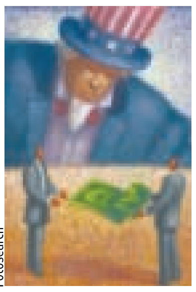
THE WALL STREET JOURNAL.
WSJ.com
DOW JONES Newswires
EUROPE
DOW JONES A News Corporation Company
VOL. XXVI NO. 194
MONDAY, NOVEMBER 3, 2008


Fotosearch

Debts to executives bog down corporate reforms
NEWS IN DEPTH | PAGE 15

Stalled security talks could crimp Iraq investment
ECONOMY & POLITICS | PAGE 8

What's News—

Business & Finance

Boeing began digging out from a 57-day strike after its Machinists union approved a new contract. The complexity of the company's supply chain means it will be several weeks before the Commercial Airplanes unit is running at full speed. Page 5

■ **BT warned** that its fiscal-year earnings will fall, blaming rising costs at the telecom's IT-services unit. The head of the division stepped down. Page 5

■ **ECB board member** Mario Draghi, Italy's central bank governor, called on governments to boost spending or cut taxes, warning the powers of monetary policy are limited. Page 8

■ **Western oil companies** and Kazakhstan signed a pact to develop the Kashagan oil field, one of the world's largest. Page 4

■ **Barclays became** the latest Western firm to get a lifeline from super-rich Persian Gulf investors, as an Abu Dhabi sheikh led a recapitalization. Page 22

■ **Germany's largest** industrial union, IG Metall, began a series of strikes at automobile and electronics companies. Page 8

■ **GM emerged** as the lead candidate to acquire Chrysler as talks between Nissan and Chrysler owner Cerberus moved to the back burner. Page 6

■ **Spain's GDP fell 0.2%** in the third quarter, its first contraction in 15 years, raising pressure on the ECB to cut rates. Page 8

■ **Santander will invest** $1.2 billion in Brazil in the next two years as part of its plans to expand its business by 15%. Page 3

■ **Greg Coffey**, who wanted to launch his own hedge fund, will join Moore, illustrating how hard it is for traders to strike out on their own. Page 20

■ **British hedge fund TCI sold** its entire 9.9% stake in Japan's Electric Power Development for $642 million. Page 21

■ **Panasonic is** in talks to buy Sanyo Electric. Page 7

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9325.01	+144.32	+1.57
Nasdaq	1720.95	+22.43	+1.32
DJ Stoxx 600	222.07	+5.83	+2.70
FTSE 100	4377.34	85.64	+2.00
DAX	4987.97	+118.67	+2.44
CAC 40	3487.07	+79.25	+2.33
Euro	$1.2716	-0.0129	-1.00
Nymex crude	$67.81	+1.85	+2.80

Money & Investing > Page 19

World-Wide

The U.K.'s Brown said that he thinks there is support for a global fund to help stem the spread of the financial crisis and that Saudi Arabia will contribute. He called on oil-rich nations and other countries with large foreign-exchange reserves to boost the resources. Brown also suggested further monetary-policy easing in the U.K. and elsewhere where is appropriate. Page 3

■ **The U.S. election campaign** is ending on Republican territory, where Bush's unpopularity, the economy and shifting demographics have helped Democrats gain traction. Page 9

■ **A suicide bombing** near the Afghan border killed eight Pakistani paramilitary troops in a militant-infested region recently hit by suspected U.S. missiles.

■ **Gunmen in Pakistan** kidnapped the brother of Afghanistan's finance minister, who was on the way to visit his ill mother, Afghan officials said.

■ **The leaders of Armenia** and Azerbaijan agreed at a meeting in Russia to intensify talks to end a conflict over the disputed territory of Nagorno-Karabakh.

■ **Brown said** the U.K. government can't promise the safety of personal data, after passwords to a Web site used to submit tax returns were lost.

■ **The U.N. said** an aid convoy will head into a rebel-held area of eastern Congo to attempt to reach tens of thousands of civilians displaced by fighting.

■ **Interim leader Rupiah Banda** was sworn in as Zambia's president, vowing to keep the doors open to foreign investors, after a disputed election victory over the main opposition leader.

■ **Police detained** five suspects over bomb attacks in India's northeast that killed at least 81, after a little-known Islamist group claimed responsibility.

■ **Tibetans criticized** Britain's move to more explicitly recognize China's sovereignty over Tibet, a dispute that could complicate talks between Beijing and the Dalai Lama. Page 2

■ **Two Austrians kidnapped** in Tunisia by an al Qaeda affiliate were released in Mali, after eight months in captivity.

EDITORIAL & OPINION

The paradox of Palin
The veep hopeful is adored by crowds, but not the media. The Journal Interview. Page 12

Faulty computer models helped sink giant AIG

Credit-default swaps proved too complex for risk managers

By Carrick Mollenkamp, Serena Ng, Liam Pleven and Randall Smith

Gary Gorton, a 57-year-old finance professor and jazz buff, is emerging as an unlikely central figure in the near-collapse of **American International Group** Inc.

Mr. Gorton, who teaches at Yale School of Management, is best known for his influential academic papers, which have been cited in speeches by U.S. Federal Reserve Chairman Ben Bernanke. But he also has a lucrative part-time gig: devising computer models used by the giant insurer to gauge risk in more than $400 billion of devilishly complicated deals called credit-default swaps.

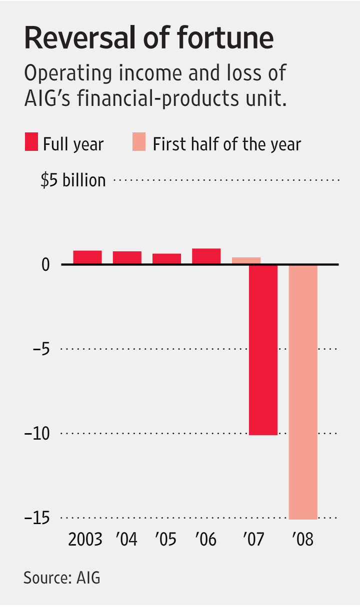
AIG relied on those models to help figure out which swap deals were safe. But AIG didn't anticipate how market forces and contract terms not weighed by the models would turn the swaps, over the short term, into huge financial liabilities. AIG didn't assign Mr. Gorton to assess those threats, and knew that his models didn't consider them. Those risks have cost AIG tens of billions of dollars and pushed the federal government to rescue the company in September.

The global financial crisis is studded with tales of venerable financial firms failing to protect themselves against the unexpected. In the case of AIG, as with many other firms, the financial horrors were hidden in the enormous, booming market for credit-default swaps, which are a form of insurance against defaults on all sorts of debts.

A close look at AIG's risk-management operations, and the rapid-fire chain of events that crippled the firm, raises questions about the run-up to the financial crisis: Did firms like AIG plunge into lucrative but perilous new markets without thoroughly understanding the pitfalls? Had the sheer complexity of the financial products made it all but impossible to fully calculate the risk? And did firms put too much faith in computer models to assess dangers?

The turmoil at AIG is likely to fan skepticism about the complicated, computer-driven modeling systems that many financial giants rely on to minimize risk. As chief executive of Berkshire Hathaway Inc., which owns insurance companies, Warren Buffett has been sounding the alarm about the issue for years. Recently, he told PBS interviewer Charlie

Please turn to page 31



Campaign '08 will redefine election tactics

By Gerald F. Seib

"Change" may be the most overused word of this U.S. election season, but here's one instance where it definitely applies: Campaign 2008 will change in a fundamental way how American campaigns will be conducted in the future.

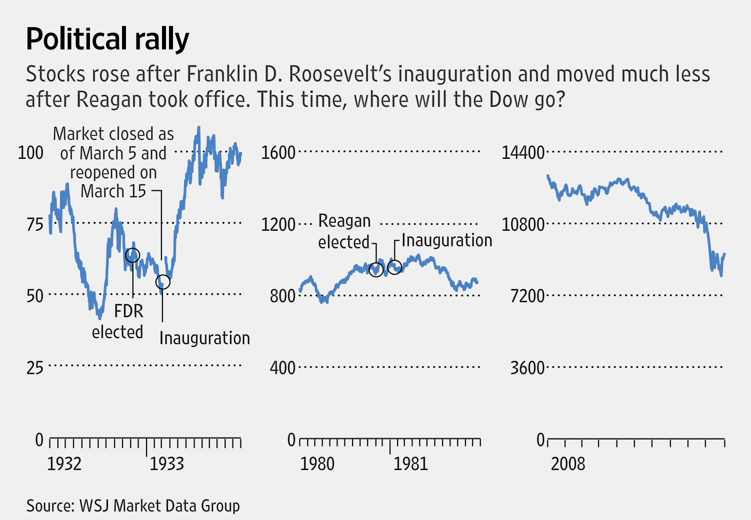
The system for financing campaigns in place for a generation has been shattered as a result of this year's race and will have to be replaced. The notion of which states are battlegrounds has been altered. What's loosely called "the press" has become a different and more polarized force.

And the Democratic and Republican parties' very definitions of themselves figure to change, with the emergence of more upscale Democrats and more downscale "Wal-Mart Republicans" altering the way both parties see themselves.

As all that suggests, this year's campaign has been exceptional in almost every sense. It has been the longest presidential campaign ever, and the most expensive, by a wide margin. Voters turned out in record numbers in 23 states for Democratic primaries, and in 10 states for Republican primaries.

It also has been the campaign that best reflects the 21st century face of America. This year's race brought forth the most serious Afri-

Please turn to back page



Will U.S. stocks follow lead of FDR and Reagan?

By Annelena Lobb

ABREAST OF THE MARKET

Will stocks rally with a new face in the White House? History offers no clear lessons, but that doesn't stop investors from looking for some kind of sign in Tuesday's U.S. vote.

There are two historical precedents for the current election, where a new president will take office amid a serious financial crisis. Whether John McCain or Barack Obama is elected, he will confront ugly economic challenges like Franklin D. Roosevelt did after his 1932 victory and Ronald Reagan did in 1980.

The Dow Jones Industrial Average rallied in Roosevelt's first year and fell slightly in Reagan's.

Perhaps most important, the market posted big gains during their overall tenures, though it is unclear whether the main cause was their policies or the steep declines the market suffered before they took office.

