Money & Investing: The IRS cracks down on offshore accounts and foreign income

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

What's News

Friday's bombings in Jakarta raised new concerns about the sophistication of terrorists in Asia and the possibility that bombers may have been purposefully targeting a meeting of largely Western businessmen. Page 10

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■ **British Airways boosted** its liquidity with a new bond issue and loans as it disclosed a quarterly loss on sagging travel. Page 7

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■ **The euro-zone trade surplus** narrowed to $2.7 billion in May, with imports at their lowest level in four years. Page 12

■ **Two of the co-founders** of Credit Suisse's Real Estate Private Fund Group have left the bank to start their own business. Page 20

■ **A Kyrgyz police officer** has been arrested in the beating of a reporter who later died from his injuries.

■ **Chinese police killed** 12 people during July 5 rioting in the western city of Urumqi, officials said in a rare acknowledgment.

■ **The Pope appeared** in public for the first time to bless thousands after surgery to set a wrist fractured in a fall.

■ **Died: Henry Allingham**, 113, the world's oldest man and last original member of Britain's Royal Air Force.

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Iran's bomb
German spies say Tehran never stopped its nuclear weapons program. Page 15

Breaking news at europe.WSJ.com

Bar is raised for earnings

Investors look for revenue growth in next wave of profit reports; 3 key firms

By Annelena Lobb

The first two weeks of earnings season in the U.S. have buoyed investors' spirits and given the stock market a much-need boost. But the real test will come over the next two weeks, when the pace of reports picks up.

The 100-plus companies that report earnings this week will be under pressure to live up to the hype surrounding those that just reported. Impressive earnings and forecasts from the likes of **Goldman Sachs Group** and **Intel** helped end a four-week losing streak for the Dow Jones Industrial Average.

The Dow gained 7.3% and has recouped almost all its losses from the previous month. The S&P 500-stock index rallied 7%. The Dow is up 34% from its lows in March, and the S&P 500 is up 39%.

That first wave of earnings reports, while representing only about a tenth of major companies, made it evident to investors that the economy is no longer on the brink of disaster.

But the gains in the Dow have raised the bar for the next wave of reports. Attention is turning to whether companies are landing numbers based on revenue growth, or through aggressive cost cuts. As of Thursday, companies have reported median revenue growth of about 5%, according to J.P. Morgan strategists. And just two of 32 companies in the Russell 1000 index had reduced their forecasts.

"Investors want top-line growth. This is where I think we're going to start to see a more selective advance," says Alan Gayle, senior investment strategist and director of asset allocation at Ridge-Worth Capital Management.

Amid the avalanche of

Please turn to page 31

Tories, if elected, to scrap U.K. FSA

By Alistair MacDonald And Laurence Norman

LONDON—The U.K.'s markets regulator, the Financial Services Authority, would be abolished if the opposition Conservative Party takes power, the party said Sunday.

In a move that sets out the policy battleground for elections coming within a year, the Conservatives aim to lay out on Monday their full plans for regulating the financial system. Under the plan, the FSA's responsibilities would be split between the Bank of England and a new consumer-protection agency.

"Crucially, this will bring together the operation of monetary policy with regulation of the banking system so that the economy is not built on debt," said George Osborne, the party's finance spokesman.

The Conservatives say the present regulatory structure, in which the Treasury, the Bank of England and the FSA jointly oversee financial stability, failed to spot the dangers of a build-up of debt in the banking system ahead of the financial crisis.

Details of the Conservatives' plans, much of which have already been made public, will be laid out in a so-called white paper. Among other things, the paper will propose the creation of a Consumer Protection Agency, which will take on broad du-

Please turn to page 31

After four extra holes, it's case closed at British Open

Associated Press

GREEN-LETTER DAY: Stewart Cink kisses the trophy after beating Tom Watson by six strokes in a playoff in Turnberry, Scotland, on Sunday. Mr. Watson missed a short putt at the end of the fourth round that would have won the golf tournament.

Saakashvili to share power, expand vote

By Andrew Osborn

TBILISI, Georgia—Georgian President Mikheil Saakashvili is expected to unveil Monday moves to share more power and make elections more democratic in an attempt to mollify his critics and begin a comeback.

The address, before the country's parliament just days before a morale-boosting visit from U.S. Vice President Joe Biden, follows three months of street protests by the president's political opponents, who continue to demand his resignation after losing a disastrous war against Russia last summer. His critics accuse him of increasing authoritarianism, of monopolizing the state media for his own ends and of using the police to repress protesters.

In the speech, parts of which have been reviewed by The Wall Street Journal, Mr. Saakashvili pledges to set new local elections, to promise bigger media space for his adversaries and to offer the opposition seats on some decision-making bodies inside government.

The president said in the interview that after a "psychological turnaround" he realized his task was to modernize Georgia. He said his plan was to deepen democracy and ensure a peaceful transition of power when he steps down in 2013.

He also called the hopes of Georgia joining NATO "al-

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Inside

Digging in

Mining giants are forced to lessen their global ambitions
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Markets

	CLOSE	PCT CHG
DJIA	8743.94	+0.37
Nasdaq	1886.61	+0.08
DJ Stoxx 600	210.67	+0.39
FTSE 100	4388.75	+0.62
DAX	4978.40	+0.43
CAC 40	3218.46	+0.59
Euro	$1.4112	-0.02
Nymex crude	$63.56	+2.48

LEADING THE NEWS

Swedbank to cut more jobs following loss

Bad loans pile up in Baltics, Ukraine; focus on core markets

By Anna Molin

STOCKHOLM—**Swedbank** AB said Friday it will review all commitments in the Baltic states and Ukraine, and continue to cut jobs, as skyrocketing losses on bad loans there pushed the Swedish bank into a steep second-quarter loss.

Swedbank said it will shrink the number of branches and employees in Ukraine by about 30% by the end of 2010, and cut its Russian work force by 15% during the second half of this year. It closed 19 branches in the Baltics last quarter.

The bank plans to cut total staff by 3,600, or nearly 17% of its work force, by the end of the second quarter of 2010, and expects impairments to continue to rise in the second half, albeit at a slower pace. About 500 employees in Swedish banking will be affected, mainly through retirement. Swedbank had 21,280 employees at the end of 2008.

"The most recent quarter has been marred by continued uncertainty about the future of the economy," Chief Executive Michael Wolf said. Swedbank said it will reduce its total assets and focus on core customers in its four home markets, Sweden, Estonia, Latvia and Lithuania.

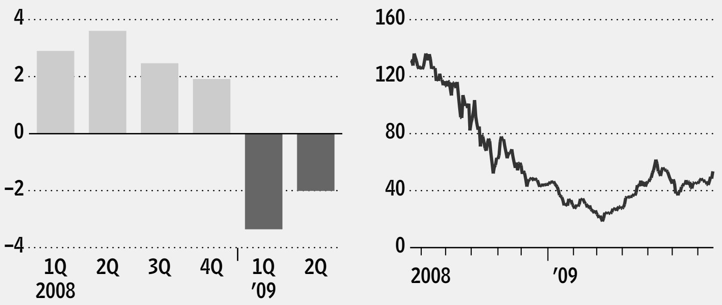
Layoffs, wage cuts and increasing bankruptcies have taken their toll on Swedbank and its Nordic peers with exposure to Europe's eastern economies. Borrowers there are mired in recession and struggling to repay loans. Pressure was evident in the first quarter, when high loan impairments pushed Swedbank, the Baltic region's largest lender, into its first quarterly loss in over a decade.

Lingering losses

Swedbank reported a second-quarter net loss but shares went up by 11%

Net profit/loss — In billions of Swedish kronor

52-week share performance — Friday's close: 53.50 Swedish kronor



Sources: the company (net profit/loss); Thomson Reuters Datastream (share price)

The Stockholm-based bank said Friday it swung to a second-quarter net loss of 2.01 billion Swedish kronor ($256.7 million) from a net profit of 3.6 billion kronor a year earlier, as loan impairments and provisions rose to 6.67 billion kronor from 423 million kronor. The vast majority, 6.14 billion kronor, were funds set aside against future losses. The latest result includes a gain of about 834 million kronor owed partly to Swedish branch sales.

Net interest income, the bank's main source of revenue, dipped to 5.24 billion kronor from 5.3 billion kronor.

Despite the jump in loan impairments and provisions, Swedbank increased its core Tier 1 ratio to 9.8% from 9.7%, partly following internal transfers and accounting modifications, and reduced its risk-weighted assets by 43 billion kronor.

Mr. Wolf said the bank's funding position improved during the quarter by an average of four months to a maturity profile of 18 months. Short-term liquidity rose by about 50 billion kronor to 250 billion kronor, he said.

