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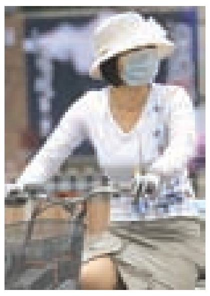

China weighs new curbs as pollution threatens Games

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■ **Banco Santander profit fell** 5% on lower capital gains, and the bank may sell asset-management and insurance units. Page 4

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■ **German inflation pressures** persist. The consumer-price index remained high in July, and negotiated wages in April rose at a fast pace. Page 8

■ **The U.K. economy's outlook** darkened as retail-sales growth and mortgage activity slowed. A separate report said it will take a couple of years for the mortgage market to normalize. Pages 10, 19

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11397.56	+266.48	+2.39
Nasdaq	2319.62	+55.40	+2.45
DJ Stoxx 600	279.64	+0.91	+0.33
FTSE 100	5319.2	+6.6	+0.12
DAX	6398.80	+47.65	+0.75
CAC 40	4320.49	-3.96	-0.09
Euro	$1.5600	-0.0137	-0.87
Nymex crude	$122.19	-2.54	-2.04

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World-Wide

A global trade summit aimed at closing the Doha Round of trade talks collapsed, after a standoff over food tariffs exposed a shift in the interests and influence of China, India and Brazil. The failure could also signal an end to 60 years of expansion of global free-trade deals. Page 1

■ **Karadzic supporters** protested in Belgrade in a show of strength by nationalist parties against Serbia's turn toward cooperation with the West. Page 2

■ **Turkish planes attacked** Kurdish rebels in northern Iraq, killing dozens of guerrillas, Turkey's military said. A militant spokesman said no rebels were killed.

■ **Israel's defense minister said** he told U.S. officials Israel won't rule out a military strike against Iran. The U.S.'s Rice called Iran's latest response to diplomatic overtures a disappointment.

■ **U.S. Sen. McCain's pledge** to eject Russia from the G-8 could eventually lead to a breakdown in U.S.-Russian relations, a senior Russian diplomat warned. Page 3

■ **Richard Perle**, an early Pentagon proponent of U.S. military action in Iraq, has been exploring going into the oil business in Iraq and Kazakhstan. Page 9

■ **Indian and Pakistani soldiers** traded fire in Kashmir for over 12 hours, in what the Indian army called the worst violation of a 2003 cease-fire agreement.

■ **Bush signed** legislation to punish Myanmar's ruling junta by freezing assets of political and military leaders there.

■ **Shell said** it won't be able to meet a significant chunk of its Nigerian oil-export obligations for two months after militant attacks on its facilities. Page 20

■ **Islamic militants seized** a security post in Pakistan's northwest, capturing at least 25 police and troops, Pakistani officials said.

■ **China failed** to improve its human-rights record in the run-up to the Olympics, intensifying a crackdown on activists in recent years, an Amnesty report said.

■ **Forty-five workers** were taken to a hospital after a minor radioactive leak triggered an alarm at a French nuclear site near Avignon, an engineer said.

EDITORIAL & OPINION

After Doha

Protectionism must be avoided after the trade talks' collapse. Review & Outlook. Page 11

Trade summit collapses

Food-tariffs impasse leaves Doha Round dead in the water

By John W. Miller

GENEVA—A marathon trade summit aimed at closing the so-called Doha Round of global trade negotiations collapsed Tuesday, after a standoff over food tariffs exposed a dramatic shift in the interests and influence of trading powerhouses China, India and Brazil.

The failure by negotiators from more than 30 countries and blocs at the World Trade Organization in Geneva leaves the Doha Round dead in the water for some time to come. It could also signal an end to some 60 years of relentless expansion of global free-trade deals, trade diplomats and experts said.

After nine days of often bitter negotiations, trade diplomats emerged exhausted in Geneva Tuesday to trade blame over who had collapsed a seven year round of trade negotiations whose original goal had been to benefit farmers in poor countries by giving them greater access to wealthy markets.

"In the face of the global food crisis, it's unconscionable that this came down to how much countries could raise their barriers to imports of food," U.S. trade representative Susan Schwab said in an interview, referring to positions taken by

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BA and Iberia pursue merger for $6.3 billion

By Daniel Michaels

British Airways PLC and Spain's **Iberia Líneas Aéreas de España** SA said they are in talks over a potential £3.16 billion ($6.3 billion) merger—a deal that would capitalize on recent airline deregulation despite worsening conditions in the aviation market.

The negotiations come as the two carriers plan in coming days to apply with U.S. authorities for permission to create a joint venture with **AMR** Corp.'s American Airlines, according to BA and Iberia.

Such a venture would deepen ties among three of the world's largest airlines, giving customers access to even more European and U.S. destinations. American and BA twice in the past decade applied for antitrust immunity from the U.S. Department of Transportation, and both times withdrew the request for fear that the demands imposed on them would be too high.

While the talks between BA and Iberia and the discussions over the three-way venture have been going on for months, they were accelerated recently as the airline industry was hit by unprecedented fuel bills and shrinking demand, according to

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Associated Press

Alcatel-Lucent's CEO Patricia Russo said she would leave the company by the end of the year along with Chairman Serge Tchuruk.

Alcatel leaders to depart amid losses, merger woes

By Leila Abboud

Patricia Russo and Serge Tchuruk, architects of the merger that created **Alcatel-Lucent** SA in 2006, announced their resignations on Tuesday, a move some saw as an acknowledgement of the executives' failed efforts to create a profitable global telecom equipment giant out of two trans-Atlantic rivals.

Two years after the merger, Alcatel has posted six consecutive quarters of losses and has lost half of its market capitalization—even though it has tried to streamline its business by cutting about 16,500 jobs worldwide and overhauling everything from its sales force to product portfolio.

Now, with the departures of Ms. Russo and Mr. Tchuruk, Alcatel-Lucent will be spending the next few months looking for a new management team. More than a week ago, the board took bids from recruiting firms to help with its search for executives and possibly new board members, according to a person familiar with the matter.

In an interview, Ms. Russo said she had reached her decision to leave the company over the past couple of months because she felt her mandate to stitch together the U.S. and French companies was drawing to a close.

"The most difficult period of the merger is behind us," Ms. Russo said. "Last year was really tough, but since we put in place the turnaround plan in the fall, we've made concrete, positive progress."

The management upheaval comes at a difficult time. The largest telecom-equipment vendors have been hard hit by a slowdown in global spending, as their biggest clients, telecom operators, are consolidating. The industry has also been hurt by price wars with new Asian low-cost competitors such as China's ZTE Corp. that are turning telecom equipment into a commodity.

Makers of traditional telecom equipment have seen their operating margins shrink from 7.3% in 2001, during the telecom meltdown, to 6.2%

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LEADING THE NEWS

Serbs protest extradition

Karadzic supporters decry West leanings, say tribunal is biased

Thousands of supporters of accused war criminal Radovan Karadzic protested in central Belgrade in a show of strength by nationalist parties against the country's sharp turn toward cooperation with the West.

As many as 20,000 protesters chanted slogans tarring Serbia's pro-European president, Boris Tadic, as a fascist, as speakers accused the government of treason for agreeing to send Mr. Karadzic to the war-crimes tribunal in The Hague. The protests were organized by the ultranationalist Serbian Radical Party, the second-largest in parliament.

By **Marc Champion** *in Brussels and* **Radoslavka Despotovic** *in Belgrade*

"The West can't help us, and they don't mean us well. The more people we sell [to The Hague], the harder the Western pressure on us becomes," said Ilya Vukadinojic, a 54-year-old laborer from Belgrade.

Most Serbs don't want Mr. Karadzic delivered to The Hague, not because they condone the 1995 execution of some 8,000 unarmed Muslim males in the Bosnian enclave of Srebrenica, but because they believe the tribunal is biased, Radical party leader Aleksandar Vucic said. "Our goal is to show that free-minded people in Serbia will resist" the government's "dictatorship."

Liberals and many analysts in Serbia argue that Western observers have consistently gotten the country wrong in predicting a nationalist revival. They note that in every election since 2000, Serbs have chosen democrats over ultranationalists. Opinion surveys invariably show support for joining the EU at about 70%. Tuesday's turnout was relatively small compared with previous pro-democracy and pro-Kosovo demonstrations.

Serbia's chief of police confirmed earlier this week that Mr. Tadic, as well as other government and court officials, have received dozens of threats since Mr. Karadzic's arrest, including death threats. A Radical party legislator also publicly reminded Mr. Tadic of the fate of former Prime Minister Zoran Djindjic, who was assassinated by a sniper in 2003. Mr. Djindjic had turned former Serbian leader Slobodan Milosevic over to the The Hague tribunal two years earlier.

Following Mr. Djindjic's death, Serbia's political path became less clear. President and later Prime Minister Vojislav Kostunica, a moderate nationalist, forced the country's coalition government to slow Serbia's bid for EU integration. Efforts to arrest Mr. Karadjic and Bosian Serb commander Ratko Mladic invariably failed when they slipped away just in time, apparently tipped off.

That changed with elections earlier this year, which tossed out Mr. Kostunica and produced a coalition government dominated by Mr. Tadic's pro-EU coalition. Within two weeks of taking office, Mr. Karadzic had been arrested and arraigned for extradition to the International Criminal Tribunal for the former Yugoslavia.

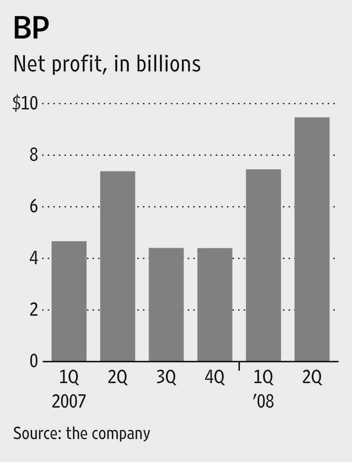
On Tuesday, EU ambassadors meeting in Brussels again held off ratifying a premembership agreement with Serbia until Mr. Karadzic is delivered and The Hague tribunal prosecutor has given a formal assessment on Serbia's cooperation.

BP vows to fight on in bid to control Russia venture

By Guy Chazan

LONDON—**BP** PLC will use "all legal means" at its disposal to fight its partners in **TNK-BP** Ltd., the U.K.-based company's chief executive said Tuesday, ratcheting up the tension in a dispute for control of the Anglo-Russian joint venture.

"We'll see who is the weakest partner," Tony Hayward told reporters as he unveiled BP's strong second-quarter results. Soaring oil prices sent net income up 28% to $9.47 billion, from $7.38 billion in the same period last year. The earnings demonstrated TNK-BP's importance to BP's bottom line. The venture earned $1.35 billion for BP in the second quarter, more than double the year-earlier amount. That accounted for 14% of BP's total net income and 24% of its global production. Second-quarter revenue rose 52% to $110.9 billion.



Mr. Hayward was speaking five days after TNK-BP Chief Executive Robert Dudley was forced to leave Russia after failing to get his work visa renewed. His departure marked a major escalation in the conflict between BP and its Russian partners, a group of billionaire businessmen led by Mikhail Fridman of **Alfa Group**.

There are widespread doubts as to Mr. Dudley's ability to run the company from outside Russia. Mr. Hayward acknowledged that running TNK-BP from outside Russia was "not sustainable for years."

Stan Polovets, CEO of **AAR**, the consortium that represents the Russian shareholders of TNK-BP, said, "It's ridiculous to think he can manage the company from Central Europe or any other location outside of Russia."

