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THE WALL STREET JOURNAL.

Look East: inside South Asia's wealth explosion

WEALTH BULLETIN

How to make the most of customer complaints

BUSINESS INSIGHT | PAGES R1-R7

Lehman draws scrutiny over billions in transfers

U.K. seeks return of funds sent to U.S.; judge won't slow deal

By Carrick Mollenkamp, Jeffrey McCracken And Joellen Perry

Lehman Brothers Holdings Inc. moved billions of dollars and assets among its units around the world in the period before filing for bankruptcy, leading clients and employees to question the propriety of some transfers as they line up in U.S. bankruptcy court seeking repayment.

Among other fund-raising efforts, Lehman's German unit, Lehman Brothers Bankhaus, swapped assets for funding from the European Central Bank. That could leave the central bank holding assets and unable to obtain money from the Lehman unit to cover a decline in the value of the assets, people familiar with the matter said.

Another funding effort now drawing scrutiny is the internal Lehman movement of more than $8 billion between Lehman's European headquarters in London and New York, where

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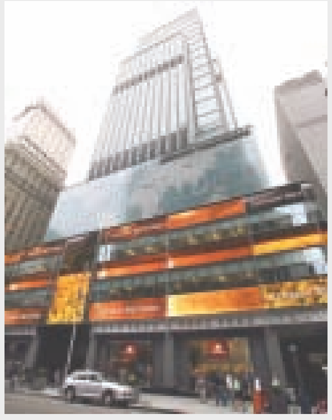
The fall of Lehman

Lehman Brothers promoted its "one firm" culture but the parent firm's bankruptcy proceedings have turned the company into a house divided.

Lehman Brothers Holdings Inc.

U.S. | Europe



Headquarters in New York City

Associated Press (2)

Canary Wharf offices in London

■ **Lehman Brothers Holdings Inc.,** parent firm
Current status: Chapter 11 bankruptcy proceedings.

■ **Lehman Brothers Inc.,** main U.S. broker-dealer
Current status: Pending sale of assets to Barclays PLC.

■ **Lehman Brothers International (Europe),** London-based main European broker-dealer
Current status: Filed for insolvency proceedings, seeking repayment of $8 billion from U.S. operations, pursuing sale to save jobs.

Sources: the company; court documents

What's News—

Business & Finance

The Bush administration delivered a $700 billion bailout plan late Friday, spurring a test of wills between the White House and Capitol Hill as Democrats put their imprint on the bill, which offers little oversight or taxpayer protection. Page 1

■ **Lehman transferred billions** of dollars and assets among units before its bankruptcy filing, raising questions over the propriety of the moves. Page 1

■ **U.S. stocks recovered** from last week's lows but the market's future is uncertain. Government revenue action lifted shares in Asia and Europe. Page 19

■ **Russian stocks surged** as a $120 billion government rescue package and the rebound in global markets helped avert a financial calamity. Page 21

■ **European stocks enjoyed a** one-day, soaring reprieve Friday after U.S. and U.K. action. Page 20

■ **Shell warned that** militant attacks in Nigeria last week have curbed oil and gas output and will hurt earnings. Page 4

■ **A new offshore terminal** reached Italy, creating a natural-gas route into the EU that aims to reduce dependency on Russian imports. Page 4

■ **SAS may be facing** a takeover move, but analysts are finding it hard to put a value on the carrier. Page 6

■ **Italy will begin** soliciting offers for Alitalia, as the government seeks to rescue the cash-strapped airline. Page 6

■ **AIG shareholders** are scrambling to help repay a loan from Washington in time to avoid its taking an 80% stake in the U.S. insurance giant. Page 7

■ **GM plans to draw** down the remaining $3.5 billion of a secured revolving-credit facility to increase liquidity. Page 9

■ **DreamWorks principals** completed a deal with India's Reliance ADA to set up a $1.2 billion film company. Page 9

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11388.44	+368.75	+3.35
Nasdaq	2273.90	+74.80	+3.40
DJ Stoxx 600	278.18	+21.41	+8.34
FTSE 100	5311.3	+431.3	+8.84
DAX	6189.53	+326.11	+5.56
CAC 40	4324.87	+367.01	+9.27
Euro	$1.4423	+0.0045	+0.31
Nymex crude	$104.55	+6.67	+6.81

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World-Wide

Pakistani officials said a suicide bombing that killed 53 people, including the Czech Republic's ambassador, and injured 250 others at the Islamabad Marriott Hotel bore al Qaeda's hallmarks and showed how the group was operating freely in Pakistan and aims to wreak havoc on the country's weak economy. Page 1

■ **South Africa's Mbeki will step** down, bowing to a ruling ANC request and setting the stage for a caretaker president and a period of uncertainty. Page 3

■ **China said** the number of infants hospitalized after ingesting tainted formula jumped to 12,892, as foreign concern about Chinese goods spread. Page 12

■ **Israeli Foreign Minister Livni** began efforts to put together a ruling coalition as Prime Minister Olmert formally resigned.

■ **Brown pledged** at a Labour Party conference to do "whatever it takes" to tackle Britain's economic crisis despite a festering rebellion against him. Page 12

■ **Russia is set** to increase its defense budget next year by more than 25% to a post-Soviet high of $50 billion. Page 10

■ **Ex-Foreign Minister Taro Aso** is the heavy favorite to win a vote by Japan's ruling party Monday for prime minister. Page 10

■ **Suicide bombers hit** police targets in northern Iraq, killing five people and injuring dozens.

■ **Georgia said** a Georgian policeman was killed and two others wounded by separatist forces near the province of Abkhazia.

■ **Gates told** NATO allies that they will be expected to share the cost of a planned expansion of the Afghan army. Page 10

■ **Channel Tunnel operators** will reopen a section of the fire-damaged north tunnel Monday, allowing more Eurostar services.

■ **A nightclub fire** sparked by fireworks and a crush of panicked patrons killed at least 43 people in Shenzhen, China.

■ **Beijing ended** its special pollution curbs aimed at cleaning the Chinese capital's air for the Olympics and Paralympics.

Editorial & Opinion

After Mbeki

Despite his many faults, South Africans may yet feel nostalgic for his tenure. Page 14

U.S. Congress to debate $700 billion bailout plan

By Greg Hitt And Meena Thiruvengadam

WASHINGTON—The Bush administration delivered a sweeping bailout plan to Congress late Friday, setting in motion a series of tense negotiations and a test of wills between the White House and Congress.

The legislation, which would authorize U.S. Treasury Secretary Henry Paulson to create a $700 billion fund to buy mortgage-related assets from troubled institutions—is only 2½ pages long. It includes little or no protection for the U.S. taxpayers footing the bill and little oversight over the officials and financial firms likely to run the enterprise.

Democratic leaders are pointing toward final votes on the bill late this week, a tight deadline that won't allow time for second guesses or debate about next steps should the plan fail. Democrats are moving to put their imprint on the bill in other ways, including help for individual homeowners, caps on executive compensation and changes to bankruptcy laws long opposed by the White House.

"This is not in anyway to deprive [Treasury Secretary Henry Paulson] the opportunity to act. We totally understand the gravity of the moment," said Senate Banking Committee Chairman and Connecticut Democrat Chris Dodd. But, he added: "You cannot just turn over $700 billion of taxpayer money and not insist that that taxpayer is going to be protected in this. We're going to demand, as a coequal branch of government, accountability."

Wrangling over the package, especially if it threatens to delay implementation, could unnerve investors around the world, who snapped up stocks in a way not seen since af-

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Black Wednesday

Treasury Secretary **Henry Paulson** appears on ABC's This Week

Associated Press

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Pakistan sees al Qaeda links in hotel attack

By Zahid Hussain

ISLAMABAD—Pakistani officials said Saturday's suicide blast that killed 53 people at the Islamabad Marriott Hotel bore the hallmarks of al Qaeda and showed how the group was operating freely inside Pakistan and was determined to wreak havoc on the nation's already weak economy.

Rehman Malik, Pakistan's interior minister, said Tehrik-e-Taliban Pakistan, an outlawed militant umbrella group operating from Pakistan's lawless tribal region, was involved in the attack. The group is said to be closely linked with al Qaeda, which has grown in strength in Pakistan. Many other Pakistani militant groups have mutated into small cells, after being banned, and work as an extension of al Qaeda.