Friends aims to buy Resolution

By Vladimir Guevarra

LONDON—U.K. insurer **Friends Provident Group** PLC proposed Friday to buy **Resolution** Ltd. in an all-share deal, effectively turning the tables on the restructuring firm that itself is looking to buy Friends Provident.

Clive Cowdery

Friends Provident said it sent a letter Friday to Resolution Chairman Mike Biggs setting out "a proposed structure for effecting a possible combination of the two groups." The insurer said it wants to become the holding company of the combined group, with Resolution shareholders exchanging their shares for new shares in Friends Provident. Friends Provident proposed to have Mr. Biggs as chairman of the enlarged company, with Resolution founder Clive Cowdery as executive deputy chairman responsible for consolidation strategy. Friends Provident Chief Executive Trevor Matthews would continue in his current role, it said.

Resolution welcomed the statement, saying it was pleased the insurer was willing to talk.

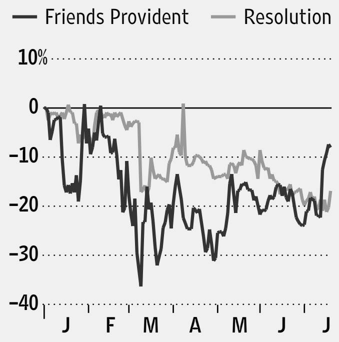
The news comes just days after Resolution said it is looking at buying Friends Provident, signaling the start of its effort to buy three to four life insurers over the next 18 months.

Resolution proposed an all-share offer of 0.8 new Resolution shares for every share owned by Friends shareholders. That proposal—which was rejected by Friends Provident—would result in Friends shareholders holding about 74% of the enlarged Resolution.

Mr. Cowdery made his name after becoming chairman in 2005 of Resolution PLC, which he rapidly expanded by buying life-insurance businesses that U.K. companies had decided to close. This is the second time Mr. Cowdery has tried to link up with Friends. In 2007, Friends and Resolution PLC agreed to an all-share merger, setting off a series of takeover battles for Resolution involving Pearl Group and Standard Life PLC that ended with Pearl's £5 billion ($8.2 billion) acquisition of Resolution PLC.

Making a move

Yeart-to-date share performance on the London Stock Exchange



Source: Thomson Reuters Datastream

Friends Provident said its proposal would allow an enlarged company to keep its primary listing on the London Stock Exchange and membership in key U.K. indexes.

CORRECTIONS & AMPLIFICATIONS

In the summer of 2006, several Democratic congressman running for re-election and presidential hopefuls, including Vice President Joe Biden, made anti-Wal-Mart rhetoric a key part of their campaign speeches. A Marketplace article in the Friday-Sunday edition incorrectly gave the year as 2004 and didn't state that Mr. Biden was running for president at the time.

Instinet Inc., a unit of **Nomura Holdings** Inc., is the largest minority shareholder in trading venue Chi-X Europe Ltd. A Money & Investing article Thursday incorrectly said Chi-X Europe is majority-owned by a unit of Nomura. Instinet switched from being a majority shareholder to a minority shareholder at the end of last year but still controls the company.

Digital Chocolate Inc. Chief Executive Trip Hawkins was the founder of **Electronic Arts** Inc. A Marketplace article Thursday about Apple Inc.'s iPhone App Store incorrectly called him a co-founder.

The criminal investigation of **UBS** AG that resulted in a $780 million settlement by the bank was led by the Justice Department. A Tuesday Money & Investing article about the Internal Revenue Service's investigation of UBS and its clients incorrectly said that work by IRS agent Daniel Reeves and IRS attorney John McDougal resulted in the criminal settlement with the U.S. government. Messrs. Reeves and McDougal are working on a related civil summons case. In addition, Mr. Reeves was deposed by UBS counsel and Mr. McDougal represented the IRS at the deposition. The article incorrectly said Mr. McDougal was deposed in addition to Mr. Reeves.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Barclays's Jenkins is leaving to set up firm

U.S. advisory venture will focus in part on Mideast clients

BY DANA CIMILLUCA

LONDON—Roger Jenkins, a high-profile executive for **Barclays PLC** who played a central role in raising billions to shore up the U.K. bank last year, is leaving to launch his own advisory firm, people familiar with the matter said.

Mr. Jenkins, executive chairman of investment banking and investment management for Barclays in the Middle East, started talks about a year ago to leave the bank so he could spend more time with his wife and young children, who live in Southern California, the people said.

He plans to set up his own deal-advisory firm based in the Los Angeles area and focusing on Middle Eastern and other clients, the people said. An announcement could come as early as this week.

Mr. Jenkins, a 51-year-old Scotland native, was the point man on deals Barclays struck with Persian Gulf investors last year that ultimately helped the bank avoid turning to the U.K. government for aid.

The departure of Mr. Jenkins, one of the highest-paid executives at the firm, comes amid an exodus of talent from the biggest Wall Street and City firms, as they face public scrutiny over pay and other governance issues in the wake of the global financial crisis.

The people familiar with the matter said Mr. Jenkins had agreed last year to stay and help Barclays through the crisis. A Barclays spokesman declined to comment and said Mr. Jenkins was unavailable.

Mr. Jenkins joined Barclays in 1978. He was part of a group that founded Barclays Capital, the firm's investment-banking arm, in the 1990s. Barclays Capital developed into an investment-banking powerhouse with the purchase last year of the U.S. operations of Lehman Brothers Holdings Inc.

Until two years ago, Mr. Jenkins ran a lucrative group at Barclays known as structured capital markets. The team of lawyers and bankers brought in hundreds of millions of dollars for the bank, in part by advising corporate clients on complex and controversial deals aimed at lowering taxes. The deals, which typically use cross-border transactions to play different countries' tax and accounting systems off one another, have recently attracted the scrutiny of U.K. tax authorities.

Roger Jenkins

As part of Mr. Jenkins's pay packages over the years, Barclays has invested millions in personal holding companies of his. These related-party deals have attracted criticism from shareholder advocates, who say they present conflicts of interest for corporate executives.

Mr. Jenkins's wife Diana, who fled the war-torn Balkans in the 1990s, is an entrepreneur and activist known for her ties to Hollywood celebrities. She helped Mr. Jenkins build a relationship with Qatar Prime Minister Sheikh Hamad bin Jassim bin Jabor Al Thani, who oversees the emirate's sovereign-wealth fund. Last year, the Qatar Investment Authority and Abu Dhabi's International Petroleum Investment Co. supplied the bulk of a £7 billion ($11.44 billion) capital injection that allowed Barclays to bolster a balance sheet weakened by the credit crisis.

Mr. Jenkins also oversaw an effort earlier this year to raise cash by selling iShares, a unit of the bank's giant investment arm Barclays Global Investors, to European private-equity firm CVC Capital Partners. Barclays ultimately scrapped that plan, opting instead to sell all of BGI to U.S. money-management giant BlackRock Inc. in a deal valued at $13.5 billion.

Aid pledges turn Afghan villagers against Taliban

Villagers attacked the Taliban in eastern Afghanistan, a rare instance of locals turning on insurgents after being promised aid money and security by the government.

*By **Anand Gopal** in Kabul and **Matthew Rosenberg** in New Delhi*

Friday's confrontation was welcome news for Afghan and U.S. authorities in what is shaping up to be one of the bloodiest months for the U.S-led coalition since the start of the war.

Tribesmen in Nangarhar, a province in the east, broke ties with the Taliban after being promised development money and security at a pair of meetings with Afghan officials in recent months, a strategy that American and Afghan authorities have tried in other parts of Afghanistan with limited success.

The fighting in Nangarhar, which was reported over the weekend, began after Taliban fighters attempted to kidnap an Afghan army officer in the Achin district, witnesses said. The officer escaped and took refuge among villagers, who refused to turn him over to insurgents.

The Taliban then attacked, prompting a firefight with the villagers, who killed three insurgents and captured 11, said provincial spokesman, Ahmad Zia Abdulzai. Nearly a half-dozen villagers who witnessed the fighting confirmed his account.

The villagers handed over 10 prisoners to authorities and kept one in hopes of exchanging him for a tribesman being held by the Taliban, Mr. Abdulzai said.

Until recently, there was strong support in the area for the Taliban and an allied insurgent group, Hizb-i-Islami Khalis, say members of the dominant tribe in the area, the Shinwaris.

But the government "told us that if we don't stop harboring the Taliban, the Americans will bomb us," said Ismat Shinwari, an elder who attended a meeting of tribal elders and provincial officials two months ago. "Our district and village has been frequently attacked by American and Afghan forces."

