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Business & Finance

Yahoo's future is uncertain as the company searches for a new chief executive after Jerry Yang agreed to step down, ending a short but tumultuous tenure. The move could pave the way for Yahoo, which has been fighting to stay independent, to do a deal with Microsoft. Page 1

■ **Paulson said** he opposes using funds from the $700 billion bailout to help auto makers and prevent foreclosures. Page 19

■ **Carrefour named** Lars Olofsson, Nestlé's marketing chief, to succeed José Luis Duran as CEO as the big French retailer seeks to spur global sales. Page 3

■ **European officials began** to line up behind an EU-wide aid plan for its auto sector. Page 7

■ **European shares gained** in a volatile session as investors saw value among the lows. U.S. stocks rose, helped by a better-than-expected H-P forecast. Page 20

■ **Alcatel-Lucent reached** preliminary agreement to sell its stake in defense electronics firm Thales to Dassault Group for about $1.9 billion. Page 3

■ **Severstal is cutting** steel output in half on lower demand, even as third-quarter earnings more than tripled. Page 6

■ **Burberry cut** its profit forecast for the fiscal year as business conditions have deteriorated. The fashion house posted a 13% rise in first-half net profit. Page 6

■ **H-P said** earnings in the October quarter would be better than expected, as its diverse business and cost cuts help to weather the slumping economy. Page 6

■ **Medvedev warned** that the crisis gripping Russia's markets has spread to the real economy and pledged more state aid for stricken industries. Page 10

■ **U.K. inflation slowed** in October for the first time in 14 months, in a rare piece of economic good news. Page 10

■ **U.S. producer prices logged** a record drop in October. Page 12

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8424.75	+151.17	+1.83
Nasdaq	1483.27	+1.22	+0.08
DJ Stoxx 600	201.91	+1.55	+0.77
FTSE 100	4208.55	+76.39	+1.85
DAX	4579.47	+22.20	+0.49
CAC 40	3217.40	+35.37	+1.11
Euro	$1.2639	-0.0012	-0.09
Nymex crude	$54.39	-0.56	-1.02

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World-Wide

The hijacking of a Saudi oil tanker off the coast of Kenya will increase insurance and security costs for shippers and force more vessels to take a safer but slower route around Africa, shippers and insurers say. Meanwhile, in another attack, a Hong Kong ship laden with wheat headed for Iran was hijacked in the Gulf of Aden, China's state media said. Page 1

■ **NATO troops** in eastern Afghanistan fired artillery rounds at insurgents inside Pakistan in an attack the alliance said was coordinated with Islamabad.

■ **Iraq's government** formally set a date of Jan. 31 for long-awaited provincial elections.

■ **Obama is facing** a confrontation with the Pentagon over how fast to withdraw U.S. forces from Iraq, with some officers arguing for a slower drawdown. Page 12

■ **Obama and McCain discussed** areas where they have found common ground: immigration, climate change and the Guantanamo detention facility. Page 11

■ **France said it will host** a January meeting of world leaders and experts to look for ways out of the global financial crisis.

■ **The Kremlin is grappling** with growing opposition in the military to a sweeping overhaul of Russia's armed forces.

■ **Protestant and Catholic** leaders in Northern Ireland ended a five-month deadlock by agreeing to form a Justice Department to oversee the police and courts.

■ **Croatia won the right** to sue Serbia for genocide after the U.N.'s highest court ruled it has the power to decide the case.

■ **A court in Siberia** postponed until Dec. 12 the hearing of Norwegian firm Telenor's appeal of a judgment involving its stake in Vimpel Communications.

■ **The first trial** at the International Criminal Court will begin in January, in the case of an alleged Congolese warlord charged with recruiting child soldiers.

■ **Congolese rebels said** they were pulling back forces to allow talks with the army.

■ **Israeli tanks pushed** into southern Gaza, drawing mortar fire from Palestinian militants.

EDITORIAL & OPINION

Pakistan's IMF package

Bailing out an Islamic nuclear state with a terrorist problem is a delicate task. Page 13

Traders battle for share of shrinking bonus pool

Banks face a conflict: risk more regulation or loss of vital staff

By Ann Davis

Behind headlines of record losses, a small group of Wall Street traders on commodities, currencies and interest-rate trading desks have made huge profits for the banks that employ them. That is setting up a scramble as traders vie for dwindling pools of bonus money once heaped on such top performers.

So far, they look to be on the losing side of the trade. Top officers at **Goldman Sachs** Group Inc., **UBS** AG, **Deutsche Bank** AG, and **Barclays** PLC all are forging bonus payments for 2008. Even "best-in-class" front-line employees now face a much darker pay outlook, with bonuses expected to fall by 10% to 20%, according to search firm Options Group. It projects that bonuses overall will drop 25% to 50%. UBS, meanwhile, is crafting pack-

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Somali pirates in small boats alongside the Ukrainian-operated ship "MV Faina." The ship laden with tanks and heavy weaponry was hijacked in September.

Source: International Maritime Bureau
Photo: Associated Press

As pirates hit shippers, insurance rates will rise

By John W. Miller

The seizure by pirates of a Saudi oil tanker far off the coast of Kenya could enlarge the "war risk" zone that already is lifting insurance costs for hundreds of ships crossing the busy Gulf of Aden, further raising the cost of piracy to worldwide shipping.

More vessels are taking a much longer route around the southern tip of Africa to avoid the increasingly dangerous Gulf, shippers and insurers say—but the seizure of the Saudi tanker may undercut that strategy.

The attack on the MV Sirius Star occurred hundreds of miles from shore in an area thought to be beyond the reach of pirates. It targeted a 1,080-foot long ship laden with $100 million of oil.

The boldness of the attack may prompt insurers to require special insurance to cover travel across a much greater area of ocean. It also could encourage shippers to hire more on-board security for their vessels, which many have resisted for fear of escalating armed conflicts with the pirates.

"This could be a game-changer," says Peter Hinchliffe, maritime director of the London-based International Chamber of Shipping.

Pirates attacked in the Gulf of Aden again Tuesday when a Hong Kong cargo ship laden with 36,000

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Yahoo faces cloudy future as Yang exits

By Jessica E. Vascellaro And Joann S. Lublin

The impending exit of Yahoo Inc. Chief Executive Jerry Yang leaves much unresolved for the Internet company, which has been fighting a battle to remain independent for months. The move could pave the way for Yahoo to complete a deal with Microsoft Corp., which both had explored as a way to more effectively compete with Web-search giant Google Inc.

Mr. Yang will step down after the company finds a successor, closing a short, tumultuous tenure in which he tried to save the firm he co-founded only to see it lurch from disappointment to disappointment.

Yahoo Chairman Roy Bostock and Mr. Yang, who will stay on as a senior executive and board member, have been discussing the possibility the CEO might step aside for weeks, said people familiar with the matter. Yahoo directors hope to find Mr. Yang's successor by the first quarter of 2009, according to one person familiar with the matter.

Microsoft had offered $31 a share for Yahoo on Jan. 31, which Yahoo's board rejected. In Tuesday afternoon trading, Yahoo shares were up 7.2% at $11.40 each on the Nasdaq Stock Market.

Meanwhile, Mr. Yang's strategy of keeping Yahoo independent has faced a number of new roadblocks. Google abandoned a pending search

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LEADING THE NEWS

Traders battle for their share of a shrinking bonus pool

Continued from first page

ages that withhold short-term pay if long-term bets go sour.

The top traders' final bonuses will be an important acid test for Wall Street's once-proud pay-for-performance culture. Shaken by the global financial crisis and increasing government oversight, banks are groping with a new way of doing business: Pay out huge sums and risk public ire and perhaps more government intervention. Pay too little, and tempt defections or insurrection from the few people who are driving this year's profits.

Around Wall Street, "I know a couple guys who've been told, 'We'll take care of you.' But they call me every day because they worry that, 'Hey, they're going to screw me,'" said Gustavo Dolfino, president of financial-services executive-search firm WhiteRock Group. "The only guys protected are the guys with a contract."

Indeed, not all of Wall Street is in the red. The rough-and-tumble commodity markets, for example, delivered a much-needed assist to **Morgan Stanley** and Goldman.

The two banks are struggling with declining stock prices and questions about their long-term business models. But the firms' little-publicized commodity-trading desks could add perhaps as much as $1.5 billion to each firm's 2008 bottom line, say people familiar with their results. That could potentially contribute as much as a third of Goldman and Morgan's projected net income. (Wall Street firms don't break out results from their commodities business.)

The year's three hottest trading areas—commodities, currencies and interest rates—generally are housed within banks' fixed-income trading divisions, which also typically include the hard-hit mortgage-trading and credit-derivative products. That is dragging down potential compensation for even the best performers.

That doesn't sit well with consistently profitable divisions. While Morgan Stanley's chief financial officer cited the commodities-trading group on an analyst call this year as one of the bank's "two top businesses," some traders in the unit in the past have argued that the commodities group is undercompensated relative to its contribution.

Michael Karp, the chief executive of Options Group, says he is telling many high-performing traders that "if they are flat from last year, they should be pretty excited, even if they've had a much better year." The very best traders at top-tier commodities and currency desks made $10 million to $20 million or more last year, he says. At the next level down, traders who brought in $100 million in revenues might have made $4 million to $5 million.

