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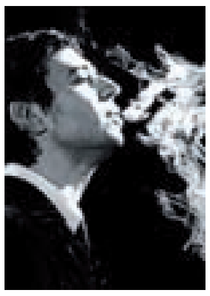


Reel life: France's new wave of celebrity biopics
WEEKEND JOURNAL | **PAGES W10-W11**

Iraq case sheds light on secret security contractors
NEWS IN DEPTH | **PAGES 14-15**

What's News—

Business & Finance

TNK-BP's chief said a shareholder conflict would "tear the company apart" as tensions at the company escalated. A group of employees sued to have him removed, and Russian authorities appeared unlikely to renew his visa. **Page 1**

■ **Lawmakers urged** the ECB to reconsider its inflation ceiling, raising pressure on the central bank as it struggles to damp inflation in the euro zone. **Page 2**

■ **Central banks must work** together more closely to restore confidence in financial markets, an industry group says. **Page 19**

■ **The IMF raised** its global economic-growth forecast, but cautioned that rising inflation may jeopardize expansion. **Page 3**

■ **The EU added** charges to its antitrust case against Intel, saying it paid rebates to a major retailer to not carry computers using chips from AMD. **Page 3**

■ **J.P. Morgan topped** Wall Street expectations with its second-quarter earnings, spurring a rally in banking stocks, even though profit fell 53%. **Page 17**

■ **U.S. stocks rallied** as the financial sector soared and oil's losses piled up. European shares surged. **Pages 18, 20**

■ **Nokia reported a 61% drop** in second-quarter net profit because of restructuring costs and a year-earlier gain related to a joint venture. **Page 5**

■ **Coca-Cola posted** a 23% drop in profit, reflecting rising commodity costs and a deteriorating U.S. economy. **Page 8**

■ **Novartis's profit rose 12%** in the second quarter, helped by healthy sales of prescription drugs. Sales of generic drugs rose marginally. **Page 5**

■ **Teva Pharmaceutical is** in talks to acquire U.S. generics maker Barr in a deal that could total $7 billion. **Page 8**

■ **Bradford & Bingley holders** approved a plan to raise capital needed to make up for losses on the U.K. mortgage lender's credit investments. **Page 20**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11446.66	+207.38	+1.85
Nasdaq	2312.30	+27.45	+1.20
DJ Stoxx 600	276.27	+7.77	+2.89
FTSE 100	5286.3	+135.7	+2.63
DAX	6271.27	+115.90	+1.88
CAC 40	4225.99	+113.54	+2.76
Euro	$1.5879	+0.0053	+0.33
Nymex crude	$129.29	-5.31	-3.95

Money & Investing > **Page 17**

World-Wide

Global trade talks in Geneva present a crucial test for how a new world order can handle challenges such as climate change and food supply, the EU's Mandelson said, but disputes remain over tariffs for cars, chemicals and other goods. **Page 1**

■ **Sanctions are crimping** Iran's oil industry, but they haven't broken it, raising questions about what role they have played in an apparent softening between Tehran and the West as diplomats meet in Geneva. **Page 1**

■ **Spain's Supreme Court** upheld the acquittal of a top suspect in the Madrid train bombings, partly because he was convicted of the same crime in Italy.

■ **A Palestinian negotiator** said peace talks with Israel are set this month with U.S. Secretary of State Rice in Washington.

■ **Olmert's lawyers sought** to paint a key witness as a businessman with an unsavory reputation and a faulty memory as they defend the prime minister against corruption allegations.

■ **Kuwait named** an ambassador to Iraq, its first since the '91 Gulf War, in a success for U.S. efforts to get Iraq's Sunni Arab neighbors to bridge fear and mistrust.

■ **Pope Benedict warned** that world resources are being squandered in the pursuit of "insatiable consumption," and he criticized TV and the Internet for exalting violence as entertainment.

■ **Al Gore challenged** the U.S. to produce all of its electricity through wind, sun and other renewable sources within 10 years.

■ **A pricing agreement** to make malaria drugs available to millions of poor people was unveiled by ex-U.S. president Bill Clinton's foundation. **Page 10**

■ **The U.S. Senate voted** to spend $48 billion over the next five years to fight AIDS, malaria and tuberculosis world-wide.

■ **Austria's "angels of death,"** two former nurses' aides serving life sentences for killing at least 20 elderly patients, will be released early from prison.

■ **The first Guantanamo Bay** war-crimes trial—against bin Laden's former driver—can begin Monday, a U.S. judge ruled.

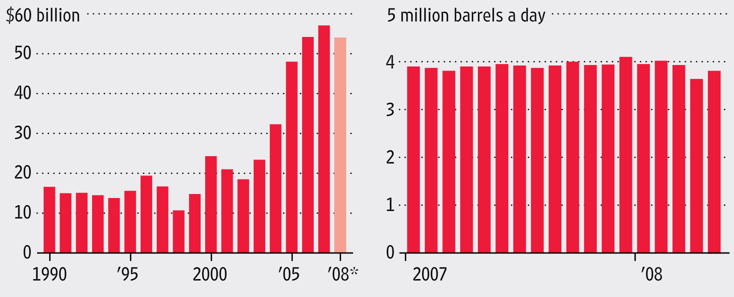
EDITORIAL & OPINION

Obama goes to Baghdad
The U.S. presidential candidate can learn a lot about what's really going on in Iraq. **Page 13**

Iran feels sanctions' bite, but impact is still unclear

Oil sector is hobbled, but high prices help; talks this weekend

Room to grow



*Through June
Sources: U.S. Energy Information Administration (revenues); International Energy Agency (production)

By **Chip Cummins** *in Dubai and* **Roshanak Taghavi** *in Tehran*

As Iranian officials meet European and U.S. counterparts this weekend over the Islamic regime's nuclear program, economic sanctions are crimping Tehran's oil industry—but they haven't yet broken it. That raises questions about exactly what role sanctions have played in an apparent softening on both sides.

Iran's foreign minister this month veered from Tehran's recent, tough negotiating stance, refusing to rule out a freeze of its nuclear activities. And the Bush administration said Tuesday it will send a top diplomat to talks this weekend in Geneva between Iranian and European officials over the issue.

Yet it is unclear whether Iran is really changing tack or simply buying time. U.S. Treasury officials have said they think the sanctions have been working to pressure the regime. A recent U.S. congressional research report, however, called the oil and gas sector's vulnerability to sanctions "debatable."

Iranian officials defiantly say they have been coping. Super-high oil prices have helped. The U.S. Energy Information Administration estimates that Iran brought in some $54 billion in oil-export revenue in the first six months of this year. That compares with an estimated $57 billion for all of 2007.

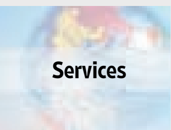
National Iranian Oil Co. plans to spend some $16 billion investing in oil and natural-gas projects this year, according to Akbar Torkan, Iran's deputy oil minister for planning. (The Iranian calendar begins in March.) That's up from an average of about $12 billion each year for the past three years, he said.

"We are using our domestic ca-

Please turn to back page

Doha: The big issues

After more than seven years of negotiations, here's what the World Trade Organization's 152 members have achieved:

	Who wants what:	Outcome:
 Agriculture	Developing countries want EU and U.S. to lower agriculture tariffs and cut farm subsidies	The EU and U.S. have agreed, but domestic opposition could still scuttle their proposals
 Industrial goods	Rich countries want Brazil, India and others to lower tariffs on cars, chemicals and other high-value products	Unclear. Developing countries still refuse to cut tariffs as much as the EU and U.S. would like
 Services	The EU and U.S. want a global market for law firms, delivery companies, banks and others	Has not yet been discussed at summit level

Photos: IndexOpen (3)
Source: WSJ research

Doha trade talks may hinge on tariff cuts, drug patents

By **John W. Miller** *in Brussels and* **Greg Hitt** *in Washington*

Trade officials meet in Geneva next week to secure a deal in the so-called Doha round of global trade talks, but disputes over tariffs for cars, chemicals and other goods, as well as drug-patent and food-name-copyright rules make a breakthrough unlikely.

The U.S. and European Union are closer than ever to agreeing on new limits for agricultural subsidies and tariffs, prompting the World Trade Organization to invite about 35 officials representing about 95% of world trade to its first formal talks in two years on the stalled Doha agreement.

The talks start Monday at the WTO's Geneva headquarters and could last all week. WTO chief Pascal Lamy is working against the clock. The U.S. election cycle will soon make all such gatherings pointless until late 2009, when a new U.S. trade representative will be ready to negotiate, analysts say, and the next U.S. president could be much less committed to a Doha deal than President George W. Bush.

Darkening economic clouds and fears of protectionism are also putting pressure on leaders to do something. A trade deal "would be the only good news in the international economy these days," EU Trade Commissioner Peter Mandelson

Please turn to back page

Employee suit to oust CEO roils TNK-BP

By Gregory L. White

MOSCOW—TNK-BP Ltd. Chief Executive Robert Dudley said a bitter shareholder conflict would "tear the company apart," as a group of employees sued to have him removed and Russian authorities appeared unlikely to renew his visa.

The latest tensions mark a new escalation of the conflict between **BP** PLC and its Russian partners at TNK-BP, Russia's No. 3 oil producer behind OAO Rosneft and OAO Lukoil. BP accuses the other shareholders—led by billionaires Mikhail Fridman, Len Blavatnik and Viktor Vekselberg—of trying to take control of the 50-50 venture using the bare-knuckles business tactics common in Russia in the 1990s. The Russian shareholders, who hold their stake though a company called AAR, deny that and charge BP and Mr. Dudley with mismanaging TNK-BP.

This week, Mr. Dudley, an American who worked at BP before taking over as TNK-BP's first CEO in 2003, has emerged as a central target in the conflict. Thursday, a group of 16 TNK-BP executives—all but one of them Russian—filed suit in Moscow seeking to have his contract declared invalid, charging him with discriminating against Russian employees in favor of foreign BP veterans.