Afghan officials also promised money for building roads, schools and clinics. It isn't clear whether Friday's clash signals that U.S. and Afghan authorities can peel off more tribesmen from the Taliban.

CORPORATE NEWS

GM's chief reaches out on the Internet

Henderson will use Tell Fritz, an online suggestion box, in effort to repair car maker's image; echoes of Iacocca

By John D. Stoll

DETROIT—**General Motors** Co. Chief Executive Frederick "Fritz" Henderson is launching a public-relations salvo this week, activating an online suggestion box called Tell Fritz.

The initiative, part of a wider assault the auto maker is waging to repair its tattered image, is designed to enable the 50-year-old executive to further distance himself from what has become known as the Old GM, or the auto maker that existed before Mr. Henderson steered the company through bankruptcy court in the U.S. in about 40 days.

Mr. Henderson created the effort in the week leading to the auto maker's July 10 emergence from bankruptcy protection, after having discussions with expert bloggers about how to rebuild trust with the public.

"Fritz seems ready to step in really close to consumers by going off script," said Chris Brogan, a social-media expert who is president of New Marketing Labs in Boston. Mr. Brogan and Mr. Henderson traded strategies during a casual 25-minute meeting in the automotive executive's Detroit office prior to GM's June 1 bankruptcy filing. Mr. Brogan wasn't paid for the advice.

Mr. Henderson is planning various ways to remain the face of GM's turnaround effort, including a consistent string of media interviews and monthly national road shows starting in August, during which he plans to meet with dealers and interact with customers.

Tell Fritz harkens back to a strategy that Lee Iacocca followed during the early 1980s as the then-CEO of Chrysler Corp., which had relied on loan guarantees to stay afloat.

General Motors CEO Frederick 'Fritz' Henderson is to respond to Tell Fritz online messages starting Wednesday.

Back then, Mr. Iacocca, finding himself an object of national scorn, took advantage of his notoriety by speaking directly to the American people in advertisements, interviews and a best-selling book. His mantra—"If you can find a better car, buy it"—and his plain-spoken style are credited with fueling Chrysler's turnaround.

In a May interview, Mr. Henderson said "the lessons of Lee Iacocca's leadership are very valuable today."

GM spokeswoman Katie McBride played down the suggestion the executive is simply ripping a page from Mr. Iacocca's playbook. "I think it's just ripping a page from Fritz Henderson," she said, adding that Mr. Henderson built a career out of personal interactions with consumers, investors and dealers on several continents, including Asia, Europe and South America.

Since first asking for financial assistance from Washington in late 2008, GM has ramped up its effort to better engage with the public. Web sites such as "GM Facts and Fiction," the "Fastlane" blog and "GM Reinvention" have attempted to give a more transparent glimpse of the auto maker.

Mr. Henderson and other GM executives have hosted live Web chats. During one session, he dubbed some of GM's brands "consistently unprofitable" and promised "significant change" in the company's leadership.

The unscripted style hasn't gone without missteps.

Last week longtime GM executive Bob Lutz, recently appointed to head marketing, made headlines while conducting a live blog session during which he said the company was considering saving the Pontiac G8 sedan by giving the car to Chevrolet and calling it the Caprice.

Mr. Henderson told reporters the next day that Mr. Lutz spoke out of turn. By the end of the week, Mr. Lutz had issued a public retraction on his blog, Fastlane. "Upon further review and careful study, we cannot make a business case for such a program," he wrote in a post.

Mr. Henderson's attempt to build a cozier public image is a clear departure from his predecessor, Rick Wagoner. Mr. Wagoner, dismissed from his duties in March by the Obama administration, employed a "deeds not words" strategy when it came to communication. Under his leadership, GM lost considerable market share, burned through tens of billons of dollars in cash and saw its stock price plummet.

GM's new chairman, former AT&T Chief Executive Edward Whitacre, has told executives that fixing GM's image is a top priority, and he plans to be intimately involved in that effort, a person close to Mr. Whitacre said.

"People are concerned and frustrated with General Motors," said Ms. McBride, the GM spokeswoman. "So how we go about putting a face on GM is important, [and] building a relationship is important."

Tell Fritz, loosely modeled on Twitter messaging, will be housed on GM's so-called Reinvention Web site, allowing the public to lodge comments, compliments and complaints with Mr. Henderson in messages of 255 characters or fewer. GM conducted a so-called soft launch of Tell Fritz over the weekend, collecting 238 messages for Mr. Henderson by 1 p.m. Sunday. He is to begin public replies on Wednesday.

The executive, known for putting in long hours and sending emails and text messages late into the night, plans to review and respond to certain messages upon "arriving at the office or before he goes to bed," said Christopher Barger, who heads GM's internal blogging efforts. "We know we've got a lot of reputational repair to do," he said.

Alierta acquittal sets up new fight

By Thomas Catan
And Jason Sinclair

MADRID—A Spanish court found that César Alierta, chairman of **Telefónica** SA, enriched himself through insider trading before he joined the telecom company, but it acquitted him on the ground that the statute of limitations had run out.

Friday's verdict sets up a fresh battle in Spain's Supreme Court, which could extend the statute of limitations. It also raises questions about Mr. Alierta's future at Europe's largest telecom company.

The verdict is the most-recent chapter in a decadelong legal drama involving one of Spain's most powerful and admired businessmen. Many investors view Mr. Alierta, 64 years old, as central to Telefónica's success—and to its stock-market value. He has a tight grip on the company and no obvious successor.

Telefónica declined to comment on the verdict or on whether the ruling would affect Mr. Alierta's position there. The prosecutor had been seeking a 4½-year jail sentence for the executive.

The alleged insider trading took place in 1997, when Mr. Alierta was chairman of Spain's state-owned tobacco company, Tabacalera SA.

That year, he set up an investment vehicle with his wife and funded it with a €2.4 million ($3.4 million) loan from a bank where he had previously been a senior employee. Weeks later, he transferred the vehicle to his 28-year-old nephew, Luis Placer.

Shortly after that, Mr. Placer began to buy shares in Tabacalera at the same time that Mr. Alierta was negotiating major market-moving deals, including the purchase of U.S. cigar maker Havatampa Inc. The court said in its ruling that Mr. Placer, "knowing the impact that the announcement of the purchase of Havatampa would have on the market," bought and sold shares in the company and made a €1.86 million profit.

The court ruled that Mr. Alierta and his nephew jointly decided to enrich themselves by taking advantage of market-sensitive information in Mr. Alierta's possession. It was a "proven fact," the three-judge panel wrote in their decision, that Mr. Alierta "devised a way of taking advantage of his knowledge of certain substantial facts relating to the stock market, of the operations that were going to occur and the repercussion that they would have on the market to obtain a considerable profit."

Both men denied the charges in court.

If appealed, as expected, the next phase of the case is likely to hinge on the question of whether Mr. Alierta's alleged insider trading harmed the public interest.

The Madrid court found that the conduct of Mr. Alierta and his nephew "would have constituted the elements of the crime ... of use of privileged information." But because more than five years had elapsed between the alleged crime and the formal charges being presented, the court said it was compelled to dismiss the charges.

The prosecutor argues that the alleged insider trading harmed the interests of the investor community. If that argument is accepted by the Supreme Court on appeal, the statute of limitations would be extended to 10 years, and the case could proceed.

Spain's anticorruption prosecutor's office said on Friday it was studying the ruling and would announce whether it would appeal within the allotted five working days.

In its ruling, the court shot down many of the defense's principal arguments. Mr. Alierta's lawyers said he had set up the investment vehicle at the urging of an investment adviser but then changed his mind about owning it. The court said it found that argument "unconvincing."

Mr. Alierta also emphatically told the court that he didn't buy a single share in Tabacalera during the period in question, either directly or indirectly. In its ruling, however, the court swept aside the arguments that Mr. Placer had bought the Tabacalera shares for himself and not at his uncle's behest.

Telefónica Chairman César Alierta, left, in court over insider-trading charges in April. The court acquitted Mr. Alierta, saying the statute of limitations had expired.

CORPORATE NEWS

Porsche chief likely to cede control

Move would let VW wield more influence at sports-car maker

By Dana Cimilluca And Marcus Walker

Porsche Automobil Holding SE Chief Executive Wendelin Wiedeking, architect of the German sports-car maker's failed attempt to take over **Volkswagen** AG, is expected to relinquish operational control of the company, people familiar with the matter said.

The move would open the way for VW to assert more control over Porsche's prized car-making arm and could end a more than three-year battle between the two German auto companies that are linked by family stakeholders.

Under a compromise being considered, Mr. Wiedeking no longer would oversee Porsche's strategy and daily operations but would retain his CEO title at Porsche's holding company, the people said.

