THE WALL STREET JOURNAL.

WSJ.com

DOW JONES Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 181

WEDNESDAY, OCTOBER 15, 2008

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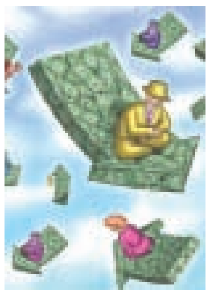

Scenes from the front lines of the financial carnage

NEWS IN DEPTH | PAGES 14-15

Rising food costs strain U.K. economy even more

ECONOMY & POLITICS | PAGE 9

U.S. to take equity stakes in 9 banking behemoths

BofA, J.P. Morgan, Citi and Wells Fargo to get the most cash

U.S. government officials released a plan to take stakes in nine large financial institutions in an effort to help revive the banking sector and fight the global credit crunch.

In one of the most dramatic actions taken by regulators to address the financial crisis, officials plan to funnel as much as $250 billion from the $700 billion financial-rescue package into thousands of banks potentially through the new, voluntary program.

By Deborah Solomon, Damian Paletta, Jon Hilsenrath and Aaron Lucchetti

The government is set to buy preferred equity stakes in **Goldman Sachs Group** Inc., **Morgan Stanley**, **J.P. Morgan Chase** & Co., **Bank of America** Corp.—including the soon-to-be acquired Merrill Lynch—**Citigroup** Inc., **Wells Fargo** & Co., **Bank of New York Mellon** and **State Street** Corp.

Banks have a month to join Treasury's capital-purchase program. They must elect to participate before 5 p.m. Nov. 14.

"The efforts are designed to directly benefit the American people by stabilizing the financial system

Please turn to page 31

Associated Press

U.S. Treasury Secretary Henry Paulson said that, under **the U.S. government's new plan**, financial institutions would limit executive compensation.

What's News—

Business & Finance

Airbus says demand for its planes is holding up amid the economic downturn but aircraft lessors express concern that demand may soften, sending jetliner prices tumbling. Air-traffic volumes are closely tied to economic growth, so recessions typically slash all kinds of air travel. Page 1

■ **InBev delayed plans** for a $9.8 billion rights offering to help fund its Anheuser purchase and will use a bridge loan instead. Page 2

■ **The Nikkei surged 14%**, leading a broad Asian rally as investors endorsed global efforts at financial bailouts. Page 22

■ **European shares climbed** again as investors continued to cheer bailout plans for banks, but the rally dried up in the U.S. Pages 17, 18

■ **Iceland's OMX 15 index** fell 5.8% on resumed trading as officials continued to seek foreign capital and ask banks to help limit capital outflows. Page 5

■ **The U.A.E.** will inject an additional $19 billion into its financial system to encourage banks to lend. Page 5

■ **German investor morale** fell last month, a private institute's survey found. Euro-zone industrial output rose 1.1% in August. Page 9

■ **Merrill Lynch** raised $2.65 billion for a fund focused on real estate in Asia, in a sign investors see bargains. Page 19

■ **JCDecaux and News Corp.** are abandoning a plan to combine some operations in a deal that would have created the world's largest outdoor-ad firm. Page 6

■ **Big reinsurers stand** to gain as insurers seek ways to spread risk and lower costs. Page 22

■ **Capital flows into China** have slowed sharply and even reversed in recent months, according to official data. Page 4

■ **Hong Kong will fully** guarantee all bank deposits, and it announced a new facility to provide capital to banks. Page 4

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9310.99	-76.62	-0.82
Nasdaq	1779.01	-65.24	-3.54
DJ Stoxx 600	232.22	+6.85	+3.04
FTSE 100	4394.21	+137.31	+3.23
DAX	5199.19	+136.74	+2.70
CAC 40	3628.52	+97.02	+2.75
Euro	$1.3631	+0.0029	+0.21
Nymex crude	$78.63	-2.56	-3.15

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World-Wide

U.S. officials released a plan to take stakes in nine large financial institutions in an effort to help revive the banking sector and ease the credit crunch. The U.S. plans to funnel up to $250 billion from the $700 billion rescue package into thousands of banks. Banks have a month to join the Treasury's program. Page 1

■ **Britain's Brown is using** his platform as financial statesman to push for a global system of financial supervision. Page 10

■ **Obama has taken** a solid lead in four battleground states, underscoring McCain's challenge as the two candidates meet in a final debate Wednesday. Page 10

■ **North Korea let** U.N. monitors back into its main nuclear site, but it was unclear whether Pyongyang fulfilled a pledge to resume disabling the facilities.

■ **Pakistan's President Zardari** began a four-day state visit to China, seeking aid for his near-bankrupt country. Page 10

■ **A roadside bomb killed** three NATO soldiers in Afghanistan. NATO ordered troops to pull back from firefights instead of calling airstrikes endangering civilians.

■ **Pakistan's fight** against militants near the Afghan border has reportedly forced 190,000 people to flee, the U.N. said, as fresh clashes killed 17 militants.

■ **China ordered** stores to pull all milk products made before Sept. 14 from shelves until they pass safety tests. Page 30

■ **A Russian Soyuz spacecraft** carrying videogame developer Richard Garriott docked with the International Space Station.

■ **A Cambodian court sentenced** four ex-Khmer Rouge rebels to up to 20 years each in prison for involvement in the murder of a British mine-clearing expert in 1996.

■ **Syria formally recognized** Lebanon for the first time, in a move reflecting Damascus's readiness to meet U.S. demands to do more for regional stability.

■ **Iraq said** it will send a cabinet-level delegation to Mosul to address violence against Christians that has led thousands to flee.

EDITORIAL & OPINION

Trouble in Korea

Mr. Lee's challenge is to deliver reforms despite the global financial crisis. Page 11

Latest steps, if not a cure, will ease pain

By David Wessel

So is it over? Have governments in the U.S. and Europe finally found the cure? Has recession been averted?

CAPITAL

No. We're still in for a rough recession, with U.S. unemployment, now at 6.1%, likely to rise above 8%, with all the misery that brings.

But it could be worse. For a few scary moments last week, governments began to take action to protect their own countries that made other countries worse off. It looked like the world economy was lurching uncomfortably close to conditions that precipitated the Great Depression. The newfound trans-Atlantic unity—particularly the move by the U.K., then the rest of Europe and now the U.S., to give the banking system a taxpayer-funded transfusion—has significantly reduced the odds of a really bad outcome. That alone is reason to be less panicky today than many were this time last week.

Paul Krugman, the newest Nobel

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Turbulent economy isn't on Airbus's flight plan

By Daniel Michaels And J. Lynn Lunsford

European plane maker Airbus is so far shrugging off the economic downturn in much of the world, saying it has a big order backlog and is seeing strong demand from key markets.

But the people who either lease planes to airlines or lend the money to buy them say demand will soon soften and could send jetliner prices tumbling. As well as hitting Airbus's revenue, a drop in plane prices could crimp airlines' ability to buy planes, partly because they often use the value of their existing fleets as collateral to finance new purchases.

The differing views of the aircraft market come as economists forecast sharp downturns in many of the world's big economies. Projections earlier this year for slack growth have been downgraded after the recent financial crisis to forecasts of recession in many markets. Air-traffic volumes are closely tied to economic growth, so recessions typically slash all kinds of air travel.

Right now, business looks good for Airbus, a unit of **European Aeronautic Defence & Space** Co., and for U.S. rival **Boeing** Co. Despite dwindling passenger numbers, many carriers want to replace older jetliners because fuel prices are too high for aging models to operate profitably. In addition, some carriers with deep pockets, such as those from the Persian Gulf, are growing and grabbing traffic from weaker rivals. Turkish Airlines Inc. on Tuesday said it is soliciting offers for 105 jetliners from Airbus and Boeing.

Airbus this year has orders for 737 planes, after cancellations, and expects to deliver about 470 airlin-

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FINANCIAL CRISIS AND REPAIR

Most Fed banks wanted to stand pat last month

Minutes show 11 of 12 sought to maintain 2.25% discount rate

By Jeff Bater

WASHINGTON—Support among U.S. Federal Reserve regional banks for a discount-rate increase diminished last month as risks to the economy intensified.

The Fed on Tuesday released minutes of its discount-rate meetings that were held in August and September before a Sept. 16 decision by the Federal Open Market Committee to keep its target for the federal funds rate at 2%.

The FOMC had lowered the federal-funds rate from 5.25% over nine months to help the U.S. economy deal with the credit crunch and housing slump; the last rate cut prior to the September meeting was in April. The Fed at the Sept. 16 meeting also took no action on the discount rate, leaving it at 2.25%.

Last week, however, the Fed slashed the fed-funds rate in a rare intermeeting cut. The FOMC voted unanimously to cut the rate target by half a percentage point, to 1.5%, against the backdrop of a tumbling stock market.

In a related action, the Fed's Board of Governors unanimously approved a half-percentage-point decrease in the discount rate to 1.75%.

Tuesday's discount-rate minutes showed that in early September, 11 of 12 district banks sought to maintain the existing, 2.25% discount rate. The 12th bank, Kansas City, sought an increase in the rate to 2.5% because of inflation concerns.

"Some directors concluded that declining real consumer spending had recently diminished the prospects for economic growth, while others pointed to increased weakness in the labor market and lower growth prospects among international trading partners as suggesting downside risks to growth.

"Several directors also noted that tight credit conditions and the ongoing housing contraction served to intensify downside risks," the minutes said.

In late August, two banks supported an increase in the discount rate, to 2.5%—Kansas City and Dallas.

The previous release of discount rate meetings came Sept. 2. Those meetings had been held in July and early August before an Aug. 5 decision by the FOMC to keep its target for the federal funds rate at 2%.

