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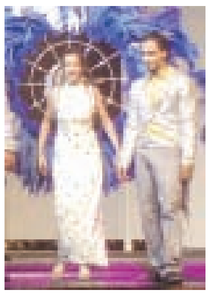

*A cabaret in Morocco brings Marrakech distress*

MARKETPLACE | PAGE 29

*China's slowing growth could have global impact*

ECONOMY & POLITICS | PAGE 10

# Sweden adds latest entry to bank-protection plans

## *Germany, Ukraine take steps to ensure their bailout efforts*

By Charles Forelle And Joellen Perry

Sweden, which created a model for rescuing troubled financial systems in the early 1990s, became the latest European economy to introduce a sweeping bailout plan to support its banks.

Under the Swedish plan, the state could guarantee some $200 billion in bank debt—halfthe nation's gross domestic product. It also will create a facility to inject capital into banks that get into trouble. Finance Minister Anders Borg said in an interview that he expects all Sweden's banks to take advantage of the guarantee, though bankers said it was too early to say what they would do.

Mr. Borg and other Swedish officials said the measures aimed to restore confidence, and weren't a reflection that any institution was in immediate peril. There was also an element of peer pressure, the officials said; they didn't want to leave the Swedish banks without government support

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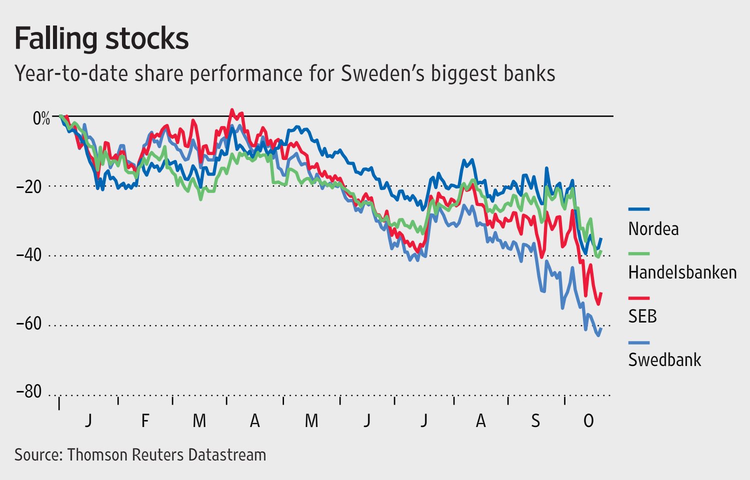



# Improper trades will hit Citic with $2 billion loss

By Yvonne Lee And Laura Santini

HONG KONG—An executive's soured bets on the direction of the Australian dollar will result in nearly $2 billion of losses at **Citic Pacific Ltd.**, a Hong Kong-listed conglomerate backed in part by Chinese state money.

Citic Pacific Chairman Larry Yung blamed the losses on unauthorized trades placed by the company's group finance director, Leslie Chang, who Mr. Yung said had been fired. He said the company also has fired Chi Yin Chau, group financial controller, for neglecting to provide proper oversight.

In a news conference, Mr. Yung said it was "regrettable that policies and procedures on risk management were not followed."

Messrs. Chang and Chau couldn't be reached for comment.

The hit to Citic Pacific's bottom line could reach 14.7 billion Hong Kong dollars ($1.89 billion), the company said. That is roughly a third more than the company earned in 2007. The size of the loss won't be known until Dec. 31, when Citic Pacific plans to mark to market its positions in currency-derivative contracts.

Problems with risk controls aren't unknown in Asia. In 2004, oil trader China Aviation Oil (Singapore) Corp., whose shares traded on the Singapore stock exchange, racked up US$550 million of losses after it used derivatives to speculate on the price of oil. In 2005, a Chinese metals trader handling China's strategic commodity reserves incurred losses that ran to US$600 million when he engaged in short sales of copper on the London Metals Exchange. The trader essentially bet copper prices would fall, before those prices moved against him.

Some investors and analysts worry that more bad news could emerge from Asian corporations caught wrong-footed by the markets. "One of the problems of Asian corporate governance has been lax internal controls," said Jamie Allen,

*Please turn to page 31*

# Tough rules loom to curb executive pay

By Joann S. Lublin And Mike Esterl

As they rescue battered financial institutions, an unprecedented number of countries simultaneously are trying to curb runaway executive rewards. The efforts could change pay practices broadly as well as the migration of management talent.

"It's the first time in the history of executive pay that there has been a spontaneous international effort to rein in executive pay," says Ira Kay, head of executive-compensation consulting at Watson Wyatt Worldwide in New York.

At least six countries have imposed pay curbs, or are poised to do so, as part of their banking bailouts. Sweden, the latest, unveiled a financial-stability plan Monday that offers a bank guarantee of about $200 billion. Assisted banks must agree with the government to limit compensation for key executives. Other countries may follow suit.

The widespread moves to limit compensation reflect public outrage over outsized pay packages for executives who led banks to big losses, or bankruptcy. Governments need limits "to get popular buy-in for these bailouts," says Stephen Davis, a senior fellow at Yale Univer-

*Please turn to page 31*

# What's News—

## *Business & Finance*

**Germany and Sweden joined** an unprecedented number of nations trying to curb runaway executive rewards. The efforts, part of rescue packages, could change pay practices broadly and affect the migration of management talent. Page 1

■ **Citic Pacific faces losses** of nearly $2 billion after an executive's soured bets on the direction of the Australian dollar. Page 1

■ **OPEC is likely** to cut oil output this week in a bid to counteract falling demand and the plunge in crude prices. Page 2

■ **Belgium injected** $2 billion into mutual insurance company Ethias, the third major financial-section bailout by Brussels in recent weeks. Page 2

■ **Bernanke** endorsed plans for a new stimulus package, giving a boost to U.S. lawmakers who want to put more government funds into the economy. Page 3

■ **U.S. stocks surged** on cheapening credit, an energy rally and Bernanke's support for more fiscal stimulus. European shares rose as oil stocks gained. Page 20

■ **The U.K.'s finances** are likely to deteriorate further as the government plans to bring forward spending and may need to borrow more. Page 19

■ **HSBC Holdings agreed** to buy a majority stake in Indonesia's Bank Ekonomi Raharja for $607.5 million. Page 8

■ **Novartis CEO Vasella is** giving up some duties and naming Reinhardt to the new post of chief operating officer. Page 4

■ **A charge hurt Ericsson's** net, but sales rose 13% and the company says it hasn't been affected by economic turmoil. Page 6

■ **France's Veolia issued** its second profit warning this year, as the global slowdown hits its waste business. Page 6

■ **Bank failures** are disrupting the market for synthetic collateralized debt obligations. The trouble could mean more losses for banks and insurers. Page 19

**Markets** 4 p.m. ET

| MARKET | CLOSE | NET CHG | PCT CHG |
|---|---|---|---|
| DJIA | 9265.43 | +413.21 | +4.67 |
| Nasdaq | 1770.03 | +58.74 | +3.43 |
| DJ Stoxx 600 | 222.01 | +7.74 | +3.61 |
| FTSE 100 | 4282.67 | 219.66 | +5.41 |
| DAX | 4835.01 | +53.68 | +1.12 |
| CAC 40 | 3448.51 | +118.59 | +3.56 |
| Euro | $1.3301 | -0.0166 | -1.23 |
| Nymex crude | $74.25 | +2.40 | +3.34 |

*Money & Investing* > Page 19

## *World-Wide*

**Sweden became** the latest European nation to introduce a sweeping bailout plan to support its banks. The plan, which was modeled after laws used during Sweden's 1990s financial crisis, would allow the state to guarantee some $200 billion in bank debt. Meanwhile, signs of the crisis continued in other European countries. Page 1

■ **Taliban gunmen killed** a Christian aid worker in Kabul, and the militant group said it targeted the South African-British national because she was spreading her religion. In Afghanistan's north, a suicide bomber killed two German soldiers.

■ **Iraqi finance officials are** drawing up contingency spending plans to trim next year's budget by an estimated 19%, due to the sudden drop in crude prices. Page 9

■ **A group of top Iraqi leaders** decided to forward to the cabinet this week a draft security pact with the U.S. Page 9

■ **The global financial crisis** will add at least 20 million people to the world's unemployed, bringing the total to 210 million by the end of next year, the U.N.'s labor agency said.

■ **Russia is violating** an EU-brokered cease-fire by keeping troops in two disputed Georgian territories, a U.S. official said.

■ **Pakistan is considering** turning to the IMF to try to extricate itself from a severe financial crisis. Page 25

■ **Pandemonium marred** the start of a trial of 86 people accused of conspiring to overthrow Turkey's Islamic-oriented government.

■ **Ukraine's president** delayed early parliamentary elections by a week, to Dec. 14.

■ **Zimbabwe's opposition party** boycotted a regional summit called to try to resolve the country's political impasse.

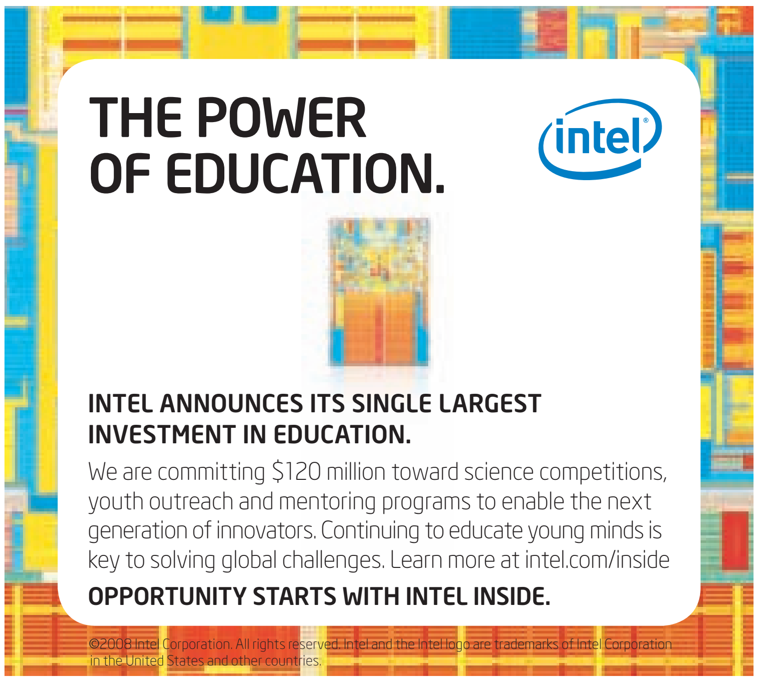
■ **Festus Gontebanye Mogae**, ex-president of Botswana, won a multimillion-dollar prize for leading a campaign to tackle the spread of AIDS.