The solution would be part of a broader deal Porsche is discussing with VW, the people said. These people cautioned that the talks are in flux and that Mr. Wiedeking could still play a more active role. Porsche has denied that Mr. Wiedeking is on his way out, saying Friday that such reports were "absolute nonsense."

Mr. Wiedeking is credited with saving Porsche from the brink of bankruptcy in the 1990s and expanding its lineup beyond its core sports cars. But his attempt to acquire control of Volkswagen using options contracts badly backfired when the markets turned against Porsche's position. Faced with potentially crippling debt, Porsche quickly went from being the hunter to the hunted.

European Pressphoto Agency

Porsche Chief Executive Wendelin Wiedeking, with one of his cars, arrives at the celebration of the 100th anniversary of Volkswagen's Audi on Thursday. He is expected to relinquish operational control as VW asserts more control over Porsche.

The two sides are closing in on a deal that would hand VW a 49% stake in Porsche's core auto business, these people say. The transaction, which could also hand stakes in Porsche and VW to a Qatari state-owned investment firm, will be discussed at July 23 meetings of the supervisory boards of both Porsche and Volkswagen in Stuttgart, where Porsche is based. It remains unclear, however, whether the two sides will have reached an agreement by then, one of the people said.

Since 2005, Porsche has raised its shareholding in Volkswagen, Europe's largest auto maker by sales, to almost 51% and accumulated a complex set of options to raise its stake by a further 20%. But Porsche's net debt tripled to €9 billion ($12.7 billion) as it accumulated the stake, which became unsustainable in the global economic downturn.

The departure of Mr. Wiedeking would be a victory of sorts for Ferdinand Piëch, Volkswagen's autocratic supervisory-board chairman, over his cousin Wolfgang Porsche, his counterpart at the luxury-auto maker. Mr. Porsche has fought to keep Mr. Wiedeking in his post.

While Mr. Wiedeking's departure would be the logical outcome of a deal that would effectively reverse his effort to take over VW, he could still hold on for an unspecified period of time, given the "emotions" involved, one of the people familiar with the matter said.

As part of the complex deal that Porsche, VW and their bankers are nearing, Qatar would take a stake in Porsche as well as acquire its options on VW stock. That deal could be valued at more than €5 billion.

—Christoph Rauwald contributed to this article.

Magna, RHJ are tied in race for GM's Opel

By Christoph Rauwald

Canadian auto-parts supplier **Magna International** Inc. and Belgian investment firm **RHJ International** SA are neck and neck as they race for **General Motors** Co.'s Opel and Vauxhall car brands, said a person familiar with the matter.

"Magna has a time advantage, but RHJ has showed a serious, genuine interest [in Opel/Vauxhall] when it developed its revised bid," the person said Friday.

RHJ's bid is "quite compelling and interesting," the person said, noting that its fresh proposal enabled the company to catch up with Magna "over the past three to four weeks."

Magna initially emerged as the front-runner after it signed in May a nonexclusive memorandum of understanding to acquire a majority stake in the GM units as part of a bid backed by Russia's **Sberbank Rossia** and auto maker OAO **GAZ** Group.

The Magna bid is bolstered by €1.5 billion ($2.1 billion) in bridge financing provided by the German government to keep Opel afloat after GM filed for bankruptcy in the U.S.

Opel's powerful labor unions have voiced their support for Magna's offer. Additionally, the bid by Magna and its Russian partners enjoys prominent political support in both Russia and Germany.

The person said talks with Magna have made "good progress" but issues remain, including the valuation of Opel's Russian operations, GM's future participation in the business and Sberbank's right to transfer its 35% stake in the units after a takeover.

The person added there are "some minor intellectual-property issues" still to be resolved and said the interest rates applying to the government loans need to be negotiated with Magna, as its bid has a higher loan requirement. Magna is seeking €4.5 billion in government-backed loans.

GM's European division said earlier Friday that its parent had requested that final offers for Opel and Vauxhall be submitted by the close of business Monday. The company added that it has been in negotiations since May with Magna, RHJ and **Beijing Automotive Industry** Corp. BAIC, however, appears to have little chance to clinch the deal.

RHJ's bid includes investing €275 million for a 50.1% stake in Opel and a request for €3.8 billion in government funds, according to the group's offer document, seen by Dow Jones. The plan foresees cutting 9,900 jobs in Europe, about the same level as Magna proposes.

Toyota to make hybrids in U.K. starting next year

By Yoshio Takahashi

TOKYO—**Toyota Motor** Corp. said it will make hybrid vehicles in Europe for the first time next year, broadening the company's production of the gasoline-sipping cars.

Japan-based Toyota, which holds a relatively small 5% of the European market, aims to gather momentum in the region by enticing cost-conscious customers with the hybrids.

The world's biggest car maker by sales volume said it will make a hybrid version of the Auris subcompact hatchback in the U.K. starting in mid-2010. Toyota expects to spend three billion yen ($32 million) to prepare for production of the cars.

The U.K. will be the fifth country outside Japan where Toyota makes hybrid cars or plans to do so. The company already builds hybrids in China and the U.S., and will begin production in Thailand later this month and in Australia in early 2010.

The decision on U.K. production follows a strategy that the company's new president, Akio Toyoda, outlined last month.

Mr. Toyoda aims to promote hybrid-car sales in Europe, where customers looking for more fuel-economic vehicles tend to buy diesel-powered cars.

Toyota is betting that its technology combining combustion engines with electric motors will spur demand in Europe for low-emission cars that are less expensive to operate. The auto company aims to offer hybrid versions of all of its vehicles by 2020.

Core components such as batteries and motors will be shipped from Japan, said a spokesman for Toyota.

Nissan Motor Co. said it is considering installing its own gasoline-electric technology in more models to catch up with hybrid rivals such as Toyota.

The Japanese car maker, in which **Renault** SA holds a 44% stake, would follow **Honda Motor** Co. and **Mazda Motor** Corp. in seeking to beef up its hybrid lineup.

Honda said July 13 that it will offer two new gasoline-electric vehicles next year, while Mazda is in talks with Toyota over using components of Toyota's system for its hybrid vehicles.

Nissan plans to roll out electric vehicles in Japan and the U.S. next year.

Suspects arrested in blackmail case of BMW heiress

Associated Press

MUNICH—Three men have been arrested in Germany over a failed attempt to blackmail the country's richest woman, **BMW** AG heiress Susanne Klatten, prosecutors said Friday.

Ms. Klatten went to the police in mid-June immediately after her office in Munich received the first letter from the would-be blackmailers, said Thomas Steinkraus-Koch, a spokesman for prosecutors in the city. They demanded €800,000 ($1.13 million) and a BMW X5 sport utility vehicle to stop them from selling to the Italian press secretly recorded videotapes of her trysts with a Swiss man, Helg Sgarbi.

Prosecutors characterized the latest blackmail attempt as a copycat crime. There was no indication that the suspects—two of whom have previous fraud convictions—had any connection to Mr. Sgarbi, who was convicted earlier this year of defrauding Ms. Klatten, Mr. Steinkraus-Koch said. They also appeared not to have the videotapes, or even to have viewed them, he said.

The three suspects were nabbed in the western city of Duisburg on Wednesday after investigators, posing as people close to 47-year-old Ms. Klatten, set up an appointment to hand over the money. The suspects, who came from Duisburg, were between 33 and 46 years old, prosecutors said without giving further details.

Mr. Sgarbi, dubbed "the Swiss gigolo" by German media, was sentenced in March to six years in prison for defrauding Ms. Klatten of €7 million and attempting to blackmail her for tens of millions more.

Agence France-Presse/Getty Images

The crime was the latest blackmail attempt of Susanne Klatten.

Mr. Sgarbi said he convinced Ms. Klatten to give him €7 million by saying it was for the treatment of a girl who was left paraplegic after he hit her with his car. He also admitted at his trial that he threatened to release the tryst videotapes unless the married Ms. Klatten gave him millions to keep quiet.

The suspected blackmailers arrested this week weren't the first to try milking the case for money. In March, a 50-year-old German with multiple previous convictions tried to extract €75,000 from Ms. Klatten, claiming that he had met Mr. Sgarbi in prison and could obtain the videos for her. He was arrested at a bakery in the city of Bochum, where he had asked that the money be left.

CORPORATE NEWS

BA issues debt for cash

Airline forecasts $164 million loss amid sagging travel

By Kaveri Niththyananthan And Michael Carolan

Reuters

British Airways raised $1.1 billion from the sale of bonds and a new banking facility to boost its cash. Chief Executive Willie Walsh in London last week.

