



## U.N. global-warming plan has unintended effects

NEWS IN DEPTH | PAGES 14-15

## China's policy mix hinders its battle against inflation

MONEY & INVESTING | PAGE 17

## What's News —

Business & Finance

World-Wide

**Freddie Mac's auction** of short-term debt was well-received after the U.S. government tried to rebuild confidence in Freddie and Fannie Mae. The plan to support the ailing mortgage giants boosted European government-bond markets and appeared to gain support in Congress. **Pages 1, 2, 3**

■ **The Fed board approved** a rule to better protect consumers from deceptive mortgage-lending practices. **Page 3**

■ **Anheuser's agreement** to be acquired by InBev marks an abrupt end to a takeover drama and closes the book on an American dynasty. **Page 1**

■ **U.K. inflationary pressures** continued to build amid growing signs that the economy is slowing sharply. **Page 2**

■ **U.S. stocks finished lower**, dragged down by a broad selloff of banking shares. European shares rose on a flurry of deals and rumored deals. **Pages 18, 19**

■ **Shell offered to buy Duvernay Oil** for \$5.87 billion. A deal would bolster its presence in "unconventional" oil and gas. **Page 6**

■ **Banco Santander** agreed to buy U.K. lender Alliance & Leicester for \$2.5 billion. **Page 17**

■ **Waste Management made** a \$6.3 billion bid for rival garbage hauler Republic, which had already agreed to merge with Allied Waste. **Page 19**

■ **EBay won a big legal** victory as a U.S. court said it took adequate precautions to block sales of fake Tiffany jewelry. **Page 6**

■ **IndyMac Bank's seizure** by the U.S. government has worsened concerns about the banking industry. **Page 4**

■ **Glaxo will develop** an experimental insomnia drug with a small biotech as big drug firms increasingly rely on outsiders for new medicines. **Page 5**

■ **Philips Electronics** posted a 57% drop in second-quarter net profit but reported a solid rise in revenue. **Page 8**

### Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11055.19	-45.35	-0.41
Nasdaq	2212.87	-26.21	-1.17
DJ Stoxx 600	272.47	+2.11	+0.78
FTSE 100	5300.4	+38.8	+0.74
DAX	6200.25	+46.95	+0.76
CAC 40	4142.53	+41.89	+1.02
Euro	\$1.5897	-0.0012	-0.08
Nymex crude	\$145.18	+0.10	+0.07

Money & Investing > **Page 17**

**The chief prosecutor** of the International Criminal Court charged Sudan's president with genocide and challenged governments to intervene to stop a campaign of rape, murder and starvation in the Darfur region. He accused Omar al-Bashir of directing Sudan's army and janjaweed militia to commit genocide and other crimes. **Page 9**

■ **A Turkish prosecutor charged** 86 people with involvement in an alleged coup attempt against the government of Prime Minister Recep Tayyip Erdogan. **Page 9**

■ **Obama said** he would send at least two more combat brigades to Afghanistan if he becomes U.S. president. U.S. troops reinforced a remote outpost after a deadly assault.

■ **Three men accused** of plotting to bring down passenger jets pleaded guilty to planning to set off bombs but said they didn't seek to destroy airliners, U.K. prosecutors said. **Page 9**

■ **Ahmadinejad hit back** at an adviser to Iran's top authority who criticized his "provocative" speeches about the country's nuclear work, saying the adviser wasn't involved in decisions.

■ **Russian officials said** an unexplained reduction in oil supplies to the Czech Republic was caused by technical problems, not a dispute over a proposed U.S. missile-defense project.

■ **Bush lifted** an executive ban on U.S. offshore oil drilling, but the move will do nothing unless Congress lifts its own ban as well.

■ **Russia said** it is sending warships to patrol Arctic waters for the first time since the breakup of the Soviet Union.

■ **South Korea's ruling party** proposed holding parliamentary talks with North Korea, aiming to prevent a further chill in relations after a North Korean soldier gunned down a tourist last week.

■ **A homemade firebomb** was thrown into the U.S. Consulate compound on the southern Japanese island of Okinawa, but no one was injured, police said.

■ **California officials said** that over 1,700 wildfires have hit the state this season, burning a record total of 34,000 hectares.

### EDITORIAL & OPINION

**Easy governments**  
Europe's rigid markets make it harder for the ECB to keep inflation in check. **Page 13**

# Risk brews for InBev

## Anheuser deal sets up fight with SABMiller in tough U.S. market

BY DAVID KESMODEL,  
DENNIS K. BERMAN  
AND DANA CIMILLUCA

Anheuser-Busch Cos.' agreement to be acquired by InBev NV for about \$52 billion marks an abrupt end to what many expected to be a prolonged takeover drama.

But last week, InBev, based in Leuven, Belgium, drew its St. Louis rival into friendly discussions by increasing its original cash offer by \$5 a share. The \$70-a-share deal creates the world's largest beer maker and places an iconic American company in the hands of a Belgian-Brazilian giant. For weeks, Anheuser showed stiff resistance to a sale.

The companies plan to call the new brewer Anheuser-Busch InBev. Anheuser will have two seats on the board. The board, which will include Anheuser-Busch President and Chief Executive August Busch IV, will have 14 members, up from 12 currently on the InBev board.

The deal caps Anheuser's roughly 150 years of independence and will create a global juggernaut. The new company will have net sales of about \$36 billion a year, followed in size by London's SABMiller PLC. The two companies have about 300 brands, including Anheuser's Budweiser and Bud Light and InBev's Stella Artois and Beck's.

The agreement is evidence that  
*Please turn to page 30*

## U.S. promise boosts bonds in Europe

BY EMESE BARTHA,  
NIELS SORRELLS  
AND MICHAEL WILSON

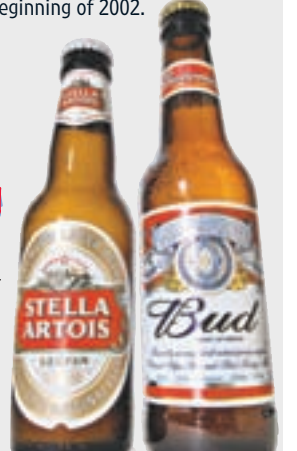
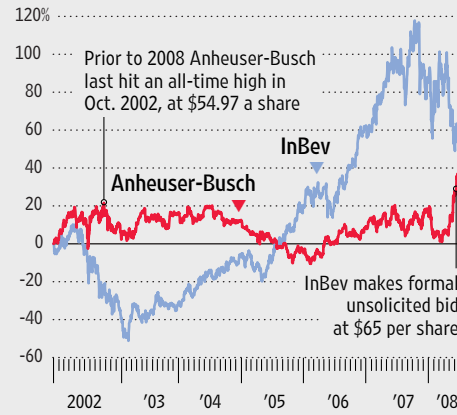
The U.S. government's promise of support for mortgage giants Fannie Mae and Freddie Mac boosted sentiment in European government-bond markets.

The news came just in time for Italy's issue of new treasury bonds, which fetched higher prices than a month ago. Spain will be the next country to test investors' appetite Thursday when it auctions €1.8 billion (\$2.87 billion) to €2.2 billion of 4.10% July 2018 government bonds. On the other hand, shares of Fannie and Freddie, having risen on news of the government's support, were down again in afternoon trading, Freddie by about 8%, suggesting that stock investors may be less assured than bond investors.

Over the weekend, the U.S. Treasury and Federal Reserve sought to bolster Fannie and Freddie by announcing a plan that puts the federal government firmly behind the two, which are charged with providing a steady flow of money into  
*Please turn to back page*

### Beer buzz

Anheuser-Busch's stock had been trading within a consistent range over the years, until word of InBev's plan to acquire the No. 1 U.S. brewer began to surface. Daily share performance of both brewers since the beginning of 2002.



Sources: Thomson Reuters Datastream; WSJ research

Getty Images

# U.S. plan, debt sale buoy hopes for Fannie, Freddie

BY JAMES R. HAGERTY,  
DEBORAH SOLOMON  
AND SUDEEP REDDY

Freddie Mac's auction of \$3 billion of short-term debt Monday sold at better-than-expected prices, with the offering well received by investors a day after the U.S. Treasury and Federal Reserve announced a plan placing the federal government firmly behind the battered mortgage giant and its sister Fannie Mae.

The fact that the auction was successful comes as a relief for investors in Freddie, Fannie and the market as a whole, as the likelihood is lowered that the ailing mortgage giants will fail.

In a statement timed to precede the opening of Asian markets Monday as well as Freddie's closely watched debt auction, the Treasury said late Sunday it plans to seek approval from Congress for a temporary increase in a longstanding Treasury line of credit for the two companies.

The Treasury also said it would seek temporary authority so that it could buy equity in either company "if needed" to ensure they have "sufficient capital to continue to serve their mission" of providing a steady flow of money into home mortgages. The plan, which requires congressional approval, also calls for a provision to give the Federal Reserve a "consultative role" in the process of setting capital requirements and other "prudential standards" for Fannie and Freddie.

Shares of Freddie were up about 20% soon after the market opened Monday but reversed course and traded down 43 cents to \$7.32 at midday. Fannie stock jumped around 30% at the open but turned around to trade down 19 cents to \$10.06 at midday.

The Fed's Board of Governors met Sunday in Washington and voted to grant the New York Fed authority to lend to Fannie and Freddie "should such lending prove nec-  
*Please turn to back page*

**INNOVATION STRIKES AGAIN.**

THE NEW INTEL® CENTRINO® 2. Intel's best performing mobile processor technology. Learn more at [intel.com/go/centrino2](http://intel.com/go/centrino2)

THE WALL STREET JOURNAL

For information or to subscribe, visit [www.wsj.com](http://www.wsj.com) or call +32-2-741-4141. — Albania LK 370,000 - Austria €3 - Belgium €290 - Croatia HRK 20 - Czech Republic Kč 110 - Denmark Dkr 22 - Finland €320 - France €290 - Germany €3 - Greece €290 - Hungary Ft 530 - Ireland (Rep.) €290 - Italy €290 - Lebanon L.L. 4000 - Luxembourg €290 - Morocco Dh 24 - Netherlands €290 - Norway Nkr 27 - Poland Zł 1050 - Portugal €3 - Slovakia Sk 100 - Spain €290 - Sweden kr 27 - Switzerland SF 4.80 - Syria SE 150 - Turkey YTL 4.25 - U.S. Military (Eur) \$2 - United Kingdom £140

LEADING THE NEWS

# Asia remains skittish

*Response is muted to U.S.'s backing of Fannie, Freddie*

BY LAURA SANTINI

HONG KONG—A hurriedly drafted plan by the U.S. government to back mortgage giants Fannie Mae and Freddie Mac drew a muted response Monday from Asian investors, who regarded the move as positive but fear the tough times aren't yet over.

The U.S. Treasury and Federal Reserve Board on Sunday pledged to extend credit to the two battered companies if needed. The pledge, timed to come before Asia's markets opened, was intended to restore confidence in the two quasigovernmental mortgage buyers, which bundle loans into securities that are sold to investors around the world.

Freddie Mac's auction of \$3 billion of short-term debt Monday sold at better-than-expected prices, as the offering was well received. The auction's success comes as a relief for investors in Freddie and in Fannie Mae, as well as for the market as a whole, as it lowers the likelihood Freddie and Fannie will fail.

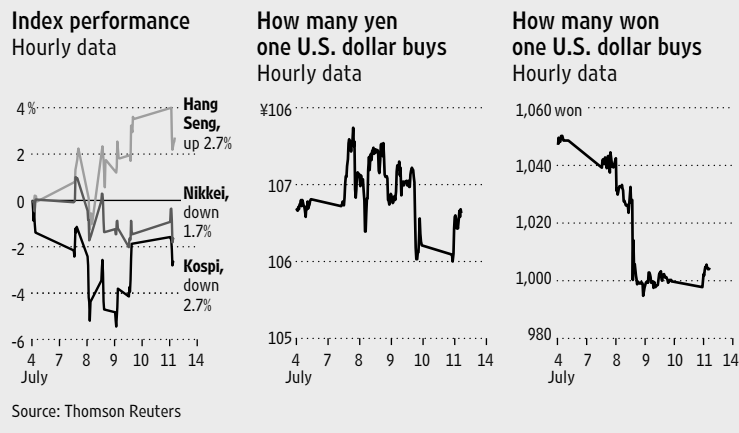
Shares of Freddie were up about 20% soon after the U.S. market opened Monday but reversed course and were trading down 7.2% at \$7.19 in late trading. Fannie stock jumped around 30% at the open but was down 6% at \$9.64.

Investors in Asia's markets, which have been battered by fears of a U.S. slowdown and inflation worries, generally reacted warmly to the plan. Regional credit markets rallied slightly.

But slight drops in regional stocks showed continued skittishness. Japan's Nikkei Stock Average fell 0.2%, while Hong Kong's Hang

### Staying calm

Key Asian markets movements since Fannie Mae and Freddie Mac's tumble; last seven trading days



Seng dropped 0.8% and the Korean KOSPI slipped 0.6%. In the biggest drop of the day, Bangkok's bellwether index closed down 1.8%.