InBev postpones rights offering

By David Kesmodel
And Matthew Dalton

Belgian beer titan **InBev** NV on Tuesday said it was delaying plans to raise new equity to help fund its $52 billion acquisition of **Anheuser-Busch** Cos., citing "unprecedented volatility" in capital markets. But the company said it still expects to complete the deal by year end.

InBev said it will use a bridge loan for the $9.8 billion it had planned to raise through a rights offering ahead of the deal. The bridge loan will expire six months after the acquisition closes.

InBev, the brewer of Stella Artois and Beck's, said a consortium of banks remains committed to lending $45 billion, aside from the bridge loan, for the purchase of America's largest beer maker by sales.

Analysts said it wasn't surprising InBev had elected to postpone the rights offering, because its stock price had declined sharply in recent weeks and capital markets have been unstable. In a typical rights offering, a company issues a tradable "right"—similar to an option—allowing existing shareholders to buy new shares at a set price. The price is usually set at a discount to the market price.

"This is simply a change in how they'll write the check," said Mark Swartzberg, an analyst with Stifel Nicolaus in New York. "It begs the question of whether there's something wrong underneath, but we think the answer is no."

In Brussels on Tuesday, InBev shares rose 2.8% to €33.97 ($46.20). In late trading on the New York Stock Exchange, Anheuser shares were down $1.43, or 2.2%, to $62.50, well below the $70 InBev agreed to pay for the St. Louis brewer. Analysts say merger arbitragers—investors who bet on the chances of a merger being completed—may have had to sell assets like Anheuser stock to raise cash amid the financial turmoil.

U.S. Treasury taps Simpson Thacher

By Matthew Karnitschnig

The U.S. Treasury tapped Wall Street law firm **Simpson Thacher & Bartlett** LLP to advise it on a plan to make investments in the banking industry.

The Treasury received two proposals for the contract and selected Simpson Thacher on Friday, said Neel Kashkari, interim assistant secretary for financial stability, at a news conference Monday.

Though the Treasury will hire other law firms to advise it on aspects of the $700 billion Troubled Asset Relief Program, Simpson Thacher is the sole adviser on what has become the most politically sensitive part of the program: the government's ownership of large stakes in banks. Under the plan, the government would spend about $250 billion to buy preferred stock in banks, including some regarded as healthy, such as **J.P. Morgan Chase** & Co. and **Bank of America** Corp. These investments are likely to be structured in a way that won't immediately dilute existing shareholders.

Simpson Thacher will counsel officials primarily on the structure of the program, according to people familiar with the matter. Lee A. Meyerson, a New York partner who specializes in transactions involving financial institutions, will lead the effort.

One big challenge for Simpson Thacher will be to navigate potential conflicts between its work for the government and its corporate clients.

CORRECTIONS & AMPLIFICATIONS

Electronics retailer Currys is owned by **DSG International** PLC. A Corporate News article on Tuesday incorrectly said Currys is owned by **Kesa Electricals** PLC.

Tintin is a Belgian comic-book hero. An article on Monday's On Other Fronts page incorrectly described the nationality as French.

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

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

Icelandair is hanging on

A knack for survival raises interest in its turnaround plan

BY DANIEL MICHAELS

REYKJAVIK, Iceland—Scrappy **Icelandair** Group built its business by capitalizing on adversity—starting with a location near the Arctic Circle and thousands of miles from the nearest well-trod destination.

Today, its managers are trying to secure a nascent turnaround even as the country's financial outlook dims. Iceland's stock exchange was closed Monday and the government strictly limited foreign-exchange transactions. After plunging more than 70% when it opened Tuesday, the index ended down 5.8%. The country's currency, the krona, has effectively stopped functioning outside Iceland.

On Sunday, Icelandair said its profit through August, before interest and taxes, rose 58% from a year earlier to 3.9 billion kronur, or about $35 million, on revenue that rose 68% to 72 billion kronur.

The company still faces problems common across the airline industry, including high fuel prices and dropping demand. On top of the country's financial woes, Icelandair already had a hangover from speculative investments made by a former owner, who squandered the company's cash and loaded it with debt.

But the tiny airline holding company—its 2007 revenue was just 3% of those of Europe's biggest carrier, **Air France-KLM** SA—has a tradition of turning weaknesses into strengths that could provide valuable lessons to its industry. No airline seems to have a grand plan to cope, but analysts say survivors are likely to be those that quickly adapt and spot market niches that can still yield a profit.

Icelandair "punches above its weight" because it has leveraged its tiny market into a global operation, says Ulrich Schulte-Strathaus, secretary general of the Association of European Airlines in Brussels. He says Icelandair is "a benchmark for older carriers...because it has been able to serve its niche market consistently well over so many years."

One key to its longevity and its best bet for a turnaround is aircraft leasing, analysts say. Because Iceland's air traffic drops so much during the long, dark winters, in the 1990s managers started leasing out unused planes as far away as Papua New Guinea. On Saturday, it handed over one of its Boeing 757s to luxury travel company Abercrombie & Kent Inc.

Its leasing business expanded recently into Russia, South America and Africa. Icelandair Group today has 16 planes flying for its flagship, and around 60 in other divisions. Most of these planes never touch Iceland.

"We developed good relations around the world because we're a small, neutral country, so people trust us," recalls former Chief Executive Officer Sigurdur Helgason, who retired in 2005.

Today, Icelandair claims to have been the world's first low-cost carrier.

In 2004, cash at about 25% of revenue attracted an aggressive young local investor, Hannes Smárason, who led a buyout of Icelandair and loaded it with debt.

Mr. Smárason used the carrier's cash to create a financial holding company, **FL Group**, which sought quick profits by trading stakes in other companies, including Britain's **easyJet** PLC. Many of the investments lost money.

Mr. Smárason declined to comment.

In late 2006, a group of Icelandic investors bought Icelandair from FL Group, seeking to restore a long-term approach to its core aviation business.

Icelandair Group Chief Executive Björgólfur Jóhannsson, a 53-year-old former accountant who was hired in December 2007, is now scrambling to rebuild cash reserves.

To restore financial health, Icelandair, like other airlines, is cutting staff, closing unprofitable routes and testing hotter destinations.

—Charles Forelle contributed to this article.

Long flight

Icelandair, never a mainstream carrier, has long chased profits far from home.

Bloomberg News/Landov

1937: Icelandair's earliest predecessor airline founded

1953: Airline begins low-fare flights between the U.S. and Europe

1978: Luxembourg allows Icelandair to fly nonstop to the U.S.

1996: Southwest Airlines and Icelandair link flights for easy connections

2002: Iceland's obscurity attracts worried fliers post-9/11; Icelandair posts record profits

2004: Icelandic investor group buys Icelandair for its cash reserves

2005: Airline becomes part of holding company FL Group and starts investing in carriers, including American Airlines

2006: FL Group sells off Icelandair Group

2008: Icelandair Group cuts Reykjavik flights and boosts foreign operations as the Icelandic economy sinks

Source: the company

THE FINANCIAL CRISIS

China draws less capital

'Hot money' departs and yuan plateaus in shifting economy

By Andrew Batson

BEIJING—Capital flows into China have slowed sharply and even reversed in recent months, according to official data that show how the financial crisis has disheartened investors and disrupted banks in this fast-growing nation.

The inflow shift is part of the dramatic turnaround in China's economic situation in the past few months. Earlier this year, China's currency was surging against the dollar, helping to draw tens of billions of investor dollars into the country. Policy makers fretted about whether the speculative inflows were large enough to destabilize the financial system.

Now, the Chinese currency, the yuan, has barely budged against the dollar for two months, leading many investors to unwind bets for its continued appreciation. Both the property market and export sector, key drivers of recent growth, seem to be deteriorating rapidly. Investors have noticed.

On Tuesday, China's central bank published fresh figures showing its foreign-exchanges reserves—the world's largest—rising to $1.906 trillion at the end of September from $1.809 trillion at the end of June. But the pace of increases has slowed, and the new funds seem to lag behind what trade and corporate investment are already bringing into the country.

"I think it's pretty certain that we are seeing an outflow of capital at this stage," said Glenn Maguire, Asia economist for Société Générale in Hong Kong. However, he emphasized that "what we are seeing is an unwinding of the hot money flows that occurred earlier in the year, rather than outright capital flight."

The new figures suggest China saw very limited if any inflows of speculative capital—sometimes called "hot money"—in July and August. And analysts estimate that anywhere from $10 billion to $25 billion left the country in September, just as the financial crisis intensified.

China's banks remain flush with cash even amid the strains affecting other nations' financial systems. Few signs exist of a credit crunch. China's large trade surpluses—which hit a monthly record of $29.37 billion in September—continue to push large quantities of dollars into the financial system.

Officials are sanguine. "The impact of this crisis on China is limited and controllable. We are confident we can maintain the stability of China's financial markets." Chinese Premier Wen Jiabao said Tuesday in a telephone conversation with U.K. Prime Minister Gordon Brown, according to a statement by China's foreign ministry.

Part of the slowdown in reserve accumulation is likely due to the recent rally of the dollar. Since China's reserves are reported in dollars, the value of its nondollar holdings has been shrinking. But currency moves don't explain all of the changes, and there were unusual strains in China's markets in September.

"This outflow likely reflected foreign financial institutions attempting to repatriate capital and hoard dollar liquidity in the midst of the credit crisis," said Logan Wright of Stone & McCarthy Research Associates in Beijing.

The stress appears to have been short-term only. "There was an outflow for two weeks. In October we're pretty much returning to form," Mr. Wright said, based on action in the foreign-exchange market.

