Money & Investing: Swiss consider the UBS settlement a diplomatic success

THE WALL STREET JOURNAL.

VOL. XXVII NO. 140 | EUROPE | FRIDAY - SUNDAY, AUGUST 21 - 23, 2009

DOWJONES A News Corporation Company

europe.WSJ.com

What's News

Switzerland sold its stake in UBS for a profit of $1.13 billion, becoming the first European government to declare that a major crisis-hit bank was fit enough to have all state ownership withdrawn. Page 17

■ Britain's public finances weakened in July as the recession took a big bite out of tax receipts and triggered more borrowing. Page 3

■ Porsche's former top two executives, Wendelin Wiedeking and Holger Härter, are under investigation on suspicion of insider trading. Page 4

■ Putin ordered a check of Russia's strategic infrastructure following Monday's deadly accident at a hydroelectric power plant. Page 2

■ Financial shares buoyed U.S. stocks, with AIG leading the way. European markets rallied on the back of oil producers and miners. Page 18

■ Tesco said it will hire more than 800 staff members for a new financial-services customer-service center. Page 5

■ Ahold posted a 42% fall in its second-quarter earnings, though results beat analysts' expectations. Page 5

■ The German economy may see a "clear recovery" as foreign demand lifts output and confidence, the central bank said. Page 4

■ The Baltic area's outlook remains severe despite a softening downturn, Sweden's top regulator said. Page 4

■ The FDIC is expected to soften proposed rules on private-equity firms that buy failed U.S. banks. Page 20

■ A bomb exploded near a restaurant in Baghdad, killing two people, while the death toll rose to at least 101 from a string of blasts Wednesday.

■ Rio Tinto reported first-half profit fell 65%, but said iron ore demand and prices should improve. Page 5

■ China detained two factory officials after 1,300 children were poisoned by pollution from a manganese processing plant. Page 11

■ Italian police rescued five African migrants adrift in a dinghy off the Sicilian island of Lampedusa, but survivors said dozens of others died at sea.

■ Representatives of north and south Sudan reached a pact on several disputed issues in a 2005 peace deal.

EDITORIAL&OPINION

Criminal Injustice
The Lockerbie Bomber's release was feckless, not compassionate. Page 12

Breaking news at europe.WSJ.com

Getty Images

Abdelbaset Ali Mohmed al-Megrahi, who was convicted of blowing up Pan Am Flight 103 over Lockerbie, Scotland, boards a plane bound for Tripoli on Thursday, after his release from a Scottish prison.

Scots send Lockerbie bomber home

By Alistair MacDonald, Paul Sonne and Spencer Swartz

LONDON—The Libyan agent convicted of the 1988 Lockerbie bombing returned home Thursday from a Scottish prison, leaving behind unanswered questions and anger among victims' families in the U.S. and the U.K.

Defying intense pressure from the U.S. government, Scottish Justice Secretary Kenny MacAskill chose to release Abdelbaset Ali Mohmed al-Megrahi on "compassionate grounds," reasoning that he should be allowed to be with his family before dying of terminal prostate cancer. Within hours, Mr. al-Megrahi, 57 years old, had boarded a Libyan government jet and was on his way to Tripoli, the Libyan capital.

The release of the man convicted of the worst terrorist atrocity in the U.K. elicited protests in the U.S. and elation among many Libyans, whose government had lobbied for the release. It also exposed a rift between two groups of victims' families: Those, mainly in the U.S., who believe he should have spent the rest of his life in prison, and a smaller, mainly U.K. group who believe he is innocent.

On Thursday, U.S. Secretary of State Hillary Clinton said the U.S. government is "deeply disappointed" by the decision, and President Barack Obama said his administration had expressed its disapproval to the U.K. and asked Libya to keep Mr. al-Megrahi under house arrest. "The U.S. families here are in tears," said Frank Duggan, leader of a group representing families of U.S. victims.

In Tripoli, where most people believe Mr. al-Megrahi to be innocent, the streets were "full of happy people," said Said Laswad, editor of the Tripoli Post, a local English-language newspaper. "We all believe he is a hero," Dr. Laswad said. Mr. al-Megrahi's release comes as Libyan leader Col. Moammar Gadhafi prepares to celebrate the 40th anniversary of the revolution that brought him to power.

Mr. al-Megrahi was sentenced in 2001 to a minimum of 27 years in prison for his involvement in blowing up a New York-bound Pan Am airliner in December 1988 as it flew over the Scottish town of Lockerbie, killing all 259 people on board and 11 on the ground. On the flight were 189 U.S. citizens, many traveling home for the holidays.

Mr. al-Megrahi, who maintains his innocence, has appealed his conviction twice. He dropped his most recent appeal as part of an effort to

Please turn to page 26

Violence mars Afghanistan's election

By Matthew Rosenberg, Anand Gopal and Yochi J. Dreazen

KABUL—Sporadic bombs and rocket attacks, rumors of suicide squads and reports of fraud weighed heavily on turnout in Afghanistan's presidential election Thursday, potentially casting a shadow over the government's ability to hold the country together once the votes are tallied.

Taliban violence also claimed the lives of a U.S. soldier and a British soldier. In all, the death toll from election-related attacks was expected to be more than two dozen. There are 17 million registered voters in the nation.

The election was seen as a major test of Afghanistan's progress in the eight years since the fall of the Taliban, and a way to measure the impact of the Obama administration's renewed emphasis on the country in the eight months it has been in the office. The international community spent an estimated $500 million to bankroll the vote, which senior U.S. and U.N. officials acknowledged in recent weeks would be far from perfect.

Agence France-Presse

Burqa-clad Afghan women in Kandahar show identification cards Thursday as they wait to cast their votes.

Electoral officials are investigating widespread reports of fraud—ballot stuffing and people voting multiple times—that started coming from all major political camps soon after polling centers opened.

They said turnout was low in the morning but improved in the afternoon, though international monitors said turnout looked to be far below the 70% who voted in 2004, when the insurgency was far less potent and Afghans far more optimistic. Afghan officials said they would have turnout figures in the next day or two, and would begin releasing partial

Please turn to page 26

Inside

Affordable luxury

Cruising in a Turkish caique without spending a fortune
Weekend Journal, page W6

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9350.05	+0.76
Nasdaq	1989.22	+1.01
DJ Stoxx 600	229.65	+1.41
FTSE 100	4756.58	+1.43
DAX	5311.06	+1.51
CAC 40	3505.32	+1.59
Euro	$1.4236	+0.10
Nymex crude	$72.54	+0.17

THE WALL STREET JOURNAL.

LEADING THE NEWS

Putin orders infrastructure check

Safety probe follows a deadly accident at Siberian plant

By Alan Cullison

European Pressphoto Agency/Belga

Vladimir Putin at a meeting of the Russian cabinet Thursday. The premier ordered a check of Russia's strategic infrastructure.

MOSCOW—Prime Minister Vladimir Putin ordered a check of Russia's strategic infrastructure Thursday, amid concerns that a massive accident at a hydroelectric power plant in Siberia this week could occur elsewhere.

While Mr. Putin suggested that lack of technological safeguards may be one reason for the disaster, others said decades of underinvestment and structural neglect played a role.

The official death toll from the accident at the Sayano-Shushenskaya hydroelectric plant rose to 17 dead and 57 missing Thursday, after divers found three more bodies in the flooded inner reaches of the dam. Moscow has launched a massive search and rescue mission, but officials say that hope for survivors in the frigid waters is dwindling.

Officials say they are still far from understanding the reason for the explosion, which uprooted one of the plant's 900-ton turbines and flooded the vast hall that housed the power-generating equipment. About 100 workers were in the hall at the time.

Russia's emergency situations minister, Sergei Shoigu, told a government newspaper that three of the plant's 10 turbines were destroyed in Monday's explosion and flood. It will take several years and about $1.2 billion to rebuild the engine room, officials say.

"The accident is a unique one, the source is unclear, we've never seen anything like it anywhere," said Mr. Shoigu, whose ministry is heading the search for survivors inside the dam.

The accident, and the specter of drowning for the victims, recalls an early mishap in Mr. Putin's presidency, when in 2000 the Russian nuclear submarine Kursk sank off the coast of Murmansk, killing all 118 sailors on board.

Mr. Putin's image as a can-do leader was badly dented when he balked at interrupting a vacation in the Black Sea resort of Sochi to deal with that accident. His critics accused him of not doing enough for the submarine crew, the last of whom suffocated before rescuers could reach the vessel on the ocean floor.

Mr. Putin told his cabinet he would fly Friday to Siberia to visit the site of the hydroelectric power station. In televised remarks, he also ordered that infrastructure throughout the country be checked and upgraded.

"The tragic event at the Sayano-Shushenskaya has clearly shown how much we need to do to ensure the safety of hydropower facilities," he said. He also stressed the need to make sure that workers observe industrial safety standards, saying that "technological discipline is very low."

In his interview, Mr. Shoigu condemned Internet bloggers who he said were spreading rumors that the government wasn't doing enough to rescue workers. "These guys need to be punished severely," he told the newspaper Rossisskaya Gazeta.

Russia's Interfax news agency reported Thursday that police in Siberia arrested the editor of the online newspaper "Novy Fokus," for allegedly spreading false information that defamed the plant's management and the rescue effort.

His Website suggested there were survivors to the initial flood who were trapped in pockets of air and banged on surfaces in a bid to contact rescuers, Interfax said. Officials deny getting such signals from survivors.

Sayano-Shushenskaya, which is owned by state-controlled RusHydro, is Russia's largest power plant, supplies about 10% of Siberia's energy and is a major source for the region's metals plants.