—Andrew Osborn contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Ayan Mukerji is head of European operations for Indian technology company **Wipro** Ltd. A Marketplace article on Tuesday about Indian technology companies' efforts to expand in Europe misspelled his last name as Mukeherji.

Developers Diversified Realty Corp. plans to invest 70% of development assets over the next seven years outside the U.S., up from the current 10%. A Property Report article on July 23 about the company incorrectly implied that Developers Diversified is planning to lift its international exposure to as much as 70% of all assets.

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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

Siemens wants damages

Claims are planned against ex-officials; stake in telecom sold

Siemens AG will seek financial damages from 11 former top executives, including current **Alcoa** Inc. Chief Executive Klaus Kleinfeld, accusing them of failed oversight amid an unfolding bribes-for-business scandal.

The German conglomerate also said Tuesday it will sell a 51% stake in a struggling telecommunications-equipment business to Gores Group LLC, a U.S. private-equity firm, in a continuing shake-up at Europe's largest engineering company by revenue. Siemens didn't disclose the financial terms but said related costs will cause "a substantial financial impact" in the quarter ending in September.

By **Mike Esterl** *in Frankfurt and* **David Crawford** *in Berlin*

The equipment business, which has about €3 billion ($4.7 billion) in annual revenue, formed part of a much bigger telecom unit that triggered a massive corruption investigation at Siemens in late 2006. The telecom unit has since been dismantled, with Siemens transferring parts to joint ventures or selling them outright as it focuses on energy, health care and industrial automation.

The moves also come after a Munich court on Monday delivered a criminal verdict of breach of trust against Reinhard Siekaczek, a former midlevel telecom executive at Siemens. The court handed Mr. Siekaczek a two-year suspended sentence for funneling €49 million into slush funds between 2002 and 2004 to bribe potential customers around the world.

Prosecutors in more than 10 countries, including the U.S., are investigating Siemens for alleged bribery, and German authorities alone have a list of nearly 300 suspects. Munich-based Siemens has flagged €1.3 billion in suspicious transactions between 2000 and 2006, with about a third of that amount tied to its telecom-equipment business.

Klaus Kleinfeld

Siemens said Tuesday it is asserting claims for damages against 11 individuals who belonged to its corporate executive committee between 2003 and 2006. It said the individuals would be given an opportunity to state their positions before legal action is taken.

"The company bases its claims on breaches of their organizational and supervisory duties in view of the accusations of illegal business practices and extensive bribery that occurred in the course of international business transactions," Siemens said.

In addition to targeting Mr. Kleinfeld, who resigned as chief executive of Siemens last year, Siemens is pursuing civil lawsuits against former chairman Heinrich von Pierer, former chief financial officer Heinz-Joachim Neubürger and eight other former management board members.

Mr. Kleinfeld has denied any wrongdoing. "I have great faith in the German judicial system, and that is why I am not concerned about this development," he said in a written statement Tuesday. Alcoa, which hired Mr. Kleinfeld last year and promoted him to chief executive in May, said in an accompanying statement that it "sought and received extensive information regarding the Siemens matter" before hiring Mr. Kleinfeld. "Alcoa continues to monitor the situation, and believes no further comment or action is warranted or necessary at this time," it added.

A lawyer for Mr. von Pierer, who resigned as Siemens's chairman last year, said his client will defend himself against the allegations. Mr. Neubürger, who left Siemens in 2006, declined to comment Tuesday. Messrs. von Pierer and Neubürger have denied any wrongdoing. And then pick up again with the graf starting "Munich prosecutors already have launched civil proceedings..."

Munich prosecutors already have launched civil proceedings against Messrs. Kleinfeld and von Pierer and other former board members for failed oversight.

The prosecutors also have named three former management board members—Mr. Neubürger, Thomas Ganswindt and Uriel Sharef—as criminal suspects during the course of the bribery investigation. Messrs. Ganswindt and Sharef also have denied any wrongdoing.

Oil's hot streak looks to be over, traders say

By Neil King Jr.

Is oil's meteoric rise finally burning out?

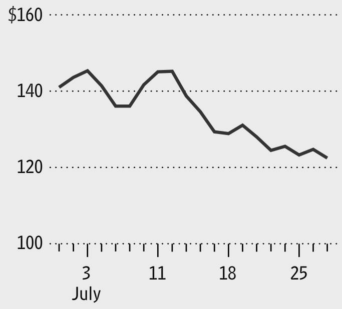
A consensus is emerging among oil traders and analysts that it has, weeks after some of them were saying oil could roar above $150 a barrel. The market has taken on a distinct chill in that period, with funds looking to sell oil futures outnumbering those seeking to buy for the first time since early 2007, and most of the long-term money betting that oil prices will continue to sink.

U.S. benchmark crude, which fell $2.54, or 2%, to $122.19 Tuesday on the New York Mercantile Exchange, has now declined 16% since hitting its record high of $145.29 a barrel July 3. Oil remains 56% above prices a year ago.

Crude-oil futures

Daily settlement price on the continuous front-month contract

Tuesday: **$122.19** a barrel, down **$2.54**



Source: Thomson Reuteurs via WSJ Market Data Group

Reasons behind the oil market's sudden slump include a sharp weakening of demand and growing gasoline stocks in the U.S., rising inflation in Asia, and easing worries over Iran. Added up, they have simply drained the upward momentum from the market.

"The market dynamics have shifted," said Antoine Halff, deputy head of research at Newedge USA in New York.

Perhaps the best glimpse of the changed sentiment can be seen in traders' prices for oil far into the future. In late May, contracts reaching out to 2016 were all selling for more than the current price, which was then around $130 a barrel. That trend held until the middle of this month. The curve since then has sharply reversed, so that contracts for oil four or five years from now are going for less than the current price.

Trading on the Nymex has tilted toward short sellers, or those betting that prices will go down, according to the most recent report by the Commodity Futures Trading Commission.

The shift has given a jolt of confidence to the crowd of bearish prognosticators who have insisted for months that emotion and speculative froth were sending prices aloft more than the fundamentals of supply and demand. The bears predict crude prices will likely hover around $120 a barrel through the end of the summer, before declining closer to $100 a barrel in the fall. Oil last closed below $120 a barrel in early May.

The world's overall spare capacity remains unusually tight, at less than two million barrels a day—a fact that is likely to keep the market on edge until supplies begin to loosen more.

The U.S., which consumes nearly a fourth of the world's oil, has seen a sharp drop in demand as Americans have cut back on driving. Some analysts predict that gasoline use this month could fall by as much as 5% over the same month last year.

"The most fundament change is that starting this month, the financial markets could no longer ignore the physical markets," said David Kirsch, an analyst at the consulting group PFC Energy in Washington, which began predicting in April that prices would slump during the third quarter.

Higher sales lift LVMH's profit

By Stacy Meichtry And Mimosa Spencer

PARIS—Sales of leather handbags and jewelry at **LVMH Möet Hennessy Louis Vuitton** SA buoyed profits at the luxury-goods behemoth, defying a global financial crisis that has sapped spending on lower-priced goods.

Net profit by revenue at the world's largest luxury-goods conglomerate beat analyst estimates, rising 6.8% to €891 million, or roughly $1.4 billion, in the first half, the group said in a statement Tuesday. Sales, which rose 5.2% to €7.8 billion during the period, were tempered by a weakened U.S. dollar and Japanese yen. At constant exchange rates, the group's sales rose 12%.

LVMH Chairman and Chief Executive Bernard Arnault said he was "reassured by the strong momentum" of the first half.

AFP

LVMH beat analysts' earnings estimates as the global financial crisis appears to be sparing the luxury-goods market.

The steady sales growth at LVMH, which is considered an industry barometer, highlights the resilience of high-priced luxury goods in a turbulent global economy. Big-spending luxury consumers have continued to splurge on pricey handbags and jewelry, even as the global financial crisis has forced them to cut back in other areas.

Several luxury companies have shown surprising sales growth in recent weeks, including French silk-scarf and leather-goods company **Hermés International** SA and Switzerland's **Cie. Financiére Richemont** SA, owner of the Cartier and Dunhill brands.

LVMH's apparel and leather-goods division, which includes the Louis Vuitton brand, reported a 6% rise in sales to €2.77 billion.

Not all its businesses have managed to escape the slowdown, however. Sales at the wines-and-spirits division fell 2% to €1.29 billion, compared to €1.31 billion in the first half of 2007.

Some investors question whether the luxury shopping spree will last. European luxury shares have been battered over the past year on expectations that slowdowns affecting other sectors in the U.S. and Europe will eventually ensnare the luxury-goods market.

Analysts, however, expect LVMH to perform better during the economic downturn than smaller rivals, thanks to a rapid expansion in recent years that has anchored the group's presence in key emerging markets such as China, Russia, India and the Middle East.

"Growth in emerging markets should stay robust" in the second half of the year and "mitigate a slowdown in the developed world," wrote Credit Suisse analyst Rogerio Fujimori in a recent research note.

China is also spurring demand in the group's fast-growing watches and jewelry business, where sales rose 7% to €417 million.

LVMH's share price, which has fallen more than 20% since the beginning of the year, closed down 0.4% at €68.03 Tuesday on the Euronext stock exchange. The company's results were released after the market closed.

Russian diplomat criticizes McCain's proposal for G-8

By Andrew Osborn

MOSCOW—A senior Russian diplomat warned that Sen. John McCain's pledge to eject Russia from the Group of Eight leading nations could eventually lead to a breakdown in relations between Russia and the U.S.

The diplomat, speaking to reporters on condition of anonymity, said Russia could afford to sever relations with a country that spurned it. "We're ready for any scenario," the diplomat said.

The comments underline growing Kremlin anger at Sen. McCain's criticism of Russia, a country the presumptive Republican presidential candidate has said should be ejected from the G-8 because of democratic backsliding at home and bullying abroad. The Kremlin says that such criticism is unfounded and that the U.S. is no longer in a position to lecture anyway.

As the U.S. election campaign has evolved, state TV here has been paying close attention to which of the two candidates is friendlier to Russia. So far, that appears to be Sen. Barack Obama, the presumptive Democratic candidate, who has spoken of engaging with Russia rather than cold-shouldering it. Russian diplomats say they are worried that U.S.-Russia relations could go into serious decline once President George W. Bush leaves the White House.

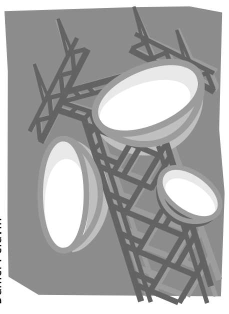
In recent years, relations have been strained by differing stances on Iran's nuclear program and by U.S. plans to deploy elements of its missile-defense system in Eastern Europe. Good working relations between President Bush and Vladimir Putin, Russia's former president and current prime minister, have prevented a serious meltdown, diplomats say. More recently, President Dmitry Medvedev has softened Mr. Putin's hard-line rhetoric while keeping foreign policy largely unchanged.

The senior diplomat said the Kremlin wanted the U.S. electorate to "bear responsibility for its choice" in November. He said there was a risk of relations breaking down if matters were mishandled. "We could reach a moment," he warned, "when we could afford to stop discussing the issues that the Americans are interested in."

CORPORATE NEWS

TELECOMMUNICATIONS

South Africa's Vodacom to sell blacks 6.25% stake


Daniel Pelavin

SOUTH AFRICA'S largest cellphone-network operator by subscribers, Vodacom Group, said it will sell a 6.25% stake to black investors for 7.5 billion rand ($993.7 million). The offer will be open to selected investors, employees and black members of the public and fulfills legislated obligation for companies in the country to sell equity stakes to people from backgrounds disadvantaged under the former apartheid regime.

