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## What's News

Prosecutors opened their case against Radovan Karadzic at a tribunal in The Hague, despite a boycott by the defendant. The prosecution hinges on the ability to show Karadzic intended to commit genocide and had direct control over Serb forces that committed atrocities. **Page 3**

■ **BP posted a drop** in third-quarter earnings on the back of lower oil prices but said it is cutting costs faster than expected. **Pages 7, 35**

■ **Blair was criticized** by Juncker as Luxembourg's premier nominated himself for the Lisbon Treaty-mandated job of EU president. **Page 2**

■ **Russia postponed** the sale of up to \$1.7 billion in gold on the international market after its plan was leaked to local news media. **Page 3**

■ **Most U.S. stocks fell** after a Treasury auction showed there is still a healthy appetite for safer investments. Europe shares rose. **Page 22**

■ **U.S. home prices increased** for the fourth consecutive month, but consumer confidence faded. **Page 12**

■ **Galleon's liquidation** of its hedge funds' portfolios is "more than 90% complete," according to a person familiar with the matter. **Page 23**

■ **Iranian media said** Tehran would accept the framework of last week's nuclear pact, but would also request "important changes." **Page 5**

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■ **Barclays Capital named** ex-Citigroup executive Tom King as co-head of its global corporate-finance division. **Page 21**

■ **Fininvest said** a Milan appeals court granted it a provisional suspension of a court order to pay \$1.11 billion in damages to rival CIR. **Page 10**

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Breaking news at europe.WSJ.com

# U.S. pay czar increased salaries

Amid cuts in total compensation at bailed-out firms, move reflects complexity of regulation

By DAVID ENRICH AND DEBORAH SOLOMON

U.S. Treasury Department pay czar Kenneth Feinberg last week announced sharp cuts in total compensation at the finance and auto companies under his control.

But while he cut total compensation by half, he substantially increased one important element—regular salaries, according to a Wall

Street Journal analysis. The move reflects the complexity of regulating something that mixes politics and economics.

Mr. Feinberg oversees seven firms that accepted bailout packages: American International Group Inc., Citigroup Inc., Bank of America Corp., General Motors Corp., GMAC Financial Services, Chrysler Group and Chrysler Financial. The Treasury De-

partment assigned him the job of tying more compensation at the companies to long-term performance and cutting pay deemed "excessive."

Government officials say Mr. Feinberg met that objective. All 136 employees and executives working at the seven companies under his review will earn much less this year than in 2008, even after accounting for the rise in regular salaries, also known as

base salaries.

But when the banks complained, Mr. Feinberg listened. He adjusted base salaries for the bulk of those employees, in some cases boosting them by hundreds of thousands of dollars, according to an analysis of government data by the Journal.

On average, base salaries climbed to \$437,896 a year as a result of Mr. Feinberg's review, compared with

\$383,409 previously, a 14% increase, according to a Journal analysis of Treasury data. Of the 136 employees under Mr. Feinberg's review, 94 saw their base salaries increase.

At Citigroup, which is 34%-owned by the U.S., government, Mr. Feinberg agreed to more than double salaries for 13 of the 21 employees, according to the Journal's analysis.

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## India's head of state reviews British troops



TALL ORDER: Britain's Prince Philip accompanies President Pratibha Devi Singh Patil on Tuesday as she inspects the Irish Guards at Windsor Castle, where she will stay as a guest of Queen Elizabeth II during a state visit.

# U.S. mood sours on economy

By JONATHAN WEISMAN

Americans are growing increasingly pessimistic about the economy after a mild upswing in attitudes in September. But Republicans haven't been able to profit politically from the economic gloom, according to a new Wall Street Journal/NBC News poll.

The survey found a country in a decidedly negative mood, nearly a year after the election of President Barack Obama. For the first time in the Obama presidency, a majority of Americans sees the country on the wrong track.

Fifty-eight percent of those polled say the economic slide still has a ways to go, up from 52% in September and back to the level of pessimism in July. Only 29% said the economy had "pretty much hit bottom," down from

35% last month.

But a dark national view of how everybody in Washington is conducting the public's business appears to be preventing Republicans from benefiting from concerns about the direction of the country or the Democratic-led government's handling of the economy, as the minority party often does.

In fact, disapproval of the Republican party actually has ticked upward, along with the public's general pessimism. Asked which political party should control Congress after next year's midterm elections, Democrats now hold a clear edge over the GOP, 46% to 38%, a month after the Republicans were nearly as popular. In September, the Democratic edge was down to 43% to 40%.

"There was a bounce-back

surge for Republicans, and that's stalled," said Bill McInturff, a Republican pollster who conducted the Wall Street Journal/NBC News poll with Democratic pollster Peter Hart.

"The mood in America may be blue, but attitudes toward Washington are just jet black," Mr. Hart said.

The survey of 1,009 Americans was conducted from Oct. 22-25.

Overall, Americans are sending Mr. Obama mixed signals on his top policy initiatives.

His health-care plan continues to face a plurality of opposition—42% say it is a bad idea, against 38% who say it is a good idea. But a key flash point in the health-care debate is showing steadily increasing support.

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## Inside



### Help unwanted

Political uncertainty puts a freeze on small businesses  
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## Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9882.17	+0.14
Nasdaq	2116.09	-1.20
DJ Stoxx 600	242.27	+0.18
FTSE 100	5200.97	+0.18
DAX	5635.02	-0.13
CAC 40	3743.95	-0.01
Euro	\$1.4821	-0.80
Nymex crude	\$79.55	+1.11

# EU is set to clear revamp of bank

By ALISTAIR MACDONALD AND STEPHEN FIDLER

The European Commission is expected Wednesday to approve a restructuring plan of mortgage lender Northern Rock without imposing a raft of extra conditions, according to people familiar with the matter.

It would be the first of several moves the commission is set to make in coming weeks that could result in significant divestments by other U.K. banks.

The restructuring plan for Northern Rock calls for the lender, which the U.K. government nationalized in February 2008, to be split into a so-called "good bank" and a "bad bank." The good bank would take over the bank's deposits, good loans and ongoing mortgage business, and would be sold. The bad bank would hold mostly soured loans and be wound down over time.

In coming weeks, the commission is expected to make further rulings that would call for divestitures by two other banks that have received U.K. government support, Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC. In the case of Lloyds, the commission likely will look hard at the bank's mortgage book, while one of the focuses at RBS will likely be its small- and medium-sized enterprises.

Coupled with Northern Rock restructuring, people familiar with the matter say the government is anticipating that the U.K. banking market, now one of the most

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LEADING THE NEWS

TPG sale marks end of its role in Debenham's

BY MARIETTA CAUCHI AND DANA CIMILLUCA

Private-equity firm TPG has sold the rest of its stake in Debenhams PLC, the U.K. department-store chain, marking its exit from a company it helped take private in 2003, a person familiar with the matter said.

TPG sold the stake to an institutional investor, not another retailer, the person said. It is unclear which institution bought the stake. TPG got 81.6 pence (\$1.33) per share for its 120 million shares in the sale—about where the stock was trading when the deal was executed Tuesday.

TPG bought Debenhams along with CVC Capital Partners and Merrill Lynch's private-equity arm for €1.77 billion (\$2.89 billion) six years ago, winning a takeover battle as the private-equity boom was gathering steam. After making their money back two years later, the buyout groups took Debenhams public in 2006, retaining stakes in the company.

Though Debenhams has been buffeted by the decline in the U.K. economy, the retailer last week posted a 23% rise in net profit to £95 million for the year ended Aug. 29. Its shares have more than tripled this year.

TPG clearly made a profit on its investment in Debenhams, though it isn't clear how much.

Merrill Lynch sold its stake in Debenhams last year. TPG reduced its stake to below 10% in June. At Tuesday's closing share price, TPG's 9.3% stake would have been worth nearly £100 million.

Debenhams shares rose 3.4% to 84.35 pence as word of the sale spread, though it hadn't been announced. With CVC selling most of its stake earlier and owning less than 3% now, investors may have been encouraged that sales by the private-equity firms are ending.

—Kathy Sandler contributed to this article.

Juncker criticizes Blair on EU post

Luxembourg premier also shows interest in new presidency

BY JOHN W. MILLER

BRUSSELS—Former British Prime Minister Tony Blair took heat from a rival for the post of the European Union's first president, as a Czech constitutional court further delayed implementation of the treaty that would bring the position into existence.

The criticism of Mr. Blair came from Luxembourg Prime Minister Jean-Claude Juncker—as he nominated himself for the position.

Speaking to French newspaper Le Monde, Mr. Juncker, the leader of a statelet of 490,000 people, said he wouldn't support Mr. Blair because he didn't want a president who "pretended to represent [the EU] outside without achieving internal cohesion."

If asked to serve as president himself, Mr. Juncker said, "I would have no reason to refuse, as long as there were ambitious ideas for the job."

Mr. Blair hasn't formally declared that he wants the position, though people close to him have made clear that he would only be interested if the job required a statesman, not a bureaucrat. A spokesman for Mr. Blair said it is too early to campaign for a position that doesn't yet exist.

