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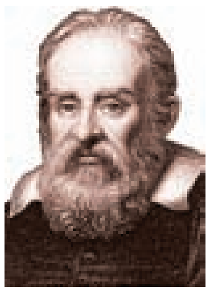

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Recording companies are keeping music from iTunes

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China unease over Russia strains ties with old ally

Beijing expresses 'concern' on Georgia; the Tibet question

By **Gregory L. White** *in Moscow,* **Andrew Higgins** *in Tbilisi and* **Andrew Osborn** *in Akhalgori, Georgia*

Russia's efforts to redraw the map of the Caucasus received a frosty reception yesterday from China, a further sign of how Moscow's conflict with Georgia is scrambling diplomatic alignments in place since the end of the Cold War.

China, which has often sided with the Kremlin in international diplomacy, broke a silence on the conflict to voice unease about Russia's recognition of two separatist regions of Georgia as independent states. The Chinese Foreign Ministry expressed "concern" about the development.

Moscow's decision to formally recognize Abkhazia and South Ossetia—both of which fall within Georgia's borders—also found little support elsewhere in the world. Western nations condemned it. Even traditional Russian allies in the former Soviet

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Associated Press

The U.S. Coast Guard cutter Dallas carried aid to Batumi in Georgia, above, avoiding its original destination, Poti, a port **still controlled by Russian forces**.

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Business & Finance

Slowing German inflation suggested price growth in the euro zone likely peaked during July amid a decline in oil prices, but European Central Bank officials tried to damp market expectations that interest rates might be reallowed soon. **Page 1**

■ **Heineken's net rose** 35% in the first half, aided by an acquisition, but swelling costs challenge the beer maker. **Page 2**

■ **Taylor Nelson Sofres told** its shareholders not to accept the one remaining takeover offer for the British market researcher—from WPP Group. **Page 2**

■ **Alcatel-Lucent has compiled** a short list of contenders to be its new chief executive, including Mike Quigley, Alcatel's former chief operating officer. **Page 2**

■ **The SEC floated** a plan that could require U.S. companies to make the switch to international accounting rules. **Page 19**

■ **Many Chinese companies** are issuing billions of dollars of corporate bonds, bucking the global aversion to debt as other routes to capital have dried up. **Page 1**

■ **Demand for big-ticket** items was surprisingly strong in the U.S. in July, thanks to a dollar-fueled export boom. **Page 12**

■ **U.S. stocks advanced** as investors found reason for hope in the July durable-goods data. European energy and mining shares gained in line with higher oil prices. **Page 20**

■ **Detroit's Big Three** auto makers are considering a more public push for a broad loan package from lawmakers. **Page 9**

■ **ArcelorMittal could face** a strike by union workers if the two sides can't reach a labor agreement by Saturday. **Page 6**

■ **Taylor Wimpey swung** to a first-half loss after write-downs of $2.78 billion. **Page 6**

■ **Aozora Bank hired** a veteran distressed-debt specialist to help find bargains and step up its push into specialized loan products. **Page 25**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11502.51	+89.64	+0.79
Nasdaq	2382.46	+20.49	+0.87
DJ Stoxx 600	283.25	+0.51	+0.18
FTSE 100	5528.1	+57.4	+1.05
DAX	6321.03	-19.49	-0.31
CAC 40	4373.08	+4.53	+0.10
Euro	$1.4707	+0.0056	+0.38
Nymex crude	$118.15	+1.88	+1.62

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World-Wide

China expressed unease about Russia's recognition of two Georgian separatist regions, weakening a pillar of Putin's policy of forging close ties with Beijing as a counterbalance to Washington. A U.S. Navy ship carrying aid avoided a Georgian port where Russian troops are present. **Page 1**

■ **Hillary Clinton left** no doubt about her support for Barack Obama, seeking to unite a fractured party in a key Democratic convention speech. **Pages 16, 17**

■ **Two Darfur men** who hijacked a Sudanese jetliner Tuesday and diverted it to Libya surrendered after releasing 95 passengers and crew unharmed.

■ **Pakistani forces clashed** with militants across the tribal belt in the nation's northwest, killing up to 49 insurgents, the army said.

■ **More than 30 Taliban** fighters, four policemen and a German soldier were killed in clashes, airstrikes and bombings in Afghanistan, officials said.

■ **Japan confirmed** the killing of an aid worker in Afghanistan kidnapped Tuesday, after a body with bullet wounds was found.

■ **The Spanair plane** that crashed last week, killing 154 people, had landing-gear trouble a month before, the airline said.

■ **Thai courts ordered** antigovernment protesters to end occupation of the prime minister's compound and for their leaders to be arrested for insurrection.

■ **Three Islamic militants** killed a soldier and two civilians in Indian Kashmir and took hostages, prompting battles with police in which they were killed. **Page 3**

■ **Zimbabwe's opposition** accused Mugabe of abandoning power-sharing talks and said he would fail if he tried to rule alone.

■ **Indian police imposed** a curfew to end deadly Hindu-Christian clashes in Orissa state. Pope Benedict XVI condemned the violence.

■ **Arctic Ocean sea ice** has melted to the second-lowest level on record, new satellite data show.

■ **The Dalai Lama canceled** two overseas trips due to exhaustion and will undergo medical tests in Mumbai, his office said.

EDITORIAL & OPINION

Dems in Denver

How race, big labor and mystery are shaping Obama's candidacy. **Pages 13,15**

As America prepares to vote

Reuters

Vice presidential candidate Sen. **Joe Biden** at the podium of the 2008 Democratic National Convention in Denver

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German data suggest peak for euro-zone's inflation

By **Emma Charlton** *in London and* **Joellen Perry** *in Frankfurt*

Slowing German inflation this month suggested euro-zone inflation likely peaked in July amid falling oil prices, but European Central Bank officials tried to damp market expectations of interest-rate cuts by warning inflation is likely to remain well above the bank's comfort level for the foreseeable future.

German annual inflation slowed to 3.3% in August from 3.5% in July, according to the Federal Statistics Office. Germany accounts for nearly one-third of the 15-nation euro-zone's overall inflation measure, leading economists to expect the bloc's rate, due Friday, will also show a slowdown to 3.9% from July's 4%.

"Oil prices hovering around $115 per barrel imply that [euro-zone] inflation is likely to have peaked at 4%," said Marco Valli, an economist with UniCredit in Milan. "We think August will mark the beginning of a prolonged slowdown that will push consumer prices to 3% in March and

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China Inc. turns to bonds from stocks

By Laura Santini

HONG KONG—Its years-long love affair with stocks on the rocks, corporate China is turning to debt.

Many of mainland China's major companies are issuing billions of dollars of new corporate bonds, bucking the global aversion to debt. The trend is helped by expectations of a rising yuan, which would goose returns for foreign bondholders and has helped Chinese companies issue bonds under less-costly terms.

At the other end of the spectrum, hedge funds have become the lender of last resort to a group of less-established, cash-strapped Chinese companies—loans that sometimes come at a heavy price to the borrower.

Other routes to capital have suffered at the hands of China's ailing stock market, skittish bank lenders and Beijing policy makers hoping to tame growth and slow inflation. The benchmark Shanghai Composite Index has declined about 55% this year.

"The equity market is pretty much closed," says Neil Ge, who has been appointed to run Credit Suisse's soon-to-be launched securities entity in China. "So for corporations to raise money, the only way is to tap the bond markets."

The broadened landscape could tempt more Chinese companies to pile more debt onto their balance sheets. But longer term, the development opens up another money-raising avenue for China's corporations,

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LEADING THE NEWS

Heineken net jumps 35%

Acquisition plumps results as brewer combats rising costs

BY AARON O. PATRICK

A big acquisition helped lift **Heineken** NV's first-half net profit 35% from the year-earlier period to €407 million ($596.1 million). But the jump masked the headwinds the world's largest brewers are facing: rising commodity prices and transportation costs, as well as falling U.S. beer sales.

The Dutch company faces the same problem that most big food and consumer-goods producers are grappling with: how to pass on rising costs without hurting sales. A 15% increase in transportation, packaging and food prices will cost the company an estimated €375 million this year, Chief Financial Officer René Hooft Graafland said.

Heineken has responded by signing long-term deals to lock in prices for packaging materials and beer ingredients. It is also increasing prices, betting that its customers like its beer enough not to switch to rivals, Mr. Hooft Graafland said.

