



Still sailing: Classic yachts are racing again

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In U.S. South, Democrats tap conservatives to run

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Business & Finance

World-Wide

The European Central Bank and the Bank of England left key rates unchanged at 4.25% and 5%, respectively. Rates are likely to stay on hold in coming months as policy makers seek to balance the threat of slowing growth against a rising risk of inflation. [Page 1](#)

Airbus and Boeing face shortages of basic parts, slowing their drive to boost output of popular and profitable jets. [Page 1](#)

The disruption in the flow of Caspian oil caused by a pipeline fire shows the global market's susceptibility to sudden external shocks. [Page 17](#)

U.S. stocks fell amid growing signs of consumer distress. In Europe, losses in financials offset gains in utilities. [Page 18](#)

Nestlé's net rose 6%, helped by sales of coffee and baby food. The results suggest the company is coping better than some rivals with rising food prices. [Page 2](#)

Three of Europe's largest insurers posted steep declines in second-quarter profits as the global financial crunch took its toll on the industry. [Page 3](#)

Barclays reported a sharp drop in net profit as executives painted a grim outlook. [Page 17](#)

Sales at BMW and Daimler show buyers' preference for smaller cars has spread to Europe's premium market. [Page 5](#)

Toyota's profit fell 28% in the first quarter, hit by slumping U.S. sales of pickup trucks and SUVs and a stronger yen. [Page 5](#)

A Norilsk shareholder dispute escalated after Rusal called on regulators to investigate the largest shareholder. [Page 6](#)

Nokia's chief still sees plenty of room for growth in China, already the world's largest cell-phone market. [Page 8](#)

The U.K.'s antitrust watchdog brought charges against four current or former British Airways executives. [Page 5](#)

Deutsche Telekom posted a 35% drop in second-quarter net profit. [Page 6](#)

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11431.43	-224.64	-1.93
Nasdaq	2355.73	-22.64	-0.95
DJ Stoxx 600	286.89	-0.77	-0.27
FTSE 100	5477.5	-8.6	-0.16
DAX	6543.49	-17.90	-0.27
CAC 40	4457.43	+9.10	+0.20
Euro	\$1.5372	-0.0048	-0.31
Nymex crude	\$120.02	+1.44	+1.21

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Pakistan's ruling coalition said it will try to impeach Musharraf, imperiling the position of a key U.S. ally and threatening more political chaos. The move is an effort to pressure him to quit. He canceled an Olympics trip. [Page 9](#)

The Olympics formally begin Friday amid a multitude of competing agendas for how these Games should be defined. China chided Bush for interfering in its affairs after he commented on its rights record. [Pages 1, 2 and 27](#)

Two Beijing women who protested evictions before the Games were taken from their homes to a police station. Thousands of Tibetan exiles demonstrated against China in Nepal and India. [Page 3](#)

A U.S. military jury sentenced bin Laden's former driver to 5½ years in prison for aiding terrorism, making him eligible for release in six months. [Page 3](#)

Two Iraqi officials say Baghdad and the U.S. are near a deal to have all U.S. combat troops out by October 2010 and remaining forces about three years later. [Page 10](#)

Georgia's president told his country's forces to cease fire in separatist South Ossetia after days of clashes. He urged talks and proposed Russia as a guarantor of autonomy. [Page 10](#)

An explosion on a beach in the Russian resort that will host the 2014 Winter Olympics killed two and wounded at least seven. [Page 10](#)

Three explosions occurred near a government building in Istanbul, slightly hurting three people. The cause was unclear. [Page 10](#)

Malaysia formally charged Anwar with sodomy. The opposition leader pleaded not guilty and was released on bail. [Page 10](#)

The army general who led the Mauritania coup staged a march through the capital. The U.S. suspended nonhumanitarian aid. [Page 10](#)

A 5.7-magnitude quake hit Indonesia's Sumbawa island, damaging about 1,200 buildings and injuring at least five people. [Page 10](#)

The Philippine government issued a 24-hour ultimatum for the Muslim rebel MILF to vacate several southern villages and allow 6,500 Christians back to their homes or face attack. [Page 10](#)

EDITORIAL & OPINION

Carry on, Europe
Amid the financial crisis and Doha failure, this is no time for introspection. [Page 13](#)

Shortages of basic parts disrupt Airbus, Boeing

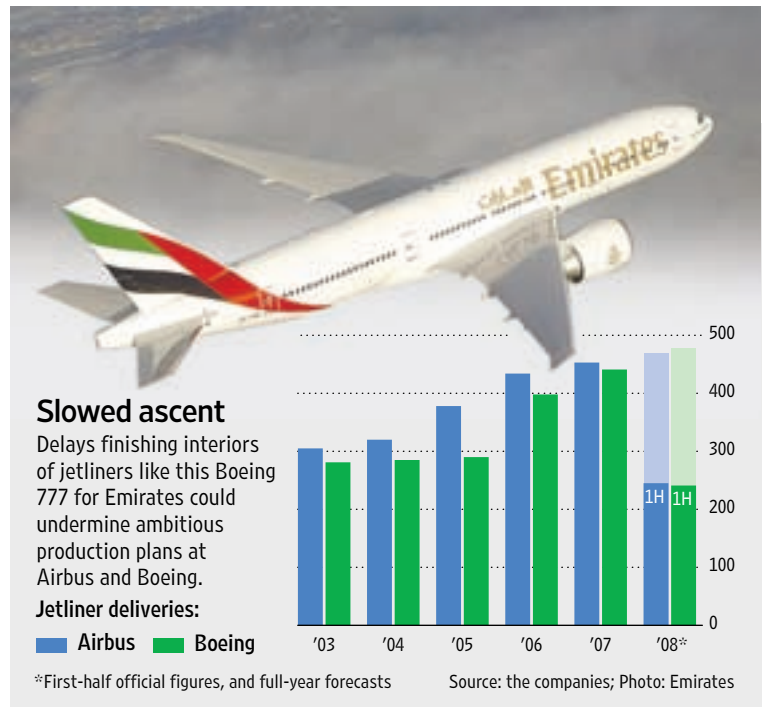
Small suppliers slow drive to lift output; too few seats, toilets

BY DANIEL MICHAELS AND J. LYNN LUNSFORD

Airbus and Boeing Co. have both struggled with complex technology and assembly issues that have delayed their rollout of ambitious new jet models. Now the manufacturing rivals face a more basic problem with the production of their existing planes: a shortage of less-advanced equipment such as seats, toilets and galleys that is slowing down their assembly lines.

The lack of more-mundane components is disrupting production lines at both aviation giants, increasing their manufacturing costs. It is also slowing millions of dollars in payments from aircraft customers, which normally fork over a significant part of a jetliner's price on delivery, following installment payments during production.

The problem stems from small suppliers that have overcommitted to build equipment and didn't gear up production fast enough to deliver it. The suppliers' struggle to deliver certain items—like galleys cus-



tomized with rice cookers and espresso makers—is taking a toll.

Boeing recently missed its second-quarter earnings projections partly because three big widebody jetliners couldn't be delivered on time due to unfinished interiors. At Airbus, roughly 8% of widebody de-

liveries this year have faced some delay because of the problems, a top Airbus executive said.

The delays come at a critical time for Boeing and Airbus, a unit of European Aeronautics Defence & Space Co. because both face billion-

Please turn to back page



Flashy buildings such as the National Olympic Stadium, above, have been used as proof of both crypto-fascism and democratization in China.

Will events or other agendas define Beijing's Olympics?

BY IAN JOHNSON

BEIJING—Since at least 1936, almost every Olympic Games has become known for a dominant story line: Hitler and Jesse Owens in Berlin, the black-power salute in Mexico City, the massacre of athletes in Munich, or the bribery scandal in Salt Lake City.

Now it's Beijing's turn, with a difference. Most other Olympics acquired their label during or after the games, usually after emotions had

coalesced or a big news event pushed other stories off the front page. But the combination of fascination with China and increasingly intense churn of media attention has changed that. The effort to define this summer's games has been going on now for months, a cacophony of narratives that have vied for dominance even before the games begin.

The games are to formally kick off Friday with an elaborate open-

Please turn to back page

Banks keep rates steady, weigh risks

BY JOELLEN PERRY

FRANKFURT—European policy makers kept interest rates steady Thursday, and are likely to keep them on hold in coming months, as they balance the threat of sharply slowing growth against rising inflation risks.

As expected, the European Central Bank and Bank of England left their key policy rates at 4.25% and 5%, respectively. Recent weak economic reports and deteriorating confidence measures in the 15 countries that share the euro "clearly suggests the materialization" of some risks to growth, the central bank's president Jean-Claude Trichet said in a news conference following the bank's decision. Midyear economic activity will be "particularly weak," he said, confirming the economy will "trough" in the second and third quarters amid a global slowdown, still-high commodity prices and credit-market woes.

Despite the deteriorating growth outlook—the scope of which Mr. Trichet said policy makers didn't fully anticipate—he defended the bank's decision to increase its key rate in July to 4.25%, noting that inflation risks have risen. But he reiterated that the future course of

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LEADING THE NEWS

Nestlé delivers strong net to CEO

Firm is unaffected by rising farm prices, economic slowdown

BY AARON O. PATRICK

Nestlé SA dodged much of the impact of rising farm-product prices and slowing economic growth to report a strong profit for the first half of the year, its first results under Chief Executive Paul Bulcke, who took the helm in April.

The world's biggest food company, by sales, reported net for the first half rose 6.1% to 5.2 billion Swiss francs (\$4.9 billion) from 4.9 billion francs a year ago. Sales rose 3.8% to 53 billion francs. Nestlé doesn't break out second-quarter results.

During the period, Nestlé raised prices on thousands of products in countries globally. It also sold products with higher profit margins, such as healthier foods, baby food and coffee. Sales of its nutrition division, which includes Gerber baby food and Powerbar sports bars, rose 11% in the first half from the year ago, for example.

Mr. Bulcke has remained largely out of the public eye in his 30-year career at Nestlé. He is so low-profile with analysts that he didn't join a call to discuss Nestlé's first-half earnings, leaving Chief Financial Officer James Singh to handle questions. A Nestlé spokesman said the company wouldn't make Mr. Bulcke available to comment, and said the finance chief typically handles first-half results.

Nestlé has struggled for years to be nimble as it grew to be so massive—it had 108 billion francs in sales last year and says it operates in every country in the world. Mr. Bulcke inherits the challenge of cut-

Health-conscious

Nestlé total sales for the first half of 2008 were up 3.8% with help from its growing nutrition company.

Product group	First-half 2008 sales, in billions of Swiss francs	Chg. from 1h 2007
Milk products and ice cream	10.27	1.7%
Powdered and liquid beverages	9.04	7.0
Prepared dishes and cooking aids	8.56	-2.6
Pet care	5.89	-0.4
Confectionery	5.43	2.3
Nestlé Nutrition*	5.18	50.4
Nestlé Waters	3.74	-8.4
Pharmaceutical products	4.95	0.9

*Figures include the acquisition of Novartis Medical Nutrition and Gerber in 2007.

Source: the company

ting costs—something even harder now with rising food prices—from his predecessor, Peter Brabeck, who ran Nestlé for 11 years.

The results suggest Nestlé may be more resilient than some rivals to rising food prices. Passing along higher costs to consumers is a tough strategy to pull off. Kraft Foods Inc. and Wm. Wrigley Jr. Co. did it successfully in the second quarter. But Unilever recently reported that shoppers didn't buy as many of its products after it raised prices.

