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Measuring the magic when movie stars work together

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How Boeing's labor strife reflects the broader crisis

NEWS IN DEPTH | PAGES 14-15

Interest-rate cuts loom as recession fears mount

Investors anticipate half-point decreases throughout Europe

By Joellen Perry

FRANKFURT—European central bankers signaled interest rates are likely to head lower soon as the financial crisis nudges Western Europe closer to recession.

Hints from European Central Bank and Bank of England policy makers Thursday spurred investors to increase bets the banks will lower their key rates by a half-percentage point at meetings on Nov. 6.

Sweden's central bank cut its key rate to 3.75% from 4.25% Thursday and said it expects to cut by another half percentage point over the next six months to offset the economic impact of market turmoil.

The ECB, the U.K. central bank and Sweden's Riksbank took part in a surprise, coordinated global rate cut on Oct. 8 with the U.S. Federal Reserve, lowering their key rates by a half percentage point. Now, with the Fed's target rate at 1.5%, many economists expect the U.S. central bank to lower it further at its meeting next week.

Expectations of more cuts by the ECB, which makes monetary policy for the 15 countries that share the euro, pushed the currency to a fresh two-year low of $1.2726 Thursday. The pound hovered around the five-year low of $1.6048 it hit Wednesday, and in New York Thursday afternoon it was at $1.6108, down from $1.6310 late Wednesday. Lower interest rates can make currencies less attractive to investors.

The prospect of lower Western European interest rates contrasts with expectations for Eastern Europe after Hungary's central bank raised its key rate in an emergency meeting Wednesday. With investors pulling out of riskier markets, Hungary lifted its key rate by three percentage points to 11.5% to help strengthen its currency, the forint. The move temporarily didn't significantly check the forint's slide Wednesday and raised the possibility

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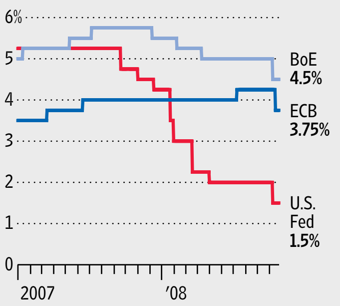
Falling further

The European Central Bank and Bank of England are likely to cut their key rates further amid weakening growth and lower inflation



Sources: European Central Bank; Bank of England; U.S. Federal Reserve

German banks face big bills on Iceland bet

German banks have bled billions of euros in the U.S. subprime-mortgage debacle. Now they face another potentially big bill from a costly misadventure in Iceland.

The Icelandic bet is the latest illustration of how German banks—

By Mike Esterl in Frankfurt and Charles Forelle in Brussels

including once-sleepy regional lenders—ranged far and wide in recent years in search of yield to escape stiff competition and low profit margins on their home soil.

By June of this year, before Iceland's spectacular financial meltdown, German financial institutions had lent $21.3 billion to Icelandic borrowers, according to the Bank for International Settlements. That was well over a quarter of all foreign lending in Iceland, and roughly five times as much as Britain, the next-largest creditor country.

Iceland's three largest banks—and the country's main debtors—collapsed this month, plunging the country into crisis. **Kaupthing Bank**, Iceland's biggest, missed a coupon payment this week on 50 billion yen ($512 million) of bonds in Japan, heightening default concerns.

Blaming fallout from the U.S. financial crisis, lawmakers in Berlin approved a €500 billion ($642 billion) rescue package for German banks on Oct. 17. **Bayerische Landesbank**, a state-owned regional lender, became the first German bank to raise its hand for help

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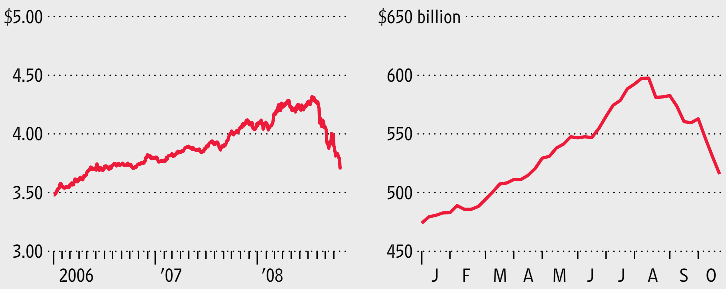
Losing ground

How many U.S. dollars buy 100 Russian rubles

Russia's central bank reserves, year-to-date weekly data*



*Since July 1, foreign securities in the reserves are calculated based on market prices

Sources: WSJ Market Data Group; Russian Central Bank

Warning on credit rating stirs anxiety in Russia

By Alan Cullison And Gregory L. White

MOSCOW—In a blow to the Kremlin's efforts to project confidence during the global economic storm, Standard & Poor's said it could soon cut Russia's credit ratings because the rising cost of the Kremlin's financial bailout could strain its once-bulletproof finances.

The warning comes as the ruble fell to a two-year low against the dollar even as the central bank has spent tens of billions of dollars from its reserves to defend the currency. Worried about the financial turmoil, Russians have been converting ruble savings into dollars and euros, driving street exchange rates lower than the official one.

With a rainy-day fund of more than half a trillion dollars saved up from its oil and gas revenues in recent years, the Kremlin has sought to portray Russia as better sheltered from the global storm than most countries. But the sharp drop in oil prices in the past few weeks, reaching levels where Russia's budget and trade balance could fall into deficits, have raised questions about how long the Kremlin's reserves will last.

Russia has in the past few days been awash in rumors of a devaluation of the ruble, whose stability has been a much-touted achievement since Vladimir Putin, who is now prime minister, came to power as president eight years ago. Worried the selling could turn to a stampede, government officials have issued a flurry of denials, while some commercial banks have begun to limit the amount of foreign currency they sell at exchange points.

This week saw unusually heavy selling. An official from a major Western bank said the central bank will probably spend $20 billion to slow the currency's fall. On Thursday, Russia's central bank said its

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What's News—

Business & Finance

Central bankers signaled European interest rates are likely to head lower soon as the financial crisis nudges the Continent closer to recession. Expectations of more cuts pushed the euro to a two-year low, and the pound hovered around the five-year low. Sweden's central bank cut its key rate a half point to 3.75% Thursday. **Pages 1, 20**

■ **Greenspan admitted** errors in assumptions about deregulation in testimony to Congress. He said he isn't personally responsible for the crisis. **Page 2**

■ **German banks face** a big bill following their loans, roughly five times as much as Britain, to Icelandic borrowers. **Page 1**

■ **OPEC faces** its toughest decision in a decade, as ministers meet in Vienna where a production cut is widely expected. Nymex crude prices rose 1.6% to $67.84 a barrel. **Page 3**

■ **Credit Suisse Group posted** a net loss for the third quarter and said it would accelerate plans to trim risk and make earnings less volatile. **Page 17**

■ **U.S. stocks rose** after an up-and-down day, sending the Dow to a 172.04-point gain. European markets were mixed. **Page 18**

■ **Swedish banks** took a hit amid the financial crisis. Third-quarter profit fell at Nordea, Swedbank and SEB. **Page 19**

■ **GM and Chrysler will need** government, union and shareholder support if they are to reach a merger agreement. **Page 4**

■ **Daimler cut its** 2008 earnings forecast for the second time, as the auto maker swung to a first-quarter profit. **Page 5**

■ **Nestlé raised its** revenue outlook for the year, as the food company's pricing strategy continues to pay off. **Page 7**

■ **Renault said its revenue** fell 2.2% and issued a profit warning, as the financial crisis hurts car makers in Europe. **Page 5**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8691.25	+172.04	+2.02
Nasdaq	1603.91	-11.84	-0.73
DJ Stoxx 600	208.72	-0.85	-0.41
FTSE 100	4087.83	46.94	+1.16
DAX	4519.70	-51.37	-1.12
CAC 40	3310.87	+12.69	+0.38
Euro	$1.2874	-0.0037	-0.29
Nymex crude	$67.84	+1.09	+1.63

Money & Investing > **Page 17**

World-Wide

S&P said it could soon cut Russia's credit ratings because the rising cost of the Kremlin's financial bailout could strain its finances. The warning came as the ruble hit a two-year low against the dollar even as the central bank has spent tens of billions of dollars from its reserves to defend the currency. **Page 1**

■ **A European court ruled** that the EU wrongly blacklisted an Iranian opposition group, adding fuel to accusations that the bloc has used its terrorist list to appease Tehran. **Page 9**

■ **Georgia said Russia deployed** 2,000 extra troops in South Ossetia in the past week, but Moscow dismissed the claim.

■ **A jailed Chinese dissident** won a rights award given by European lawmakers, despite warnings from China that it would consider it an affront. **Page 9**

■ **The U.S. handed** security duty for Babil to Iraq. In Baghdad, a bomber hit the labor minister's convoy, killing at least nine. The minister was unharmed.

■ **Suspected U.S. missiles** struck a Taliban-linked school in Pakistan, killing nine people, officials said, in an apparent sign of U.S. frustration with the country's antiterror efforts.