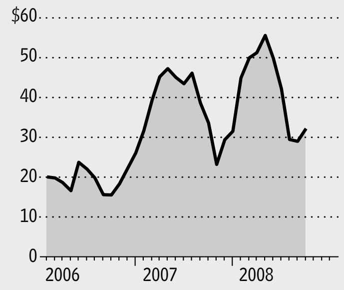
Even if it has slowed, the continued increase in China's foreign-exchange reserves is also welcome news for the U.S. at the moment. It indicates Chinese demand remains for the Treasury debt that is being used to finance efforts to rescue the financial system. While there has been grumbling within China about the low returns on that investment, many observers don't expect the reserves to be switched away from the U.S. on a large scale.

"China is losing a bit of money investing in U.S. Treasurys, given the dollar is depreciating in a long-term trend," Erh-fei Liu, Merrill Lynch's China chairman, said in Beijing. The alternative is worse: "If China stops buying Treasurys, the U.S. will stop importing from China, and that'll hurt China demand and that'll be a loss-loss situation for both countries," Mr. Liu said.

Data from the U.S. Federal Reserve indicate that foreign central banks have been buying Treasury debt more aggressively in the turmoil of recent months. Foreign central banks' holdings of U.S. Treasury securities rose from $1.38 trillion at the beginning of July to $1.51 trillion at the end of September.

Slowing down

Average quarterly increase in China's foreign-exchange reserves, in billions of dollars



Sources: People's Bank of China; WSJ reporting

Australia unveils wide-reaching stimulus package

By James Glynn

SYDNEY—Australian Prime Minister Kevin Rudd Tuesday rushed to unveil a 10.4 billion Australian dollar (US$7.36 billion) fiscal stimulus package to keep the country's economy growing as the global financial crisis erodes confidence while anticipated slower global growth crimps export earnings.

The government's spending boost includes A$4.8 billion for pensioners and A$3.9 billion for low-to-middle income earners in the hope that the money will quickly flow into the economy.

Kevin Rudd

First-home buyers will also receive additional funding of A$1.5 billion in an effort to bolster the flagging housing sector.

Australia's fiscal boost, which equals around 1% of gross domestic product, follows similar spending packages in a number of developed countries.

Analysts said the fiscal boost will take pressure off the Reserve Bank of Australia to ease monetary policy further.

"This doesn't mean the RBA will not have to act over the months ahead, but it removes the risk of a series of large rate cuts, at least for now," said Riki Polygenis, economist at ANZ Bank.

—Iain McDonald, Enda Curran and Shri Navaratnam contributed to this article.

Hong Kong guarantees deposits

By Jonathan Cheng

HONG KONG—This East Asian financial center became the first in the region to fully guarantee all bank deposits and announced a new facility to provide capital to banks.

The moves, aimed at restoring confidence to the rattled local market, mirror similar deposit guarantees made recently in Ireland, Germany, Australia, the United Arab Emirates and other countries.

Joseph Yam, chief executive of the Hong Kong Monetary Authority, said the deposit guarantees were intended to discourage people from moving deposits away from Hong Kong. Before Tuesday's measures were announced, Hong Kong's depositors were guaranteed only up to HK$100,000—about US$12,900—a level widely criticized as disproportionately low for one of Asia's wealthiest cities.

Hong Kong's decision could pressure other Asian authorities to offer take similar steps. On Tuesday evening, the Monetary Authority of Singapore said in a statement that it was "assessing the impact of the extraordinary measures taken elsewhere," and would "take the necessary steps to ensure that banks in Singapore are not disadvantaged and are able to operate on an equal footing with other banking systems." The banking authority added that "in Singapore, our financial system remains stable and robust."

On Monday, authorities in Indonesia raised the amount of bank deposits that country will guarantee.

Hong Kong officials said the new moves were in line with steps taken in other jurisdictions to boost confidence in banks, and that the new measures would be in place until the end of 2010.

HKMA officials didn't provide any details on the new facility to provide capital to banks. A spokesman said it would be administered on a "case-by-case basis."

Though authorities and analysts say Hong Kong's banks are less leveraged than their American counterparts, and therefore more stable, the move was aimed at insulating this Chinese financial hub, which is administered separately from the rest of China and has its own financial system and currency, from any potential further instability. Last month, a run on **Bank of East Asia** Ltd. triggered by cellphone text messages underscored the fragility of public sentiment here. The bank's senior management and Hong Kong officials both strongly denied the existence of any problems with the bank's finances.

Hong Kong Financial Secretary John Tsang said the latest measures were only "precautionary and preemptive," and Mr. Yam said he saw no need for the government to buy up stakes in banks.

"Hong Kong, as a major financial center in Asia, wants to be seen as being ahead of the curve," said Simon Ho, a banking-sector analyst for Citigroup in Hong Kong. Hong Kong's banking sector has had mostly limited exposure to the securitized home loans that have led to problems in the U.S. and Europe.

But growing fears of counterparty risk have kept interbank lending rates stubbornly high in recent weeks despite two interest-rate cuts last week by the HKMA, the city's de facto central bank.

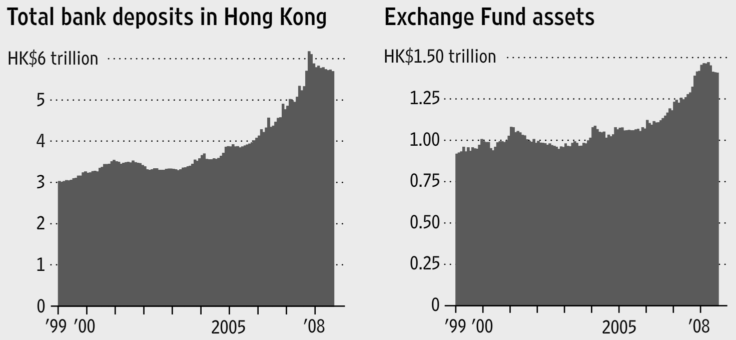
The HKMA's Exchange Fund, which is backing the deposit guarantee, had assets of about HK$1.4 trillion (US$180.4 billion) as of Aug. 31—an amount economists said would be enough to credibly cover the city's bank deposits. According to the HKMA, those bank deposits totaled HK$5.68 trillion as of last week.

"Once this settles down, the market will start thinking again about things like the economy," said Michael Chan, a J.P. Morgan analyst who covers the financial-services sector. "That's obviously not looking that good. There's another mountain to climb."

—Chester Yung and Amy Or contributed to this article.

Added confidence

The Hong Kong Monetary Authority's Exchange Fund is backing the deposit guarantee



Source: Hong Kong Monetary Authority

Bank of Japan moves to bolster banks, markets

By Megumi Fujikawa, Takashi Nakamichi And Natasha Brereton

TOKYO—Japan announced a series of measures to support its stock market and financial system, including moves to give its banks broader access to U.S. dollar loans.

At an extraordinary policy meeting Tuesday evening, the Bank of Japan took steps as part of global efforts to ease tensions in the short-term market where banks have been reluctant to lend each other.

Japan's central bank kept interest rates unchanged at 0.50%. But signaling his resolve to fight the financial turmoil, Gov. Masaaki Shirakawa, at a news conference following the meeting, suggested that the BOJ is considering even additional steps to strengthen money-market functions, including paying interest to banks' reserve accounts.

Such a move could "provide one option to allocate funds" in the short-term market, Mr. Shirakawa told reporters.

In a statement, the BOJ said it will "introduce U.S. dollar funds-supplying operations whereby funds are provided at a fixed rate set for each operation for unlimited amount against pooled collateral."

The BOJ also said it will broaden types of eligible collateral for Japanese government bonds and commercial paper repurchase operations, whose functions were deeply hurt by the collapse of Lehman Brothers last month.

The BOJ added that it will expand the range of collateral that it accepts in its JGB repurchase operations, to include floating-rate JGBs, inflation-indexed JGBs and 30-year government bonds.

Moreover, it will increase the frequency and the size of its commercial paper repo operations, which are usually conducted quarterly. And the bank will broaden the range of eligible asset-backed commercial paper by accepting the debt obligations guaranteed by the bank's counterparty financial institutions as collateral until the end of April 2009.

The bank will temporarily suspend the sale of its stock holdings of financial companies, it said.

The government and the BOJ bought about 3.6 trillion yen ($35.3 billion) in major domestic bank stocks in 2002 to 2006 in efforts to resolve the effects of the bubble burst in the 1990s. Since 2006, they have sold back 1.6 trillion yen of such stocks.

Mr. Shirakawa maintained that Japan's financial system remained healthy. There is no need for "unusual steps" such as guaranteeing all of the deposits at Japanese banks or debt issued by them, he said.

The BOJ added, on the earlier instruction of the central bank governor, it would "swiftly" examine further steps to enhance the effectiveness of money-market operations, including those relating to the bank's reserve system.

On Tuesday, Tokyo's benchmark Nikkei average soared more than 14%. Early in the day, the government announced steps to boost markets, including eased share-buyback conditions and possible fund injections into regional banks.

The government aims to underpin Japanese stock prices and reinforce the fail-safe mechanism for the financial system.

—Takashi Takeuchi contributed to this article.

UAE tries again to prompt banks to lend

Government offers additional liquidity; details remain vague

BY CHIP CUMMINS

DUBAI—The United Arab Emirates said Tuesday it would pump an additional $19 billion of liquidity into its financial system to spur bank lending.

In a statement issued by the country's state press agency, the government said the country's prime minister had ordered funds to be transferred to the finance ministry, which will then "inject liquidity into the national banking sector." It didn't provide details.

The new cash will bring the government's total financial support so far to its banking system to $32.7 billion. The central bank set up a special $13.7 billion lending facility last month to ease a liquidity crunch in the interbank market.