While Reagan pushed through a large tax cut in his first year, its stimulus took awhile to appear, and the U.S. Federal Reserve kept interest rates high to combat double-digit inflation. So from Reagan's January 1981 swearing-in to year-end, the

Please turn to page 2

LEADING THE NEWS

U.K. policy irks Tibet, may hurt Beijing talks

By Shai Oster

BEIJING—The Tibetan government-in-exile criticized Britain's move to more explicitly recognize China's sovereignty over Tibet, a dispute that could complicate talks between Beijing and representatives of Tibetan spiritual leader the Dalai Lama.

Adding to the gloom overhanging the talks were more comments from the Tibetan spiritual leader reflecting his increasing and unusually public pessimism.

"Now my faith in the Chinese government is becoming thinner, thinner, thinner," he told reporters Sunday in Tokyo, according to the Associated Press. Conditions inside Tibet continued to deteriorate despite efforts to talk with Beijing, he added. "Inside Tibet, the situation is worse," said the Dalai Lama, during a trip to Japan to give speeches and visit monks.

The U.K. has long acknowledged Chinese control over Tibet, but its policy for nearly a century has stopped short of formally recognizing Tibet as part of Chinese territory—a stance that bothers China's government. In a statement on Wednesday, British Foreign Secretary David Miliband called that past British policy an "anachronism" and effectively abandoned it, saying that the U.K. does recognize Tibet as "part of the People's Republic of China."

The shift is largely symbolic, but some analysts say it could further weaken the position of the Tibetan exiles in ongoing talks with China. Britain's stance was unusual among foreign governments, and its rejection of that position could undercut Tibet's argument that it wasn't seen as part of China before Chinese troops occupied the territory in 1951.

A British official at the foreign office in London said on Friday that Mr. Miliband's statement represented only a clarification, and that the U.K.'s actual position hasn't changed. On Friday, Thubten Samphel, spokesman for the Tibetan government-in-exile based in Dharmsala, India, said: "Before 1950, we had many treaties with British India government in which Britain recognized Tibet as an independent country." For the U.K. to say now that it always saw Tibet as a part of China is "testifying to [a] falsehood," he said.

The Tibetan statement came as two high-level Tibetan emissaries arrived in China for five days of talks.

—Alistair MacDonald in London contributed to this article.

Reading the tea leaves of past presidencies

Continued from first page

Dow dipped 8%.

U.S. investors perceived that FDR was taking bold action to combat the Depression with a host of new programs. The Dow responded with a 86% gain from his March 1933 inauguration to the year's end.

FDR was elected to four terms and served for only a very brief period in his fourth until his death in April 1945. During his 1933-45 tenure, the Dow gained 194%.

Taking his first two terms, which began in the midst of the Depression and ended in January 1941, the index still was up 140%. That period, of course, had some huge dips and came off the low base established during the single term of his Republican predecessor, Herbert Hoover, during whose presidency the Dow plunged 83%.

Once the harsh first two years of his presidency were out of the way, Reagan benefited from a roaring economy, partly spawned by the Fed's defeat of rampant inflation. In his two terms, the Dow vaulted 135%.

In the short term, historical precedent is mixed. Between Reagan's election and inauguration, stocks moved little; they fell about 17% during that stretch in FDR's case. The stock market was briefly closed during FDR's first days in office as part of an effort to tackle the financial crisis—but when the market reopened, the Dow gained 15% on the first day alone, recouping most of those losses.

Many investors see Mr. Obama's policies as less market-friendly than Mr. McCain's. Mr. Obama seeks to increase federal taxes on dividends and capital gains for higher-income taxpayers, while Mr. McCain wants to keep them where they are or lower them. Mr. Obama wants to raise taxes on the wealthy and to give tax breaks to everyone else. The wealthy are also the largest investors, so they could feel pinched and pull back from the market.

Perhaps the market will shrug off the election, at least in the near term. The stock market has already discounted a victory by Mr. Obama, the Democratic candidate, says Andy Laperriere, managing director, International Strategy & Investment Group.

On Friday in the U.S., stocks ended the worst month in more than a decade with a second straight day of gains, even as economic data signaled a persistent slowdown. The Dow Jones Industrial Average finished up 144.32 points, or 1.6%, at 9325.01.

The Standard & Poor's 500-stock index rose 1.5% to 968.75, also its second gain in a row, and was up 10.5% for the week.

By now, markets have taken into account both Mr. Obama's association with higher taxes on capital gains and dividends, which would drag on stocks, and the fact that he is favored to win, Mr. Laperriere says. Mr. Obama leads in major polls; he is far ahead on InTrade political futures markets.

Alternatively, if investors consider a McCain victory better for the market, a Republican upset could well spark a surprise rally.

Both candidates plan to extend federal intervention in the weakened economy, although Mr. Obama puts more stress on increased government spending for social programs such as health care, which could disrupt that industry's earnings power.

Obviously, whoever wins the race will continue the aggressive federal efforts to right the financial system. The U.S. government recently pushed a bailout package through Congress priced at $700 billion. Messrs. Obama and McCain voted for the package. As a result, the Treasury has taken large equity stakes in major banks—steps Republicans traditionally would oppose but now are widely seen as vital for capital markets to survive.

Comparisons to the 1930s have their limits. The U.S. isn't close to a depression now. As of September, the unemployment rate was 6.1%, according the Department of Labor. Unemployment in 1933 peaked at about 25%. Nowadays, the international community is much more cooperative, with central banks coordinating interest-rate policy. The 1930s were shaken with trade wars.

"Betting on how an election turns out makes no more sense than other investment fads," says Greg Carlson, a principal at Carlson Capital Management in Northfield, Minn., with about $750 million in assets under management. "Vote Tuesday, but don't change your portfolio strategy on Wednesday."

CORRECTIONS & AMPLIFICATIONS

A headline Friday over an article about **BASF** AG earnings incorrectly referred to an increase in earnings. The company's net declined compared with year-earlier results bolstered by a tax gain.

Exxon Mobil Corp. earned $161.2 million a day during the third quarter. An article in the Friday-Sunday edition on the company's third-quarter results incorrectly said the figure was $239.2 million.

Fidelity Investments had net redemptions of $5.8 billion in stock mutual funds in September, while **American Funds** had net redemptions of $6.4 billion, according to research firm Morningstar Inc. An article Thursday incorrectly reported net redemptions in stock funds of $6.2 billion at Fidelity and $8.5 billion at American Funds.

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

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.

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: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: 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 / Hürriyet 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 Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

Brown sees support for a global crisis fund

U.K. prime minister says that he expects Saudis to contribute

BY LAURENCE NORMAN

U.K. Prime Minister Gordon Brown said he believes there is support for a global fund to help stem the spread of the financial crisis.

Speaking to the British Broadcasting Corp. from Riyadh, Saudi Arabia, Sunday, Mr. Brown said he has found support in the region for his proposal. "The Saudis will, I think, contribute like other countries, so that we can have a bigger fund world-wide to avoid the contagion, to avoid this spreading to different parts of the world," he said.

Mr. Brown last week said the roughly $250 billion in funds available to the International Monetary Fund to help stem the crisis isn't enough. He called on oil-rich nations and other countries with large foreign-exchange reserves to boost the resources.

Mr. Brown said he hopes to win support for an expanded fund in time for the Nov. 15 summit of world leaders in Washington. "I see the world moving closer together to work to solve these problems, and the reason I'm here is to make sure that all countries in the world, those with big resources like the Gulf states, those with big surpluses like China are working with Europe and America to find a solution to these problems, which are global," he said.

He said the world economy will get through the downturn much faster if there is "common action and coordinated responses" to the crisis.

He suggested further monetary-policy easing in the U.K. and elsewhere is appropriate. "Now that inflation is brought under control, we are going to see—as we have seen—two cuts in interest rates, and I believe that the trend around the world...is to respond to the fall in oil price and the falling food prices that we're seeing at the moment," he said.


Gordon Brown

Mr. Brown said the Nov. 15 summit would see further "coordinated" policy response to the financial crisis.

The Bank of England cut its benchmark interest rate by one-half percentage point on Oct. 8, part of a coordinated cut by several central banks. The Monetary Policy Committee meets again Nov. 5-6. The Bank of England is expected to make another 0.5 percentage-point cut, to 4%, when it announces the results of its monthly rate-setting meeting Thursday.

Mr. Brown, who met with Saudi King Abdullah on Saturday, reiterated his call for low and stable oil prices.

"There's a determination that we have a more stable energy market, not this volatility, not this really bad time when so many people saw the petrol prices go up so quickly," he said. "I want to see more stability as well as lower prices."

He also called on U.K. companies to respond more quickly to the sharp fall in oil prices by cutting prices. "I hope we'll see the companies that haven't yet followed the faster move down doing so in the next few days," he said.

Mr. Brown also commented on reports of a possible second bidder for U.K. bank **HBOS** PLC, which is set to be merged with **Lloyds TSB Group** PLC.

He said the government would consider any new offer. However, he noted that had the government not intervened to encourage a merger with Lloyds, the company "would have fallen altogether."

"Of course we'll look at every offer, and of course that's part of the process of shareholders sorting out what the future is," he said, "but let's remember the problems that HBOS had and why we had to intervene with so much money in the first place."

Banco Santander plans $1.2 billion Brazil investment

BY ROGERIO JELMAYER AND ALASTAIR STEWART

SÃO PAULO, Brazil—Spanish banking giant **Banco Santander** SA plans to invest 2.6 billion Brazilian reais ($1.2 billion) in Brazil during the next two years as part of its plans to expand its business by 15%, Santander Chairman Emilio Botín said Friday.

Speaking here, Mr. Botín said the company's aim is to become Brazil's largest private bank in terms of profits, though not in assets, overshadowing local rivals **Banco Bradesco** SA and **Banco Itau Holding Financiera** SA. "Brazil is one of Banco Santander's priorities and this plan represents a decisive step toward becoming the No. 1 private bank in the country," he said.

The company's net profit in Brazil is expected to reach 7.9 billion reais by 2010, up from a forecast 4.8 billion reais in 2008, boosted by funds from Banco Real, which Santander acquired last year from Dutch bank ABN Amro Holding NV.

Mr. Botín said Brazil's economy is in the best shape in decades and well prepared to face the current financial crisis. Brazil's central bank has announced a stream of measures to ensure small and midsize banks don't fold amid the credit crunch.