■ **A roadside bomb hit** a U.S. coalition vehicle in western Afghanistan, killing three troops, while 18 Taliban fighters died in other clashes, officials said.

■ **Israel's premier-designate** gave her potential coalition partners three days to join a new government under her leadership or face new elections.

■ **A top aide** to Greece's prime minister resigned from the cabinet over a land-swap scandal.

■ **Traders and investors** demonstrated outside Kuwait's stock exchange, demanding the government halt trading after another market slide. **Page 21**

■ **An Italian military helicopter** crashed in northeastern France, killing all eight people on board.

■ **The European Parliament** denounced the famine that killed millions of Ukrainians in the '30s as a crime against humanity.

■ **The French navy** captured nine pirates near the Gulf of Aden.

EDITORIAL & OPINION

Russia's shame

Businesses can't trust Moscow as long as Khodorkovsky remains locked up. **Page 13**

THE WALL STREET JOURNAL.

LEADING THE NEWS

Greenspan says he had 'flaw' in approach

Fed ex-chief admits an error in stance toward deregulation

By Brian Blackstone
And Kara Scannell

WASHINGTON—Grilled by lawmakers examining the causes of the financial crisis, former U.S. Federal Reserve Chairman Alan Greenspan Thursday admitted some mistakes in assumptions about deregulation while rejecting the idea that he is personally responsible for what he termed a "once-in-a-century credit tsunami."

In testimony to the House Government Oversight Committee, Mr. Greenspan acknowledged that the crisis "has turned out to be much broader than anything I could have imagined. It has morphed from one gripped by liquidity restraints to one in which fears of insolvency are now paramount."

"Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity (myself especially) are in a state of shocked disbelief," according to Mr. Greenspan.

The panel chairman, Rep. Henry Waxman (D., Calif.) criticized Mr. Greenspan's approach to mortgage regulation while he was Fed chairman. The Fed "had the authority to stop the irresponsible lending practices that fueled the subprime-mortgage market," Rep. Waxman said, but Mr. Greenspan "rejected pleas that he intervene."

However, Mr. Greenspan said he raised concerns about the dangers of the "underpricing of risk" as early as 2005.

But when Rep. Waxman pressed Mr. Greenspan about the benefits of deregulation, asking, "were you wrong?" Mr. Greenspan responded, "partially." The "flaw" in the assumptions he had over four decades, Mr. Greenspan said, was that lending institutions themselves were best able to protect the interest of their shareholders.

Thus what looked like a solid edifice to his thinking broke down, Mr. Greenspan said.

Associated Press

Former Federal Reserve Chairman Alan Greenspan, left, **admitted mistakes** in assumptions about deregulation.

Mr. Greenspan said there should be more regulation of credit-default swaps, but he also noted that excluding those instruments, the derivatives market is functioning well.

Mr. Greenspan also said policy makers will have to address the "too big to fail" question—the idea that certain firms have such a wide effect on markets and the economy that the government would never let them go under. There needs to be something that "penalizes" firms that broach that threshold to avoid giving them an unfair advantage over smaller rivals, Mr. Greenspan said.

Turning to the economic outlook, Mr. Greenspan suggested the financial crisis currently gripping the U.S. will take many months to improve, meaning higher unemployment and softer consumer spending is likely ahead.

"Given the financial damage to date, I cannot see how we can avoid a significant rise in layoffs and unemployment," Mr. Greenspan said in the text of prepared testimony to the U.S. House Government Oversight and Reform Committee.

That, in turn, "implies a marked retrenchment of consumer spending as households try to divert an increasing part of their incomes to replenish depleted assets, not only in their 401(k)s but in the value of their homes as well," Mr. Greenspan said.

While Mr. Greenspan assured lawmakers that "this crisis will pass" and that the U.S. will end up with a "far sounder financial system," he warned that it won't come quickly.

Mr. Greenspan said a "necessary condition for this crisis to end is a stabilization of home prices in the U.S."

"At a minimum, stabilization of home prices is still many months in the future," he said.

In separate testimony, Securities and Exchange Commission Chairman Christopher Cox said he "strongly supports" merging his agency with the Commodity Futures Trading Commission, a rival independent agency that regulates the futures markets.

Mr. Cox, a former Republican congressman, also called for the establishment of a bipartisan task force that cuts across jurisdictional lines as the best means to develop a future regulatory structure. It was one of several recommendations by Mr. Cox, who also reiterated calls for regulation of credit-default swaps, insurance-like contracts that have contributed to financial crisis.

CORRECTIONS & AMPLIFICATIONS

Antidepressants increased the risk of suicidal thoughts and behaviors in adolescents in short-term studies of major depression and other psychiatric disorders, according to a warning the Food and Drug Administration requires on antidepressant medications. A Health Journal article on Tuesday erroneously said adolescents face an increased risk of suicide on antidepressants.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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OPEC faces its toughest decision in years

Output cut is sure, but other questions will be hotly debated

BY SPENCER SWARTZ AND NEIL KING JR.

VIENNA—OPEC ministers on Friday face their toughest decision in at least a decade as they weigh the depth of a likely cut in oil exports to reverse falling oil prices, even as the U.S. and Europe wrestle with the increasing likelihood of a recession.

The difficulty of the Organization of Petroleum Exporting Countries' challenge is apparent in some of the unusual theater of the cartel's emergency gathering here. Anticipating a long debate, the group's 13 ministers plan to meet early Friday, a departure from their more leisurely midday powwows.

All the delegates appear to favor an output cut, but intense haggling is sure to ensue over who should bear the brunt of reduced exports. OPEC furnishes the world with

Associated Press

Ali Naimi, Saudi Arabia's oil minister, in Vienna for Friday's OPEC meeting.

about 40% of its oil needs.

U.S. benchmark crude rose 1.6% to $67.84 Thursday, up $1.09 on the New York Mercantile Exchange, in part in anticipation of a supply cut.

At a time when petroleum demand is off sharply in the U.S. and other industrialized countries, few observers question the wisdom of OPEC trimming its output to avoid oversupply and to protect its own interests.

Forecasters in recent weeks have downgraded their expectations for next year, forecasting tepid growth in overall oil demand. Some see global demand actually falling this year for the first time in decades.

But there is still debate within OPEC over how severely to slash output now. Some countries, including Iran, advocate a combined cut now of two million barrels a day or more.

Algeria's oil minister, Chakib Khelil, is among those suggesting that the cartel should trim in several stages—one cut now, and then perhaps in December, when the group is set to meet next.

The minister representing the world's biggest oil exporter, Saudi Arabia's Ali Naimi, only hinted at his country's views as he fended off a throng of journalists and camera crews packed in the lobby of his hotel.

When asked if the market was out of kilter, Mr. Naimi responded: "What do you think? Look at what the EIA data has been showing."

Mr. Naimi was referring to swelling crude oil stocks data from the U.S. Department of Energy's Energy Information Administration, which has shown oil inventories in the U.S. rising above year-ago levels for the first time since August 2007.

It is all but certain OPEC will agree Friday to cut at least one million barrels a day from the around 32 million barrels a day the group now supplies. But several factors suggest a cut of that magnitude may do little to stem the price fall, especially as oil markets have been assuming OPEC will lop output by at least one million barrels a day.

The soaring U.S. dollar over the past month is exerting downward pressure on oil prices, as oil is valued in dollars. Also, the continued plunge in world stock markets has also increased fears of a global economic slowdown that would sap demand for oil across the board.

OPEC itself has remained fairly optimistic about oil demand next year, predicting in a report this month that demand could grow by just under 1% in 2009. But such assessments are changing almost daily as the world's financial outlook darkens.

Sadad al-Husseini, a former head of exploration at Saudi Aramco and now a Morgan Stanley consultant, said in a conference call that world oil demand could fall below 84 million barrels a day in the second quarter of next year, down from just under 86 million now. He then predicted demand will rebound as the world economy strengthens.

Anticipating the slide, some key OPEC members have already begun to curtail production unilaterally.

Bill Farren-Price, energy director at Medley Global Advisors, estimates Gulf nations such as Saudi Arabia and Kuwait have begun production cuts that could amount to nearly one million barrels a day by November.

Some OPEC countries are already facing fiscal strains at home as plunging prices threaten to gouge sometimes lavish state spending.

The biggest wild card going into next year is China, whose heady economic growth now appears to be cooling. Any evidence of a sharper slowdown in China would likely send oil prices plunging even in the face of sharp OPEC cuts.

—Benoît Faucon contributed to this article.

CORPORATE NEWS

PHARMACEUTICALS

Glaxo acquires vaccines for Alzheimer's disease

Associated Press

BRITISH drug maker **GlaxoSmithKline** PLC said it's buying the rights to two early-stage experimental vaccines for Alzheimer's disease developed by Austria's **Affiris** GmbH in a deal valued at as much at €430 million ($551 million). Glaxo also has an option to develop other Alzheimer's vaccines that the closely held biotechnology company is currently testing on animals.