Generally, traders look for bonuses of up to 10% of profits they made for a firm, with adjustments for the performance of the unit and the overall firm. This year, an oil trader who brought in several hundred million dollars or more in revenues to his firm might still get $20 million, but much more of it will be in stock. Mr. Dolfino says star foreign-exchange traders who expected to make $25 million this year after earning the firm $250 million may get less if it isn't clear the feat can be repeated without the use of borrowed money.

Bare bonus

Bonus payments for select Wall Street jobs

PROFESSION	2008 BONUS	CHANGE FROM 2007
Managing director in investment banking	$900,000 to $1.1 million	down 55%
Commodities trading managing director	$3 million to $4 million	down 25%
Foreign exchange trading managing director	$1 million to $1.5 million	down 15%
First-year investment banking analyst	$30,000 to $40,000	down 50%

Note: 2008 average bonus estimates for global investment banks

Source: Options Group

Access to the firm's capital has been a key element to the returns of Morgan and Goldman, who have led a virtual duopoly in this commodities-trading business for more than two decades. In its fiscal year ending this month, Morgan Stanley's commodities business is set to record $2.5 billion to $3 billion in net revenue, before compensation costs and taxes, several people familiar with its results say. Goldman Sachs, the other dominant Wall Street commodity dealer, could also make as much as $3 billion in net revenue, say people familiar with its results.

The third-largest commodity dealer, Barclays Capital, a unit of Barclays, also is moving toward a record year of $2.2 billion or more in net revenue, say others familiar with its performance. Its year ends in December.

Commodities operations help airlines manage fuel costs, sell investments pegged to raw-materials prices and speculate with firm money on gyrating oil, metals and grains.

Many firms' foreign-exchange and interest-rates groups—which act as brokers for clients managing currency and interest-rate risks and make bets in those markets themselves—also are expected to post stellar results, say people familiar with the matter.

J.P. Morgan, for example, said its 19% increase in fixed-income markets revenue for the third quarter was "driven by record results in rates and currencies," along with strong performance in credit trading, emerging markets and commodities.

Yet the world's banks are keen not to appear to be funneling billions of dollars in government aid into bonuses, especially with government officials sending subpoenas over bonus plans. Earlier this week, New York Gov. Andrew Cuomo urged **Citigroup** Inc.'s top brass to decline bonuses. Goldman's general counsel Gregory Palm told a Senate committee last week that payouts to his firm's employees will be "dramatically affected" by the financial turmoil.

UBS, the European bank hardest hit by the financial crisis, says that next year, about 2,000 of its 8,000 employees will be labeled as "risk takers." They will receive variable cash and share bonuses, with the cash component paid out over several years and a provision to deduct from it during that period if company or individual performance is poor.

But docking pay for big producers can be risky. Deutsche Bank finance chief Stefan Krause recently told analysts that bonuses would be down but added: "We need good people that develop profitable business and generate revenues. So we will not do anything that really harms our platform."

—Joann Lublin, Joanna Slater and Dana Cimilluca contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Steelmaker ArcelorMittal suspended some raw-material deliveries in accordance with production cuts announced Nov. 5. A Corporate News article on the steel industry Tuesday incorrectly said the suspension of raw-material deliveries was announced Nov. 5.

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Alcatel to sell stake in Thales for $1.9 billion

By Leila Abboud

Alcatel-Lucent SA said it reached a preliminary agreement to sell its stake in defense-electronics company **Thales** SA to French conglomerate **Dassault Group**, a move that could help the telecom-equipment maker better withstand the economic downturn.

If completed, the deal, under which Dassault would pay about €1.5 billion ($1.9 billion) for the 20.8% stake, would boost Alcatel-Lucent's cash holdings at a time when its new chief executive, Ben Verwaayen, is trying to return the company to profit. And it could help boost investors' confidence in Alcatel-Lucent as it braces for a downturn in which sales and profit will be under pressure, said Richard Windsor, technology-industry specialist at Nomura Securities.


Ben Verwaayen

"If the worst-case scenario of a long recession comes to pass, the bigger your cash pile, the longer you can hang on," he said.

Alcatel-Lucent hasn't turned a profit since it was formed by the merger of Alcatel SA of France and Lucent Technologies Corp. of the U.S. in December 2006. The company has struggled to integrate its operations and cut costs, in the face of tough competition from low-cost Asian manufacturers of telecommunications gear and Swedish mobile-phone rival **Telefon AB L.M. Ericsson.**

Selling the Thales stake represents one of the biggest moves so far by Mr. Verwaayen, who was brought in in September to turn the company around. Last week, he reorganized Alcatel-Lucent's management structure and named new executives to run key divisions, such as the Americas. Alcatel-Lucent's stake in Thales isn't central to its main business of researching and developing equipment for mobile- and fixed-line phone networks. It is largely a holdover from its days as a larger industrial conglomerate.

For Dassault, the deal would strengthen its aviation unit, which makes fighter jets and high-end private planes. But it also could alter the French defense-industry landscape by giving a boost to Dassault's aviation unit against rival **EADS** NV, the Franco-German parent of Airbus. Some analysts had speculated that EADS, too, had been interested in Alcatel-Lucent's Thales stake. Dassault makes the French Rafale warplane, which competes against the multinational Eurofighter made by EADS.

Even so, Thales and Alcatel-Lucent sometimes work together on projects, including an €80 million contract they recently won to build data systems for Poland's highway network. Mr. Verwaayen told investors not long ago that Alcatel-Lucent would continue to team up with Thales where it made sense, even if it wasn't a shareholder.

Alcatel-Lucent and Dassault released a joint statement saying they had agreed to a price of €38 for each Thales share. That represents a more than 25% premium to their closing price Monday. The deal requires approval by French regulatory authorities and labor organizations at the companies.

Carrefour taps Nestlé executive as CEO

Giant French retailer responds to pressure from big shareholders

By Aaron O. Patrick, Cecilie Rohwedder and Christina Passariello

Facing pressure from major shareholders, France's **Carrefour** SA named a senior **Nestlé** SA executive as chief executive, looking to improve sales at home and abroad amid a global spending slowdown.

Lars Olofsson, who had been Nestlé's strategy and marketing chief, will need to steady the giant chain after a series of boardroom changes. He succeeds José Luis Duran, who departs after three years as CEO under pressure from major Carrefour shareholders U.S. private-equity firm **Colony Capital** LLC and Bernard Arnault, who is chairman of **LVMH Moët Hennessy Louis Vuitton** SA.

With more than 15,000 stores in 30 countries, Carrefour has struggled for years to make its sprawling and decentralized operations more nimble and responsive to consumer tastes. Carrefour's sales of €92.27 billion ($116.72 billion) last year made it the world's second-biggest retailer, behind **Wal-Mart Stores** Inc.

Mr. Olofsson, a 32-year-veteran at Nestlé, has never worked at a retailer. But his experience could help Carrefour in key areas. He spent more than half his career in France, Carrefour's biggest current headache. While at Nestlé, he worked on fending off deep-discount stores. Carrefour faces that challenge as well.

Mr. Duran's fate has been uncertain since March 2007, when Mr. Arnault and Colony bought into the company. They now hold a 13.6% stake. Representatives of Mr. Arnault and Colony declined to comment Tuesday.

Mr. Duran was slow to react to a rapidly evolving industry, a person close to Carrefour said. The company needed to sell more of its own branded products, shift its stores format and respond to changes in consumer spending—all issues that Mr. Duran failed to address quickly enough, this person said.

Carrefour and Nestlé declined to make Messrs. Duran and Olofsson available to comment.

CORPORATE NEWS

Videogame makers get the holiday spirit

Amid a slowdown, companies trim prices of consoles while adding supplies, new titles to draw a broader audience

By Yukari Iwatani Kane

As a penny-pinching holiday season looms, videogame companies are cutting game-console prices, beefing up supplies and releasing a vast crop of new games in hopes of attracting a wider audience.

In September, **Microsoft** Corp. dropped the price of its Xbox 360 console to $199 from $279. **Nintendo** Co. has increased the supply of its popular Wii consoles by 50% in the U.S. from last year's holiday season, when it sold about 2.85 million machines amid widespread shortages. Both Microsoft and **Sony** Corp. are offering new online capabilities for their consoles, such as movie downloading.

The videogame industry is striving to keep up its momentum. Most videogame consoles have already been out in the market for several years, meaning that many hardcore gamers have purchased one. So in addition to feeding their core constituency with traditional shoot-'em-up offerings, videogame makers have developed more "everyman" games.

The titles, which go beyond the typical videogame fare aimed at young men and teenagers, feature creative themes, such as imaginary-world simulations, that a broader audience might enjoy. The hope is that more families will buy systems and games to play together.

Yet the strategy has run headlong into the economic downturn, with many consumers now snapping their wallets shut. Total sales of videogame software and hardware are expected to rise 22% this year to $22 billion, according to Anita Frazier, an analyst at NPD Group, a market-research firm based in Port Washington, N.Y. That's far slower than last year's 43% growth rate.

One thing working in their favor: At $50 to $60 a pop, videogames remain a relatively cheap form of stay-at-home entertainment. Here's a selection of some of the season's notable new titles:

Epic/Microsoft; Sony

A whole new game: A scene from Epic/Microsoft's 'Gears of War 2' videogame, left; the Sackboy character from Sony's 'Little Big Planet', right.

