Money & Investing: Lloyds fails to sway U.K. Treasury on escaping asset insurance plan

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DOWJONES
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Goldman roars ahead of rivals

As firm posts surprisingly large quarterly profit, backlash builds over plan for big bonuses

BY SUSANNE CRAIG

Roughly a year after accepting unprecedented financial aid to shore up its operations, Wall Street firm **Goldman Sachs Group** Inc. posted yet another impressive quarter that further distances itself from rivals, many of whom are still struggling to overcome the credit crisis.

The strong results—a profit of $3.19 billion, or $5.25 a share, for the three months ended Sept. 25, up from $845 million, or $1.81 a share, a year earlier—were greeted with a barrage of questions about Goldman's decision to set aside compensation at a breathtaking pace; its 31,700 employees are on track to earn an average of about $700,000 apiece in 2009, a record for the 140-year-old firm.

"We are very aware of what is going on in the world, but we have to trade that off with being fair to our people who, we believe, have performed admirably throughout the crisis," said Goldman's chief financial officer, David Viniar.

While Goldman's profits have come roaring back, the firm has faced a populist backlash over the size of its bonus pool. Goldman navigated the credit crisis better than many of its competitors, but it played a role in causing the meltdown and was forced to take government aid. Goldman also has benefited from the Federal Deposit Insurance Corp.'s debt-guarantee program, which means it and other banks can borrow money at cheaper rates than before. And since the collapse of Bear Stearns Cos., it has had the ability along with other financial institutions to borrow money from the Federal Reserve.

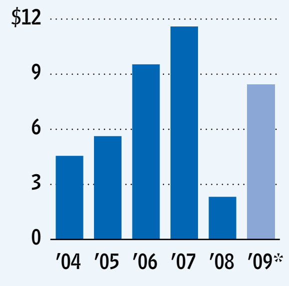
The firm has tried to soften the blow of its decision to set aside huge pools of money for compensation; Thursday it made a $200 million charitable contribution to The Goldman Sachs Foundation, which had an existing $283 million in it. Still, that did little to deflect attention from the $16.71 billion it has earmarked for bonuses, which will be paid out early in 2010.

"Yes, I do think it's too big a focus," Mr. Viniar said. "I would prefer people to be focused on the success of our business, how well we're do-

Please turn to page 2

Roaring back

Goldman Sachs Group profit, in millions



*2009 results are through Sept. 25
Source: the company

Reuters

As insurgents carried out their assaults in Lahore in Pakistan's east, a car bomb was detonated in Peshawar, in the country's northwest. Residents walk through rubble left by one of the bombs.

Militants stage attacks in Pakistan

Pakistan reeled under a wave of attacks on security installations and government targets Thursday that left at least 40 people dead and highlighted the Taliban's ability to strike at the heart of the nation's antiterror establishment. In Lahore, 10 militants in three separate attacks stormed a building occupied by the Federal Investigation Agency, an Elite Force police center that provides training to the antiterrorist police force, and a police academy. All 10 militants were killed.

The attacks were seen as an effort to halt plans for an offensive against the Taliban stronghold of South Waziristan.

—*See article on page 4*

Chinese consultant buys U.K. auto maker

BY PAUL SONNE

A Chinese consultant at the center of British auto maker MG Rover's collapse in 2005 has bought another struggling vestige of the U.K.'s auto industry.

Qu Li, owner of **Eco Concept** Ltd., agreed Thursday to buy for an undisclosed amount LDV, a Birmingham-based van-manufacturing company that fell into administration in June.

Dr. Li, who also serves as chairman of automotive consultancy China Ventures Ltd., came to prominence in the U.K. following her consulting work for a group of businessmen who bought auto maker MG Rover from BMW in 2000 for the symbolic price of £10. A report on the subsequent collapse of Rover, released by the British government in September, found that the businessmen took about £9 million each in the five years they ran the company. The report also revealed that Dr. Li had an "intimate relationship" with one of the four businessmen, Nick Stephenson, and that over the course of 15 months MG Rover paid companies associated with Dr. Li £1.7 million. The payments were for securing investment from Chinese firms, in particular SAIC Motor Corp., which bought technology from MG Rover in 2005. The company collapsed soon after.

Production at the LDV plant ceased 10 months ago. Eco Concept says LDV will still concentrate on light commercial vehicles but on a smaller scale. It has support from a number of international automotive manufacturers and distributors, Dr. Li said. That likely means it will focus on business related to China.

Chinese companies have been looking to boost overseas investments and take advantage of tumbling asset values in Western economies.

Reuters

An unfinished van sits on at an LDV plant. Eco Concept says it doesn't plan to re-open the plant, but will open a new, smaller one.

What's News

Cash-for-clunkers programs have no lasting economic benefit and could even lead to a "substantial weakening" in euro-zone automobile sales next year, the European Central Bank said. Page 3

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- **Carrefour said** it is exiting Russia shortly after having entered the market, as it posted a 2.9% drop in third-quarter sales. Page 5
- **Major U.S. stock indexes** made modest gains. Shares in Europe also edged higher, but uncertainty over earnings capped the upside. Page 20
- **The EBRD forecast** that Eastern Europe will see growth return in 2010, but warned of risks. Page 12
- **The ECB said** core inflation should edge down in coming months, signaling it is likely to hold interest rates low for some time. Page 3
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- **China praised** its ties to Iran in remarks that diminished hopes Beijing would support punitive sanctions against Tehran. Page 13
- **China's sovereign-wealth** fund will invest $300 million to buy 45% of Nobel Oil and fund the Russian company's expansion plans. Page 25
- **Swedish retailer H&M** said sales in stores open at least a year fell 8% in September, more than expected. Page 9
- **Nokia reported** a third-quarter loss amid joint-venture charges, but it raised its outlook for mobile-phone-industry volumes. Page 8
- **GM is close to signing** a deal to sell Opel to a group led by Magna, but it still faces a number of political and regulatory hurdles. Page 9
- **Anheuser-Busch** will sell its operations in Central Europe and the Balkans to CVC Capital Partners in a deal valued at $2.23 billion. Page 9
- **Britain said it is providing** $100 million in aid to Zimbabwe this year to help the new unity government and ease a humanitarian crisis.

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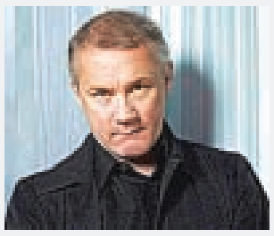


Shock of the new

Provocative British artist tries traditional painting
Weekend Journal, page W8

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	10062.94	+0.47
Nasdaq	2173.29	+0.05
DJ Stoxx 600	247.28	+0.12
FTSE 100	5222.95	-0.63
DAX	5830.77	-0.40
CAC 40	3883.83	+0.03
Euro	$1.4939	+0.26
Nymex crude	$77.58	+3.19

LEADING THE NEWS

Citi swings to small profit for quarter

Company's investment bank posts lower revenue and profit; weakness in fixed-income trading is surprising

By David Enrich

Citigroup Inc.'s struggles continued in the third quarter, with its core businesses stagnating even as some rivals show signs of rebounding.

Citigroup eked out a $101 million profit in the quarter on revenue of about $20.4 billion. Citigroup Chief Executive Vikram Pandit noted that the company has now strung together three straight quarterly profits, an achievement that validates the company's underlying strength.

"I feel really good about the progress we've made, about our financial strength, and about all the people at Citi who have worked extremely hard," Mr. Pandit said on a conference call with analysts.