"Luckily we have strong brands," Mr. Hooft Graafland said at a news conference at the company's Amsterdam headquarters, adding that Heineken, whose brands include Amstel, Heineken Premium Light and Newcastle Brown Ale, plans to increase "pricing in most markets."

With its U.S. business suffering amid tough economic conditions, Heineken hasn't raised prices there, concerned that drinkers would switch to other brands. But the strategy hasn't been much help: Heineken's U.S. beer sales by volume fell 5.8% in the first half from the year-earlier period.

AFP

A Heineken advertisement in Shanghai. The company posted a jump in first-half profit, but it is grappling with rising commodity prices and a slow U.S. market.

The company hopes a big marketing push around the next James Bond film, "Quantum of Solace," will help improve U.S. sales when the campaign launches in October.

Heineken posted a 17% increase in first-half revenue to €6.41 billion from €5.5 billion, lifted by the purchase of parts of Scottish & Newcastle, a U.K. beer company, in May. It didn't break out quarterly results.

Heineken hasn't raised its U.S. prices, fearing drinkers may switch brands.

The news sent Heineken shares up 1.8%, or 55 European cents, to €31.84 in Amsterdam trading Wednesday. The stock has fallen nearly 30% the past 12 months on such concerns as declining beer demand, weakening economies in some major markets, and the pending combination among the industry's biggest brewers.

The world's biggest brewer by volume, **InBev SA**, recently agreed to buy No. 3 **Anheuser-Busch** Cos. The deal will leave the U.S. market dominated by two beer giants, Anheuser-Busch InBev and Miller Coors LLC, a joint venture of **SABMiller** PLC, the world's second-largest brewer, and **Molson Coors Brewing** Co. Heineken is the world's fourth-largest brewer by volume.

Heineken executives were cautious about the outlook for the second half. Revenue for 2008 will rise at least 5% after stripping out the effects of acquisitions, disposals and currency changes—so-called organic growth—Mr. Hooft Graafland said. That could indicate the company expects a slowdown; organic revenue growth was 6.7% in the first half.

Former Alcatel executive on list to replace Russo

BY LEILA ABBOUD AND JOANN S. LUBLIN

Telecom equipment firm Alcatel-Lucent has compiled a short list of serious contenders to be its next chief executive, including Mike Quigley, a longtime Alcatel manager who left the company last year, according to people familiar with the matter.

The search is continuing, and an announcement appears weeks away. However, a French media report that Mr. Quigley might rejoin Alcatel-Lucent has prompted the company's stock to jump 5.3% in the last two days to close at €4.12 ($6.03) on the Paris Bourse on Wednesday. Mr. Quigley, a native of Australia, was chief operating officer of Alcatel before it merged with Lucent Technologies Corp. in 2006. He left soon after the deal was completed because Lucent's CEO, Patricia Russo, was chosen for the top spot.

Alcatel-Lucent declined to comment on the status of the search for successors to Ms. Russo and Chairman Serge Tchuruk. French newspaper le Figaro quoted Mr. Tchuruk on Monday as saying that the nominations would be made "very quickly." Mr. Quigley couldn't be reached for comment.

After six straight quarters of losses and management infighting at the French-American firm, Alcatel-Lucent's board announced in late July that Ms. Russo and Mr. Tchuruk would leave. Mr. Tchuruk will step down Oct. 1, and Ms. Russo will leave when her successor is found. The company's stated reason for the departures was that the merger's initial phase was over and it was time for fresh faces.

Whoever takes over at Alcatel-Lucent faces the task of righting the ship. The merger was supposed to give Alcatel-Lucent the scale and pricing power to compete with low-cost Asian telecom gear makers. But the companies have proven harder than expected to integrate, amid bickering between Mr. Tchuruk and Ms. Russo and culture clashes among employees.

Meanwhile, the telecom industry was hit with price wars and slowing demand. Ms. Russo was forced to issue three profit warnings last year, and more than two-thirds of the firms' premerger market capitalization was wiped out.

The company's hunt for new management is being led by Daniel Bernard, an outside director, with the help of U.S. search firm **Korn/Ferry International**.

Mr. Quigley once ran Alcatel's business in the U.S. and is well respected by telecom operators in that important market.

TNS opposes one remaining bid

BY AARON O. PATRICK

LONDON—British market researcher **Taylor Nelson Sofres** PLC refused to drop its opposition to a £1.1 billion ($2.02 billion) takeover bid from ad giant **WPP Group** PLC, pushing for a higher price despite the fact that the only other bidder had walked away. On Wednesday, the same day German market-research firm **GfK** AG announced that it had been unable to raise enough money for a bid, TNS told its shareholders not to accept WPP's offer.

GfK's withdrawal has left the London-based market researcher with few options. TNS shares were down 1% at 266 pence late Wednesday on the London Stock Exchange, just below WPP's 269-pence-a-share offer.

Hedge funds and other short-term investors have been heavy buyers of TNS shares on hopes WPP would get in a bidding war with GfK. But the German company found itself unable to raise enough cash to trump WPP's bid. Negotiations to make a bid in conjunction with private-equity fund **Apax Partners** failed. An Apax spokeswoman declined to comment. TNS's first-half results, released Wednesday, showed net income fell 12% to £19.6 million.

—Dana Cimilluca contributed to this article.

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LEADING THE NEWS

Viewing wasteland of war

Treacherous journey into Georgia reveals toll of bitter conflict

BY ANDREW OSBORN

TBILISI, Georgia—The trip began in Vladikavkaz, home to Russia's feared 58th army, and ended in Gori, the Georgian town where Josef Stalin was born. It traversed Russian, South Ossetian and Georgian territory, taking a beeline through what was recently a war zone. Undertaken in a variety of vehicles and on foot, I met soldiers, irregular fighters, looters and refugees.

REPORTER'S NOTEBOOK

On display: the deep well of ethnic enmity that exists between Ossetians and Georgians, as well as the armored fist of Russia's armed forces. The trip revealed the depth of civilian suffering on both sides from just five days of fighting, from the shell-battered South Ossetian town of Tskhinvali to the bulldozed ethnic Georgian villages on its outskirts.

It began on the banks of the River Terek in Vladikavkaz, a Tsarist-era fortress town where Russia still garrisons its troops. A small group of foreign journalists and their ever-vigilant Kremlin minders set off for Tskhinvali, in my case for the seventh time.

Soon, the bus was climbing toward Russia's border with South Ossetia, motoring along roads etched into steep mountain passes. Russian army units rested by the roadside and grimy-faced young soldiers could be spotted trying to get some sleep. Curled like cats on the top of their stationary T-72 tanks, they were oblivious to passing traffic.

At the border, dozens of trucks were backed up, filling the air with fumes. The trucks carried timber, roof covering, bread and propane gas for South Ossetia's reconstruction. Interspersed among them were private cars and minibuses—returning South Ossetian civilians.

We crossed the border and before long were passing through the almost four-kilometer-long Roki tunnel, one of many tunnels that slice through the Caucasus. Lit by halogen lamps, the tunnel has an unfinished feel to it, and the air is short on oxygen. It was through here that Russia sent its tanks.

When we emerge, we are greeted with a picture-postcard view. Before us is a green valley crisscrossed by a narrow road that winds its way downward like forked spaghetti. In the distance, snow-capped mountains glisten in the sun.

A long column of Russian armor is making its way toward the tunnel while other armored columns and trucks are parked on higher ground. As we speed along, I notice red graffiti daubed on roadside stones and abandoned buildings: *"Spasibo Rossiya!"*—"Thank you Russia!"

We pass large, color posters declaring Ossetia's "indivisibility" and a lonely bust of Vladimir Lenin standing in a dusty parking lot in front of a filthy WC.

Just outside the village of Java, we are held for more than an hour to allow a military column to pass. The road is empty at first, but then we hear the rumbling of tanks and it starts: A stream of more than 200 vehicles—tanks, trucks, armored cars and howitzers—trundle past, kicking up plumes of dust. Groups of from three to eight Kalashnikov-toting soldiers cling to the top of each vehicle like barnacles, determined not to be shaken off.

As they pass, some wave while others pump their fists into the air triumphantly and smile. The traffic is sometimes three abreast and includes civilian cars driven by Ossetian men who grin like they are having the times of their lives.

At one point, a truck carrying heaped bales of hay passes, catching a Kremlin minder's eye.