The two vaccines are therapeutic rather than preventative, meaning they are administered after someone contracted the disease to stop its progression. Current Alzheimer's treatments only ease symptoms of the disease. *—Elena Berton*

CONSTRUCTION

Volvo to slash more jobs as market slows down


Volvo

SWEDEN'S Volvo AB said it will slash 850 additional jobs at its construction-equipment business because of a slowdown in the market. The company, which also makes trucks and buses, had previously announced it would cut 500 jobs from the construction unit.

Last month, it also gave notice to 1,400 workers at truck plants in Belgium and Sweden amid falling demand in Europe. Volvo said the latest layoffs will affect workers at four plants in Sweden. The unit makes excavators, loaders, pavers and other construction vehicles. It has about 16,000 employees. *—Associated Press*

BROADCASTING

Redstone rejects notion of selling Viacom or CBS


Getty Images

MEDIA MOGUL Sumner Redstone said there's "not a chance" he will sell **Viacom** Inc. or **CBS** Corp. to resolve the debt issues facing his family holding company, **National Amusements** Inc.

Mr. Redstone ruled out selling any shares in either of the two companies he controls, even if negotiations with lenders about a debt restructuring turn sour. Mr. Redstone acknowledged there is "no guarantee" those negotiations will result in a deal, but he described them as "extremely constructive." Mr. Redstone rushed to sell $233 million of his family's Viacom and CBS holdings earlier this month to avoid breaching the terms of a National Amusements loan. *—Merissa Marr*

Electric-car maker sets sights on Australia

Better Place hopes to raise A$1 billion for ambitious plan

BY JOHN MURPHY
Tokyo

EVEN AS tumbling gasoline prices threaten to undermine consumer interest in alternative-fuel cars, **Better Place**, a California-based electric-vehicle company, Thursday said it aims to raise one billion Australian dollars (US$668.5 million) to develop an electric-car network in Australia.

It is the company's biggest effort yet to wean drivers off gasoline-powered cars.

Under the plan, announced in Melbourne, Better Place will work with **Macquarie Capital Group** Ltd. to attract investors to build recharging stations, with the goal of mass marketing the first electric cars by 2012. It also signed on Australian utility **AGL Energy** Ltd. to supply electricity from renewable sources like wind to power the network.

No auto maker has been named in the agreement. But the alliance of France's **Renault** SA and Japan's **Nissan Motor** Co., which is developing an electric car, is considering whether to provide vehicles to the Australian partnership.

Launched in 2007, the $200 million venture-funded Better Place is seeking to join forces with car makers, governments and investors to jump-start an electric-car industry. The Better Place concept is to create an electric-car business similar to the mobile-phone industry. Drivers would pay for access to battery-recharging stations and for the miles they drive—similar to the way a mobile-phone user is charged for minutes.

It is already building electric-car networks in Israel and Denmark, where it plans to begin mass marketing electric cars in 2011. Australia would be the largest effort by Better Place to steer a country off oil dependence.

"Our network buildout in Australia will demonstrate that the Better Place model works in all countries, regardless of size," said Shai Agassi, chief executive and founder of Better Place.


Newscom

Better Place, which said Thursday it aims to raise $668.5 million to develop an electric-car network in Australia, is already building such networks in Israel and Denmark.

The announcement comes at an uncertain time for alternative-energy projects like Better Place. Much of the excitement this year surrounding eco-friendly vehicles such as fuel-cell, hybrid and electric cars stemmed from soaring oil prices. But oil prices have fallen in recent weeks to less than $70 a barrel from a high of $147, stripping away one of the primary motivations for governments, investors and consumers to support alternative-energy efforts besides energy security and environmental concerns.

With credit markets frozen amid the global financial crisis, it may also be difficult to generate the funds for such large infrastructure investments like electric-car networks.

Indeed, just last week, **Tesla Motors** Inc. announced it was cutting staff and delaying the introduction of its second battery-powered vehicle, the Model S, until 2011. The move by the Silicon Valley electric-car start-up reflects tougher financial markets.

Still, Mr. Agassi remains optimistic about his electric-car project. Better Place expects the operating costs of electric vehicles will be about six to eight cents a mile, the rough equivalent of $1.50 per gallon of gasoline, he said.

While credit is tight, Mr. Agassi said investors are still searching for new opportunities and governments are looking to support projects that create green jobs. He said building the network will be cheaper because construction prices are falling amid the economic slowdown, adding that oil prices will eventually increase when the economy recovers.

"So we might be in the best position ever," Mr. Agassi said.

Potential GM-Chrysler merger needs many supporters

BY JOHN D. STOLL
AND JEFF MCCRACKEN

As merger discussions between **General Motors** Corp. and **Chrysler** LLC continue, it's increasingly clear that any deal will require the support of government officials, shareholders and unions, said people familiar with the matter.

On Wednesday, Michigan's congressional delegation jumped into the fray, disclosing that it wants the federal government to assist Detroit's beleaguered auto makers and lenders. However, it isn't clear what measures they are urging and whether they would back a merger of the two auto giants.

Led by Rep. John Dingell (D-Mich.) and Rep. Fred Upton (R-Mich.), the state's delegation is preparing to urge Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson to "promote liquidity" in the auto industry. "In this current economic environment it is imperative that the government ensures that liquidity is restored so that the U.S. auto industry is able to function until normalcy is restored to the credit makers," a draft of the letter said.

The draft was reviewed by The Wall Street Journal. Not all members of the delegation have signed it. A GM spokesman declined to comment on the letter.

Meanwhile, auto makers on Thursday announced more cutbacks, underscoring their desperate straits. GM will be forced to lay off salaried workers even after more employees than expected took buyouts, the auto maker said in a letter sent to executives. The largest U.S. auto maker will also cut benefits for salaried workers, including eliminating matching payments into 401(k) plans, ending employee assistance programs and shortening the time frame in which workers will receive severance pay.

There are a host of issues now influencing the discussions about possible government support of a GM-Chrysler combination, such as how many workers could lose their jobs and how exactly the deal would be structured, these people said. Outside voices important to the discussion would include lenders, potential investors and politicians, they said. There are a "lot of issues out there complicating the talks in a lot of ways" said one person involved.

A spokesman for Rep. Dingell declined to comment on the specific content of the state delegation's letter. The letter warns that "every segment" of the auto industry is "experiencing devastating effects that have resulted from the world-wide credit crisis."

Rep. Thaddeus McCotter (R-Mich.) said he has been disappointed that government officials haven't acted on promises of help for the auto industry in the bailout. "That doesn't appear to be happening at this point," Rep. McCotter said during an interview.

It is unclear at this point what the Federal Reserve and Treasury Department could do to bail out the auto lenders, other than purchase at-risk auto loans. But unlike the U.S. housing industry, the problems plaguing auto lenders have little to do with risky auto loans made in the past. Instead, lenders such as GMAC and Ford Credit are finding it difficult to access funding because of overexposure to the beleaguered Big Three auto makers.

In recent weeks, U.S. auto executives have blamed the lack of available consumer credit for an increased softening of demand for cars and trucks. Last week, GMAC, the biggest auto lender in the world, significantly tightened requirements for the loans it originates. The move forced GM to launch a marketing campaign telling consumers about the hundreds of other lenders that can offer car loans. But many of those lenders have also tightened their standards.

Yesterday, Chrysler, majority owned by **Cerberus Capital Management LP**, said it will eliminate a shift at an Ohio assembly plant and accelerate the closure of a factory.

Daimler trims its forecast

Auto maker returns to profit for quarter, but warns on outlook

By Christoph Rauwald

FRANKFURT—**Daimler** AG swung to a third-quarter net profit, but cut its 2008 earnings forecast for the second time as the auto market deteriorated further amid the financial crisis.

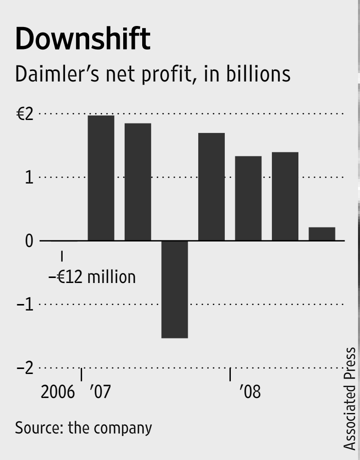
The company, which makes Mercedes-Benz, Smart and Maybach cars, now expects to post 2008 earnings before interest and taxes from continuing operations of more than €6 billion ($7.7 billion), excluding special items—down from its previous forecast of more than €7 billion.