Mr. Dudley, who has avoided the spotlight so far in the conflict, held a news conference to deny the

Please turn to back page

THE WALL STREET JOURNAL.

LEADING THE NEWS

Ruling defends caregiver

EU court widens law protecting disabled to cover their helpers

By Charles Forelle

BRUSSELS—The European Union's highest court ruled that laws protecting the disabled from discrimination in the workplace also extend to employees who look after a disabled person at home.

Thursday's decision in the case of a United Kingdom woman, who claimed her employer mistreated her because of her need to look after a disabled son, represents the second time in a week that the Court of Justice in Luxembourg has widened the scope of the EU's employment-discrimination law.

Last week, the court found that a Belgian garage-door installer broke EU law when he said publicly that he didn't want to hire Moroccans, even though the plaintiff, an advocacy group, didn't identify a specific person who had suffered from the discrimination.

Lawyers said Thursday's ruling would easily extend to other classes covered by discrimination codes. "If an employee was married to a Muslim and was harassed because of it, they would be protected," said Lisa Mayhew of law firm Jones Day.

The latest case involved Sharon Coleman, a legal secretary at a small London law firm now known as EBR Attridge. In 2002, Ms. Coleman gave birth to a son with congenital respiratory problems. Ms. Coleman alleged that her employers called her "lazy" when she sought time off to care for her son, said she was using the child as an excuse, and didn't permit her the flexible schedules offered to other employees whose children weren't disabled. She said she was forced to quit.

The Court of Justice didn't rule on the facts of Ms. Coleman's allegations—those will be sorted out by a U.K. court. But it was presented with a novel question: Can Ms. Coleman, who isn't disabled, seek protection because she is associated with someone who is?

The court said she can. The EU's prohibition on discrimination "is not limited only to people who themselves are disabled," the court wrote. The EU rule "applies not to a particular category of person," the court wrote, but rather to the character of the discrimination. If the discrimination is associated with a protected category—religion, disability, age or sexual orientation, for this particular law—it is prohibited. Separate laws cover race and sex discrimination. Steve Law, a partner in EBR Attridge, says Ms. Coleman's "allegations are vehemently denied." As to the court's ruling, he says its effect will be "disastrous to small business." The U.K.'s Disability Discrimination Act had previously been interpreted only to cover disabled people themselves.

The EU doesn't make employment laws covering its 27 countries. But in 2000, the bloc agreed on two important directives to the member states, which sought to make their antidiscrimination laws consistent.

Last week's case of the garage-door installer and Thursday's ruling on discrimination by association are the court's first major interpretations of the directives. Those rulings make it clear the court "takes a very firm standpoint on discrimination," says Christian Bayart, an employment lawyer based in Antwerp, Belgium, with Allen & Overy.

Several national governments, the U.K. among them, argued during the case that the EU rules shouldn't be read to cover discrimination by association. Lithuania and Sweden supported Ms. Coleman's side.

Lawmakers urge ECB to rethink inflation cap

European lawmakers want the European Central Bank to reconsider its inflation ceiling, upping political pressure on the euro zone's central bank as it struggles to damp rising inflation amid signs of slowing economic growth.

The ECB, which makes monetary policy for the 15 countries that share the euro currency, aims to keep euro-zone inflation just under 2%. That level "should be examined in the context of a new age of globalization characterized by rising energy and food prices," two European Parliament members wrote in a draft report released Thursday.

By **Joellen Perry** *in Frankfurt and* **Alessandro Torello** *in Brussels*

The European Parliament has no jurisdiction over the central bank, and the final report—which will be put to a parliamentary vote in October—will be nonbinding.

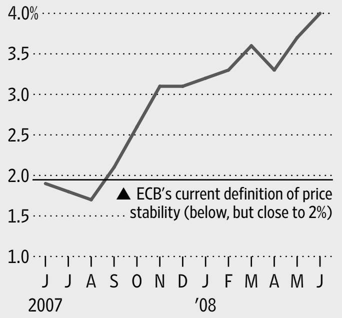
Still, the suggestion comes at a touchy time for the central bank, which raised its key interest rate to a seven-year high of 4.25% earlier this month. Several euro-zone politicians, notably in France, have suggested the bank's inflation focus jeopardizes economic growth. Unlike the U.S. Federal Reserve, which aims to promote growth and control inflation, the ECB's single mandate is keeping prices steady.

The euro zone's annual inflation rate in June was 4%, and the bloc's economy is showing signs of slowing amid global market turmoil, rising commodity prices and the euro's surge.

The ECB had no comment on the draft report.

High and rising

Harmonized index of consumer prices in the euro zone, all items; year-to-year percentage change



Source: Eurostat

CORRECTIONS & AMPLIFICATIONS

Belgium's prime minister offered his resignation after he was unable to bridge divisions between the country's two main language groups, French speakers and Flemish speakers. An Economy & Politics article in Wednesday's edition incorrectly said the conflict was between French and Dutch speakers.

Car registrations in Germany rose 3.6% in the first six months of this year. A Corporate News article in Thursday's edition incorrectly said German car registrations rose 3.6% in June alone.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

IMF lifts global forecast

Fears about inflation and slowdown linger; 'in a tough spot'

By Tom Barkley

WASHINGTON—The outlook for the world economy has improved in recent months, but governments face an increasingly difficult task of trying to tamp down rising inflation pressures without jeopardizing economic growth, the International Monetary Fund said.

"The global economy is in a tough spot, caught between sharply slowing demand in many advanced economies and rising inflation everywhere, notably in emerging and developing economies," the fund said in its latest update to the World Economic Outlook.

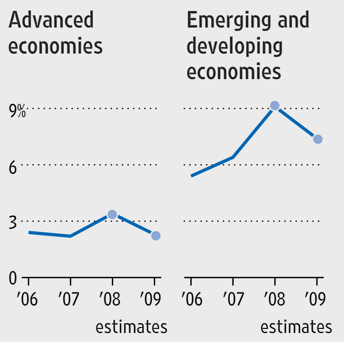
The IMF raised its global economic-growth forecast for 2008 to 4.1% from an earlier estimate of 3.7% in April. Its 2009 projection was lifted a notch to 3.9% from 3.8%.

The first-quarter slowdown wasn't as bad as expected. But the fund sees signs of a further deceleration in the second half, with a gradual recovery next year.

Meanwhile, fears of financial-market unrest have been overtaken by bigger concerns about surging oil and food prices, which present a "much more difficult" environment for policy makers, IMF chief economist Simon Johnson said.

Possible slowdown

Consumer-price estimates, change from a year earlier



Source: International Monetary Fund

The improvement in the growth forecasts is in large part due to a surprisingly resilient U.S. economy, which grew 1% in the first quarter. The IMF revised its U.S. estimate for 2008 to 1.3% from a forecast of 0.5% growth given in April.

U.S. growth is expected to be flat or "decline modestly" in the second half of the year, owing to rising commodity prices and tighter credit conditions, then recover slowly next year, Mr. Johnson said.

The 2009 U.S. growth estimate also edged up to 0.8% from 0.6%, with the housing market expected to hit bottom in the next few quarters.

The IMF's April forecasts, particularly those for the U.S. and euro area, drew criticism from those countries' governments and even its sister institution, the World Bank, as being overly pessimistic.

The IMF also raised its euro-area forecast, for the 15 nations of the European Union that use the euro as their currency, to 1.7% this year from its previous estimate of 1.4%, while keeping its 2009 projection at 1.2%. The U.K. is now expected to grow 1.8% this year and 1.7% in the next, versus previous growth estimates of 1.6% for 2008 and 2009.

Japan's forecast for this year was adjusted higher by 0.1 percentage point to 1.5%, while the 2009 forecast unchanged at 1.5%.

The overall forecast for emerging and developing economies edged up 0.2 percentage point to 6.9% this year, with a 0.1-percentage-point increase over the April forecast for next year to 6.7%.

China's 2008 forecast was raised to 9.7% from 9.3% in April, with the 2009 estimate increasing to 9.8% from 9.5%. India is estimated to grow 8% this year, up from an earlier forecast of 7.9%, while the 8% forecast for 2009 was unchanged.

EU charges Intel paid to delay an AMD line

By Charles Forelle

BRUSSELS—The European Union added charges to its antitrust case against **Intel** Corp., saying the chip giant paid rebates to a major retailer to not carry computers using chips from its smaller rival **Advanced Micro Devices** Inc.

Also, the EU antitrust regulator said Intel paid a computer manufacturer to delay the launch of a line of AMD-based machines, and also gave the manufacturer rebates that are conditional on its using only Intel chips in its laptop. (The EU didn't identify the manufacturer.)

The additional charges, which follow earlier accusations leveled by the EU last July that Intel gave inducements to manufacturers to block AMD, suggest the regulator is ramping up its case against Intel. The charges came in a "statement of objections" which the EU's executive arm, the European Commission, confirmed that it sent Thursday.

An Intel spokesman said shortly after the EU's announcement that "the document was still arriving" by fax, and that "we want to be able to read it and understand it before commenting."

A statement of objections outlines the charges against a company and gives it a chance to respond. The next step, if the EU ultimately determines Intel broke the law, would be a formal decision condemning the behavior, likely imposing fines and seeking remedies.

The EU has been investigating Intel for years, ever since AMD complained in October 2000 that Intel was boxing it out of the market for so-called x86 chips, the processors that power most personal computers and many low-end computer servers.

Exactly what form the remedies might take, if the EU proceeds to a formal decision, isn't clear.

If the EU finds against Intel, "I would think fines are inevitable," says Sean-Paul Brankin, a lawyer at Crowell & Moring in Brussels. "Rebates and discounts that seek to achieve customer loyalty and exclusivity are well-established abuses of dominance."

Intel has claimed that its practices are lawful, and that rebates to manufacturers help lower prices on computer-store shelves, thus helping consumer.