EU leaders still don't know if or when the Lisbon Treaty—which creates the position of president and foreign minister and also streamlines decision-making—will become law.

The leaders, who are to meet Thursday and Friday in Brussels, are waiting for Czech President Václav Klaus to sign the document. He has refused, saying it impinges on national sovereignty. His political



The Czech Republic's top court, the Constitutional Court, opens a hearing Wednesday in Brno on the Lisbon Treaty.

allies have filed a court petition to block the treaty. The court said Tuesday that it will likely rule on Nov. 3.

Mr. Blair and Mr. Juncker epitomize two opposing views of what kind of politician is required at the helm of the EU. On one hand, the EU is seen as needing a global political celebrity, and on the other, a master of the EU's internal political machinery.

In a speech this week backing Mr. Blair, British Foreign Secretary David Miliband said Europe must pick a strong president "or become spectators in a G-2 world shaped by the U.S. and China."

Europe "needs someone who when he or she lands in Beijing or Washington or Moscow the traffic does need to stop, the talks do need to begin at a very, very high level," Mr. Miliband said Sunday in an interview with the BBC.

But Mr. Juncker said in the interview, published Tuesday, with Le

Monde that "Europe should be represented by someone whose main concern would be to serve it, to strive for unity around virtuous compromise, and who would not try to represent it abroad without the guarantee of internal cohesion."

Mr. Blair on Tuesday also faced further opposition at home. U.K. Conservative leader David Cameron, who opinion polls suggest is likely to be the next prime minister after a general election next year, said: "If the job has to exist, I don't think it should be an all-singing, all-dancing, all-acting president." The presidency "should just be a job of chairing the council of ministers rather than actually a new president for Europe, an article of statehood."

Until Mr. Klaus ratifies the

treaty, the discussion is hypothetical. With 26 of the 27 EU nations having agreed to the treaty, he has demanded that the Czech Republic be allowed a waiver to a human-rights charter annexed to the treaty, on grounds that it would permit ethnic Germans expelled after World War II to reclaim their homes.

Slovakia has made a similar request, while Hungary has threatened to oppose any such waivers.

The Czech court suspended deliberations until next Tuesday, when a verdict will almost be certain, said court Secretary General Tomáš Langásek, because all statements have been heard. "The court now has time to decide," he said.

—Laurence Norman in London contributed to this article.



Václav Klaus

CORRECTIONS & AMPLIFICATIONS

**Fourteen Americans** were killed Monday in two separate helicopter crashes in Afghanistan; the crash of a single helicopter in Badghis province and the collision of two helicopters in Helmand. A Leading the News article Monday incorrectly said there were three crashes. U.S. forces on Monday also reported the deaths of two service members in earlier incidents. The article incorrectly said the two deaths occurred Monday.

**Raj Rajaratnam** became chief

operating officer of **Needham & Co.** in 1991 and left the company in December 1997. In addition, the number of underwriting deals Needham did for technology companies grew nearly threefold between 1992 and 1995. An Money & Investing article Monday incorrectly said Mr. Rajaratnam became chief operating officer in 1996 and left the firm in January 1997. It also incorrectly stated that the increase in underwriting deals occurred between 1994 and 1995.

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## LEADING THE NEWS

# Prosecutors launch case against Karadzic

## Boycott by defendant adds new challenge to genocide tribunal

BY MARC CHAMPION

BRUSSELS—Prosecutors began their genocide case against Bosnian Serb wartime leader Radovan Karadzic despite his continued absence from the courtroom Tuesday, portraying him as the foul-mouthed architect and “supreme commander” of a plan to build a mono-ethnic Serbian state through terror and murder.

The prosecution’s success will depend on its ability to show that Mr. Karadzic intended to commit genocide and that he had direct control over Serb forces that carried out atrocities in the 1992-95 war in Bosnia and Herzegovina, lawyers familiar with the case say.

Lead prosecutor Alan Tieger quoted repeatedly from statements Mr. Karadzic allegedly made as the former Yugoslavia began to break up. “That people will disappear from the face of the earth,” if Bosnia’s Muslims declare the multi-ethnic republic an independent country, the prosecutor quoted Mr. Karadzic as allegedly saying.

“It will be terrible, and Europe will be told to go f— itself, not to come back until the job is finished,” Mr. Tieger quoted further.

Mr. Karadzic faces 11 counts of war crimes, including two for genocide, at the International Criminal Tribunal for the former Yugoslavia in The Hague. He boycotted the trial opening Monday, saying he needed months longer to prepare his case.

## Leak prompts Russia to delay large gold sale

BY GRIGORI GERENSTEIN AND WILLIAM MAULDIN

MOSCOW—Russia postponed a plan to sell up to \$1.7 billion in gold on the international market after word of the sale was leaked to local news media.

Precious-metals export agency Almazynulirexport said Tuesday it would delay the move, five days after the Interfax news agency reported it would sell up to 50 metric tons (1.6 million troy ounces) in London before the end of the year to cover the state budget deficit.

In an interview, the agency’s deputy chief, Sergey Gorny, declined to comment further.

On Thursday, Interfax had cited an unidentified person as saying that the state’s Gokhran precious-metals depository was planning to use Almazynulirexport to sell a large amount of gold for the first time since Soviet days.

The 50 metric tons of gold mentioned by Interfax represent about 30% of Russia’s total gold production last year, Mr. Sosnovsky said.

The bullion market appeared unaffected by the postponement of Russia’s gold sale, according to Barclays Capital analyst Suki Cooper. The analyst said prices didn’t move when news of the sale emerged because there was no certainty over how much gold would be sold.

Another wartime Bosnian Serb leader, Biljana Plavsic, was released early from the Swedish jail where she has served more than two-thirds of her 11-year sentence. Ms. Plavsic, now 79, pleaded guilty to the charge of persecution in a pre-trial settlement in 2003, under which more serious charges such as genocide were dropped. Ms. Plavsic was one of the rare defendants to plead guilty among the 161 indicted by the tribunal.

Mr. Karadzic, who is representing himself, has made it clear he intends to contest the charges, stemming from his alleged role in a war that claimed 100,000 lives and forced more than two million people from their homes, most of them Bosnian Muslims. But for a second day in succession, seats reserved for defendants and their lawyers in courtroom No. 1 were empty. Monday’s opening of the trial was adjourned after 15 min-

### Crimes of war

Bosnian Serb wartime leader Radovan Karadzic is charged with 11 counts of genocide, murder, persecution and other crimes for his alleged role in “Joint Criminal Enterprises”:

- to ethnically cleanse Bosnian Muslims and Croats and claim the territory from at least October 1991-November 1995
- to eliminate Bosnian Muslims in Srebrenica by killing the men and boys and forcibly removing women and children, from July-November 1995
- to terrorize civilians in Sarajevo by shelling them and sniping at them from April 1992 to November 1995
- to take hostage more than 200 United Nations peacekeepers so as to pressure NATO into halting attacks on Serb military installations, in 1995

Source: Source: Oct. 19, 2009 indictment of Radovan Karadzic by prosecutors at the International Criminal Tribunal for the former Yugoslavia.

utes due to Mr. Karadzic’s absence. Judge O-Gon Kwon said Tuesday that Mr. Karadzic would have to “accept that consequences must inevitably flow from that choice,” suggest-

ing the court may impose counsel if he continues to boycott the hearings.

A legal adviser to Mr. Karadzic didn’t return a call for comment Tuesday. But his legal team has said

Mr. Karadzic, in detention for more than a year, needs additional time to review a million case documents. They have also challenged the facts on which the prosecution’s case is based—such as the number of people killed at the supposed United Nations haven of Srebrenica in 1995.

The court has to move cautiously, according to Terree Bowers, a former prosecutor at the Yugoslav tribunal, who was part of the team that presented Mr. Karadzic’s warrant. Unless the record is clear that Mr. Karadzic was given ample time and resources to prepare, “there is a high risk that any trial will be reversed on appeal,” said Mr. Bowers.

Much of the case will rest on the prosecution’s ability to show that Mr. Karadzic had full “command and responsibility” for forces on the ground that carried out the war crimes he is accused of, said Mr. Bowers.

## FAST RETURNS DAY AND NIGHT

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## LEADING THE NEWS

# Ambush of French shows Afghan challenge

*Legionnaires' visit to meet village elders is followed by attack*

BY YAROSLAV TROFIMOV

RODBAR, Afghanistan—At 10 a.m. Sunday, a dozen ragged schoolboys, who had been milling around this village's school after a meeting between Western soldiers and local elders, melted away, followed by their white-capped headmaster. Then, 30 seconds after the last boy carried away the blackboard, the ambush began. From crevices in the craggy hills to the north, Afghan insurgents fired machine guns and rocket-propelled grenades at a French Foreign Legion unit that had entered Rodbar earlier in the morning.

The ensuing firefight ended only after attack helicopters and heavy mortars pummeled the mountainsides, finally repelling the rebels beyond the ridgeline.