Outside the box

- **LittleBigPlanet** (Sony, $59.99)
- **Spore** (**Electronic Arts** Inc., $29.99-$49.99)

This year, game makers are experimenting with new kinds of games that don't fit into any one category but are meant for everyone. In "LittleBigPlanet" (PlayStation 3), users can customize a cute little character known as Sackboy or Sackgirl, who can run, jump, grab and climb as he or she solves puzzles and navigates dangers. The unique feature of the game is that users themselves can design new levels and share them with other players online.

"Spore" (Nintendo DS/PC), designed by Will Wright—the creator of "The Sims" life-simulation game series—lets players shape the evolution of a species from tiny organisms to mature creatures to space beings that can colonize neighboring planets. Though the game is single-player, one player's creatures could populate others' worlds.

Music games

- **Guitar Hero World Tour** (**Activision Blizzard** Inc., $49.99-$59.99)
- **Rock Band 2** (MTV/Electronic Arts, $49.99-$59.99)
- **Wii Music** (Nintendo, $49.99)

Music games, in which players pretend to be rock stars, are a $1 billion-plus business that is expected to be even bigger this year.

Though previous "Guitar Hero" games were played with controllers that looked like guitars, "Guitar Hero World Tour" (Xbox 360/PS3/PS2/Wii) also features drum and microphone controllers. Activision also added a "beginner" level and a "Music Studio" feature that lets users create their own music and share it online. In addition to selling the game by itself, Activision bundles the game with controllers ($89.99-$189.99), though older guitar controllers will also work with the game.

"Rock Band 2" (Xbox 360/PS3/PS2/Wii) cranks up the competition with 84 preloaded songs, 20 free downloadable songs, and the promise of hundreds of others that will be downloadable for a small fee. That doesn't include the songs from the original Rock Band that owners of the game can load onto the sequel. The second installment also has an extensive online element that allows players in different geographical locations to play together in the same band. Bundles of games packaged with the controllers are available for $189.99.

Nintendo is taking a different approach with "Wii Music" (Wii). Instead of appealing to your inner rock star, it wants to bring out the musician in everyone. The aim of this game is to come up with the most creative arrangements to simple, well-known songs, such as "Yankee Doodle" using regular Wii controllers.

Sports and racing

- **Shaun White Snowboarding** (Ubisoft, $29.99-$59.99)
- **Need for Speed Undercover** (Electronic Arts, $39.99-$59.99)
- **Midnight Club: Los Angeles** (Take-Two, $59.99)

"Shaun White Snowboarding" (Xbox 360/PS3/PS2/Wii/PlayStation Portable/DS/PC) was developed in collaboration with Olympics gold medalist Shaun White. Players can create their own characters, which are given the freedom to choose how and where to ride. Mr. White appears in the game as a friend and mentor. The Wii version has gotten particular attention because players can stand on the Wii Balance Board and simulate snowboard moves.

"Need for Speed Undercover" (Xbox 360/PS3/PS2/Wii/PSP/DS/PC) is the latest installment of the popular racing game series. Players, acting as undercover cops, compete in races and take on dangerous jobs to infiltrate an international crime syndicate in a fictional city.

Another racing sequel, "Midnight Club: Los Angeles" (Xbox 360/PS3), is a fast-paced competitive street-racing game by the developer of the popular "Grand Theft Auto" series that lets players race through a realistic recreation of the City of Angels. The game features a soundtrack of 93 songs and cars that can be customized extensively.

Action

- **Gears of War 2** (Epic/Microsoft, $59.99)
- **Mirror's Edge** (Electronic Arts, $59.99)
- **Left 4 Dead** (Valve/Electronic Arts, $49.99-$59.99)
- **Resistance 2** (Insomniac Games/Sony, $59.99)
- **Fallout 3** (Bethesda Softworks, $49.99-$59.99)

Serious gamers looking for a good action game won't be lacking for choices this year. "Gears of War 2" (Xbox 360) is the sequel to the critically acclaimed third-person shooter game released two years ago, in which the soldier characters have to drill underground to fight an enemy that has found a way to make holes capable of sinking an entire city.

The fast-paced "Mirror's Edge" (Xbox 360/PS3) features a female courier who runs messages in a totalitarian regime. The character, Faith, must rescue her sister, who was framed for a crime, while evading the government by jumping over obstacles, running walls and ducking in and out of places.

Horror survival game "Left 4 Dead" (Xbox 360/PC), first-person shooter "Resistance 2" (PS3), and the role-playing game "Fallout 3" (Xbox 360/PS3/PC)—the latter two sequels to popular games—are also expected to be among this year's hits.

Eclipse Aviation secures financing to meet payroll

By J. Lynn Lunsford

Eclipse Aviation Corp., a maker of light jets that failed last week to make its payroll amid a tightening global credit market, said it secured financing that will allow it to pay its 1,100 employees.

The company, which pioneered a wave of low-price jets, is struggling to avoid becoming a casualty of the softening market for smaller airplanes. In recent days, Textron Inc.'s Cessna Aircraft Co. and Hawker Beechcraft Corp. have announced hundreds of layoffs as they race to cope with the downturn. Eclipse builds six-seat aircraft aimed at private pilots, as well as what the company hoped would become a viable industry of air-taxi operators.

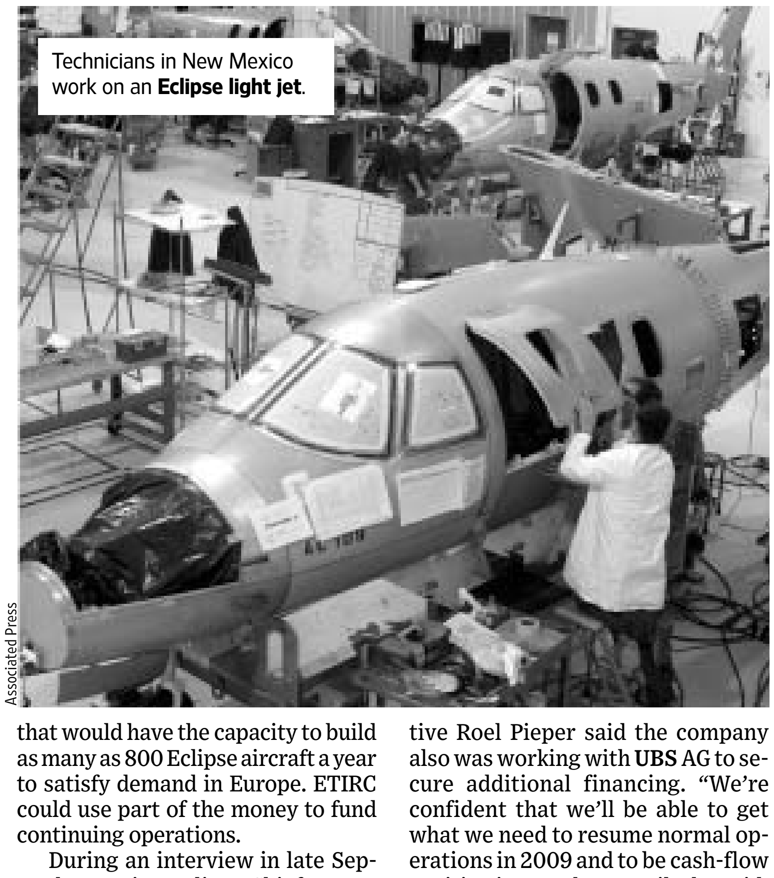
Eclipse officials said the company was "unable to meet its payroll obligations on Thursday, Nov. 13. By Friday, officials said they had resolved the issue, but the situation underscored the difficulty the company had in raising between $200 million and $300 million in additional financing to keep its doors open beyond Jan. 1.

An Eclipse spokeswoman declined to elaborate beyond a short statement and said company officials weren't available for interviews. According to people familiar with the situation, Eclipse told its employees, suppliers and federal officials that it had trouble meeting payroll because of a glitch in securing financing from investors in Europe.

In July, Eclipse officials said the company had booked more than 2,000 orders and was turning them out at a rate of two a day from their facilities in Albuquerque, N.M. In September, air-taxi operator DayJet Services LLC, one of Eclipse's largest customers, closed its doors.

In late September, the Russian government said it would invest $205 million in Eclipse's major shareholder, European Technology and Investment Research Center, or ETIRC. The bulk of the money was earmarked for a new factory in Ulyanovsk, Russia, that would have the capacity to build as many as 800 Eclipse aircraft a year to satisfy demand in Europe. ETIRC could use part of the money to fund continuing operations.

During an interview in late September, acting Eclipse Chief Executive Roel Pieper said the company also was working with **UBS** AG to secure additional financing. "We're confident that we'll be able to get what we need to resume normal operations in 2009 and to be cash-flow positive in March or April," he said.



Associated Press

Technicians in New Mexico work on an **Eclipse light jet**.

THE 2008
ROLEX LAUREATES

ELSA ZALDÍVAR
Using local plants and waste products to develop a strong and durable housing material

TALAL AKASHEH
Working to preserve the ancient monuments of Petra by building a geoarchaeological database

TIM BAUER
Developing a cheap and effective upgrade for motorcycle engines to help reduce pollution

ANDREW MCGONIGLE
Using a remote-controlled helicopter to sample volcanic gases and help predict eruptions

ANDREW MUIR
Training AIDS orphans in the growing ecotourism industry to help them become self-sufficient

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Severstal earnings triple, but output cut is planned

By Alexander Kolyandr

LONDON—Russian steelmaker OAO **Severstal** on Tuesday said third-quarter earnings more than tripled but cautioned that it is cutting production in half because of reduced demand.