AMD is likely to lobby for tough sanctions. A spokesman for the company said that an order from the EU merely barring Intel from anticompetitive conduct "would not be sufficient."

EBRD chief seeks clarity in review

By Paul Hannon

LONDON—The new president of the European Bank for Reconstruction and Development said he will seek to get a clearer commitment to the bank's future from its shareholders as part of its next medium-term review.

In an interview, Thomas Mirow said he wants the coming five-year review, which is due to be completed in 2011, to settle the question of the bank's future role for many years to come. The answers will have to come from the bank's 61 government shareholders.

"The question I have to put to shareholders is, do they want to engage in a medium-term perspective, or are they in doubt?" Mr. Mirow said. "I will try to provide them with good reasons for them to stay, and try to convince them that it is in their taxpayers' interest to continue to engage."

Mr. Mirow, formerly Germany's deputy finance minister, on July 3 took control of an institution that will in 2010 stop investing in eight countries that joined the European Union in 2004.

The EBRD was conceived in 1989 to help precisely those countries in Central Europe. It started operations in 1991, but by the following year its mandate had been extended to helping foster private-sector growth in the by then former Soviet Union.

One of its shareholders—Australia—has decided that with the development bank's original mission close to completion, it no longer wants to be involved.

And earlier this year, a paper was circulated among EU members that considered a number of options for the EBRD, including merging it with the external funding arm of the European Investment Bank, or closing it all together.

Mr. Mirow said the speculation over the development bank's future has been damaging, and has made it difficult to retain staff.

U.S. housing starts rose in June, aided by twist in New York code

By Jeff Bater

A twist to New York City building codes made U.S. home-construction numbers jump last month. Absent the quirk, housing starts fell.

Starts rose 9.1% to a seasonally adjusted annual rate of 1.066 million units, the U.S. Commerce Department said Thursday.

Apartment starts jumped, while those of single-family homes tumbled.

New York construction codes that took effect for permits authorized starting this month triggered a large increase in building apartment-building permits in June.

Excluding the New York bump, nationwide housing starts fell in June by 4%.

Single-family housing starts fell 5.3% to 647,000 units. Permits for single-family homes dropped 3.5%.

Separately, the Labor Department reported that new claims by U.S. workers seeking unemployment benefits rose last week by 18,000 to 366,000.

CORPORATE NEWS

COMPUTERS

H-P leads healthy growth of world-wide PC sales


Associated Press

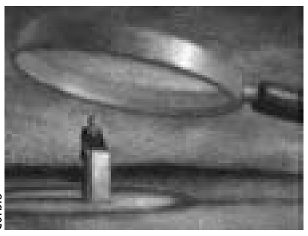
WORLD-WIDE personal-computer sales grew at a healthy clip in the second quarter, two research firms said, with **Hewlett-Packard** Inc. at the top despite growth by No. 2 **Dell** Inc.

Gartner Inc. said world-wide PC shipments grew 16% in the period, with U.S. shipments growing 4.2%. Rival IDC put world-wide growth at 15%, with U.S. shipments up 3.6%.

Brisk notebook PC sales, particularly outside the U.S., were a major factor. Despite the growth, Gartner analyst Mika Kitagawa warned that "economic uncertainties have hit PC revenues," which have led to declining prices in the U.S. and Europe.

ADVERTISING

WPP appoints O'Keeffe global creative director


Corbis

WPP GROUP PLC named John O'Keeffe, previously of Bartle Bogle Hegarty, world-wide creative director. Mr. O'Keeffe, 45 years old, will be based in London and report to WPP Group Chief Executive Martin Sorrell. "He will work across agencies, disciplines and clients to help raise creative standards," the company said. Mr. O'Keeffe started his advertising career at Saatchi & Saatchi in 1984 and went on to win awards on accounts including British Airways PLC. He joined U.K. ad agency BBH in 1990 and became creative director there in 1998. He was the creative lead on pitches for Yum Brands Inc.'s KFC, Vodafone Group PLC and Diageo PLC's Johnnie Walker. *—Erica Herrero-Martinez*

AVIATION

High cost of fuel prompts Ryanair to trim services


Associated Press

IRISH low-cost airline **Ryanair Holdings** PLC said it is cutting 14% of flights from London Stansted, its most expensive airport, and temporarily closing some operations in continental Europe.

Responding to rising fuel prices and an expected drop in demand from consumers, Ryanair is reducing overall capacity by about 10% this winter.

Weekly flights from Standsted will fall to less than 1,600 from 1,860, and the airline will ground eight of its 36 planes, following a cut of seven Stansted-based aircraft last winter. Chief Executive Michael O'Leary said Ryanair would ground an additional plane from a Spanish base this year.

Mexico brewers may be next on target list

InBev's acquisition of Bud gives it stake in maker of Corona

BY DAVID LUHNOW AND DAVID KESMODEL

ORDERING A CERVEZA in Mexico has for decades meant buying a beer from one of two Mexican beer companies that control 98% of the market: **Grupo Modelo** SAB and **Fomento Económico Mexicano** SAB.

That may be about to change. The purchase of U.S. brewer **Anheuser-Busch** Cos. by the Brazilian-Belgian company **InBev** NV for about $52 billion makes it much more likely that both Mexican brewers will eventually get sold as part of the global consolidation in the beer industry.

"The writing is on the wall for both big Mexican beer companies," says Carrie Schloss, an analyst with Talon Asset Management in Chicago, which owns Anheuser stock.

While beer has historically been a local product, remaining independent has become increasingly difficult as beer companies scramble to create a handful of truly global brands that sell everywhere rather than just in local markets. The pressure to get big has also increased along with the rising price of commodities used in beer like barley, aluminum and glass.

The purchase of Anheuser by InBev has only raised the stakes for everybody else, and the Mexican beer companies are obvious targets. Mexico is the world's third most profitable beer market. And

If Modelo does resist InBev, the relationship could become difficult.

in buying Anheuser, InBev will have a 50% noncontrolling stake in Modelo, the maker of Corona Extra, the top selling U.S. import. Buying the rest of Modelo would go a long way to completing its global portfolio.

While a sale of either big Mexican brewer could take months or even years, many industry analysts expect the following scenario: InBev, within the next year or so, will buy out the rest of Modelo. That deal will put the pressure on Fomento Económico Mexicano, Femsa, as the other big Mexican brewer is called, to also link up with a global partner, the most obvious candidate being U.K.-based **SABMiller**.

Credit Suisse has been telling its clients for months to "double down" on the Mexican brewers in the hopes that consolidation will reach Mexico's shores.

Of course, both Modelo and Femsa are harder to buy out than a company like Anheuser because the two Mexican firms are majority owned by a group of families rather than ordinary shareholders. And the owners may have other factors rather than making money that influence a decision to sell, such as pride. The owners of both Mexican beer companies are rightly proud that they have built two of the world's top 10 beer firms.

After the InBev and Anheuser agreement, Modelo put out a terse statement saying it had the right to opt out of becoming partners with InBev, presumably by buying back the part of the company it sold to Anheuser.

Mexico's two titans

Two companies control 98% of the country's beer market.

Grupo Modelo SAB

56% market share in Mexico

Brands: Corona Extra, Corona Light, Modelo Especial, Victoria, Pacifico

Fomento Economico Mexicano SAB

42% market share in Mexico

Brands: Sol, Tecate, Dos Equis, Bohemia, Indio

Source: The companies

Analysts say it is doubtful that Modelo does have the legal right. The company has also long shied away from taking on debt, which it would need to buy back full ownership. Indeed, Modelo's posturing may simply be a negotiating tactic to try to get InBev to pay as much of a premium as possible when the time comes.

"What better way to get a higher price than to make noise," says Ms. Schloss. Modelo said it had no comment.

If Modelo does resist InBev, the relationship could become difficult. InBev will inherit up to nine seats on Modelo's 19-seat board, and will have certain rights regarding areas like capital expenses. And it is unlikely to make many moves that could help Modelo and drive up the price of the remaining 50%.

Selling to InBev, meanwhile, could benefit both sides, analysts say. The Belgian-Brazilian giant could get brands like Corona to sell in other markets outside the U.S. much more quickly than Anheuser. And Modelo could use some help given that its U.S. sales have started to slip. InBev could also make Modelo, which is viewed as inefficient, more profitable.

Femsa might be able to hold on to its independence longer than Modelo. The Monterrey company is controlled by conservative Mexican families who may be less willing to sell. Femsa is well-managed and may not offer as many opportunities to buyers for generating cost savings as Modelo would, analysts say. The company is also the largest Coke bottler outside the U.S., making it difficult for a beer company to buy outright.

The families who control Femsa "could in fact decide they want to be a Latin-American brewer, that they have good growth prospects in front of them," says a beverage-industry consultant. Femsa may find it advantageous to be the last "one standing at the dance."

Spain's ACS seeks to reshape electricity sector

BY BERND RADOWITZ

MADRID—Spanish construction company **Actividades de Construcción y Servicios** SA said Thursday it has held talks to possibly sell its stake in **Union Fenosa** SA and focus its energy-sector investments on utility **Iberdrola** SA.

The potential deal could reshape Spain's red-hot electricity sector, as highly indebted ACS seeks funds to strengthen its position in Iberdrola, a power utility with a market value that is almost four times that of ACS.

ACS is Union Fenosa's top shareholder, holding a 45.3% stake, which at current market prices would be valued at about €5.6 billion ($8.9 billion). ACS also owns nearly 13% of Iberdrola, a stake valued at about €5.4 billion.

ACS has said it seeks to become a key player in the consolidation of the energy sector and that such transformation should be led by Spanish investors.

"Although the operation seems financially and strategically feasible, the tough part will be how to gain control of Iberdrola," said BPI analyst Pedro Jorge Oliveira in Madrid.

Iberdrola Chairman Ignacio Galán has clashed with ACS and has begun legal action against **Electricité de France** in Spanish courts to block potential takeovers. Mr. Galán has garnered support from local savings banks holding about 15% of the company.

