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Cruising attitude: Airlines load up A380s with perks

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At CVS golf gala, suppliers pay to get executive access

NEWS IN DEPTH | PAGES 18-19

U.S. woes could generate global recriminations

Countries question economic leadership as bailouts mount

The turmoil in the U.S. financial sector threatens to undermine support for the dollar among foreign investors, damage American efforts to free more markets of regulation, and bolster competition from other countries' banks and financial markets that are looking to expand their global influence.

In country after country, the reaction to the financial failures and government bailouts of recent weeks is to question America's long-standing economic leadership —and revisit policies that follow the U.S. model.

By **Jason Dean** *in Beijing,* **Marcus Walker** *in Berlin,* **Evan Ramstad** *in Seoul and* **Chip Cummins** *in Dubai*

In South Korea, legislators are reconsidering plans to liberalize the country's financial industry. German chancellor Angela Merkel has refreshed her defense of a law that gives the state an effective veto over takeovers of Europe's largest carmaker, Volkswagen AG. The U.S. effort to convince China to let the market determine the value of its currency may be undermined, analysts there say.

While the U.S. has been a model for Chinese reforms, now it's clear "the teachers have their own problems," says Song Guoqing, an economist at Peking University's China Center for Economic Research.

In a world much more economically and financially intertwined

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Pushing to remedy financial distress

Reuters

U.S. Fed Chairman Ben Bernanke prepares to testify before the Joint Economic Committee

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Business & Finance

Democratic leaders in the U.S. Congress are seriously considering placing restrictions on the proposed financial-market bailout, including a requirement that the $700 billion sought by the White House be doled out in portions rather than in a lump sum. Page 1

■ **AIG formally agreed** to accept a U.S. government bailout plan where it will receive $85 billion in exchange for a nearly 80% equity interest. Page 2

■ **A Libyan sovereign fund** is ready to acquire a stake in the holding company that controls Telecom Italia. Page 4

■ **A former board member** at Siemens claimed the company secretly financed a labor group to curb Germany's most powerful industrial union. Page 4

■ **French utility EDF** remains hungry for overseas nuclear projects, even as it confirmed its $23.22 billion deal to buy British Energy. Page 6

■ **New signs** of plunging business confidence across the euro zone in September bode ill for its economic growth in the fourth quarter. Page 11

■ **Natixis reported** a 97% subscription rate as the French investment bank sought to raise $5.44 billion. Page 22

■ **Boeing and workers** remain in a standoff almost three weeks after the Machinists union at its commercial-plane factories went on strike. Page 6

■ **U.S. stocks were** little changed in seesaw action, while European shares fell for the third straight session. Page 22

■ **German prosecutors** have opened tax-evasion probes of 966 suspects with accounts at LLB in Liechtenstein. Page 21

■ **Global flows** of foreign direct investment are set to tumble from 2007's record high, a U.N. group said. Page 13

■ **An investor group** looked like it could revive its bid for ailing carrier Alitalia. Page 6

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	10825.17	-29.00	-0.27
Nasdaq	2155.68	+2.35	+0.11
DJ Stoxx 600	265.66	-1.65	-0.62
FTSE 100	5095.57	-40.55	-0.79
DAX	6052.87	-15.66	-0.26
CAC 40	4114.54	-25.28	-0.61
Euro	$1.4667	-0.0059	-0.40
Nymex crude	$105.73	-0.88	-0.83

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World-Wide

U.S. financial-sector turmoil threatens to hurt the dollar's standing among foreign investors, damage American efforts to free markets of regulation and bolster competition from other countries' banks and markets, as U.S. economic leadership is being questioned. Page 1

■ **Obama and McCain remain** essentially tied in the presidential race amid the U.S. financial turmoil, a Wall Street Journal/NBC News poll shows. Page 2

■ **McCain said** he will suspend his campaign on Thursday to focus on the economic crisis and called for a delay in the election debate scheduled Friday. Page 3

■ **Iraq's parliament approved** a provincial-elections law after months of deadlock, under intense U.S. pressure. Gunmen tipped off about a raid ambushed Iraqi policemen and U.S.-allied fighters, killing 22.

■ **German officials established** direct contact with kidnappers of 19 people, including 11 Europeans, now being held in Sudan, after days of indirect negotiations.

■ **Finland's government pledged** to tighten gun laws, a day after a 22-year-old gunman killed 10 students, including eight women, at a trade school and then himself.

■ **Taro Aso was confirmed** as Japan's prime minister and named veteran lawmakers to key economic positions. Page 11

■ **North Korea barred** U.N. inspectors from its Yongbyon reactor and plans to reactivate the plant within a week, the chief U.N. inspector said. Page 11

■ **China's contaminated-milk** troubles highlight the need for better enforcement of product-safety standards at all stages, Western officials said. Page 10

■ **China prepared** to send astronauts into orbit Thursday to conduct its first spacewalks. Page 14

■ **Venezuelan President Chávez** said a joint investment fund with China would be doubled to $12 billion in capital. Page 25

■ **Pakistan's military said** a pilotless aircraft that crashed in South Waziristan was recovered, but the Pentagon denied any U.S. drone had been lost in the area.

EDITORIAL & OPINION

Message me

Brussels tries to please consumers by bleeding telecoms. Business Europe. Page 17

Goldman boosts offering after deal with Buffett

By Susanne Craig, Matthew Karnitschnig And Aaron Lucchetti

Goldman Sachs Group Inc. said Tuesday that it will get a $5 billion investment from billionaire Warren Buffett's company, marking one of the biggest expressions of confidence in the financial system since the credit crisis intensified early this month.

To further shore up its balance sheet, Goldman said Wednesday that it had priced a public offering of 40.65 million common shares at $123 a share for total proceeds of about $5 billion. The offering, priced at a 1.6% discount to Tuesday's closing price, was double the minimum the bank said it planned to raise when announcing the investment by Mr. Buffett's **Berkshire Hathaway** Inc.

The deal is the latest in a series of dramatic events that have reshaped American finance this month, from the federal takeover of Fannie Mae and Freddie Mac to the bankruptcy filing of Lehman Brothers Holdings Inc. to the bailout of American International Group Inc. and steps by Goldman and **Morgan Stanley** to become commercial banks.

The move capped a day of bruising hearings in Congress on Tuesday over the fate of the Treasury Department's plan to buy $700 billion in distressed assets from financial institutions, in a bid to shore up the banking system. The plan is still expected to pass, though it is coming under increasing fire.

Mr. Buffett, in an interview with CNBC on Wednesday, said he could understand the anger over the Treasury's plan but added that action is needed. He called Berkshire's investment in Goldman a "vote of confidence" that Congress will approve the bailout but said the investment's timing wasn't tied to the debate over the plan.

Mr. Buffett also said Treasury Secretary Henry Paulson should be asked to stay on by the next administration.

The Berkshire investment will be a big boost to Goldman. Even though the firm hasn't posted a quarterly loss since the credit crisis began, its profits have waned and its stock got hit last week. It has examined a number of options aimed at bolstering its capital position.

Berkshire's plan "is a sign of confidence from one of the nation's most respected investors," said James An-

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Plan to slice up bailout package picks up steam

WASHINGTON—Democratic leaders in the U.S. Congress are seriously considering placing tough restrictions on the Bush administration's proposed market rescue, including a requirement that the $700 billion sought by the White House be doled out in portions rather than a lump sum.

By **Greg Hitt, Deborah Solomon, Damian Paletta, Sudeep Reddy, John D. McKinnon**

Many details remain to be worked out. One option discussed among Democratic leaders would provide for a quick vote on perhaps a third of the funds sought by the administration, with later votes in Congress planned on the balance.

More likely is a plan that would authorize all of the $700 billion up-front, but place benchmarks measuring the performance of the bailout that would have to be met for all of the funds to be drawn upon.

A key issue yet to be determined is who in the government would have the power to judge

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LEADING THE NEWS

AIG accepts offer of a giant bailout prepared by U.S.

By Lavonne Kuykendall

American International Group Inc. formally agreed to accept a federal bailout plan that would lend it $85 billion in exchange for it giving a nearly 80% equity interest to the U.S. government.

Warren Buffett, Maurice R. "Hank" Greenberg and various insurance companies are all eager to buy businesses from AIG. That eagerness—and skittishness among AIG insurance customers and employees—could accelerate and alter the company's plans to sell assets.

The New York company plans to pay off its Federal Reserve loan with a quick sale of noncore businesses, according to Edward M. Liddy, the insurer's newly appointed chief executive in recent interviews.

In a Wednesday interview on CNBC, Mr. Buffett said he had expressed an interest in buying "one or two units" as AIG struggled to raise capital in recent weeks but was unable to get a deal worked out in time.