Experts say the plant suffered from underinvestment in the post-Soviet collapse. Russia's electricity monopoly, UES, had announced a major spending program that would have upgraded the plant's safety standards, but the project hadn't been completed at the time of the accident.

Israel may raise key rate Monday on inflation fears

By Sara Toth And Paul Hannon

JERUSALEM—Israel's central bank may raise its key interest rate Monday when it sets policy for September, responding to signs the economy has started growing and to fears that inflation may pick up quickly.

Should the Bank of Israel start to remove some of the stimulus injected into its economy, it would be the first central bank to raise its key interest rate since the global financial crisis intensified last September.

But there are risks in acting so soon after signs of a revival in growth have appeared and before the world's largest central banks have raised their interest rates. Chief among them: the risk that its currency, the shekel, may strengthen rapidly, choking off a recent pickup in exports.

Expectations that the Bank of Israel is moving toward an increase in its key rate from a record low of 0.5% have been fueled by a number of recent policy decisions designed to halt the provision of stimulus.

In late July, the central bank said it will no longer buy government bonds, as it had been doing since March. In early August, it said it would stop purchasing $100 million of foreign currency each day, although it has continued to intervene to limit shekel gains.

But news that the economy grew in the second quarter heightened expectations of a rate increase. Data released Sunday showed the country's gross domestic product grew at an annualized rate of 1% in the three months from April to June, after contracting in the two previous quarters.

A rate increase is "a real possibility," said Jonathan Katz, an economist at HSBC.

But it isn't certain the central bank will raise rates. A Bank of Israel survey found local financial institutions are forecasting that the interest rate will be unchanged for three more months.

Much will depend on the Bank of Israel's powerful governor, Stanley Fischer, a former deputy managing director of the International Monetary Fund. Mr. Fischer has the power to decide where rates should go—and a bias toward action.

INDEX TO BUSINESSES

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

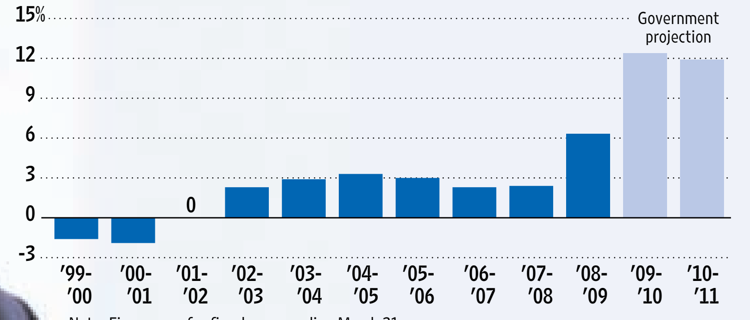
U.K. borrowing rises as tax receipts fall

Public finance costs are becoming crux of the next election

By Laurence Norman

Reuters

Up and up



Note: Figures are for fiscal years ending March 31
Source: U.K. Treasury; U.K. National Statistics

LONDON—British public finances weakened in July as the recession took a big bite out of tax receipts and triggered more borrowing than expected.

The Office for National Statistics said the public sector borrowed a net £8 billion ($13.25 billion) in July, compared with a repayment of £5.2 billion a year earlier. The net borrowing was the highest on record for that month. It was also well above the £200 million of borrowing economists had projected.

The Treasury said the government is still on track to meet its £175 billion net borrowing estimate for the fiscal year ending March 2010. That sum represents a shortfall equal to 12% of gross domestic product and is is twice the borrowing levels of Germany and other major European economies.

Some economists said the net borrowing for this fiscal year could overshoot the government's target by as much as £25 billion as it struggles with the effects of the country's worst recession in decades.

"At this rate, borrowing looks set to overshoot vastly the Chancellor's full-year forecast of £175 billion," said Vicky Redwood, U.K. economist at Capital Economics. "We expect a figure of at least £200 billion."

News of Britain's worsening public finances cuts to the core of political debate ahead of next year's general elections. The opposition Conservative Party has targeted Prime Minister Gordon Brown's promise not to cut spending as unrealistic.

The latest data confirm Britain is in the middle of a "debt crisis," said Mark Hoban, a member of parliament and one of the Conservative Party's Treasury team. "By denying the scale of the debt crisis and the need for spending cuts ... Gordon Brown is putting our economic recovery at risk," he added.

A Treasury spokesman said the agency had anticipated the trend, saying it remained broadly in line with its forecast in the last budget report, which had anticipated sharp drops in tax receipts from financial-services companies.

"Today's public finances data reflects what we knew at the time and other figures have since confirmed: in the first half of the year the whole world was in a steep recession and that affected the public finances here in the U.K.," the spokesman said.

In the first months of the financial year, public finance data had made some economists hopeful that full-year borrowing could come in below the government's £175 billion target.

However July's numbers have "dealt a major blow to such notions" said Ross Walker, U.K. economist at the Royal Bank of Scotland. "July's data alone wiped out the improvement in the previous quarter, with further deterioration likely as the year progresses," he said.

The fiscal data contrast with signs of recovery in parts of the British economy. Retail sales for July were up 3.3% from a year earlier, the sharpest rise in 14 months.

The running down of inventories by U.K. companies appears to be drawing to a close, but at the same time corporate demand for lending remains subdued, a report by the Bank of England released Thursday showed.

U.K. gross mortgage lending rose to its highest level in nine months in July with support from the usual summertime rise in house market activity. The Council of Mortgage Lenders warned that a further significant pickup is unlikely due to the weakness of the economy and fragile bank funding conditions.

British businesses are becoming more upbeat about their prospects, even as they appeared to share the Bank of England's view that it is far from certain the recovery will be strong or sustained. A monthly survey of 200 businesses commissioned by lender Lloyds TSB found that the proportion of companies expecting sales to rise over the next 12 months exceed those expecting sales to fall by 30 percentage points, the largest margin in 13 months. In June, the margin was 17 percentage points.

Chancellor of the Exchequer Alistair Darling has plans to cut the deficit in half by 2014 by raising taxes, selling government property and holding down spending. In an op-ed due to be published in Friday's edition of the Daily Mail, Mr. Darling said that attacks from the Conservative Party risked harming a recovery by undermining confidence. "The talking down of the economy implied by David Cameron's suggestion that the U.K. could default on its debt betrays his inexperience," he wrote.

Bank of England Gov. Mervyn King is among those that want the planned debt reduction to be more ambitious. The ONS said U.K. central government current tax receipts were down 15.3% in July from a year earlier,. From April to July, central government tax receipts were down 11.9% as corporate tax intake fell 25%.

U.K.'s supply-line plan gets tweaked yet again

By Laurence Norman
And Ainsley Thomson

LONDON—The U.K. government Thursday said it is further changing its trade-credit insurance program to reduce its cost for companies and ease access.

The changes follow a campaign from business groups, which said companies still suffer from disruptions to their supply lines because of the lack of credit insurance.

The government also released numbers showing that the program has so far been taken up by only a few dozen companies, an example of the mixed success the U.K.'s recession-fighting measures have had. Trade-credit insurance is used to protect suppliers against the risk of nonpayment from buyers and has become vital in maintaining supply lines.

A spokeswoman for the U.K. Department for Business, Innovation and Skills said the department is halving the cost of the program to 1% from 2% of the cover being provided. She said the government is extending the upper limit on the top-up cover to £2 million ($3.3 million) from £1 million. It is removing a previous floor of £20,000 for companies seeking government cover.

The top-up program allows suppliers to buy government-backed insurance to restore their insurance cover to its original level of protection or else double the amount of insurance they are able to obtain from the private sector up to a value of £2 million. The program will end at the close of 2009.

The latest move represents the second time the program has been modified since its launch on May 1.

The government set a cap of £5 billion for the total insurance cover it is prepared to provide. But Thursday it said that, thus far, 52 companies have had their applications to use the program approved, resulting in cover of £7.1 million.

The smallness of that amount suggests the credit insurance program hasn't been as effective as the government had hoped. Several other government programs for businesses, struggling mortgage holders and job seekers haven't generated much demand, including the £280 million mortgage-rescue program, which has so far helped just a handful of families avoid potential repossessions.

The government has always said it wanted its involvement to be targeted and temporary, and industry experts say a transition needs to take place where companies become less reliant on credit insurance.

Still, reaction to the government's move was mixed, with the Confederation of British Industry saying the program needs to address the needs of export companies and the British Retail Consortium calling for the program to be backdated further.

However, trade-credit insurance companies **Atradius Credit Insurance** NV and **Euler Hermes SA UK**, welcomed the changes, saying they addressed issues the firms had raised with the government.

Porsche officials probed

Former top executives are under suspicion of insider trading

BY DAVID CRAWFORD AND KATHARINA BECKER

Porsche Automobil Holding SE's former top two executives are under investigation on suspicion of insider trading, marking another setback for two executives once celebrated for engineering one of the biggest short squeezes ever.

Prosecutors in Stuttgart, where the luxury sports car maker is based, and Germany's securities watchdog, Bafin, said they were examining what they say is evidence that the two executives—former chief executive Wendelin Wiedeking and Chief Financial Officer Holger Härter—manipulated the market in connection with Porsche's ill-fated attempt to acquire **Volkswagen** AG.

Porsche denied the allegations. It said officials from the public prosecutor's office raided its business premises in Stuttgart this week, seizing numerous documents. Porsche said it is cooperating "in order to clarify the issue as quickly as possible."

Porsche also said Mr. Wiedeking and Mr. Härter are cooperating with the investigation. The two executives were forced to resign last month in the wake of the failed VW takeover that nearly forced Porsche into bankruptcy. Mr. Wiedeking and Mr. Härter, both of whom still work for Porsche as consultants, couldn't be reached for comment.