The meltdown in U.S. subprime debt has taken a toll on regional stock markets. Most are down double digits this year, as investors have expressed concerns that difficulties in the U.S. will cause consumers there to cut back spending, resulting in an earnings decline among Asian exporters. The markets have been hit by surging oil prices and other inflationary concerns.

Monday, investors seemed hopeful that a bailout of the U.S.'s two largest mortgage-finance companies would ease further pain globally. But many mutual funds and hedge funds have already converted large amounts of stock holdings into cash and reduced borrowing, say investors and traders, in a strategy to preserve remaining capital and wait out the downturn.

Investors are still watching Asian financial institutions warily because many have been big buyers of debt issued by Fannie Mae and Freddie Mac as proxies for U.S. Treasury debt. In a

note to investors on Monday, Goldman Sachs analyst Roy Ramos identified broadly banks and financial institutions in Japan, China, Hong Kong, Singapore and Taiwan as likely holders of the mortgage companies' bonds. He indicated that a quick recovery, engineered by the U.S. government, would prevent Asian institutions from being weighed down by serious loan problems.

In credit markets, spreads between Asian dollar-denominated bonds and U.S. Treasury bonds narrowed—a reflection of investor comfort with the ability of Asia's governments and corporations to meet debt obligations. "If anything, the markets reacted positively to news over the weekend," says Darryl Flint, head of credit at PMA Investment Advisors, a Hong Kong-based hedge fund.

In Europe, government-bond trading also showed a sanguine response. Italy's issue Monday of new treasury bonds fetched higher prices than a month ago.

—Ditas Lopez in Singapore contributed to this article.

# U.K. inflation pressures mount as economy slows

BY JOE PARKINSON AND PAUL HANNON

LONDON—Inflationary pressures continued to build in Britain amid growing signs that the economy is slowing sharply.

Data released Monday showed June prices at the U.K.'s factory gates were up 10% from the same month of last year, the fastest increase since records began in 1986. Meanwhile, the British Retail Consortium said retail sales fell in June, and the Royal Institution of Chartered Surveyors reported that the number of homes being sold in the U.K. continued to fall.

The rapid increase in the prices of goods leaving the factory gates should mean that U.K. consumer prices will also rise further. But the Bank of England has already indicated that even though it expects the annual rate on inflation to remain above 3% well into next year, and peak as high as 4%, it is unlikely to raise interest rates again soon.

That point was reinforced by BOE Governor Mervyn King in a foreword to the central bank's annual report published Monday.

Mr. King said that to attempt to bring the inflation rate back to the Monetary Policy Committee's 2% target quickly would require large increases in interest rates that could push the economy into a sharp slowdown and result in an inflation rate below 2% over the medium term.

"The MPC can have little impact on the path of inflation in the short term," Mr. King said.

But the MPC is also worried that a persistently high level of inflation will lead workers to seek pay rises to match, which, if granted by employers, would set off a second round of price rises. So it is unlikely to cut its key interest rate this year, even though Mr. King said there is a "very clear" risk that the U.K. economy will slow sharply.

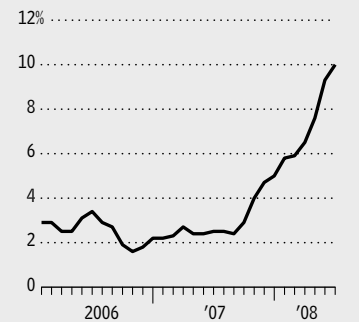
Signs that the economy is slowing proliferate. According to the

British Retail Consortium, same-store retail sales fell 0.4% in June from the same month last year, reversing the surprisingly strong 1.9% annual gain in May. That was significantly weaker than economists had expected—those surveyed by Dow Jones Newswires last week had forecast a rise of 0.8% on the year.

Total sales, which include new retail outlets, rose 2.1% in the year to June, marking a sharp slowdown

### U.K. producer prices

Year-to-year percentage change in the output price index for home sales and manufactured products



Source: Office for National Statistics, U.K. via Thomson Reuters Datastream

from the 4.6% rate of increase in total sales recorded in May.

Meanwhile, the Royal Institution of Chartered Surveyors said its main measure of sentiment in the housing market showed a slight improvement, albeit from very weak levels. But it also said the reduced availability of mortgage loans as a result of the credit crunch led to a further decline in the number of transactions per surveyor. That measure of activity fell to 15.3, the lowest since the survey began in 1978.

"Transaction levels remain incredibly low with many buyers cut out of the process by tight lending conditions," said Jeremy Leaf, a spokesperson for RICS.

—Nick Winning contributed to this article.

## 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.

Actelion.....5	AT&T .....4	Cadence Energy .....8	GlaxoSmithKline .....5	Providence Equity Partners .....5
Allegheny Technologies .....18	Banco Santander (Spain) .....17	Children's Investment Fund .....19	Goldman Sachs Group.....18,29	Ranbaxy Laboratories .....7,22
Alliance & Leicester.....17,19	Bank of America .....18	China Construction Bank .....22	Grupo Modelo .....30	Reliant Energy .....27
AllianceBernstein .....20	Bank of China .....22	China International Capital .....8	High Tech Computer.....29	Republic Services.....19
Allied Waste Industries .....19	Barrick Gold .....8	China National Gold Group .....8	HKT Group Holdings .....5	Research In Motion .....29
Amgen.....5	BG Group .....7	China Network Communications Group .....5	HSBC Holdings .....21	Roche Holding .....5
Anglo American .....8	Blackstone Group .....5	Industrial & Commercial Bank of China .....22	Imperial Energy .....6	Royal Bank of Scotland Group .....21
Anheuser-Busch ..1,18,19	Boeing .....5,6	IndyMac Bancorp .....4,23	InBev .....1,18,19	SABMiller .....1
Apple.....4,29	BP .....6	Infosys Technologies.....22	Intel .....8	Salt River Project .....27
	Bradford & Bingley .....17	Intel .....8	J.P. Morgan Chase.....18	Sanofi-Aventis .....5
		Citic Resources Holdings .....8	Johnson and Johnson ..5	Santander .....19
		Citigroup .....18	Kazakhmys .....8,19	Satyam .....22
		Continental .....6	Kohlberg Kravis Roberts & Co. ....5	Saudi Arabian Airlines ..6,19
		Continental Corp. ....19	Lehman Brothers Holdings .....3,18,20	Schaeffler Group .....6,19
		Credit Suisse .....18,21	Macarthur Coal .....8	Shandong Gold Group ..8
		Daiichi Sankyo .....7	Macquarie Bank.....5	Siemens .....6
		Daylight Resources Trust .....8	McGraw-Hill .....20,23	Southwest Windpower .....27
		Delhaize Group .....18	Merrill Lynch .....18,21	Sprint Nextel .....29
		Deutsche Bank .....21	Metalloinvest .....8	Standard Life Investments .....18
		Duvernay Oil .....6	Microsoft .....3,29	Taiwan Semiconductor Manufacturing Co. ....8
		eBay .....6	Mitsubishi UFJ Financial Group .....22	Telstra .....5
		Electric Power Development .....19	MMX Mineração & Metales .....8	Tiffany .....6
		Emirates Airline .....6	Molson Coors Brewing.....30	TNT .....19
		Etihad Airways .....6	Moody's .....20,23	Toll Holdings.....19
		European Aeronautic Defence & Space .....6	National City .....18,23	TPG .....5
		Exxon Mobil .....6	Novellus Systems .....8	TPG-Newbridge .....5
		F.N.B. ....4	Nvidia .....18	UBS .....5,8,21
		Falcon Northwest .....8	Oil & Natural Gas .....6,22	UCB Group .....18
		Fannie Mae .....1,2,3,10,17,18,19,20,23	Origin Energy .....7	Virgin Blue Holdings ..19
		First Horizon National.....18	PCCW .....5	Wachovia .....18
		FlyDubai .....6	Pfizer .....5	Washington Mutual .....18
		Fortis .....18	Philips Electronics.....8	Waste Management .....19
		Freddie Mac .....1,2,3,10,17,18,19,20,23	Posco .....22	Xcel Energy .....27
		Gazprom .....6		Yahoo .....3,18
				Zijin Mining Group .....8
				Zions Bancorp .....18

## 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

Aaron, Mark L. ....6	Goltra, Ian .....20	Pink, Nick .....21
Achterberg, Marcel .....8	Green, Orlando .....32	Raines, Franklin .....20
Adamson, Allen .....29	Griffith, Richard .....7	Ramos, Roy .....2
Almanza, Ashley .....7	Gysemberg, Luc .....18	Reeves, Kelt .....8
Alves, Tony .....7	Hill, Richard .....8	Reinhart, Carmen .....20
Amsoms, Marianne .....18	Ho, John .....19	Rigden, Guy .....21
Ballmer, Steve .....3	Hogan, James .....6	Roach, Stephen .....18
Batista, Eike .....8	Icahn, Carl .....3	Rogoff, Kenneth .....20
Batty, Richard .....19	Jordan, Kim .....30	Ryan, Alastair .....21
Bennett, David .....17	King, Grant .....7	Salaam, Ali .....21
Bianco, James .....20	King, Mervyn .....2	Schnautz, David .....32
Bohr, Mark .....8	Konchin, Artyom .....6	Schuhmacher, Harry .....30
Bostock, Roy .....3	Krantz Taylor, Barb .....28	Sels, Willem .....21
Botin, Emilio .....17	Laikin, Bob .....29	Sharpe, Nichola .....6
Brito, Carlos .....30	Larsson, Per .....8	Sivignon, Pierre-Jean .....8
Busch IV, August .....1	Law, Robert .....18	Sokalsky, Jamie .....8
Canavan, John .....23	Leaf, Jeremy .....2	Steinman, Benj .....30
Chapman, Frank .....7	Lejeune, Christian .....18	Sullivan, Richard .....6
Chen, Samuel .....22	Levin Zhu .....8	Sullivan, William .....23
Crutchley, John-Paul .....21	Li Jiange .....8	Swire, James .....6
Daher, Bruno .....21	Li, Richard .....5	Tchenguiz, Robert .....8
Dalglish, Ian .....21	Little, Paul .....19	Tertzakian, Peter .....6
Dator, Romeo A. ....22	Lo, Marvin .....5	Thomas, Rudi .....18
Diamond, Douglas .....20	Mackenzie, Jason .....29	Van Rooyen, Gert .....21
Emery, Kenneth .....21	Marta, T.J. ....23	Wadhwaney, Amit .....22
Fall, Omar .....21	McCorry, Peter .....18	Wallison, Peter .....3
Flint, Darryl .....2	McNerney, Jim .....18	Wang, Howard .....22
Fridson, Martin .....21	Meine, Hartmut .....6	Wang, John .....29
Fuld Jr., Richard .....3	Miller, Lee E. ....28	Ward, Mike .....5
Garcia, John .....29	Moore, Gordon .....8	White, Lawrence J. ....20
Ghaith, Ghaith Al .....6	Nsouli, Wafiq .....21	Witty, Andrew .....5
		Yamine, Bassam .....21
		Yang, Jerry .....3

**FREE daily access to WSJ.com**

If you bought today's paper from a retail outlet, simply register at: [wsj.com/reg/coupon](http://wsj.com/reg/coupon) or renew at: [wsj.com](http://wsj.com)

Today's code is: **EUROPE-3-567**

**THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)**  
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium

Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102  
News: 32 2 741 1600 Editorial Page: 32 2 735 7562

**SUBSCRIPTIONS, inquiries and address changes to:**  
Telephone: +32 2 741 1414

International freephone: 00 800 9753 2000  
E-mail: [subs.wsje@dowjones.com](mailto:subs.wsje@dowjones.com) Website: [www.services.wsje.com](http://www.services.wsje.com)

**Advertising Sales** worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürrilet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampo Centro Italia s.r.l. Printed in Spain by Belmont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.

Registered as a newspaper at the Post Office.  
Trademarks appearing herein are used under license from Dow Jones & Co. © 2008 Dow Jones & Company All rights reserved.  
Editeur responsable: Daniel Hertzberg M-17936-2003



## LEADING THE NEWS

# Microsoft takes on Yahoo

*Software firm denies giving 'ultimatum' in last week's talks*

BY ROBERT A. GUTH

Microsoft Corp. disputed Yahoo Inc.'s account of talks last week over a possible deal to break up the company that involved Carl Icahn.

In a statement titled "Microsoft Sets the Record Straight," the software company Monday disputed Yahoo's contention over the weekend that Microsoft and Mr. Icahn gave them a 24-hour deadline to accept the offer. Instead, Microsoft said the offer wasn't an "ultimatum" but rather an attempt to see whether Microsoft's offer was sufficient to "form the basis for the parties to engage in negotiations over the weekend on a letter of intent and more detailed term sheets," according to the Microsoft statement.

Microsoft also addressed a point of contention over whether the proposed deal would require changes to Yahoo's board and top management. Microsoft said its proposal "did not include changes to Yahoo's governance."

People close to Mr. Icahn and Yahoo had said that under the breakup proposal, Yahoo Chief Executive Jerry Yang would have to be replaced and that Mr. Icahn wanted control of the board.