"Why do they need hay?" he asks, shaking his head disapprovingly. "They're looters," he adds, before checking himself. "Maybe the hay is for the tanks."

Next comes a string of ethnic-Georgian villages that have been targeted by Ossetian militias. The villages were in a bad way on previous trips—almost every house was roofless and gutted. Now it is worse. A large Caterpillar bulldozer is at work and many of the houses are just piles of rubble.

Spoils of war are being claimed: A car has dark-wood furniture lashed to its roof. In another ethnic-Georgian village, windows of a big electronics store are smashed; a couple of white refrigerators lie beached like whales.

Some celebrate a victory while others are left to sift through wreckage.

In Tskhinvali, the South Ossetian capital, the cleanup has begun. The streets have been cleared of burned-out tanks. Civilian cars and pedestrians have returned and a few small stores have reopened.

But it still looks bad. There is little water, no electricity and the downtown area is a collection of shell-pocked and burned-out buildings. I don't linger—staying just long enough to be accused of spying by a Russian officer who says he has seen me here too many times.

Cab service hasn't restarted but I spot a car with a taxi sign and tell the driver I want to go to Gori in Georgia. *"Poyekhali!"*—"Let's go!"—he says, and we drive toward Georgia. After what seems like a short distance, we hit a checkpoint.

A man clutching a long sniper's rifle asks for my documents. Then four others surround me—local Ossetian militia. "We're not letting any cars pass," says a short, overweight man who calls himself Yuri. "Why would anyone go in that direction," he asks, rhetorically. "Only to loot."

At that moment, a jeep carrying Russian military police pulls up and the document check starts over. My taxi driver says he is leaving and hurriedly drives off. Requests for a lift are rebuffed. "If you were Russian it would be different," Yuri says. "Gori is 28 kilometers by foot."

I start walking. Somebody will give me a lift, I think. But for the next three hours, there is hardly any traffic in what I realize has become a dead zone. An occasional Russian military truck and the odd civilian car roar past; nobody stops. I pass a pair of dead pigs rotting in the sun, a discarded Russian soldier's cap and heaps of abandoned possessions, rejected perhaps by picky looters. A large Russian military base looms on my left—two sentries look through me as if I don't exist.

The area used to be populated by ethnic Georgians. A shredded poster of Georgian President Mikheil Saakashvili hangs forlornly from a telegraph pole. Machine-gun shells litter the road and chickens peck in the dust. I pass dozens of houses but nothing stirs.

Then a truck that has refused me a lift disgorges a woman. She is Salima Goyeva, a 65-year-old Ossetian who says she works in Tskhinvali's main drugstore. She is trying to return to her mixed Ossetian-Georgian village with medicine for her neighbors. We walk for a few kilometers past shell-crumpled cars, charred houses and ghost villages.

Suddenly people—Georgians—appear, albeit in tiny numbers.

Andrew Osborn/The Wall Street Journal

A Russian self-propelled howitzer in South Ossetia

In the village of Tkviavi, we meet four old women seated on a bench outside their house. They bring us water and we drink and talk.

"We hid in our garden when the Ossetians came and burnt our houses," says Nino Tshashashvili, one of the women.

None of them speaks Russian, and none relishes the prospect of their village being subsumed into Russia. "If it becomes part of Russia they won't let Georgians live here," Ms. Tshashashvili says.

Ms. Goyeva heads off for her village soon afterward and I carry on. In the center of Tkviavi, two men sit in a bus shelter waiting for a bus that will never come. Both are drunk. "Please take a photograph of my house," one says, "so that I can prove the damage."

A little farther on, a white Lada jeep with four occupants suddenly screeches to a halt. "Get in," says the elderly driver, whose smile flashes with gold teeth. The Lada roars off at breakneck speed.

"Have a peach," the man says. He won't take no for an answer. I soon have six peaches in my bag. The men are Georgian and say the car is looted. They are looking for their own car that they say was looted by Ossetians. Soon we find it, in a ditch with no tires, its windshield shattered. This doesn't depress the looters. We part company as one of them rummages through the pockets of old clothes on the recovered car's backseat. As I walk farther, I pass more burned-out houses, apartment blocks and wrecked shops.

An old Ford transit van stops and I hop in with a few locals, also looking to get to Gori. The driver, Vasi Pavlashvili, is returning from a visit to his home in Tkviavi. He says he approached his house but fled when he saw gunmen in his garden.

"They were sunbathing in their underwear like on the beach," he said. Minutes later, we reach the last Russian checkpoint before Gori. "Open up so I can have a look," a Russian soldier barks. The door slides open and the soldier conducts a brief search. "Can we pass?" asks the driver. *"Da,"* says the soldier.

Indian police clash with militants in Kashmir

BY VIBHUTI AGARWAL

NEW DELHI—In a sign that militants are trying to further inflame tensions in Kashmir, police say three members of a banned Pakistani terrorist organization crossed into India, started shooting and took hostages, prompting a gun battle with police in which the gunmen were killed.

It is the latest worrying development after weeks of unrest in the volatile area, where dozens have died in about two months of protests and violence following a controversial decision by the state government to donate 40 hectares of land for a holy Hindu pilgrimage site. The decision irked Muslims, who are in the majority in the state of Jammu and Kashmir, and its subsequent reversal prompted retaliatory protests from Hindus.

Police officials say three terrorists crossed into India-controlled Kashmir Tuesday by cutting through a border fence. Dressed as policemen, they went on a shooting rampage early Wednesday morning in Jammu, a majority-Hindu city in the southern part of the state. They killed one soldier and at least two civilians. They then took several civilians, including four children, hostage in a home on the outskirts of the city where they engaged in a gun battle with police that left the three gunmen dead, according to New Delhi Television.

Associated Press

Female paramilitary soldiers check the medical papers of a Kashmiri woman being carried to hospital during **a curfew in Srinagar, India**.

"They are the same infiltrators who sneaked into the India territory from the Pakistani side on Tuesday," said Rajendra Kumar, inspector-general of police in the Jammu region. "Intelligence sources have indicated them as members of the banned Islamic group Lashkar-e-Taiba."

Pakistan-based Lashkar-e-Taiba is a militant outfit fighting for the independence of Kashmir. It has been banned by both India and Pakistan.

Shri Amarnath Yatra Sangarsh Samiti, a Hindu nationalist organization, postponed a public rally scheduled for Wednesday in the wake of the terror attack. The rally was to agitate for the granting of the state land for the Amarnath pilgrimage site. A spokesman for the organization, Sangarsh Samiti Jitender Singh, said, "The rally has been canceled in view of the terror attack. But our demands would continue."

About 10,000 extra troops have been sent to the region to try to restore order. A curfew in place since Sunday in Srinagar, the major city in the Muslim-majority Kashmir Valley, will be lifted gradually, authorities said Wednesday, to allow residents to buy essentials.

CORPORATE NEWS

SHIPPING

A.P. Moller agrees to buy tanker concern Brostrom

Brostrom

DANISH SHIPPING and oil company **A.P. Moller-Maersk** AS said it agreed to acquire Swedish product-tanker company **Brostrom** AB for 3.62 billion Swedish kronor ($565.4 million). Brostrom shareholders controlling 55.9% of the company's shares have already accepted the deal and Brostrom's board has endorsed the offer. The offer price of 57 krona per share represents a 23.6% premium to the average closing price of Brostrom's shares over the past three months. Moller-Maersk also reported a 39% rise in first-half net profit to 1.59 billion Danish kroner ($312.1 million), while revenue was up 13% to 148.37 billion kroner. *—Gustav Sandstrom*

Human Resources

Adecco has until Sept. 30 to bid on Michael Page

Adecco

SWITZERLAND-based **Adecco** SA has until Sept. 30 to launch a firm bid for British recruitment company **Michael Page International** PLC, the U.K. takeover panel ruled Wednesday. Earlier this month, Michael Page had rejected the Swiss staffing company's tentative £1.3 billion ($2.4 billion), or 400-pence-a-share, bid. An acquisition of the smaller company, which specializes in the placement of white-collar staff, such as financial advisers and lawyers, would help boost Adecco's still-fledgling high-end staffing business. Adecco, which hasn't excluded a hostile bid, said both companies have accepted the ruling. *—Goran Mijuk*

AUTOS

Vehicle production rises at Japanese manufacturers

Shutterstock

JAPAN'S THREE largest car makers saw domestic auto production rise in July because of a one-time event, but the outlook for the industry is still uncertain.