Rodbar, a village of several dozen mud houses on the front line between government-held and insurgent-controlled parts of Afghanistan, isn't in some remote outback: It is part of Kabul province's Surubi district, about 80 kilometers east of the capital.

"Surubi is important because it offers the keys to Kabul," says Col. Benoit Durieux, commander of the Foreign Legion task force here.

The Foreign Legion's experience in the village illustrates the tough challenges the 100,000 U.S.-led coalition troops face in Afghanistan. One of the most difficult ones: how hard it is to ascertain and win the loyalties of local civilians, a key condition for rolling back the spreading insurgency.

The French forces took responsibility for the area from the Italian military last year, and almost immediately lost 10 men to an ambush in Uzbeen Valley, where Rodbar is located. The Italians also lost one soldier in the valley, but rarely patrolled there, prompting allegations, denied by the Italian government, of a tacit collusion with the insurgents.

France has since moved more forces and heavy weaponry into the district, where both the mainstream Taliban and the allied militia of warlord Gulbuddin Hekmatyar operate. In June, the Foreign Legion estab-



French troops in Rodbar, Afghanistan, spot insurgents taking position. The Legionnaires were attacked soon afterward.

lished a company-size combat outpost, named Rocco, about two-thirds of the way up the valley.

In the night before Sunday's operation, the Legionnaires—a motley crew of nationalities including Romanian, Chilean and Chinese—threw a raunchy party at the outpost's improvised bar, downing beer as a sequence of porn videos and Ukrainian pop clips blared from the dust-covered TV.

Some Legionnaires, like a pensive Italian art history graduate, had enlisted for adventure. Others, like a thin Estonian, signed up to escape potentially lethal problems at home. The Legion wipes out minor criminal records and provides new identities and a French passport in exchange for a five-year contract. "Believe me, I feel safer here in Afghanistan," the Estonian said.

A map at the outpost, which is regularly attacked with rockets, mortars and small-arms fire, showed a thin red line crossing the valley 2½ miles to the north. "Beyond this line, the insurgents still have freedom to circulate," said the commander, Capt. Guillaume. (French army field rules ban

publishing soldiers' surnames.)

Rodbar sits right on that line. The French first entered the village in August, uneventfully. When they returned in late September, they came under fire.

The original French plan had been to provide villagers with a tractor and farming supplies, in an attempt to win hearts and minds. But such a ceremony—requiring the attendance of Col. Durieux and the district governor—was judged too risky.

"We know that the insurgents have regrouped themselves. Our mission is to go to Rodbar to find out whether it has fallen under insurgent sway," Capt. Guillaume, a 29-year-old graduate of France's elite St. Cyr military academy, explained Saturday night.

The Legion's Sunday journey to Rodbar began at 4:30 a.m. The starry sky provided the only light as 14 armored fighting vehicles rolled to hilltops. As the force split into several sections, Capt. Guillaume and two of his men sprinted down into a creek bed and then up a rocky slope dotted with thorn bushes. By sun-

rise, they had reached the village school and, assault rifles raised, cleared it room by room.

Meantime, other Legionnaires walked into Rodbar's center below, knocking on the doors of prominent locals and telling them to assemble outside the school for an unannounced shura, or meeting, with the captain.

By 8 a.m., the first villagers arrived, most of them children wearing embroidered Pashtun skullcaps and clutching Unicef-issued backpacks. Only a handful of adults appeared. The most senior of them, Jamal, a representative of the area's tribal chieftain, stared blankly when asked about the Taliban. "We're just civilians here. We know nothing about them," he said.

Capt. Guillaume was skeptical. When Outpost Rocco was attacked Oct. 12, "the entire village saw the insurgents pass by, but no one alerted the army or the police," he told the villagers, stern-faced. "Civilians here will be arrested and imprisoned because they helped the insurgents," he threatened.

An Afghan army representative

sitting next to Capt. Guillaume, Sgt. Din Mohammad, tried a softer line. "We're here to help you, not to disturb you. If a mortar falls on your house, it pains me as much as if it were to fall on my house," he said. The villagers, speaking one after the other, insisted that they will inform the authorities immediately should any insurgents enter Rodbar. They continued to deny any militant presence in their midst.

As Capt. Guillaume talked to the villagers, his second-in-command rushed to whisper urgent news into his ear. A series of gunshots had been heard in the distance, presumably a signal by the Taliban. Some suspicious men were spotted climbing the mountain. One was seen using a small mirror to indicate his position.

The meeting over, the sullen villagers filed out, one by one. Then the schoolchildren—who had yet to begin the day's classes—packed up and started to leave. "It's a pretty short school day," one of the Legionnaires quipped. "Not a good sign," said another.

The first insurgent volleys came from the north, behind the long side of the L-shaped school. "We have contact, we have contact," screamed the radio operator of the forward French section. The Legionnaires responded by firing 81-millimeter mortars at insurgent muzzle flashes. Red tracers soared up and puffs of white smoke began rising from the ridge. Bullets whizzed past the school building. Some of the firing came from a house inside Rodbar itself. Minutes of silence followed.

Then the insurgents opened up from the hill to the east, raining bullets and RPGs into a withdrawing French column. "We'd expected them to shoot at us from afar—not like this," breathed out Chief Warrant Officer Thierry as his reconnaissance vehicle's driver jumped out, knelt, and started firing his assault rifle into the hillside.

Two Tigre attack helicopters summoned from Kabul unloaded into the insurgent positions. Then French 120-millimeter mortars unleashed two dozen fiery flashes on the hillside. By 11:30 a.m., the shooting was over. No French or Afghan troops had been wounded. It isn't clear how many, if any, insurgents were hit.

"They know how to shoot," Capt. Guillaume said after his men returned to base. "We were lucky today."

## October is deadliest month for Americans in Afghanistan

BY YAROSLAV TROFIMOV

KABUL—Eight American soldiers were killed in two roadside bombings in south Afghanistan on Tuesday, the U.S. military said, making October the deadliest month for American troops since the 2001 invasion.

The deaths come as the Obama administration is considering whether to send tens of thousands more soldiers to the U.S.-led international force here, which now numbers 65,000 American troops and 40,000 allied soldiers, drawn mostly from Europe and Canada. Rising casualties have made the war increasingly unpopular in the U.S. and among its allies.

Taliban attacks have grown in sophistication in recent months, causing a spike in coalition deaths. Every month since June, Afghan insurgents managed to kill at least 70 coalition soldiers, and Tuesday's at-

tacks raised October's coalition tally so far to 68. Of those, 55 were Americans. Most of these deaths have been caused by bombs that are detonated on the path of military convoys and patrols.

The previous monthly high occurred in August, when 51 U.S. soldiers died.

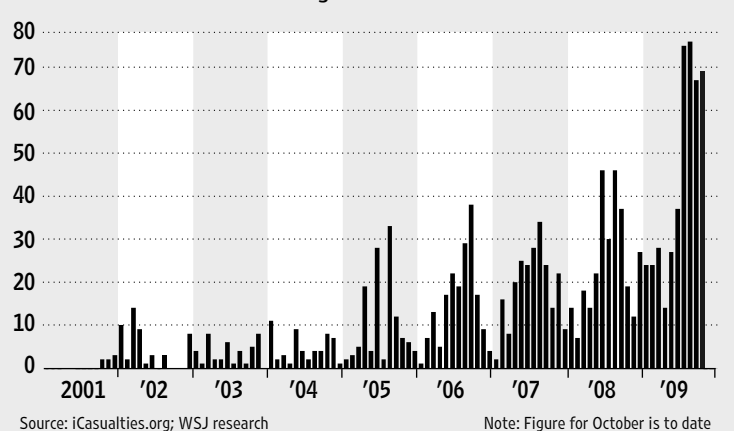
In one of Tuesday's insurgent assaults, seven Americans were killed while patrolling in armored vehicles, U.S. forces spokesman Lt. Col. Todd Vician said. He said an Afghan civilian died in the same attack. The eighth American was killed in a separate bombing elsewhere in the south, also while patrolling in a military vehicle, he said.

The military issued a statement saying the deaths occurred during "multiple, complex" bomb strikes.

"A loss like this is extremely difficult for the families as well as for those who served alongside these brave service members," said Navy

### Rising toll

Fatalities of coalition forces in Afghanistan



Capt. Jane Campbell, a military spokeswoman. "Our thoughts and prayers are with the families and friends who mourn their loss."

The loss of life followed one of the worst days of the war for U.S. forces in Afghanistan since they launched airstrikes in 2001 to oust

the Taliban from power.

On Monday, a U.S. military helicopter crashed returning from the scene of a firefight with suspected Taliban drug traffickers in western Afghanistan, killing 10 Americans, including three agents from the Drug Enforcement Administration. In a separate crash the same day, four more U.S. troops were killed when two helicopters collided over southern Afghanistan.

U.S. military officials insisted neither crash was the result of hostile fire, although the Taliban claimed they shot down a U.S. helicopter in the western province of Badghis. The U.S. didn't say where in western Afghanistan its helicopter went down, and no other aircraft were reported missing.