EDF and ACS have held preliminary talks about various scenarios to reshape Spain's power sector. One called for EDF to acquire an interest in Union Fenosa from ACS, so that ACS could team up with a third company, such as Germany's **E.On** AG, to take over Iberdrola.

Officials from EDF, Union Fenosa, Iberdrola and E.On declined to comment on ACS's announcement.

Shares in Union Fenosa led the gainers on Spain's key IBEX-35 index Thursday, jumping 16% to €13.60. ACS soared 9.6% to €31.06. Iberdrola shares were up 4.7% to €8.45.

With total debt of about €18 billion and a market value of €10.93 billion, ACS would need heavier firepower if it would seek to gain control of Iberdrola, which has a market capitalization of €41.85 billion. The construction company would be required to bid for all of Iberdrola if it surpasses the ownership threshold of 30% in the utility.

Because ACS's acquisition of Iberdrola shares was backed by debt, ACS needs to provide further collateral to creditors in case Iberdrola shares fall under a certain level—a further squeeze on ACS's financial strength.

After failing to nab control of Spanish power company Endesa SA, E.On has said it isn't yet satisfied with its market position in Spain.

—Jonathan House and Jan Hromadko contributed to this article.

CORPORATE NEWS

Nokia's profit falls 61%

Phone maker raises year's projection for handset sales

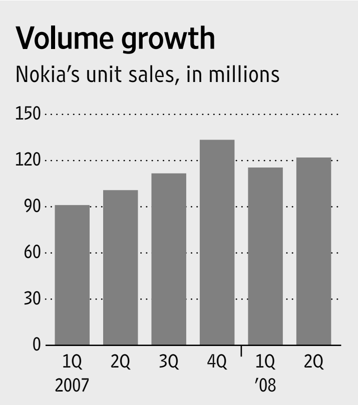
By Adam Ewing

STOCKHOLM—**Nokia** Corp. reported a 61% drop in second-quarter net profit because of restructuring costs and a year-earlier gain. The global economic slowdown also put pressure on the company's earnings.

Still, the Finland-based company on Thursday reported robust unit sales thanks to strength in emerging markets and slightly raised its expectations for mobile handset market growth in 2008. Nokia said it expects to continue expanding its share of the market.

Nokia said its global market share increased to 40% during the second quarter from 38% a year earlier and 39% in the first quarter.

Net profit declined to €1.1 billion ($1.74 billion) from €2.83 billion a year earlier, when results were boosted by a €1.88 billion gain related to the formation of Nokia Siemens Networks, Nokia's joint venture with Siemens AG. The latest results were hurt by continuing restructuring costs at Nokia Siemens and a €259 million charge tied to the closure of a manufacturing plant in Bochum, Germany.



Source: the company

Sales rose 4% to €13.15 billion from €12.59 billion. Nokia said it shipped 122 million handsets in the quarter, up 21% from a year earlier, reassuring many market watchers who had expected slower sales due to the global economic downturn.

The company said it now expects global device volumes to grow by 10% or more in 2008 from a year earlier, while the handset market is expected to be flat in euro terms. When it reported first-quarter results, Nokia said it expected volume growth of 10% in 2008.

"The strong unit sales volume together with the raised outlook makes this a nice report," said eQ Bank analyst Jari Honko.

Nokia shares, which had fallen more than 20% in the past six months, closed up almost 7.9% at €17.00 in Helsinki. The strong earnings report also pulled up shares in **Telefon AB L.M. Ericsson** and chip makers, including Infineon Technologies AG and STMicroelectronics NV.

"Looking at the rest of the year, we are optimistic and have had good feedback about the broad range of new products we expect to sell in our device business," said Nokia Chief Executive Olli-Pekka Kallasvuo.

Nokia said the average selling price of its devices declined to €74 in the second quarter from €90 a year earlier and €79 in the first quarter, on weaker sales of high-end phones. The company saw strong sales growth in high-volume markets in the Asian-Pacific region and Latin America, areas where Nokia's manufacturing might and broad device portfolio are a key advantage over rivals.

In the Asia-Pacific region, unit growth increased 42% to 36.4 million phones in the quarter, in contrast to flat sales of 27.1 million devices in Europe.

Prescription drugs boost Novartis's profit by 12%

By Anita Greil

ZURICH—**Novartis** AG said second-quarter net profit rose 12%, helped by strong sales of prescription drugs and a weak U.S. dollar.

Novartis, of Basel, Switzerland, said net profit rose to $2.25 billion from $2.01 billion a year earlier.

Sales increased 14% to $10.73 billion from $9.4 billion. Stripping out currency fluctuations, sales would have risen 5%.

The sales increase was driven by solid growth at the prescription-drugs unit, which posted a 14% increase in revenue to $6.93 billion. Blood-pressure drug Diovan remained the biggest seller, generating sales of $1.51 billion, an increase of 22%. It was followed by cancer pill Gleevec, which posted a 26% increase in sales to $942 million.

In contrast, sales of Novartis's generic drugs advanced only marginally because the company failed to introduce many new products in the U.S. Sales of over-the-counter drugs also were weak as U.S. consumers pinched by the economic slowdown opted for less-expensive unbranded products.

This is something of a setback for Chief Executive Daniel Vasella's strategy to diversify into other areas of health care at a time when the prescription-drug industry is facing problems. The prescription sector is hurting from generic competition, a sputtering pipeline of new drugs, and a U.S. regulator that has become more demanding on safety and efficacy requirements of drugs submitted for approval.

Although Novartis's generic-drugs unit performed poorly in the quarter, the generic-drugs business in general is experiencing double-digit-percentage sales growth, and other big pharmaceutical companies are starting to invest in it, too. French drug maker **Sanofi-Aventis** SA recently launched a takeover bid for Czech generic maker **Zentiva** NV, while **Daiichi Sankyo** Co. of Japan plans to buy a majority stake in Indian generics maker **Ranbaxy Laboratories** Ltd.

Novartis's hypertension drug Tekturna, a potential successor to Diovan when that medication loses patent protection in 2012, generated sales of $30 million in the second quarter. The drug was developed jointly with **Speedel Holding** AG, a small Swiss pharmaceutical company that Novartis is in the process of taking over.

The company said it expects to report record earnings for this year and maintained its sales forecast for the year, saying it expects net sales to expand at a pace in the midsingle-digit percentages, with prescription drugs rising in the low single digits. However, it lowered its outlook for the generics unit, saying it sees growth in the midsingle digits.

Novartis said its plan to sell a generic version of the blood-thinning drug Plavix in Germany is on hold because a German regulator suspended its earlier approval for the generic drug's sale. Sanofi-Aventis, which makes Plavix, requested the suspension, Novartis said.

The chief executive of Novartis's generics unit, Andreas Rummelt, said a generic version of Plavix won't be launched in Germany this month, as had been expected, and added it was difficult to predict the timing of the launch.

Novartis's Sandoz unit would be one of the companies selling the drug in Germany under a distribution agreement with Swiss generics maker **Schweizerhall Holding** AG. Schweizerhall wasn't available to comment.

In Zurich, Novartis's shares rose 0.9% to 57.95 Swiss francs ($56.94).

India tech sector faces pressures

By Niraj Sheth

MUMBAI—As their major Western customers suffer amid a global credit crisis, Indian technology companies are facing increased pressure to sustain rapid growth, **Tata Consultancy Services** Ltd. chief executive Subramaniam Ramadorai said.

Mr. Ramadorai, in an interview, said the U.S. economic slowdown has made continued double-digit revenue and earnings growth in the industry increasingly challenging.

TCS, India's largest technology company by sales, released its earnings for the quarter ended June 30 on Wednesday. Although its revenue grew a healthy 24% year-on-year, earnings expanded just 7%, a far cry from the 36% profit growth the company reported for the year-earlier quarter.

The credit crisis has created a volatile environment in which TCS clients—many of them U.S. banking and insurance companies—worry about the strength of their balance sheets because of the plummeting value of financial assets, Mr. Ramadorai said. That has caused some customers to curtail spending on IT projects. Meanwhile, India's rising inflation—currently running at an annual wholesale rate of 11.9%—has been pushing up wages ever more quickly, he added.


Subramaniam Ramadorai

The squeeze on an industry accustomed to robust revenue and profit growth has made the time ripe for some consolidation in the Indian technology sector, Mr. Ramadorai said. Larger companies like TCS are looking to acquire expertise in specialized industries where they currently lack the resources to serve clients, and buying smaller competitors can fill that gap.

"The question to ask when I go to acquire a smaller entity is: What does it bring in core competencies?" Mr. Ramadorai said. "Does it bring people? Or does it bring strong competencies in specific areas?" He declined to comment on any specific acquisition plans TCS may have.

The credit crisis has also revealed how dependent India's IT companies have been on U.S. financial institutions for business. North America accounts for more than 51% of TCS's business in terms of revenue, the bulk of which comes from clients in the financial services and insurance industries.

To survive as traditional clients become less willing to spend on IT, Indian companies will have to cultivate a broader global base of customers, Mr. Ramadorai contended. TCS would like to expand its service centers to China, for example. "In the future, delivery will not be out of India alone," he said.

Continental reports loss on fuel costs

A WSJ News Roundup

Continental Airlines Inc. reported a loss of $3 million, or three cents a share, for the second quarter, hurt by soaring fuel costs, but Wall Street had been braced for worse.

Revenue rose 9% to $4.04 billion. The loss compares with year-earlier net income of $228 million, or $2.03 a share. The latest quarter included $22 million in gains, as the company outlined last week, as well as $112 million in fuel-hedging gains.

Houston-based Continental's mainline revenue passenger miles—a measure of traffic—fell 0.2%, while seat capacity increased 2%. Load factor fell 1.8 percentage points to 81.7%. Revenue per available seat mile, considered the best measure of revenue for airlines, rose 3.8%. The average price of fuel in the quarter was up 66%, in line with the company's forecast last month.