Toyota Motor Corp., **Honda Motor** Co. and **Nissan Motor** Co. on Wednesday released data showing a jump in July output, as year-earlier figures were artificially low because of an earthquake that forced the companies to temporarily stop production.

If the impact of the quake is excluded, Nissan would still have posted 31% growth and Honda's output would have risen 0.2%, benefiting from solid domestic sales and exports, but Toyota's production would have fallen 0.1%. *—Yoshio Takahashi*

Labels skip iTunes, seeking greater profit

Single-song format crimps album sales, some artists argue

BY ETHAN SMITH
AND NICK WINGFIELD

ITUNES HAS been the runaway hit of the music business, selling more than five billion downloads of songs since it started five years ago, but a growing number of record companies are now trying to steer clear of **Apple** Inc.'s behemoth, because they think that in some cases, it's crimping overall sales.

Atlantic Records kept Kid Rock's "Rock 'n' Roll Jesus" album off iTunes' virtual shelves and still sold 1.6 million copies after it was released last year—a sizable number in the depressed music industry. Sales have even increased in 19 of the past 22 weeks, according to Nielsen SoundScan, vaulting it to No. 3 on the Billboard 200 sales chart. Last week, **Warner Music Group** Corp.'s Atlantic Records yanked from the iTunes Store an album by R&B singer Estelle, four months after the album had gone on sale there—and the same week one of its songs entered the top-10-selling tracks on Apple's download service.

Avoiding iTunes, now the U.S.'s largest music retailer, according to research firm NPD Group Inc., runs against what has become the conventional logic of the music business. It is now taken as an article of faith in the industry that digital downloads will eventually replace compact discs. But there is a growing discomfort with the dominant role iTunes already plays.

Label executives, managers and artists all chafe over how iTunes prevents them from selling an album only as a single unit. Instead, iTunes, with only few exceptions, requires that albums be made available as separate songs.

Some artists see their albums as one piece of work and don't want them dismantled. Their handlers tend to have financial objections: They can make more by selling complete albums for $10-$15 than individual songs.

"In so many ways, it's turned our business back into a singles business," says Ken Levitan, Kid Rock's manager. Far from being a savior to the industry, Mr. Levitan calls the rise of iTunes "part of the death knell of the music business." An Apple spokesman declined to comment.

Reuters

Though digital downloads are expected eventually to replace compact discs, there is a growing discomfort with the **dominant role** that iTunes already plays.

Music sales have been in a free fall since 2000, the year file-sharing networks made online copying of music widespread. The launch of Apple's iTunes service in 2003 was hailed as a potential savior for the industry, allowing consumers an easy and legal way to buy music online, while still cutting in record companies on a portion of the sales. But Apple isn't willing to sell songs for more than 99 cents, something most record labels see as critical to increasing revenues. Apple keeps about 30% of the price of each music sale, whether it's a 99-cent track or a $10 album, according to people in the music industry. Apple has said it makes little profit from iTunes as a result of the costs of running the online store.

Irving Azoff, manager of numerous high-profile acts, says that a few years ago, he presented his clients the Eagles with a financial analysis showing that their royalties to date from iTunes sales were far lower than anyone expected.

That sentiment was a factor in the band's decision to sell its latest album, "Long Road Out of Eden," only through **Wal-Mart Stores Inc.**

Still, shunning iTunes carries risks for the labels. Not only is it the biggest force in music sales, but keeping songs off the service could prompt listeners to look for illegal downloads instead. In addition, customers have demonstrated a clear preference for buying singles instead of entire albums.

Dell unveils emerging-market PCs

ASSOCIATED PRESS

Dell Inc. unveiled four low-cost computer models Wednesday designed for China, India and other emerging economies in a new bid to tap the potential of high-growth markets outside the U.S.

The two notebook and two desktop PCs are the first Dell models designed especially for emerging markets, said Steve Felice, the U.S. computer maker's president for the Asia-Pacific region. They are meant for small-business users and are to be sold in 20 countries across Asia, Africa and Latin America.

Strong sales in Asia helped Dell turn in better-than-expected results in the first quarter despite a slowing U.S. economy.

The company is due to report its latest quarterly results Friday, and analysts are watching whether it can maintain its growth pace.

"Our success is going to be largely dependent on our ability to expand globally," Mr. Felice said.

Dell and rivals **Hewlett-Packard** Co., Taiwan-based **Acer** Inc. and China's **Lenovo Group** are expanding aggressively in emerging economies as sales growth in the United States and other developed markets slows.

Dell's first-quarter sales in the so-called BRIC emerging markets—Brazil, Russia, India and China—grew 58%, about 10 times the U.S. rate, Mr. Felice said. He said Dell expects 20% to 30% annual growth in those markets in coming years.

Prices for the new Vestro notebooks will start at 3,299 yuan ($482) and for the desktop PCs at 2,999 yuan, according to Mr. Felice.

Beijing-based Lenovo, which acquired IBM Corp.'s PC unit in 2005, is targeting China's vast but poor rural market with a basic PC released last year and priced as low as 1,499 yuan.

Dell, based in Round Rock, Texas, broke with its usual development and marketing strategy for its latest products, Mr. Felice said.

"We used to design products for global requirements and distribute the same product globally," he said. "In this situation, we started with talking to emerging-country customers, designing a product for emerging countries, and our initial launch of the product is only in emerging countries. That's a big departure in our strategy."

The move reflects a growing focus by global computer, automobile, consumer-goods and other companies on creating products for increasingly prosperous customers in China, India and other emerging economies.

Associated Press

Dell and rivals H-P, Acer and Lenovo are **expanding aggressively** in emerging economies as sales growth in the U.S. and other developed markets slows.

According to Mr. Felice, industry forecasts say China's computer sales should grow from 50 million units last year to 500 million by 2015, or double that year's projected U.S. sales. The new Dell models were created by a Shanghai design center set up to focus on emerging markets, Mr. Felice said.

CORPORATE NEWS

Mobile phones see slower growth

Second-quarter sales rise 12% as economy, competition take toll

BY ADAM EWING

The economic slowdown is still hurting the global handset market, research firm Gartner Inc. said in its quarterly report on the industry.

About 304.7 million mobile phones were sold in the second quarter—a 12% jump from a year earlier—thanks to growing sales in emerging markets. Still, that is a slowdown from the second quarter of 2007, when the number of mobile phones sold had jumped 21% from a year earlier.

Carolina Milanesi, research director for mobile devices at Gartner, warned that greater competition and a weakening economy are causing users to wait before buying new phones.

For the full year, Gartner said it expects handset sales to grow 11% to 1.28 billion phones, slowing from last year's 16% growth.

Sales in India, the Middle East and Africa remained strong, said Gartner, while Eastern Europe, China and some Latin American countries saw slower growth.

"The economic environment continued to negatively impact mobile-phone sales in both mature and emerging markets," Ms. Milanesi said.

Facing rising costs for fuel and food and generally higher levels of inflation, many consumers shied away from replacing old handsets or opted for midtier rather than high-end devices, Ms. Milanesi said.

An exception to this trend were smart phones like Apple Inc.'s iPhone, which have wireless Internet capacity. Gartner expects the global smart-phone market to grow 52% to 190 million devices, reaching a market share of 15% or about $65 billion.

Finland's **Nokia** Corp. remained the top-selling mobile-phone company, with sales of 120.4 million handsets in the second quarter. It increased its global market share to 39.5% from 36.7% a year earlier.

Samsung Electronics remained in second place. The South Korean company sold 45.7 million phones, expanding its market share to 15.2% from 13.3% in 2007.

Motorola Inc., on the other hand, saw a sharp drop in its market share, to 10% from 14.5% after selling 30.4 million handsets. The U.S. company might have to lower its prices since it lacks competitive features on its devices, Ms. Milanesi said.

South Korea's **LG Electronics** boosted its market share to 8.8% from 6.8%, putting Sony Ericsson, the joint venture between Japan-based **Sony** Corp. and Sweden-based **Telefon AB L.M. Ericsson**, in fifth place. Sony Ericsson's share of the global handset market fell to 7.5% from 8.9% a year earlier.

ArcelorMittal faces strike threat

BY ROBERT GUY MATTHEWS AND KRIS MAHER

ArcelorMittal's U.S. business is lagging behind its world-wide operations, eliminating profit-sharing checks for workers at some U.S. plants.