Microsoft in January made an un-

solicited offer for Yahoo, which Yahoo's board rejected. Later Mr. Icahn, intent on seeing the company sold, amassed Yahoo shares and has tried to broker a deal while threatening a proxy fight to replace Yahoo's board.

Microsoft, meanwhile, has refocused on buying just Yahoo's Internet-search business.

Microsoft's statement follows Yahoo's rejection Saturday night of the proposal from Microsoft and Mr. Icahn, under which Microsoft would acquire Yahoo's Internet-search business and Mr. Icahn and the directors he nominated would control the rest of the company.

Under the plan, Microsoft would make an equity and debt investment in Yahoo. Microsoft would take over Yahoo's Internet-search business, leaving the rest of the company under Mr. Icahn's control.

Yahoo said Saturday that Microsoft and Mr. Icahn made their proposal Friday night and gave Yahoo 24 hours to accept it. Yahoo's board found that the Microsoft-Icahn proposal "is not in the best interests of stockholders based on a number of factors."

Yahoo Chairman Roy Bostock, in the statement, called the pairing of Microsoft and Mr. Icahn an "odd and opportunistic alliance."

In a filing with the U.S. Securities and Exchange Commission on Monday, Mr. Icahn pressed his case for shareholders to vote for a slate of nine new Yahoo directors that would likely support his proposal to break up the company.

In the filing, Mr. Icahn said that Microsoft Chief Executive Steve Ballmer "has made it clear to me that if a new board consisting of my nominees were to be elected, Microsoft would be willing to enter into discussions immediately" about buying the Internet-search business.

Much of Microsoft's statement was a recap of talks that started on Thursday with a conversation between Mr. Icahn and Mr. Bostock.

In Microsoft's version of the events, Mr. Bostock called Mr. Ballmer on the afternoon of July 10 and arranged a subsequent call in which Mr. Bostock "encouraged Mr. Ballmer to submit a new proposal" to Yahoo over buying the company's Internet-search business," according to Microsoft's statement.

That led Microsoft on Friday to submit an "enhanced search transaction" that included a new proposal with "significant revenue guarantees" and other terms.

According to the Microsoft statement, "at the time Microsoft submitted its enhanced proposal, Microsoft asked that Yahoo confirm whether it would agree that the enhancements were sufficient to form the basis for the parties to engage in negotiations over the weekend on a letter of intent and more detailed term sheets. This discussion has been mischaracterized as a take it or leave it ultimatum, rather than a timetable in order to move forward to intensive negotiations. Yahoo informed Microsoft on Saturday that it had rejected the proposal."

# SEC announces inquiry into spreading of rumors

BY KARA SCANNELL, SUSANNE CRAIG AND DENNIS K. BERMAN

The U.S. Securities and Exchange Commission, under fire for not responding more vigorously to a raft of rumors that have pounded stock prices, says it is cracking down on firms or individuals that illegally spread false rumors.

The need for such a move by the SEC took on new urgency after a brutal week in the U.S. stock market, where major financial firms such as Lehman Brothers Holdings Inc., Fannie Mae and Freddie Mac were battered as rumors about everything from government bailouts to possible mergers flew across Wall Street. The announcement was timed to be released hours before the trading week began in Asia, in hopes it would serve as a warning shot to traders, a senior official said.

Meanwhile, executives at Lehman Brothers, whose shares fell nearly 17% Friday alone, were working on a plan to put the firm on more solid footing and stop the free-fall in the company's stock.

Lehman is examining a handful of options, including a strategic alliance with a partner that it hopes will help restore investor confidence, an asset sale or possibly some sort of stock buyback, according to people familiar with the matter.

Nothing final has been decided, but Lehman executives have long pushed for SEC action to stop the rumor mongering around their stock. Sunday, people close to the firm said Lehman hopes the SEC move will stop the fall of its stock until it has time to put together a plan.

The SEC, led by Christopher Cox, said it would join with other Wall Street regulators, the Financial Industry Regulatory Authority and New York Stock Exchange Regulation Inc., to immediately begin examining the supervision and compliance programs at brokerage firms and hedge funds to ensure training and other oversight programs concerning the sharing of information are up to par.

The joint examinations will begin in earnest this week. Also over the weekend, senior members of the Federal Reserve, the SEC, and executives from Lehman participated in conference calls on the difficult situation facing the firm, according to people familiar with the matter. SEC staff members were expected to be dispatched to Lehman's midtown Manhattan office building Monday, a person familiar with the matter said.

The SEC began its antirumor campaign Friday, calling several

hedge funds to warn that subpoenas for their trading records related to Lehman were imminent, people familiar with the matter said. SEC officials weren't specific about what period of trading they planned to examine, these people said.

Officials at Lehman and other firms have expressed to the SEC their concerns about false market rumors. Many top Wall Street executives have complained privately about the apparent lack of action, saying traders knowingly spreading false rumors were in part responsible for the unraveling of Bear Stearns Cos., which was sold to J.P. Morgan Chase & Co. in March for a fire-sale price.

The SEC's enforcement division has asked several hedge-fund advisers to provide trading records, emails and other information covering the weeks before the sale. So far, the SEC hasn't filed charges related to stock or option trading in the shares of investment banks.

Market-manipulation cases are difficult to prove. Traders live and die by information and are constantly talking to one another. It is illegal, however, to knowingly spread false information with the intention of profiting from its dissemination; for example, by shorting a stock and saying the company is in danger of collapse. The problem is tracking down the original source of a rumor and proving that traders knew the information was false when they told others.

Meanwhile, Lehman Brothers is trying to stem the slide in its shares, which have fallen 78% this year. A buyback could help, but it could also backfire if investors believed a buyback wasn't the best use of the firm's capital. Lehman Chairman and Chief Executive Officer Richard Fuld Jr. has been encouraged to step up and buy shares of Lehman as a vote of confidence in the firm he has run since 1993.

Lehman has continued talks with the Korean financial institutions to which it reached out months ago before its \$2.8 billion loss that resulted in a \$6 billion capital raising, according to people familiar with the matter. It isn't known if it has held talks with other possible partners. Its initial discussions with the Korean entities didn't culminate in a deal.

Another possibility for Lehman includes the sale of some of its more troubled assets, similar to what Citigroup Inc. did in April, when it sold almost \$12 billion in leveraged loans to a group of private-equity firms. Lehman officials didn't return calls for comment Sunday.

—Jenny Strasburg and Randall Smith contributed to this article.

# Congress to vote on Bush aid plan

BY SARAH LUECK

WASHINGTON—Congress appears poised to quickly approve legislation giving the Treasury authority to temporarily aid Fannie Mae and Freddie Mac.

The House is likely to vote on the plan this week, possibly Thursday, as part of a larger package of housing-related proposals. Barring big objections in the Senate, where lawmakers said they are waiting for details, the plan could move soon after in that chamber.

Sen. Chris Dodd, the Connecticut Democrat who is chairman of the Banking Committee, said he is recommending the Senate act this week on the proposal and urged

the House to move up its vote. He said markets had reacted positively to the administration's announcement of the rescue plan, providing momentum for fast congressional action.

"The earlier we get this done, the better," Mr. Dodd said in a conference call with reporters. "I think the message it sends is important."

The moves come after a flurry of weekend communication between Treasury Secretary Henry Paulson and top lawmakers, including the leadership of both parties in the House and Senate and the chairmen and ranking Republicans on the House and Senate committees that oversee banking and housing issues. Lawmakers said they continue

to review the proposal put forward by the Bush administration to temporarily extend a Treasury line of credit to government-sponsored entities Fannie Mae and Freddie Mac. And, certainly, hurdles could arise, especially in the Senate, where a single senator can stall legislation using procedural maneuvers.

But the authority requested by the administration appears to be picking up the kind of momentum that earlier this year pushed an economic-stimulus package into law with huge support in both parties. House and Senate aides in both parties said lawmakers are under pressure to quickly pass a bill that top economic officials have said is crucial to providing comfort to the markets.

# Fed clears deceptive-mortgages rule

BY MEENA THIRUVENGADAM AND MAYA JACKSON-RANDALL

The U.S. Federal Reserve Board unanimously approved a rule aimed at better protecting consumers from deceptive mortgage-lending practices.

The rule is similar to a proposal issued in December but adds protections for people with higher-priced mortgages. Those loans include those in the subprime market but typically exclude prime loans.

"The subprime market doesn't really exist right now," Federal Reserve Board Vice Chairman Donald Kohn said. "What we're asking is what do we want it to look like when it comes back. We don't want it to look like it has [the] past couple of years."

The new measures require creditors to verify borrowers' income and assets and to establish escrow accounts for all first-lien mortgages. Lenders will be prohibited from relying solely on a home's value to assess a borrower's ability to repay loans. Prepayment penalties also will be limited.

The rule will also require advertising to include new information about rates, monthly payments and other loan features and ban seven deceptive or misleading practices, including representing that a rate or payment is "fixed" when it can change.

The rule will apply to all lenders and not just to banks supervised by the Fed.

"This rule will help eliminate areas of uncertainty that threaten to

further weaken the market and [will] establish clear, well-balanced regulations that will benefit both borrowers and lenders," said Rep. Carolyn Maloney (D., N.Y.). "Unfortunately, however, the new rule won't help the millions of homeowners who've already fallen behind or defaulted on their mortgages, but it can help to prevent another housing crisis."

The Fed's staff is recommending that most changes go into effect by Oct. 1, 2009. Regulations for escrow requirements, however, wouldn't go into effect until April 1, 2010, to allow the industry to make the adjustments to facilitate the rule change.

"It's a very, very complex undertaking to change these rules," Fed Chairman Ben Bernanke said during Monday's meeting.

# Fannie woes were predicted

BY JOHN D. MCKINNON

WASHINGTON—Peter Wallison saw Fannie Mae's troubles coming 25 years ago.

In the early 1980s, he was a top official in the Treasury Department during the administration of President Ronald Reagan. And Fannie Mae, at least by some measures, was insolvent, thanks to the economic storms that were roaring through the savings-and-loan industry.

But getting anyone to do anything about the congressionally

chartered mortgage company and its unusual vulnerabilities proved futile, even after Mr. Wallison began writing books warning that it and sister company Freddie Mac could take advantage of their government ties and relative lack of regulation to grow too large.

Now the two companies' struggles "in fact threaten not only the stability of the housing sector but the financial markets themselves," he says. Despite his concerns, he said, he thinks pending legislation could help stabilize the situation.

## CORPORATE NEWS

## ALUMINUM

## Norsk Hydro says results will trail market forecasts



**A**LUMINUM company Norsk Hydro ASA warned that its second-quarter results will come in about 20% below market expectations, hit by "significant cost increases" in its aluminum-metals unit. The

company's shares plunged more than 13% after the announcement. Norsk Hydro said it expects earnings before interest and taxes, or EBIT, of about 1.6 billion kroner (\$316.2 million)—22% below the 2.05 billion kroner midpoint of the company's poll of market forecasts. Higher prices for alumina, alumina freight, petroleum coke and other costs will weigh on the EBIT, offsetting a positive contribution from increased aluminum prices, the company said. —Elizabeth Cowley

## ENERGY

## MOL plans to raise stake in Croatian refiner INA



**H**UNGARIAN oil and gas company MOL Nyrt. said it plans to increase its stake in Croatian refiner INA DD to 55.2%, making it the majority owner. MOL, which holds a 25% stake in

INA, said it will launch a public buyout offer for all outstanding shares not held by the Croatian government, or 30.2% of the company. It didn't disclose financial details. Based on INA's share price Monday of 2,800 forints (\$19.25) before the MOL offer, the company's market capitalization is 28 billion forints. At that price, a 30.2% stake in INA would be valued at about 8.5 billion forints. Croatia's government has a controlling stake of 44.85% in INA. —Edith Balazs

## TELECOMMUNICATIONS

## Apple sales of new iPhone hit a million in three days



**A**PPL Inc. said it sold one million iPhones in the three days following the Friday release of the latest model. Long lines were present at Apple stores and at stores operated by the company's exclusive

wireless partner, AT&T Inc. The launch was plagued by software problems, however: All new iPhones had to be activated through a connection to Apple's servers, which were quickly overloaded. Additionally, new software was released for the old iPhone, which required reactivation of those devices. The iPhone 3G was launched simultaneously in 21 countries, including the U.S. The company has set a goal of selling 10 million iPhones by the end of 2008.—Associated Press

## IndyMac seizure deepens banking worries

## Ailing institutions may lose depositors over uninsured funds

BY ROBIN SIDEL,  
DAVID ENRICH  
AND JONATHAN KARP

**T**HE U.S. government's seizure of IndyMac Bank is deepening worries among executives, regulators and consumers about the U.S. banking industry, which is in a tightening bind following a long run of prosperity.

Banks and thrifts are struggling against a rising tide of bad loans, and it is becoming increasingly clear that some lenders won't be able to escape. While fewer banks are expected to fail than the 834 that went under from 1990 to 1992, it will likely take several years for battered financial institutions to work through their bad loans and replenish their depleted capital.

Those gloomy scenarios could be avoided, however, if the U.S. economy and housing market rebound soon, which would help consumers and businesses that have fallen behind on their loan payments.