Continental now expects 2009 mainline capacity down 1% to 3%, compared with projections in April of flat capacity. Since then, the company announced capacity cuts for later this year.

With fuel costs surging, airlines have been cutting capacity so that flights are full, increasing fees and retiring old jets.

Last month, Continental said it would slash about 3,000 jobs, retire 67 jets and reduce domestic flights starting in September. Continental is also raising ticket prices and some fees, including a $25 charge for checking a second piece of luggage.

On Thursday afternoon, shares of Continental were up 47 cents, or 5.1%, at $9.66 on the New York Stock Exchange, despite a rise in oil prices. The shares are up around 45% from their 52-week closing low, which they reached Monday.

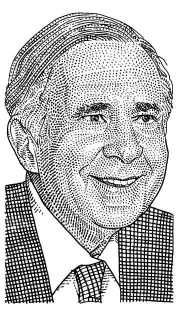
Continental's report came a day after American Airlines parent **AMR** Corp. and **Delta Air Lines** Inc. both reported losses topping $1 billion after writing down the value of their jet fleets.

Microsoft revs up AOL talks, raising the ante on Yahoo

By Merissa Marr
And Robert A. Guth

Microsoft Corp., under pressure to find an alternative to buying part or all of **Yahoo** Inc., is pushing forward discussions over a deal with **Time Warner** Inc.'s AOL.

Executives from Microsoft and AOL were scheduled to meet in Seattle Wednesday in the latest round of exploratory talks over how to combine AOL and Microsoft's online group, according to people familiar with the situation. The two companies have held casual talks for several months as an alternative to Microsoft's efforts to buy Yahoo. Microsoft's discussions with AOL remain preliminary, with the shape of a deal yet to be sketched out, the people said.


Carl Icahn

The talks highlight Microsoft's limited options without Yahoo, which last week rejected a new proposal from Microsoft to buy Yahoo's Internet-search business. To remain competitive in online advertising, Microsoft needs to quickly expand its footprint on the Internet, but there are a limited number of large Internet companies or operations to buy. Microsoft executives will likely face tough questions about its online strategy from investors and analysts at an annual financial meeting July 24.

A Microsoft spokesman declined to comment. An AOL spokeswoman couldn't be reached for comment.

The discussions precede Yahoo's Aug. 1 shareholders meeting, which will include a vote on a new Yahoo board put forward by activist investor Carl Icahn. Microsoft upped the ante with its new proposal to buy the Internet-search business—a deal backed by Mr. Icahn.

Yahoo, seeking to impress shareholders with its strategy, continues to pursue its own discussions with AOL, according to people familiar with the situation. The two companies have been exploring a deal that would see Time Warner fold AOL into Yahoo and take a minority stake in the combined venture. Those talks have been gaining pace in recent weeks, according to people familiar with the situation.

CORPORATE NEWS

Bumps ahead for car sales

U.S. auto makers set to see tougher 2009, two forecasts say

By Josee Valcourt

Associated Press

Vehicle sales in the U.S. are expected to fall this year and again in 2009, according to new forecasts from S&P and Global Insight.

The U.S.'s auto makers, mired in a downturn, appear headed for a tougher year in 2009, two new forecasts say.

Global Insight recently lowered its forecast for U.S. vehicle sales this year to 14.4 million cars and light trucks, down from a previous 14.7 million vehicles. At the same time it cut its outlook for 2009, to 14.2 million vehicles from 14.7 million.

The move is significant because it suggests the industry recession hasn't hit bottom. Until now, many forecasters and auto makers had been expecting 2009 to bring some improvement in sales, or little worsening of conditions.

Similarly, Standard & Poor's Corp. said it lowered its sales forecasts. It now expects 2008 sales of 14.4 million vehicles, and a drop in 2009 to 14.1 million. It had previously expected sales in 2008 and 2009 of 14.6 million and 14.5 million, respectively.

"We don't see any recovery in the housing market," said Rebecca Lindland, an analyst with Global Insight. "We don't see any recovery in the oil market. We don't see any recovery in consumer confidence."

The outlooks surfaced as **General Motors** Corp. switched to a gloomier view of the next 18 months. As part of an announcement on Tuesday, the auto maker is basing its production and sales plans on U.S. sales for all car makers of 14 million vehicles in both 2008 and 2009. The company said these assumptions are conservative. It started the year projecting sales of almost 16 million vehicles this year.

U.S. auto makers haven't been successful in swaying consumers to pay above the transaction price for their more fuel-efficient but less profitable cars. GM, **Ford Motor** Co., and **Chrysler** LLC are restructuring their businesses. Also leading to the lower projections are Detroit auto makers' gradual pulling-away from heavy daily rentals and steep incentives, practices that have propped up sales. Long term, the move could help restore financial health.

In the short term, against the backdrop of a sour economy, it could be painful, said Gregg Lemos Stein, an S&P analyst. Economic issues are creating asset deflation, which is also dinging the auto sector. Declining used-car resale values of pickups and SUVs that are affecting new-car sales could further hamper 2009 new vehicle sales, Mr. Lemos Stein said. So far this year, resale value for used pickups and SUVs plummeted 25%, deterring potential car shoppers from trading in their vehicles for newer models.

"What's embedded in that number is a shift away from more-profitable products for the Michigan-based auto makers, which is in some way even more financially painful than lowered sales," said Mr. Lemos Stein. "This is, of course, what's driving the cost-cutting efforts that have been accelerating at GM and Ford."

ABB taps GE veteran, a deal maker, as CEO

By Martin Gelnar

ZURICH—**ABB** Ltd. named Joseph Hogan, a top manager at **General Electric** Co., as its next chief executive, bringing in a proven deal maker whose arrival may signal a more aggressive approach to acquisitions.

The appointment of Mr. Hogan, a 51-year-old American, concludes a five-month search for a successor to Fred Kindle, who left the Zurich power-transmission and automation company in February after he fell out with Chairman Hubertus von Gruenberg, apparently because he failed to line up sizable deals. ABB then began looking for a CEO with acquisition experience.

Joseph Hogan

Mr. Hogan, who will join ABB Sept. 1, is head of GE's health-care division and a member of GE's senior executive council and has established a track record for pulling off big deals.

ABB could be in a position to put those skills to use. It has a cash pile of $5.5 billion and could raise double that by taking on debt.

"I don't rule out small or big acquisitions," Mr. Hogan said on a conference call. He said the ABB job was a "once-in-a-lifetime" opportunity.

Mr. Hogan will take charge of a company in a healthy position. In the past few years, ABB has thrived on strong demand for power-station and automation equipment, particularly in Asia. On the brink of collapse in the early part of the decade because of U.S. asbestos claims, ABB posted a net profit of $1 billion for the first quarter of 2008, up 87% from a year earlier.

During Mr. Hogan's eight-year tenure, GE Healthcare, which specializes in diagnosis, intervention and prevention, has become one of the U.S. conglomerate's biggest divisions. It had sales of $17 billion in 2007, partly thanks to some big deal making.

The division's largest acquisitions in the past few years included U.K. bioscience company Amersham PLC for more than $9 billion in 2004. Last year, General Electric planned to buy Abbott Laboratories' diagnostic businesses for $8.1 billion, but the deal fell apart.

"During Joe's tenure, the business has expanded its product portfolio and global reach, and the business has more than doubled its revenues," said GE Chairman Jeff Immelt.

Mr. von Gruenberg sought to dispel concerns that Mr. Hogan's arrival signals any abrupt strategic shift. "There is no need for a change in strategy, and we can reconfirm our guidance," he said, adding that external as well as internal growth will remain high on ABB's agenda.

He said interim CEO Michel Demare had been a contender for the top job. On Mr. Hogan's arrival, Mr. Demare will resume his duties as chief financial officer.

Mr. Hogan replaced Mr. Immelt as head of GE's health-care unit in 2000, when Mr. Immelt was promoted to his current posts. He previously ran a GE-backed joint venture that makes industrial controls.

—Scott Thurm contributed to this article.

Unmanned aircraft face hurdles

By Andy Pasztor

FARNBOROUGH, England—Unmanned aircraft are rapidly becoming mainstays of military and border-security operations worldwide. But significant commercial uses for the planes aren't expected to emerge for at least another decade because of regulatory and technical challenges, industry and government officials said at the international air show here.

Between now and 2017, worldwide demand for unmanned aircraft, their payloads and related ground control systems is projected to top $17 billion, according to Forecast International, a Newton, Conn., consulting firm. But only about $100 million of that demand is expected to involve commercial applications.

There has been sharp growth in the number of so-called Unmanned Aerial Vehicles used by the U.S. government in recent years for tasks ranging from battlefield surveillance in the Middle East to tracking wildfires in Western states. On an average day, some 30 unmanned Pentagon aircraft are in the skies over Iraq and Afghanistan. More than half of the 93 planes the U.S. Air Force envisions buying by late 2009 are UAVs, designed to be flown remotely by pilots on the ground.

European governments also are showing greater interest. Aerospace companies are talking to the British government about possibly using unmanned aircraft to supplement conventional helicopters in providing security and monitoring car traffic at the 2012 summer Olympics in London. By then, according to Mark Kane, who heads the UAV business at **BAE Systems** PLC, the market for governmental uses of such aircraft could climb to as much as $10 billion annually, not counting the U.S.

It has been widely assumed that there was considerable pent-up demand and momentum for commercial applications. But officials here indicate that may be wishful thinking.

Regulatory hurdles, combined with technical and business challenges, are likely to block widespread commercial UAV operations on both sides of the Atlantic for a long time. "I don't foresee any certification in commercial airspace until 2020" or later, said Francois Quentin, senior vice president of the aerospace division of **Thales Group** SA.

Earlier this summer, Federal Aviation Administration officials told a U.S.-European industry conference that preliminary proposals spelling out how UAVs can be widely integrated into the U.S. airspace were at least seven years away, with final regulatory approval unlikely before the end of the next decade.

