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- **IBM agreed** to buy analytics software developer SPSS for $1.2 billion, expanding its software portfolio. Page 7

- **Nomura's Asia chairman** plans to step down, marking the most high-profile departure from the former Lehman Brothers operation. Page 4

- **Lithuania's GDP slid 22%** in the second quarter, adding to concerns about the country's finances. Page 11

- **Moldovan voters choose** Wednesday between a Communist president with aid pledges from Russia and China, and the prospect of the EU's embrace. Page 9

- **At least 11 people died** after an overloaded sailboat carrying an estimated 200 Haitian migrants capsized off the Turks and Caicos Islands.

- **England won the bidding** to host the Rugby World Cup in 2015, and Japan will run the tournament in 2019.

EDITORIAL & OPINION

Car crash
Europe tries to protect its auto industry from the inevitable. Page 15

Breaking news at europe.WSJ.com

Housing data offer hope

Rising home prices in U.S., England and Wales signal a bottoming market

By Kelly Evans

Home prices in major U.S. cities rose in May for the first time in almost three years, the latest data to indicate a bottom could be forming in the housing market—and the broader economy.

Yet rising unemployment and wary consumers make it unlikely the stabilization will blossom into a full-blown recovery anytime soon. Indeed, such worries weighed on markets, as the Dow Jones Industrial Average bucked a three-day winning streak to close down 0.1% Tuesday.

Meanwhile, home prices in England and Wales rose 0.1% in June from May, the Land Registry said Tuesday, reinforcing a growing belief that property values are beginning to stabilize after dropping sharply in the past year.

The Case-Shiller index of U.S. home prices in 20 metropolitan areas, produced by Standard & Poor's, rose 0.5% in May from the month before, the first increase after 34 straight months of decline. Price gains were strongest in Cleveland, up 4.1% from April; Dallas, up 1.9%; and Boston, up 1.6%. Compared with a year ago, however, prices on average were down about 17%.

Robert Shiller, the Yale University economist who helped create the Case-Shiller indexes, said he was surprised by the month-on-month gains in May.

The "change in momentum here is very significant," he said. Last month, Mr. Shiller was forecasting sustained home-price declines well into the next few years. That forecast now looked less plausible, he said.

Still, while the housing market may have bottomed, he said, he doesn't think prices will rise at a fast pace. He expects home prices to remain near current levels for the next five years.

U.S. home prices have fallen by about a third since their peak in the second quarter of 2006, according to S&P.

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Ukraine's Orthodox clergy commemorate Christian anniversary

Reuters

MORE THAN A MILLENNIUM: Members of the country's church mark the 1,021st anniversary of the region's adoption of the faith. The Kiev march coincided with a visit to the nation by the head of the Russian Orthodox Church, which opposes an independent Ukrainian church.

Gates, in Iraq, acclaims U.S. pullout

By Yochi J. Dreazen

BAGHDAD—Defense Secretary Robert Gates said Tuesday that the American military withdrawal from Iraq's cities went fairly smoothly, clearing the way for Baghdad to reshape its relationship with the U.S. and begin assuming primary security responsibility for the entire country.

Mr. Gates's unannounced trip to Iraq came at a pivotal moment for both Washington and Baghdad, which are working to take advantage of a continuing decline in violence in Iraq to focus new attention on trade, weapons sales and other nonmilitary aspects of the countries' complex relationship.

It was Mr. Gates's first visit here since U.S. forces left Iraq's cities in late June, a milestone both countries describe as the first step toward a complete American military withdrawal by the end of 2011. Mr. Gates, who is slated to visit Iraq's autonomous Kurdish region on Wednesday, said the U.S. was prepared to help resolve a growing political dispute between Iraq's Arabs and Kurds over land and oil.

Associated Press

U.S. Defense Secretary Robert Gates, center, talked Tuesday with U.S. troops at Contingency Operating Base Adder in Tallil, southern Iraq.

In the first days after the June 30 pullout from Iraq's urban areas, several U.S. commanders complained that the Iraqis were imposing too many restrictions on U.S. forces, barring them from certain roads and demanding sensitive information about future U.S. ground convoys.

Pushing tensions higher, an Iraqi officer tried to detain some U.S. soldiers earlier this month after they killed three Iraqi civilians while chasing militants near the restive city of Abu Ghraib. Iraqi Prime Minister Nouri al-Maliki, on a visit to Washington last week, said the Iraqi officer had been

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China is facing EU tariffs on steel

By John W. Miller

BRUSSELS — European Union trade officials approved pre-emptive penalties on imports of steel pipe from China, a precedent-setting move that suggests the trading bloc is growing more protectionist in the face of the economic downturn.

Tuesday's vote by trade officials from the EU's 27 member states is significant, say trade experts, because they accepted an argument from steel producers—including the world's largest by volume, **ArcelorMittal**—that punitive tariffs are needed to protect them from the threat of underpriced imports from China. Previously, complainants have had to prove the imports had already hurt their business.

The case also concerns one of the steel sectors' most important finished products. Seamless steel pipes are key ingredients in housing construction, gas and oil plants and the automotive industry. The vote was close, according to EU officials familiar with the matter, although they declined to reveal the final tally.

The duties, which will range from 17.7% to 39.2%, are expected to take effect in October and last five years, EU officials said. Temporary duties of up to 24.2% have

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'German provision'

Some foreign car makers get a break on U.S. emissions curbs
Marketplace, page 30

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9096.72	-0.13
Nasdaq	1975.51	+0.39
DJ Stoxx 600	218.54	-0.93
FTSE 100	4528.84	-1.25
DAX	5174.74	-1.46
CAC 40	3330.97	-1.23
Euro	$1.4178	-0.31
Nymex crude	$67.23	-1.68

LEADING THE NEWS

UKFI gets new chairman

Businessman to lead company that holds stakes in U.K. banks

BY LAURENCE NORMAN

UKFI (left); Bloomberg (right)

David Cooksey, left, will become chairman of U.K. Financial Investments, and John Kingman, right, will resign as chief executive when a successor is found.

LONDON—The company that manages Britain's holdings in the country's banks hired businessman David Cooksey to become its chairman, and the chief executive said he would step down.

U.K. Financial Investments Ltd., a government-owned holding company, said Chief Executive John Kingman will resign "in due course" once a successor is found. That process, to be led by Mr. Cooksey, is expected to take several months.

A Treasury spokesman said Mr. Kingman, a former journalist and spokesman for Prime Minister Gordon Brown when the latter was Treasury chief, made it clear at the time of his appointment that he would look to move into the private sector once UKFI was established.

Mr. Kingman wasn't available to comment.

John Kingman will resign 'in due course' as UKFI's chief executive.

Mr. Cooksey will take over from Glen Moreno, who has served as acting chairman of UKFI since January. He will start Aug. 1. Mr. Moreno wasn't available to comment.

The change means a businessman, not a banker, will lead UKFI. This comes at a time when UKFI is charged with making decisions about how and when to sell the government's stakes in banks and setting guidelines on pay and bonuses for executives in partly state-owned lenders. A person familiar with the situation said Mr. Kingman's successor is likely to be someone with a financial background.

The management of the government's holdings in the banking sector is a politically contentious issue. Mr. Brown will be keen to show that his bank-rescue plan was a success ahead of a general election due by mid-2010.

Mr. Kingman took over as chief executive of the UKFI when the company was set up last November, following the government's injection of some £43 billion ($70.93 billion) in capital into several British banks.

The UKFI signaled this month that it could start selling the stakes in coming months, but the process likely will take years.

Mr. Cooksey said in a statement his main task will be to recover the billions of pounds taxpayers have injected into banks like **Royal Bank of Scotland Group** PLC and **Lloyds Banking Group** PLC. He was a pioneer of the U.K. venture-capital industry, founding Advent Venture Partners, a technology-and-biosciences-focused fund, in 1981 and leading it until 2006.

Trained as an engineer, Mr. Cooksey has served as a director of the Bank of England and chairman of the Audit Commission and carried out several reports for the government in recent years. He also has headed the U.K. and European venture-capital associations. In 2006, Mr. Brown, as Treasury chief, picked Mr. Cooksey to lead a commission on health-research funding.

Mr. Moreno, chairman of Pearson PLC, said in February that he had been planning to step down from his role, which he did pro bono. The announcement followed controversy over his position as a trustee of a Liechtenstein fund at the center of a dispute over alleged tax evasion.