Even signs that the worst is over could bolster the confidence of healthier banks enough to spark a flurry of takeovers that would rid the industry of some of its weakest performers.

But at least for now, as the turmoil worsens, signs are emerging that consumers, who generally thought little about the safety of their deposits when times were good, are having some second thoughts. More likely than the kind of exodus of depositors that quickly sank IndyMac is what some bankers are describing as a slow-motion "walk on the bank," which could cripple financial institutions already weakened by credit problems.

The Federal Deposit Insurance Corp. insures deposits of as much as \$100,000 per depositor per bank, or \$250,000 for most retirement accounts, including any accrued interest. It guarantees that depositors with sums below those ceilings will get all their money back. But a sur-

prising proportion of deposits exceeds those limits.

Indeed, the percentage of uninsured deposits has doubled since 1992, climbing to about 37% of the nation's \$7.07 trillion in deposits at the end of the first quarter, according to an analysis of data reported to the FDIC. The figures are based on data submitted by commercial banks and savings institutions.

It is not clear what percentage of those uninsured deposits belongs to individual consumers. The figures also include large corporate and institutional deposits, such as payroll accounts.

Amid the drumbeat of bad news about banks, some depositors are shifting money to institutions they consider to be better equipped to weather the storm sweeping the industry.

Robert New, chief executive of First National Bank, said his Hermit-

tem are much wider and deeper than they were a few months ago.

Although roughly a year has passed since credit conditions began to tighten, wreaking havoc on capital markets, many traditional banks are just starting to feel the effects of a rising number of borrowers who cannot pay back loans, ranging from mortgages to auto loans to small-business loans.

Adding to the problem is that banks that need to shore up their balance sheets are beginning to have trouble attracting capital from investors. Moreover, there is a lack of buyers who are financially able or willing to snap up wounded banks.

The shaky state of the industry will be on display this week when banks start to report financial results for the second quarter. Those results are largely expected to weaken from the first quarter, when bank profits tumbled 46% from a year earlier to \$19.3 billion, according to the FDIC. Slightly more than half of U.S. insured institutions reported profit declines in the first quarter.

"This is a very serious banking crisis. There's just no question about that," said Donald G. Ogilvie, a longtime president of the American Bankers Association and now a senior adviser at Deloitte LLP.

For much of the past decade, borrowers and lenders have been lulled into a sense of security about the safety of the banking system. As real-estate values soared, banks doled out loans that fed the explosion in residential construction, mortgages and home-equity borrowings. Loan defaults hovered at historic lows as home buyers and builders flipped properties and sold them at huge profits.

At the same time, banks fueled the demand for loans by competing fiercely against one another for customer deposits. They wooed customers with new high-yield savings accounts and certificates of deposit and special Internet-only promotions. Banks now also routinely encourage customers to pay bills online, a practice that makes it difficult for customers to sever their banking relationships. And customers who keep multiple accounts at the same bank, such as traditional savings deposits, credit-card accounts or CDs,

## Beleaguered banks

U.S. banks and thrifts that have failed since 2007

Bank	City/State	Date	Assets in millions	Deposits in millions
IndyMac	Pasadena, California	7/11/08	32,010.0	19,060.0
First Integrity Bank	Staples, Minnesota	5/30/08	54.7	50.3
ANB Financial	Bentonville, Arkansas	5/9/08	2,100.0	1,800.0
Hume Bank	Hume, Missouri	3/7/08	18.7	13.6
Douglass National Bank	Kansas City, Missouri	1/25/08	58.5	53.8
Miami Valley Bank	Lakeview, Ohio	10/4/07	86.7	76.0
NetBank	Alpharetta, Georgia	9/28/07	2,500.0	2,300.0
Metropolitan Savings Bank	Pittsburgh	2/2/07	15.8	12.0

Source: FDIC

often get the best loan rates.

But all too often, a consumer accumulates money in a single bank to earn better returns or ends up exceeding the limits covered by federal insurance simply by not paying attention to a growing balance.

Regional and specialized institutions that have been battered by soured loans have been among the most aggressive in luring new money. Last week, IndyMac was offering 4.35% interest on a one-year online CD. And although the bank's primary business is in California, depositors from distant locations have taken advantage of these types of attractive offers. One big depositor called in from South America to inquire about the security of his money, an IndyMac bank manager said.

"It's a scary place to put your money with some of these institutions that are offering high rates to attract deposits," said James Abbott, a banking analyst at Friedman, Billings, Ramsey & Co. "There will be some people who will learn a lesson."

When a bank fails, there is no guarantee uninsured deposits will be paid back. That holds true for some IndyMac depositors. Federal regulators initially said about 10,000 people with a total of nearly \$1 billion of deposits are not automatically protected by the deposit-insurance fund. That figure represents about

5% of IndyMac's deposit base.

Over the weekend, FDIC officials identified those roughly 10,000 depositors and began making appointments with them to review their accounts and to see how they might be able to recoup more of their money, FDIC spokesman David Barr said.

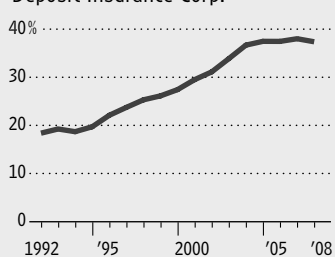
Margaret Gentle, a Pasadena, Calif., homemaker, had been planning to put more money into her IndyMac money-market account early last week, but she decided against the move because of concerns about the bank. She said she exclaimed "Wow!" when she picked up her local newspaper Saturday to see a headline about the thrift's seizure. "We have under \$100,000 there, so we should be OK. I'll be there Monday to get my money out," she added.

Some industry officials say large depositors are increasingly likely to yank their money out of struggling institutions. "Consumers believe there is an implicit guarantee from the government that the large banks aren't going to fail. When they look at the smaller banks, they have less comfort that is going to be the case," said Aaron Fine, a partner in the retail-banking practice at consulting company Oliver Wyman in New York.

—Tom McGinty, Shelly Banjo, Damian Paletta and Lingling Wei contributed to this article.

## Taking account

Portion of U.S. bank deposits that aren't insured by the Federal Deposit Insurance Corp.



Note: Figures are as of Dec. 31, except for March 31, 2008  
Source: FDIC

age, Pa., bank, a unit of publicly traded F.N.B. Corp., is winning new customers, including individuals and small businesses, who are pulling deposits out of larger rivals whose well-publicized problems are making depositors nervous.

"Depositors are being more aware of the health of their banks," Mr. New said. Customers are saying, "I'm nervous, I'm moving my deposits."

The fast-moving decline of IndyMac Bancorp Inc., parent of IndyMac Bank and a mortgage lender that was one of the nation's largest savings and loans, illustrates that the problems in the U.S. banking sys-

## CORPORATE NEWS

# Glaxo, small firm link up

*Pharma giant's deal over insomnia drug marks industry trend*

BY JEANNE WHALEN

GlaxoSmithKline PLC offered a lucrative deal to a small biotechnology company to jointly develop an experimental insomnia drug, in a strong sign of the pharmaceutical industry's increasing reliance on outsiders for new medicines.

Glaxo will pay Actelion Ltd., of Switzerland, 150 million Swiss francs (\$147.6 million) upfront and then as much as 3.15 billion francs if the sleeping pill that Actelion discovered, almorexant, makes it to market for three different uses and reaches "exceptional" sales targets, the companies said. Glaxo and Actelion will split the profit from the drug's sales in such markets as the U.S. and Europe, the companies said. The terms signal that Glaxo is expecting the drug to be a blockbuster with annual sales of more than \$1 billion.

Almorexant is a new kind of sleeping pill that temporarily reduces levels of the brain chemical orexin, which is thought to help keep people awake. Sleep experts say the drug needs further study but could offer some benefits over Sanofi-Aventis SA's blockbuster sleeping pill, Ambien, including fewer side effects. Ambien works by activating receptors in the brain that promote sleepiness. If all goes well for Glaxo, almorexant could make it to the U.S. market by 2011.

The terms of the deal signed by Glaxo, the world's second-largest drug maker by sales after Pfizer Inc., show the growing clout of smaller biotech companies. In years past, when large pharmaceutical companies wanted the rights

## Testing new remedies

Big pharmaceutical companies are offering smaller biotech companies increasingly lucrative development deals for promising drugs.

Company/date	Joint-drug development	Royalties/profits	Status
GlaxoSmithKline December 2006	Agreed to pay Genmab \$102 million for a blood-cancer drug. It also spent \$357 million to buy 10% of Genmab, and promised another \$1.6 billion if the drug made it to market and hit sales targets.	Promised 'double digit royalties' on the drug's global sales.	The drug is still in testing.
Roche Holding July 2006	Agreed to pay Actelion \$75 million upfront for the rights to a drug for autoimmune disorders, and up to \$555 million more if the drug makes it to market and meets sales targets.	The companies agreed to split profits 50-50 if the drug makes it to market.	The drug is still in testing.
AstraZeneca December 2005	Agreed to pay AtheroGenics \$50 million upfront and up to \$950 million more if an experimental cardiovascular drug made it to market and reached certain sales targets.	Agreed to pay AtheroGenics an undisclosed royalty on the drug's sales.	The drug ultimately failed in further tests.

Source: the companies

to an experimental drug from a smaller firm, they would offer a modest upfront payment and a small percentage of the drug's sales or profit.

Now, as big companies increasingly have trouble discovering their own drugs, innovative biotech firms are some of their most reliable suppliers of new medicines. The ability to discover a drug has become more rare and valuable, while the big firms' large sales forces for marketing drugs to thousands of doctors world-wide are increasingly seen as a commodity.

Seven of the 10 largest drug companies competed for the rights to almorexant, an Actelion spokesman says. Such competition likely increased the price for Glaxo.

"Because of the dearth of innovation big industry has been through, we have had a bit of an arms race of people bidding up these things," says Mike Ward, a

pharmaceutical analyst at Nomura Code Securities.

A Glaxo spokeswoman says the company didn't overpay. Actelion will also share the risks and costs of testing the drug in humans, she said. Since becoming Glaxo CEO in May, Andrew Witty has said Glaxo will invest in the best experimental medicines it finds, whether from its own labs or from others.

Other drug companies are working on orexin antagonists similar to almorexant, but Actelion is the furthest along in human testing. Almorexant could fail to make it to market if further testing uncovers problems.

Actelion, which has 1,800 employees, has extracted lucrative terms from big pharmaceutical companies in the past. In 2006, it struck a partnership with Roche Holding AG for a drug for autoimmune diseases under which the partners will equally divide any profit.

# Boeing, Northrop brace to rebid tanker contract

BY AUGUST COLE

Boeing Co. aims to stick with its original entry in the fast-tracked re-bidding for a \$40 billion U.S. Air Force aerial-tanker contract, but Chief Executive Jim McNerney said the company may seek to slow the process if the Pentagon changes its specifications to seek a bigger jet for the job.

Boeing is set to square off a second time against a partnership of Northrop Grumman Corp. and European Aeronautic Defence & Space Co. The Northrop/EADS team was awarded the contract for the new refueling tankers, but Boeing protested, and the Government Accountability Office found flaws in the contracting process. Last week, Secretary of Defense Robert Gates said the contract would be rebid on an expedited basis.

The size of the plane the Air Force is seeking, however, is important to the bid specifications. In its review, the GAO said the Air Force gave extra credit to Northrop's proposal, based on an Airbus A330 provided by EADS, because it was bigger and could haul more fuel. The size issue has caused Boeing to wonder if it

was at a disadvantage by bidding its smaller 767-based entry.

"Based on what we've heard from the customer, we would expect the [request for proposal] to come back with a requirement for a mid-size tanker," Mr. McNerney said in an interview. "In that case, we would bid the same airplane."

Mr. McNerney said that in the "unlikely" event the new Pentagon proposal makes size a key criterion, Boeing options could include a stretched version of the 767, or the larger 777. But Mr. McNerney said that bidding a larger plane would put pressure on an already "aggressive" schedule.

Mr. McNerney added that Boeing's strategy is "to be ready for whatever comes our way."

Northrop, for its part, plans to continue with its same Airbus design. In an interview, Ron Sugar, Northrop's chairman and chief executive, said he didn't see "anything that's a show-stopper" in the Pentagon's plans to address the eight problems found by the GAO.

"The tanker we provided was the most capable offering, and we are convinced that will continue to be the case," Mr. Sugar said.

# Amgen bone drug succeeds in early cancer experiment

BY MARILYN CHASE

In a summary of results from a big clinical trial, Amgen Inc. said its experimental bone drug shored up skeletal strength and reduced spinal fractures in men undergoing hormone-blocking treatment for prostate cancer.

The drug, denosumab, is an injectible drug that blocks the breakdown of bone cells. It was compared with placebo shots in a three-year study of more than 1,400 men with prostate cancer. The men were taking a treatment that removes fuel for prostate cancer by blocking male hormones. The patients who took the drug fractured their vertebrae at less than half the rate of the control group, but Amgen didn't release the data pending publication.

Analysts hailed the trial as good news for beleaguered Amgen, but said the positive results don't ensure similar success in a study of the drug in women with osteoporosis.

Denosumab, or d-mab, is the focus of the largest development program in Amgen's history, involving 19,000 patients in clinical tests of its bone-strengthening ability in patients with a variety of conditions.