Kevin Brown, who runs **Boeing** Co.'s air-traffic control unit, said that figuring out how unmanned aircraft can sense and avoid other aircraft—taking evasive maneuvers if necessary—"is one of the hardest corners" of airborne-traffic management. In light of such complications, he said, "commercial applications are much further down the road."

Nor are potential operators and customers beating down the regulators' doors to speed up their deliberations. What specific interest has surfaced primarily focuses on smaller and simpler UAVs. "Most of the applications we see are below" 300 pounds, according to Yves Morier, a senior European safety official.

General Atomics Aeronautical Systems, which has its Predator aircraft deployed by the U.S. military in the Middle East, has looked at selling other UAVs to mining companies looking to use high-tech sensors for prospecting, or to monitor oil pipelines. But customers are scarce because "they're not ready for it," according to Thomas Cassidy Jr., president of a unit.

Other advocates of unmanned aircraft also see a long uphill climb to commercial acceptability. "There are safety elements that need to be proven and policy decisions that must come before" UAVs become commonplace, according to Judy Marks, the head of **Lockheed Martin** Corp.'s air-traffic control unit.

Safety requirements are lower for military and governmental versions, because they typically operate in segregated airspace and don't have to worry about potential collisions with airliners or general-aviation aircraft. For military applications, Boeing, **United Technologies** Corp. and BAE Systems are looking at developing completely autonomous UAVs, intended to fly or hover without any pilot input.

—Daniel Michaels and August Cole contributed to this article.

Natixis posts write-downs, plans to propose rights issue

By Nicolas Parasie

PARIS—In 2006, two of France's largest banks expressed high hopes for joint project **Natixis** SA, aiming for it to compete with Europe's top investment banks.

Nearly two years later, Natixis is being forced to scale down those ambitions, struck by the U.S. housing crisis and its impact on the financial markets and the wider economy.

The Paris-based bank Wednesday disclosed an additional €1.5 billion ($2.4 billion) in write-downs, bringing the total to €2.7 billion since the credit crisis began in 2007. The bank also said it would propose a €3.7 billion rights issue at an exceptional shareholders meeting in August, becoming the latest French bank to turn to shareholders to beef up its balance sheet.

Founding banks Groupe **Banque Populaire** and Groupe **Caisse d'Epargne**, which hold 69.8% in Natixis, listed the bank's shares in 2006 at €19.55. Natixis now trades at about €5 a share and has a market value of about €6 billion, down from €26 billion shortly after its public listing in 2006.

The two banks behind Natixis have committed to subscribe to the rights issue, the details of which will be announced later, and also purchase shares not bought by other investors. Through the move, the banks are "avoiding any uncertainty faced by other banks currently raising capital," Citigroup analysts said.

Along with the funding, Natixis said it plans to refocus its corporate and investment-banking activities on client-driven revenue by reducing proprietary trading.

"We estimate staff cuts will account for around 17.5% of the total planned cost reduction," said Jean-Pierre Lambert of Keefe, Bruyette & Woods. "The main cost efforts will come from a reduction in external services," such as consulting and information technology, he said.

—William Horobin contributed to this article.

Marketplace

A new ad model

Vogue, IMG produce a Web-based series about the fashion industry > **Page 27**

CORPORATE NEWS

Boeing casts gaze on foreign buyers to boost its sales

BY AUGUST COLE

At a time when **Boeing** Co.'s supporters are being accused of playing the nationalism card to help the company win a $40 billion Air Force tanker contract, the world's largest aerospace company by revenue is banking on ramping up overseas weapons sales.

At the Farnborough International Airshow in England, Boeing's top defense executive, Jim Albaugh, said overseas demand looks strong. Mr. Albaugh, who is president and chief executive officer of Boeing's Integrated Defense Systems unit in St. Louis, said there is interest in new fighters from countries including India, Japan, Singapore, Denmark and Austria.

"We've got a lot of people over here talking tactical aircraft this week," Mr. Albaugh said in an interview.

Concerns about slowing growth in U.S. Defense Department weapons spending have U.S. companies eager to sell hardware and services around the world. Airlines and governments in Asia and the Middle East don't have big aerospace and defense industries capable of producing jetliners and military hardware, unlike buyers in Europe that have their own domestic companies they can turn to first.

That makes old foreign customers—and new ones such as Denmark, which is considering buying F-18 fighters for the first time—more valuable.

Industry executives at the air show expressed different levels of concern over how the Chicago company's fight with **Northrop Grumman** Corp. would be interpreted by foreign buyers that are important to both U.S. military and commercial aerospace companies.

The Defense Department is rebidding an Air Force contract to provide 179 aerial-refueling tankers after Boeing successfully protested its loss to a team of Northrop and **European Aeronautic Defence & Space** Co. on the basis the award was unfair. Defense Secretary Robert Gates is directing top Pentagon officials to take over the process in order to pick a new winner by year's end.

Even though the Pentagon and aerospace executives have gone to great lengths to explain that the decision to rebid the Air Force contract was done for procedural—not political—reasons, the issue is a delicate one.

Boeing's supporters on Capitol Hill haven't held back in making Northrop's use of an Airbus-based tanker a front-burner issue. EADS is the parent of European plane maker Airbus.

Chris Chadwick, president of Boeing Military Aircraft, said in an interview that he hadn't detected any blowback from the tanker competition among foreign customers. "There's been no negativity to date on the fighter side," Mr. Chadwick said.

The Boeing F-18 Super Hornet, a new version of a fighter that is in use by the U.S. Navy and foreign militaries, is piquing interest in European countries such as Denmark, said Mr. Albaugh. Australia also has recently ordered more of the jets.

Denmark and Australia also are on a team to develop a **Lockheed Martin** Corp. fighter called the F-35 Lightning II, so any inroads Boeing makes are being watched because the company is marketing the F-18 as an interim option.

SAP, Oracle boost prices

Moves seen as means of fattening earnings as competition fades

BY BEN WORTHEN

Two of the biggest makers of business software have raised prices, a sign that consolidation in the industry may be easing the competition over prices that has been a hallmark of the past decade.

SAP AG said it has raised prices for the support and customer-service fees, known as maintenance, that are part of large software purchases. The move comes one month after rival **Oracle** Corp. raised list prices for its software.

Unlike price increases for food, fuel and many other commodities, the changes in software don't stem from a shortage of supply or a rise in demand. They are attempts by software makers to increase their bottom lines, said Brendan Barnicle, an analyst at Pacific Crest Securities Inc.

Makers of business software—used to track a range of corporate information, including financial, inventory and sales data—spent much of the past decade competing on price, he said. Now an acquisition wave has reduced the number of suppliers and has reduced the pressure on SAP and Oracle to lower their prices.

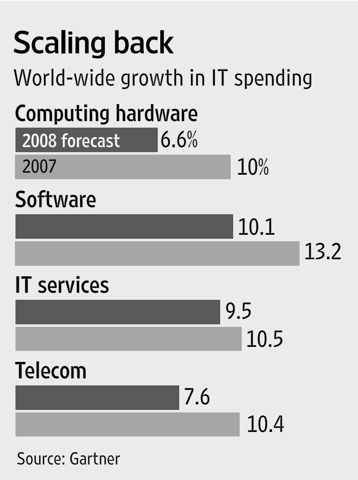
SAP, based in Walldorf, Germany, charges many customers an annual maintenance fee equal to 17% of the upfront price of the software. Starting Jan. 1, that fee will be be raised to 22% and phased in over four years, the company said. In exchange, customers get enhanced service, including around-the-clock support and help to identify and fix problems with systems from other technology companies that interact with SAP software, a company spokesman said.

In June, Oracle released an updated price list for its software that included a 15%-to-20% across-the-board increase for customers in the U.S. Prices for customers in Europe stayed the same and fell in some other parts of the world. An Oracle spokeswoman declined to comment.

The moves come as many businesses look to rein in their tech budgets. A recent Goldman Sachs Group Inc. survey of information-technology executives found that tech budgets are almost stagnant. Yet companies that depend on some key products don't have a lot of choice.

"Price increases are a fact of life," said Rod Masney, a technology executive at Owens-Illinois Inc. and the past chairman of a group representing SAP users in the Americas.

Owens-Illinois is in the middle of installing SAP's software, and Mr. Masney said he is compensating for the cost of the project by cutting spending in other areas. He said he hopes he can offset the increases by taking advantage of some of the new support services SAP offers.



CORPORATE NEWS

Coca-Cola posts 23% fall in profit as volume slows

Weak U.S. economy, commodity costs eat away at operations

By Betsy McKay

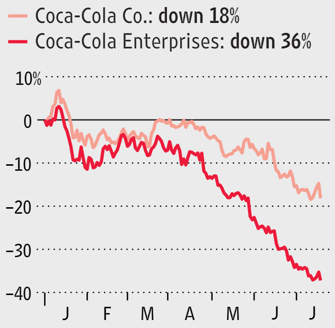
Soft drinks were long considered recession-proof. Not anymore.

Coca-Cola Co. posted a 23% second-quarter profit decline, despite the benefits the global beverage company is deriving from a weak dollar. The drop underscored the extent to which rising commodity costs and the deteriorating U.S. economy are digging into sales and profits of products that beverage-industry executives have long called affordable treats. Coke's results included a charge of 40 cents a share, mostly from a $5.3 billion noncash charge taken by its biggest bottler to reduce the value of its North American franchise rights in light of economic conditions. Coke derives income from its 35% stake in the bottler, **Coca-Cola Enterprises** Inc.

At the same time, Coke's global volume growth, at 3%, marked the smallest volume increase the company has posted since the first quarter of 2005. Investors and analysts are concerned about the extent to which a global economic slowdown may affect multinational companies such as Coke that are relying more on growth in emerging markets as sales slow in the U.S.

YEAR-TO-DATE SHARE PERFORMANCE*

Coca-Cola companies



*As of midafternoon Thursday

Source: WSJ Market Data Group

In late-day composite trading on the New York Stock Exchange, Coke's shares tumbled 4%, to $50.24.

