, moves meant to build consumer awareness and interest. In May, Whole Earth Sweetener Co., a **Merisant** Co. unit, and Cargill submitted data to the FDA that they hope will clear the sweeteners as safe for use in foods and beverages in the U.S.

After a series of studies suggested some negative health effects from stevia-based products, such as potential mutations in the livers of rats and concerns about fertility in men, the FDA concluded in the early 1990s that there were not enough data available to demonstrate stevia's safety as a food additive, although it is approved for use as a dietary supplement in the U.S. Stevia has been approved for use in foods in 12 countries, including Argentina, Brazil, China and Peru. Coke, Pepsi and the companies they are working with dispute the earlier studies and say their new product is purer than unrefined versions of stevia used in some of those tests.

Cargill introduced Truvia, its tabletop version, this month. It is available online and at a few New York City retail outlets and is expected to be sold at retailers nationwide this fall, a Cargill spokeswoman said.

Merisant's Whole Earth Sweetener unit, Pepsi's partner, plans to launch its tabletop product, PureVia, this fall, said Paul Block, Merisant's chairman, chief executive and president. "We think we have a superior product in terms of taste and texture of sugar," Mr. Block said.

Pepsi plans to use the sweetener in a wide range of foods and beverages, including sweetened teas, diet soft drinks, cereals and cereal bars. Its first drink is being introduced in Latin America because the company's Gatorade distribution system can help it get to market quickly and effectively, PepsiCo's Mr. d'Amore said. As for the U.S. market, "we prefer to wait until the FDA gives the green light," he said. Not every beverage tastes good with the sweetener. Louis Imbrogno, senior vice president of world-wide technical operations at PepsiCo, said "a big part" of the more than two years Pepsi has spent working with PureVia in its labs has been finding flavors with which it will taste good.

Charge causes loss at MasterCard

BY SHARA TIBKEN

MasterCard Inc. posted a second-quarter loss because of a $1.65 billion pretax charge for the settlement of a lawsuit with **American Express** Co.

In general, the credit-card company said it saw strong spending growth on its branded cards, but it tempered its outlook for the full year. MasterCard backed its projections for 2008 double-digit-percentage revenue growth, excluding the impact of foreign exchange, but said the increase will be lower than 2007's 22% growth rate. Analysts were expecting 21% growth, to $4.92 billion.

In midday trading Thursday, MasterCard shares were down 9.2%, or $24.90, at $245.84 on the New York Stock Exchange.

For the latest quarter, MasterCard, the second-largest card processor after **Visa** Inc., reported a net loss of $746.7 million, or $5.74 a share, compared with year-earlier net income of $252.3 million, or $1.85 a share. Excluding the charge on the settlement and other items, earnings rose to $2.11 a share from $1.43 a share.

Revenue rose 25% to $1.25 billion from $997 million.

World-wide gross dollar volume, or spending on MasterCard-branded cards, rose 13% in local-currency terms, with spending in the U.S. up 6.2%. Gains in South Asia/Middle East/Africa and Latin America were up 32% and 17%, respectively, in local-currency terms. Processed transactions rose 13.6%.

In 2004, American Express sued Visa, MasterCard and eight of their member banks for imposing rules that had prohibited financial institutions from issuing credit cards through American Express. The lawsuit was filed shortly after the U.S. Supreme Court let stand a lower-court ruling that forced Visa and MasterCard to allow their member banks to issue credit cards on rival networks.

MasterCard reached the $1.8 billion settlement with American Express in June and, in the third quarter, will begin the first of 12 quarterly, $150 million payments, contingent on American Express's U.S. Global Network Services Business meeting certain quarterly performance criteria. Visa agreed to pay American Express $2.25 billion.

MasterCard expects the settlement to increase its interest costs by $44 million for the second half of 2008.

MasterCard, like Visa, doesn't issue cards. Rather, it makes money from processing and transaction fees it charges bank customers, thus limiting its exposure to the credit crunch. But now the weakening economy is expected to start hitting transactions as well.

Altria's earnings tumble 58% in wake of spinoff

BY SHARA TIBKEN AND MARY ELLEN LLOYD

Altria Group Inc.'s second-quarter net income tumbled 58% because of the spinoff of **Philip Morris International** Inc. as earnings from continuing operations rose on revenue gains. But the company lowered its outlook on U.S. industrywide cigarette volumes, citing economic conditions, cigarette excise taxes and retailer inventories.

Executive Vice President and Chief Financial Officer David Beran said Philip Morris USA Inc. now expects total industry volume to fall 3% to 3.5%, compared to its call in April for a 3% fall. For the long term, it expects U.S. industry volume to fall 3% to 3.5% a year, compared to a March view of 2.5% to 3%.

Still, Altria again backed its forecast for 2008 per-share earnings of $1.63 to $1.67. Over the past five years, the maker of Marlboro, Virginia Slims and other cigarette brands has seen shipment volume fall an average of 1.8% a year, less than the overall industry.

Altria, which spun off its international business earlier this year, said its net income fell in the second quarter to $930 million, or 45 cents a share, from $2.22 billion, or $1.05 a share, a year earlier. Earnings from continuing operations rose to 46 cents from 41 cents. Revenue rose 4% to $5.05 billion. Gross margin shrank to 57.1% from 58.4%. Marlboro's market share in the U.S. rose 0.8 percentage point to 41.8%, while overall cigarette volume fell 4.5%.