Vodacom, jointly owned by South Africa's **Telkom** SA and the U.K.'s **Vodafone Group** PLC, said the offer will reach as many as 450,000 people in South Africa. The cost to the company is expected to be about two billion rand. *—Robb M. Stewart*

RAILROADS

Deutsche Bahn and eBay to offer discounted tickets


Associated Press

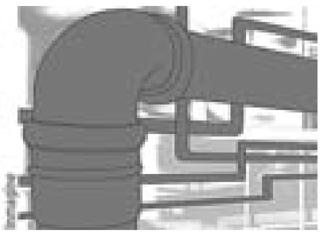
GERMANY'S national railroad, **Deutsche Bahn** AG, and U.S.-based Internet auction-house **eBay** Inc. are cooperating to offer a million train tickets at deeply discounted prices.

The companies say that online bidding of some tickets will begin as low as €1 ($1.57). Other special offers—to distant destinations such as Beijing and Moscow—will start with a higher minimum bid. The online auction runs from July 29 to Aug. 10. Some of the proceeds will go to a German association for disabled athletes.

Last month, German lawmakers approved a partial privatization of Deutsche Bahn, clearing the last hurdle for an initial public offering this year.*—Associated Press*

ENGINEERING

Germany to let firm build three gas plants for Iran



GERMANY'S federal export-control office has cleared the way for an engineering company to build three plants for Iran to liquefy natural gas, a government spokesman said.

The Federal Office of Economics and Export Control concluded after a 12-month investigation that plans by **Steiner-Prematechnik-Ga stec** GmbH to build equipment for converting natural gas to a liquid don't violate sanctions against Iran.

Under Chancellor Angela Merkel, Germany has cut back trade with Iran as part of Western-led efforts to force Tehran to suspend its uranium-enrichment program. *—Associated Press*

Mideast chases wealth, from oil to aircraft

Aerospace deals let U.A.E. firms build base for an industry

BY STEFANIA BIANCHI
Dubai

OIL-RICH PERSIAN Gulf states, whose airlines have ordered billions of dollars worth of jetliners, now plan to leverage their financial clout into making parts for those planes.

As Airbus, **Boeing** Co. and **General Electric** Co. struggle with soaring oil prices, slowing economies and squeezed delivery dates, multibillion-dollar aircraft orders from airlines in Abu Dhabi and Dubai, in the United Arab Emirates, provide much-needed investment, cheap labor and state-of-the-art facilities.

But the governments in the Gulf region expect something in return, namely commitments to expand the Gulf's airplane-maintenance operations, part of their wider plan to create sources of wealth beyond oil and gas.

Last week, **Mubadala Development** Co., one of the Gulf region's most active government-investment funds, struck one of the most significant deals along these lines with an $8 billion commercial-finance partnership with U.S. industrial giant GE. As part of the deal, Mubadala will expand its maintenance facilities to support the rising number of GE aircraft engines in the region.

The partnership will "create many new channels of growth, including an opportunistic investment joint venture to invest in high-return financial assets in an attractive environment," said GE spokesman Russell Wilkerson.

For its part, Mubadala, which owns aviation maintenance, repair and overhaul firm Abu Dhabi Aircraft Technologies, in a statement said it wants to "work with the world's very best partners to develop and operate businesses that generate outstanding financial returns." **European Aeronautic Defence & Space** Co., of which Airbus is a part, and **Rolls-Royce** PLC struck similar deals to develop aircraft and engine manufacturing facilities in Abu Dhabi, Mubadala said earlier this month.

The EADS partnership, which Mubadala expects to generate more than $1 billion of revenue for Mubadala's aerospace arm over 10 years, will see the Abu Dhabi company produce aircraft components for Airbus and, eventually, construct entire jets. EADS will meanwhile work with Mubadala to develop an engineering center and research-and-development facility in Abu Dhabi so it will eventually be able to design, develop and manufacture complete aircraft in the United Arab Emirates' capital.

Learning to fly

Mubadala's key aerospace moments

- **Oct. 2002:** Mubadala established.
- **April 2006:** Mubadala buys 35% stake in Italy's Piaggio Aero Industries.
- **Sept. 2006:** As part of a consortium, Mubadala buys a stake in Switzerland's SR Technics.
- **Nov. 2007:** Mubadala launches aerospace arm, buys 100% stake in Abu Dhabi Aircraft Technologies. Northrop Grumman and Mubadala agree to collaborate on aerospace and aviation programs.
- **July 2008:** Mubadala signs a joint-aviation deal with Rolls-Royce and a commercial-finance partnership with GE. It also signs an agreement with EADS to make aircraft components.


Abu Dhabi Aircraft Technologies

Abu Dhabi Aircraft Technologies' maintenance facilities

Both the GE and EADS deals will significantly boost Abu Dhabi's chances of becoming a serious global aerospace player.

"These deals are recognition that this part of the world is developing," Waleed Al Mokarrab Al Muhairi, Mubadala's chief operating officer, said in an interview. "In the past, plane manufacturers have mostly ignored this region." The partnerships will also give companies such as GE and EADS an important foothold in the Gulf's booming aviation industry as aviation markets elsewhere slow.

EADS said in a statement that it wants to deepen ties with Mubadala because it "is a major player in the development of the Abu Dhabi economy and...one that has the ambition to become a major player" in the highly technological aerospace industry.

Earlier this year, the aircraft maker said it plans to outsource more work to areas protected from the fluctuation of the U.S. dollar. The Gulf is one such region, since most of its currencies are pegged to the greenback.

"EADS' decision is driven by a combination of supporting a key client, the aviation infrastructure development plans for the emirate of Abu Dhabi and its location in proximity to the markets of the Middle East, Indian subcontinent and Asia, which offer the best long-term growth prospects," says Peter Harbison, executive chairman of the Centre for Asia Pacific Aviation, a Sydney-based consulting group.

The partnerships still come with risks, including soaring inflation. Government figures show that inflation in the U.A.E. hit a 20-year high of 11.1% in 2007. "While the Middle East does offer relatively lower costs compared with Western Europe, the gap is narrowing with double-digit inflation now being recorded in the U.A.E. for example," said Mr. Harbison.

For their part, plane makers Boeing and Airbus are aware of the consequences of outsourcing too much of their businesses to outside companies. Boeing outsourced almost 70% of work on its 787 Dreamliner to manufacturers in Japan and Italy, which led to a delivery delay of more than 12 months.

Outsourcing also hinges on the ability to attract skilled technicians. Abu Dhabi will compete for aviation engineers with Dubai, which is also building up it aerospace activities under the framework of **Dubai Aerospace Enterprise.** Rising prices may deter prospective candidates.

"If there aren't enough skilled engineers at the right price, some facilities will have to adjust supply accordingly," said Mr. Harbison.

However, Mubadala says it is aware of the challenges. "We're big fans of the walk before you run philosophy," said Mr. Al Muhairi, who hopes that Mubadala's aerospace activities will contribute between 1% to 2% of Abu Dhabi's gross domestic product in the next 10 to 15 years. "Right now we're figuring out how to walk."

Santander says net fell 5%, no deals planned

BY CHRISTOPHER BJORK

MADRID—**Banco Santander** SA posted a 5% decline in second-quarter net profit because of lower capital gains, and it squashed speculation that it remains on the lookout for deals after a recent shopping spree.

The Spain-based bank, one of Europe's biggest, said net profit totaled €2.52 billion ($3.97 billion), down from €2.66 billion a year earlier, though still beating analyst expectations of €2.41 billion. The year-earlier figure was inflated by a €566 million gain from the sale of a stake in Italy's **Intesa Sanpaolo** SpA.

The Spanish bank said it set aside provisions to cover rising loan defaults in Spain and Latin America while posting strong growth at U.K. unit Abbey.

Net interest income rose 14% in the quarter to €4.46 billion from €3.91 billion.

The bank continued to expand loan volumes in Latin America, while in Spain, a weaker market, the bank boosted lending profitability to offset reduced demand for credit.

Santander's strong balance sheet has allowed it to benefit from a "flight to quality," as clients move money to lenders perceived as safe, particularly in the troubled U.K. banking market. Santander said U.K. unit Abbey took a roughly 26% share of net lending in the country in the first half, more than double its normal market share.

The bank affirmed its full-year target of increasing earnings per share by 15%. "We're clearly beating targets," Chief Executive Alfredo Saenz said.

The bank, which recently agreed to buy U.K. lender Alliance & Leicester PLC for £1.3 billion ($2.6 billion), put a lid on speculation that it would seek out further deals in the short term.

Santander said it was considering selling its asset-management business and its insurance operations, a move that would increase the bank's war chest for potential deals.

But Mr. Saenz said management will focus on integrating assets such as Brazil's Banco Real, which it bought last year as part of the takeover of Dutch lender ABN Amro Holding NV, and some European consumer-finance assets it bought earlier.

The bank has also been making acquisitions further afield. Earlier this year it purchased a 20% stake in Philadelphia-based **Sovereign Bancorp** Inc. "We have enough on our plate to keep us entertained during several quarters," Mr. Saenz said.

CORPORATE NEWS

SAP's profit tumbles 9%

Acquisition hits net, but results, forecast still please analysts

By Archibald Preuschat

FRANKFURT—**SAP** AG said its second-quarter net profit fell 9% as charges related to an acquisition offset a rise in sales.

Still, the results beat analyst expectations, and the business-software company said it expects full-year sales and operating margin to be at the top of its previous forecast.

SAP shares rose 9.8% to close at €37.26 ($58.66) each on the Xetra exchange.

"The figures show that the SAP story fits," said Landesbank Baden-Württemberg analyst Thomas Hofmann, noting that SAP is doing well in a difficult market.

Germany-based SAP, one of the largest business-software providers, competing with U.S.-based **Microsoft** Corp. and **Oracle** Corp., said net profit fell to €408 million from €449 million a year earlier.

The results were hit by €118 million in write-downs and other charges mainly linked to SAP's €4.8 billion acquisition of French business-intelligence company Business Objects SA. The company also took a €24 million charge related to settling litigation. Additionally, the year-earlier earnings were boosted by a lower-than-usual tax rate of 25.8%.

Total revenue rose 18% to €2.86 billion from €2.42 billion as software revenue rose 25% to €898 million.

Sales in the Americas rose 12% to €952 million, with sales in Europe, the Middle East and Africa up 21% to €1.53 billion.

SAP, whose programs help companies do back-office work such as payroll, inventory management and accounting, said its closely watched software and software-related service revenue rose 21% to €2.06 billion.

"We are watching the market very closely, and from all we can see, we can be optimistic," Co-Chief Executive Henning Kagermann said in a CNBC interview.

Mr. Kagermann said sales rose in the U.S. in part because companies reacted to recessionary fears by investing in technology.

The company said it now expects to reach the top end of its targeted range of 24% to 27% growth in software and software-related service revenue as well as an adjusted operating margin of 28.5% to 29%, both at constant currencies. The company had already raised its margin targets for the year when it reported its first-quarter results in April.

Mr. Kagermann said he is confident the company will reach its target of more than 100,000 customers by the end of 2010, up from about 75,000 customers now.

—Simon Kennedy and Klaus Brune contributed to this article.