Santander expects its Brazilian operations will boost its annual profit growth by 5% between 2008 and 2010. "Brazil offers tremendous potential for growth as it is well set to ride out the global slowdown," said Fabio Barbosa, Santander's chief executive in Brazil.

Santander's goal is to raise its share of the Brazilian market from the current level of 10%-12% through organic growth rather than through acquisitions.

Earlier this week, Santander posted a 4.4% increase in third-quarter net profit, boosted by higher lending profitability and the takeover of Banco Real. Profit at Santander's Latin American franchise rose 6% to €2.17 billion ($2.77 billion). In dollar terms, profit from Latin America was up 20%.

—Jason Sinclair in Madrid contributed to this article.

CORPORATE NEWS

Kazakh oil-field pact set

Firms and state sign a deal led by ENI to develop Kashagan

By Guy Chazan

The Kashagan field in the Caspian Sea was the biggest oil find in 30 years when it was discovered in 2000, but development has been plagued by delays.

LONDON—A group of Western oil companies signed an agreement with the Kazakhstan government resolving a long-running dispute over one of the world's largest oil fields.

For months, the Kashagan field in the Caspian Sea has been the focus of a standoff between the Kazakh authorities and a group of companies led by **ENI** SpA of Italy.

Kashagan was the biggest oil find in 30 years when it was discovered in 2000. But the field development has been plagued by delays and cost overruns.

The Kazakh authorities approved Friday the revised Kashagan development plan, the details of which were hammered out over the summer. Under the deal, the Kazakh state giant KazMunaiGaz will double its stake and ENI will lose its status as sole operator, sharing responsibilities with its partners in the consortium developing the field.

Production will start in late 2012, seven years later than first planned, with output rising to 1.5 million barrels a day by the end of the next decade. That will make Kashagan the world's most productive oil field after Ghawar in Saudi Arabia.

"This is a logical solution," said Paolo Scaroni, ENI's chief executive, in an interview from the Kazakh capital, Astana. "I'm feeling at ease with it."

Also on Friday, ENI said third-quarter net profit jumped 37% on the back of rising oil prices and higher production. The company earned €2.94 billion ($3.76 billion), compared with €2.15 billion a year earlier.

Kashagan is one of the most technically challenging oil projects in the world. The development is in shallow water that ices over in winter, and the oil is under extremely high pressure and contains huge amounts of lethal hydrogen sulfide. The project also has more partners than most ventures of its kind: besides ENI, there is **Royal Dutch Shell** PLC, **Exxon Mobil** Corp., **Total** SA, **ConocoPhillips**, **Inpex Holdings** Inc. of Japan and KazMunaiGas. Strained relations between partners have added to the project's complexity.

In August 2007, the Kazakh government effectively shut down the project, after ENI said costs would soar to $136 billion from $57 billion, and pushed back the start-up date to 2010. After months of negotiations, the sides agreed to double KazMunaiGaz's stake to 16.81%, with all of the partners reducing their stakes. They also agreed that a newly created North Caspian Operating Co., owned by all the consortium members, would take responsibility for developing the field from ENI in January, with management duties rotated among the partners.

ENI will complete the initial, experimental phase of the project but in the second phase, responsibility will be split with ENI—in charge of the onshore plant—and Shell—the offshore facilities—while Exxon will conduct drilling operations. A statement from the consortium said ENI, Shell and Exxon would each control matters such as staffing, procurement and operating procedures and would apply their own companies' management systems.

Some analysts have questioned the new setup. In a note, Morgan Stanley said the new structure was "ambiguous" with internal conflict "highly likely."

Some gold miners move to expand

By Robert Guy Matthews

At a time when many mining companies are delaying expansion projects and conserving cash, some smaller miners are forging ahead and expanding in hopes of gaining market share, especially in the gold market.

With the U.S. dollar generally strengthening against the Canadian dollar, the euro and some South American currencies, gold miners with operations in those countries have an advantage: They have lower local labor and production costs because of the weaker local currencies but can sell the gold in strong U.S. dollars.

Miners with sufficient cash reserves are using that advantage to try to position themselves with market-ready minerals when the economy strengthens. Since it takes about seven years to develop a mine, from exploration to getting the metal out of the ground, there's always a risk in trying to time a mine to be ready when demand picks up.

"It is a good time to do an expansion," says Mark Tessier, vice president of operations for Canada's **Kirkland Lake Gold** Corp., a Canadian miner that has announced a $40 million expansion of its gold fields. "You have to have a good product, a good project and you have to be able to finance it yourself. If you don't have those things you are in trouble."

The story is the same at **Agnico-Eagle Mines** Ltd., another Canadian gold miner expanding its gold production as some of its competitors wait out the volatility. David Smith, vice president of investor relations, says that the company has about $150 million in cash to help finance expansion into mines in Canada, Finland and Mexico.

Gold prices, though down from a high of $1,032 an ounce in March, are still relatively high, settling at about $737 an ounce on Friday. But October wasn't a good month for the commodity as it suffered its worst drop in more than two decades because of the strong dollar.

While gold is considered particularly attractive because the mid-to-long-term view generally is that prices will rise, some miners are also expanding production of other minerals. **BHP Billiton** is planning to expand its production of uranium and copper, as well as gold, at its Olympic Dam in Australia.

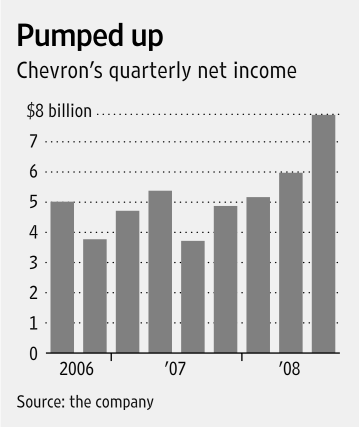
Analysts say metal prices in the short- to midterm are expected to continue to fall or stabilize at their current lower level, as China and other industrial countries dial back their demand for metals amid the economic slowdown. UBS Warburg cut its outlook for growth in metals prices next year to 1.3% from 2.2%, though prices and demand for precious metals, such as gold and silver, are viewed as likely to rise more quickly than for base metals, such as copper, zinc and nickel. UBS said there may be more downside to commodity prices, especially for base metals, prompting some miners to conserve cash.

Australia-based nickel-producer **Mincor Resources** NL is planning to cut its nickel production by about 17% due to a sharp drop in nickel prices to about $12,000 a metric ton at the end of October from about $30,000 a ton earlier this year. Copper and zinc miner **Kagara** Ltd. announced that it would scale back exploration of additional zinc and lead mines because of falling metal prices and the need to conserve cash.

Smaller gold producers don't have the luxury to produce other metals, and for those who have cash, now is the time to move. "In the long run, I think people will see the value of having gold in their portfolio," says Mr. Smith, of Agnico-Eagle. He says the company produces about 8,500 kilograms of gold a year. He estimates that the company is on track to produce about 17,000 kilograms next year, and 37,000 kilograms by 2010.

Chevron doubles profit amid high prices for oil

By Shirleen Dorman



Chevron Corp. said third-quarter net income more than doubled amid historically high oil and gas prices and improved profit on refined products, although oil and natural-gas production fell 5.7%.

The U.S. oil company said it has no plans to trim capital spending.

While the 2009 budget isn't final, Chief Financial Officer Steve Crowe said Chevron expects to spend an amount similar to this year's $22.9 billion. He also said the company won't stop any long-term projects that have achieved final approval.

The sentiments underscore the strength of major oil companies in the face of oil prices that have fallen 50% in three months, and their ability to withstand a global credit crisis that has spread from banking to Main Street.

Chevron Chief Executive David O'Reilly said on Friday that "disciplined capital spending and tight control over costs remain extremely important," but the company will continue investing in attractive projects.

California-based Chevron posted net income of $7.89 billion, or $3.85 a share, compared with $3.72 billion, or $1.75 a share, a year earlier. Revenue rose 43% to $78.87 billion.

Income in Chevron's business segment that explores for and produces oil and natural gas rose 80%, mainly because of high oil and natural-gas prices. Crude-oil prices hit a record in early July, but dropped throughout the quarter ended Sept. 30. Still, prices remained at historically strong levels. The average per-barrel price in the U.S. for crude oil and natural-gas liquids increased 60%, while the price of natural gas rose 59%, both from year-earlier levels.

Profits more than quadrupled in the company's refining, marketing and transportation segment, driven by improved margins on refined products, especially in the U.S.

Those margins were aided by the swoon in crude prices during the late summer from the record in July.

Shares in Chevron rose 42 cents to $74.60 at 4 p.m. Friday in composite trading on the New York Stock Exchange.

'Tight control' over costs remains important, Chevron's CEO said.

Chevron said world-wide production dropped during the quarter amid lost production because of U.S. hurricanes and reduced volumes from some international deals.

Its decline was similar to the 8% production drop that **Exxon Mobil** Corp. reported on Thursday. The drops illustrated some of the difficulties the world's biggest oil companies are having in maintaining output levels.

Suzlon Energy reports loss amid wind-turbine troubles

By Tom Wright

Suzlon Energy Ltd., the embattled Indian wind-turbine maker, swung to a net loss of 1.3 billion rupees ($26 million) in the quarter ended Sept. 30, hurt by foreign-exchange losses and provisions related to problems with some of its blades cracking in the U.S.

Suzlon's net loss contrasted sharply with the net profit of 3.75 billion rupees reported in the same quarter of 2007. Foreign-exchange losses, because of a weakening Indian rupee, amounted to 2.3 billion rupees compared with a small gain in the year-earlier quarter. The company also set aside 477.7 million rupees to cover potential compensation it may have to pay customers in the U.S. because of blade failures.

Revenue rose 33% to 41.8 billion rupees, reflecting higher sales of wind turbines. But outstanding orders, an indicator of future sales, fell 15% to 140.52 billion rupees from 164.91 billion at the end of July.

Suzlon is facing mounting scrutiny after it announced a plan earlier this year to strengthen 1,251 blades, almost the entire amount it has sold in the U.S., after a number of them began to crack. A 43-meter blade broke off a Suzlon wind turbine in Illinois in late October. Analysts say it is as yet unclear how much its technology problems will cost Suzlon financially.