Mr. Buffett's **Berkshire Hathaway** Inc. operates insurance and reinsurance businesses, and was also rumored to be interested in buying AIG's aircraft-leasing business. Mr. Buffett said he expects to get another chance to pick up some AIG businesses in coming months. "Most of it will be for sale in the next year or two," he predicted.

AIG's former chairman and chief executive, Mr. Greenberg, has said that his **C.V. Starr** investment vehicle is also a potential buyer. Mr. Greenberg was forced out of AIG in 2005.

The announcement came as the U.S. Federal Bureau of Investigation is looking into potential fraud at mortgage giants **Fannie Mae** and **Freddie Mac**, as well as **Lehman Brothers Holdings** Inc. and AIG.

McCain, Obama still close in poll

Voters grow angrier over U.S.'s direction; a statistical tie

By Laura Meckler

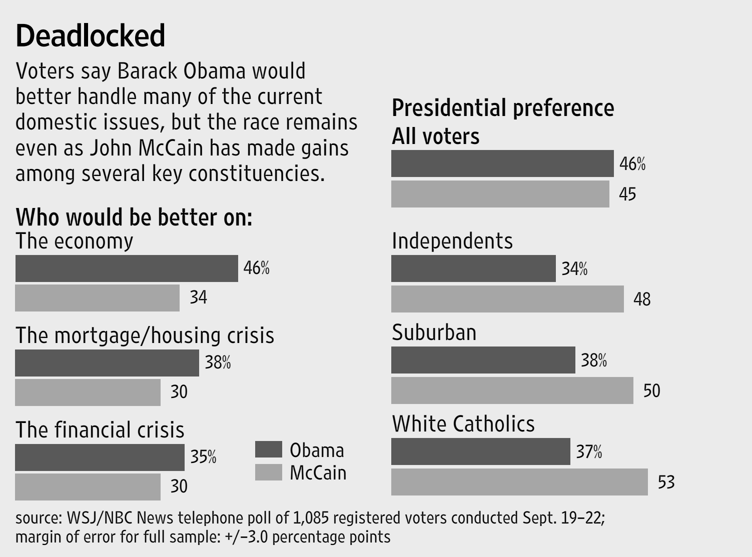
WASHINGTON—When it comes to the economy, voters long have had more confidence in Democratic presidential hopeful Barack Obama than his Republican rival, John McCain. Yet the nation's financial turmoil hasn't changed the overall race, which remains essentially tied, according to a new Wall Street Journal/NBC News poll.

The survey shows that voters have grown even angrier about the direction of country than they were over the summer, a sentiment that Sen. McCain has tapped with a populist message. For more than a week, he has eviscerated Wall Street and Washington alike for the greed, corruption and incompetence he says lie behind the financial crisis.

At the same time, a majority of voters still believe Sen. Obama is best able to handle the economy, and many more believe he would bring real change to the country than say the same of Sen. McCain.

Overall, the race remains a statistical tie, with 48% favoring Sen. Obama and his running mate, Sen. Joe Biden, and 46% favoring Sen. McCain and his running mate, Alaska Gov. Sarah Palin. Two weeks ago, Sen. Obama had a one-point edge. The new poll has a margin of error of plus or minus three percentage points.

It was conducted Sept. 19 to 22, as news of the $700 billion Wall Street bailout proposal broke. The survey found no consensus on the plan, with a third approving, a third disapproving and a third without an opinion.



source: WSJ/NBC News telephone poll of 1,085 registered voters conducted Sept. 19–22; margin of error for full sample: +/–3.0 percentage points

"It's as if the financial crisis has frozen the electorate in place—as if someone hit the pause button on this election while we sort this out," said Republican pollster Neil Newhouse, who conducts the poll with Democratic pollster Peter Hart.

It raises the stakes for Friday's presidential debate, the first of three scheduled debates. Four in 10 voters said the debates will be extremely or quite important in making their decisions, more than had said the same at this point in either of the past two elections.

There is no doubt that the economy is the top issue for large numbers of voters. Offered four issue sets, nearly six in 10 picked economic issues such as job losses, home foreclosures and energy as those most important to them. Domestic issues such as health care, education and the environment were a distant second, with social issues and foreign policy behind that.

Given Sen. Obama's advantages on the economy, and given that the party in charge of the White House typically takes the blame amid bad economic news, many expected that Sen. Obama would have jumped ahead of his rival. But the Journal poll suggests that isn't the case, at least not yet, and Mr. Hart argues that Sen. McCain's ability to tap into voter anger explains why.

A near-record 73% of voters said the nation is on the wrong track, up six points from last month. More people think the nation is in a "state of decline." Nearly eight in 10 voters think the nation is in a recession, and most of them think the worst is yet to come. And public opinion ticked down for every public figure and institution the poll asked about, including President George W. Bush, Sens. McCain and Obama and both political parties.

It makes the electorate ripe for Sen. McCain's populist message, Mr. Hart said, recalling the classic movie "Network," in which TV news anchor Howard Beale urges viewers to proclaim, "I'm as mad as hell, and I'm not going to take this anymore."

"John McCain has become the Howard Beale of this election," Mr. Hart said.

The survey found that Sen. Obama has lost ground with the independent voters who will be crucial to the outcome of the election. They now favor Sen. McCain by 13 percentage points, up from eight points two weeks ago. In early September, just after both parties' conventions, half of independent voters had a positive image of Sen. Obama; now it is 39%. Independents were also less likely to say they could identify with his background and values than they were in early September.

And nearly half of all voters—45%—said they think Sen. Obama would raise taxes on middle-income people, even though he has promised not to, a sign that Sen. McCain's attacks on taxes are working.

But there are positive signs for Sen. Obama, too. He picked up support among voters who favored Sen. Hillary Clinton in the Democratic primary. Voters who have learned more about him in the past couple of weeks are more likely to say that the new information gave them a more favorable impression. By contrast, most voters who learned more about Sen. McCain say that what they heard gave them a less favorable view.

Voters also said that Sen. Obama would do a better job handling every economic issue except taxes, including improving the economy, the mortgage and housing crisis and dealing with the Wall Street financial crisis.

At the same time, Sen. McCain's age—at 72 years old, he would be the oldest man inaugurated to a first term—remains an issue for many voters. Forty-four percent said they worry about his ability to serve four years.

It all combines to keep the election competitive with less than six weeks to go.

"For everybody who wants to close the door on this election: Sorry, not yet," said Mr. Hart.

The Journal/NBC News poll comes a day after a national poll conducted for the Washington Post and ABC News found Sen. Obama with a nine-point lead. Mr. Hart, the Journal's Democratic pollster, said that poll was skewed because it sampled a disproportionate number of Democrats.

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

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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

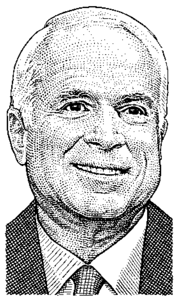
THE FINANCIAL CRISIS

McCain to 'suspend' presidential campaign

Senator will focus on economic crisis; a call from Obama

By Elizabeth Holmes And Laura Meckler

NEW YORK—Sen. John McCain said he will "suspend" his presidential campaign on Thursday and will return to Washington to focus on the unfolding economic crisis. In the meantime, he called for a delay in the presidential debate scheduled for Friday night in Mississippi.


John McCain

Sen. McCain also called upon his Democratic rival, Sen. Barack Obama, to join him in the capital.

"It has become clear that no consensus has developed to support the administration's proposal. I do not believe that the plan on the table will pass as it currently stands, and we are running out of time," the Arizona senator said in a statement issued by the campaign. "Tomorrow morning, I will suspend my campaign and return to Washington."

He also called on the Commission on Presidential Debates to delay Friday's debate, the first of three scheduled, and he asked President George W. Bush to convene a meeting with congressional leadership, including himself and Sen. Obama.

"It is time for both parties to come together to solve this problem," he said. "We must meet as Americans, not as Democrats or Republicans, and we must meet until this crisis is resolved."

The Arizona senator compared the situation to that facing the nation following the 2001 terrorist attacks, saying politics must be put aside for the moment.

"We must show that kind of patriotism now," he said. "Americans across our country lament the fact that partisan divisions in Washington have prevented us from addressing our national challenges. Now is our chance to come together to prove that Washington is once again capable of leading this country," he said.

The McCain statement comes as political figures in Washington had begun to assess the fallout of the bailout package on the presidential race. Both candidates have been put into difficult situations. To oppose the package could appear irresponsible in the face of financial turmoil, but support is dicey without a broad national consensus that hasn't materialized.