Amgen needs d-mab to shore up eroding revenue following safety concerns surrounding its once-mighty anemia-drug franchise. Sales of Amgen's Aranesp and Epogen anemia products plunged over the past year after studies linked the drugs to risk of cardiovascular disease, cancer progression and death.

Amgen also announced on Friday that it would pay \$200 million to settle an antitrust lawsuit brought more than two-and-a-half years ago by Johnson and Johnson's Ortho Biotech unit, which had charged Amgen engaged in anticompetitive practices in its incentives program designed to boost sales. Amgen admitted no wrongdoing.

# PCCW draws bids for HKT stake

BY NISHA GOPALAN AND LORRAINE LUK

HONG KONG—PCCW Ltd. is seeking around US\$2.5 billion for a 45% stake in its HKT Group Holdings Ltd. unit and has received interest from several U.S. private-equity firms, people familiar with the deal said Monday.

TPG Inc. and Providence Equity Partners Inc. are the front-runners for HKT Group, which combines PCCW's telecommunications, media and information-technology operations, these people said. "There are many bidders for the stake, but Providence and TPG are the most serious," one person said. "They're the ones who are likely to have bid the highest."

Australia's Macquarie Bank Ltd., Kohlberg Kravis Roberts & Co. and Blackstone Group LP also have expressed interest, the people familiar with the situation said.

UBS AG, PCCW's financial adviser, said it had received a number of proposals as of the deadline Monday. UBS declined to name the bidders.

Officials at PCCW, Providence, Macquarie and KKR declined to

comment. Representatives from TPG and Blackstone weren't immediately available for comment.

Another person familiar with the situation said there will be a second round of bids due in early August.

PCCW in May said it would form HKT Group to improve operating efficiency and facilitate a listing. PCCW intends to retain at least a 55% stake in HKT.

PCCW Chairman Richard Li in 2006 received offers from private-equity firm TPG-Newbridge and Macquarie to buy PCCW's main telecommunications and media assets. But staunch resistance from PCCW's second-largest shareholder—state-owned China Network Communications Group Corp.—stemming from Beijing's concerns that the Hong Kong telecom firm would fall into foreign hands, led Mr. Li to abandon the deal.

PCCW shares ended down 1.2% at 4.87 Hong Kong dollars (62 U.S. cents) on the Hong Kong stock exchange Monday.

Daiwa analyst Marvin Lo said the stake sale should provide a short-term boost for PCCW's shares but won't change the company's fundamentals. "Investors need



Source: Thomson Reuters Datastream

to know more about how PCCW will use the sale proceeds. I feel that PCCW has identified some new business targets in overseas markets, but the company declined to give details." Mr. Lo has a "hold" rating on the stock with a target price of HK\$4.67.

PCCW said in June it plans to use proceeds from the sale to repay existing debt. According to the company's annual report, PCCW's net debt totaled HK\$21.99 billion (US\$2.82 billion) at the end of 2007.

—Ellen Sheng contributed to this article.



Richard Li

## CORPORATE NEWS

# Shell bids on Duvernay

Deal for \$5.87 billion would lift holdings in 'tight' oil and gas

BY GUY CHAZAN

LONDON—Royal Dutch Shell PLC offered to buy Calgary, Alberta-based Duvernay Oil Corp. for US\$5.87 billion, in a move that would bolster its presence in "unconventional" oil and gas, fast emerging as one of the Anglo-Dutch major's key strengths.

The offer Monday was a rare event in the oil and gas sector, at a time when the soaring price of crude is driving up companies' valuations and deterring would-be suitors. Eager to add new reserves, Shell has been one of the few oil majors prepared to make headline-grabbing deals in such a climate. Last year, it bought out the minority shareholders in its Shell Canada unit for \$8.7 billion Canadian dollars (\$8.62 billion).

The acquisition of Duvernay, which produces "tight," hard-to-extract gas trapped in dense rock formations, would also underline Shell's focus on so-called unconventional oil and gas. Shell is using state-of-the-art technology to

squeeze crude out of Canada's goopy tar sands and is already producing tight gas in places such as South Texas and Pinedale, Wyoming. Such reservoirs were long ignored by the oil industry as too expensive to exploit, but red-hot crude and gas prices and advances in technology have encouraged the majors to take another look. Exxon Mobil Corp. and BP PLC also have invested heavily in tight gas.

Shell made a cash offer of C\$83 a share, 42% more than Duvernay's Friday closing price of C\$58.44 on the Toronto Stock Exchange. Duvernay's board voted unanimously to recommend the offer to shareholders. It is conditional on Shell's gaining at least two-thirds of Duvernay's common shares outstanding. Duvernay's directors have already committed to selling their own shares, which represent 18.1% of the company.

Tom Ellacott, an analyst with oil consultancy Wood Mackenzie, said the move fits Shell's strategy. "We had been expecting them to make more moves in North American gas," he said. "They'll be looking to replicate the success they've had in the Rockies."

The shift to unconventional oil and gas sources comes as the big Western oil companies face growing turbulence in their traditional

areas of operations. Militant attacks have forced Shell to suspend a large chunk of its oil production in Nigeria. In Russia, Shell was pressed into selling a stake in a big energy project to state gas company OAO Gazprom, after months of harassment by regulators. Exxon exited Venezuela under threat of asset expropriation.

In contrast, Canada offers a stable investment climate and has rolled out the welcome mat to foreign oil majors.

Analysts said the offer price was high. Duvernay, a small player, produces only 25,000 barrels of oil equivalent a day, though it has plans to increase that to 70,000 by 2012. But it has 450,000 acres—or 180,000 hectares—of landholdings in Alberta and northeastern British Columbia, two areas rich in unconventional gas. British Columbia in particular has turned into a honey pot for prospectors, with major gas discoveries in places such as Montney and the Horn River Basin.

"Duvernay is a highly respected mid-tier independent...and a premier deep-gas producer," said Peter Tertzakian, chief economist at ARC Financial Corp. in Calgary, Alberta. He said the deal was "ridiculously expensive" in terms of dollars per flowing barrels, but "it's the strategic value of those 450,000 acres."

# Gulf airlines defy industry gloom

BY DAVID PEARSON, STEFANIA BIANCHI AND MONICA GUTSCHI

Middle Eastern carriers bucked the crisis that has hobbled most of the world's airline industry and ordered more than 150 jetliners from Airbus and Boeing Co. at this year's bi-annual Farnborough International Airshow in the U.K.

Airlines in the oil-rich Gulf states are benefiting from an economic boom in the region from the same soaring oil prices that have hurt European and U.S.-based airlines. Airbus Monday announced orders for 63 aircraft from the Middle East valued at more than \$12.5 billion and the European Aeronautic Defence & Space Co. unit said it hopes to book at least 200 sales at the show. That is still a considerable drop from the first day of the Paris Air Show last year, when Airbus's opening day tally reached 339 aircraft valued at \$45.7 billion.

Boeing actually had a better first day at Farnborough than it did in Paris last year, notching 99 orders val-

ued at \$13.1 billion at list prices, compared with 46 planes valued at \$1.42 billion a year ago. The airlines of Middle Eastern countries, whose coffers have swelled with oil revenue, were responsible for the biggest orders.

Ethihad Airways, the United Arab Emirates' national carrier, placed a firm order for 55 Airbus aircraft in a deal valued at \$11 billion at list prices. The order comprises 10 A380 aircraft, 20 A320 aircraft and 25 A350 XWBs. The A350s will have Rolls Royce Trent XWB engines. The airline also placed a firm order for 45 wide-bodied Boeing aircraft in a deal valued at \$9.4 billion at list prices. That order was for 35 Dreamliner 787 aircraft and 10 777 jets.

"The size of our order mirrors the rising prominence of the Middle East and its increasing emergence as a new focal point of aviation," Ethihad Chief Executive James Hogan told reporters. "You've now got a shift in traffic from European hubs to Middle Eastern hubs. Whether it's to our nearest competitors, it's good for Gulf airlines," he added.

Dubai-based low-cost airline FlyDubai, which will begin operations in mid-2009 with the help of Emirates Airline, said it is acquiring 54 Boeing 737-800 narrow-bodied aircraft, including four under a lease arrangement, in deals valued at some \$4 billion.

The carrier will have an initial startup capital of 250 million U.A.E. dirhams (\$68 million) and will initially focus on regional flights within the Gulf Cooperation Council region and surrounding countries, Ghaith Al Ghaith, the airline's chief executive, said at the news conference. FlyDubai will compete with existing low-cost carriers such as Sharjah's Air Arabia, Kuwait's Jazeera Airways and Bahrain Air already operating in the GCC region.

Airbus said it has booked a firm order from Saudi Arabian Airlines for eight A330-300 wide-bodied aircraft. The Saudi national carrier ordered 22 Airbus A320s at the end of 2007. Airbus didn't give a value for the order, but based on catalogue list prices, the order would be valued at \$1.53 billion.

# Continental, Schaeffler consider ties

BY CHRISTOPH RAUWALD

FRANKFURT—Auto supplier Continental AG of Germany said it had contact with privately owned Schaeffler Group over a possible investment in Continental.

Continental said that "one brief conversation about a possible engagement" with the German manufacturer of ball bearings and other components took place last week. A spokesman for Schaeffler confirmed the contact, adding that further talks with Continental will follow. Continental's stock price jumped 22% to €65.80 (\$104.78)

Monday in Frankfurt. Continental's shares had shed around 50% of their value over the past year as global auto makers and their suppliers felt the pinch of skyrocketing raw-material costs, a lackluster economic environment and sluggish demand for new cars in major markets such as the U.S. and Western Europe.

Schaeffler posted €8.9 billion in annual sales in 2007 and employs around 66,000 workers, while Continental had €26.4 billion in sales last year and employs about 152,000.

A spokesman for Continental referred to the company's general view that it is open toward inves-

tors who support Continental's long-term strategy and have no plans for a breakup. German labor union IG Metall representative Hartmut Meine said his union will do "everything to avoid that a totally non-transparent company...takes over Continental and breaks it up."

Schaeffler's move comes at a delicate time for Continental. The world's fifth-biggest auto supplier by sales is in the middle of integrating the former Siemens AG unit VDO following its €11.4 billion takeover last year. The VDO deal was the biggest takeover in the company's history.

—Edward Taylor contributed to this article.

# U.S. court clears eBay on sales of bogus goods

BY MYLENE MANGALINDAN AND VANESSA O'CONNELL

EBay Inc. met its legal obligation and took adequate precautions to block the sale of counterfeit Tiffany & Co. jewelry on its Web site, a U.S. judge ruled in the e-commerce company's first significant victory against luxury-goods sellers over fake merchandise.

U.S. District Judge Richard Sullivan, in New York, said Tiffany must bear the burden of monitoring its trademark, not eBay.

EBay had suffered a series of European legal setbacks, including a French court's June 30 ruling to pay €40 million (\$63.7 million) in damages to LVMH Moët Hennessy Louis Vuitton SA and other luxury-goods makers. The Tiffany case was the first brought by a luxury-goods maker in the U.S., where eBay generates \$3.7 billion, or nearly half, of its \$7.7 billion in annual sales.

The San Jose, Calif., company had argued in the November 2007 trial that it had fulfilled its obligations under the law to remove fake merchandise when it was alerted to the problem. EBay said it was Tiffany's burden to identify and notify it when auctions of counterfeit products infringed its trademark.

The New York-based jeweler, which tracked sales of fake goods on eBay for a couple of years, argued that eBay was aware of the widespread counterfeit-goods

problem on its marketplace. As a result, the legal burden shifts to eBay to set up procedures to screen out all potential counterfeiters, similar to the way it prevents the sale of drugs or guns, Tiffany argued.

Mark L. Aaron, Tiffany & Co.'s vice president of investor relations, and Tiffany's lawyer, James Swire, a partner in the intellectual-property and technology group in New York at Arnold & Porter LLP, said Monday that they still were reviewing the decision and had no immediate comment.

A person familiar with the case said Tiffany intends to appeal the decision and to ask the Chamber of Commerce for support in an effort to change the law so that major manufacturers wouldn't have the burden of policing.

One of the key arguments raised by EBay had been that Tiffany had a duty to go after all the counterfeiters directly and hadn't undertaken that duty or fulfilled it. Tiffany's lawyers countered that that argument was unsupported by law. EBay had also argued that, while it would act to take down the listings of sellers known to be selling fakes, it had no obligation, short of that, to start running or developing programs that would actively screen for sellers with counterfeit goods.

"The ruling confirms that eBay acted reasonably and has adequate procedures in place to effectively address counterfeiting," eBay spokeswoman Nichola Sharpe said.

# India's ONGC approaches Imperial in bid for oil assets

BY JACOB GRONHOLT-PEDERSEN

MOSCOW—India-based Oil & Natural Gas Corp. has made an approach to acquire Imperial Energy Corp., a London-listed oil company focused on Russia, a person familiar with the matter said.

In London, Imperial Energy's shares closed up 18%, or 138 pence, to £9.10 (\$18.10) after the company said Monday that it was approached by an unnamed party.

