

## Real-estate financier's death hints at lender woes

NEWS IN DEPTH | PAGES 14-15

## A Russian billionaire's yacht is making waves

ON OTHER FRONTS | PAGE 32

## What's News —

Business & Finance

World-Wide

**U.K. jobless claims showed** their biggest rise since 1992. Higher unemployment could help tip the British economy into the recession economists increasingly say could happen, amid slowing economic growth and inflation. **Page 1**

**Fed Chairman Bernanke** said U.S. inflation is too high. At their June meeting, Fed officials thought rates might rise next. U.S. consumer prices jumped 1.1% in June. **Page 1**

**UBS and LGT Group** are targets of a U.S. Senate investigation for allegedly marketing tax-evasion strategies to wealthy Americans. **Page 1**

**Goldman faces questions** from the chiefs of Bear Stearns and Lehman over whether it might have put pressure on their firms' shares. **Page 19**

**Lehman faces** a bumpy path to stability, with analysts saying the firm needs to sell troubled assets and find a partner. **Page 25**

**Stocks gained** in the U.S. and Europe, aided by another drop in oil prices. **Page 20**

**European consumers** are steering away from big-ticket items as fears over the economic downturn damp spending. **Page 4**

**Delta and AMR swung** to second-quarter losses on soaring jet-fuel prices, but shares rose as results looked better when items were stripped. **Page 6**

**Airbus's CEO questioned** whether the plane maker should go ahead with production increases given troubles in the airline industry. **Page 6**

**HBOS's rights issue** is in danger of failing, with shares trading 7.5% below its offering price, giving shareholders little incentive to buy in. **Page 19**

**Swiss Re said its exposure** to debt from Fannie Mae and Freddie Mac totals \$9.6 billion. **Page 3**

**Continental rejected** an unsolicited takeover bid from auto-parts maker Schaeffler, calling its offer "unlawful." **Page 4**

### Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11239.28	+276.74	+2.52
Nasdaq	2284.85	+69.14	+3.12
DJ Stoxx 600	268.50	+1.99	+0.75
FTSE 100	5150.6	-21.3	-0.41
DAX	6155.37	+73.67	+1.21
CAC 40	4112.45	+51.30	+1.26
Euro	\$1.5826	-0.0144	-0.90
Nymex crude	\$134.60	-4.14	-2.98

Money & Investing > **Page 19**

**Hezbollah delivered** the remains of two Israeli soldiers captured in 2006, extinguishing hopes that they were still alive. In return, the militant group received five Lebanese prisoners and the exhumed remains of about 200 fighters from Israel. **Page 10**

**The U.S.'s top military chief** said he will likely recommend further U.S. troop reductions in Iraq later this year. The Pentagon is looking for ways to send more troops to Afghanistan. **Page 10**

**A car bomb killed** at least 15 people in northern Iraq, in a sign militants retain the ability to cause mass casualties. **Page 10**

**U.S. troops abandoned** an Afghanistan outpost where nine soldiers were killed by militants this week, as NATO launched artillery and helicopter strikes on sanctuaries inside Pakistan. **Page 10**

**A top U.S. envoy will meet** with Iran's top arms negotiator along with EU foreign-policy chief Solana, in a break with long-held U.S. policy. **Page 10**

**Obama prepared** for his trip to the Mideast, Europe and Afghanistan by convening a foreign-policy roundtable. **Page 2**

**Germany will extend** restrictions on low-wage workers from Eastern Europe until 2011. But the cabinet approved measures to allow limited immigration by highly skilled workers. **Page 10**

**Malaysian police arrested** opposition leader Anwar on suspicion of sodomy, allegations he has denied, setting the stage for a battle between his supporters and the government. **Page 10**

**U.S. regulators said** they will adopt potentially costly rules designed to prevent fuel-tank explosions on airliners. **Page 6**

**Samsung Group's ex-chairman** was found guilty of tax evasion, and a Korean judge gave him a suspended prison term. **Page 7**

**China's government told** local leaders to address public grievances to head off protests, responding to a new wave of unrest ahead of the Olympics. **Page 11**

**Saudi Arabia's king exhorted** followers of leading faiths to turn away from extremism and to embrace reconciliation at an interfaith conference in Spain. **Page 11**

### EDITORIAL & OPINION

#### Cap and crash

Europe is forcing airlines into emissions trading when they can least afford it. **Page 11**

# Spate of layoffs in U.K. adds to growth concerns

As jobless claims rise, large budget deficit limits relief options

BY ALISTAIR MACDONALD

LONDON—This summer, real-estate agent Andrea Newson was called into her boss's office and told she was being laid off. The 25-year-old, who grew up during a decade of unparalleled growth and low unemployment in the U.K., never thought she would hear those words.

Layoffs are back, and rising, in Britain, changing how people view job security and their government after the country had appeared to shake this staple of economic volatility over the past decade.

In June, the U.K. saw the biggest rise in the number of people filing new claims for unemployment benefits since 1992. The Office for National Statistics said on Wednesday the claimant count rose by 15,500. *Please turn to page 3*

## UBS and LGT face U.S. probe over tax advice

BY EVAN PEREZ

WASHINGTON—A U.S. Senate probe is taking aim at Swiss bank UBS AG and Liechtenstein's LGT Group for allegedly marketing tax-evasion strategies to wealthy Americans.

The probe adds fuel to a burgeoning effort by tax authorities around the globe to shatter the bank secrecy that tax havens use to cater to the world's elite.

The findings by the Senate Permanent Subcommittee on Investigations come ahead of a hearing Thursday featuring testimony from senior officials from the Internal Revenue Service and the Justice Department related to continuing investigations into alleged tax evasion by wealthy Americans.

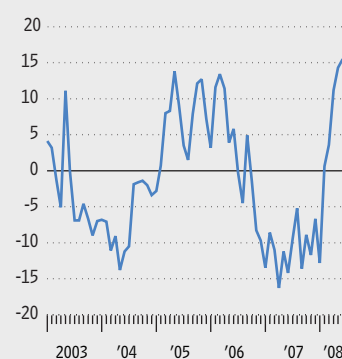
Investigators estimate that the U.S. loses about \$100 billion annually in tax revenue due to offshore tax evasion. U.S. clients hold about 19,000 accounts at UBS, with an estimated \$18 to \$20 billion in assets, in Switzerland, according to the findings from the Senate probe and Justice prosecutors.

Investigators weren't able to obtain comparable data about LGT but said the IRS has identified at least 100 accounts with U.S. clients at the Liechtenstein bank.

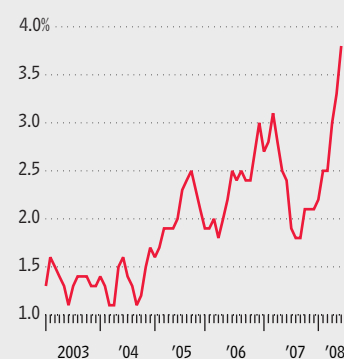
Democratic Sen. Carl Levin of Michigan, chairman of the subcommittee, is pushing legislation to tighten requirements that could *Please turn to back page*

### Growing concern

Unemployment  
Monthly change in U.K. claimant-count unemployment, in thousands



Inflation  
U.K. consumer-prices index, year-to-year percentage change



Source: U.K. Office for National Statistics

## U.S. Fed warns inflation is too high as prices jump

BY BRIAN BLACKSTONE AND MAYA JACKSON RANDALL

WASHINGTON—Federal Reserve Chairman Ben Bernanke said U.S. inflation "is too high" and reiterated that the central bank's aim is to achieve price stability.

Mr. Bernanke's comments, made before a U.S. House of Representatives panel Wednesday, came on the heels of a Labor Department report showing U.S. consumer prices jumped 1.1% in June from the previous month, the second-highest increase since 1982 and the highest since 2005. Excluding food and energy, it advanced 0.3%.

Both numbers exceeded Wall Street expectations, and the data

pose a dilemma for Fed officials as they try to balance a stagflationary mix of rising unemployment, strained financial markets and increasing inflation.

The consumer-price index swelled 5% on a year-to-year basis, the highest rate since May 1991 and significantly above the roughly 1.5% to 2% range that officials aim for over the long run.

"It is very important for us to maintain price stability," Mr. Bernanke said. The jump in energy and commodity prices are due to "factors out of the control of the Federal Reserve," he said.

Mr. Bernanke also told lawmakers that the U.S. needs to have an energy strategy and that "it would *Please turn to page 3*



Ben Bernanke

### Winning solutions for our clients.

Best Foreign Exchange House: Global  
Best Risk Management House: Global  
Best Investment Bank: Western Europe



www.db.com

A Passion to Perform.

Deutsche Bank

This advertisement has been approved and/or communicated by Deutsche Bank AG London. The services described in this advertisement are provided by Deutsche Bank AG or by its subsidiaries and/or affiliates in accordance with appropriate local legislation and regulation. © Copyright Deutsche Bank 2008.

LEADING THE NEWS

# Buzz over Obama visits

*In Germany, a rift on his speaking spot; Ireland makes pitch*

Even as U.S. Sen. Barack Obama prepared for his overseas trip by convening a foreign-policy roundtable on Wednesday, he was already making waves overseas.

In Germany, politicians disagreed on where the Democratic presidential contender should

By Amy Chozick in Chicago and Marcus Walker in Berlin

speak during a stop there, while Ireland and Lebanon would settle for any visit at all.

Sen. Obama has sought to beef up his national-security credentials this week, while ramping up attacks on Republican rival John McCain, a Vietnam War veteran who has come down hard on the Illinois senator over national security.

In his "Confronting 21st-Century Threats" roundtable, Sen. Obama and seven experts discussed nuclear nonproliferation, bioterrorism, cybersecurity and other national-security issues.

The panelists included former Georgia Sen. Sam Nunn and Indiana Sen. Evan Bayh. Both are considered potential running mates whose senior standing and national-security heft could help offset the relative inexperience of Sen. Obama, a freshman senator.

"It's time to update our national-security strategy to stay ahead of the terrorists," Sen. Obama said in his opening remarks at Purdue University in West Lafayette, Ind. "America cannot afford another president who doesn't understand the threats that confront us."

Sen. Obama's six-day overseas trip is scheduled to begin in Amman, Jordan, on Monday, followed

by stops in Tel Aviv and Jerusalem and the capital cities of Germany, France and the U.K.

He is expected to visit Iraq and Afghanistan as early as the end of the week as part of a small congressional delegation. The group is scheduled to meet with Iraqi Prime Minister Nouri al-Maliki, President Jalal Talabani and other Iraqi government and parliament leaders.

The Obama campaign says the overseas trip is designed to push Sen. Obama's foreign-policy agenda while contrasting his approach with that of the Bush administration.

Last week, German Chancellor Angela Merkel balked at the Obama campaign's informal inquiry about using Berlin's most-famous landmark, the Brandenburg Gate, as the backdrop for a speech by the senator.

Thomas Steg, a spokesman for Ms. Merkel, said she felt "displeasure" at the idea of someone running for office using the historic gateway to Berlin's center for a rally. He said no German politician running for high office would dream of staging a campaign event on the Mall in Washington.

Other German politicians disagreed with Ms. Merkel, including Germany's foreign minister and Berlin's mayor. Both are from the left-leaning Social Democrats, who govern Germany in a squabbling coalition with Ms. Merkel's conservatives. Ms. Merkel is also close to U.S. President George W. Bush.

German media have speculated that Sen. Obama might pick Berlin's Tempelhof Airport for his speech. The airport was the hub of the U.S.-led airlift in 1948-1949 that saved West Berlin from a Soviet blockade. But that site also has a complicated background: Berlin's

mayor wants to close the aging airport later this year, but Ms. Merkel and other conservatives have called for it to stay open.

Moira Mack, a spokeswoman for Sen. Obama, said on Wednesday that the campaign had no additional details on the July 24 Berlin event.

"We are going to find a location that is suitable to us and suitable to our German friends," Robert Gibbs, a senior Obama aide, said earlier.