In a conference call, Muhtar Kent, who became the company's chief executive at the beginning of the month, acknowledged he has his work cut out. He conceded that some of the sluggish volume growth was due to the slowing global economy. But he declined to quantify how much was damped by economic conditions and how much by several "one-time events" he cited, including the earthquake and floods in China, unseasonably cold weather in Russia and labor strikes in parts of Europe.

Excluding the CCE charge, Coke handily beat an analysts' consensus of earnings per share as polled by Thomson Reuters.

Teva Pharmaceutical, Barr in talks about possible tie-up

By Shirley S. Wang And Matthew Karnitschnig

Israeli generic-drug maker **Teva Pharmaceutical Industries** Ltd. is in talks to acquire U.S. generic maker **Barr Pharmaceuticals** Inc., according to people familiar with the matter.

A deal could be in the range of roughly $7 billion, or about 2.5 times sales, if it falls in line with other major generic acquisitions, according to Corey Davis, specialty-pharmaceutical analyst at investment bank Natixis Bleichroeder.

Reports of the talks appeared Wednesday on the Web sites of two Israeli newspapers, Globes and The-Marker.

Teva and Barr are both top-five generics players in the U.S. market. By acquiring Barr, Teva would gain greater access to the Central and Eastern European markets, which are fast-growing compared with the U.S. Teva would also add a number of products to its pipeline, particularly in women's health. Teva has stated it has high growth targets for the near future, and this acquisition will help it reach those goals, says Dr. Davis.

Woodcliff, N.J.-based Barr, which had a rough first quarter but is starting to rebound, would benefit from Teva's deep distribution channels. "Barr realizes that Teva is the juggernaut of the industry," Dr. Davis said. "If you can't beat them, why not join them?"

It makes sense strategically for Teva and Barr to join forces, according to Allen Chao, founder and former chief executive of generic-drug maker Watson Pharmaceuticals. The "synergy" between the companies could allow them to leverage operating costs to continue competing with other generics companies, such as those based in India.

Teva has made several acquisitions this year, including a $400 million deal in January for CoGenesys Inc., to strengthen its biotechnology capabilities. And it should close soon on a $360 million deal for **Bentley Pharmaceuticals** Inc.' generics business; a shareholder vote is set to take place next week.

The generics industry is dwarfed by the brand-name pharmaceutical business but grew to a $58.5 billion market in 2007, compared with $228 billion on the branded side. The industry is growing at 7% a year, a faster pace than the branded industry, according to IMS Health, a market-research firm that tracks drug sales.

The possible acquisition reflects the larger move toward consolidation in the generics market, which is still relatively fragmented. Further consolidation is likely, though future acquisitions are unlikely to be of the magnitude of this potential Barr acquisition, Dr. Davis said.

GLOBAL BUSINESS BRIEFS

Swedbank AB

Net profit rises in quarter; gains offset Baltic weakness

Swedbank AB posted a 16% rise in second-quarter net profit, as solid lending in all markets and a gain in financial items at fair value helped offset rising loan losses in its Baltic business and lower commission and trading income. Net profit at the Stockholm-based bank rose to 3.6 billion kronor ($598.3 million) from 3.11 billion kronor a year earlier. The bank said higher volumes drove net-interest income, its main source of revenue, 15% higher to 5.3 billion kronor from 4.59 billion kronor, despite higher funding costs. Weaker-than-expected economic development in the Baltic countries, where Swedbank earns about 30% of its profit, pushed loan losses to 423 million kronor from 102 million kronor, it said.

Electrolux AB

Swedish appliance maker **Electrolux** AB posted a sharp decline in second-quarter net profit, hit by restructuring costs and lower sales and margins, and it cut its full-year outlook in the wake of an economic downturn. The company, which sells refrigerators, dishwashers and vacuum cleaners, said net profit fell 82% to 99 million kronor ($16.4 million) from 545 million kronor a year earlier. Sales fell 1% to 25.59 billion kronor, in spite of sales increases in Latin America and Asia of 18% and 2%, respectively. The company said it launched a restructuring program targeting three billion kronor in annual cost savings by 2010. It booked a second-quarter charge of 539 million kronor related to the restructuring. Electrolux shares fell 4.3% to 67 kronor in a sharply higher overall market in Stockholm.

Reliance Industries Ltd.

Reliance Industries Ltd. said it started arbitration proceedings against **Reliance Communications** Ltd. in a quarrel over the latter's possible merger with South African telecom firm **MTN Group** Ltd. Reliance Industries has nominated a former judge of the Supreme Court of India as an arbitrator, it said. It added that Reliance Communications "has refused to participate in the conciliation meetings." Reliance Industries said that it has the right of first refusal on any sale of Reliance Communications' shares and that it would take court action to enforce its rights and possibly add MTN as a defendant. R-Com reiterated that Reliance Industries' notice for "arbitration proceedings are legally and factually unwarranted."

Accor SA

French hotel company **Accor** SA Thursday reported a 7.2% drop in second-quarter sales, hit by the sale of its Red Roof Inn chain in the U.S. and the weakness of the dollar. Revenue fell to €1.97 billion ($3.12 billion) from €2.13 billion a year earlier. The hotel business had revenue of €1.52 billion, with the fastest growth coming from upscale and midrange hotels. The company's voucher business, which sells lunch and gift vouchers, posted a 10% rise in sales to €232 million from €210 million. Accor shares have dropped about 23% since the beginning of the year, in line with the CAC-40 index, which is down 25% for the period. The hotel industry is seen as vulnerable to downturns, because companies tend to cut down on employee travel during tough times.

Fresenius Medical Care AG

Dialysis-products maker **Fresenius Medical Care** AG said net profit rose 17% in the second quarter, triggered by the announcement of a bond issue by parent company **Fresenius** SE. The Germany-based company said quarterly net profit rose to $209 million, while revenue was up 11% at $2.67 billion. Over the first half of the year, revenue increased 10% to $5.18 billion, and net profit rose 17% to $395 million. A Fresenius Medical Care spokesman said the company won't release further details until the official release of second-quarter and first-half results on July 30. The preliminary figures were released as Fresenius SE announced it would issue exchangeable bonds with a nominal value of €600 million ($949 million), convertible into Fresenius Medical Care ordinary shares. The bond issue is to help finance Fresenius SE's acquisition of U.S. company APP Pharmaceuticals Inc.

Fortum Oyj

Finnish utility **Fortum** Oyj said its second-quarter net profit rose 5.2%, reflecting improved results in its power-generation segment because of higher electricity prices in Scandinavia's energy exchange Nord Pool ASA as well as solid hedging activity. The company said net profit rose to €243 million ($384.4 million) from €231 million a year earlier, while revenue was up 38% to €1.32 billion. Fortum's achieved Nordic power price in the second quarter was €47.90 a megawatt hour, up 33% from a year earlier. The rise was supported by higher fuel and carbon-dioxide prices, as well as an increase in Finnish and Swedish area prices because of transmission failures. That compares with an average spot electricity price of €34.60 a megawatt hour on the Nord Pool power exchange. Fortum said it continues to look forward to the liberalization of the Russian power sector.

United Technologies Corp.

United Technologies Corp. posted an 11% rise in second-quarter net income despite higher commodity prices, buoyed by strong overseas construction markets, solid performance by its aviation-related units, and benefits from the weak dollar. The manufacturer, which makes products ranging from helicopters to air conditioners and elevators, also boosted its full-year outlook. United Tech said it now expects full-year earnings in a range of $4.80 to $4.95 a share, compared with its previous forecast of $4.65 to $4.85 a share. Wall Street has been expecting full-year earnings of $4.89 a share. The U.S. conglomerate recorded second-quarter net income of $1.28 billion, or $1.32 a share, up from $1.15 billion, or $1.16 a share, a year earlier. Revenue climbed 13% to $15.67 billion as sales rose at all of United Tech's divisions.

Carrefour SA

French fund Blue Capital said it now holds, together with affiliates, 12.9% of French retailer **Carrefour** SA's capital and 12% of its voting rights. Blue Capital is made up of French investment fund Colony Capital and Groupe Arnault, the personal holding of Bernard Arnault, chief executive of LVMH Moët Hennessy Louis Vuitton SA. Previously, Blue Capital had "a bit less" than 10% of Carrefour's voting rights and 10.7% of its capital, a spokesman for Blue Capital said.

Zurich Financial Services AG

Swiss insurer **Zurich Financial Services** AG said it is ramping up its presence in Brazil with a pair of linked acquisitions for about $179 million, gaining a distribution pact as part of the deal. Zurich will buy an 87% stake in **Cia. de Seguros Minas Brasil** from **Banco Mercantil do Brasil** SA and two private investors. It also will buy **Minas Brasil Seguradora Vida e Previdencia** SA from **Banco Mercantil**. Zurich's Brazilian unit will enter into a long-term exclusive agreement with Banco Mercantil for the distribution of life and general insurance products of Zurich Brazil and the acquired companies.

Groupe Eurotunnel SA

Groupe Eurotunnel SA posted a net profit for the first half, thanks to higher traffic for its car and truck shuttles and Eurostar passenger trains. The operator of the Channel tunnel linking England and France reported a net profit of €26 million ($41.1 million), compared with a net loss of €32 million a year earlier. Revenue rose 3.5% to €386 million from €373 million. Eurotunnel said the latest results include a gain of €24 million from the French government as settlement for disruptions caused by illegal migrants seeking to reach the U.K. from Sangatte in Northern France between 2000 and 2002.

News Corp.

News Corp. hired **Lehman Brothers Holdings** Inc. to explore strategic options for three of its Eastern European television stations, according to a person familiar with the situation. Lehman will help evaluate a possible sale of News Corp. broadcast properties in Latvia, Serbia and Bulgaria after the units received interest from suitors, this person said. News Corp. acquired Latvian Russian-language broadcaster TV Riga in May. The Bulgarian broadcaster is bTV. In Serbia, News Corp. controls Fox Televizija.