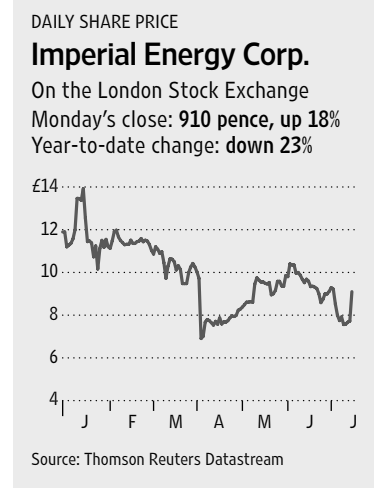
ONGC has said it is looking to expand its overseas operations, especially into Russia and other Eastern European countries. An ONGC spokesman declined to confirm or deny the company made an approach for Imperial.

"The stock is valued quite cheap, so we expect it would be sold at a premium," said Artyom Konchin, an analyst at UniCredit investment bank. However, he said he doubts a deal would be reached easily.

"I'm not entirely convinced it will be as simple as that. In Russia it's not just a matter of ONGC making an offer and buying the company," Mr. Konchin said, noting Russia's recent stance toward foreign investments in its energy sector.

In November, Imperial rebuffed an offer from the banking arm of Russian state-owned gas firm OAO Gazprom, which had been seeking a 25% stake.

Imperial's shares have been volatile recently as the company has been seeking funding on the financial markets. Last year, the stock suffered because of statements by Oleg Mitvol, the deputy head of the Rus-



sian Natural Resources Ministry's environmental watchdog, accusing the company of not complying with a key license.

In April, the stock fell 25% after the company said it would sell new shares valued at \$600 million to help refinance debt and fund investments. Last month, Imperial's shares rose 7% after it announced an oil discovery in West Siberia.

Since 2006, Imperial's reserves have grown sharply as the company has started an exploration and production program and made capital investments in the Tomsk region.

Imperial produced an average of 10,000 barrels a day at the end of 2007, but it said first-quarter output slipped to 7,000 barrels a day. The company is aiming for production of 25,000 barrels a day by year end.



## CORPORATE NEWS

# BG's Origin deal is a challenge

*After careful growth CEO seeks expansion in the Asian market*

BY BENOIT FAUCON  
AND BILL LINDSAY

LONDON—BG Group PLC Chief Executive Officer Frank Chapman transformed a small U.K. domestic producer into an international player, shaping it into the largest exporter to the U.S. of an easily transported form of natural gas.

Now, BG is aiming to expand its foothold in the Asian market by purchasing Origin Energy Ltd., a large Australian power retailer that has rejected BG's A\$13.83 billion (US\$12.17 billion) offer. The deal poses the biggest challenge yet for the group.

If it doesn't acquire Origin, BG will have to transport its liquefied natural gas to Asia from further distances. However, it already has a stake in an A\$8 billion export operation in the Australian state of Queensland. "We've been saying to [Origin] shareholders, don't let this thing get too carried away because people will

end up thinking that we're over a barrel, they'll push the price too high and the deal will stall," said Mr. Chapman said in an interview. "We're economic rationalists."

Origin's attraction lies in its reserves trapped underground by water in deep coal seams, which can be transformed into liquefied natural gas. LNG is easily transported and stored. Without the reserves, BG will have less gas to export from Queensland to Asia.

The bid for Origin caps years of cautious growth. Appointed in 2000, Mr. Chapman focused narrowly on developing the LNG business. He "laid down the strategy to develop liquefied natural gas, which has now become a key part of global energy supplies," said Tony Alves at KBC PeelHunt.

BG now supplies about half of the U.S.'s LNG imports and recently

signed LNG deals in Singapore and Hong Kong. It is these recent deals in Asia that have made the Australian deal so important.

BG's friendly overture in April failed and BG turned hostile in June. To combat BG, Origin has now invited companies to buy assets it says BG undervalues.

Origin CEO Grant King says that the price paid for a similar transaction in Australian coal-seam-gas assets indicates that Origin's gas reserves alone would be valued at about A\$16 billion. Origin's share price has since risen to A\$16.08 as of July 14 from A\$10 before the offer in April. Yet in its latest offer document, BG didn't raise its bid. Mr. Chapman said he and Origin's CEO "have exchanged emails and had cordial conversations," but they were "only courtesy calls," he added.

He said the two companies differ

on concerns over third-party rights to Origin's gas assets as well as on the evaluation of Origin's CSG reserves.

BG has started to explain its position directly to Origin's shareholders. "Without exception, shareholders have been pleased that we returned to put the offer directly to them," said BG's Chief Financial Officer Ashley Almanza in an interview.

A successful bid would bring with it new challenges. Moody's Investors Service placed BG unit's ratings on review for possible downgrade following the bid announcement on Origin. BG also has little experience in CSG but hopes to make up for this weakness by bringing LNG skills and financing Origin could not provide on its own.

Mr. Chapman and his team "will be under pressure" to find their next "strategic move on Asia-Pacific," said Richard Griffith, an analyst at



CEO Frank Chapman has focused on LNG

London's Evolution Securities.

In response, Mr. Chapman said "the markets we have established in Asia-Pacific, we can already supply them about three times over from our existing portfolio without one gram of LNG coming out of Australia."

## Ranbaxy denies U.S. allegations of false drug data

BY NIRAJ SHETH

NEW DELHI—The U.S. Justice Department earlier this month filed a motion in a federal court alleging that Ranbaxy Laboratories Ltd. forged documents relating to an investigation into the quality of the company's drugs sold in the U.S.

The government is asking the court to force the company to turn over the documents for verification. The company, in a statement, said it plans to respond to the motion Monday. "Ranbaxy strongly denies the allegations contained in the motion," the statement said.

Ranbaxy shares fell nearly 11% to 475.90 rupees (\$11.13) Monday.

The motion is part of a wider probe by U.S. authorities including the Justice Department and the Food and Drug Administration into whether the drug maker made false claims and fabricated data to get FDA approval for its generic drugs in the U.S. market. The Ranbaxy statement said: "We continue to cooperate with the inquiry."

The probe was sparked when FDA inspectors toured one of Ranbaxy's facilities in northern India in 2006 and found inconsistencies in the company's manufacturing processes and maintenance of data, according to Indian press reports. Last year, inspectors raided Ranbaxy's U.S. offices in New Jersey.

Ranbaxy said in its statement that the FDA has analyzed more than 200 random samples of products marketed in the U.S. and found no "systematic fraudulent conduct" concerning drugs made in the company's plant in India. A company spokesman declined to elaborate.

About 23% of Ranbaxy's revenue last year of \$1.6 billion came from the U.S. Ranbaxy accepted an offer last month from Japanese drug maker Daiichi Sankyo Co. for a 34.8% stake in the company. Daiichi Sankyo has an open offer to take an additional 20% stake.



Knowledge



Understanding

KNOWLEDGE IS VITAL. BUT KNOWLEDGE IS NOTHING WITHOUT UNDERSTANDING.

We all know a humble wine is best enjoyed swiftly and with good humor. But when you understand enough about wine to store it on its side, even the humblest of wines may develop a measure of true nobility.

That's understanding. That's The Wall Street Journal Europe.

25  
YEARS

THE WALL STREET JOURNAL.

1983 — EUROPE — 2008

SUBSCRIBE FOR 6 MONTHS AT THE SPECIAL PRICE OF € 113

✓ Please start my **6-month subscription** to The Wall Street Journal Europe now for only **€113**. That's **66% off** the cover price. Credit card customers will receive a €50 / £30 Amazon gift certificate.

#### Subscription details

- URL: [www.services.wsje.com/media](http://www.services.wsje.com/media)
- E-mail: [subs.wsje@dowjones.com](mailto:subs.wsje@dowjones.com)
- Phone: +32 2 741 14 14
- Fax: +32 2 741 14 59
- Address: Subscriber Relations, The Wall Street Journal Europe, Blvd Brand Whitlock 87, 1200 Brussels, Belgium.

Your tracking code is **HSDEB000E**. Always indicate your delivery details, payment preferences and tracking code.

#### Subscription price\*

Eurozone	Switzerland	United Kingdom
€ 113	CHF 176,4	£ 54,6

©2008 Dow Jones & Company, Inc. All rights reserved.

#### Contact, delivery and payment information

Mr./Mrs./Ms Full Name:

Job Title\*\*:

Delivery Address:

City:

Postcode:

Country:

Tel:

Email:

Signature:

Date:

Credit card no.:

Expiry date:

Visa  Amex

Eurocard/Mastercard

Please invoice me

We may provide your information to third parties, including companies outside of the EU, in order to fulfill your subscription request, process data and provide you with promotional information from WSJE, its affiliates and other carefully selected companies.  I do not wish to receive promotional materials from other carefully selected companies.  I do not wish to receive promotional materials from WSJE or its affiliates. \* For other currencies, please call us free at 00 800 9753 2000 or +32 2 741 14 14. \*\* Optional. All other information is required. Failure to provide obligatory information will result in subscription delays. Hand delivery subject to confirmation by local distributor. Offer only open to new subscribers. Please allow 2 weeks for delivery to commence.

DOW JONES

## CORPORATE NEWS

# Philips profits fall 57%

*Increase in revenue aided by light bulbs, emerging markets*

BY ROBERTA B. COWAN

AMSTERDAM—Philips Electronics NV posted a 57% drop in second-quarter net profit but reported a solid rise in revenue, boosted by growth in emerging markets and stronger sales of low-energy light bulbs.

The Amsterdam-based company, which makes a wide range of products including shavers, lighting and medical equipment, also reiterated its 2008 outlook. It said it is "well on track" to implementing its Vision 2010 strategy, shrugging off analysts' concerns about the impact of worsening economic conditions.

Shares in Philips closed up 6.4% to €20.67 (\$32.91) in Monday's trading in Amsterdam.

ING analyst Marcel Achterberg said it is reassuring that Philips continues to perform well in a deteriorating macroeconomic environment, adding that the second-quarter re-



sults are the first real indication that the company's new structure makes it more resilient. In September, the company simplified its structure to three core sectors: health care, lighting and consumer lifestyle.

Still, Mr. Achterberg said the real test will come in the second half, when it becomes clear whether demand in emerging markets is holding up.

Philips reported net profit of €740 million for the second quarter,

down from €1.72 billion a year earlier, when results were boosted by a €1.2 billion gain from the sale of shares in Taiwan Semiconductor Manufacturing Co.

The latest results included a gain of €780 million from the further sale of TSMC shares. However, the bottom line was hit by a €299 million impairment charge on Philips's stake in chip maker NXP due to deteriorating market conditions.

Total sales were up 7.1% to €6.46 billion, chiefly on higher sales of energy-efficient lighting and strong demand for its consumer-lifestyle products in Latin America, Eastern Europe and India. The company's consumer-lifestyle products include home-theater systems, DVD recorders and televisions.

Excluding currency fluctuations, second-quarter sales in emerging markets rose 16%, Philips said. Sales in mature markets showed limited growth in the quarter, hurt by weaker market conditions in Western Europe, the company said.

However, Chief Financial Officer Pierre-Jean Sivignon said he expects improved sales and margins in the health-care division in the second half.

# Intel's recipe remains strong at 40

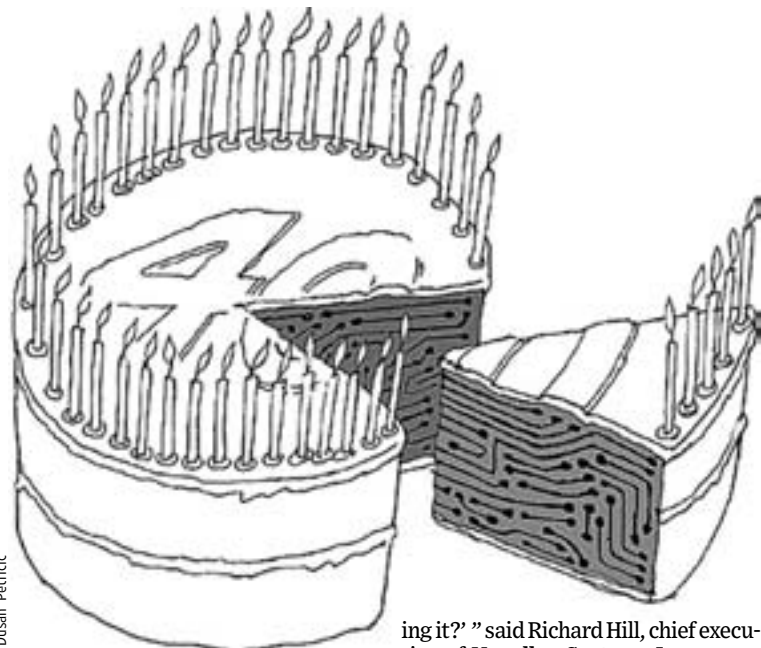
BY DON CLARK

Intel Corp. is turning 40 years old Friday, and patting itself on the back for pushing the pace of computer-chip progress. Few competitors are applauding, though.