Officials said Pakistan Taliban Movement, a little-known Islamist militant outfit that claimed responsibility to private television channels, was one such cell and is part of the Tehrik-e-Taliban Pakistan network.

Yousuf Raza Gilani, the prime minister, said the bomber had attacked the hotel only after tight security prevented him from reaching Parliament or the prime minister's office. "The purpose was to destabilize democracy," Mr. Gilani told reporters

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FROM PAGE ONE

North Korea plans to rebuild its nuclear plant

By Evan Ramstad

SEOUL—North Korea used a meeting with South Korea Friday to declare that it is rebuilding its disabled nuclear plant and later announced it "will go its own way," appearing to suggest it may abandon aid-for-disarmament talks with South Korea, the U.S. and three other countries.

North Korea also blamed the U.S. again for causing a breach in the so-called six-party process, which is designed to persuade Pyongyang to give up its pursuit of nuclear weapons.

Last week, North Korea appeared to be making a gesture to keep the six-party process going by inviting South Korean officials to a meeting to discuss final deliveries of energy aid promised to the North in February 2007.

But in an unexpected move, a North Korean diplomat began the meeting with a statement to news reporters that sharply criticized the U.S. The diplomat, Hyun Hak Bong, said the U.S. had no right to verify the scope of North Korea's nuclear program, which it disclosed in a written declaration in June.

"The U.S. is insisting that we accept unilateral demands that had not been agreed upon," Mr. Hyun said. "They want to go anywhere at any time to collect samples and carry out examinations with measuring equipment."

The U.S. is seeking a way to verify the North's declaration before carrying out its next step in the deal: removing North Korea from a terrorism blacklist that places trade sanctions on the country. Mr. Hyun said the North was restoring its dismantled nuclear plant—its sole source of fuel for nuclear weapons—because the U.S. wouldn't remove it from the terrorism blacklist.

Pakistan sees al Qaeda links in hotel bombing

Continued from first page

Sunday. "They want to destroy us economically."

Pakistan's economy already is suffering and the blast at a hotel that was popular with foreign visitors and well-heeled Pakistanis could accelerate capital flight and further discourage foreign investors.

Among the dead were the Czech ambassador to Pakistan, Ivo Zdarek, 47 years old, and two members of the U.S. armed forces who the U.S. Defense Department said were assigned to the U.S. Embassy in Islamabad.

"The Islamabad bombing dents the already low confidence of international investors in Pakistan," said Muddassar Malik, chief executive of BMA Capital, a securities firm in Karachi. "The lack of affirmative action by the new government on a new security strategy and their inability to tackle militancy leave investors questioning whether the long-term economic story is still intact."

Associated Press

A Pakistani official said a dump truck was used in the attack and preliminary investigations revealed that **at least 600 kilograms of explosives** were detonated.

Rescue teams searched the blackened hotel room by room Sunday. But the temperatures remained high and fires were still being put out in some parts. A senior official said there could still be bodies inside.

Some 250 people were injured in the blast, which was triggered by a suicide bomber who rammed an explosive-laden truck into the hotel's outer gates.

Many of the guests staying in the hotel died of intense heat caused by the explosion and flaming gas from ruptured gas lines. "Many bodies were charred beyond recognition," a rescue worker said. Doctors at the city's main hospital said the death toll could rise with dozens of the wounded in a critical state.

President Asif Ali Zardari said the attack wouldn't deter Pakistan from fighting terrorism. "The terrorists have turned the happy moment of the restoration of democracy into grief," he said in a television address early Sunday before leaving for the United Nations in New York, where he will meet U.S. President George W. Bush.

It wouldn't be the first time al Qaeda has been involved in an attack in Pakistan's capital. In June, a suicide car bomber killed at least six people near the Danish embassy in Islamabad. A statement attributed to al Qaeda took responsibility for that blast, which was believed to have targeted Denmark because of the publication there of cartoons depicting the Prophet Muhammad.

The latest attack came as Pakistani forces stepped up an operation against Islamist militants in the Bajur tribal region, which is viewed by Pakistani and Western intelligence agencies as the center of al Qaeda activities. Many observers suspect the Marriott attack was a retaliation to the military offensive.

Al Qaeda and its allies among tribal militants have repeatedly warned they will increase attacks in Pakistan's heartland if the military operation isn't stopped.

Anti-American sentiments also are running high after an increase in missile strikes from U.S. pilotless drones against suspected militant hideouts inside Pakistan.

The attack also raises questions about security in the capital, which already was at a high level because of Mr. Zardari's address to a joint session of Parliament hours before the bomb detonated.

Saddruddin Hashwani, the owner of the Marriott hotel, accused police and paramilitary forces of a lapse in allowing a dump truck to approach the hotel unchallenged and not shooting the driver before he could trigger the explosives.

Mr. Malik, the interior minister, denied there was any lapse on the part of the security unit.

"There was a lot of construction work going on in the surrounding area and it was not possible to check every vehicle driving on the road," he said.

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South Africa's Mbeki heeds call to resign

Zuma looms large, but appointee to lead until 2009 election

By Sarah Childress

South African President Thabo Mbeki said over the weekend he would resign, bowing to a request from his ruling party and setting the stage for a period of political uncertainty as a caretaker president takes over.

It falls to the country's parliament to replace Mr. Mbeki within a month's time. But the new head of state likely will only serve a short stint, making way for the winner of next year's presidential elections. That race is expected to go to Jacob Zuma, the current leader of the ruling African National Congress party and Mr. Mbeki's bitter rival.

The leadership vacuum could spook investors, who have flocked to South Africa amid today's commodities boom and Mr. Mbeki's pro-business policies. The resignation could also have regional repercussions. Mr. Mbeki had been working for several months to lock down a power-sharing agreement between Zimbabwe President Robert Mugabe and his rival, opposition leader Morgan Tsvangirai.

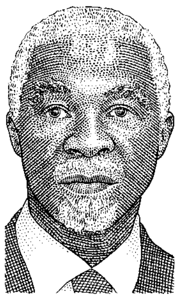
Mr. Mbeki's ouster comes at a time when his international reputation was on the mend thanks to his work in Zimbabwe. In the face of a violent election campaign this year in which dozens of opposition supporters were targeted, Mr. Mbeki refused to publicly denounce Mr. Mugabe. Instead, his supporters maintained he was using quiet diplomacy to moderate his old friend.

An historic power-sharing accord earlier this month between Messrs. Mugabe and Tsvangirai appeared to be evidence that he was right. When Mr. Mugabe signed the deal, he made it clear that it was Mr. Mbeki who finally had convinced him to do so. With Mr. Mbeki sidelined, it is unclear whether Mr. Mugabe will feel compelled to hammer out the final details of the agreement.

At home, Mr. Mbeki's ouster comes at a time of economic uncertainty. During his nearly 10-year presidency, the country enjoyed rapid economic growth. The growth helped fuel the expansion of a black middle class and lured foreign investors.

But the growth has also raised hurdles the country is struggling to clear. A gap between the rich and poor, widened by high unemployment and rising food and fuel costs, has created an undercurrent of dissent. Earlier this year, South Africans in poor townships lashed out against immigrants whom they blamed for their poverty.

This year, South Africa was also hit by power shortages. To protest the rising cost of living, the country's powerful trade unions called for a day-long, nationwide strike last month, forcing some mining operations—a cornerstone of the economy—to halt production.



Thabo Mbeki

Mr. Mbeki has also drawn fire for his views on HIV/AIDS. At a time when his country had one of the world's highest infection rates, Mr. Mbeki maintained that it was unclear whether HIV caused AIDS. Last year, he fired a deputy health minister. The deputy was outspoken about South Africa's AIDS crisis and had clashed with the health minister.

On Saturday, the ANC took the unprecedented move of asking for Mr. Mbeki's resignation after considering allegations that his office meddled in a corruption case against Mr. Zuma. The case was dismissed earlier this month on a technicality. But the judge suggested that he believed there might have been political involvement. Mr. Mbeki's office has strongly denied interfering.

The resignation won't be final until it is ratified by the country's ANC-dominated parliament, essentially a formality. The parliament is expected to elect a new president within 30 days.

Deputy President Phumzile Mlambo-Ngcuka would have been a likely choice, but she is loyal to Mr. Mbeki and is likely to resign with him. Baleka Mbete, the speaker of parliament, has also been mentioned. Mr. Zuma isn't eligible because he isn't a member of parliament or part of the government's cabinet.