The Treasury said Mr. Cooksey will be paid £100,000 a year, with no bonus or pension.

The UKFI also said Tuesday that it has taken on formal responsibility for the government's investment in nationalized lender **Bradford & Bingley** PLC. It also announced that it is moving out of the Treasury to separate accommodations.

—Alistair MacDonald contributed to this article.

U.K. to fund projects by Rolls-Royce, others

BY LAURENCE NORMAN AND NICHOLAS WINNING

LONDON — The U.K. fleshed out a plan to help British industry by funneling government money to what it considers key projects.

Business Secretary Peter Mandelson said Tuesday the government will invest £151.5 million ($250 million) in U.K. manufacturers, including **Rolls-Royce Group** PLC.

The government will provide £45 million funding for Rolls-Royce to support four new advanced manufacturing facilities in the U.K.—three in aerospace and one in the civil nuclear industry.

The government will also put £45 million from the low-carbon element of its strategic investment fund towards research into aircraft engines that have low carbon emissions—a project also led by Rolls-Royce.

Lord Mandelson said that manufacturing "can and must be key to our (economic) recovery," according to a text of his remarks.

"This is not a government that believes in the post-industrial economy…We are committed to creating the conditions in which British manufacturing can compete and prosper."

There will also be at least £40 million investment in the Samulet Research and Technology program, an aerospace project focusing on productivity and environmental improvements.

The program represents a significant shift in U.K. policy, bringing it more in line with interventionist strategies employed by the likes of France and Germany.

In a report, the government suggested using taxpayer money to support innovative companies—not only troubled concerns—and "concerted action" to boost sectors such as pharmaceuticals, aerospace, biotechnology and "green" industries.

When it outlined the plan in April, the government said it would support small, high-growth, high-innovation firms—possibly through a new private-public organization to channel venture capital.

Other actions under consideration include using government buying power to bolster innovation and skills. The government also signaled more support for exporters, possibly through export guarantees.

Since his return to the government in October, Lord Mandelson has spoken several times about bolstering the government's role in industry as a means of helping the U.K. recover from its worst downturn in decades.

The government also has offered a broad package of guarantees for U.K. companies and targeted support to troubled sectors, such as the auto industry.

Some funds will go toward developing low-carbon aircraft engines.

One project specifically mentioned by Lord Mandelson in the past is the creation of a new public-private partnership to channel venture capital into small, up-and-coming firms.

The new entity would be modeled on the post-World War II Industrial and Commercial Finance Cooperation, which provided investment capital to some 11,000 companies in its five-decade history.

The ICFC was privatized in 1994, becoming private-equity firm 3i Group PLC.

CORRECTIONS & AMPLIFICATIONS

Jules Urbach is the chief executive officer of Otoy LLC. A Marketplace article Tuesday incorrectly spelled his last name Orbach. The last name of Jen-Hsun Huang, chief executive officer of Nvidia Corp., was incorrectly spelled Hwang. In addition, the Lucasfilm Ltd. subsidiary Industrial Light & Magic was incorrectly reported as Industrial Lighting & Magic.

Most of the debt issued by **Enterprise Products Partners** LP is rated investment-grade by the three major credit-ratings agencies. Monday's Abreast of the Market article incorrectly said the company's ratings were below investment-grade.

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LEADING THE NEWS

BP profit drops 53% on lower oil prices

Company reports it has exceeded cost-cutting target

BY JAMES HERRON

LONDON—BP PLC Tuesday posted a 53% fall in net profit for the second quarter, hit by lower oil prices and weak refining margins, but the company said it was beating its cost-cutting targets.

Tony Hayward

Net profit was $4.39 billion for the three months ended June 30, down from $9.36 billion a year earlier, when oil prices were near record highs. However, results rose from the first quarter, when the company reported net profit of $2.56 billion.

Revenue fell 49% to $56.56 billion from $110.98 billion, but was up 18% from $48.09 billion in the first quarter.

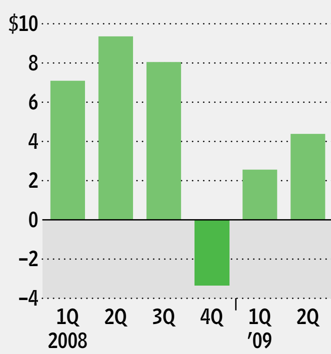
Total oil-and-gas production was four million barrels a day, up 4.6%, thanks primarily to the startup of the 300,000-barrel-per-day Thunder Horse field in the Gulf of Mexico. BP indicated that full-year capital expenditure would fall below its previous target of $20 billion in a sign that costs are declining.

The company said it has already exceeded its $2 billion cost-cutting target for 2009 and is on track to reduce cash costs by an additional $1 billion before the end of the year. Refining and marketing costs were down 15% and unit oil- and gas-production costs fell 12% on the previous year.

Chief Executive Tony Hayward said this progress was the result of the restructuring he began after taking charge two years ago. "Despite the current climate, we are making good progress in growing our upstream, turning around our downstream and driving cost-efficiency across the group," Mr. Hayward said.

Narrowed margins

BP's net profit/loss, in billions



Source: the company

BP will see "plenty more" savings next year as general industry costs deflate, the CEO added.

Mr. Hayward gave a cautious outlook for the near future and said the right balance for the company was to maintain dividend and investment at current levels. The latest economic data suggested any recovery would likely be sluggish. "We see little evidence of any growth in demand and expect the recovery to be long and drawn out," he said.

Despite the good progress on costs, BP's cash flow still doesn't balance, Credit Suisse analyst James Neale said in a research note. "In the quarter, $6.7 billion of operating cash flow was more than offset by $5.2 billion of capex and $2.6 billion of dividend payment. The additional $1 billion of cost savings is an essential," he said. "We are not yet seeing the differential earnings momentum from the company's restructuring program that might make BP an outperformer."

Mr. Hayward said BP's cash inflows and outflows will balance at the end of the year, even with an oil price close to today's level. The company debt ratio remained at the bottom end of its 20%-to-30% target range, giving it plenty of flexibility to maintain spending by borrowing.

Lower oil prices also weighed in first-half net profit at Russian joint venture TNK-BP Ltd., which BP owns on a 50:50 basis with a group of Russian billionaires.

Net profit at TNK-BP fell 57% to $2.01 billion from $4.69 billion a year earlier, as revenue dropped to $14.49 billion from $28.30 billion.

'We see little evidence of any growth in demand,' CEO Tony Hayward says.

However, second-quarter net profit rose sharply to $1.26 billion from $747 million in the first quarter, while revenue climbed to $8.16 billion from $6.33 billion. The company didn't release second-quarter results for last year.

—Jacob Gronholt-Pedersen in Moscow contributed to this article.

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CORPORATE NEWS

Deutsche Bank profit leaps 68%

Debt-trading weakness and bad-loan provisions worry investors, sending stock down 11%

By William Launder
And Matthew Karnitschnig

FRANKFURT—**Deutsche Bank** AG reported a 68% jump in second-quarter earnings, as robust trading income continued to outweigh weakness in client-focused areas such as asset management and retail banking.

Deutsche Bank's net profit rose to €1.09 billion ($1.55 billion) from €649 million a year earlier. The result was better than many analysts expected, but a hint of weakness in the German bank's debt-trading business, coupled with a jump in bad-loan provisions, stirred investor concern about its future profits. Deutsche Bank's shares tumbled on those fears to €46.09, down €5.94, or 11%.

Deutsche Bank's closely watched debt-sales and trading revenue totaled €2.6 billion. Though that was up about €2 billion from a year earlier, it fell short of analysts' expectations and was well off the €3.8 billion recorded in the first quarter.

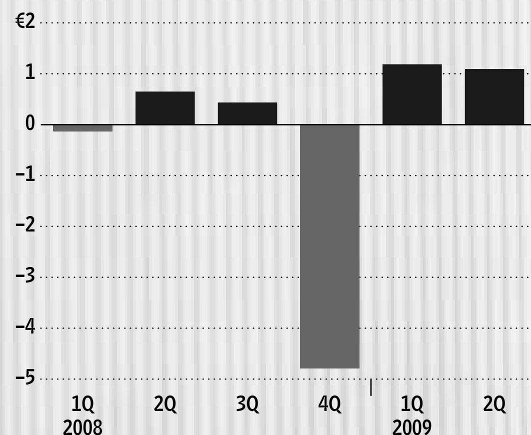
Deutsche Bank's results show how banks that weathered the past year still have months to go in working out souring loans. At the same time, Deutsche Bank and others with capital-raising and trading arms appear to be struggling to find a comfort zone when it comes to gambling on the debt markets.