The spinoff of Philip Morris International—done in part to shield the growing international unit from U.S. lawsuits and regulators—turned Altria into essentially a domestic tobacco company facing billions of dollars in litigation, including state-based class-action lawsuits, as well as new regulations.

Mr. Beran said Philip Morris USA believes it can offset declining cigarette consumption by moving more aggressively into smokeless tobacco and spit-free smokeless-tobacco pouches called snus. In addition to its tobacco operations, Altria owns a 28.6% stake in **SABMiller** PLC.

Separately, Philip Morris International said it agreed to buy **Rothmans** Inc. for two billion Canadian dollars (US$1.96 billion), marking its first move since being spun off.

Rothmans's sole holding is a 60% stake in Benson & Hedges. Philip Morris already owns the other 40%. The offer of C$30 a share for Rothmans represents a 15% premium to Wednesday's close of C$26.17 in Toronto.

In midday trading, Rothmans was up 14% at C$29.91 in Toronto, while Altria was down 6.3% at US$20.34, and Philip Morris International was down 1.7% at US$52.47 in New York.

Motorola swings to profit despite weakness in handsets

BY ROGER CHENG

Motorola Inc. reported a surprise second-quarter profit, even as results continued to be dragged down by its mobile-devices unit.

Motorola topped expectations by cutting costs and increasing revenue in its home and networks-mobility unit and enterprise-mobility division. The handset division had a 22% decline in revenue and continued to struggle with a lack of eye-catching products.

"I still think there are plenty of difficulties and challenges to weather through, but these results were pretty good," said Bill Choi, an analyst at Jefferies & Co. "Handsets weren't as bad as feared. The expectations had gotten pretty low with that division."

Shares of the telecommunications-equipment maker were up 13% to $8.67 in afternoon New York Stock Exchange trading Thursday.

Motorola reported net income of $4 million, reversing a year-ago loss of $28 million. Revenue was $8.08 billion, down from $8.73 billion.

The mean forecast by analysts surveyed by Thomson Reuters was for a loss of three cents a share and revenue of $7.69 billion. Motorola had forecast a loss of two cents to four cents a share.

The home and networks division, which includes WiMax technology and cable-television gear, saw revenue rise 7%, while the enterprise-mobility division, which includes public radio systems, posted 6% growth in revenue.

—David Benoit contributed to this article.

Kodak's quarterly net fell 14%

BY DAVID BENOIT AND VERONICA DAGHER

Eastman Kodak Co.'s second-quarter profit dropped 14% despite a tax gain and rising digital revenue.

Moreover, the Rochester, N.Y., camera and film company damped expectations for full-year earnings, sending its stock sharply lower Thursday.

Kodak said it now anticipates 2008 earnings from operations at the low end of its previous target range between $400 million and $500 million. It still sees digital-revenue growth between 7% and 10% and expects overall revenue will be flat to up 2%.

Kodak shares were down 12% to $13.84 midafternoon in New York Stock Exchange composite trading.

Kodak reported net income of $495 million, or $1.62 a share, compared with $575 million, or $2 a share, a year earlier. The latest period included a $270 million gain or 88 cents a share, from interest earned on a U.S. tax settlement..

CORPORATE NEWS

Genmab claims success in trial of leukemia drug

By Jeanne Whalen

Marking a rare success in the European biotech sector, Danish firm **Genmab** AS said the most important drug in its pipeline has delivered strong results in a trial against a type of leukemia.

Genmab, which is developing the drug with **GlaxoSmithKline** PLC, said it aims to submit the drug, called ofatumumab, for U.S. and European regulatory approval by the end of this year.

In 2006, Glaxo agreed to pay as much as $2.1 billion for the rights to help develop and market the drug for a variety of potential uses. In addition to testing the drug for chronic lymphocytic leukemia, or CLL, Genmab and Glaxo are testing the drug against two additional types of blood cancer, rheumatoid arthritis and multiple sclerosis.

Glaxo is hoping that ofatumumab will boost its presence in the oncology business, which is growing at a faster rate than other disease areas. Ofatumumab is one of several cancer drugs Glaxo aims to launch in the coming years.

Big pharmaceutical companies have been moving to increase their investment in biotech in recent weeks. Thursday, **Bristol-Myers Squibb** Co. proposed acquiring the roughly 83% of **ImClone Systems** Inc. that it doesn't already own. And **Roche Holding** AG offered to buy full control of **Genentech** Inc. a few weeks ago. Genmab could be a target, analysts say. A Genmab spokeswoman declined to comment.

Glaxo is hoping the drug will boost its presence in the oncology business.

European biotech companies have delivered fewer drugs to the market than their counterparts in the U.S., in part because of a lack of funding. Venture capitalists, a big source of funding for American biotechs, have been less willing to risk money on the biotech sector in Europe.

Ofatumumab is a monoclonal antibody that is similar to Rituxan, a drug sold by Genentech and Roche.

Genmab said it was releasing preliminary data from a trial in patients with late-stage CLL. Genmab said the results were statistically significant and exceeded its expectations.

About half of 138 patients involved had previously not responded to two other medications—Campath and the chemotherapy fludarabine. The other half didn't respond to fludarabine and were considered unsuitable for Campath because of their type of cancer.

All of the patients were given eight weekly infusions of ofatumumab and then four monthly infusions. After 24 weeks, 51% of patients in the group not responding to both older medicines experienced a strong response to ofatumumab, Genmab said. About 44% of patients in the other group responded well to ofatumumab. Genmab said patients generally tolerated the drug well, though some experienced fever, diarrhea, fatigue and other side effects.