Those casualties marked the DEA's first deaths since it began operations here in 2005.

—The Associated Press contributed to this article.

## LEADING THE NEWS

# Iran said to seek revisions to pact

*Domestic reports cast new doubts on nuclear deal*

BY CHIP CUMMINS

DUBAI—Iranian media reported that Tehran would accept the general framework of a deal to ship out much of its nuclear fuel for enrichment, but it would also request “important changes” to the pact, raising fresh doubt over the agreement.

The statement, carried on the Web site of Iran’s state-run TV, was the latest in several recent official and semi-official comments appearing to criticize the deal, which Iranian negotiators reached last week with the U.S., France, Russia and the International Atomic Energy Agency.

A number of Iranian officials have publicly questioned the fairness of the agreement. Official leaks, meanwhile, have signaled Tehran would seek fresh concessions before approving it.

The criticism could be a last-



In Tehran on Tuesday, Iranian President Mahmoud Ahmadinejad, left, welcomes Turkish Prime Minister Recep Tayyip Erdogan, who is on a two-day visit.

minute negotiating tactic, or represent fissures amid Iran’s leadership over the wisdom of the deal, which would leave Iran, at least temporarily, without enough fissile material to make a nuclear weapon.

It could also be officials pandering to a domestic audience that would see any retreat on Iran’s tough stance over its right to a nuclear program as an embarrassment to President Mahmoud Ahmadinejad.

The recent criticism of the deal has clouded what last week appeared a limited, but optimistic, first step in negotiations between the West and Iran over its nuclear ambitions. Western diplomats have said they will wait for an official response from Iran, expected to be lodged this week with the IAEA, the Vienna-based United Nations nuclear watchdog.

European officials raised fresh public concern Tuesday. The European Union’s foreign policy chief, Javier Solana, reacted quickly to reports Iran was seeking changes.

“The deal was a good deal, and I don’t think it requires fundamental changes,” he said, according to the Associated Press.

Islamic Republic of Iran Broadcasting, or IRIB, reported on its Web site Tuesday afternoon that “Iran, while announcing to agree with the general framework of the Vienna agreement, requested some important changes to the draft agreement.” It didn’t provide details.

IRIB didn’t attribute the statement, further obscuring how much official weight it carried.

## U.K. navy seeks British sailors missing off Africa

BY CHIP CUMMINS AND ALISTAIR MACDONALD

British naval forces said Tuesday they are searching for two missing U.K. sailors who sent a distress warning last week in pirate-infested waters off the east coast of Africa, raising concern their yacht had been commandeered.

U.K. officials said they hadn’t yet determined whether pirates had attacked the missing yacht, the Lynn Rival. Wire services reported Tuesday from Somalia that individuals claiming to be connected to pirates there said the yacht had been attacked and was being taken to Somalia.

“We’ve not found them, nor have we any confirmation that they’ve been pirated,” said Royal Navy Lt. Iain Jones from Bahrain, the headquarters of the U.S. Fifth Fleet and the base of an international task force set up to fight piracy.

“The Seychelles coast guard is continuing to conduct a search of the area,” a spokesman for the British government said.

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Incheon Grand Bridge, Seoul, South Korea.  
Photo: AMEC/Incheon Bridge Company

## CORPORATE NEWS

## Publicis expects return to growth

CEO says French ad giant expects to see gains in organic revenue by mid-2010

By RUTH BENDER

PARIS—The chief executive of French advertising giant **Publicis Groupe SA** on Tuesday predicted that the company would start showing increases in organic revenue by the middle of next year because advertising markets have started a gradual recovery.

Publicis, whose ad agencies include Saatchi & Saatchi, posted a 7.4% drop in third-quarter organic revenue, which excludes the impact of any acquisitions and disposals and currency fluctuations.

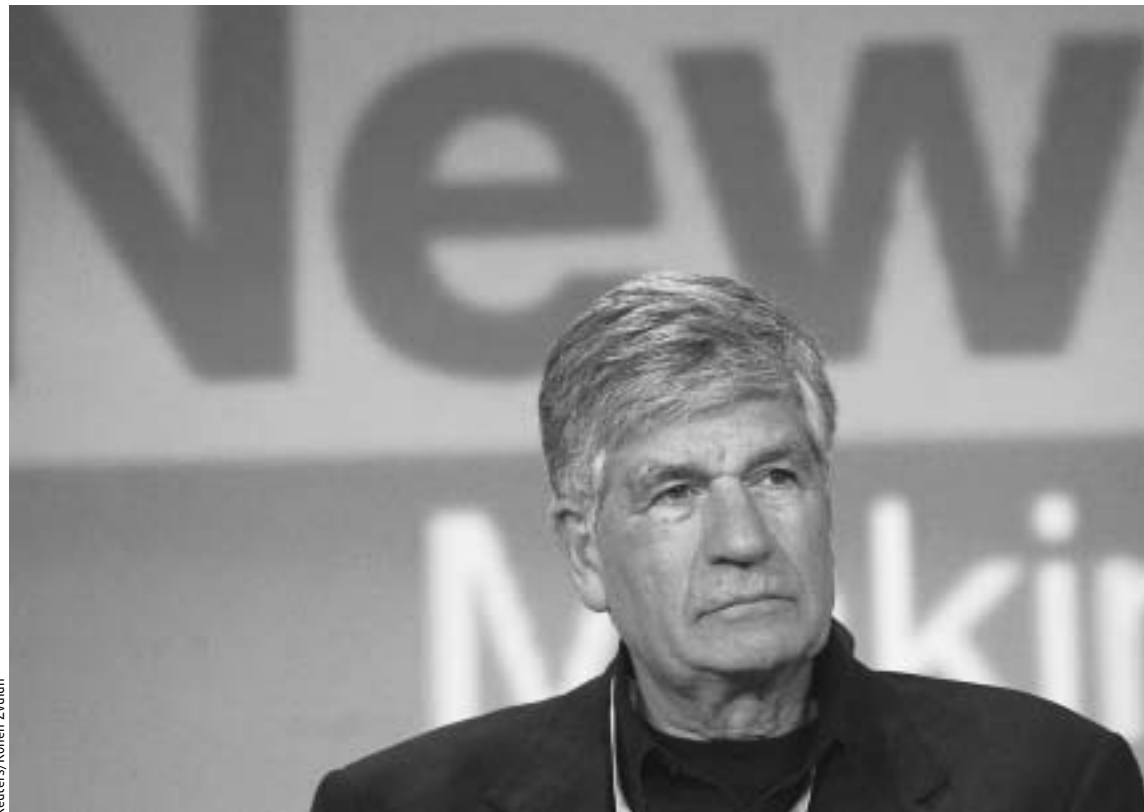
The figure was an improvement on the company's 8.6% decline in the second quarter.

Advertising world-wide has been in decline since the summer of 2008 as major companies have cut ad spending in response to the credit crunch and the economic downturn.

However, Publicis CEO Maurice Levy said Tuesday that the market hit a bottom in June and that the recovery seen in the third quarter should continue into the fourth quarter and beyond. "The advertising market has stopped deteriorating during the summer, and a slow and gradual recovery is under way," Mr. Levy told reporters.

The company is looking for acquisition targets to continue growth in China, as well as opportunities in India, he added. Mr. Levy has been one of the first executives to call the advertising-market recovery. While Omnicom Group Inc. Chief Executive John Wren last week said client spending was showing signs of stability, other advertising executives, such as WPP PLC's Martin Sorrell and Havas SA's CEO Fernando Rodes Vila, have been reticent in forecasting a return to growth.

Mr. Levy said Publicis should outperform the expected 10% decline in the global advertising market in 2009 and could post organic growth for all of 2010 once it returns to growth. Publicis agency ZenithOpti-



Publicis CEO Maurice Levy, shown last week, said the ad market hit bottom in June and its recovery should continue.

media last week forecast that global advertising spending would grow 0.5% in 2010.

Publicis's total revenue declined 5.3% to €1.05 billion (\$1.56 billion) from €1.11 billion a year earlier. Sales continued to tumble across all regions, with the sharpest drops in Europe and the Asia-Pacific region, where Chinese growth failed to offset declines in Japan, South Korea and Australia. Still, analysts said Publicis's third-quarter performance confirms a rebound in activity.

"What's positive is that pretty much all regions, except Asia-Pacific, improved, and that the group again outperformed peers in the U.S.," said Charles Bedouelle, an analyst at Exane BNP Paribas.

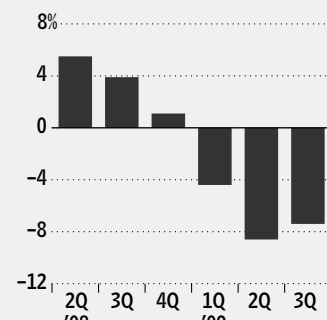
Despite the tough market conditions, Publicis, whose clients include General Motors Co. and French car maker Renault SA, said it won \$4.8 billion in new business in the first nine months of the year, which analysts say should help boost organic revenue growth next year.

"What has been unusual in this crisis is that advertisers are not afraid to change advertising agencies in a low cycle," said Mr. Levy.