To improve its technology, Suzlon agreed last year to buy **REpower Systems** AG, a German turbine maker, for $1.7 billion. Friday, Suzlon said it was in talks with **Martifer** SA of Portugal to delay a planned December purchase of Martifer's 22.5% stake in REpower. Earlier last week, Suzlon halted a rights issue of as much as 18 billion rupees—designed to finance the takeover—because of falling stock markets.

Suzlon also said Friday that it would save 6.69 billion rupees by scrapping a plan for a new India-based factory to build wind-turbine towers.

Boeing begins to restore output as strikers return

BY J. LYNN LUNSFORD

Boeing Co.'s 27,000 union machinists began returning to their jobs Sunday as the company and its suppliers started digging out from a 57-day strike that shut down jetliner production and caused ripples throughout the aerospace industry.

Because of the industrial choreography required to revive a far-flung supply chain from a state of suspended animation, Boeing executives have said, it will be several weeks before the Commercial Airplanes unit is running at full speed. Even after that, people familiar with Boeing's recovery plans said, it is unlikely that the Chicago aerospace company will risk a costly manufacturing stumble by trying to ramp up production too quickly. The company missed at least 70 deliveries as the result of the strike.

Boeing officials said they plan to update their delivery estimates soon after the factories are up and running. During an earnings conference call on Oct. 22, Chief Financial Officer James Bell said he expected that production would probably be delayed "on a day-for-day" basis however long the strike lasted, plus additional time to bring the factories up to speed.

Scott Carson

The strike, which was the longest at Boeing in a decade, cost the company an estimated $100 million a day in deferred revenue. It also threw Boeing even further behind on its flagship 787 Dreamliner jet program, raising the prospect that Boeing may fall short of its goal of delivering the first airplanes next year, as planned.

Officials with International Association of Machinists and Aerospace Workers said 74% of union members voted Saturday to accept a new contract that includes a 15% increase in wages and improved job security. In a change that will guarantee Boeing a more predictable delivery timeline, the union agreed to extend the contract a year to four years in exchange for increased pay and other concessions.

District 751 President Tom Wroblewski praised the striking workers during a news conference Saturday night, saying "their solidarity on the line was a strong message to the Boeing Co."

Boeing executives are "looking forward to having our team back together," Commercial Airplanes President Scott Carson said in a prepared statement. The new contract "addresses the union's job-security issues while enabling Boeing to retain the flexibility needed to run the business."

The strike, which began on Sept. 6, was resolved with the help of federal mediators. The Machinists won key concessions, including a promise that Boeing would limit, but not abandon, its use of contractors for work that had previously been done only by Machinists.

BT cuts earnings outlook

Head of services unit resigns amid delay in reducing costs

BY ERICA HERRERO-MARTINEZ

LONDON—**BT Group** PLC warned that its fiscal-year earnings will fall slightly, blaming rising costs at a unit that provides services to multinational companies and saying the head of the unit has stepped down.

The U.K.-based telecommunications company said its global-services unit, which manages information-technology and telecom services for businesses, didn't cut costs as quickly as expected in the fiscal second quarter, which ended Sept. 30. The division, a growth driver for BT in recent years, was also hit by a continued sales decline in the U.K., where margins are high.

BT shares closed at 115.10 pence ($1.85), down 27 pence, or 19%, Friday on the London Stock Exchange.

"I want to be clear I think this is an internal BT operational matter and not anything to do with the external environment," Chief Executive Ian Livingston said in a conference call Friday.

The head of the division, François Barrault, has resigned, and will be succeeded by Chief Financial Director Hanif Lalani, who will speed up cost-cutting at the division, BT said. Mr. Lalani had been head of BT's Northern Ireland operations.

The company has been expanding the global-services unit for several years. However, costs at the unit are difficult to predict as customers sometimes don't fully disclose future requirements when they outsource the maintenance of their IT and telecom systems.

BT said the downturn at the global-services unit means that while total revenue for the quarter ended Sept. 30 will be ahead of expectations, earnings per share and earnings before interest, tax, depreciation and amortization will be slightly below forecasts. The unit will contribute Ebitda of £120 million ($193.1 million), BT said. The company is due to report earnings on Nov. 13.

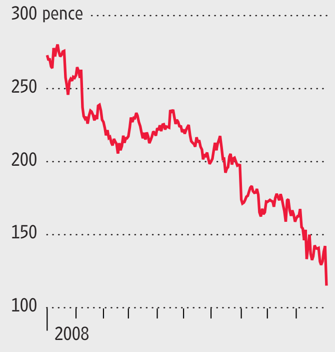
For the fiscal year ending March 31, BT said it still expects revenue to grow but that Ebitda is now expected to decline slightly instead of to rise, as previously forecast.

Mr. Livingston said the global-services unit won't undergo a change in strategy, just in delivery and execution. "We intend to set new targets for this division as improved performance is delivered," he said.

DAILY STOCK PRICE

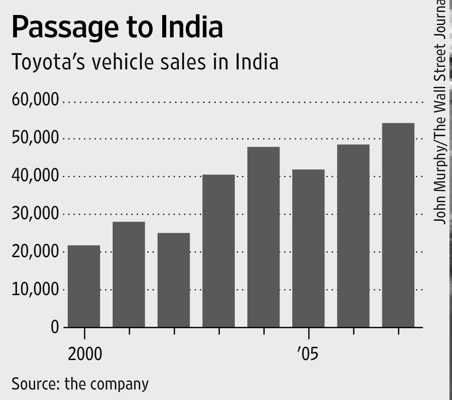
British Telecom

On the London Stock Exchange
Friday: **115.1** pence, down **19**%
Year-to-date change: down **59**%



Source: Thomson Reuters

FOCUS ON AUTOMOBILES



Students at the Toyota plant in Bidadi, India

Toyota eyes sales in India

Auto maker builds technical school in comeback effort

By John Murphy

BIDADI, India—To get ahead in India's increasingly competitive auto market, **Toyota Motor** Corp. is building a new plant and freshening its lineup. It has also made an unusual investment: It opened a school.

Built on a rugged hillside in southern India that is populated by wildcats and monkeys, Toyota's sprawling technical training school, which opened last year, gives about 180 junior-high-school graduates an education in everything from dismantling transmissions to Japanese group exercises.

Toyota wants to turn students like Satish Lakshman, the son of a poor farmer, into a skilled employee who can lift the auto maker's fortunes in this key emerging market. "We are learning discipline, confidence and continuous improvement," says Mr. Lakshman, an energetic 18-year-old.

Competition for entrance to Toyota's school is tough. The institute received 5,000 applications for 64 slots when it opened last year. The draw for these young men, all from poor families, is a free education and a job if they do well. The first class will graduate from the three-year program in 2010, when Toyota plans to open the plant to make its new small car.

The school is part of Toyota's efforts to stage a comeback in India. During the last decade of rapid global expansion, Toyota poured its resources into expanding sales in the U.S., Europe and China, often at the expense of smaller markets like India.

Toyota ranks seventh in sales in India behind smaller Japanese rivals such as **Suzuki Motor** Corp. and **Honda Motor** Co., according to market researcher CSM Worldwide Inc.. Since Toyota entered the Indian market a decade ago, its market share has slipped to 3.5% from a high of 4.7% in 2003, in part because its lineup here lacked a small, low-priced car.

Now, as the U.S. market crumbles, Toyota is shifting its attention to India. The company is confident India's auto market will continue its strong growth over the longer term even though it is cooling this year in the face of a global economic slowdown.

In 2007, Toyota sold 54,000 vehicles in India and aims to boost its sales to 400,000 vehicles a year by 2015, or about 10% of the projected Indian passenger car market of four million vehicles. Suzuki has about a 50% market share today.

"What we are trying to do is to increase sales eightfold in eight years. It's going to be a really big challenge," says Hiroshi Nakagawa, head of Toyota's operations in India.

To reach its goal, Toyota plans to add new models, including a compact, lower-cost car to compete in India's fast-growing small-car market. It plans to open a new plant with annual capacity of 100,000 vehicles.

At the foundation of its growth plan is the Toyota Technical Training Institute. India's auto market is growing at such a fast pace that skilled workers are in short supply. Toyota says the school will enable the company to develop the productive, skilled employees it needs.

Toyota has taken a similar approach in China, where it has helped the government run a technical training center since 1990.

In India, rival auto makers are following Toyota's lead. In September, Honda announced plans to open a technical college. Other car makers have formed partnerships with India's technical institutes to improve training.

The school teaches students practical skills such as welding, auto assembly and maintenance. It also gives the young recruits a smattering of classes in such subjects as math, English and Japanese as well as lessons in the company's cherished principles of consensus building, continuous improvement and eliminating waste.

"Small drops of water make a mighty ocean," reads one sign on campus.

"The industry is looking for a person who is flexible, focused and who can withstand a tough working environment," says T. Somanath, the school's principal.

All students live in a dormitory and wear uniforms of red caps, tan shirts and brown slacks. Instructors emphasize a military-like attention to detail, inspecting students for stray facial hair and loose shirttails.

When students go home for weekend visits they often bring these lessons with them. Mr. Lakshman says he told residents of his poor farming village how Toyota's principles might improve their time-tested ways of life. He encouraged them to find ways to save energy, including basics such as turning off a light when leaving a room.

Like most families in his village, Mr. Lakshman's uses a bicycle to get around. But as India's new prosperity slowly reaches his village his family might one day be able to afford a car, he says—maybe even one that he helped build.

Toyota to export U.S.-built autos

By Kate Linebaugh
And John Kell

Toyota Motor Corp. will begin exporting its U.S.-built Sequoia and Tundra vehicles to the Middle East and Latin America, the latest move by the Japanese auto maker to cope with excess capacity and sagging demand in the U.S. market.

This will be the first time Toyota exports the Tundra pickup truck and Sequoia sport-utility vehicle. The shipments are to start in December and come as total U.S. auto sales this year are expected to fall to the lowest levels since at least the early 1990s. The company expects to ship 15,000 Sequoias a year to the Middle East. Latin America is to get 150 Sequoias and 1,000 Tundras.

Toyota had been gobbling market share in the U.S. from its domestic rivals, racking up profits and expanding its product line into the large-vehicle segment dominated by Detroit's auto makers. But as a weak economy, tightening credit conditions and surging gas prices kept consumers away from big-ticket purchases, Toyota was faced with a collapse in sales and more U.S. production capacity than it needs. Car sales in Latin America and the Middle East are doing better than in other regions.