GLOBAL BUSINESS BRIEFS

Continental AG

Takeover target's net drops 36% after own acquisition

Continental AG, a takeover target of **Schaeffler Group**, posted a 36% drop in second-quarter net profit, hit by the acquisition and integration of **Siemens** AG's former VDO unit. Net profit fell to €194.3 million ($302.6 million) from €303.2 million a year earlier, while sales were up 63% to €6.61 billion from €4.05 billion. Last year, the German automotive supplier bought VDO for €11.4 billion. Chief Executive Manfred Wennemer said in a statement that the company still expects to post full-year sales exceeding €26.4 billion, but warned that the target will be more difficult to achieve, in light of soaring raw-material prices and sluggish demand for new cars. "In the automotive divisions, we are expecting to compensate for the rise in raw-material costs by improving efficiency and passing on the cost increases to our customers," Mr. Wennemer said.

Anglo American PLC

Miner **Anglo American** PLC reported a 27% rise in first-half net profit and said rising output of key commodities and continuing demand from China would support a strong second half, despite increasing costs and economic turbulence. Net increased to $4.28 billion from $3.38 billion a year earlier, driven by robust prices for export coal, iron ore, copper and platinum as well as increased production. Revenue was down 9.7% to $17.92 billion, hit by the sale of paper and packaging business **Mondi** Ltd. Chief Executive Cynthia Carroll said platinum and copper production in the second half would increase by about 20%, coal by 13%, and nickel and iron ore "substantially."

British Sky Broadcasting PLC

U.K. pay-television operator **British Sky Broadcasting** PLC swung to a fourth-quarter loss, hit by a £142 million ($281.4 million) impairment charge related to its investment in terrestrial broadcaster ITV, but said it remained positive about its outlook despite the economic slowdown. BSkyB posted a net loss of £9 million for the three months ended June 30, from a net profit of £111 million a year earlier. Revenue rose 6% to £1.25 billion. The company added 92,000 net new customers and recorded the lowest percentage of total customers who dropped their subscriptions since 2005. Particularly successful were BSkyB's broadband business and the Sky+ digital recorder. BSkyB is 39%-owned by **News Corp.**, which owns Wall Street Journal publisher Dow Jones & Co.

British American Tobacco PLC

British American Tobacco PLC said its first-half profit was up 15% because of higher prices, increased sales of premium brands and a £134 million ($265.5 million) benefit from foreign-exchange effects. Net profit rose to £1.34 billion from £1.17 billion a year earlier, while sales climbed 15% to £5.46 billion. In the second quarter, profit rose 11% to £697 million from £630 million, as sales were up 17% to £2.92 billion from £2.49 billion. The company's comments focused mainly on the six-month results. Chairman Jan du Plessis said the first-half results were driven in part by favorable currency fluctuations and higher prices for the company's products. Sales of the company's premium brands grew 7%, he said.

Centrica PLC

U.K.-based utility **Centrica** PLC posted a 47% drop in first-half net profit as its retail business was hit by soaring wholesale energy prices. Still, the company said a strong performance from the rest of the group helped to offset some of the losses. Net profit decreased to £416 million ($824 million) from £788 million a year earlier, even as revenue rose 17% to £10.03 billion. Wholesale gas prices have increased sharply, forcing Centrica to raise retail gas and electricity tariffs twice this year. The company said it is raising gas rates by 35% and charges for electricity by 9%. Analysts said the results were in line with expectations, adding that they looked worse when compared with the first half of last year, when the company posted a bumper set of results. In the first half of 2007, Centrica recorded a steep rise in profit amid improved supply and a dip in wholesale gas prices.

Prudential PLC

U.K. insurance company **Prudential** PLC posted a first-half net loss of £475 million ($941 million), compared with a net profit of £1.7 billion a year earlier, due in part to a large revaluation of its investment returns. But its operating profit for the six months ended June 30 rose 8.3% to £1.43 billion compared with the same period a year before. Its business in the U.K. saw operating profit rise 8% to £650 million, the U.S. business rose 2.6% to £360 million and returns from the Asia business rose 11% to £579 million. The swing to a net loss was due largely an investment loss of £1.95 billion compared with a gain of £241 million previously. The loss reflects falls in the value of some of Prudential's investments around the world, including in bond and equity markets.

Capgemini

Capgemini said first-half net profit was up 38%, helped by lower taxes and operating expenses, adding it expects like-for-like revenue growth in 2008 to reach the top of its forecast range. Net at the French information-technology services company rose to €231 million ($359.8 million) from €168 million a year earlier, helped by increases in revenue and profitability at Capgemini's consulting and professional-services divisions. Overall revenue fell 0.5% to €4.37 billion. Stripping out acquisitions, disposals, and currency movements, Capgemini said revenue grew 5.3%. The company expects full-year like-for-like revenue growth of 4% to 5%, at the top of its previous range of 2% to 5%.

Luxottica Group SpA

Luxottica Group SpA, the world's biggest eyewear maker by sales, said Thursday that second-quarter net profit fell 14% as charges for its purchase of Oakley and the weak dollar took their toll. Net profit fell to €132.6 million ($206.5 million) from €154.6 million a year earlier. Sales rose 2.1% to €1.35 billion from €1.33 billion. Chief Executive Andrea Guerra said he is confident that the company, which also owns the LensCrafters chain and the Ray-Ban brand, and makes eyewear for fashion houses such as Prada and Chanel, will meet full-year financial targets. Luxottica said quarterly results were hit by €20 million in restructuring charges for the purchase of sunglasses brand Oakley, acquired for $2.1 billion last year.