Other countries just want Sen. Obama to visit them. Ireland and Lebanon have lobbied the campaign to be shoehorned into the senator's six-day itinerary, but so far without success, officials representing those countries said.

Given the tight campaign schedule, Sen. Obama "unfortunately does not have time to visit every country that has requested a meeting," Mr. Gibbs said.

In the Middle East, Sen. Obama is expected to meet with Palestinian president Mahmoud Abbas in Ramallah, where he could encounter criticism for endorsing an "undivided" Jerusalem in a speech last month to a pro-Israel group.

His campaign later said the candidate doesn't oppose Israeli-Palestinian talks about the future of the city.

In Israel, Sen. Obama could face scrutiny for his pledge during the Democratic primary to directly engage Iranian president Mahmoud Ahmadinejad, who has called the Holocaust a "myth."

Separately on Wednesday, Sen. Obama commended the Bush administration for plans to send Undersecretary of State William J. Burns to hold talks with Iranian leaders. Direct talks "will maximize the international pressure," he said.

—Jay Solomon in Washington contributed to this article.



Barack Obama

# Richemont sales increase despite global slowdown

By Stacy Meichtry

A strong rise in sales at Compagnie Financière Richemont SA shows the priciest tiers of the luxury-goods industry have so far shrugged off the global economic slowdown.

Richemont, owner of Cartier and luxury Swiss watch brands such as Vacheron Constantin, said its sales rose 13% to €1.43 billion (\$2.27 billion) in its fiscal first quarter, which ended June 30.

Although emerging Asian markets such as China fueled the spurt, Richemont also managed to squeeze growth out of clients in the U.S., where spending on lower-priced

looking for a silver lining to the malaise—even in the U.S. LVMH, which will report results at the end of the month, recently gave a slide presentation for its Tag Heuer brand, noting that out of 24 million people in North America who could afford watches priced above \$2,000, only three percent owned such time pieces.

This year LVMH is bulking up its advertising budget for Tag Heuer, rolling out new ads on TV and radio. The group also recently acquired high-end Swiss watchmaker Hublot.

Richemont's Swiss watch business is also proving resilient, charging sums upward of €10,000 for mechanical watches that remain in short supply. In recent years, watch

Some analysts now see the sluggish production as a blessing in disguise, bolstering demand and softening the sector's landing if spending eventually slows.

goods has been sapped by the housing and credit crises. Sales rose at a 6% clip in the Americas and clocked a 20% jump at constant exchange rates, the company said.

Richemont's climb continues to defy expectations that the high-end luxury market is bound for tough times as the economic mood darkens. Publicly traded European luxury firms such as LVMH Moët Hennessy Louis Vuitton and Bulgari SpA have seen their share prices battered over the past year. Richemont's strong performance "should help the stock today and somewhat the sector," wrote Melanie Flouquet, a luxury-goods analyst with JP Morgan.

Still, Europe's luxury firms are

brands and clientele have often chafed that Switzerland's limited number of watch factories couldn't keep up with demand for Swiss-made watches.

Watch sales at Richemont rose 13% to €415 million in the April-June period.

Some analysts now see the sluggish production as a blessing in disguise, bolstering demand and softening the sector's landing if spending eventually slows.

"Capacity constraints in the Swiss mechanical-watch industry are likely to mitigate expected softer demand later in the year," wrote Luca Solca, a luxury goods analyst with Sanford C. Bernstein & Co. LLC.

## CORRECTIONS & AMPLIFICATIONS

**Dmitry Medvedev** has been president of Russia since May 7. An article in some editions Wednesday incorrectly said he has held the office for more than 100 days.

**The highest ethanol content** in the gasoline used by most cars is 10%. The Alliance of Automobile Manufacturers, a trade group in the U.S., says higher concentrations of

ethanol can corrode engine parts, except in flex-fuel vehicles, which are designed to tolerate higher ethanol content. About 2% of the cars on the road in the U.S. are flex-fuel vehicles, according to the trade group. A June 30 article in The Journal Report section stated more definitively that ethanol at higher concentrations causes corrosion, and didn't mention flex-fuel vehicles.

## INDEX TO PEOPLE

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

For more people in the news, visit [www.wsj.com/CareerJournal.com/WhosNews](http://www.wsj.com/CareerJournal.com/WhosNews)

Albanese, Tom ..... 7	Kaplan, Jeffrey ..... 22	Pritchard, Marc ..... 6
Au, Andrew ..... 25	Kutaragi, Ken ..... 30	Rauscher, Brian ..... 24
Aust, Christian ..... 4	Lauper, Simone ..... 3	Rivkin, Jack ..... 25
Blankfein, Lloyd ..... 19	Lee Kun-hee ..... 7	Rosenker, Mark ..... 6
Bulle, Emmanuel ..... 4	Levkovich, Tobias ..... 24	Schiffer, Jonathan ..... 22
Callahan, Michael ..... 30	Li Xianmin ..... 24	Schorr, Glenn ..... 25
Chambers, John ..... 24	Locher, Rene ..... 3	Schwartz, Alan ..... 19
Chowdhry, Jeff ..... 23	Lundgren, Susan ..... 7	Schwartz, Jonathan ..... 30
Derchin, Michael ..... 6	Min Byung-hun ..... 7	Scicluna, Chris ..... 22
Deripaska, Oleg ..... 19	Nathanson, Michael ..... 6	Smith, Brad ..... 30
Detrick, Ryan ..... 20	Neuville, Colette ..... 7	Solca, Luca ..... 2
Dubow, Craig ..... 7	Paulson, John ..... 20	Spencer, Michael ..... 23
Elsenhans, Lynn Laverty ..... 7	Pedraza, Rodolfo ..... 7	Stengel, Jim ..... 6
Esiner, Omer ..... 22	Pei, Minxin ..... 29	Stringer, Howard ..... 30
Felli, Gilbert ..... 29	Peters, Mary ..... 6	Sturgell, Robert ..... 6
Flouquet, Melanie ..... 2	Piech, Ferdinand ..... 4	Trone, David ..... 25
Fuld Jr., Richard ..... 19,25	Podguzov, Nikolay ..... 22	Usmanov, Alisher ..... 19
Gonsalves, Colin ..... 8	Polley, Malcolm ..... 24	van Praag, Lucas ..... 19
Hardie, Dave ..... 6	Porter, John ..... 23	von Rosen, Rüdiger ..... 4
Hirai, Kazuo ..... 30	Potinin, Vladimir ..... 19	Williams, Nick ..... 23
Hom, Sharon ..... 29	Preuss, Holger ..... 29	Willis, Hugh ..... 22
		Yang, Jerry ..... 30

## INDEX TO BUSINESSES

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

Advantest .....24	China Vanke .....24	Gannett .....7	LGT Group .....1	Renault .....20
Air France-KLM .....20	Cisco Systems .....24	General Electric .....7	Lloyds TSB .....20	Rio Tinto .....7
Alstom .....7,20	Citadel Investment Group .....20	General Motors .....4,6,20	Marriott International .....24	Royal Bank of Scotland Group .....20
AMR .....6	Citigroup .....20,25	Globaltrans Investment .....23	Martinsa-Fadesa .....21	Royal Bank of Scotland PLC .....19
Anheuser-Busch InBev .....21	Compagnie Financière Richemont .....2	Goldman Sachs Group .....19,23	Merrill Lynch .....19,20	Rusal .....19
Anheuser-Busch .....21	Continental .....4,20	Google .....30	Metalloinvest .....19	Safaricom .....23
Apple .....4,7,30	Crédit Agricole .....20	Hannover Re .....3	Microsoft .....30	Samsung Electronics .....7
ASML Holding .....7,20	Delta Air Lines .....6	HBOS .....19	Moody's .....22	Samsung Group .....7
Bank of America .....20,25	EgyptAir Airlines Holding .....23	Hewlett-Packard .....30	Morgan Stanley .....19,20	Schaeffler Group .....4,20
Bank of East Asia .....25	Esprit .....24	Hongkong & Shanghai Hotels .....7	Natixis .....7,20	Shanghai Pudong Development Bank .....24,25
Barclays .....19	European Aeronautic Defence & Space .....6	IBM .....30	Netflix .....30	Siemens .....10
BlueBay Asset Management .....22	Exxon Mobil .....20	InBev .....21	News Corp. .....7	Sinopec .....24
Boeing .....6,7	Fannie Mae .....3,20	Intel .....7	Nintendo .....30	SJM Holdings .....24
Bradford & Bingley .....19	Freddie Mac .....3,20	Interpublic Group of Cos. .....6	Norilsk .....19	SK Telecom .....24
Budejovicky Budvar .....21		J.P. Morgan Chase .....19,20	Northwest Airlines .....6	Skandinaviska Enskilda Banken .....7
Chevron .....20		Kazakhmys .....19	Omnicom Group .....6	Sony .....30
China Merchants Bank .....24,25		Kohlberg Kravis Roberts .....25	Paulson .....20	Sprint Nextel .....24
		Lehman Brothers Holdings .....19,20,25	Porsche Automobil Holding .....4	Sun Microsystems .....30
			Procter & Gamble .....6	Swiss Reinsurance .....3,20
			Psystar .....7	TD Ameritrade Holding .....25
			Publicis Groupe .....6	Tokyo Electron .....24
			Qatari Diar Real Estate Investment .....7	Toyota Motor .....4
				UBS .....1,22
				Volkswagen .....4,20
				Volvo .....7
				Wachovia .....25
				Warburg Pincus .....25
				Wells Fargo & Co. ....20,22
				Westfield Group .....32
				Wolseley .....22
				Yahoo .....30

**FREE daily access to WSJ.com**

If you bought today's paper from a retail outlet, simply register at: [wsj.com/reg/coupon](http://wsj.com/reg/coupon) or renew at: [wsj.com](http://wsj.com)  
Today's code is: **EUROPE-X-569**

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)  
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium  
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102  
News: 32 2 741 1600 Editorial Page: 32 2 735 7562  
SUBSCRIPTIONS, inquiries and address changes to:  
Telephone: +32 2 741 1414  
International freephone: 00 800 9753 2000  
E-mail: [subs.wsje@dowjones.com](mailto:subs.wsje@dowjones.com) Website: [www.services.wsje.com](http://www.services.wsje.com)  
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01  
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürrilet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Teletampa Centro Italia s.r.l. Printed in Spain by Belmont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.  
Registered as a newspaper at the Post Office.  
Trademarks appearing herein are used under license from Dow Jones & Co. © 2008 Dow Jones & Company All rights reserved.  
Editeur responsable: Daniel Hertzberg M-17936-2003

## FROM PAGE ONE

# U.S. Fed chief warns that inflation is too high

*Continued from first page*  
have been better to address this some time ago." He said an energy strategy could even have beneficial effects on energy prices in the near term if less concern over supply-and-demand imbalances are reflected in futures prices.

Worried about rising inflation, Federal Reserve officials at their meeting in June thought the Fed's next move on interest rates was likely to be up, the Associated Press reported. Documents, released Wednesday, provided insights into the Fed's thinking at the June 24-25 session, when they ended a nearly year-long string of rate reductions, aimed at bolster a teetering economy. At that time, the Fed was increasingly concerned that rising energy and food prices could spread inflation, so they left the Fed's key rate at 2%.

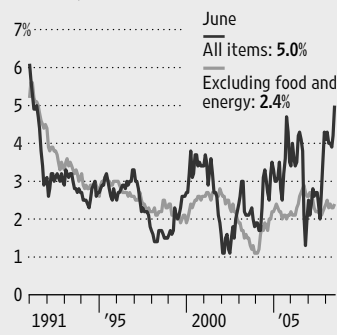
Oil prices continued to fall Wednesday, hitting a three-week low on a surprise increase in U.S. oil and product inventories published by the Department of Energy.

Mr. Bernanke addressed the dollar's recent weakness, saying foreign-exchange intervention should be done rarely, and he expects the U.S. currency to reflect a stronger economy over the medium term. He also said temporary action on currencies may be justified if something disorderly occurs in markets.