Porsche relied on a complicated options-based strategy to build a position of more than 50% in VW shares over the past couple of years.

The plan backfired earlier this year when the market turned against Porsche. Saddled with billions in debt, Porsche was forced to agree to sell itself to VW last month in a deal that is still pending.

The investigations are focusing on trades made during an extended time period, beginning in October 2008 and extending into this year, a Bafin spokeswoman said. The investigation is preliminary and not a formal investigation, she said.

"After tip-offs from the financial watchdog Bafin, we have started an investigation on suspicion of market manipulation and the unauthorized divulgence of insider information," a spokeswoman for prosecutors based in Stuttgart said. She declined to provide details of the substance of the investigation. No charges have been filed.

Mr. Wiedeking once enjoyed a reputation as the wunderkind of the German auto world, transforming Porsche from an also-ran into one of the most profitable car makers in the world.

This is Bafin's second investigation into Porsche trading within a year. In October 2008, Bafin opened an investigation into alleged market manipulation related to a surge last year in the price of Volkswagen shares.

The probe came after Porsche said it had access to more than 70% of VW shares through options. The news created a so-called short squeeze, as investors who had bet VW shares would fall tried to cover those positions, sending VW's stock to above €1,000 ($1,423), briefly making the car maker the most valuable company in the world in terms of market capitalization. A number of hedge funds and other large investors with short positions lost millions as a result.

Bloomberg

Wendelin Wiedeking, right, had enjoyed a reputation as the wunderkind of the German auto world. On the left is Porsche's former financial officer, Holger Härter.

Bafin's first investigation was closed in March without action. In May, the regulator opened a new investigation examining movement in the Volkswagen share price over a period of time extending into this year.

"We have referred only a part of our investigation to the Stuttgart prosecutors," said the Bafin spokeswoman, Anja Engelland. While the Stuttgart prosecutors are looking at allegations of crime against Messrs. Wiedeking and Härter, the Bafin continues its own investigation, Ms. Engelland said.

Swedish regulation chief warns of severe Baltic outlook

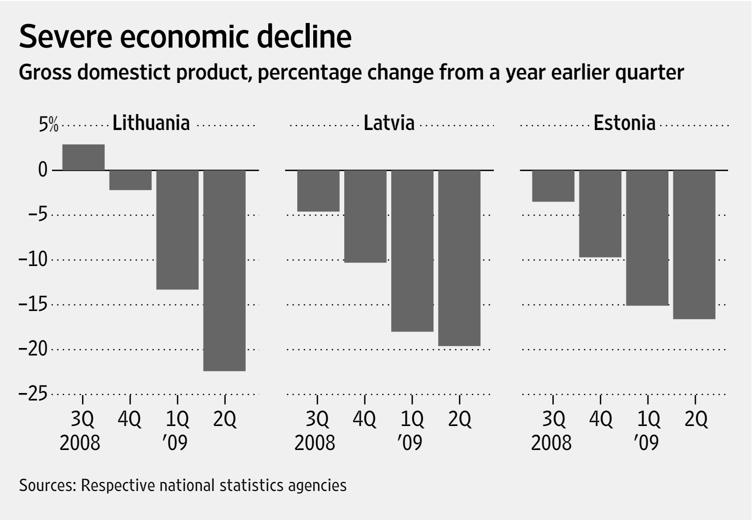
BY JOEL SHERWOOD AND ANNA MOLIN

STOCKHOLM —The Baltic region's troubles still look severe despite signs that the economic downturn is softening, the head of Sweden's financial regulator said in an interview.

But Swedish banks, which are big players in the Baltic banking market, appear able to handle even the worst possible scenarios for the region, Financial Supervisory Authority General Director Martin Andersson said. He added that the crisis has exposed a fundamental flaw in the relationship between society and banking systems, and that the contract between them had to be rewritten.

"We have to have the contract so banks cannot take the upside and the taxpayer takes the downside," said Mr. Andersson, who took over at the FSA in January.

Governments in Sweden and abroad have bailed out risk-taking banks that found themselves strapped for liquidity after the financial crisis erupted. The programs helped to stabilize major banks by passing the buck, at least temporarily, to taxpayers.



In Sweden, **Swedbank** AB has raised 306 billion kroner ($42.6 billion) with the help of government guarantees while **Skandinaviska Enskilda Banken**, or SEB, another of the country's four key banks, has also applied for the right to fund itself that way.

Recent economic data have been encouraging, with gross domestic product figures coming in better than expected in many areas around the world, but "there are lots of losses still to be taken globally" by banks, he said.

Mr. Andersson noted that banks have yet to reveal vast stores of toxic assets that had been rumored to be on their books when the financial crisis hit. "It might be that the rumors were wrong or it might be an indication that there's more to come," he said.

Martin Andersson

Most worrisome is the state of the Baltic countries as they suffer from both homemade and external economic challenges. Their economies are "still deteriorating" and circumstances are "enormously severe," he said. "The situation is not under control there."

Mr. Andersson was quick to reiterate guidance from June that Swedish banks—with their strong capital ratios and earning potential—look well equipped to weather a recession that is growing even more severe across the Baltic Sea.

Recent data on the region showed that the recession has grown deeper. But it also revealed for Estonia and Latvia that the pace of decline was slower in the second quarter than in the first quarter, indicating that conditions may no longer be deteriorating at the same speed.

Latvia also secured emergency loan payments from the International Monetary Fund and European Union this summer, alleviating immediate pressure to devalue its euro-pegged currency, which would front-load loan losses for Swedish banks there.

"Things haven't deteriorated in any way since what we have calculated in the stress test," Mr. Andersson said.

Those tests said Swedish banks have sufficient capital to weather a worst-case scenario of $45 billion in loan losses over the next three years.

Foreign orders lift German economy

BY GEOFFREY T. SMITH AND ANDREA THOMAS

FRANKFURT—The German economy has touched bottom and could see a "clear recovery" in the third quarter as rising orders from abroad boost output and business confidence, the country's central bank said.

"In Germany, leading indicators suggest a palpable recovery in economic output from a low level is possible," the Bundesbank said in its latest monthly bulletin Thursday.

"With the improvement of foreign demand...an important precondition for a further gain in corporate confidence" has been met, it said.

The Bundesbank again warned that its forecasts contain a high degree of uncertainty, the possibility of a new credit crunch and high unemployment.

But the central bank observed that the current combination of low capacity utilization and increasing orders "is a constellation typical of an economic turning point."

Germany's economy broke four quarters of economic contraction in the second quarter, when gross domestic product grew 0.3% from the previous three months.

The rebound was driven mainly by government stimulus programs and a recovery in May and June in demand for German exports.

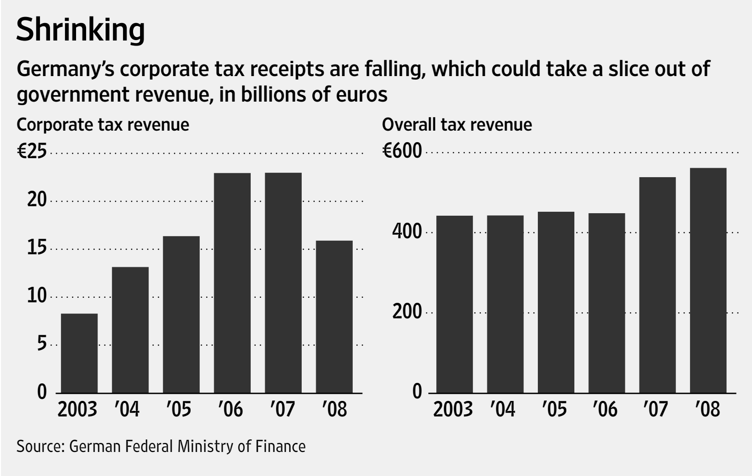
The news should cheer the German government, which is coping with rising fiscal strains as it struggles to limit damages of the global economic downturn. To date, the government has projected a 6% drop in GDP this year.

The government also has forecast a widening budget gap, with the countrywide deficit seen coming in at 4% of GDP this year and at 6% of GDP in 2010, exceeding by far the 3% limit for budget deficits required under the European Union's Maastricht Treaty.

In a separate report issued Thursday, the German finance ministry said its recession-related outlays have soared as tax intake has shriveled since the beginning of the year.

"Even though economic data as a whole are pointing to a stabilization of the economy, the situation, however, is still fragile," Deputy Finance Minister Jörg Asmussen wrote in the ministry's August fiscal update. "The crisis and its consequences are far from overcome."

During the first seven months of the year, overall German tax receipts were 5.2% lower than the year-earlier period. Corporate tax receipts tumbled 57.9% during the first seven months from the same period a year earlier. The Bundesbank noted that consumption-related taxes had, by contrast, remained robust.



"These numbers make once and for all clear: formulating and implementing a successful consolidation strategy will be among the most pressing issues of the next government," Mr. Asmussen said.

CORPORATE NEWS

Tesco pushes ahead with banking plans

U.K. retailer to hire more than 800 for Glasgow customer-service center as consumers encounter credit difficulties

By Margot Patrick And Lilly Vitorovich

LONDON—**Tesco** PLC is pushing ahead with plans to move further into banking, saying Thursday that it will hire more than 800 staff members for a new financial-services customer-service center.

The retail giant's move comes as the U.K. government is encouraging banks to increase lending and help revive the contracting economy.

The company's Tesco Personal Finance division, which currently provides loans, credit cards and savings accounts, has been looking to take business from some of the country's larger banks as customers in many cases have been finding it harder to get credit.

Through the division, Tesco sells its financial-services products online and over the phone, and is also running trials of in-store branches.