Deutsche Post AG

Deutsche Post AG reported an 11% drop in second-quarter net profit, as earnings at its Deutsche Postbank AG unit were weighed down by write-downs tied to financial market turbulence. Still, the German postal and logistics company confirmed its overall forecasts for 2008 and 2009 as its mail unit performed well. The company said net profit totaled €254 million ($395.6 million), down from €285 million a year earlier, even though revenue rose 5% to €16.21 billion from €15.44 billion. In the first half of the year, the company took a €317 million hit from write-downs related to the credit crunch and stalled investment activity at Postbank, which reported a 21% fall in second-quarter net profit Wednesday. The company is looking to sell its 50%-plus-one-share stake in Postbank.

Coca-Cola Hellenic Bottling SA

Coca-Cola Hellenic Bottling SA said its second-quarter net profit fell 7.5% because of adverse conditions in some of its markets and continued cost pressures. Net profit dropped to €181.5 million ($282.7 million) from €196.3 million a year earlier, even though revenue was up 5.3% to €1.94 billion from €1.84 billion. The second quarter is traditionally a strong quarter for the company and a large contributor to annual profit. In June, the bottler cut its full-year outlook and signaled a weak performance for the first half, citing bad weather and consumer sentiment in some markets, along with soaring energy costs. Shares in Hellenic have lost half their value since the beginning of the year.

Metro AG

Metro AG, one of the world's biggest retailers by sales, swung to a second-quarter net loss, hurt by restructuring charges. The German-based company said the second half of the year will be challenging, particularly in Western Europe, though it still expects sales and earnings to grow. Metro posted a net loss of €282 million ($439.2 million) for the quarter, compared with a year-earlier net profit of €103 million. The results were weighed down by €612 million in restructuring-related costs, as the company had warned last week. Revenue rose 6.9% to €16.06 billion from €15.02 billion. For 2008, the company still expects earnings before interest and taxes to increase 6% to 8% before special items, and sales to rise more than 6%.

BASF SE

BASF SE said second-quarter net profit rose 27%, as strong sales in its oil and gas unit offset weakness in its industrial segments, and reiterated its full-year forecast. The German chemicals company's net profit rose to €1.3 billion ($2 billion) from €1.02 billion a year earlier. Sales rose 11% to €16.3 billion. The company said it expects "rockier" times ahead, forecasting a more-difficult environment due to volatile raw-material prices and the strong euro. "Demand for our products remains strong, and the summer lull does not seem to be very pronounced," said Chief Executive Jürgen Hambrecht, but he added the company will have to raise prices considerably in some cases to pass on significantly higher raw-material costs.

Kellogg Co.

Kellogg Co.'s second-quarter profit jumped 3.7% as higher prices offset increases in advertising spending and higher raw material costs. The Battle Creek, Mich., cereal maker, whose brands include Rice Krispies, Pop-Tarts, Eggo waffles and Morningstar Farms, reported net income of $312 million, or 82 cents a share, up from $301 million, or 75 cents a share, a year earlier. Revenue rose 11% to $3.34 billion, or 6% when excluding foreign-currency fluctuations and acquisitions. Kellogg also raised its 2008 earnings forecast by three cents to $2.95 to $3 a share and said it will repurchase $500 million in shares within 12 months. The company has already completed $650 million in share repurchases this year.

Hynix Semiconductor Inc.

Hynix Semiconductor Inc. posted its third straight quarterly net loss on slowing sales of chips amid weak demand and charges linked to the closure of its U.S. plant. But Hynix, the world's second-largest producer of computer memory chips by revenue after Samsung Electronics Co., forecast better results in the second half as it expects demand and supply to be better balanced in the global chip market. "Personal-computer shipments will be solid in the second half, boosting chip demand," said O.C. Kwon, Hynix's senior vice president of strategic planning, on a conference call with analysts and investors. "Capital-expenditure cuts by chip makers and an accelerated shutdown of eight-inch wafer-fabrication lines will limit growth in chip supply."Hynix posted a second-quarter net loss of 707.8 billion won ($698 million), reversing year-earlier net profit of 213.5 billion won. Sales fell 5% to 1.85 trillion won.

TSMC

Taiwan Semiconductor Manufacturing Co. reported a 13% increase in second-quarter net profit, but the chip maker warned of a below-trend third quarter as customers turn cautious amid an uncertain world economy. TSMC, the world's largest contract chip maker by revenue, said its net profit was 28.77 billion New Taiwan dollars (US$942.8 million), up from a net profit of NT$25.48 billion a year earlier. TSMC didn't give a reason for the growth in its net profit, although analysts had expected its diversified customer base and pricing power to drive earnings during the traditionally slow second quarter. Consolidated revenue rose 18% in the second quarter to NT$88.14 billion.