Mr. Mbeki was elected to succeed Nelson Mandela when Mr. Mandela stepped down after his first term. Throughout much of his time in office, Mr. Mbeki's critics charged that the president was out of touch with ordinary South Africans.

That perception was critical in his defeat for the ANC presidency during party elections in December. Had he kept hold of the ruling-party leadership, he would have been in a strong position to chart the country's political future, including through a possible hand-picked successor. Instead, the party chose Mr. Zuma, an energetic populist with a humble background. He promised to address the concerns of the poorest South Africans.

Further decline in price of steel is likely in India

By Prasenjit Bhattacharya

NEW DELHI—Steel prices in India may drop 5% to 10% more by the end of October before the market bottoms out, a senior industry executive said.

"Steel prices have been falling over the past four weeks, and this trend will continue on slower demand in China and the Middle East," said Robin Banerjee, chief financial officer of Essar Steel NV.

Mr. Banerjee said prices in India have fallen 15% over the past month. Essar Steel, of Amsterdam, has plants in the U.S., Canada, Vietnam and Indonesia, but most of its production facilities are in India.

Mr. Banerjee said China's industrial activity slowed before the Olympic Games last month, after the feverish pace of construction in the run-up to the Games supported demand for raw materials for several years. Although this slowdown may last through October, demand could recover later, he said in an interview. He said India's steel prices are still 75% higher from the same time last year.

CORPORATE NEWS

AEROSPACE

Airbus expects to sell 850 aircraft this year

Associated Press

AIRBUS still expects to sell about 850 aircraft this year despite gloom in the airline industry. The unit of **European Aeronautic Defence & Space** Co., reported 754 total orders over the first eight months of the year, or 708 net orders after allowing for cancellations.

Chief Commercial Officer John Leahy said the rate of sales "has dramatically shifted downward" as airlines deal with weakening traffic, rising fuel costs and tight credit. While the dollar has firmed recently, he said, its relatively low level against the euro "is still a problem" for Airbus, which sells planes in dollars but books most costs in euros. *—David Pearson*

LUXURY GOODS

France's LVMH names artistic director for Pucci


Reuters

FRENCH LUXURY-GOODS company **LVMH Moët Hennessy Louis Vuitton** SA named Norwegian designer Peter Dundas as artistic director of its Italian fashion house Emilio Pucci.

Mr. Dundas, who previously designed for Emanuel Ungaro, will take over at Pucci on Oct. 1. He succeeds Matthew Williamson, a British designer who followed Christian Lacroix as Pucci's artistic director and is leaving after three years.

Mr. Dundas, currently collaborating with French fur and luxury-goods company Revillon on its fur collection, spent three seasons as artistic director at Ungaro. He left the label last year. *—Associated Press*

BANKING

Zurich Financial closes deal with Banco Sabadell

Associated Press

ZURICH Financial Services AG said it closed a deal to buy 50% of the life insurance, pension and general insurance operations of **Banco Sabadell** SA ahead of plan. The acquisition propels the Swiss company to a leading position in Spain, one of Europe's fastest-expanding insurance markets.

When it announced the transaction in July, Zurich Financial said it would take full operational control of the Sabadell insurance business, although the Spanish bank would retain a 50% stake in the operations.

Zurich Financial said it appointed Jochen Schwarz, head of its bancassurance business, to be chairman of the joint venture with Sabadell.

Attacks curb Shell output

Nigerian militants force facility closure; second worker killed

By Spencer Swartz
London


European Pressphoto Agency

Since Sept. 14, MEND has launched seven attacks **against Shell-operated oil and natural-gas facilities** in the Niger Delta, the country's main oil-producing region.

ROYAL DUTCH SHELL PLC warned Friday that a series of oil-facility attacks last week in Nigeria have substantially reduced the company's oil and natural-gas production in the West African country and will hurt earnings.

Shell said Friday that militants killed a second person, an employee of the Shell-operated consortium in Nigeria. The company confirmed early last week that a guard was killed in a separate attack and reiterated that it was evacuating some staff from production facilities.

The Anglo-Dutch oil major said it was concerned about the damage to the facilities, but didn't provide an estimate on the total amount of oil and natural-gas output shut down as a result or how long closures might last. Nigerian oil officials put Shell's production losses the past week at about 150,000 barrels a day.

"This will ultimately add up to increased equipment downtime, repair and remediation costs and deferred earnings for Nigeria and the joint-venture partners," Shell said.

Nigeria, an important oil-production market for the company, accounted for about $1 billion, or 4%, of Shell's $25 billion net profit in 2007, according to investment bank Oppenheimer & Co.

Shell's Class B shares in London closed Friday at £15.95 ($29.28) each, up 3.5%, or 54 pence, mirroring the rise in many stock indexes, after initially trading lower.

Oppenheimer analyst Fadel Gheit played down Shell's announcement, saying the company has seen this level of violence in Nigeria before. Mr. Gheit said he expects record oil prices this summer to push the company's third-quarter net profit to $2.78 a share, which would be a quarter record for Shell.

But late Friday, things got worse for Shell as it announced a second force majeure, which means the company is unable to provide a number of customers with Nigerian crude because of the recent attacks.

Shell said the policy would remain in place until further notice, but didn't say what new oil volumes are affected. In late July, Shell called a separate force majeure, which remains in place and gives the company legal protection for not honoring its contractual commitments.

Nigeria's main militant group—the Movement for the Emancipation of the Niger Delta—said it bombed another Shell-operated pipeline late Friday. Shell was investigating that claim at the weekend.

MEND declared a unilateral cease-fire in the southern oil region Sunday, ending the worst spate of militant attacks in years to hit Africa's oil giant. It said it was ceasing hostilities immediately after appeals from elders and politicians in the region. But the group said it would launch another spate of reprisal attacks in the event of another military raid on one of the group's base camps.

Clashes between MEND and the military helped precipitate the recent attacks on oil infrastructure, coming less than a month after Nigerian President Umaru Yar'Adua reshuffled his military leaders.

Some analysts say Mr. Yar'Adua may be taking a more forceful approach to MEND, which comprises various factions, and other criminal groups that have had a free hand the past few years, bombing pipelines and crude-gathering stations and kidnapping foreign oil workers for ransom. A tougher line could worsen tensions and problems for the government, foreign energy companies, and the region's people.

MEND has launched seven attacks against Shell-operated oil and natural-gas facilities since Sept. 14 in the Niger Delta, the country's main oil-producing region. Crude prices have so far had a muted reaction to the violence, as market concerns have focused on the health of oil demand. Militants also targeted a **Chevron** Corp. oil facility early in the week, though production wasn't affected.

MEND and lesser-known militant groups see their actions—which have cost the government and companies several billions of dollars in oil revenue the past few years and worsened environmental pollution—as retaliation for years of ineffective government that has failed to improve circumstances for millions of impoverished Nigerians in the delta despite the area's oil and gas resources.

New natural-gas facility by Edison arrives in Italy

By Liam Moloney And Sofia Celeste

ROME—**Edison** SpA said a new offshore regasification terminal reached Italy on Saturday, creating a natural-gas route into the European Union that aims to reduce Italy's dependency on Russian imports.

The liquefied-natural-gas facility, based near the northeastern Italian town of Rovigo, will receive gas shipments from tankers arriving via the Adriatic Sea from Qatar for 25 years. Once the terminal comes online, it will have a capacity representing about 10% of Italy's gas demand, helping Edison wean itself off the gas supplies it currently receives from larger rival **Eni** SpA. The capacity boost could help Italy reduce its energy dependency on Russia, which has often wielded its natural-gas supplies to influence European foreign policy.

"I would say this is extremely important for both Italy and the European Union," Chief Executive Umberto Quadrino said. "Italy's gas supply for the last years has not been adequate. This new terminal provides a fundamental contribution for Italy and opens a new path" for European gas imports.

The facility—45% owned by **Exxon Mobil** Corp., 45% by **Qatar Petroleum** and 10% by Edison—will have an annual capacity of eight billion cubic meters. Edison said the terminal will receive its first LNG cargo and commence the cool-down process in the first quarter of 2009 with the first gas send-out expected a month or so after the cool-down.

"We have now a infrastructure which contributes to solve the safety of the national energy system and diversifies the supply source," Mr. Quadrino said.

Mr. Quadrino attended a ceremony Saturday with Italian Prime Minister Silvio Berlusconi, along with Italian Industry Minister Claudio Scajola and U.S. Ambassador to Italy Ronald P. Spogli, near Rovigo to mark the arrival of the terminal.