The car maker's U.S. sales fell 32% in September from a year earlier, leading Toyota to start an incentive program on 11 of its vehicles to try to improve sales. Tundra sales fell 61% in September. Even so, Toyota may be on the brink of becoming the top-selling car maker in the U.S., passing **General Motors** Corp. for the first time in October. Globally, it outsold GM in the third quarter.

Toyota stopped the production of Sequoia and Tundra at two plants in Indiana and Texas in August to reduce dealer inventories. Production of the Tundra will resume at its San Antonio plant on Nov. 10, but using one shift instead of two. Sequoia production will restart in Princeton, Ind., on Nov. 13.

In the first nine months of the year, Toyota sold 24,500 Sequoias in the U.S., a 37% rise from last year because it is a newer model. Sales of Tundras are off 20%, at 115,000.

Cerberus focuses on GM in deal talks for Chrysler

By Jeff Bennett
And John Stoll

DETROIT—**General Motors** Corp. appears to be the lead candidate to acquire **Chrysler** LLC after talks between Chrysler's owner and **Nissan Motor** Co. moved to the back burner.

Cerberus Capital Management LP, the private-equity fund that owns an 80.1% stake in Chrysler, has put its discussions with Nissan on hold in favor of concentrating on GM, according to a person familiar with the discussions.

The news comes amid signs the United Auto Workers union is preparing to weigh in on a potential GM-Chrysler merger, a combination that would likely put thousands of Chrysler jobs in jeopardy.

In anticipation of potentially tough discussions, the union retained Steve Girsky, a former adviser to GM Chief Executive Rick Wagoner, to advise the union on the talks, according to people familiar with the matter.

Mr. Girsky, currently president of Centerbridge Industrial Partners in New York, will assist UAW President Ron Gettelfinger in evaluating the talks between GM and Chrysler.

The UAW, representing hundreds of thousands of GM and Chrysler workers and retirees, has begun meetings with the auto makers hoping to "get a grasp of the situation," a person familiar with the situation said.

Mr. Gettelfinger has spoken out against a merger. At the end of last month, the union chief said he "still needs to be convinced" that a merger, which would likely lead to thousands more job losses, is a good idea.

Although GM and Cerberus have been talking for weeks, any deal could be held up by a lack of financing. People close to the talks have said GM would need about $10 billion to cover the cost of cutting jobs at Chrysler and closing plants.

But the two sides haven't persuaded investors to back a merger and have struggled to persuade the U.S. government to bankroll a deal.

Consulting firm Grant Thornton LLP last week estimated 50,000 of Chrysler's 67,000 employees would lose their jobs and seven of the company's 14 auto-assembly plants would close in a merger.

GM and Chrysler have been hit hard by the deep downturn in auto sales this year. High gas prices and the sluggish economy have been crimping auto sales for the past two years, and the slump worsened when financial markets fell into crisis last month.

Auto makers are to report October sales Monday. Sales at GM, Chrysler and **Ford Motor** Co. likely fell more than 30%, according to J.D. Power & Associates.

Cerberus has been in discussions with Nissan since the beginning of the year about having Chrysler join the existing alliance between Nissan and **Renault** SA. So far, they have agreed Chrysler will produce pickup trucks for Nissan, and Nissan will make a compact car for Chrysler.

Carlos Ghosn, who serves as chief executive of both Nissan and Renault, has said he would like to add a North American partner to the alliance. But last week he dismissed reports of talks with Chrysler as speculation.

Cerberus and Chrysler officials had no comment. Both have said that talks about a potential merger are only speculation.

Reports continue to swirl that Cerberus is looking to make a move regarding Chrysler as early as Tuesday but has run into problems in lobbying for U.S. aid.

GM has sought federal aid to make a deal possible, but the administration of President George W. Bush has only signaled that it is willing to accelerate awarding low-interest loans for auto makers. The loans were passed by Congress last year and recently got the appropriations necessary to move ahead.

Cerberus, which took over Chrysler in August 2007, pledged that it wouldn't "strip" the cost out of the company and then "flip" it to a new buyer. The auto maker's executives said Cerberus wanted to return Chrysler to its former status as an American icon.

Ford's cash will be in focus as it posts quarterly results

By Matthew Dolan

Ford Motor Co. is likely to add to the gloom in Detroit on Friday when it reports results for the third quarter.

Facing a deep downturn in U.S. vehicle sales, the company is expected to show a loss of 93 cents a share, according to consensus estimates compiled by Thomson Reuters. In the second quarter, Ford lost $8.67 billion, or $3.88 a share.

Another big setback is sure to raise questions anew about whether Ford has enough cash to survive until auto sales recover, and whether the company will have to find a way to secure new financing.

Like crosstown rivals **General Motors** Corp. and **Chrysler** LLC, Ford is facing a cash crunch. GM and Chrysler, which are considering a merger, could run short of cash within 12 months, analysts say.

Ford's situation isn't quite as acute. In 2006, the company secured a huge loan by mortgaging virtually all of its assets, including its blue-oval logo. At the end of the second quarter, the company had $26.6 billion in gross cash reserves.

But even with that stockpile, Ford may need to shore up its liquidity position—a difficult proposition in the current environment in which credit has all but dried up. To free up more cash, Ford is exploring a sale of its controlling stake in its Japanese affiliate, **Mazda Motor** Corp.

One option to bolster Ford's cash position is no longer available: billionaire investor Kirk Kerkorian. The casino and hotel mogul bought more than 6% of Ford shares earlier in the year and might have been a source for a further cash infusion. But last month Mr. Kerkorian said he is selling his stake in the auto maker to concentrate his investments in gambling, lodging, gas and oil.

CORPORATE NEWS

Battery recall hits Sony

Laptop firms' move covers 100,000 units at risk of overheating

BY HIROKO TABUCHI

Sony Corp. said five computer makers are recalling 100,000 lithium-ion battery packs made by the company, the latest bad news to hit the Japanese electronics giant, which is already reeling from the global economic downturn.

The recall also shows the challenges involved in mass-producing a powerful yet safe battery technology that could drive next-generation consumer electronics and eco-friendly cars.

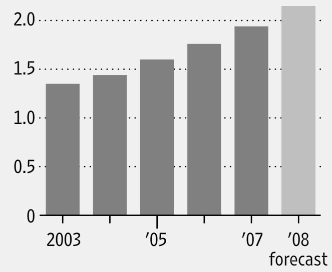
Sony said Friday it was cooperating in a recall of 2.15Ah lithium-ion cell batteries made in Japan and sold around the world in laptops made by **Hewlett-Packard** Co., **Dell** Inc., **Toshiba** Corp., **Lenovo Group** Ltd. and **Acer** Inc. There have been 40 reports of overheating, in some cases involving smoke or flames, according to a company statement.

Sony, the second-largest maker of lithium-ion batteries in the world after **Sanyo Electric** Co., was involved in a recall two years ago of more than nine million units of a higher-capacity battery. That recall affected almost all of the world's major PC manufacturers and cost Sony more than $400 million.

Still, Tokyo-based Sony has since spent more than 40 billion yen ($406 million) to increase production of the rechargeable batteries in Japan. It said in August that the investment, together with expanded lithium-ion battery operations in Singapore and China, should increase its monthly output capacity to 74 million cells in the year ending March 2011 from the current 21 million cells.

Power surge

Global shipments of lithium-ion batteries; billions of units



Source: Frost & Sullivan

Sony said the faulty batteries were from the same subsidiary that made the batteries recalled two years ago, Sony Energy Devices in Tochigi, Japan. Sony said efforts to make manufacturing lines there more efficient appeared to have backfired, leading to substandard cells. A possible flaw in the metal foil for electrodes could also have led to overheating, the company said.

Lithium-ion batteries have become a booming business on the back of increasing demand for consumer electronics, pitting makers Sony, Sanyo, **Panasonic** Co., and South Korea's **Samsung SDI** Co. against each other in a race to increase production. The batteries are lighter and more powerful than many other battery technologies, and they can be made in a variety of shapes and sizes. But lithium-ion technology runs the risk of overheating if damaged, or if the positive and negative electrodes are scarred during manufacturing.

That's posing a problem for what could potentially be another growth area for lithium-ion batteries: fuel-efficient cars. Global auto makers including **Toyota Motor** Corp. and **General Motors** Corp. see the technology as a way to power electric vehicles and environmentally-friendly electric vehicles, but are naturally jittery over any overheating or fire hazards.

Toyota had initially planned to use lithium-ion batteries in a new version of its Prius car later this year. But safety concerns about the battery prompted the Japanese car maker to push back the planned launch to late 2010 or early 2011. GM is also exploring the lithium-ion technology.

Solving the overheating problem has become key for battery makers. A stumble by Sony could open the field for smaller manufacturers, part of the reason why the company overhauled its production technology in 2006. Sony says the batteries in the recent recall were manufactured before then, in 2004 and 2005.

An H-P spokesman said the faulty batteries were found in 32,000 laptops in the U.S., and in 74,000 H-P machines world-wide. H-P has a Web site for owners to figure out if their machines are affected.

Dell has a similar site and said it will replace recalled batteries free of charge. A Lenovo spokesman said the company found the affected battery model in fewer than 450 laptops in China but was offering free replacements as a precaution. Toshiba and Acer couldn't be reached for comment.

The recall comes days after Sony reported dismal earnings for the September quarter and slashed its profit forecast for the year ending March 2009.

Panasonic in talks to buy Sanyo

BY ALISON TUDOR AND HIROKO TABUCHI

TOKYO—**Panasonic** Corp. is in talks to buy smaller rival **Sanyo Electric** Co., a move that could provide a handsome profit for one of Sanyo's biggest shareholders, **Goldman Sachs Group** Inc.

Panasonic, known for its plasma television sets, plans to launch a tender offer for Sanyo if negotiations with major stakeholders go smoothly, a person familiar with the matter said. A combination would rival **Hitachi** Ltd. as the biggest Japanese electronics maker, posting about 11 trillion yen, or about $110 billion, in combined sales in the fiscal year ended March 31. Hitachi's sales were 11.23 trillion yen for the fiscal year.

A price hasn't been discussed, but Goldman stands to make a profit. The U.S. investment bank bought preferred shares in Sanyo in 2006 for 125 billion yen. Goldman's shares, which the bank got under favorable terms as Sanyo faced mounting business challenges, convert at a cost of 70 yen each, well below Sanyo's closing price of 145 yen on Friday.