"The disappointing debt sales & trading revenue figure...suggests to us that Deutsche has no more earnings upgrade momentum for the remainder of 2009 and, as such, will not outperform any further," research firm FBR wrote in a note to clients.

Deutsche Bank's bad-loan provisions rose to €1 billion from €135 million. Included in the latest provision were €433 million in charges related to two unnamed counterparties. The provision for bad loans in Deutsche Bank's private and business clients segment increased 51% to €217 million in large part because of deterioration to the bank's loan book in Spain's ailing economy.

A reality check

Deutsche Bank's net profit/loss, in billions



Source: the company

Josef Ackermann, CEO of Deutsche Bank, arrives Tuesday for a hearing of the Hypo Real Estate Parliamentary investigation committee in Berlin. Deutsche Bank posted a 68% rise in net profit

Associated Press

"The biggest concern now is the loan book," wrote Dirk Becker of Kepler Capital Markets. "Considering that we are all still in the recession, this could lead to further problems in the coming quarters."

Deutsche Bank, which has weathered the financial crisis better than other big German banks, didn't provide an outlook for the full year. Chief Executive Josef Ackermann said the bank's business model positioned it well to "take full advantage of opportunities, as and when business conditions improve."

Deutsche Bank's Tier 1 capital ratio, an indicator of a bank's health, increased to 11% from 9.3% a year earlier. Return on equity, or the amount of net profit returned as a percentage of shareholders equity, increased to 12.8% from 7.6%.

Revenue leapt 46% to €7.94 billion. Pretax profit more than doubled to €1.32 billion from €642 million.

Still, the nature of the profit rise disappointed some analysts. The increase was driven largely by trading, which benefited in particular from growth in interest-rate trading, money markets and debt trading in emerging markets. Analysts often see trading profits as less stable, given the potential turbulence in markets.

The trading increases were offset somewhat by €1.4 billion in "specific charges," including legal settlements and severance payments.

Markdowns fell significantly to €108 million from €2.1 billion, in part as Deutsche Bank benefited from an easing of accounting standards.

Despite the drop in write-downs, Deutsche Bank remains burdened by so-called level 3 assets, the value of which is based largely on management assumptions and can't be determined using market prices or risk models. Level 3 assets totaled €64 billion at the end of the quarter, even after a 20% reduction from the end of the first quarter.

After accounting for a number of capital gains, impairments and other charges, Kepler's Mr. Becker said he considered the earnings below expectations. "We believe Deutsche Bank has now run its course after almost reaching book value," he wrote, placing his buy rating under review.

Although earnings were driven by investment banking, Mr. Ackermann reiterated that the bank continued taking steps to limit risks and shore up its capital and liquidity. Deutsche Bank's balance sheet has been cut 31% since the end of June 2008, as calculated using U.S. generally accepted accounting principles, it said.

The bank also announced it would extend Mr. Ackermann's contract until 2013.

—Carrick Mollenkamp contributed to this article.

BBVA net jumps 35% to a record; Mexican surprise

By Christopher Bjork

MADRID—**Banco Bilbao Vizcaya Argentaria** SA said second-quarter net profit rose 35%, as the Spanish bank cut jobs and boosted its lending income in Spain while containing the fallout from a sharp economic downturn in Mexico.

BBVA, which like some other Spanish banks is coming out of the financial crisis relatively unscathed, surprised the market with its largest-ever quarterly profit, allowing the bank to quickly bolster its capital base and gain market share.

"We are, of course, feeling the effect of the downturn, but we've got our risks firmly under control," Chief Operating Officer Jose Ignacio Goirigolzarri said.

Net profit at Spain's second-largest bank by market capitalization behind Banco Santander SA rose to €1.56 billion ($2.22 billion) from €1.16 million a year earlier. Revenue climbed 13% to €5.49 billion from €4.85 billion.

Results were buoyed by strong lending income. Net interest income grew 27% to €3.59 billion from €2.83 billion.

BBVA shares gained 4.5% in Madrid.

Spanish banks have been reporting higher income from lending even though loan growth has slowed. They are charging customers more for new loans and are able to boost margins because of lower interest rates. Lower rates generally help banks' lending margins because their costs are based on short-term rates, which reprice lower more quickly than customers' long-term loans might.

Costs fell 2.5% to €2.02 billion. BBVA said it cut 8,404 jobs over the past year and closed 513 branches.

Asset quality did suffer, with nonperforming loans rising to 3.2% at the end of June from 1.3% a year earlier. However, bad loans grew less than in recent quarters.

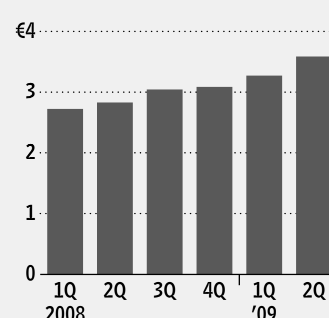
The bank improved its capital base, raising the core capital ratio to 6.9% in June from 6.4% at the end of March, thanks to the record earnings.

Profit from Mexico offered the biggest positive surprise, even as the economy was roiled by the outbreak of the H1N1 swine-flu virus. First-half net profit from Mexico fell just 24% to €724 million. "Results in Mexico are incredible considering the evolution of the economy," said Keefe, Bruyette & Woods analyst Antonio Ramirez.

Spain and Portugal contributed €1.27 billion of profit, down 1.7% from a year earlier. BBVA's two other big divisions—wholesale banking and South American operations—posted robust profits of €539 million and €463 million, respectively.

Still growing

Banco Bilbao Vizcaya Argentaria's net interest income, in billions



Source: the company

Nomura loses Bhattal, a key ex-Lehman man

By Alison Tudor

TOKYO—**Nomura Holdings** Inc.'s Asia chairman plans to step down at year-end, marking the most high-profile executive departure from the former Lehman Brothers Holdings Inc. operation the Japanese investment bank acquired a year ago.

The planned exit by Jasjit Bhattal, who goes by "Jesse," comes as Nomura seeks to keep the investment-banking and financial talent it gained when it bought Lehman's Asian and European arms in September. That acquisition is intended to further its ambitions to become a global bank.

In an email to staff sent Tuesday evening and seen by The Wall Street Journal, Nomura Chief Operating Officer Takumi Shibata thanked Mr. Bhattal for his help bringing Lehman and Nomura together. "Jesse has a distinguished track record over the past 20 years in the investment-banking industry and in Asia," he said.

Mr. Bhattal is expected to team up with Brian O'Connor, another former Lehman executive who resigned as Nomura's vice chairman April 30, in an independent venture focused on Asian financial markets, said people familiar with the matter.

Nomura's ability to retain senior Lehman staff has been widely regarded as a key measure of success in its effort to integrate Lehman's Asian and European arms. It has pegged Lehman bonuses at bull-market levels for one and, in some cases, two years. It has also sought to promote Lehman personnel to push the integration. It remains to be seen whether Nomura will be able to keep staff when the labor markets recover and the guaranteed bonuses reach their end.

Still, Nomura Wednesday is expected to report a modest profit for its fiscal first quarter, ended June 30, after a record loss of 708.2 billion yen ($7.44 billion) in the fiscal year ended March 31. Analysts expect the firm to benefit from a recovery in investment trust sales, big underwriting deals in Japan and improved trading conditions globally.

Mr. Bhattal, 52 years old, was the primary point of contact between Nomura and Lehman during the takeover talks in September, according to people familiar with the matter. He invited Mr. Shibata to participate in the bidding for Lehman assets. He also played a key part in negotiating the guaranteed bonuses for Lehman bankers and insisted Nomura take on all of the bank's staff in Asia. He turned down a retention package for himself, the people said.

But after the deal was completed there was no room for him within the inner sanctum of Nomura, the executive committee, which is still composed exclusively of Japanese men. He is a member of its global wholesale committee, where investment banking resides within the organization, and a senior managing director. Mr. Bhattal will remain as a senior adviser to Nomura.

At Lehman, Mr. Bhattal was a member of the investment bank's executive committee. He was a contender to become president before Lehman filed for bankruptcy protection, said the people familiar with the matter.