But investors seemed unimpressed with the slim profit, which stemmed largely from some one-time accounting gains and from Citigroup setting aside less than Wall Street had anticipated to cover future loan losses. In late-afternoon trading Thursday, Citigroup's shares were down 5.4% at $4.73.

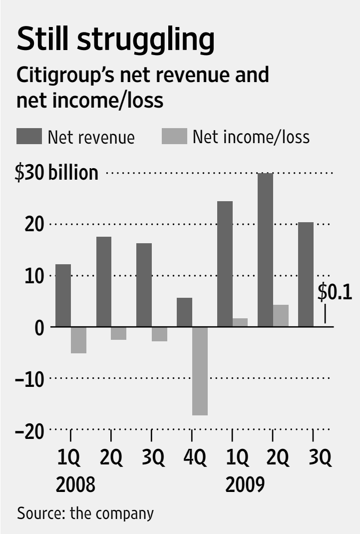
The results were the latest evidence that after racking up tens of billions of dollars in losses during the financial crisis, Citigroup has fallen behind its stronger rivals, which have been taking advantage of the industry turmoil to buy weak banks and build market share. Facing an uncertain future, Citigroup executives said they continue to hoard capital and aren't yet making big investments in their most promising businesses.

In another sign of the diverging fortunes of Wall Street banks, Citigroup's total earnings amounted to half of **Goldman Sachs Group** Inc.'s charitable donations during the quarter.

None of the three main business lines that Mr. Pandit has said represent Citigroup's future—regional consumer banking, investment banking and transaction processing—managed to increase their revenue streams from the second quarter or last year.

Citigroup's giant investment bank, which in prior periods has powered the company's profits, came up short, with revenue down one-third and profits down two-thirds from last year.

Especially surprising was Citigroup's weak showing in fixed-income trading, an area that this week propelled **J.P. Morgan Chase** & Co. and Goldman Sachs to expectation-beating results. Excluding some accounting-related losses, Citigroup's fixed-income revenue fell 18% from the second quarter to $4.7 billion.



Citigroup Chief Financial Officer John Gerspach told reporters Thursday that the decline reflected "diminished trading opportunities." He wouldn't elaborate.

A person familiar with the matter said the lackluster performance wasn't due to a single bad bet as much as "a collection of immaterial items that in the aggregate were material." The person said the transactions in question were executed on behalf of clients and weren't trades for Citigroup's own account.

Even as the investment bank struggled, Citigroup set aside more money to pay its employees. The company's third-quarter compensation expenses were essentially unchanged from the first two quarters of 2009, even though Citigroup has shed its huge Smith Barney brokerage business. And among Citigroup's "core" businesses, total operating expenses climbed to $8.2 billion from $7.8 billion, an increase that executives attributed largely to higher compensation costs.

Since Citigroup's investment bankers and traders account for the lion's share of the company's overall compensation costs, some analysts were surprised that overall pay didn't decline in tandem with investment-banking revenues. "I would have thought we would have seen a little bit lower expenses," said James Mitchell, an analyst with Buckingham Research.

Citigroup executives said they set pay on an annual, not quarterly, basis, and that the third-quarter compensation figures don't necessarily indicate that its employees' pay packages swelled during the period. So far this year, Citigroup has allotted about $19 billion for compensation, compared to about $25 billion in the first nine months of 2008.

Messrs. Pandit and Gerspach said they are increasingly optimistic that Citigroup's vast overseas consumer businesses are stabilizing as Asian and Latin American economies start to recover. The company's regional consumer-banking arm was Citigroup's strongest performer.

In the U.S., though, Citigroup was less optimistic, echoing the cautious sentiments that J.P. Morgan executives voiced Wednesday. While fewer customers are falling behind on certain loans, defaults continue to surge in mortgages, among other areas. "We see some signs of hope, but we're just not sure if they're going to continue," Mr. Gerspach said.

Despite Mr. Pandit's upbeat tone, executives acknowledged that they aren't ready to pour money into expanding the businesses that comprise Citicorp, the entity that houses the company's long-term properties.

"We're not doing heavy investments as yet in the Citicorp businesses," Mr. Gerspach told reporters Thursday morning, noting that the company remains preoccupied with "de-risking the consumer portfolios."

Later, speaking to analysts, Mr. Gerspach amended his remarks slightly. "This quarter we started to make very selective investments in some of our Citicorp businesses, including in operations and technology," he said.

Goldman posts huge profit, distancing itself from rivals

Continued from first page

ing and how well our people are performing."

Goldman had a return on equity of 21.4% in the latest quarter despite the fact it is sitting on record levels of capital, which serve to drag down return on equity. Its profit of $5.25 a share was generated on revenue of $12.37 billion and outpaced analyst expectations by about $1 a share.

The bank's financial performance was powered by strong results in its fixed-income, currency and commodities business, where revenue more than tripled to $5.99 billion. Revenue from principal investments, ones made with the firm's own capital, was $1.26 billion, compared with a year-earlier loss. The results included a gain of $344 million related to the firm's long-held investment in **Industrial & Commercial Bank of China** Ltd.

In this year's second quarter, Goldman posted a record profit of $3.44 billion, largely by snatching business away from weakened rivals and churning out huge trading gains by revving up risk taking. Its stock-trading desk continued to post impressive results in the third quarter, though they were down a bit from the record second quarter. In a nod to how impressive these results are, the firm was operating at less than half the leverage it was in 2007. Borrowed money can amplify profits in good times but may increase losses in bad times.

It wasn't all good news for Goldman. Investment-banking revenue fell 31% to $899 million. Goldman attributed the drop to a decline in debt underwriting due to a decline in revenue from leveraged loans.

CORRECTIONS & AMPLIFICATIONS

The Motorola CLIQ comes with two gigabytes of memory, and Apple's $199 iPhone comes with 16 gigabytes. In addition, the BlackBerry Storm2 from Research in Motion will ship with 18 gigabytes of memory. The Personal Technology column Thursday incorrectly stated the memory for the CLIQ and iPhone in megabytes. And based on a fact sheet from RIM, the column also incorrectly said the Storm2 will ship with two gigabytes of memory.

Federal Reserve Chairman Ben Bernanke predicted in an interview broadcast March 15 that the recession would end in 2009. A Money & Investing article in some editions Thursday incorrectly said he predicted the recession would end in 2008.

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

ECB criticizes cash-for-clunkers programs

Stoking demand now risks weakening it next year, bank says

By Brian Blackstone

Cash-for-clunkers programs have no lasting economic benefit and could even lead to a "substantial weakening" in euro-zone automobile sales next year, the European Central Bank said Thursday.

The findings, though far from original, amount to an official slap on the wrist to European governments including those of Germany, France and Spain that rolled out the popular programs to stoke demand in their beleaguered auto sectors at the height of the financial crisis.

Eleven of the euro zone's 16 countries have adopted or plan to adopt clunkers programs, which generally include cash subsidies for consumers to trade in older cars for newer, more environmentally friendly ones.

Drive time
■ GM nears Opel deal 9

Vehicle sales surged in Europe with the introduction of clunkers programs, but Ford says new-vehicle orders in Germany fell 20% after the country's incentive program expired.

The central bank's report came as European car registrations posted another strong rise for September, spurred by countries that have made use of the same incentive plans that the ECB faulted. Car registrations in Europe jumped 6.3% from a year earlier in September, the European Automobile Manufacturers' Association said Thursday.