Edison, which is controlled by **Electricité de France** SA and Italian municipal utility **A2A** SpA will have access to 80% of the terminal's gas, or 6.4 billion cubic meters annually.

The Milan-based company is seeking new sources to free itself from gas sold by Eni. Italy has only the Panigaglia LNG terminal, owned by Eni's Snam Rete Gas SpA, and which is more than 30 years old.

Edison is at the forefront of Italy's drive to reduce the country's dependency on Russian gas, which provides about one-third of imports. Algeria provides about another third.

Edison owns a stake in Galsi, the company building a gas pipeline that will connect Italy and Algeria via the island of Sardinia. The pipeline, expected to be operational in 2012, will initially transport eight billion cubic meters of Algerian gas a year. Edison has signed for an annual supply of two billion cubic meters. Mr. Quadrino said the final investment decision for Galsi will be made in 2009.

Furthermore, Edison is investing in a pipeline, known as IGI, connecting Italy to the Caspian area via Greece and Turkey, to be in operation by the end of 2012 as part of the EU's push to diversify away from Russian dependency.

An initial intergovernmental agreement signed by Italy and Greece in 2005 was followed by one signed by Italy, Turkey and Greece in July 2007 and by one between Italy and Azerbaijan in December, for the transit corridor to transport natural gas from the Caspian Basin by way of Turkey and Greece, which have shared a pipeline connection since November 2007.

Mr. Quadrino said a final four-way political agreement between Italy, Greece, Turkey and Azerbaijan could be signed in coming months for gas transport. After this, Edison hopes to sign a contract for gas supply with Azerbaijan by year's end.

Europe's demand for gas is forecast to grow by an average yearly 1.8% between 2007 and 2020, when it should reach 720 billion cubic meters annually, according to Edison data. As European domestic output will decline with depleted fields, gas imports in the EU are expected to double to 500 billion cubic meters in 2020 from 2006.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CORPORATE NEWS

SAS waits for a price tag

Fluctuating shares, unprofitable periods make value unclear

BY OLA KINNANDER

Associated Press

SAS, like many other airlines, has been hit by a combination of **record oil prices** and an economic slowdown in Europe and the U.S.

STOCKHOLM—As takeover talk about **SAS** AB increases, analysts are debating a key question: How much is the Scandinavian airline worth?

The answer is hard to nail down.

Like other airlines, SAS has been hit by a combination of record high oil prices and an economic slowdown in Europe and the U.S. that has sapped consumer confidence and forced would-be travelers to reconsider nonessential trips.

The turmoil has caused big fluctuations in SAS's share price, which has a market capitalization of 9.3 billion kronor ($1.4 billion). Within the past 12 months, the stock has hit an intraday low of 29.10 kronor and an intraday high of 127.50 kronor. Friday, the shares were up seven kronor, or 14%, at 57.50 kronor, amid an 8.3% rise in the Swedish market.

"We're affected by a lot of different factors—commodity prices, oil prices, the economic cycle, etc.," said Sture Stolen, SAS's investor-relations manager. "It's incredibly difficult to make long-term forecasts in the airline industry."

So far this year, more than 30 airlines have gone out of business, and industry watchers warn that more may follow. The International Air Transport Association, which represents most of the world's full-service airlines, forecasts that airlines will post combined losses of $5.2 billion this year.

The gloomy atmosphere has spurred predictions of further consolidation in the sector, as airlines either go broke or are snapped up by competitors.

SAS earlier this month said it is "evaluating various structural possibilities" and that it is in talks about a "possible solution."

Its shares jumped on talk that **Deutsche Lufthansa** AG was preparing a bid. In its statement about evaluating possible solutions, SAS didn't mention Lufthansa and stressed that no decision had been made on the company's future. Lufthansa declined to comment.

The Scandinavian airline has been unprofitable for the past three quarters, further complicating the task of putting a value on it. Last month, the carrier posted a second-quarter net loss of 411 million kronor, hit by higher fuel costs and competitive ticket prices.

Another factor to consider in any deal is the strong union presence at SAS, analysts say. The airline has 37 unions representing its employees, which could make sweeping changes difficult. In Italy, for example, **Alitalia** SpA's unions Thursday forced the carrier into a corner when they rejected a rescue plan that would have meant longer hours and lower pay for workers.

Any deal to sell SAS would also have to get the green light from the governments of Sweden, Norway and Denmark, which together own 50% of the airline. SAS was created in the 1940s by the combination of the three countries' national carriers.

The airline's disparate holdings in other carriers further complicate assigning a valuation to SAS. Beyond its core SAS-branded airlines, the company has a 20% stake in **British Midland Airways** Ltd. and a 47% holding in **airBaltic**. Also, it owns Finnish airline Blue1, Norwegian carrier Wideroe, and Spanish carrier Spanair. SAS earlier this year tried to sell Spanair but failed to attract a high enough bid.

Analysts' estimates vary widely on how much those stakes are worth. The problem is most acute with its stake in Spanair, which has been hit hard by a stalling Spanish economy and whose reputation was battered by a deadly accident at Madrid airport last month, when one of its MD-82 planes crashed on takeoff, killing 154 of the 172 people onboard.

Icelandic bank **Glitnir** said in a report to clients last week that SAS's total equity value is 7.75 billion kronor, though it estimated that would almost double to 14.73 billion kronor if the airline had "more normalized profits," which "could be more realistic in another structure."

Italy to seek offers to save Alitalia

A WSJ NEWS ROUNDUP

ROME—The Italian government-appointed bankruptcy commissioner will begin soliciting national and international offers for cash-strapped airline **Alitalia** SpA, according to Italian news reports Sunday.

"We will proceed with a public solicitation," Augusto Fantozzi was quoted as saying in Italian daily Il Messagero. "So far nobody has stepped forward."

Compagnia Aerea Italiana, or CAI, dropped its offer Thursday after six of Alitalia's labor unions failed to agree with its rescue plan. Prime Minister Silvio Berlusconi has said Alitalia's future is either with CAI or bankruptcy.

Alitalia's license could be pulled in five or six days, the paper says, quoting Infrastructure Minister Altero Matteoli, who said there have so far been no foreign offers.

On Friday night, the government was struggling to find a way to avoid a collapse of Alitalia after a pool of potential investors stepped away from a rescue plan, aggravating a crisis that may ground the airline in less than two weeks.

With emotions running high, politicians and unions traded accusations about who was responsible for bringing Italy's flag carrier to the brink.

The cabinet met Friday to discuss events leading up to the unraveling on late Thursday of a €1 billion ($1.4 billion) offer for the near-bankrupt airline. Economy Minister Giulio Tremonti told his fellow ministers that the airline wasn't being nationalized.

Deputy Prime Minister Gianni Letta told the meeting there were no credible alternatives to the offer from CAI, the person said. CAI had been asking the pilots and cabin crew to take a pay cut and work more hours, bringing their contracts in line with European averages. Six out of the airline's nine unions refused.

Welfare Minister Maurizio Sacconi said Friday the only solution to keep the airline from being grounded was "a change of heart by CGIL and other unions, the ones that didn't sign on to the turnaround plan, otherwise there is no option but liquidation."

Italy's special commissioner for Alitalia, Augusto Fantozzi, held informal meetings on Friday afternoon with the unions who thwarted the deal with CAI, but they still showed divisions. In a last-minute attempt to reopen the negotiations, the union representing cabin crew staff—among the strongest opponents of the deal—said Friday evening it was ready to sign the agreement if salaries were guaranteed.

But time could already have run out for the Italian airline, which was still operating flights regularly on Friday. Italy's civil aviation authority, or ENAC, on Monday will start examining the situation at Alitalia and could suspend the company's license within 10 days, a source close to the regulator told AFP Friday.

ENAC will have to determine whether the stricken company had any new bailout offers after CAI stepped back.

Italy's main unions were divided over whether Alitalia's employees should accept CAI's offer, and the collapse of talks has lead to a split between CGIL, Italy's largest union and the most left-wing, and CISL and UIL. The former wasn't in favor of CAI's offer, while the latter two were.

Buffett's MidAmerican to acquire Constellation

BY MARK PETERS

NEW YORK—**Berkshire Hathaway** Inc.'s MidAmerican Energy Holding Co. said it reached a definitive agreement to buy **Constellation Energy Group** Inc.