And the market for healthier foods is getting crowded. Last month Campbell Soup Co. bought the Wolfgang Puck business which makes organic soups, stocks and broths. Groupe Danone SA bought a big baby-food maker, Royal Numico NV, last year. Unilever has been reducing the fat and sugar in thousands of its products.

A big question mark looming over the maker of such brands as Perrier water, Nespresso, and Purina pet food is acquisitions. While Mr. Bulcke said in a recent press

briefing, "I don't feel the need for the time being for game-changing acquisitions," he will have the firepower to make a big deal. Nestlé stands to receive \$39 billion from the agreed-upon sale of its Alcon Inc. eye-care business to Novartis AG. Nestlé isn't likely to receive the full payment until 2010 or 2011.

As a result, food-industry analysts are putting together dream lists of potential targets. They include ketchup-maker H.J. Heinz Co., candy makers Cadbury PLC and Hershey Co., and baby-formula company Mead Johnson, which Bristol-Myers Squibb Co. owns and plans to spin off as a separate company.

Another possibility is cosmetics giant L'Oréal SA, in which Nestlé already has a 28.9% stake and has first-right-of-refusal over the stake of the company's majority shareholder should it decide to sell.

Spokespeople for the companies either declined to comment or didn't respond to requests for comment Thursday.

Two products sold particularly

Beijing chides Bush for critique of rights stance

BY GORDON FAIRCLOUGH

BEIJING—U.S. President George W. Bush landed here late Thursday—the eve of the Beijing Olympics' opening ceremony—after China's government chided him for interfering in its internal affairs by criticizing the country's human-rights record.

Mr. Bush, in a speech in Bangkok on Thursday, called on China to give its citizens more freedom and said the U.S. opposed Beijing's detention of political dissidents and religious activists.



George W. Bush

In response, China's Foreign Ministry spokesman, Qin Gang, said, "We firmly oppose any words or acts that interfere in other countries' internal affairs, using human rights and religion and other issues."

In the weeks leading up to the Games, Mr. Bush has engaged in a delicate balancing act. He has faced pressure at home to confront China over its treatment of Tibetans and other human-rights concerns. At the same time, Mr. Bush is looking to keep relations on a strong footing with China, an important trading partner.

Some human-rights groups are aiming to use the international spotlight on the Games to draw attention to what they see as China's shortcomings. But Chinese security forces have moved quickly to stifle any demonstrations.

Mr. Bush has pledged to discuss human-rights issues with Chinese leaders, including President Hu Jintao, in private meetings during the Games. In interviews and speeches ahead of his visit here, Mr. Bush has stressed his "respect" for the Chinese people and praised the country's economic development.

He is certainly taking a less confrontational approach on human rights with China than he has with Myanmar. In Thailand on Thursday, he had lunch with a group of well-known dissidents living in exile from Myanmar, while first lady Laura Bush visited camps for refugees from Myanmar in Thai border areas.

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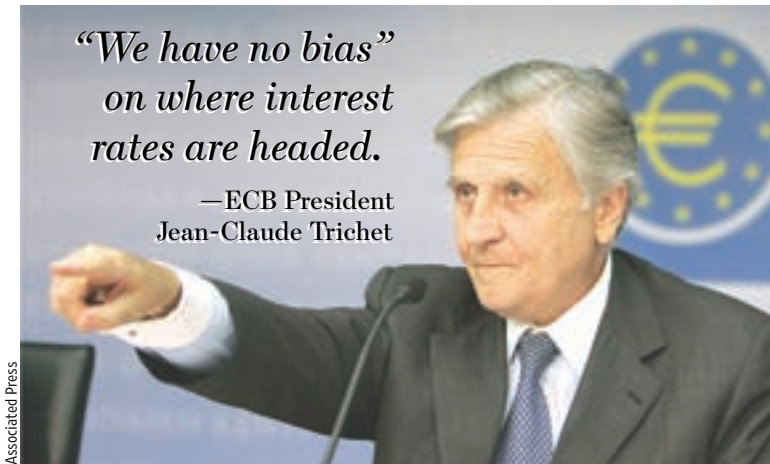
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LEADING THE NEWS

*"We have no bias"
on where interest
rates are headed.*

—ECB President
Jean-Claude Trichet



Associated Press

Banks hold key rates steady

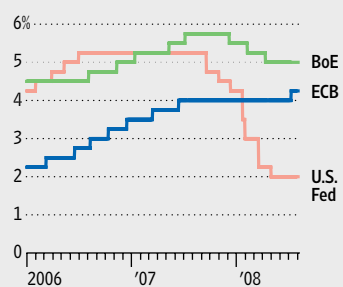
Continued from first page
rates will depend on how inflation and economic data unfold, saying, "we have no bias."

The euro fell to \$1.5323 late Thursday as traders priced out the possibility of further interest-rate increases this year. Higher interest rates can attract investors to a currency. Futures markets, which before the bank's meeting reflected a small chance that rates could rise next year, now show the possibility of a rate cut in the second quarter.

"Certainly growth is coming in weaker than they expected and it's fair to say the chances of rate hikes have fallen," says Nick Kounis, chief European economist at Fortis, who

Holding pattern

The European Central Bank and Bank of England kept their key rates unchanged Thursday, following the U.S. Federal Reserve's Tuesday decision to hold steady



Sources: European Central Bank; Bank of England; U.S. Federal Reserve

says he believes inflation could push the central bank to raise rates in October. New central-bank staff projections, slated for September, should reflect the gloomier outlook. In June, staff forecasts saw euro-zone growth of about 1.8% this year and about 1.5% in 2009. Many economists say the risk of recession, with a contraction in both the second and third quarters, is rising.

Data out Thursday deepened the gloom. German and Italian monthly industrial output rose 0.2% and 0.1%, respectively, in June, while France's trade deficit widened to €5.6 billion (\$8.63 billion) from €4.7 billion in May. German exports, long a mainstay of euro-zone economic growth, surged 4.2% in June

compared to May, but analysts warned real exports shrank sharply in the second quarter and noted plummeting new orders suggest muted export performance in coming months.

Further fodder for slowing growth should come from the central bank's second-quarter bank-lending survey, scheduled for release Friday. Mr. Trichet said the survey showed a tightening in lending standards, albeit at lower levels than in the first three months of the year.

But inflation risks persist. Euro-zone inflation hit 4.1% in July, its highest since records began in 1997 and more than double the central bank's preferred range of slightly below 2%. Calling the rise "worrying," Mr. Trichet highlighted policy makers' concerns that rising wage growth could embed high commodity prices in the economy. The fact that many wages across the currency bloc are determined by collective bargaining, and that wages in some countries rise automatically with inflation, has policy makers on alert. Last week, Lufthansa AG granted its ground staff and cabin crew an inflation-beating 5.1% pay increase from July and an additional 2.3% next year.

U.K. policy makers face a similar quandary. Rising living costs and tight lending conditions helped pushed U.K. house prices down 8.8% last month compared to a year earlier, the biggest annual fall since mortgage lender HBOS PLC's index started in 1983. Economists expect further falls, even as inflation—which hit 3.8% in June—could top 4% before year end. Most analysts expect the U.K. central bank to keep its key rate steady at 5% for the rest of this year.

Amid mounting concern about the quality of some of the collateral the European Central Bank accepts from financial institutions for its open-market operations, Mr. Trichet reiterated that policy makers "will see what we have to do, if it is necessary to refine elements of our scheme." The markets for many asset-backed securities that the bank accepts as collateral for its loans have been hit hard amid the financial turmoil.

Insurers' profits shrivel

*Steep declines in net
reflect write-downs;
pessimistic outlook*

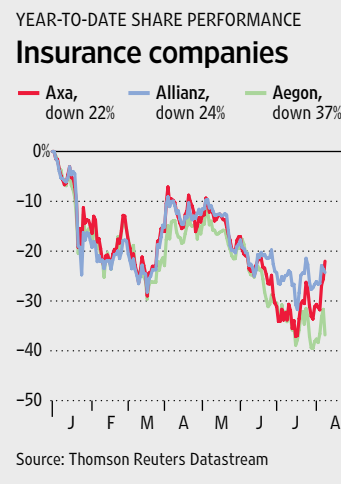
BY NICOLAS PARASIE,
STEFAN KLOET
AND ULRIKE DAUER

Three of Europe's largest insurers posted steep declines in second-quarter profits as the global financial crunch took its toll on the industry.

Allianz SE, Europe's largest insurer by premium income, reported second-quarter net profit fell 28% to €1.54 billion (\$2.37 billion) from €2.14 billion, and the German company cut its outlook for operating profit through next year.

Axa SA, Europe's second-largest insurer, posted a 32% decline in first-half net profit, to €2.16 billion from €3.18 billion, as the France-based company marked down assets. But in a sign of confidence, Axa announced a stable 2008 dividend of €1.20 a share.

The company dismissed market speculation it would have to raise new capital, saying its capital position remains strong as a result of the increased hedging of the group's equity portfolio. Axa said the write-down that affected net profit included €237 million on asset-backed securities and €502 million on fixed-income funds.



Axa shares were lifted by the dividend announcement, rising 4.8% in closing trading in Paris. But Allianz dipped 0.8% in Frankfurt, and Netherlands-based Aegon NV insurer fell 7.5%.

Earnings at Aegon fell because of losses on investments as well as an increase in credit impairments. Profit dropped 58% to €276 million from €655 million. The group sustained impairments of €98 million before tax, of which €57 million was tied to its U.S. credit portfolio.

The group reiterated it will meet its recently launched average net underlying earnings growth target of at least 10% a year to 2012, despite questions on that goal by some analysts. Allianz's sluggish performance

also reflected problems at ailing investment-bank arm Dresdner. The unit posted €286 million in mark-downs on its asset-backed securities trading book and a trading loss of €627 million.

Dresdner Bank is the "black sheep" in the figures, said Landesbank Baden-Wuerttemberg analyst Robert Mazzuoli. The losses make a sale of the bank even more difficult, he said. Banking operations, to which Dresdner Bank contributes some 96%, had a quarterly net loss of €552 million.

Chief Financial Officer Helmut Perlet said he could not rule out further crunch-related burdens in the third quarter. He said the total burden for the group related to the financial crunch is just less than €3 billion for the past 12 months.

U.K. insurer RSA Insurance Group PLC bucked the trend by posting a 38% rise in first-half net profit, boosted by increased net written premiums, especially in its international markets.

The company said net profit for the six months ended June 30 was £287 million (\$588.8 million), up from £208 million a year earlier.

Total net written premiums rose 12% to £3.36 billion. Net written premiums at RSA's international business rose 23% to £1.63 billion. The emerging-markets business rose 19% to £351 million, while the U.K. business rose 1% to £1.38 billion.

—Vladimir Guevarra
contributed to this article.

Bin Laden's ex-driver sentenced

ASSOCIATED PRESS

GUANTANAMO BAY NAVAL BASE, Cuba—A military jury sentenced Osama bin Laden's former driver to 5½ years in prison for aiding terrorism Thursday, making him eligible for release in just six months, despite prosecutors' pleas to give him no less than 30 years.

Salim Hamdan, a Yemeni who had faced a maximum sentence of life behind bars, gets credit for five years already served at Guantanamo Bay. He thanked the jurors for the sentence and repeated an apology for having served Mr. bin Laden.