Norilsk holder suggests Strzhalkovsky for CEO

A WSJ News Roundup

ZAO Interros Holding, the major shareholder of Russian mining giant **OAO Norilsk Nickel**, has proposed that the head of Russia's state tourist board and KGB veteran Vladimir Strzhalkovsky be the new chief executive of the company.

Interros, the largest single shareholder in Norilsk, with just under 30%, said the appointment of Mr. Strzhalkovsky would secure the state's support as the company bids to become a global mining giant. The issue might be discussed at Norilsk's board meeting Aug. 8, a person familiar with the matter said.

"We have begun negotiations with other Norilsk stakeholders regarding Strzhalkovsky's candidacy for the post of CEO," an Interros spokesman said Tuesday.

Although Strzhalkovsky has no formal experience in the mining industry, Interros said he would "provide a balance of interests between all the shareholders."

If approved, Mr. Strzhalkovsky will take over from Sergei Batekhin, who replaced Denis Morozov just a few weeks ago in a boardroom coup for Interros head Vladimir Potanin, giving Interros effective control over the board.

Oleg Deripaska's Rusal, which owns a 25% stake in Norilsk, attacked the results, saying the board did not represent the interests of all the shareholders.

Under Interros's plan, Mr. Batekhin would serve as Mr. Strzhalkovsky's deputy along with Alexander Popov, Interros said. The holding wouldn't say if Mr. Batekhin had been intended as an interim appointment all along.

The boardroom spat has added to tensions as the shareholders stall over plans to enlarge the company. Rusal would like to stage a full takeover to create a $100 billion mining giant, while Mr. Potanin has sought to fend off a merger by agreeing to an asset swap with metals investor Alisher Usmanov. A three-way merger is also under discussion.

Under Interros's plan, Mr. Strzhalkovsky would handle government and public relations, hiring and security, while Batekhin would serve as his first deputy in charge of the company's day-to-day operations, Russian daily Vedomosti reported.

Ford, GMAC make cuts in leasing

By John D. Stoll And Matthew Dolan

The days of easy car leases appear to be on the wane in the U.S.

Ford Motor Co. has informed dealers that it is raising the price on leases of its most-profitable trucks and sport-utility vehicles due to the "extreme losses" its lending arm is taking on these vehicles.

This move is expected to make several 2008 model-year trucks and SUVs "lease proof," according to the company. In other words, prices will be so high on these leases, consumers will not be willing to agree to terms, according to a dealer briefed on the matter.

Ford's move comes as its key competitors—**Chrysler** LLC and **General Motors** Corp.—are also tightening vehicle-leasing terms, or backing away from the practice altogether. Chrysler said Friday that its credit arm, Chrysler Financial, will stop financing leases, while **GMAC** LLC, minority-owned by GM, will stop subsidizing leases in Canada.

Some GM car dealers also said they were told GMAC will no longer extend auto-lease deals to consumers with the lowest credit ratings.

The actions at Ford, GMAC and Chrysler Financial take effect Aug. 1.

American auto makers have been forced to revisit their strategy on leasing due to plummeting resale values of trucks and SUVs, which have long been Detroit's best-selling and highest-profit models. As consumers abandon those segments due to high gasoline prices, the resale value on used models has sunk.

This hurts vehicle-leasing because terms of leases are based on an assumed resale value of a vehicle when the lease expires. If the value of the vehicle being leased should fall more than expected, auto lenders are forced to eat big losses.

Last week, Ford Credit booked a $2.1 billion charge for the second quarter related to money-losing leases. GMAC will report earnings Thursday, and could also book deep losses given its heavy exposure to truck and SUV leases.

In a memo sent via email Monday, Ford officials informed dealers "due to extreme losses Ford Credit is taking on off-lease vehicles, it will be necessary for Ford Motor Credit Company to adjust residuals mid-quarter on the following vehicle lines."

Off-lease vehicles are vehicles that come back to the dealer after a lease has expired. Typical leases run between 24 months and 36 months, although some leases extend longer.

"Our business plan always includes a certain amount of leasing to support Ford sales," Ford Credit spokeswoman Brenda Hines said Tuesday. "We don't publicly discuss our leasing forecast."

The changes affect the Ford F-150 and Super Duty pickups, and the Ford Explorer and Sport Trac SUVs.

"If you have any customers that want to lease any of [the affected] vehicles, the time is now," the memo said.

During a conference call last week, Ford said that in the second quarter, auction values for 24- and 36-month lease vehicles were down, on average, about $2,700 per unit and $2,400 per unit, respectively, from year-ago levels.

As for GMAC, "We informed [dealers] as of today that as of August 1st, we're suspending incentivized leasing in Canada," spokeswoman Gina Proia said Monday evening.

She said GMAC faces "funding challenges" for lease assets in Canada. GMAC, like auto makers, utilizes leases as essentially a two- or three-plus-year rent on a vehicle, after which time the buyer returns the vehicle to the dealer and the financing company sells the car.

As of Tuesday, Ms. Proia said GMAC hasn't announced a similar move for the U.S.

New Informa suitor emerges, may include Blackstone

By Dana Cimilluca And Kathy Sandler

British publisher **Informa** PLC, the takeover target of a private-equity consortium, received a preliminary buyout approach from a group including **Blackstone Group** LP, people familiar with the matter said.

Informa said Tuesday it had received the approach but not a formal bid proposal from the new suitor, which it didn't name.

Blackstone is partnering with Dubai World Trade Center, a global event organizer owned by the investment arm of the government of Dubai, the people said.

Informa, the publisher of the Lloyd's List maritime newspaper, said talks are continuing with a private-equity group including **Providence Equity Partners** Ltd., which made a provisional £2.15 billion ($4.29 billion) takeover bid last month.

Informa shares closed up 3.1%, or 13 pence, at 437 pence, having come off an earlier high of 455 pence, giving it a market capitalization of about £1.86 billion.

A takeover of Informa would be one of the largest leveraged buyouts in Europe since the credit crunch began. Informa had been in talks with Providence Equity, and its consortium partners, **Carlyle Group** and **Hellman & Friedman**, since early July over a possible 506-pence-a-share buyout of the company. That buyout group has approached several banks about a debt package for the deal and has given them until the end of July to come up with it.

Informa publishes more than 2,000 trade publications and subscription-based information services, including academic journals and commercial intelligence. It also owns market research company Datamonitor, which it acquired for £502 million last year.

Colgate profit rises 19% despite higher costs

By Angela Pruitt

In the face of rising commodity prices and food inflation, **Colgate-Palmolive** Co. reported a 19% jump in fiscal second-quarter net income on strong revenue growth supported by a record advertising budget.

The New York company, whose products include its namesake toothpaste and dish soap, said net income rose to $493.8 million, or 92 cents a share, from a year-earlier profit of $415.8 million, or 76 cents a share.

Excluding one-time items, earnings increased to 98 cents a share from 84 cents a share.

Revenue jumped 16% to $3.96 billion, with seven percentage points of the gain due to the weaker dollar. Volume rose 5%. The mean forecast by analysts surveyed by Thomson Reuters was for earnings of 94 cents a share and revenue of $3.84 billion.

North American sales rose 6.5% as volume climbed 4.5%. Sales in its Latin America, Europe/South Pacific and Asia/Africa regional divisions grew by double-digit percentages.

Chief Executive Ian Cook forecast "solid, good quality, midteens earnings per share growth in 2008" and "another year of solid double-digit earnings-per-share growth in 2009 with gross profit margin up."

—Shirleen Dorman contributed to this article.

Lufthansa sticks by its forecast as strike continues in Germany

By Jan Hromadko

FRANKFURT—**Deutsche Lufthansa** AG reported a 59% drop in first-half net profit but reconfirmed its bullish full-year forecast.

Despite growing cost pressure and waning demand for air travel, the company said it still expects to "follow up on last year's operating result" of €1.38 billion ($2.17 billion).

Still, Germany's largest airline cautioned that risks include the possibility of a "renewed and lasting increase in fuel prices" as well as a sustained decline in the world economy.

Lufthansa added that continuing strikes in Germany represent an acute risk, but that the effects of the walkouts are still unforeseeable. The German services union ver.di said that around 5,000 cabin and ground staff participated in the second day of an indefinite strike over a wage dispute, forcing Lufthansa to cancel 70 flights that day.

Lufthansa has declined to estimate costs resulting from the strike. Ver.di estimates that the costs will be about €5 million a day.

Lufthansa said net profit fell to €402 million from €992 million a year earlier. The 2007 results were lifted by a gain of about €503 million related to the disposal of a 50% stake in travel operator Thomas Cook. The airline is to publish a detailed second-quarter report Wednesday.

Sony's profit slides 47%

Cellphone venture, strong yen take toll; annual forecast is cut

By Yukari Iwatani Kane

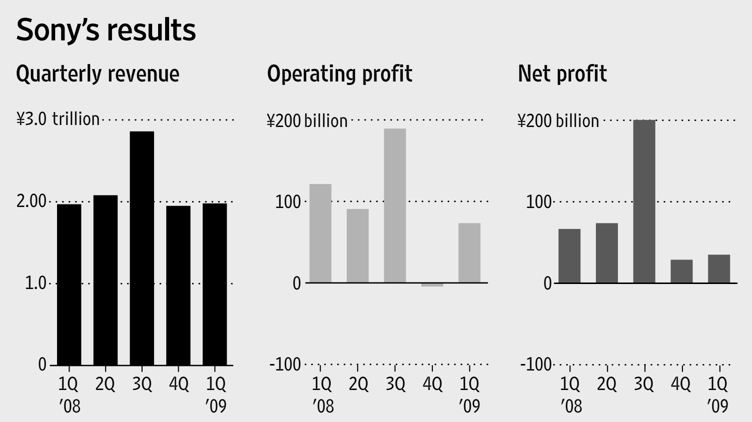
TOKYO—**Sony** Corp.'s first-quarter earnings fell 47% as poor performances at its Sony Ericsson mobile-phone joint venture and its digital-camera business outweighed improving television and videogame results.

Despite finishing a three-year restructuring plan in March, the Japanese consumer-electronics company has been hurt by a stronger Japanese currency, which reduces the value in yen of its overseas revenue, as well as by rising fuel and raw-material prices, and tough competition in key electronics products.

Though Sony said demand for its products hasn't been significantly affected by the economic slowdown in much of the world, it lowered its net-profit forecast for the year ending March 31 by 17% to 240 billion yen ($2.23 billion), citing a more cautious outlook overall in electronics.

For the quarter ended June 30, Sony's net profit fell to 35 billion yen from 66.5 billion yen a year earlier, the company said. Revenue would have risen on increases in television and PlayStation videogame sales, but the stronger yen meant they remained essentially flat at 1.98 trillion yen.

The biggest reason for the steep drop in profit was a 97% decline in the earnings Sony receives from the Sony Ericsson mobile-phone business, of which Sony owns half. Sales of Walkman-branded mobile phones were strong over several years until recently, but the joint venture's primary focus on mid-price to high-end phones hurt the company when demand in that segment fell.



Note: Fiscal years end March 31 of the year shown

Source: the company

Sony Ericsson is now cutting costs and making new investments in mobile-phone development in an effort to turn itself around.

Despite the sharp overall profit decline, Sony's two most-troubled businesses in recent years—videogames and TVs—showed improvement. Analysts and investors expect them to turn profitable this fiscal year.

The PlayStation videogame unit reported a profit of 5.4 billion yen in the quarter, compared with a loss a year earlier, as it reduced costs related to the PlayStation 3 videogame console. Increased PS3 software sales and strong demand for the PlayStation Portable device also contributed to profit.