MidAmerican Energy will acquire Constellation for $4.7 billion, or $26.50 a share, preventing the electricity company from becoming another casualty of the credit crisis. The definitive agreement, announced Friday, has been approved by both companies' board of directors. It will require federal, state and shareholder approval. The companies said they expect to close the deal in nine months, at which time the agreement expires. Either company can extend it up to three months, the companies said.

Warren Buffett

The deal, with Warren Buffett again stepping in to buy assets deemed distressed by some but whose value he believes have gotten too cheap, came as Constellation's joint-venture partner, French state-run power company **Electricité de France** SA, called an emergency board meeting Friday to consider ways of maintaining some control over Constellation.

EDF board members looked into several options, including a proposal that Buffett negotiate a power-sharing agreement for Constellation. Another option was to launch a counterbid for the part of the company that EDF doesn't already own, people familiar with the situation said.

EDF, which owns 9.5% of Constellation, is concerned it may not have the same ability to build nuclear plants in the U.S. in partnership with Constellation if the company becomes the property of MidAmerican.

Earlier last week, EDF looked into how it could help rescue Constellation, which was being battered on the stock market because of concerns over its cash situation. But Mr. Buffett moved faster, and before EDF board members had time to confer on possible moves on Thursday, MidAmerican said it had reached the tentative agreement.

On Thursday, EDF said it had decided against increasing its stake, as "the conditions are not met to do so."

In addition to a commodities-trading business that generates 20% of its profit, Constellation owns a large fleet of power plants in the eastern U.S. and Baltimore Gas & Electric Co.

Investors have feared that Constellation's commodities-trading business might seize up if it were to lose important credit facilities. The trading business requires large sums of money to back contracts. Constellation's collateral requirements more than doubled to $4.4 billion at the end of August from $1.9 billion in July 2007, according to company filings.

—David Gauthier-Villars in Paris contributed to this article.

Chrysler to offer early view of electric car to its dealers

BY NEAL E. BOUDETTE

Chrysler LLC, in a bid to cheer up its dealers, this week plans to offer them a glimpse of an electric car it is scrambling to develop, people familiar with the matter said.

The compact car is supposed to be able to travel about 65 kilometers on battery power alone, these people said. For longer trips, a small gasoline engine would generate power and keep the battery charged, they said.

The concept is similar to the Chevrolet Volt electric car that **General Motors** Corp. is working on and aims to launch by 2011. GM last week showed the version of the heavily hyped Volt it plans to put into production, although its launch could still be delayed or scuttled if GM is unable to develop battery packs for the car.

The future of Chrysler's electric car isn't as clear as the Volt's.

While GM has narrowed its potential battery suppliers to two finalists and is working closely with both, Chrysler, which is incurring losses and is owned by **Cerberus Capital Management** LP, hasn't yet hammered out formal agreements with suppliers for batteries or other key components of its electric car, people familiar with the matter said. And Chrysler is relying on partners and suppliers for much of the development rather than doing the work itself, they said.

Chrysler Chief Executive Robert Nardelli and Vice Chairman Jim Press plan to demonstrate the electric car as part of a presentation to Chrysler, Dodge and Jeep dealers on Tuesday, these people said.

A Chrysler spokesman confirmed that the company has scheduled a video conference with dealers on Tuesday, and that Messrs. Nardelli and Press will talk about future products as well as the Chrysler's finances and other matters.

He declined to comment on details of the vehicles to be discussed.

The presentation is aimed in part at lifting the spirits of the company's hard-hit dealers. Many are being squeezed by Chrysler's slumping sales and more-restrictive lending policies that Chrysler put in place because of its own difficult financial situation.

This summer, Chrysler's lending arm was able to secure only $24 billion in financing, $6 billion less than it had sought, and had to pay higher interest rates than it expected.

As a result, Chrysler Financial stopped offering auto leases and Chrysler's August vehicle sales declined 34.5%. Chrysler Financial recently informed dealers it was raising the interest rates it charges when dealers borrow money to buy cars and trucks to stock on their lots. Dealers will also have to pay higher fees for vehicles that go unsold for six months or more.

Shareholders aim to stave off AIG takeover

Effort seeks to repay government's loan; saviors will need cash

By Liam Pleven

Major shareholders are trying to help pay off the federal government's loan to **American International Group** Inc. in time to avoid having Washington take an 80% stake in the company, a person familiar with the matter said.

Hurdles to these shareholders' efforts could be high, as they and other potential investors would have to put up significant sums. Last week, the U.S. government agreed to lend AIG as much as $85 billion to help it avoid possible bankruptcy, in exchange for a right to take a controlling stake in the giant insurance conglomerate.

AIG shareholders are seeking to pay off the loan quickly so a government takeover could be averted. Under this scenario, AIG would raise capital and possibly sell off assets, potentially leaving shareholders better off.

The approach could be more beneficial to existing shareholders than the government deal, because it would inject capital in exchange for the equity. Under the government arrangement, the government would get equity in exchange for a loan.

Maurice "Hank" Greenberg

Edward Liddy, who was named AIG's chief executive last week as part of the deal with the government, said he had no knowledge of the shareholder effort and had no comment.

The effort became confused Friday after AIG made a filing with the U.S. Securities and Exchange Commission about the deal with the government that said it was correcting errors in a filing it made Thursday. In the Thursday filing, AIG said it had issued a warrant to the Federal Reserve board letting it obtain 79.9% of AIG's common stock outstanding, "subject to shareholder approval."

In the Friday filing, the "shareholder approval" language was absent and AIG said "the corporate approvals and formalities" needed to give the government its stake would depend on the form of that stake.

"We have not finalized all of the documents," says a spokesman for the New York Fed, which is lending AIG the money, and had already given it $28 billion as of Wednesday.

Investors are exploring options. AIG shareholders have suffered severely this year, thanks largely to losses linked to the mortgage market. The stock has fallen more than 90% this year. Now AIG is considering selling off chunks of the company to pay off the loan.

"As mutual-fund managers, we have a responsibility to our shareholders to advocate for their interests," says one mutual-fund manager who owns AIG stock. He is seeking to stop the company from selling assets at "fire-sale prices."

A number of large shareholders have expressed displeasure with events surrounding AIG in recent months. Former CEO Maurice R. "Hank" Greenberg, who owns a large stake and also controls a firm that is AIG's largest shareholder, said last week in an SEC filing with affiliated shareholders that they might seek to buy units or take control of the company.

Mr. Greenberg is aware that other major shareholders are looking into options in addition to his own work and he is supportive of that, says David Boies, an attorney for Mr. Greenberg.

Several officials leave Fannie Mae after takeover

By James R. Hagerty

Several top **Fannie Mae** executives are leaving the company two weeks after regulators swooped in to take management control of the mortgage company and its main rival, **Freddie Mac**.

The people leaving Fannie Mae include Peter Niculescu, promoted less than a month ago to become chief business officer and the No. 2 executive; Beth Wilkinson, general counsel; Rahul Merchant, chief information officer; and Duane Duncan, a veteran lobbyist. Fannie announced the departures Friday evening.

It wasn't clear on what terms any of the executives were leaving.

Meanwhile, Buddy Piszel, chief financial officer of Freddie, also is expected to step down, according to people familiar with the situation. Mr. Piszel declined to comment.

Herb Allison

The Federal Housing Finance Agency, which regulates Fannie and Freddie, took control of them this month under a legal procedure known as conservatorship. The FHFA cited the risk that they would run out of capital amid losses from mortgage defaults. The Treasury has acquired preferred stock in Fannie and Freddie and pledged to provide them with capital as needed.

In taking control, the FHFA two weeks ago named Herb Allison as CEO at Fannie, succeeding Daniel Mudd, and David Moffett as CEO at Freddie, succeeding Richard Syron.

The new CEOs have been meeting with senior executives of Fannie and Freddie, and already management charts are being redrawn. Meanwhile, there has been discontent among some managers at the companies, now controlled by the government. "We didn't sign up to be public servants," one executive said.

Mr. Niculescu, 48 years old, joined Fannie in 1999 after working as a top bond-market analyst and strategist for Goldman Sachs Group Inc. In recent years, he has been responsible for managing Fannie's holdings of mortgages and related securities, which total about $760 billion.

THE FINANCIAL CRISIS

David M. Russell for The Wall Street Journal

Edward Liddy took over as AIG's new CEO after the U.S. government stepped in to rescue the global conglomerate as it was facing a possible bankruptcy.