Andrew Higginson, chief executive of Tesco Retailing Services, said the new customer-service center in Glasgow which is due to open in the first half of next year, is a significant step toward "a full banking service." It could eventually offer products like mortgages and current accounts.

The move shows that "even at this difficult time, the Scottish and wider U.K. economy is still creating high-quality jobs," U.K. Chancellor of the Exchequer Alistair Darling said at Tesco Personal Finance headquarters in Edinburgh to announce the opening of the center.

Tesco, the U.K.'s biggest retailer by sales, flagged that it might eventually create a full-service retail bank in July 2008, when it bought out **Royal Bank of Scotland Group** PLC from a finance joint venture for £950 million ($1.57 billion). The deal was completed in December.

Rival U.K. retailers such as **J Sainsbury** PLC also offer some financial products, including savings accounts and loans, but Tesco is the only U.K. retailer eyeing expansion into full retail banking.

Tesco said offering the full services of a retail bank would produce annual profit of £1 billion for its retailing-services division over the next few years. The retailing-services unit, which also runs Tesco's telecommunications operations and Internet shopping business, generated profit of around £460 million in the 53 weeks ended Feb. 28, of which half came from the personal-finance operations, a Tesco spokesman said.

Tesco Personal Finance currently employs 400 and has around six million customer accounts across 28 product lines. In comparison, Lloyds Banking Group PLC, the U.K.'s largest provider of current accounts, savings, personal loans, credit cards and mortgages, employs a staff of about 140,000 to handle its 30 million customers.

Shore Capital analyst Clive Black said investors following Tesco shouldn't "get too carried away on how quickly it can deliver growth."

"Tesco Bank has excellent prospects and it's a very exciting time for the company, but it does have to create a bank from scratch and this is another step to building that capability," Mr. Black said.

Tesco shouldn't have any trouble filling the positions in its new call center. Royal Bank of Scotland Group PLC has shed thousands of staff since it was bailed out by the U.K. government, while Lloyds Banking Group, which bought HBOS from the brink of collapse last year in a government-sponsored deal, has also been laying off staff and has large operations in Scotland.

The Tesco spokesman said it was likely that a number of people laid off by those banks and others would apply for the new jobs.

Branching out

Retailer Tesco is pushing further into financial services as traditional U.K. banks scale back operations

- Tesco launched a joint venture with Royal Bank of Scotland in 1997
- Company completed a deal to buy out RBS in December 2008
- Tesco's retail-services division, which includes personal-finance operations, had fiscal 2009 profit of about £460 million
- Offering a full retail bank, Tesco hopes for annual profit of £1 billion at the division over the next few years

A Tesco store in central London

Ahold's U.S. unit outpaces rivals

By Robin van Daalen

AMSTERDAM—**Ahold** NV Thursday reported better-than-expected profit for the second quarter as the grocer outperformed many of its rivals in the U.S. market with higher sales and margins.

The Netherlands-based grocer makes about 60% of its revenue in the U.S. through its Stop & Shop, Giant-Landover and Giant-Carlisle chains and its Peapod Internet grocer. It has been benefiting from a revamp of its operations in the country, which included reformatting and modernizing its stores and lowering prices.

"By the time our competitors catch up, we'll be long gone and in a completely different place," said Ahold Chief Executive John Rishton.

Ahold wants to increase own-brand penetration rates in the U.S. to support margins when prices start to increase, said Mr. Rishton. Own-brand goods typically sell for less than big consumer brands, but also cost the retailers less and hence increase margins. About 50% of the goods Ahold sells in the Netherlands are own-brand.

Quarterly net profit declined 42% to €195 million ($278 million) from €336 million a year earlier. Results in the year-earlier period included a €162 million gain from the divestment of a majority stake in supermarket chain Schuitema to CVC Capital Partners Ltd. Analysts expected net profit to come in at €183.9 million.

Ahold's operating profit rose 26% to €295 million, driven mainly by a 60% increase in operating profit from Ahold's U.S. operations to €181 million.

Operating income at Stop & Shop and Giant-Landover rose 60% to $200 million, or 4.9% of net sales, Ahold said. Sales at stores open for at least a year were up 1.7% at Stop & Shop and 3.7% at Giant-Landover.

It wasn't all good news in the U.S., however. The company's Giant-Carlisle operations posted a 0.4% decline in sales to $1.1 billion and operating income declined to $48 million, from $51 million.

The grocer has been benefiting from a revamp of its U.S. operation.

Mr. Rishton blamed competition from supercenters run by Wal-Mart Inc. He said 75% of Giant-Carlisle stores compete directly with Wal-Mart. However, the CEO said all of Ahold's U.S. operations are winning market share at the moment.

Last week, Wal-Mart reported a 1.2% drop in same-store sales and warned that competition was heating up.

European-based retailers with U.S. operations have performed well so far this year, even amid the competition. Belgium-based **Delhaize Group** SA, which generates about 70% of its revenue in the U.S. with its Food Lion, Hannaford and Sweet Bay chains, earlier this month reported a 3.4% rise in U.S. sales when stripping out currency fluctuations.

In June, U.K. retailing giant **Tesco** PLC said its U.S. sales more than doubled in the 13 weeks to May 30 after it revamped its food offering to include more value packs. Tesco has launched 120 of its Fresh & Easy convenience stores on the West Coast of the U.S., but had to curtail expansion plans when the downturn hit.

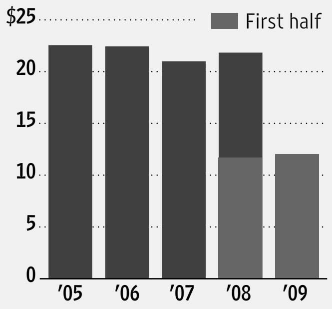
Ahold's Dutch Albert Heijn chain, which represents around one-third of the company's sales, posted a 0.4% rise in same-store sales, while operating income increased 8.7% to €150 million.


Ahold

A ribbon-cutting ceremony at a Giant store in Bethesda, Md., to celebrate the reopening of the store.

Slashing and growing

Ahold has revamped its U.S. stores and cut prices, shifting ahead of rivals as its sales rise. Ahold sales in the U.S., in billions of dollars



Source: the company

Rio Tinto posts profit drop, but sees demand improving

By Alex Wilson

MELBOURNE—**Rio Tinto** posted a 65% drop in first-half profit but said the outlook is improving because of a strong stimulus-related recovery in demand from China and a rebound in the private housing market.

While signs indicate that the worst could be over, Rio said the U.S. needs to come fully out of its recession before there is a real global turnaround. Even with that caveat, the company is cautiously optimistic that demand and prices will improve for the rest of the year.

"If current markets are any indication, I expect to see more stable and possibly stronger trading conditions in the second half," said Rio Chief Executive Tom Albanese.

One indicator of strength: global production of steel—a big end market for Rio's iron ore—reached a 10-month high in July, with China steelmakers producing a record amount, according to figures from the World Steel Association.

In light of expected improvement, along with aggressive first-half moves to cut costs, slash debt and raise cash through a $15.2 billion share sale, the miner is boosting its planned capital expenditures for the year by 25% to $5 billion from $4 billion. It also said it planned to reinstate its dividend at the end of the year.

While the global mining industry has struggled with lower demand and falling prices in 2009, Rio's problems have been compounded by several company-specific issues: large debt from its 2007 purchase of Alcan at the peak of the commodities boom and a string of high-profile tangles with China, including its abandonment of a US$19.5 billion deal with Aluminum Corp. of China and the detention of four of its employees by Chinese authorities for allegedly stealing commercial secrets.

Mr. Albanese steered clear of making comments that would adversely affect the four workers but noted that allegations have been downgraded from the more serious stealing state secrets to stealing commercial secrets.

"We're heartened that the arrest details were less serious than some of the original speculation," he said. "We do have to respect the legal process in China."

He also said the issues with China haven't distracted management or hurt business at the customer level. The company was "running ore and all our other businesses that sell into China at capacity."

The big remaining issue for Rio is a pricing stalemate with China. Rio, along with **BHP Billiton**, remains locked in a pricing standoff with Chinese steelmakers, who are seeking deeper cuts in iron-ore prices than the 33% reduction agreed upon with Japanese and other Asian steelmakers.

First-half net profit fell to US$2.45 billion from a restated US$6.95 billion a year earlier. Revenue dropped 31% to US$18.85 billion from a restated US$27.19 billion last year The biggest drag on earnings was its aluminum division, which posted a loss of US$689 million.

The company accelerated cost cutting in the first half, eliminating about 16,000 jobs, more than the 14,000 cuts previously announced. That move, along with asset sales and its rights issue, help its cash position.

—Guy Chazan contributed to this article.

Ramadan feels the pinch

In Dubai, demand for tents has slowed; iftars are scaled back

BY STEFANIA BIANCHI

DUBAI—The lavish banquets hosted by companies to woo Muslim clients as they break their fasts during Ramadan are the latest institution to fall victim to the financial crisis here.

Companies are scaling back the events, called iftar receptions, seen as important opportunities to network with business partners against the backdrop of some of the city's most luxurious hotels.

Demand for Ramadan tents—the typical setting for iftars—is showing signs of decline, while hotels are recording lower corporate bookings as companies aim to conserve cash amid a property and economic slump in the emirate.

Ramadan, which starts this weekend, is a key event in the United Arab Emirates. During the holy month in Dubai, Muslims can eat only after the traditional firing of a cannon to signal sunset.

"Iftars are key business opportunities for relationship-building at all levels. Often, you can gain access to senior executives in a relaxed environment," Eileen Wallis, managing partner of Dubai-based public-relations firm The Portsmouth Group, told Zawya Dow Jones in an interview. Ms. Wallis said her clients are now hosting "more selective and targeted events."