Chief Executive Alexei Mordashov said the cutbacks were being made "in light of the uncertain global economic outlook and its impact on the world's steel-consuming industries."

The company, which also halted its share-buyback program and rolled back its investment plans, could be on track for losses in the fourth quarter, given reduced expectations for its full-year earnings before interest, taxes, depreciation and amortization, analysts noted.

For the three months ended Sept. 30, Severstal posted a net profit of $1.31 billion, up from $378 million in the year-earlier period, on the back of rising spot prices in Russia and the U.S. Revenue more than doubled to $7.6 billion from $3.56 billion.

Chief Financial Officer Sergei Kuznetsov said in a conference call that the company will cut its steel output in November and December to half the levels in the third quarter. In the July-to-September quarter, the company's average monthly output stood at two million metric tons. Mr. Kuznetsov said that "certain layoffs are inevitable" but declined to provide further details.

The steelmaker had warned that it was cutting October production by as much as 30% and may lower its earnings forecast for the year, as the weaker global economy darkens the prospects for Russia's commodity producers. Steel producers in Russia—the world's fourth-largest supplier after China, Japan and the U.S.—have seen prices for their products halve in the past four months.

The production cuts come after a similar move by Russian rival OAO Magnitogorsk Iron & Steel Works. Steel executives around the world are struggling to deal with excess supply and falling prices. Oversupply concerns have also prompted ArcelorMittal , the world's largest steel producer by volume, to trim production in Ukraine and Kazakhstan.

Severstal said Tuesday that it would also cut its capital expenditure for 2008 by 20% and defer the bulk of its planned $8 billion investment program for 2009-2011 until market conditions improve. It had planned capital expenditures of $2.7 billion to $2.9 billion in both 2008 and 2009.

Severstal has also put its share buyback on hold. The company said in September that it would buy back as much as 2.8% of its stock.

Mr. Mordashov said that he expects 2008 Ebitda in the range of $5.1 billion to $5.3 billion, down from a previously expected range of $5.8 billion to $6.1 billion. This implies fourth-quarter Ebitda in a range of $100 million to $300 million, or about 90% lower than a year earlier, which might result in a net loss for the quarter, analysts noted.

Mr. Kuznetsov was optimistic about the outlook for the market, noting that steel prices have already reached bottom and that demand for steel will improve shortly as consumers' stockpiles dwindle.

Mr. Kuznetsov also said that although Severstal has enough cash to redeem its bonds, due February 2009, it has applied for a $244 million loan from the state development bank VEB.

Burberry is set to retrench

Luxury firm will cut factories and styles, warning of slowdown

By Cecilie Rohwedder

Associated Press

'We will adjust to the changing market environment,' said Burberry CEO Angela Ahrendts. Above, **Burberry Prorsum collection** on the Milan catwalk in September

LONDON—British fashion house **Burberry** PLC said current consumer caution was cutting into its business and would push earnings below market expectations this fiscal year, even as it reported a 13% increase in net profit for the first half.

The London-based luxury label said net profit rose to £74.8 million ($112.3 million) in the six months ended Sept. 30, up from £66.1 million in the same period last year. Since then, however, sales have begun to suffer, Burberry said, especially in the U.S., where more of its merchandise is selling at discounted prices. In the last six weeks, sales at stores open at least a year, a critical retail measurement, declined.

Going forward, Burberry said it expects smaller orders from department stores.

"We are pleased with our solid growth for the first half but the focus is on what's ahead," said Chief Financial Officer Stacey Cartwright in an interview. If the current trend continues, she said, Burberry's adjusted profit before tax for the full year would be "in the mid- to lower half of the current range of market expectations."

Market forecasts range between £160 million and £215 million for this fiscal year.

The gloomy forecast sent Burberry's shares falling. After hitting a six-year low in the morning, the stock recovered and closed down 13% at 175 pence Tuesday. Since January, Burberry's shares have lost over two-thirds of their value.

The bad news from Burberry shows that the slowdown in spending is affecting upscale brands that initially hoped to be safe from the slump. Last Friday, Richemont SA of Switzerland, owner of the Cartier and Chloe brands, reported a sharp drop in October sales. A day earlier, Italian jeweler Bulgari SpA posted a 44% decline in third-quarter profit and said 2008 revenue growth would be lower than expected. Several luxury goods makers are lowering prices to counter the cool-down in consumer spending.

"We will adjust to the changing market environment," said Burberry Chief Executive Angela Ahrendts in an interview.

The company is planning to cut up to £20 million in costs in its next fiscal year. Among other measures, it will ship more apparel and accessories by sea, which is less expensive than by plane. Burberry will also reduce the number of factories it uses to make its clothes, shoes and handbags and cut by another 25% the overall number of styles it will sell for the autumn/winter 2009 season. When Ms. Ahrendts joined Burberry in 2006, she cut the range of products by almost a third.

Even before the recent economic turmoil, Ms. Ahrendts had positioned Burberry as the "most democratic" luxury brand, accessible to a wider range of shoppers than the top designer labels. The company has a more diverse product range than most other luxury brands, with sales evenly split between womenswear, menswear and accessories. Its comparatively small business with pricey handbags was long considered a disadvantage but may now benefit Burberry.

"Our diversity is one of the greatest assets we have" said Ms. Ahrendts. She said the company would continue to upgrade the technology supporting its operations and open new stores. Burberry is opening six stores in the U.S. this week, for example.

H-P issues upbeat profit outlook

By Justin Scheck And Jerry A. DiColo

Hewlett-Packard Co. reported better-than-expected fourth-quarter earnings, renewing hope that the technology giant can weather the slumping economy.

Tuesday's announcement, which came six days before H-P was scheduled to report, sent H-P shares up more than 12% in afternoon trading. The stock closed at $29.34 Monday, down from a high of more than $48 in September.

The company's stock had suffered, along with the rest of the tech sector, from weak spending and poor forecasts for the PC market. While there was hope early in the credit crunch that tech companies could withstand a slowdown, that confidence has eroded over the last month.

Last week, a warning from chipmaker **Intel** Corp. that revenue for the current quarter would be disappointing helped drag down the share price of PC makers like H-P and **Dell** Inc.

H-P said revenue in its fiscal fourth quarter ended Oct. 31 was up 19%, or $5.3 billion, from the same quarter last year, while earnings per share rose 4% to 84 cents. Revenue grew 5%, excluding income from Electronic Data Systems Corp., an IT services company that H-P acquired this year for $13.25 billion.

Source: Thomson Reuters Datastream

The company projected fiscal 2009 per-share earnings between $3.88 and $4.04 on revenue of $127.5 billion to $130 billion—a revenue estimate lower than Wall Street expectations. Analysts were expecting, on average, earnings of $3.85 a share on revenue of $135.06 billion, according to Thomson Reuters.

Wall Street analysts attributed the positive results to H-P's diversified business model—it makes money on printer supplies and tech services, in addition to PCs, and about two-thirds of its revenue comes from outside the U.S.

H-P "has the product diversity and the geographic diversity and the cost-cutting options at its disposal, in particular post-EDS, to give it plenty of cushion to handle the headwinds we're going to face," said Needham & Co. analyst Richard Kugele.

But the news isn't all good for tech companies, said Shebly Seyrafi, an analyst at Calyon Securities. He said H-P's forecast indicates a slowdown in PC sales will continue. "It was the last good quarter before the problems become more apparent on the top line," he said. Mr. Seyrafi expects H-P to continue to bolster profit through cost cuts, but PC revenue will likely drop.

H-P's early announcement didn't indicate how its individual business units performed, but Mr.Seyrafi said the revenue outlook would indicate dropping PC prices as companies compete for market share and buying slows. "Their projection embeds in it, I think, weaker PC sales," the analyst said. "I think this is negative for the PC space."

That could be troubling for Dell, the world's second-largest PC maker after H-P. Dell in September said it was seeing slowing commercial PC sales. Dell is set to announce earnings on Thursday.

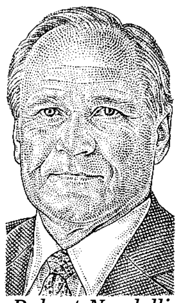
Big 3 push for urgent aid

CEO warns Chrysler could run out of cash without loan by U.S.

By Josh Mitchell

WASHINGTON—Two of Detroit's Big Three auto makers are on the verge of collapse, industry executives told a Senate panel Tuesday, urging emergency assistance from the U.S. government to avert what they said would be an economic catastrophe.

The bleak outlook for the U.S. auto industry became gloomier as **Chrysler** LLC Chief Executive Robert Nardelli said his company is in danger of running out of money without financial help. Until Tuesday, the focus in Washington had largely been on **General Motors** Corp., which is facing increasing speculation from analysts that it could be forced to seek bankruptcy protection as early as next year.



Robert Nardelli

"Without immediate bridge financing support, Chrysler's liquidity could fall below the level necessary to sustain operations in the ordinary course," Mr. Nardelli said in prepared testimony before the Senate Banking Committee.

Mr. Nardelli joined executives of GM and **Ford Motor** Co. in calling for the auto makers to get $25 billion in emergency loans from the $700 billion financial rescue program to help them survive the economic downturn. Republican opposition threatens to kill the plan or delay its passage.