Sales data from **Ford Motor** Co.'s European division this week suggest such gains will be fleeting. Ford said new-vehicle orders in Germany fell 20% in the first half of October after the incentive program expired.

The ECB concluded that while the programs did provide "significant support" to auto production in the first half of 2009, "the upward impact on overall euro-area activity in 2009 is likely to remain rather limited and may turn negative in 2010."

Such incentive measures should be applied "with caution," the ECB said, "as they may hamper the efficiency of the functioning of a free-market economy and may delay necessary structural change, thereby undermining overall income and employment prospects in the longer term."

The German government's €5 billion ($7.46 billion) plan allowed buyers €2,500 per vehicle to trade in an old one. While that program expired at the beginning of September, it should still boost sales with a lag as orders are processed. France, meanwhile, pays consumers €1,000 for a new car if they trade in one that is more than 10 years old. The total cost to governments this year and next should be around 0.1% of gross domestic product, the ECB said.

The programs tend to crowd out other large purchases, limiting their overall economic effect, the ECB said.

Thomas Grothkopp, head of a German furniture retailers' association, said sales in his sector are down more than 5% from a year earlier, largely because of the scrappage scheme. "What's worse is that people who have run down their savings to buy a car this year will have to save more in future, so we expect the impact on our sales to last well into next year," he said.

—Vanessa Fuhrmans and Geoffrey T. Smith contributed to this article.

ECB signals no change on rates over near term

By Brian Blackstone

FRANKFURT—Underlying euro-zone inflation should edge down in coming months even if overall prices rise slightly, the European Central Bank said Thursday, signaling that it likely will hold interest rates at very low levels for some time.

The optimistic forecast was supported by fresh data showing prices edging down last month among the 16 countries that use the euro currency.

ECB officials also emphasized that while the bloc's economies appear to be stabilizing, "the recovery is expected to remain rather uneven."

The ECB departed from its long-standing focus on overall inflation, noting in its October bulletin that core inflation, which excludes volatile food and energy prices, "is particularly insightful" now in analyzing the forces driving prices. The ECB has a mandate to keep overall inflation below—but close to—2% over the medium term.

Consumer prices fell 0.3% in September from the year-earlier month, according to data Thursday from the European Union's statistics agency. Prices should tick up in coming months in response to higher commodity prices, although core inflation "has been on a downward path since mid-2008 and shows no sign of reversing in the short term," the ECB said. Core inflation in the euro zone fell to 1.2% last month from 1.3% in August.

With so much slack in the economy and factories running well below full capacity "even if there is an economic recovery, it is still going to take time" for core inflation to stop declining, said Marta Bastoni, economist at J.P. Morgan Chase Bank. With inflation not a primary concern, the ECB should keep its key lending rate unchanged at 1% until the end of 2010, she said.

Lower consumer prices were evident last month in countries hard hit by housing slumps and the global recession, such as Ireland, which posted a 3% drop from a year ago and Spain, where prices fell 1%. Consumer prices declined a more modest 0.5% in Germany and 0.4% in France.

Meanwhile, two of the euro zone's three largest economies issued cautiously upbeat forecasts. The Bank of Italy said it expects gross domestic product to expand 1%, on a quarterly basis, during the third quarter. Italy's economy has contracted for five consecutive quarters.

Meanwhile, Germany's leading economic institutes said they expect the euro zone's largest economy to expand 1.2% next year after contracting 5% this year. Both estimates were improvements from previous forecasts issued in April.

Commenting on recent positive economic data, ECB President Jean-Claude Trichet said Thursday that the "good times" haven't returned yet. "We have to continue to be extremely alert," he said, adding that current rate levels are "appropriate" and "the time isn't right" for an exit now from the ECB's expansionary monetary policy.

—Geoffrey T. Smith, Andrea Thomas and Roman Kessler contributed to this article.

LEADING THE NEWS

Militants hit Pakistan in wave of assaults

Taliban show power in multiple strikes on security facilities

BY ZAHID HUSSAIN AND MATTHEW ROSENBERG

A series of well-planned and audacious attacks on police and government installations that left at least 40 people dead across Pakistan Thursday exposed major weaknesses in the nation's security apparatus and appeared to show Taliban insurgents gaining the upper hand.

During the course of the day, assailants in police uniform wielding guns and grenades struck at three security agency buildings in the eastern city of Lahore, leaving 28 dead. A suicide bomber in a car killed 11, including himself, at a police station in northwestern Pakistan and a car bomb in the city of Peshawar was detonated remotely, killing a child at a government housing complex.

The day marked an escalation of violence even in a period marred by massive terror strikes and brazen attacks, including last weekend's assault on the Pakistani military's headquarters in Rawalpindi outside Islamabad. In the past 10 days, insurgent attacks have left more than 150 people dead.

Pakistani Interior Minister Rehman Malik said Thursday that the Pakistan Taliban, an offshoot of the Afghan movement, had "started a guerrilla war." He urged Pakistanis to unite behind the government.

His tone was a marked shift from last month, when officials were boasting they had "broken the back" of the Taliban after a successful spring offensive in the Swat Valley northwest of the Islamabad and the death of the Pakistan Taliban's leader, Baitullah Mehsud, in a U.S. missile strike in August.

Pakistan also has said for months it is preparing a full-scale invasion of the Taliban stronghold in the South Waziristan tribal region, and has been pounding the area with airstrikes and artillery for weeks. Pacifying the tribal region, which also is a main base for al Qaeda, is viewed as crucial by U.S. officials for the success of the flagging U.S.-led campaign in neighboring Afghanistan, where violence is surging and American soldiers are dying in record numbers.

But the recent attacks, culminating in Thursday's multiple assaults, have suggested that the Taliban have regrouped and, with the help of like-minded insurgents from elsewhere in Pakistan, regained the capacity to strike at will at the heart of Pakistan's security establishment—even when a strike is expected. Officials have said they had prior warning before last weekend's attack on the military's headquarters and a senior police official in Punjab province, which includes Lahore, said Thursday there were "indications" of coming attacks on the city in recent days. He wouldn't elaborate.

Associated Press

Pakistani police commandos rush to a police training school that was stormed by militants in Lahore on Thursday.

U.S. officials involved in the Obama administration's review of policy toward Afghanistan and Pakistan said they didn't believe the recent attacks would have a direct impact on the deliberations, noting that U.S. intelligence has long warned of the threat posed to the Pakistani government by extremists. The officials said the main U.S. focus was ensuring Pakistan didn't lose its resolve and push for peace with the Taliban, as was common after a major spate of attacks during the rule of former President Pervez Musharraf, who resigned in 2008.

But the officials said that, despite some recent tensions between civilian and military leaders in Islamabad, they have seen no hint of a slackening of will.

"Some of the reasons these attacks happened is because the Pakistani military is taking the fight" to the tribal areas on the Afghan border, where the Taliban is based, said a senior U.S. military official. "The Pakistanis—particularly the Pakistani military—is invested in this fight."

Well into Thursday evening, authorities were still trying to reconstruct the exact details of what took place in Lahore, considered Pakistan's most cosmopolitan city but a site of several individual attacks over the past year.

The first attack, police said, came shortly after 9 a.m., when one or two gunmen burst into a building of the Federal Investigation Agency, a key part of Pakistan counterterrorism establishment, and began shooting.