AIG's new chief sees smaller, nimbler firm

Liddy aims to keep as many core assets as are 'fit to fight'

BY LIAM PLEVEN

Edward Liddy, the new chief executive of **American International Group** Inc., said he hopes to keep intact as many of the company's largest insurance operations as possible in a publicly traded company, after selling assets to pay back a federal loan.

"There will be a company at the end of this," he said in an interview Thursday. "It'll be smaller. It'll be a lot nimbler."

"My game plan is not to liquidate," he said. Mr. Liddy took the helm last week after the U.S. government stepped in to rescue the global conglomerate as it was facing a possible bankruptcy. The government agreed to lend AIG as much as $85 billion, and in exchange can effectively control 80% of the company. Proceeds from asset sales will be used to pay back the government.

Mr. Liddy, 62 years old, who previously ran insurer Allstate Corp., called AIG's insurance businesses "powerful." He described the international and domestic property-casualty operations as a "keeper." Along with the international and domestic life insurance and related operations, he said, "I'd like to keep as many of them as I possibly can."

Still, he said he has yet to determine exactly which businesses he considers core to the company, which also has a consumer-lending arm, an aircraft-leasing operation and a financial-products unit. He said he plans "at most a four-week timeframe" for making determinations on asset sales. He possibly would announce deals in that period, he said.

"I want to emerge from this with a set of core assets that are fit to fight."

Mr. Liddy said the company is motivated to repay the federal loan quickly, and alluded to the "loan-sharkish rate of interest" the government is charging—8.5 percentage points above Libor, a common short-term lending benchmark. He said the $85 billion "should be sufficient."

In anticipation of asset sales, state insurance regulators have set up a committee to review deals. New York state's insurance superintendent, Eric Dinallo, chairs the committee.

Mr. Liddy said he talked with Mr. Dinallo Thursday. "I view this as a partnership," Mr. Liddy said.

States typically have oversight over transactions involving insurers they regulate, but the committee will aim to streamline the process. A proposal is expected to be advanced Friday that would join U.S. efforts with those of international regulators, which could ease global deal-making.

Among the committee's aims will be to ensure that buyers are able to protect policyholders.

On Thursday, Mr. Liddy met with hundreds of AIG employees, who have lived through extraordinary upheaval at the company in recent weeks. AIG has lost $18 billion in the last three quarters, and its stock is down 95% this year.

Mr. Liddy is on the board of Boeing Co., which has as one of its major customers AIG's aircraft-leasing unit, International Lease Finance Corp. The head of ILFC, Steven Udvar-Hazy, who is also a major AIG shareholder, is expected to lead an effort to try to buy the unit.

Mr. Liddy is also on the board of Goldman Sachs Group Inc., whose former head, Treasury Secretary Henry Paulson, asked Mr. Liddy to step in at AIG earlier this week. He said the two have known each other for 15 years, dating back to when Mr. Liddy was helping dismantle Sears, Roebuck & Co. as an executive there.

MUFG discloses Lehman hit

BY CHAD CLINTON

Mitsubishi UFJ Financial Group Inc. said it expects an adverse impact on pretax income from continuing operations of 20 billion yen to 30 billion yen, or $186 million to $280 million, during the current fiscal year as a result of its exposure to **Lehman Brothers Holdings** Inc.

The company said in a document filed Friday with the Securities and Exchange Commission that it is still in the process of reviewing the developments related to Lehman.

The bank, Japan's biggest by assets and market capitalization, said it has net exposure to Lehman of $235 million.

Last Monday, Lehman Brothers filed for protection under Chapter 11 of the U.S. bankruptcy code.

CORPORATE NEWS

Mumbai taps Hollywood

Reliance ADA sets $1.2 billion venture with Steven Spielberg

By Lauren A.E. Schuker

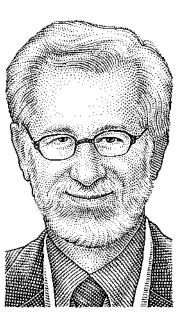
The principals of **DreamWorks SKG** have completed a long-anticipated deal with one of India's largest entertainment conglomerates to set up a $1.2 billion film company, according to people familiar with the matter.

The deal gives DreamWorks cofounder Steven Spielberg and DreamWorks Chief Executive Stacey Snider the financial support they need to leave **Viacom** Inc.'s Paramount Pictures and start a new venture.

Mumbai-based **Reliance ADA Group** will invest $500 million in equity and provide $700 million in debt through **J.P. Morgan Chase** & Co. toward the new venture, which will produce about six films a year.

News of the talks between DreamWorks principals and Reliance surfaced in June, but an agreement wasn't finalized until now, these people said.

A DreamWorks spokesperson had no comment. Rajesh Sawhney, head of Reliance Big Entertainment, a division of Reliance ADA Group, also declined to comment.


Steven Spielberg

Now that the DreamWorks team has sealed the agreement with Reliance, attention will quickly shift to the question of where the new company will distribute its films. **General Electric** Co.'s Universal Pictures, where Mr. Spielberg began his career, is thought to be a top choice, though an agreement has yet to be reached. The DreamWorks team also plans to strike a new deal with **Time Warner** Inc.'s HBO.

Once those deals are in place, DreamWorks principal David Geffen is expected to resign from Paramount, where DreamWorks has been stationed since it was sold to Viacom in 2006. Mr. Geffen isn't expected to be part of the new venture.

Mr. Spielberg and Ms. Snider will depart Paramount after a series of high-profile disagreements with the studio during their short time together. Even after the pair leave, however, Mr. Spielberg will continue to work with the studio on a number of movies.

Mr. Spielberg will continue to have creative control over certain projects at the studio. While it was once thought that the DreamWorks team would try to take some projects with them to the new venture, it is now more likely that those films will remain at Paramount, with Mr. Spielberg receiving compensation for his involvement.

The marriage between some of Hollywood's biggest names and an Indian conglomerate is less surprising than it seems. The new deal comes in the wake of a financial drought in Hollywood, with the industry looking to foreign investors to replace some of the billions of dollars that Wall Street poured into film financing in recent years but has since evaporated with the crumbling credit markets.

GM will draw down credit line

By John D. Stoll
And Kathy Shwiff

General Motors Corp. said it intends to draw down the remaining $3.5 billion of an existing $4.5 billion secured revolving credit facility to boost its liquidity amid uncertainty in the capital markets.

The move reflects concern at GM about the effect tight credit markets are having on the company's cash cushion. GM's liquidity has been drained by falling sales in the U.S. and restructuring charges recorded in recent years.

The $4.5 billion secured revolving credit facility was put in place in July 2006 with a consortium of banks and provides liquidity that GM can draw on to fund working capital and other needs. Earlier this year, GM drew down about $1 billion from the line of credit, but in the past it has avoided relying heavily on its credit lines, as it enjoyed a relatively solid liquidity position.

GM executives said as recently as June that drawing down the credit line may send a negative signal to investors.

GM also said Friday that it completed a $322 million debt-to-equity exchange. The auto maker issued 28.3 million new shares of its common stock in exchange for a $322 million principal amount of its 1.5% Series D senior convertible debentures, which mature in June.

"Accessing the funds available to us is a prudent liquidity measure," GM Treasurer Walter Borst said. "Drawing on the revolver now improves our liquidity position at a time when the capital markets have become more challenging."

On the New York Stock Exchange Friday, GM's shares rose $1.68, or 15%, to $13.08. GM's shares have rallied amid wider optimism on Wall Street and hopes the auto maker will receive billions of dollars in loans from the U.S. government.

In July, GM unveiled a $15 billion fund-raising plan designed to keep the company afloat through the end of 2009. About $10 billion of that would be achieved through cost cuts, such as a dividend cut and capital-expenditure reductions, while another $5 billion would be raised through asset sales and secured-financing deals.

But GM, like many companies, has had difficulty tapping the credit markets this year. The auto industry has been pressured as U.S. auto sales have hit a 15-year low, and the profitable truck and sport-utility-vehicle segments have collapsed under the weight of high gasoline prices.

As GM in recent months has sought new financing, it has found the costs of the loans to be prohibitive. It is lobbying Washington to approve funding for $25 billion in loans. Without those loans or a loosening of the credit markets, many analysts and investors fear GM will run into a cash crunch that could lead to an inability to meet its day-to-day funding needs.