The executives defended the management of their companies, saying the need for emergency government support stems from the economic crisis, not poor decision-making. And they sought to combat criticism that they haven't done enough to restructure their companies and invest in modern, fuel-efficient vehicles.

"This is about much more than just Detroit," GM Chief Executive Rick Wagoner said in prepared remarks, arguing that the failure of a U.S. auto maker would have ripple effects throughout the economy. "It's about saving the U.S. economy from a catastrophic collapse."

Mr. Wagoner said a precipitous drop in vehicle sales threatens GM's survival.

Also scheduled to testify was Ron Gettelfinger, head of the United Auto Workers union, who supports the auto makers' aid request.

The auto makers are burning through cash reserves as vehicle sales plummet.

Ford CEO Alan Mulally said that while his company isn't in as much danger as GM, the collapse of its rival would be felt by Ford's operations "within days, if not hours" because competing manufacturers are served by the same parts suppliers.

"A collapse of one of our competitors here would have a ripple effect across all auto makers, suppliers and dealers," Mr. Mulally said in prepared testimony, saying millions of jobs could be lost.

Much of the executives' testimony was devoted to outlining steps the companies have taken to reduce costs and to develop smaller, fuel-efficient vehicles.

Ford, for example, has closed 17 plants and cut 51,000 jobs in recent years, Mr. Mulally said. "Few companies in the history of our country have restructured more aggressively," he said.

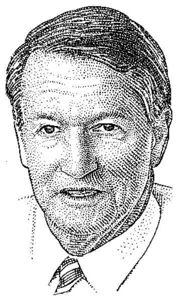
Mr. Wagoner said that through negotiations with the UAW and other cost-cutting moves, the company has reduced structural costs by $9 billion, or 23%, since 2005.

"We've moved aggressively in recent years to position GM for long-term success, and we were well on the road to turning our North American business around" before the economic crisis, Mr. Wagoner said.

The loans being pushed by Democrats would be for 10 years, starting at an interest rate of 5%. Republican opposition could force the companies to wait until next year when Democrats will have larger majorities in Congress and President-elect Barack Obama takes office.

The legislation under consideration by the Senate would require the government to bar bonuses for executives making more than $250,000. The bill in the House has similar provisions for those companies receiving aid, demanding no bonuses to employees making more than $200,000, no "golden parachutes" payouts to departing executives and "no compensation plan that could encourage manipulation of reported earnings to enhance compensation."

Although GM has been losing money since 2005, Mr. Wagoner got a salary increase this year. At Ford, Mr. Mulally has come under fire for a rich pay package even though the company is losing money and pulled back from a pledge to return to profitability next year. Less is known about Mr. Nardelli's CEO package at Chrysler because the auto maker is closely held.



Rick Wagoner

In a television interview Tuesday morning, Mr. Mulally played down the idea of cutting executive pay. He said Ford has stopped merit raises, incentives and bonuses for top management. But he added, "It's really important that we compensate them for their hard work."

—Matthew Dolan contributed to this article.

EU considers aid for auto makers

*By **Gabriele Parussini** in Paris and **Andrea Thomas** in Berlin*

European officials began lining up behind a European Union-wide aid program for its auto industry, though some officials expressed concerns about breaking EU rules on competition and state aid.

German Vice Chancellor and Foreign Minister Frank Walter Steinmeier and Luxembourg Prime Minister Jean-Claude Juncker, who chairs meetings of finance ministers from the euro zone, said in a joint interview with German tabloid Bild published Tuesday that a pan-European response was needed.

France is also considering providing help for the auto industry with its EU partners and the European Investment Bank, French government spokesman Luc Chatel said.

But the EU's competition commissioner, Neelie Kroes, said Tuesday that the European Commission, the EU's executive arm, wants to make sure that national measures taken by car-producing countries don't put some car makers at an advantage.

The European Commission and the European Investment Bank are already working on a financial-aid package for auto makers to develop more environmentally friendly cars. The package is due to be presented at the next meeting of EU finance ministers, on Dec. 1.

Ms. Kroes warned that European governments' massive bailouts of the financial sector should be considered exceptional. "You can't compare the car industry with the financial sector—it's different," Ms. Kroes said. "The financial sector is the blood circulation of the whole economy; if your financial system is not working anymore, it is over," she said.

The German government has held talks this week about possible liquidity guarantees of more than €1 billion ($1.27 billion) for car maker Opel, a European unit of **General Motors** Corp. Chancellor Angela Merkel said Monday that a final decision would be taken in late December.

Ms. Kroes said Tuesday that EU authorities are in contact with Berlin over the German government's possible aid for Opel. She added that it is too soon to say how the EU would react to any aid plan that emerges.

French Finance Minister Christine Lagarde said Monday that aid to the industry should be considered on a national and Europe-wide basis, after auto makers, including **Renault** SA, were reportedly planning heavy production cuts because of falling demand.

Rescue efforts for European car makers come as the U.S. is debating $25 billion in aid for its Big Three auto makers, GM, **Ford Motor** Co. and **Chrysler** LLC.

National approaches won't be sufficient in dealing with the situation, Mr. Juncker said. "Real solutions can only take place on a European level," he told Tuesday's Bild newspaper. "If the U.S. government rescues Ford, GM and Chrysler from a bankruptcy with billions of dollars, then we can't simply watch and leave producers in Europe alone."

German government adviser and economist Peter Bofinger said Germany should nationalize Opel and sell it in better times. That would ensure that aid for Opel remains an isolated case, rather than triggering requests for aid by other German car makers, Mr. Bofinger told German newspaper Münchner Merkur. So far, however, German policy makers haven't proposed such a step.

GM, Chrysler bypass Los Angeles auto show

By Kate Linebaugh

LOS ANGELES—Detroit's foreign competitors are busy launching new vehicles, opening new plants and hitting the Los Angeles Auto Show, a showcase of growing importance for green technologies, with a slate of environmentally friendly vehicles.

Meanwhile, **General Motors** Corp. and **Chrysler** LLC are virtual no-shows—not sending any senior executives or holding any press conferences. Among the U.S. auto makers, only **Ford Motor** Co. has staked out a significant presence at the annual event.

GM's chairman, Rick Wagoner, is busy on Capitol Hill seeking a financial lifeline to stave off bankruptcy. Two weeks ago, GM and Ford announced further job cuts, and Chrysler is in the midst of a buyout offer to eliminate 25% of its white-collar workers.

But the Big Three's Japanese and European counterparts have been scaling up. **Honda Motor** Co. President Takeo Fukui Monday attended the ceremonial opening of the company's sixth U.S. plant, in Greensburg, Ind., where it produces the Civic compacts.

Toyota Motor Corp. started building its new Venza crossover wagon at its Kentucky plant last week and will open a new Ontario factory next month. Toyota currently controls more than 70% of the U.S. gas-electric hybrid market, which has grown substantially in the past several years.

BMW AG is set to unveil its electric two-seater version of the Mini Cooper, the "Mini E," which it will have on the roads of California, New York and New Jersey in a lease fleet of 500 cars early next year. The new "Mini E" took 10 months to develop, and more than 9,500 people already have signed up on a Web site to receive applications to lease the vehicle for a year—at $850 a month.

BMW's **Mini E** will debut at the Los Angeles Auto Show.

Newscom

While the car won't be suitable for high-volume production, the "know-how gained from this project will pave the way for a genuine, mass-produced 'mega-city car,' " said Natalie Bauters, the U.S. spokeswoman for Mini.

The biggest new technology gamble out of Detroit is the Chevrolet Volt, a battery-powered compact that GM won't have available until the end of 2010. Even though GM has cut back on many of its automotive programs—slashing capital spending by almost half from $9 billion to the $4.8 billion planned for 2009 and 2010—Mr. Wagoner said all the company's advanced-technology programs will stay on track, including the Volt.

Ford plans to reveal two new hybrid cars, doubling the number of hybrid vehicles it offers and introducing its second-generation hybrid technology. The Dearborn, Mich., auto maker is hoping to take on Toyota's hybrid Camry with its new Fusion hybrid vehicle.

The Los Angeles show has recently gained in importance both for the luxury-vehicle makers and for innovative, green technologies that appeal to environmentally conscious Californians. In the past three years, the media attention at the show has doubled, raising the show's importance, according to organizers. And Detroit's low-key appearance further illustrates how tough times are and how hard it will be for the Big Three to claw back at a time when automotive technology is rapidly changing.

The contrast highlights the diverging paths between the U.S. domestic car makers and their foreign rivals at a crisis point in the industry. While all auto companies have been hurt by the rapid contraction in U.S. vehicle sales, Detroit's Big Three have been pushed to the brink with their high cost base, legacy factories and smaller cash cushions. GM and Ford jointly chewed through $14.6 billion of cash in the third quarter. Last week, GM said it could run out of money by the end of the year without federal assistance.

"Future product programs are being delayed as we speak," says Michael Robinet, an analyst at CSM Worldwide, which tracks and forecasts auto production. "Their ability to compete is being compromised to an extent right now because they are delaying some of this development." Mr. Robinet added: That's "because it takes money, and capital is something they don't have right now."

Auto shows are important to dealers. Duane Paddock, a Chevrolet dealer in western New York, said it is imperative for GM to invest heavily in key programs like the Volt and its compact Cruze.