"I would like to apologize one more time to all the members and I would like to thank you for what you have done for me," Mr. Hamdan told the panel of six U.S. military officers, hand-picked by the Pentagon for the first U.S. war-crimes trial in a half century.

The judge, Navy Capt. Keith Allred, said he didn't know what would happen to Mr. Hamdan once his sentence ends.



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CORPORATE NEWS

AIRLINES

Strike prompts Lufthansa to cancel regional flights



GERMAN airline Deutsche Lufthansa AG said it is canceling 360 of 400 planned flights on CityLine, as pilots at the regional carrier go on strike.

CityLine feeds passengers into Frankfurt and Munich for long-haul routes and its pilots union, Vereinigung Cockpit, is demanding similar pay conditions for CityLine pilots as for flight crew at Lufthansa's main airline. Pilots at Lufthansa's Eurowings regional unit had joined CityLine in previous strikes, but Stefan Lauer, Lufthansa's head of personnel, said Lufthansa was close to a deal with Eurowings after reaching an agreement with its Germanwings subsidiary.

—Roundup

BEVERAGES

Coke and Mexican bottler agree to buy Agua Brisa



MEXICAN soft-drink bottler Coca-Cola Femsa said it and Coca-Cola Co. have agreed to buy Colombian bottled-water business Agua Brisa from Bavaria SA, a unit of SAB-Miller PLC, for \$92 million.

Brisa sold 47 million cases of still, sparkling and flavored water in Colombia last year, said Coca-Cola Femsa, adding that the two companies will each put up half of the money for the acquisition.

Last year, Coca-Cola Femsa and Coca-Cola teamed up to buy Mexican juice maker Jugos del Valle for \$370 million in cash and \$86 million in debt.

—Anthony Harrup

E-COMMERCE

Ryanair says revenue to fall due to 'scrapers' ban



RYANAIR Holdings PLC said its revenue would fall in the short term, as a result of the airline's ban on screen-scraper Web sites.

Screen scrapers are a type of price-comparison Web site that use technology to shop around for customers. People who have booked through a screen-scraper Web site will be banned from traveling on a Ryanair flight as of Monday, said Chief Executive Michael O'Leary. The low-cost carrier frequently changes the price of its flights and says screen-scraper sites overcharge fliers, when compared to the fares available directly from the airline. About half of Ryanair passengers book through other sites.

—Kaveri Niththyanathan

U.S.'s era ends in women's football

Game spreads to girls in bastions of soccer, like U.K. and Brazil

BY MATTHEW FUTTERMAN

FOR NEARLY TWO decades, the triumphs of the U.S. women's football team have proved that America isn't completely clueless about the world's most popular game.

But that dominant era may be over. Wednesday, the U.S. women's Olympic team lost its opening match at the Beijing Games, 2-0 to Norway, and this was no surprise. At the same time that the U.S. team—once powered by superstars such as Mia Hamm and Julie Foudy—has lost its edge, a sea change has occurred in football-crazed nations such as Argentina and Britain. Even as those nations elevated women to the highest echelons—think Eva Perón and Margaret Thatcher—"futbol" had remained a male sport.

"The last bastion of sexism isn't politics," says Anson Dorrance, who coached the U.S. to victory in the first-ever Women's World Cup, in 1991. "It's being accepted into the culture as an athlete."

Soccer, as its known in the U.S., has long been one of the most popular sports among girls in America, aided since 1972 by Title IX programs mandating equal treatment of male and female athletes. So in

1996, when women's football became an Olympic event, America struck gold, as it did again in 2004. It seemed odd that a country that had never culturally embraced football was suddenly dominating it. But there was a simple explanation: Unlike, say, in Brazil, American girls grew up playing the game.

But women's football is finally flourishing in places where you would most suspect. Brazil, led by national superstar Marta Vieira da Silva, bounced the U.S. from the last year's World Cup with a convincing 4-0 semifinal win.

"They've caught up to us athletically," said U.S. co-captain Kate Markgraf last month as she prepared for the team's final pre-Olympics exhibition, against Brazil.

And after Wednesday's defeat, the U.S. team is one loss away from any hope of gold in Beijing. As U.S. Coach Pia Sundhage—a Swede star hired to help resuscitate the American team—said before the Games: "There are half-dozen teams that can win the gold medal." Adds Mr. Dorrance, "I'm a little surprised at how long we were able to hang on."

And that won't get easier, as football programs for women have been springing up around the world in recent years. For women, "soccer everywhere is getting much better," says Simone Jatoba, the defensive backbone of the Brazilian team. "We're riding that wave."

Ms. Jatoba didn't start playing organized football until she was 14, when a few private clubs began fielding girls' teams. Fifteen years ago, no clubs existed, according to Brazil's coach, Jorge Barcellos.

No teacher or coach ever encouraged Ms. Jatoba to pursue sports. Her formal football life began about nine years later than the typical member of the U.S. team, who, like most American girls today, joined her first team around when she started kindergarten.

The exhibition game against Brazil last month offered some insight into the challenges facing the U.S. team. Its women mostly play the game they learned as children, booting the ball over the defense in hopes of a striker controlling the pass and getting a shot. (A further



Angela Hucles of the U.S. (left) and Norway's Marie Knutsen in a match that the U.S. team unsurprisingly lost.

challenge arose when team star Abby Wambach broke her leg, putting her out of the Olympics.) The Brazilian women, by contrast, bang quick and short pinball-style passes, playing the ball in intricate angles to teammates flashing through seams in the opposing defense. They make the ball dance between their feet with feints most of the U.S. women never attempt.

"They've got remarkable players," says Heather O'Reilly, a U.S. midfielder commonly referred to as the next Mia Hamm.

In England, the venerable Lon-

don-based Arsenal football club started a girls' program in 1989, and now about 70 club teams have them throughout the U.K. Similar developments in Germany and elsewhere have all but eliminated the U.S. advantage, especially given the cultural obsession with football outside the U.S.

"The girls grow up watching the game, so when they step on the field, they know what to do," said Emma Hayes, the former coach of Arsenal's women's team. "Now, finally, they are getting the opportunities."

Football clubs can bar players from Olympics

BY JON WEINBACH

In a decision that could have broad implications for the international sports business, the Court of Arbitration for Sport ruled that three of Europe's top football clubs can prevent their players from competing in the Beijing Olympics.

The judgment was announced just hours before the Olympic tournament kicked off in China Thursday morning and throws into question the status of high-profile players such as Argentina's Lionel Messi, a standout midfielder who plays professionally in Spain for FC Barcelona.

The case was filed by Barcelona and two German clubs—Werder Bremen and Schalke 04—to appeal an earlier ruling by FIFA, global football's governing body, that required professional teams to release players under 23 years of age for the Olympics. Unlike the World Cup or the European Championships, the Olympic football tournament has never been included on FIFA's "match calendar," which stipulates when pro clubs must allow players to suit up for their countries.

As the cost of acquiring football talent has skyrocketed in recent years, top clubs have become concerned about players getting injured during international tournaments. European teams reap huge financial rewards by advancing in tournaments such as the Champions League, which begins qualifications later this month and overlaps with the Olympics.

In its ruling, a three-person panel of the CAS wrote that FIFA's omission of the Olympic tournament from its calendar meant that the clubs "had no legal obligation" to release their players. Along with Mr. Messi, the decision affects two Brazilians—midfielder Diego, who plays for Bremen, and Rafinha, a defender for Schalke.

The German clubs issued statements Wednesday saying they would allow the players to compete in China. "I believe the matter was deliberately delayed until just before the Olympics to put the clubs in an awkward position," said Andreas Mueller, Schalke's manager. Barcelona also allowed Mr. Messi to remain at the Olympics. FIFA President Joseph Blatter said he was "surprised and disappointed" by the ruling.

Marketplace

Home-field edge

China is expected to win the most gold medals at Beijing Games > Page 27



CORPORATE NEWS

Benz, BMW big cars stall

Sales of roomy rides sink, compacts soar; margins take a hit

BY EDWARD TAYLOR

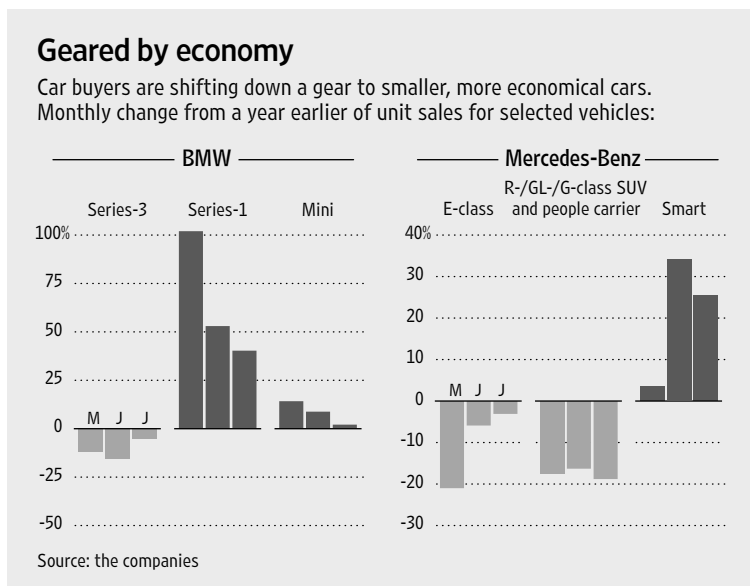
Monthly sales figures from BMW AG and Daimler AG show the consumer shift to smaller, more fuel-efficient cars has spread to Europe's premium sector, presenting a challenge for companies that have relied on fat margins from larger models to drive profits.

Global sales of BMW's compact 1 Series rose 40% in July, confirming a trend that started with a doubling of sales of the brand's smallest car in May from the year-earlier month and a 53% increase in June compared with sales in June 2007, according to figures released Thursday.

At the same time, sales of BMW's larger, aging 3 Series, 5 Series and 7 Series models have fallen for three consecutive months compared with the year-earlier periods, with sales of the top-end 7 Series down 12% in July.

"There appears to be a trend toward smaller engines and smaller cars, which makes it difficult to sustain profitability at current levels," said Adam Jonas, Pan-European auto analyst at Morgan Stanley. "Smaller cars tend to have smaller margins," he noted.

Demand for BMW's Mini-branded cars also continues to be strong. The company is running at full capacity at its Oxford, England, Mini factory to keep up. Sales of the Mini in May rose 14%, following two months of smaller gains from the year-earlier months.



Sales figures for Daimler's Mercedes-Benz Cars unit released Wednesday showed a similar trend. Sales of Mercedes-Benz Cars' Smart brand rose 27% in July; the line of tiny cars posted increases of 36% in June and 7% in May compared with the equivalent months a year earlier.

At Mercedes-Benz Cars, overall car sales fell 1.4% in July year-to-year. At BMW, overall car sales rose 2% in July, compared with the year-earlier period. Monthly sales for Daimler's heavier sport-utility vehicles—including the Mercedes M-Class, GL-Class, G-Class and the crossover people carrier known as the R-Class—declined 19% in July after similar falls in the two previous months.

Daimler Chief Executive Dieter Zetsche last month hinted some versions of the next-generation A-Class and B-Class compact cars may be

launched in the U.S., expanding availability of the company's smaller cars. Sales of the current C-Class midsize sedan are holding up well, in part because it is among the smaller vehicles on offer by Mercedes-Benz.