Amid global worry over the health of banks in the U.S., Europe and Asia, the small but oil-rich UAE has announced a number of measures to shore up confidence. This week, it said it would guarantee domestic bank deposits for three years. It also said it would guarantee interbank lending and make it easier for some listed companies to buy back their shares.

Saudi Arabia said this week it would make some $40 billion available to its banks, if they need it. On Monday, Qatar said its state-owned investment fund would invest in its banks, suggesting it would take stakes of as much as 20% in its publicly traded banks. Officials from all three governments have assured investors that their banking systems are sound.

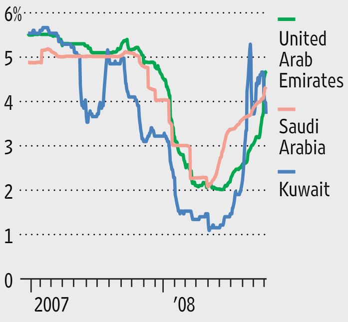
Despite its oil wealth, the Persian Gulf is struggling through its own credit crunch. Banks have lent heavily amid an oil-fired economic boom. When international credit markets broke down last month, overseas lending lines to the region were severed, exacerbating rising borrowing costs. Share prices on most of the region's bourses have fallen sharply in recent weeks over worry about falling oil prices and the sustainability of the region's booming property markets.

Recent moves seem to be loosening up credit somewhat. Interbank lending rates in Saudi Arabia and the UAE eased modestly Monday. Most Gulf markets were trading higher early Tuesday, following sharp gains Monday. Dubai's main stock index gained 10.8% on Tuesday, while Abu Dhabi closed up 7.5% and Doha rose 9.9%.

But a lack of details about how banks can access the new money available in the UAE, and how Qatar will inject cash into its banking system, has sown confusion. In its statement Tuesday, the UAE said only that the country's prime minister had established a committee of finance-ministry and central-bank officials to execute the latest liquidity injection. It gave no timeline for when the funds would be available.

Borrowed risk

As the financial crisis spreads, rates on one-month loans between banks in several Gulf states have climbed



Source: Thomson Reuters

Iceland's stocks fall 5.8% as hunt for cash goes on

BY JOEL SHERWOOD

Iceland's OMX 15 index fell 5.8% after reopening from a three-day halt Tuesday, as the government continued to seek foreign assistance and ask banks to help limit capital outflows.

Icelandic officials were talking with Russia and the International Monetary Fund. Iceland's central bank Tuesday said it has drawn €400 million ($543 million) from standing swap facilities with central banks in Denmark and Norway. Iceland is also talking with the U.K., which is trying to recover U.K. savers' deposits frozen in Icelandic banks.

Iceland is mired in economic crisis amid concerns the government won't be able to meet foreign debt obligations of the country's three biggest banks, which the government took over last week. Trading remained suspended Tuesday in shares of the three, **Kaupthing Bank** hf, **Landsbanki Íslands** hf and **Glitnir Bank** hf, and of three other financial institutions.

Iceland's central bank on Friday urged banks to ration foreign exchange, calling on them to give foreign currency only to their own customers, and to give priority to importers of essential items such as foodstuffs, pharmaceuticals and oil products. The central bank said it is strongly suggesting that banks follow their guidelines, but they aren't formal requirements.

As the stock market reopened after three days without trading, operator Nasdaq OMX Group Inc. marked down the value of the shares in the three nationalized banks to zero, causing the index to initially fall 76%.

Trading in the krona currency was at a standstill after dropping 80% against the euro last week, dealers said.

"In order to stabilize the wider situation, the currency must be stabilized first," said Sunil Kapadia, a London-based economist at UBS. "Without this, the risk of hyperinflation and a complete loss of confidence in the currency's value will become greater and greater."

Mr. Kapadia sees Iceland's economy contracting by 15% to 25% over the next two years and inflation rising into a 20% to 40% range from 14% currently.

CORPORATE NEWS

MUSIC

Bertelsmann to create music-rights operation

Associated Press

BERTELSMANN AG said it will start a music-rights business.

The Gütersloh, Germany, media company plans to offer creative, marketing, accounting and licensing services for songwriters and performers, as well as assistance in collecting earnings and financing projects.

Bertelsmann in August announced the sale of its 50%-stake in music venture Sony BMG to Sony Corp. for $900 million. Part of the deal called for Bertelsmann to take over select European music-catalog assets, representing about $20 million, or less than 1%, of Sony BMG's revenue last year.

—Associated Press

DEFENSE

Alcatel-Lucent mulls sale of stake in France's Thales

Associated Press

ALCATEL-LUCENT said it is weighing options for its €1.4 billion ($1.9 billion) stake in French defense-systems company **Thales** SA, following an expression of interest from jet maker **Dassault Aviation** SA.

Dassault Aviation said it would consider buying both Alcatel-Lucent's 20.8% stake as well as a 5.8% stake in Thales owned by GIMD, the holding company of the Dassault family. The plan represents a reversal for the jet maker, whose chief executive said in August that it wouldn't be interested if Alcatel-Lucent were to sell its Thales stake. Alcatel-Lucent had previously played down the likelihood of a sale.

—Jethro Mullen

MACHINERY

United Technologies ends its bid to acquire Diebold

Associated Press

UNITED Technologies Corp. formally withdrew its eight-month-old, $2.63 billion bid to buy **Diebold** Inc., in the wake of the "extended refusals" of Diebold management to engage in discussions.

Diebold, a U.S. maker of automated-teller machines and electronic-voting devices, steadfastly rebuffed negotiations since United Technologies first went public with its unsolicited, $40-a-share offer in late February. Meanwhile, United Technologies had been showing increasing signs of losing patience.

Diebold reiterated its forecasts for 2008, which it raised Sept. 30.

—Bob Sechler

Cadbury's CEO gains more control

Some positions are cut to accelerate decision making

BY AARON O. PATRICK
London

CADBURY PLC is restructuring its corporate ranks to eliminate a layer of management, giving Chief Executive Todd Stitzer direct control over the company's operating units.

Starting next year, the maker of Cadbury Dairy Milk chocolate bars, Trident gum and other products, will abolish the positions of regional managers and 250 of their staff. As a result of the moves, the company will have seven geographic divisions, up from four now.

The change will speed up decision making from "60-miles-an-hour to 90," Mr. Stitzer said in an interview. "There are some very strong business-unit leaders underneath the regions. It will be more effective to have a direct relationship with them."

The changes might allay concerns among some investors that Mr. Stitzer may be hesitant to take more steps to cut costs. London-based Cadbury has some of the lowest profit margins in the food industry, and Mr. Stitzer needs to close factories and cut thousands of staff to boost profit, analysts say.

Reuters

Cadbury, maker of Cadbury Dairy Milk chocolate bars, Trident gum and other products, **will cut regional-manager and staff** positions starting next year.

Cadbury last year announced plans to close a U.K. factory and lay off 7,500 workers. The candy maker generates an average of £70 million ($121.6 million) in annual revenue from each of its factories, far below rival **Hershey** Co.'s £206 million and **Wm. Wrigley Jr.** Co.'s £122 million, according to a recent report by Sanford C. Bernstein analyst Andrew Wood. Mr. Wood thinks Cadbury will come under investor pressure if it doesn't get profit margins closer to its rivals.

Earlier this year Cadbury spun off its drinks division, **Dr. Pepper Snapple Group** Inc., following pressure from Nelson Peltz, an activist investor who has taken a stake in the company through Trian Fund Management LP. A spokeswoman for Mr. Peltz declined to comment on Tuesday's announcement.

In addition to the corporate reorganization, Cadbury announced other cost-cutting measures. It plans to reduce the number of products sold in Australia and New Zealand by 30%, merge three research labs in Europe, and hire a company to clean and maintain its offices around the world.

Demand for the company's chocolates and gum appears to have been little affected by the global financial crisis. Revenue in the third quarter rose 6% from the year-earlier period, excluding the effect of currency changes, acquisitions and divestments, compared to revenue growth of 7% in the first half, Cadbury said Tuesday. It didn't report specific results.

One problem facing the company next year will be higher commodity costs. Even though the price of cocoa, oil and other products is falling, Cadbury bought hedging contracts that set the price it pays for commodities well in advance. Its commodities bill will be 6% to 8% higher in 2009, Chief Financial Officer Ken Hanna said on the conference call.

Cadbury shares rose 1.9% to £5.08 in London trading amid a broad market rally.

JCDecaux, News Corp. drop deal

BY RUTH BENDER

PARIS—Citing tough market conditions, **JCDecaux** SA and **News Corp.** said they are abandoning their plan to combine some operations in a deal that would have created the world's largest outdoor-advertising company.

In a joint statement Tuesday, the companies said "economic and capital-market conditions have made it increasingly difficult to conclude strategic partnerships on this scale."

The deal, under which JCDecaux was to buy News Corp.'s Russian-based billboard-advertising unit, News Outdoor, would have made the French company the world's largest outdoor-ad company by revenue, leapfrogging San Antonio-based **Clear Channel Outdoor Holdings** Inc.

However, investors were worried about the risks of such a transaction, especially in the current financial climate. Analysts said the cancellation was good news for JCDecaux, as the company won't have to take on debt or issue stock to finance the acquisition. In Paris trading, JCDecaux shares were up 4.2% to €14.09 ($19.16).

JCDecaux and News Corp. declined to comment further.

Since JCDecaux and News Corp. announced last month they were in exclusive talks over News Outdoor assets mainly in Russia and Eastern Europe, shares in JCDecaux had fallen 13%. JCDecaux Chief Executive Jean-Charles Decaux and other media executives have indicated over past weeks that they expect a difficult 2009 for the global advertising market because of the economic downturn.