Under Mr. Bhattal's leadership as chief executive, Lehman Brothers Asia's revenue rose nearly sevenfold from $425 million in 2001 to $2.9 billion in 2007. One colleague said he nurtured the aggressive, entrepreneurial culture of Lehman, repeatedly telling bankers "don't be scared to fail" in meetings and town hall speeches.

The Property Report

Returning home?

Two U.K. deals backed by securities do not a recovery make > **Page 29**

CORPORATE NEWS

Beer makers brew new packaging

MillerCoors hopes 'Home Draft' system helps it stand out

By David Kesmodel

MillerCoors LLC has begun testing the sale of $20 draft-beer systems for consumers to drink at home, part of a string of new products and package innovation from beer giants grappling for market share in a crowded, slow-growing industry.

MillerCoors, the second-largest U.S. brewer by revenue, has begun testing the 1.5-gallon "Home Draft" for its biggest brands—Miller Lite and Coors Light—in about a half-dozen cities, including Dallas, Phoenix and San Diego. The boxed product, which is designed to fit into refrigerators for drinkers to consume periodically, rather than for one-time party use, comes amid packaging overhauls by the U.S. units of **Heineken** NV and **Anheuser-Busch InBev** NV.

Sales of major U.S. beer brands are struggling as some recession-weary consumers drink less or switch to cheaper brews. Many of the top-selling brands showed declining sales volume at retailers in the 13 weeks through July 12 compared with a year earlier, according to market tracker Information Resources Inc. Anheuser's Bud Light, the No. 1 brand, saw its sales volume slide 5.5%, while Heineken, the No. 9 seller, fell 15%. (The figures exclude sales at certain retailers that don't share data with such research firms.)

"In this economy, we are seeing an increase in packaging innovation" in consumer-goods industries, said Kara Gruver, head of the North America consumer-products practice at consulting firm Bain & Co. "In many cases, it can be less costly [than creating a new product] and a very effective form of innovation."

Chicago-based Miller Coors, a U.S. joint venture of **SABMiller** PLC and **Molson Coors Brewing** Co., is testing home-draft packages at a time when one of its major brands, Miller Lite, is mired in a prolonged slump. Despite a new advertising campaign this year aimed at revitalizing the brand, Miller Lite's retail sales fell 7.5% by volume in the recent period tracked by Information Resources.

Sister brew Coors Light, on the other hand, continues to post sales gains. Analysts attribute its long-running success in part to innovations in packaging, such as "cold-activated bottles," whose labels turn blue when the beer inside cools to a certain temperature.

MillerCoors's new Home Draft systems are meant to be placed upright in a refrigerator, which will keep the beer fresh for about 30 days. The price per ounce is more than 50% higher than for a case of the same beer.

The product, which is recyclable, is aimed at the 30% of beer drinkers who say they prefer draft beer to the bottled or canned variety, said Andy England, chief marketing officer at MillerCoors. "We're really trying to meet that occasion when you just got back from work and want to reward yourself," rather than "the party occasion," he said.

Home Draft—which carries about 5.7 liters—bears some similarities to Heineken's five-liter DraughtKeg, which the Amsterdam-based brewer introduced in the U.S. in 2005. But the DraughtKeg generally is designed to consume all at once, unless drinkers buy an optional BeerTender countertop chilling system, which is sold at retailers for about $200.

The performance of the DraughtKeg may hint at the challenge MillerCoors could face to woo consumers. The DraughtKeg enjoyed an explosive start in the U.S., but Heineken pulled back on distribution as sales cooled and the company learned the product is most popular around holidays, the football season and other social occasions.

Heineken this month began testing the sale of Newcastle Brown Ale in the DraughtKeg format—about $20 at retailers—in Chicago, Minneapolis and Southern California. The company continues to focus on innovation in packaging "in a way that reinforces the premium nature of" its brands, said Christian McMahan, chief marketing officer at Heineken USA.

The U.S. unit of Leuven, Belgium-based Anheuser plans to unveil new can and box designs for brands such as Bud Light when the football season gets under way next month. As part of the shift, the company says it intends to better leverage its sponsorship of the vast majority of National Football League teams by creating packages showing the colors or logos of teams such as the Pittsburgh Steelers. Meanwhile, it also will roll out packages with generic colors tailored to college teams in specific regions—such as red-colored cans in Nebraska, home of the University of Nebraska's Cornhuskers.

"It's an opportunity to tap into the passion people have for their teams," said Dave Peacock, president of Anheuser's U.S. arm, which is the biggest American brewer by sales. The company's research has shown that the most loyal consumers of its light beers "associate with sports in a dramatic way."

Brewers including Anheuser also plan some new beers in addition to new packaging. Anheuser intends to test Budweiser Select 55—a brew with just 55 calories—in several markets later this year, as it tries to compete better with MillerCoors's MGD 64, a 64-calorie brew that is off to a strong start. Mass-market brews such as Bud Light, Miller Genuine Draft and Budweiser are roughly in the 100 to 140 calorie range.

Both packaging and product innovation is vital to helping big beer brands boost sales, said Brian Sudano, managing director of BMC Strategic Associates in New York, who consults beverage makers.

The companies

Recent packaging innovations for MillerCoors, Newcastle and Bud Light

Acciona's profit rises sharply on Endesa sale

By Juan Montes
And Bernd Radowitz

MADRID—**Acciona** SA of Spain on Tuesday posted a sharp increase in first-half net profit thanks to gains from the sale of its **Endesa** SA stake, but the economic downturn ate into its revenue amid declining electricity demand and prices.

The energy and infrastructure company said net profit came to €1.2 billion ($1.71 billion) in the first half from €270.3 million a year earlier.

Revenue dropped 12% to €2.93 billion from €3.32 billion because of falling electricity prices in Spain and a downturn in the construction sector.

Earnings before interest, taxes, depreciation and amortization, or Ebitda, fell 18% to €393 million

In February, Acciona agreed to sell its 25% stake in Endesa to **Enel** SpA of Italy for €11.11 billion in cash and renewable-energy assets, after coming under pressure from its creditors to shore up its finances. Acciona's net debt stood at €7.35 billion at the end of the first half, down sharply from €17.9 billion at the end of the year. However, Acciona took on €2.35 billion in new debt for new investments, including the purchase of energy assets from Endesa as part of the deal with Enel. Without debt linked to Endesa, Acciona's debt at the end of 2008 would have been €5 billion, the company said.

Energy, mostly from renewable sources, contributed 61% of Acciona's Ebitda in the first half. The company invested €593 in its energy unit, 76% of its overall investments when excluding the purchase of the Endesa assets.

On a conference call, Acciona's managing director for corporate development, Juan Muro-Lara, said the company expects to invest about €1.3 billion in its energy unit in 2009. Next year, the company plans to install as much as 550 megawatts in wind-power-generation capacity, he added. At the end of the first half, Acciona had 5,819 megawatts in installed wind-energy-generation capacity.

Separately, Endesa, said its first-half profit dropped 62% to €2.26 billion from €6 billion a year earlier, as the company had fewer extraordinary gains from asset disposals. Revenue slipped 1.8% to €11.16 billion from €11.37 billion.

Last year, Endesa, which is now 92%-owned by Enel, booked a €4.55 billion capital gain from asset disposals to German power giant E.ON AG. This year, the company received €1 billion from the sale of energy assets to Acciona.

Bloomberg News

Acciona's profit rose sharply on gains related to the sale of its Endesa stake. Pictured, a technician inspects a solar panel at the company's power station in Portugal.

GM sees hurdles in Magna's bid for Opel, Vauxhall

By Sharon Terlep
And Christoph Rauwald

General Motors Co. sees legal and practical impediments in a revised offer for its Opel and Vauxhall units led by **Magna International** Inc.

GM Vice President John Smith said Tuesday that his company hasn't specified its preference for a bidder for the European brands, but added that talks with Magna have hit a potential roadblock.

The new bid from the Canadian/Austrian car-parts maker "varied from the negotiations we had in the previous weeks and contained elements around intellectual property and our Russian operations that simply could not be implemented," Mr. Smith wrote in his blog on GM's corporate Web site.

"GM has partners in other parts of the world who have joint ownership of these assets... We simply could not execute the deal as submitted," Mr. Smith wrote, noting that discussions with Magna continue "in earnest."

Magna is requesting sweeping rights to Opel's intellectual property in Russia, said a person familiar with the situation.

Mr. Smith wrote that the rival bid by Belgian investment group **RHJ International** SA "would represent a much simpler structure and would be easier to implement."