In recent years, BMW has increased sales by offering smaller cars such as the 1 Series compact, the X3 compact SUV and an expanded range of Minis. It sold 1.5 million cars in 2007, up from 1.05 million cars in 2002, although operating margins for that segment shrank to 6.4% at the end of 2007 from 9.2% in 2002.

BMW's current lineup of SUVs, including the X5 and X6, is bucking the trend of slumping sales. In part, it is because they are relatively new to the market, with diesel engines that are more fuel-efficient than those of most other vehicles in their class.

Price-fixing charges filed in British Airways case

BY KAVERI NITHTHYANANTHAN

LONDON—The U.K.'s antitrust watchdog on Thursday brought charges against four current or former British Airways PLC executives for allegedly fixing prices for fuel surcharges with rival Virgin Atlantic Airways Ltd.

The Office of Fair Trading said BA's current head of sales, Andrew Crawley; former commercial director Martin George; former communications head Iain Burns; and former U.K. and Ireland sales chief Alan Burnett are expected to appear in court Sept. 24 to face the charges. The offense, under the Enterprise Act, carries a maximum sentence of five years' imprisonment and/or an unlimited fine.

A BA spokesman confirmed that three former employees and a current employee had been charged but declined to comment further.

Michael O'Kane, a lawyer for Peters & Peters, said in an email that Mr. Burns was the head of public relations for BA at the time and had "no responsibility for pricing decisions." He said Mr. Burnett, who is also represented by Peters & Peters,

"has no comment at this stage."

Mr. George's law firm, Kingsley Napley Solicitors, said he denied wrongdoing. The firm also said Mr. George has cooperated throughout the investigation and hasn't been arrested.

Neither Mr. Crawley nor his lawyers could immediately be reached.

The charges said the carrier colluded with Virgin to fix fuel surcharges on long-haul flights, which meant U.K. and U.S. passengers who bought tickets in the U.S. or the U.K. between July 2004 and April 2006 were overcharged.

Over that period, the surcharges rose from £5, or about \$10, to £60 per ticket for a typical BA or Virgin long-haul return flight.

Under British law, anyone convicted or acquitted of price fixing can't be charged again in the U.S.—which means the men likely won't be extradited to the U.S.

Last year, BA was fined £269 million (\$524 million) by U.S. and U.K. regulators for colluding with competitors—including Virgin—to fix prices on certain flights.

Virgin Atlantic, the whistleblower, escaped prosecution.

Airlines' traffic yet to reflect effect of European slowdown

BY STEVE MCGRATH

Higher July traffic figures from some of Europe's major airlines suggest that the economic slowdown in the region hasn't yet hit, because travelers booked their summer holidays in advance. The new numbers might be a last respite for the carriers, which are preparing for fewer bookings in the winter as high costs and the weaker economy cut demand for air travel.

French-Dutch carrier Air France-KLM SA, the world's biggest airline by revenue, said its traffic, which measures the number of kilometers flown by fare-paying passengers, increased 1.8% from a year earlier. Load factor, a measure of how full its planes are, dropped 1.8 percentage points to 84.4% because of a 3.9% rise in capacity. The total number of passengers carried was down 0.3% to 7.14 million.

British low-cost carrier easyJet PLC, meanwhile, reported a 20% rise in passenger numbers to 4.47 million, as load factor increased to 89.3%, from 88.6%. Ireland's Aer Lingus Group PLC said it carried 8.1% more passengers in July, although load factor dropped to 83.3% from 84%, as more filled seats on its short-haul planes failed to offset a bigger passenger drop in long-haul flights.

Nordic carrier SAS AB, which has been badly hit in recent years by soaring costs, tough competition on its long-haul routes and staff strikes, said traffic rose 2.7%, while load factor fell 1.7 percentage points to 78.9% because capacity was up 4.9%.

The worst hit of Europe's major carriers has been British Airways PLC, which this week posted lower traffic for the third consecutive month.

Toyota trims forecast as net falls

BY JOHN MURPHY

TOKYO—Slumping U.S. sales of pickup trucks and sport-utility vehicles contributed to a 28% drop in Toyota Motor Corp.'s net profit for its fiscal first quarter, even as demand soared for its more fuel-efficient models.

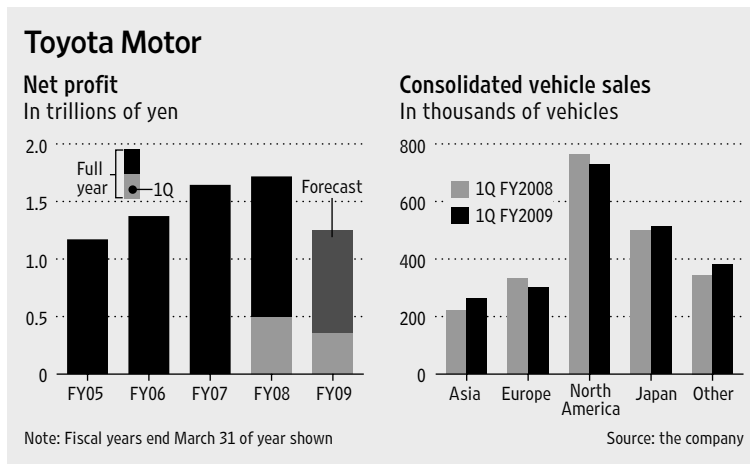
Income for Japan's No. 1 auto maker by sales volume was also battered by a stronger yen, which reduces the value of overseas earnings, as well as higher material costs and losses from vehicle leasing in the U.S.

The weak results are a rare setback for Toyota, whose rapid expansion in sales and profit growth this decade once appeared immune to hardships facing other auto makers. Still, its woes pale before the challenges facing Detroit auto makers General Motors Corp. and Ford Motor Co., which both recorded billions of dollars in losses in the same quarter that ended June 30.

Net income decreased to 353.66 billion yen (\$3.22 billion) from 491.54 billion yen. Toyota's revenue for the latest quarter slipped 4.7% from a year earlier to 6.22 trillion yen.

Toyota maintained a bleak forecast for the year, saying it expects net income for the fiscal year ending March 31 to tumble 27% to 1.25 trillion yen. But the company trimmed its sales forecasts for the fiscal year to 8.7 million vehicles from 9.1 million.

As sales slip in the U.S., Toyota Executive Vice President Mitsuo Kinoshita said it would be difficult for



the auto maker to reach its target of selling 10.4 million vehicles annually by 2009.

Toyota is the latest of the Big Three Japanese auto makers to stumble as strong demand in emerging markets like China and the Middle East failed to make up for a sharp downturn in the more lucrative U.S. auto market.

Honda Motor Co., already bracing for an 18% drop in net profit for the fiscal year ending March 2009, last month cut its global-auto-sales forecast to 4.08 million vehicles from 4.14 million. A plunge in demand for Nissan Motor Co.'s larger, less fuel-efficient vehicles drove net profits down 43% for the fiscal first quarter.

Toyota also is feeling the pinch from its decision to sink \$1 billion into a new plant in Texas to produce the Tundra full-size pickup truck. Just as the plant swung into

full production last year, consumers started shunning larger vehicles as fuel prices jumped. Now the plant is operating well below capacity. By contrast, sales of Toyota's smaller, more-fuel-efficient vehicles such as the Prius hybrid are rising, and the auto maker is scrambling to meet demand.

To correct the production imbalance, Toyota said in July that it will temporarily shut the Texas truck plant and a truck plant in Indiana and will start the first U.S. Prius production at a plant in Mississippi by 2010.

Like struggling U.S. auto makers this year, Toyota is faced with potential losses from the lower resale values of its leased vehicles, which will be worth less at the end of their leases as used-car prices plummet in the U.S. market. Toyota set aside nine billion yen this quarter to cover leased-vehicle losses.

Lexus ranks No. 1 for durability

BY SHARON TERLEP

Toyota Motor Corp.'s Lexus division led an influential vehicle-durability study, blowing past General Motors Corp.'s Buick division after the two brands shared the top spot last year.

J.D. Power and Associates' annual Vehicle Dependability Study named Lexus the No. 1 brand among 37 sold in the U.S. The victory further solidifies the Japanese luxury brand's reputation for top-notch quality and aids Toyota's drive to attract repeat buyers.

The high-volume Toyota brand finished fourth in the survey, while Toyota's Scion brand finished well below average.

General Motors, Honda Motor Co., BMW AG and Ford Motor Co. were other companies with brands

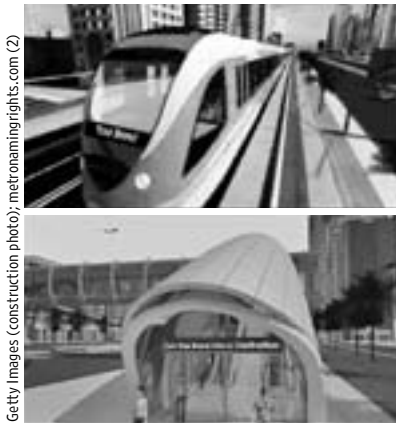
in the Top 10. Buick finished sixth this year, while Ford's Mercury division finished at No. 2.

Unlike J.D. Power and Associates' better-known Initial Quality Survey, which polls buyers about their experience with vehicles over the first 90 days of ownership, the durability report is based on perceptions of the first three years of ownership of a vehicle. Typically, people begin considering buying a new car after three years, the firm said.

Some 52,000 people were polled for the survey during the first four months of this year.

Toyota easily bested its competitors in awards for individual vehicles in each segment, receiving 11 of 20 individual awards. U.S. auto makers had three segment leaders, while Honda, Hyundai and Mazda each had one.

CORPORATE NEWS



Dubai is hoping to alleviate building costs of its **planned rail system** by offering naming rights for 23 of the 47 stops, as well as for both the metro lines themselves.

A streetcar named Nike?

Dubai will sell rights for labels on rail line; high-profile ad space

BY MARGARET COKER

DUBAI—Corporate branding rights are nothing new for buildings and sports stadiums. But a subway stop?

Officials in this Mideast boomtown are negotiating with international and local companies over naming rights for two dozen stations being built as part of Dubai's new mass-transit system. For businesses, this metro branding strategy—believed to be the first of its kind—could provide marketers with some of the best advertising space in town.

Much of the planned 75-kilometer rail system will be above ground, running parallel to Dubai's main 12-lane highway. For government officials already seeking to borrow some \$4 billion to build the system, the plan may help pay the bills.

Dubai's Roads and Transport Authority is offering naming rights for 23 of the planned 47 metro stops, as well as for the two metro lines themselves. A rider on the new Dubai system might someday be getting off at, say, the Citibank stop on the Nike line.

In addition to identification signs inside and outside of stations, names of the winning corporate bidders will appear on subway-system maps. Winning companies will have

the right of first refusal on traditional advertising displayed at their stations. If Coca-Cola won a station's name, for example, it could block Pepsi ads from appearing at that station.

City officials say 250 companies expressed interest in the concept after it was announced in April, although the number of official bids received before the June deadline hasn't been disclosed. One official said the bidders include blue-chip multinationals as well as local conglomerates working in banking, real estate and consumer-goods businesses.

Officials declined to comment on revenue expected from the effort. Advertising and marketing experts in Dubai said the 10-year naming deals could generate a total of \$200 million or more for the government each year, if the project generates sufficient interest.