Shortly after Sen. McCain issued his statement, the Obama campaign issued its own, saying the two candidates are working on a joint statement on the crisis, a process it said was initiated by Sen. Obama when he called Sen. McCain at 8:30 a.m. Wednesday, according to Obama spokesman Bill Burton.

"At 8:30 this morning, Sen. Obama called Sen. McCain to ask him if he would join in issuing a joint statement outlining their shared principles and conditions for the Treasury proposal, and urging Congress and the White House to act in a bipartisan manner to pass such a proposal," Mr. Burton said in an email to reporters. "At 2:30 this afternoon, Sen. McCain returned Sen. Obama's call and agreed to join him in issuing such a statement. The two campaigns are currently working together on the details."

Russia rift hurts U.S. in its effort against Iran

By Jay Solomon

UNITED NATIONS—The Bush administration's rift with Russia is undercutting U.S. efforts to enact a new round of financial sanctions against Iran for its nuclear activities.

American diplomats sought to convene an emergency meeting of the five permanent members of the United Nations Security Council plus Germany this week in New York to discuss implementing a fourth round of economic sanctions against Tehran. But Moscow declined, American and Russian diplomats said Tuesday, citing more pressing issues it needed to address during this week's annual U.N. General Assembly meeting.

"We see no 'fire alarm' which would require us to put off other things...and meet in emergency [session] on the Iranian nuclear problem," Russian Foreign Ministry spokesman Andrei Nesterenko said in a statement.

American and Russian diplomats both acknowledged that Moscow's coolness to the Bush administration's Iran plan is a direct response to the Bush administration's public criticism of Moscow's military activities in Georgia. Last week, U.S. Secretary of State Condoleezza Rice charged Russia had made a "dark turn" toward authoritarianism by sending its forces into Russia, and risked becoming "irrelevant" on the world stage. President George W. Bush this month withdrew support for a nuclear cooperation deal he'd promoted with Russia's former President Vladimir Putin.

"We're obviously in a rocky period for our relationship with the Russians," said a senior State Department official involved in the Iran diplomacy.

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CORPORATE NEWS

SERVICES

Germany wants to change Deutsche Post tax break

Associated Press

THE GERMAN government plans to revoke some of the value-added-tax exemptions enjoyed by logistics and mailing company **Deutsche Post** AG and extend some exemptions to its competitors as of 2010.

The federal cabinet voted to amend its VAT Act, the Ministry of Finance said after the meeting. The government is taking steps to further liberalize the postal market and comply with European Commission demands to amend the VAT exemption for postal services, the ministry said. Some postal services will lose their VAT exemption, such as express deliveries, cash-on-demand shipments and individual and special services, the ministry said. *—Andreas Kissler*

REAL ESTATE

U.K. home builders asked to follow code of conduct

Fotosearch

BRITAIN's competition watchdog said the country's home-building sector is broadly competitive but asked for a code of conduct to protect home buyers.

In a report to be published Thursday, the Office of Fair Trading said many home buyers experience faults in their new homes, delays in moving in and problems surrounding the sales process. In response to the findings, U.K. home-building industry organizations have agreed to introduce a code of conduct and a redress plan for consumers. Kaupthing analyst Kevin Cammack said the industry should welcome the report as the plan allows for self-regulation. *—Anita Likus*

METALS

Vedanta drops proposal to simplify its structure

Fotosearch

U.K.-BASED, India-focused metals and mining company **Vedanta Resources** PLC scrapped a plan to simplify its corporate structure amid turbulent financial markets and some investor concerns.

The company said earlier this month that it would reorganize its operations into copper and zinc, aluminum and energy, and iron-ore divisions, rather than the current structure, where subsidiaries effectively control a mix of sometimes competing commodity operations.

Vedanta said the decision not to restructure followed "changes in global financial markets" and feedback from investors, without providing additional detail.

Telco catches Libya's eye

Sovereign fund seeks a stake of up to 10%; Telecom Italia's debt

BY STACY MEICHTRY AND GIADA ZAMPANO

MILAN—A Libyan sovereign fund is ready to buy a stake in Telco, a holding company that controls Italy's largest telecommunications operator, in the Italian government's latest attempt to aid a former state monopoly.

The Libyan Investment Authority, or LIA, offered to invest as much as €4 billion ($5.88 billion) in Telco, the controlling shareholder of **Telecom Italia** SpA, according to a person familiar with the matter. Such an investment could give LIA as much as 10% of Telco, the person said, adding that the size of the stake was still being discussed and could be smaller.

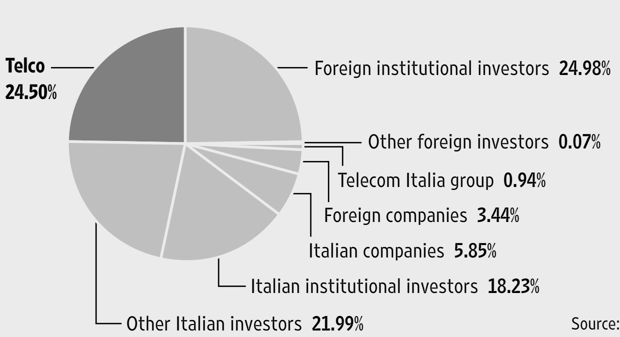
The LIA offer follows Italian Prime Minister Silvio Berlusconi's recent meeting with Libyan leader Col. Moammar Gadhafi. During the meeting, Mr. Berlusconi committed Italy to investing $5 billion in Libya's infrastructure as compensation for occupying the area that is now Libya from 1911 to 1943.

Libya's interest in the ailing telecom operator is the latest example of Mr. Berlusconi's coming to the aid of former state monopolies without the formal use of state funds. Mr. Berlusconi recently rewrote Italy's bankruptcy laws to allow Italian investors to take over part of **Alitalia** SpA, but this has stumbled amid union resistance.

The potential stake by LIA isn't the only option on the table as Telco seeks funds to revamp Telecom Italia's operations, and any deal is subject to approval by a consortium of Telco stakeholders, the person familiar with the matter said. The consortium includes Spain's **Telefónica** SA, Italian insurer **Assicurazioni Generali** SpA, Italy's Benetton family and Italian banks **Intesa Sanpaolo** SpA and **Mediobanca** SpA. Telefónica is unlikely to oppose LIA's offer, according to a person close to the company.

Investing in Italy

Libyan Investment Authority is ready to buy a stake in holding company Telco. Below, Telecom Italia's shareholders as of June 30.



Source: Telecom Italia

A government spokesman declined to comment on the matter.

The potential investment could give a much-needed boost to Telco, which took control of Telecom Italia in April 2007, and is struggling to overhaul the telecom company's finances. The former state monopoly has €37 billion in debt and faces falling margins at home and abroad owing to stiffening competition and regulatory pressures. Telecom Italia's share price has fallen by more than half since Telco bought the company.

Prompted by the falling share price, Telefónica has been seeking a majority stake in Telecom Italia, according to people familiar with the matter. A Libyan stake in Telco would bolster the Italian government's efforts to ward off a potential Telefónica takeover. When Telefónica Chairman Cesar Alierta recently met with Italian officials to discuss Telecom Italia, he encountered resistance, according to people familiar with the matter.

Telecom Italia said Wednesday that its board, scheduled to meet Thursday, wouldn't examine any "extraordinary operations." In a short statement, issued upon the request of Italy's market regulator Consob, the former telecom monopoly said the board would examine Thursday "the state of progress ... of the group's new industrial plan," among other things.

With Telecom Italia's share price near a 10-year low, Chief Executive Franco Bernabe has been under pressure. In March, he laid out a business plan that included cutting costs and improving the quality of service, but lacked a clear industrial strategy. He has pledged to unveil an updated business plan by year end. The company, which has about 83,000 employees, is already making cost-cutting a top domestic priority, and it recently reached an agreement with unions on a plan that will lead to as many as 5,000 job cuts.

"The Libyan investment would be great news for Telecom Italia. The group's problem right now is to solve its financial impasse," said Gianpaolo Rivano, an asset manager at Gesti-Re in Milan. "The entrance of a new shareholder would reduce the company's debt and boost the stock in the medium term."

Telecom Italia also is considering spinning off its fixed-line network into a new company, in order to attract new investors to fund a next-generation network, people familiar with the situation said. It also is studying the sale of as many as 5,000 of its mobile transmission towers, so as to obtain as much as €2 billion in new funds, the people said.

The head of Italy's telcommunications regulator, Agcom, said Tuesday that Telecom Italia didn't have sufficient cash flow to invest in a next-generation network. He indicated that an investment ranging from €8 billion to €15 billion is needed to build up such a network in Italy.