"It would require less monetary participation by the [German] government and would keep our global alignments solid, while still creating an independent Opel/Vauxhall organization in Germany," Mr. Smith wrote, adding that this offer remains "a reasonable and viable option to be considered."

He said GM still believed that a deal for Opel and Vauxhall could be closed by the end of September.

Magna teamed up with Russian auto maker OAO **GAZ Group** and state-controlled OAO **Sberbank** in a bid under which the consortium would invest between €500 million ($712 million) and €700 million of their own money in Opel/Vauxhall and seek €4.5 billion in government loan guarantees. Magna and Sberbank would each take a stake of 27.5% under the proposed deal.

The bid enjoys political support in Germany and Russia as well as from Opel's powerful labor unions.

Under its new bid, Magna and its Russian partners are willing to provide €350 million when signing the deal and €150 million in convertible bonds, a German government official said Tuesday. Previously, the group offered €100 million to be paid on signing the deal and €400 million in loans, which gradually would be transformed into equity.

In May, the German government agreed to provide €1.5 billion in bridge financing to keep Opel afloat as its U.S. parent filed for bankruptcy. At the time, GM signed a nonbinding memorandum of understanding with Magna. But RHJ emerged as a serious contender in the meantime.

In a preliminary offer document, RHJ aimed to invest €275 million for a 50.1% stake in Opel, requesting €3.8 billion in government funding.

Labor representatives have voiced concerns that RHJ could sell Opel back to GM again after a restructuring. GM hopes to present an offer from either Magna or RHJ to its board of directors on Monday.

CORPORATE NEWS

EADS reports profit rose 76%

Airbus maker warns A400M program may cripple finances

BY DAVID PEARSON

PARIS—**European Aeronautic Defence & Space** Co. NV Tuesday reported a 76% jump in second-quarter net profit, but warned that the troubled Airbus A400M military airlifter program may become a severe financial drag.

Revenue rose 19% to €11.73 billion ($16.7 billion), partly reflecting increased deliveries of large commercial jets by Airbus. Net profit in the three months ended June 30 rose to €208 million from €118 million.

For the first half, foreign-exchange fluctuations contributed to a 23% fall in earnings before interest and tax to €888 million. But the main driver of the fall was a €191 million charge against the A400M program, of which €71 million was in the second quarter.

The A400M program may generate yet more "substantial" hits to profits, EADS said. EADS is widely expected to make more A400M provisions later this year on top of the €2.3 billion it has set aside already.

The seven North Atlantic Treaty Organization governments that have ordered 180 of the military transport aircraft agreed last week to continue negotiations with EADS regarding financial and technical aspects of the €20 billion contract, which is already running more than three years late.

Chief Executive Louis Gallois said the company won't have a clear view on the possible financial implications of the A400M until the end of this year.

Because of missed milestones on the A400M program—the plane was supposed to be flying by now but the first flight isn't likely before the turn of the year—customer governments withheld €400 million in advance payments from EADS.

That, together with a buildup of inventories at Airbus, contributed to a €948 million cash outflow in the first half.

The company said Airbus would deliver as many planes in 2009 as last year, when it delivered 483 planes.

Chief Financial Officer Hans Peter Ring told analysts that he can't rule out that deliveries might reach 500.

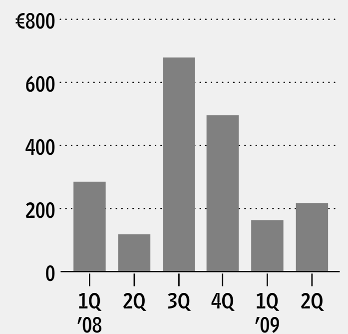
EADS reaffirmed its belief that Airbus would book up to 300 new orders in 2009, though this would be challenging.

EADS tweaked its free cash flow guidance, however, saying it now expects to consume about €1 billion of free cash flow this year, not taking into account customer financing or the negative impact of the A400M program.

In May, the company said the cash burn shouldn't exceed €1.5 billion.

Profitability at Airbus, which accounted for 69% of EADS's revenue, deteriorated in the first half, with Ebit down 27% at €519 million, giving an Ebit margin of 3.7% compared to 5% a year before.

Going up
EADS's net profit, in millions



Source: the company

Airbus's Ebit margin was 5.3% in the second quarter.

EADS said it still expects to deliver 14 of its flagship A380 superjumbos in 2009, but noted that costs of that program, which has been beset with development snags, "are still higher than expected."

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Virgin Galactic sells 32% stake to Abu Dhabi

BY MARIA ABI-HABIB

Abu Dhabi's **Aabar Investments** PJSC said it will pay $280 million for a 32% stake in Virgin Group's commercial space-travel start-up, Virgin Galactic, in a move aimed at advancing the oil-rich emirate's plan to become a hub for scientific research and innovation.

The stake sale is the first step in a strategic partnership between Aabar and Virgin to create the world's first commercial spaceline, the companies said in a joint statement. The transaction, subject to regulatory clearances in the U.S. and elsewhere, values Virgin Galactic at about $900 million.

Virgin Galactic expects Aabar's capital injection to fully fund the company as it begins commercial operations. "The initiative will leverage the solid financial backing of Aabar and the pioneering technology and strong global relationships of Virgin Galactic," said Richard Branson, Virgin Group's founder.

Aabar is 71%-owned by the **International Petroleum Investment** Co., or IPIC, which is fully owned by Abu Dhabi's government.

The deal will see Aabar construct "spaceport" facilities in Abu Dhabi, and the company has committed $100 million to fund a small satellite launch capability. Aabar will also "gain exclusive regional rights, subject to regulatory clearances, to host Virgin Galactic tourism and scientific research space flights," the statement said.

Virgin Galactic's flights to space will start operating from the Mojave spaceport in California, according to its Web site. A representative for Aabar couldn't say when the flights will be offered in Abu Dhabi.

Tickets to space are priced at $200,000 each and 300 people have prebooked with Virgin Galactic, handing over $40 million in deposits, a Virgin Galactic spokesman told Zawya Dow Jones.

Virgin Galactic also hopes to exploit scientific research opportunities that will open once the U.S. National Aeronautics and Space Administration ends its shuttle program in 2010. However, a NASA official cautioned that venturing into space is costly, dangerous and difficult.

—Kaveri Niththyananthan in London contributed to this article.

Coach earnings fall 32%

Handbag maker sets lower-priced goods to boost profits

By Elizabeth Holmes

Luxury handbag maker Coach hopes to stem a sharp profit drop by selling a line of lower-priced bags. A customer examines a bag at a San Francisco store in May.

Associated Press

Luxury handbag retailer **Coach** Inc. is betting on greater sales of lower-cost handbags to lift profits, as it revamps its merchandise for continued weak consumer spending.

The New York retailer now prices half of its handbags at between $200 and $300, up from one-third last fiscal year. The company Tuesday reported fiscal fourth-quarter profit tumbled 32% on heavy discounting. It launched the pricing strategy after the quarter ended.

Chief Executive Lew Frankfort said in an interview that the change reflects his belief that consumer spending won't return to prerecession levels. "We want to be in that sweet spot where we believe the market will settle," Mr. Frankfort said. "It's our intention for the indefinite future to maintain pricing at [these] levels."

The low-price initiative is part of the company's renewed emphasis on handbag sales to drive its business, which also includes wallets, belts, scarves and shoes. Since the new pricing hit the shelves at the beginning of the month, handbags as a percentage of total North American sales by value have risen to 55% from 50% in the same period a year earlier, Mr. Frankfort said.

The company is working with suppliers to enable it to boost profit margins even as it lowers average bag prices, he said. The average price of a handbag sold at Coach stores was $325 in the last fiscal year.

Its new Poppy collection will have an average handbag price of $260, the company said. With bright colors and a heavy dose of patent leather and metallics, the line is intended to attract younger customers. Sales of the Poppy handbags, which have been in stores for about a month, have been two to three times greater than other handbags, it said.

For the quarter ended June 27, Coach's profit fell to $145.8 million, or 45 cents a share, from $213.5 million, or 62 cents a share, in the year-earlier period. Sales declined 1% to $777.7 million. Excluding items, earnings were 42 cents per share, compared with 50 cents a year earlier. Gross margin fell to 70.4% from 75.7%. Profit and gross margins declined due to greater sales and discounting at Coach's outlet stores.

EU Commission plans to alter Web-retail rules

By Peppi Kiviniemi

BRUSSELS—The European Commission on Tuesday said it plans to adjust the rules governing the rights of retailers to sell their goods on the Internet in an attempt to make more goods available online.