"The reality of the situation is that GM has got to do what they have to do to maintain their long-term viability," Mr. Paddock said. "Hopefully the short-term hurt they're dealing with will not affect us long-term."

Auto shows also are opportunities for the manufacturers to float new vehicle ideas. Last year at the Los Angeles show, car enthusiast Jim Salomon began talking to some Honda executives about the company's hydrogen fuel-cell Clarity test vehicle. The 51-year-old owner of a Newport Beach, Calif., construction company ended up the third recipient of a Clarity this month.

"All the American auto makers have been talking about hydrogen cars, but it is just talk," Mr. Salomon said. "I was pretty pessimistic, but I'm driving one. [Honda] proved me wrong."

—Sharon Terlep and Jeff Bennett contributed to this article.

Diamond business dulls

India's polishers hit a rough patch amid U.S. slowdown

BY TARIQ ENGINEER

SURAT, India—The global capital of the diamond-polishing trade is losing its luster.

For more than two decades, this coastal city in the western Indian state of Gujarat has been a crucial way station in the world's diamond trade: Eight of every 10 finished diamonds in the world are cut and polished here before export to markets such as the U.S. At its peak three years ago, the industry generated exports of $12 billion (€15 billion) a year.

While wages elsewhere in India have risen, the owners of diamond-cutting businesses have kept a tight cap on pay, prompting an exodus of workers for more lucrative jobs. Now the industry is bracing for another blow, this one from the slowdown in the U.S., which as recently as two years ago imported roughly half the diamonds finished in Surat.

Some 250,000 workers, a third of the city's diamond-cutting and polishing work force, have left the industry in the past three years, winnowing those employed in the trade to about 500,000. After cutters and polishers went on strike in July, the Surat Diamond Association, an industry body of manufacturers and traders, agreed to a 20% wage increase—the first in a decade.

Surat's exports grew at an average of more than 20% a year in dollar terms from 2002 to 2005. In 2006, growth fell to 6%. The following year was worse: Exports shrank 8%. The industry appeared to rebound in the year ended March 31, with export growth of 30%, but industry executives say the numbers are misleading, boosted by the elimination of import duties. In effect, exports were flat, says Sanjay Kothari, chairman of the Gem and Jewelry Export Promotion Council of India.

The slump is taking a toll. C.P. Vanani, president of the Diamond Association, estimates 15% of the 4,000 factories in Surat have closed in the past several years.

Surat's diamond merchants are trying to lessen their dependence on the U.S. by targeting other countries, including India, and increasing the amount of finished jewelry they produce. It will be heavy going. "Our industry has never seen such a market since we have been in diamonds," says Aagam Sanghvi, 24, a director of **Sanghvi Group**, one of India's largest diamond cutters.

The U.S. accounted for 50% of Sanghvi's $400 million in revenue for the year ended March 31. It has expanded in the Middle East and Asia to help offset the U.S. slowdown. But now demand is slowing even in those markets. "There is [a] liquidity crisis everywhere," Mr. Sanghvi says.

Panos

A **diamond polisher** in a small factory in Surat, the center of the industry in India. The slowdown in the U.S. has damped demand for Surat's products.

Future of Fannie, Freddie debated as losses mount

BY JAMES R. HAGERTY

Debate is heating up on the future of **Fannie Mae** and **Freddie Mac** as the two U.S. government-backed providers of funding for home mortgages flounder with heavy losses and difficulties in borrowing through long-term bonds.

In prepared remarks for a speech in Detroit on Tuesday, **Bank of America** Corp. Chief Executive Kenneth Lewis called for scrapping the business model of Fannie and Freddie. He said the U.S. should "move in the direction of a system that relies more on private-sector institutions," without government guarantees, to channel money from investors to home-mortgage lenders.

In the short term, though, Mr. Lewis said the government should make its backing of Fannie and Freddie "more explicit" to boost investor confidence and push down mortgage interest rates.

The Mortgage Bankers Association, a trade group, is slated to host a meeting in Washington on Wednesday to discuss options for the future of the "secondary market," in which lenders sell loans—singly or in the form of securities backed by thousands of mortgages—to investors.

That system has sputtered recently. On Sept. 6, U.S. regulators seized control of the management of Fannie and Freddie, citing heavy losses from mortgage defaults. At that time, the Treasury pledged to provide as much as $100 billion of capital to each company in exchange for preferred stock. Last week, Freddie said it needs a $13.8 billion cash injection from the Treasury, and Fannie said it may need Treasury funds by year's end.

Investors, particularly those overseas, have become wary of buying bonds issued by Fannie and Freddie in light of uncertainty over how they may be restructured and whether they will even continue to exist in the long term. Treasury Secretary Henry Paulson last week said investors can "bank on" promises that the government will ensure Fannie and Freddie can pay their obligations. But there is no explicit federal guarantee of Fannie and Freddie debt, and investors are less willing than in the past to accept "implied" guarantees or oral promises.

CORPORATE NEWS

Kodak says LG and Samsung infringed patents

By William M. Bulkeley

Eastman Kodak Co., which has increasingly turned to its patent portfolio in search of profit, said it sued **Samsung Electronics** Co. and **LG Electronics** Co., accusing them of infringing Kodak patents in the design of camera phones.

Kodak has reached licensing deals with most rival makers of digital cameras as well as most makers of camera phones. Earlier this year, it announced an agreement with Nokia Corp.

Kodak said the patents cover technology related to capturing images, data compression and storage, and a method for previewing motion images. A Kodak spokesman said the Rochester, N.Y., company had negotiated with Samsung and LG but hadn't been able to reach an agreement.

"Our digital-camera technology is different from the one used by Kodak. We haven't infringed upon Kodak's related patents," said LG Electronics spokesman Choi Jun-hyuk. "We'll actively deal with the case." Asked if LG would countersue, he said, "We haven't thought about that yet. We need to look into Kodak's claims further."

Samsung spokeswoman Hae Won Choi said: "Samsung is committed to protecting and respecting

Kodak has pursued licensing revenue as part of an effort to recover from losses.

intellectual-property rights. The company forbids infringement and unauthorized use of such intellectual property. Samsung plans to respond actively to this litigation and will remain committed to serving our customers by ensuring that accurate and reliable delivery of our products is not compromised in any way."

Kodak said it filed suit in U.S. District Court in Rochester and filed a complaint with the U.S. International Trade Commission. Kodak said it is seeking undisclosed damages and an injunction prohibiting Samsung and LG, both of which are based in Seoul, from importing and selling any infringing products.

Kodak's chief executive, Antonio Perez, has pursued licensing revenue as part of his effort to help the company recover from years of huge losses. Kodak has closed factories and laid off thousands of workers to cope with the collapse of film sales as the world has turned to digital photography.

Mr. Perez has told investors that Kodak receives between $250 million and $350 million a year in revenue from its intellectual-property portfolio. That contributes a significant portion of Kodak's income, since the costs in many cases were incurred years ago as Kodak's engineers developed many fundamental digital-photography technologies. Kodak reported a loss from continuing operations of $205 million for last year on sales of $10.3 billion.

—In-Soo Nam contributed to this article.

GLOBAL BUSINESS BRIEFS

Anheuser-Busch InBev

Beer merger is complete after regulatory approval

Belgium's InBev completed its $52 billion acquisition of U.S. brewer Anheuser-Busch Cos. Tuesday following regulatory approval from China, the last remaining hurdle for the deal. InBev paid $70 apiece for Anheuser-Busch's shares, which stopped trading at the close of business Monday, ending the U.S. company's 150 years of independence. The company is changing its name to **Anheuser-Busch InBev** and will trade on the Euronext Brussels stock exchange. The combined company's headquarters will be in St. Louis, where Anheuser-Busch was based. Anheuser-Busch InBev has more than 200 brands, including Budweiser, Stella Artois and Beck's. China cleared the deal with restrictions on the company's investments in the domestic brewery sector.

BP PLC

BP PLC said it is shutting its only Australian-based solar power factory, resulting in 200 job losses, to focus production in countries where costs are lower. BP said members of its local marketing team will keep their jobs to distribute imported product to Australian customers. The move comes against a backdrop of increased public enthusiasm for renewable energy sources, with the Australian federal government last year setting a 20% renewable energy target for 2020. BP Solar regional director Mark Twiddel said the Australian operation was competing with plants 20 times its size and had to import most of its raw materials. The U.K. energy giant will stop producing solar photovoltaic power cells in Sydney in March, with the slack to be taken up at its operations in Spain, India, China and the U.S.

Crédit Mutuel

French bank **Crédit Mutuel** said Tuesday that it signed a deal with **Trois Suisses International**, a French mail-order company, that will grant the mutual lender control of consumer-credit company Cofidis. The deal values Cofidis at €1.9 billion ($2.4 billion). Credit Mutuel is a large, unlisted French retail bank, which recently bought Citigroup Inc.'s retail operations in Germany for nearly €5 billion. After Trois Suisses sells its 51% stake in Cofidis it will set up a new holding company in which Credit Mutuel will hold 67%, with Trois Suisses owning the remaining 33%. Cofidis is active in nine European countries and had €8.6 billion in outstanding loans at the end of June. Trois Suisses wasn't immediatley available to comment.