A tough economy and falling market share have led GM to post a string of losses and spend billions of dollars on a restructuring of its North American operations and on assisting **Delphi** Corp.—its top parts supplier—through a three-year bankruptcy process. GM recently has been burning $1 billion in cash on a monthly basis and had $20.5 billion in cash at the end of the second quarter.

Its credit lines weren't counted in the $20.5 billion figure.

Icahn free now to push Yahoo agenda

By Jessica E. Vascellaro
And Joann S. Lublin

Yahoo Inc.'s revamped board will meet for the first time next week, giving investor Carl Icahn his first chance to push his agenda for the Internet company from the inside.

The new board, which includes Mr. Icahn and two new directors Yahoo chose and Mr. Icahn supported, Frank Biondi and John Chapple, will hold a board dinner Monday night followed by a meeting Tuesday, according to people familiar with the matter.

It isn't clear whether Mr. Icahn will show up, according to someone close to the situation, as Mr. Icahn often attends board meetings by phone rather than in person. What changes he intends to push for—and how vigorously—also remains unclear. He couldn't be reached for comment.

Mr. Icahn, Mr. Biondi and Mr. Chapple joined Yahoo's board this summer as part of the activist investor's agreement to drop his campaign to oust Yahoo's directors. Mr. Icahn attacked the Yahoo board for rebuffing multiple offers from **Microsoft** Corp. to buy all or parts of Yahoo.

Mr. Biondi is former chief executive of Viacom Inc. and former chairman and CEO of Universal Studios. Mr. Chapple is former CEO of Nextel Partners, a small wireless company that Sprint Nextel Corp. bought.

During Tuesday's board meeting, Yahoo executives will offer an update about ongoing talks with **Time Warner** Inc., said one person familiar with the situation. The two sides continue to discuss a possible combination of Yahoo with AOL, according to people familiar with the matter.

Another likely topic at that meeting: potential regulatory opposition to Yahoo's search-advertising partnership with **Google** Inc. A number of customers already have objected—and that may sway regulators. As a result, Yahoo and Google have stepped up their defense of the deal, which allows Yahoo to show search ads sold by Google and to take a share of the revenue. Any unraveling of that agreement would be a big blow for Yahoo and could accelerate the board's consideration of other options.

GLOBAL BUSINESS BRIEFS

Informa PLC

Consortium withdraws its plan for a takeover

The private-equity consortium planning to take over **Informa** PLC withdrew, making the deal the latest victim of the global-financial crisis. The consortium, made up of **Providence Equity Partners** Ltd., **Carlyle Group** LLC and **Blackstone Group** LP, dropped its £1.9 billion ($3.49 billiion) offer—which the U.K. publisher and events company had rejected as too low—after failing to find financing for a sweetened bid. Informa said Friday that it isn't in talks with any third parties. "It's no surprise given recent events that funding of any offer has become more challenging," said an Informa spokesman. The consortium said it might make another offer within six months if there is another bid for Informa, if Informa's board invites it to make another offer, or if there is a material change in circumstances.

Apple Inc.

Apple Inc. said it will exchange power adapters for its iPhone 3G cellphone after receiving reports that the device's metal prongs can break off in power outlets, causing a risk of electric shock. The Cupertino, Calif., company said it has received reports of detached prongs involving a "very small percentage of the adapters sold" but that no injuries have been reported. The model at risk is the ultracompact USB adapter that shipped with all iPhone 3Gs sold in the U.S., Japan, Canada, Mexico and several other countries in Latin America. IPhone 3Gs sold in Europe and elsewhere aren't affected, Apple said. An Apple spokeswoman declined to say how many iPhone 3Gs were sold in the countries where it is offering power-adapter replacements.

Cisco Systems Inc.

Cisco Systems Inc., aiming to further its push into the online conferencing market, said it will acquire instant-messaging start-up **Jabber** Inc. for an undisclosed amount. The San Jose, Calif., computer-networking company is betting that business users will want the tools it is acquiring to work on, share and store files in a virtual "work room," where they can collaborate on projects and communicate over the Internet. Cisco believes such tools, dubbed the "collaboration" market, can be a $34 billion industry. "Make no mistake, we are playing to win in the [collaboration space]," said John Chambers, Cisco's chief executive and chairman during a talk with analysts on Tuesday. Jabber adds instant-messaging and other communications technology to Cisco's fold.

Toshiba Corp.

Toshiba Corp. lowered its sales and profit outlook for the full fiscal year ending March 2009, as its struggling chip business will likely cause losses in the first half. The electronics conglomerate, which makes everything from nuclear reactors to televisions, now estimates a net profit of 70 billion yen ($652.5 million) for this fiscal year, falling short of the 130 billion yen in profit in its April outlook. The company also lowered its full-year sales outlook to 7.7 trillion yen from eight trillion yen, while it cut its operating-profit outlook to 150 billion yen from 290 billion yen. In the first half to September, the company will likely post an operating loss of 30 billion yen.

American International Group

The head of the Singapore unit of insurance giant **American International Group** Inc. resigned after 14 years with the company. Mark O'Dell, general manager of AIA Singapore, has left and Executive Vice President Kenneth Juneau will take over, the company said Friday. "His decision to leave the company is in no way related to the recent developments at AIG," said Mark Wilson, regional president of AIG Life Companies in Asia Pacific. AIA Singapore's headquarters was overwhelmed with nervous policyholders seeking to find out the status of their policies or cash them out. The company said that anyone who terminated a policy will be allowed to reinstate it during the next two weeks without penalty. Both AIA Singapore and the central bank reiterated that the company's policies are safe.

Hyundai Motor Co.

Hyundai Motor Co. of South Korea said it will build a $600 million plant in São Paulo, targeted to start production in the first half of 2011. Hyundai and São Paulo have signed a memorandum of understanding to start building the plant, which will have capacity of 100,000 units a year, as early as November, Hyundai said. It will be Hyundai's seventh overseas plant and will help the company to cope with competition from Toyota Motor Corp. and Honda Motor Co., which also plan to build plants in Brazil, it said. The Brazil facility will produce small cars that can run on gasoline and ethanol.

PepsiCo Inc.

Beverage giant and snack-food maker **PepsiCo** Inc. plans to invest $500 million over the next three years to boost its Indian operations, the company's chairman and chief executive said Sunday. Indra Nooyi said in New Delhi that the company hopes to triple its business in the country. The investment will be spread over manufacturing capacity, market infrastructure, environment-sustainability initiatives, research and development, including for new products, and agriculture, the company said. The additional investment is expected to create 50,000 new jobs in the country. PepsiCo has invested about $700 million in India since 1989.

SJM Holdings Ltd.

Macau casino firm **SJM Holdings** Ltd. said first-half net profit rose 8.1% from a year earlier on higher nongambling revenue, while gambling revenue fell amid an increase in competition. The recently listed company, controlled by Hong Kong casino businessman Stanley Ho, had a net profit of 571 million Hong Kong dollars (US$73.4 million), up from HK$528.4 million a year earlier. Gambling revenue fell 4.5% to HK$15.45 billion, while nongambling revenue, such as that from food and beverages, rose 67% to HK$120.6 million. SJM owns 18 of Macau's 28 casinos and enjoyed a gambling monopoly in the city until 2002.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

TURKEY

EU says Georgia crisis bolsters Ankara's value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THE GEORGIAN crisis has strengthened the strategic importance of Turkey in the Caucasus and for the European Union, the bloc's enlargement chief said.

EU Enlargement Commissioner Olli Rehn said Turkey was "engaged in very active and evidently successful diplomacy" in its neighboring regions. Ankara officials have met separately with Georgian and Russian officials in an effort to promote peace. It is also helping to normalize ties between Syria and the EU.

He gave no specific information on when, or whether, Turkey was likely to join the EU.

—Associated Press

BELGIUM

Panel recommends reform to resolve political crisis


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BELGIUM needs radical constitutional reforms so it can devolve more powers to its Dutch and French-speaking regions, a special committee recommended as it sought to resolve the country's political crisis. Three politicians—two Francophones and the leader of Belgium's German-speaking region—offered a plan to resolve a dispute that has deadlocked Belgian politics since the June 2007 election.

The impasse has raised questions on whether the two linguistic regions should go their own way and break up Belgium into 6.5 million Dutch speakers and four million Francophones. *—Associated Press*

NATO

Gates says allies should help pay for Afghan army


Associated Press

U.S. DEFENSE Secretary Robert Gates, left, said Friday after a NATO meeting that he told allies that they will be expected to share the cost of a planned expansion of the Afghan national army.