One of the attackers "was clad in black dress; first he hurled a hand grenade in a room and then started firing with AK-47 rifle," said one of the building's guards.

After a brief firefight, six people lay dead, including one attacker, said Sajjad Bhutta, a top Lahore official. Another suspected attacker was arrested at the scene, he said. A different FIA building in Lahore was the target of a terrorist strike last year.

Soon after that attack began, five gunmen in police uniforms scaled the walls of a training center of the Elite Force of the police. One was quickly shot and killed, and another detonated his suicide vest, said Lt. Gen. Shafqat Ahmad, the most senior military officer in the city. The three others were eventually gunned down by police, he said.

All told, eight people were killed, including the five attackers, authorities said.

A third team of four gunmen, also in police uniforms, scaled the walls of another police academy, one for raw recruits that was also assaulted in a similar style in March.

"I thought that they were Punjab police. ... I was shocked when they started hurling hand grenades at us and then opened fire," said Abdul Razaq, 26 years old, who was hit in the leg during the gun battle for the academy.

He said he saw one of the attackers shot and killed, and was still lying wounded when the three others detonated suicide bomb vests.

At least 14 people were killed at the police academy, including four attackers.

—Shahzada Irfan in Lahore, Rehmat Mehsud in Islamabad and Peter Speigel in Washington contributed to this article.

EU concerns bedevil South Korea trade pact

BY MATTHEW DALTON

BRUSSELS—The European Union and South Korea concluded negotiations over a trade agreement but concern that the deal will trigger a flood of cheap South Korean car imports remains a potential obstacle to ratification.

Nations with significant automobile industries, led by Italy, worry the accord will give South Korean auto makers an unfair advantage over struggling EU competitors—a concern that has held up negotiations for months.

The agreement would eliminate trade tariffs between the two parties over five years, saving EU exporters €1.6 billion ($2.38 billion) in annual tariff payments, the European Commission said. EU car makers, for example, pay an 8% tariff for exports into South Korea, while the South Koreans pay 10% to ship into the EU.

The deal would end some regulations that European companies say prevent them from selling to South Korea. Seoul has adopted California's strict emissions rules for cars, but the accord would allow imports of cars meeting lower international emissions standards.

The signing of the pact Thursday by EU Trade Commissioner Catherine Ashton and South Korean Trade Minister Kim Jong-hoon means the agreement's text is set.

EU national governments must approve the deal, which they will debate at a European Council meeting early in 2010. Then, the European parliament must back it; South Korea's parliament also must ratify the pact. The European Commission says it hopes the pact will come into force in the second half of 2010.

Ms. Ashton said Thursday that all EU countries supported concluding the talks. "I do have the support of the Italian government to do that," she said.

But Italy's Deputy Industry Minister Adolfo Urso—who said he hadn't seen the final text—said his government expected the commission to have fixed problems with the agreement related to the auto industry.

"Italy reserves the right to veto the accord if these aspects have not been dealt with," he said.

Italian auto giant **Fiat** SpA has opposed the deal because its smaller vehicles would face more competition from South Korean rivals such as **Hyundai Motor** Co. and **Kia Motors** Corp. The main concerns over the agreement center on "duty drawback," which is a refund South Korea makes to its manufacturers on tariffs paid on imported parts if the manufacturer exports the finished product.

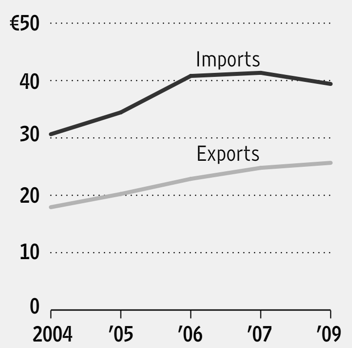
A compromise reached this summer would require the South Koreans to cap these refunds at 5% if South Korean exporters significantly increase their sourcing of parts from third countries such as China.

The pact also contains another safeguard that would allow either side to reinstate tariffs if imports increase significantly and those imports pose a major threat to domestic industries.

—Jennifer Clark contributed to this article.

Trading out

The European Union's trade with South Korea, in billions of euros



Source: European Commission

CORPORATE NEWS

Xstrata abandons offer for Anglo American

Retreat marks setback to Anglo-Swiss miner's growth strategy, raises heat on U.K. target's management

By Guy Chazan
And Dana Cimilluca

Miner **Xstrata** PLC dropped its pursuit of rival **Anglo American** PLC, a sign that one of the mining sector's most successful deal-making machines could be reaching the limits of its merger-driven dash for growth.

The decision marks a setback for Xstrata, which has grown at breakneck speed over the last seven years through a string of acquisitions. Thursday's development also is a blow for Xstrata's chief executive, Mick Davis, widely seen as one of the mining industry's most effective managers.

The deal's demise is the latest in a series of failed big-ticket mergers in the industry, which, until recently, had been one of the hottest deal sectors in the global economy.

Mr. Davis had hoped that combining with Anglo would catapult Xstrata into the major leagues, creating a giant better able to compete with larger companies like **BHP Billiton**, Brazil's **Vale** SA and **Rio Tinto**.

He left the door open for a future bid for Anglo, saying in a prepared statement that the rationale for a combination with Anglo remained "undiminished" and that "transactions of this nature often take time and patience to mature."

But an Anglo spokesman said the idea of a 50-50 merger was now "dead and buried."

Sir John Parker, Anglo's chairman, said Xstrata's offer had never really gotten off the ground with Anglo shareholders. "The value gap was so wide and the strategic fit certainly didn't appear desperately attractive," he said in an interview.

Under Xstrata's proposal each company's shareholders would have owned 50% of the combined entity, with no cash changing hands. But Anglo's board rejected the approach in June and refused to engage with Xstrata. Anglo shareholders expressed interest but wanted a premium for a deal they saw as a disguised takeover attempt. Faced with a deadline of next Tuesday set by U.K. takeover regulators to make a formal offer or withdraw, Xstrata said Thursday it was walking away.

A water truck at Xstrata Mount Isa mining operations in Queensland, Australia.

Bloomberg News

Big deals | Xstrata M&A transactions since 2000

Deal status	Target	Deal value, in billions, excludes debt
Withdrawn	Anglo American	$35.73
Completed	Falconbridge	17.23
Withdrawn	Lonmin	9.02
Withdrawn	WMC Resources	6.04
Withdrawn	LionOre Mining International	4.71
Completed	Jubilee Mines	2.87
Completed	MIM Holdings	2.01
Completed	Glencore International	1.99
Completed	CI Prodeco Productos de Colombia	2.00
Completed	Falconbridge	1.71

Source: Dealogic

Some Xstrata shareholders backed the decision. By resisting pressure for a premium, "Mick's sticking to his valuation principles, which is good," said Ivor Pether, a fund manager at Royal London Asset Management, which has a stake in Anglo-Swiss Xstrata.

But the decision marks the third time in a row that Mr. Davis's deal-making ambitions have been thwarted, following aborted attempts last year to sell the company to Vale and, a few months later, to buy platinum miner **Lonmin** PLC. The retreat raises questions about the future of a company whose shareholders have been rewarded richly by Mr. Davis's deal-making prowess, but which has been hurt by a tightening of credit markets and a slowdown in merger activity in the mining sector.

"His group strategy is predicated on a roll-up of assets, which requires funding continually, and I think that model is going to be difficult," said Mervyn Douglas, a portfolio manager at Aviva Investors, a large Anglo shareholder that also has a big passive stake in Xstrata. "It's like any purely acquisition-driven model in any sector: What do you do when access to funding is difficult because the cost is so much higher?"