According to existing European Union rules, due to expire in May 2010, brand owners such as LVMH Moët Hennessy Louis Vuitton SA and Nike Inc. can dictate who sells their goods and in what environment. If a store sells a brand owner's goods, the brand owner can forbid the store from also selling those goods on its Web site.

The commission said Tuesday that distributors should be able to sell and advertise goods online as they see fit. However, the commission said that a current restriction should be preserved: brand owners should be able to insist that a distributor that sells goods online should sell the goods in regular stores. That way, online entrepreneurs can't unfairly benefit from the brand recognition or luxury image created by regular shops and manufacturers.

The commission's plans aren't final. Interested parties have until Sept. 28 to comment on the proposed changes.

The ruling is a setback for online-only retailers such as eBay Inc., which has argued that its users should be allowed to sell goods online without a brick-and-mortar store.

The commission said that stores spend considerable amounts of money promoting their goods, and that online-only retailers would be effectively free-loading off those efforts. The commission stipulates that for a shop to be allowed to sell online, a supplier can demand that the shop also sells a certain amount of goods through conventional stores. However, once that requirement has been met, the supplier cannot limit the volume of goods sold on the Web site, the commission said.

The commission also wants to stop brand owners from limiting where people in a particular country shop online. Web surfers in Italy, for instance, should be allowed to visit and shop at a brand's U.K. site, rather than being automatically redirected to the Italian one. One-third of EU citizens would like to buy goods across national borders through the Internet in order to benefit from cheaper products or better brands, according to a commission study.

Furthermore, online sites shouldn't actively advertise in areas in which the brand owner has an exclusive agreement with another store, the commission said. For example, a Dutch Web site selling cars shouldn't advertise in Belgium, where the same manufacturer has dealerships. The site should, however, be allowed to sell the cars if contacted by consumers on their own initiative.

IBM will pay $1.2 billion for scientific-software firm

By Jerry A. DiColo

International Business Machines Corp. agreed to buy software developer **SPSS** Inc. for $1.2 billion, expanding Big Blue's software portfolio and adding another deal to the growing list of recent acquisitions.

Chicago-based SPSS develops software that analyzes statistical data to make predictions. The software, known as predictive analytics, is used for scientific research and to gauge how customers will react to sales pitches and marketing campaigns. SPSS, founded in 1968, had sales of $302.9 million last year.

IBM's $50-a-share all-cash offer represents a 42% premium to SPSS's Monday closing price. SPSS shares rose to an all-time high of $49.56 following the deal's announcement, and were up 41% at $49.46 in afternoon trading on the Nasdaq Stock Market. IBM shares fell 0.4% to $117.20 on the New York Stock Exchange.

The acquisition of SPSS offers further hope that the deal market in the technology sector is improving. Tech leaders remain flush with cash despite the downturn and in recent weeks have shown an ability to consummate acquisitions.

Much of the action has focused on software. This month, **Intel** Corp. closed an $884 million acquisition of software maker **Wind River Systems** Inc. Two weeks ago, **Sun Microsystems** Corp. shareholders agreed to accept a $7.38 billion acquisition offer from **Oracle** Corp.

The SPSS acquisition is the latest in a string of software deals for IBM in recent years, and the second deal since Oracle outbid it for Sun. IBM bought the assets of Exeros, a privately held data-discovery software company, in May.

IBM also said Tuesday it acquired privately held Ounce Labs Inc., which makes software that addresses compliance and security issues. IBM didn't disclose the size of the deal.

In acquiring SPSS, IBM said it was expanding its focus on business-analytics technology and services to meet a growing client need to cut costs. According to IDC estimates, the world-wide market for business analytics software will grow by 4% to $25 billion this year.

UBS analyst Maynard Um called the acquisition "a step in the right direction" for IBM, as SPSS will add "an essential part" of an important growth area for IBM. He said the deal should add slightly to IBM's earnings in 2010.

SPSS officials, during a conference call to discuss the acquisition, said they didn't anticipate any anti-trust issues with the deal.

SPSS declined to say how it came to an agreement with IBM, but did say IBM made the first move by approaching SPSS about an acquisition.

The companies said they expect to complete the deal by year-end.

Earlier this month, IBM reported its second-quarter profit grew 12% as margin improvement offset lower revenue, and the company raised its full-year outlook.

—John Kell contributed to this article.

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CORPORATE NEWS

India weighs ban on firm

Railway collapse could bar Gammon from metro work

By Jackie Range

NEW DELHI—**Gammon India** Ltd., the Mumbai construction company that designed and built the stretch of the Delhi Metro that recently collapsed, may be banned from future metro contracts, Indian Minister for Urban Development S. Jaipal Reddy told Parliament.

The accident in South Delhi on July 12 killed six workers and injured more than a dozen others. The collapse tarnished the reputation of a high-profile project at a time when revamping infrastructure is seen as critical to accelerating India's economic growth.

A spokesman for Gammon said it had been issued a "show cause" notice, which essentially is a request to explain what happened. Whether Gammon will be banned from new metro contracts will rest on the government's decision after it has seen the response, the spokesman said. Gammon could be blacklisted for two years, Mr. Reddy said.

He said a committee of experts investigating the accident said it had been caused by a "serious deficiency in the design of the cantilever arm," and also the concrete not being strong enough.

Reuters

Workers and rescuers stand at the site of a collapsed Delhi Metro bridge in New Delhi this month. Metro builder Gammon India faces possible blacklisting.

The metro is operated by Delhi Metro Rail Corp., a joint venture by the Indian and Delhi governments. It is running in some parts of the city and is under construction in many others; the aim is to serve all of Delhi by 2021.

Delhi Metro has started a course in safety for all workers involved in the construction, the minister said, which is set to cover the entire work force in 15 days. Safety standards in Indian construction are poor, and accidents are common. Delhi's metro had been seen as one of the safer Indian construction projects.

In a news conference, Delhi Metro Managing Director E. Sreedharan said the accident won't slow down the second construction phase. "This accident will not have any effect on the overall completion," he said. Gammon will remain the contractor for the projects it is working on, even if it is blacklisted; a change of contractor would delay the project by six to eight months, he said.

After falling sharply on the Bombay Stock Exchange, Gammon closed up 4.5% at 149 rupees ($3.09).

—Vibhuti Agarwal contributed to this article.

Hitachi plans to buy out units

By Daisuke Wakabayashi And Yuzo Yamaguchi

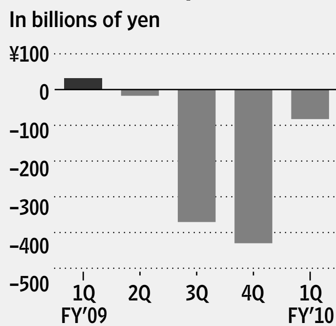
TOKYO—**Hitachi** Ltd. plans to spend almost $2.87 billion to buy out minority shareholders in five publicly traded subsidiaries and turn them into wholly-owned units, as the electronics conglomerate looks to speed up restructuring and integration efforts and turn around its loss-plagued operations.

But its decision to launch a 273 billion yen tender offer next month for the remaining shares in five majority-owned subsidiaries is likely to increase the pressure on the company to strengthen its balance sheet, which has been weakened by recent losses. Its loss for the fiscal year ended in March was the largest by a Japanese manufacturer.

The company plans to acquire the remaining shares in five listed subsidiaries: **Hitachi Maxwell** Ltd., **Hitachi Plant Technologies** Ltd., **Hitachi Information Systems** Ltd., **Hitachi Software Engineering** Co. and **Hitachi Systems & Services** Ltd. It aims to complete the transactions by March.

Hitachi's net profit/loss

In billions of yen



Note: Fiscal years end March 31
Source: the company

Hitachi says making the subsidiaries into wholly-owned units will allow the company to move quickly and more cohesively to build up its technology, power systems and infrastructure businesses at a time when those divisions show signs of future growth. Sharing resources will also help to shave costs.

Takashi Kawamura, who took over as president of Hitachi in April after working as an executive at three of the subsidiaries involved in the tender offer, said the consolidation is the "optimum" solution for Hitachi as a group even if the "trade-off" is that subsidiaries lose some of their independent spirit.

The expense is likely to increase focus on the company's balance sheet. The company's shareholder equity ratio, a measure of financial strength, was at 11.3% of total assets after posting another loss in the fiscal first quarter ended June 30. Takashi Miyoshi, a Hitachi executive vice president, said the company wants to raise its shareholder equity ratio to 20% and issuing new shares is one option for strengthening its balance sheet.