Associated Press

With contract talks stumbling over health-care benefits and profit-sharing, the United Steelworkers are threatening a strike against **ArcelorMittal**, the world's biggest steelmaker, by output, if the two sides can't agree on terms by Saturday.

The union is urging members to vote to authorize a strike Wednesday, saying negotiations have stalled. A strike by ArcelorMittal's 14,000-member work force at its U.S.-based plants could push already high steel prices even higher as buyers compete for limited steel supplies.

ArcelorMittal said it was "optimistic" it would reach an agreement by Saturday. The union is chafing at ArcelorMittal's proposal to increase retiree health-care contributions by 39% in the next four-year contract. The current contract expires Sept. 1.

"The company's current position does not do justice to our needs and demands and does not match the pattern set by the U.S. Steel agreement," the union's negotiating panel said in an update mailed to members Tuesday.

Earlier this month, **U.S. Steel** Corp. and the union reached a tentative agreement for a lucrative contract that the union at the time called "the best labor deal we have done in steel in 30 years." U.S. Steel agreed to cut health-care premiums for retirees, according to the union. Members are expected to ratify the agreement soon.

The union was hoping that its agreement with U.S. Steel would be a template for an ArcelorMittal agreement. However, ArcelorMittal's management appears to have concluded that the U.S. Steel contract was too generous. The company wouldn't comment publicly about the specific contract sticking points.

The battle comes at a time when the steel industry has been enjoying strong demand and high prices, and labor has indicated it wants workers to get a share of the added profits. Already, union steelworkers are bringing home extra cash by working large amounts of overtime and the mills are using tight supplies as leverage over their customers, including auto makers and appliance and construction-equipment companies.

ArcelorMittal, based in Rotterdam, Netherlands, this year has instituted multiple price increases and has told automobile companies, which buy steel under long-term contracts, that they would have to pay more despite existing contract agreements.

But while ArcelorMittal's world-wide operations are bringing in record profits, its U.S. operations haven't been as strong compared with those outside the U.S. In 2008's first quarter, sales targets at some of its U.S.-based plants weren't met, and the workers in those locations didn't get profit-sharing checks, which has irritated union members. The unions wanted their profit-sharing to be tied to the company's world-wide performance, but ArcelorMittal has so far resisted that move.

MAR Inc. steel analyst Michelle Applebaum says the union is unlikely to go on strike. "It is pretty normal to get strike approval and there be no strike. They have such a good relationship with ArcelorMittal and it's hard to think that this will go to strike," she said.

Boeing softens stance in union talks

BY J. LYNN LUNSFORD

Boeing Co., in an effort to close the gap with its largest labor union during tense contract negotiations, softened its stance on some key areas and offered to boost monthly pension payments by 11.4% and give its machinists raises totaling 9%.

Officials at Boeing's Commercial Airplanes unit revised their offer on Tuesday after leaders of the International Association of Machinists and Aerospace Workers warned that management's first offer would almost certainly result in the company's second strike since 2005.

The company is in the final week of talks with the Machinists union, which represents 26,000 workers. Boeing hopes to make its final proposal on the three-year contract as early as Thursday, before they vote on Sept. 3.

"Since presenting our first offer, we've spent a great deal of time meeting with the IAM to focus on their contract priorities," said Boeing chief negotiator Doug Kight in a letter to Boeing managers. "We have made substantial movement in pay, pension and health care. We have withdrawn key proposals that were important to the company but of concern to the union."

Boeing had sought to move away from a traditional pension plan for newly hired workers, replacing it with a 401(k) type plan. In its latest offer, the company removed that proposal. It also struck language that would have allowed Boeing to bring in contract workers to maintain its factories, as well as a proposal that would have split off workers in the company's Wichita, Kan., facilities into a separate bargaining unit.

The Machinists union said many of Boeing's proposals "should never have been on the table to begin with" because the company has posted record profits during the previous contract period. Despite the latest changes, there "are still deal breakers on the table," the union said.

—August Cole contributed to this article.

Taylor Wimpey swings to a loss on write-downs

A WSJ NEWS ROUNDUP

Taylor Wimpey PLC swung to a massive first-half net loss after write-downs of £1.51 billion ($2.78 billion) to the value of its assets, and it said it has yet to seal a crucial loan deal with its banks.

The U.K. house builder posted a net loss of £1.42 billion compared with a net profit of £22.7 million a year earlier, even though revenue climbed 35% to £1.89 billion from £1.40 billion.

The bottom line was hit by a write-down of £690 million on the value of its land in the U.K., North America and Spain, a write-down of goodwill and intangible assets of £816 million, and £40 million in restructuring costs.

Taylor Wimpey is the third U.K. house builder this month to report a fall in first-half profit, following on the heels of Persimmon PLC and Bovis Homes Group PLC.

In July, Taylor Wimpey reported it had failed to raise cash from shareholders and new investors to relax its £1.7 billion debt burden. Chief Executive Peter Redfern said Taylor Wimpey hasn't ruled out selling a stake in the company, but that no formal discussions are being held. He said the lines of communication with investors remained open and that the company isn't actively trying to raise money.

That statement, however, wasn't enough to reassure investors, who sent Taylor Wimpey's shares down 3.75 pence (about $0.07), or 7.2%, to close at 48.25 pence in London. The company's shares have lost 84% of their value in the past year as the fall in the U.S. housing market has spread to Europe. Taylor Wimpey has a market capitalization of about £528 million.

"The current operating environment in the U.K. housing market remains very challenging, and we do not anticipate any recovery in the short term," Taylor Wimpey said. The U.S. market remains weak, but is more stable than in 2007, the group added. It doesn't expect any material recovery until 2009 at the earliest, but said it remains convinced of the fundamental value of the business over the medium and long terms.

U.K. panel backs covering costs of eye treatment

BY ANITA GREIL

The U.K.'s cost-effectiveness watchdog Wednesday recommended that an expensive new treatment for the leading cause of blindness in elderly people be paid for by the country's national health insurance.

Britain's National Institute for Health and Clinical Excellence, which is known for its tough stance on expensive drugs, recommended the drug be freely available to U.K. residents, with the country's National Health Service paying for 14 injections of the drug in each eye.

The medicine, called Lucentis, is sold in Europe by Switzerland-based drug maker **Novartis** AG.

The U.K. agency reached a deal with Novartis under which the company will reimburse the National Health Service for any additional injections needed.

The condition treated, wet age-related macular degeneration, is an eye disease characterized by abnormal blood vessels that form under the retina, the light-sensing part of the eye. The vessels leak fluid into the eye, damaging the macula, the central part of the retina at the back of the eye.

"Lucentis is an expensive drug, costing more than £10,000 ($18,386) for each eye treated," Andrew Dillon, chief executive of the National Institute for Health and Clinical Excellence, said in a statement. "But that cost needs to be balanced against the likely cost savings. It has been estimated that the costs related to sight impairment for patients treated with Lucentis are around £8,000 cheaper than for patients who receive best supportive care over a 10 year period," he said.

In the U.S., the drug is sold by its developer, **Genentech** Inc., a biotechnology company controlled by Novartis's Swiss rival, **Roche Holding** AG.

Genentech has been criticized by some for the high price it charges for Lucentis, which is derived from the same mouse antibody from which a successful cancer drug, Avastin, was developed.

Before Lucentis had won U.S. approval, some doctors had treated the eye condition with far less expensive Avastin, in what is known as off-label use. Avastin is approved only to treat cancer, but when used for the eye condition it works the same way as Lucentis. However, there is no solid data from clinical trials on the safety and efficacy of Avastin when used to treat the eye disease.

Separately, Novartis said that the U.S. Food and Drug Administration has granted priority-review status to its drug Gleevec as the first therapy to fight a rare stomach cancer from recurring after surgery.

Novartis said priority-review status accelerates the standard review timing to six months from 10 months. It is granted to drugs that potentially fill an unmet medical need. Similar regulatory submissions have been filed in the European Union and Switzerland and will be filed in other countries shortly, the company said.

The submissions are based on data from a late-stage trial that showed an 89% reduction in risk of a rare gastrointestinal tumor returning after surgery in patients treated with Gleevec, compared to those who received a dummy pill.

Gleevec, which is already sold as a treatment for blood cancer, is Novartis's second-best selling product after the heart drug Diovan.

FINANCIAL NEWS
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CORPORATE NEWS

MGM Studios staring at UA's pot of gold

CEO's departure might block access to $500 million line

By Peter Sanders
And Lauren A.E. Schuker

Who is is calling the shots at United Artists? That is the $500 million question for **MGM Studios**.