Hertie GmbH

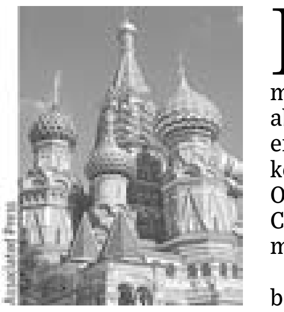
German department-store chain **Hertie** GmbH said Thursday that it has filed for insolvency after efforts to restructure its finances or raise fresh funds failed. Hertie, which has 72 stores and employs more than 4,000 people, said it aimed to keep operating while it finds a way to turn around the business. "The joint goal of management and staff is to continue business without interruption in the interests of staff, customers and creditors," Managing Director Erik van Heuven said in a statement. Hertie is majority-owned by U.K.-based private investors **Dawnay Day International Ltd.**, which bought 74 branches in 2005 from Arcandor AG. Dawnay Day has also recently been facing financial difficulties. Dawnay Day had no immediate comment. Arcandor said it would feel no financial impact from the insolvency filing.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

RUSSIA

OECD says government must ease investors' fears



FOREIGN investment in Russia hit a record last year, but the country must ease investor fears about government interference and change faster to keep money flowing in, the Organization for Economic Cooperation and Development said.

The report from the Paris-based international body comes amid renewed worries about political risks to investing in Russia and at a volatile time for Russia's financial markets.

The OECD said foreign direct investment in Russia rose to $52 billion in 2007 from $32.4 billion the year before. Investment in natural resources tripled to reach nearly half of the overall total. *—Associated Press*

ROMANIA

Central bank raises rates, boosting currency support

ROMANIA'S central bank unexpectedly raised interest rates even though inflation is seen to be near its peak, adding new support for its currency.

The National Bank of Romania raised its benchmark rate to 10.25% from 10%, the seventh increase since October 2007. The surprise decision "buttresses the bank's inflation-fighting credentials," said Citigroup economist Ilker Domac, who says more increases may be in the pipeline.

Romania's inflation is expected to peak at around 9.3% in July, but the prospects for a sharp decline are seen as good. *—Christopher Emsden*

U.K.

Housing-price decline is the biggest in 16 years

BRITISH housing prices posted their biggest annual drop in more than 16 years in July as the credit crunch and concerns about the economic outlook continued to weigh on the housing market, data from the Nationwide Building Society showed.

The price of a typical house fell 1.7% from June and 8.1% from last July, marking the biggest annual decline since Nationwide's first year-on-year reading in 1992 and the ninth consecutive monthly drop.

The fall in prices was also sharper than a market consensus estimate of a decline of 1.1% from June and 7.3% on the year from a Dow Jones Newswires survey of economists. *—Nicholas Winning*

Trade talks' failure weighs on other issues

Global cooperation falters, clouding hopes on emissions

THE DEMISE of the Doha world trade talks because of splits between wealthy and developing nations suggests other global undertakings, from slashing greenhouse-gas emissions to ending food-export restrictions, also will face hurdles.

Efforts at global cooperation are all grappling with the same forces:

By **Bob Davis** *in Washington and* **John W. Miller** *in Geneva*

a resurgence of nationalism across the globe, muscle-flexing by emerging economic giants such as China and India, and a fraying of the Cold War ties that bound many developing countries to the U.S. and Europe. "The way the Doha Round collapsed is a preview of what we're likely to see in other negotiations," said Kimberly Elliott, a senior fellow for the Center for Global Development, a Washington think tank. "Emerging markets [such as China and India] are taking a big role," she said, sometimes elbowing out even poorer nations.

"If the Doha Round repeatedly fails, this will cast doubt on the ability of all parties to find solutions to complex problems, such as climate change, high oil prices and food prices within a global framework," said a commentary by China's official Xinhua news agency.

The Doha Round collapsed after China and India insisted on having the right to reimpose tariffs—or raise them—if there were a surge in food imports. In terms of impact on economic growth, the issues at stake in the round were fairly small compared to the global-warming debate. Limiting the rise of greenhouse gases could hit growth by forcing industry to retool factories and consumers to alter lifestyles. That sacrifice could prompt an even fiercer reaction from New Delhi and Beijing.

The U.S. is similarly worried about how a global climate-change regime would affect economic growth. During Senate discussion recently on a plan to cap emissions through a system of tradable pollution permits, much of the focus was on how to penalize countries such as China and India if they didn't also limit emissions. Essentially, the bill would have imposed tariffs on imports of steel, iron, glass, cement and paper from such countries. "There is more support in the Senate for the import [restriction] provision—a China-bashing measure—than the overall cap-and-trade system," said Robert Stavins, a Harvard University expert on global-warming policy

The U.S. cap-and-trade measure failed on a procedural vote. But a version of the bill is bound to come up again next year because both presidential candidates back cap-and-trade systems.

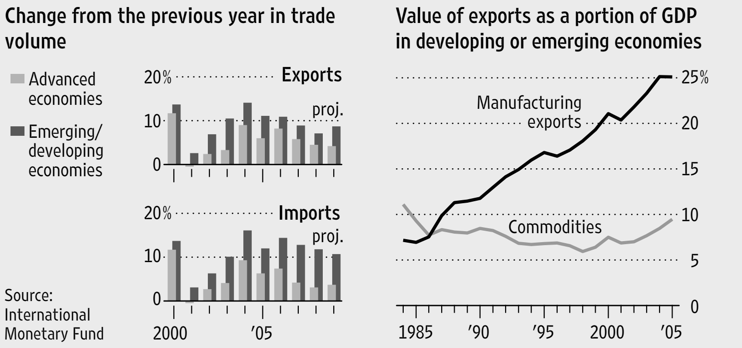
Negotiators had been working on a Doha trade agreement for seven years, and often stalled. At this week's Geneva trade summit, the parties seemed closer than ever to reaching a deal, because the U.S. and Europe had made long-sought concessions on agricultural subsidies. They hoped to entice developing nations to open their markets further to U.S and European manufacturers and service companies. Brazil, a leader among developing nations and a big agricultural exporter, signed on. Despite intense pressure to go along, India and China balked.