Mr. Kawamura has set a goal of reducing the number of Hitachi's subsidiaries to about 700 from more than 900 subsidiaries as of June 30.

For the April-to-June quarter, Hitachi reported a net loss of 82.6 billion yen versus a year-ago profit of 31.5 billion yen. It continues to suffer from slumping sales of electronics and automotive equipment. Revenue fell 26% to 1.89 trillion yen.

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Ahold posts a small rise in sales

By Robin van Daalen And Anna Marij van der Meulen

AMSTERDAM—**Royal Ahold** NV posted an 11% increase in second-quarter sales Tuesday, as a stronger dollar boosted results from the food retailer's U.S. operations.

Sales rose to €6.43 billion ($9.16 billion) in the three months ended June 30 from €5.77 billion a year earlier. However, stripping out currency fluctuations, sales were up only 3.9%.

Sales at the Albert Heijn in the Netherlands were up 7.8% at €2.2 billion, primarily thanks to the conversion of former Schuitema stores into the Albert Heijn format in the second half of 2008 and early 2009. Sales from Albert Heijn stores open for at least a year increased 0.4%.

At Ahold's key U.S. chains, Stop & Shop and Giant-Landover, sales rose 2.8% to $4.1 billion. Once converted into euros, net U.S. sales were up 16.8%. Same-store sales rose 1.7% at Stop & Shop. Ahold generates more than half of its sales in the U.S.

GLOBAL BUSINESS BRIEFS

Deutsche Lufthansa AG

Carrier asks for extension of bid for Austrian Airlines

Deutsche Lufthansa AG said Tuesday it has requested an extension of its takeover offer for **Austrian Airlines** AG, saying European Union antitrust approval for the deal is on the horizon but unlikely to be granted by the original deadline of July 31. It has asked the Austrian takeover commission to extend its offer for Austrian Airlines by a month to Aug. 31. The company said an agreement with the European Commission over antitrust approval "is emerging," but added that "formal clearance" for the takeover cannot occur in due time. The European Commission on Tuesday said Lufthansa has made a new antitrust offer to ensure competition concerns are met.

Luxottica SpA

Luxottica SpA reported Tuesday a smaller-than-expected decline in second-quarter net profit, helped by an ongoing cost-savings program and sunny weather in Europe. Luxottica, which makes eyewear for high-fashion icons such as Prada and Chanel and, through is the world's top eyewear maker by sales, said net profit fell 13% to €115.7 million ($164 million) as net sales rose 3.5%. Analysts polled by Dow Jones Newswires on average had expected net profit of €112 million. Chief Executive Officer Andrea Guerra noted that sunny weather in Europe in the spring and summer helped sales, particularly of sunglasses. Sales were "solid, positive" in July, Ms. Guerra said. The luxury brands are still suffering, but promotions like the Prada concept store at Sunglass Hut in New York were a success, the company said.

Viacom Inc.

Viacom Inc.'s second-quarter profit fell 32% on weakness in its media networks and filmed-entertainment businesses and continued advertising woes, although ad revenue picked up slightly from the first quarter. Viacom owns cable-TV channels, such as MTV and Comedy Central, and movie studio Paramount Pictures, with film franchises such as "Transformers." Chief Executive Philippe Dauman said that although the economy continued to be a challenge, the diversity of Viacom's business and improvement from first-quarter ad sales helped lessen the impact. The New York-based company posted second-quarter earnings of $277 million, or 46 cents a share, down from $407 million, or 65 cents a share, a year earlier. Revenue fell 14% to $3.3 billion.

PepsiAmericas Inc.

PepsiAmericas Inc.'s earnings fell 33% for the second quarter on restructuring and currency charges as **PepsiCo** Inc.'s second-largest bottler was hurt by falling volume, particularly in Central and Eastern Europe. The bottler is the subject of a recent acquisition bid by PepsiCo. PepsiAmericas reported a profit of $61.4 million, or 50 cents a share, down from $90.8 million, or 72 cents a share, a year earlier. The latest period included 24 cents in restructuring- and currency-related charges. Revenue declined 5.9% to $1.26 billion, with currency impacts cutting the figure by eight percentage points. Global volume fell 5%, reflecting declines of 13% in Central and Eastern Europe. U.S. volume edged up 0.2%, helped by a calendar shift in holidays. Revenue was up 5% in the U.S. and profit rose 24%.

Teva Pharmaceutical Industries

Teva Pharmaceutical Industries Ltd.'s second-quarter profit dropped 2.3%, weighed down by last year's $7.46 billion acquisition of Barr Pharmaceuticals, as its revenue continues to be hit by foreign-exchange effects. Despite the revenue pressure, the Israeli generic drug giant reported profit, excluding items, that beat expectations for the quarter, on continued North American sales strength and growth of its blockbuster multiple-sclerosis treatment Copaxone. Teva dominates the consolidating generic-drug industry, which continues to pressure the branded pharmaceutical sector amid numerous patent expirations on many top-selling products in coming years. Its second-quarter net income was $521 million, or 58 cents a share, down from $533 million, or 65 cents a share, a year earlier.

Salvatore Ferragamo SpA

Italian family-owned fashion house **Salvatore Ferragamo** SpA said Tuesday that it has tapped its menswear designer Massimiliano Giornetti to succeed Cristina Ortiz as chief ready-to-wear womenswear designer. Mr. Giornetti also will continue as chief menswear designer, a spokeswoman for the company said. The 38-year-old designer from Carrara, Italy, joined the company in 2000 and became lead menswear designer in 2004. Ms. Ortiz previously worked at Prada SpA and menswear specialist Brioni Roman Style SpA. In 2007, Ms. Ortiz succeeded Graeme Black at Ferragamo. Ferragamo said that Mr. Giornetti's first womenswear line with the fashion house is to debut with the Fall/Winter 2010 collection.

HeidelbergCement AG

Private-equity firms **Bain Capital** LLC, **CVC Capital Partners** Ltd. and **3i Group** PLC have shown interest in buying **HeidelbergCement** AG's Malaysian assets, people familiar with the deal said. In the latest disposal by the German cement maker, HeidelbergCement is selling the Malaysian assets, with a value of at least $200 million, it received when it bought U.K. building materials firm Hanson in 2007. HeidelbergCement has 40 ready-mixed concrete plants, 17 aggregate quarries and 20 asphalt plants in Malaysia, the company's Web site says. Standard Chartered PLC is advising on the sale, and recently sent out an information memorandum requesting bids, the people said.

Hindustan Unilever Ltd.

Hindustan Unilever Ltd. said Tuesday its profit for the fiscal first quarter fell 2.7% from a year earlier, hurt by higher advertising costs. Profit at India's largest consumer-goods maker by sales dropped to 5.43 billion rupees ($112.7 million) for the three months ended June 30 from 5.58 billion rupees a year earlier. Sales rose 7.8% to 44.76 billion rupees. Hindustan Unilever reported a 2% expansion in sales volume after a 4% decline in volume in local consumer-goods sales in the January-March quarter. After the lower-than-expected results, Hindustan Unilever shares fell 7.3% on the Bombay Stock Exchange. Before the economy slowed, strong consumer demand had allowed the company to pass on higher input costs to customers without lowering demand.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Moscow market's closure upsets Beijing

Thriving wholesale venue filled with Chinese goods stirs authorities' ire; owner punished for lavish move, some say

The abrupt shuttering of a giant wholesale market in Moscow dominated by Chinese traders has stirred trade tensions between Moscow and Beijing, highlighting large-scale smuggling between the two neighbors.

By **Jeremy Chan** in Beijing and **Andrew Osborn** in Moscow

Keen to defuse a potential diplomatic row, a Chinese delegation, led by Vice Minister of Commerce Gao Hucheng, held talks with Russian officials in Moscow this past weekend.

Chinese traders have complained they risk losing billions of dollars in impounded merchandise. Thousands of traders worked at the market, and police have prevented many from retrieving their stock since its closure. The Russians say they will ensure that legitimate businessmen get their goods back in the coming months.

Popularly described as the largest such market in Eastern Europe, the Cherkizovsky Rynok sold everything from clothes to food, often cheaply, to wholesalers and price-conscious Russian consumers. Local authorities closed it at the end of June, ostensibly for breaching sanitary and fire-safety norms.