Mr. Davis, a South African famed for his buccaneering style, was a leading proponent of the idea of a commodities "supercycle," an extended bull run that would go on for years, driven by China's voracious appetite for raw materials to fuel its industrial ambitions.

But since the recession, mergers and acquisitions in the sector have gotten tougher. Bank debt is in short supply, and the supply of mid-size, single-commodity assets that were picked off by larger rivals during the boom years is thinner. Emblematic of the new environment was the failure of BHP Billiton's bid for Rio Tinto last year.

U.K. investors had come to trust Mr. Davis's judgment and supported him as he expanded Xstrata from a minnow with a market value of $500 million to a $90 billion mining supermajor. But by last year his drive for growth had left Xstrata with a $16.3 billion mountain of debt. That was sustainable while metals prices—and Xstrata's share price—stayed high.

Xstrata Chief Executive Mick Davis left the door open for a bid down the road. But Anglo said the idea of a 50-50 merger was now 'dead and buried.'

But as the recession set in, commodity prices fell by as much as 50% from their peaks. Ultimately, the financial crisis forced Xstrata to abandon its plan to buy Lonmin, a platinum miner, though it still holds a 25% stake.

Mr. Davis approached Anglo's board on June 17, asking to discuss his proposal for a no-premium merger of equals. Anglo, long a mining icon with deep roots in the British and South African establishments, was badly underperforming its rivals. There were rumblings of discontent among shareholders disappointed by its American chief executive, Cynthia Carroll, and her decision in February to cut Anglo's dividend.

Anglo's board rejected the approach and refused to engage with Mr. Davis. Some Anglo shareholders expressed interest in a merger but wanted Xstrata to sweeten its offer.

Mr. Davis refused.

Sir John, Anglo's new chairman, in August gave Ms. Carroll his backing and dismissed Xstrata's approach as a "distraction." He persuaded Anglo shareholders to give management time to turn around the company and deliver on a $2 billion cost-saving program.

Analysts said with Xstrata out of the picture—for now—all eyes are on Anglo's chairman. "The pressure is now on Sir John Parker to deliver the promised changes at the company," wrote Michael Rawlinson, a mining analyst at Liberum Capital. He said the immediate challenges the company faces are refinancing its platinum and diamond divisions, resolving permitting issues at its big Brazilian iron-ore development, Minas Rio, and fulfilling its promises of cost savings.

Sir John said he was confident Anglo's share price would soon rebound. "Gradually, the significant value in our tier-one assets will come into our share price," he said in the interview. "It's very clear value that we can deliver."

Xstrata still feels it has won the broader argument for a merger. "There was a general acceptance [among Anglo shareholders] that the size and diversity of the merged company, and the $1 billion in synergies, were attractive," said Trevor Reid, Xstrata's chief financial officer. "The logic of the transaction survives this morning's announcement."

Some analysts expect Mr. Davis to come back for a second attempt in six months, as Xstrata is allowed to do under the Takeover Panel's rules. "If Anglo slips up and gives Mick an opportunity, he'll be keen to try again," said Mr. Pether of Royal London Asset Management.

For some observers, Xstrata's decision shows that the age of the mining megamergers might be over. "All those deals and attempted deals were just a function of the bull market, and boards across the globe got carried away with the strength in metals prices and economic growth," said Aviva's Mr. Douglas. "Huge mistakes were made, just like at the end of the tech bubble."

Anglo's Sir John: 'a lot of steel'

By Dana Cimilluca

Xstrata PLC Chief Executive Mick Davis, legendary for outflanking rivals in takeover battles, may have met his match in Sir John Parker.

Sir John, 67 years old, is the chairman of Anglo American PLC, which on Thursday succeeded in fending off an offer from Mr. Davis to merge the two mining companies.

Sir John is a widely respected corporate chieftain in London who has served as chairman of a number of blue-chip U.K. companies, including National Grid PLC. He started his job at Anglo in August, about a month after Xstrata's approach to the company was leaked.

Anglo shareholders had shown little enthusiasm for the idea of a 50-50 merger, but they were also angry at Anglo's management, particularly its decision to slash the dividend earlier in the year. Sir John calmed nerves and ultimately won shareholders' backing for Anglo's strategy of staying independent.

"I'm always honest and open with shareholders," Sir John says. "They've known me long enough and I've delivered enough value to them over the years."

'I'm always honest and open with shareholders,' says Sir John Parker.

Sir John was born in Northern Ireland. He studied naval architecture and mechanical engineering in Belfast before starting work as a ship designer.

He later built his reputation in part through successful takeover deals at other companies, such as RMC Group. When it was sold to Cemex in 2005, shareholders of the concrete and quarrying company got more than twice what the stock was worth at the start of his tenure two and a half years earlier.

The battle with Mr. Davis may only be in the first round, with many analysts expecting Xstrata to come back with another offer.

But Sir John, who describes himself as "a reasonably quiet Ulsterman with a lot of steel" in his back, could be expected to force Mr. Davis to pay up before agreeing to a combination. "I'll always do what's right by shareholders, but no one gets anything cheap from me," he says.

Carrefour to exit Russia amid 2.9% sales decline

By Mimosa Spencer

PARIS—French retail giant **Carrefour** SA Thursday said it is exiting Russia shortly after having entered the market, as it posted a 2.9% drop in third-quarter sales.

Carrefour's change in strategy on Russia, only a month after it opened its second hypermarket in the country, comes on the heels of a series of news reports that the company is under pressure from key shareholders, U.S. private-equity firm **Colony Capital** LLC and French investor Bernard Arnault, to quickly sell off assets in emerging markets. The company last week moved to dispel the reports, issuing a denial.

Carrefour Chief Financial Officer Pierre Bouchut said in a conference call on the sales figures that the company has no plans to exit any other markets, but that it is "permanently reassessing the situation of all business units" to ensure that they are able to "secure a profitable leadership position over time."

Carrefour will likely incur a small cash cost in exiting the Russian, Mr. Bouchut said.

He affirmed Carrefour's interest in keeping its presence in Belgium, where Chief Executive Lars Olofsson said it needed a new strategy.

Third-quarter sales were €24.02 billion (€35.87 billion), down from €24.72 billion a year earlier, short of analyst estimates of €24.29 billion in a Dow Jones Newswires poll.

WORKING TO FILL YEARS AND YEARS

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CORPORATE NEWS

Nokia slumps to net loss

Charges hit results, but mobile-phone maker raises outlook

BY GUSTAV SANDSTROM

Nokia Corp. reported a worse-than-expected third-quarter net loss because of charges related to joint venture Nokia Siemens Networks, even as it raised its outlook for mobile-phone-industry volumes in 2009.

The world's largest mobile-phone maker took goodwill impairment charges of €908 million ($1.35 billion) on Nokia Siemens Networks, its network-equipment joint venture with **Siemens** AG of Germany, as third-quarter sales at the unit fell 21% year-to-year to €2.8 billion.

That weighed down the company's results to a net loss of €559 million, or 15 European cents a share, for the three months to Sept. 30, compared with a net profit of €1.09 billion a year earlier and below analysts' expectations for a €347 million net profit. Sales fell 20% to €9.81 billion from €12.24 billion.

Nokia shares were down 11% in late-afternoon trading in Helsinki.