Shakhil Ahmed, who runs Sharjah-based Al Mumtaz Tents Co., which makes and rents Ramadan tents, says business this year has fallen by almost a quarter. "Those companies that are still reserving tents are looking for some of the cheapest options," he said.

Many hotels are also moving their iftar events indoors to save on tent-rental and air-conditioning costs, Mr. Ahmed said. The cost for a company to hire a Ramadan tent for the evening at one of Dubai's top hotels is 50,000 U.A.E. dirhams ($13,615) for up to 200 people, including food, drinks and service, event organizers say.

Jumeirah Group, Dubai's largest luxury-hotel operator and manager of the iconic Burj Al Arab, says its iftar bookings have slowed.

"The booking pace has been slightly slower than last year," said Frank van der Post, Jumeirah's chief operating officer. "This seems to be in keeping with trends we have observed across the board in travel and event sales, as people are making their decisions and booking later."

—Nour Malas contributed to this article.

Agence France-Presse

In Dubai, lavish Ramadan receptions, seen as important public-relations opportunities, are being scaled back in the wake of the financial crisis.

Bharti, MTN again extend merger talks

BY ROMIT GUHA AND ROBB M. STEWART

BANGALORE—**Bharti Airtel** Ltd. of India and South Africa's **MTN Group** Ltd. said Thursday that they have extended their exclusive merger talks for the second time to Sept. 30.

"Discussions between the parties regarding the potential transaction continue to progress satisfactorily and the parties have accordingly agreed to extend the exclusivity period until Sept. 30, 2009," Bharti Airtel said in a statement, without giving a reason for the extension.

In a separate statement, MTN confirmed the extension, but it noted "the discussions may or may not lead to any transaction."

Two people close to the situation told Dow Jones Newswires the latest is likely to be the final extension.

"There are still differences, but both sides feel they can be reconciled by the end of September. Most likely there won't be another extension and there is determination to make this deal work," one of the people said, asking not to be identified.

"As it stands now, the chances of getting an agreement are quite good," the person said.

The second person, who also asked not to be named, said the deal is being delayed by ongoing due diligence" and "regulatory issues." The person didn't elaborate.

Bharti Airtel, India's largest mobile-phone operator by subscribers, and MTN, in May, revived talks to form a telecom giant with combined annual revenue of more than $20 billion and over 200 million subscribers.

On Aug. 3, MTN and Bharti Airtel had extended the exclusivity period by one month to Aug. 31, and had said at the time the "structure and terms of the potential transaction may be adjusted to reflect further discussions between the parties."

The extension of the talks will take pressure off MTN to say something about the merger progress when it reports half-year results, due Aug. 27.

However, some of the cellphone company's shareholders have said they are unhappy that MTN hasn't stated the rationale for a merger with Bharti Airtel.

—Costas Paris in Singapore and R. Jai Krishna in New Delhi contributed to the story.

CORPORATE NEWS

GameStop sales take hit

Retailer stumbles as shoppers cut back; game roster weaker

BY YUKARI IWATANI KANE AND TESS STYNES

GameStop Corp.'s fiscal second-quarter earnings fell 32% and revenue declined 3.7% as consumers spent less on videogames amid the recession, and a weaker lineup of games and the lack of price cuts on game consoles failed to draw customers into stores.

The Grapevine, Texas, videogame and console retailer also cut its 2009 earnings forecast and projected current quarter earnings below analysts' expectations.

"While we expect to grow earnings over last year, uncertainty over the economy and the timing of its recovery and some key title slippages... have affected our outlook," said GameStop Chief Executive Daniel DeMatteo, in an earnings call.

For the quarter ended Aug. 1, GameStop reported earnings of $38.7 million, or 23 cents a share, down from $57.2 million, or 34 cents a share, a year earlier. Revenue was $1.74 billion as same-store sales tumbled 14%. Used game sales remained a bright spot for GameStop, rising 19%.

Shares of GameStop fell 7% late Thursday to $23.40. The stock is down roughly 45% in the past year, though it has rallied by nearly half since November.

GameStop's results are the latest sign of how much the recession is hurting the videogame industry, which had long been considered downturn-resistant. Industry researcher NPD Group has reported declines in monthly videogame sales for the last several months, and online retailer **Amazon.com** Inc. recently blamed its weak results in its media business on poor game sales.

Associated Press

Shoppers browse a GameStop store in Redwood City, Calif., last year. The industry has been hurt by the recession as well as a weak roster of games.

In addition to the poor economy, the videogame industry was hurt in the quarter by a weak roster of games. Many game publishers are waiting until the fall to launch some of their biggest titles. Comparisons against the year-earlier period are also tough because several strong titles such as "Wii Fit" and "Grand Theft Auto IV" were released then.

Analysts believe videogame sales in the rest of the calendar year should improve with the launch of key titles like MTV Games' "The Beatles: Rock Band" and **Activision Blizzard** Inc.'s "Call of Duty: Modern Warfare 2."

On Tuesday, **Sony** Corp. also slashed its price for its PlayStation 3 console, which should help spur console and game sales. GameStop says it expects the other manufacturers to follow.

Still, GameStop lowered its full-year earnings forecasts to $2.40 to $2.64 a share, below analysts' expectations of $2.76, as the launch of big titles like **Take-Two Interactive Software** Inc.'s "BioShock 2" were postponed.

Weak sales push Sears to loss despite cost cuts

BY KAREN TALLEY

Sears Holdings Corp. swung to a big second-quarter loss as revenue and gross margin declined, with the results missing expectations after two prior quarters of beating projections.

The retailer was the odd man out in terms of seasonal outdoor furniture, among its biggest categories, seeing drops in revenue while Home Depot Inc. and Lowe's Cos. both reported improvements in the segment earlier this week.

Sears shares were down $8.70, or 12%, to $65.06 in midafternoon trading Thursday on the Nasdaq Stock Market.

The company, hurt by the economy and its reputation for cluttered aisles and customer-service issues, decided to close 28 stores during the second quarter, mostly Kmarts.

Cash on hand dropped to $1.1 billion from $1.5 billion a year earlier, in part to pay severance and other costs associated with closings.

Sears's cost-cutting has reduced expenses by about $1 billion over the past four quarters, including $212 million for the second quarter.

For the period ended Aug. 1, Sears posted a loss of $94 million, or 79 cents a share, compared with year-earlier income of $65 million, or 50 cents a share.

The latest results included $103 million in charges related to pensions, severance and store closings, while the prior year's included a $62 million gain from a favorable legal verdict. Excluding items, the loss would have been 17 cents a share, compared with earnings of 21 cents a share a year earlier.

Revenue decreased 10% to $10.55 billion.

Analysts polled by Thomson Reuters expected earnings of 35 cents and revenue of $10.73 billion.

Gross margin was flat at 26.5%, lower than the Wall Street expectation for 27.2%.

U.S. same-store sales fell 8.6% as a poor housing market weighed on appliance and apparel sales.

Sears faltered during the second quarter "as expectations got ahead of reality," said Brian Sozzi, retail analyst at Wall Street Strategies. "There is only so much inventory a company can cut."

Inventory dropped to $9.4 billion in the quarter from $9.7 billion a year ago.

Sears is preparing for Christmas, opening toy departments in 20 stores to try to counter the squeeze from mass merchants like Wal-Mart Stores Inc. and pure-play retailers like Toys "R" Us.

Sears this week announced a Christmas Club program in which customers can add money to a Sears holiday card and receive a return of 3%, or as much as $100.

Sears is also again offering a layaway program for the holidays.

Barnes & Noble sales, profit drop

BY JEFFREY A. TRACHTENBERG

Barnes & Noble Inc. reported declines in sales and earnings for the second quarter ended Aug. 1 as shopper visits to the giant U.S. bookstore chain slipped.

Sales at Barnes & Noble have now fallen for five consecutive quarters; earnings have declined for seven consecutive quarters.

The bookseller's results reflect a broader struggle among retailers trying to find growth as consumers cut discretionary spending. Book stores in particularly have been hit by a steady fall-off in sales as more consumers buy their books online.

Revenue declined 5.3% to $1.16 billion. Sales at stores open for at least a year, a key indicator, declined 6.9%. Barnes & Noble earlier forecast a same-store sales decline for the quarter of between 5% and 7%. Revenue at the retailer's online arm grew 2% to $102 million, due in part to attention garnered by the opening of Barnes & Noble's e-bookstore on July 20.

This summer has also lacked a hit book, which typically lift retailers' sales during the beach season. Last summer's key titles included "The Host," Stephenie Meyer's blockbuster science fiction tale.

(That's expected to change in the current quarter, as retailers, including Barnes & Noble, expect a boost from Dan Brown's long-awaited novel, "The Lost Symbol," which goes on sale Sept. 15.)

For the second quarter, earnings fell to $12.3 million, or 21 cents a share, from $15.4 million, or 27 cents a share, a year earlier.

Bloomberg News

Fewer summer blockbusters and declining customer visits hit Barnes & Noble's profits. A customer browses books at a Washington, D.C., store on Thursday.

Gross margins improved slightly to 30.8% from 30.7%, due primarily to lower distribution costs, lower returns, lower theft rate, and fewer markdowns.

The retailer expects to offer more than 1 million digital titles through its Internet store by the end of the year, said Steve Riggio, chief executive, during a conference call with analysts. The electronic books will be accessible via devices including personal computers, BlackBerries, and iPhones, he said.

Earlier this month, Barnes & Noble agreed to purchase Barnes & Noble College Booksellers Inc. from Leonard Riggio, chairman of Barnes & Noble and its largest shareholder. The $596 million acquisition, to close Oct. 1, is expected to stabilize sales and earnings, although some critics contend that digital textbooks will draw away sales from college bookstores in general.