Under World Trade Organization rules, all 153 members must agree on a deal. In practice, only the economically important players get a real say. No African country was among the seven nations that conducted most of the negotiations. The issue of U.S. cotton subsidies, which is of vital interest to Africa's four cotton-producing nations, wasn't even discussed.

The failure of the talks isn't likely to have big effects immediately on the flow of world trade or on economic growth. Outside of agriculture and textiles, trade barriers generally are low globally because of decades of tariff cutting. But the consequences of the failure were still significant because of the message about the difficulty in reaching global agreements.

Changing dynamic

Trade is growing more quickly in the developing world, with manufactured goods at the forefront of the increase



Source: International Monetary Fund

"This is the first failure of a multilateral trade agreement since the 1930s," an era of protectionism, said Fred Bergsten, director of the Peterson Institute for International Economics. The absence of trade liberalization, he predicted, would lead to an increase in efforts to protect domestic industries around the globe from competition. Although WTO chief Pascal Lamy held out hope that the talks could be revived once again, European Union Trade Commissioner Peter Mandelson said the Geneva talks represented a "burial" for the Doha round.

Given the U.S.'s leading role in trade policy, the Doha failure essentially hands off the issue to the next president, who is unlikely to make it a top priority. Daniel Tarullo, a Georgetown University law professor who advises Sen. Barack Obama, said "U.S. negotiators were right to walk away from what was shaping up to be a bad deal for the United States," although he said negotiators "should not abandon their efforts." Philip Levy, an American Enterprise Institute economist who advises Sen. John McCain, said the inability to reach a deal "calls into question some of the underpinnings of the global trading system."

Instead of global deals, patchwork efforts on global trade issues may become the norm. In another area of global concern—the barriers to food exports erected by several dozen countries in response to rising prices—the World Bank has tried to persuade countries individually to change their policies by appealing to their national interests. The bank's president, Robert Zoellick, a former U.S. trade representative, argued to countries that they will wreck their credibility as exporters if they cut back in times of global trouble.

Future trade deals may focus more on narrower national interests, rather than Doha-style talks that call for countries to make concessions in one area to make gains in another. One possible model is a kind of "coalition of the willing" approach. The model is the Information Technology Agreement signed in 1996, which set zero tariffs on new-technology goods for countries that signed on. About half the WTO's members have done so.

—Charles Forelle in Brussels and Andrew Batson in Beijing contributed to this article.

Medvedev tries to calm investors

By Andrew Osborn

MOSCOW—President Dmitry Medvedev moved to calm market jitters about Russia's investment climate Thursday, calling on authorities to stop harassing companies and shaking them down for bribes.

"We need to create a normal investment climate in our country," he said in televised comments. "Our law-enforcement agencies and government authorities should stop causing nightmares for business."

His comments came days after Prime Minister Vladimir Putin caused stock prices to plummet by almost 9% after severely criticizing steel and coal producer OAO Mechel, an unexpected attack that spooked investors who are worried about the Kremlin's role in business.

Those fears have been fanned by the treatment of **BP** PLC's joint venture **TNK-BP** Ltd., which has run afoul of numerous regulatory bodies that have complicated its operations to the point where its chief executive officer left the country last week.

Mr. Medvedev, who took office in May, has made reasserting the rule of law and stamping out corruption the centerpiece of his administration, but he has yet to convince skeptics who say Russia's problems are too ingrained to be solved swiftly.

Official bodies from the police to the fire brigade regularly conduct spot checks on businesses, levying fines for alleged irregularities. One of Mr. Medvedev's first actions was to outlaw the practice.

He said Thursday that he had signed an anticorruption plan and that he was sending a signal that he was serious about clamping down on graft. "In this country, people attach a special importance to signals" from the Kremlin, he said. "You can consider I gave you such a signal."

On Wednesday, one of the president's advisers lashed out at Mr. Putin for rocking the stock market, fueling speculation about a rift between Mr. Medvedev and Mr. Putin. "It is not correct to destroy your own stock market," Igor Yurgens had said.

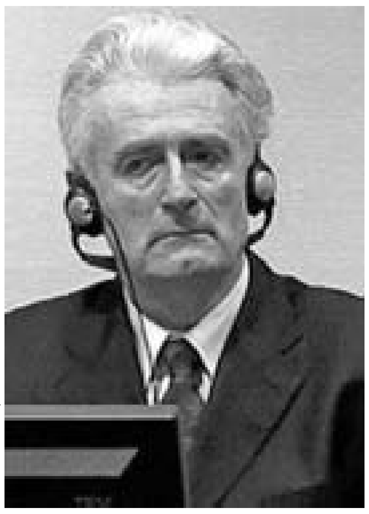
Karadzic fails to enter plea

Bosnian Serb leader during wartime says he cut deal with U.S.

Radovan Karadzic, out of disguise and in the hands of an international war-crimes tribunal, entered no plea Thursday in his first court appearance at The Hague but claimed that former U.S. Ambassador Richard Holbrooke cut a deal with him in 1996 and then sought to have him killed.