Siemens faces a write-down of as much as €1.6 billion related to Nokia Siemens Networks, a person familiar with the matter said Thursday.

Nokia said it now expects the mobile infrastructure market to fall only 5% in 2009 from 2008, down from previous expectations for a 10% drop, but it said NSN's market share is expected to fall by more than previously expected.

Nokia said the equipment vendor, which has lost market share in previous quarters, continues to experience declines in some of its product businesses, offsetting a strong performance in its services business.

"We continue to support Nokia Siemens Networks' actions to improve its performance," said Nokia Chief Executive Officer Olli-Pekka Kallasvuo.

Nokia said its smart-phones market share declined to 35% in the third quarter from 41% the previous quarter.

The company expects the new high-end devices it plans to launch ahead of the holiday season to help boost margins in the fourth quarter, Chief Financial Officer Rick Simonson said in an interview. By selling more touch-screen and full-keyboard devices than in the third quarter, Nokia can boost its gross margin, operating profit and cash flow, which is more important than gaining market share, Mr. Simonson said.

Nokia also said it now expects mobile-device-industry volumes to fall 7% in 2009 from 2008, an improvement from the company's previous forecast of a 10% decline.

"The demand for mobile devices improved in many markets" during the third quarter, Mr. Kallasvuo said.

Nokia, based in Espoo, Finland, said it expects its share of the mobile-devices market in the fourth quarter to remain roughly flat from the third quarter's 38%. Weak consumer spending in the wake of the economic downturn has hit Nokia along with its competitors, but Nokia maintained reasonably healthy sales volumes because of its portfolio of high-end phones and less-expensive devices.

Hopes for a resurgence in the mobile-phone market have increased after positive demand forecasts earlier this week from chip maker Intel Corp. and ASML Holding NV, which makes the machines that produce chips.

Still, Nokia's handsets face increasing competition from smart phones such as Apple Inc.'s iPhone 3GS and Samsung Electronics Ltd.'s Jet, and analysts have been concerned that the average selling price of Nokia's devices will suffer unless it gains ground at the high end of the market.

Last month, Nokia took some steps to reinforce its high-end portfolio as it announced plans to offer new devices including the N900 smart phone, which runs on the applications-friendly Linux operating system, and a trimmed-down version of its old N97 flagship phone.

In the third quarter, the average selling price of Nokia's phones fell to €62 from €72 a year earlier, while sales volumes fell 8% to 109 million units. The operating margin in Nokia's core devices and services business fell to 11.4% from 18.6% a year earlier, beating expectations for 10.3%.

Reuters

Nokia sales fell 20% in the third quarter. Above, an outdoor Nokia ad in London.

Remy sales beat forecasts with slight first-half fall

PARIS -- Remy Cointreau SA Thursday posted better-than-expected fiscal first-half revenue and reassured investors that it isn't in breach of banking covenants.

Revenue in the six months ended Sept. 30 fell 0.7% from a year earlier to €363 million ($541.6 million). Favorable currency fluctuations curbed the drop: The company recorded a 6.6% decline in sales at constant exchange rates. The company didn't report net-profit figures. The revenue was better than analysts expected, and Remy Cointreau shares closed up 8.5%. Remy Cointreau said it saw an improvement in second-quarter sales of cognac and spirits.

CORPORATE NEWS

H&M sales feel pressure

Autumn line hurt by warm weather, rivals' low prices

By Cecilie Rohwedder

Worse-than-expected September sales at Swedish fashion retailer **Hennes & Mauritz** AB, which operates the cheap-and-chic H&M chain, shows increasing competitive pressure from two sides: even cheaper discount stores and mid-market retailers dropping prices.

H&M, the world's third-largest clothing retailer by sales after Gap Inc. and Inditex SA of Spain, said sales in stores open for at least a year fell 8% in September from the same month last year. Analysts had forecast a decline of only 7%. As a reason for the poor performance, the company cited "the recession and unusually warm weather in September in most of H&M's markets," which limited shoppers' interest in the fake fur vests and knee-high boots of H&M's fall collection.

"Sales were satisfactory where the weather conditions were more normal," Stockholm-based H&M said Thursday.

"Fast fashion" stores such as H&M, which sell trendy togs at low prices, generally thrive in times of economic hardship because they gain customers from more expensive stores. But over the past year, many midprice and upscale retailers cut their prices to reduce excess inventories, creating additional competition for H&M and other budget retailers.

"Some high-priced fashion stores dropped prices by half," said Anders Wiklund, an analyst with Evli Bank in Stockholm. "If I can buy a Ralph Lauren shirt for not much more than an H&M shirt, wouldn't I spend a little bit extra to get that better quality?"

At the same time, fast-fashion chains face pressure from even cheaper rivals. In Germany, H&M's biggest market, which makes up about a quarter of its sales, clothing discounter Kik, a unit of the closely held Tengelmann Group, is posting strong sales growth. In the U.K., shoppers increasingly buy clothes in supermarkets. The British unit of Wal-Mart Stores Inc., Asda, recently became the U.K.'s biggest clothing retailer.

"It's a bit of a shock," said Greg Hodge, Research Director at London-based consultancy Planet Retail, about H&M's September sales figures. "They are hit from both sides—on one end from mass market retailers and on the other from midpriced retailers entering H&M's consumer sphere and taking consumers off them."

Total sales, including newly opened stores, rose 1% at H&M, missing the expectations of analysts, who had on average forecast a 4.3% increase.

Including the latest figures, H&M's comparable sales declined in 13 of the 14 past months, with April 2009 being the only exception. In August, H&M also missed sales forecasts because H&M had been, by its own admission, "overly cautious" in buying summer clothes. Those clothes quickly sold out, leaving the retailer without enough markdown items—and attractive hot weather outfits. The problem may have also affected sales in the unseasonably warm September.

With temperatures falling in H&M's main markets, analysts say, shoppers are likely to start buying winter clothes, propping up H&M's sales figures in the process. The company is hoping to fuel autumn sales with the help of two designer brands, Jimmy Choo and Sonia Rykiel, which will both design special lines for H&M.

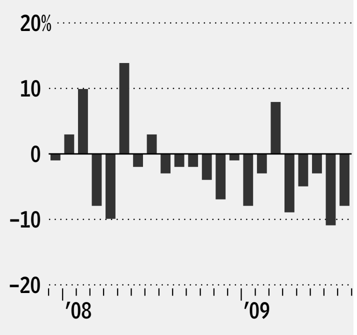
—Gustav Sandstrom contributed to this article.

Paul O'Driscoll for the WSJ

Shoppers outside an H&M in Brussels, Belgium, last month.

Fall fashion

Year-to-year percentage change in same-store sales.



Source: the company

AB InBev sells Central Europe unit

By Matthew Dalton

BRUSSELS—**Anheuser-Busch InBev** will sell its operations in Central Europe to private-equity firm CVC Capital Partners for $1.62 billion in cash, plus bonds and minority shares that bring the value of the deal to $2.23 billion.

The deal puts Anheuser-Busch InBev, the world's largest brewer, solidly above a target it set last year of selling at least $7 billion in assets after buying U.S. brewer Anheuser-Busch for $52 billion. AB InBev executives made the pledge while taking on $45 billion in debt to buy Anheuser-Busch.

The sale comes on the heels of AB InBev's agreement to sell its theme-parks business to Blackstone Group for up to $2.7 billion, including a cash payment of $2.3 billion. The company recently sold its unit in South Korea for $1.8 billion and beverage-can manufacturing plants in the U.S. for $577 million.