On the conference call, Joseph Lombardi, Barnes & Noble's finance chief, estimated that 2,000 colleges and universities still manage their own bookstores, and that Barnes & Noble expects to be able to add some to the 624 stores currently under management.

Homemade meals improve outlook for Heinz, Hormel

BY ANJALI CORDEIRO

Strong sales of pantry staples like ketchup and luncheon meat helped **Heinz** Co. and **Hormel Foods** Corp. top profit forecasts as the packaged-food companies continued to benefit from frugal consumers swapping pricey restaurant dinners for cheaper meals made at home.

Heinz did see improved profits in its food-service business, but said it expects no immediate rebound in the broad restaurant industry, given high levels of unemployment in the U.S.

Steady demand for food on grocery shelves have helped some large companies in recently quarters, with consumers purchases of staples helping offset declines in their discretionary outlay. This week, **BJ's Wholesale Club** Inc.'s results reflected strong demand for food from its consumers.

Large food brands continue to face tough competition from private-label brands, although on a conference call, Heinz Chief Executive William Johnson reiterated that private-label growth appears to be moderating.

Heinz's fiscal first-quarter earnings fell 7% amid foreign-exchange fluctuations and a stronger dollar.

For the quarter ended July 29, Heinz reported a profit of $213 million, or 67 cents a share, down from $229 million, or 72 cents a share, a year earlier.

Sales decreased 4.5% to $2.47 billion. Analysts polled by Thomson Reuters most recently were looking for earnings of 62 cents a share on sales of $2.44 billion. The company benefited from strong sales in Latin America, India and Russia. Heinz reaffirmed its 2009 earnings and sales forecasts.

Hormel's fiscal third-quarter profit soared 49% as earnings in its refrigerated foods segment jumped amid lower costs and its long-struggling Jennie-O Turkey segment continued a turnaround.

For the quarter ended July 26, Hormel posted earnings of $77.2 million, or 57 cents a share, up from $52 million, or 38 cents a share, a year earlier. Hormel is also the maker Spam luncheon meat.

Net sales fell 6.2% to $1.57 billion. Analysts surveyed by Thomson Reuters were expecting earnings of 52 cents a share on revenue of $1.7 billion.

—Tess Stynes and Mike Barris contributed to this article.

Capital Journal

Paths of change

U.S. health-care overhaul faces three options fraught with peril > **Page 9**

CORPORATE NEWS

News Corp. CEO's pay drops 40%

Murdoch reaps less; free London paper proposed for closure

BY NAT WORDEN
AND KERRY GRACE BENN

News Corp. Chief Executive Rupert Murdoch received compensation valued at $18 million in the media giant's latest fiscal year, down 40% from $30.1 million the year before, according to an analysis of the company's proxy statement.

Mr. Murdoch's bonus fell 69% to $5.4 million from $17.5 million, following the company's plunge in earnings and stock price amid the global financial crisis and economic downturn.

The media mogul's salary was flat at $8.1 million. In addition, News Corp. awarded Mr. Murdoch stock and options worth more than $4 million and perks of $379,981.

Rupert Murdoch

Under accounting rules prescribed by the Securities and Exchange Commission, which include changes in pension values and a different method of accounting for stock awards, Mr. Murdoch's total compensation was $19.9 million, down from last year's $27.5 million.

News Corp. owns The Wall Street Journal.

Peter Chernin, News Corp.'s former president who stepped down this summer, received compensation valued at $24.1 million.

Mr. Chernin's salary remained flat at $8.1 million, and his bonus dropped 52% to $5.4 million. Mr. Chernin received stock awards valued at $10.4 million, which included some stock awarded for fiscal 2008 but granted in fiscal 2009. He also had $183,737 in perks.

His total compensation, based on SEC rules, fell to $22.2 million from $28.8 million.

Mr. Chernin was replaced by Chase Carey, the former chief executive of DirecTV Group Inc. A regulatory filing last month disclosed that Mr. Carey could earn up to $43.1 million in salary and bonuses in his first year on the job. Mr. Carey's base salary will be $8.1 million a year.

Separately, News Corp.'s News International Ltd. has proposed closing thelondonpaper, its free evening newspaper. The company said it has started a 30-day consultation on the closure with about 60 staff members from NI Free Newspapers, its unit that publishes the free paper.

James Murdoch, News Corp.'s chairman and chief executive for Europe and Asia, said despite a new design and approach at thelondonpaper, "the performance of the business in a difficult free evening newspaper sector has fallen short of expectations."

News International has about 2,200 employees. News International said it is looking for new positions for the 60 London Paper employees, though there's no assurance they'll find new posts.

MySpace buys iLike, a music-sharing service

BY EMILY STEEL

MySpace is acquiring online music service iLike, as the social-networking site faces a drop-off in visitors and tries to remake itself as a destination for music, videos, games and other entertainment content.

Terms of the deal weren't disclosed, but a person familiar with the situation said it's valued at nearly $20 million.

ILike, started by tech industry veterans and brothers Ali and Hadi Partovi, lets users on social-networking sites share music. It was created in 2006 to retool GarageBand.com, which had sought to create an independent music community for recording artists to promote themselves. ILike is popular on social-networking sites, including Facebook, Orkut and hi5, and says it has more than 55 million registered users.

The iLike acquisition serves MySpace's "need to create new social experience in music and beyond," MySpace CEO Owen Van Natta said during his first news conference since he arrived four months ago. Mr. Van Natta is charged with resuscitating the site, which is facing intense competition from rivals such as **Facebook** Inc. and **Twitter** Inc.

MySpace is owned by **News** Corp., which also owns Dow Jones & Co., publisher of The Wall Street Journal.

The acquisition is the first on Mr. Van Natta's watch and comes as MySpace seeks to build on its popularity among recording artists and bands, to showcase their music and to help consumers find the bands and videos they like. Mr. Van Natta noted that MySpace plans to extend iLike's technologies beyond music to other features on the site, so that users can share entertainment content such as video and games.

Mr. Van Natta said the acquisition is part of a broader effort to "bring world-class talent" to MySpace. ILike's management team, which will stay with the company after the deal closes, has had a string of successes in the technology business. Ali Partovi founded and sold online-ad company LinkExchange to Microsoft for $265 million in 1998. Hadi Partovi co-founded and sold TellMe Networks to Microsoft for $800 million in 2007.

General Motors cancels crossover for Buick brand

BY JOHN D. STOLL

General Motors Co. has abruptly pulled the plug on a small hybrid-derivative crossover vehicle the company had planned to move from its discontinued Saturn brand to Buick in 2011.

The car maker said it made the decision Friday after the vehicle was panned at a product preview it held Aug. 7 for analysts, media and consumers.

Tom Stephens, GM's product chief, wrote in a GM blog post that the small crossover "received consistent feedback from large parts of all the audiences that it didn't fit the premium characteristics that customers have come to expect from Buick."

The decision to kill the model reflects the speed and decisiveness with which GM is trying to move following its stay in bankruptcy court, as well as a promise by top executives to be more responsive to consumers.

But the move also shows the challenge GM faces as it consolidates brands. Buick is one of four brands remaining following the company's move to shed Hummer, Pontiac, Saturn and Saab.

GM executives have been touting the company's ability to make quick decisions and scrap ill-conceived plans at a moment's notice. That contrasts with the prevailing view of GM's culture as one ruled by committee and bogged down by glacial decision-making.

General Motors

Buick planned a vehicle closely resembling the Saturn Vue, above, but changed course after it got a cold shoulder at a product preview earlier this month.

The move also suggests the company may be unwilling to engage in what has long been known as "badge engineering," or making essentially the same vehicle for multiple brands, a practice that has hurt the image of GM brands over the years.

Northrop looks to sell its TASC consulting division

BY AUGUST COLE
AND ANDY PASZTOR

Northrop Grumman Corp. is seeking a buyer for its advanced engineering and consulting operations, according to people familiar with the matter, as the company tries to stay ahead of tougher scrutiny of defense firms that both advise and sell equipment to the U.S. government.

Its advisory services unit, known as TASC, could fetch $1 billion, according to a person familiar with the situation. The Herndon, Va., operation employs about 5,000 people.

A Northrop Grumman spokesman declined to comment on the matter.

Investment bankers **Goldman Sachs Group** Inc. and **Credit Suisse Group** AG are representing Northrop, the Pentagon's third-largest contractor by sales. The Los Angeles company's businesses span satellites to fighter jets to services.

The possible sale comes as the Obama administration and Congress are trying to address conflicts of interest at defense contractors that both advise and sell to the Defense Department and intelligence agencies.

Legislation signed into law by President Barack Obama in May has put pressure on defense giants to create clearer separations between their government-advisory work and selling weapons systems and hardware.

A deal for TASC could emerge by the end of the next month, and private-equity firms are among the interested parties, according to one person familiar with the situation.

GLOBAL BUSINESS BRIEFS

Samsung Electronics Co.

U.S. ends antitrust probe involving Samsung, Toshiba

Samsung Electronics Co. and **Toshiba** Corp. said they received notices from the U.S. Justice Department informing them that an antitrust investigation into the flash-memory chip market had ended. That means neither company will face charges or fines. Toshiba spokesman Keisuke Ohmori said the company received a DOJ letter on July 28, while Samsung spokeswoman Lee Eun Hee said the company also recently received a DOJ letter. In 2007, Samsung, Toshiba and **SanDisk** Corp. said they had received subpoenas from the U.S. agency, which has prosecuted a series of convictions for price-fixing in the market for chips known as DRAM, or dynamic random access memory.

Bombardier Inc.

