Money & Investing: Flexible exchange rates present a new test for emerging markets

THE WALL STREET JOURNAL.

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EU leaders are near decisions on appointing the bloc's first president and foreign minister. The choices for the two positions should be final before a Brussels summit slated for Nov. 19. Sweden, which heads the process, called the meeting as the roster of candidates became shorter. Page 2

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Bloomberg News

Mervyn King, governor of the Bank of England, during the bank's quarterly inflation report news conference Wednesday in London.

BOE forecast anticipates slow recovery

By Paul Hannon And Laurence Norman

LONDON—The Bank of England Thursday said its extraordinary efforts to stimulate growth could be extended, as it forecast a long, slow economic recovery hindered by weak bank lending and the government's need to slash spending.

Last week, the U.K. central bank expanded its bond-buying program to £200 billion ($334.56 billion) from £175 billion. The increase—smaller than many forecasts—prompted investors to believe that the program would soon come to a close.

BOE Governor Mervyn King declined to endorse that conclusion, saying in a news conference that the bank's Monetary Policy Committee has a "completely open mind as to whether we would do more asset purchases."

On the issue of sterling, Mr. King said recent weakness in the pound could be supportive in an export-led recovery. Investors reacted to Mr. King's dovish tone by sending sterling sharply lower. The pound sank from a high of $1.6798 against the dollar to the $1.6650 area. The euro rallied from 89.44 pence to around 90.30 pence.

The BOE projects above-trend growth by the end of 2010, with GDP gaining 4% in 2011. But given the damage done by the downturn in terms of sharply reduced capacity utilization, it will take a good number of strong quarters to return the economy back to levels seen before the downturn.

"The message...is that it is too soon to rule out further monetary-policy action to support the economy," said Jonathan Loynes, an economist at Capital Economics. "At the very least, the disinflationary effects of the vast amount of slack in the economy, combined with the coming fiscal squeeze, suggest that monetary policy is unlikely to be tightened for a prolonged period."

An expansion of the BOE's bond-buying program would leave the bank more isolated, with most leading central banks now considering the timing and manner of withdrawing stimulus.

But the BOE is concerned about the strength of any recovery in the U.K., with the pre-crisis growth engines of consumer spending and an expanding financial sector now stifled. Reeling from the crisis, banks remain chary about lending, something the BOE predicts will continue for another three years.

At the same time, the gov-

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Motorola's decline reflected in unit sale

Motorola Inc. is exploring the sale of its big set-top-box unit, people familiar with the matter said, the latest sign of the once-mighty technology giant's rapidly declining ambition in the convulsive world of communications gear.

By attempting to sell the unit, which could fetch $4 billion to $5 billion, Motorola finds itself considering disposal of two of the company's three main pillars. It has tried and failed for nearly two years to spin off its mobile-phone-handset business, which has been in steep decline without a hit device to compete with rivals like Apple Inc.'s iPhone and Research In Motion Ltd.'s BlackBerry and others.

Offloading either or both of the divisions would result in a significantly downsized version of Motorola bearing little resemblance to the tech superstar of years past.

A person familiar with the company said Motorola Chairman David Dorman is overseeing an intense internal debate over what shape the company should take. The latest possibility to spring from that discussion is the possible sale of what is Motorola's largest division, its "home and networks mobility" division, which makes gear for cable and phone companies. The process is at an early stage.

In a statement, Motorola said that it doesn't comment on rumors but added that it remains committed to its long-term plan to split off the mobile-devices unit.

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MARKET	CLOSE	PCT CHG
DJIA	10291.26	+0.43
Nasdaq	2166.90	+0.74
DJ Stoxx 600	246.20	+0.36
FTSE 100	5266.75	+0.69
DAX	5668.35	+0.98
CAC 40	3814.39	+0.76
Euro	$1.4990	+0.14
Nymex crude	$79.28	+0.29

LEADING THE NEWS

EU set to pick president

Blair's chances slim as job search focuses on a strong mediator

By John W. Miller

BRUSSELS—European Union leaders are days away from picking the bloc's first-ever president and foreign minister, and their decision should be final before a summit scheduled here on Nov. 19, EU officials say.

Sweden, which is in charge of the appointment process for the 27-nation union, called the meeting as the list of competing candidates shortened. Belgian Prime Minister Herman Van Rompuy has emerged as the favorite for the president post.

The EU's new framing document, the Lisbon Treaty, takes effect Dec. 1. National leaders would like to have a name by then.

The EU created the new jobs because it often lacks a strong voice in world affairs to match the American president or even the secretary-general of the United Nations.

But it also needs a multilingual consensus-builder fluent in the complex bureaucratic jargon of a body that writes laws in 23 languages for 500 million people.

Although early speculation focused on U.K. Prime Minister Tony Blair as a man who would elevate the EU's global status, a consensus has emerged that mediating within the union is more important.

That's pushed to the fore leaders of small countries who act as buffers between EU titans like France and Germany, led by Mr. Van Rompuy; Jan Peter Balkenende, prime minister of the Netherlands; and Jean-Claude Juncker, the Luxembourg premier.

A dark horse is Vaira Vike-Freiberga, the 71-year-old former president of Latvia. The center-right leader could attract a winning coalition of the EU's eight Eastern European countries and those who like the idea of a woman at the helm of the union.

The man who must officiate the contest is Swedish Prime Minister Fredrik Reinfeldt, 44-year-old leader of the Moderate Party. He himself is a contender, and he might gain support if he skillfully moderates the process and nobody else gains traction, say analysts.

The jobs will be formally picked by the 27 EU leaders, under a voting system that gives greater weight to larger countries.