Sanyo, a dominant maker of rechargeable batteries, could still derail the process. But the person familiar with the matter said Panasonic's approach has been greeted warmly.

The more significant obstacle to the deal is reaching an agreement on price with Sanyo's major shareholders, given the recent decline in the value of its shares.

DAILY SHARE PRICE

Sanyo Electric

Friday's close: **¥145,** down **0.7%**

52-week performance: **down 24%**

Source: Thomson Reuters Datastream

Two Japanese financial companies invested alongside Goldman, Sumitomo Mitsui Banking Corp. and **Daiwa Securities SMBC** Co. Together they acquired 300 billion yen in preferred shares. If converted into common stock, these shares would be equivalent to 70% of voting rights in Sanyo, valued at about $6.4 billion.

A friendly parting of the ways with Sanyo might help secure Goldman new business in a country where turnaround efforts by Western financial companies are still rare. Many Japanese managers have long been wary of foreign investment funds, concerned that their business tactics are too aggressive.

Sanyo said it was considering various options concerning its preferred shares, but hadn't made a formal decision. A spokesman from Panasonic said nothing had been decided. Goldman Sachs and Sumitomo Mitsui Banking Corp. declined comment. A spokeswoman from Daiwa Securities SMBC couldn't be reached.

Sanyo's relationship with Goldman and its two partners hasn't always been smooth. At first, they faced resistance from the founding family over the sale of far-flung parts of the electronics empire. The investor consortium moved to install a new president, the first outside of the founding family, in March 2007. The new president restored profitability, reorganized Sanyo's business and put in place a plan that focuses primarily on energy products like rechargeable batteries and solar panels. Sanyo swung to a net profit in the year ended March 31, its first profit in four years.

Challenges remain for Sanyo. Many analysts say its portfolio of businesses—which includes chips, solar panels, consumer electronics and home appliances—is too broad. Aside from batteries, the company is a small player in most of its products.

Still, a potential combination would help shake up Japan's fragmented electronics industry. No fewer than a dozen electronics firms are locked in fierce competition in Japan, ranging from giants like **Sony** Corp. to smaller companies like Sanyo, as well as industrial conglomerates like Hitachi and **Toshiba** Corp. which also make consumer electronics.

GLOBAL BUSINESS BRIEFS

BSkyB Group PLC

Net drops, but broadcaster keeps customer goal intact

British Sky Broadcasting Group PLC said Friday its net profit fell 13% in the third quarter but the satellite broadcaster reaffirmed it is on course to having 10 million customers by the end of 2010—even though the British economy is heading into recession. A higher tax burden pushed net profit down to £73 million ($117 million) from £84 million a year earlier. However, BSkyB said operating profit, which excludes financial items such as interest and taxes, rose 21% to £182 million as revenue increased 5% to £1.25 billion thanks to more subscribers. In the three months ended Sept. 30, the company added 87,000 customers—the best quarterly performance in five years—taking its total to 9.07 million. BSkyB is 39.1%-owned by **News Corp.**, the owner of Wall Street Journal publisher Dow Jones & Co.

Thales SA

Thales SA warned that chronic difficulties with the development of the Airbus A400M military aircraft will hurt full-year earnings. The defense-electronics company reported a 1% increase in third-quarter revenue to €2.63 billion ($3.35 billion) from €2.6 billion a year earlier. The company said it still is aiming for an operating margin of 7.25% of revenue for the full year, but said this excludes a new provision of €60 million against extra costs in the second half related to the A400M. Thales is responsible for developing the flight-management system for the military transport-aircraft, which has been dogged by problems since the program was launched by eight European nations in 2003. Last month, Airbus postponed the first flight of the aircraft.

Finnair Oyj

Finnair Oyj swung to a net loss in the third quarter, hit by fuel costs, falling ticket prices and slowing demand. The carrier posted a net loss of €17.3 million ($22.4 million) compared with a net profit of €39.8 million a year earlier. Revenue was up 2.7% at €559.7 million from €545.2 million. "What is usually our best quarter of the year fell far short of expectations," Chief Executive Jukka Hienonen said in a statement. The airline industry has pinned much of its woes this year on high fuel costs, in addition to overcapacity pushing down ticket prices and lower demand amid the slowing economy. The oil price has come down sharply since July, but analysts say that many airlines aren't seeing much benefit yet because they tend to hedge most of their fuel needs months in advance.

Atos Origin SA

Atos Origin SA plans to shed underperforming businesses and sharpen cost cutting after the French information-technology-services company posted a 4.6% decline in third-quarter revenue. Revenue fell to €1.35 billion ($1.72 billion) from €1.42 billion a year earlier, dragged down by the sale of some of its operations. After a strategic review of its activities, Atos said it plans to ditch divisions with total annual revenue of between €250 million and €500 million in the next few months. The review was carried out by a committee that included representatives of activist shareholders **Centaurus Capital** Ltd. and **Pardus Capital Management** LP, which, had pushed for a breakup or sale of the company.

Centrica PLC

U.K. utility **Centrica** PLC said Friday it plans to tap shareholders for £2.2 billion ($3.6 billion) through a new share issue to pay for the potential acquisition of a 25% stake in **British Energy** PLC. The step is designed to help the company secure a power-sharing arrangement with **Électricité de France** SA once the French power provider has completed its £12.5 billion takeover of British Energy, which owns eight nuclear power stations in the U.K. Centrica will be "well-capitalized" to fund the stake buy in British Energy, said Chairman Roger Carr. Shareholders will be offered three new shares for every eight existing shares held under the rights issue. In total, Centrica will offer 1.4 billion shares for £1.60 each—a 40% discount on Centrica's closing share price on Thursday.

Puma AG

German sportswear maker **Puma** AG said Friday its third-quarter net profit was flat, but reported healthy sales growth and raised its sales forecast for the full year. Net profit for the third quarter was flat at €89 million ($115 million) while sales grew 9.2% to €712.7 million after stripping out currency fluctuations. The Herzogenaurach-based company said total orders as of September were 4.7% higher than a year earlier, also adjusted for currency movements, coming in at €1.16 billion. In light of the good results, Jochen Zeitz, the company's chief executive, said Puma now expects full-year sales to grow in the mid- to high-single digits, once adjusted for currency fluctuations, and thus at the high end of its previously forecast single-digit growth-range. French luxury-goods company **PPR** SA took over Puma last year.

Friends Provident PLC

U.K. life insurer **Friends Provident** PLC said Friday it is abandoning the sale of its F&C asset-management and Lombard wealth-management units nine months after putting them on the market, unable to find buyers because of the financial crisis. As a result of the credit crunch, banks have reined in lending to companies, making it more difficult for companies to launch takeovers. Instead of selling, Friends will distribute a 52% stake in the asset-management business—whose market value has fallen to £100 million ($165 million) from about £500 million over the past 12 months—to its shareholders. Friends said it would retain Lombard and develop the wealth-management business. The insurer also said that its total life and pensions sales dropped 14% to £701 million in the nine months ended Sept. 30 from a year earlier.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Spain's GDP falls 0.2%

Contraction weighs on EU, adds pressure for ECB to cut rates

By Jonathan House And Emma Charlton

MADRID—The Spanish economy contracted in the third quarter for the first time in 15 years, pitching the country closer to recession and raising pressure on the European Central Bank to cut euro-zone interest rates.

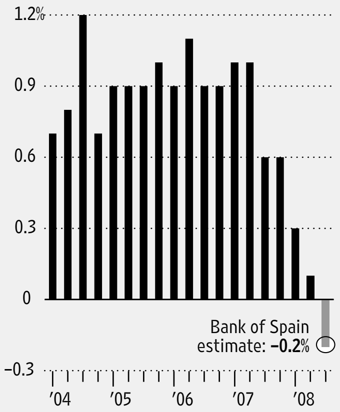
Gross domestic product in Spain—until recently one of Europe's fastest-growing economies—fell 0.2% in the third quarter from the second, the Bank of Spain said. The economy grew 0.9% from the 2007 third quarter.

Among economists, expectations are rising that the 15-nation euro zone as a whole could also show a third-quarter retrenchment. Since the euro zone's economy shrank by 0.2% in the second quarter, a further contraction would put the bloc officially in recession, according to one common definition.

Worries are also mounting that the euro zone could be in for a protracted slump, with many economists and some policy makers forecasting meager growth next year.

Sharp turn

Quarterly change in Spain's GDP



Sources: Spain's National Statistics Institute; Bank of Spain

Other indicators released Friday lend support to gloomy forecasts and suggest that the European Central Bank need worry little about inflation pressures when it meets to decide on interest rates on Thursday.

Euro-zone consumer-price inflation declined for the third straight month in October—a drop that economists attributed to falling food and energy prices, which peaked over the summer.

Meantime, the flash estimate of annual euro-zone inflation fell to a nine-month low of 3.2% in October, down from 3.6% in September and just above expectations for 3.1%, Eurostat data showed.

Though preliminary, the numbers suggest that inflation is in retreat; the final numbers will be released by Eurostat on Nov. 14. The ECB aims to keep inflation just below 2%, and some policy makers believe the rate could fall within that range next year. Europe's unemployment also climbed for the sixth straight month. The number of jobless people in the euro zone rose by 52,000 in September, though the unemployment rate was stable at 7.5%, according to Eurostat.

The onset of the global financial crisis in August 2007 hastened the collapse of Spain's decade-long housing boom and caused a downturn for its overall economy. In last year's fourth quarter, Spanish GDP grew at a quarterly rate of 0.6% and at an annual rate of 3.8%. For the whole of 2007, Spanish GDP grew 3.7%.

Official third-quarter GDP figures are due to be released Nov. 13 by the country's national statistics institute. But the preliminary figures are causing alarm.

BNP Paribas economist Dominic Bryant expects the Spanish economy to contract further. He said Friday's data showed "only the beginning of recession in Spain."

German auto workers go on strike

A WSJ News Roundup

BERLIN—Germany's largest industrial union has begun a series of coordinated strikes at automobile and electronics companies as it and employers spar over wage increases.

Some 8,000 workers participated in strikes at 17 companies on Saturday, the union, IG Metall, said in a statement.