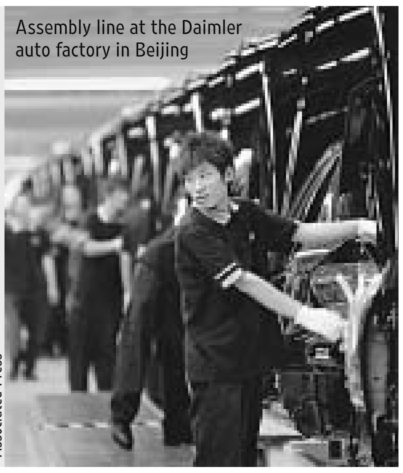
Daimler expects 2008 revenue to decrease slightly from last year's €99.4 billion, after previously targeting a slight increase. The company warned that its forecasts are uncertain because of the turmoil in credit and financial markets.

"It is not yet possible to reliably assess how quickly the action plans announced by various governments will contribute to the stabilization of markets for financial services and goods," Daimler said in a statement.

Auto makers around the world are seeing sales shrink because of weakening economies and because consumers are struggling to get car loans amid the credit crunch. Premium car makers like Daimler are being hit especially hard by the downturn.

Many analysts had expected Daimler, the world's second-best-selling auto maker after BMW AG, to issue another profit warning for 2008 after the company already revised its target at the end of July.





Assembly line at the Daimler auto factory in Beijing

Associated Press

For the quarter ended Sept. 30, Daimler reported a net profit of €200 million, compared with a year-earlier net loss of €1.55 billion, when it booked €2.6 billion in charges related to the sale of most of U.S. car maker Chrysler LLC.

Revenue fell 7.3% to €23.8 billion from €25.68 billion, battered by a steep sales decline in the U.S.

The company posted third-quarter Ebit of €648 million, down 66% from €1.89 billion a year earlier.

Additionally, Ebit was weighed down by €765 million in charges. Daimler's 19.9% stake in Chrysler shaved €351 million off earnings in the quarter, including charges of €248 million related to a restructuring program and the reassessment of residual values.

Daimler sold an 80.1% stake Chrysler to New York private-equity firm Cerberus Capital Management last year. It kept a stake of 19.9%, though it is in talks to sell that to the private-equity firm as well. Meanwhile, Cerberus is discussing the sale of Chrysler with General Motors Corp. Both Chrysler and GM are losing money, and analysts estimate both companies could start to run short of cash in about 12 months.

Daimler's third-quarter charge on its Chrysler stake shows that Chrysler had a $660 million loss in the second quarter. Chrysler doesn't report its earnings because it is closely held.

In another sign of stress at Chrysler, the company announced it is cutting a shift at its Toledo, Ohio, plant and will close its Newark, Del., assembly plant, effective Dec. 31. The moves will affect a total of 1,825 workers.

—Jeff Bennett and Neal E. Boudette in Detroit contributed to this article.

Renault says '08 profit will be hurt by margins

By David Pearson

PARIS—**Renault** SA on Thursday posted a drop in third-quarter revenue and issued a profit warning, blaming the sharp fall in European markets that is battering car makers in the region.

The French auto maker said it now expects an operating margin of 2.5% to 3% for this year, down from the 4.5% target that Chairman and Chief Executive Carlos Ghosn had committed the company to achieving by 2008 under a four-year plan initiated in 2006.

Renault affirmed its earlier forecast that sales volumes are likely to grow slightly in 2008 despite a European market that is expected to slump 8%.

For the third quarter, Renault reported revenue of €9.15 billion ($11.74 billion), down 2.2% from €9.36 billion a year earlier. Stripping out currency fluctuations, the decline would have been 0.3%.

For the first nine months of the year, revenue was up 0.9% to €30.09 billion.

Chief Operating Officer Patrick Pelata said it isn't possible to make precise projections for 2009 because of the unprecedented shift in markets due to the credit crisis that is keeping potential customers out of showrooms.

The earnings outlook for 2009 will be issued when the company releases its 2008 full-year results in February, he said, adding, "Hopefully the market will have stabilized by then."

Mr. Pelata said there are signs that market growth in some emerging countries, which Renault had been counting on to offset falling sales in Europe, is also flagging—notably in countries like Russia and Argentina, where the economic slowdown has begun to bite.

Renault is struggling to reduce costly inventories that have grown because the company hasn't been able to reduce production as fast as demand tumbles, Mr. Pelata said. The value of Renault's inventories on its books stood at €6.5 billion, and the goal is to get them down to €5.9 billion or less by year-end, he added.

Mr. Pelata, who was appointed Renault's No. 2 executive earlier this month, reaffirmed that there no talks between Renault and Chrysler LLC on acquiring part of the majority interest in Chrysler held by Cerberus Capital Management LP.

PPR confirms full-year outlook

French retailing and luxury-products company **PPR** SA recorded a 1.7% rise in revenue from continued operations and confirmed its full-year guidance. Third-quarter sales edged up to €4.94 billion ($6.34 billion) from €4.86 billion a year earlier. The year-earlier figure is adjusted to strip out sold-off assets.

The luxury goods division, home to PPR's star brand Gucci, posted 4.6% growth, with €877 million in sales for the quarter.

PPR reiterated its full-year objective of improved operating and financial performances for 2008 but said it plans to step up a series of action plans to cut costs and improve the efficiency of capital employed.

PPR Chief Financial Officer Jean Francois Palus said the company will likely slow future store expansion for its FNAC retail chain and its furniture retailer, Conforama. PPR has said it will cut jobs at its French catalog business La Redoute.

Fiat paints bleak picture for cars

By Stephen Wisnefski

Fiat SpA posted a 1.9% increase in third-quarter net profit but said its 2008 earnings would come in at the low end of forecasts on weaker-than-expected volumes at most of its businesses. It also said those conditions would last through much of 2009.

The Italian auto maker has been stung by a sharp decline in demand for cars in major European markets and said it is "quite difficult to peg a particular point as being a reliable guidance" for its performance in 2009.

For 2008, Fiat said it now expects trading profit—or operating earnings before items—to come in at the low end of its 2008 target of €3.4 billion to €3.6 billion ($4.36 billion to $4.62 billion).

For the third quarter, Fiat's group net profit totaled €440 million, up from €432 million a year earlier. Revenue rose 3.2% to €14.3 billion. But the company also reported a steep increase in debt and continued erosion of its cash, which at the end of the third quarter stood at €3.2 billion, less than half of what it was at the end of 2007.

Fiat's earnings and outlook show the difficulties major manufacturers face as they adjust to developed markets weakening and emerging markets, which have helped sustain growth in recent years, starting to follow suit. Fiat, which generates about half its revenue from its automotive business, didn't specifically lower its forecast for 2009, as some investors had expected.

The company had acknowledged this month that 2009 targets would be examined at a board meeting Wednesday. But the company did lay out a number of possible scenarios for the year.

The worst-case scenario for 2009 points to a decline in global demand for its products of 10% to 20%, which would translate to an expected range of net profit of €400 million to €1.2 billion. The company's previously stated target for 2009 was €2.9 billion to €3.1 billion.

Strikes help drive down Hyundai profit

By Kyong-Ae Choi

SEOUL—South Korea's **Hyundai Motor** Co. on Thursday said its third-quarter net profit fell 38% from a year earlier because of hefty warranty provisions and reduced production caused by strikes.

But the company will make up for strike-related production losses by escalating sales in the fourth quarter, said Park Dong-wook, Hyundai Motor's treasury director, after the earnings announcement.

Hyundai will be able to achieve its 2008 sales target of 33.6 trillion won ($24.66 billion) and an operating-profit-margin target of 6.5%, he said.

In the January-September period, Hyundai's accumulated sales totaled 23.36 trillion won.

Mr. Park said although Hyundai will likely sell 3.02 million units in 2008, lower than its initial plan for 3.11 million units, a weaker won will help achieve this year's sales target by increasing exports.

Net profit for the three months ended Sept. 30 fell to 264.8 billion won from 425.5 billion won a year earlier. Operating profit slumped 71% year to year to 104.5 billion won from 356.2 billion won, while sales dropped 15% to 6.05 trillion won from 7.08 trillion won.

Hyundai shares rose 1.2% to 50,700 won Thursday, outperforming the benchmark Kospi's 7.5% loss.

The won's weakening against the U.S. dollar pushed up dollar-denominated warranty provisions, and July-September strikes led to production losses of 44,645 units worth 690.5 billion won, Hyundai said.

As Hyundai has piled up 80% of its total warranty provisions—money set aside in case of obligations to replace or repair products—in foreign currencies, a weaker won will have a grave impact on the bottom line, analysts said.

Kang Sang-min at Tong Yang Securities said Hyundai typically spends about 350 billion won a year for the purpose, but its warranty provisions for sales abroad have already reached 3.33 trillion as of the end of June.

Sony cuts profit outlook

Strengthening yen, economic turbulence undermine recovery

By Hiroko Tabuchi

TOKYO—Citing the global economic turmoil and a strengthening yen, **Sony** Corp. sharply lowered its outlook for its fiscal year ending March 2009, a blow to the company whose nascent recovery was already looking fragile.

The Tokyo-based electronics giant warned that the deteriorating business climate could force the company to scale back capital spending, close plants and cut jobs to shore up profit.