The widely broadcast proceeding was the first time much of the world had seen the former wartime leader of the Bosnian Serbs since he was indicted by the tribunal in 1995 and went into hiding.

By **Charles Forelle** *in The Hague and* **Marc Champion** *in Brussels*



Associated Press/APTN

Radovan Karadzic will have to enter a plea at his next hearing Aug. 29.

Mr. Holbrooke, in a telephone interview Thursday, denied all of Mr. Karadzic's claims, saying "there was no quid pro quo" in the deal to remove the Bosnian Serb leader from power.

Mr. Karadzic, with a shave and haircut that made him recognizable again as an older version of the man whose swept hair became familiar on television screens during the Bosnian war of the 1990s, also said he would represent himself at trial and made it clear he doesn't plan to be rushed.

When given a chance to raise any concerns over procedural matters to the court, Mr. Karadzic said he wanted to read a four-page statement. Judge Alphonsus Orie gave him two minutes.

In 1996, Mr. Karadzic said, U.S. peace envoy Richard Holbrooke offered him a deal, "in which I had to withdraw from public life"—even, he added, "from literary life." Mr. Karadzic also wrote poetry. In return, he said, the U.S. "would fulfill their commitments."

Interrupted by the judge, Mr. Karadzic didn't say what those U.S. commitments were. Resuming, Mr. Karadzic said Mr. Holbrooke had tried and failed to have the indictment against Mr. Karadzic by the International Criminal Tribunal for the former Yugoslavia lifted. It wasn't clear whether this was the U.S. commitment Mr. Karadzic had referred to earlier.

Mr. Karadzic also referred to "an intention to liquidate me," and suggested Mr. Holbrooke might still want him dead. "I wonder if his arm is long enough to reach me here," he said. Mr. Karadzic's fragmented and jumbled statements were difficult to follow.

Mr. Holbrooke denied these claims. "Karadzic has been putting this out for 12 years to cover his humiliation at having lost his jobs," said Mr. Holbrooke, referring to Mr. Karadzic's removal in 1996 from his posts as president of the self-proclaimed Bosnian Serb republic and as head of the main political party there.

The former U.S. special envoy to Yugoslavia said there had indeed been a deal to remove Mr. Karadzic from public life, which has long been public. But he said it was struck in Belgrade with former Yugoslav President Slobodan Milosevic and two of Mr. Karadzic's top lieutenants in 10 hours of negotiation.

"There was no quid pro quo, but we had a lot of leverage. We had 60,000 troops on the ground and plenty of options to squeeze them further," he said. Mr. Karadzic, he said, has been claiming for 12 years that there was a side deal, including a promise to pay him $600,000 a year.

"I didn't try to have Karadzic killed," said Mr. Holbrooke, "but I did try hard to have the NATO commander ordered to capture him in those first six months when he was still living out in the open. That he wasn't [captured] was a big mistake."

Until being picked up in Belgrade earlier this month, Mr. Karadzic was one of the most wanted alleged war criminals involved in the fighting that tore apart the former Yugoslavia in the mid-1990s. He is accused of 11 counts of war crimes, among them genocide. He is alleged to have directed the slaughter of 8,000 Muslims in the enclave of Srebrenica in 1995, among other crimes.

In the courtroom Thursday, Mr. Karadzic listened impassively as Judge Orie gave a summary of the charges. He answered rudimentary questions curtly but politely in Serbian. Asked if he would represent himself, a key issue for a court, Mr. Karadzic said he would, though he had an "invisible adviser." The court can decide whether Mr. Karadzic can represent himself, something that some defendants, including former Yugoslav President Milosevic, were eventually allowed to do.

Mr. Karadzic also seemed uninterested in a speedy trial, availing himself of a 30-day delay before entering a plea, and castigating the court's prosecutor, who in a news conference Wednesday had promised an "efficient" trial. That seemed to be an answer to criticisms of the four-year trial of Mr. Milosevic, which was still under way in 2006 when he died of a heart attack.

"Speed matters in a showdown between gunslingers, but it is out of place in a court," Mr. Karadzic said.

That the judge prevented Mr. Karadzic from reading his statement Thursday was a clear signal the court intends to force him to stick with procedural rules, according to Terree Bowers, an attorney with the Los Angeles law firm Howrey LLP who worked at the tribunal in the 1990s and helped to prepare Mr. Karadzic's arrest warrant. That was something the court often failed to do in Mr. Milosevic's trial.

"I think they can conclude this trial in less than a year," said Mr. Bowers. He noted that in the Milosevic trial, prosecutors built an enormously complex case based on 66 counts in three separate conflicts in Bosnia, Croatia and Kosovo. Mr. Karadzic's current indictment involves 11 counts, all alleging crimes in the 1992-1995 war in Bosnia-Herzegovina only.

U.S., Libya near terror settlement

By Jay Solomon

WASHINGTON—The Bush administration and Libyan leader Moammar Gadhafi's government are close to reaching a comprehensive agreement to settle all outstanding claims tied to Libya-related terrorism from the 1980s.

The agreement calls for Tripoli to make a single payment of more than $1 billion to a U.S. government-administered entity, officials involved in the talks said. That entity would oversee the compensation for victims of the 1988 bombing of Pan Am flight 103 and other terrorist attacks tied to Mr. Gadhafi's regime.