■ **Some 1,500 dogs died** recently in northeast China after eating animal feed tainted with melamine, a veterinarian said.

## Editorial&Opinion

**Banks, bombs, the bear**

Why America-bashing may still be an election winner in Germany after Bush. Page 15



THE WALL STREET JOURNAL.

# OPEC is expected to slash output

## *World thirst for oil drops even as price continues to plunge*

BY NEIL KING JR. AND SPENCER SWARTZ

OPEC is all but certain this week to slash oil output in a bid to counteract falling demand and a precipitous drop in crude prices.

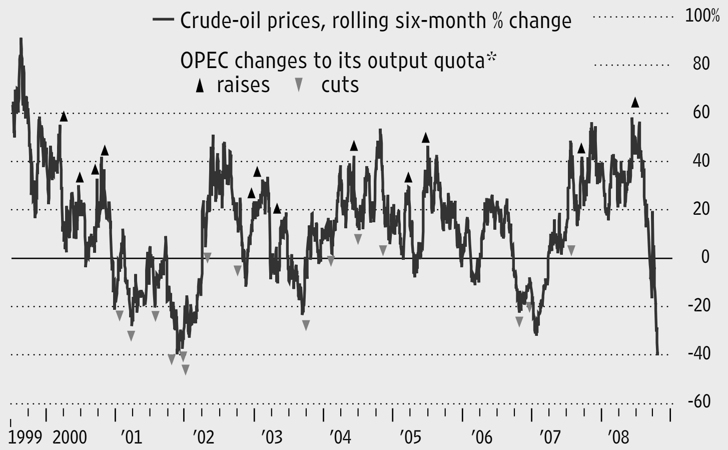
The big question is: Will it work? Or will an enfeebled world economy continue to drag oil prices down even in the face of concerted OPEC action?

Ministers within the Organization of Petroleum Exporting Countries, which supply 40% of the world's oil, appear ready to back a cut of a million barrels a day or even more in a bid to soak up excess supply and protect their own budgets. Officials say the cut could come in two stages—some of it now, and the rest in December, when the group plans to meet again.

But the cartel has a mixed record in trying to stop sliding prices by cutting supply, especially in the face of a strong recession. The group failed famously in 1998, when it lopped off 2.5 million barrels a day in the midst of the Asian financial crisis, and had only spotty success in 2001.

**Slippery target**

OPEC's changes to its price quotas don't always achieve its goals




*By date announced

Sources: Goldman Sachs; Thomson Reuters via WSJ Market Data Group (oil prices); OPEC

Friday's emergency meeting of the 13-member cartel comes amid a spate of increasingly grim forecasts of sharp economic declines next year across much of the industrial world. Falling demand for oil in the U.S. and Europe this year has been a significant force driving oil prices down more than 50% from their record highs this summer.

Deutsche Bank, in a report Monday, predicted that an anemic 1.2% growth in the world's economy next year could drive oil prices to as low as $50 a barrel—roughly a third of their summertime high.

Oil at that price would cause pain across much of the cartel, where government spending has ballooned in tandem with skyrocketing crude prices. An International Monetary Fund report released Monday said that Iran requires oil to average $90 a barrel this year to avoid deficit spending. Bahrain requires $75 and Oman, $77. Iraq, which the IMF says needs oil at $111 a barrel to balance its books this year, is already looking at ways to curtail spending in 2009.

Oil prices continued their wild ride Monday, with U.S. benchmark Nymex crude rising $2.40 a barrel, or 3.3%, to close at $74.25 on the New York Mercantile Exchange. In intraday trading, Nymex crude rose as high as $76.12 and fell as low as $71.77. Expectations of an OPEC cut gave prices a boost, finishing up for a second straight trading day, but a continued upward swing in prices this week could complicate the cartel's desire to reduce world oil supplies.

Some oil-consuming countries have begun to caution against a potential OPEC cut, arguing that the hobbled world economy needs the boost of lower energy prices. "We think they need to keep the markets well supplied," said U.S. Deputy Energy Secretary Jeffrey Kupfer.

OPEC, though, contends that a production cut is needed to avoid sharp oversupply as the world's thirst for oil diminishes. It expects world demand for its crude to drop by nearly 900,000 barrels a day next year compared with 2008. The world now consumes about 86.5 million barrels a day. The OPEC estimate, which is close to the International Energy Agency's forecast, reflects weaker U.S. and European oil demand and projections for added non-OPEC production next year.

Some OPEC ministers have said in recent days that the group could decide to roll back production in multiple steps, as the producer group did in late 2006 when it announced two cuts, totaling 1.7 million barrels a day, in October and December of that year.

"I believe this will be a good possibility. Remember this is what we did in 2006. There is a lot of uncertainty today. We don't know how things are going to look next month or in December," said Shokri Ghanem, head of Libya's National Oil Co.

Many analysts at the time believed the late-2006 production cuts were aimed at protecting a price floor of at least $55 a barrel. After Friday's meeting, OPEC is next scheduled to meet again Dec. 17 in Algeria.

A decision to trim production will raise the perennial question in the cartel of who should do the cutting. Producers such as Nigeria, Iran and Venezuela, which are already under growing fiscal pressure, will be loath to cut back even in the face of falling prices. So that job will fall largely to Saudi Arabia, OPEC's largest producer by far. The Saudis until now have been hesitant to reduce output this year, but analysts agree that the kingdom is serious about ensuring that prices don't fall below $60 a barrel.

# Insurer Ethias gets $2 billion from Belgium

BY ALESSANDRO TORELLO AND PEPPI KIVINIEMI

BRUSSELS—Belgium pumped €1.5 billion ($2 billion) into mutual insurance company **Ethias**, in the government's third major financial-sector bailout in recent weeks.

The cash injection on Monday was necessitated by the Belgian banking regulator on Friday ordering Ethias to raise funds to cover a capital loss. Ethias booked the loss because of the diminishing value of its investment in Belgian-French bank **Dexia** SA, which also has been rescued by a government bailout.

Dexia, a specialist in lending to local government and for large construction projects, was shored up by a cash injection of €6.4 billion provided by the Belgian, French and Luxembourg governments, which also guaranteed the bank's borrowing.

Ethias—an unlisted mutual insurer, owned by local public authorities, hospitals and nonprofit organizations—is one of Dexia's core shareholders, with a stake of about 5%. It bought shares in Dexia as recently as this autumn, increasing its stake by €150 million, at €9.90 a share, but Dexia's stock has taken a beating since then.

Shares in Dexia closed down 4% Monday at €4.56.

After the cash injection, Ethias Chief Executive Bernard Thiry on Monday said the company has "no intention" of selling its stake in Dexia.

The funds for Ethias will come in the form of a capital increase and the insurer's structure will change, a spokesman for Belgian Prime Minister Yves Leterme said, adding that no more details were available.

# Ranbaxy approves big stake sale

BY RUMMAN AHMED

BANGALORE—**Ranbaxy Laboratories** Ltd.'s board on Monday approved an allotment of preferential shares and warrants to **Daiichi Sankyo** Co., allowing the Japanese drug maker to acquire a 52.5% stake in Ranbaxy.

Ranbaxy said it received 35.85 billion rupees ($736 million) for the preferential allotment of shares and warrants.

In June, Ranbaxy founders accepted an offer to sell a 34.8% stake to the Japanese company at 737 rupees ($15.75) a share. Daiichi Sankyo also had offered to buy a controlling stake in Ranbaxy.

To date, Daiichi has acquired an equity stake of 52.5%, comprising 220.69 million Ranbaxy shares.

## CORRECTIONS & AMPLIFICATIONS

**The new T-Mobile** G1 phone from **Google** Inc. can accept memory cards larger than eight gigabytes. Due to erroneous information supplied by T-Mobile, Thursday's Personal Technology column in some editions stated that the phone had an eight-gigabyte memory limit.

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

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## LEADING THE NEWS

# U.S. Fed chief backs new stimulus package

### *Bernanke says plan should help repair frozen credit markets*

By Sudeep Reddy

U.S. Federal Reserve Chairman Ben Bernanke endorsed congressional plans for another economic-stimulus package, giving a crucial boost to Democratic lawmakers who are looking to inject more government funds into the economy.

Testifying Monday before the House Budget Committee, Mr. Bernanke said fiscal stimulus from Congress "seems appropriate" because the economy likely will be weak for several quarters, "with some risk of a protracted slowdown."

Democratic leaders in the House of Representatives are considering provisions worth $150 billion. Some economists are urging them to consider a package twice as large.

Republicans, including President George W. Bush, have resisted the idea. Monday, White House spokeswoman Dana Perino said Mr. Bush is "open to the idea" but wants to see whether a Democratic proposal "actually would stimulate the economy."

In January, Mr. Bernanke's endorsement of a fiscal-stimulus package put that $168 billion legislation on a fast track to passage. That initiative, which generated more than $100 billion of direct payments to Americans, propped up the economy modestly in the second quarter and offset some third-quarter weakness.