The companies hadn't disclosed financial terms of the proposed deal. News Outdoor, which posted revenue of $420 million for 2007, has 4,500 employees in Russia, Eastern Europe, Turkey, Israel, India and Southeast Asia.

Last year, News Corp., which owns Dow Jones & Co., publisher of The Wall Street Journal, said it was exploring "strategic options" for the outdoor-advertising unit.

52-WEEK SHARE PERFORMANCE

JCDecaux

On Euronext Paris
Tuesday's close: **€14.09, up 4.2%**
52-week change: down 44%

Source: Thomson Reuters Datastream

JCDecaux is the biggest outdoor advertiser in Europe, with a market capitalization of about €3 billion.

Glaxo drug fails to win backing for U.K. coverage

BY ELENA BERTON

LONDON — **GlaxoSmithKline** PLC's breast-cancer drug Tyverb shouldn't be eligible for reimbursement under the U.K.'s publicly-funded health-care system, an influential health-care group recommended on Tuesday.

The drug maker said that the U.K.'s National Institute of Clinical Excellence, which decides what treatments are made available free to U.K. patients, isn't recommending Tyverb's use by the National Health System. In its decision, NICE rejected the drug maker's offer to bear part of the cost of the treatment.

The recommendation is still preliminary and subject to a second round of consultations. However, NICE's views are closely watched by governments and health insurers world-wide.

In July, NICE issued a draft recommendation against reimbursement for the drug, saying Tyverb's benefits weren't sufficient to recommend its use when taking into account the costs of the drug and associated treatment. Annual treatment runs about £21,000, or $36,000.

Tyverb, sold as Tykerb in the U.S. and known generically as lapatinib, had modest world-wide sales of £51 million last year, its first year on the market. But Glaxo hopes the drug will eventually become a top-selling product.

Glaxo, the world's second-largest drug maker by prescription drug sales after Pfizer Inc., said the adoption of NICE's recommendation would mean U.K. patients will be disadvantaged compared with patients in other European countries where the drug is reimbursed. Glaxo said it remains committed to working with NICE and the NHS to make the medicine available to patients in the U.K.

The drug is the first once-daily pill for breast cancer patients who have tested positive for a protein called HER2, believed to account for about 25% of all breast cancer cases. Used in combination with **Roche Holding** AG's cancer drug Xeloda, Tyverb is aimed at patients whose cancer has stopped responding to treatment with standard chemotherapy and Genentech Inc.'s Herceptin.

GM to close two plants ahead of schedule

Auto maker prepares for substantial loss; cash reserves dwindle

By Sharon Terlep

General Motors Corp., now considering a tie-up with Detroit rival **Chrysler** LLC, will close a metal stamping plant in Michigan and a truck plant in Wisconsin sooner than previously expected.

The closings are part of GM's efforts to cut expenses ahead of what is expected to be a substantial third-quarter loss. They also come as GM's top executives are considering how to ensure the company's future, including a merger with Chrysler.

News of talks between GM and Chrysler emerged over the weekend. On Monday, Chrysler Chief Executive Officer Robert Nardelli told employees in a memo that the auto maker's top executives "have approached and have been approached by third parties who are interested in exploring future possibilities with Chrysler."


Rick Wagoner

Mr. Nardelli acknowledged reports of talks with GM, but wrote that the company doesn't comment on "speculation."

Worries about whether GM has enough cash to survive caused the company's stock to plunge last week to its lowest level since 1951. After jumping 33% Monday, GM's battered shares were down 10 cents to $6.41 in late-afternoon trading Tuesday on the New York Stock Exchange. A year ago the stock traded for $43.20.

In a move that promises to add pressure to GM's short-term outlook, **GMAC** LLC—the lending arm that finances a bulk of buyers purchasing GM vehicles—said Monday it is taking a more conservative lending stance in financing, limiting purchase contracts to customers with credit scores of 700 and above. The median score of Americans is 720. The move will further squeeze car buyers already pressured by economic concerns and high gasoline prices.

GM said on Monday its Janesville, Wis., truck-assembly plant will halt production Dec. 23. The plant employs 1,200 workers and makes large sport-utility vehicles such as the Chevy Tahoe and GMC Denali. GM had previously announced the plant would close by 2010 without giving a specific date.

The company also announced it will close a metal-stamping plant near Grand Rapids, Mich. Earlier this month, GM said it would close another SUV plant in Moraine, Ohio, on Dec. 23.

In June, GM said it intended to close four truck factories in total, including plants in Oshawa, Ontario, and Toluca, Mexico, as well as the Janesville and Moraine operations. GM was consuming about $1 billion in cash a month in the second quarter. Analysts believe it is burning much more now because of production cutbacks in the third quarter and because the financial crisis has slowed auto sales dramatically.

Buckingham Research analyst Joseph Amaturo estimates GM burned through $5 billion in the third quarter. GM had about $21 billion in cash reserves as of June 30. Since it needs a minimum of $11 billion to $14 billion to run its operations, some analysts believe it risks running short of cash within 12 months if doesn't raise additional financing.

GM hasn't yet said when it will report third-quarter results. The company lost $15.5 billion in the second quarter.

GM Chairman and Chief Executive Officer Rick Wagoner believes acquiring Chrysler could open up new cost-cutting opportunities and give the company more revenue, people familiar with the matter said.

Last Friday, before news of the talks with Chrysler surfaced, Mr. Wagoner told employees in a video message that GM is trying to be "surgical and smart" in making cost cuts. He also said GM executives are working around the clock to relieve the company's liquidity crunch.

Daimler to shut two truck plants in North America

By Christoph Rauwald

FRANKFURT—Responding to weak industrywide demand, **Daimler** AG will stop making trucks under its North American brand Sterling in March and will shut down plants in the U.S. and Canada.

Daimler, the world's biggest truck maker by sales, said Tuesday it will close a Thomas, Ontario, plant in March and Portland, Ore., plant in June 2010, when labor contracts expire. The moves will affect about 2,300 workers at the two plants.

The company, based in Stuttgart, Germany, also plans to cut about 1,200 administrative jobs, more than half of which are directly connected to the Sterling brand.

The moves are expected to improve earnings by $900 million a year by 2011, with costs of the restructuring program estimated at $600 million, Daimler said.

The Sterling brand is relatively small, accounting for about 12,600 of the 80,400 trucks Daimler sold in North America in the first nine months of this year.

CORPORATE NEWS

Samsung's laptop shift

Korean company seeks bigger presence in the U.S. market

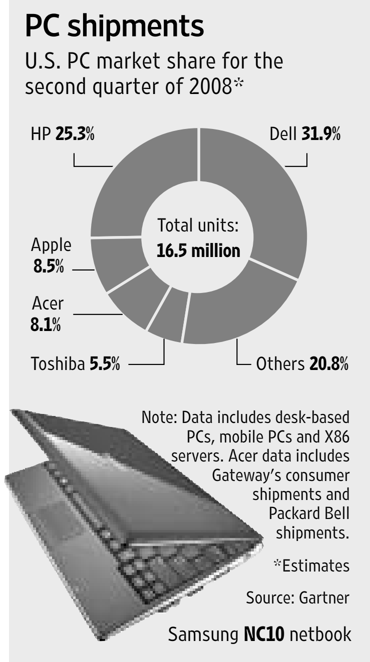
BY YUN-HEE KIM

HONG KONG—**Samsung Electronics** Co. is making a foray into the U.S. laptop market, taking on established players such as **Dell** Inc., **Hewlett-Packard** Co. and **Apple** Inc.

The South Korean company, more well-known in overseas markets for its sleek flat-screen televisions and mobile handsets, Tuesday said it is launching five new computer models in the U.S., including a range of notebook personal computers and so-called "netbooks" catering to the corporate segment. Netbooks are low-cost portable PCs that offer Internet capabilities.

Samsung also plans to enter the U.S. consumer PC market by selling its computers through an arrangement with an undisclosed retailer starting in the spring of 2009.

Samsung executives say the move will allow the company to build a bigger presence and gain more share in the computer business, an area where the company has so far lagged competitors due to its focus on other high-profile businesses such as memory chips, flat-screen TVs and mobile handsets.



Samsung is the world's biggest producer of memory chips by revenue and is the world's second-largest mobile handset maker by shipments after Nokia Corp.

While Samsung is a dominant player in the South Korean PC market, it only has presence in 12 overseas markets: the U.K., France, Germany, Italy, Spain, Poland, Netherlands, Russia, Ukraine, China, Hong Kong and Turkey.

"We don't want to remain a big fish in a small pond. We want to get a bigger presence, and the U.S. market represents about 27% [of demand], so if we want to grow we have to tackle the U.S. market," Kyu Uhm, vice president of Samsung's computer systems division, said.

Mr. Uhm said even though the company is seeing strong demand for PCs in emerging markets such as Brazil, Russia, India and China, these markets tend to be driven by demand for low-end PCs, which typically have lower profit margins.

Samsung will be targeting the "premium" segment of the notebook and netbook markets in the U.S., executives say. Its notebook PCs will be priced between $900 to $1,899, while its netbooks will be sold for $499, which is higher than Asustek Computer Inc.'s popular Eee PC, which sells for around $299.In its U.S. product lineup, Samsung is offering its X360 and X460 models which are 13.3-inch and 14.1-inch "ultra thin and light" notebooks with a starting price of $1,599.

It is also selling its NC10 netbook which features a 10.2-inch wide LCD screen and a 160-gigabyte hard drive.