LONDON—**British Airways** PLC moved Friday to shore up its cash position by £680 million ($1.11 billion), to cushion the impact of recession.

The U.K. carrier, which has struggled to cope with inflated costs and a sharp drop in the number of business-class travelers, also said it had its first-ever fiscal first-quarter loss since it went public in 1987. Its loss for the quarter ended June 30 will be about £100 million, compared with income of £27 million a year ago. Quarter revenue fell 14% to £1.98 billion from £2.3 billion a year earlier.

BA's difficult trading conditions forced it Friday to complete its first convertible issue since 1989, with a £350 million offering of 5.8% convertible bonds due 2014. High demand allowed the carrier to raise the issue amount from the £300 million originally targeted. The conversion price was set at 189 pence per share. The carrier can also tap up to $540 million (£330 million) in banking facilities that pension-fund trustees have agreed to make available. "This puts to bed any suggestion that BA is in any sort of risk short term," Chief Executive Willie Walsh told reporters. "Relative to competitors, this puts us in a very strong position."

While BA has been quick to grasp the scale of the downturn and curb costs and cut headcount, it has lagged behind fund-raising efforts of its European rivals. Lufthansa has issued a €750 million bond, and Air France-KLM earlier this month drew €661 million from a convertible-bond issue. The bond issue is at the low end of analysts' expectations that ranged from £300 million to £600 million.

British Airways is facing a challenging few months, with the possibility of a strike by its 14,000 cabin crew. It has cut 2,500 jobs since last summer, and it plans to shed a further 3,700 full-time equivalent posts from its staff of roughly 40,000. In addition to reducing capacity, it has cut its planned capital expenditure for its fiscal year ending March 31, 2010, to £580 million from £725 million.

Mr. Walsh said the company had spent £130 million of its £1.4 billion cash pile in the quarter, down from the previous quarter when it spent more than £200 million.

The funding will boost the airline's liquidity to about £2 billion. At June 30, the airline had £1.25 billion of cash and general facilities of around £130 million.

The bond issue, which requires approval from shareholders, was offered to existing institutional shareholders. The bonds due in 2014 will be convertible into 15% to 20% of the issued share capital of BA.

The convertible-bond route allows BA to sell its shares at a higher price than their current levels and gives investors the option to cash in their investment for BA shares later on at a higher price. The convertible-bond yield of 5.8% is relatively high given the current risk surrounding BA, analysts say.

Barclays Capital, Deutsche Bank AG, HSBC, RBS Hoare Govett and Merrill Lynch International are joint bookrunners and joint lead managers of the bond issue.

Rio Tinto case is tied to price negotiations

By Enda Curran

SYDNEY—Australia's foreign minister, Stephen Smith, said that Chinese government officials told him the detention of a **Rio Tinto** executive stems from a criminal investigation of conduct surrounding iron-ore price negotiations, rather than from what his government would consider espionage.

Mr. Smith's recounting Sunday of comments made by Chinese officials appeared to be at odds with previous statements by China's government on the case of Stern Hu, an Australian citizen, and three Chinese colleagues at Rio Tinto.

China's government detained them on July 5, and has publicly alleged they used bribery to obtain "state secrets" and hurt China's "economic security." Those statements suggested the case was being treated as something beyond a typical criminal investigation. It wasn't clear from Mr. Smith's remarks whether China is changing its position.

After a meeting Friday with China's vice foreign minister, He Yafei, Mr. Smith told the Australian Broadcasting Corp. that Chinese officials were "quite clear they are focusing on a criminal or judicial investigation relating to the 2009 iron-ore negotiations." He added: "they are not interested in what we would regard as espionage or national-security matters."

But Mr. Smith went on to say that "commercial and economic matters" can fall within the Chinese definition of state secrets. He said the legal situation facing the Rio Tinto employees would become clearer should the Chinese investigation result in charges against Mr. Hu and others.

Rio on Friday issued its strongest denial so far in the case, with Sam Walsh, the company's chief executive of iron ore, saying in a statement that allegations that its employees were involved in bribery are "wholly without foundation." The company believes the employees "acted at all times with integrity and in accordance with Rio Tinto's strict and publicly stated code of ethical behavior," the statement said.

In the days after Mr. Hu's detention was announced by Rio Tinto, a spokesman for China's Ministry of Foreign Affairs, Qin Gang, said that the Rio employees "stole Chinese state secrets for a foreign country," and that they had "hurt China's economic interests and economic security." That echoed a statement issued to Chinese media July 9 by the Shanghai State Security Bureau. Neither Mr. Qin nor the earlier statement specified what state secrets had allegedly been stolen.

China's definition of what can constitute a state secret is broad and covers not just military and intelligence information, but also "national economic and social development." China's largest steelmakers are state-owned enterprises, so information about them could, theoretically, be considered a state secret.

Pilots group says EU rules are jeopardizing air safety

Associated Press

BRUSSELS—A European pilots association criticized the European Union Friday, saying the bloc is endangering air safety by failing to act on the recommendations of experts who say cuts in flying hours are needed to curb pilot fatigue.

The European Cockpit Association, a group of pilots unions with 38,000 members, praised the action taken by the U.S. Federal Aviation Administration in the wake of the Colgan Air crash Feb. 12 that killed 50 people.

The twin-engine turboprop was nearing Buffalo Niagara International Airport at night in wintry conditions when it suffered an aerodynamic stall, rocked back and forth, then plunged into a house below, killing all 49 aboard and a man on the ground. Testimony and documents indicate the pilots made a series of critical errors, some of which may have been related to fatigue, inexperience and inattention to regulations.

The FAA said last week that it will propose setting new limits on how many hours airline pilots can fly in an effort to prevent pilot fatigue from endangering flight safety.

Philip von Schoppenthau, secretary-general of the European Cockpit Association, said the European Aviation Safety Agency has stalled on implementing similar limits proposed last fall by a panel of aviation experts and scientists.

Last year, the panel came to the conclusion that EU rules are insufficient to adequately protect against flight safety risks posed by pilot fatigue. Its study found that the allowed maximum daily flight duty period of 13 to 14 hours "exceeds reasonable limits."

The European Aviation Safety Agency says the study has yet to be fully evaluated by regulators.

"All stakeholders will be invited to comment and their positions will be taken into account," said Savina Zakoula-Cherdron, a spokeswoman for the agency. She said the study was scheduled to be completed by early 2012.

The Association of European Airlines, a grouping of the continent's flag carriers, charter operators and low-cost carriers, has lobbied against the new rules, arguing the study was scientifically flawed and that experience has shown that current limits are adequate.

Analysts say the new limitations would significantly boost operational costs at a time when revenues are falling because of the economic downturn.

CORPORATE NEWS

Ahab group alleges fraud

Saudi conglomerate sues Maan al Sanea in New York court

BY ANDREW CRITCHLOW AND OLIVER KLAUS

Ahmed Hamad Al Gosaibi & Brothers Co., a powerful Saudi conglomerate, filed a case in New York alleging that Saudi billionaire Maan al Sanea fraudulently "misappropriated approximately $10 billion."

A copy of the suit filed on July 15 at the New York State Supreme Court in Manhattan alleges Mr. Sanea "obtained loans frequently using forged or falsified documents and then diverted the funds received to his own use."

A spokesman for Saad Group, a conglomerate controlled by Mr. Sanea that Moody's Investor Service estimates holds about $30 billion in assets, said Friday that the Saudi billionaire is unaware of the lawsuit.

"If we are served with such a claim, we will respond to it vigorously," a spokesman for Saad Group said in an email to Zawya Dow Jones.

Ahmed Hamad Al Gosaibi & Brothers, or Ahab, filed the suit against Mr. Sanea in response to a case filed in May against Ahab by United Arab Emirates-based lender Mashreqbank over $150 million that the bank alleges it is owed by Ahab. A representative of Ahab couldn't be reached to comment.

The case filed against Mr. Sanea alleges that he "siphoned" funds from Ahab and "fraudulently obtained money as a result of unauthorized, noncommercial transactions with a variety of financial institutions in the United States, the Middle East, and elsewhere, including, apparently, Mashreq."

Ahab says that Mr. Sanea served as a senior executive at its financial-services unit, Money Exchange.

The case could add to concerns about Saad Group and Ahab, as they struggle to restructure their debts after details of financial difficulties at both companies emerged in May. In June, Ahab said it had discovered evidence of financial irregularities at its financial-services unit but didn't identify the company by name.

The Gosaibi family, which besides owning Ahab controls stakes in Saudi American Bank as well as other interests in shipping and industry in the kingdom, has said it may face losses at its Bahraini banking unit.