The operations include regional beer brands and a few better-known ones, such as Staropramen. AB InBev stands to make up to an additional $800 million on CVC's return on its initial investment. CVC will rename the operations StarBev.

The operations being sold are in Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Romania, Serbia and Slovakia. The region constitutes less than 3% of the brewer's total earnings before interest, taxes, depreciation and amortization, analysts say.

The markets in those countries are small and rely on a number of different breweries. That appears to conflict with brewer's focus on big markets where it can operate large distribution networks and breweries.

Separately, the world's second-largest brewer, **SABMiller** PLC, said its performance in the first half to Sept. 30 met expectations despite a 1% drop in global lager volumes, as sales in Latin America, South Africa and Europe continued to struggle.

AB InBev will have a right of first offer to buy back the business if CVC wants to sell it in the future. CVC will also brew and/or distribute Stella Artois, Beck's, Löwenbräu, Hoegaarden, Spaten and Leffe—AB InBev's main brands in Europe—in the countries where AB InBev is selling those assets, the brewer said.

—Michael Carolan contributed to this article.

GM nears Opel deal but hurdles remain

By Vanessa Fuhrmans

General Motors Co. is close to signing a deal to sell its ailing Opel division to a group led by **Magna International** Inc., but the sale still faces a number of daunting political and regulatory hurdles before it can take effect.

People close to the negotiations said Magna and its partner, Russian bank OAO **Sberbank**, could sign a purchase contract with the U.S. auto maker as early as Friday, more than a month after reaching a preliminary agreement to buy a 55% stake in Opel.

The signing, which the companies had expected to wrap up Thursday, has been delayed several times in recent weeks as Magna scrambled to clinch labor deals and placate government officials in the U.K., Spain and other countries where Opel jobs are at risk.

One stumbling block has been reaching an agreement to give employees of Opel and GM's British unit, Vauxhall, a 10% stake in the European car maker. In exchange, labor leaders have agreed to annual cost concessions of roughly €265 million ($395 million).

Though Magna has reached provisional agreements with unions in Germany, the U.K., Poland, Austria and Belgium, it is still haggling with Spanish labor representatives, who have urged the Spanish government not to support the deal if there are deep job cuts at Opel's Zaragoza plant in northeast Spain.

Magna might be able to sign the purchase contract without the Spanish on board, analysts say. But the support of Spain and other countries will be important in helping overcome a more significant hurdle to closing the deal: European Union approval for €4.5 billion in German government loans needed to prop up the sale and keep Opel afloat. That could become tougher, as government officials from Spain and elsewhere press EU officials to scrutinize whether Germany is engaging in protectionism.

"This deal may be a little further down the line, but it still seems to be far away from universal agreement," said Tim Urquhart, an automotive-industry analyst at IHS Global Insight in London. Magna has said it hopes to close the sale by the end of November.

EU competition chief Neelie Kroes has already warned that she will oppose a deal that appears to tie state aid to preserving one country's jobs at the expense of another's.

Jonathan Todd, spokesman for the EU competition authority, said it has received reams of information on the aid package from the German government but is still waiting on financial details that have yet to be worked out, such as how the loan will be syndicated.

"We can't verify that it's in accord with the approved scheme before we get that information," he said.

Germany remains in talks with other European governments over sharing in the €4.5 billion loan package. Though the U.K., Poland and other governments are expected to contribute, a German economics ministry spokesman said it wouldn't be a "deal breaker" if Germany had to shoulder the loan by itself.

In total, Magna plans to cut 10,500 jobs from Opel's 50,000-employee work force. Roughly 4,000 of them will come from Germany, though so far it has pledged to keep all four German plants open.

Siemens agrees to acquire Israeli solar-energy firm

By Vanessa Fuhrmans And Archibald Preuschat

Siemens AG, long one of the world leaders in equipment to generate electricity from coal or nuclear fuel, is now making a bet on the burgeoning market for solar thermal energy.

On Thursday, the German industrial conglomerate expanded its foothold in the fast-growing renewable-energy field, agreeing to buy Israel's **Solel Solar Systems** Ltd. for about $418 million. The purchase comes after Siemens bought smaller stakes in recent months in Israeli solar-power company Arava Power Co. and Italy's Archimede Solar Energy SpA.

Peter Loescher

Siemens Chief Executive Peter Loescher said purchasing Solel gives it the solar-receiver technology it needs to become a dominant player in solar thermal energy. While Siemens is a leading producer of steam turbines for solar thermal power plants, Solel is one of the biggest makers of solar receivers, a key component in plants that use mirrors to collect sunlight to generate steam that powers electric turbines. The Israeli company produced nearly $90 million in sales in the first half of this year.

In particular, Siemens hopes to use Solel's technology to help steer the development of Desertec, a $555 billion project to build a large-scale solar thermal system that would generate power in Africa's Sahara Desert and send it through cables under the Mediterranean to European homes.

Solar power remains a small renewable-energy source, compared with hydropower or wind power, and is still more expensive to produce than conventional power.

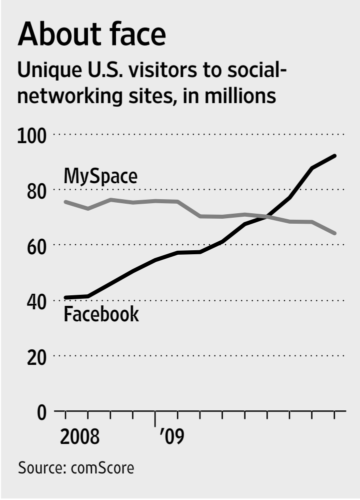
Unlike photovoltaic solar panels—commonly seen on rooftops,—that use sunlight to produce electricity, solar thermal power relies on the sun's heat to generate steam.

Many experts believe the thermal technology promises to generate energy as cost-efficiently as fossil-fuel-based power within several years.

Mr. Loescher said he expected the market for solar thermal power to grow by nearly 20% a year to €23 billion ($34.3 billion) by 2020.

MySpace changes tack

Social-networking site to focus on music, videos and games



Jay-Z performs in September as part of a MySpace program that puts on free concerts for MySpace users.

BY EMILY STEEL

A NEW EXECUTIVE team at MySpace is trying to reignite the brand by focusing on areas like music, videos and games as users abandon the social-networking site for cooler destinations.

MySpace, which is holding a conference this week for its global ad-sales staff, needs to lure visitors back and kick-start advertising revenue, ad executives say. Research firm eMarketer estimates U.S. ad spending on the site will be $495 million this year, down 15% from $585 million in 2008.

ADVERTISING

The basic challenge is similar to the one facing big Internet companies, such as **Time Warner**'s AOL and **Yahoo**, that are under pressure to reinvent themselves for fickle audiences.

"I've been in the Internet business for 15 years. There's always the new, new thing," says Jason Hirschhorn, the company's chief product officer. "Everybody plateaus at some point."

In a strategy shift, MySpace is striving to become an online hangout for people to connect with friends over entertainment content, whether it's the new Pearl Jam album, blogs from celebrities like British pop singer Lily Allen or a karaoke contest for the Fox musical comedy "Glee."

MySpace says ramping up its technology initiatives to create new products that let users share such content with friends is an essential part of its strategy.