The television business narrowed its losses by nearly half to 19 billion yen as sales of Bravia liquid-crystal-display TVs jumped 33%. Sony expects to sell 17 million LCD TVs this fiscal year, 60% more than last year.

By contrast, digital cameras—one of Sony's strongest businesses over the past couple of years—struggled amid tough price competition and a greater shift in demand toward lower-price entry-level products.

Also hurting Sony was an 8.3 billion yen loss in its movie division because of the cost of promoting upcoming films and the lack of a blockbuster film during the quarter. The unit is likely to make up for those losses in coming quarters, however, with movies such as "Hancock," starring Will Smith, and a new James Bond film set for release later this year.

Toyota, Honda trim Japan output

By Hiroyuki Kachi

TOKYO—Auto makers **Toyota Motor** Corp. and **Honda Motor** Co. cut production in June, reflecting the slowdown in exports to North America and weaker domestic sales.

Domestic production at Toyota, which unseated General Motors Corp. as the world's biggest automobile seller in the first six months of this year, fell 0.9% in June from a year ago to 365,135 vehicles, the first decline in three months.

The figure came a day after Toyota slashed its global sales and production plans for this year as soaring gasoline prices and credit risks stemming from the subprime crisis reduced consumers' appetite for new cars.

Toyota now expects world-wide sales of 9.5 million vehicles for 2008, up 1% from 2007 but down from its initial plan of 9.85 million. Toyota's domestic sales declined 0.2% to 127,047 vehicles, while its exports fell 8.5% to 221,534 vehicles. Its Overseas production rose 3% to 376,738 vehicles.

Honda, which last week cut its global sales outlook for this fiscal year through March, said it lowered domestic production in June for the 10th straight month. Output fell 8.6% on year to 105,256 vehicles.

The auto maker's domestic sales fell 6.4% to 54,784 vehicles in June, while exports in the month dropped 5.8% to 52,005 vehicles.

In the first year-over-year fall in 35 months,Honda also reduced output in June at its overseas plants by 3.7% to 217,610 vehicles. The company cited a temporarily shutdown at a joint-venture factory in China following a flood.

Germany allows sale of generic Plavix

By Jeanne Whalen

Sanofi-Aventis SA said a German court has allowed a generic version of the company's blockbuster drug Plavix to be marketed there starting immediately, dealing a blow to Sanofi and partner **Bristol-Myers Squibb** Co.

In a statement, Sanofi said the German administrative court in Cologne ruled that a subsidiary of Germany's closely held generics company **Ratiopharm** and another generic-drug company called **Yes** could market their version of Plavix.

Sanofi said it would appeal the court's decision.

Plavix had world-wide sales last year of $7.3 billion, making it the world's second largest selling drug, behind Pfizer Inc.'s cholesterol pill Lipitor, according to IMS Health. Sanofi and Bristol-Myers sell Plavix jointly world-wide and divide the profits.

Sanofi had been scrambling in recent months to try to stop generic Plavix from reaching the German market. Earlier this year, German authorities gave Ratiopharm, Yes and **Novartis** AG's Sandoz unit permission to start selling generic Plavix, a Sanofi spokesman said.

Sanofi persuaded a German regulator to suspend those marketing rights. All three companies then went to the Cologne court and asked it to overturn the suspension. The court today overturned two of the suspensions and is still deciding whether to allow Sandoz onto the market, the Sanofi spokesman said. Sandoz wants to sell generic Plavix in partnership with Swiss generics maker **Schweizerhall Holding** AG.

Schweizerhall has said it is applying for permission to sell generic Plavix in Luxembourg and other European countries, as well.

Deutsche Bank analysts say the patents protecting Plavix in Europe don't expire until 2012 and 2019. But generics companies have been getting around that by formulating a different chemical salt of Plavix, or a version that is chemically slightly different from the original, the Sanofi spokesman said.

Plavix sales in the U.S. plummeted in 2006 when Canadian generics company Apotex Inc. started selling a low-cost copy of the drug. In June 2007, a U.S. court barred Apotex from selling further copies until Plavix's U.S. patent expires in 2011. After that, sales of the branded version recovered.

U.S. Steel profit surges as need sends prices up

By Robert Guy Matthews

U.S. Steel Corp. posted some of its strongest quarterly sales and earnings ever as surging demand in emerging markets let the U.S.'s biggest steelmaker raise prices.

Second-quarter net income more than doubled to $668 million, or $5.65 a share, from $302 million, or $2.54 a share, in the year-earlier period. Sales jumped 60% to $6.74 billion.

The results were helped by months of steel-price increases, which have eased the burden of rising prices of raw materials on the bottom line. The company has been able to make those prices increases stick as emerging-market demand has kept global steel supplies tight.

U.S. Steel expects additional price increases, already planned, to bolster its third-quarter profit outlook.

"We expect another excellent quarter with continued earnings improvement as price increases implemented during the second quarter and early in the third quarter are expected to improve average realized prices for each of our reportable segments," said U. S. Steel Chairman and Chief Executive John P. Surma.

U.S. Steel's shares surged 14% to $165.28 in afternoon New York Stock Exchange trading after rising as high as $167.02.

The strong outlook lifted foreign steel stocks as well. Germany's **ThyssenKrupp** AG and **Salzgitter** AG rose 3.9% and 3.1%, respectively, after U.S. Steel posted results.

Steelmakers in the United States are reporting strong earnings as demand in China, Russia, Brazil and other emerging countries attracts foreign steel that would have normally come to the U.S. That exacerbates tight supplies—U.S. steelmakers can meet only 70% to 80% of domestic demand—and gives domestic producers such as U.S. Steel a stronger bargaining position with customers.

Steel analysts estimate that supply will remain tight through the year, buoying results for all U.S. steel producers. Goldman Sachs analyst Aldo Mazzaferro said: "We believe that strength in steel prices is sustainable as the world will remain short of steel for some time."

Unlike most of it rivals, U.S. Steel owns most of its raw materials, including iron ore, making it less vulnerable to the recent doubling of iron-ore prices and putting its profit growth ahead of others, such as **ArcelorMittal**, the world's largest steelmaker, which doesn't own all of its raw materials. ArcelorMittal is expected to issue results Wednesday.

Even though it is buffered from rising raw material costs, U.S. Steel continued to increase prices to offset higher costs for energy and scrap steel. The trend is expected to continue for the rest of the year. "We expect to see further price increases in the U.S. for most products in both the short and intermediate term, as a result of continued strong demand, mill allocation, low inventories and increased export inquiries," said Michelle Applebaum, independent steel analyst for Michelle Applebaum Research Inc.

Northrop's net climbs 7.6% amid shipbuilding concerns

By August Cole

Northrop Grumman Corp.'s shot at a $40 billion U.S. Air Force aerial-refueling-tanker contract may be up in the air, but analysts focused Tuesday on the company's shipbuilding operations on the Gulf of Mexico during a second-quarter conference call.

Los Angeles-based Northrop said net income rose 7.6% to $495 million, or $1.44 a share, from $460 million, or $1.31 a share, a year earlier. Revenue rose 9.5% to $8.63 billion.

Northrop Chairman and Chief Executive Ronald D. Sugar said the company believes the Airbus-based tanker that it offered along with partner **European Aeronautic Defence & Space** Co. remains the best choice for the U.S. Air Force. "New tankers are urgently needed now, and our KC-45 is ready to go now," he said.

After **Boeing** Co. successfully protested Northrop's victory earlier this year, the U.S. Defense Department is expected to solicit bids in the coming weeks in hopes of picking a new winner by year end.

Despite the overall improvement in Northrop's financial performance, its shipbuilding division continues to experience problems from the devastation brought by Hurricane Katrina in 2005. Operating income in the shipbuilding division slipped 6% to $126 million, despite a 24% increase in revenue to $1.69 billion.

Northrop surprised investors during the first quarter when it announced a $326 million charge blamed largely on botched electrical cabling on a Navy amphibious assault ship, the Makin Island.

During a conference call, President and Chief Operating Officer Wes Bush said he is confident that the ship's fiber-optic cabling will be completed later this year. "I would add that timely accomplishment of this milestone is critical to our ability to support the test program on the delivery timeline that we've established," said Mr. Bush.

That step is crucial to delivering the ship to the Navy in the second quarter of next year, and to shifting workers back to other ships under construction. Northrop has said a shortage of experienced workers in the area hampered its ability to fully recover from the effects of the hurricane.

The Makin Island is on Wall Street's radar because Northrop, not the Navy, is paying for the redone work. The problems required Northrop to pull workers away from other projects at the Ingalls shipyard in Pascagoula, Miss. In a sign of how seriously Northrop's management is taking the situation, Mr. Bush reviews the ship's progress weekly.

Northrop shares were down 2%, or $1.37, to $67.30 in New York Stock Exchange trading late Tuesday afternoon.

CORPORATE NEWS

Matsushita Electric sees payoff on flat-panel TVs

Ramping up output lifts quarterly profit; Toshiba posts a loss

By Hiroyuki Kachi
And Juro Osawa

TOKYO—**Matsushita Electric Industrial** Co. reported solid profit gains for the fiscal first quarter, underscoring how the consumer electronics giant's strategy of ramping up production of flat-panel televisions is paying off.

The bright outlook at the maker of Panasonic goods stands in contrast to the prospects for **Toshiba** Corp., which reported a net loss in the April-June quarter as a squeeze in the market for flash-memory semiconductors continues. Prices for flash memory have fallen, while the strength of the yen has hurt earnings as well.

Citing the benefits of cost cuts and strength in its flat-panel TV business, Matsushita said it posted a net profit of 73.03 billion yen ($679.5 million) in the quarter ended June 30, nearly double the 39.31 billion yen profit it registered in the same period a year earlier.

Sales fell 3.9% to 2.152 trillion yen from 2.24 trillion yen, due to the exclusion of former subsidiary Victor Co. of Japan following a change in the unit's status. Matsushita said its operating profit rose 48% to 109.57 billion yen from 73.89 billion yen.

Matsushita has a wide range of operations but its main business is consumer electronics and its core products are flat-screen TVs. The company is one of the world's largest manufacturers of such products and is stepping up efforts to boost production of both plasma and liquid-crystal-display sets.

Even so, the company is still faced with the growing threat of damage from the slowdown in the U.S. economy.

In the current quarter, the consumer electronics company expects the housing crisis to start affecting products related to the auto and housing industries, such as electronics for automobiles, said Makoto Uenoyama, a Matsushita director in charge of the company's finance operations.

But the Osaka-based company expects only a small impact on its mainstay TV and other digital product operations.

Another electronics giant, Toshiba, said Tuesday that it swung to a net loss of 11.61 billion yen in the fiscal first quarter from the profit of 20.63 billion yen it reported a year earlier.

Toshiba posted an operating loss of 24.18 billion yen, compared to a 21.18 billion yen operating profit in the same period last year, while revenue slipped to 1.619 trillion yen from 1.665 trillion yen.

The company, however, said it is leaving its earnings guidance for the year to March 2009 unchanged for now.

Despite problems in the market for the chips used in mobile phones and music players, Toshiba still expects a net profit of 130 billion yen, operating profit of 290 billion yen and revenue of 8 trillion yen.

But the company warned it will need to "carefully assess emerging trends in this business environment" and will revise projections if necessary.