Mr. Bernanke told members of

## Pumped up

U.S. consumer prices, change from a year earlier



Source: U.S. Labor Department

the House Financial Services Committee, in his second day of the Fed's twice-yearly economic report to Congress, that if policy makers work effectively toward economic growth, U.S. dollar strength will reflect that over the medium term. "Our principal approach for a strong dollar is to have a strong economy," he said.

Responding to a question on Fannie Mae and Freddie Mac, Mr. Bernanke said the firms are adequately capitalized and in no danger of failing. "The housing market is really the essential element of this crisis," he said.

Mr. Bernanke also dwelled on an

"unusually uncertain" inflation outlook and cautioned that the Fed is watching for any sign that higher energy and commodity prices are becoming embedded in wages and expectations.

The inflation data from the Labor Department suggest that what might be more worrisome for policy makers than the jump in headline inflation may be signs that food and energy prices are starting to filter through the broader economy, as evidenced by sharp price gains last month in housing and housing-related items, transportation and services.

The core CPI grew a more modest 2.4% compared with June 2007, though that was still above the Fed's long-term goal of 1.5% to 2%. Over the past three months, core inflation rose at a 2.5% annual rate.

Prices of U.S. Treasury securities, which are sensitive to monetary-policy expectations, tumbled following the release of the report.

Energy prices climbed 6.6% in June from the previous month, according to Wednesday's report. Gasoline prices jumped 10%, and natural-gas prices rose 4.9%. Food and beverage prices rose 0.7%, while commodity prices advanced 1.9%, a record high.

Medical-care costs increased a modest 0.2% on a month-to-month basis, while clothing prices rose just 0.1%.

Medical care and clothing were about the only bright spots, as other

nonfood and energy components posted sharp gains, which could prove particularly worrisome to Mr. Bernanke, who said Tuesday that "the extent to which the high prices of oil and other raw materials have been passed through to the prices of nonenergy, nonfood finished goods and services seems thus far to have been limited."

Separately, a heat wave and the end of an auto-sector strike lifted U.S. industrial production 0.5% in June, well above expectations, the Fed said. The number for May remained unchanged, dropping 0.2%.

Capacity utilization increased to 79.9% in June. May capacity use was 79.6%, revised up from an originally reported 79.4%. The 1972-2007 average is 81.0%.

Economists had expected industrial production to rise 0.2% in June, with a capacity utilization rate of 79.4% for the month.

In another report, the Labor Department said the average weekly earnings of U.S. workers, adjusted for inflation, fell 0.9% in June, suggesting incomes aren't keeping pace with prices. That, in turn, could further damp consumer spending, which was weaker than expected in June, according to a retail-sales report released Tuesday. Average hourly earnings increased 0.3% last month, and average weekly hours were flat.

—Jeff Bater  
contributed to this article.

# U.S. lender losses expose Swiss Re to billions in debt

BY HANS SCHOEMAKER  
AND ANITA GREIL

ZURICH—Swiss Reinsurance Co. said in a letter to analysts that its debt exposure to U.S. mortgage agencies Freddie Mac and Fannie Mae totaled \$9.6 billion.

The announcement renewed concern about Swiss Re's exposure in the credit markets. Shares fell 2.3% to 60.75 Swiss francs (\$60.11) in Zurich Wednesday. The stock has fallen about 27% this year.

Swiss Re said direct debt exposure to Freddie Mac was \$5.2 billion at the beginning of July, while its exposure to Fannie Mae was \$4.4 billion. That is considered big for a company of Swiss Re's size; its total market capitalization stands at about 20.58 billion Swiss francs, which is roughly the same amount in U.S. dollars. Swiss Re said its holding of shares in the U.S. government-chartered associations was minimal.

Freddie Mac and Fannie Mae are dominant providers of funding for home mortgages in the U.S. They buy loans made by banks, package most of them into securities and sell many to investors, such as Swiss Re.

Swiss Re said its U.S. agency residential mortgage-backed securities portfolio, which was valued at 12.2 billion Swiss francs March 31, was split at about 47% Freddie Mac, 44% Fannie Mae and 9% Ginnie Mae. Its total residential mortgage-backed securities portfolio was 24.4 billion Swiss francs at that time, the most recent period for which figures are available.

"Swiss Re might well have to take some impairments for value adjustments on its debt exposure to Freddie and Fannie," said Sal Oppenheim analyst Rene Locher. The risk should be very limited, he said.

Swiss Re spokeswoman Simone Lauper said the information to analysts contained no new information, only more detail on numbers presented in May in connection with the reinsurer's first-quarter earnings report. She declined to elaborate further. Swiss Re is scheduled to post second-quarter earnings Aug. 5.

Analysts traced the drop in the value of Swiss Re shares to fresh concern about additional mark-to-market losses on structured-credit default swaps, hedging instruments issued by Swiss Re and designed to protect investors from falling bond prices.

Separately, German reinsurer Hannover Re AG said it has exposure of €40 million (\$63.6 million) to Freddie Mac and €85 million to Fannie Mae.

—Ulrike Dauer  
contributed to this article.

# Spate of layoffs in U.K. adds to growth concerns

*Continued from first page*  
last month, exceeding analysts' forecasts for an increase of 10,000. The office also upwardly revised the rise in May to 14,300 from 9,000.

"You just don't expect it to happen to you, because it just hasn't been happening in the last 10 years," says Ms. Newson, in Worcester, a city in western England.

Higher unemployment could help tip the U.K. economy into the recession that economists increasingly say could happen, amid slowing economic growth and inflation here. Prime Minister Gordon Brown's popularity is hitting record lows as people see few ways for Mr. Brown to right the economy. The U.K.'s large budget deficit makes it hard for the Treasury to pass a fiscal stimulus plan.

Economists note some upside: With the threat of unemployment, people are less likely to push for wage increases, and that reluctance will help curb rising inflation. In June, inflation was 3.8%, well above the Bank of England's target of 2% and constraining the central bank from making the sort of interest-rate cuts that are needed to stimulate the economy. The high inflation

of the 1970s in the U.K. and U.S. was caused, in part, by a spiral: Higher inflation led to wage demands, which then fed back into inflation as businesses passed the cost on to consumers.

June's jobless-claims jump wasn't big enough, in a country of 60 million, to affect overall unemployment levels, which remain at 5.2%. And overall unemployment levels remain low compared with those of Thatcher times. In the last decade there has been a yearly average of 1.27 million people unemployed in the U.K., compared with 2.87 million during the 1980s.

Economists at Global Insight predict that unemployment will rise to 6% at the very least by 2009. Others are more pessimistic. Capital Economics Ltd. predicts a further 930,000 Britons losing their jobs, to bring the total to 8%.

By comparison, unemployment in the U.S. is currently 5.5%. The U.S. Labor Department reported a contraction in nonfarm payrolls by 62,000 in June. The U.S. economy

has lost 438,000 jobs since January.

In Britain, "there is a generation that doesn't understand what it is like to see the person next to them fired. And the pressure that will put on their willingness to spend will have a major impact on consumer activity and the U.K. economy," says Ian Harnett, a strategist at Absolute Strategy Research Limited in London.

The sectors that helped fuel Britain's 15 years of uninterrupted growth, such as finance, real estate and retail, are falling first. Rocked by the credit crunch, Britain's finance industry, which employs one in five in the country, has been shedding staff, particularly in London. J.P. Morgan Chase said earlier this month it was laying off 10% of its investment-banking staff in Europe, the majority of whom are based in London. Citigroup, Goldman Sachs, UBS AG and Deutsche Bank AG also have pared their payrolls in London. The Confederation of British Industry, the U.K.'s largest business lobbying group, sees London losing 10,000 financial-service jobs in the current

quarter.

With people losing their jobs and many others fearful they'll follow, consumer spending, which is responsible for about two-thirds of the U.K. economy, is dropping off. Department-store giants such as Marks & Spencer Group PLC and John Lewis Partnership PLC have all reported declining sales. The threat of unemployment also puts more pressure on already falling home prices as people pull back from buying homes and some fall behind on mortgage payments.

"I didn't know when I would get a job again, so I stopped going out at night and spending at the shops," says Ms. Newson.

Last month, John Greenwood, who runs a building company in Oldham, in northern England, put a help-wanted ad in a local paper for a joiner and building site manager. The following day "we had calls coming in from 8 o'clock to 5 p.m.," Mr. Greenwood says. By contrast, two years ago as building was booming, J. Greenwood Builders Ltd. received just three responses to an ad for a building site manager.

—Joe Parkinson  
contributed to this article.



Gordon Brown

# U.S. to encourage covered bonds to help mortgage loans

BY DAMIAN PALETTA

WASHINGTON—U.S. regulators are stepping up efforts to ensure the banking industry's access to short-term cash, amid concerns about bank runs and worries that liquidity-conscious lenders will hoard money and stop making loans.

On Tuesday, the Federal Deposit Insurance Corp.'s five-member board agreed on a policy aimed at encouraging the development of a "covered bond" market, which pol-

icy makers hope will direct more funding toward mortgage lending. Covered bonds are instruments that stay on a bank's balance sheet and are seen as a safer alternative to mortgage-backed securities that are at the center of the current financial turmoil.

"I think it's useful to get additional liquidity tools," Comptroller of the Currency John Dugan, a FDIC board member, said at the meeting.

U.S. and foreign regulators, separately, are expected to publish

broad liquidity risk-management policies in the next few months, aimed at diversifying a bank's access to money and testing the contingency plans it has in place.

The actions come at a crucial time for the country's more than 8,000 federally insured banks and thrifts. There are more than 100 financial institutions on regulators' "problem" list—a confidential list of companies that are at a higher risk of failure.

Access to short-term cash can

make the difference between a bank that weathers a rocky period and one that is brought to its knees, as IndyMac Bank was last week, analysts say.

"Most institutions always have too much liquidity until they need it, and then they don't have enough liquidity," said Scott M. Polakoff, senior deputy director at the Office of Thrift Supervision, which is a division of the Treasury Department.

Regulators are stressing that banks be able to access money from multiple sources during a crunch.

## Technology Journal

### Bigger picture

In a push to revitalize, Sony adds video service to PlayStation 3 > Page 30



## CORPORATE NEWS

## MUSIC

## EU tells copyright groups to ease licensing in region



EUROPEAN Union regulators ordered music-copyright groups to end a system that makes it difficult for online music stores to buy EU-wide licenses, knocking down a major obstacle to the rollout of Apple Inc.'s iTunes across Europe. Internet music downloads in Europe lag behind those in the U.S., pulling in just a fraction of the revenue the record industry is losing from falling CD sales. Part of the problem in Europe is that music rights are sold separately in each country, which has prevented iTunes from setting up a single store from which it can cover all of Europe.

—Associated Press

Internet music downloads in Europe lag behind those in the U.S., pulling in just a fraction of the revenue the record industry is losing from falling CD sales. Part of the problem in Europe is that music rights are sold separately in each country, which has prevented iTunes from setting up a single store from which it can cover all of Europe.

## AVIATION

## SAS's Spanish subsidiary to cut capacity and staff



SCANDINAVIAN airline SAS AB said its Spanish subsidiary Spanair plans to cut capacity and reduce staff to combat the economic downturn and record fuel prices.

Spanair will ground 15 aircraft during September and October, cancel nine unprofitable routes and cut 900 full-time positions. SAS said the changes will reduce costs and lift earnings by a total of €90 million (\$143.1 million) for 2009, which should make Spanair profitable under current market conditions. SAS reported a first-quarter loss of 1.13 billion kronor (\$189.4 million) as higher fuel costs and slowing demand weighed on profit.

—Adam Ewing

## SUPERMARKETS

## Co-operative Group buys U.K. rival Somerfield



U.K. SUPERMARKET chain Co-operative Group unveiled its long-awaited acquisition of rival Somerfield PLC for £1.57 billion (\$3.15 billion) from its private-equity owners, cementing its position in the U.K. grocery market.