Car maker **Audi** AG was particularly hard hit, as 4,000 workers walked off the floor of an Audi plant in the southern city of Ingolstadt, the union said. Another 1,000 spots went unfilled after a night shift ended at an Audi plant in Neckarsulm, to the west.

IG Metall leader Berthold Huber said the union could call its members across the country Monday to mount a series of short-term strikes if its demands for an 8% pay increase aren't met.

The union has 3.6 million members. On Friday the union's branch in the southern state of Bavaria rejected a 2.9% wage increase over the next 12 months.

Detlef Wetzel, a deputy union leader, said the offer was "light-years away from what we want and what we will accept."

Employers argued that the credit crunch and financial meltdown make a better offer unrealistic.

IG Metall said its requested wage hike is justified because companies' profits increased 220% between 2004 and 2007—a time when wages effectively increased by only 8.7%.

The union and employers are scheduled to finish contract negotiations next week.

German unions have been frustrated that ordinary workers' pay stagnated even as an export boom in recent years strengthened the economy. But they are getting tough just as German industry's prospects are deteriorating amid a global economic downturn. Auto and engineering sector employers are predicting a decline in output of up to 2% for next year.

Some bigger German car makers have already said they will temporarily halt production in coming weeks, due to sluggish demand at home and abroad.

Martin Kannegiesser, president of the engineering-sector employers' group Gesamtmetall, told Sunday newspaper Welt am Sonntag that strikes by IG Metall will end up hurting workers.

Italian central banker tells state to act

By Luca Di Leo

ROME—European Central Bank board member and Italian central bank Gov. Mario Draghi called on governments to sustain demand by boosting spending or cutting taxes, warning that the scope for using monetary policy to boost the economy is limited.

"Given the minimum level reached by America's official interest rates and the ample liquidity put in circulation by central banks, the room for monetary-policy maneuver is reduced," Mr. Draghi told a meeting of Italy's top bankers Friday.

"To sustain demand on a global level, the anticyclical action of budget policy may be required," Mr. Draghi said, warning that the world economy would stagnate until at least mid-2009.

Central banks around the world last week unleashed a new assault on the global economic downturn. The U.S. Federal Reserve on Wednesday cut its key rate by half a percentage point to 1%. Its move was accompanied by cuts in China and Norway. ECB President Jean-Claude Trichet last week signaled that the central bank is likely to cut its key rate this week from its current 3.75% level.

Mr. Draghi said European Union budget rules, which call on states to keep their deficit below 3% of gross domestic product, allowed for increased spending during tough times. His remarks indicate that central banks want governments to act since they are running out of ammunition.

Mr. Draghi, a former Goldman Sachs executive, said the crisis made state intervention more desirable.

Mr. Draghi effectively gave the green light to Prime Minister Silvio Berlusconi's government to approve further measures to shore up banks. But Mr. Berlusconi's cabinet, which has boosted liquidity and guaranteed bank debt this month, on Friday disappointed those in the market who were expecting further moves.

"It is not the government's duty to have banks. Having shares in banks can only be a transitory necessity," Economy Minister Giulio Tremonti told the same banking conference, adding that government intervention could be harmful.

His remarks were taken as a sign that no move by the government is imminent.

Secure ties

Excerpts on key provisions in the current Iraq-security draft agreement:

Missions: 'military operations...shall be conducted with the agreement of the Government of Iraq. Such operations shall be fully coordinated with Iraqi authorities.'

Jurisdiction: 'Iraq shall have the primary right to exercise jurisdiction...for grave premeditated felonies...when such crimes are committed outside agreed facilities and areas and outside duty status'

Detention: 'In the event United States forces detain or arrest persons...such persons must be handed over to competent Iraqi authorities within 24 hours from the time of their detention or arrest.'

Withdrawal: 'United States Forces shall withdraw from Iraqi territory no later than December 31, 2011...the Government of Iraq may, based on its consideration of conditions, request that the Government of the United States retain certain forces for the purposes of training and supporting Iraqi Security Forces.'

Source: WSJ reporting

Investors seek resolution of delayed U.S.-Iraq pact

By Gina Chon

BAGHDAD—Foreign businessmen—many of them potential investors—say stalled talks over a long-term security agreement between Washington and Baghdad could delay or halt plans for investment in Iraq.

"A security agreement would ensure future visits to Iraq," said Andrew Cummins, founder of a $100 million, San Francisco-based investment firm that focuses on emerging markets. He's made one trip to Iraq and is looking into affordable-housing development in Iraq.

"Without the [agreement], we will have to watch and evaluate progress they make on security on their own," he said in an email exchange. "So it would probably result in delays."

Negotiations between the U.S. and Iraq over the terms for a continued U.S. military presence in Iraq have been slowed by a series of setbacks since talks began in March. Last week, the Iraqi government presented the U.S. side with dozens of amendments they want to make to a draft of the pact.

U.S. officials are reviewing the amendments and will respond this week, after the U.S. presidential elections, according to people familiar with the matter.

The current draft agreement calls for U.S. troops to leave Iraq at the end of 2011, although some soldiers could be asked to stay longer to help train and support Iraqi security forces. An agreement is necessary to replace a United Nations mandate that expires at the end of this year.

Recent security gains have increased international investor interest here. Investors say they are looking at opportunities in agriculture, tourism and financial services, as well as oil and other industrial sectors.

Those opportunities could look much less attractive if questions about Iraq's security relationship with Washington aren't hammered out soon, they say.

During a U.S.-Iraq investment conference in Baghdad on Saturday, California businessman Llewellyn Werner told Iraqi officials that if there was no security agreement, there would be no investment in Iraq.

Mr. Werner is head of C3, a Los Angeles-based holding company for private-equity firms. C3 is already investing $500 million in building an amusement park in Baghdad that will incorporate the Baghdad Zoo.

Andrew Eberhart, a partner in The Marshall Fund, a New Jersey-based private-equity firm set up to invest in Iraq, said on Sunday that the lack of a security agreement would influence the company's fund-raising efforts and search for partners in the U.S.

Mr. Eberhart, who attended the Baghdad investment conference, is looking into business opportunities in the agriculture sector.

The government of Prime Minister Nouri al-Maliki has sent mixed messages about government support for the pact. The negotiations are complicated by political jockeying ahead of provincial elections next year and opposition from Iran.

One of the most contentious changes recently proposed by the Iraqi side is the deletion of phrasing in the article pertaining to the withdrawal of U.S. troops.

The current draft's statement that Iraq could ask the U.S. to keep troops in Iraq for training and support has created confusion and spurred protest among some Iraqi officials, who view it as a way for the U.S. to extend its presence here indefinitely.

Separately on Saturday, Finance Minister Bayan Jabr said that because oil prices continue to fall, Iraq will trim its budget for next year by about 16%, which also represents a cut from the 2008 spending program. Iraq depends on oil sales for more than 90% of government revenue.

Iraq's revised 2009 budget now totals $67 billion and is based on revenue from oil at $62.50 a barrel, compared with the original proposal for $80 billion in spending, based on oil at $80 a barrel, Mr. Jabr said. For the past few weeks, the Finance Ministry has been putting together a contingency budget plan in case oil prices continued to fall.

"We could have had a bigger budget, but the lower price of oil has affected us," Mr. Jabr said Saturday at the investment conference.

In an interview, Mr. Jabr said ministry officials planned to meet Sunday to discuss specific cuts for each ministry, with the aim of completing the budget within a week. The government then will present the budget to the parliament for approval.

The capital-investment budget, crucial to rebuilding Iraq's infrastructure for oil, electricity and defense, among other sectors, will increase, he said. For 2009, Iraq plans to spend $15 billion on capital projects, compared with $13 billion in 2008.

The 2008 budget eventually totaled $70 billion, including $22 billion in supplemental funding that was passed earlier this year. If oil prices rise again, Iraq could pass a supplemental budget for 2009 to increase spending for next year.

Race ends on McCain turf

Obama seeks to make inroads in states Bush won in 2004

BY JONATHAN WEISMAN

The U.S. presidential campaign's final days are playing out largely on territory won by President George W. Bush in 2004, as his unpopularity, combined with a struggling economy and shifting demographics, have helped Democrats gain traction in what have been reliably Republican states.

Democratic presidential nominee Sen. Barack Obama passed through Nevada, Colorado, Missouri and Ohio over the weekend after appearances in Iowa and Indiana Friday—all states that voted Republican four years ago. He was scheduled to be in Virginia on Monday, where a Democratic presidential nominee hasn't won since 1964.

From Oct. 21 to Oct. 28, the Obama campaign spent nearly $21.5 million on advertising, compared with $7.5 million by the campaign of Republican Sen. John McCain, according to the University of Wisconsin Advertising Project. More than 70% of that combined spending was in Republican states. The Obama campaign Friday launched advertising buys in long-Republican North Dakota, Georgia and in Sen. McCain's home state of Arizona.

Sen. McCain, meanwhile, spent Friday in Ohio and Saturday in Virginia, both states won by Mr. Bush in 2004. Sunday night, Sen. McCain was scheduled to campaign in Florida. He also stopped in Pennsylvania, the one big 2004 Democratic state that the McCain campaign believes it can win to offset losses in Republican territory.

After the 2004 presidential race, the Republican geographic formula for keeping a lock on the White House seemed simple enough: hold the states that Mr. Bush won in the Republican column and eke out another narrow Electoral College victory.

Sen. McCain, though playing defense, can still find a path to victory Tuesday. His emphasis in the final days on Ohio and Pennsylvania point to a demographic pattern that could work in his favor: rust-belt regions where an aging, working-class population has been reluctant to embrace the first African-American leading a major party. Gains among non-college-educated men, abortion opponents, rural voters and "soft" Democrats are fueling Sen. McCain's advance in some polls, said Bill McInturff, Mr. McCain's pollster.

But in the past four years, the electoral map has steadily shifted in ways that have made the Democrats' strategizing easier.

The war in Iraq, the Bush administration's unpopularity and scandals when Republicans controlled Congress scarred the party brand nationally. Scandal-plagued governors in two Republican-friendly swing states, Ohio and Nevada, spread that taint to the state level.

The weak economy, concentrated heavily in large battleground states, is probably the biggest factor reordering the 2008 map. States like Ohio, used to economic hard times, have suffered wage stagnation and falling incomes. In states unused to hard times, such as Florida and Nevada, a housing and construction bust has spread gloom.