Monday, the Fed chief emphasized that any package should have a near-term effect on the economy and maximize the stimulus effect from each dollar spent, but shouldn't raise the long-term budget deficit. The economy is faltering amid the credit crisis that has shaken global financial markets in recent weeks. Many consumers and businesses in the U.S. have been frozen out of credit markets, which are only now starting to thaw.

Mr. Bernanke sought to guide Congress toward fiscal-stimulus measures that repair credit markets and "restore credit to something closer to a more normal level."

Crafting a package everyone can agree on is expected to be a battle. Democrats appear to be looking for extended benefits to unemployed workers, aid to state and local governments hit by the downturn, new spending on public infrastructure and a tax cut. Many Republicans oppose additional spending but would support some kind of tax cut.

An "ideal" package not only would boost spending and economic activity, Mr. Bernanke said, but also offset the severe credit tightening, which has "the potential to extend or deepen" the slowdown.

"If the Congress proceeds with a fiscal package, it should consider including measures to help improve access to credit by consumers, home buyers, businesses and other borrowers," he said. "Such actions might be particularly effective at promoting economic growth and job creation."

Congress has a variety of tools to address the problem, Mr. Bernanke said. It could consider, among other things, loan guarantees or partial guarantees, direct lending to firms, further support for housing through **Fannie Mae** and **Freddie Mac**, tax credits or other tax measures to stimulate credit, and help for state and local governments to "obtain credit at more normal rates."

Mr. Bernanke declined to recommend a specific dollar amount for such legislation, but said any package should be "significant."


Associated Press

**U.S. Federal Reserve Chairman Ben Bernanke**, testifying Monday before the House Budget Committee, said any new stimulus should improve access to credit.


# CORPORATE NEWS

### MINING

## New World to buy stake in Ukraine iron-ore maker


Getty Images

CZECH MINER New World Resources NV, or NWR, said Monday it has agreed to buy a 25% plus one share in **Ferrexpo** PLC, a Ukrainian iron-ore pellet maker, for £126.6 million ($219 million).

NWR is buying the stake from RPG Industries SE, or RPGI, NWR'S majority shareholder. RPGI started building the stake in NWR earlier this month.

NWR has no immediate plans to further expand its stake in Ferrexpo, but the two companies are in talks to form "a strategic alliance" to explore investment opportunities in the Ukrainian coal-mining sector, NWR Chief Financial Officer Marek Jelinek said in an interview. *— Leos Rousek*

### MARKETING

## Cadbury PLC to sponsor 2012 Olympics in London


Associated Press

CADBURY PLC has signed up as a national sponsor of the 2012 London Olympics, buying the right to use the games as part of its marketing and to become the sole supplier of all confectionery and packaged ice cream to be sold within the Olympic Park.

With the Cadbury deal, London 2012 organizers have reached about two-thirds of their target of £650 million ($1.12 billion) from domestic sponsors.

Terms of the deal weren't disclosed, but so-called tier-two sponsorships such as Cadbury's are valued at a minimum of £20 million, with tier-one deals valued at twice that amount. Cadbury has a long history of sport sponsorship. *—Associated Press*

### INVESTING

## Julius Baer rolls out fund specializing in gold bars


IndexOpen

JULIUS BAER Holding AG created a fund that invests in gold bars, meant as a safe harbor from financial-market turmoil.

The fund, hedged against currency fluctuations, offers investors the option of physical delivery in gold, the Zurich-based bank said. Such funds are rare. Most other gold-focused products either offer company shares, or are exchange-traded, tracking indexes.

Exchange-traded funds, managed by companies including London-based **Hinde Capital** Ltd. and **ETF Securities** Ltd., are gaining popularity as investors seek safe havens. Hinde Capital manages a fund that invests in shares and physical gold.

# Yahoo prepares another round of layoffs

### *Internet giant plans budget cuts amid online-ad slump*

BY JESSICA E. VASCELLARO

YAHOO INC. is drafting significant cost-cutting plans to try to reverse its fortunes from the inside.

The Sunnyvale, Calif., Internet company is expected to disclose the cost cuts as soon as Tuesday, when it reports quarterly earnings, say people familiar with the matter. The cuts will involve layoffs, among other things, these people say.

The exact number of jobs to be eliminated remains unclear, though it is expected to exceed the 1,000 jobs that Yahoo announced it was cutting in January, say people familiar with the matter. Precisely which jobs will be excised isn't likely to be announced for at least a few weeks, say these people, though cuts are expected to come from across the company. Yahoo had 14,300 employees as of the end of June.

The San Jose Mercury News and several technology-industry Web sites have reported that Yahoo is planning job cuts.

Some Yahoo managers have also been asked to identify operating budget cuts of around 15%, according to people familiar with the matter. The company's U.S. hiring has slowed to a trickle, and Yahoo recently let go of two to three dozen external recruiters, according to these people.

Yahoo's moves come as the economic crisis is spurring belt-tightening across the country. But the Internet company's pain is more acute. Yahoo is scrambling to bounce back from years of disappointing revenue and profit growth as it has seen rivals such as **Google** Inc., **News Corp.**'s MySpace.com and **Facebook** Inc. grab more growth in the Internet sector.

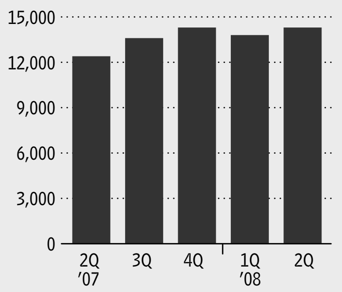
Earlier this year, Yahoo spurned **Microsoft** Corp.'s takeover offer of $31 a share, or $45 billion. The move brought in activist investor Carl Icahn, who pressured Yahoo to sell itself to Microsoft and who has since taken a seat on Yahoo's board, along with two other directors he recommended. In the wake of the failed purchase, Yahoo's stock price has slid 43% in the past three months. On Friday, Yahoo shares closed at just $12.90. In midday trading Monday, the stock stood at $12.72.

Since Microsoft walked away from its bid, Yahoo has shuffled its management team and announced some new products to try to shore up its stock price. These have done little to improve the company's performance or restore investor and employee confidence in managers, including Yahoo chief executive Jerry Yang, who some shareholders blame for Yahoo's rejection of Microsoft's offer.

Yahoo says it has recently hired consultants **Bain & Co.** to help identify potential "structural changes." People familiar with the matter say that process continues and could result in suggestions beyond layoffs. Yahoo's new board also continues to ponder many moves, including a combination with **Time Warner** Inc.'s AOL, say people familiar with the discussions.

**Flattening out**

The number of full-time Yahoo employees at the end of each quarter




Source: the company

The two companies have been exploring a deal for months. People familiar with the situation say the two sides have started to discuss a value for AOL below the $8 billion to $10 billion that had been on the table before. The combination would see AOL folded into Yahoo, with Time Warner taking a minority stake.

Last week, Microsoft CEO Steve Ballmer raised the possibility that Yahoo and Microsoft could still pursue a search partnership during comments at an industry conference but said that there were no conversations between the companies about such a deal or a full acquisition of Yahoo by Microsoft.

Meanwhile, an Internet-search partnership with Google designed to help Yahoo generate hundreds of millions of dollars in additional revenue has run into a regulatory hitch. After many large advertisers have come out against the deal, which they fear could raise online ad prices, Google has been talking to the Justice Department about revising the agreement to prevent regulators from thwarting it, say people familiar with the matter.

At the same time, Yahoo is faced with a troubled economy that is causing some advertisers to rein in spending. The cutbacks appear to be hitting Yahoo's business harder than some of its competitors. Advertisers are reducing spending for display ads, the graphical ads that make up much of Yahoo's revenue, faster than other segments such as search ads, Google's stronghold.

Marianne Wolk, an analyst with Susquehanna Financial Group, says given the economic climate, 10% to 15% budget cutbacks for Yahoo would be "sensible." But she added that such moves would do little to address the company's bigger problems such as an exodus of employees and a broader "graphical advertising business that appears to be in freefall."

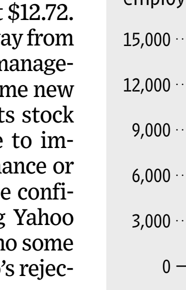
Investors will also be watching for whether spending cutbacks from some brand advertisers have grown severe enough to cause Yahoo to cut its annual revenue estimates. Yahoo is forecasting revenue of between $1.78 billion to $1.98 billion for the third quarter and between $7.35 billion and $7.85 billion for the year.

*—Merissa Marr contributed to this article.*

# Novartis appoints operating chief in shake-up

BY JEANNE WHALEN AND ANITA GREIL

**Novartis** AG's long-serving chief executive officer, Daniel Vasella, is giving up some duties by naming Joerg Reinhardt to the new post of chief operating officer, an appointment that makes Mr. Reinhardt a strong contender to eventually become CEO of the Swiss pharmaceutical giant.


*Joerg Reinhardt*

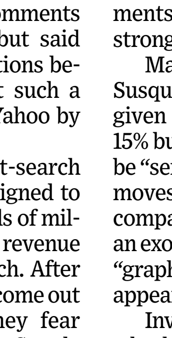
Dr. Vasella, who helped create Novartis from a merger of Ciba-Geigy and Sandoz 12 years ago and has led it ever since, has a new contract with Novartis's board that extends his tenure as chairman and chief executive through early 2010. Some analysts and investors expect Dr. Vasella, 55 years old, to relinquish the CEO role at some point and remain chairman. Some shareholders have pushed the company to split the chairman and CEO duties, as rival drug company **Roche Holding** AG did last year, to improve corporate governance.

"I have no plans to change anything," Dr. Vasella said in an interview Monday. On a conference call with investors following the release of third-quarter earnings and a new management reshuffling, he said Novartis's board regularly considers splitting the jobs, "and if ever the board feels this is appropriate, it will split the jobs."