For the current fiscal year through March, Matsushita continues to predict a 10% rise in net profit to 310 billion yen with a 1.4% gain in sales to 9.2 trillion yen. It left unrevised its operating profit outlook at 560 billion yen, up 7.8%.

Ranbaxy's profit falls 91%, hit by foreign-exchange loss

By Rumman Ahmed
And Mukesh Jagota

NEW DELHI—**Ranbaxy Laboratories** Ltd.'s second-quarter net profit fell 91% from a year earlier to 229 million rupees ($5.4 million), hurt by a foreign-exchange loss of 1.93 billion rupees.

However, India's largest pharmaceutical company by revenue said Tuesday that its operating margin expanded from a year earlier and it expects to maintain its margin above 17% in the current year.

In the comparable quarter last year, the company reported a net profit of 2.66 billion rupees, which included a foreign-exchange gain of two billion rupees. Excluding foreign-exchange gains or losses, the company said its second-quarter profit after tax was 1.61 billion rupees, on par with its 1.60 billion-rupee profit a year earlier. Sales rose 13% to 18.30 billion rupees.

Ranbaxy was expected to report net profit of 954 million rupees on net sales of 18.80 billion rupees, according to a Dow Jones Newswires poll of seven analysts.

The company's profit was hurt by foreign-exchange losses on servicing overseas loans after the rupee depreciated more than 7% against the U.S. dollar during the period.

Ranbaxy shares closed down 3.8% at 474.80 rupees on the Bombay Stock Exchange, in line with the 30-share Sensex, which ended Tuesday 3.9% lower at 13791.54.

"Though the numbers were disappointing from a bottom-line perspective, the business looks strong on the operating front as the company has been able to improve margins," said Ranjit Kapadia, head of research for private client group at Mumbai-based brokerage Prabhudas Lilladher.

Ranbaxy said its earnings before interest, taxes, depreciation and amortization margin was 17.8% for the latest quarter, compared with 13.9% a year earlier. Analysts said Ebitda margin growth was driven by higher contribution from the sale of high-margin branded generic drugs in emerging markets.

The company said sales in emerging markets contributed 53% of global sales and grew 9% from a year earlier.

Developed markets, accounting for 40% of global sales, grew 12% driven by the U.S., Canada and France. Sales in the key U.S. market, which contributed 24% of global sales in the quarter, grew 12% to $106 million.

GLOBAL BUSINESS BRIEFS

Atos Origin SA

First-half net profit grew, boosted by pension deal

Atos Origin SA said first-half net profit more than doubled and raised its 2008 organic-revenue-growth target. Net at the French information technology services company was boosted by a €64 million ($100.8 million) gain related to the company's U.K. pension plans after it reached an agreement with two major pension-trustee boards. Atos, provider of IT services for the Beijing Olympics, said net profit increased to €125 million from €57 million a year earlier. Revenue fell slightly to €2.86 billion from €2.89 billion. Excluding the impact of acquisitions, disposals and currency movements, revenue grew 6.8%, Atos said. As a result of the strong organic growth in the quarter, Atos raised its full-year organic-revenue-growth target to more than 5% from a previously forecast 4%.

Akzo Nobel NV

Akzo Nobel NV reported a 32% fall in second-quarter net profit, dented by charges, and warned that its full-year earnings will fall short of last year's as raw-material prices continue to rise. Net at the coatings and chemical company dropped to €184 million ($290 million) from €270 million a year earlier. The Amsterdam-based company said it booked charges of €86 million, mostly related to last year's acquisition of U.K. paint company Imperial Chemical Industries. Revenue rose 44% to €3.87 billion, lifted by the acquisition. Chief Financial Officer Keith Nichols said the company expects weaker economic conditions in some of its mature markets and sees no signs of easing in raw-material and energy price increases.

Bank of China Ltd.

Bank of China Ltd. said its U.K. unit bought a 30% stake in **Heritage Fund Management** SA of Switzerland, a China-focused hedge fund, for nine million Swiss francs ($8.7 million). The lender, one of China's Big Four state-owned banks, said its Bank of China (UK) Ltd. unit plans to raise its holding in Heritage Fund to 70% by buying new shares to be issued by the Swiss company. It didn't provide a time frame for raising the stake. Regulators in the U.K. and Switzerland have approved the purchase, the bank said on its Web site. The deal will give Bank of China an overseas platform to develop its private-banking business, the bank said.Heritage Fund manages $362 million of assets, with $179 million of assets focused in China.

Gas Natural SDG SA

Spanish gas distributor **Gas Natural SDG** SA reported a 10% rise in second-quarter net profit, helped by an increase in electricity generation and gas distribution. Net rose to €226.9 million ($357.2 million) from €205.9 million a year earlier, as sales increased 37% to €3.09 billion. Profit was helped by electricity generation in Mexico, where Gas Natural acquired five gas-fired power plants last year. The Mexican operations have accelerated its diversification, the company said. Gas Natural's gas-distribution business remained solid in Spain and accelerated in Italy and Latin America. Chief Executive Rafael Villaseca warned that the company may see a slowdown in Spain's gas market due to the deterioration of the Spanish economy.

Clariant AG

Clariant AG said it swung to a second-quarter net profit, but cautioned that further increases in raw-material prices will hit earnings. The Basel-based company, which makes ingredients for products such as dyes, detergents and drugs, had net of 48 million Swiss francs ($46.4 million), compared with a 13 million Swiss franc net loss a year earlier. Revenue slipped 2.8% to 2.12 billion Swiss francs, hit by currency fluctuations. A 13% jump in raw-material prices prompted Clariant to raise prices by 6% in the quarter. It warned investors to brace for even higher raw-material and energy costs, losses from currency fluctuations, as well as an "increasingly uncertain economic outlook," particularly in Southern Europe. Clariant nevertheless confirmed its outlook, which is to bolster its operating margin—minus exceptional items—and record strong cash flow for 2008.

Martha Stewart Living

Martha Stewart Living Omnimedia Inc. swung to a second-quarter profit amid strong revenue gains at its merchandising unit, though the company sees third-quarter revenue below analysts' expectations. The New York media firm reported net income of $328 million, or a penny a share, compared with a net loss of $6.7 million, or 13 cents a share, a year earlier, when the results were affected by a severance charge. The latest results included four cents in charges. Revenue rose 5% to $77.1 million. The mean estimates of analysts surveyed by Thomson Reuters were for earnings of four cents a share and revenue of $75 million. The company expects third-quarter revenue of between $65 million and $67 million, below analysts' latest forecast of $75 million.

Valero Energy Corp.

Valero Energy Corp. posted a 67% drop in second-quarter net income, reflecting lower margins and increased costs. The oil refiner also gave a cautious outlook. Valero said it expects distillate margins to be strong through next year but sees gasoline margins continuing to be weak and industry utilization rates declining. Valero had net of $734 million, or $1.37 a share, down from $2.25 billion, or $3.89 a share, a year earlier. Revenue grew 51% to $36.64 billion. The rising cost of crude oil has squeezed independent refiners, who must buy crude at market rates before processing it to make products such as gasoline and diesel. While the cost of crude oil futures is up 70% from a year ago, the price of gasoline futures has risen only 44%.

Sinotrans Shipping Ltd.

Sinotrans Shipping Ltd. said first-half net profit more than tripled, boosted by higher bulk shipping rates. The company, which first listed in November, said net totaled US$190.8 million, up from US$57.6 million in the year-earlier period. Revenue rose 80% to US$234.4 million. Sinotrans Shipping, China's third-largest dry-bulk shipper by capacity, attributed the rise in earnings to higher rates, underpinned by strong demand for raw materials such as iron ore and coal. The company said its daily charter hire rate rose 86% in the first half to US$37,409. The company raised US$1.47 billion in a Hong Kong initial public offering in November. It said at the time it would use the proceeds to enlarge its fleet size and acquire shipping companies.

Geox SpA

Italian shoemaker **Geox** SpA said strong sales drove its first-half net profit 13% higher, despite a volatile retail season. Net profit rose to €78 million ($123 million) from €68.9 million a year earlier as revenue rose 20% to €464.1 million from €388.2 million. Shoe sales rose 17% to €432.3 million while clothing sales increased 81% to €31.2 million. Sales in the U.S. were up 11% as sales in Italy—the company's largest market—rose 16%. Geox founder Mario Moretti Polegato said that despite a challenging climate, he is confident Geox will see full-year growth, adding that the order log for fall and winter was up 19%. Geox shares rose 14% to €7.60 in Milan. So far this year, Geox shares have fallen 45% amid a grim economic outlook.

Mitsubishi Motors Corp.

Mitsubishi Motors Corp. said it returned to the black in the fiscal first quarter as cost-cutting efforts and solid sales in Europe offset sluggish sales in Asia and North America. Its results were also helped by a stronger yen. The Tokyo car maker posted a net profit of 10.3 billion yen ($95.8 million) in the three months ended June 30, reversing a net loss of 8.23 billion yen a year earlier. Its sales fell 3% to 610.1 billion yen and operating profit jumped 64% to 9.86 billion yen from six billion yen. For the year ending in March, the auto maker expects net profit to decline 42% to 20 billion yen, its operating profit to decline 45% to 60 billion yen, and sales to sag 1.2% to 2.65 trillion yen.

Thales SA

French defense-electronics company **Thales** SA said first-half net profit fell 48%, owing to the strong euro and a large year-earlier gain. Net profit plunged to €289 million ($455 million) from €559 million a year earlier, when Thales booked a capital gain of €318 million from the sale of some of its businesses to French shipbuilder DCNS. Revenue was up 1.6% to €5.67 billion from €5.58 billion. The Paris-based company said the strong euro pulled revenue down by €261 million. Also weighing on the first-half result was a charge of €45 million because of difficulties with two complex contracts in its security-systems business, Thales said.

CME Ltd.

Central European Media Enterprises Ltd. said it agreed to buy an 80% stake in two Bulgarian television channels in a deal valued at $172 million. Bermuda-based CME said it will acquire the stakes in national channel TV2 and sport cable channel Ring TV from **Top Tone Media Holdings**. CME, founded and headed up by Ronald S. Lauder, operates stations in six countries in Central and Eastern Europe. The company has an option to acquire the remaining 20% in five years. Bulgaria, a Balkan country of 7.6 million, joined the European Union last year. It had a television advertising market of $168 million in 2007, which is expected to grow by 20% annually through 2012.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S.

Home prices fall sharply as consumers stay glum

Associated Press

U.S. HOME prices tumbled 15.8% in May from a year earlier, as the housing slump deepened nationwide.

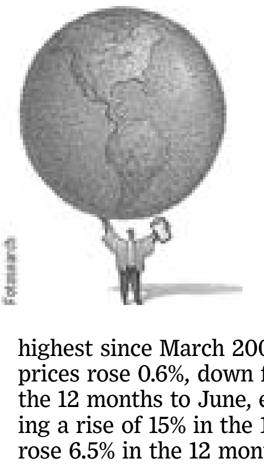
Separately, American consumers' take on the economy remained glum in July, although there was some sign that sentiment on the economy's longer-run prospects may be improving, according to a report from the Conference Board.

The 15.8% drop in home prices for May was the steepest ever recorded by the Standard & Poor's/Case-Shiller 20-city index since its inception in 2000. The 10-city index fell 16.9%, the biggest decline in its 21-year history.

—Roundup

OECD

Inflation hit 8-year high in developed world in June



Fotosearch

CONSUMER-PRICE inflation in the developed world surged to an eight-year high in June as energy and food prices soared, the Organization for Economic Cooperation and Development said.