Ex-manager's trial opens on Siemens pay to union

BY MIKE ESTERL

Former **Siemens** AG board member Johannes Feldmayer told a court Wednesday that the German engineering giant secretly financed an employer-friendly labor group in a bid to curb the country's most powerful industrial union.

Mr. Feldmayer, accused of funneling €30.3 million ($44.6 million) to the head of the small labor group from 2001 to 2006, also said that the payments weren't his idea and that he didn't act alone.

Johannes Feldmayer

The statements could give ammunition to prosecutors exploring the role of Siemens executives in the money transfers.

As his trial opened in Nuremberg, Germany, Mr. Feldmayer told the court that Siemens "financed and supported" the small labor group—the Association of Independent Employees, known by its German initials AUB— to act as a counterweight to IG Metall, Germany's largest union. He told the court he didn't think any labor laws were broken because, as far as he knew, Siemens didn't directly influence elections of works-council representatives. He stressed that he wasn't responsible for personnel issues and simply had agreed to sign the checks.

Under German labor law, companies are prohibited from influencing representation on works councils that safeguard employees' rights.

The recipient of the money, Wilhelm Schelsky, is also on trial, for tax evasion, among other things. Mr. Schelsky, 59, has remained in jail since his arrest last year. From 1984 until last year he headed AUB, which traditionally has adopted a more conciliatory tone than rival German labor groups in negotiations with management.

Siemens isn't being investigated, but authorities are investigating an undisclosed number of other individuals in the case, said a spokesman for prosecutors. A Siemens spokesman said the Munich-based company is cooperating with prosecutors but declined to comment further on the case, citing the continuing investigation.

Evidence of a company policy to bankroll AUB could worsen Siemens's relations with IG Metall.

Prosecutors have accused Mr. Feldmayer of breach of trust in directing Siemens funds to a consulting firm owned by the longtime head of AUB. Mr. Feldmayer, 51, left Siemens last year after he was jailed and released on bail in connection with the case. A 30-year company veteran, he became a member of the management board in 2003.

In his opening statement to the court Wednesday, Mr. Feldmayer said he was asked by a former Siemens management-board member in autumn 2000 to meet with Mr. Schelsky to sign a consulting contract. Payments were approved by the company's finance department, he alleged.

He claimed Mr. Schelsky and AUB enjoyed management backing after the labor group's representatives helped steer through labor concessions on issues such as pay and working hours in the 1990s—measures that were opposed by IG Metall.

IG Metall filed a criminal complaint against Siemens after Mr. Feldmayer's arrest last year, alleging that the company had illegally funded AUB. IG Metall is representing more than two million industrial workers in sectorwide wage negotiations this autumn and is pushing for an 8% pay increase for workers.

The Nuremberg case is separate from criminal investigations in several countries into whether Siemens bribed foreign customers to win infrastructure contracts. The scandals have triggered a massive shake-up at Europe's largest engineering company by sales; it has replaced all but one management board member since early 2007.

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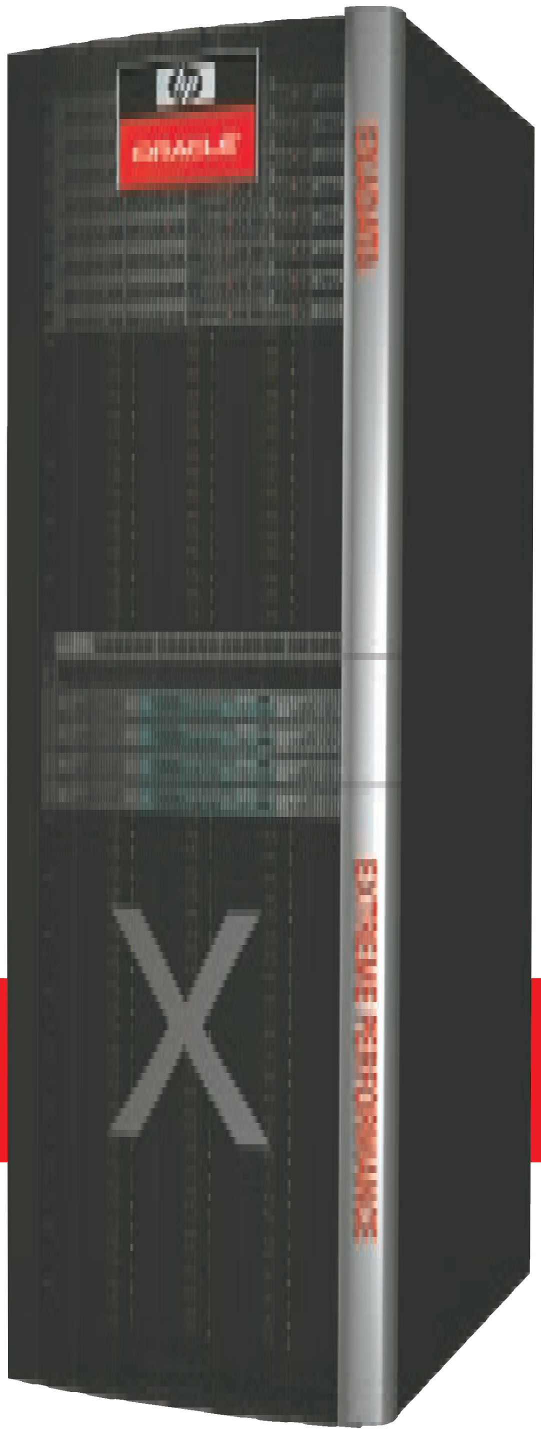

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EDF confirms U.K. deal

British Energy pact leaves French firm still looking overseas

BY DAVID GAUTHIER-VILLARS AND DANA CIMILLUCA

Associated Press

EDF Chairman Pierre Gadonneix Wednesday announced the company's $23.22 billion purchase of nuclear operator British Energy.

PARIS—French utility **Electricité de France** SA said Wednesday that its appetite for overseas nuclear projects remained intact, even as it confirmed that it would spend as much as £12.5 billion, or $23.22 billion, to acquire **British Energy** PLC, the U.K. nuclear operator.

State-controlled EDF, which entered an agreement to build and operate a pair of nuclear reactors in China last month, plans to build four machines in the U.S. and hopes to win a tender later this year to build two more in South Africa. That is on top of a reactor that EDF has started to build in Normandy and the four reactors the company plans to build in the U.K. with British Energy.

"We aim to take leadership of the nuclear revival," EDF Chairman Pierre Gadonneix said at a news conference in Paris as he announced the deal to buy British Energy.

Yet, Mr. Gadonneix said EDF was reconsidering its strategy in the U.S. after it failed to buy joint-venture partner **Constellation Energy Group** Inc. The U.S. power company, which was seeking financial help last week, eventually opted to sell itself to MidAmerican Energy Holding Co., a unit of Warren Buffett's **Berkshire Hathaway** Inc.

The EDF chairman said all options were being studied, including another attempt at buying Constellation and the search of alternative U.S. partners.

In the U.K., Mr. Gadonneix said buying British Energy would give EDF much-needed production capacity in the U.K. At the moment, EDF produces only half the electricity it sells in the U.K., leaving it exposed to big swings in wholesale and retail prices. With British Energy staff, EDF will also gain access to the country's largest pool of nuclear engineers, a key asset for when the French company starts building reactors in the U.K.

To finance the acquisition, EDF has secured an £11 billion loan from a consortium of banks.

Under EDF's bid for British Energy, which is subject to review by European Union antitrust authorities, shareholders in the U.K. company will be given the choice between to offers: a cash bid valued at 774 pence—nine pence more than a previous offer that was rejected by some large company shareholders—and a bid comprising 700 pence in cash plus a certificate pegged to the performance of the company over the next 10 years.

The U.K. government and **Invesco Asset Management** Ltd., which together effectively own a majority stake in British Energy, have agreed to accept EDF's offer. To bolster its bid, EDF Wednesday bought a "bunch" of additional British Energy stock, a person familiar with the matter said.

Merrill Lynch & Co. and BNP Paribas advised EDF on the deal. UBS AG advised the U.K. government, while Lazard advised the Nuclear Liabilities Fund, which holds the government's 36% stake. British Energy and its board were advised by Rothschild, Gleacher Shacklock, Citigroup and J.P. Morgan Cazenove. Centrica, which will likely buy a quarter of British Energy from EDF later on, is being advised by Goldman Sachs Group and Credit Suisse Group.

Boeing, machinists run risk of drawn-out strike

BY J. LYNN LUNSFORD

The strike that has idled **Boeing** Co.'s commercial-airplane factories for almost three weeks is showing signs of becoming a protracted standoff between the company and its largest labor union.