In 2004, building booms in Florida and Nevada made Democratic messages on the economy fall flat. This year is different. In September, Florida recorded a 1.4% drop in employment over September 2007, the fifth-largest drop among the states. Nevada's unemployment rate, at 7.3%, is the fifth highest in the country.

Demographics also shifted in the right places to give Democrats a lift. In Colorado, Virginia and North Carolina, the influx of a younger, more-educated populace brought voters more receptive to the Democrats' message. A concerted Republican campaign to curb illegal immigration turned a wave of new foreign-born voters against Republicans in Florida, Nevada and Colorado, just as the Latino vote in those states was growing.

Between 2000 and this year, the Hispanic electorate will have doubled, to 12% of voters, according to Census data and NDN, a Democratic group that studies the electorate. That growth has been concentrated in once-Republican states, not only in the Mountain West but in the South. By 2006, Hispanics represented 31% of voters in New Mexico, 13% in Nevada, 11% in Florida and 8% in Colorado.

Mr. Bush and his political team were able to ride that wave, nearly doubling the Republican share of the Latino vote to 40% in 2004 from 21% in 1996, according to exit polls. Then came 2006 and the Republican Party embrace of get-tough legislation on illegal immigration, followed by Republican efforts to kill bipartisan bills to stiffen border enforcement and provide illegal immigrants a pathway to citizenship.

In 2006, Republican support among Hispanics fell to 30%. Even Sen. McCain, who co-authored the bipartisan immigration legislation, doesn't appear able to reverse the trend. An NDN poll in August, when Sens. Obama and McCain were virtually tied in the polls, found Sen. Obama leading among Colorado Hispanics 56% to 26% and Nevada Hispanics 62% to 20%.

In Colorado alone, more than 70,000 new Latino voters have registered since 2004. An Associated Press-GFK poll released Wednesday found that 16% of Colorado's likely voters identify themselves as Hispanic—and 70% of them back Sen. Obama.

The growth of professional havens in Northern Virginia, the Research Triangle Region of Raleigh-Durham, N.C., and the Boulder-Denver corridor of Colorado may also be contributing to the changing electoral landscape. Voters in such places tend to be younger, more ethnically and racially diverse and less interested in social-conservative issues, such as abortion and gay marriage. And there are a lot of them: 83 million so-called millennials between ages 19 and 37, compared with 74 million Baby Boomers between 51 and 69.

If Sen. McCain had done more to chart his own electoral map—through states like New Hampshire and Wisconsin, with traditions of independence—his final push may have looked different, Republican strategists said.

Instead, he focused more on reassembling the Bush map, through conservative policy shifts and his choice of Alaska Gov. Sarah Palin, a favorite of the religious right, as a running mate.

A swing by Sen. McCain through New Hampshire over the weekend may not be enough to overcome an "almost Shakespearian" tragedy—the loss of a state that propelled his candidacy in 2000 and saved it in this year's Republican primaries, said Mike Murphy, a Republican strategist and longtime McCain confidante.

"I don't think anyone would argue this isn't a great environment for Democrats," said Michael DuHaime, Sen. McCain's political director. "We've got the worst financial crisis in 80 years, which rightly or wrongly is being blamed on Republicans," he added. "Barack Obama, who has high personal-popularity ratings, is outspending us three or four to one, basically buying the election, and we have states like Pennsylvania and Ohio in reach. That's a testament to John McCain and his brand."

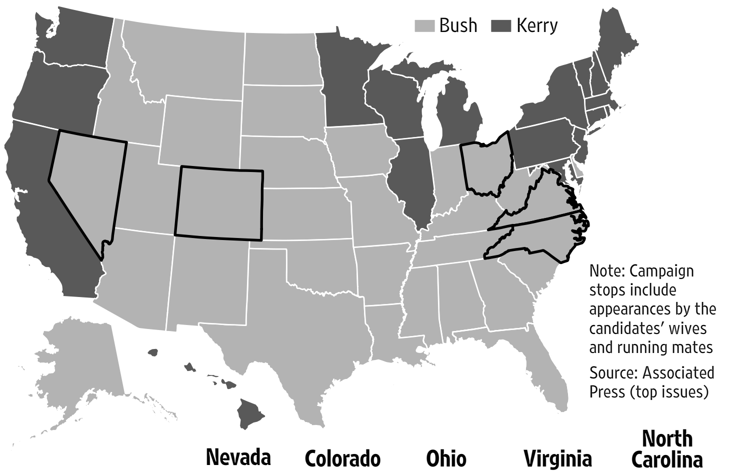
—Stephanie Simon, Douglas Belkin and Brad Haynes contributed to this article.

WSJ.com

Online Today
See a sortable chart and map of candidates' travels, plus do the state-by-state math in an electoral calculator, at **WSJ.com/Politics**

Changing landscape

The final four days of the presidential campaign are playing out largely on territory won by President George W. Bush in 2004. Results of the 2004 election and current battleground states.



Note: Campaign stops include appearances by the candidates' wives and running mates

Source: Associated Press (top issues)

		Nevada	Colorado	Ohio	Virginia	North Carolina
Campaign stops since Sept. 5	McCain	5	12	32	9	9
	Obama	8	12	28	19	16
Top issues		Economy, growth of Latino voters	Education, minorities	Housing crisis, unemployment, economy, trade	Economy, taxes, Iraq	Economy, financial crisis

ECONOMY & POLITICS

Obama maintains lead in final weekend

U.S. candidates make final rounds of battleground states

BY LAURA MECKLER AND JONATHAN WEISMAN

Sens. Barack Obama and John McCain sprinted to the finish line of the long U.S. presidential race, with the Democrat maintaining his lead in a series of weekend polls.

Sen. McCain, the Republican candidate, was hoping he could gain traction in the campaign's closing hours with charges that Sen. Obama is too liberal and not ready for the job, and some surveys did show some narrowing in the gap. He was appealing to a shrinking pool of undecided voters, as both men worked to get their supporters out to the polls on Tuesday.

The latest round of national and battleground-state polls suggested that Sen. Obama remained in the lead, a position he has enjoyed since September, when the financial crisis reset the presidential contest. Sen. McCain's advisers were gunning for what would be a come-from-behind victory, noting that he has done so before.

A CNN/Opinion Research Corp. survey released Sunday gave Sen. Obama a seven-percentage-point lead, with 53% of likely voters favoring Sen. Obama and 46% for Sen. McCain. A national poll by the Pew Research Center, also out Sunday, gave Sen. Obama 49% of likely voters to Sen. McCain's 42%, also a seven-point lead.

Interviews with some undecided voters suggest that many are leaning toward Sen. Obama for the same reasons that have long bedeviled Sen. McCain: their longing for change after eight years of a Republican White House and their hesitation about Gov. Sarah Palin as his running mate, who has electrified conservatives but turned off some independents.

After the longest presidential race in history, turnout could shatter records. An estimated 153.1 million Americans, or 73.5% of the eligible population, will have registered to vote by Tuesday, according to a study released Sunday by American University's Center for the Study of the American Electorate. That percentage is the highest since women were given the vote in 1920, beating the previous high set in 1964.

Illustrating the headwinds facing Sen. McCain, Democratic registration has increased by an estimated 1.4 percentage points, or by 2.9 million people; Republican registration declined by 1.5 million people.

The campaign was closing around the same themes that have long defined the contest. Sen. Obama, the freshman senator from Illinois, argued that only he can bring change to a nation yearning for it, while tying Sen. McCain to the unpopular President George W. Bush at every turn.

Sen. McCain, the veteran senator from Arizona, painted himself as a man who has always put "country first," and argued that Sen. Obama was a risk to voters' paychecks and safety.

And he worked to encourage supporters with confident talk of victory.

"I know when momentum is here," Sen. McCain told about 2,000 people in suburban Philadelphia Sunday. "We got two days. Knock on doors—with your help we can win."

In Ohio, Sen. Obama was appearing at a trio of stadium-sized rallies. "Ohio, I have just two words for you: two days," he told more than 60,000 people gathered at the Ohio Statehouse in Columbus.

Through the campaign's final hours, Sen. Obama maintained his consistent message, with a new advertisement highlighting a speech by Vice President Dick Cheney voicing his endorsement for Sen. McCain.

"And boy did McCain earn it," the announcer states, as a montage of photos of Sen. McCain with Messrs. Bush and Cheney float by. "He voted with Bush and Cheney 90% of the time."

In the campaign's closing days, Sen. McCain has consistently charged that Sen. Obama will raise taxes, making this point on the stump and in television ads. He also has aired an ad using Sen. Obama's own words of praise for Sen. McCain's work on climate-change legislation.

Sen. McCain has overruled advisers who wanted to invoke Sen. Obama's longtime former pastor, the Rev. Jeremiah Wright, but Sunday, two groups, including the Pennsylvania Republican Party, launched television ads that tied the two men together.

"If you think you could ever vote for Barack Obama, consider this: Obama chose as his spiritual leader this man," a narrator says before a picture of Mr. Wright flashes on the screen. The 30-second spot includes a series of controversial remarks by the pastor and describes Obama's relationship with him. "Does that sound like someone who should be president?"

In a statement to PolitickerPA.com, which reported the story earlier, state party Chairman Robert Gleason Jr. defended the ad: "When Pennsylvanians vote for a president, they should have a full picture of that candidate's character, including the people they chose to intimately align themselves with for many years."

Separately, an independently funded group, the National Republican Trust PAC, said it had put $2.5 million into a Wright-themed ad running in Ohio, Pennsylvania and Florida, all competitive states that Sen. McCain needs to win. A voiceover in the ad says, "For 20 years, Obama never complained, until he ran for president."

The campaign's final day, Monday, will take Sen. Obama to Jacksonville, Fla., the sight of some of the most bitterly contested voting of the 2000 presidential recount. He then heads to North Carolina and Virginia, two reliably Republican states that he hopes will seal his victory Tuesday.

On Monday, Sen. McCain was set to cover twice as much territory, with visits to six states—beginning in Florida and campaigning through Pennsylvania, Indiana, New Mexico, Nevada and Tennessee.

Sen. McCain will then return to Phoenix to await the results. Sen. Obama will await the verdict in his hometown of Chicago.

—Elizabeth Holmes, Amy Chozick and Nick Timiraos contributed to this article.