Still, Publicis will continue to cut costs to preserve its margin, which shouldn't drop more than two percentage points this year, its CEO said, adding that in 2011, the company's operating margin should be close to the 16.7% posted in both 2007 and 2008.

## Slowing decline

Publicis' organic revenue, percentage change from a year earlier



Source: the company

## CropScience unit weighs on Bayer's net

Bayer AG posted a 10% drop in third-quarter net profit as sales at its crop-protection and materials businesses slipped well below year-earlier levels, but the German pharmaceutical and chemical company said it had seen some signs of improving demand.

By Allison Connolly  
in Frankfurt and  
Bart Koster in Amsterdam

Chief Executive Werner Wenning said he expected business trends to pick up in the next few quarters, but declined to give a forecast for 2010 until final results for 2009 were released early next year. While the bottom may have been reached, Mr. Wenning said it was still too early to speak of a self-sustaining industry upswing.

His remarks echoed those of Dutch coatings and chemicals company **AkzoNobel NV**, which cautioned that it doesn't "foresee a quick recovery," despite posting a 30% rise in third-quarter net profit. Earlier this month, **BASF SE**, the world's largest chemicals maker, de-



Packages of Bayer in a Berlin pharmacy. Company profit fell 10%.

scribed the recovery in demand as slow and fragile.

Leverkusen-based Bayer said third-quarter net profit fell to €249 million (\$370 million) from a year earlier as revenue dropped 7% to €7.39 billion.

A rise in sales at Bayer's pharma-

ceuticals division, which accounts for about 47% of total sales, wasn't sufficient to offset downturns at the company's other units. HealthCare sales were up 3.5% thanks to a nearly 30% jump in sales for Bayer's cancer treatment Nexavar when stripping out currency fluctuations.

Sales of Aspirin Cardio climbed about 15% and sales of erectile-dysfunction treatment Levitra rose 12%.

At Bayer's MaterialScience business, which was hit hard by the world-wide slump in demand for plastics, foams and chemicals, sales declined 20%. But earnings before interest, taxes and depreciation, or Ebitda, before certain items nearly doubled from the previous quarter to €238 million, and the company expects underlying Ebitda for the fourth quarter will be better than a year earlier.

Sales at the CropScience unit fell 8.7% on lower prices for key crop commodities, adverse weather conditions and higher trade inventories of crop-protection products.

Ebitda before certain items dropped nearly 48% from a year earlier to €108 million, with a third of the drop stemming from the strengthening euro.

The company said charges linked to its restructuring programs, due to be completed by the end of the year, are now likely to reach €350 million, up from the €250 million previously forecast.

## Reckitt posts 25% profit rise, lifts '09 targets

By MICHAEL CAROLAN

LONDON--**Reckitt Benckiser PLC**, the maker of such consumer products as Lysol and Clearasil, said Tuesday that its third-quarter net profit rose 25%, boosted by higher sales and the weaker pound.

The U.K.-based company raised its full-year sales and profit targets for the second time in three months as strong growth in its personal-care-products business and its pharmaceuticals division offset a flat performance by its household brands.

The company, which also makes Airwick air fresheners, Finish dishwasher products and Cillit Bang cleanser, said its net profit in the three months ended Sept. 30 totaled £357 million (\$582.4 million), up from £285 million a year earlier. Excluding the effect of currency fluctuations, profit would have risen 12%.

Sales rose 15% to £1.91 billion from £1.66 billion. Stripping out the effect of currency movements, sales would have been up 7% in the quarter, compared with an 8% rise in the previous three months.

The rise in sales was driven in part by the stellar growth of Reckitt's heroin-dependency treatment, Suboxone. Stripping out the results from the pharmaceuticals division, Reckitt's sales growth rate would drop to 5%.

Suboxone's exclusivity in the U.S. expired on Oct. 8, leaving it exposed to potential generic competition. However, fears that Suboxone would immediately face generic competition have so far proved unfounded.

The company raised its full-year target for sales growth at constant exchange rates to a range of 6% to 7% from the previous range of 5% to 6%. Net profit is now expected to grow between 12% and 13% for the full year, compared with previous expectations of between 10% and 11%.

Sterling's weakness is expected to boost total sales growth to a range of 22% to 23%, the company said. Reckitt historically uses its quarterly updates to raise its full-year targets.

Chief Executive Bart Becht told analysts in a conference call that the upgrade to full-year forecasts reflected the belief that Suboxone wouldn't have generic competition until the end of this year or the start of next year.

The company has warned, however, that up to 80% of revenue and profit at the pharmaceuticals division might be lost to generic competition in 2010, with further erosion thereafter. Reckitt said it continues to search for ways to offset the impact of this loss.

Analysts said the company's balance of growth was cause for some concern. A strong performance in health and personal-care products, where sales grew 16%, masked disappointing sales elsewhere. Reckitt's fabric-care sales declined 4%, while its dishwashing sales dropped 5%. Meanwhile, sales in Europe, which accounts for 47% of revenue, were flat.

Mr. Becht said that while Europe was a challenging market in the quarter, the company had expanded or maintained its market share across product categories.

## CORPORATE NEWS

# BP results signal revamp is bearing fruit

*Earnings decline, but costs cutting exceeds expectation*

BY GUY CHAZAN  
AND JAMES HERRON

BP PLC posted a drop in third-quarter results on the back of lower oil prices but said it is cutting costs faster than expected—further evidence that a major restructuring by Chief Executive Tony Hayward is changing the British oil giant's fortunes.

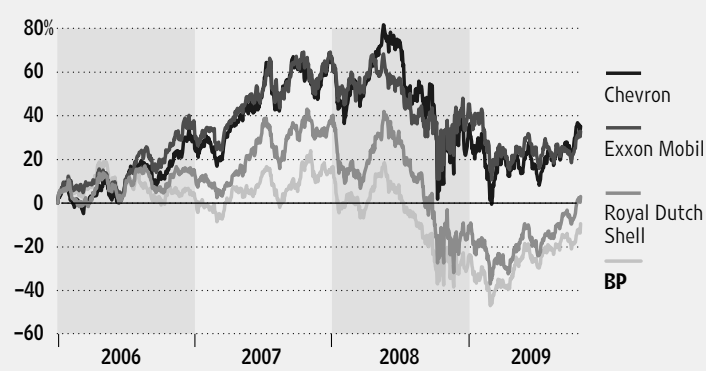
BP said it expects to slash costs by \$4 billion this year, twice its original forecast. It said oil and gas production rose 7% from a year earlier and that its long-troubled U.S. refinery operations have improved.

"These results demonstrate real operational momentum across the company," Mr. Hayward said. "They show that even in the tough conditions that prevail in many of our markets, we can continue to deliver."

The results were weaker than

## BP's ups and downs

Oil companies' stock performance since 2006



Source: Thomson Reuters via WSJ Market Data Group

last year's, however, reflecting the effects of a global recession that slashed oil prices and decimated energy demand. Earnings fell 34% to \$5.34 billion, or 28 cents a share, from \$8.05 billion, or 43 cents a share.

Revenue fell 36% to \$66.22 billion.

BP's replacement-cost profit, a closely watched figure that strips

out the effect of changes in the value of inventories, fell 50% to \$4.98 billion. Still, that was 48% higher than analysts had forecast, sending BP's shares up 4.8% to 594 pence (\$9.70) in London on Tuesday.

The results show how the outlook is beginning to brighten for the Western oil giants. As oil markets turned bearish late last year, the majors' revenues plunged and in-

dustry costs stayed stubbornly high. Some investors feared companies like BP might be forced to cut their fat dividends or slash investments in production.

But such fears ebbed as oil prices recovered from around \$30 a barrel at the end of last year to about \$80 a barrel now. BP has been cash-flow positive—more money is coming in than going out—for the last two quarters.

BP's results signal that the big revamp started by Mr. Hayward shortly after he became CEO in 2007 appears to have substantially improved the company's performance, which long lagged behind that of its peers.

Mr. Hayward succeeded Lord John Browne, who had built the company through a string of high-profile acquisitions but presided over a series of operational mishaps, such as the explosion and fire at BP's Texas City refinery in 2005, in which 15 people died.

After taking the reins, Mr. Hayward, a longstanding BP veteran who had been head of exploration and production, quickly initiated a broad revamp. He simplified BP's

notoriously complex structure, eliminating whole layers of management. And as the credit crunch set in, he slashed costs, in part by demanding that suppliers cut their prices, changing procurement procedures and shedding staff. Some 6,500 jobs have been eliminated over the last two years.

The changes left BP better-prepared for the economic crisis than rivals such as **Royal Dutch Shell PLC**. Shell's incoming chief executive, Peter Voser, launched his own overhaul this summer, cutting 20% of senior management positions.

But those cost savings are only expected to affect the bottom line next year.

Analysts said Shell, which reports earnings Thursday, and France's **Total SA** are unlikely to do as well as BP. Shell has been badly hit by a downturn in refining and plummeting demand for natural gas, a big chunk of its business.