Sheikh Zayad Road—Dubai's main highway and the route along which the first metro line will run—already commands the city's highest outdoor advertising prices. A four-story billboard along the road costs between \$300,000 and \$350,000 per year.

Some skeptics question how attractive companies will find the subway branding strategy. Getting consumers to associate the name of a subway station with a company instead of a geographic site could be a tall order. That is especially the case in a city already struggling to make names for newly developed neighborhoods stick, says Mike English, director of Superbrands Middle

East, an independent branding consultancy.

A company "may be the first in the world to have their name on a metro station," says Mr. English. "But will the public care?"

Dubai, however, is building on experience in the branding game. While much of the rest of the Middle East is brimming with oil, this city-state doesn't have much of it. Instead, it has billed itself as a shipping, real-estate and tourism hub. It has built business zones to attract high-tech companies, movie studios and financial-services firms.

The city-state has aggressively used sports stars and luxury-goods makers to burnish its projects, such as the Tiger Woods Dubai residential community and resort and the soon-to-be-completed Armani Dubai hotel.

The branding blitz has pushed overseas. In 2005, Emirates, the Dubai airline, spent \$100 million on an eight-year corporate sponsorship deal renaming Arsenal's football stadium in north London for the carrier.

The Dubai authority expects to announce the winners in about three months. The first metro line is scheduled to be operational in September 2009.

The authority says it will take into account the cultural values of the United Arab Emirates, of which Dubai is a part, in considering bidders for subway naming rights. Notwithstanding Dubai's more-tolerant lifestyle than other Persian Gulf societies, Victoria's Secret and Anheuser-Busch probably needn't apply.

Cancer drugs dealt setback in U.K.

BY JEANNE WHALEN

LONDON—An agency that advises Britain's health-care system has decided that a group of cancer drugs aren't worth the money, a move that highlights a growing debate over how to balance the interests of patients with soaring drug costs.

The National Institute for Health and Clinical Excellence, or NICE, said in a preliminary ruling Thursday that four drugs used to treat advanced kidney cancer—Roche Holding AG's Avastin, Bayer AG's Nexavar, Pfizer Inc.'s Sutent and Wyeth's Torisel—aren't effective enough to warrant their high cost and shouldn't be prescribed to new patients in Britain.

If the preliminary judgment holds, Britain's National Health Service won't pay for the drugs' use in treating a type of advanced kidney cancer known as renal cell carcinoma. The drugs are prescribed for

this purpose in the U.S. and elsewhere in Europe.

NICE's decisions are closely watched by governments and health insurers around the globe. Expensive cancer drugs present a particular dilemma for these health-care payers as they redouble their efforts to rein in drug spending.

Peter Johnson, chief clinician at Cancer Research UK, a large charitable group that funds cancer research, expressed concern with NICE's preliminary ruling. "These drugs have shown a small but definite improvement in an illness where there are few alternative treatments," he said in a statement. "If this decision stands it will be very frustrating for cancer patients and their clinicians."

In a statement, Pfizer said it is "disappointed" and "committed to working with NICE to overturn this preliminary guidance." Bayer also

expressed disappointment, noting that Nexavar is available in over 70 countries. Roche and Wyeth didn't immediately respond to requests for comment.

NICE will give drug companies, patient groups and others a chance to comment before making a final recommendation.

In its preliminary findings, NICE said the drugs extended some patients' lives, but were ultimately not effective enough to justify their expense, which ranges from £3,100 (\$6,036) to £6,100 for a six-week treatment cycle. Using data from clinical trials and complex financial models, NICE estimated that the drugs cost between £71,500 and £171,300 for each year of healthy life they give patients. NICE generally thinks that Britain shouldn't pay more than £30,000 for a year of healthy life gained—also known as a quality-adjusted life year, or QALY.

Deutsche Telekom posts 35% decline in net profit

BY ARCHIBALD PREUSCHAT

BONN—Deutsche Telekom AG said second-quarter net profit fell 35%, hampered by the strong euro and a year-earlier gain from the sale of T-Online France, but the company confirmed its outlook for the year.

The maintained outlook, in particular, eased investors' concerns that the company could be hurt by a cooling economy or the euro. The former state telecommunications monopoly posted slight declines in sales and operating profit, mainly on adverse currency effects.

Deutsche Telekom shares fell four European cents to €11.31 (\$17.43).

The company's wireless unit, T-Mobile USA, a key growth driver, was showing "no sign of the current turbulence in the U.S. economy," said Chief Executive René Obermann. He also said there is growth potential for Deutsche Telekom's mobile operations in Germany and

other European countries.

The company posted net profit of €394 million, down from €604 million a year earlier, when Deutsche Telekom booked the gain on its T-Online France sale. Deutsche Telekom didn't specify the size of the gain but said that items hurting its bottom line in the period totaled €239 million. It also booked an interest charge of €200 million after its debt rating was downgraded. Adjusted earnings before interest, taxes, depreciation and amortization, or Ebitda, fell 1.1% to €4.85 billion.

Net revenue fell 2.9% to €15.13 billion, hurt by the strong euro against the U.S. dollar and the British pound. There was a negative effect on revenue of about €1.2 billion in the first six months of the year because of the strength of the euro, said Chief Financial Officer Karl-Gerhard Eick.

T-Mobile has exposure to the dollar and sterling through key operations in the U.S. and the U.K.



Associated Press

Deutsche Telekom Chief Executive René Obermann said the company's mobile operations in Europe have room to grow.

Rusal calls for investigation of fellow Norilsk shareholder

BY ANDREW OSBORN

MOSCOW—A bruising shareholder dispute at OAO Norilsk Nickel escalated after United Co. Rusal Ltd. called on stock-market regulators to investigate Norilsk's largest shareholder, suggesting he controlled more stock in the firm than he had disclosed.

Aluminum maker Rusal, which holds a 25% stake in Norilsk, one of the world's largest nickel producers, said in a statement that there were "a number of factors" indicating that billionaire Vladimir Potanin owned more than the just under 30% in Norilsk he is known to control. It called on the Federal Financial Markets Service, the market regulator, to investigate.

"This is a breach of Russian legislation," Rusal said in the statement. In a second statement, Rusal blamed Mr. Potanin's management policy for "poor production and financial performance."

Mr. Potanin's holding company, Interros, declined to comment. The regulator said it hadn't yet received a formal request from Rusal to investigate. A spokeswoman for Rusal said it planned to lodge a complaint in the near future.

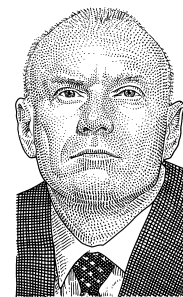
Rusal's statements came on the eve of a Norilsk board meeting Friday to choose a new chief executive for Norilsk. Mr. Potanin has nominated Vladimir Strzhalkovsky, an ally of Russian Prime Minister Vladimir Putin. But Rusal opposes his nomination on the grounds that he lacks experience in the sector. It said Thursday in the second statement that such appointments flouted corporate governance and inflicted "severe economic and reputational damage" on Norilsk. Still, Mr. Strzhalkovsky is nonetheless expected to be elected.

For months, Rusal has been vying with Mr. Potanin for control of Norilsk, a contest Rusal appears to be losing. The company, controlled by billionaire Oleg Deripaska, has said it wants to combine with Norilsk to

forge a diversified mining titan like BHP Billiton Ltd. But Mr. Potanin has resisted Rusal's overtures, instead exploring other combination scenarios.

If it were revealed that Mr. Potanin did own more than 30% of Norilsk he could, under Russian law, be forced to offer to buy out all of Norilsk's minority shareholders.

—Alexander Kolyandr contributed to this article.



Vladimir Potanin

CORPORATE NEWS

Sales at many U.S. chain stores fell in July

Teen segment gains as concerns increase on remainder of year

BY JENNIFER SARANOW
AND KEVIN KINGSBURY

U.S. retailers reported generally weak July sales that fell short of expectations, raising concern about consumer spending in the back-to-school season and the rest of the year.

Discounters benefited from consumers' focus on buying necessities. But giant Wal-Mart Stores Inc., which reported a 3% increase in sales at stores open at least a year, excluding fuel, warned that sales would slow in August to a 1% to 2% same-store gain from the same period a year earlier.

"With the end of the stimulus checks, we know consumers are spending more cautiously, and we continue to see a pronounced paycheck cycle at the end of the month," Eduardo Castro-Wright, head of Wal-Mart's U.S. operations, said in a statement.

Middle-market chains J.C. Penney Co. and Kohl's Corp., meanwhile, said same-store sales declined in July from a year earlier. High-end chains Saks Inc. and Nord-

strom Inc. and most apparel retailers, including teen retailers for whom the back-to-school season is critical, reported similar results.

Even Target Corp., a discounter that carries more stylish goods than Wal-Mart, posted a larger-than-expected decline of 1.2% in same-store sales. In a conference call with investors, officials forecast a 1% to 3% drop in August same-store sales.

Overall, U.S. retailers posted a 2.3% increase in same-store sales in July, according to an index of 38 companies compiled by researcher Retail Metrics Inc. That marked a slowdown from the 4% increase in June, when government stimulus checks helped boost sales.

Many retailers have already begun offering aggressive discounts to encourage buying before students return to school in September, a trend that analysts expect to accelerate this month. But deep discounts and a tax-free Saturday in some states in July weren't enough to spur sales in the face of high gaso-

line prices, declining housing prices and rising unemployment.

"The stimulus checks wore off, and now we are back to the revolting reality," said Ken Perkins, president of Retail Metrics. "It's really difficult to see any source of funding

for consumers to tap into as we go forward to back to school and the holiday shopping season."

One bright spot was Costco Wholesale Corp., which reported a 10% increase in July same-store sales, well above expectations. Wal-Mart, meanwhile, cited grocery, health-and-wellness products and entertainment products like flat-panel televisions and videogames as pockets of strength at its namesake stores, along with sales of teen-age apparel. That suggests that discounters may be taking back-to-school sales away from specialty apparel chains that focus on teens.

Some retailers also boosted their profit forecasts. Penney, which reported a 6.5% drop in same-store sales in July and forecast a mid-single-digit drop for August, raised its second-quarter earnings estimate.

At Gap Inc., where same-store sales fell a greater-than-expected 11%, the company projected that fiscal second-quarter earnings would be 30 cents to 31 cents a share—better than analysts expected. The company also boosted its earnings target for the year to \$1.30 to \$1.35 a share from \$1.20.

Among teen retailers, those offering lower-priced merchandise did best. Aeropostale Inc. posted a better-than-expected 13% jump in same-store sales, while Abercrombie & Fitch Co. and American Eagle Outfitters Inc. both posted worse-than-expected 7% drops.

"The July results and the August outlook indicate that most kids will be returning to school in last year's duds," Todd Slater, an analyst with Lazard Capital Markets LLC, wrote in a research report Thursday.

JAL cost-cutting narrows net loss; revenue off 5.8%

BY HIROYUKI KACHI

TOKYO—Japan Airlines Corp. had a narrower net loss for the fiscal first quarter on cost cuts, but will carry out major flight network reforms to mitigate the debilitating effect of a rise in jet-fuel prices.

The country's largest airline by revenue, commonly called JAL, said Thursday that it posted a net loss of 3.41 billion yen (\$31.1 million) in the three months to June 30, compared with a loss of 4.29 billion yen in the same period a year earlier.