Chinese oil firms to buy share in Angola oil field

BY TESS STYNES AND GUY CHAZAN

Marathon Oil Corp. agreed to sell a 20% stake in an Angolan oil-field operation for $1.3 billion to Chinese oil companies **Cnooc International** Ltd. and Sinopec Corp. The U.S. oil company will retain a 10% interest in the enterprise.

Marathon previously announced 12 successful exploration wells in an area known as Block 32, a tract located 140 kilometers off the African country's coast.

Block partners have rights of first refusal on the sale. Others with interests in the operation include **Total** SA, which holds a 30% stake and is the project's operator, and **Exxon Mobil** Corp., which owns 15%.

The deal marks the latest asset sale by Marathon, which also has refinery operations and has been trying to tighten its focus.

Angola is a major supplier of crude oil to China and has been a big recipient of Chinese financing. Chinese companies, meanwhile, have been looking to lock up commodity sources to fuel the country's economic growth. Sinopec, formally known as **China Petroleum & Chemical** Corp., and Cnooc are China's second- and third-largest oil producers by capacity, respectively, after **China National Petroleum** Corp.

Separately, British oil major **BP** PLC, already the largest producer of oil and gas in the U.S. Gulf of Mexico, said it had drilled a successful appraisal well in its Mad Dog development in the Gulf that could lead to a significant increase in production.

The results put Mad Dog in the same league as BP's two giant fields in the Gulf, Thunder Horse and Atlantis, the company said. A spokesman called the drilling results "very encouraging." BP is reviewing ways to increase production from Mad Dog, which currently stands at 80,000 barrels of oil equivalent a day.

Tata Consultancy sees profit gain amid optimism

MUMBAI—**Tata Consultancy Services** Ltd., India's largest software exporter by revenue, posted a 22% rise in its fiscal first-quarter profit, as cost control measures helped boost its operating margin.

Tata Consultancy is the second major Indian information-technology firm to report better-than-expected results, underscoring optimism that the worst is over for local software firms. Last week, **Infosys Technologies** Ltd. posted a 17% rise in profit.

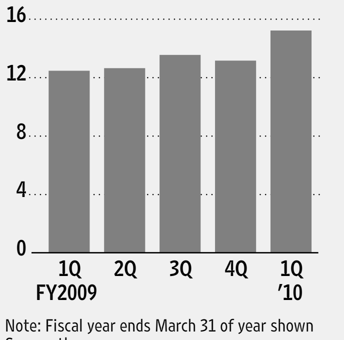
India's software exporters, which earn most of their revenue from the U.S. and Europe, have been hurt by the global economic slowdown as clients are cutting costs, including spending on technology.

Profit during the April-June period totaled 15.20 billion rupees ($313 million) compared with 12.44 billion rupees a year earlier, according to U.S. accounting standards.

The Mumbai-based company said revenue rose 12% to 72.07 billion rupees from a year earlier, helped by the addition of 26 clients.

Tata Consultancy saw its total work force decline by 2,746 at the end of the quarter to 141,642.

Tata Consultancy Services
Net profit, in billions of rupees



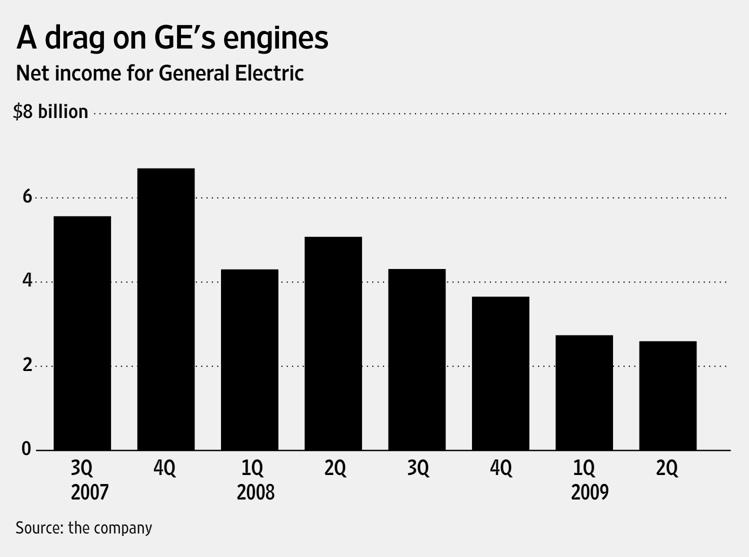
Note: Fiscal year ends March 31 of year shown
Source: the company

CORPORATE NEWS

GE's profit tumbles 49%

Loan losses continue to hamper finance; energy unit up 13%

By Paul Glader



General Electric Co. said second-quarter net income fell 49% as the recession took a toll on both its industrial businesses and its struggling finance unit.

Profit at the finance division, GE Capital, fell 80% to $590 million because of rising loan losses and a 29% decline in revenue. Without a $678 million tax benefit, the unit would have lost money.

In its industrial units, GE said orders for equipment fell 42%. But a strong order backlog, and GE's growing service business, helped its energy unit report higher profit.

Overall, the Fairfield, Conn., conglomerate posted net income of $2.68 billion, or 24 cents a share, down from $5.26 billion, or 51 cents a share, a year ago. Revenue fell 17% to $39.08 billion. The tax benefit at GE Capital boosted earnings by about six cents a share. The results slightly exceeded analysts' projections.

GE's shares slid 6% to $11.65 in 4 p.m. composite trading on the New York Stock Exchange as investors worried about the downturn's effects on the company.

"We expected across the board it would be a tough quarter," with earnings down about 50%, said Perry Adams, vice president at Huntington Private Financial Group. He said his firm plans to keep its 6.4 million GE shares because he thinks the company is managing decently through the recession.

"Despite a difficult overall economy, we are pleased with our results," said GE Chairman and Chief Executive Jeffrey Immelt on a conference call. He said the company is focused on maintaining its industrial-order backlog, operating its high-margin maintenance and repair services, and managing collections and losses at GE Capital.

GE reported some signs of stability in its capital unit. Earlier, rising loan losses in the operation prompted GE to cut its dividend for the first time in 71 years and cost the company its coveted triple-A debt rating.

Friday, GE said the unit already had achieved its year-end goal to reduce its reliance on short-term debt known as commercial paper to $50 billion, from $58 billion in the first quarter. GE said it has completed its long-term debt funding for the year with $45 billion raised, most of it backed by federal guarantees, and is about 30%-funded for 2010.

Profit declined at four of GE Capital's divisions, with its aircraft-leasing operation posting a 3% earnings increase. The real-estate division, with $84 billion in assets, reported a $237 million loss, compared with a $484 million operating profit a year ago.

GE said delinquencies had improved slightly in its U.S. credit-card and equipment-loan businesses, compared with the first quarter. But the delinquency rate on GE's U.K. mortgages rose to 13.2% from 11.8% in the first quarter.

Standard & Poor's called the finance results "weak" and said GE likely will have to set aside more for future loan losses.

GE Capital's assets grew 2% from the first quarter to $651 billion, though the company has said it wants to reduce assets to about $400 billion.

Outside the finance group, GE's energy-infrastructure division said its profit rose 13% to $1.79 billion. But revenue and profit both declined 11% at the unit that contains its aviation, health-care and transportation businesses.

In all, GE said its order backlog fell slightly, to $169 billion from $171 billion at the end of the first quarter, but its backlog of service orders grew.

Revenue and profit also fell at the NBC Universal media unit. GE said results were hurt by the sale of the Sundance cable channel.

Mr. Immelt said the U.S. economic-stimulus package, passed in February, was a "nonfactor" during the first half of 2009, but he expects GE to benefit in the second half from increased government spending.

The company hopes to get as much as $200 billion of the stimulus money targeted at projects in clean energy and health care.

GE executives reiterated their opposition to a Treasury proposal that could force them to split off GE Capital. "We're very committed to this business model," said Mr. Immelt. The combination "has provided the strength for us to work through" the financial crisis.

GE executives said they believe they have some support in Congress for grandfathering in their corporate structure.

—Bob Sechler contributed to this article.

Executive in divorce settlement

By John R. Emshwiller

George David, the 67-year-old chairman and former chief executive of **United Technologies** Corp., reached a settlement with his 37-year-old wife in their highly publicized divorce case.

Under the settlement, Marie Douglas-David will receive about $50 million, according to a person familiar with the matter. That is several million dollars more than the estimated $40 million to $45 million she would have received under a postnuptial deal the couple signed during their seven-year marriage.


George David

During the case, court filings and testimony disclosed details about the spending habits of both spouses. It emerged that Ms. Douglas-David had an estimated $50,000 a week in living expenses while Mr. David spent tens of thousands of dollars a week on yacht racing. An attorney for Mr. David declined to comment. An attorney for Ms. Douglas-David didn't respond to a request for comment.