The combined food business will operate more than 3,000 grocery stores and generate annual net sales of about £8 billion. It will be the fifth-largest food retailer in the U.K., the companies said. Somerfield, which operates about 880 grocery stores across the U.K., had net sales of £4.2 billion until April. Somerfield, owned by a private-equity consortium led by Apax Partners, was put up for sale in February.

## Continental rejects bid

Offer by Schaeffler is called too low; stage set for struggle

BY EDWARD TAYLOR

GERMAN tire and auto-parts maker Continental AG rejected an unsolicited takeover bid from rival Schaeffler Group, describing its approach as "unlawful" and the offer as too low.

Wednesday's response set the stage for a potentially bitter struggle between the two companies, as privately held Schaeffler attempts to win over the management of its much larger rival. It also increases the possibility that Schaeffler will need to take a majority stake in Continental to have enough influence to reach its goal of creating a "global champion" among auto suppliers.

Continental's management rejected the €11.2 billion (\$17.8 billion) offer on the grounds that it "does not come close to the true value of Continental, does not create trust and lacks a convincing strategic rationale." Continental, which expects annual sales of more than €26.4 billion this year, said it has "outstanding potential as a stand-alone company in its current form."

Schaeffler on Tuesday offered €69.37 (\$110.29) a share for Continental and said it had access to more than 30% of the company's shares already, mainly in the form of share swaps. Continental rose 51 European cents to €73.93 Wednesday in Frankfurt.

Analysts said the offer is insufficient to gain a majority stake, and that Schaeffler's goal at this stage was to gain a blocking minority with which to prevent any other bid for Continental. The move would also create a platform from which to take a majority stake later, analysts said.

The tactic mimics Porsche Automobil Holding SE's gradual continuing takeover of Volkswagen AG, but Schaeffler's bid for Continental could go less smoothly. Ferdinand Piech, a member of the family that owns Porsche, was chairman of VW when Porsche made its move and VW's management backed the takeover bid. That allowed the companies to start cooper-



Bernd Waese, an auto mechanic, takes a Continental AG tire from a stack at a Berlin garage on Monday, days before the tire maker rejected Schaeffler's bid.

ating long before Porsche secured a majority stake.

Schaeffler, also a smaller family-owned company, will have to work hard to get that kind of cooperation. In a sign of deep mistrust, Continental's management questioned Schaeffler's assurances that Continental would remain a stand-alone firm with its own headquarters. "The public statements, that the Schaeffler Group only aims to achieve a minority position and intends to leave the sound structure of Continental unchanged, are doubtful in the light of the recent talks," Continental said.

Schaeffler said it plans to create a global auto-parts supplier specialized in developing technology for high-tech hybrid and electric cars. This would combine Schaeffler's engine-management technology, ball bearings and clutch business with Continental's expertise in fuel-saving and safety technologies as well as vehicle electronics.

Schaeffler on Wednesday reiterated it would seek to maintain Continental's current business model and tried to damp speculation that it would seek to sell parts of the business, particularly the tire operation.

Schaeffler also rejected claims by Continental that it had built up a stake in the firm unlawfully. On Tuesday, Schaeffler said it has access to swap transactions that would help it

secure 28% of Continental shares, in addition to a 2.97% stake it holds directly and financial instruments entitling it to acquire an additional 4.95% stake. Schaeffler's use of swap transactions allowed it to circumvent disclosure rules that would otherwise have required it to declare purchase of the full stake earlier.

Continental has complained to German regulators about the maneuver, and some corporate governance experts suggested Wednesday that the loophole might need to be closed.

"Nobody on the finance committee of the Bundestag thought of the possibility that these swaps would be used in a takeover. When the transparency rules were drawn up, they were designed to ensure that everybody in the market knows what's going on," said Rüdiger von Rosen, head of DAI, the association of German exchange-listed stock corporations, and an adviser to the German Parliament's finance subcommittee.

Continental left open the possibility of further dialogue Wednesday. It said it will "after further specification of the intention of the bidder, and after publication of the offer document, take into consideration with due care the interests of the company, its shareholders, employees and business partners."

—Christoph Rauwald contributed to this article.

## Europe's car sales slump as economic fears grow

BY ROMAN KESSLER AND CHRISTOPH RAUWALD

FRANKFURT—European consumers are backing away from big-ticket items such as cars in the latest sign that fears over the global economic downturn are damping spending.

First-time car registrations fell 7.9% in June from a year earlier, extending a 7.8% annual decline in May, the European Automobile Manufacturers' Association reported Wednesday. For the first half of the year, new-car sales were down 2% from the same period a year earlier.

"Rising inflation and soaring fuel prices were among the main factors influencing new registrations," the association said.

Consumer sentiment has been on the wane in many European countries. The credit crisis has sliced into home values and the euro's strength against the dollar has slashed manufacturers' profits, creating fears of job losses.

Europe's car makers and suppliers make a sizable contribution to the European economy. They have a combined revenue of €700 billion (\$1.11 trillion), and 10 million European jobs depend on the sector, the European Commission says.

But falling domestic car sales catch makers at a time when many foreign markets also are shrinking, a double-edged problem facing many European providers of goods and services. Car makers are increasingly facing export difficulties as the euro remains stubbornly high and foreign demand weakens.

"Slumping car sales are now adding to other negative economic trends," compounding consumer fears over a decrease in their purchasing power, says Fitch senior analyst Emmanuel Bulle in Paris. He predicts that car sales will decrease 3% to 4% in 2008.

The main European car markets presented a mixed picture last month. New-car sales in Germany rose 1%, and were up 1.5% in France, while Spain and Italy saw declines of 31% and 20%, respectively.

While the German and French economies until recently have ap-

## Car sales slide

Europe's new-vehicle registrations in June

Company	Units	Chg. from year earlier
Volkswagen	283,887	-6.1%
PSA Group	183,336	-9.7
Ford	142,203	+0.8
GM	145,947	-13.1
Renault	137,053	-5.6
Fiat	112,038	-6.3
BMW	84,860	+1.7
Daimler	74,405	-6.0
Toyota	68,961	-18.0
Honda	23,813	-21.5
Others	170,505	-11.7
<b>Total</b>	<b>1,427,008</b>	<b>-7.9</b>

Source: European Automobile Manufacturers Association

peared stable, Italy has flirted with recession since the fourth quarter, and Spain's economic outlook has deteriorated amid collapsing housing prices.

At first glance, Europe's north is doing better than the south as markets diverge due to the countries' manufacturing strengths. Germany posted a 3.6% increase in June registrations.

But the uptick in Germany comes after very weak figures in 2007, when a three-percentage-point sales-tax increase led to a decline.

Europeans registered 283,887 Volkswagens in June, 6.1% fewer than in June 2007. UniCredit's brokerage slashed its target price for Europe's largest auto maker to €138 from €184 and downgraded the stock to "sell" from "hold."

"The market currently simply ignores the fact that VW's earnings realistically cannot decouple from the slowing consumer demand," and soaring material and development costs, said UniCredit analyst Christian Aust in Munich.

Foreign auto makers also are feeling a pinch in Europe. The world's two biggest auto makers by sales—Toyota Motor Corp. and General Motors Corp.—were hit the worst in Europe in June. Toyota posted 68,961 new-car registrations, an 18% decline; GM registrations fell 13% to 145,947.



Our next big thing.

Airbus, its logo and the product names are registered trademarks.

It could be the biggest thing we've helped get off the ground. The Green Wave from the United Nations Convention on Biological Diversity is inviting children and youth in every school on the planet to plant one tree, every year. To learn about biodiversity, and to get involved in practical collaborative action. It's all part of the International Year of Biodiversity to be celebrated in 2010. Airbus is backing The Green Wave, and we're asking others in our industry to join us. Because preserving biodiversity is the key to preserving life on Earth. And because raising awareness among the world's children and youth today is an investment in the educated citizens of tomorrow. To find out more about The Green Wave, biodiversity and how Airbus is involved, go online.

[greenwave.cbd.int](http://greenwave.cbd.int)


**THE GREEN WAVE**
  
 One school, one tree, one gift to nature

[airbus.com](http://airbus.com)

  
**AIRBUS**

## CORPORATE NEWS

# Enders shows caution

*Airbus chief queries whether to proceed with output increase*

BY DANIEL MICHAELS

FARNBOROUGH, England—Airbus Chief Executive Tom Enders said he isn't yet convinced the European plane maker should proceed with a planned increase in production, given current troubles in the global airline industry.

Airbus now delivers 34 single-aisle planes each month and plans to increase that by more than 10%, to 40 a month, by early 2010. It also plans to increase current output of eight twin-aisle planes a month to 10 by the second half of 2010.

The production ramp-up was planned months ago, before the price of oil soared above \$100 a barrel and air traffic began slip-

ping. Although oil prices have dipped in the past two days, jet fuel remains far above the level at which many airlines can operate profitably.

Industry officials expect oil prices and slowing economies to reduce airlines' need for new jetliners. Airbus, a unit of European Aeronautic Defence & Space Co., and U.S. rival Boeing Co. still see strong demand after three record years for jetliner orders. For now, both are maintaining or increasing output of popular models.

Asked in an interview if Airbus still believes that increasing output is the right move, Mr. Enders said: "I'm not convinced of it at this point, but there is no strong indication it's not the thing to do."

Mr. Enders said he and other Airbus managers will reassess the situation at the end of the year, before Airbus must commit to the increase. "At this point it would be wrong to say we should stop the ramp-up," he said. "But later this

year, we'll see."

In a sign of why Mr. Enders is hesitating, Airbus announced at the Farnborough International Air Show an order from South Korea's Asiana Airlines for 30 of its planned A350 long-range jetliner, valued at \$7.2 billion at catalog prices. Boeing separately announced an order for 35 of its 737 single-aisle jetliners, with a catalog value of more than \$2.6 billion.

Mr. Enders said Airbus—like most aviation companies—will analyze demand for air-travel after the peak summer travel season. "We'll watch the situation very closely, especially in October and November," Mr. Enders said.

"There are quite a few dark clouds," he said, citing airline troubles in the U.S., "signs of slowing growth in China" and "difficulties in India"—where fast-expanding new airlines are adding planes and seats faster than the booming market is filling them.

# Delta and AMR report losses

BY CHRISTOPHER HINTON AND SHARA TIBKEN

AMR Corp. and Delta Air Lines Inc., two of the largest U.S. airline companies, swung to second-quarter losses as the price of jet fuel soared to records.

But the results were better than expected when special items were excluded, sending their shares soaring. AMR shares were up 23% at \$5.43, and Delta shares were up 18% at \$5.51 in afternoon trading on the New York Stock Exchange.

"Airlines have been trading as if they were going to go bankrupt sooner rather than later, but results [at Delta and AMR] suggest that... the losses are manageable and that both have substantial cash and liquidity positions," said Michael Derchin, an analyst at FTN Midwest.

AMR, the Texas parent of American Airlines, said it plans to make more capacity cuts next year and to hold off selling its American Eagle regional carrier "until industry conditions are more stable and favorable."

AMR, the world's biggest airline by passenger traffic, posted a net loss of \$1.45 billion, or \$5.77 a share, compared with year-earlier

## Turbulent times

Net income/loss of two of the biggest airlines in the U.S., in billions



net income of \$317 million, or \$1.08 a share. The results include \$1.1 billion in write-downs and a charge of about \$55 million related to severance costs. The company said it expects to post \$15 million in severance-related costs in the third quarter.

Revenue rose 5.1% to \$6.18 billion.

AMR said it spent \$838 million more on fuel per gallon than it did a year earlier. Its cost surged 53% to

\$3.19 a gallon.

The airline said it would cut capacity for the full year by 3.4%, more than double April's forecast. Since then, AMR and its peers have announced reduced schedules for the fall amid surging fuel costs.

Atlanta-based Delta posted a net loss of \$1.04 billion, compared with net income of \$1.59 billion a year earlier. Last year's results were boosted by \$1.3 billion in gains related to its emergence from bankruptcy. Revenue rose 10% to \$5.5 billion.