Revenue declined 5.8% to 490.34 billion yen, due to the exclusion of the California-based fuel-trading subsidiary Pacific Fuel Trading Corp., in which it sold its entire stake. But JAL swung into an operating profit of 3.91 billion yen, compared with a loss of 8.55 billion yen a year earlier, due to cost cutbacks.

A rise in jet-fuel prices is still taking a toll on the airline, prompting it to suspend or scale down some unprofitable routes in the second half of this fiscal year.

Corporate News

Kicking up a storm

Women's football is finally flourishing in hotbeds like Brazil > Page 4



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DOWJONES

CORPORATE NEWS

Nokia chief sees room for growth in China market

BY REBECCA BLUMENSTEIN

BEIJING—Nokia Corp.'s chief executive still sees plenty of room for growth in China, already the world's largest cellphone market.

Though roughly half the people in China—an estimated 600 million—have cellphones, the proportion should climb as millions join the ranks of cellular users for the first time, said Nokia President and CEO



Olli-Pekka Kallasvuo

Olli-Pekka Kallasvuo, who is in Beijing for the Olympics.

"I think there's a lot of room left when it comes to penetration," Mr. Kallasvuo said. "When you look at the history of this industry, very often, the penetration increases

have continued to surprise people." China is Nokia's largest market, and Mr. Kallasvuo said mobile growth is also exploding in India, where about 250 million people, or 24% of the population, have cellphones. In Europe, the penetration rate exceeds 100%, as many people own more than one phone.

Nokia ranks first in market share in China, at 40%, ahead of rivals such as Motorola Inc. and Samsung Electronics Co., an Olympics sponsor.

Mr. Kallasvuo credited the success of the company to a range of factors, including a large production

During the first half of 2008, Nokia sold 38.5 million cellphones in China.

base that allows it to sell a wider range of phones in China than it does in any other market and a distribution network that reaches deep into China's countryside and smaller cities.

"There is no magic bullet here," Mr. Kallasvuo said. He acknowledged that on the high end of the market, Apple Inc.'s iPhone had created a new competitor but argued that sales of Nokia's smart phones are growing rapidly as millions of Chinese connect to the Internet via their cellphones instead of computers.

Nokia chose not to bid for Olympics sponsorship and traditionally shies away from specific events, he said.

During the first half, Nokia sold 38.5 million cellphones in China, generating €3.3 billion (\$5.09 billion) in revenue. For 2007, the mobile-phone maker sold 70.7 million phones for a total of €6.2 billion in revenue.

Standard Chartered PLC

U.K. lender weighs listing on China A-share market

U.K.-based lender Standard Chartered PLC said it is considering listing on China's A-share market, after the country relaxed foreign-exchange rules to allow domestic issues by foreign firms. "Standard Chartered has always been exploring overseas listing opportunities. But at this moment, we don't have an imminent plan to list shares in China," said Benjamin Fung, chief executive for the bank's Hong Kong operation. China's currency regulator introduced overhauls to its foreign-exchange rules, in a bid to slow the accumulation of foreign-exchange reserves. The revised rules allow foreign companies to issue securities in China, and also remove a requirement that Chinese companies bring all of their foreign-exchange income into the local banking system.

Virgin Media Inc.

U.K. television and telephony company Virgin Media Inc. posted a wider second-quarter net loss, pulled down by a goodwill impairment charge related to the company's mobile segment. Net loss was £447.2 million (\$870.7 million) compared with a net loss of £119 million a year earlier, while revenue fell 4.5% to £990.5 million. The company said a £366.2 million noncash impairment charge for its mobile segment, which recognized declining market multiples for comparable companies, hit the bottom line. Operating cash flow rose 5.7% to £333 million from £315 million. Virgin Media operates solely in the U.K. where it has approximately 4.8 million cable and high-speed Internet customers.

Danske Bank AS

Danske Bank AS reported a 14% fall in second-quarter net profit, as increased credit losses offset strong trading income. Net profit dropped to 3.24 billion Danish kroner (\$669.4 million) from 3.78 billion kroner a year earlier, mainly because of increasing credit loss expenses. Net interest income rose 9.7% to 6.66 billion kroner from 6.07 billion kroner, partly on high interest rates. Credit losses rose to 572 million kroner compared with a year earlier. Danske said the need for impairment charges hasn't accelerated, though unstable market conditions and falling asset values may lead to credit-loss expenses above average. At the end of June, the group's credit exposure was 3.5 trillion kroner.

Sanyo Electric Co.

Consumer-electronics maker Sanyo Electric Co. said net profit soared in its fiscal first quarter after it sold its struggling mobile-phone business as part of a long-running restructuring program. Osaka, Japan-based Sanyo said net profit in the quarter ended June 30 leapt to 28.25 billion yen (\$257.3 million) from 2.57 billion yen in the same period a year earlier. But the company's operating profit slipped 24% to five billion yen, reflecting the high cost of raw materials and the strength of the yen, which continue to pose problems for Japan's technology companies. The rise in material costs hurt the operating profit figure by three billion to four billion yen, the company said. "Overall, it's not a bad start, but we need to stay alert with economic conditions looking uncertain," said Executive Vice President Koichi Maeda.

GLOBAL BUSINESS BRIEFS

Lenovo Group Ltd.

Lenovo Group Ltd. said its fiscal first-quarter net profit rose 65% as strong growth in China offset weaker demand in the U.S. China's largest personal-computer maker by shipments said net in the three months ended June rose to \$110.5 million from \$66.8 million a year earlier. Revenue increased 10% to \$4.21 billion. The company said its total world-wide personal-computer shipments increased by 15% in the quarter from a year earlier, in line with the industry's average growth. Lenovo's growth rate in total shipments slowed from 22% in the previous year's quarter. "Despite the weakening global economic environment, Lenovo will endeavor to achieve its objective of growing faster and more profitably than the industry," said Chairman Yang Yuanqing.

Fraport AG

Airport operator Fraport AG said first-half net profit fell 10%, hit by higher interest payments and the sale of its security operations last year. Net profit fell to €92.1 million (\$141.9 million) from €102.5 million a year earlier, as revenue was down 7.1% to €1.04 billion from €1.12 billion. The Frankfurt-based company attributed the drop to a lack of income following the sale of its airport-security operations ICTS and a one-time gain in 2007 related to income from real-estate finance lease. Fraport also paid €57.2 million in interest expenses, up significantly from €22.5 million a year earlier. The company said the higher expenses stem largely from its long-term liabilities for the concession it pays to operate its Antalya airport in Turkey.

ArcelorMittal SA

ArcelorMittal SA announced new investments of \$1.6 billion in its long-carbon-steel operations in Brazil, as it bets on fast economic growth in the Latin American country. The world's largest steel company by sales, which is based in Luxembourg, said the investments are in addition to the \$1.2 billion of investments previously unveiled for the expansion of the Monlevade plant in the central state of Minas Gerais. Carbon steel is made up mostly of carbon and in its long version is mostly used for bars, rods and other structural products. In April, ArcelorMittal announced the acquisition of a 50% share of Gonvarri Brasil, which owns steel-service facilities for the automotive and industrial sectors. Last month, the steel giant said it was buying 70% of Manchester Tubos e Perfilados SA.

Tabcorp Holdings Ltd.

Tabcorp Holdings Ltd. booked a full-year net loss of 164.6 million Australian dollars (US\$149.7 million), after writing down the value of its slot-machine license in Victoria state and its wagering business. However, underlying earnings were broadly in line with expectations. Normalized net profit, before non-recurring items, was A\$516.9 million, up from A\$450.4 million in net profit a year ago, in line with forecasts. Tabcorp and Tatts Group Ltd. suffered in April when the state government said both companies would be stripped of their slot-machine licenses in 2012—ending a lucrative duopoly. Tabcorp elected to write off A\$487.7 million against the A\$597 million book value of the state license, with the rest to be amortized at A\$26.5 million a year until the current license expires in 2012.

Novo Nordisk AS

Danish pharmaceutical company Novo Nordisk AS posted a 32% drop in net profit in the second quarter, as the year-earlier figure was boosted by a stake sale, and raised its profit and sales forecast for the year. Net profit fell to 2.47 billion Danish kroner (\$510.3 million) from 3.65 billion kroner a year earlier, when the profit included a 1.4 billion kroner gain from the sale of a stake in cancer-diagnostics company Dako AS. Sales were up 5.2% to 11.11 billion kroner. The world's largest maker of insulin by sales said it now expects the year's operating profit to grow between 22% and 25%, up from its previous forecast of slightly more than 20%. Citing strong market penetration of its key diabetes products, Nordisk changed its outlook for sales growth in local-currency terms to a range of 11% to 13% from 10% to 13%.

Raiffeisen International

Austria-based Raiffeisen International Bank-Holding AG, which focuses on central, eastern and southeastern Europe, posted a 49% rise in second-quarter net profit. Earnings increased to €311.3 million (\$479.8 million) from €208.8 million a year earlier, spurred by strong retail-loan growth in the Commonwealth of Independent States and a solid performance in southeastern Europe. Net interest income was up 37% to €786.5 million from €573.8 million. Raiffeisen, the listed arm of Austria's Raiffeisen Zentralbank Österreich AG, has largely steered clear of the international market turmoil. Still, provisioning for impairment losses was up 40%. The bank nevertheless reiterated its full-year forecast of about €1 billion in net profit, up 19% from 2007.

Warner Music Group Corp.

Warner Music Group Corp.'s fiscal third-quarter net loss narrowed despite continued struggles with the consumer shift toward digital music. The New York-based record company reported a net loss for the quarter ended June 30 of \$9 million, or six cents a share, compared with a year-ago net loss of \$17 million, or 12 cents a share. Revenue rose 5.5% to \$848 million, but declined 1.1% in constant currency. Domestic revenue fell 6.5% while international revenue rose 17%, or 3.6% on a constant-currency basis. The company's recorded-music business saw revenue up 5.1% as strength in Europe offset declines in the rest of the world. Within the recorded-music segment, digital revenue—which now makes up 23% of segment revenue and 20% of total revenue—jumped 39%.

Thai Union Frozen Products PCL

Thai Union Frozen Products PCL said its 2008 sales may exceed \$2 billion. Thailand's largest canned and frozen seafood processor and exporter, which had targeted sales for 2008 and 2009 at \$1.8 billion and \$2 billion, respectively, will project its 2009 sales later, it said. Lower oil prices and a weaker Thai baht during the second half of the year should bode well for the company, it said. The company reported second-quarter net profit of 403.4 million baht (\$12 million), a 6.2% fall from a year ago. Despite higher revenue, the company's bottom line fell as it booked 329.47 million baht in foreign-exchange losses, compared with a 40 million baht foreign-exchange gain a year earlier. The company's April-June sales surged 22% to 16.79 billion baht.

Daimler AG

Germany's Daimler AG and Beijing-based truck maker Beiqi Foton Motor Co. said they agreed to form a 50-50 joint venture to make medium and heavy-duty trucks in China. The joint venture would also expand production and sales of Foton's Auman brand of lower-end commercial vehicles in international markets, the companies said. The venture must still clear several regulatory steps before a business license can be issued, said Daimler spokesman Trevor Hale. In December, Daimler and Beiqi began looking into a joint venture after terminating a plan to sell a 24% stake to Daimler through a private placement. Cooperation with the well-known maker of Mercedes-Benz autos would boost Foton's image, said CSM Worldwide analyst Yale Zhang.