L'Oréal SA

French cosmetics giant **L'Oréal** SA posted a 1% rise in second-quarter sales as adverse exchange rates and slowing consumption in the U.S. and Western Europe ate into growth from emerging markets. The company narrowed its target range for full-year growth. In a statement, L'Oréal's Chief Executive Jean-Paul Agon said the company is now targeting like-for-like sales growth of 6% this year. It had previously set a target rate of between 6% and 8%. Revenue in the second quarter was €4.29 billion ($6.79 billion) compared with €4.25 billion a year ago. Foreign-exchange rates had a negative impact of 5.5% on the first half.

Pernod Ricard SA

The European Commission Thursday cleared French wine-and-spirits company **Pernod Ricard** SA to buy Swedish alcohol producer **V&S Vin & Sprit** AB, provided it sells some brands. The commission said it found problems concerning aniseed flavored spirits in Finland, vodka in Greece, gin in Poland and Sweden and cognac, port and Canadian whisky, also in Sweden. The deal, valued at about $9.24 billion, excludes V&S's 10% stake in Beam Global Spirits & Wine Inc., and its Absolut vodka brand's U.S. distributor, which will be sold to **Fortune Brands** Inc. in the coming months.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

TURKEY

Central bank increases key interest rate to 16.75%


Inmagine

TURKEY'S CENTRAL bank raised its key interest rate by half a percentage point to 16.75%. Further increases are expected as inflation gathers pace from its current 10.6% annual rate.

Economists are worried about Turkey's external financing position. In May, its current account deficit widened to $4.6 billion from $3.15 billion a year earlier, according to the central bank. Separately, the Organization for Economic Cooperation and Development urged Turkey to devise a multiyear fiscal plan to bolster credibility, after ending a long-term loan agreement with the International Monetary Fund in May. *—Clare Connaghan*

SPAIN

EU court shoots down law vetting share purchases


WSJ Illustration

THE EUROPEAN Court of Justice ruled that a Spanish law requiring regulatory approval for the purchase of shares in energy companies goes against European Union law.

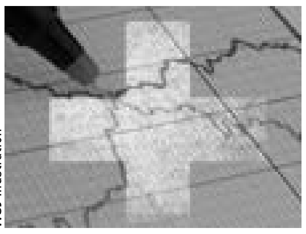
Two years ago, Spain required that any purchase of shares in domestic energy companies required prior approval by the country's energy regulator.

Spain applied the law to a takeover bid for Spanish utility Endesa SA by German utility **E.ON** AG, allowing Spanish engineering group **Acciona** SA and Italian utility **Enel** SpA to purchase Endesa instead for some €40 billion ($63.3 billion).

—Alessandro Torello

SWITZERLAND

Investor confidence falls as inflation concerns rise


WSJ Illustration

A SWISS INDEX of investor confidence fell sharply and showed rising concerns about inflation, indicating the country's economic outlook is worsening alongside that of many of its European neighbors. The ZEW index for July slipped to 41 from 53.2 in June. The data—in line with a slump also unveiled Thursday for Germany's ZEW to minus-63.9 for July from minus-52.4 previously—reflects a recent cautious assessment of Switzerland's economic potential by market watchers. Marcel Thieliant, an economist for Credit Suisse, which helps to calculate the index, said it was the lowest level, although the gauge has only been used for two years. *—Martin Gelnar*

Turkey advances its energy sector

Plans to modernize electricity industry finally show progress

By Ayse Ferliel

AFTER YEARS of delays and setbacks, the Turkish government appears finally to be moving ahead with a multibillion dollar plan to privatize and modernize its creaking power industry.

Turkey's economy is expanding rapidly, but the availability of electricity is a key challenge to its future growth. Turkey experienced large-scale blackouts two years ago, and the National Energy Forum of Turkey, a think-tank, estimates that the country urgently needs $125 billion of new investment in its energy sector over the next 12 years.

But company executives from global energy companies have watched in frustration as Turkey's government has flip-flopped in recent years over how to open up a market that some have compared with China and India in terms of its huge potential. Recent political tensions between Turkey's secular establishment and the Islamic-oriented ruling Justice and Development Party also haven't helped shore up investor confidence.

"Investors want to make sure the energy sector is indeed fully liberalized. Also, they want to be sure that tenders won't be canceled," says Onder Karaduman, chairman of the Electricity Producers' Association, who notes that the law regulating the electricity market has been changed nine times over the past seven years. "Up to now, this has not been the case."

Recently, however, some small steps have given indications that the country's policy makers are finally ready to push through some major changes.

Miika Tommila, desk officer for Turkey at the Paris-based International Energy Agency, says "Turkey is moving in the right direction, although much remains to be done."

Earlier this month, Austrian utility **Verbund** AG and its Turkish partner **Haci Omer Sabanci Holding** AS won a public bidding process to own and operate Turkish regional electricity distribution company **Baskent EDAS**—which also covers the country's capital Ankara—for $1.23 billion.

At the same time, Turkey's privatization administration said the Akcez Joint Venture Group, formed by Turkish energy firm **Ak Enerji** and Czech firm **CEZ** AS, submitted the highest bid of $600 million in a tender for the power grid covering the Sakarya region of northwest Turkey. It hasn't been awarded the power grid yet, but such a step usually happens when the highest bidder is announced.

Turkey is also selling off regional power-distribution companies as well as several electricity generating plants, and calling for bids for the construction and operation of new power plants—including a Sept. 24 deadline for bids to build Turkey's first nuclear power plant on its Mediterranean coast. It also plans to open bidding for companies that want to build a second nuclear power plant on the country's Black Sea coast.

The operating environment for companies is also improving. From the beginning of this month, Turkish power producers—and prospective investors—will benefit from a new, automated price-adjustment mechanism that the power industry had long been lobbying for, which allows utilities to adjust their tariffs to reflect their production costs.

The government also has announced incentives to encourage power companies to build capacity quickly, including a 50% discount on transmission charges for companies that can bring new capacity online by the end of 2012. The discount will last for five years from the date the power plant begins operation.

Some foreign companies are watching the process eagerly and are hoping to get involved. One is Italy's **Edison SpA**—which is now in talks to set up a Turkish joint venture with a local partner.

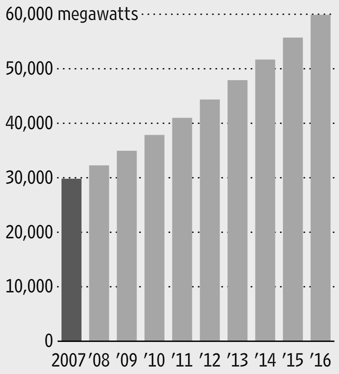
"Energy will be one of the factors affecting growth in the Turkish economy in the years to come," Edison Chief Executive Officer Umberto Quadrino said in an interview earlier this month.

He added that Edison is looking at developing power plants in the country, possibly associated with new coal reserves that have been discovered in southern Turkey.

"The market is opening up and the country is implementing European Union rules, so all this makes it attractive," he said.

Peak power

Turkey's demand for electricity is projected to remain strong.



Source: Turkish Electricity Transmission Co.

Anwar is released on bail in Malaysian sodomy case

By James Hookway

KUALA LUMPUR, Malaysia—Malaysian police investigating sodomy allegations against opposition leader Anwar Ibrahim released the politician on bail, less than a day after he was arrested. But police warned they might detain Mr. Anwar again and force him to give a DNA sample as part of their investigation—a threat that could escalate political tensions here.

Mr. Anwar was released from custody Thursday morning after his dramatic arrest the day before, when members of a special police unit wearing masks detained him near his home in Kuala Lumpur. At a news conference following his release, Mr. Anwar maintained he was the victim of a "personal vendetta" orchestrated by senior police officials and insisted there was no case to support sodomy allegations against him.

"I don't deserve this…why treat me like a major criminal?" Mr. Anwar said.

Mr. Anwar was arrested Wednesday for questioning over allegations made last month by a young former aide, Saiful Bukhari Azlan, who said he was forcibly sodomized by the 60-year-old politician. Sodomy is a crime in Malaysia—even between consenting adults—and is punishable by as many as 20 years imprisonment. Mr. Anwar hasn't been formally charged with any offense in connection with the allegations, but his lawyers acknowledge that police are continuing to investigate him as a "suspect" in the case.

Senior police officials say they are following proper legal procedures in investigating the allegations against Mr. Anwar. Deputy Inspector General of Police Ismail Omar told reporters Thursday that Mr. Anwar's arrest was based on a "credible report" of a crime having been committed, according to the Associated Press. "We believe the arrest is reasonable. It would not be just for fun," he said.


AFP

Malaysia opposition leader Anwar Ibrahim said he is a victim of a **'personal vendetta.'** Police said they may force him to give a DNA sample.

"We will work to find evidence to strengthen this case."

Government officials have also rejected Mr. Anwar's claims that the affair is a politically motivated attempt to discredit him as a potential leader.

This is the second time Mr. Anwar has been accused of breaking Malaysia's sodomy law. In 1998, while serving as deputy prime minister, Mr. Anwar was convicted and jailed for allegedly sodomizing two aides. The conviction was overturned in 2004.

Just before his arrest Wednesday, Mr. Anwar had made a complaint to Malaysia's Anti-Corruption Agency alleging that the current inspector-general of police, Musa Hassan, and the attorney-general, Abdul Gani Patail, had fabricated evidence against him in his 1998 sodomy conviction. At his news conference Thursday, Mr. Anwar said he believes the new investigation would also be biased, saying the "key players" in Malaysian law enforcement today—including Mr. Musa and Mr. Abdul Gani—were involved in his previous sodomy prosecution.

Mr. Musa has declined to comment on the complaint Mr. Anwar filed and said that any investigation into it should continue. Mr. Abdul Gani hasn't commented.

—Celine Fernandez contributed to this article.