"I let a number of my colleagues know that we would be in touch in terms of the importance of sharing the cost of the increased size of the Afghan army because, after all, the effectiveness of the Afghan security forces—and in particular the army—in the long term is NATO's exit strategy," he said.

The Afghan army is to grow from 80,000 soldiers to 134,000 to prevent the country from again becoming a haven for terrorists. *—Associated Press*

Russian defense spending to hit $50 billion

Conflict in Georgia exposed deficiencies of an aging arsenal

BY ANDREW OSBORN
Moscow

THE KREMLIN is set to boost its defense budget by more than one-quarter, taking it to a post-Soviet high of $50 billion next year as it seeks to add muscle to its foreign policy and reverse underinvestment.

The cash infusion also is aimed at fixing problems revealed by last month's brief war with Georgia. Though the Russian military crushed the smaller Georgian one, it suffered substantial losses, according to military analysts.

Even with the increase, disclosed in a draft budget that was given preliminary approval in Parliament Friday, Russia's military spending still will be only a fraction of the roughly $700 billion the U.S. spends annually. But the budget increase highlights a gap between President Dmitry Medvedev's sometimes-conciliatory rhetoric and actual Kremlin policies.

Earlier this month, Mr. Medvedev told foreign observers that Russia didn't aim to become a "militarized country behind an Iron Curtain." The previous day he had struck a different note, though, saying that rearming Russia is one of "the highest state priorities."

Mr. Medvedev and Prime Minister Vladimir Putin said they don't want Russia to be drawn into a Cold War-style arms race that would drain funds needed to replace crumbling infrastructure and improve living standards. But military spending has risen almost every year since 2000, and militaristic displays such as Red Square tank-and-missile parades have made a comeback.

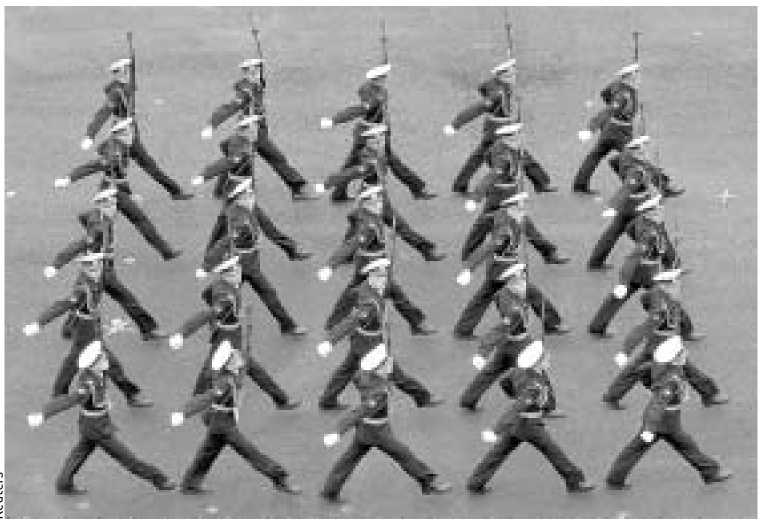
On Thursday, a Russian nuclear submarine in the White Sea successfully test-fired a new intercontinental ballistic missile, hitting a target on the Pacific Coast more than 4,200 miles away, officials said. On Friday, two strategic bombers returned to base after a training exercise in Venezuela. Russian media portrayed the exercise as a way of showing Washington that U.S. plans to place a missile-defense system in Eastern Europe will draw a response.

Secretary of State Condoleezza Rice derided the planes as a "few aging" bombers, echoing a series of comments about the Russian military made by U.S. officials.

Earlier this month, a Russian-led group of former Soviet countries said it would form a joint military force in Central Asia, an area where Moscow has bridled at an embryonic U.S. presence. State media also routinely use the army as a propaganda tool to galvanize patriotic sentiment, stirring memories of Soviet military might.

Yet almost two decades of underinvestment have left the Russian army, navy and air force poor relations to their Soviet forerunners. As the military-industrial complex atrophied after the Soviet collapse in 1991, deliveries of new equipment dwindled to almost nil, while money earmarked for procurement went into the pockets of corrupt officials.

"Defense spending has multiplied since 2000...but the results have been really meager," said Pavel Felgenhauer, a military expert at opposition newspaper Novaya Gazeta.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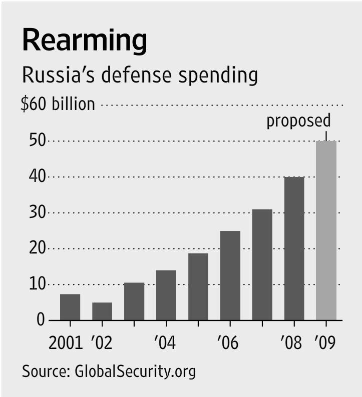

Sailors march during a ceremony marking Russian Navy Day in the Far East city of Vladivostok (left).

Spending rose from $5 billion in 2000 to $40 billion in 2008, but galloping inflation and almost no new weapons development meant it made little difference, he said.

A policy to buy only Russian-made hardware has also taken a toll. Observers said the top brass is actively discussing the politically unpalatable prospect of purchasing Western-made arms.

Last month's war against Georgia highlighted the weaknesses of Russian procurement policies, according to reports from Russian military officials that have since trickled out in the local media.

Though victorious, the Russian army discovered it had almost no spy drones, substandard satellite navigation and an aging arsenal of imprecise conventional weapons. When Russian commanders wanted to communicate with each other, they had to use cellphones because their own battlefield communications equipment was so poor. When the army wanted to observe Georgian troop movements, it sent a Tu-22 strategic bomber to do the job of a drone. It was shot down. Russian officers discovered that captured Georgian hardware—of the same Soviet-era vintage as their own—was actually better, since it had been modernized. Georgian tanks, unlike their Russian counterparts, had night-vision and fire-correction mechanisms.

The Moscow Defense Brief journal said the conflict was a wake-up call.

"Victory over the Georgian army... should not be a cause for euphoria, but rather a stimulus to accelerate military transformation," it wrote.

Aso leads in race for Japan prime minister

BY HIROKO TABUCHI

TOKYO—Japan's ruling party picks a successor to Prime Minister Yasuo Fukuda on Monday, and it looks like a thankless job. The party is struggling after two leaders quit in quick succession in two years, and risks falling from power for the first time in more than a decade. The economy was flirting with recession even before the U.S. financial crisis.

Enter "manga" man Taro Aso. The overwhelming favorite for the top job is an ardent fan of manga comics and a cheerleader for Japan's pop culture. That has brought the 68-year-old politician popularity among many younger voters, something the Liberal Democratic Party hasn't found in a leader since charismatic former Prime Minister Junichiro Koizumi, who governed from 2001 to 2006. Because the LDP controls the lower house of Parliament, which chooses the prime minister, whoever heads the LDP is assured of election as prime minister on Wednesday.

Mr. Aso's favored policies contrast with those of Mr. Koizumi, an advocate of smaller government. Mr. Aso has suggested he is keen to boost public spending to bolster the economy. "Factories won't come where there are no roads. We have to prioritize the economy," he said last week.

That is making Mr. Aso popular among smaller companies and in rural communities, constituencies that tend to have a high percentage of older voters who feel they've been shortchanged in some of the country's recent overhauls. Many in the LDP hope Mr. Aso's support among young and old will help the party recoup its losses under Mr. Fukuda, who resigned Sept. 1 after a year in office.

Mr. Aso leads four other contenders in public-opinion polls, as well as surveys of LDP lawmakers and regional party delegates who vote in Monday's poll. Other candidates include Yuriko Koike, a former defense minister who wants to be Japan's first female prime minister, and Kaoru Yosano, a former economy minister. According to a recent poll by the national Asahi newspaper, Mr. Aso has 42% support among the public, compared to 8% for Ms. Koike and 6% for Mr. Yosano.

Mr. Aso will need to deliver results fast. The ruling party could call nationwide elections as early as next month. If the LDP loses its majority in the powerful lower house of Parliament, it will fall from power for only the second time since its founding in 1955.

Mr. Aso is the grandson of a former prime minister. He has held four cabinet posts, including foreign minister. He has run for prime minister three times, losing each time but eventually bouncing back to fill important posts in the government and party.

—Miho Inada contributed to this article.