Jet Republic said Thursday it has shelved its European business-jet operation, prompting **Bombardier** Inc. to terminate a $1.5 billion order for 110 aircraft. The Portugal-based private-jet charter company said it has suspended its core Portuguese operations until further notice, citing tough financing conditions for potential aircraft owners. Jet Republic ordered 110 Learjet 60 XR aircraft from Bombardier in 2008. "Until very recently, we remained very confident of meeting our objectives, but the aviation asset finance market has completely dried up making it much more difficult for potential clients to take out and obtain financing for fractional ownership of jets," said Jet Republic in an email.

Holcim Ltd.

Holcim Ltd. said Thursday that second-quarter net profit dropped 35% as falling demand in mature markets offset a strong performance in emerging economies. Net profit declined to 453 million Swiss francs ($425 million) from 696 million francs a year earlier, the Swiss cement and building-aggregates producer said. Sales were down 20% at 5.56 billion francs, while operating profit stood at 963 million francs, down 22%. Holcim said its strong position in growing markets such as India buffered declines in operating profit elsewhere. The company didn't provide an outlook but said it now expects to save about 600 million francs in fixed costs for the whole year, almost double the previous target of 375 million francs.

Voestalpine AG

Austrian specialty steelmaker **Voestalpine** AG swung to a loss in its fiscal first quarter as massive declines in demand and prices shaved more than a third off sales. The company posted a net loss of €67.3 million ($95.8 million) for the three months ended June 30, compared with a year-earlier profit of €217.3 million, as demand and prices fell across almost all of its customer segments. A 37% drop in Voestalpine's production of crude steel to 1.27 million tons helped pushed down sales 36% to €2.07 billion. In automotives—which last year was the biggest sales sector—the company saw a 32% fall in sales to €175.4 million. Chief Executive Wolfgang Eder said Holcim nevertheless expects to at least break even for the full year.

—Compiled from staff and wire service reports.

Health overhaul faces 3 perilous paths

Choice between small, midsize or large versions carries huge consequences for Obama and his party's leaders

By Gerald F. Seib

CAPITAL JOURNAL

The U.S.'s health-care debate—now grown epic in scope and historic in consequence—is pushing the Obama administration and fellow Democrats toward a moment of reckoning, when they will have to choose among three equally perilous paths emerging from the rhetorical fog.

This moment of reckoning isn't going to arrive this month, much as all the shouting at town-hall meetings is affecting the debate. Instead, it's likely to arrive in September, when Congress returns to Washington and Democratic leaders take stock.

When that moment comes, the only thing that appears certain is that the plan originally envisioned by House Democrats won't pass Congress and be signed into law. That particular vessel—with a trillion-dollar price tag, a government-run public insurance option and a hefty surtax on the rich—has taken on too much water during attacks from the right.

Instead, President Barack Obama and leaders on Capitol Hill will face a tough tactical choice among lesser options. But while the options may have shrunk in size, the consequences actually have grown. A large chunk of the American economy, the health choices made by every business and citizen, the political tenor of the next few years, and the course of the Obama presidency all will be greatly affected.

In oversimplified form, Mr. Obama now will have to choose among three options: small, medium and large.

The small option would be a stripped-down version of health reform, one that is significantly narrower in scope than originally envisioned but that would attract the votes of skittish conservative Democrats and at least a few Republicans. This approach would jettison the idea of a "public option," or a government-run health-insurance plan to compete with private insurers; it would have a smaller price tag, meaning less in government subsidies to help Americans buy insurance; and it wouldn't be financed with a single large tax increase on wealthier Americans but rather a smattering of Medicare cuts and smaller taxes.

This approach, in fact, would amount largely to a reform of the existing health-insurance system. Democrats could portray it as a good start, setting off a years-long effort to slowly reshape the American health system. The laboratory for concocting such a bill is the Senate Finance Committee, the key members of which were to talk by phone Thursday.

The central question is whether any Republicans are still willing to vote yes on anything this year; Democrats are growing increasingly skeptical. The key player to watch is Iowa Sen. Charles Grassley, the Finance panel's top Republican, who has been all over the lot in recent comments.

The midsize option would be a more expansive bill, designed to pass with only Democratic votes. The problem here is that even some moderate Democrats—the so-called Blue Dogs in the House and senators from some conservative states—might fall off if the bill is too expansive.

So even the midsize option likely wouldn't offer a government-run insurance option but rather nonprofit insurance "cooperatives." It would offer more subsidies to help Americans buy coverage than the small option, but, to keep the price tag down, wouldn't reach "universal" coverage. It might include a mandate that businesses provide health insurance to employees, in return for some government help.

But the only way to get even a midsize bill through the Senate might be to use budget rules—called reconciliation—allowing it to pass with 50 votes rather than the 60 needed to break a potential Republican filibuster. In theory Democrats have precisely 60 votes to stop a filibuster, if all go along. But Democratic aides note that they can count on only 58 votes, as Sens. Edward Kennedy and Robert Byrd are in such bad health that there is no guarantee they can make it to the Senate floor on any given day.

Right now, most Democrats are hovering somewhere between the small and midsize options—hence the talk that arose this week about breaking the package into two pieces. One would be the small piece heavy on insurance overhauls, which might get some Republican support. The other piece—designed to pass with only Democratic votes—would establish either a public option or a new nonprofit insurance cooperative to compete with private insurers and include subsidies for expanding coverage.

There is a third option looming out there—the large option—advanced by Democratic strategist James Carville. Mr. Carville has suggested bringing to the floor of Congress a full-blown health-overhaul bill, with all the bells and whistles many Democrats wished for originally, and challenging Republicans to defeat it in the House and filibuster it in the Senate.

The point of this option wouldn't be to pass legislation so much as to force Republicans to kill it, and then to portray them in next year's congressional campaign as the status quo party opposing change.

It would be a high-risk strategy, to say the least, and it isn't yet attracting many Democratic adherents in Congress or the White House.

"You have to decide whether you want a bill, or you want an issue," said one Senate Democrat. Right now, most Democrats still yearn for a bill and something they can call success—which is why the small and midsize options are their most likely choices.

Protesters against U.S. President Barack Obama's health care cheer at a rally in Grand Junction, Colo., on Aug. 15.

New U.S. jobless claims rise again

By Tom Barkley

The number of U.S. workers filing new claims for jobless benefits climbed further last week, a reminder that labor-market conditions remain difficult. But in a gauge designed to predict the course of the economy, the index of leading indicators rose for the fourth consecutive month in July.

Initial claims for jobless benefits rose 15,000 to 576,000 last week, the highest level in three weeks, the Labor Department said. The four-week average of new claims, which aims to smooth weekly volatility, rose 4,250 to 570,000.

Claims have increased for two weeks this month since falling by 35,000 in the week ended Aug. 1, raising concerns that improvement in the labor market remains far off. The number of continuing claims—those drawn by workers for more than one week in the week ended Aug. 8—rose 2,000 to 6,241,000.

The index of leading economic indicators, published by the Conference Board, a private research organization, increased 0.6% last month, after a 0.8% gain in June. "The indicators suggest that the recession is bottoming out, and that economic activity will likely begin recovering soon," said Ken Goldstein, economist at the board.

Diane Adler, right, waits in line at a Pittsburgh job fair earlier this month. New claims for jobless benefits in the U.S. have increased two straight weeks.

China criticizes U.S. for arms sales to Taiwan

Associated Press

BEIJING—A top Chinese general criticized the U.S. Thursday for selling arms to Taiwan and accused Washington of being cooperative only when it needs help with international campaigns.

In a meeting with Gen. George Casey, the People's Liberation Army chief of the general staff, Chen Bingde, said the U.S. has sought China's help in international operations such as the war in Afghanistan or in fighting piracy but undermined the mutual trust needed for such cooperation with its arms sales to Taiwan. China and Taiwan split during a civil war in 1949, and China sees the self-governing island as a renegade province.

Relations between the countries are generally good, but Taiwan is a sensitive point. China and Taiwan split during a civil war in 1949, and China sees the self-governing island as a renegade province. The Bush administration's approval last year of a major arms sale to Taiwan led China to break off military talks with the U.S.

Gen. Casey said Washington understood Beijing's position on Taiwan, but that there needed to be understanding on both sides. He said the growing military ties between China and the U.S. would "withstand the vagaries of political turbulence."

U.S. officials say China suspended most military dialogue with Washington last year after the Bush administration approved a $6.5 billion arms package to Taiwan.

While relations between China and the U.S. have improved this year, and military contacts were resumed, Taiwan has a number of weapons requests pending in Washington, including one for relatively advanced F-16 fighter jets.

ECONOMY & POLITICS

New prescription for health bill: cut it in two

Democrats consider maneuver to bypass congressional delays

By Jonathan Weisman And Naftali Bendavid

The White House and U.S. Senate Democratic leaders, seeing little chance of bipartisan support for their health-care overhaul, are considering a strategy shift that would break the legislation into two parts and pass the most expensive provisions solely with Democratic votes.

The idea is the latest effort by Democrats to escape the morass caused by delays in Congress, as well as voter discontent crystallized in angry town-hall meetings. Polls suggest the overhaul plans are losing public support, giving Republicans less incentive to go along.