The move exposes the vulnerability of Japan's exporters, which the country's economy depends on. Sony, which makes more than three-quarters of its revenue overseas, is especially vulnerable to foreign-exchange moves and economic woes world-wide.

For the year ending March 31, Sony said it now expects to post a net profit of 150 billion yen ($1.54 billion), down from its July forecast of 240 billion yen. The company had 2008 net profit of 369 billion yen. Sony also expects operating profit of 200 billion yen, down 57% from its July forecast and 58% from last year.

Sony said net profit for the July-September period likely fell 72% to 21 billion yen after a downturn in the Japanese stock market hit profit at its financial unit. The year-earlier period included an extraordinary gain from the sale of part of its Tokyo headquarters. The company plans to announce consolidated results for the second quarter on Oct. 29.

The lower forecast comes just as Sony's two businesses that faced the biggest challenges in recent years—videogames and TVs—were starting to improve. Sony had previously expected both segments to turn a profit this fiscal year. But at a press conference, Sony Chief Financial Officer Nobuyuki Oneda said that was now unlikely.

Weighing on Sony's earnings is a jump in the yen against the euro. A strong yen hurts Japanese exporters because it erodes earnings when converted into the home currency and can also make their products more expensive in overseas markets.

Sony had hoped the European market would continue to offset recent sluggishness in Japan and the U.S. In the year ended March 2008, Sony's sales in Europe rose 14% to 2.33 trillion yen, while sales fell in the U.S. and Japan.

With the euro at almost 4 ½-year lows, Sony's European earnings are hurting. On Thursday, the euro traded at about 125 yen, far below the 162 yen Sony had predicted in July.

Sony said it expects the European currency to regain some ground and average about 140 yen in the six months to March. But if the euro remains at current levels, Sony said operating profit could fall another 80 billion yen to 90 billion yen.

Meanwhile, Sony expects overall markets for flat-panel TVs and digital cameras to shrink as the world economy slows, hurting sales. Intense price competition is also eating into profit: South Korea's **Samsung Electronics** Co., a key competitor in TVs, has used a weak won to increase sales in the U.S.

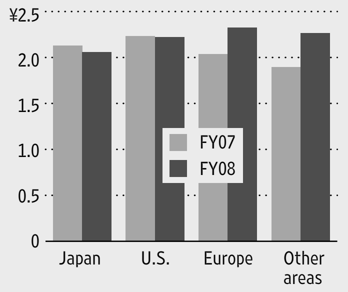
Sony revised downward its sales forecast for flat-panel TVs by one million units to 16 million and for its compact digital cameras by two million to 24 million. However, it raised its outlook for the hand-held PlayStation Portable videogame machine by one million to 16 million, saying hardware was selling well in its games segment.

Before the profit-forecast announcement, Sony shares Thursday were down 6.3% to end at 2,295 yen.

—Yuzo Yamaguchi and Kenneth Maxwell in Tokyo contributed to this article.

Sony Electronics

Sales by region, in trillions of yen



Note: Fiscal years end March 31 of year shown

Source: the company

Areva, Northrop forge nuclear-vessel venture

By Rebecca Smith

France's **Areva** SA said it is forming a joint venture with **Northrop Grumman** Corp. to build nuclear-reactor vessels, steam generators and other heavy equipment at Northrop's Newport News, Va., shipyard.

The deal is a sign that the planned resurgence of nuclear power in the U.S. could help stimulate the country's manufacturing sector.

The two companies plan to invest a total of $360 million in Areva Newport News LLC to build a 300,000-square-foot manufacturing and engineering facility for Areva's nuclear reactor, known as the Evolutionary Power Reactor, or EPR.

Anne Lauvergeon

Areva is seeking to get the reactor design certified by the Nuclear Regulatory Commission for use in the U.S., a process that is likely to take several years.

Areva, which is controlled by the French state, is competing in an industry in which Japanese companies, such as **Hitachi** Ltd. and **Toshiba** Corp., have come to play a major role. China, too, is building up its nuclear-power technology with hopes of exporting it.

Anne Lauvergeon, chief executive of Areva, said she wants 80% of the content of the U.S. plant's Areva reactors to be built domestically. She said she believes the Northrop partnership will give Areva a competitive advantage in the U.S. over rivals who rely more on imported components.

The U.S. nuclear supply chain atrophied after a construction boom ended in the 1980s. In 1977, roughly 1,350 American companies were members of the American Nuclear Society, the key professional association for the industry, compared with about 700 today. And many of those firms, while based in the U.S., have foreign owners. The NRC has expressed concern that a majority of equipment purchases for new reactors appeared likely to be made outside the U.S., complicating its task of conducting inspections to ensure quality.

Orders from U.S. nuclear operators could top $100 billion in coming years, and some are hoping that a wave of nuclear construction could also bolster the U.S.'s ailing manufacturing sector. The highly automated Newport News facility will employ 500 skilled workers.

Mike Petters, president of Northrop Grumman Shipbuilding, the Northrop unit involved in the venture, said "we've watched manufacturing wane in shipbuilding, and we've watched for other opportunities to go into adjacent areas....We think a nuclear renaissance is coming and we have the work force."

Ms. Lauvergeon said Areva's existing heavy-manufacturing facility at Chalon/Saint Marcel, France, is operating at capacity, with a five-year backlog of orders. Nucelar plants built with Areva's design are under construction in France, Finland and China. Three U.S. utilities have selected Areva's design, including **Constellation Energy Group** Inc., **PPL** Corp. and **Ameren** Corp.

Areva's decision to invest in an American facility indicates that the company is confident plans to build new nuclear plants in North America will move forward.

In the U.S., Areva is marketing its reactor through a venture between **Electricité de France** SA and Constellation Energy called Unistar. Areva hopes to oversee construction of a slew of identical nuclear plants. Standardizing the design and construction of plants helps simplify licensing and drive down costs. Constellation hopes to build two Areva reactors.

Boosting the size of America's nuclear-component suppliers could build political support for nuclear power and increase the amount of federal loan guarantees pledged toward construction of new reactors. Power companies are seeking $122 billion in federal loan guarantees, but only $18.5 billion is currently available.

Areva is in discussions with other manufacturers, including Lehigh Heavy Forge, of Bethlehem, Pa., which is seeking approval to become a nuclear supplier.

Although the arrangement could provide a boost for U.S. heavy industry, it doesn't entirely eliminate bottlenecks in the nuclear supply chain. Ramping up forges—needed to make reactor cores—is difficult because skilled workers are scarce. Currently, the heaviest forgings are made only in Japan and France.

Last year, Areva had to remake some pipe forgings for a reactor in Finland because metallurgical problems prevented ultrasonic inspections. It said the problem showed its workers needed time to relearn a manufacturing process not used in years.

—David Gauthier-Villars contributed to this article.

Reliance net income increases 7%

A WSJ News Roundup

BANGALORE, India—**Reliance Industries** Ltd., India's biggest company by market value, said Thursday its fiscal second-quarter net profit rose 7% from a year earlier, helped by higher margins in its key refining business.

The oil and petrochemicals company said net profit for the quarter ended Sept. 30 rose to 41.22 billion rupees ($835.9 million) compared with 38.37 billion rupees.

Sales rose 40% to 447.87 billion rupees from 320.43 billion rupees a year earlier. Its gross refining margin was $13.40 a barrel, compared with $9.10 a barrel a year earlier, and lower than $15.70 a barrel in the first quarter. The margin is the difference in the price of the refined product and the cost of buying crude for refining.

Mumbai-based Reliance makes more than 75% of its money from oil refining. It operates the world's third-largest refinery at Jamnagar in western India and plans with U.S.-based energy giant **Chevron** Corp. to build another refinery there. Together, the refineries are expected to process 1.24 million barrels of crude per day by 2009.

"At Reliance, We are at the final leg of capital expenditure in our key businesses and will see cash flows from these investments in the following quarters," said Mukesh D. Ambani, chairman and managing director.

CORPORATE NEWS

Associated Press

Carrefour CEO **José Luis Durán** said he remains optimistic that the French grocery company can weather any worsening of the world economy.

Carrefour sales rise 7% on price-promotion push

Strength in France and South America sidestep a slowdown

By Cecilie Rohwedder

French grocery giant **Carrefour** SA dodged the economic downturn in the third quarter, reporting a 7% sales increase on strong sales in France, South America and Asia.

Carrefour, the world's second-largest retailer measured by sales after **Wal-Mart Stores** Inc., said Thursday that sales for the quarter ended Sept. 30 totaled €24.72 billion ($31.72 billion), compared with €23.11 billion a year ago.

The company didn't release earnings figures but stuck to its full-year goal of 7% increases at constant currency in sales and profit, reassuring investors concerned by growing consumer caution.

The report offered an important window onto global consumer sentiment. Paris-based Carrefour operates stores ranging from large supercenters selling groceries and non-food items, to discount and convenience stores, across 18 countries in Europe, Asia and South America.