Veolia Environnement

France's Veolia Environnement said first-half net profit rose 1.5% and it unveiled an action plan including a €1.5 billion (\$2.31 billion) asset-disposal program. Veolia shares rose 9.2% to €36.30 at Thursday's Paris closing. The world's largest water company by revenue said net profit rose to €500.5 million, from €493 million a year earlier. Earnings before interest, taxes, depreciation and amortization rose to €2.16 billion in the first half of 2008, from €2.01 billion a year earlier. Revenue jumped 17% to €18.09 billion, boosted by acquisitions and new projects and contracts. Earnings before interest and taxes came in at €1.3 billion, from €1.27 billion a year earlier. A €400 million cost-saving program is planned for 2009-2010.

Portugal Telecom SGPS SA

Portugal Telecom SGPS SA said second-quarter net profit fell 55%, as higher costs and a weak wireline business canceled out the positive effect of strong Brazilian operations. Portugal Telecom said net profit was €113.1 million (\$174.3 million), down from €252.5 million a year earlier. Revenue grew 12% to €1.67 billion from €1.5 billion. The company's best-performing business was Vivo Participacoes SA, where revenue grew 29.1% to €766.9 million in the second quarter. Vivo is Brazil's largest cellphone company and is jointly owned by PT and Spain's Telefónica SA. Revenue from domestic mobile operator TMN grew 7.4% to €391.7 million, but Portugal Telecom's domestic wireline revenue fell 3.6%.

Elpida Memory Inc.

Elpida Memory Inc. swung into the red in the fiscal first quarter, squeezed by weakness in prices of dynamic random access memory chips. The Japanese company said it suffered a net loss of 13.77 billion yen (\$125.4 million) in the quarter ended June 30, compared with a 14.55 billion yen net profit in the year-earlier period. The previous year's result was helped by a special profit of 22.1 billion yen from the sale of silicon wafer processing equipment at its Hiroshima plant. Elpida swung into an operating loss of 15.62 billion yen, compared with the year-earlier profit of 3.74 billion yen. It posted sales of 109.22 billion yen, down 0.2%. The earnings results came a day after Elpida unveiled its plan to set up a joint venture in China to make DRAM chips.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

EUROPEAN UNION

Carbon-registry link with U.N. set for October



THE European Union and the United Nations will be ready to link their carbon-trading accounting systems by mid-October, the European Commission said.

Once the U.N. certificate registry is linked with the European one, companies and countries will be able to count the U.N. certificates as credits within the European

emission-allowances system.

Under the Kyoto protocol to fight climate change, countries that have an emission-reduction target can earn sellable certified emission-reduction credits, or CERs, by setting up CO₂-cutting projects in developing countries.

—Alessandro Torello

RUSSIA

Device explodes on beach at Sochi resort, killing 2



A DEVICE exploded Thursday on a beach at a Russian resort that will host the 2014 Winter Olympics, killing two people and wounding at least seven, officials said.

The blast occurred in the southern city of Sochi when visitors touched the device on the Black Sea resort beach, the regional branch of Russia's Interior Ministry said.

It said a man and a woman died on the spot and three other visitors, including an 8-year-old child, were wounded on the beach.

Local authorities said they evacuated visitors from all Sochi beaches and checked for more explosives. None were found.

—Associated Press

U.S.

New jobless claims rose to six-year high last week



THE NUMBER of U.S. workers filing new claims for unemployment benefits unexpectedly rose last week to a six-year high, as the recent extension of jobless benefits continued to draw new claim-

ants. The data suggest the outlook for labor markets and consumer spending remains bleak as households face high energy prices and falling home values.

Separately, the National Association of Realtors' index for pending sales of existing homes increased at a seasonally adjusted annual rate of 5.3% to 89.0 in June from a downwardly revised reading of 84.5 in May, the industry group said.

Pakistan's Musharraf nears impeachment

Ruling parties allege efforts to undermine path to democracy

THE LEADERS of Pakistan's ruling coalition said they will try to impeach President Pervez Musharraf, imperiling the position of one of the U.S.'s closest allies in the fight against terrorism and threatening to cause even more political chaos in the South Asian nation.

The coalition leaders accused Mr. Musharraf, who won another

By Zahid Hussain in Islamabad, Pakistan, and Peter Wonacott in New Delhi

five-year term in a controversial election in November, of conspiring to undermine the country's transition to democracy. In a sign of the seriousness of the threat to his power, Mr. Musharraf on Thursday canceled a trip to the opening ceremony of the Beijing Olympics just a day after insisting he would go because of the special friendship between Pakistan and China. Pakistani Prime Minister Yousaf Raza Gilani will attend instead.

The declaration of impending impeachment proceedings was designed to pressure Mr. Musharraf to resign before an impeachment vote. But he has shown no sign of any willingness to quit office.

"I will defeat those who try to push me to the wall," he told his supporters. "If they use their right to oust me, I have the right to defend myself."

A showdown between the president and the ruling coalition might bring the army back into politics—a

recurrent theme in Pakistan's 61 years of independence. So far, the army has stayed on the sidelines as Mr. Musharraf relinquished his post as army chief and Pakistan held democratic elections in February that installed the ruling coalition.

In Washington, there was no show of support for President Musharraf, who was formerly

lauded by the U.S. as a key ally in the war on terror.

"We have consistently said the internal politics of Pakistan is an issue for the Pakistani people to decide. Our expectation is that any action will be consistent with the rule of law and the Pakistani constitution," Gonzalo Gallegos, a U.S. State Department spokesman, told reporters. "We'll continue our close ties with the democratically elected government of Pakistan."

The State Department was following the situation closely, Mr. Gallegos said.

Any intervention from the army would be a dangerous diversion of attention from counter-terror efforts in the country, said Marvin Weinbaum, a former U.S. State Department analyst on Afghanistan and Pakistan.

"If the military acts suddenly its eyes will be off the frontier; it's one more distraction from the cooperation we need dealing with the insurgency," he warned. However, the U.S. was already well-prepared for a transition in leadership, after forging new links with Pakistan's ruling coalition, Mr. Weinbaum said.

"All of our efforts are with this government and the military," he said. "We've already moved on beyond Musharraf, we had to."

The White House was aware of the reports, an official said.

Declaration of the intent to impeach followed talks over three days between the two largest parties in Parliament. The Pakistan People's Party, the party of assassinated former Prime Minister Benazir Bhutto, runs the ruling coalition and is led by her widower Asif Ali Zardari. The second largest party is the Pakistan Muslim League (N), led by

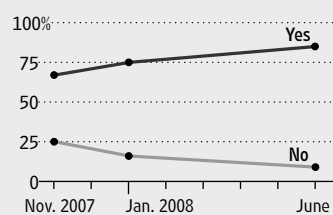
former Prime Minister Nawaz Sharif, whom Mr. Musharraf deposed in a 1999 bloodless coup. This party has continued to support the government in spite of earlier removing its cabinet members over disagreements with the PPP.

"Musharraf has brought Pakistan to a critical impasse," Mr. Zardari said at a joint news conference

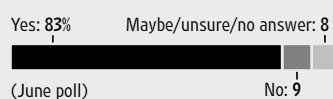
Sinking in the polls

Portion of Pakistanis who:

Think President Musharraf should resign



Think the new government should remove him from office



Source: International Republican Institute polls; most recent of 3,484 adults conducted June 1-15, margin of error +/- 1.7 percentage points

with Mr. Sharif. "It is imperative for us to move impeachment proceedings against Gen. Musharraf."

Mr. Zardari said Mr. Musharraf's ouster would clear the way for Pakistan's transition to genuine democracy. He said the approximately 60 judges removed by Mr. Musharraf during brief emergency rule in late 2007 also would be restored immediately after the president's removal. "It is good news for [the] future of democracy," Mr. Zardari said.

The twin issues of how to curtail Mr. Musharraf's power and restore the deposed judges have stymied the four-month-old coalition government, which is struggling amid a slowing economy, soaring inflation, and a fierce Islamist insurgency. Thursday, hundreds of Taliban militants attacked a checkpoint in a Pakistani tribal area bordering Afghanistan, sparking fierce clashes in which 10 soldiers and 25 rebels were killed.

Mr. Sharif said the impeachment process would start "in the next few days." The coalition officials said a charge sheet against the president is being drawn up. Some analysts said the proceedings may drag on for weeks, fueling further political and economic instability in the country.

Mr. Musharraf spent Thursday

consulting legal advisors and his political supporters. "He was very relaxed," said Senator Mahmood Ali Durrani, a former federal minister for information and a Musharraf supporter. A spokesman for Mr. Musharraf didn't return calls seeking comment.

The ruling coalition claimed it has the two-thirds majority in both houses of Parliament required to remove the president. That amounts to 295 votes in a joint session of the upper and lower houses that would be convened to hear the impeachment charges.

But the president's supporters said an impeachment move was bound to fail. "They certainly don't have the numbers," said Sheikh Rashid Ahmed, a former federal minister.

The Mohajir Qaumi Movement, a partner in the coalition government in the southern province of Sindh, also has declared its support for the president. Chaudhry Shujatta Hussain, president of the Pakistan Muslim League (Q), Mr. Musharraf's chief supporters in Parliament and the largest opposition party, also said that group will oppose impeachment.

Even Makhdoom Amin Fahim, senior vice chairman of the PPP, publicly declared his opposition to impeachment. "The impeachment move against the president will further destabilize the country," Mr. Fahim said in a statement Wednesday.

For his part, Mr. Musharraf, 65 years old, still retains the power as president to dismiss the government and the assembly. He has said repeatedly he wouldn't use it, although speculation is rife that he might. "It will be his last act if Musharraf tries to dismiss the Parliament," Mr. Sharif said.

The army, which Mr. Musharraf headed for more than nine years, might not come to his rescue. Top commanders met in the garrison town of Rawalpindi to review the internal and external security situation in the country. But no public statement was issued. Some senior defense analysts said the army may not intervene—but wouldn't allow its former chief to be humiliated.

Christine Fair, a South Asia expert in Washington at Rand Corp., said the army may try to steer the political parties away from an impeachment process if it risks tarring Pakistan's military.

"An impeachment process ultimately will be about military dictatorships, and what military dictatorships do to the country," she said.

Other observers said forcing the issue with Mr. Musharraf may ultimately help clear the political air and free up the government to tackle its many other challenges by bridging differences between the two largest parties in Parliament. "This is the stepping stone to solve the other problems," said Shaukat Qadir, a political analyst and retired brigadier general. "This should've happened right after the elections."

Part of what might have prevented Mr. Zardari from moving sooner is an agreement brokered between his late wife, Ms. Bhutto, and Mr. Musharraf.

The president worked to get corruption charges against Mr. Zardari and Ms. Bhutto dropped, paving their return to Pakistan from self-imposed exile last year. It is unclear how impeachment will affect that deal—and some observers suggest Mr. Zardari might be consenting to an impeachment vote that he knows he may not win in order to keep the coalition together.

"They are agreeing to a process for impeachment, but I don't know if they have the votes," Ms. Fair said. "Politically, it's clever."

For much of his eight-plus years in power, Mr. Musharraf enjoyed a strong grip on the government, thanks in part to a galloping economy and strong backing—as well as huge amounts of aid—from the U.S. During the past year, however, his public support has shrunk dramatically.