Dr. Vasella, one of the longest serving and most outspoken chiefs in the drug industry, said Mr. Reinhardt, 52, will assume some operational duties on Dec. 1, freeing the chief executive to focus on strategic aims, such as improving research and development and expanding in developing markets such as China.

As the branded prescription-drug business grows more difficult, with tough competition from less-expensive generic drugs, Dr. Vasella has pushed Novartis to invest in new areas of health care, such as generics. But a wider management reshuffling disclosed Monday—the company's second in a year—suggests that that strategy isn't going as smoothly as Novartis had hoped.

Dr. Vasella said the current global financial turmoil could cause some consumers to cut drug spending, particular for over-the-counter products. But he said medicines are "relatively resistant to recessions. I anticipate we will see some impact, but not to the degree of other industries."


*Daniel Vasella*

Novartis, based in Basel, Switzerland, reported that net profit fell 70% to $2.09 billion, from $6.9 billion a year earlier, largely because last year's quarter included $5.29 billion of income from selling two divisions to Nestlé SA. Excluding that gain, income rose 32%.

Revenue increased 12% $10.75 billion, helped by strong sales of cardiovascular and cancer drugs.

Mr. Reinhardt, a media-savvy German with a doctorate in pharmaceutical sciences, has long been one of Dr. Vasella's closest lieutenants. When Novartis bought full control of the vaccine maker Chiron Corp. several years ago, Mr. Reinhardt ran the business. Before that, he was head of drug development when Novartis launched a number of new products.

Among other management changes laid out Monday, Andreas Rummelt was removed from Novartis's generic-drug unit, Sandoz, following weak results. Novartis has invested heavily in generics, but Sandoz has failed to release new products in the U.S. this year, forcing Novartis to lower its sales forecast for the division. Jeff George, head of emerging markets in the branded prescription-drug unit, will take over at Sandoz, while Mr. Rummelt will become group head of quality assurance and technical operations.

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## CORPORATE NEWS

# Veolia sends new warning

### *Shares plummet 21% as global slowdown hits waste business*

By Ruth Bender
And Leila Abboud

PARIS—French utility group **Veolia Environnement** SA issued its second profit warning of the year, in another sign that the global economic turmoil is taking its toll on companies far from the financial sector.

Veolia now expects 2008 operating cash flowof between €4.1 billion and €4.2 billion ($5.5 billion and $5.63 billion), or up about 1% from last year, according to the company. Veolia had forecast a 6% increase in operating cash flow for this year.

After Veolia, which provides water, waste, energy and transportation services for municipalities around the world, made the announcement on Sunday night, its stock price was battered Monday in Paris trading, falling 21% to €18.43 a share.

Veolia had appeared poised to capitalize on big trends such as urbanization, climate change and increasing demand for water around the world. Its management maintains that the company's business is somewhat sheltered from big swings in demand during an economic slowdown, and tells investors it is a "defensive" play that will see strong demand for its services in the long term.

"Our business model should be resilient to the economic situation," Veolia Chief Executive Officer Henri Proglio told analysts in a conference call on Monday.

From 2006 to early 2008, the company's stock price rose steadily. But this year many investors lost


confidence in Veolia, after a profit warning in June and other missteps. On Monday several brokerage houses, including Oddo & Cie, Natixis Bleichroeder, and Raymond James Financial Inc., cut their ratings and target prices on Veolia shares, citing concerns over the management and a poor growth outlook for next year. The Paris-based company has lost more two-thirds of its market value since January.

Few analysts expect 2009 to improve much. Mr. Proglio admits that about 60% of Veolia's waste activities is vulnerable to a global economic slowdown.

The immediate causes of the profit warning were lower-than-expected revenue in the waste-treatment business. Mr. Proglio said the economic slowdown meant less waste was generated, as companies manufactured less, construction projects were slowed down and consumers bought less. In addition, the price of recycled paper and metals, which Veolia produces, fell. Veolia's waste business accounts for about 28% of its revenue.

In the water business, revenue was compressed by a dry summer in Europe, which reduced demand for water-treatment services. Another problem was the delay of an anticipated increase in rates charged for water in several countries, the firm said.

But Mr.Proglio said the economic slowdown was only half of the reason for the cut and that "disappointments in recent acquisitions" were reducing volumes more than expected. Veolia has struggled to integrate a German recycling company called Sulo because costs to close an underperforming plant were greater than expected. The acquisition of an Italian water company, TMT, was plagued by the delay in opening several waste incineration facilities.

"We are clearly disappointed with our acquisition in Germany ... we have a big job to do to turn it around," Mr. Proglio told analysts.

For 2009, Mr. Proglio confirmed he expects positive free cash flow, after dividends and including some asset sales. He also said that he would maintain the previously announced 10% dividend increase next year and deliver on €180 million of cost cutting.

"For 2009 our objective is to be more selective about new investments ... and to improve profitability of recently acquired assets," Mr. Proglio said, adding that Veolia would look into its asset portfolio and possibly "dispose [of] some, provided we get a good price."

Mr. Proglio also said he was confident the company's profitability would improve in the course of the next year.

Veolia's warning triggered a decline in the stock price of rival Suez Environnement. Its shares fell 7.4 % in Paris to €15.17 per share on Monday. "Veolia's warning shows the way," warned one Paris-based trader. "Waste business is not as defensive as many investors think."

# Ericsson profit slips 28% on charge, but sales rise

By Adam Ewing

STOCKHOLM—**Telefon AB L.M. Ericsson** posted a 28% drop in third-quarter net profit, hit by a restructuring charge, but said sales were up 13% and that it hadn't seen an impact from the financial-market meltdown.

The earnings report, four days ahead of schedule, reassured investors. Shares in Ericsson, the world's largest maker of mobile-communications equipment by revenue, rose 16% to 58.40 Swedish kronor ($7.87)in Stockholm.

Net profit fell to 2.84 billion kronor ($382.8 million) from 3.97 billion kronor a year earlier. The latest results were weighed down by a restructuring charge of two billion kronor, part of the company's plan, announced in February, to cut costs by four billion kronor a year.

Sales rose to 49.2 billion kronor from 43.55 billion kronor, thanks to strong growth in Latin America, North America and the Asia-Pacific region. In Western Europe, sales dropped 6%. Ericsson's key business, the network unit, posted a 16% increase in sales to 33 billion kronor.

"Operators are generally financially sound, networks are loaded and traffic shows strong growth," said Chief Executive Carl-Henric Svanberg. But he cautioned that it is "hard to predict how operators will act and to what extent consumer telecom spending will be affected" by the economic turmoil.

Ericsson wasn't hurt by the economic slowdown in the third quarter, Mr. Svanberg said, adding that cost-cutting measures started earlier this year are on track. Given market conditions, the company will continue to adjust costs in the fourth quarter, although at a slightly slower pace, he said.

The CEO warned, however, that


the resilient third-quarter results should be taken with a grain of salt, as the company had experienced an exceptionally weak second quarter.

And despite growing use of third-generation, or 3G, phones and mobile broadband Internet, both of which use more network capacity than voice traffic alone, Ericsson said it predicts a "flattish" wireless-equipment market next year.

Last October, Ericsson had issued a profit warning, blaming a poor business mix that favored low-margin projects in emerging markets. On Monday, it said that outside Western Europe, which remains tough, the product mix has improved since last year.

Sony Ericsson, the company's handset joint venture with Japan's Sony Corp., Friday swung to a narrower-than-expected third-quarter net loss, helped by cost cutting. But the company cited continuing price pressure and moderating demand, particularly in mature markets.

Ericsson had been scheduled to release third-quarter earnings this coming Friday.

# Finmeccanica to increase capital

By Luca di Leo

ROME—**Finmeccanica** SpA forged ahead with a €1.22 billion ($1.64 billion) capital increase Monday, saying it would meet its targets despite the impact of the global financial crisis and the economic slowdown.

The Italian aerospace and defense giant is proceeding with the capital increase to help finance the €3.4 billion acquisition of U.S. defense-electronics firm DRS Technologies. Finmeccanica Chief Executive Pier Francesco Guarguaglini said he expected the deal to close within 10 days.

The Italian government Monday said it would commit €250 million toward the capital increase, reducing its stake to 30.2% from 32.4%.

At a news conference, Finmeccanica Chief Financial Officer Alessandro Pansa said the company's solid financial structure and technological know-how would allow it to meet its 2008 and 2009 targets even though the world economy is undergoing its most difficult moment in almost a century.

In May, Finmeccanica forecast its revenue would grow to between €15.1 billion and €15.9 billion in 2009, while earnings before interest, taxes and amortization, or Ebita, would settle between €1.3 billion and €1.42 billion.

The acquisition of DRS—announced in May—has been described by Finmeccanica management as a key step to increasing the Italian company's exposure to the world's largest military market, the U.S.

Mr. Guarguaglini said he expects North America to be the company's main market within four to five years.

Defense budgets in Italy and the U.S. shouldn't be reduced despite the global economic slowdown, analysts say. They expect Finmeccanica's capital increase, which runs until Oct. 31, to be successful given that the issue price of €8 is well below the company's Monday share price of €11.51.

Earlier Monday, Finmeccanica announced a hi-tech aerospace partnership with **Mubadala Development** Co., an Abu Dhabi-based business development and investment company.

*—Gordon Sorlini contributed to this article.*

# Halliburton reports a loss due to debt-retirement cost

A WSJ News Roundup

**Halliburton** Co. swung to a third-quarter loss on debt-retirement costs, but its revenue rose sharply and the oil-services company played down the lasting impact of lower energy prices.

Halliburton Chief Executive Dave Lesar, in a prepared statement, acknowledged that a worldwide recession would have "negative short-term implications for demand." However, he said current prices continue to support most projects, and that increasing depletion rates in the world's oil fields should drive long-term demand for his company's services.