Officials at Boeing and the International Association of Machinists and Aerospace Workers confirmed that neither side has been inclined to return to the bargaining table, with each unwilling to be the first to blink on key issues such as job security and rising health-care costs. The result is that progress toward a settlement won't likely move forward until both sides feel more of a pinch—the machinists from their lost pay and Boeing from decreased revenue and antsy suppliers who feel the ripple effects of a strike.

"As far as our members are concerned, we are in this one for the long haul," said Mark Blondin, aerospace coordinator and lead negotiator for the 26,800 machinists who walked off the job Sept. 6. after overwhelmingly rejecting a proposed three-year contract.

Both sides say that during recent communications with federal mediators, union officials have presented a "lengthy list" of items, many of them related to job security and work rules. The union says the issues must be addressed before workers will accept a new contract. Boeing has insisted that the union narrow down that list before it will agree to talk.

"If the list remains as long and as detailed as it is right now, it is going to be extraordinarily challenging to find a path forward," said Doug Kight, lead negotiator and vice president for human resources for Boeing's Commercial Airplanes unit.

Mr. Blondin said that with an 87% vote supporting the strike, union officials believe they have the leverage to force Boeing to back down.

What this means, say people familiar with the situation, is that the strike may easily stretch to 45 days or longer. In the near term, the strike is costing Boeing an estimated $100 million in revenue from missed airplane deliveries, though the company would likely collect most or all of the lost revenue in the long run as it catches up on delayed work after the strike.

Despite two weeks off the job, workers are only now starting to feel the financial effects. So far, union members have missed only one paycheck, and the union is set on Saturday to begin distributing strike pay of $150 a week to each member.

At the same time, most of Boeing's largest suppliers have been able to continue turning out parts with minimal disruption, a practice they say they can continue for at least 45 days.

Debbie Gann, a spokeswoman with **Spirit AeroSystems** Inc. in Wichita, Kan., said that many workers are on a three-day work schedule, but they are continuing to turn out fuselages for Boeing's single-aisle 737 fuselage, as well as cockpit sections for other Boeing jets.

Rockwell Collins Inc., which provides a variety of flight electronics to both Boeing and rival Airbus, recently asked for as many as 80 employees to volunteer for a 60-day layoff as the result of slowing in some areas. Spokeswoman Pam Tvrdy said the Cedar Rapids, Iowa, company had little trouble finding takers. "Some of our people also farm, so they're taking the time off to harvest."

Boeing officials maintain that they offered the machinists the "best contract in the aerospace industry." However, union officials say the document contained numerous "takeaways" that shifted more costs to employees and opened the door for the company to do away with thousands of jobs if it chooses.

Bristol bid underwhelms ImClone

BY SHIRLEY S. WANG

ImClone Systems Inc. derided a higher bid for the company by drug maker **Bristol-Myers Squibb** Co., while the sweetened offer appeared to gain little traction among ImClone stockholders.

On Monday, Bristol offered $62 a share, a $2 increase over its July bid, for the maker of the cancer drug Erbitux and raised the prospect of a hostile takeover. Bristol Chairman James Cornelius said in a letter that the company is prepared to solicit "written consents from ImClone stockholders to remove all existing members of ImClone's board of directors and replace them with five ... nominees proposed by Bristol-Myers."

The latest offer valued the company at $4.7 billion. A Bristol spokesman said it hasn't taken any steps to set the tender offer in motion, but could do so in the next week.

Most of ImClone's largest shareholders are long-term investors who may not be as easily swayed to sell as hedge funds, say analysts. Investors and analysts said Bristol's proposal to replace the existing board isn't likely to attract many votes.

"We're not going to give our consent," said Samuel Isaly, managing partner at **OrbiMed Advisors** LLC, which holds a 4.4% stake in ImClone, or 3.84 million shares. "We don't think we should overthrow the ImClone directors [at the current price]. We don't want to double-cross people we feel have been good to us over time." Mr. Isaly said he hasn't been contacted by Bristol.

Bristol's move turns the tables on ImClone Chairman Carl Icahn, an activist investor who has profited handsomely through the years by initiating his own hostile takeovers. The higher bid reaffirms Bristol's interest in a deal while signaling it is wary of overpaying for the biotechnology company.

But if Bristol's strategy shows little promise of expediting a deal, it does appear to have escalated the war of words between the two New York pharmaceutical companies.

Mr. Icahn had rejected Bristol's initial offer earlier this month and disclosed that another pharmaceutical company, which he declined to name, is considering a $70-a-share offer.

In a letter Tuesday, Mr. Icahn said Mr. Cornelius's letter contained "inaccuracies which are misleading to our shareholders." He said the mystery suitor has until Sunday to complete its review of ImClone and move forward with its offer.

In an interview Tuesday, Mr. Icahn said he has spoken with Mr. Cornelius and invited him to talk further if he is willing to make a higher offer. He said Mr. Cornelius didn't call again before putting out the new bid. "It's absurd to be hostile when you can be friendly," he said. "I've said to him, 'If you want to go higher, come talk.' "

Bristol said it is obligated by regulatory requirements to go to all shareholders at the same time with notice of a bid or change in bid. The two companies haven't held a meeting or formal negotiations, according to a person familiar with Bristol's position.

Apart from raising its bid, which would increase the value of the potential deal by about $200 million, Bristol appears to hope investors will favor its bid rather than take a chance any rival could raise financing amid the current market swoon. In his letter to Mr. Icahn, Mr. Cornelius said "the current extraordinary market conditions" make it even more important that "an orderly and transparent process with a clearly delineated timeline" is needed. But because big drug makers tend to have cash on their books, the possibility of another bidder materializing will have more to do with its assessment of ImClone's product pipeline than credit availability, said Cowen & Co. analyst Eric Schmidt. **Pfizer** Inc., which is thought by many analysts to be the likely secret suitor, has $26 billion of cash and marketable securities on hand, he said.

ImClone's shares jumped 6.9% to $63.51 in 4 p.m. Nasdaq Stock Market composite trading Tuesday but lost 15 cents in early-afternoon trading Wednesday.

Italian investor group could revive Alitalia bid

BY JENNIFER CLARK AND LUCA DI LEO

ROME—Italian investor group **Compagnia Aerea Italiana** looked like it could revive its bid for ailing carrier **Alitalia** SpA as CAI executives met with the government for the third time in two days.

CAI executives met with Premier Silvio Berlusconi's right-hand man, Gianni Letta, Wednesday to continue discussions over the fate of Alitalia, according to people familiar with the situation, after holding a similar meeting Tuesday.

The move comes as Alitalia's biggest union, CGIL, said Wednesday it remained open to talks with CAI, which comprises 16 domestic investors led by Roberto Colaninno, controlling shareholder of scooter maker **Piaggio** SpA.

"We confirm our availability," said a spokesman for the union, which had rejected CAI's offer. "We are just waiting for the government to call upon us."

Meanwhile, Alitalia's government-appointed bankruptcy commissioner, Augusto Fantozzi, said he was "reasonably optimistic" about a deal to sell the carrier to the consortium of Italian businessmen, thus avoiding the company's liquidation.

Asked by reporters on the sidelines of a parliamentary hearing on Alitalia if he sees a deal with CAI by Sept. 30, Mr. Fantozzi said: "I'd say yes. Things are moving; they will be gradually solved."

Last week, CAI dropped its bid for Alitalia on Monday after six of the airline's nine unions refused to back job cuts and salary levels offered by its rescue plan, following almost two weeks of negotiations. The airline may have its license revoked as soon as Thursday, and in any case will be put into liquidation Sept. 30 if no buyer is found.

Alitalia's liquidation would severely disrupt air travel in Italy and leave the airline's nearly 20,000 employees out of a job.

Mr. Berlusconi, who canceled a trip to the U.N. general assembly in New York to deal with the Alitalia crisis, has said that CAI remained the only viable option for Alitalia.

—Sofia Celeste and Valeria Santoro contributed to this article.

CORPORATE NEWS

Olympics spark contest among TV broadcasters

Record audiences for Beijing Games recast media plans

BY MATTHEW FUTTERMAN

Four weeks after the Chinese extinguished the Olympic flame, U.S. broadcasters are crunching a new set of numbers in anticipation of a bidding war next year for media rights to the Games in 2014 and 2016.

"We've all stopped and reached for our calculators again," said David Hill, chief executive of **News Corp.**'s Fox Sports.

The shift comes after **General Electric** Co.'s NBC Universal unit rewrote the playbook for selling the Games across multiple media platforms. The unit garnered 214 million unique television viewers for the Beijing Games, a record that surprised Dick Ebersol, chairman of NBC Sports and Olympics.