The U.S. Congress, in turn, is close to passing legislation that would allow President George W. Bush to grant Libya a waiver from any future litigation tied to past terrorist acts. The Senate on Thursday morning unanimously passed the legislation, and lawyers involved in the settlement said they are hopeful the House will follow soon.

"If this passes...all of the victims could be paid out by the fall," said Jim Kreindler, whose law firm represents 130 victims of the Pan Am bombing over Lockerbie, Scotland, which killed 270 people.

The compensation question has imperiled the Bush administration's six-year campaign to normalize relations with Libya after decades of enmity. The White House has cited Mr. Gadhafi's 2003 decision to scrap Libya's nuclear program and publicly renounce terrorism as among its key foreign-policy successes.

U.S. businessmen and lobbyists said a comprehensive deal on the terrorism claims could open the floodgates for new American business with Libya. Major U.S. oil companies, such as **ExxonMobil** Corp., **Chevron** Corp. and **Occidental Petroleum** Corp., returned to Libya shortly after Mr. Gadhafi's rapprochement with Washington. But big American defense, infrastructure and telecommunications firms are still looking to benefit from the Libyan economy, which is expected to grow by more then 9% this year, thanks to the global oil boom. Continued tensions between Washington and Tripoli have allowed European, Asian and Russian firms to win many of the new contracts, U.S. diplomats and businessmen said.

Libyan officials, meanwhile, said they are interested in investing significantly more in the U.S. Mr. Gadhafi established a sovereign wealth fund last year with more then $50 billion in assets.

The Libyan Investment Authority has been barred from taking stakes in U.S. firms, due to fears its investments could be frozen under a new U.S. law enacted in January that enhanced the ability of U.S. terrorism victims to seize Libyan assets, as well as those of companies doing business with the North African country. Libya responded to the law by largely ceasing to conduct dollar-denominated transactions and limiting contacts with U.S. companies.

Associated Press

Worried that current pollution curbs may not be sufficient ahead of the Olympics, China may close more factories and put further **restrictions on cars**.

Beijing broadens efforts to clear polluted skies

By Shai Oster

BEIJING—Chinese authorities will close more than 200 additional factories near Beijing and restrict traffic in four surrounding cities if its skies don't clear in time for the Olympics, a tacit admission that its antipollution policies haven't gone far enough.

The measures, unveiled eight days before the Games are to begin, will be implemented 48 hours in advance if weather and pollution forecasts predict unhealthy air, government environmental officials said.

The new measures follow steps taken since July 20 in Beijing, the nearby port city of Tianjin and four surrounding provinces. Those efforts were meant to undo in a few weeks the environmental damage of decades of nearly unrestrained growth.

Hundreds of steel mills, cement plants, power plants and factories making everything from chemicals to furniture to building supplies already have either been shut down or told to cut back production. In Beijing, traffic controls have removed about half of the city's 3.3 million automobiles from the roads. These measures have forced some workers home on extended leave with lower pay, while others struggle to get to work on roads jammed because of special lanes for Olympic VIPs.

Officials say the measures have cut pollution by about 20% compared with last year. But they acknowledge that may still not be enough if the weather goes against them. Some nations have worried about their athletes in outdoor endurance events such as cycling and the marathon. Olympic officials said they would postpone or even cancel such events in the case of heavy pollution.

Experts say pollution can be scattered within days under a strong breeze. And in the first few days of the initial set of measurements, Beijing's air cleared.

But muggy air over the weekend sent Beijing's air-pollution index above 100, the maximum level for what officials call the city's "blue sky days," or days of acceptable air quality. China ranks air quality on a scale of zero to 500, with anything below 50 ranked "good" and above 251 "hazardous." China says days just above 100 are "unhealthy for sensitive groups."

Still, a level of 100 exceeds typical levels in most European and U.S. cities, and is well above World Health Organization guidelines on some types of pollutants.

Officials blamed bad weekend weather but acknowledged that more could be done.

The plan announced by the Ministry of Environmental Affairs on Thursday said Beijing could shut down all construction sites and an additional 105 factories, nearby Tianjin could shut 56 power plants and factories and surrounding Hebei province could close 61 more plants. Traffic restrictions could be expanded to four more cities.

Beijing already has shut down some 100 plants, and the city of Tangshan has temporarily closed 267 factories. Restrictions are in effect as far away as Shanxi province and Inner Mongolia, regions rich in coal and heavy industry. Studies show as much as 70% of Beijing's pollution can blow in from outside the city.

Wife of Thailand's Thaksin sentenced to 3 years in jail

By Supunnabul Suwannakij And James Hookway

BANGKOK—Thailand's criminal Court convicted the wife of former Prime Minister Thaksin Shinawatra of tax evasion and sentenced her to three years in jail, a decision legal analysts said could be an indicator of how judges might rule in several cases against Mr. Thaksin.

About 300 police secured the court as the verdict was read on Thursday, reflecting intense public interest in the cases filed against Mr. Thaksin and his family after he was ousted in a military coup in 2006.

Mr. Thaksin's political allies formed a new government after winning a parliamentary election in December. Mr. Thaksin's wife, Pojaman Shinawatra, and her stepbrother, Bannapot Damapong, were each sentenced to three years in jail for avoiding tax payments in 1997.

On Wednesday, Thailand's Supreme Court accepted a case against Mr. Thaksin for allegedly using his position as prime minister to arrange cheap loans to neighboring Myanmar in order to benefit his family's telecom business.