Halliburton and its competitors provide a wide range of services, ranging from seismic exploration to techniques for boosting production at existing oil and gas wells. Their share prices have slumped badly on fears that energy producers might hesitate before committing to large new projects or, at the very least, push for lower prices from service firms.

Natural gas producers in the U.S. and Canada are already cutting budgets, but Mr. Lesar said he expected Halliburton to weather the downturn relatively well because of its level of expertise. Cuts are likely to come in conventional fields, rather than newer, technically sophisticated wells that extract gas from more challenging rock formations, he said.

Internationally, the company is projecting growth for its business in 2009, "perhaps albeit at a slower rate than 2008," Mr. Lesar said in a conference call with analysts.

Halliburton, which is based in Houston, reported a third-quarter loss of $21 million, or two cents a share, compared with net income of $727 million, or 79 cents a share, a year earlier. Excluding $693 million in debt-retirement costs and other items, earnings rose to 76 cents a share from 64 cents a share.

Revenue climbed 24% to $4.85 billion amid increased international activity and stronger U.S. demand.

Analysts polled by Thomson Reuters on average were expecting earnings of 73 cents a share on $4.64 billion in revenue.

Profit at Halliburton's completion-and-production arm increased 11% amid strong international gains, while revenue climbed 21%. The drilling-and-evaluation division posted a 27% earnings increase as revenue rose 26%. Both segments were slightly hurt by the impact from Gulf of Mexico hurricanes.

# Mattel, Hasbro margins narrow though sales grow

A WSJ News Roundup

Toy makers **Mattel** Inc. and **Hasbro** Inc. reported solid third-quarter sales gains but narrower profit margins as they head into the holiday shopping season.

Mattel, the largest U.S. toy maker by sales, on Monday posted second-quarter net income of $238.1 million, or 66 cents a share, up slightly from $236.8 million, or 61 cents a share, a year earlier, when it had more shares outstanding. Revenue increased 5.9% to $1.95 billion, helped by favorable foreign-exchange rates. Analysts polled by Thomson Reuters forecast earnings of 71 cents a share on revenue of $1.96 billion. Gross margin fell to 46.2% from 47%.

The El Segundo, Calif., company's international sales increased 7%, while sales in North America rose 4%. Sales of Barbie, Mattel's flagship franchise, fell 1%, following a 6% drop in the prior quarter.

Hasbro, the second-largest U.S. toy maker, reported net income of $138.2 million, or 89 cents a share, down from $161.6 million, or 95 cents a share. The year-earlier period included a tax-related gain of 17 cents a share. Revenue rose 6.5% to $1.3 billion. Analysts forecast earnings of 86 cents a share and revenue of $1.27 billion. Gross margin dropped to 55.9% from 57.4%.

# Asian marketing budgets pinched

## *Ad spending to drop in region once seen as resistant to slump*

BY GEOFFREY A. FOWLER

HONG KONG—Global economic woes may soon hit the marketing business in Asia, a region once thought to be relatively immune from an advertising downturn.

ADVERTISING

Over the past decade, ad agencies have invested in China, India, South Korea and other Asian-Pacific markets, as a counterbalance to slowing ad-spending growth in the U.S. and Europe. In the first half of this year, according to Nielsen Co., advertising spending in China grew 17% from a year earlier.

But a new survey of marketers across Asia has found that the majority expect their ad budgets to shrink next year, with a quarter expecting a decline of more than 20% from this year. The survey, conducted by Beijing-based consulting firm R3, included 50 senior marketing managers responsible for a total of more than $3 billion a year in ad spending.

**Financial-services companies in Asia already are shelving branding campaigns.**

"The events of the last two weeks have hit marketers hard," said R3 principal Greg Paull. "There will be significant reductions in the coming year, even in typical growth markets, such as China and Taiwan."

Big Australian retailer **Harvey Norman Holdings** Ltd., which also has a presence in Malaysia, Singapore and other countries, says it is considering cutting its marketing budget by 20%.

Financial-services companies in Asia are already shelving plans for branding campaigns, say media buyers. And, after years of increases, the global ad budget for South Korea's **Samsung Electronics** won't grow next year.

Much of the pessimism in Asia has developed in the past two weeks. When R3 first conducted its research in September, only 15% of the respondents said they expected tighter marketing budgets next year. But when the firm called the same executives back Oct. 9 and 10, the proportion of marketers saying their budgets were being cut had ballooned to 55%.

In a separate analysis, **Publicis Groupe** media-buying firm ZenithOptimedia predicted Oct. 7 that ad spending growth in Asia, including Japan, would slow to 5.2% next year, down from 6.6% this year. Zenith predicts the U.S. ad market will grow just 0.7% next year.

Media-buying companies say many of their Asian clients are taking a "wait and see" approach and that multinationals facing pressure from headquarters will be the first to slash marketing budgets in Asia. Local brands may cut their spending later, once local economies start to feel the economic pinch directly.

The money will go to digital ads, direct marketing and efforts such as in-store promotions, says Ashutosh Srivastava, chief executive of **WPP Group**'s Mindshare Asia. "In a downturn when your ad dollars get restricted, you move them into areas that are more direct and measurable."

But where some marketers see trouble, others see opportunity. "In recession times, it is quite good to continue to advertise, because it is an opportunity to take market share," says Patrick Stahle, chief executive of **Aegis Group**'s Aegis Media Asia-Pacific. He thinks smaller, fast-moving consumer-goods companies as well as luxury-goods makers are most likely to boost spending.

In making ad-buying choices, marketers must balance shorter-term budget concerns with longer-term opportunity in Asia. "A bigger dynamic than what is happening in the global financial markets is the emergence of the middle classes in those bigger Asian markets," says Bruce Haines, the global chief operating officer at South Korea's **Cheil Communications** Inc., the agency of record for Samsung. "With that growth potential, we certainly still want to be a part of those markets," he says.

While multinational agencies in Asia have been spared many of the layoffs now spreading across the industry elsewhere, growth through aggressive acquisition of local firms is likely to slow.

"We continue to grow with caution," says Aegis's Mr. Stahle, who expects to hire 100 employees in the region before year end.

### Tough going

Fifty marketing managers across Asia were asked how their 2009 marketing budgets compare to 2008. The results:

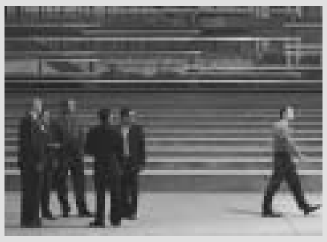
| | | |
|---|---|---|
| Down | More than 20% | 25% |
| | 15% to 20% | 11 |
| | 10% to 14% | 19 |
| | Unchanged | 39% |
| Up | 0 to 4% | 3% |
| | 5% to 9% | 0 |
| | 10% to 14% | 0 |
| | 15% to 20% | 3 |
| | More than 20% | 0 |

Source: R3 (Beijing-based marketing consultancy)

Career Journal

**Cashing out?**

*Financial pros split on leaving the embattled industry* > **Page 30**



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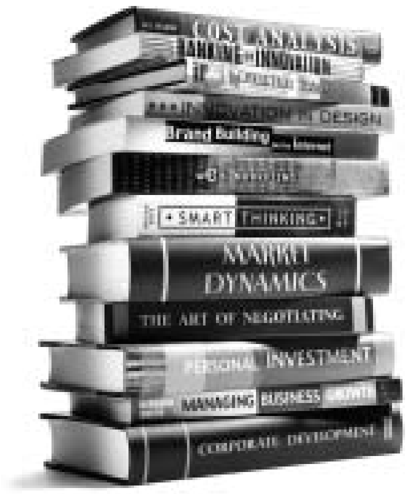


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CORPORATE NEWS

# Hollywood begins to pull back

## *Paramount delays release of two films as economy flickers*

By Lauren A. E. Schuker

Paramount Vantage/Courtesy Everett Collection

Paramount delayed the limited release of **Defiance**, with Daniel Craig, left, and Liev Schreiber, until year end. The film won't be in wide release until January.

Paramount Pictures' abrupt decision to delay two major holiday films—including one with Oscar aspirations—may be an early sign of Hollywood's retrenchment in the midst of the U.S. economic crisis.

Paramount late last week said it would delay "The Soloist"—a Los Angeles drama about a homeless violin player and the newspaper columnist who intervenes in his life—until next March. The movie comes from DreamWorks, the Paramount unit whose principals, Steven Spielberg and Stacey Snider, recently left to start a new film venture.

The decision to delay the movie came barely a month before its planned Nov. 21 debut, and means that Academy Awards consideration for "Soloist" star Robert Downey Jr. will be put off until next year.

The studio also delayed the limited release of "Defiance"—a war picture with Daniel Craig from its Paramount Vantage specialty unit—until the end of 2008, meaning the film won't be in wide release until January.

Paramount, a unit of **Viacom** Inc., announced the delays as part of a new business strategy in which it is cutting costs by reducing the number of films released each year from about 25 to 20. To start cutting back in 2008, the studio delayed a couple of films, which puts off most of the cost of marketing and distributing the movies until next year.

Including other reductions the studio has made this year, Paramount will wind up saving about $60 million in overhead in 2009. Paramount hadn't yet started a television campaign for "The Soloist," so the delay won't cost the studio any wasted advertising money, says Rob Moore, vice chairman of Paramount.

The new plan "is definitely responsive to the current economic climate," Mr. Moore said. He added that the studio has been eager to implement the new plan for some time but first had to resolve a number of outstanding issues, including the recent departure of DreamWorks' principals, before instituting the cutbacks.

"We now have a new strategy that wasn't possible before the DreamWorks deal was concluded," says Mr. Moore. "We couldn't engage in long-term planning because there was a big variable blocking that process."