The Paris-based research organization said the annual inflation rate in its 30 member countries rose to 4.4% in June from 3.9% in May, the highest since March 2000. Over the month, consumer prices rose 0.6%, down from a 0.7% rise in May. Over the 12 months to June, energy prices rose 19%, following a rise of 15% in the 12 months to May. Food prices rose 6.5% in the 12 months to June, compared with a 6% gain in the 12 months to May.

—Paul Hannon

FRANCE

Consumer confidence hits another record low in July

Associated Press

FRENCH consumer confidence dropped to another record low in July, worse than economists had expected, as households grew more worried about inflation, unemployment, and the French economic outlook.

National statistics office Insee said France's consumer confidence in July fell to minus-48, from minus-46 in June, after minus-42 in May. The July figure is the lowest since Insee started this survey in 1987. Insee also said producer-price inflation rose 0.7% in June from May and 7.3% from June of last year. Excluding energy, food and farming output, producer prices in June rose 0.4% from May and 2.4% from a year earlier.

—Geraldine Amiel

U.S. budget-gap estimates top $500 billion

Economic strain threatens to snarl candidates' plans

BY JOHN D. MCKINNON AND AMY CHOZICK

PROJECTIONS suggest the U.S. budget deficit could exceed $500 billion next year, complicating the debate between Barack Obama and John McCain over how to strengthen the economy while not worsening the nation's finances.

Deficit projections are ballooning because of lower tax receipts and government spending on economic-stimulus programs. The gap increasingly is threatening to play havoc with the two presidential candidates' domestic-policy plans, particularly Sen. McCain's big tax cuts and Sen. Obama's promised health-care expansion, and could force major changes in the winner's agenda.

On Monday, Sen. McCain, the Republican candidate, sought to turn the new deficit numbers to his short-term political advantage, without conceding much to those longer-term realities. Democratic rival Sen. Obama sought to keep the focus on the current shaky economy, economic inequalities and worries over job and retirement security.

The sparring came as the White House budget office boosted its estimate of the federal deficit for fiscal 2009 to $482 billion. With the full costs of the wars in Iraq and Afghanistan added in, the deficit for 2009 likely would exceed $500 billion, analysts said. The deficit projection for 2008 fell somewhat from the last official estimate in February, to $389 billion from $410 billion. Fiscal 2008 ends Sept. 30.

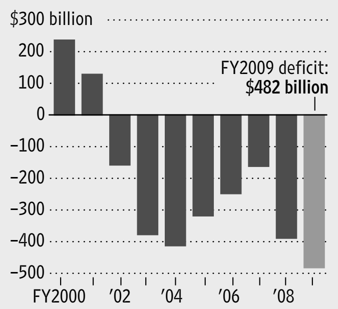
The budget office also lowered its forecast for economic growth this year and next year, and predicted that unemployment would rise. Gross domestic product is expected to increase by 1.6% this year, according to the budget office, down from the February prediction of 2.7%. Growth next year is expected to be 2.2%, down from 3%.

While the 2009 deficit would be a record in nominal terms, it is still within the range of much of the 1980s and 1990s when measured by the yardstick economists prefer: as a percentage of the economy. By that measurement, the 2009 deficit would be 3.3% of the gross domestic product. Fiscal 2008's $389 billion deficit accounts for 2.7% of GDP.

"I think if you're taking office with the deficit at around $500 billion, that's really going to throw a wet blanket over very ambitious plans," said Robert Bixby, executive director of the Concord Coalition, a group that advocates fiscal responsibility. "A lot of people are going to ask, 'Can we afford this?' "

Red ink

Federal budget surplus/deficit



Notes: Fiscal year ends Sept. 30; figures for 2008 and 2009 are projections

Source: Office of Management and Budget

In a statement, Sen. McCain distanced himself from the Bush administration over the deficit. "There is no more striking reminder of the need to reverse the profligate spending that has characterized this administration's fiscal policy."

He cited his own "unmatched record" of fighting wasteful government spending, and criticized Sen. Obama, saying the Illinois Democrat "will not commit to balancing our budget, does not propose to control spending, and has only one answer to every challenge: raise taxes."

Sen. McCain has promised to balance the federal budget by 2013, and admitted that "today's news makes that job harder." But he said the new projections "should not change our resolve to make the tough decisions and the genuine effort to reach across the aisle that are needed."

For his part, Sen. Obama again steered clear of promises to balance the budget. At a previously scheduled roundtable Monday, the candidate and his top economic advisers sought to showcase some of his proposals aimed at reducing what the group considers economic inequalities. Those include ending the Bush tax cuts for Americans making more than $250,000 and implementing a middle-class tax cut of up to $1,000 per family to help offset the rising price of fuel and food. Sen. Obama has also proposed a second stimulus plan—including at least $50 billion in tax rebates to individuals and families—on top of the $168 billion plan that is already in effect.

One of his top economic advisers, Jason Furman, addressed the deficit figures, saying the new projection "is an urgent reminder that our fiscal policies must change."

He added that Sen. McCain "is proposing to continue the same Bush economic policies that put our economy on this dangerous path." Mr. Furman said Sen. Obama will "restore balance and fairness" by cutting wasteful spending, shutting corporate loopholes and rolling back the Bush tax cuts for the wealthy.

Analysts said both candidates have made promises that would add to government red ink. Compared with current tax policy, Sen. Obama's plan would raise government revenue—$800 billion during the next 10 years—while Sen. McCain's tax plan would lower government revenue by about $600 billion, according to analysts at the Tax Policy Center, a think-tank consortium in Washington.

But Sen. Obama's health-care plan would cost the government at least $65 billion a year, and possibly more, analysts said. The McCain camp estimates all of Sen. Obama's spending increases at almost $1 trillion.

Sen. McCain's camp says he plans savings of almost $1 trillion over the next decade. But budget experts said Sen. McCain hasn't come out with many specifics.

—Elizabeth Holmes contributed to this article.

China details energy bureau's role

BEIJING—China spelled out in greater detail the role and structure of the newly established National Energy Administration, which will integrate energy policies and approve related investments.

The bureau will be independent of the National Development and Reform Commission, the former top energy-planning agency, paving the way for the re-establishment of an energy ministry, analysts say.

The new bureau will take over the commission's responsibility to chart energy strategy and policy and manage the sector, the commission said.

The bureau will be responsible for managing strategic oil reserves, including building and releasing reserves and supervising commercial reserves, the commission said.

It will also be in charge of approving the biggest investments overseas on energy resources, including uranium, and negotiating energy contracts with foreign governments and institutions.

But the bureau will have a shared responsibility with the commission in deciding on changes to domestic energy prices, the commission said.

The bureau consists of nine departments, four of them in charge of separate energy sectors and five in charge of policy, development planning, energy conservation and international cooperation, the commission said.

It is the first time since 1993—when the Ministry of Energy was dissolved—that a central body has been set up to deal with energy issues.

—Renya Peng

German inflation remains high

BY ROMAN KESSLER

FRANKFURT—Inflation pressures in Germany showed no signs of easing, as rising energy costs and summer holiday tickets kept the consumer-price index stubbornly high, and negotiated wages in April rose at their fastest pace in 12 years.

The CPI for Germany, Europe's largest economy, held steady at a 3.3% annual increase in July, unchanged from June, according to preliminary data released Tuesday. The index showed a steep 0.6% increase from June, twice the monthly pace reported for May, mainly driven by double-digit increases for holiday homes and package tours.

Economists hadn't expected inflation to rise as much from June and had even predicted the July rate would fall slightly from a year ago, according to a Dow Jones Newswires survey of 13 analysts.

Data on negotiated wages, another gauge of inflation, showed German workers and employees received 3.5% higher salaries in April than in the same month a year earlier, thanks to large public-sector and chemical-workers settlements, a quarterly survey showed. In January, salaries were up 3.3% from the year before.

The figures "are obviously no relief for the" European Central Bank, said ING economist Carsten Brzeski.

Dirk Schumacher, senior economist at Goldman Sachs in Frankfurt, said Germany's 0.6% monthly inflation rate indicates euro-zone annual inflation will remain at 4.0%, unchanged from June.

That is twice the just-under-2% level that the ECB regards as its price-stability target.

The euro-zone-inflation aggregate is scheduled for release Thursday morning. Germany contributes about 27% to the euro-zone measure.

The ECB's rate-setting governing council raised its key interest rate July 3 to 4.25% from 4% on fears that high oil and food prices could cause wages to soar and also lead to higher prices for other goods and services.

Ex-Pentagon official linked to Kurdish oil

Perle denies having role in a consortium seeking rights to drill

By Susan Schmidt
And Glenn R. Simpson

Influential former Pentagon official Richard Perle has been exploring going into the oil business in Iraq and Kazakhstan, according to people with knowledge of the matter and documents outlining possible deals.

Mr. Perle, one of a group of U.S. security experts who began pushing the case for toppling Iraqi dictator Saddam Hussein about a decade ago, has been discussing a possible deal with officials of northern Iraq's Kurdistan regional government, including its Washington envoy, according to these people and the documents.

It would involve a tract called K18, near the Kurdish city of Erbil, according to documents describing the plan. A consortium founded by Turkish company **AK Group International** is seeking rights to drill there, the documents say. Potential backers include two Turkish companies as well as Kazakhstan, according to individuals involved.

AK's chief executive is Aydan Kodaloglu, who, like Mr. Perle, has been involved with the American Turkish Council, an advocacy group in Washington. She didn't didn't respond to requests for comment. Phyllis Kaminsky, who identified herself as the U.S. contact for Ms. Kodaloglu, said she herself was aware of the drilling plan but referred questions about it to Mr. Perle.


Richard Perle

"Richard would know the most," Ms. Kaminsky said. "He is involved, I know that."

People with knowledge of the talks said they involve Alexander Mirtchev, a Washington consultant and adviser to the government of Kazakhstan, and an associate of his, Kaloyan Dimitrov. Mr. Perle has attended events promoting the interests of Kazakhstan, an oil-rich nation whose ruler, Nursultan Nazarbayev, is involved in a long-running U.S. investigation of 1990s-era oil-company bribery. Mr. Perle has publicly lauded President Nazarbayev as "visionary and wise," according to a publication distributed by the Kazakh Embassy in Washington.

Mr. Perle said by email that Mr. Mirtchev is a friend of his who once spent a night at his vacation home in France. Mr. Perle said Mr. Mirtchev is "justly... proud of his influence on the liberalization of the Kazakh economy."

Asked about pursuing oil concessions, Mr. Perle said, "I am not involved in any consortium involving Mr. Mirtchev or Mr. Dimitrov, nor am I 'framing plans for a consortium' " involving either one. He declined to elaborate.

Brian Shaughnessy, a lawyer for Mr. Mirtchev, said his client "is not working on oil related projects in Kazakhstan or Kurdistan with Richard Perle, nor have they done any business deals of this nature." A lawyer for Mr. Dimitrov didn't respond to questions about oil discussions.

A spokesman for Qubat Talabani, the Kurdistan regional government's representative in the U.S., confirmed that the envoy had been approached by Mr. Perle. In a statement, Mr. Talabani said "one of my duties...is to seek out potential investors for our new, growing economy in Iraqi Kurdistan as well as respond...to all legitimate requests for investment information."

Kurdish authorities have been granting oil-drilling contracts even though Iraq's central government and the Bush administration want them to hold off until a national oil law is passed. The K18 concession, which is estimated to hold 150 million or more barrels of oil, would potentially be operated by Houston-based **Endeavour International**, according to documents and people familiar with the discussions. A spokeswoman for Endeavour said, "At this point we wouldn't have anything definitely going on, and we wouldn't comment on anything that hadn't been publicly announced."