Russian media, analysts and economists suggest the real reason was to punish the market's wealthy owner for hosting a star-studded hotel opening in Turkey. Prime Minister Vladimir Putin judged the event tasteless and unpatriotic at a time when Russia is weathering a fierce economic downturn, they say. Neither the businessman, Telman Ismailov, nor Mr. Putin's spokesman could be reached to comment.

Unemployed laborers walk with their goods at the Cherkizovsky market.

Market traders

The unexpected shutdown of the sprawling Cherkizovsky market in Moscow has stirred trade tensions between China and Russia. Exports in billions of U.S. dollars

Note: All figures are in nominal terms and unadjusted for inflation
Source: Russia's Federal Statistics Agency

Analysts say the move may also have been an effort to support Russia's ailing textile industry. Deputy Trade Minister Sergey Naumov said before the market was shut that every trading stand at the market meant a closed Russian clothing workshop.

The market's closure has highlighted the multibillion-dollar trade in "gray imports" between Russia and China. The trade has flourished since the early 1990s when the market first opened.

Moscow is keen to be seen to be clamping down on smuggling as part of its long-running campaign to join the World Trade Organization. Moscow says it wants to eradicate gray imports, or goods that cross the border thanks to payments to middlemen who in turn bribe Russian customs officials. Such shipments are seldom accompanied by paperwork. Closing the market will help stamp out such schemes, Russia says.

But the market's closure has sparked strong criticism within China, with state media charging that Russian customs policies are flawed. The state-run China Daily newspaper said it was "a matter of regret" that Chinese businesspeople had suffered financial losses, calling the closure "a tragedy."

China exported goods valued at $34.66 billion to Russia in 2008, according to statistics from China's Ministry of Commerce. Lu Nanquan, an expert on Sino-Russian trade at the government-backed Chinese Academy of Social Sciences, estimates that an additional $8 billion in gray-market goods flow into Russia from China each year.

"The normal rate for customs duty is somewhere between 15% and 20%, but the gray customs clearance only amounts to 5% or 6%," Mr. Lu says. "Chinese traders prefer to go through the gray channel."

In September 2008, Russian police raided the Moscow market, confiscating goods they said had been illegally imported. The goods were valued at an estimated $2 billion, making it one of the biggest contraband hauls in Russian history. Chinese traders offer an even higher estimate: $7 billion.

Prime Minister Putin raised the issue—in his famously robust style—at a government meeting in June. Mr. Putin asked why the investigation had yielded no results. "A result would be to send people to jail," he said. "But where are the convictions?"

Soon afterward, the market was vilified as a den of criminality on Russian state TV. Law-enforcement agencies launched a criminal case, Moscow's Mayor Yuri Luzhkov vowed to close it, and senior government officials poured scorn on a place one called "a hell-hole." At the end of June, it was finally shut.

Sergey Sanakoyev, chief executive of the Moscow-based Russian-Chinese Center for Trade and Economic Cooperation, a private consulting firm, said the market's closure was overdue and would usher in new civilized trading practices, including proper quality controls.

"It's the end of an era," he said. In the future, Chinese traders could ply their wares in giant indoor malls in the Russian capital, he added. "The effect on trade will be positive."

Eastern cash battles West's embrace in Moldova election

By Marc Champion

Moldovans repeating national elections on Wednesday face a stark choice: vote for the ruling Communist Party and receive loans from their Chinese and Russian backers worth well over a third of national income, or put their faith in the West.

The outcome of the vote remains too close to call, according to opinion polls and political analysts, though few expect a repeat of the riots and brutal police crackdown that followed fraud-tainted elections in the spring.

April's turbulence and Wednesday's vote are having an impact well beyond the borders of this small ex-Soviet nation of four million, stoking a fierce geopolitical competition for its loyalties.

Vladimir Voronin, Moldova's outgoing president and likely speaker of the next parliament, turned sharply east after April's events, when anticommunist protesters stormed his office and the parliament building. He accused neighboring Romania of provoking the riots in an attempted a coup d'état and angrily rejected European Union criticism of his handling of the election aftermath, in which hundreds of opposition supporters were jailed, and two people died.

The former baker and Soviet-era interior minister, traveling to Moscow in June, got a warm welcome and a pledge of $500 million in loans for infrastructure projects in Moldova. It wasn't revealed what conditions were attached to the loan, and it isn't clear whether the offer would remain if the communists were to lose their grip on power.

That presents Moldovans with the prospect that voting against the communists could mean relying instead on the West, specifically the International Monetary Fund, to help lift up the country's economy.

On Monday Mr. Voronin denied accusations that the money came with a political price attached, in an interview with Russian news agency Interfax. He said Moscow had made no conditions, "unlike certain international organizations." He didn't specify which organizations he meant.

Last week, China also put its substantial resources behind Mr. Voronin, when China Overseas Engineering Group Co. signed a memorandum of understanding for $1 billion in loans for infrastructure projects.

The two pledges are equal to 37% of Moldova's $4 billion annual gross domestic product and dwarf the amount of money on offer from Western institutions such as the International Monetary Fund.

The EU hasn't tried to match the Russian and Chinese loan offers. But it has sent a string of officials to encourage clean elections, including last week's visit by Poland's Foreign Minister Radek Sikorski, a big proponent of EU expansion into the region. An IMF official in Moldova said a mission was expected to arrive in Chisinau to negotiate a new loan facility as soon as a new government is formed.

Money for Moldova

Postelection loans and grants on offer to Moldova, by source

Source	Amount
China	$1 billion
Russia	$500 million
IMF	Expected to more than double the $161 million in current loans outstanding if new government agrees to the fund's terms
EU	Expected to add $70 million (€50 million) to this year's $107 million (€75 million), if there is a new IMF agreement

Note: Figures are approximate in millions of dollars
Sources: WSJ reporting; IMF; European Commission

China's interest in Moldova, a small and distant country with few natural resources to offer, has baffled some diplomats in the capital, Chisinau. But they note that China has long had close relationship with Mr. Voronin's government, one of the last in Europe to call itself communist.

China Overseas Engineering Group didn't return calls for comment, and the Chinese Embassy in Chisinau couldn't be reached.

Russia's interest in Moldova, where its military supports a separatist enclave of Russian speakers, is evident. Moscow is determined to protect its zone of influence in the ex-Soviet bloc and saw April's violent postelection street protests as part of "Romania's anschluss policy toward Moldova," said Sergei Markov, director of the Institute for Political Studies in Moscow, in a reference to Nazi Germany's annexation of Austria. Most of Moldova is Romanian speaking and belonged to Romania before World War II, when it was seized by the Soviet army.

Mr. Markov says the two offers of loans don't indicate any rivalry between Moscow and Beijing. "I would not be surprised if Russia asked the Chinese to offer money, because both are interested to reverse this trend of Western-backed regime change in the region," he said. Since 2003, postelection street protests have led to changes of government in Georgia, Ukraine and Kyrgyzstan.

Political analysts in Moldova say the country's Western-leaning opposition parties are more likely to lose than gain votes in Wednesday's poll, which was forced not by the street protests but the failure of the Communists to gather the 61 votes needed in the 100-seat parliament to elect a new president.

But Mr. Voronin's Communists may fare worse than they did in April. That's because the party's leading modernizer, Marian Lupu, has quit since then, setting up his own party, which is expected to claim some 10% of the vote and could emerge as king maker.

Some Moldovans are skeptical the Russian and Chinese money will materialize, whoever wins the election. "The IMF is by far the most credible source of money for Moldova. Their money gets delivered" and triggers other investment, said Vlad Lupan, a political analyst in Chisinau and former career diplomat in Moldova's foreign service.

—Sue Feng in Beijing contributed to this article.

FREE MAZIAR BAHARI

NEWSWEEK reporter, filmmaker, playwright, author, artist, and, since June 21, prisoner.

For the past five weeks Maziar Bahari, 42, a Canadian-Iranian journalist and film director, has been held in Tehran's Evin Prison without access to his family or a lawyer. Nearly 300 writers, reporters, and filmmakers from more than 60 countries around the world, including several Nobel Prize winners, have put their names to petitions calling upon the Iranian government to release him. The variety in their nationalities and their professions is a remarkable testament to Maziar, and to the value of his work. The government of Iran should heed their plea.

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Jon Lee Anderson, *The New Yorker, UK*
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Ahmed Reda Benchemsi, *TelQuel and Nishan, Morocco*
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