"I think BP's numbers are company-specific," said Stephen Thornber, a fund manager at BP shareholder Threadneedle Investment. "I'm not expecting anything comparable from Shell and Total."



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## CORPORATE NEWS

# Nokia unveils phone in China

*Giant is in talks with China Mobile about strategy*

BY LORETTA CHAO

BEIJING—Nokia Corp. unveiled its first cellphone developed with China's homegrown third-generation mobile technology Tuesday, saying it would aim to "democratize" the smart-phone market by aiming to sell lower-priced handsets at higher volumes.

The phone and others like it in the company pipeline could help Nokia, which has struggled globally to keep pace with Apple Inc. in the fast-growing, higher-margin market for premium smart phones since Apple's iPhone was released in 2007, to close some of the gap by capitalizing on its strength in developing markets. But its look—a slider-style with a mirror-like screen—isn't much different than what consumers have seen before.

The Nokia 6788 would ship by the end of the year, but hasn't been priced yet, said Nokia Chief Executive Olli-Pekka Kallasvuo. The world's biggest cellphone maker has made the "strategic decision to invest" in the Chinese standard, called TD-SCDMA, and will strive "for market leadership" in that technology, he said.

Colin Giles, president of Nokia China and soon to be the head of global sales for the company, said Nokia is still in negotiations with operator China Mobile Ltd. about how to price the future lineup.

Mr. Kallasvuo said Nokia had about 38% market share globally in the third quarter, and that its share in China is in line with that. The company is currently the leading cellphone maker in China, largely thanks to its success



Loretta Chao/The Wall Street Journal

Nokia said it wants to be the leader in the Chinese TD-SCDMA standard.

in lower-tier cities, he said.

Mr. Kallasvuo has said the Finnish company plans to upgrade its smart-phone portfolio in the fourth quarter to take advantage of growing consumer interest.

Meanwhile, Apple has rapidly gained market share globally. In the second quarter, its smart-phone market share had risen to 13.3% against 45% for Nokia, none of whose smart phones have garnered the same kind of attention as the iPhone. That compares with Apple's 3% market share just a year

earlier when Nokia had 47%, according to recent figures from research firm Gartner Inc.

Nokia, which has spent about €40 billion (\$60 billion) in research and development, is currently suing Apple for allegedly infringing 10 of Nokia's patents covering wireless data, speech encoding, security and encryption with the iPhone. Mr. Kallasvuo declined to comment on the lawsuit Tuesday.

China Mobile, the world's largest mobile carrier by number of subscribers, has plans to roll out several smart phones this year in addition to the 6788 in efforts to promote faster 3G service, and expects this market to grow in China. One of its competitors, China Unicom (Hong Kong) Ltd., which operates a different 3G standard called WCDMA, is expecting to launch the iPhone this quarter as well.



Olli-Pekka Kallasvuo

# Hitachi and Toshiba receive U.S. subpoenas

Japanese technology giants Hitachi Ltd. and Toshiba Corp. said Tuesday that, like Sony Corp., their optical disk drive operations in the U.S. received subpoenas from the U.S. Department of Justice in a widening investigation into potential antitrust violations.

By Kazuhiro Shimamura,  
Ayai Tomisawa  
and Brent Kendall

Officials at Hitachi and Toshiba said separately that their optical disk drive businesses in the U.S. will fully cooperate with the inquiry. They declined to disclose details of the subpoenas.

Hitachi's optical disk drive business is a 51%-owned joint venture with South Korea's LG Electronics Inc., called Hitachi-LG Data Storage Inc. Toshiba's is a 51%-owned joint venture with South Korea's Samsung Electronics Co. called Toshiba Samsung Storage Technology Corp.

A Justice Department spokeswoman declined to comment, as did officials at the joint ventures.

According to a person familiar with the inquiry, the Justice Department started a criminal antitrust probe into the market for optical disk drives in recent months, investigating disk-drive makers for possible price-fixing, bid-rigging and allocation of markets. Optical disk drives are used in everyday consumer products like DVD and Blu-ray disk players, as well as in personal computers.

The investigation comes on the heels of a successful Justice Department investigation into price-fixing in the market for liquid crystal displays used in computers, cell phones and televisions.

That probe snared five companies that paid more than \$600 million in combined criminal fines in

2008 and 2009.

The confirmations come a day after Sony said its Sony Optiarc America optical disk drive unit received a subpoena and "understands the DOJ and agencies outside the U.S. are investigating competition in optical disk drives."

While Sony, Hitachi and Toshiba declined to disclose details of recent earnings at their optical disk drive operations, Sony Optiarc Inc., the parent of Sony Optiarc America, had revenue of 140 billion yen (\$1.52 billion) for the year ended March 2008, the last year for which Sony disclosed the unit's annual revenue. The business was subsequently fully consolidated into Sony's accounts.

Hitachi-LG Data Storage had revenue of \$2.4 billion in 2005, the last year for which figures are available, while Toshiba Samsung Storage forecast revenue of 250 billion yen in fiscal 2004 when it was established.

While Hitachi shares rose in early trading Tuesday on a company forecast that it will perform better this year than previously expected, Sony and Toshiba's stock traded slightly lower, in line with the broader Nikkei index. Analysts said any potential sanctions would likely be relatively small compared with overall revenue at the corporations, all of which have a large range of operations generating many tens of billions of dollars in revenue.

The investigation comes as the Obama administration is being urged by many consumer advocates to step up antitrust enforcement in the high-tech arena as a means to enhance innovation and boost U.S. competitiveness as well as economic recovery. A nonprofit group, the Computer & Communications Industry Association, will hold a forum in Washington on Tuesday.

# Dassault Systèmes to buy unit of IBM servicing its software

BY WILLIAM M. BULKELEY

Dassault Systèmes SA agreed to pay \$600 million to buy an International Business Machines Corp. unit that sells and services Dassault software.

The sale to Dassault, which makes software for computer-aided design and product management, removes one of the last vestiges of IBM's once vast applications-software business. The two companies will retain a formal alliance in which the French company will favor IBM as its software servicer.

Separately, IBM's board expanded its stock buyback program, authorizing the spending of another \$5 billion. It currently has \$4.2 billion in buyback authorization remaining from previous programs.

IBM declined to say whether the new authorization meant it intended to increase buybacks, which totaled \$900 million in its third quarter and \$1.7 billion in the second quarter. The company said strong cash flow and a move to a richer business mix is supporting buybacks, which have totaled \$73 billion since 2003.

IBM helped start computer-assisted design, or CAD, with a program used to design autos and airliners called Cadam. But it sold it to Dassault in 1992 as part of a plan to

focus on other software and become a partner with applications-software providers instead of a competitor.

At the time, IBM retained a 700-person sales organization that worked exclusively on selling Dassault products, sharing profits and deriving related servicing work.

The arrangement helped Dassault products gain credibility with IBM's big corporate customers, but Dassault has made more inroads with these customers lately, and has been eager to expand its business lines.

Maynard Um, an analyst with UBS said in a research report that IBM's Dassault business has been declining in part because customers apparently were shifting to deal directly with Dassault. In the first half of this year, sales were \$362 million, down 30% from the prior year.

Dassault has grown to be one of the largest software companies in Europe, and IBM handles less than one-third of its sales today, Bernard Charles, Dassault's CEO, said in a conference call.

Mr. Charles said that the purchase will be enable Dassault to simplify its relationship with customers like Boeing Co. and Ford Motor Co., which currently have related contracts with both IBM and Dassault. The deal is scheduled to close in the second quarter next year.

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## CORPORATE NEWS

# Honda profit beats expectations

Net in quarter fell 56%; firm raises estimate for year

By YOSHIO TAKAHASHI

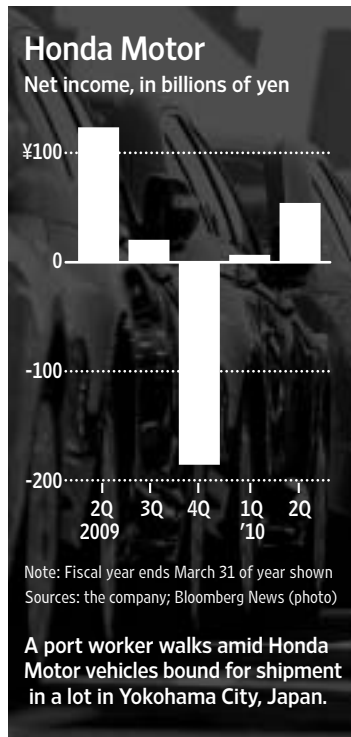
TOKYO—Honda Motor Co. said its fiscal-second-quarter net profit sank 56%, but, in a positive sign for the beleaguered global auto industry, the Japanese car maker lifted its full-year earnings forecast on cost-cutting efforts.

The upbeat forecast from Japan's second-biggest car maker by sales volume also bodes well for other Japanese car makers, including Toyota Motor Corp. and Nissan Motor Co., which are reeling from flagging auto demand and the strengthening yen.