Carrefour's Chief Executive Officer José Luis Durán said the gains "constitute a solid performance and attest to the robustness and resilience of our business model." At the same time, he warned of a "particularly challenging and volatile environment" and noted "changes in current consumption patterns" that included shoppers hunting for even more bargains and switching to value brands.

Mr. Durán is working under pressure from a joint venture of French billionaire Bernard Arnault and U.S. private-equity group **Colony Capital** LLC, which owns a 10.7% stake in Carrefour and is eager to see a return on its investment.

Over the summer, Carrefour had suffered a drop in shopper traffic and spending at its French hypermarkets and stepped up price promotions as a result. In the third quarter, sales in France edged up 3.5%, compared to a just 0.5% rise in the second quarter. "Promotions at hypermarkets are key," Mr. Durán said Thursday.

Nestlé raises sales outlook as pricing strategy succeeds

By Aaron O. Patrick

VEVEY, Switzerland—The world's largest food company, **Nestlé** SA, raised its revenue outlook for the year as its strategy of increasing product prices continues to pay off.

Nestlé reported strong sales for the first nine months of the year that exceeded market forecasts. Total sales rose 3.4% to 81.3 billion Swiss francs ($69.85 billion) in the nine months ended Sept. 30 from a year earlier. Stripping out the effects of acquisitions and currency fluctuations, sales would have climbed 8.9%. Like many European companies, Nestlé doesn't report quarterly earnings.

Nestlé's stock rose 3.4% to end at 44.40 francs in a broadly lower market Thursday. It is down 12.9% in the past 52 weeks.

The surprisingly strong sales increase illustrates how food companies can perform well even in the current tough economic climate. Nestlé's brands include Nesquik chocolate milk and Gerber baby food.

Unlike some competitors, Nestlé has been able to push through big price increases without losing many customers. Nestlé has increased the average price of its food and drinks 5.9% this year. Some increases have been much larger: Prices of milk and ice cream jumped 8.9% over the same period.

By adding features and promoting its brands, Nestlé has been able to persuade consumers to pay more for its products. Following that strategy, it is introducing a new line of baby food, NaturNes, that boasts that it cooks the ingredients separately, an appeal to parents worried about sterilization.

Nestlé increased prices at the start of the year in response to steep jumps in commodity prices. But now that commodity costs are starting to fall, Nestlé said it doesn't plan big price reductions, a move that analysts say should lead to higher profit margins.

CORPORATE NEWS

UPS earnings drop 9.9%

Higher fuel costs, volume decline offset productivity gains

By Doug Cameron
And Kerry E. Grace

United Parcel Service Inc.'s third-quarter net income fell 9.9% as productivity gains and cost controls failed to offset high fuel costs and a drop in volume. The world's largest package-delivery company, however, affirmed its full-year earnings projection.

Chief Executive Scott Davis said, "We continue to see growth in our international and supply-chain businesses while maintaining our focus on cost control and revenue management throughout our organization."

Chief Financial Officer Kurt Kuehn said the business environment was "substantially worse than we initially anticipated," with significant slowing toward the quarter's end.

UPS reported net income of $970 million, or 96 cents a share, down from $1.08 billion, or $1.02 a share, a year earlier. The year-ago results included $46 million in restructuring-related charges. Revenue increased 7.4% to $13.11 billion.

Operating margin fell to 12.4% from 14% while average daily volume was down 2.6% at 14.9 million packages.

Associated Press

UPS's productivity gains and cost controls failed to offset **high fuel costs** and a drop in volume. The company's third-quarter net income fell 9.9%.

U.S. package revenue increased 3.8%, but operating profits fell 8.9% and average volume decreased 3.4%. However, in the international packages division, revenue rose 17% as average daily volume was up 7%, though profits still fell 9.8%.

Looking ahead, UPS affirmed its reduced July full-year earnings estimate of $3.50 to $3.70 a share, saying it expected earnings to come in at the low end of that range.

As a diversified transportation company that moves everything from documents to building materials, UPS, along with **FedEx** Corp., is considered a barometer for the state of the U.S. economy. Combined, the two companies move an average of 22 million packages a day.

UPS also said that a planned $10 billion outsourcing deal with Germany's **Deutsche Post** AG may be renegotiated, though it still aims to close the deal by year end. Last May, UPS announced plans to provide air services for Deutsche Post's unprofitable DHL Express U.S. operation. Mr. Davis said Thursday that talks continued, but "the size and scope" of the proposed 10-year pact could change. "There really aren't any specifics," said Mr. Kuehn when asked about continuing talks with Deutsche Post.

Sanofi puts obesity drug on hold

By Jeanne Whalen

LONDON—French pharmaceutical company **Sanofi-Aventis** SA is suspending European sales of the obesity drug Acomplia at the request of Europe's main medical regulator, which is concerned that Acomplia's psychiatric side effects are worse than previously thought.

"An increasing number of cases of serious psychiatric disorders, including suicide, have been reported" since the drug's introduction in June 2006, the European Medicines Agency said Thursday. Between June and August of this year, five suicides were reported in patients taking Acomplia in continuing clinical studies, compared with one suicide among patients taking a placebo pill, the EMEA said. The EMEA didn't provide a figure for total suicides since the drug's launch, or say whether it considered Acomplia responsible.

The sales suspension is another in a series of blows for Acomplia, a drug that Sanofi once hoped would be a big seller. Acomplia was never approved for sale in the U.S. because of concerns about its side effects. In Europe, it is approved for use in overweight and obese people, with strong warnings that it can increase the risk of depression and, in a small number of patients, suicidal thinking.

Acomplia had sales of only €54 million ($69.3 million) in the first half of 2008, making it a minor product for Sanofi, which had total sales of €13.6 billion over the same period. The company is investing in new clinical studies to try to broaden Acomplia's use to diabetes and cardiovascular disease. On a conference call, Sanofi officials said there are 24,000 patients involved in those studies. They said Sanofi would like the studies to continue, but that it will be up to the patients and the physicians leading the trials.

Sanofi said it would halt clinical studies involving 4,000 obese and overweight people, because this is the group for which the EMEA is suspending sales.

The EMEA said clinical trials completed since Acomplia's launch show that obese or overweight patients taking Acomplia had twice the risk of developing depression, anxiety, sleep disorders and aggression as those taking a placebo.

ABB's 26% rise in profit disappoints

By Goran Mijuk

Swiss electrical-engineering company **ABB** Ltd. reported smaller-than-expected increases in third-quarter earnings and orders, as customers have delayed decisions on big infrastructure projects because of the financial crisis.

Shares in ABB, which warned that its short-term outlook was uncertain, fell 19% to close at 13.75 Swiss francs ($11.81). Several analysts also cut their ratings and price targets.

The Zurich-based company, which has benefited the past few years from an infrastructure boom in Asia and the Middle East, cited continued strong demand in Asia and added that key markets, such as power distribution, were intact.

ABB said net profit for the quarter ended Sept. 30 climbed 26% to $927 million from $738 million a year earlier, less than analysts' expectations of $974 million. Sales rose 22% to $8.79 billion from $7.19 billion.

Orders rose 7% to $8.89 billion from $8.32 billion, missing analysts' expectations of $9.5 billion. During the past few quarters, ABB registered order growth of 20% and more. The slowdown in order growth was mainly because of large infrastructure projects being cut or delayed in Europe and the Middle East. However, no orders have been canceled, said Chief Executive Joe Hogan.

Mr. Hogan, who joined the company from General Electric Co.'s health-care unit, said ABB is likely to benefit from strong demand in power transmission and distribution infrastructure in the long run but warned that short-term visibility was low.

Mr. Hogan's July appointment was partly because of the 51-year old American's experience in mergers and acquisitions. Analysts had previously expected ABB, which has about $7 billion in cash, to pursue a major deal this year or next year. However, with markets expected to cool in coming months, ABB is likely to hoard its cash rather than spend on a big acquisition.

GLOBAL BUSINESS BRIEFS

Iberdrola SA

Utility's net edges higher amid investment warning

Spanish utility **Iberdrola** SA Thursday said its net profit rose 2% in the third quarter but cautioned that current financial conditions could lead to the postponement of some investments. Net profit increased to €522.1 million ($669.9 million) from €511.8 million a year earlier, helped by rising generation and higher Spanish electricity-pool prices. Revenue rose 24% to €5.79 billion. Despite the currently difficult financial conditions, Iberdrola still aims to reach an annual net profit of €3.5 billion in 2010, said Chief Executive Ignacio Galan. However, he warned that the crisis might delay investments of as much as €2 billion as financing costs rise. Mr. Galan added that only investments scheduled to be completed after 2010 are likely to be affected by the delay.

Altria Group Inc.