Best Buy, partner look to expand

BY ERICA HERRERO-MARTINEZ

LONDON—Announcing details of its planned joint venture with U.S. electronics retailer **Best Buy** Co., U.K. mobile-phone retailer **Carphone Warehouse Group** PLC said Tuesday that it aims to double its retail revenue and earnings by 2013, despite the economic slowdown.

The immediate consumer outlook "remains very uncertain," said Carphone Warehouse Chief Executive Charles Dunstone, adding the company's "robust" balance sheet will leave it well placed to ride out the downturn.

Under the deal with Best Buy, Carphone Warehouse has put its 2,400 European and U.S. retail stores into the joint venture, in return for a cash payment of £1.1 billion ($1.91 billion) from the U.S. retailer.

The companies said Tuesday that they plan to open four to five large-format Best Buy stores in the U.K. this summer. Such "big box" outlets are about 30,000 square feet in size.

The stores, likely to be located in the southeast of the U.K., will be accompanied by an online strategy, Carphone Warehouse Finance Director Roger Taylor said in an interview. The joint venture expects to open about 100 big-box stories in the next five years and hopes to secure a 10% market share of the European retail electronics market "over time," he added.

The venture—which will compete with **DSG International** PLC's PC World and Currys stores and **Kesa Electricals** PLC's Comet stores—will double Carphone's revenue and earnings before interest and tax by March 2013, compared with its retail financial performance in the year ended March 2008, Carphone said.

Carphone also said that total connections for the 13 weeks ended Sept. 27 rose 9% to 3.1 million from 2.8 million a year earlier, while subscription connections rose 21% to 1.3 million from 1 million.

The company's numbers "look quite good," said analyst Nick Bubb at Pali International. But he added that the company's details on the joint venture with Best Buy are "frustratingly vague."

P&G confident about navigating storm

BY ELLEN BYRON

CINCINNATI—A.G. Lafley, chief executive of **Procter & Gamble** Co. tried to reassure shareholders at Tuesday's annual meeting that the company could weather "one of the most uncertain and volatile economic periods any of us has ever seen."

"I'm sure many of you are wondering if I'm as confident about P&G's long-term growth today as I was a year ago," Mr. Lafley told a packed auditorium blocks away from company headquarters here. "I can tell you that the answer is yes."

Mr. Lafley reminded the crowd of mostly retirees that 24 of P&G's brands garner annual sales of more than $1 billion, "and are built to grow through and beyond any particular economic cycle."

Still, in a sign that P&G is taking a new approach to marketing its top brands—almost always the most expensive in their respective categories—Mr. Lafley aired a string of recent ads, all touting affordability. A commercial for Tide detergent boasted that its formula has more cleaning agents than competing products; Charmin emphasized its quality helps reduce the amount of toilet paper needed; Olay moisturizer bragged that it outperforms creams costing hundreds of dollars; Gillette's Fusion razors claimed it cost only $1 a week to use.

"We want to help consumers be certain they're making smart choices when every dollar they earn counts," Mr. Lafley said.

Shareholders voted on proposals to rotate the site of P&G's annual meeting and to adopt an advisory vote from shareholders on executive compensation. Though the latter got warm applause from the crowd, it was defeated by 58%.

While shareholders greeted Mr. Lafley's speech with enthusiasm, some quietly expressed reservations. Ed Naberhaus, a shareholder from New Braunfels, Texas, says he's unsure about Mr. Lafley's decision to acquire more personal-care businesses including Clairol and Gillette, and divest units including Folgers coffee, Crisco shortening and Jif peanut butter. "Ten years from now, I guess we'll know whether P&G's idea of going into beauty products was smarter than staying in food, like General Mills and J.M. Smucker did," he says.

GLOBAL BUSINESS BRIEFS

Hypo Real Estate Holding AG

Lender's probe to focus on two former executives

German lender **Hypo Real Estate Holding** AG has opened an inquiry into possible breaches of duty by its former chief executive, Georg Funke, and another former board member, Bo Heide-Ottosen. The CEO's recent departure came after the government put together a second rescue package for the commercial property lender valued at €50 billion ($68 million)—adding an extra €15 billion to a package of government and private credit offered a week earlier. Hypo Real Estate said it hired law firm Milbank Tweed Hadley McCloy LLP to examine "a possible breach of duty" by Messrs. Funke and Heide-Ottosen. Earlier Tuesday, Germany's DSW shareholders' rights group said it filed a criminal complaint against the lender's managers. The Munich prosecutor's office said it didn't yet have the complaint.

DreamWorks SKG

The principals of **DreamWorks SKG** have reached an agreement for Universal Pictures to distribute the roughly six films a year DreamWorks plans to produce at the new film company it is creating with India's **Reliance ADA Group.** Last month, DreamWorks co-founder Steven Spielberg and business partner Stacey Snider completed an agreement with Reliance to establish the new $1.5 billion film venture. That agreement gave Mr. Spielberg and Ms. Snider the financial independence they needed to leave **Viacom** Inc.'s Paramount Pictures and start their own company. Monday's deal with **General Electric** Co.'s Universal gives Mr. Spielberg and Ms. Snider a partner to distribute the venture's movies.

Honda Motor Co.

Honda Motor Co. announced more production cuts of its Pilot sport-utility vehicle while adding output of its Accord sedan. The Japanese auto maker is coping with a sharp drop in its North American sales and excess manufacturing capacity. At its plant in Lincoln, Ala., Honda will cut production of the Pilot by 8,000 units, or 32%, in November, and again in the first quarter by about 14,000 units, a spokesman said. Honda plans to begin making V-6-powered Accord sedans at the Alabama plant and increasing production of four-cylinder Accords at its factory in Ohio. The move helps to soak up production of V-6 engines at the plant and move them into a smaller vehicle. As a result, the company expects to substantially reduce imports from Japan.

SABMiller PLC

SABMiller PLC said lager volumes grew 3% in its fiscal first half, but the brewer warned that deteriorating global conditions made prospects for the second half increasingly uncertain. High growth rates last year and moderating consumer demand were responsible for its relatively flat performance through Sept. 30, the company said. Its outlook for the second half is being blurred by a worsening economic climate, waning demand and volatile exchange rates. In the past year, brewers have faced sharp rises in the cost of barley for brewing and aluminum for cans. However, SABMiller is less exposed to aluminum cost pressures than its rivals because of its large presence in developing countries, where beer is usually sold in returnable glass bottles.

PepsiCo Inc.

PepsiCo Inc. posted a 9.6% decrease in third-quarter net income amid weak U.S. beverage sales and unveiled plans to reduce costs by $1.2 billion over the next three years. The cuts will include 3,300 jobs, or about 2% of the company's work force, and result in fourth-quarter charges of $550 million to $600 million. The Purchase, New York, company's earnings came in below Wall Street's expectations. The beverage giant and snack-food maker reported third-quarter net income of $1.58 billion, or 99 cents a share, down from $1.74 billion, or $1.06 a share, a year ago. Revenue rose 11% to $11.24 billion despite only a 2% increase in volume.

Johnson & Johnson

Johnson & Johnson posted a 30% rise in third-quarter net income, as strong consumer-product and medical-device sales offset the impact of stepped-up competition from generic-drug makers. J&J, whose products include Tylenol pain reliever, DePuy artificial joints and anemia drug Procrit also raised its 2008 earnings forecast. The New Brunswick, N.J., company reported net income of $3.31 billion, up from $2.55 billion in last year's third quarter, which included a restructuring charge of 18 cents a share. Revenue rose 6.4% to $15.92 billion, with the weak dollar contributing nearly half of the gain. J&J's international sales rose 13%, while U.S. sales edged up 0.4%. J&J said it continues to have access to debt instruments such as commercial paper.

Burberry Group

U.K. fashion house **Burberry Group** PLC posted a 16% rise in sales for its fiscal second quarter, but warned that sales growth had slowed down and trading conditions amid the global financial turmoil were extremely volatile. Sales for the quarter ended Sept. 30 increased to £328 million ($569.6 million) from £281 million a year earlier. Performance was hurt by tough comparative figures and a weakening retail environment, said the company, which is famous for its camel, red and black check design. In the first quarter, sales had grown 26% from a year earlier. Chief Financial Officer Stacey Cartwright said that trading seesawed in the second quarter, particularly last month. Burberry will report its interim results Nov. 18.

Deutsche Börse AG

Deutsche Börse AG said Tuesday it hasn't been able to deal with activist shareholder **The Children's Investment Group**'s demand for an extraordinary general meeting to vote on the ousting of Kurt Viermetz, chairman of the German exchange operator's supervisory board. "Legal deficiencies" in TCI's demand for a meeting stopped its executive board from determining if the request was valid, said Deutsche Börse. It had recently received a corrected request from TCI, which will take time to assess, the exchange operator added. Last Friday, Mr. Viermetz already resigned as supervisory-board chairman of troubled German real-estate financier Hypo Real Estate Holding AG. TCI and another hedge fund it has partnered with, Atticus Capital, together control about 19.9% of Deutsche Börse.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

DENMARK

Premier outlines problems of being outside euro zone

Associated Press

THE FINANCIAL crisis has highlighted the disadvantages of staying outside the euro zone, Denmark's prime minister said, reaffirming his commitment to hold a new referendum on adopting Europe's common currency. Danes opted out of the euro in the 1990s. But Prime Minister Anders Fogh Rasmussen said the crisis had made it "very clear" to Danes that move has a political and economic price. Because it isn't in the euro zone, Denmark wasn't invited when the big European nations met to discuss their response to the global meltdown. And while the European Central Bank slashed its interest rate, Denmark had to raise its rate to defend the krone. *—Associated Press*

EUROPEAN UNION

Barroso asks leaders to honor emission goals

Associated Press

EUROPEAN leaders were told on the eve of a summit in Brussels to keep their word on cutting greenhouse-gas emissions, despite worries that an economic slowdown will make it harder for governments and business to shoulder the extra costs.