Honda, also the world's biggest motorcycle maker by sales volume, posted a net profit of 54.04 billion yen (\$586.1 million) for the three months ended Sept. 30, down from 123.32 billion yen a year earlier, as the yen's appreciation and slack auto sales in the U.S. and Europe more than offset cost-cutting efforts and solid sales in China, India and Japan.

But the result was stronger than a mean analyst estimate of 43.9 billion yen in net profit compiled by Thomson Reuters. Honda has also showed continued earnings improvement: The company logged a net profit of 7.56 billion yen in the quarter ended in June, which followed its net loss of 186.1 billion yen in the quarter ended in March as last year's financial crisis discouraged consumers from buying new cars.

Sales tumbled 27% to 2.057 tril-



A port worker walks amid Honda Motor vehicles bound for shipment in a lot in Yokohama City, Japan.

lion yen in the fiscal second quarter from 2.827 trillion yen a year earlier.

Reflecting the recovery momentum, the maker of the Civic and Accord sedans raised its net and operating profit projections for the fiscal year ending March 2010 to 155 billion yen and 190 billion yen, respectively, from previous expectations of 55 billion yen for net profit and 70 billion yen for operating profit. The company now expects a greater impact from a cut in labor, shipping and R&D costs, among other items.

The new full-year net profit forecast projects 13% growth from the 137 billion yen a year earlier, even as the company anticipates a weaker dollar, at 90 yen, for this fis-

cal year. It previously expected a rate of 91 yen per dollar for the current fiscal year. The dollar averaged 101 yen in the last fiscal year.

Koichi Kondo, Honda executive vice president, said the company has reached a level where it can generate an operating profit of nearly 200 billion yen even when the dollar is at 90 yen.

A stronger yen reduces the profit the company earns abroad when it's translated into yen.

Honda also raised its full-year sales outlook to 8.45 trillion yen from 8.28 trillion yen, but this represents a 16% drop from a year earlier.

Analysts expect Toyota's and Nissan's earnings for the quarter

ended in September, due next week, to show improvements from the quarter ended in June. But they aren't expecting the two companies to raise their forecasts to project an increase in annual net profit in the current fiscal year.

Mr. Kondo warned that the outlook still isn't rosy, saying that auto demand, which was recently boosted by government buying incentives in the U.S. and some other markets, could tumble again.

"Subsidies will be gone in almost all markets by the end of the year," he said. "We expect the reversal impact will be significant from April," when the next fiscal year starts.

Honda reports earnings under U.S. accounting standards.

## Bank loans still elude parts suppliers

By SHARON TERLEP

Auto-parts makers may find themselves in a lurch next year when the world's vehicle markets begin their expected recovery, as jittery lenders continue to shun the troubled industry.

The auto supply base, particularly in the U.S., remains largely cut off from capital funding needed to finance new-vehicle programs and ramped up production schedules, said Brad Coulter, director of turnaround firm O'Keefe and Associates.

Launching new production is capital intensive for suppliers, which typically require millions of dollars in specialized machinery for each new-vehicle program. Banks, hurting from the U.S. economic meltdown, are looking to lend in more stable industries.

Some lenders, Mr. Coulter said, actively tout that their business strategy includes a pullback from the auto industry.

So, while car makers are showing signs of new life, many suppliers could find it difficult to cash in. In the end, that could mean trouble for auto makers if they can't get parts necessary to build cars and trucks.

"The question is, 'Will suppliers be able to get the credit they need to ramp up when the time comes,'" said Mr. Coulter, speaking at an automotive forecasting conference. "Banks right now do not want to make term loans to finance new vehicle programs."

The next five to 10 months could prove tough for the supply industry. In part, Mr. Coulter said, that is because many weaker suppliers were kept afloat artificially by the U.S. government bailout of auto makers and suppliers.

Government funding of bankruptcies at General Motors Co. and Chrysler Group LLC allowed the companies to make all their payments to suppliers. A typical Chapter 11 scenario would have short-changed suppliers and likely forced many out of business.

J.D. Power & Associates predicts world-wide sales will reach 63.8 million cars and trucks in 2010, a 1.4% increase from 62.9 million sales expected in 2009. By 2011, global industry sales will return to the 70 million range seen before the economic downturn, the company said.

Production should hit 80 million cars and trucks by 2013, up from 60 million in 2003, with most of that coming from Asia.

"I don't think we're quite ready to call the heydays back," said Jeff Schuster, executive director of global forecasting for J.D. Power. "But there is improvement."

# Mercedes mines China for global designs

By NORIHIKO SHIROUZU

BELJING—A decade ago, in search of inspiration for an ultra-luxurious Mercedes-Benz, designer Olivier Boulay studied Japan's chauffeur-car culture.

Now, as he dreams about the future of the automobile, he zips around Beijing on a \$367 electric bike, along with throngs of the city's residents.

"China is the perfect place to think about the future shape of mobility," said Mr. Boulay, the 52-year-old design chief for Daimler AG's Mercedes-Benz unit in China, who moved to Beijing from Tokyo this year. "It's my job here to push my staff to push the envelope and think about the global automotive future from Beijing."

Mr. Boulay reflects a shift in the car industry. As the Chinese market expands, global auto makers increasingly are making design decisions in China. The result is that consumer trends in China are being seen in models sold around the world.

While China accounts for only about 4% of overall Mercedes sales, customers around the world are getting features the Chinese like, including bigger, limousine-like back seats with more-advanced entertainment and climate-control systems. In China, many upscale buyers have chauffeurs and drive on their own only on weekends. Such customers also are generally in their 30s and



\*Olivier Boulay, chief Mercedes designer in China, where car sales are soaring.

40s—much younger than elsewhere. They prefer light-colored interiors, not the somber blacks and grays popular in other regions.

Car makers from General Motors Co. to Volkswagen AG to Toyota Motor Corp., are pouring resources into China, which displaced Japan as the world's second-biggest auto market a few years ago and is poised to surpass the U.S. this year as the world's biggest.

The consequences are on stark display at the Tokyo auto show, which runs through Nov. 4. Regular exhibitors including Mercedes-Benz, GM, and Hyundai Motor Co. all

stayed home this year.

After emerging from bankruptcy in July, GM located its international headquarters in Shanghai, where it has a flagship joint venture with Shanghai Automotive Industry Corp. And Ford Motor Co. recently decided to move its Asia-Pacific head office to China from Bangkok.

GM already has three global vehicles designed with China-inspired features: the Buick LaCrosse and Regal and the Chevy Cruze. The LaCrosse emerged from a concept car called the Invicta GM developed by GM's design studios in Shanghai and Warren, Mich.

China has become Mercedes' fourth-largest market, compared with 10th in 2006. China is one of the biggest markets for the top-of-the-line S-Class sedan, whose redesigned model was launched in China earlier this year after significant input from Chinese consumers.

Mr. Boulay's arrival in Beijing illustrates China's rise. A Frenchman by birth, he had spent 17 years in Japan as head of the German car maker's design studio in Tokyo, one of five around the world.

In Beijing, he wants to soak in the country's new fascination with electric-powered bikes and cars to develop concepts for future Mercedes global products, including a luxury electric vehicle.

Mr. Boulay is especially interested in how ordinary Chinese people embrace e-bikes for daily transportation, and the way the country is prompting adaptation of electric cars and plug-in hybrids.

He believes the shift opens up new possibilities for designers because of the simplicity of fully electric cars, which need neither bulky engines nor transmissions. "We want to use China as leverage to push ourselves," he said.

Separately Tuesday, Daimler posted an 80% drop in third-quarter profit, but it was a rebound from two quarters of losses. The company said third-quarter profit was €41 million (\$60.9 million). Revenue fell 21% to €19.3 billion.

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## CORPORATE NEWS

# For airlines, a new delay

*U.S. likely to miss deadline for ruling on antitrust issues*

BY DANIEL MICHAELS  
AND KAVERI NITHTHYANANTHAN

Differences between the U.S. Transportation Department and the Justice Department are contributing to delays in the Transportation Department's ruling on a proposed alliance between AMR Corp.'s American Airlines, British Airways PLC and Spain's Iberia Líneas Aéreas de España SA, according to people familiar with the case.

The Department of Transportation, or DOT, won't issue a preliminary ruling on the three carriers' application for antitrust immunity by its original Oct. 31 deadline, these people said. The delay will be at least two weeks and could push a final ruling into early next year, these people added.

AMR Chief Executive Gerard Arpey said last week that the DOT may not decide by its Oct. 31 deadline, but he gave no details and said he was optimistic that regulators will approve the airlines' request.

American, BA and Iberia have applied to antitrust authorities in the U.S. and the European Union for permission to cooperate on marketing and strategic planning in ways normally deemed illegal collusion. The trio, which cooperate in the oneworld airline-marketing alliance, argue they should be granted antitrust immunity because their rivals in the Star Alliance and the SkyTeam alliance already have received similar status from the U.S.

"We remain hopeful that we will get a decision by the statutory deadline but, having said that, the decision in the Star Alliance case was issued after the deadline had passed," said a spokeswoman for British Airways. She added that BA believes it has made a strong case and is confident that its application will be approved.