Jakarta faces blackouts as coal is shipped abroad

By Yayu Yuniar

JAKARTA—Indonesia is the world's largest producer of thermal coal, which is used to generate one-third of the nation's electricity. So why are factories, businesses and ordinary citizens around this sprawling capital city facing chronic blackouts?

The answer: Indonesian coal producers would rather export at a higher price than sell locally to PLN, the state-owned electricity utility. That has left PLN with a coal deficit in recent months, forcing it to turn the power off in sections of Jakarta for hours each day.

In a desperate move to reduce power usage, the government is forcing factories in industrial zones around Jakarta to shut for two days between Monday and Friday and move those working days to the weekend. And it is trying through television advertising campaigns to persuade consumers to switch off lights and minimize power consumption.

The troubles are one example of how attempts by governments in many parts of the developing world to control prices for consumers can lead to problems. In Indonesia, the government sets low rates for electricity that don't reflect its real cost. That has contributed to years of underinvestment in power infrastructure. As the international market price for commodities like coal rises, Indonesian producers can often get a better price by exporting than by selling to their home market.

The power issue is hurting Indonesia's attractiveness as an investment site. More than 400 Japanese companies—making everything from food to textiles—jointly issued a formal complaint to the government this month about the frequent cuts to power supply and threatened to pull out unless the problems are resolved quickly.

I Indonesia's economy is forecast to expand 6% this year, largely because of commodity exports. Yet the power shortages may hurt growth.

U.K. outlook gets darker

Retailing, mortgages slow rapidly in signs of spiraling economy

By Joe Parkinson

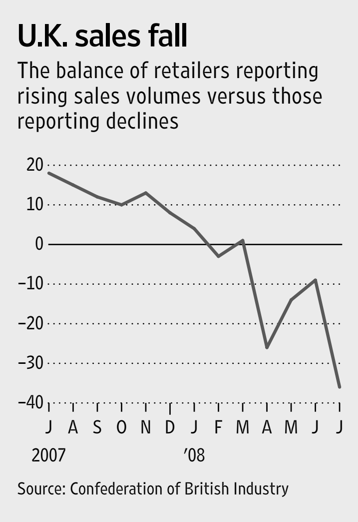
LONDON—The U.K. economy's outlook darkened further Tuesday as retail-sales growth and home-mortgage activity slowed sharply.

The Confederation of British Industry, a business group, reported that its measure of July retail-sales volume tumbled to its lowest in 25 years. Bank of England figures showed mortgage approvals in June slumped to their lowest since the data series began in 1999. The central bank also reported sharp drops in consumer and mortgage lending.

Economists said the rapid downturn has raised the risk of the U.K. slipping into a technical recession. Figures released Friday showed the economy grew just 0.2% in the second quarter, a rate not seen since 2001.

"Today's data continued to paint a picture of an economy rapidly losing momentum," Lehman Brothers economist Matthew Smith said. "Our forecast is for the U.K. to enter recession and for the Bank of England to start cutting rates in November as oil prices ease back."

The BOE mortgage-market report is the latest gloomy news about the U.K. housing market, which is deteriorating under pressure from the credit crunch.



The housing slump has been at the center of Britain's economic slowdown as households have pulled back on spending, squeezed by shrinking asset values and rising food and energy costs. A report published Tuesday for the British government by former senior mortgage banker James Crosby suggested the government might consider guarantees for high quality mortgage-backed securities to revive lending.

The data showed mortgage approvals fell to 36,000 in June, a 72% fall from the peak of November 2006.

Growth in total net consumer lending also slowed to £4 billion ($8 billion) in June. That is the weakest rate since February 1999 and down from £5.1 billion in May.

"This is more very disturbing mortgage data that heighten concerns over the potential depth and length of the housing market correction," Global Insight economist Howard Archer said.

In its monthly survey, the CBI said a balance of -36 of retailers reported higher sales in July compared with the stronger than expected -9 in June. That was the lowest balance since the survey began in July 1983 and significantly below the expectations of economists, who had forecast sales volumes would slow to a balance of -15. Sterling tumbled on the news to an intraday low of 1.990 against the dollar.

"The CBI's July survey of retailers fell off the proverbial cliff," J.P. Morgan economist Malcolm Barr said. "Many will take the CBI data as indicative of the trend in overall spending, while the official data are showing massive volatility, and the message on that basis could hardly be weaker."

—Natasha Brereton and Laurence Norman contributed to this report.

Associated Press

Malaysian opposition leader Anwar Ibrahim says a doctor's report will clear him of sodomy charges, and he urged police to drop their investigation of him.

Malaysia's Anwar says report exonerates him

By James Hookway And Raphael Pura

Malaysian opposition leader Anwar Ibrahim produced a purported doctor's report Tuesday that he said showed that he hadn't sodomized a former aide, and he urged police to drop their investigation into the aide's allegation against him.

Mr. Anwar claimed the report—which hasn't been authenticated—supported his contention that he is being framed by his political opponents to derail his bid to topple Prime Minister Abdullah Ahmad Badawi's long-ruling National Front government and become Malaysia's next prime minister.

Malaysian officials and police say the investigation isn't politically driven. On Tuesday, Home Affairs Minister Syed Hamid Albar declined to say whether the medical report cited by Mr. Anwar was authentic, but described it as a "piece of evidence" in the sodomy investigation.

The developments come amid an increasingly acrimonious political power struggle in Malaysia, where an opposition alliance led by Mr. Anwar scored major gains in a parliamentary election in March and is now threatening to dislodge a government coalition that has ruled the predominately Muslim country of 27 million since 1957.

The allegation of sodomy—or anal sex, which is a crime in Malaysia—was lodged by the former aide against Mr. Anwar in late June, shortly after the politician had disclosed opposition plans to call a vote of no confidence in Mr. Abdullah's government.

Mr. Anwar asserted that the purported doctor's report he distributed to the media Tuesday "makes a mockery of this so-called police investigation."This is the second time Mr. Anwar has faced sodomy allegations. After a falling out with then-Prime Minister Mahathir Mohamad in 1998, he was purged from his post as deputy premier. He was subsequently tried, convicted and jailed on sodomy charges, only to have the conviction overturned in 2004, after Dr. Mahathir had left office.

The drama surrounding the allegations against Mr. Anwar has again turned the spotlight on Malaysia's authoritarian political culture and a legal system still widely viewed as vulnerable to political pressure. Public confidence in institutions of law enforcement—the police, public prosecutors and the judiciary, which have been dogged by embarrassing scandals—is low. And a recent opinion survey by an independent Malaysian polling organization showed that a majority of those asked believe Mr. Anwar's allegations that the latest sodomy charge is politically motivated, despite government denials.

"The credibility of the Malaysian justice system as a whole is at stake," Ambiga Sreenevasan, president of the Malaysian Bar Council, said. "The public must be left in no doubt that the criminal justice system in this country will not be misused or abused."

India raises rates to curb inflation

By Jackie Range

NEW DELHI—India's central bank raised a key interest rate and lifted the amount of money banks must keep in reserve Tuesday, measures aimed at fighting inflation that are likely to slow economic growth even further.

Economists said the moves were more drastic than expected.

"We can expect to see some further damage to the real economy coming through," wrote HSBC economist Robert Prior-Wandesforde.

Yaga Venugopal Reddy

The bigger-than-expected rate increase, coupled with a reduction in the bank's forecast for economic growth, prompted a selloff in the stock market. The Bombay Stock Exchange's 30-stock Sensitive Index, or Sensex, fell 557.57 points, or 3.9%, to end at 13791.54.

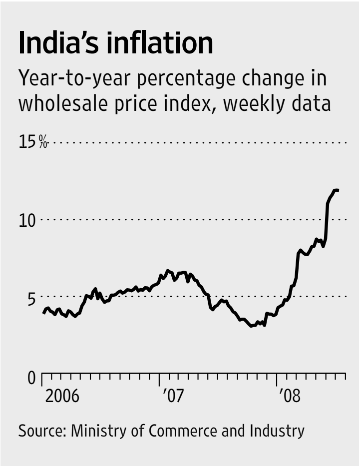
The Reserve Bank of India raised the repurchase rate—the rate at which banks borrow funds from it—by 0.50 percentage point to 9%, the highest level in more than seven years. It was the third time in two months it has raised the repo rate.

The bank also moved to drain liquidity from the financial system by increasing the amount of cash banks are required to hold at the central bank. It raised the cash reserve ratio by 0.25 percentage point to 9% of bank deposits, with effect from Aug. 30.

Economists predict that India's gross domestic product will grow between 7% and 7.5% in the year ending March 31, 2009, compared with 9% in the previous year and 9.6% the year before that. Inflation and high interest rates are major factors in slowing growth, economists say.

The Reserve Bank lowered its own economic growth forecast to about 8% for the year ending March 31, from its previous estimate of 8% to 8.5%. It also lifted its inflation forecast to around 7% by the end of the fiscal year, from 5.5% earlier.

Recently, wholesale price inflation, which measures the rise in wholesale prices and is the most closely watched inflation gauge in India, rose at an annual rate of just under 12%, a 13-year high. HSBC predicts wholesale price inflation could reach around 15% in October.



The central bank's moves are "a signal to the banks that credit growth must be moderated," the finance ministry said in a statement. Indian banks are expected to pass the interest-rate rises along to customers through higher lending rates.

Economists expect further monetary tightening by the central bank later this year, with inflation likely staying high in 2008.

—Subhadip Sircar and Neelabh Chaturvedi contributed to this article.

Japan's economy weakened last month

By Akane Vallery Uchida

TOKYO—Japan's unemployment rate rose to its highest level in almost two years in June, while private spending slowed, reflecting the impact of global economic turmoil on Asia's largest economy.

Other data showed domestic demand remained weak as households were reluctant to increase their spending due to rising price pressures and slow salary growth, adding to concerns over the outlook for the nation's economy.

"All the data today point to a weakening of Japan's economy. With domestic company profits gradually shrinking and employment conditions clearly deteriorating, growth in consumption is very difficult to expect," said Etsuko Yamashita, chief economist at Sumitomo Mitsui Banking Corp.

The nation's jobless rate rose to a seasonally adjusted 4.1% in June, the highest since September 2006, from 4% in May, the Ministry of Internal Affairs and Communications said Tuesday.

The increase in unemployment was larger than economists' average forecast of 4%.

—Takeshi Takeuchi, Tomoyuki Tachikawa and Takashi Mochizuki contributed to this article.

Indian manhunt for bombers focuses on Mumbai suburb

Associated Press

MUMBAI—Police launched a massive manhunt here Tuesday, believing that the serial blasts that rocked the western Indian city of Ahmedabad over the weekend, killing 42 people, were hatched in a Mumbai suburb. Four cars used in the weekend bombings were stolen from the suburb of Navi Mumbai, police said.

On Tuesday, police said they defused 18 unexploded bombs found near the diamond markets in Surat, a city 280 kilometers south of Ahmedabad.

A police representative said two of the stolen vehicles had been used as car bombs in the attack, while two others had been discovered filled with explosives in Surat. Police issued a sketch of a young man believed to be linked to one of the cars in Surat, he said.

On Tuesday, Ahmedabad police said that after sifting through the blast scenes it appeared that 22 separate bombs exploded on Saturday, killing 42 people and wounding 183.