The divorce case in a Hartford, Conn., state court produced a range of potentially embarrassing information regarding Mr. David's activities at United Technologies, where he had a successful, 15-year tenure as CEO before stepping down from that post in April of last year.

The Swedish-born Ms. Douglas-David, a former securities analyst, contended she deserved more money from the divorce than called for in the postnuptial agreement because she served as a de facto adviser to her husband in running United Technologies, an international conglomerate that makes products ranging from jet engines to elevators.

Among other things, she contended that Mr. David had shared information about possible mergers involving United Technologies. An attorney for Mr. David has said any financial talks her client had with his wife were "incidental conversations" that had no impact on the company.

Also surfacing were records regarding Mr. David's use of United Technologies' corporate aircraft for personal travel. Those records showed that Mr. David used corporate helicopters and planes for hundreds of personal trips since 2002. In about a dozen flights, the records showed, guests of Mr. David's flew without him being on board, including at least one member of his racing-yacht crew as well as the woman whom Ms. Douglas-David's attorneys identified in court proceedings as his girlfriend.

United Technologies, in response to questions from The Wall Street Journal, defended Mr. David's use of the corporate aircraft but said he had reimbursed the company for flights involving the "unescorted guests."

GLOBAL BUSINESS BRIEFS

Renault SA

Car maker's sales fell 16.5% in first six months of year

Car maker **Renault** SA said Friday that global vehicle sales fell 16.5% in the first half, in line with the overall sagging market. The French auto maker said it sold 1.11 million cars and light trucks in the first six months of the year, down from 1.326 million a year earlier. In June, the decline was 0.9%. While the company kept its 3.7% share of the global market, it reported a 0.5 percentage point loss in market share at home in France after a drop in short-term leasing sales. Renault gained market share in Germany, Spain and Belgium, but lost in Italy and Britain. Sales of Renault-branded vehicles fell 21.5%, while sales of its low-cost Romanian Dacia brand rose 20.3%. The company said that in the first half it had "significantly positive" cash flow.

Mattel Inc.

Mattel Inc. reported an 82% jump in second-quarter earnings as cost cutting offset worse-than-expected sales that reflected consumers' diminished spending and retailers' efforts to curb inventories. The company also blamed weak sales on a lack of toys tied to summer movies and TV shows. Looking ahead to the holiday season, Chief Executive Robert A. Eckert said he expects retailers and consumers to remain cautious, but unlike last year's dismal Christmas, Mattel will be prepared to align inventory with sales. The toy giant reported a profit of $21.5 million, or six cents a share, up from $11.8 million, or three cents a share, a year earlier. Revenue fell 19% to $898.2 million, with currency fluctuations accounting for five percentage points of the decline.

Actelion Ltd.

Actelion Ltd. said Friday it plans to start late-stage trials by year end of its compound PGI2, a potential treatment for pulmonary arterial hypertension that the Swiss biotechnology company hopes will replace drugs that are set to lose patent protection in coming years. Pulmonary hypertension, or PAH, is a rare blood-vessel disorder of the lungs. The new compound, which aims to widen arteries in order to decrease blood pressure, proved safe and effective in a Phase II trial, the company said. "This efficacy with good tolerability makes us determined to accelerate our development program," Chief Executive Jean-Paul Clozel said. Actelion gets the bulk of its revenue from Tracleer, a treatment for PAH, and also sells Ventavis, which PAH patients inhale.

ArcelorMittal SA

Steel maker **ArcelorMittal** SA said Friday its loan terms have been loosened, with bankers agreeing not to increase borrowing costs as long as its debt-to-earnings ratio stays under a new, higher limit. The company is carrying high debts from a recent expansion and has posted large losses in its past two quarters in the economic downturn . It said it needs more flexibility from its main bankers by changing the financial-leverage covenant linked to €17 billion ($24 billion) credit facilities, a $4 billion revolving credit facility and a $3.25 billion forward start facility. ArcelorMittal said lenders agreed not to increase borrowing costs unless its leverage ratio of net debt to Ebitda soars above 3.5. The company's net debt to Ebitda ratio in the year ended March 31 was 1.3.

Deutsche Lufthansa AG

The European Commission said Friday it is seeking clarification from **Deutsche Lufthansa** AG on the carrier's latest proposal to get antitrust clearance for its planned takeover of **Austrian Airlines** AG. Lufthansa's latest offer was sent to the commission, the European Union's executive branch, late Thursday in a letter signed by the German airline's chairman. The commission is studying it carefully and "seeking further information," said commission antitrust spokesman Jonathan Todd. It is too early to say whether the offer is sufficient to get the required antitrust clearance by the July 31 deadline Lufthansa has set for the deal, Mr. Todd said. He said earlier this month that chances of regulatory approval were fading fast because Lufthansa wasn't doing enough to eliminate concerns the deal would reduce choice and raise fares on some routes.

Aer Lingus Group PLC

Irish airline **Aer Lingus Group** PLC on Friday named Christoph Mueller, former aviation director of **TUI Travel** PLC, as its chief executive. Mr. Mueller succeeds Dermot Mannion, who said in early April that he was stepping down, leaving the embattled Irish flag carrier without a CEO at a crucial time in its development. The airline faces mounting losses and is burning through its cash reserves in a deteriorating economic climate. At the end of last year, net cash stood at €654 million ($922 million), down 14% from a year earlier, and NCB Stockbrokers sees reserves falling to about €400 million by the end of this year. Analysts say Mr. Mueller, who will take the reins on Oct. 1, will have to reduce capital expenditure, restructure the airline and grapple with trade unions, as well as review strategy and routes.

Pernod Ricard SA

French liquor company **Pernod Ricard** SA on Friday estimated that its revenue for the fiscal year ended June 30 rose by about 9%, supported by the integration of Sweden's Vin & Sprit. Pernod also said it expects profit from recurring operations for the fiscal year, which excludes its acquisition of Vin & Sprit, to expand at the lower end of its prior 3% to 5% estimate. Including the acquisition of Vin & Sprit, profit from recurring operations will grow "slightly in excess of 10%," Pernod said. Pernod also said that in the fourth quarter, its operations in China and India continued to grow strongly, although it said it faced difficult markets in Ireland, Italy, South Korea and Japan. On Sept. 3 Pernod Ricard expects to publish detailed earnings figures for its fiscal year.

—Compiled from staff and wire service reports.

Elusive Noordin remains a potent threat

Terrorists who attacked two Indonesian hotels hid bomb parts in laptops, may have targeted Western businessmen

BY JAMES HOOKWAY
AND TOM WRIGHT

JAKARTA—He has disguised himself as a beggar, an itinerant Muslim cleric and a well-heeled business traveler. But after the deadly attacks on two Jakarta hotels Friday, there is no mistaking that Noordin Mohammad Top is now one of Asia's most-wanted terrorists.

Mr. Noordin, a 40-year-old member of the Southeast Asian Jemaah Islamiyah terrorist network, or associates linked to him, are among the leading suspects in the nearly simultaneous suicide-bomb attacks that killed nine people and injured 53 others at Jakarta's JW Marriott and Ritz Carlton hotels on Friday.

The explosions have raised new concerns about the growing sophistication of terrorists in Asia and the possibility that suicide bombers may have been purposefully targeting a meeting of largely Western businessmen. The bombers apparently smuggled bomb parts into the hotel disguised as laptops.

The attack had many of the hallmarks of a Jemaah Islamiyah operation, analysts said, and Indonesian police said an undetonated bomb found in room 1808 of the JW Marriott—which police believe the bombers used as their base—was almost identical to a cache of bombs found last week at a house owned by Mr. Noordin's father-in-law in Cilacap, central Java. The Marriott room was booked under the name Nurdin Azis, which is similar to aliases Mr. Noordin has used in the past.

The unexploded bomb showed "strong indications" that Mr. Noordin or terrorist cells linked to him were involved in Friday's events, said Ansyaad Mbai, head of counterterrorism at Indonesia's Coordinating Ministry for Political and Security Affairs, in an interview on Saturday. "The bomb in the Marriott was similar to ones we found in Cilacap," he said.

The terrorists' success in smuggling bomb parts into the JW Marriott underscores their growing ability to beat tactics employed by security experts in recent years to keep them at bay. Because of past bouts with terrorism in Indonesia, including bombings in Bali in 2002 that killed more than 200 people, major Jakarta hotels have some of the tightest security in the world, with airport-style metal detectors and heavily guarded driveways with roadblocks.