EU officials in Brussels are re-



British Airways and Iberia planes in Madrid, Spain. The two seek ties with AMR.

viewing all three alliances. On Sept. 30 they sent the three oneworld airlines a 400-page document spelling concerns with antitrust issues in their proposed link-up. The three are now preparing a response to the report, known as a statement of objections, and are scheduled to begin negotiations with EU competition officials in coming weeks.

The trio hope to assuage EU antitrust concerns by offering to make frequent reports on their market share and other competitive data, according to a person familiar with the discussions.

U.S. officials want to coordinate their response with the EU's findings, which has added to the DOT's delay, several people close to the case said.

A debate among U.S. regulators over how to assess the proposed alliance and what regulatory price should be demanded of the airlines is slowing the review, said the people familiar with the situation. In recent years, the DOT, which regulates airlines, has been more tolerant of alliances than the Justice Department, which generally views them as harmful to consumers.

When Continental Airlines Inc. earlier this year applied for antitrust immunity with several mem-

bers of the Star Alliance, the Justice Department objected, but was overruled by the DOT, which approved the waiver. Similar differences are now delaying the application by oneworld members.

The application is the third time over the past decade American and BA have requested an antitrust waiver for closer cooperation. The past two times they were told they would need to relinquish a significant number of take-off and landing slots at London's Heathrow Airport to foster new competition. Both times, the pair said the proposals were onerous and abandoned their applications.

Industry officials widely expect competition authorities on both sides of the Atlantic again to exact a regulatory price in Heathrow slots, although perhaps fewer than in the past because the airport is now more competitive. The exact number is likely to be a key point of negotiations in coming weeks.

BA Chief Executive Willie Walsh has said repeatedly that the airlines shouldn't be required to surrender any slots at Heathrow because of changes in the competitive landscape in recent years.

—Peppi Kiviniemi  
contributed to this article.

# Fininvest wins reprieve from paying CIR damages

A Wall Street Journal Roundup

**Fininvest**, the holding company owned by the family of Italian Prime Minister Silvio Berlusconi, on Tuesday said a Milan appeals court has granted it a provisional suspension of a court order to pay €750 million (\$1.11 billion) in damages to rival **CIR SpA** in a long-running legal dispute.

Fininvest said the appeals court will meet again on Dec. 1 to make its final decision over its request to suspend the ruling's effects.

The damages ruling aims to compensate CIR—rival media mogul Carlo De Benedetti's company, which controls publisher **Gruppo Editoriale L'Espresso**—for a 1991 court decision that allowed Fininvest to take away control of publisher **Arnoldo Mondadori SpA** from Mr. De Benedetti.

CIR's lawyers on Tuesday said they acknowledged the temporary suspension of the damage order, adding that the issue will be discussed again Dec. 1 with both parties involved.

Mr. Berlusconi's daughter and Fininvest Chairwoman Marina Berlusconi has said the fine may seriously hit the holding company, which controls both Mondadori and Italy's largest commercial broadcaster, Mediaset SpA.

Separately, an Italian appeals court upheld the conviction of British lawyer David Mills, who was found to have accepted a bribe to lie in court to protect Mr. Berlusconi.

Mr. Berlusconi's trial in the same

corruption case is expected to restart soon following a constitutional-court ruling that a law granting him immunity as premier is unconstitutional.

A lower court found Mr. Mills guilty of corruption in May and sentenced him to 4 1/2 years in prison. The judges ruled that Mr. Mills received \$600,000 to give false testimony in two 1990s trials to shield Mr. Berlusconi and Fininvest from charges relating to the purchase of U.S. film rights.

The verdict said there was no evidence that the money came directly from Mr. Berlusconi but said the "artificial" way in which it was transferred to Mr. Mills's account indicated the "illegality of the operation."

Mr. Mills's lawyer, Alessio Lanzi, said the verdict upholding the conviction and sentence was a "big disappointment" and said he would appeal to Italy's high court.

Mr. Berlusconi's portion of the case was put on hold last year following the passage of a law granting the premier and other top Italian public officials immunity from prosecution while in office. But earlier this month, Italy's Constitutional Court overturned the law, saying it violated the constitution, paving the way for Mr. Berlusconi's trial to resume.

Mr. Berlusconi's lawyer says the trial must start from scratch, with a new court, meaning that many witnesses will have to testify again and new ones may be called. The statute of limitations expires in late 2011.

# Anheuser ex-executive sues over alleged sex bias

BY DAVID KESMODEL

A former Anheuser-Busch Cos. executive who for years served as the company's public voice against critics has sued the beer giant for discrimination, saying she was paid less than male executives and that the company encouraged a "frat party" atmosphere.

Francine Katz, a former Anheuser-Busch vice president of communications and consumer affairs, filed a lawsuit Monday in state court in St. Louis, accusing the brewer of maintaining a culture that "adversely impacts women," resulting in lower salaries and bonuses and fewer opportunities.

Anheuser-Busch, which was acquired last year by Belgian brewer InBev SA, said in a statement Tuesday that Ms. Katz's complaints "are unjustified." The company, now called **Anheuser-Busch InBev NV**, said, "We believe she was compensated fairly." It added that it is committed to treating all employees equitably, regardless of gender.

Anheuser-Busch InBev said it believes Ms. Katz's complaints should be dealt with under a dispute-resolution program that it says she and other company employees agreed to as part of their employment.

Trained as a lawyer, Ms. Katz for years gave interviews to TV and print reporters defending the company's advertisements and products against critics who accused the brewer of encouraging irresponsible

or underage drinking. She also directed the brewer's efforts to promote responsible behavior, such as picking a "designated driver" before a night of drinking.

The lawsuit alleges that Ms. Katz's duties "were materially reduced" as a result of InBev's acquisition of Anheuser-Busch, which was completed in November 2008, and that she resigned effective Dec. 31, 2008. According to a Securities and Exchange Commission filing last fall, Ms. Katz was due to receive \$12 million from the exercise stock options and sale of restricted stock as part of the \$52 billion acquisition.

Ms. Katz joined Anheuser in 1988 as an associate general counsel. In 2002, she became the first woman on its strategy committee, which consisted of about 20 executives.

In her suit, Ms. Katz said it wasn't until she received information prepared in connection with the InBev-Anheuser deal that she learned her 2008 salary and bonus targets, and those of another top female executive, were less than those of male executives on the strategy panel. She also said she was paid a substantially lower salary in her final job at the company than her male predecessor.

"As someone who oversaw an exemplary group of people during my tenure at Anheuser-Busch, many of whom were women...I believe it is important to speak up about the disparate treatment I received," Ms. Katz said in a statement Tuesday.

# Earnings rise at Norsk Hydro

BY ELIZABETH ADAMS

Norsk Hydro ASA on Tuesday posted a third-quarter profit increase, boosted by currency effects, but said it remains cautious about the outlook for global aluminum demand.

The Norwegian aluminum and power supplier, which has been hit hard by a recession-triggered drop in demand in its key automotive and construction sectors and has been cutting costs to cope with the downturn, said it doesn't expect a substantial improvement in aluminum demand for the remainder of the year.

The one exception is China, which has this year exceeded 2008 consumption levels, the company said.

The country is expected to continue to import primary aluminum in the coming months, but at a lower level than before, Hydro said.

"There continues to be significant uncertainty regarding the timing and strength of an eventual recovery," the company said.

"Hydro expects a continued weak

result in the fourth quarter of 2009."

Third-quarter net profit rose to 1.01 billion Norwegian kroner, or about \$180 million, from 202 million kroner a year earlier.

The latest earnings were boosted by about one billion kroner in non-cash currency gains, as the euro weakened against the krone. Meanwhile, the year-earlier results were weighed down by losses related to the U.S. dollar's strengthening against the krone.

However, Hydro booked an underlying loss of 1.22 billion kroner from continuing operations, compared with a 572 million kroner loss a year earlier, largely because of a poor performance in its primary aluminum unit. Its underlying results strip out unrealized derivatives effects on metals as well as power and currency contracts, among other factors, to give a better understanding of Hydro's operational performance.

The company has reacted aggressively to the slump in its markets by slashing output and costs, including closing some of its least efficient

units.

Analysts at Liberum Capital said the results were "disappointing," while analyst Bengt Jonassen of RS Platou Markets said the report was "marginally weaker" overall than analysts' forecasts.

Mr. Jonassen said a weak performance by the primary aluminum unit and higher-than-expected costs more than offset the benefits of strong cash flow and a rise in finished-product volumes, confirming similar results from **Alcoa Inc.** and other basic-materials companies.

Revenue fell 25% to 16.34 billion kroner from 21.77 billion kroner in the year-earlier period, weighed down by falling demand.

Separately, Hydro said it will sell its automotive-structures business to Benteler Automobiltechnik GmbH.

The transaction will be cash-neutral for Hydro, resulting in an estimated after-tax loss of 250 million kroner in its fourth-quarter results. The deal is due to be closed by year-end.

—Andrea Hotter contributed  
to this article.