MGM owns two-thirds of the historic UA movie label, which holds access to a coveted $500 million in financing raised by **Merrill Lynch** & Co., but now administered by **J.P. Morgan Chase** & Co. That is money that MGM Studios could use to help dig itself out of its current financial struggles. But the departure of UA Chief Executive Paula Wagner earlier this month raised questions about whether MGM can still use the cash, which Ms. Wagner and partner Tom Cruise helped raise with MGM last year.

MGM is facing a tough moment. It had a net loss of $400 million in its last fiscal year, which ended in March. That loss includes $300 million in annual interest on its debt. Its library, however, generated $558 million in net cash in the past fiscal year.

Looking ahead, MGM is facing a $3.7 billion loan repayment due in March 2012, and studio officials say they hired investment bank **Goldman Sachs Group** Inc. earlier this year to explore long-term options to help the studio raise capital. An MGM spokesman on Monday denied the studio was for sale.

The departure of Ms. Wagner from UA raised the possibility that MGM might try to tap into the fund by essentially merging the two studios.

Officials at MGM say the two studios remain separate entities with no plans to merge.

People familiar with the situation say that UA isn't seeking a successor for Ms. Wagner, who, as CEO of the studio, had the power to approve film projects. Now, Mr. Cruise has sole power to make certain United Artists movies like those budgeted under $60 million. For most films, however, including those costing more than $60 million, MGM officials also have greenlight power. Mr. Cruise doesn't seem eager to run the studio as an executive, focusing instead on rebuilding his reputation in Hollywood as a top actor. Mr. Cruise declined to comment.

People at UA say a number of projects are being actively developed.

In recent months, MGM, which relies almost entirely on its extensive film library to generate revenue, has made a series of high-profile and expensive executive hires to bolster its moribund film studio. Mary Parent, a longtime independent producer and former senior production executive at General Electric Co.'s Universal Pictures, came aboard in March and has moved quickly to acquire material for feature films to be produced by MGM.

The studio hopes to release as many as eight to 12 of its own movies in 2010. But the company has yet to line up outside financing to fund all of those proposed pictures, though officials say they continue to work closely with more than half a dozen banks in an attempt to close a new fund.

It is also likely that Ms. Parent will play an expanded role with UA's film projects. Though MGM executives worked closely with its subsidiary studio on its first two films, Ms. Wagner's vacancy could open the door for Ms. Parent to take a larger role spearheading projects at UA.

That means that MGM officials through Ms. Parent will potentially have more direct influence over how that money is spent. Ms. Parent wasn't available to comment.

That is why UA's $500 million credit could play such a crucial role. So far, UA has used all of its $75 million in equity and about half of a $75 million mezzanine-debt structure, while an additional $250 million in a revolving-credit facility hasn't yet been tapped, according to a person familiar with the situation. The remaining $100 million comes into play if the studio's movies hit certain performance benchmarks and banks agree to provide new loans.

Reuters

Tom Cruise as Nazi Col. Claus von Stauffenberg in **'Valkyrie.'**

The funding arrangement requires UA to have four films under its belt by spring of 2010, according to the person familiar with the details. That requirement puts pressure on the remaining executives at UA to aggressively develop a big slate, something that some thought Ms. Wagner didn't do quickly enough, according to sources familiar with the situation.

Ms. Wagner declined to comment.

So far, UA has tried to fulfill the fund's requirements by releasing its first film, last fall's flop "Lions for Lambs" that starred Mr. Cruise, and "Valkyrie," another film starring Mr. Cruise that is slated for a late December release.

Though UA hasn't given the green light to any additional films, people at the studio say a number of projects are being actively developed, including a Guillermo del Toro adaptation of the British television series "The Champions," an "ET" inspired film about a boy on Mars called "Out of This World," and "HeartBreakers," about the rules of dating for teenage girls.

CORPORATE NEWS

General Motors agrees to build engines in India

Pact comes a week before firm launches new car plant there

By Santanu Choudhury

NEW DELHI—**General Motors** Corp. will sign an initial agreement Thursday to build an engine and transmission plant for passenger vehicles in India, a senior executive at its local unit said.

The plant will be set up at Talegaon, near Pune city, in the western state of Maharashtra, he said.

"We will be signing a memorandum of understanding with the Maharashtra government," said Ankush Arora, vice president in charge of marketing, sales and service at General Motors India Pvt. Ltd.

Mr. Arora declined to give details about the investment in the new engine plant and its capacity.

The plant will be built at the same location where GM has established its second car factory in India. That factory is scheduled to start operations next week.

The Detroit auto maker has invested more than 14 billion rupees ($320 million) to construct the Talegaon car plant. It will have an initial capacity of 140,000 vehicles a year, which will expand GM India's annual capacity to 225,000 vehicles.

GM, which began its operations in India in 1996, currently makes six cars and sport-utility vehicles of the Chevrolet range, including the Spark minicar and the Optra sedan, at a 85,000-unit-a-year factory in the western state of Gujarat. It also imports and markets the Captiva sport-utility vehicle. The auto maker also has a technical center, including a design studio, in India's technology hub of Bangalore.

Chrysler to explore options for Dodge Viper amid shift

By Mike Barris

Chrysler LLC will explore options for the Dodge Viper hot rod as the auto maker focuses on core business and struggles to overcome its dependence on gas-guzzling trucks and sport-utility vehicles.

Chairman and Chief Executive Bob Nardelli said third parties approached Chrysler, taken private last summer by **Cerberus Capital Management** LP, about "exploring future possibilities" for the vehicle, which is hand-built in a low-volume modular process in Detroit. The Viper was introduced as a concept vehicle in 1989. It was first available as a production vehicle in the 1992 model year and Chrysler celebrated the building of its 25,000th Viper in March.

The Viper announcement comes about a week after Chrysler said Ralph V. Gilles would succeed Trevor M. Creed as vice president of design, effective Sept. 1. Mr. Creed, who is retiring after 23 years at the company, helped design the Viper.

Calling the Viper "an integral part of this company's heritage," Mr. Nardelli promised to offer "strong operational and financial support during any potential transaction, in order to ensure a future for the Viper business and perpetuate the legacy of this great vehicle."

Lazard Ltd. will assist in the review, Chrysler said, adding that there is no timetable for action.

Chrysler plans to concentrate on strengthening Dodge's core portfolio. For model year 2009, the brand will introduce four vehicles.

U.S. auto makers mull loan push

By John D. Stoll

Executives at Detroit's Big Three auto makers are considering making a more public push to lawmakers in the near future as they seek about $50 billion in low-cost loans that would greatly overhaul their product portfolios, people familiar with the matter said.

Top executives at **General Motors** Corp., **Ford Motor** Co., and **Chrysler** LLC—each racking up significant losses as industry sales decline—will likely wait until after the U.S. Labor Day holiday on Monday, following this summer's political conventions, to travel to Washington for meetings on the loans, these people said. They are expected to soon give a more concrete figure to Washington in terms of what size of a loan package is needed, they said.

The forthcoming meetings could include discussions with congressional leaders and potentially the Federal Reserve, these people said.

Because they are seeking a broad loan package from Washington, the auto executives have been encouraged to meet with Federal Reserve Chairman Ben Bernanke, one person said. The three companies plan to act as an "all-for-one" entity in reaching out for low-cost funding, this person said.

"You won't see any moves exclusive to one individual company here," this person said.

The heads of GM, Ford, and Chrysler started making highly publicized trips to Washington a couple of years ago in order to press the case for aid from lawmakers and other decision makers. Health-care costs, energy policies, and foreign exchange had been key issues Detroit was seeking support on.

But now, as high gasoline prices have boosted demand for fuel-efficient cars, the auto makers and some domestic parts suppliers are seeking low-interest loans to help them ramp up fuel-efficient car and truck development.

Because GM, Ford, and Chrysler are rushing to meet stricter emissions regulations being imposed in coming years, they feel they can easily put the entire sought-after $50 billion in assistance to work in current and future product plans.