Now sports broadcasters are trying to evaluate that audience, including the 52 million unique visitors to NBC's Olympics Web site and 75 million video streams. Was it thanks to viewers' interest in China or swimmer Michael Phelps's historic performance? After years of declining ratings, can the Olympics generate a major revenue stream from digital advertising?

"That is the billion-dollar question," Mr. Hill said.

At stake are billions of dollars in rights payments the International Olympic Committee and local organizers use to help cover the costs of staging the Games. U.S. rights accounted for about half of the $3 billion in world-wide media sales for Beijing.

Valuing media rights is a challenge because no one knows exactly how fans will follow the Olympics six or eight years from now. Four years ago, the IOC licensed Internet coverage in eight countries for the Athens Games. This year, the Switzerland-based organization issued Internet licenses in 187 countries, said Timo Lumme, director of television marketing for the IOC. NBC Universal provided more than 2,000 hours of Internet coverage of all 30 Summer Olympic sports.

"No one would have guessed sports coverage would have changed the way it did," Mr. Lumme said. "We ask for the broadest amount of coverage and the maximum amount of choice. How that happens is left up to the partner in the territory."

The Olympics are one of the few major sporting events that families follow, making them a premium destination for advertisers.

The Games also carry the intangible value of allowing a broadcaster to wrap itself in the multicolored, five-ringed flag—one of the most recognized and highly regarded brands world-wide.

"We are looking at it with some real effort," said Russell Wolff, managing director for ESPN International, who is overseeing the bidding process for **Walt Disney** Co.'s ABC/ESPN unit. "We would love to be in the hunt."

For NBC Universal, which will broadcast the Games at least through 2012, the anticipated bidding war is the welcome price of success.

"This is the nature of our business," said Gary Zenkel, NBC Olympics president. "We all recognize the best properties and we go for them."

NBC Universal paid $1.5 billion for the U.S. media rights to the 2006 and 2008 Olympics. In 2003, it committed $2.2 billion for the rights to the 2010 and 2012 Olympics, which will take place in Vancouver and London. The bid included a $200 million IOC sponsorship from GE.

Fox, whose parent company, News Corp., also owns Dow Jones, publisher of The Wall Street Journal, bid $1.3 billion. Disney's ESPN/ABC proposed a revenue-sharing plan.

The 2014 Games will take place in Sochi, Russia. The IOC will determine the location of the 2016 Summer Games in October 2009. The finalists are Madrid, Tokyo, Chicago and Rio de Janeiro. During the past two decades, U.S. broadcast rights have generally increased 10% to 30% during each round of bidding, despite dwindling television ratings. The IOC plans to sell the media rights before it chooses the host city for 2016.

As the Beijing Games approached, NBC Universal was concerned about the low ratings that Olympic Games in Asia usually generate. NBC Universal created a new

The Olympics are a premium destination for advertisers.

method of measuring audience as a kind of insurance policy. The new formula combined the number of television viewers with Internet users and people watching highlights on mobile phones.

The concerns were unfounded. Human-rights controversies and interest in China turned the Olympics into a political event as much as a sports competition. Then swimmer Michael Phelps, whose races were broadcast live in prime time, began his unprecedented run of eight gold medals. Ratings were the highest for a non-U.S. Olympics since Barcelona in 1992, when television viewers had far fewer entertainment options.

"We figured going in if Phelps could get on a roll, this could be huge," ESPN's Mr. Wolff said.

After 34.9 million viewers tuned into the Opening Ceremonies, executives realized that if that many people would watch a glorified parade, this wasn't going to be the typical, sparsely watched Asian Games.

At the moment, **Viacom** Inc.'s CBS remains the lone skeptic among major broadcasters.

Sean McManus, president of CBS News and Sports, interpreted NBC's recent success as unique to Beijing and the live broadcasts of Mr. Phelps's races.

"It hasn't caused us to drop everything," Mr. McManus said.

He cited the difficulty NBC will have broadcasting any major live events in prime time from London, which is five hours later than the Eastern U.S. Doing so would force the British to schedule competitions in the middle of the night.

"I don't see that happening," said Mr. McManus, "though I certainly wouldn't put it past my good friend Dick Ebersol to ask."

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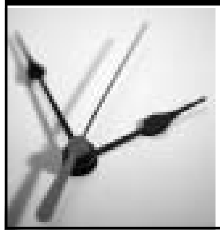

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‘Frontier’ investing withstands higher risk

Russian show of force isn’t likely to cool interest in region

BY JOEL SHERWOOD

Russia’s military push into Georgia is ruffling an investment craze in Eastern Europe, but fund managers say the movement should march on.

Investing in “frontier markets” has continued to expand this year, as investors look beyond once-exotic markets like China or Brazil for the next new thing in places like Vietnam, Ecuador or Eastern European countries including Bulgaria, Estonia, Georgia, Lithuania, Romania, Slovenia, Slovakia and Ukraine.

The Russian military move, the country’s first invasion abroad since the Soviet Union disbanded in 1991, has political and economic analysts wondering what impact Russia’s actions will have on the trend. The consensus: The threat of a resurgent Russia adds a sharply higher level of political risk to the economic outlook in Eastern Europe and Western Asia at a time when tighter global credit and high inflation are making it more difficult for governments to guide economic progress. But analysts expect investment in many of the countries to continue.

“The risk for policy missteps is much, much higher,” says Christian Deseglise, global head of emerging markets at HSBC Global Asset Management. Mr. Deseglise helps run HSBC’s New Frontiers fund, which offers a fund sold to select institutional and high-net-worth investors. “There is inflation. There is the credit squeeze. There are political-stability issues.”

Still, “over the medium-term, the macroeconomic and financial case for investing in the frontier markets is very powerful,” he says.

Although the line between emerging markets and frontier markets can be blurry, frontier markets are generally categorized as less developed, less easily traded and potentially much riskier than emerging-markets countries. Brazil, Russia, India and China, known as the BRIC countries in the investment world, fall into the more standard emerging-markets camp, while markets in countries like Kazakhstan and Kenya are frontier—lying symbolically, if not literally, beyond the frontier of the more standard emerging markets.

In the past year, big banks and Wall Street firms including **Morgan Stanley**, **HSBC Holdings** PLC, **Barclays** PLC and **Deutsche Bank** AG have launched funds focused on frontier markets, riding a wave of investor interest. **Merrill Lynch** & Co. and consulting firm and index specialist MSCI Barra launched benchmark indexes to track these markets, while Standard & Poor’s Corp., a pioneer in the field since 1996, introduced a tradable index last October.

A global perspective

Returns of selected stock indexes from all corners of the world, through Aug. 29:

	One-year return	Four-year average annual return
S&P/IFCG frontier-market composite	–8.19%	23.85%
S&P/IFCG emerging-market composite	–13.17	24.51
S&P Global 1200	–11.46	9.73
S&P 500 (U.S.)	–11.14	5.82
S&P BRIC 40 (Brazil, Russia, India, China)	–0.87	34.61

Source: Standard & Poor’s

The frontier-markets drive is a continuation of the emerging-markets-investing story of the past decade. While the Dow Jones Wilshire Developed Markets Index returned an average of 11.1% a year over the past five years through Aug. 29, including reinvested dividends, the Dow Jones Wilshire Emerging Markets Index rose 32.6%.

S&P’s frontier-markets index, meanwhile, was up 28.8% a year in the past five years through August, including reinvested dividends. Frontier markets have enjoyed strong economic growth in recent years, boosted by lower restrictions on foreign investment, increased liquidity in financial markets and improving corporate governance. Investment experts say there is continued room for outsized growth compared with developed countries.

Another selling point: low correlation of movement of the stocks in these countries to those of developed markets. That used to be the main appeal for the current lineup of emerging markets, but they have moved more in line with mainstream economies as they have emerged. Sophisticated investors constantly are in a search for returns that can better diversify their portfolios.

“The ultimate goal for many investors in 2008 is to find assets which are not closely linked to the fortunes of Wall Street,” Michael Hartnett, Merrill Lynch’s chief global emerging-markets equity strategist, explained in March when the firm launched its frontier-markets index. From February 2000 through December 2007, measured against S&P 500 stocks, frontier-markets stocks moved in the same monthly direction 32% of the time, compared with a 73% correlation for emerging markets and 96% correlation for other developed markets, according to Merrill.

For Central and Eastern Europe specifically, economists highlight additional development momentum for economies that have close proximity to richer neighbors. A country like Slovenia, for example, lies close to Austria and Italy.

“Your neighbors count,” making foreign direct investments and trade easier, says Marcus Svedberg, chief economist at Sweden-based asset-management firm East Capital Holding AB. East Capital manages several funds in emerging and frontier Europe that are sold globally to institutional and individual investors.

Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovenia and Slovakia all have joined the European Union and the North Atlantic Treaty Organization. This means they are part of a free-trade bloc with a population of about 500 million, which aids economic development, and they are part of a powerful military alliance, helping stability.

However, frontier Europe is near Russia, and Russia’s military action in Georgia has fueled worry that Russia is intent on a more assertive foreign policy, especially concerning former states in the Soviet Union. Nearly all the frontier and emerging markets in Eastern Europe and Western Asia that have investors excited are former Soviet states or satellite states. This includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan and Ukraine. Of those countries, Georgia, Kazakhstan and Ukraine are represented in S&P’s frontier-markets indexes.

“As Russia exerts its military force in Georgia, the Kremlin sends a thinly veiled message to neighboring territories, indicating that Prime Minister Vladimir Putin and the Soviet government will not shy away from military force in order to protect local interests and its regional sphere of influence,” says Elizabeth Stephens, a political-risk analyst at Jardine Lloyd Thompson Ltd., a consultancy. “Naturally, this threatens the emergence of these fledgling economies as they enter the next important stage of economic growth.”

“It does have more tension,” Estonian Finance Minister Ivari Padar said about Russo-Baltic relations in an interview, adding that Estonia is looking at “all our options” to make sure it keeps its independence.

Frontier-market fund managers say the way to address this tension is to get a better grasp of the risk of particular countries within the region. The belief is that, while there likely will be short-term volatility, the medium- and long-term potential remains strong in much of the region.

“For a good portion of the frontier-markets universe, underlying fundamentals at both the company and country level are still very much solid,” says James Upton, senior portfolio specialist and chief administrative officer for Morgan Stanley’s Emerging Market Equity team. This team is managing Morgan Stanley’s Frontier Emerging Markets Fund. But Mr. Upton, like Mr. Deseglise of HSBC and Mr. Svedberg of East Capital, stresses the need to analyze the economic situation for each country when investing rather than viewing the outlook for all frontier countries as similar.

In Eastern Europe, this means deciding which countries may bear the brunt of increased Russian assertiveness and which countries stand on sound footing for further economic development. Political analysts say that along with Georgia, Ukraine looks particularly vulnerable to Russia aggression, as it is a former Soviet state, borders Russia, has a large native-Russian population, has strategically important ports and is pondering NATO membership against the Kremlin’s wishes.

The gold standard of investment in emerging or frontier Europe is membership in NATO, the EU and the euro zone, the common-currency area now numbering 15 countries. For now, Slovenia is the only country that used to be part of the Soviet Union that is in all three, while Slovakia, a NATO and EU member, is set to adopt the euro Jan. 1.

“EU versus non-EU members is a useful way of categorizing countries in the region, because the whole accession process to become a member is so important as a reform and economic driver,” says East Capital’s Mr. Svedberg. “But there certainly are interesting investment opportunities outside the EU orbit, too.”

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CORPORATE NEWS

Daimler in talks on Chrysler stake

German auto maker is seeking to shed last 19.9% holding

By Shara Tibken
And Christoph Rauwald

German auto maker **Daimler** AG confirmed it is in talks to sell its remaining 19.9% stake in **Chrysler** LLC to **Cerberus Capital Management** LP.

Cerberus, the private-equity giant, acquired its 80.1% stake a year ago in a deal that undid the nine-year-old tie-up of Daimler and Chrysler that failed to reap the anticipated benefits.

Daimler is now centered around the highly cash-generative Mercedes-Benz Cars unit and the Daimler Trucks division, the world's largest truck maker by sales.

Steep losses at Chrysler had sparked sharp criticism among Daimler investors for several years. In August 2007, the Stuttgart-based auto maker finally sold an 80.1% stake to Cerberus in a deal that allowed Daimler to shed Chrysler's retirement and health-care liabilities, which were folded into the new Chrysler holding company. News of further talks was reported in German monthly Manager Magazin.

"Cerberus confirms that it has approached Daimler about the possible redemption of its 19.9% stake in Chrysler," said a Cerberus spokesman. "We are currently in discussions. In the event of a successful transaction, all existing industrial relationships between Daimler and Chrysler would continue."

Daimler and Chrysler co-operate, for example, on diesel engines and hybrid technology. Chrysler didn't immediately return a call seeking comment.

A spokesman for Daimler declined to comment on who initiated the sale talks. Furthermore Daimler declined to comment on the status of an existing technology alliance between the two companies.

In July, Daimler Chief Financial Officer Bodo Uebber said the risk through the company's remaining stake of 19.9% in Chrysler was "limited". "If the worst comes to the worst, the book value will be zero," he said at the time.

In July, Daimler said its remaining stake was worth €171 million ($252 million) on its books after it faced a €373 million write-down on the stake value.

The write-down reflected the deteriorating condition of Chrysler's business mainly in the first quarter. Because Daimler books the Chrysler stake in an "at equity" manner, results are published with a three-month delay.

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Chrysler—like **Ford Motor** Co. and **General Motors** Corp.—has struggled in recent years amid slumping U.S. sales and a shift in consumer demand to smaller and more fuel-efficient cars.

The auto maker has closed plants, eliminated shifts and trimmed its payroll, but revenue has fallen because of a deep decline in sales.

There has been speculation that Cerberus would sell off parts of the company, but Chrysler President Jim Press said earlier this month that Cerberus is invested for the long term.

He added that Cerberus has been a model parent company, and its ownership has allowed the company to quickly implement changes.

Chrysler has been scrambling to respond to a dramatic customer shift away from pickup trucks and sport-utility vehicles, which make up the majority of the company's product portfolio.

Chrysler is also stung, more so than its main competitors, as a result of its relatively high reliance on the U.S. market, which accounts for 90% of its sales.

The company posted a loss of $1.6 billion in 2007, and Chrysler told its dealers at a meeting Tuesday that its vehicle sales are down 24% in the first eight months of 2008, The Wall Street Journal reported. Although it has slashed costs to narrow its losses, the company is still losing money, those officials said.

Chrysler told its dealers it has lost $400 million so far this year and has $11 billion in cash.

—Edward Taylor contributed to this article.

U.K. watchdog recommends use of blood-clot pill

By Elena Berton

LONDON—A British watchdog agency that scrutinizes the cost and value of new medicines has recommended the use of **Boehringer Ingelheim** GmbH's anti-blood-clot drug Pradaxa in Britain, giving the drug an important vote of confidence.

The U.K.'s National Institute for Health and Clinical Excellence, known as NICE, carries out tough reviews of the costs and benefits of drugs to decide which treatments should be made available in the publicly funded health-care system. Its decisions are closely watched by health-care payers in other countries.

NICE has recommended that doctors consider Pradaxa, known generically as dabigratan, as an option for preventing blood clots in patients who have undergone hip- or knee-replacement surgery, Boehringer Ingelheim, a closely held German drug company, said Wednesday.

Using Pradaxa, a once-daily, oral pill, would reduce costs linked to administering the therapy most commonly used today, **Sanofi-Aventis** SA's Lovenox, which is given via injection and needs to be monitored, NICE said.

Pradaxa, approved for sale in the European Union in March, works by blocking the effect of an enzyme involved in the formation of blood clots.

Other companies are also developing new oral anticlotting drugs. Two products not yet approved for sale in the U.S. or Europe are Xarelto from **Bayer** AG and **Johnson & Johnson**, and apixaban, co-developed by **Bristol-Myers Squibb** Co. and **Pfizer** Inc.

ProSieben warns on 2008 profit target

By Archibald Preuschat

MUNICH—Pan-European broadcaster **ProSiebenSat.1 Media** AG said it would miss its 2008 earnings target because of continuing weakness in its German home market.

ProSieben shares were down 6.1%, or 34 European cents, at €5.19 ($7.63) in an overall lower German midcap market.

The company based in Unterföhring, Germany, said it now expects 2008 recurring earnings before interest, taxes, depreciation and amortization, or Ebitda, in a range of €670 million to €700 million. It had previously forecast 2008 Ebitda to be flat from the previous year at €783 million.

ProSieben said it lowered its forecast on the back of negative effects from the implementation of a new advertising-sales model at the end of 2007 as well as deteriorating conditions in the German economy.

The wider economic slowdown has hit some other European broadcasters hard. Last month, shares in ITV PLC, the U.K.'s largest commercial broadcaster by sales, slumped as a worsening decline in the advertising market prompted the company to halve its dividend, revise down its targets and take a £1.6 billion ($3 billion) charge in the first half.