The Silicon Valley company is expected to reach nearly \$40 billion in revenue this year. Monday, the company is expected to introduce Centrino 2, the second generation of chips for laptop computers it launched five years ago. Tuesday, Intel is scheduled to report second-quarter earnings that analysts expect to rise nearly 14%. Few weapons compare with DID, the Hillsboro, Ore., plant where silicon wafers move among complex machines. What sets the plant apart is a production recipe that makes the microscopic transistors on Intel's latest chips especially small and fast.

The company beat competitors to shrink its circuitry to 45 nanometers, or billionths of a meter. Intel technicians are working on the next recipe, at 32 nanometers, which could produce chips with even smaller and faster transistors.

That cadence of change every two years or so—known as Moore's Law, after Intel co-founder Gordon Moore—



Dusan Petric

has been a governing principle of chip makers. Chasing Moore's Law is becoming too expensive for many companies, a topic that is worrying equipment makers gathering this week for the Semicon West trade show in San Francisco. "The question is, 'Are companies economically capable of chas-

ing it?'" said Richard Hill, chief executive of Novellus Systems Inc.

Intel could slow the pace of miniaturization to try to maximize profit. The engineers in Oregon don't see that happening. "I'm not sure we know how to take our foot off the gas," said Mark Bohr, a director in Intel's technology and manufacturing group.

# Nvidia seeks to head off PC problems

BY DON CLARK

Nvidia Corp. announced a way to ease the impact of a dispute with Intel Corp. that could have hurt some high-end personal-computer makers.

The two chip makers have been squabbling over terms of a licensing agreement. Under the 2003 pact, Intel granted Nvidia—which is mainly known for graphics chips—rights to make other products called chip sets that link Intel microprocessors to other parts of a PC.

At issue now is whether the 2003 agreement allows Nvidia to make chip sets that work with Intel's next-generation microprocessor, a product family dubbed Nehalem that is expected sometime this year. Nvidia contends that it does have those rights, but Intel disagrees. The question is impor-

tant to some computer makers because only Nvidia chip sets now support a technology called SLI that allows PCs to run two or more Nvidia cards for managing graphics in a system.

That extra graphics power is a big selling point for gamers and other performance enthusiasts, some of the customers most likely to buy new systems using the Nehalem microprocessors. Kelt Reeves, president of the gaming PC company Falcon Northwest, predicted that his sales would stall if Nehalem-powered machines didn't come with SLI capability.

## GLOBAL BUSINESS BRIEFS

## Anglo American PLC

### Company to monitor probe of Brazilian takeover target

Anglo American PLC said it would monitor an investigation related to MMX Mineração & Metais SA, a Brazilian iron-ore company, part of which the diversified miner is in the process of buying for about \$5 billion. Brazil's federal police Friday searched the offices of Eike Batista, controlling shareholder in MMX. Police said they have evidence of possible fraud involved in MMX's successful 2006 bid to win a 20-year concession to operate the Amapa railway line, which links iron mines with the port of Santana. Mr. Batista's holding company last week denied "all allegations" of illegal conduct and said it would "cooperate with any legal investigation involving its businesses."

## UBS AG

UBS AG said Per Larsson, the former head of Dubai's stock exchange, will become chief executive of the Swiss bank's operations in the Middle East and North Africa. Mr. Larsson supervised Borse Dubai's takeover of Nordic stock exchange operator OMX AB and the subsequent deal with Nasdaq Stock Market Inc. The appointment is a coup for UBS, which has booked over \$37 billion in write-downs on mortgage securities recently. The appointment coincides with a massive ramping up in the Middle East, as the Swiss bank shifts more resources into the cash-flush region. The Zurich-based bank plans to increase the number of bankers in the region by 50% to roughly 150 people by year end, Mr. Burnett said last week.

## Co-operative Group

U.K. supermarket chain Co-operative Group is close to buying rival Somerfield PLC, people familiar with the matter said. Somerfield, owned by a private-equity consortium led by Apax Partners, was put up for sale in February, with Citigroup Inc. appointed to run the process. Earlier expressions of interest from industry players such as Asda Group Ltd.—a subsidiary of Wal-Mart Stores Inc.—faded, leaving Co-op the only remaining bidder. Somerfield's private-equity owners, which include Barclays Private Equity, property tycoon Robert Tchenguiz and Kaupthing Bank as well as Apax, had been looking for as much as £2.5 billion, or roughly \$5 billion, but Co-op is likely to pay £1.5 billion to £1.6 billion, one person familiar with the matter said.

## Kazakhmys PLC

Kazakh copper miner Kazakhmys PLC said it is in "very preliminary" merger discussions that may lead to an offer for Kazakhmys. A person familiar with the matter said that the suitor is Russian closely held conglomerate Metalloinvest and that the talks have been under way for some time. Any deal would depend on approval from the companies' major shareholders and the Kazakh government, which last month arranged to take a 15% stake in Kazakhmys. Kazakh Deputy Finance Minister Daulet Yergozhin said Monday that the government wasn't aware of Metalloinvest's interest in taking over Kazakhmys. The copper miner has a market capitalization of almost \$14 billion. Metalloinvest has been in merger talks with OAO Norilsk Nickel.

## Barrick Gold Corp.

Barrick Gold Corp. made an unsolicited takeover offer for Cadence Energy Ltd., topping a bid from Daylight Resources Trust. Barrick, a Toronto-based mining company, is making the offer as a hedge against its own rising energy costs. Barrick is offering six Canadian dollars a share, valuing Cadence at C\$354 million (US\$351 million). "We are confronting the energy cost challenges facing our industry through this long-term economic hedge of about one-quarter of our direct oil consumption and a significant portion of our direct natural-gas consumption," Barrick Executive Vice President and Chief Financial Officer Jamie Sokalsky said. The Calgary-based company is maintaining its support for the offer from Daylight Resources, although its board entered discussions with Barrick on Saturday.

## Citic Resources Holdings Ltd.

Citic Resources Holdings Ltd. increased its stake in Macarthur Coal Ltd. to 20.39% after buying shares in the Australian coal miner on the market in recent days. The Chinese group said Monday it now holds a total of 43.25 million shares in Macarthur Coal. It previously held a 17.7% stake, which was diluted from 19.99% after a share issue by Macarthur earlier this year. Under Australian takeover rules, any company holding more than a 20% stake in a company is required to make a full takeover bid, but Citic Resources is able to increase its holding in Macarthur by up to 3% every six months. Citic Resources had no immediate comment and a Macarthur spokesman wasn't immediately available for comment. Last month, hopes for a takeover bid for Macarthur Coal cooled after Posco bought a 10% stake in the Australian miner from founder Ken Talbot.

## China National Gold Group

China National Gold Group won the bidding for the right to develop the state-owned Yangshan Mine for 2.18 billion yuan (\$319 million), China's Ministry of Finance said. State-owned China National Gold Group, China's largest gold miner by production, was shortlisted, along with Zijin Mining Group Co. and Shandong Gold Group Co., people familiar with the matter said. Yangshan Mine is the country's biggest gold mine by reserves, Chinese media have reported. The Xinhua news agency said the mine had estimated gold reserves of 308 metric tons.

## China International Capital

China's government named Li Jiange, an economist and vice president of the State Council's Development Research Center, as chairman of investment bank China International Capital Corp., a person at CICC said. The person said Mr. Li will take up his post soon, but didn't elaborate. He succeeds Jesse Wang, who was named late last year as a vice president and chief risk officer of China Investment Corp., the country's \$200 billion sovereign-wealth fund that was established in September. The person said Levin Zhu, CICC's chief executive and the son of former Premier Zhu Rongji, will remain CICC's primary decision maker. Mr. Li, born in 1949, served as personal secretary to the former premier and holds vice-ministerial rank in the Chinese government. He was also a vice chairman of China's securities regulator from June 1994 to March 1998.

—Compiled from staff and wire service reports.

THE WALL STREET JOURNAL  
Executive Travel Program  
Guests and clients of 320 leading hotels and car rental agencies receive The Wall Street Journal Europe daily, courtesy of  
addictlab.com  
global creative think tank



## ECONOMY &amp; POLITICS

## U.K.

## Three men plead guilty in a plot to set off bombs



THREE MEN accused of plotting to bring down trans-Atlantic passenger jets with liquid explosives pleaded guilty to planning to set off bombs but said they didn't seek to destroy airliners, prosecutors said. Abdulla Ahmed Ali, Assad Sarwar, Tanvir Hussain, and five co-defendants are charged with a plot to kill hundreds of passengers by detonating explosives concealed in soft-drink bottles on flights over the Atlantic Ocean or U.S. cities. Prosecutors said the three admitted to conspiring to set off explosions but said they are not guilty of the more serious charge of conspiracy to murder.

—Associated Press

## RUSSIA

## Arctic research station will go as ice floe shrinks



RUSSIAN scientists are evacuating a research station built on an ice floe drifting in the western Arctic Ocean because global warming is melting the ice early, a spokesman said. The North Pole-35 station, where 21 researchers and two dogs live in huts, will be pulled out this week instead of late August, said Sergei Balyasnikov of the Arctic and Antarctic Research Institute in St. Petersburg. "The evacuation is ahead of schedule because of global warming," Mr. Balyasnikov said. The nuclear-powered icebreaker Arktika will escort a research vessel to the station, which is drifting between the Franz Josef Land archipelago and the island of Novaya Zemlya.

—Associated Press

## EUROPEAN UNION

## Output in May tumbled in largest drop since 1992



INDUSTRIAL production in the 15 countries that use the euro plummeted in May, recording the largest monthly decline since the end of 1992.

European Union statistics agency Eurostat said industrial production in the euro zone fell 1.9% from April, and 0.6% from May 2007. The monthly decline was the largest since the final month

of 1992, when production also dropped 1.9%. The fall indicated that economic growth in the euro zone slowed significantly in the second quarter.

The decline in output was spread across all sectors. In Germany, France and Spain, production fell 2.6%, while Italy's fell 1.4%.

—Paul Hannon

## Sudan's president is charged with genocide

## International court seeks global demand for peace in Darfur

BY CHARLES FORELLE AND SARAH CHILDRESS  
The Hague

THE CHIEF PROSECUTOR of the International Criminal Court charged Sudan's president, Omar al-Bashir, with genocide and challenged governments around the world to intervene to stop a campaign of rape, murder and starvation in Sudan's Darfur region.

In the court's first charges against a sitting head of state, chief prosecutor Luis Moreno-Ocampo accused Mr. Bashir of directing the Sudanese army and janjaweed militia to commit genocide, crimes against humanity and war crimes with the goal of destroying three non-Arab ethnic groups in the Darfur region.

In alleging genocide, Mr. Moreno-Ocampo opted for the most politically sensitive allegation possible. The United Nations, which operates a peacekeeping mission in Darfur, has avoided using the term for the conflict in Darfur, although the United States has used it since 2005.

"Will the world accept an ongoing genocide and do nothing?" Mr. Moreno-Ocampo said at a news conference. "Or will the world stop the genocide?"

In a news conference Monday, Sudan's vice president, Ali Osman Mohammed Taha, rejected the ICC's jurisdiction and dismissed the charges against Mr. Bashir as politically motivated, the Associated Press reported.

Foreign ministers from countries in the Arab League of states, of which Sudan is a member, called an emergency meeting for Saturday in Cairo in response to the ICC charges,

according to news agency reports. Thousands of Sudanese protested in support of Mr. Bashir over the weekend, raising concerns the ICC case could trigger further violence.

In his application for an arrest warrant, Mr. Moreno-Ocampo said Mr. Bashir, starting in 2003, issued "orders giving 'carte blanche' to his subordinates" to put down a rebellion inside the country. That, the prosecutor alleges, led to slaughter in villages populated by three ethnic groups, followed by the forced expulsion of those remaining to teeming camps where internees faced systematic rape and hunger.

Mr. Bashir's goal was to "destroy" the Fur, Masalit and Zaghawa groups, the prosecutor charged. One victim quoted in the filing said, "After they abused us, they said we would have Arab babies, and if they could find any Fur women, they



Omar al-Bashir



An African Union military observer surveys a burnt-out marketplace in Darfur after an attack in October 2007.

## Turkey charges coup-plot suspects

A WSJ NEWS ROUNDUP

A Turkish prosecutor charged 86 people with involvement in an alleged coup attempt against the government of Prime Minister Recep Tayyip Erdogan.

The charges, which require sanctioning by a criminal court, represent the latest dispute in a legal skirmish between Mr. Erdogan's Islamist-rooted party and Turkish nationalists who say they are fighting to preserve the country's secular values.

Separately, Turkey's Constitutional Court is weighing whether to ban Mr. Erdogan's Justice and Development Party, or AKP, for antiseccular activities. The court is expected to rule as early as next month. The looming decision has weighed heavily on Turkey's financial markets in recent weeks.

The timing of Monday's indictments just ahead of the Constitutional Court ruling looked to many like a legal counterattack by the government.

"The timing, of course, is inter-



Istanbul chief prosecutor Aykut Cengiz Engin speaks following the indictments.

esting," said Ann Dismorr, a former Swedish ambassador to Turkey. But, she said, "from a political point

of view, the potential closure of the AKP is much more important."

Turkey's powerful, secularist military, which has staged coups in the past, has criticized the current government for what it says is its Islamist leanings. But the military has appeared unwilling to move forcefully against Mr. Erdogan.