Delta hedged 49% of its fuel consumption and realized about \$313 million in gains. Fuel costs averaged \$3.13 a gallon, slightly above Delta's April forecast.

Delta's proposed acquisition of Northwest Airlines Corp. is expected to help the airlines cope better with high oil prices and falling demand without having to file for bankruptcy protection. Both emerged from bankruptcy court in the past year after filing for Chapter 11 protection on the same day in September 2005. The all-stock deal, originally valued at more than \$3 billion but valued now at about \$1.6 billion because of the sharp drop in Delta stock, is expected to close by year end.

# U.S. airline fuel-tank safety rules near

BY CHRISTOPHER CONKEY AND ANDY PASZTOR

WASHINGTON—After more than a decade of deliberation, U.S. regulators on Wednesday said they would adopt contentious and potentially costly rules designed to prevent fuel-tank explosions on commercial airliners.

The rules call for new airliners to be equipped within two years with systems that use nitrogen to prevent sparks, or electrical short circuits, from igniting hot vapors inside the tanks, according to the officials. Airlines will have as long as nine years to retrofit some older planes with the nitrogen devices, which will cost between \$150,000 and \$400,000 a plane to install, according to regulators.

For airlines, the added costs come as many carriers are experiencing financial hardship from high fuel prices. Regulators have been trying to help the airlines, allowing them more flexibility to cut flights and change schedules. The U.S. Federal Aviation Administration has been pressured by Congress and other critics to get tougher on safety issues after recent airline-oversight lapses.

U.S. Transportation Secretary Mary Peters announced the final rules Wednesday in an appearance with acting FAA Administrator Robert Sturgell and National Transportation Safety Board Chairman Mark Rosenker. The NTSB has been pushing the FAA to adopt fuel-tank standards, and criticizing it for inaction,

since a fuel-tank explosion doomed TWA Flight 800 in July 1996, killing all 230 people aboard.

The move to finalize fuel-tank flammability standards marks the culmination of a 12-year battle between the FAA, safety advocates and the airline industry.

The fuel-tank battle is unusual not only because of its longevity, but also because of the tension it engendered between the FAA and the industry. Airlines, airplane makers and European regulators strongly opposed any such rules at the beginning, arguing that they were unnecessary and too expensive. Such debates held up the regulation and prompted White House and Transportation officials to reassess the costs versus the benefits of any rules.

# P&G selects Pritchard to steer marketing effort

BY ELLEN BYRON AND SUZANNE VRANICA

One of the most-influential executives in the marketing world, Procter & Gamble Co.'s global marketing chief Jim Stengel, is stepping down unexpectedly, a move that could have broad repercussions for Madison Avenue.

P&G's marketing czar since 2001, Mr. Stengel, 53 years old, is leaving to pursue other interests. He will be succeeded in August by Marc Pritchard, 48, a veteran P&G executive who most recently has been president of strategy, productivity and growth.

P&G is the world's biggest advertiser, spending about \$8 billion a year world-wide for products that range from Pampers diapers to Tide laundry detergent.

Mr. Pritchard will take the helm as P&G's profit margins are under pressure from rising commodity prices. Given Mr. Pritchard's most-recent role studying productivity companywide, the cost-effectiveness of P&G's ad spending likely will receive particular scrutiny.

Mr. Pritchard will have to decide whether to accelerate the shift of ad dollars to digital media, such as the Web and cellphones, a question of enormous importance to traditional media outlets like television and magazines. P&G, which pioneered television advertising, has lagged in the shift to digital marketing. That has been a missed opportunity for P&G, analysts say.

Still, Mr. Pritchard's power is somewhat limited. Despite overseeing P&G's world-wide marketing, the post usually commands more influ-

ence outside of the walls of the Cincinnati consumer-products company than inside, ad executives say. Media buyers say P&G's brand managers have final say over ad spending and how to position a brand in ads.

"Being global marketing officer at P&G is like being a manager without portfolio: lots of responsibility and not much authority," says Dave Hardie, managing director for recruiters Herbert Mines Associates. "The budgets lie in the business units, and key decisions seem to be there."

Despite those limits, Mr. Stengel had an enormous impact on P&G's marketing strategy. He successfully pushed the consumer-products titan to rethink its once-staid approach to advertising. Instead of focusing on product demonstrations, P&G began using more humorous, attention-grabbing ads.

Mr. Stengel is expected to join a university and may have a role at a new marketing company dubbed the "Purpose Institute," which is being created by GSDM

Idea City, owned by Omnicom Group, according to a person familiar with the matter.

Mr. Pritchard has spent his entire career at P&G, where he is credited with broadening the Crest brand. He also played a critical role in developing P&G's blockbuster Olay skin-care business, turning around its market share in the early 1990s after a five-year decline. While an executive in P&G's cosmetics business, Mr. Pritchard developed the "Easy, Breezy, Beautiful, Cover Girl" campaign, still in use today.

—Emily Steel contributed to this article.



Marc Pritchard

# GM's spending cuts are likely to roil ad industry

BY EMILY STEEL

General Motors Corp., one of the country's largest ad spenders, said Tuesday that it is cutting its sales and marketing budget, a move expected to create pains for the advertising and media sectors.

The move, part of a broader cost-cutting initiative by the auto maker, is the latest in a series of ad-budget cuts by the car maker. General Motors was the fourth-largest advertiser in the U.S. in 2007, spending \$2.1 billion last year, according to ad-tracking firm TNS Media Intelligence. Its 2007 ad budget was 7.7% less than the \$2.3 billion it spent in 2006, which itself represented a 24% decrease from GM's 2005 ad budget.

GM didn't release any details about the latest cuts.

The car maker's previous budget cuts have caused problems for the media industry. Newspapers, already struggling with plunging ad revenue and circulation declines, have been among the hardest hit. GM's ad spending on newspapers was down 32% in 2007 from 2006, while spending on TV ads dropped 11% that year, according to TNS.

Local TV networks garner about 25% of their ad revenue from auto

makers, said Michael Nathanson, an analyst with Bernstein Research. GM's move could encourage other auto makers to cut back their advertising spending, he said. "It is going to get really ugly," Mr. Nathanson said.

On the agency front, Interpublic Group of Cos. Inc. likely will be affected by the cutbacks, as GM is among its top three clients, Mr. Nathanson said. The ad-holding company declined to comment. Publicis Groupe SA also counts GM as one of its largest clients.

## Personal Technology

### Cinéma vérité

Walter S. Mossberg views SnagFilms, a new online movie service > Page 29



## CORPORATE NEWS

# Samsung's Lee avoids jail

*Ex-chairman gets suspended sentence for tax conviction*

BY EVAN RAMSTAD

SEOUL—A district court judge found the former chairman of the Samsung Group conglomerate, Lee Kun-hee, guilty of tax evasion and sentenced him to a suspended prison term that means no time behind bars, adding to a longtime pattern of South Korean courts dealing light penalties to major business figures.

The judge found Mr. Lee, 66 years old, innocent of breach-of-trust charges. He ordered Mr. Lee to pay a \$110 million fine for tax evasion. The executive previously promised to repay back taxes of a similar amount. "His crime is not serious enough to sentence him to prison," the judge, Min Byung-hun said.

The charges emerged in April from a special prosecutor's investigation that was ordered by the National Assembly after a corporate whistleblower alleged that various Samsung companies created secret bank accounts to stash funds used to pay bribes to influential South Koreans.

The special prosecutor found no evidence of bribery. Instead, he indicted Mr. Lee for using the secret accounts to hide about \$4.5 billion in assets he inherited from his father, who started the Samsung group of companies as a trading firm 70 years ago.

Samsung officials argued Mr. Lee needed the accounts to preserve his family's control of the conglomerate and fend off hostile bidders if they ever emerged. After the indictment was announced in mid-April, Mr. Lee resigned as chairman



Lee Kun-hee, center, former chairman of the Samsung Group conglomerate, leaves the courthouse after his trial in Seoul.

of the 59 Samsung companies, including Samsung Electronics Co., the world's largest producer of television sets by revenue and second-largest maker of cellphones and semiconductors by revenue.

Trial prosecutors had asked for a seven-year prison sentence for Mr. Lee and, following Wednesday's ruling, said they would appeal the judge's modest penalty. But his decision fit with broad public sentiment in South Korea that was appeased when Mr. Lee agreed to repay taxes and give up his day-to-day role at Samsung. In April, the special prosecutor who led the investigation of Mr. Lee cautioned against penalizing him too heavily.

Samsung had no comment.

On his way out of court, Mr. Lee said he was sorry again and that "I should still take responsibility."

Throughout the investigation and legal proceedings, prosecutors have

contended with South Koreans' complicated sentiments toward Samsung. Many people feel proud of the accomplishments of various Samsung companies and fear any harm to the conglomerate could lead to a breakup that would open the door to foreign companies and investors acquiring some units. At the same time, people are uneasy about Samsung's size—accounting for about 15% of South Korea's gross domestic product—and the influence that brings.

The judge, Mr. Min, convicted three other Samsung executives on similar charges and issued fines and suspended prison sentences for them, too.

Though no longer in charge at Samsung, Mr. Lee remains the largest individual shareholder in Samsung Electronics and several more of the 15 publicly traded companies in the broader group.

## GLOBAL BUSINESS BRIEFS

## ASML Holding NV

**Net rose 20% in 2nd quarter, but full-year sales may fall**

ASML Holding NV, one of the largest makers of semiconductor-manufacturing equipment, reported a 20% increase in second-quarter profit but warned that a weakening global economy was likely to lead to a 20% fall in full-year sales. Shares in the company, which is based in Veldhoven, Netherlands, fell 2.3%. ASML said net profit rose to €192 million from €160 million a year earlier, boosted by a tax benefit of €70 million. Sales fell 9.2% to €844 million. ASML revised its full-year forecast to a 20% fall in sales from its earlier prediction of a 10% drop, saying customers were likely to delay upgrading their systems because of the hard-pressed economy. That outlook contrasted sharply with ASML customer Intel Corp., which Tuesday said it had yet to see any impact from broader economic worries.

## Alstom SA

Alstom SA, one of the world's largest power and transport engineering companies, said demand for its gas- and coal-fired electricity-generating turbines helped drive an 11% rise in revenue during its fiscal first quarter. The French company said revenue increased to €4.5 billion in the quarter ended June 30 from €4.04 billion a year earlier. The maker of TGV high-speed trains also said new orders fell 14% to €6.6 billion, but noted that year-earlier results had been boosted by a €2.2 billion order for TGV trains. Alstom's Power Systems division reported a 22% increase in revenue to €2.2 billion.

## Enskilda Banken AB

Sweden's Skandinaviska Enskilda Banken AB posted a 20% decline in second-quarter net profit as loan losses surged and difficult capital-market conditions weighed on commission and financial income. The Stockholm-based bank's net profit dropped to 2.81 billion kronor (\$471 million) from 3.51 billion kronor a year earlier. Credit losses increased to 452 million kronor, from 280 million kronor, of which 63% came from the Baltic states. Operating income—which includes net interest income, fee and commission income, financial income and life insurance income—fell 2.9% to 10.4 billion kronor.

## Volvo AB

European Union regulators said they are investigating whether Sweden's government violated EU rules by paying millions in aid funds to Volvo AB's aircraft unit Volvo Aero. The €39 million (\$62 million) in government aid was meant to help pay for research and development of components for new GEnx aircraft engines being built by General Electric Co. for planes such as Boeing Co.'s 787 and 747 models. Volvo Aero was to provide fan hub frames, spools and turbine rotor seals for the project. The European Commission, the EU's executive arm, said it was concerned, however, whether the project would have gone ahead if Sweden hadn't stepped in with the aid. The project started in 2004 and funding was formally decided in 2007.