The film industry has long argued that it is recession-proof, able to attract audiences during down times because moviegoing is cheaper than some other forms of entertainment such as sports and travel. Paramount's cutbacks signal that Hollywood is nonetheless bracing for the impact from the current economic turmoil.

Hollywood already made a round of reductions this year. Most of the major studios shuttered or downsized their "specialty" divisions—which release small, indielike films—in reaction to a crowded marketplace that has made it more expensive to compete for audiences. In June, for example, Paramount absorbed the majority of the staff at its Paramount Vantage label into its main studio, cutting about 50 employees and reducing the number of releases. **Time Warner** Inc.'s Warner Bros. made a similar move with its New Line division.

Paramount's trims also come at a time of turmoil for Viacom, as the advertising downturn has pressured its worsening financial outlook. Recent market swings even forced media mogul Sumner Redstone to sell a $233 million chunk of his holdings in Viacom and **CBS** Corp. to head off debt problems at his family's holding company.

Cutbacks are also beginning to show up elsewhere in the entertainment industry. NBC Universal Chief Executive Jeff Zucker told staff in a memo Friday that the company would be cutting its budget by $500 million next year.

At Paramount, Mr. Moore says the departure of DreamWorks' principals has changed the studio's approach. Previously, Mr. Spielberg and Ms. Snider could independently "greenlight"—or put into production—up to eight films a year. That existing deal made it difficult for Paramount to reduce its releases to 20 films a year.

A DreamWorks spokesman declined to comment.

With Mr. Spielberg and Ms. Snider gone, Paramount had room in its film slate for a new partner. It recently made an agreement with Marvel Studios, a unit of **Marvel Entertainment** Inc. Paramount will distribute all four of Marvel's feature films through 2011, as well as "Iron Man 3," if the film is made. The new business model, which Paramount announced this past Wednesday, reflects the new agreements with DreamWorks and Marvel.

Its big hits this year, including "Iron Man," involved distribution of other producers' films, meaning that the studio reaped a relatively small portion of the revenues.

A number of the films it produced itself fared less well at the box office this year, like "The Love Guru."

*—Merissa Marr contributed to this article.*

# HSBC buys bulk of Indonesia's Bank Ekonomi

By Vladimir Guevarra

LONDON—**HSBC Holdings** PLC agreed to buy a majority stake in Indonesia's **Bank Ekonomi Raharja** for $607.5 million, highlighting the bank's expansion strategy into emerging markets.

Indonesia, the world's fourth-largest country with a population of 235 million, had economic growth of more than 5.5% in each of the past three years, HSBC noted.

The U.K. bank said Monday that its purchase of 88.89% of Bank Ekonomi—which has 2,200 employees, 86 branches and assets valued at about $1.8 billion—will nearly double its network to more than 190 outlets in 24 cities across Indonesia.

The bank plans to offer to buy up to 99% of the Indonesian bank, HSBC Asia-Pacific Chief Executive Sandy Flockhart said. If the deal is approved, HSBC will be required to keep Bank Ekonomi listed for at least five years.

"Indonesia is a compelling country, both in demographics and in the growth that it displayed in the last few years, and equally in its future potential, despite the [global] downturn we see at the moment," Mr. Flockhart said.

"This acquisition underlines HSBC's stated strategy to invest in fast-growing emerging markets," Mr. Flockhart said. He declined to comment on whether HSBC has other targets in the region.

The bank said the purchase, made through its subsidiary HSBC Asia Pacific Holdings (U.K.) Ltd., will also enhance its commercial-banking business in Indonesia.

The number of job cuts, if any, following the merger of operations isn't expected to be high. "We've looked at the footprints of these banks and we don't see much duplication. It plays very much to our strengths," Mr. Flockhart said.

The acquisition follows HSBC's expansion into China's Dazu county last month. It also follows the bank's recent efforts to expand in other emerging markets, such as Georgia, Russia, Peru, Panama and Vietnam. The bank dropped a $6.3 billion offer for a majority stake in Korea Exchange Bank last month.

# ING to sell its Taiwan life-insurance unit to Fubon for $600 million

By Perris Lee And Ting-I Tsai

TAIPEI—In another sign of consolidation hitting the insurance industry, **ING Groep** NV said it will sell its Taiwan life-insurance subsidiary to **Fubon Financial Holding** Co. for US$600 million.

The acquisition, announced Monday, is the largest in Asia's insurance industry so far this year, analysts said. "We foresee more to come, among both local peers and between domestic and foreign players," Deutsche Bank Securities analyst Nora Hou said.

The announcement came shortly after the Netherlands agreed to inject €10 billion ($13.4 billion) into ING in an apparent effort to halt a crisis of confidence in the bank and insurer. The company said Friday it would record a third-quarter loss of €500 million as a result of asset write-downs and provisions.

Fubon, one of Taiwan's largest financial holding companies, said it will issue 406 million new shares, equivalent to a 5% stake, to ING to acquire ING Life Insurance Co., Taiwan's fourth-largest life insurer by premiums.

In addition, Fubon will also sell US$311 million worth of financial debentures to ING, the companies said in a joint statement.

Fubon President Victor Kung told reporters that the two sides have been in talks for two years. ING said the divestment is "in line with ING's strategy to actively manage its portfolio of businesses, allocating capital to those businesses that generate the highest return."

Fubon has been criticized for its strong capital base and was until recently considered overcapitalized. Fubon's shares ended 6.7% higher Monday at 19.05 Taiwan dollars (58 U.S. cents), while the benchmark Weighted Price Index of the Taiwan Stock Exchange edged 0.6% lower.

The deal will increase Fubon's life-insurance assets to about NT$1 trillion (US$30.7 billion) from NT$361 billion, and will add more than 2.2 million life-insurance clients to its existing base of around 700,000, Fubon said.

Mr. Kung said the acquisition also brings Fubon a step closer to meeting China's criterion on foreign insurers' operational experience before they can open mainland branches.

Foreign insurance companies need to have operated for at least 30 years before they can open branches in China. ING Life has operated in Taiwan for 20 years, while Fubon Life has operated for 15.

"Instead of waiting for another 10 years to meet the rule, we are still working on something else at the moment to speed up the time," said Mr. Kung. He declined to elaborate.

# GLOBAL BUSINESS BRIEFS

### France Télécom SA

## French telecom incumbent buys Orange Uganda stake

**France Télécom** SA said it acquired a majority stake in a Ugandan wireless provider and will start offering services under its Orange brand in the coming months. The company, named Orange Uganda Ltd., will be 53% owned by France Télécom and will use Hits Telecom's national license, GSM network and assets. "With a rapidly growing population of around 30 million people and a mobile penetration rate of less than 17% in March 2008, Uganda offers major prospects for growth," said France Télécom. A spokesman declined to say how much the company paid for the stake in Orange Uganda, but said it plans to invest $200 million over the next three years.

### OAO Sberbank

Russia's OAO **Sberbank**'s second-quarter net profit jumped 69% on sharp growth in lending income, but the company warned that weaker economic conditions might pose problems. State-controlled Sberbank said net profit rose to 35.9 billion rubles ($1.36 billion) from 21.21 billion rubles a year earlier. Lending rose 18%, pushing net interest income up 44% to 84.13 billion rubles before provisioning. Fee-and-commission income rose 31% to 21.1 billion rubles. "The third quarter is completely different," said Natalya Orlova, an analyst at Alfa Bank in Moscow. Sberbank shares have tumbled 70% this year. Sberbank cautioned that the current crisis might affect its ability to secure new loans and refinance existing loans.

### Sara Lee Corp.

The Dutch antitrust authority said Monday it fined Sara Lee Household and Body Care Netherlands, a subsidiary of U.S.-based **Sara Lee** Corp., €269,000 (about $360,000) for breaking a seal to a room with documents still under investigation. Sections of Sara Lee's premises in the Netherlands were sealed off in June as part of an ongoing antitrust investigation, said Barbara van der Rest-Roest, a spokeswoman for the watchdog. When the investigators returned to the premises, the rooms had been tampered with, she added. Maud Geerbex, a spokeswoman from the Sara Lee offices in Utrecht, said the company regretted the fine, but insisted it didn't hamper the investigation.

### Bangkok Bank PCL

**Bangkok Bank** PCL said third-quarter net profit fell 17% from a year earlier, hurt by an investment in bonds issued by U.S. investment bank **Lehman Brothers Holdings** Inc. Net profit for the period fell to 4.32 billion baht ($126.3 million) from 5.15 billion baht, Thailand's largest lender by assets said. The bank's noninterest income fell 40% to 3.53 billion baht because of an impairment of its 3.5 billion baht investment in Lehman bonds. The bank said it has set aside 3.08 billion baht to provide for impaired investments. Interest and dividend income rose to 13.51 billion baht, compared with 11.95 billion baht a year earlier.

*—Compiled from staff and wire service reports.*

# ECONOMY & POLITICS

## GERMANY

### Producer-price increase could lead to ECB worries

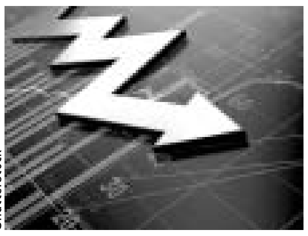

Fotosearch

GERMAN factory-gate prices were higher than expected in September, the Federal Statistics Office said, indicating that earlier sharp price increases for oil and other raw materials continue to drive up production costs. German producer prices rose 0.3% from August and 8.3% from September 2007.

Economists had expected a drop from August, and a smaller rise from last year. The data are likely to unsettle the European Central Bank, which worries that strong producer-price inflation will fan consumer-price inflation in the euro zone. At 3.6% for September, euro-zone inflation is already above the ECB's comfort zone of just under 2%. *—Nina Koeppen*

## JAPAN

### Two economic reports predict grim times ahead


Shutterstock

TWO economic reports on the state of Japan painted a grim picture for the world's second-largest economy, with expectations for sluggish growth in a deteriorating financial environment.