The bombers appeared to have no trouble getting past those security measures, though, smuggling bomb parts into the hotel disguised as laptops, police said. The ability to assemble bombs inside hotels is "definitely a step up in their tactics," said Paul Quaglia, an analyst in Bangkok at PSA Asia, a security consulting company that has done an audit for the Ritz Carlton in Jakarta. "It's definitely something that was well planned."

Fears were also rising that the bombers were targeting elite businessmen specifically. Noke Kiroyan, an Indonesian citizen and former local chairman of mining company **Rio Tinto** PLC, was one of 19 executives breakfasting in a small lounge in the JW Marriott, which a local consulting group hires each Friday for its meetings. Mr. Kiroyan, who lost part of his right ear in the attack, said he believes that the bomber who hit the hotel would have chosen the main restaurant on the other side of the JW Marriott's lobby, where most guests were breakfasting and which was the target of a 2003 attack on the same hotel, if he had wanted to inflict the maximum number of casualties. "I think we were targeted," he said.

Other Western executives in Jakarta repeated concerns over the possible targeting of business elites, which they said may lead foreign businesses to be more cautious about how they operate in Indonesia and possibly recalibrate expansion plans. In recent years, Indonesia has made strides in arresting terrorists, making Westerners feel more secure. **ExxonMobil** Corp. and other foreign resource companies had recently planned to increase the number of expatriate staff in Indonesia.

Intelligence experts believe Mr. Noordin played a critical role in all other major terrorist attacks in Indonesia in the past decade, including the 2002 Bali bombings that killed more than 200 people and a bombing at Jakarta's JW Marriott in 2003 that left 12 dead. "Mr. Noordin is the most capable and experienced bomber within the broader Jemaah Islamiyah group," said Rohan Gunaratna, head of the International Center for Political Violence at Singapore's Nanyang Technological University.

Existing photos of Mr. Noordin, believed to date from his 30s, show a well-groomed, handsome Malaysian man with a goatee and short dark hair. In other photos, he wears glasses and parts his hair down the middle.

Born in Johor state in southern Malaysia in 1968, Mr. Noordin attended a local religious boarding school, or madrassah, established by two founding members of Jemaah Islamiyah, Abu Bakar Ba'asyir and Abdullah Sungkar. The headmaster, widely known as Mukhlas , was a veteran of Osama bin Laden's international brigade who fought in Afghanistan against the former Soviet Union and last year was one of three men executed for the 2002 Bali bombings.

The young Mr. Noordin's exposure to militant Islamism intensified when he went to study at the Technological University of Malaysia in Kuala Lumpur. Security analysts and intelligence officials say one of his professors there was Azahari Husin, who later became a leading bomb maker with Jemaah Islamiyah and worked closely with Mr. Noordin on a series of attacks.

Mr. Noordin graduated in 1991 and worked for a time as an accountant before gravitating back to the madrassah where he studied as a youth in Johor, this time to teach, and gradually become involved in militant Islam, marrying the sister of another Jemaah Islamiyah member.

In late 2001 or early 2002, Mr. Noordin fled Malaysia with Mr. Azahari after the Sept. 11 attacks on New York and Washington and the subsequent crackdowns on suspected militants world-wide. The two men sought refuge with Jemaah Islamiyah colleagues in Indonesia, which was then experiencing a wave of militant Islamist sentiment after the fall of repressive late dictator Suharto in 1998. Intelligence officials say the two men became involved in planning the 2002 Bali nightclub suicide bombings, which killed 202 people, many of them Australians and Americans. Mr. Azahari helped construct the bombs, these officials say, while Mr. Noordin helped recruit new operatives, often from outside the Jemaah Islamiyah network.

Terrorism analyst Zachary Abuza, a professor at Simmons College in Boston, argues that Mr. Noordin's most telling innovation was to persuade Indonesians to act as suicide bombers—something not previously seen in this part of the world.

Mr. Noordin has proved adept at slipping away from the Indonesian police. In November 2005, Indonesian police tracked him and Mr. Azahari to a safe house in central Java. Mr. Azahari died in a hail of bullets after refusing to surrender, according to police officers at the scene, well after Mr. Noordin had left.

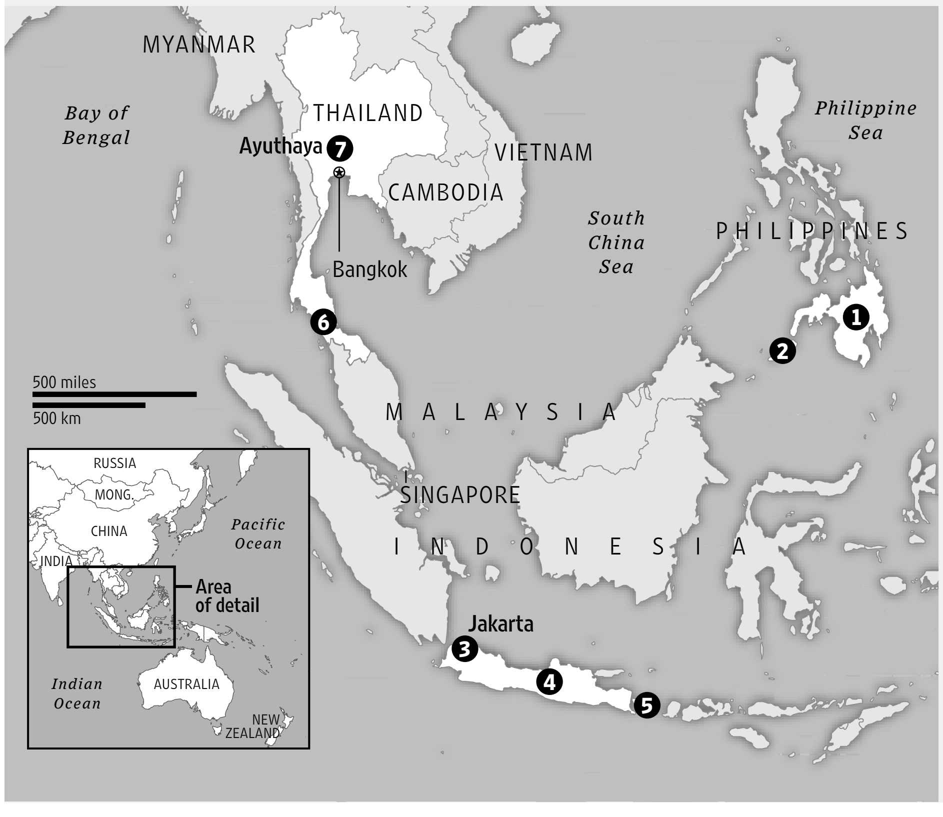
Since then, according to intelligence officials and court documents, Mr. Noordin has attempted to establish new terrorist networks.

The aftermath of the Jakarta Marriott bombing in 2003

Associated Press photos

An Indonesian official and an image of Noordin Mohamed Top in 2003

A firebombed ferry in the Philippines, in which 116 people died in 2004



A restive region

Southeast Asia, a tourist and business destination, has also been home to a number of terrorist organizations, including some linked to al Qaeda. Some key spots:

1. Mindanao Island

The 12,000-strong Moro Islamic Liberation Front has fought a guerrilla war for an Islamic state in the southern Philippines since 1981. Osama bin Laden is believed to have helped channel funds to the group and over the past decade has trained Indonesian and Malaysian militants in remote jungle camps.

2. Jolo, Basilan islands

The Abu Sayyaf group was partly founded by Osama bin Laden's brother-in-law in the 1990s as a means of radicalizing the predominantly Christian Philippines' Muslim insurgencies. Instead, it embarked on a mostly localized reign of terror among these remote islands.

3. Jakarta

The congested Indonesian capital has been hit by a string of deadly terrorist attacks, including a car bomb at the JW Marriott hotel in 2003 that killed 12 people; a 2004 bombing of the Australian Embassy that killed several people; and Friday's attack that killed nine people and injured dozens more including local businessmen.

4. Java

Jemaah Islamiyah was founded by Indonesian militants in the 1990s and established contact with al Qaeda and Philippines-based militant groups. It began to focus on Western targets after the Sept. 11, 2001 terrorist attacks in the U.S.

5. Bali

The beach island was hit with two major terrorist bombings that devastated the local tourism trade in 2002 and 2005. Indonesia executed three members of Jemaah Islamiyah for the bombings.

6. Southern Thailand

A Muslim insurgency in ethnic-Malay dominated provinces erupted in 2004. The conflict escalated with a series of bomb attacks. More than 3,600 people have been killed since the insurgency began.

7. Ayuthaya

A joint Thai-CIA operation captured Hambali, an operations chief of Jemaah Islamiyah, in this Thai city in 2003.