DAILY SHARE PRICE

ProSiebenSat.1 Media

On the Frankfurt Stock Exchange
Wednesday's close: **€5.19, down 6.1%**
52-week change: down 77%

Source: Thomson Reuters Datastream

Analysts said the profit warning was expected, as ProSieben has suffered from weak operations in Germany for two consecutive quarters, after first-quarter earnings fell short of expectations. UniCredit analyst Friedrich Schellmoser said that he estimated in May that the company would post recurring Ebitda of €700 million for 2008.

A spokesman for the company said Wednesday that it is also unlikely ProSieben can meet its 2008 revenue target of €3.3 billion, without elaborating further.

ProSieben's major shareholders are financial investors **Permira** and **Kohlberg, Kravis Roberts** & Co. In August they exercised a put option and sold 12% of the company's ordinary shares, representing 6% of ProSieben's basic share capital, to Telegraaf Media Groep NV of the Netherlands.

Libor's accuracy again called into question

By Carrick Mollenkamp

The accuracy of a widely used interest rate, seen as critical to judging the health of the financial markets at a precarious time, is coming under question for the second time this year.

Doubts about the London interbank offered rate, or Libor, center on whether banks are understating what it costs them to borrow dollars in stressed financial markets. Libor's reliability became an issue again this week when banks paid higher interest rates to borrow using collateral than they did for unsecured loans.

Those questions come as central banks inject liquidity into the market to restore the confidence of banks that have been reluctant to lend to one another. Other lending markets, including commercial paper, which are short-term IOUs issued by companies, have also struggled, potentially causing a credit crunch to spread throughout the economy.

Libor is supposed to reflect average bank-borrowing costs. Overseen by the British Bankers' Association in London, the rate serves as a benchmark for the borrowing costs of homeowners and companies.

Concerns about Libor's accuracy emerged out of the rates being paid in another market used by banks to get cash. The Federal Reserve's term-auction facility, one of numerous efforts the Fed has been using to fight the credit crunch, allows banks to borrow, but they must put up collateral. Because of that, banks should be able to pay a lower interest rate than they do when they borrow from each other because those loans are unsecured.

But on Monday, the rate for the 28-day Fed facility was 3.75%, which was much higher than Libor. On Monday, the one-month dollar Libor was 3.18% while Tuesday's rate was 3.21%. It jumped to 3.43% Wednesday.

Earlier this year, banks complained to the BBA that rival banks might not be reporting their true borrowing costs because they didn't want to admit that others were treating them as if they had troubles.

Spokeswoman Lesley McLeod said the BBA stands by the Libor. "Libor is accurate," she said.

GLOBAL BUSINESS BRIEFS

Air France-KLM SA

Spinetta will hand over his CEO post in January

The head of **Air France-KLM** SA, Jean-Cyril Spinetta, is to hand over his top management post to his No. 2 in January, according to a person familiar with the company's plans. Mr. Spinetta will remain chairman of both Air France and its holding company, Air France-KLM. But on Jan. 1 he will relinquish his post as chief executive officer of Air France to Pierre-Henri Gourgeon, who is now deputy CEO of Air France-KLM and chief operating officer of Air France, this person said. Mr. Spinetta has been the head of Air France, which acquired KLM Royal Dutch Airlines in 2004, for 11 years. Mr. Spinetta turns 65 years old next month.

AstraZeneca PLC

AstraZeneca PLC said a U.S. court denied a summary-judgment motion by generic-drug maker **Teva Pharmaceutical Industries** Ltd. of Israel that could have paved the way for low-cost copies of AstraZeneca's asthma treatment Pulmicort in the U.S. market. The case will go to trial, likely to be scheduled for January, U.K.-based drug maker AstraZeneca said, adding that it is confident of the strength of the intellectual property protecting the product. Analysts said AstraZeneca has gained valuable time thanks to the ruling, as the trial is unlikely to end before the fourth quarter of 2009. Teva is awaiting a U.S. Food and Drug Administration approval decision on its generic version of the medicine.

Arcandor AG

German retailer **Arcandor** AG, owner of the Karstadt department-store chain, succeeded in striking a refinancing deal with a banking consortium, securing the company access to credit lines. The agreement provides some security for Arcandor in the run-up to the Christmas season. The retailer didn't give details on the size of the deal or what kind of concessions it has made to reach it, but it said it doesn't plan to sell its Thomas Cook unit. The banks leading the consortium—**BayernLB**, **Dresdner Bank** AG and **Royal Bank of Scotland Group** PLC—declined to comment on the details of the refinancing deal. Arcandor shares rose 6.6% to €3.57 ($5.25).

Powe Capital Management

Modulus Europe, a European equities hedge fund run by London-based **Powe Capital Management** LLP, has closed after heavy withdrawals forced its board to liquidate. In a statement sent to investors Tuesday, Powe Capital founder Rory Powe said the fund had received "substantial redemption notices" and expected more in view of market volatility. PricewaterhouseCoopers has been appointed as liquidator, and the intention is to return an initial 80% of the fund's net asset value in cash to investors immediately. Having topped $1.3 billion in assets last September, the fund has been hit by losses. The fund is down 21% so far this year, and assets have dwindled to just €330 million ($485 million), Mr. Powe said.

—Compiled from staff and wire service reports.

CORPORATE NEWS

Testing China's imports

More countries seek stricter food rules; some choose bans

China's recent troubles with contaminated milk are prompting increasing skepticism in other countries of the quality control of its products, despite efforts by Chinese authorities to contain the crisis.

Countries stepped up testing of foods imported from China after

By **Loretta Chao** *in Beijing and* **Simon Louisson** *in Wellington, New Zealand*

Chinese authorities disclosed that the industrial chemical melamine had tainted products—including liquid milk, yogurt and candy—made by 22 companies. So far, baby formula contaminated by melamine has killed at least three babies and sickened more than 50,000.

Taiwan and Indonesia have now joined the list of at least 12 regions to ban Chinese-made dairy products.

New Zealand's Food Safety Authority warned the public on Wednesday that "unacceptable" amounts of melamine were found in a popular Chinese candy called "White Rabbit Creamy Candies." British supermarket chain **Tesco** PLC said it recalled the candy as a precautionary measure from its stores in the U.K, China and Malaysia.

Also, U.S. and European consumer-safety officials said the crisis highlights the need for better enforcement of public-safety standards at all stages of manufacturing. "The melamine situation just underscores the message that we are trying to deliver, and that is you have to know what's coming into your factory and what's going out of your factory," said Nancy Nord, acting head of the U.S. Consumer Product Safety Commission.

Ms. Nord and other U.S. and European officials were in China promoting compliance with product-safety regulations that were tightened following a spate of scandals last year over unsafe or shoddy products, including toys, tires, drugs and pet food.

The milk scandal also has proved damaging to New Zealand dairy giant **Fonterra Co-operative Group**, which in 2005 bought 43% of Shijiazhuang Sanlu Group Co., the first Chinese dairy company to be implicated. Sanlu's products were laced with the highest concentrations of melamine found to date, and authorities say the company was responsible for a coverup lasting for at least months that caused even more children to get sick.

Associated Press

In Manila, police inspect bottled dairy products following a ban on all milk imports from China.

Fonterra said Wednesday the scandal had affected its financials. It booked a 139 million New Zealand dollar (US$95 million) impairment charge against the carrying value of its investment in San Lu. That left a residual value of NZ$62 million in Sanlu, mainly its physical plant. "Sanlu has been damaged very badly," said Fonterra Chief Executive Andrew Ferrier. "It's hard to say how Sanlu could be reconstructed."

Still, Fonterra said it remained committed to China. Henry van der Heyden, the company's chairman, said, "We are focusing all our efforts on what Fonterra can best do to work with the Chinese authorities and help get safe dairy products to Chinese consumers."

Meanwhile, shelves around the world continued to be emptied of Chinese products with any possible dairy ingredients.

Taiwan's Health Department late Tuesday issued a ban on all products containing China-made dairy and nondairy creamers. Taiwan plans to list food security as a negotiation issue for its next round of talks with Beijing, scheduled for the end of October or early November.

Indonesian food retailers face jail time and a fine of as much as US$200,000 if they fail to yank from their shelves Oreo cookies, M&M's and 22 other products imported from China, officials said. Raids were being carried out at markets across the nation, said Husniah Thamrin, who heads the Drug and Food Monitoring Agency, calling on residents to alert authorities if any of the banned items were spotted in stores.

In an effort to assure the world its products are safe, Chinese regulators said this week that the tainted-milk scandal has been brought under control and milk samples tested since Sept. 15 showed no traces of melamine.

"There is no problem," Xiang Yuzhang, the national quality watchdog's chief inspection official, told reporters in Beijing. "It has been brought under control, more or less. There are no more problems in the market. As far as I know, there will be no more bad news."

Marketplace

Taking the plunge

Investment gurus have advice for these unsettling times > **Page 33**

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