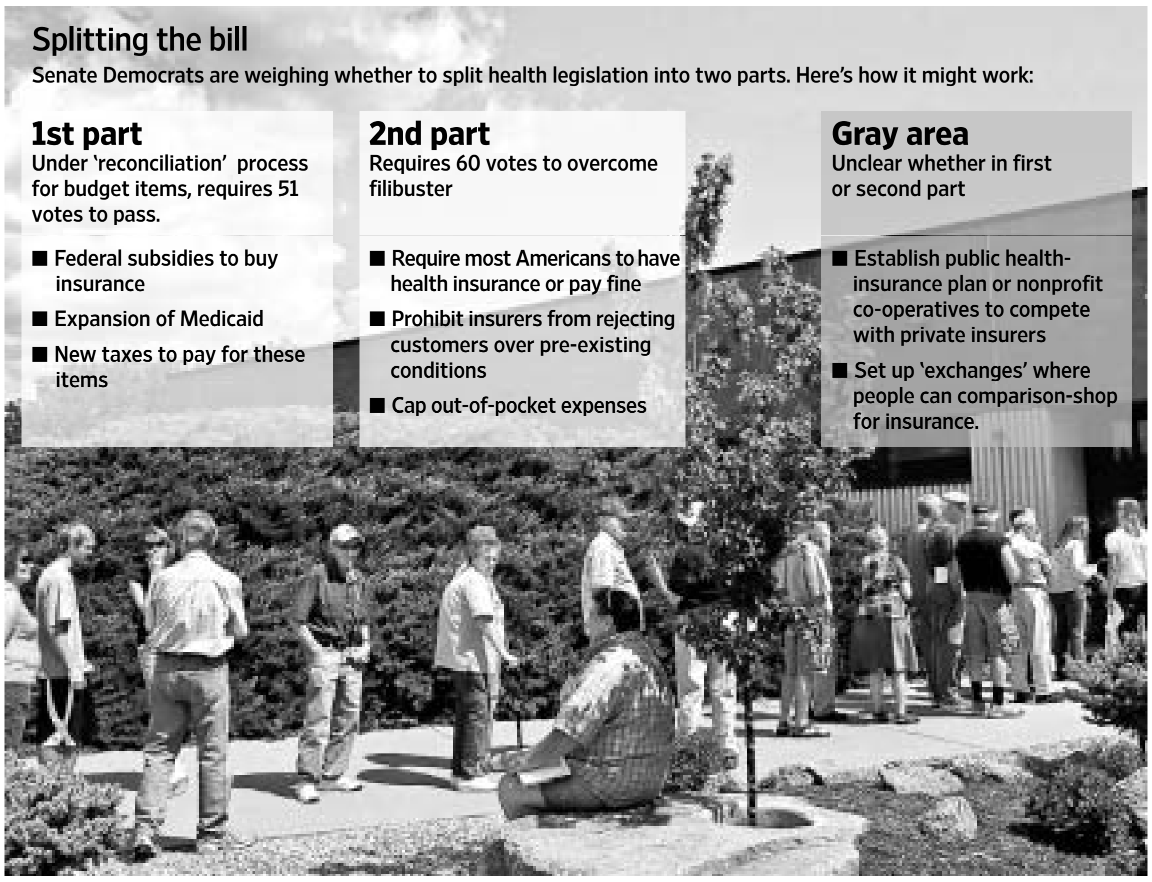
Democrats hope a split-the-bill plan would speed up a vote and help President Barack Obama meet his goal of getting a final measure by year's end.

Senators on the Finance Committee are pushing ahead with talks on a bipartisan bill. Democratic leaders say they hope those talks succeed but increasingly are preparing for the possibility that they do not.

Most legislation in the Senate requires 60 votes to overcome a filibuster, but certain budget-related measures can pass with 51 votes through a parliamentary maneuver called reconciliation.

In recent days, Democratic leaders have concluded they can pack more of their health overhaul plans under this procedure, congressional aides said. They might even be able to include a public insurance plan to compete with private insurers, a key demand of the party's liberal wing, but that remains uncertain.

Other parts of the Democratic plan would be put to a separate vote in the Senate, including most of the insurance regulations that have been central to Mr. Obama's health-care message.



Getty Images

That bill would likely set new rules for insurers, such as requiring they accept anyone, regardless of pre-existing medical conditions. This portion of the health-care overhaul has already drawn some Republican support and wouldn't involve new spending, leading Democratic leaders to believe they could clear the 60-vote hurdle.

Senate Majority Leader Harry Reid is the key decision-maker on whether to use the tactic, but several congressional aides said White House officials are being kept abreast of the talks.

"We will not make a decision to pursue reconciliation until we have exhausted efforts to produce a bipartisan bill," said Jim Manley, a spokesman for Mr. Reid. "However, patience is not unlimited, and we are determined to get something done this year by any legislative means necessary."

Privately, those involved in the talks now say there is a 60% chance the split-bill tactic will be used. Mr. Obama is huddling with aides next week, and Senate leaders are likely to review their options when Congress reconvenes after the Labor Day holiday on Sept. 7.

The likelihood of a strategy shift has grown after the negative response of Republicans to overtures of compromise.

Last Sunday, Health and Human Services Secretary Kathleen Sebelius said a public plan, strongly opposed by Republicans, wasn't the "essential element" of a comprehensive bill.

White House spokesman Robert Gibbs continued to insist Wednesday that Ms. Sebelius didn't mean to signal the White House was abandoning the public plan. A senior Democratic congressional leadership aide said weekend statements were calculated to test Republican responses.

Republican Sen. Jon Kyl of Arizona said Tuesday that nonprofit insurance cooperatives, which centrist Democrats have suggested as an alternative to a public plan, were nothing but a "Trojan horse" that would lead to excessive government control of health care.

"It's fair to say the steam is going out of these bipartisan negotiations," the Democratic aide said.

House committees have passed bills that include a public option and new programs that would make insurance available to most Americans who lack it. If the Senate passes its own bill, the two chambers must hash out a compromise that could go to the president for signing. The public option could be the biggest point of contention between House and Senate.

Senate Finance Committee members working on a bipartisan bill were scheduled to talk Thursday. "The Finance Committee is on track to reach a bipartisan agreement on comprehensive health-care reform that can pass the Senate," Sen. Max Baucus (D., Mont.), chairman of the Finance Committee, said in a statement.

But other senators noted privately that several factors are working against any deal. Many Democrats now believe it is a long shot. Mr. Baucus has set a deadline of Sept. 15 to reach agreement.

Several softer deadlines have already come and gone without a deal. One Republican senator, Orrin Hatch of Utah, has dropped out of the talks. The remaining Republicans have suggested they would only support something that had the backing of many colleagues from their party.

Still, the three Republicans negotiating with Mr. Baucus said Wednesday that they believed a deal could be reached. "I'm hopeful," Sen. Olympia Snowe of Maine said. "It's not without challenges, because of the complexity and the costs associated with it. We recognize that. And that's why it has consumed the amount of time that it has."

Sen. Mike Enzi (R., Wyo.) said the Democrats would be making a mistake by forging ahead on their own. "We need to get a bill that 75 or 80 senators can support," he said. "If the Democrats choose to shut out Republicans and moderate Democrats, their plan will fail because the American people will have no confidence in it."

Democrats also must deal with intraparty differences. They can't agree whether a public-insurance option is essential, as liberals say, a "preferred option"—the White House stance—or a bad idea, as some on the Finance Committee believe.

Australia votes to set renewable-energy requirements

By Rachel Pannett

CANBERRA—Australian lawmakers approved legislation that would require 20% of Australia's electricity generation to come from renewable sources by 2020.

The legislation cleared the upper house Senate, where laws are passed, after the center-left Labor government Wednesday won the support of key conservative opposition lawmakers by agreeing to certain conditions, including improved assistance for energy-intensive industries.

It follows a move by the government to split its renewable-energy program from a plan to place a mandatory cap on Australia's greenhouse-gas emissions, which was rejected by the Senate last week.

Both major parties were quick to claim victory over the success of the renewable program, which fulfills part of Prime Minister Kevin Rudd's 2007 election pledge to green the economy. But the toughest task still lies ahead for the Rudd administration, which has vowed to reintroduce its controversial greenhouse-gas plan later in the year.

The main opposition Liberal-National coalition remains deeply divided over that plan, which would see Australia introduce a cap-and-trade system similar to one operating in Europe since 2005. The system would cap Australia's carbon-dioxide emissions, forcing heavy polluters, such as power generators and aluminum and cement makers, to buy so-called carbon permits to account for their emissions.

The rural-based Nationals oppose the plan. Barnaby Joyce, leader of the Nationals in the Senate, describes it as a massive new tax that threatens to make agricultural production unviable as costs spiral above those of rival exporting nations that don't have a domestic carbon-trading program in place.

Malcolm Turnbull, leader of the Liberal-National coalition, has promised to deliver enough conservative votes to pass the program but only if certain conditions are agreed to, including excluding agriculture from the carbon program beyond 2015, the date at which it is currently flagged for inclusion.

Reuters

Australia aims to get 20% of its electricity from renewable sources by 2020. At present, wind turbines like this one north of Sydney provide just a tiny share.

The difficulties faced by the Rudd government in negotiating its climate-change policies could provide a case study for how similar plans to set mandatory caps on greenhouse-gas emissions will fare in the U.S. Senate next month. The U.S. climate bill passed the House of Representatives by a slim 219-212 margin in June.

Although Australia accounts for only 1.5% of global greenhouse-gas emissions, it is the biggest per-capita carbon polluter in the developed world due to its reliance on coal for around 80% of electricity generation. Clean-air advocates say countries such as Australia and the U.S. need to set a better example before other parts of the world agree to curb their own worsening pollution problems.

The renewable-energy plan will create a carrot-and-stick system whereby generators are rewarded for every megawatt-hour of such green energy they produce, while electricity wholesalers are penalized if they don't source a certain share of their energy from renewable technologies.

Renewable energy accounts for only around 6.5% of Australia's total electricity generation now. Much of that is in hydroelectricit y power stations, which have no prospects for expansion. The combined contribution of wind and solar power is 0.4%.