The Japanese government downgraded its overall assessment of the domestic and overseas economies, predicting the trend likely will continue as financial conditions in the U.S. and Europe worsen.

At the same time, the Bank of Japan downgraded its core economic assessment of the nation's regional economies in its October report, with all nine regions cutting their economic views for the first time in the report's brief history.

## EUROPEAN UNION

### Barroso says ECB's focus should stay on inflation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THE EUROPEAN Central Bank doesn't need to add economic growth to its mandate of preserving price stability, European Commission President Jose Manuel Barroso was quoted as saying in the French press.

The ECB has jealously guarded its independence from political pressure and has rejected calls to shift its focus away from inflation. Asked if the ECB should be looking at growth and inflation as it sets monetary policy, Mr. Barroso told French daily Le Figaro, "I do not consider that it is opportune or even necessary to change the mandate of the ECB." The ECB joined others in cutting interest rates on Oct. 8 to try to avert a deep recession. *—Reuters*

# Lower oil prices pressure Iraq's budget

*Amid effort to boost services, government prepares alternatives*

By Gina Chon
*Baghdad*

IRAQI FINANCE officials, taken by surprise by the sudden drop in crude prices, are drawing up contingency spending plans to trim next year's budget by an estimated 19%.

The country is dependent on oil sales for some 90% of government revenue. Politicians here have been under intense pressure to show signs of economic improvement amid a generally brighter security situation. Government spending is key to that effort—to improve basic services, like electricity and water; to carry out big reconstruction projects; and to create jobs.

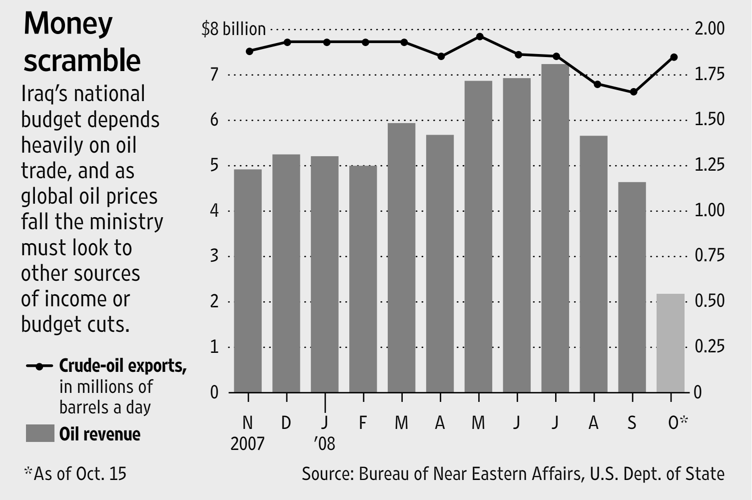
The budget discussions could also have ramifications for the U.S. and for whoever wins the race for the White House next month. If Baghdad finds itself in financial straits because of significantly lower oil revenue, its ambitious economic projects—which U.S. officials say are key to stabilizing the country—could be threatened.

Amid negotiations between Washington and Baghdad over the eventual withdrawal of U.S. forces, pressure is increasing to wind down America's large financial commitment to Iraq as well. U.S. lawmakers this year have criticized Iraqi politicians for spending the country's own money slowly while still receiving significant American financial aid.

Despite raking in billions amid recent high oil prices, Iraq has had lots of problems spending the money. Ministries still have inefficient spending-approval processes and few computers, for example, making it time-consuming to disperse even small sums.

So far, finance officials say they are sticking to their guns, and planning to propose a budget they have been preparing for 2009 that calls for $79 billion in spending, a 13% increase from the 2008 budget.

But that 2009 budget—which has yet to be sent to parliament—is based on an assumed oil price of $80 a barrel. In early-afternoon trading Monday on the New York Mercantile Exchange, U.S. benchmark crude for November delivery was up $2.09, or 2.9%, at $73.94, after tumbling in recent weeks from its record high of $147.27 in July.




If oil falls further, officials will consider rewriting the budget based on a price of $60 a barrel. That would necessitate cutting some $15 billion of spending, according to Dhiyah al-Khayoun, an adviser to Finance Minister Bayan Jabr.

Mr. Khayoun said the sudden decrease in oil prices took officials by surprise, forcing the ministry to scramble for alternatives as it prepared the 2009 budget.

"It was a shock and of course it will affect our budget," Mr. Khayoun said.

It is far from certain that oil prices will fall further, and they very well may move higher again. But for many big oil producers, the recent steep decline has been cause for concern. The Organization of Petroleum Exporting Countries is meeting this week to discuss whether to cut output to support prices.

Iraq is more vulnerable than most oil-producing countries. According to a recent International Monetary Fund estimate, the average price of oil that the much better-off Arab states of the Persian Gulf need to balance their budgets is $47 a barrel. For Iraq, the so-called break-even price is $111 a barrel.

Mr. Khayoun didn't say specifically what programs might be on the chopping block if oil continues to slide. The government has one month to finish the budget and present it to parliament. He also said he is optimistic oil prices will go back up soon.

During the past few years, the Iraqi government has been fairly conservative when estimating oil revenue. This year's $48 billion budget was based on oil priced at $57 a barrel. Oil was above $100 a barrel at the time that spending plan was drafted. A $22 billion supplemental budget for 2008 was passed earlier this year, bringing total 2008 spending to $70 billion.

# Deal to keep U.S. forces in Iraq moves closer to approval

By Gina Chon

BAGHDAD—A group of Iraq's top political leaders decided late Sunday they will forward to the country's cabinet this week a draft security pact with the U.S., marking another step toward approval of an agreement on the terms for a continued American military presence here.

The Political Council for National Security didn't technically endorse the agreement, but decided simply to forward the draft—which sets 2011 as the goal for the withdrawal of American combat troops—to Iraq's full cabinet for consideration. It then falls to Prime Minister Nouri al-Maliki and his ministers to forward the draft to parliament, where opposition against the deal could be intense.

The national-security council will officially forward the draft to the cabinet on Tuesday, according to two people at the meeting. It is unclear whether Mr. Maliki and his cabinet will hold up the draft. Iraqi politicians have sent mixed messages about support for the deal, but if the cabinet decides to forward it to parliament, lawmakers may take it up as early as later this week.

Hours before the meeting Sunday night, a key bloc of Shiite political parties in parliament, the United Iraqi Alliance, issued a statement saying more talks and changes were needed before the agreement could be approved. Because the alliance includes Mr. Maliki's Islamic Dawa Party, that statement was taken initially as a sign that the draft, which has been negotiated for months, had hit another snag.


*Nouri al-Maliki*

But the alliance's problems with the deal—including the wording of articles concerning legal jurisdiction over American soldiers and the withdrawal dates for U.S. troops—weren't considered significant enough by the security-council group to keep the pact from moving forward, according to two people who attended the meeting.

The current draft calls for immunity for U.S. troops from Iraqi law, except in extreme cases while they are off duty. Lawmaker Sami al-Askary, who is close to Mr. Maliki, said the Shiite alliance wanted to give the Iraqi government the authority to decide whether U.S. soldiers are off duty. The draft says the U.S. would make that decision.

"The agreement will face problems in parliament if the language stays the same on jurisdiction," Mr. Askary said.

The compromise strips immunity from American soldiers who commit "grave premeditated felonies...when such crimes are committed outside agreed facilities and areas and outside duty status," according to the latest version of the agreement, a copy of which was viewed by The Wall Street Journal.

The agreement states that in situations where U.S. soldiers could be prosecuted in an Iraqi court, troops "shall be entitled to due process standards and protections consistent with those available under U.S. and Iraqi law." The draft also says U.S. troops would leave at the end of 2011, although forces could be asked to stay longer to support Iraqi security forces beyond that. American combat soldiers would pull out of cities by the end of June 2009 and move to bases outside those areas, a move that has already begun in many parts of Iraq.

"United States forces shall withdraw from Iraqi territory no later than December 31, 2011," the agreement states. The pact is needed to provide a legal basis for the presence of U.S. troops here after a United Nations mandate ends.

Discussions on the agreement have been complicated by inter-Shia political tensions ahead of provincial elections, which could take place in January. If the draft gets to the 275-member parliament, it will require a simple majority for passage.

## ECONOMY & POLITICS

# The world feels China's declining growth

*Businesses that rose on country's boom are being hurt most*

By Andrew Batson And Ian Johnson

BEIJING—China's booming economy is cooling more rapidly than most forecasters had expected, undermining hopes that Chinese demand could help keep the global economy humming even as the developed world grinds through a financial crisis.

China's statistics bureau reported Monday that economic growth slowed to a year-to-year expansion of 9% in the third quarter, down from 10.1% in the second and 10.6% in the first quarter. Average growth for the year to date is now at 9.9%, and with the slowdown continuing, China is likely to report its first year of growth below 10% since 2002.

"The global financial crisis has already struck a severe blow to investor and consumer confidence in many countries around the world, and China is not an exception," Li Xiaochao, spokesman for the National Bureau of Statistics, told reporters.

China has already cut interest rates twice since September, and the worse-than-expected recent data are likely to accelerate the government's drive to sustain the expansion. Many economists now forecast Chinese growth will fall as low as 8% next year, the lowest rate for China since the aftermath of the Asian financial crisis.

The businesses that have benefited from China's outsized growth—including German machine toolmakers, Japanese construction-equipment producers and raw-material suppliers around the globe—have been feeling the pinch. Commodity prices have plunged in recent weeks as markets discount the prospects for both China's expansion and demand from rich countries like the U.S. and Japan.

The slowdown highlights how, for all of its show-stopping growth in recent years, China has yet to achieve the kind of scale needed to single-handedly drive the global economy. China ranks 100th in the world in terms of per-capita income, and accounts for 6% of the global economy at market-exchange rates. After adjusting for purchasing-power parity, as many economists favor, China still accounts for only about 10% of the world economy.