GLOBAL BUSINESS BRIEFS

Voestalpine AG

Sales soar, but profit falls amid acquisition expenses

Austrian specialty steelmaker **Voestalpine** AG said that fiscal first-quarter net profit fell 9.3% in spite of significantly higher sales, hit by expenses related to last year's acquisition of Böhler-Uddeholm AG. Net profit declined to €217.5 million ($318.5 million) in the quarter ended June 30 from €239.7 million a year earlier. Voestalpine's sales rose 69% to €3.26 billion from €1.93 billion, boosted mainly by the additional revenue from Böhler-Uddeholm, which was consolidated in July 2007, but also by strong demand in its remaining divisions. "The results were very good. There are no weaknesses in the business," said UniCredit MIB analyst Alexander Hodosi. Voestalpine said economic conditions across its divisions are expected to remain favorable throughout 2008.

Randstad Holding NV

Netherlands-based temporary-staffing company **Randstad Holding** NV posted a 3.1% drop in second-quarter net profit because of financing costs related to the acquisition of rival Vedior NV. Randstad said the integration of Vedior is "on schedule and progressing well." Net profit fell to €94.1 million ($137.8 million) from €97.1 million a year earlier, as net finance costs jumped to €16.6 million from €500,000. Randstad said that following the Vedior acquisition, its net debt amounted to €2.14 billion at the end of the second quarter, compared with net cash of €103 million a year earlier. Revenue rose 50% to €3.38 billion from €2.25 billion, boosted by the Vedior acquisition. Randstad bought Vedior in a deal valued at €3.51 billion.

Rabobank

Dutch financial-services company **Rabobank** reported a 12% rise in first-half net profit after higher interest income and a capital gain offset a €529 million ($774.8 million) charge on risky mortgage and monoline insurance-related investments. Unlisted Rabobank, the Netherlands' leading mortgage bank, reported a net profit of €1.53 billion, up from €1.37 billion a year earlier, when it booked losses totaling €568 million because of the credit crisis. The latest results were boosted by a net gain of €276 million on the sale of Dutch online retail broker Alex Beleggersbank to Internet broker BinckBank NV, and by a 19% rise in interest income. Rabobank said total income rose 7.1% to €6.08 billion from €5.68 billion.

Autogrill SpA

Italy-based **Autogrill** SpA, which operates highway and airport restaurants as well as duty-free shops, said first-half net profit dropped 32%, weighed down by costs tied to recent acquisitions. Net profit fell to €33.9 million ($49.6 million) in the first six months of the year from €49.7 million a year earlier. Sales, however, were boosted by the integration of recent purchases, rising 25% to €2.54 billion. Acquisitions of U.K.-based World Duty Free and Spain-based Aldeasa have been consolidated from May and April, respectively. The company confirmed its full-year targets, but warned that the current international economic situation is highly unstable. The company cited oil prices, food-price inflation and traffic trends as risk factors.

CEZ AS

Czech power utility **CEZ** AS said it will invest €1.1 billion ($1.6 billion) in a wind farm in Romania, which is due to become the largest wind-farm project in Europe. The wind farm, which CEZ bought from Continental Wind Partners LLC, will have an installed capacity of 600 megawatts—more than three times the installed capacity of the currently largest wind-power-generation project in Spain's Guadalajara. Located 17 kilometers from the Black Sea coast, north of the port of Constanta, the wind farm is scheduled to go online in 2010. CEZ already operates power-distribution networks in Romania and is active in electricity generation across Central and Eastern Europe. The project will be one of the largest new foreign investments in Romania, which grapples with poor infrastructure and corruption charges. In the first half of the year, Romania attracted €4.8 billion in foreign direct investment.

Quiksilver Inc.

Outdoor sports-apparel and accessories maker **Quiksilver** Inc. agreed to sell its Rossignol Group unit to a group led by former Rossignol Chief Executive Bruno Cercley for €100 million ($146.4 million). The deal with **Chartreuse & Mont Blanc**—three years after Quiksilver acquired the French ski maker for $320 million in cash and stock—is the latest move in Quiksilver's effort to reduce its exposure to winter-sports equipment manufacturing. Chartreuse & Mont Blanc, majority-owned by Australian investment bank **Macquarie Group** Ltd., is named after the two mountain ranges that are home to Rossignol's two key brands: the Rossignol business is nestled in the shadow of the Chartreuse mountain range and Dynastar offices are in the shadow of Mont Blanc. Chartreuse & Mont Blanc agreed to pay Quiksilver €75 million in cash and €25 million in notes for Rossignol. Quiksilver said it will use proceeds of the deal—expected to close this fall—to repay debt.

E.On AG

Germany-based utility **E.On** AG said it plans to cut as many as 1,800 jobs in the coming years as it streamlines its service operations in its home market. The company's E.On Energie unit said in a statement that it hopes to improve its competitiveness with the program, adding that it plans to achieve the job reductions without layoffs. The company said it plans to shut about 40 of its 60 service locations in Germany by 2012—in many cases, small operations with fewer than 10 employees. At present, its sales operation employs about 15,000 people.

Esprit Holdings Ltd.

Esprit Holdings Ltd. said fiscal-year net profit rose 25%, led by strong retail and wholesale sales in Europe. The Hong Kong-listed global fashion retailer said net in the 12 months ended June 30 rose to 6.45 billion Hong Kong dollars (US$826 million) from HK$5.18 billion. Revenue rose 26% to HK$37.23 billion. Esprit plans to expand its global retail network by investing HK$1 billion to open over 130 stores in the year to June 30, 2009. It said it also plans to invest HK$300 million to upgrade existing stores. At June 30, Esprit operated 690 directly managed stores world-wide. Asian-Pacific sales rose 21% to HK$4.07 billion, and sales in North America and other territories grew 23% to HK$858 million.

Antofagasta PLC

London-listed Chilean copper miner **Antofagasta** PLC posted an 8.8% rise in first-half net profit as stronger production and metal prices offset rising costs. Net increased to $792.8 million from $728.4 million a year earlier, while revenue rose 24% to $2.41 billion from $1.94 billion. The price of copper has climbed 14% this year on the London Metal Exchange. Last month, Antofagasta reported that first-half copper production rose 10% to 233,600 metric tons but that cash costs had more than doubled to 72.2 cents per pound of produced copper. Antofagasta owns and operates three copper mines in Chile and has exploration ventures in Ecuador, Colombia and Pakistan.

Cell Genesys Inc.

Cell Genesys Inc. ended late-stage clinical trials of its prostate-cancer treatment after seeing increased death rates compared to another regimen. The news sank Cell Genesys shares, which plunged 72% to 79 cents in Wednesday trading. Cell Genesys' GVAX immunotherapy was in the second of two Phase III trials. In the trial, GVAX combined with cancer drug Taxotere was compared with a combined treatment of Taxotere and prednisone. Of the 408 enrolled patients with advanced prostate cancer, 67 on GVAX-Taxotere died compared to 47 on the prednisone-Taxotere plan. Taxotere is made by **Sanofi-Aventis**.

Mitsubishi Electric Corp.

Mitsubishi Electric Corp. said it will quadruple annual production capacity for solar cells over four years, in a bid to maintain its position in the fast-growing market. Citing rising demand for solar-power generation systems world-wide, the electrical-machinery maker said it plans to spend about 50 billion yen, or $456 million, to build a solar-cell facility at its plant in Nagano prefecture. Mitsubishi Electric's overall annual production capacity for solar cells will rise to 600 megawatts by the year ending March 2012 from 150 megawatts. It hopes to raise its revenue from its power-generation business to 170 billion yen in the year ending in March 2013.

Ikon Office Solutions Inc.

Ikon Office Solutions Inc., a struggling document-management company that sells and leases office equipment made by other companies, agreed to be acquired by Japanese printer and fax maker **Ricoh** Co. for about $1.6 billion. The deal—the largest acquisition ever for Ricoh—combines Ikon's sales and service capabilities with Ricoh's engineering and manufacturing expertise, Ikon said. It also expands Ricoh's global operations. Ikon currently operates in North America and Western Europe. Under the terms of the deal, expected to close in the fourth quarter, Ricoh will pay $17.25 a share for Ikon, an 11% premium to its closing price Tuesday.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

WORLD BANK

New calculation shows poverty more widespread


Associated Press

POVERTY in developing countries is more widespread than previously thought, though progress is being made, the World Bank said in a report.

Using updated measures of calculating living standards, World Bank researchers determined that the number of people living in extreme poverty was about 1.4 billion in 2005—not below one billion. The World Bank said the main poverty line for developing countries should be $1.25 a day, 25 cents higher than previously estimated, mainly because of a higher cost of living calculated under the new method. Still, the report found the poverty rate has been declining at about the same pace as previously thought.