## Natixis

The French association of minority shareholders, Adam, said Wednesday it will press the French markets regulator, AMF, to demand

clarity from local bank Natixis about its financial health in the wake of heavy share-price losses in recent days. "There should be a press release; it's not normal the market is left in this uncertainty," Adam's president, Colette Neuville, said. Natixis declined to say if it planned to issue a statement. It is scheduled to report interim results Aug. 28. The AMF declined to comment. Natixis shares have tumbled about 65% since the start of the year, leaving the bank with a market capitalization of about €6 billion, or roughly \$9.5 billion. It was valued at about €26 billion at the end of 2006.

## Sunoco Inc.

Sunoco Inc. named former Royal Dutch Shell PLC veteran Lynn Laverty Elsenhans as chief executive and president, a changing of the guard that could usher in a less-conservative approach at the Philadelphia-based refiner. Ms. Elsenhans—who vaults into the still-small club of women heading major U.S. corporations—will succeed John Drosdick on Aug. 8 as the company's chief executive, following Mr. Drosdick's retirement Tuesday, about a month ahead of his 65th birthday. Ms. Elsenhans played a major role at Royal Dutch Shell, which has trimmed its refining portfolio, focusing investments on its largest, most potentially lucrative refineries. Mr. Drosdick had been at Sunoco's helm for eight years.

## Hongkong & Shanghai Hotels

Luxury hotel operator Hongkong & Shanghai Hotels Ltd. said it plans to build a hotel in Paris with Qatari Diar Real Estate Investment Co. The deal will mark the Hong Kong-listed hotel operator's first foray into Europe. Hongkong & Shanghai Hotels, which has stakes in eight Peninsula hotels in Asia and the U.S., said it plans to take a 20% stake in the proposed hotel development, which will be built on the site of the existing Centre International de Conférences on Avenue Kleber. The company said it expects to spend about €140 million, or about \$220 million, on the stake and related development costs. The hotel is expected to open in mid-2012. Qatari Diar Real Estate is a unit of government-controlled Qatar Investment Authority.

## Rio Tinto Ltd.

Rio Tinto Ltd. posted record quarterly output for iron ore for the three months through June but reported sharply lower refined-copper production because of scheduled maintenance at its Kennecott smelter, lower grades and problems with mining-equipment availability. "We believe that China's GDP [gross domestic product] growth will continue at around 10% and won't be impacted much by the U.S. slowdown. There is tremendous development not only in China but other emerging economies, with huge potential in India, that is not export dependent," said Rio Tinto Chief Executive Tom Albanese.

—Compiled from staff and wire service reports.

# Gannett's earnings decline 36%

BY RUSSELL ADAMS

Gannett Co. reported a 36% plunge in second-quarter profit Wednesday as the slowing U.S. economy accelerated a falloff in newspaper advertising revenue.

The quarterly results from the McLean, Va., company—which publishes 85 daily U.S. newspapers including the USA Today and owns 23 television stations—highlighted the increasingly parlous state of the newspaper industry. Publishing ad revenue fell 14% to \$1.11 billion in the quarter, with USA Today seeing a 17% drop. Circulation revenue in publishing was down 2%.

Revenue at broadcasting, the smaller of Gannett's businesses, fell 6%. Overall Gannett's revenue fell

10% to \$1.72 billion.

"The weakening economy had a dramatic impact on our results," Gannett's president and chief executive, Craig Dubow, said on a conference call with analysts.

Both retail and classified advertising have been hurt by economic weakness, the company said. Gannett executives also noted that Olympic Games-related advertising has been down from 2004 levels.

Gannett shares, which have lost two-thirds of their value in the past year, were down 4% to \$16.66 in mid-afternoon trading.

Gannett earned \$233 million in the second quarter, compared with \$366 million in the same period a year ago. The year-earlier profit was boosted by gains on the sale of several

newspapers. Excluding those gains, the decline in earnings was 18%.

These results didn't reflect the effect of a write-down Gannett said it would take last month to reduce its asset value. The write-down, designed to reflect the company's declining market value, will be noted in a filing Aug. 8, the company said Wednesday. It narrowed the range of the write-down to between \$2.6 billion and \$2.9 billion.

Also Wednesday, The Wall Street Journal, published by News Corp.'s Dow Jones, said it was cutting about 50 positions as part of a decision to close most of its news-editing operations in South Brunswick, N.J. Because those employees are eligible for other positions in the company, not all of them are expected to leave.

# Apple files suit over Open Computer

BY BEN CHARNY

Apple Inc. is suing Psystar Corp., a company that sells computers capable of using Apple's Macintosh operating-system software.

Apple claims that Psystar's Open Computer violates an Apple policy that forbids users to install Macintosh software on anything other than an Apple-labeled device. The Open Computer costs \$399, and about \$600 when shipped with the

Apple software. Psystar, based in Doral, Fla., also recently began advertising for servers capable of using Apple's software.

It isn't the first time Apple has tried to shut down what are known as cloning efforts, but Psystar could become a more serious threat if its efforts to commercialize cloning techniques spurs others to do the same. Psystar began selling its Open Computer in late April. It was still advertising the computer for sale

on its Web site Tuesday.

"We take it very seriously when we believe people have stolen our intellectual property," said Susan Lundgren, an Apple spokeswoman. Psystar co-founder Rodolfo Pedraza didn't return a request for comment.

The copyright-infringement complaint was filed July 3 in a U.S. District Court in San Jose, Calif. Both sides have a case-management conference scheduled for Oct. 15.

THE WALL STREET JOURNAL  
Executive Travel Program  
Guests and clients of 320 leading hotels and car rental agencies receive The Wall Street Journal Europe daily, courtesy of  
addictlab.com  
global creative think tank

# ECONOMY & POLITICS

## EUROPEAN UNION

### Fishing industry will get emergency aid more easily



**T**HE EUROPEAN Union agreed on an emergency aid package for its fishing industry to cope with fuel-price increases, its fisheries commissioner said. Joe Borg said the package simplified rules to

help EU governments draw from an existing €1.4 billion (\$2.23 billion) emergency aid fund. He proposed further aid of €600 million to help the industry become more efficient and environmentally friendly, but that still needs to be approved by all EU nations and the European Parliament. Nations can draw on the aid if they cut fleet sizes or to pay skippers while halting operations to modernize their boats with fuel-saving equipment. —Associated Press

## RUSSIA

### Oil tycoon Khodorkovsky files request for parole



**J**AILED FORMER oil tycoon Mikhail Khodorkovsky, left, filed a request for parole, and his lawyer challenged Russia's new president to follow through on promises to uphold the rule of law.

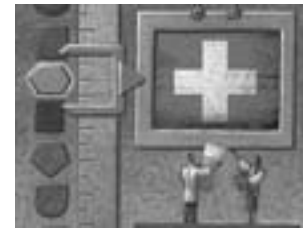
Mr. Khodorkovsky was convicted of tax evasion and fraud in 2005 after a trial. OAO Yukos, which he ran, has been taken over by state oil company OAO Rosneft. He has been in custody for nearly five years.

President Dmitry Medvedev has committed to end what he has called Russia's "legal nihilism."

A federal prisons official in the far eastern city of Chita, where Mr. Khodorkovsky is being held, said he hasn't earned parole. —Associated Press

## SWITZERLAND

### Retail sales buck trend, but growth could decline



**S**WITZERLAND'S consumer-oriented economy is still expanding strongly while others in Europe falter, but many analysts believe the recent spate of gloomy news in the U.S. and elsewhere in

Europe will soon bring on markedly slower growth.

The Swiss Statistics Office said retail sales in May rose 9.3% from a year earlier in nominal terms and were up 7.4% in real terms. The spending was fueled by increases in disposable income and a low jobless rate. But many economists warn that bad loans at the country's banks and higher food and energy prices will hit Swiss consumer sentiment, and some are scaling down growth estimates. —Martin Gelnar

# As India building mounts, so do accidents

## Construction deaths often get covered up; few safety measures

**W**HEN SUBHASH Rathod piled his pregnant wife, some blankets, vegetables and a stove into a small truck for the 15-hour drive from their village to Mumbai, the couple joined a wave of rural workers on the front lines of India's building boom.

A labor contractor had persuaded Mr. Rathod and about 50 others from the village of Gandhari to

By **Eric Bellman** in Mumbai and **Jackie Range** in New Delhi

make better money—about \$4 a day—building a warehouse.

A couple of months later, one of the towering warehouse walls collapsed, killing 14 villagers and injuring more than 50 others. Mr. Rathod's wife, brother, sister and sister-in-law all died in the accident.

"Companies need to pay more attention to safety," Mr. Rathod said,

### Labor lows

Work accidents in India, 2003

Working population	473.3 million
Accidents causing more than four days absence	44.1 million
Fatal accidents	47,000

Source: International Labor Organization

back in his village, where he returned with the bodies. "I miss my wife."

The villagers had become victims to the downside of the country's expansion: The danger workers face as they are thrust onto construction sites with little training and no safety equipment.

Safety standards always have been an issue in India, whose building boom is helping the country maintain an economic growth of almost 9% a year. But as the number

and scale of the airport, toll roads, skyscraper and mall projects increase, so the risk of tragedy rises. The number of accidents is also climbing in mining, manufacturing and brick making as those industries expand, experts say.

"It's not just worsening; it's worsening precipitously," said Colin Gonsalves, a human-rights lawyer who practices in the Supreme Court in New Delhi, and specializes in labor law.

Big construction companies tend to train workers and provide for safety. But the industry remains dominated by small contractors who pay little attention.

Virendra Nautiyal, a safety manager on a Mumbai apartment complex construction site, says he doesn't get the budget or the authority he needs to protect workers. In the past six months, one worker without a harness fell three floors and broke his collarbone; another was hospitalized after a buzzing blade detached from a saw and lodged in his head. He wasn't wearing a helmet.

There are no reliable comprehensive national statistics that show the rise in workplace injuries and fatalities. Rules that require accidents to be recorded are seldom obeyed. According to statistics provided by the Ministry of Labor and Employment, 20 fatal accidents were recorded in all of India, in the year ended March 31. That number rose from 14 fatalities in 2007 and 10 in 2006.

Experts say those numbers massively understate the problem and that outside of major urban centers and big projects, information isn't gathered at all.

Anecdotal evidence suggests that construction deaths and injuries are increasing sharply. Emergency-room doctors say they have seen more workers with broken bones, burns and other injuries. In some states, accident-compensation payments for construction workers are rising markedly.

The International Labor Organization estimates there were 47,000 deaths from occupational accidents in India in 2003, the latest year for which figures are available, an increase of 17% from a year earlier.



Eric Bellman / WSJ

**Subhash Rathod** shows his scar from the construction accident that claimed the lives of his pregnant wife, brother, sister and sister-in-law.

Anil Swarup, director general of Labor and Welfare at the Ministry of Labor and Employment in New Delhi said the government is "very, very concerned about it because the accidents are taking place."

India has had a national law in place since 1996 that aims to ensure the welfare of construction workers. But Indian states have been slow to adopt the law and implement it, which is required for its provisions to take effect. India also faces a shortage of safety inspectors for construction sites, Mr. Swarup said.

Accidents and deaths are frequently swept under the carpet. Many construction workers are casual migrant workers and often illiterate. Employers often don't have documentation relating to the fact that they are employed, let alone have been injured. And victims' families often are stonewalled if they try to find out what happened.

Jawarharlal Tiwari, 55 years old, died from injuries suffered working as a guard, for less than \$100 a month, on a construction site of the New Delhi Metro. His wife, Gayatri Kumar Tiwari, has tried to establish the cause of his death from the police. Nobody has

confirmed what happened, she said, and two of his colleagues that spoke up about how the company had washed its hands of the matter lost their jobs.

She has received no compensation and has been selling family jewelry for money. An official for the Delhi Metro Rail Corp. said, "We have checked our records and we don't have any registered case for this gentleman."

The national government and some states have plans to compensate victims and their families. Some states pay as much as 100,000 rupees, or about \$2,500, for a death. But frequently, companies silence families with an immediate, lesser payout or stonewall to prevent a claim.

"The employers don't want to get into the legal hassles, so they may give the construction laborer money, get him treated somewhere," said Amit Bhasin, a New Delhi lawyer who has represented construction companies in workplace-accident disputes. "The matter's just hushed up."