The suspects are accused of plotting to sow unrest in order to provoke a military coup, Istanbul's chief prosecutor, Aykut Cengiz Engin, said.

The 86 suspects are accused of "attempting to prevent the functioning of the Turkish government or of eradicating it by using oppression and force," the prosecutor said at a news conference. A court has two weeks to decide whether to try the suspects.

Mr. Erdogan's opponents say the charges are part of a government attempt to silence critics. "This is a campaign to defame people who speak against the government," said Onur Oymen, a member of the secular opposition Republican Peoples' Party.

would rape them again to change the color of their children."

Mr. Moreno-Ocampo doesn't allege that Mr. Bashir directly participated in any attacks. But, he says, the president has "absolute control" and is the "mastermind behind the alleged crimes." In an interview, the prosecutor said he has evidence including witness statements and documents that show Mr. Bashir gave orders to military commanders and militia leaders permitting them to target civilians.

The court's charges against a sitting head of state could have major

## The charges against Mr. Bashir need to be confirmed by a panel of judges.

implications for Africa's leaders. "It raises the stakes" for those who might consider widespread killing, said Nick Grono, deputy president of the International Crisis Group, a Brussels-based think tank.

During the post-election violence in Kenya earlier this year, the opposition demanded an investigation into the government for its alleged role in spurring ethnic clashes that left about 1,000 dead. Now unified in a coalition government, the parties are working to develop a spe-

cial tribunal to encourage reconciliation, but also punish those responsible for the worst violence.

In Zimbabwe, the opposition holds out hope that the court will investigate President Robert Mugabe, who has been accused of ordering the murders of about 90 opposition members and supporters and the beatings and torture of about 4,000 more.

Under the ICC's procedures, the charges against Mr. Bashir need to be confirmed by a panel of judges, a step that could take two or three months. An arrest warrant could then be issued. The court's judges have never rejected charges presented by the prosecutor.

Mr. Moreno charged Mr. Bashir three counts of genocide, five of crimes against humanity—murder, extermination, forcible expulsion, torture and rape—and two war crimes, attacking civilian populations and pillaging.

The ICC has cases open on Darfur, the Central African Republic, the Democratic Republic of the Congo and Uganda. Earlier this month, Jean-Pierre Bemba Gombo, a rebel leader, was brought to The Hague to stand trial in the Central African Republic case. Charles Taylor, the former president of Liberia, is being tried before a separate U.N.-backed Special Court for Sierra Leone.

## ECONOMY &amp; POLITICS

# Not all ride with Obama

*Some Democrats running for election to keep their distance*

BY JUNE KRONHOLZ

Barack Obama could have long coattails this fall. That doesn't mean that every Democrat is going to want to grab on to them.

The Illinois senator is likely to spur voter turnout among African-Americans and college students in some districts where Democrats hope to pick up House seats now held by Republicans or to fend off Republican challenges. But other Democrats facing tough re-election campaigns could see Sen. Obama's politics and his weakness among working-class whites as a liability.

"Some of these Democrats are trying to walk a fine line" between courting black voters and holding on to whites, said Nathan Gonzales of the Rothenberg Report, a nonpartisan political handicapper. Democratic candidates may embrace, ignore or run away from Sen. Obama, or perhaps some of each, he added.

Meanwhile, vulnerable Republicans, many of whom are in closely divided or Democratic-leaning districts, could see John McCain, the Republican presidential candidate, as an asset because of his appeal to independents. If the Arizona senator runs a competitive presidential race, he "could provide air cover for our candidates" in what could otherwise be a difficult year for Republicans, said Rep. Tom Cole of Oklahoma, who heads the Republicans' House re-election campaign.

Operatives from both parties predict that there will be about 75 competitive House races in November. Among the most vulnerable are 26 freshman Democrats and one freshman Republican. But Republican retirements and several scandals have made dozens of other House districts fertile ground for Democratic candidates for the first time in years.

A few of those Democrats facing tough races already have signaled their ambivalence toward Sen. Obama, the Democratic candidate. Florida's Tim Mahoney, who won his West Palm Beach seat in 2006 after the district's long-serving Republican congressman resigned amid a congressional-page scandal, is "sup-

## Open season

The coattails of the U.S. presidential candidates—or absence thereof—have the potential to affect the outcome in dozens of U.S. House of Representatives races.

	CURRENT SEATS	OPEN SEATS	FRESHMEN
Democrats	236	7	26
Republicans	199	28	7

CURRENTLY COMPETITIVE SEATS HELD BY . . .

Democrats		Republicans	
16	7	18	11
Leaning*	Toss-up	Toss-up	Leaning

\*Seats considered competitive but party has the advantage

Source: Cook Political Report

portive" of Sen. Obama, the congressman's spokeswoman said.

But Rep. Mahoney hasn't endorsed him for president and isn't going to the convention, where he has a superdelegate vote, she added. "He's focused on work in the district."

Mississippi's Travis Childers, who won a special election this spring to fill a historically Republican House seat, "hasn't had time to be concerned with presidential politics" and won't be going to the Democratic convention, his spokeswoman said. A conservative advocacy group campaigned against him during the special election by trying to tie him to Sen. Obama and tax increases it said the two men are planning.

Rep. Chris Van Hollen of Maryland, who heads the Democrats' House campaign committee, said he is telling many of the party's freshmen that "their constituents come first," and that they should spend time in their districts instead of at the convention in Denver.

But there may be more than busy schedules involved in some Democrats' reluctance to be associated with Sen. Obama. The party's most vulnerable House members took seats from Republicans in the 2006 Democratic wave. They now have to appeal to Republicans and independents to hold on to their jobs.

In that climate, "being an Obama cheerleader may not be an asset," Mr. Gonzales said.

The opposite is happening with Republicans, whose toughest races are in Democratic-leaning or closely divided districts. Nevada Republican Jon Porter, who represents a Democrat-friendly district in Las Ve-

gas, supports Sen. McCain and will attend the Republican convention in St. Paul, Minn., even though he isn't a delegate, his spokesman said. Minnesota's Tim Walberg, the sole Republican House freshman, also supports the senator and may attend the convention, although he can't vote there, said his spokesman.

Sen. McCain "has a demonstrated appeal to the middle," Rep. Cole said. "He helps us change our image and recasts us as a maverick party interested in change."

Sen. Obama also may not be a help to Democratic candidates in white working-class and rural districts. New York Sen. Hillary Clinton won those voters by wide margins in primaries in Pennsylvania, New York, Michigan, Ohio and Kentucky. Democrats face tough re-election fights or have a chance to take seats away from Republicans in all of those states.

"Midwest freshmen probably would have been better off running with Clinton," said John Fortier, who writes about Congress for the conservative American Enterprise Institute.

But Sen. Obama's coattails could prove helpful in many other House races. Democrats are hoping the senator's appeal among college students will generate enough new-voter turnout to help them win an open seat in a Republican-leaning Columbus, Ohio, district that includes Ohio State University.

They also are counting on high African-American turnout to help Democratic candidates win seats that now are occupied by Republicans in eastern Virginia, central North Carolina, Chicago and Cincinnati. The party says that blacks account for 20% or more of the voting-age populations in those districts.

Sen. Obama additionally could shore up vulnerable Democratic incumbents, including some who seem wary of supporting him. In Georgia, Democrat Jim Marshall represents a solidly Republican rural district and typically neither endorses his party's candidate nor attends its conventions.

About 30% of his district's voting-age population is African-American, and high turnout among them could make his race easier, Democratic strategists say.

Democrats also are hoping that Sen. Obama's popularity among college-educated and upper-income whites will help the party in some white-collar districts now held by Republicans. Sen. Obama's coattails could be helpful to challenger Jim Himes in the Democratic-leaning Greenwich, Conn., district represented by Christopher Shays, a Republican. Political oddsmakers call the race a toss-up.

## CAPITAL JOURNAL ■ GERALD F. SEIB

### As economic fears grow in U.S., Democrats are likely to benefit

ON THE THEORY that the worse things get generally, the better they are for Democrats specifically, it is hard to imagine that the newest outbreak of bleak financial news represents anything but another boost for the party.

In fact, the jarring financial developments of the past few days—the collapse of a big bank and the scare over the viability of mortgage giants Fannie Mae and Freddie Mac—seem likely to reinforce the basic dynamic of the campaign year: Voters think the country is in a mess, and they are more inclined to trust Democrats to clean things up.

To make matters worse for Republicans, the financial scares have reinforced the specific argument that government intervention in the economy, a natural inclination for Democrats, sometimes may be necessary. Even the Bush administration, resistant to intervening in markets, and reluctant to ride to the rescue of investors in the specific case of the housing mess, stepped up over the weekend to offer a virtual government guarantee that Fannie and Freddie would stay solvent.

It grows ever harder for Republicans to campaign against government intrusion in the marketplace the more Republicans themselves appear to be losing faith in letting markets work. And if voters want intervention in the economy, why not get the real deal with Democrats? In sum, it is hard to imagine new economic scares represent anything but more bad news for Republicans, who tend to get the blame for things that go wrong simply because they have controlled the White House for the past seven years.

The first question is how that affects the presidential contest. For Democratic Sen. Barack Obama, the government takeover of the failing IndyMac Bank and the weekend plan by the Treasury Department and Federal Reserve to stretch a safety net beneath Fannie and Freddie play naturally to his argument that the government should be more proactive in stabilizing the housing market.

IT ISN'T QUITE that easy for Sen. John McCain. He is instinctively more open to government activism than are many of his fellow Republicans. He refers to himself as a Teddy Roosevelt Republican, meaning he is generally conservative but willing to use government powers when market forces don't appear sufficient. When asked Monday about the plan to give government help to Fannie and Freddie, he gave a thumbs up: "I think the actions taken by the Fed on Fannie and Freddie are correct," he told reporters. "I hope that the Congress will give them the needed authorization."

Yet the mortgage crisis also has left Sen. McCain trapped between this instinct to act and his party's inclination to let markets work out solutions. Maneuvering in that middle ground has left him

uncomfortable at times, caught between a desire to help homeowners and distaste for bailing out investors and speculators who made bad bets.

But the presidential race may not be the best reading of how these winds are affecting the overall campaign. Sen. Obama carries some unique baggage into the presidential race, meaning he actually is faring less well in the polls right now than are Democrats generically. In the most recent Wall Street Journal/NBC News poll, voters said by a 16-point margin that they preferred a Democrat to win the presidency generically—but preferred Sen. Obama over Sen. McCain specifically by just a six-point margin.

In other words, Sen. Obama is getting only some of the benefits of the current winds. Less explored is what those same winds mean in the battle for control of Congress.

TO GRASP how economic anxiety may be adding to those winds, consider the public mindset at the start of this election year. When the Journal and NBC News polled voters at the beginning of 2008, they found a striking inclination to think Democrats would do a better job handling the country's economic woes. Americans said by an 18-point margin Democrats would do a better job than Republicans handling the economy; by a 20-point margin that they would do better on homeownership issues; and by a 16-point margin that they would be better at pulling the country out of a recession.

Thus, the public entered the year inclined to lean toward Democrats to handle economic distress—of which there has been plenty. Perhaps as a consequence, when the Journal/NBC News poll asked voters last month whether they preferred a Democratic or Republican controlled Congress to emerge from this year's election, voters responded by a whopping 52% to 33% margin that they wanted Democratic control.

Increasingly, the question is how many innocent Republicans will be sucked under by these currents, and whether there will be enough of them to give Democrats the magic 60 seats they need to create a filibuster-proof majority in the Senate.

If Democrats cross that line, they will have achieved real control of Congress. To get there, they need to take over five seats now held by Republicans while holding onto the ones they have now. A fresh examination of the roster of Senate seats up for election this fall shows that Democrats have legitimate shots of taking over 10 seats now held by Republicans—and are in real danger of losing only one, that of Sen. Mary Landrieu of Louisiana.

If Democrats hang on in Louisiana and win just half of the seats that are plausible takeovers, they will have reached the magic 60. Growing economic anxiety makes the number look ever more within reach.



Barack Obama

## South Korea moves to increase inflow of dollars and bolster won

BY KANGA KONG

SEOUL—South Korea increased tax exemptions on overseas borrowing by branches of foreign banks and said it will remove the cap on local banks' dollar purchases in the offshore nondeliverable forwards market.

The steps Monday were the latest in a series of moves to spur inflows of U.S. dollars and bolster the won in a bid to lower imported inflation. Last week's warnings by the finance ministry and the central bank, followed by suspected dollar sales of just over \$8 billion, have failed to push the dollar consistently to the suspected government comfort zone below 1,000 won.

Despite the latest moves and

more won-supportive comments from central-bank officials, the dollar ended Korea's Monday session at 1,004.60 won, up from Friday's Asia close of 1,002.30 won.

Under the new rules, foreign banks that borrow money from their parent firms overseas can write off interest expenses on up to six times each branch's capital. The previous rule allowed write-offs for only three times capital. The government estimates this new rule will pull in an additional \$10 billion in the second half.

The Ministry of Strategy and Finance said it also will abolish the cap on Korean banks' dollar buying in the market for nondeliverable forward contracts, though it hasn't fixed a date.