ISRAEL

Dead Sea Scrolls to be put on Web after digitizing


Associated Press

SCIENTISTS using U.S. space technology have started a huge project to digitize the Dead Sea Scrolls, the oldest known version of the Hebrew Bible, and post them on the Internet, an Israeli Antiquities Authority official said.

The project, expected to take about five years, marks the 60th anniversary of the discovery of the 2,000-year-old scrolls, said Pnina Shor of the authority. The goal is to make the scrolls accessible to scientists and the general public, she said.

In recent years, steps have been taken to widen access, but many of the findings are still not properly identified and categorized. *—Associated Press*

UKRAINE

Ukraine considers raising lease fees on Russian base


Associated Press

UKRAINE SAID it wanted to discuss charging Russia more for the lease of a Black Sea naval base. Ukrainian President Viktor Yushchenko also joined Western nations in condemning Russia's move Tuesday to recognize South Ossetia and Abkhazia as independent states.

In an interview, he said Kiev wanted to raise the question of increasing Russia's rent on its Sevastopol base, the headquarters of the Russian Black Sea fleet. Russia has said any renegotiation would break a 1997 agreement under which it currently leases the base for $98 million a year until 2017.

—Reuters

Russia's boom awakens Japan port

Sleepy Hamada becomes export hub; Hokkaido's tourists

By Yuka Hayashi

One of the poorest regions of Japan is getting a boost from a new source: Russia's booming economy.

Shimane prefecture lies on the sleepy, relatively isolated Sea of Japan coast—the opposite side of the country from busy cities such as Tokyo and Osaka. Its population is declining, and it lacks major industry.

But Hamada, Shimane's main port, is rapidly becoming a hub for trade with the Russian Far East. The value of exports shipped from it tripled over the three years through 2007. Last month, Hamada became Japan's first port with a direct container-ship route to Russia's Pacific port of Vladivostok.

This year, **Light International Business** Corp., a used-car dealer based in Hamada, plans to export about 23,000 used cars to Russia, nearly double the number in 2006. "This is a once-in-a-thousand-year opportunity that our community should embrace," says the company's president, Katsuhiro Takahashi. "Russia has emerged as a practical and substantial market for us."

Emboldened by oil and mineral wealth, Moscow put its muscle on full display this month during its invasion of its pro-Western neighbor Georgia. Hamada is a quieter example of Russia's new economic might, which is being felt from Europe's most exclusive boutiques to beachfront real-estate markets in Florida.

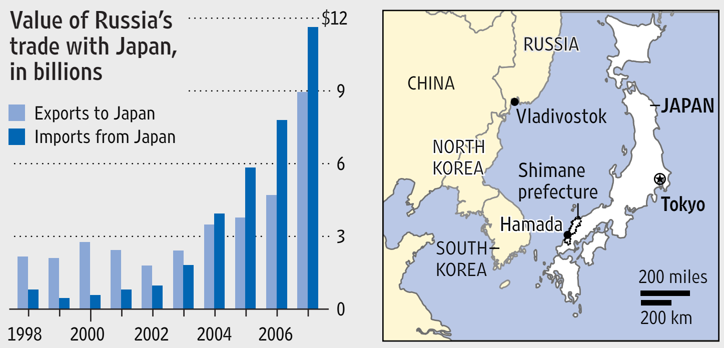
The rising business ties with Japan are the latest chapter in an awkward relationship between the neighbors. In the last days of World War II, the Soviet Union invaded four Japanese islands, which Russia has yet to return to Japan, keeping the two countries from signing a peace treaty.


A port in Hamada, Shimane prefecture, Japan

Alamy

Rising prospects

Trade with Russia has brought prosperity to Japan's Shimane prefecture



Source: International Monetary Fund

But as Moscow shunned Western imports during the Cold War, Japan became one of the Soviet Union's biggest trading partners, mainly through exports of machinery and other capital goods.

After the Cold War ended, Europe dominated Russia's trade. Now, Japan-Russia trade is growing again, thanks in large part to Russian car imports through its Far East. In 2006, Japan accounted for 5.6% of Russian imports, making it the third-largest source, after Germany and China. The trade is helping prop up Japan's economy as shipments to the U.S. and Europe falter. The value of Japanese exports to Russia increased 49% during the first six months of this year from a year earlier to 856 billion yen, or almost $8 billion. During the same period, Japan's overall exports were up just 3.8%, with shipments to the U.S. shrinking 8.8%.

Some of those exports go to the newly rich of European Russia, who are particularly attracted by Japan's higher-end products. At Globus Gourmet, a high-end supermarket chain in Moscow, large, sweet Japanese apples were recently on sale for 485 rubles a kilogram, or about $9 a pound. **Toyota Motor** Corp.'s Lexus cars are also popular, as are large flat-panel television sets.

Currently, Toyota ships parts to its factories in St. Petersburg from Nagoya or Yokohama on Japan's Pacific Coast, via the Indian and the Atlantic oceans. But it and car makers, such as **Nissan Motor** Co., that are planning to assemble in Russia say they could deliver parts faster by train: That would mean sending them first from ports on the Sea of Japan to the Russian Far East, and then by train on the Trans-Siberian Railroad. This would cut the journey to about 20 days, from the current 40.

In the resource-rich Russian Far East, the rise in oil prices has sparked energy projects, including a trans-Siberian pipeline and oil and gas drilling off Sakhalin Island. This has generated a new legion of middle-class shoppers in the region, some of whom are now taking ferries or flights to parts of northern Japan.

The northern island of Hokkaido is popular for skiing and for its hot springs, and four years ago, Mana Hasegawa set up a travel agency in the island's main city, Sapporo, targeting Russian tourists. "It feels as if one tourist goes home to spread the word, and a while later, 100 of his friends and relatives all come to visit," Ms. Hasegawa says.

But the biggest chance for Japan is still in traded goods, where short journey times are making business easier.

Hiroo Nishikawa learned that the flowers sold as gifts for women for International Women's Day, a big festival for Russians, often wilted on their journey from the Netherlands to Vladivostok. Mr. Nishikawa, president of Flower Farm Shirone, a nursery in Niigata, also on the Sea of Japan coast, realized he could deliver flowers in better condition. A flight from Niigata to Vladivostok takes just an hour and a half.

In 2005, Mr. Nishikawa flew 5,000 tulip stems to Russia. Ahead of the March holiday this year, he exported 120,000 stems for sale in Vladivostok and Khabarovsk, another big Russian port in the Far East.

"Geographic proximity is a very important factor," says Andrey Belov, an economics professor at Japan's Fukui Prefectural University, on the Sea of Japan coast. "It is particularly true now, because transportation is developing quickly."

—Daria Solovieva contributed to this article.

Torture lawsuit charging Exxon is moved forward

By Brent Kendall

A federal judge in Washington, D.C., refused Wednesday to throw out a lawsuit charging that **Exxon-Mobil** Corp. is liable for alleged killings and torture committed by Indonesian soldiers guarding a natural-gas plant in the Aceh province.

Deciding that the case should move forward, U.S. District Court Judge Louis F. Oberdorfer said there was evidence that the soldiers committed the alleged atrocities and that an ExxonMobil subsidiary in Indonesia had paid for the military security forces.

The ruling likely clears the way for the case to head to trial.

Eleven Indonesian villagers filed the suit in 2001, alleging the oil giant's security forces murdered, tortured, raped and kidnapped local residents.

ExxonMobil argued that the case should be decided in its favor without the need for a trial. The company said there was insufficient evidence that its security forces committed the alleged atrocities. Even if such evidence did exist, ExxonMobil shouldn't be liable for the military's conduct, the company said.

Rejecting those arguments, Judge Oberdorfer said a reasonable observer could conclude ExxonMobil had some control over the military forces and was negligent in managing its security operations.

The judge said that internal company documents appeared to show that "unauthorized acts of violence were foreseeable."

Judge Oberdorfer cited several internal communications from ExxonMobil's Indonesian subsidiary, including one internal email that noted "the poor reputation of the Indonesian military, especially in the area of respecting human rights and in their predilection for 'rogue'/clandestine operations."

The judge said the villagers had provided sufficient evidence to move forward with their case. ExxonMobil may ultimately be absolved of wrongdoing, but that would be up to a jury, he said.

Agnieszka Fryszman, a lawyer for the villagers, praised the ruling and said her clients were ready for a trial.