In a survey released last month, the Washington-based International Republican Institute said Mr. Musharraf's job-approval rating had plunged to 11% in June compared with 60% two years ago.



Pervez Musharraf



Asif Ali Zardari

ECONOMY & POLITICS

The 'moneymen' in Iraq

U.S. staff sergeant handles big bills to compensate locals

BY YOCHI J. DREAZEN

FORWARD OPERATING BASE HAMMER, Iraq—Staff Sgt. Thomas Keller's suitcase has two locks and is big enough—just barely—to hold \$960,000 in shrink-wrapped bricks of newly printed \$100 bills.

Nicknamed the "moneymen" by his friends, his job consists of picking up hundreds of thousands of dollars in cash and paying it out to the 1,200 young Iraqi men, mainly Sunnis, who work for his unit.

"Everybody says I should get a handcuff and lock the suitcase to my wrist," said Sgt. Keller of the Bravo Company of the Army's 1-6 Infantry Battalion. "It's like being in a really bad movie."

The U.S. military was supposed to be out of the employment business by now. When it launched the Sons of Iraq initiative last year, senior commanders expected the local security personnel to be gradually hired into the ranks of the Iraqi army and police.

But Iraq's Shiite-dominated central government has balked at the idea of bringing so many young Sunni men—including many one-time militants—into the country's fledgling security forces. Less than 20% of the roughly 103,000 Sons of Iraq had been given government jobs as of early June. That has left U.S. forces responsible for employing—and paying—the Iraqis.

That is where Sgt. Keller comes in.

Earlier this summer, he headed to his military installation north of Baghdad to withdraw the \$960,000, enough to pay three months' salary for hundreds of young Iraqis who hold U.S.-funded local security and public-works jobs in Jisr Diyala, the largest city near his base. The Iraqis each



Staff Sgt. Thomas Keller, right, and his commander, Capt. Russell Wagner, left, are entrusted with paying out money to keep young Iraqis employed in local security jobs.

make between \$240 and \$600 a month, a healthy salary in this region.

Sgt. Keller wound up in his new job by accident. He arrived in Iraq in March, a few weeks before the rest of his unit, and the outgoing troops needed someone to assume responsibility for paying the Sons of Iraq in the area. "I was the only one around," he said.

Back in his native Idaho, Sgt. Keller had never seen more than a few hundred dollars in cash at any one time. In Iraq, he is regularly entrusted with hundreds of thousands of dollars. If any of the funds go missing, Sgt. Keller has to make up the difference.

"The first time I went to draw money, I was pacing around and sweating, so one of the guys asked me if I was OK with so much cash," he said. "I was like, 'Definitely not.'"

Sgt. Keller keeps the money in a safe that can be opened only by him and his commander, Capt. Russell Wagner.

Baghdad's reluctance to assume responsibility for the Sons of Iraq program and find local security jobs

for its members has angered many U.S. officials, who credit the Sons of Iraq with helping to pacify the country and curb extremist groups like al-Qaeda in Iraq. A Pentagon report to Congress in June said the "emergence of the Sons of Iraq to help secure local communities has been one of the most significant developments in the past 18 months in Iraq." Capt. Wagner, Sgt. Keller's boss, said his unit "would have lost a lot more soldiers" without the Sons of Iraq.

U.S. officials worry some Sons of Iraq might rejoin the insurgency if they don't get a regular paycheck.

The uncertainty over the program is forcing U.S. commanders to look for creative ways to keep the Iraqis employed. Sgt. Keller's unit is setting up a vocational school in Jisr Diyala. Young Iraqis will spend nine months learning to be carpenters, plumbers, masons or electricians, and get a monthly salary until they graduate. The unit has also begun making grants, typically between \$500 and \$2,000, to those setting up or expanding a business.

Malaysia's Anwar pleads not guilty in sodomy case

BY RAPHAEL PURA

KUALA LUMPUR, Malaysia—Opposition leader Anwar Ibrahim was formally charged Thursday with committing sodomy, an accusation the politician called "treacherous and malicious."

Mr. Anwar, who heads an alliance of opposition parties that is threatening to topple Malaysia's National Front government, pleaded not guilty in a Kuala Lumpur court and was freed on bail, as several hundred supporters gathered outside, restrained by a large police contingent. Sodomy is illegal even between consenting adults in this Muslim-majority nation and punishable by as long as 20 years in prison and caning. Mr. Anwar was charged under a section of the law that covers consensual sex.

He contends the charge is designed to destroy his political career and thwart an increasingly strong opposition movement from undermining the National Front, which has ruled Malaysia for more than 50 years. Prime Minister Abdullah Ahmad Badawi, other government officials and the police have all denied that the prosecution of Mr. Anwar is politically motivated.

But many Malaysians as well as domestic and international human-rights groups are skeptical of the government's contention. "The Malaysian government appears to be manipulating the legal system to shore up support for its continued rule and undermine the opposition," said Brad Adams, Asia director at New York-based Human Rights Watch. "This case is really about preventing challenges to the government's rule."

Much of the mistrust of the Malaysian government and its justice system dates back a decade, when Mr. Anwar, then the country's deputy prime minister, fell out politically with then-Prime Minister Mahathir Mohamad. Mr. Anwar was sacked from the government in 1998, charged with several counts of sodomy, tried, convicted and jailed—all

the while denying the charges. His conviction was overturned by Malaysia's highest court in 2004, after a panel of judges ruled that Mr. Anwar's trial was flawed by shoddy police and judicial procedures.

Thursday, government prosecutors accused Mr. Anwar, 60 years old, of sodomizing a 23-year-old male aide, Saiful Bukhari Azlan, on June 26 in a condominium in Kuala Lumpur. Sankara Nair, one of Mr. Anwar's defense lawyers, said "there is no case," adding that Mr. Anwar has an unspecified alibi for the alleged time of the offense.

"This is a treacherous and malicious accusation. I am not guilty," Mr. Anwar said after the charge was read in the courtroom packed with opposition activists. Riot police kept hundreds of other supporters at bay outside the courtroom, but there were no reports of violence.

The alleged sodomy offense came to light after Mr. Saiful made a police complaint June 28. Although Mr. Anwar was charged under a legal provision that pertains to consensual sex, Mr. Saiful hasn't been charged.

Pending his trial, Mr. Anwar will be free to contest a by-election Aug. 26 for a parliamentary seat. Should he win election, as is widely expected, he would be eligible to become Malaysia's next prime minister if his opposition alliance can muster enough defectors from the National Front to command a parliamentary majority. Currently, the opposition is 30 seats short of a majority in the 222-member Malaysian Parliament.

If Mr. Anwar is eventually convicted, however, he would lose his parliamentary seat and could be barred from elected office for years.

The court ordered Mr. Anwar to appear for a hearing Sept. 10 to fix a trial date and to determine whether the case should be transferred to a higher court.

"This is clearly a political game," Mr. Anwar told reporters outside the courtroom.

—Celine Fernandez
contributed to this article.



Anwar Ibrahim

U.S. convention protests shift tone

BY STEPHANIE SIMON

DENVER—Local law enforcement is preparing for the worst at the Democratic National Convention, spending millions on crowd-control gear and bringing in hundreds of extra officers to back up the military and Secret Service.

Militant rhetoric from a few activists early on raised alarms that the city could see a chaotic replay of the 1968 Democratic convention, when antiwar protesters clashed with police in a swirl of tear gas in downtown Chicago.

But lately, leading radicals, anarchists and leftist firebrands have taken a decidedly lighter approach. When the Denver City Council this week banned possession of noxious substances for fear demonstrators might resort to hurling urine or feces, activists responded with a "Non-poo-liferation treaty."

"We don't want to be quite so intimidating," says Jojo Pease, an organizer with Students for a Democratic Society.

The shift in tone extends to protest planning. Suddenly, the usual sweaty marches, propelled by raised fists and red-faced shouts, seem so very old school. The new mantras: Have fun! Hang loose!

Activists are bringing in puppets,

kites, pompoms, a 21-foot-tall blow-up Statue of Liberty. They plan pot-and-pan percussion bands, clown shows and rolling dance parties with deejays on bikes. The most militant group, Recreate 68, has dropped its original logo—a clenched fist—in favor of a groovy Volkswagen bus.

"People are tired of being mad," says activist Glenn Spagnuolo, an organizer with Recreate 68.

Denver police say they've built good relationships with key groups. They're taking advantage of a \$50 million federal grant to shore up security, but expect largely peaceful crowds when the convention kicks off on Aug. 25.

Protest-as-street-theater has a venerable tradition in America. Abbie Hoffman and his Yippies played it to the hilt in the 1960s with flowers in gun barrels and an effort to levitate the Pentagon.

Political conventions have drawn some of the most flamboyant stunts. At the 1932 gathering to nominate Franklin Roosevelt, anti-Prohibition forces packed the balcony, where radio microphones had been placed. For four hours, listeners heard nothing but: "We want beer!" according to R. Craig Sautter, author of several books on convention history. At the 1940 Republican Convention, Wendell Willkie loyalists all but buried

delegates with a million telegrams dispatched to the convention floor. But after the 1968 clash, political scientists say, the sense of fun drained out of many demonstrations.

That began to change in the early part of this decade, as new groups like CodePink and Billionaires for Bush began using theatrics and humor to grab media attention and recruit a new generation of activists. The convention here may mark the full blossoming of that trend.

That's not to say angrier protesters won't be in evidence. And there will be big, traditional, fist-pumping antiwar marches both in Denver and at the Republican gathering, in St. Paul, Minn. But as wary groups distanced themselves from the militant rhetoric voiced earlier this year, they changed the tone—and brought some of the die-hard elements around.

A posse of clowns will roam the city, poking fun at pompous politicians. "Radical cheerleaders" will perform stunts while sis-boom-bahing about free trade. Guerrilla gardeners will plant flowers on scruffy lots to call attention to Mother Earth.

And in an ode to the Yippies' famous prank, Recreate 68 will attempt to levitate the Denver Mint "to shake out all the money," says Mr. Spagnuolo.

Georgia's president orders cease-fire with separatists

ASSOCIATED PRESS

TBILISI, Georgia—Georgia's president is calling for his country's forces to cease fire in South Ossetia, the separatist region where days of sporadic clashes have raised fears of full-scale war.

President Mikhail Saakashvili announced the order Thursday in a television broadcast in which he also called on South Ossetian separatist leaders to enter talks on resolving the conflict. He is also proposing that Russia could become the guarantor of wide-ranging autonomy for South Ossetia if the region remains under Georgian control.

Russia has close ties with the separatist leadership, and Georgian officials have alleged that Moscow is provoking the recent clashes. The South Ossetian separatist government said that the provincial capital, Tskhinvali, and nearby areas came under heavy artillery and mor-

tar shelling from Georgian-controlled territory overnight, wounding at least 21 people, officials said.

But Georgian authorities said they were forced to retaliate when South Ossetian separatist forces started firing on Georgian troops in the area. Three Georgian soldiers were wounded in the skirmishes, said Temur Yakobashvili, Georgia's Cabinet minister in charge of separatist matters.

Georgian and South Ossetian officials were scheduled to meet Thursday to try to find a resolution, but separatist officials said the meeting was off because of the Georgian shelling.

Eduard Kokoity, South Ossetia's separatist president, warned in comments broadcast by Russia's NTV television that the province's military would drive Georgian forces out of their firing positions near Tskhinvali if the shelling continued.