For Mr. Rathod, 22, the construction job had promised more money than working as a day laborer in the fields. About 300 of the village's

1,000 residents had also left to work in the city. "After the harvest, there is nothing to do here in the village," he said, sitting on the dirt floor of his brick home.

On the construction site, the men laid bricks from shaky bamboo scaffolding while the women and teenage children carried cement and bricks on their heads to and hand up to the men. The workers had no helmets and no harnesses.

Then, on a clear Saturday in February, just as Mr. Rathod was starting to think about lunch, the accident happened. He was midway up the wall and his brother was at the top. His wife was handing them wet cement when he heard a rumble. His brother and other workers screamed. Then there was silence as the wall covered the workers. "There was a lot of noise and then it just stopped," he said. His arm was broken and his head was bleeding. As he was being carried away, he saw his wife's body sticking out of the rubble.

The victims' bodies were brought back to the village and cremated on a funeral pyre on a dry, open slope. Almost every family in the village lost a relative or had someone injured in the accident.

Families that lost members got 100,000 rupees from the state government. Those who were injured got nothing. This year, only a small number went back to the city to work.

Mr. Rathod used the money from the government to buy some land and build a new room on his home. He needs it because he had to adopt his brother's four children. His wife, in her seventh month of pregnancy, gave birth via Caesarean section after she died. The baby had survived the accident but failed to survive the premature birth.

—Vibhuti Agarwal and Krishna Pokharel in New Delhi and Tariq Engineer in Mumbai contributed to this article.

WSJ.com

Online Today

Learn more about the Gandhari victims of the construction accident, at [WSJ.com/OnlineToday](http://WSJ.com/OnlineToday)



# THE MART

## CLASS ACTIONS

### LEGAL NOTICE FROM U.S. COURT

#### If you bought Parmalat securities before December 19, 2003, you could get a payment from a partial legal settlement.

A partial settlement has been reached in a U.S. class action lawsuit that includes investors in the United States, Italy and around the world. The lawsuit is about the prices paid for Parmalat Finanziaria S.p.A. securities. The settlement provides for Lead Plaintiffs to receive, on behalf of the Class, 10,500,000 shares in the reorganized Parmalat company. The settlement also provides that counsel for the Lead Plaintiffs may apply for an award of attorneys' fees up to 18.5% of the settlement, plus expenses. The United States District Court for the Southern District of New York authorized this notice, and will hold a hearing to decide whether to approve the settlement or the request for attorneys' fees and expenses. If you're included in the Class, you may file a claim form to ask for a payment, or you may exclude yourself or object. You can get a detailed Notice at [www.ParmalatSettlement.com](http://www.ParmalatSettlement.com).

#### WHO'S INCLUDED?

You are a Class Member if you bought Parmalat securities from **January 5, 1999 through and including December 18, 2003**, regardless of where you live or where you purchased your securities. If you're not sure whether you are included, visit the website below.

#### WHAT IS THIS CASE ABOUT?

The lawsuit alleges that Parmalat and numerous other defendants (see the detailed Notice) participated in a fraudulent financial scheme, resulting in the understatement of Parmalat's debt by nearly \$10 billion and the overstatement of its net assets by over \$16 billion. Parmalat ultimately filed for bankruptcy, and the value of its securities dramatically declined.

The defendants deny that they did anything wrong, and the settlement does not mean that any law was violated. The Court did not decide which side was right. The two sides disagree on how much money could have been won at a trial. Instead, the partial settlement resolves the case against Parmalat S.p.A. and will result in Parmalat providing stock in the Parmalat company that has emerged from reorganization proceedings in Italy. That stock will then either be sold, and money paid to Class Members, or the stock will be distributed among Class Members.

The lawsuit is proceeding against other defendants, including auditing firms, financial institutions, and certain

individuals.

Parmalat agreed to provide to the settlement fund 10,500,000 shares in the reorganized Parmalat company to compensate Class Members and to pay attorneys' fees, expenses and administrative costs. A settlement stipulation, available at [www.ParmalatSettlement.com](http://www.ParmalatSettlement.com), describes all of the details.

Your payment will depend on the number of valid claim forms that Class members eventually send in, how many shares of Parmalat stock you bought or how many bonds you bought, when you bought and sold them, and the prices you paid.

#### HOW DO YOU ASK FOR A PAYMENT?

You may go the website to register and complete the claim form online or you can request a claim form be mailed to you by writing to **Parmalat Securities Litigation Claims Administrator, PO Box 4068, Portland, OR 97208-4068, USA. You may also call (after July 25, 2008) US Toll Free 1-800-713-9910 or International (Toll): +1 503-626-0306.**

If you did not receive this notice in the mail directly, you should register as soon as possible.

#### WHAT ARE YOUR OTHER OPTIONS?

If you don't want to be legally bound by the settlement, you must exclude yourself by **September 15, 2008**, or you won't be able to sue the defendants who settled, about the legal claims in this case ever again. If you exclude yourself, you will not get money from the settlement. If you stay in the settlement, you may object to it by **September 15, 2008**. The detailed Notice explains how to exclude yourself or object.

The Court will hold a hearing in this case (*In re Parmalat Securities Litigation*, 04-MD-1653 (LAK)) on **September 24, 2008**, to consider whether to approve the settlement and the application for attorneys' fees. You may ask to appear at the hearing, but you don't have to. **To learn more, go to [www.ParmalatSettlement.com](http://www.ParmalatSettlement.com); e-mail [questions@parmalatsettlement.com](mailto:questions@parmalatsettlement.com); or write to Parmalat Settlement, P.O. Box 4068, Portland, OR 97208-4068, USA. You may also call (after July 25, 2008) US Toll Free 1-800-713-9910 or International (Toll): +1 503-626-0306.**

[www.ParmalatSettlement.com](http://www.ParmalatSettlement.com)

## FOREIGN OPPORTUNITIES

### FOR SALE

#### GEOHERMAL POWER STATION DEVELOPMENT OPPORTUNITY

#### TAUPO, NEW ZEALAND

[www.geothermproject.co.nz](http://www.geothermproject.co.nz)

## AVIATION

#### Busy Jet Charter Company has opening for a Captain

CL-604  
Type Rating Required  
Based in Southern California  
Email resume to  
[charter604@gmail.com](mailto:charter604@gmail.com)

## AVIATION

#### 2007 Lear 40XR

The first & only 8 passenger 40XR available! Comes with factory warranty, pilot training, MSP Smart Parts, Camp paid to date. Has upgraded interior with overall white & accent grey. 220 Hours.  
An exceptional buy at \$8,495 Mil  
**By Owner Call 847-420-0357**

## AVIATION

### BELL 430

YEAR: 2001 - S/N 49085  
US\$ 5,650,000.00

2000 HOURS TOTAL TIME  
**IMMEDIATE DELIVERY**  
See it at:

[www.asaconsult.com.br](http://www.asaconsult.com.br)  
or call Guilherme Machado:

**ASA** (+5511) 3079-3008  
CONSULTING (+5511) 8105-8199

## BUSINESS OPPORTUNITIES

#### NATURAL GAS SHALE

Own a Natural Gas Well.  
Experienced operator has drilled 35 consecutive, successful wells in Natural Gas Shale.  
Has undeveloped well locations in inventory.  
Cost \$800,000/well.  
Operator will drill and manage investments. Well life expectancy, 65 plus years.  
Generous tax deductions for 2008.  
Principles only.  
**800-246-2576 x106**

#### Own an Energy Conservation Business

Energy Automation Systems, Incorporated. Tap into decades of experience and skill to enjoy an exciting and profitable career as an independent EASI affiliate.

For Information call 615-822-7250  
or  
[www.energysavingbusiness.com](http://www.energysavingbusiness.com)

## BUSINESS OPPORTUNITIES

### EARN \$ 100,000+ AS A FINDER!

REFERRING CLIENTS TO  
**SELL 5MM+ BUSINESSES**  
Wall Street Mergers Group

**Call 954-586-1800**

#### JOINT VENTURE

Oil & Gas Projects  
Midland, Texas (USA)

**Pan-Permian Energy Partners Inc.**  
**432-558-0168**

[contact@panpermian.com](mailto:contact@panpermian.com)

### SECURE FINANCING WITH MEDIUM TERM NOTES

Have your own MTN issued backed by "A" rated Insurance Policies to secure financing. Min. \$25MM.

Brokers protected by Contract.  
**Call: 41 43 244-8790 in Zurich**

#### Laundromats: Great Returns & Recession-Resistant

Operating Net Profit in 2007 Averaged 17.1% Interested? Learn more at the 2008 CLA Conference in Chicago.

**Coin Laundry Association**  
**(800) 570-5629**  
[www.coinlaundry.org](http://www.coinlaundry.org)

#### Investment Opportunity!!

Stock market down?  
Utah's economy is still one of the strongest in the nation. I'm a real estate agent that specializes in investment and development properties. Now is the time to invest while prices are low. Many deals available.

**Call Sheila at (801) 369-2638 or email: [sthamas\\_3@netzero.net](mailto:sthamas_3@netzero.net)**

#### Looking for Business Partners

Entrepreneur with exciting growth oppy in the e-health space looking for business ptrns w/sales and marketing exp, distribution relationships, and intellectual capital and a strong balance sheet to help in launching company nationwide.

**Call 305-283-0431 or email [ken.sellers@ehealthxchange.com](mailto:ken.sellers@ehealthxchange.com)**

### bank for sale

**310-376-3480**  
[info@wbc-inc.com](mailto:info@wbc-inc.com)

♦ As with all investments, appropriate advice should be obtained prior to entering into any binding contract. ♦

## BUSINESS SERVICES

THE WORLD'S BEST

### LOGO DESIGN

► UNLIMITED DESIGNS ► 5 DESIGNERS  
► 1-3 DAY TURNAROUND ► SIMPLE FLAT RATE

**Logocare™**

Logo Design | Mascot Design  
Web Design | Brochure Design

**877-918-9188**  
[www.LogoCare.com/wji](http://www.LogoCare.com/wji)

## BUSINESSES FOR SALE

#### BLUFFTON/HILTON HEAD SC

Atlanta Bread Co. Bluffton SC.  
1 Acre prime retail fronting  
HWY 278 (65,000 car counts/day)  
5000 sq. ft. building (built 2004)  
Selling real estate & business.  
Can convert to other concept  
\$2.3 Mil. Ph: (912) 667-4438  
Email: [BJL108@aol.com](mailto:BJL108@aol.com)

#### HOULIHAN'S - SAVANNAH GA.

1526 Acres - Interstate Property  
I-95 & HWY 204. 5291 sq ft heated.  
Walkin's Patio make gross sq ft 7405  
Selling real-estate & business.  
Can convert to other concept.  
Make Offer (have 4.2 invested)  
Ph: (912) 667-4438  
Email: [BJL108@aol.com](mailto:BJL108@aol.com)

#### Designer & Mfg of Comm'l Seating Solutions

Eastern U.S. Hospitality & restaurant industry. Design patents. Sales rose 29% in 2007. 2008E Sales \$6M. EBITDA \$1.5M

**WOODBRIDGE**  
Group Inc.  
[www.woodbridgegrp.com](http://www.woodbridgegrp.com)  
203-389-8400 x 213

#### Mid-Atlantic Wholesale Nursery For Sale

Over 2 million sales profitable.  
Includes approx 96 acres waterfront farm.

**Resource Management**  
**Real Estate**  
**Call: Calvert Seybolt**  
**757-710-2407**

## MANUFACTURING CO.

(Midwest Location)  
Instant growth in a niche emerging market. Sales of \$10M & a 60 year recognized firm. Large cust. base in energy & automotive.  
Solid financials. \$1.9M EBITDA  
**c-a-g@att.net**

## CAPITAL WANTED

#### HIGH OIL PRICES + LOW RIG COUNT = OPPORTUNITY

Own 33.3% Of  
Drilling Rig  
Potential 18.39% IRR  
36 Month Buy Back  
**1-866-750-3462**  
(No Operators/Drillers Please)

## MACHINERY & EQUIPMENT

#### HIGH SPEED OFFICE COPIER

Only 9 new units left from  
Never Opened Copy Center.  
New \$30K Konica-Minolta Copier Systems.  
\$3,995 - Delivered.