Altria Group Inc. said its third-quarter profit fell 67%, reflecting the spinoff of its international tobacco business earlier this year. Altria reported net income of $867 million, or 42 cents a share, down from $2.63 billion, or $1.24 a share, a year earlier. The company said the decline also reflected higher taxes, lower earnings from its minority stake in brewer **SABMiller** PLC and losses at **Philip Morris Capital** Corp. Excluding items, earnings from continuing operations rose to 46 cents a share from 40 cents. Revenue rose 5% to $5.24 billion, with sales excluding excise taxes paid on tobacco products climbing 6.9% to $4.34 billion. The Richmond, Va., company said the U.S. market share for its key Marlboro brand rose a half percentage point to 41.6%.

Bristol-Myers Squibb Co.

Bristol-Myers Squibb Co.'s third-quarter profit tripled compared with a year earlier. The results reflected a gain from the sale of its wound-care business, strong product sales and a $224 million write-down in the company's auction-rate-securities portfolio. Net income rose to $2.58 billion, or $1.29 a share, from $858 million, or 43 cents a share. On a continuing operations basis, profit decreased 22% to $588 million, or 30 cents a share. With its strong cash position, which rose to $7.2 billion from $4 billion a quarter ago, the New York company appeared well-positioned to continue its business-development strategy of acquiring companies and teaming up with others to bolster its portfolio of internally developed products.

DSG International PLC

British consumer-electronics retailer **DSG International** PLC said sales continued to fall over the past six months as consumer demand for computers, washing machines and other big-ticket home appliances dropped amid a looming recession. The company, which has stores in 15 European countries, said sales in stores open for at least a year fell 7% during the 24 weeks to Oct. 18. To combat the downturn, the owner of chains such as PC World and Currys said it would cut capital spending by £30 million ($49 million) this year, primarily by skipping nonessential updates of its technology systems. Over the summer, DSG cut 250 jobs out of a total head count of about 2,000. The company said that no further job cuts are planned.

Wolseley PLC

Wolseley PLC said it will close branches and cut jobs at its U.S. business Stock, as it sees the decline in the construction sector worsening. The U.K.-based building-materials company, which earlier this year failed to sell the business or find a joint-venture partner, said it would carry out a "fundamental restructuring" of Stock, cutting about 3,000 jobs, or 25% of the remaining work force, closing 86 branches and exiting 16 markets in six states. Analysts said they had hoped for more radical action like a sale or closure of the business. In London, Wolseley shares ended down 5.7% to 287.25 pence ($4.67). The stock has lost 59% of its value since the start of the year amid the wider market downturn and fears over the extent of the downturn in the U.S. and U.K. construction markets.

Elan Corp.

Irish pharmaceutical company **Elan** Corp. posted a smaller third-quarter net loss as its multiple-sclerosis drug Tysabri approached blockbuster status. Elan's net loss narrowed to $83.5 million from $87.4 million a year ago as revenue rose 55% to $266.4 million. Elan's share of revenue from Tysabri, which it owns together with **Biogen Idec** PLC, was $63.5 million. However, research and development costs jumped 53% to $90 million. Even though Chief Financial Officer Shane Cooke said that Tysabri was on track to reach total annual revenue of more than $1 billion. Patient-uptake rates have dipped since August, when two patients using the drug contracted the rare neurological disease PML.

Banco de Sabadell SA

Banco de Sabadell SA posted an 80% rise in third-quarter net profit, boosted by a gain, and said it strengthened its capital ratios to offset a sharp increase in bad loans. The Spanish bank said net profit increased to €333.7 million ($428.1 million) from €185 million a year earlier, lifted by a €418.4 million gain tied to the sale of half its insurance business to **Zurich Financial Services** AG. The bank set aside part of the gain, €235 million, as a provision for potential future loan losses. This helped Sabadell maintain its Tier 1 capital ratio—a key measure of a bank's financial strength—at 7.24%, roughly at the same level as a year earlier. Net interest income rose 8.4% to €367.9 million from €339.5 million.

Raytheon Co.

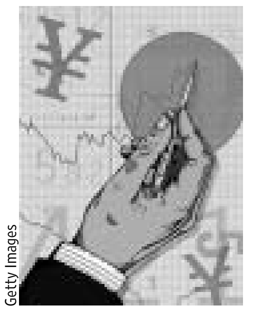
Raytheon Co. posted a 43% rise in third-quarter net income, helped by broad gains across its businesses. The defense contractor also raised its forecast for the year. Raytheon's profit rose to $427 million, or $1.01 a share, from $299 million, or 68 cents a share, a year ago. Revenue climbed 12% to $5.86 billion. Sales were up 11% to $1.2 billion in the unit that does work on missile-defense systems and rose 8% to $1.3 billion in the segment that makes missiles and other munitions for the military. Sales at the unit that makes radars and other electronic equipment were up 11% to $1.1 billion. Total bookings were $5.77 billion, down 8.9% from last year. Raytheon said it now expects 2008 total revenue of $22.9 billion to $23.2 billion.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

JAPAN

Trade surplus plummets, adding to local worries


Getty Images

JAPAN'S TRADE surplus fell at the sharpest rate on record in the first half of this fiscal year, the government said, adding to worries that the downturn in the nation's export-dependent economy could be prolonged.

The surplus fell 85.6% to 802 billion yen ($8.21 billion) in the six months ended in September compared with the same period a year earlier, data from the Ministry of Finance showed. Japan's import bill also hit a record because of expensive oil, gas and coal from overseas. Thursday's data showed that in September, the trade surplus tumbled 94.1% year-to-year to 95.11 billion yen. *—Miho Nakauchi*

CHINA

Jailed dissident wins European rights award


Associated Press

A PROMINENT jailed Chinese dissident won a human-rights award given by European lawmakers, just as the Continent's leaders get ready to meet with their Chinese counterparts and other Asian officials in Beijing this weekend.

The dissident, 35-year-old Hu Jia, above, won the European Parliament's Sakharov Prize for his efforts to call attention to China's human-rights challenges. The award came despite warnings from Chinese officials that they would consider it an affront. Mr. Hu, an advocate for environmental and HIV/AIDS causes, used the Internet to report and distribute information about alleged abuses in China. *—Geoffrey A. Fowler*

U.S.

Jobless claims rise sharply as home-price drop slows


Peter Siu

THE NUMBER of U.S. workers filing new claims for unemployment benefits climbed toward the half-million mark last week, the government reported, suggesting severe weakness in labor markets.

Initial claims for jobless benefits surged 15,000 on a seasonally adjusted basis to 478,000 in the week ended Saturday, the Labor Department said.

Separately, home prices in the U.S. dropped a seasonally adjusted 0.6% from July to August, compared with a 0.8% drop the previous month, according to a monthly index published by the Federal Housing Finance Agency. For the 12 months ended in August, home prices were down 5.9%.

Beijing moves to stimulate home-buying

Market's rapid fall heralds more pain for China's economy

BY ANDREW BATSON
Beijing

CHINA'S GOVERNMENT is racing to make sure one of the world's biggest housing booms doesn't turn into a bust.

How the swoon in housing plays out in coming months may largely determine how severe the nation's economic slowdown during the global financial crisis will be—and how acute the world-wide repercussions of the slump will be, as China's demand for construction materials declines.

While housing bubbles around the world have burst, China's market has been seen as different because its surge in home building has been driven less by financial leverage than by real demand from a rapidly urbanizing population. Anywhere from 15 million to 20 million people move to Chinese cities each year.

But sales of new housing in China have plummeted in recent months as buyers get spooked by a deteriorating economy and weakening prices.

With economic growth also slowing more than expected, officials have moved from trying to rein in prices to encouraging buyers. This week they announced tax breaks, smaller down-payment requirements and lower loan rates for first-time home buyers.

If housing continues to tank, China may not be able to keep growth above the 8% rate the government has long regarded as the minimum necessary for prosperity. More than 80 million people are employed directly in the construction industry, so a prolonged downturn also threatens to lead to more unemployment and social unrest.

"The real estate market decides what happens to the economy," says Paul Cavey, an economist for Macquarie Securities in Beijing. Infrastructure spending is still strong and likely to accelerate, but exports are slowing and are expected to deteriorate rapidly in coming months as world demand weakens. That makes housing the "swing factor," he says.

China's investment in residential real estate is even bigger, as a share of the economy, than in the U.S. It rose to 10% of gross domestic product last year, versus 4.6% in the U.S. But the risks to the financial system seem smaller: Mortgage loans account for 12% of Chinese bank lending and loans to developers another 7%. In the U.S., real estate-related loans accounted for more than 50% of lending by commercial banks, according to Standard Chartered.

Because housing drives demand for so many products, the impact of the housing slowdown is being felt world-wide from weaker Chinese demand for commodities. As construction has slowed in recent months, so has China's steel production: Output was down 5.5% in September from a year earlier. That's pushing down prices and forcing some small producers to shut down. Retailers selling appliances and electronics have been reporting weak sales for months, and now producers are cutting back: output of air conditioners fell 21% in September, and that of refrigerators dropped 6.5%.