Sterling A/S

Takeover talks for bankrupt budget airline **Sterling** A/S failed Tuesday because of disagreements between the potential buyer and a labor union representing flight crews, the trustees handling the estate said. The Icelandic-owned airline, which filed for bankruptcy last month, will now be dismantled and sold in bits and pieces. The potential buyer, who wasn't named, withdrew from the negotiations early Tuesday after the Danish Federation of Salaried Employees announced it didn't support the talks, said Lisa Bo Larsen, a spokeswoman for the trustees. The union said it opposed the deal because it would have entailed worse working conditions for Sterling staff. Sterling, which is based in Denmark, filed for bankruptcy on Oct. 29.

Cliffs Natural Resources Inc.

Cliffs Natural Resources Inc. and **Alpha Natural Resources** Inc., citing the economic environment and other concerns, terminated their $10 billion merger pact under which Cliffs would have acquired Alpha to create one of the largest U.S. mining companies. The decision comes as metals prices have plunged. Australia-based miner **BHP Billiton** Ltd. said last week that major Chinese customers are trying to delay purchases of iron ore, and other miners are cutting iron-ore production. Cliffs and Alpha said uncertainty in the steel industry, shareholder dynamics and the costs of potential litigation hurt the viability of the deal, announced in July. The likelihood of the deal going through had been in doubt because of opposition by Cliffs's largest shareholder, **Harbinger Capital Partners**.

Marks & Spencer Group PLC

U.K.-based clothing and housewares retailer **Marks & Spencer Group** PLC unveiled a management shake-up. George Davies, founder of its women's fashion brand Per Una, is retiring as part-time chairman of the brand at year-end. His daughter and Per Una's business-unit director, Melanie Davies, will also leave Marks & Spencer. Neither of them could be reached for comment. Executive Chairman Stuart Rose said Mr. Davies has done a "fantastic job in establishing Per Una and building it into a significant brand." The company named Andrew Skinner trading director for Per Una, in addition to his role of director of general merchandise planning. Helen Low, a design chief for the company, will become product and design director for Per Una.

Fortis NV

A Belgian court rejected complaints from shareholders of Belgian-Dutch bank **Fortis** NV that their rights were infringed when the bank was broken up as a result of a government rescue package. Thousands of angry investors, whose shares have plunged to less than €1 ($1.27) from almost €30 in April 2007, had asked the court to block, or put on hold, last month's carve-up. Judge Francine De Tandt Tuesday said the Belgian government had no alternative to selling the bank to France's **BNP Paribas** SA and had acted in the best interest of shareholders and depositors. The right of shareholders to vote on the deal wasn't written into the statutes of the bank, the judge said. She did, however, concede to one demand of shareholders, ordering the appointment of a panel of experts to assess the valuation of assets sold to BNP.

Covidien Ltd.

Medical-supplies maker Covidien Ltd. said its fiscal-fourth-quarter net income surged amid strong sales and comparison with a charge-laden period last year. But the Bermuda-based company cut its revenue outlook for the new fiscal year because of the dollar's recent strengthening. Covidien on Monday posted net income of $409 million, or 81 cents a share, up from $34 million, or seven cents a share, in the year-earlier quarter. Absent special items, including year-earlier restructuring charges and tax gains in the latest quarter, earnings from continuing operations rose to 73 cents a share from 62 cents a share. Revenue rose 12% to $2.57 billion in the quarter, helped by higher volume, new products and a favorable foreign-currency impact.

British Energy Group PLC

British Energy Group PLC, the nuclear-power producer being taken over by **Électricité de France** SA, on Tuesday posted a second-quarter loss after the company suffered from power-station shutdowns. The company reported a net loss of £39 million ($58.5 million) for the three months ended Sept. 28. A year earlier, the company posted a second-quarter profit of £64 million. Revenue over the same period fell 9.7% to £652 million. British Energy said its failure to generate profits in the second quarter was largely the result of outages at its Hartlepool and Heysham 1 power stations. However, the company retained an optimistic outlook because it expects five of its reactors at those power stations to return to service before the end of the year.

Carphone Warehouse Group

British retailer **Carphone Warehouse Group** PLC Tuesday said the economic outlook was the toughest it had ever seen, sending its shares plunging by more than a quarter and eclipsing news it might split off its telecommunications arm. Europe's biggest mobile-phone retailer also posted a £11 million ($17 million) pretax loss for its fiscal first half, which ended Sept. 27. A year earlier, the company reported a pretax profit of £38 million. Carphone blamed the loss on investments in its mobile virtual network operator, its technology support service and expenses related to its joint venture with U.S. retailer Best Buy Co., which plans to roll out electrical goods megastores across Europe. Revenue, stripping out the contributions from businesses now part of the joint venture, was down 2% to £697 million.

Borse Dubai

The Dubai International Financial Exchange was renamed Nasdaq Dubai on Tuesday in the latest effort to muster interest in the market, which has failed to lure investors since opening in 2005. **Nasdaq OMX Group** Inc., the world's largest exchange operator and buyer of a one-third stake in the Dubai exchange in February, said it will list its shares on the rebranded exchange. **Borse Dubai**, which controls the sheikhdom's main Dubai Financial Market index, is the other shareholder. "Rebranding DIFX and listing Nasdaq OMX ... will boost the capital-market industry in the region," said Soud Ba'alawy, chairman of Nasdaq Dubai and a director of Nasdaq OMX. Originally intended as a potential secondary market for major Western companies, the exchange has failed to attract a significant number of secondary listings.

Japan Airlines Corp.

The labor unions at **Japan Airlines** Corp. are planning a strike Wednesday and Thursday that may disrupt some domestic flight services. JAL said that three unions representing the cockpit crew, cabin attendants and others have warned that they will hold a one-day strike Wednesday over the year-end bonus payment proposed by the company. A fourth union, representing the cockpit crew, is also planning a strike Wednesday and Thursday. But the airline aims to minimize the impact by using non-union pilots. A strike would result in the cancellation of as many as 13, or 2.1%, of JAL's domestic flights on a daily basis and would ground 2,000 passengers Wednesday. It is currently looking into the impact on its domestic flights Thursday. The airline's international services won't be affected.

Lonmin PLC

Lonmin PLC, one of the world's biggest platinum producer, said Tuesday net profit for its fiscal year surged 45% on high sales prices, but warned it will have to cut production and jobs because platinum's market value has plummeted since its midyear high. The company said net profit for the 12 months ended Sept. 30 climbed to $455 million from $314 million a year earlier. Revenue was up 16% at $2.23 billion from $1.94 billion. High platinum prices during the first nine months of Lonmin's fiscal year boosted the company's bottom line. However, since their March high of $2,300 an ounce, platinum prices have plunged by about two-thirds as the global economic slowdown has reduced demand for the metal used in jewelry and cars. As a result, Lonmin said it planned to suspend some of its mining operations and reduce its work force.

Wolseley PLC

Wolseley PLC, the world's largest distributor of plumbing products, said Monday it would shed 2,000 jobs and close 200 branches in Britain and Ireland to adjust to the economic downturn. The company, which has already cut 5,000 jobs across Europe and North America, said there had been a "rapid deterioration in U.K. market activity," and that it expected the market to fall further. In a trading update, Wolseley, which has around 74,000 employees in 27 countries, said its profit before tax, exceptional items and amortization had declined around 45% from a year earlier in the three months ended Oct. 31. It said the trading profit of its British operation, Wolseley UK, was down 65%. The company didn't provide net figures, but said that the new job cuts, which represent about a seventh of Wolseley UK's work force, would help the company save £80 million ($120 million) annually.

Deutsche Lufthansa AG

Germany's largest airline, **Deutsche Lufthansa** AG, said Tuesday its CityLine regional carrier will cut 20% of its 2,500-person work force and scale back the size of its fleet as it trims costs. Lufthansa spokesman Patrick Meschenmoser said CityLine, which flies to smaller destinations within Europe, will reduce the number of its 50-seat CRJ-200 regional jets by 14 through 2010 from its overall fleet of 72 planes. The cuts were being implemented to lower costs at the carrier, said Mr. Meschenmoser. That, in turn, will mean a reduction of workers from the current 2,500 to about 2,000, affecting pilots, ground staff, flight attendants and office workers. The process will be completed by 2010, said the spokesman.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Medvedev warns crisis is spreading

Russian president plans more state aid for industries, as World Bank cuts growth forecast amid sliding oil price

BY LIDIA KELLY

MOSCOW—President Dmitry Medvedev warned that the crisis gripping Russia's banks and capital markets has spread to the real economy and pledged to use the Kremlin's still-massive oil wealth to provide more state aid for stricken industries.

His comments, his frankest on the subject yet, came as the World Bank cut its growth forecast for Russia next year by more than half because of the country's acute dependence on oil prices. The bank said it expects the ruble to keep softening as it tracks oil prices lower.

"It's not a question of if; it's a question of how it will happen," Zeljko Bogetic, the World Bank's chief economist in Russia, said of the ruble's decline. Russian officials have ruled out a sharp devaluation, but have increasingly hinted that the currency could be allowed to weaken slowly.

Earlier this year, government officials were touting a strong ruble as a symbol of Russia's economic resurgence. But the currency has fallen by 5% against a dollar/euro basket since August, and Russia's central bank allowed it to weaken by 1% last week, triggering speculation that it will be allowed to slowly shed value.

Oil independence?