José Manuel Barroso, president of the European Commission, said attempts to water down a year-old deal to cut emissions by 20% by 2020 would damage the 27-nation bloc's credibility and could jeopardize United Nations talks on climate change. European Union lawmakers are negotiating the climate-change plan, on the agenda of the summit that starts Wednesday. *—Associated Press*

AZERBAIJAN

Aliyev poised for victory as opponents boycott vote

Associated Press

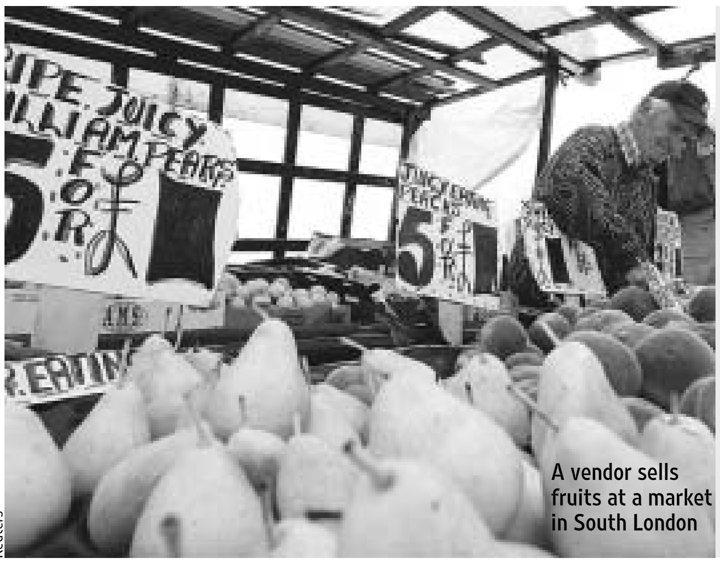
AZERBAIJAN'S President Ilham Aliyev is poised to win re-election in a ballot boycotted by the main opposition parties in this oil-rich, strategically important nation.

Wednesday's vote is being watched in Moscow and Washington for signs of unrest after the August war between Russia and Georgia. The Baku government is calling the elections the most democratic its post-Soviet history. But the six leading opposition parties have pledged a boycott, alleging election fraud. They say Europe and the U.S. aren't pressing Azerbaijan hard enough for reform, and have abandoned democracy for stability and energy security. *—Associated Press*

Rising food prices strain the U.K. economy

Reliance on imports keeps prices high; renting garden plots

By Aaron O. Patrick And Alistair MacDonald
London

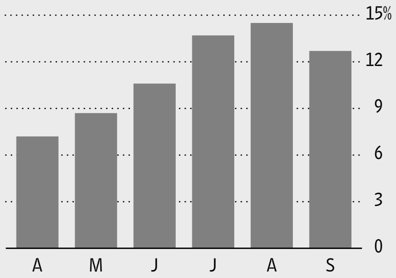


A vendor sells fruits at a market in South London

Reuters

Pricey food

Britain's need to import a relatively high proportion of its food makes its economy more sensitive to rising fuel prices than countries with a food trade surplus, such as France. Annual increases in U.K. food prices on a month-by-month basis.



Source: Office for National Statistics, U.K.

THE COST OF FOOD in the U.K. is rising at a faster rate than elsewhere, putting more pressure on an economy already squeezed by the credit crisis.

A 12.7% increase in food prices in September from a year earlier helped to drive overall inflation last month to 5.2%, its highest level in 16 years, the Office for National Statistics reported Tuesday.

Amid the global banking crisis, the high food prices are further crimping Prime Minister Gordon Brown's ability to adjust economic policy. Because they add to inflation, they affect the Bank of England's ability to bring down rates, and take more money out of the consumer's pocket. Though Mr. Brown's handling of the banking crisis has boosted his standing from its lows a month ago, food prices are politically damaging: They're immediately visible to consumers and can make people feel poorer quickly. When Mr. Brown, in a July speech, chastised British households for throwing away £420 ($729) of food each year, he was roundly mocked.

Because it has a small farming sector, Britain imports more of its food than other major economies, making it particularly vulnerable to movements in commodity prices and its currency. The U.K. runs a trade deficit in food equal to 1% of gross domestic product, against a balance in the U.S. and a surplus in countries like France.

While the rate of food inflation is starting to decline as commodity prices ease, it remains higher than that of almost all of Britain's neighbors. In August, the last month for which comparable figures exist, food prices rose 14.5%—twice the rate of fellow European giants France and Germany, and well above the 6.1% increase in the U.S. Big jumps in gas and electricity costs are contributing to U.K. inflation, too.

"The relative price of food will be much higher [in the U.K.] over the next decade than over the last two decades," says Peter Spencer, a professor of economics and finance at York University.

Because of its high levels of inflation, interest rates have been higher for longer in Britain than elsewhere, economists say. Even after the Bank of England cut its key rate to 4.5% last week from 5% in response to the financial crisis, interest rates are well above those in the U.S., where the federal-funds rate is 1.5%.

Housing sales in England and Wales fell to a record low in September, the Royal Institution of Chartered Surveyors said Tuesday. Many would-be buyers haven't been able to get mortgages from banks, which have trimmed lending amid the credit crunch, said the group, which began tracking housing sales in 1978.

In Britain, a handful of companies dominate food sales. The country's largest retailer, **Tesco** PLC, for example, has a 31.4% share of the grocery market, followed by **Wal-Mart Stores** Inc.'s Asda chain with 17.1%, according to Taylor Nelson Sofres World Panel market-share data. Some consumer groups have blamed the retail concentration for high food prices. But a recent investigation by the U.K.'s antitrust regulator, the Competition Commission, found that supermarkets compete to offer lower food prices.

Still, the high prices are changing how people shop. German discount supermarket chains, such as **Schwarz Group**'s Lidl and **Aldi Einkauf** GmbH, have been growing briskly in the U.K.

High food prices in Britain have longstanding roots. The country now produces just 60% of its food, down from 80% in 1984, according to government data. Few other major economies rely so heavily on food imports. The U.S., France and Germany typically grow enough food to feed their populations. In Britain, some 90% of fruit comes from other countries, including Spain, South Africa and the U.S.

Because the U.K. imports so much more of its food, food prices have been hit by both the rising cost of fuel and the falling value of the pound. Almost 70% of the U.K.'s food comes from the European Union, and the pound has fallen 15% against the euro since August 2007.

Chatham House, a London think tank, said in a recent report that Britain may have maxed out its ability to grow more food, a phenomenon it calls "peak food" after the "peak oil" theory that the world is running out of oil.

Mr. Brown's government, however, isn't looking at increasing farming at home. Instead, in keeping with his approach of championing open-border commerce, the U.K. is trying to help farmers abroad by putting money and expertise into farming in developing markets, government advisers say. It believes this will increase Britain's ability to secure regular food supplies.

"I don't think the pressures on the food supply are short term," says Robert Lee, a professor specializing in food regulation at Cardiff University. He wants the government to do more to promote farming in the U.K.

There are signs that more people are growing their own food. Waiting lists to rent plots of land to grow vegetables—land every urban U.K. authority has to provide—are getting longer, says the National Society of Allotment & Leisure Gardeners.

German investor confidence fell in October

Monica Houston-Waesch And Emma Charlton

MANNHEIM, Germany—The global financial crisis hammered German investor morale in October but there were signs a government banking rescue package could help stop the rot, a survey showed.

The ZEW economic research institute's survey indicated Europe's biggest economy would contract in the second half of 2008 and into the first quarter of 2009, said ZEW economist Michael Schroeder. "This looks pretty much like a recession," he said.

The ZEW gauge of expectations for Europe's biggest economy, based on a survey of 256 analysts, fell to minus 63.0 from minus 41.1 in September, falling close to July's record low of minus 63.9 and undershooting the minus 51.1 reading expected by economists.

ZEW conducted the survey from Sept. 29 to Oct. 13. It said a separate analysis of 39 responses received Oct. 13, the day the German government presented details of the rescue package, showed the deterioration in sentiment was less pronounced, at minus 50.0.

"Investor confidence has clearly been shattered by the full fallout of the recent financial turmoil," said ING analyst Carsten Brzeski.

Another group of German think tanks cut their forecast for 2009 German economic growth to 0.2% from 1.4%, noting the German economy is on the brink of recession.

Separately, the European Union statistics agency Eurostat said industrial output in the euro zone rose 1.1% in August from July, swinging from a 0.2% monthly drop in July. From a year earlier, factory output fell 0.7% in August, better than July's 1.2% annual fall.

The European Central Bank cut its key refinancing rate to 3.75% from 4.25% last week as part of a coordinated response to the global turmoil. The cut takes effect Wednesday. Many economists think the ECB will cut interest rates more next year as the economy slows and inflation falls back from recent high levels.

—Roman Kessler contributed to this article.

ECONOMY & POLITICS

Brown urges regulation

Using new stature, U.K. leader touts global system

BY ALISTAIR MACDONALD

LONDON— As the British bank-bailout plan becomes a model for Europe and the U.S., U.K. Prime Minister Gordon Brown is using his new platform as financial statesman to push what he sees as the next step: a global system of financial supervision.

Risk from financial markets has become global but the way to supervise financial institutions and their products hasn't, and needs to be, Mr. Brown says. "You can't deal with the problems of global financial markets within national systems of regulation," he said at a news briefing Tuesday.