Just a year ago, enthusiasm for housing knew few bounds, as people all around China lined up outside new housing developments for the first chance to buy. But worries grew that a bubble was developing, and the government stepped in with measures aimed at deterring speculative buyers and taking some of the froth out of housing prices. Those seemed to be working as intended—until the global financial crisis frightened consumers and sucked away much of the optimism about China's prospects.

Housing sales, which at one point last year were rising by more than 50% from a year earlier, softened early this year, and are now plunging. Floor space sold dropped 36% in August. Average nationwide housing prices have fallen month-on-month in both August and September, and growth in new construction is slowing sharply as developers, squeezed for cash, have to cut back.

"Now everybody believes the price will go down. And the developers don't want to sell at a lower price. Nobody wants to sell, and nobody wants to buy," says William Xin, chief financial officer of China Housing & Land Development Inc., a developer in the western city of Xi'an.

Since government policy helped precipitate the slowdown, many Chinese have been hoping for official aid to jump-start the market. The new policies will "lighten the burden of home purchases for the majority of people, especially middle- and lower-income groups, and expand the demand for housing," the Ministry of Finance said in a statement.

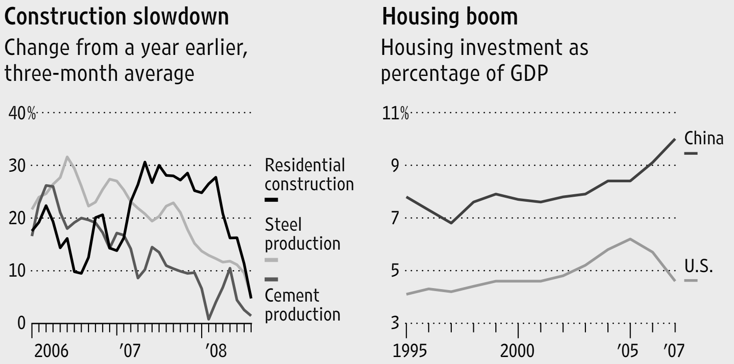
The quick response reflects the central role that housing has played in China's recent boom. Since housing was privatized in the late 1990s, about 30 million new urban homes—mostly apartments—have been built in China, according to official statistics that may well understate the total.

The question is how much difference government action can make now, with the global economic woes also hurting sentiment. It's not just speculative investors who have stopped buying second apartments, but new homebuyers as well.

—Bai Lin and Kersten Zhang contributed to this article.

Boom to bust?

China's government is taking new measures to fend off a housing slowdown that threatens to have deep economic effects.



Sources: Rhodium Group (construction); National Bureau of Statistics; Bureau of Economic Analysis (housing)

Court tells EU to take Iran group off blacklist

BY MARC CHAMPION

Europe's second-highest court ruled the European Union wrongly blacklisted an Iranian opposition group, adding fuel to accusations that the bloc has used its terrorist list to appease the Iranian government.

Thursday's ruling was the second issued by the European Court of First Instance in Luxembourg since 2006 ordering the EU to unfreeze the People's Mujahedin Organization of Iran's assets and remove it from the EU list of terrorist groups. The U.S. also designates the PMOI as a terrorist organization.

The PMOI's court victories and the EU's avoidance of those rulings have put the bloc on the defensive. A group of prominent European lawyers attacked the EU over the issue last month, accusing it of abusing the law for political ends.

"If the [European Union] continue to defy this verdict, it will clearly show that from the very first this listing was the result of a deal with the mullahs' regime, and not based on fact," said Maryam Rajavi, who heads the Paris-based National Council for Resistance in Iran, the PMOI's political wing.

EU spokesmen have said repeatedly that they have sufficient evidence to justify the listing and deny abusing due process.

The PMOI is a group with Marxist roots formed in 1965 to depose the Shah of Iran. After the 1979 Iranian revolution, the group turned against the clerical regime, carrying out numerous terrorist attacks. The PMOI renounced violence in 2001, and no attack has been tied to it since. The EU added the group to its terrorist blacklist in 2002.

Iran has made the PMOI's international terrorist designation a diplomatic priority. Europe has been leading negotiations with Iran to persuade it to give up its nuclear-fuel program, which could be used for making weapons, since 2003. Delisting the PMOI could make Iran still more intransigent in those talks, analysts say.

In Thursday's ruling, the court found the EU was wrong to keep the PMOI listed as a terrorist organization in December based on evidence provided by the U.K. because a top English court had ruled the British listing of PMOI was "perverse."

"The U.K. ban was not based on evidence. It was done to persuade the mullahs to talk about their illicit nuclear weapons programme," Lord Corbett, chairman of a committee of British parliamentarians who brought the case, said in a statement responding to the latest ruling on Thursday.

Since December, the U.K. lost a final appeal and was forced to take the group off its terrorist list. It also withdrew its sponsorship of the EU listing. France took the U.K.'s place in July, claiming new evidence, allowing the EU to keep the group on the list with a fresh decision. The PMOI has filed a new case in the Court of First Instance, which is still pending, to challenge that July decision.

Pakistan holds IMF rescue at bay

Government prefers funding from allies; fund seeks spotlight

By Matthew Rosenberg And Bob Davis

Pakistan's leaders remain deeply ambivalent about taking what many say is their only remaining option to address the country's collapsing economy: a rescue package from the International Monetary Fund.

A day after the IMF said Pakistan had asked for help, one of the country's top economic officials denied the government had made a formal appeal. Shaukat Tarin, an economic adviser to the prime minister, said Pakistan still hoped to raise $3.5 billion to $4.5 billion from friendly governments, such as the U.S. or China, or other international financial institutions like the World Bank, but not the IMF.

"We have not formally requested the board of the IMF for a facility, as of now," Mr. Tarin told reporters in Islamabad. "We'll make a formal request to the board of the IMF when we believe we aren't getting enough money from option A or B."

An IMF official said the fund was perplexed by the remarks and didn't understand why the Pakistanis "are backtracking."

It is possible that Mr. Tarin's remarks were technically correct and aimed at a domestic political audience deeply skeptical of engaging with the IMF.

On Wednesday, IMF Managing Director Dominique Strauss-Kahn said in a statement that "Pakistani authorities have requested discussions with the IMF on an economic program," and that those discussions would begin in the next few days. Only at the end of those discussions would Pakistan be expected to make the kind of formal request to the IMF for a loan that Mr. Tarin was talking about. Mr. Tarin couldn't be reached for comment.

Eswar Prasad, a former senior IMF official who teaches at Cornell University, says the IMF also may have jumped the gun with the announcement to show that it is back at the center of the action in the global financial crisis. He says Pakistani ministries, apart from the Finance Ministry, are balking at the idea of accepting a new set of conditions from the IMF, which would likely include reductions in food subsidies and other transfer payments.

In Pakistan, the IMF is viewed as a front for the U.S., he noted, making the politics even more complicated. "The opposition would sell it as the government giving in to U.S. economic diktats," he said. "There would be the implication of another implicit condition—that government would have to toughen its stance against more fundamentalist elements in Pakistan."

Mr. Prasad said the tough Pakistani stance in negotiations also means the government is holding out hope for a package from China, Saudi Arabia or some other developing nation with fat reserves. "Even if it's a Faustian long-term deal with Beijing and Riyadh, they'd prefer that to the IMF," he said.

Associated Press

Pakistan, led by **Asif Ali Zardari**, denies it asked the IMF for economic help.

A Pakistan finance ministry official said Pakistan's leaders are counting on the country's allies to come up with most of the $10 billion to $15 billion they say they need over the next two or three years, believing a front-line state in the battle against al Qaeda and the Taliban won't be abandoned. "We cannot be allowed to fall," said the official.

Arvind Subramaninan, a former senior IMF official who is now at the Peterson Institute for International Economics in Washington, said Thursday's turn of events probably means that "some other donor has come up to the plate," despite reports that China rebuffed Pakistan when President Asif Ali Zardari visited Beijing last week.

A top U.S. diplomat also said this week that Pakistan would get no unconditional handouts.

For the IMF, a public misunderstanding with Pakistan could provide another black eye in Asia, where it can hardly afford one. After the 1997-1998 Asian financial crisis, the IMF insisted on tough conditions in exchange for bailout packages, and country after country vowed never again to work with the fund.

Ishrat Husain, a former Pakistan central bank governor, was skeptical that relying on friendly donor nations and not dealing with the IMF would work.

"I'm not sure the friends of Pakistan will give them anything unless there is an IMF agreement, because most of them are relying on the IMF's certification that the country is on track," he said.

The central bank said Thursday the country's foreign exchange reserves had fallen to $7.323 billion as of Oct. 18, down from $7.749 billion a week earlier.

The central bank only has $4.037 billion of that money in its coffers, a level that would cover less than two months of imports.

Some said the declining reserves would force Pakistan to seek the IMF's help even if Pakistan is reluctant for now.

Economy & Politics

Shifting landscape

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