MySpace's online-hangout push marks an effort to focus its offerings and differentiate itself from rival Facebook. As an entertainment site, MySpace would compete for ad dollars with a broader group of Web sites, including online video sites like **Google**'s YouTube and Hulu, a joint venture of **General Electric**'s NBC Universal, **News Corp.** and **Walt Disney**. It also would compete against music sites like Pandora and portals like AOL, which is also trying to reinvent itself with a push to create content.

"This is not an all-things-for-everybody portal," Mr. Hirschhorn says. "This is a social entertainment experience."

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

To take its new pitch to Madison Avenue, MySpace has hired former MTV executive Nada Stirratt as chief revenue officer, responsible for overseeing global ad sales. Ms. Stirratt, 44 years old, most recently worked as executive vice president of digital ad sales at **Viacom**'s MTV Networks.

Nada Stirratt.

MySpace CEO Owen Van Natta, who was hired nearly six months ago to revive the site and has since turned over almost the entire executive suite, introduced Ms. Stirratt to staff this week at the sales conference, during which executives outlined the company's strategy.

Although MySpace drew an audience of 64.2 million unique U.S. visitors in August, that figure is down 15% from the same period a year earlier, according to comScore. Facebook drew 92.2 million unique U.S. visitors in August, more than double the number a year earlier.

Like her rivals, Ms. Stirratt will have to address broader, looming questions about the viability of social-networking sites as a place for advertising.

Marketing via social-networking sites isn't simply about buying ads on a page. It requires that marketers interact with users on the sites, says Greg Smith, chief operating officer at Neo@Ogilvy, a digital ad agency owned by **WPP**. "It requires a whole new way of thinking," he says.

MySpace declined to make Ms. Stirratt available to comment.

Ms. Stirratt, who earlier in her career directed sales at Internet-ad company Advertising.com, has a reputation on Madison Avenue as a savvy businesswoman who understands the technical side of the Internet business but also knows how to build creative ad sponsorships that attract dollars from big brand advertisers.

So far, most of the developments under the new MySpace management team have focused on cleaning up the underlying technology of the site and making it easier for visitors to use. Users previously couldn't upload a photo to blog posts, for instance.

MySpace also is reconfiguring search technologies for the site and has removed features that didn't fit into its new strategy, including weather, jobs and classifieds. In the past few months, it has released features including a fresh homepage for its music site and a feature that connects to Twitter, the microblog site.

Further developments are likely to center on building technologies that let users more easily share entertainment.

Ad executives say that MySpace Music has registered some success, drawing 24.8 million unique U.S. visitors in September, up 24% from a year earlier, but they say they have yet to see major changes across the board for MySpace. MySpace lost its way over the years as it got caught up in a race with Facebook, launched disparate initiatives and let technology and new-product developments lag, ad executives say.

Those missteps cost MySpace much of its buzz on Madison Avenue, says Shiv Singh, vice president and global social-media head at Razorfish, the digital-ad agency owned by **Publicis Groupe**.

"Marketers want to align their brands with the newest and the greatest. Currently, that is Facebook and Twitter," Mr. Singh says.

Tamiflu sales boost Roche's '09 forecast

BY JULIA MENGEWEIN

ZURICH—Pharmaceutical company Roche Holding AG on Thursday raised its 2009 sales forecast for the second time this year after reporting a better-than-expected 9.7% rise in third-quarter sales, mainly driven by antiviral drug Tamiflu in the wake of the H1N1 swine-flu pandemic.

The world's largest maker of cancer drugs said it now expects at least high-single-digit full-year sales growth in percentage terms at its pharmaceuticals division. It revised upward its forecast for total full-year sales to grow "well ahead" of the market, from "ahead" of the market.

Tamiflu sales this year are now expected to reach 2.7 billion Swiss francs ($2.66 billion), up from the previous target of 2 billion francs, which the company hit in the first nine months of the year.

Roche confirmed it expects core earnings per share to rise at a double-digit pace in 2009 and in 2010.

Sales for the three months ended Sept. 30 rose to 12.39 billion francs, beating analyst expectations of 12.18 billion francs. The company doesn't disclose quarterly net-profit figures.

"Group sales were better than expected, especially because of Tamiflu," said Helvea pharmaceutical analyst Karl-Heinz Koch.

Still, analysts said the projected extra sales of Tamiflu are only a short-term benefit and that overall sales growth is likely to slow in coming years because of the high market penetration of Roche's cancer drugs.

"Especially in the U.S., sales grew slower than the market, with a 2% increase in local currencies, excluding Tamiflu," said Birgit Kuhlhoff of Rahn & Bodmer. Stripping out Tamiflu sales, she expects 2010 sales growth at Roche of around 5%.

Sales at the company's flagship pharmaceuticals division rose 11% in the third quarter to 9.93 billion francs. Stripping out Tamiflu sales and calculating in the currencies where sales were generated, overall sales in the period increased 5%.

Sales of Avastin—used to treat advanced colorectal, breast, lung and kidney cancer—rose to 1.59 billion francs in the third quarter, making it the company's best-selling drug in the quarter, though analysts had called for revenue of 1.65 billion francs.

Cancer drug Avastin was the company's biggest seller in the latest quarter.

Rituxan, sold in Europe as MabThera, a treatment for cancer and rheumatoid arthritis, reached sales of 1.51 billion francs, also below estimates of 1.6 billion francs.

The Swiss company bought out U.S. biotech partner Genentech earlier this year to reinforce its leading position in cancer medicines and expects annual savings of 1 billion francs from the deal. In July, Roche raised its earnings forecast, reflecting a swift integration of the company.

By 2015, Roche expects to return to a positive net cash position after using free cash flow to pay down debt taken on to fund the $47 billion Genentech takeover.

Lockheed names Kubasik to new post of president

BY AUGUST COLE

Lockheed Martin Corp. became the latest major defense contractor to make changes in its executive suite, reinstating the president and chief operating officer position and tapping executive Christopher Kubasik for the role.

Mr. Kubasik, 48 years old, will have a frontline corporate position overseeing operations of the Defense Department's largest contractor. This comes as Defense Secretary Robert Gates is shaking up weapons contracting and targeting many high-profile contracts for curtailment, including Lockheed's F-22 Raptor fighter, or for outright cancellation. Congress is also ratcheting up its grip on military hardware spending, focusing on cost overruns and delays.

Mr. Kubasik had been chief financial officer from 2001 to 2007, and then was appointed to run the company's sprawling electronic-systems business. The promotion also puts him in a prime jumping off point to potentially succeed Lockheed Chairman and Chief Executive Officer Robert Stevens. In turn, it will let Mr. Stevens, who is in effect the company's most senior representative with the U.S. government but also with its foreign allies, to focus on big-picture issues.

Mr. Stevens, 58, said in an interview Thursday morning that the move was a result of "simply listening to our customers" in government who "are all asking that we get better levels of execution." That should also benefit investors, he said.

In general, defense stocks have lagged behind the broader U.S. equity market rebound and many investors have been getting cold feet since the Obama administration took office because of concerns about cutbacks to military spending.

Though many companies have done away with the top operations position, Mr. Stevens said he felt it was time to bring it back. The move is effective Jan. 1 and a successor still must be named to fill Mr. Kubasik's post.

The company reports third-quarter results next week. Mr. Stevens said the company's long-term outlook is strong and support for the F-35 Joint Strike Fighter and other programs underscore the company's growth potential.

Lockheed's peers have made executive changes. Boeing Co. named a top defense executive, and Northrop Grumman Corp. announced chief executive succession plans.