Three-year plan for Russia's federal budget, percentages of GDP

	2009	2010	2011
Revenue	21.2%	19.8%	19.0%
Oil and gas revenue	**9.1**	**7.7**	**6.9**
Expenditures	17.5	17.4	16.7
Transfers to extrabudgetary funds	3.4	4.1	4.1
Total noninterest expenditure	17.1	17.0	16.2
Interest payments	0.4	0.4	0.5
Oil and gas revenue transfers*	**4.9**	**4.5**	**3.7**
Surplus	3.7	2.4	2.3
Nonoil deficit	–5.4	–5.3	–4.6

*To federal budget expenditures

Source: World Bank via Russia's Ministry of Finance

Russian President Dmitry Medvedev visits a plant in Izhevsk Tuesday

Associated Press

The global financial crisis hit Russia later than it hit the West, gaining real momentum only when global oil prices crumbled. Since May, the country's two leading stock indexes have plunged by around 70%. Some of the country's wealthiest individuals have lost billions of dollars of wealth on paper.

The construction, real-estate, and financial-services sectors were the first to suffer, but until now the government has insisted that large parts of the real economy were insulated. Mr. Medvedev said that is no longer the case.

"Today it is clear that the crisis is spreading, unfortunately, from the financial sector into sectors of the real economy," he told reporters in the town of Izhevsk, an arms-manufacturing center. "Every industry is affected in its own way. It is impossible to say that one among them is sitting pretty."

Mr. Medvedev said the government is willing to keep using its reserves, the third-largest in the world, to boost liquidity and bail out troubled industries. He said the Kremlin has yet to decide on a final figure for its bailout package. So far, it has pledged more than $200 billion in loans, tax cuts, and other measures.

"We understand perfectly well that the scale of the problem is such that it is possible further measures will need to be undertaken," Russian news agencies cited Mr. Medvedev as saying.

The central bank's reserves stood at $475.4 billion on Nov. 7 but have shed $122.1 billion since their peak in early August as the government has spent heavily to support the ruble.

At the same time, capital flight has been increasing as investors have continued to pull back, a retreat that began last summer. Central-bank statistics show $83 billion in net outflows in the past three months while October saw a record monthly outflow of $50 billion.

The World Bank praised the Kremlin for its swift and thorough response to the crisis even as it said more efforts are needed. It forecast that falling oil prices would more than halve Russia's current-account surplus to around $40 billion in 2009 from $100 billion this year.

But it said Russia is much better placed to weather the crisis than many emerging economies because of its carefully husbanded oil and gas wealth.

Ukraine, for example, had to appeal to the International Monetary Fund for a $16.4 billion aid package to help honor foreign payments after plunging metals prices deepened its current-account deficit.

The World Bank said it expects Russia's economy to grow 6% in gross domestic product terms this year and 3% in 2009, down from its previous forecasts of 6.8% and 6.5% respectively. Its estimates are based on an annual average crude-oil price of $101.5 a barrel in 2008 and $74.5 a barrel in 2009. On Tuesday, oil prices were hovering at just over $50 a barrel.

Turkey is close to deal with IMF

BY CHRISTOPHER EMSDEN

Turkey is poised to strike a new deal for financial aid from the International Monetary Fund, in a precautionary move that underscores how even economies that appear healthy are seeking financial security amid the global credit meltdown.

The size of an eventual IMF loan, as well as conditions placed on the government, have yet to be hammered out. But with the economy and exports slowing and private sources of capital increasingly scarce, the promise of IMF help is likely to put a floor under the plummeting Turkish lira, which has fallen 34% against the U.S. dollar since late September.

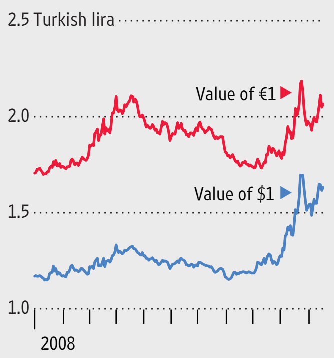
Finance Minister Mehmet Simsek told reporters late Monday that the framework for a new standby agreement with the IMF could be completed soon. His comments came after weekend remarks in Washington by IMF Managing Director Dominique Strauss-Kahn, who emphasized the IMF's willingness to help Turkey. Prime Minister Recep Tayyip Erdogan also indicated that he is willing to negotiate a deal, as long as conditions aren't too onerous.

Although Turkey's $74 billion in foreign-exchange reserves and its deep bond markets make a financial emergency unlikely, the country still risks a currency and economic crisis if the capital inflows it relied on during the global economy's fat years dry up too fast.

"Turkey does not necessarily need the funds immediately, but it provides a fallback financial facility if the worst-case situation deteriorates," said Timothy Ash, head of emerging-markets research at Royal Bank of Scotland.

Data released in the past week show industrial production has fallen almost 10% since the summer, the unemployment rate has risen to 9.8% from 9% during the summer, and October consumer confidence plummeted to a record low.

Worries on the rise



Source: WSJ Market Data Group

Gross domestic product likely grew just 1.4% in the third quarter from a year earlier, the slowest pace in more than six years, said Sertan Kargin, an economist for BNP Paribas, after annual growth of 6.7% in the first three months of 2008 and 1.9% in the second quarter. He expects a sizable contraction in GDP early next year.

By standard quotas, Turkey would be eligible for an IMF loan of around $10 billion, the same size as the standby agreement it wound down earlier this year. Under that plan, Turkey's economy grew at rates of around 7% a year for five years, allowing Mr. Erdogan's government to be re-elected last year.

Investors will want to see a sum twice as large to be confident Turkey can ward off next year's possible crunch, said Ilker Domac, an economist for Citigroup in Istanbul. Moreover, investors would prefer to see a regular standby agreement—complete with fiscal conditions—rather than a precautionary facility that would seem tentative and temporary, Mr. Domac said.

Mr. Erdogan has made clear he strongly opposes any IMF requirement that Turkey scale back investment plans, government spending and economic growth targets. Such requirements usually accompany IMF assistance and were part of the deals arranged recently with Hungary and Ukraine.

It's a dilemma for the country. Turkey has a young population and must have strong growth to create jobs. The country hasn't been profligate: The central bank has long had the highest real interest rates in the world, while the government has had the largest budget surpluses of any emerging economy in its region, said Simon Quijano-Evans at Cheuvreux, the brokerage arm of Crédit Agricole's Calyon investment- and corporate-banking division in Vienna. "The government budget is not the problem," he said.

Still, some $70 billion in foreign financing consists of stock and bond holdings that can be sold quickly. Turkish businesses had $167.13 billion in foreign-exchange liabilities at the end of the second quarter, compared with $86 billion in such assets, according to central-bank figures.

That mismatch means any fall in the Turkish lira badly hurts local companies, which are already reeling at the prospect of a protracted slowdown in Europe, Turkey's biggest export market.

Exports are likely to grow only 2% next year after jumping 31% this year, according to BNP's Mr. Kargin.

Slower U.K. inflation gives Brown some rare good news

BY NATASHA BRERETON

LONDON—Britain's annual inflation rate has begun a steep descent that could take it close to or below zero in the next year, opening the door for further interest-rate cuts and strengthening the position of Prime Minister Gordon Brown.

Official data released on Tuesday showed that the annual inflation rate slowed in October for the first time in 14 months, to 4.5%, from 5.2% in September. It was the largest month-to-month decline in the annual rate recorded in 16 years, and a bigger fall than analysts had forecast.

The numbers offered a rare piece of good economic news from the U.K. after a stream of ugly data lately, further benefiting Mr. Brown as he gains from what many voters see as his sure handling of the economy through difficult times.

On Tuesday, pollster IPSOS Mori said Mr. Brown had narrowed the gap with the rival Conservative Party, cutting the Conservatives' lead in the polls over Labour to three percentage points, a far cry from the 28-percentage-point lead that the opposition Conservatives had in September.

The Bank of England expects the economy to slow sharply in coming months and already has signaled it will cut its benchmark interest rate again. But confirmation that the inflation rate is in rapid decline left many economists confident it will cut the bank rate substantially from the current level of 3% when it next meets Dec. 3 and 4.

"Today's surprisingly benign inflation figure strengthens our view that the BOE will keep easing fast and aggressively," said Chiara Corsa, economist at UniCredit MIB. "We expect the BOE to deliver another 100 basis points—at least—in December and approach our 1.5% target by January next year." A basis point is one-hundredth of a percentage point.

In a speech in London on Tuesday, Tim Besley, a member of the BOE's monetary-policy committee, said the latest data show an abrupt turnaround in the inflation outlook after a recent fall in commodity prices. Inflation is likely to slow to below the BOE's 2% target next year, despite upward pressure from the recent fall in the pound, he added.

Some economists and Mr. Brown now have even mentioned the idea that a period of falling prices could lead to deflation.

The BOE's independent monetary-policy committee shocked investors when it slashed the bank rate to 3.0% from 4.5% this month, having cut the rate from 5% in concert with other leading central banks in October.

In a report on inflation trends issued last week, the BOE said the British economy has entered a pronounced recession but indicated the degree by which it cuts rates will depend on the amount of fiscal stimulus the government supplies. That will be clearer Monday, when the Treasury unveils its budget plans, expected to include tax cuts and spending increases.

The Confederation of British Industry predicted Monday that British rates may need to fall as far as 1.5% next year—the lowest level since the central bank was created in 1694.

—Alistair MacDonald contributed to this article.