"They can be something of a driver, but what happens in the other 90% is going to matter more," says Nicholas Lardy of the Peterson Institute of International Economics. And though its financial system remains largely insulated from the credit crunch, China clearly has problems of its own. "Everything is moving in the wrong direction in terms of sustaining growth," Mr. Lardy says.

Exports are rapidly softening as demand from big customers like the U.S. and Europe drops. That's happening just as a downturn in China's property market threatens to take a further toll on growth. While infrastructure spending is continuing to boom, and Chinese consumer spending has held up well, an overall slowdown seems likely. Industrial shutdowns for the Beijing Olympics got the blame for weak August data, but a further slowdown in output in September suggests that the weakness was broader.

Chinese growth, to be sure, remains extraordinarily high by world standards and looks likely to stay so. But China's domestic demand simply isn't big enough to replace the enormous role played by the U.S. While China's 1.3 billion people collectively consumed about $1.2 trillion last year, America's 300 million people consumed $9.7 trillion.

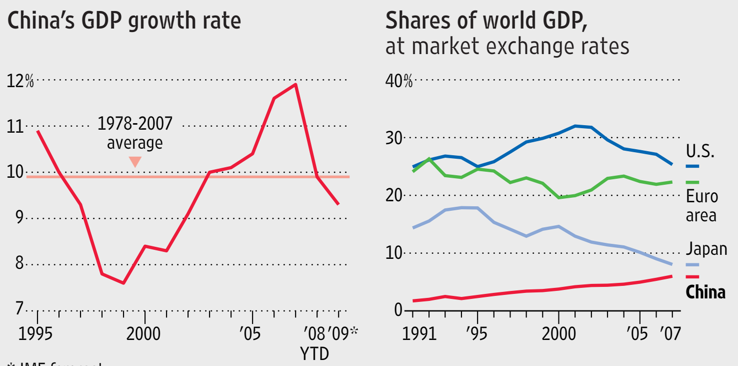
China remains a large net exporter: During January to September, for example, China exported $181 billion more than it imported.

"The math just doesn't add up," says Stephen Roach, chairman of Morgan Stanley in Asia. "China is still a relatively poor country. They might be able to cushion the blow a little bit, but not a lot."

For those who produce the goods that China does need—mainly raw materials and machines to build its houses and factories—the Chinese boom has been welcome. Germany, for example, has retained its crown as the world's largest exporting nation in part by selling industrial equipment to China.

**No savior**

China is still a small part of the world economy, and its growth rate is also slowing below trend




* IMF forecast

Sources: National Bureau of Statistics (GDP growth); International Monetary Fund (Shares of world GDP)

According to German trade-industry statistics, in the first seven months of this year, exports to China of machines and machine parts were up 20% year from a year earlier. That makes China Germany's second-most important market for machinery, behind the U.S. "China has its own dynamic," says Olaf Wortmann, an economist with the VDMA engineering association, who believes export growth to China can stay in the 10% range even with the slowdown.

That's good news, given the overall global downturn. But China's demand has its limits. China is a major buyer of German industrial equipment but not of other German products. Overall, China is only Germany's 11th-biggest market—a modest 3% of Germany's €969 billion in total exports last year. That's clearly not enough to power the whole economy: Germany's growth rate is slipping below 2% this year and is likely to be zero next year.

Since the winners from China's boom have been disproportionately in businesses tied to the construction and investment cycle, the current slump in the property market is taking an outsized toll in those sectors. As housing sales fall and developers cut back on new projects, demand for the steel, cement and copper that go into new buildings has weakened. China's domestic steel prices have plunged in recent weeks, and some smaller producers are going out of business. **FerroChina** Ltd., a Singapore-listed steelmaker, went into receivership earlier this month after it was unable to pay its creditors.

Even in the machine-exporting sector, companies have noticed China's slowdown. Uwe Geilker, a member of the executive board at **Desch Antriebstechnik** GmbH in the German city of Arnsberg, says China has become an increasingly important market for his company's gears, press drives, clutches and other components. But this year, export orders have plunged. The biggest drop is from the U.S., followed by European countries. Though orders from Asia and China have not fallen, they aren't picking up the slack. Thus Desch expects revenues and exports to "stagnate" next year, says Mr. Geilker.

China's slowdown is forcing adjustments in neighboring Asian nations. **Tosoh** Corp., a major Japanese chemical producer, has cut its output of polyvinyl chloride—the plastic building material better known as PVC—by 15% from September. It was Tosoh's first such move in 10 years, and the company cited a sharp decline in demand from China as a reason.

For a while, orders for Japanese machine tools from developing economies had been helping the industry offset the sluggishness in its home market and in the U.S. and Europe. But after falling for three months this year, orders from China plunged 24.6% in September, according to the Japan Machine Tool Builders' Association. Shares in **Komatsu**, Japan's largest machinery company, have shed nearly 70% of their value since their June peak.

Mr. Li of China's statistics bureau says he expects the international financial crisis to take a further toll on both inflows of foreign investment, and exports—two important drivers of growth in recent years. Inflation has, however, come down sharply, to 4.6% in September from a peak of 8.7% in February. That has allowed the government to switch policy toward supporting growth, and officials have signaled that more measures are on the way.

"We must also recognize that China has the ability to ward off this impact. China has a lot of room to maneuver in policy, including fiscal policy, monetary policy, structural policy and industrial policy," Mr. Li says, pointing to the nation's high savings rate and a banking system flush with cash.

The State Council, China's highest government body, issued a statement Sunday night saying it will "take flexible and prudent economic policies, and quickly publish targeted tax, credit and trade-related measures to continue to maintain the stable and rapid growth of the economy." In addition to further interest-rate cuts and tax breaks for exporters, analysts expect that the government will look to infrastructure and housing for a growth boost—much as it did in 1998 when trying to ward off the Asian financial crisis.

"Even though the Chinese government says that it will try to boost economic growth, it takes some time until actual demand increases," says Kim Woo-kyung, spokeswoman for **SK Energy** Co., a South Korean petrochemical company. Its exports of petroleum products to China have already dropped 35% in volume in the first eight months of this year. The most SK Energy can hope for from the China market, she says, is that demand does not fall any further.

*—Peter Stein in Hong Kong, Mike Esterl in Frankfurt, SungHa Park in Seoul and Miho Inada in Tokyo contributed to this article.*

# AIG halts U.S. lobbying efforts

By Elizabeth Williamson

**American International Group** Inc. said it will stop lobbying U.S. lawmakers and regulators, after coming under congressional pressure and questioning over how it is using more than $120 billion loaned by the government to keep the company afloat.

The financial-services giant also has canceled about 160 events scheduled for coming months that were to cost $80 million, AIG spokesman Nick Ashooh said Monday. Congressional overseers have raised questions over a series of lavish events thrown by AIG in the days after its government rescue last month, including a $440,000 weekend at a California spa for top business producers.

"We're reviewing all of our expenses and activities. As part of that we have suspended lobbying activities," Mr. Ashooh said.

Sen. Dianne Feinstein (D., Calif.) and Sen. Mel Martinez (R., Fla.) wrote to AIG Chief Executive Edward Liddy on Friday, telling him not to use its government loan to try to roll back tougher mortgage-industry licensing requirements and other controls.

The Wall Street Journal reported on Thursday that AIG was still engaged in a state-by-state effort to soften new federal regulations requiring mortgage originators get licenses and provide extensive background information. Abuses and fraud by mortgage originators helped ignite the crisis that threatened AIG with bankruptcy and forced the federal intervention.

Sens. Feinstein and Martinez sponsored the mortgage-oversight legislation, which Congress passed in July as part of a housing-industry rescue package.

"AIG has spent millions to lobby states to soften the licensing provisions, even after taxpayers loaned AIG more than $120 billion to prevent its collapse precipitated by excessive risk-taking," the senators wrote in their Friday letter to Mr. Liddy. "We find it unconscionable."

Also on Friday, House Oversight Committee Chairman Rep. Henry Waxman (D., Calif.) wrote to Mr. Liddy, asking for, among other things, information on any events held by the company since Jan. 1, 2008, through the next six months.

As part of its internal review, Mr. Ashooh said on Monday, Mr. Liddy has told employees that any personal expenses incurred during the California spa weekend must be reimbursed.

Mr. Ashooh said that for now, AIG isn't closing any of its lobbying offices, but that work-force reductions would be part of the company's restructuring.

"We're not suspending lobbying as a cost-saving measure but as part of an overall review of what activities we should be involved in," he said.

# U.S. leading-indicators index shows first rise in 5 months

By Kathleen Madigan

The U.S.'s composite index of leading indicators increased 0.3% in September to 100.6, the first increase in five months, according to preliminary estimates by the Conference Board.

The leading index for August was revised downward to show a drop of 0.9%, instead of the 0.5% drop reported earlier. During the six months ended in September, the index declined 1.3%.

Six of the 10 indicators rose in September. The largest positive contributors to the index were real money supply, consumer expectations and the interest-rate spread. The most significant negative contributors were jobless claims and building permits.

The index was equal to 100 in 1996.

"The latest data suggest that conditions in the nonfinancial economy are not falling apart," said Ken Goldstein, labor economist at the Conference Board. "Data on hand reflect a contracting economy but not one in free fall."

The Conference Board also reported that the composite index of coincident indicators fell 0.5% in September, to 106. Industrial production had the largest negative contribution. However, part of the output decline reflected plant shutdowns because of two hurricanes on the U.S. Gulf Coast and the strike at Boeing Co. That index was at 100 in 1992.

The coincident index fell 0.2% in September. For the six months ended in September, the index was up 0.2%.

The Conference Board is a nonprofit research and business membership group that computes the composite indexes from the U.S. Department of Commerce.