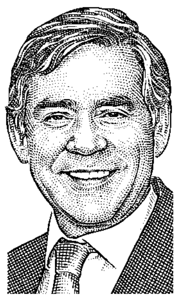
Among other measures, Mr. Brown wants to retool international bodies such as the International Monetary Fund to monitor global markets and act as early-warning systems.

Mr. Brown's bailout approach—a mix of injecting capital to bolster bank balance sheets as well as guaranteeing loans to unfreeze lending markets—got its strongest endorsement Tuesday when the U.S. took similar steps.

For Mr. Brown, who is battling a slowing economy at home after 15 years of uninterrupted growth, his handling of the credit crisis is suddenly lifting his popularity from its historic lows. But his Labour Party has trailed the rival Conservative Party by a wide margin in opinion polls, and he needs to call an election by 2010.

Mr. Brown and his team looked for other options to help the country's banks after concluding that the massive amounts of liquidity that central banks had been pumping into the system weren't addressing the central problem that banks didn't trust each other so weren't lending, Mr. Brown said.

"We defined the problem as the strengthening of our banks with more capital so they could deal with any bad assets," coupled with a need to guarantee some of their lending, he said. Taking stakes in banks also meant the government could dictate tough terms because taxpayers are footing the bill, he has said.


Gordon Brown

"I am very pleased that a large number of countries across the world, from Australia and New Zealand, to Sweden, to the euro area have moved towards the proposals that seem to me to be now the common ground for the way forward," he said.

Mr. Brown championed global regulation during his decade as Treasury chief under Prime Minister Tony Blair, first proposing the idea after the Asian financial crisis in 1998.

He hasn't gotten very far. While Mr. Brown calls for greater global supervision, the U.K.'s markets regulator, the Financial Services Authority, was widely criticized for failing to spot and react to the risks associated with some of the country's banks. Now, Mr. Brown's increased credibility and the fresh urgency of the global crisis may move it along.

"We need an effective global early-warning system for the world economy to alert us to the risks ahead. We need globally accepted and supervised standards of regulation applied equally in all countries. We need stronger arrangements for cross-border supervision of global firms," Mr. Brown said.

Mr. Brown had a scheduled call with U.S. President George W. Bush on Tuesday to discuss the crisis. Mr. Brown said he will push global regulation at the European Council meeting Wednesday, and he said he has talked to Chinese, Australian and other leaders this week about the idea.

Analysts are divided on the idea of a global supervisory agency. Some point out that there are already international regulatory frameworks such as Basel and International Organization of Securities Commissions. Moreover, warnings from central banks that there was too much leverage in the system were ignored ahead of the credit crunch, and the IMF's current global financial stability reports get little traction.

An IMF spokesman didn't return calls seeking comment.

Meanwhile, Mr. Brown continues to reap plaudits. "Are you Flash Gordon, or just Gordon?" a Swedish journalist asked him Tuesday. "Just Gordon," Mr. Brown replied.


Reuters

Republicans hope **Sen. John McCain** can use Wednesday night's final presidential debate to reverse gains by Sen. Barack Obama in several battleground states.

Obama widens his lead in four significant states

BY SARA MURRAY

Sen. Barack Obama has taken a solid lead in four large battleground states, underscoring the challenge Sen. John McCain faces as he tries to change the dynamic of the race in Wednesday night's debate.

Sen. Obama has double-digit leads in Michigan, Minnesota and Wisconsin, and he leads by a slightly smaller margin in Colorado, according to new Quinnipiac University polls conducted in conjunction with The Wall Street Journal and Washingtonpost.com. Sen. Obama's prospects have improved in the wake of two debates with Sen. McCain and are enhanced by the fact that the electorate views him as better prepared to deal with the economy.

In all four states, Sen. Obama holds a wider lead than he did in polling in late September. In Wisconsin, his lead is 54% to 37%, a 17-point margin; last month, it was seven points. In Michigan, his lead now is 16 points, 54% to 38%, up from four points.

In Minnesota, the Obama lead is 11 points, 51% to 40%; a month ago, that state was nearly even. All those states went Democratic in 2004, and Sen. McCain has sought to turn at least one his way this time.

In Colorado, the state that represents Sen. Obama's biggest opportunity to move a previously Republican state in the West to the Democrat's column, he now leads 52% to 43%, up from an earlier four-point lead.

Significantly, Sen. Obama has opened a strong lead with independents, a key voting bloc. More than half of independent voters in each state said they are supporting him.

"This election was always going to be about which candidate could win over independents," said Peter Brown, assistant director of the Quinnipiac University Polling Institute. And Sen. McCain is "getting annihilated in these states."

Republicans hope Sen. McCain can use Wednesday night's debate to turn around these trends. "Obviously Sen. McCain's major opportunity" is Wednesday night's third and final debate between the two, said Mr. Brown. "He has to reach voters in a way that he has not been able to do so in the first two debates. And by any standard, he faces very long odds."

Improvements in financial markets this week may give Sen. McCain an opening, though, by lessening intense interest in economic matters, which have been an advantage for Sen. Obama. In each of the four states surveyed, voters ranked the economy as the most important issue. The majority of voters in each state said Sen. Obama understands the economy better than does his Republican counterpart.

More than half of voters in each state also said Sen. McCain didn't show effective leadership in dealing with the financial crisis. Asked the same question about Sen. Obama, voters were more inclined to say he showed effective leadership.

The poll results also highlight just how difficult it will be for Sen. McCain to sway voters with one debate. Only a tiny share of voters said the most-recent debate changed their vote, and predebate and post-debate polling by Quinnipiac in each state supported that conclusion.

In Colorado, Michigan and Minnesota, few voters changed their minds after last week's presidential debate. The exception was Wisconsin, but the beneficiary was Sen. Obama, who led by 17 points after the debate compared with eight points before.

The silver lining for Sen. McCain is that he is maintaining strong support from his Republican base. Almost nine in 10 Republicans said they are supporting the McCain campaign in Colorado, Michigan and Minnesota. In Wisconsin, that number was even higher.

Sen. McCain's strong support among Republicans is likely enhanced by his running mate, Alaska Gov. Sarah Palin. Fewer than four in 10 of all voters surveyed have a favorable impression of her, but roughly eight in 10 Republicans view her favorably.

Despite the concern about the economy found in the four states, the surveys also uncovered some underlying optimism. Most voters said they expect economic conditions will get better in the next year. They were similarly optimistic when judging their personal financial situations.

The polls were conducted Oct. 8-12. The margin of error in Michigan and Colorado was plus or minus three percentage points. In Minnesota it was 3.1 points, and it was 2.8 points in Wisconsin.

Zardari asks China to aid Pakistan

*By **Shai Oster** and **Jason Leow** in Beijing, and **Matthew Rosenberg** in New Delhi*

Pakistan's President Asif Ali Zardari began a four-day state visit to China on Tuesday, seeking aid for his near-bankrupt nation from an increasingly powerful ally.

"China is the future of the world," Mr. Zardari, widower of slain former Prime Minister Benazir Bhutto, told the Chinese state news agency Xinhua on the eve of his trip. "A strong China means a strong Pakistan."

Pakistan's economy was already in critical care before the global financial meltdown. Mr. Zardari is reaching out to China, the U.S. and Saudi Arabia, among other so-called Friends of Pakistan, to make the case that the world has an interest in helping to stabilize the nuclear-armed nation, which has been shaken by Islamist militancy.

Pakistan is seeking $5 billion to $6 billion from donors. Government officials are urgently trying to shore up dwindling foreign-exchange reserves—now down to $8.32 billion—and revive an ailing economy by boosting the confidence of foreign investors. It sees China as a substantial source of this capital.

On his first official visit abroad since taking office, Mr. Zardari promised to return to China every three months and said the relationship would focus on business.

Shaukat Tarin, economic adviser to Pakistani Prime Minister Yousuf Raza Gilani, who was in Washington at the start of the week, said Pakistan had secured $1.4 billion from the World Bank, and was expecting additional financing from the Asian Development Bank.

The U.K., meanwhile, doubled its aid to Pakistan and will give the country about $825 million over the next three years, according to the British High Commission in Islamabad.

But it's China, often praised by Pakistani officials as a steadfast friend, that may offer Islamabad its best hope for a major cash infusion. The Asian giant's foreign-exchange reserves are the world's largest, at $1.9 trillion. Chinese officials could be eager to demonstrate their new wealth and diplomatic heft, analysts say.

"China can provide support by putting some deposits in the central bank of Pakistan, that's something they might be able to do quickly," said Salman Shah, a former Pakistani finance minister. "They can put a deposit of $1 billion or $2 billion."

By contrast, he said, such a request made to the U.S. "would probably have to go through Congress or through the Treasury," he said. "It is a very long, drawn-out process."

China's foreign aid has been growing, especially in Africa, typically in the form of concessionary loans for infrastructure projects such as roads, railways and power plants generally handled by Chinese contractors. China is already involved in building a large port in Pakistan. But neither Chinese nor Pakistani officials have offered details of any current aid agreement.

The decades-long friendship between China and Pakistan is


Newscom

China's Assistant Foreign Minister Hu Zhengyue greets **President Zardari**, left.

grounded in arms sales, energy assistance and an all-weather geopolitical alliance. China has sold conventional weapons and missile technology, and is suspected of helping Pakistan develop nuclear weapons. In 2006, China and Pakistan signed a pledge to increase bilateral trade to $15 billion a year by 2011.

As India and the U.S. have worked to complete a civilian nuclear agreement, China and Pakistan have discussed a similar deal. The negotiations highlight how uneasy ties have become as both China and India jockey for influence in Asia.

A Chinese foreign-ministry spokesman said Tuesday there would be "in-depth discussions" on cooperation in "some major areas," but declined to confirm if a nuclear deal was in the works.