815-678-7682  
Toll Free 888-678-2472  
[www.rte47.com](http://www.rte47.com)

## TRAVEL

#### Save 60% First/Business

Major Airlines. Corp. Travel  
[www.cookamerican.travel](http://www.cookamerican.travel)  
(212) 201-1824

WE WILL NOT BE UNDERSOLD

**COOK**  
An American Express Rep.  Travel Representative

#### To advertise

Emma Balogun  
The Wall Street Journal Europe  
+44 20 7842 9608 (direct)  
+44 20 7842 9650 (fax)  
[emma.balogun@dowjones.com](mailto:emma.balogun@dowjones.com)

### MAKE GREAT CONNECTIONS IN EUROPE. THE WALL STREET JOURNAL EUROPE.

**THE WALL STREET JOURNAL.**  
EUROPE

## ECONOMY &amp; POLITICS

# Mideast foes do a swap

*Hezbollah, Israel carry out exchange of remains, prisoners*

The militant group Hezbollah delivered a pair of black coffins to a seaside Israeli border crossing Wednesday, extinguishing hope that two Israeli soldiers captured in 2006 were still alive.

In return, Hezbollah received five Lebanese prisoners and the exhumed remains of about 200 fighters, an ex-

By **Cam Simpson** in Jerusalem and **Nada Raad** in Beirut



Islamic Health Committee personnel stand by boxes containing the remains of Hezbollah and Palestinian fighters during a prisoner swap with Israel on Wednesday.

change hailed as the latest triumph for the Shiite group. Hezbollah is a bitter foe of the governments in Jerusalem and Washington, and is designated by the U.S. as a terrorist group.

Celebrations were under way in Lebanon Wednesday, while final plans were put in place for two military funerals in Israel. The two soldiers, Ehud Goldwasser and Eldad Regev, will be buried in separate ceremonies Thursday, Israeli officials said. The exchange and its aftermath were broadcast live throughout the day on television stations in both nations.

Zvi Regev, Eldad's father, thanked the nation for its long support in comments to reporters Wednesday. "We're closing a chapter that took over two years," he said. "It was a

nightmare and very painful."

Winning the pair's freedom in the wake of a July 12, 2006, cross-border raid by Hezbollah was the primary reason Israel entered what became an indecisive and highly controversial 34-day war. More than 160 Israelis died, most of them soldiers, along with almost 1,200 Lebanese, the majority of whom were believed to be civilians.

An Israeli commission condemned the government's conduct of the war, finding serious shortcomings across the system—in the military, in homeland defense and in strategic vision.

Four of the five newly released Leb-

anese prisoners were alleged to be Hezbollah fighters. The fifth, Samir Kantar, is one of the most prominent militants jailed in Israel throughout the 60-year Arab-Israeli conflict. Mr. Kantar is hailed as a hero in Lebanon but reviled in Israel for leading a 1979 raid in which five people died.

Late Wednesday night, Hezbollah leader Hassan Nasrallah made a surprise and rare public appearance at a victory celebration in the group's stronghold in the southern suburbs of Beirut, kissing Mr. Kantar and saluting a swarming crowd of thousands gathered for celebration.

# Germany extends migrant limits

By **Marcus Walker**

BERLIN—Germany said it will extend restrictions on low-wage migrant workers from Eastern Europe until 2011, going against the trend of countries in Western Europe that have decided to open up their economies to workers from the European Union's new member states.

Germany's cabinet did, however, approve measures to allow limited immigration by highly skilled workers, addressing rising complaints from German companies that they can't find enough specialized staff in areas such as engineering and computer programming.

Many companies such as engi-

neering group Siemens AG have been unable to fill vacancies in recent years because German universities aren't producing enough workers with technical skills. The skills shortage is costing the German economy about €20 billion a year, according to the German economics ministry.

"Germany must take part in an international competition to attract bright minds," Labor Minister Olaf Scholz said Wednesday. The government said it would allow free entry for university graduates from the EU's eastern members and partially relax restrictions for highly qualified workers from outside the EU.

German politicians are strongly resistant to allowing free entry for

all Poles, Czechs and other nations that have joined the EU since 2004. German labor unions fear these workers would undercut German wages.

The biggest change Germany announced Wednesday was that the restrictions on German companies employing East Europeans would no longer apply to university graduates from the new EU countries. Currently, graduates have to prove they aren't taking jobs away from existing German residents.

Next year, Germany will lower the minimum annual salary for foreigners from outside the EU to €63,600, from €86,400 today—a level German business groups said is too restrictive.

# U.S., Iran envoys to meet in talks on arms; closest contact since '79

By **Jay Solomon**

WASHINGTON—In a bid to jumpstart talks to end Iran's nuclear program, President George W. Bush's administration is sending the State Department's No. 3 diplomat to Geneva to meet with Tehran's top arms negotiator Saturday, the closest contact since the 1979 Iran revolution.

The White House's decision breaks sharply from Washington's long-held policy of refusing direct contacts with Tehran until it agrees to freeze its nuclear program. It is the latest backtracking from the unilateralist character of the first Bush term, and follows a recent deal with North Korea on its nuclear program.

U.S. officials said Mr. Bush and Secretary of State Condoleezza Rice decided to alter course because of signs that Tehran may be preparing to

freeze its uranium-enrichment activities as part of broader negotiations with the international community.

In May, the five permanent members of the United Nations Security Council, plus Germany, offered an economic-incentives package to Tehran in exchange for its freezing uranium-enrichment work. And the European Union's foreign-policy chief, Javier Solana, is scheduled to meet Saturday in Switzerland with Tehran's chief nuclear negotiator, Saeed Jalili, to hear Iran's response.

U.S. officials said Undersecretary of State for Political Affairs William Burns will accompany Mr. Solana during the talks with Mr. Jalili but won't hold separate talks with the Iranian official. They said Mr. Burns will largely listen and reconvey Washington's insistence that Tehran freeze its uranium-enrichment work in exchange for more-direct talks with the U.S.

# EU gives Poland time to rescue ailing shipyards

ASSOCIATED PRESS

BRUSSELS—The European Commission gave Poland two more months to come up with a rescue plan for three ailing shipyards before deciding whether the government must reclaim huge subsidies paid out over the past four years.

The European Union's executive body said that though Poland's rescue plans for the yards in Gdansk, Gdynia and Szczecin don't comply with EU state aid rules and would seriously distort competition, it would postpone its final decision. That was because the Polish government had pledged to submit a viable rescue package by Sept. 12, and private investors had expressed interest in the yards.

The docks have played a major role in Polish history.

# Anwar arrest expected to fuel Malaysia tension

By **James Hookway**

Malaysian police arrested charismatic opposition leader Anwar Ibrahim on suspicion of sodomy, setting the stage for another confrontation between his supporters and the ruling National Front government 10 years after Mr. Anwar was arrested and later jailed on nearly identical charges.

Mr. Anwar's arrest Wednesday is expected to heighten political tension in this predominately Muslim Southeast Asian nation of 27 million, where an opposition alliance he leads has been pushing to topple Prime Minister Abdullah Ahmad Badawi's government after making stunning gains in a March parliamentary election.

That vote saw the opposition's strongest showing in almost 40 years—and heralded the 60-year-old Mr. Anwar's political comeback after being sacked from his post as deputy premier in 1998, when he fell out with then-Prime Minister Mahathir Mohamad. Mr. Anwar was then charged with sodomy and imprisoned until his conviction was overturned in 2004.

Last month, a 23-year-old former aide lodged a complaint with Malaysian police alleging that Mr. Anwar had forcibly sodomized him. Mr. Anwar denied the allegation and has maintained that both his earlier prosecution and the new sodomy complaint were politically motivated to destroy his reputation and block him from political power. Government officials including Mr. Abdullah have denied that they orchestrated the current sodomy allegation against Mr. Anwar. Dr. Mahathir has denied that the 1998 charge was trumped up.

Under Malaysian law, sodomy, even between consenting adults, is a crime punishable by up to 20 years in prison.

In an interview several days before his arrest, Mr. Anwar said the latest allegation is a rerun of what happened in 1998, when he was also mounting a challenge to Malaysia's leadership. "It's the same thing all over again," he said. "They use the sodomy allegation because of its shock value."

The director of the Malaysian Criminal Investigation Department, Bakri Zinin, told reporters Wednesday that police had followed proper procedures in arresting Mr. Anwar. "Anwar is currently helping us in a sodomy case that was reported by his [former] aide. He has been allowed access to a lawyer of his choice as well as family members," Mr. Bakri said.

Home Affairs Minister Syed Hamid Albar, who oversees Malaysia's police force, said the police had acted within the law in arresting Mr. Anwar. In a television interview with CNN on Wednesday night, he said he was "not concerned" about a popular backlash because the arrest was "not a political move."

But opposition leaders reacted with outrage and anger, accusing the government of conspiring against Mr. Anwar. "This is not a criminal case but a political case," said Azmin Ali, the vice president of Mr. Anwar's People's Justice Party, the Associated Press reported.

The U.S. ambassador to Malaysia, James Keith, said in a statement that the arrest of a prominent opposition figure "raises serious questions and concerns." He added, "We

urge Malaysian authorities to resolve this matter in a manner that enhances confidence in the rule of law in Malaysia."

Mr. Anwar's arrest 10 years ago prompted months of antigovernment demonstrations and strong criticism from some Western countries, including the U.S. After Wednesday's arrest, security forces, backed by water cannons, sealed off roads to police headquarters. Witnesses said that as many as 400 people protested outside, some holding placards demanding Mr. Anwar's release. No violence was reported.

Economists and political analysts said the risk of a deeper political conflict in one of Southeast Asia's biggest exporters of natural gas, petroleum, palm oil and electronic components had increased because of Mr. Anwar's arrest. But it wasn't immediately clear whether an opposition backlash could spread and threaten political stability in Malaysia, which has been ruled by the National Front since independence in 1957.

The Kuala Lumpur stock exchange's composite index fell 0.7% Wednesday, while the U.S. dollar strengthened slightly against the Malaysian ringgit.



Anwar Ibrahim

Mr. Anwar's arrest comes amid growing economic problems, which contributed to opposition gains in the March election. Malaysians are trying to absorb a 41% increase in gasoline prices after the government removed an expensive subsidy last month; food prices are also soaring, deepening a sense of popular frustration with the government.

Last week, 68-year-old Prime Minister Abdullah, who has been widely criticized as a weak and ineffectual leader, announced plans to step down in 2010 and hand over the premiership to Deputy Prime Minister Najib Razak. Mr. Najib is one of Mr. Anwar's oldest and bitterest rivals, from the time the now-opposition figure was rising in the ruling party and himself became deputy prime minister.

The latest sodomy allegation surfaced June 29 as Mr. Anwar was courting government politicians to defect to the opposition camp and force a no-confidence vote against Mr. Abdullah's government. Since the allegation, Mr. Anwar has staged a series of rallies against the government. Among other things, he criticized rising fuel prices and the National Front's backing for a decades-old affirmative-action policy for Malaysia's majority ethnic Malay population, which he said had eroded the country's economic competitiveness.

Ordered to report to police for questioning on the sodomy allegation or face arrest, Mr. Anwar had agreed to do so on Wednesday. But rather than waiting for him to appear, a special police unit—with some officers clad in black ski masks—detained Mr. Anwar at a roadblock near his home and took him to a Kuala Lumpur police station. His lawyer, Sankara Nair, complained that the arrest involved "a lot of fear and intimidation."

Under Malaysian law, police can hold Mr. Anwar for up to 24 hours for questioning. If they wish to hold him longer, they must obtain a court order, which would allow detention for 14 more days without charges.

—Celine Fernandez contributed to this article.