Mr. Reinfeldt has spent the last few weeks meeting with national leaders and potential candidates, says spokesman Niclas Bengtsson. "There's nobody to single out yet." Mr. Reinfeldt is determined that the summit not be marred by "uncertainty," says Mr. Bengtsson. But the names won't be public until they're officially approved by EU leaders.

The current favorite is Mr. Van Rompuy, the 62-year-old Belgian prime minister, widely admired for his job tamping tensions between French and Dutch speakers in his own country.

Mr. Van Rompuy, a Dutch speaker, has one of the least confrontational leadership styles of any political leader in the world, according to a University of Antwerp survey published this week.

Mr. Blair has become a long shot, now listed at 5-to-1 odds by the bookmaker Ladbrokes. "Blair is hardly discussed any more. The front-runner is clearly Van Rompuy." says Piotr Maciej Kaczynski, an analyst with the Brussels-based Centre for European Policy Studies.

Sweden "wants to have a name before the summit," says Dirk De Backer, Mr. Van Rompuy's spokesman. The Belgian leader has met with Mr. Reinfeldt, but nothing was concluded, says Mr. De Backer.

Speculation has been less intense over the foreign minister's job. That could be the more important post if EU leaders appoint a relatively weak president.

Reuters

People in Brussels shake hands Wednesday before Belgium's Prime Minister Herman Van Rompuy, now considered the favorite to become EU president.

British foreign secretary David Miliband was considered a top contender, but Prime Minister Gordon Brown withdrew his name this week—though it is still being discussed.

Other possibilities are Italian Foreign Minister Massimo D'Alema, EU Trade Commissioner Catherine Ashton, and Adrian Severin, the former foreign minister of Romania.

Berlusconi ally seeks to reinstate prosecution-shield laws

By Stacy Meichtry

ROME—An ally of Italian Prime Minister Silvio Berlusconi on Wednesday proposed a constitutional amendment that aims to reinstate laws shielding all members of the Italian Parliament, including the premier, from criminal prosecution.

If the proposed amendment were to pass, two criminal trials against Mr. Berlusconi would face immediate suspension. The bill, however, faces an uphill battle in Parliament, where a two-thirds-majority vote is required in both chambers to amend Italy's constitution.

Lawmakers in Italy's leftist opposition, though outnumbered by Mr. Berlusconi's center-right allies, still command more than a third of the votes in the Italian Senate and the lower house of Parliament. The bill is also likely to take months to come to a vote.

In an interview, Margherita Boniver, a member of the lower house who introduced the proposed amendment, said the bill has a slim chance of passage. But she said the bill is necessary to protect lawmakers from "hyper-politicized" magistrates who she said have persecuted right-leaning politicians, including Mr. Berlusconi, over the decades. "I did this to redress something that is profoundly unjust," she said in the interview.

For decades members of the Italian Parliament were partially shielded from prosecution under immunity laws that were stripped away in the early 1990s in the wake of the so-called Clean Hands bribery scandal that brought down Italy's political establishment.

Shortly after Mr. Berlusconi's election in April 2008, Parliament passed legislation protecting Italy's top five officials from prosecution while in office.

In October, however, Italy's Constitutional Court struck down the shield, ruling that a constitutional amendment was necessary to grant immunity to officials.

The court ruling paved the way for Mr. Berlusconi's criminal trials to resume. In one trial, which will resume Nov. 16, Mr. Berlusconi is charged with alleged tax fraud.

Prosecutors allege that in the late 1990s and earlier part of this decade, Mr. Berlusconi's family-controlled broadcaster, **Mediaset** SpA, declared an elevated cost of film rights in its tax declarations as a way to pay fewer taxes. Mr. Berlusconi denies the charge of tax fraud, according to his lawyers.

Before the trial was suspended in 2008, Mr. Berlusconi's lawyers had argued that the premier couldn't have been aware of the alleged abuse because he didn't hold any management posts at the time at either Mediaset or Fininvest, which is Mediaset's holding company. After first entering politics in 1994, Mr. Berlusconi handed over the top positions at Mediaset and Fininvest to a close lieutenant.

Support for Mr. Berlusconi remains strong among Italian voters. Over his 15 years in politics, Mr. Berlusconi has faced criminal investigations, indictments and trials on charges ranging from false accounting to corruption. He has repeatedly denied all of the charges. In some of the cases, Mr. Berlusconi was acquitted at trial. In others, the charges were dropped after the statute of limitations expired.

INDEX TO BUSINESSES

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

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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

LEADING THE NEWS

Switzerland's pay rules are aimed at long term

Finma won't apply compensation caps; deferrals boost profit

BY ANITA GREIL

ZURICH—Switzerland's financial-markets regulator Finma is introducing new rules that aim at aligning bonuses with the long-term interests of banks and insurers and curb incentives to take risk, but stops short of imposing a cap on compensation.

The new regulations will come into effect Jan. 1 and will apply to Switzerland's seven biggest banks and five biggest insurers, the regulator said Wednesday. The new compensation rules apply to all employees, not just those residing in Switzerland, though the rulebook leaves open the possibility of making exceptions to the rules if they are well founded.

This should ensure that banks will be able to attract employees in financial centers such as London and New York, should rules on compensation turn out to be less strict there than in Switzerland.

Attracting and keeping good bankers is an element of ensuring a company's long-term success, and thus in line with the general framework of the new compensation rules, said Finma spokesman Alain Bichsel.

"We plan to handle such exceptions very restrictively," he added.

The publication of the new guidelines follows months of debate with financial institutions, trade groups and politicians. Switzerland is among the first countries to introduce new principles on compensation after the Group of 20 leading economies in September pledged to ensure member states will come up with new bonus and pay principles. What some consider excessive compensation and banker bonuses is seen as one of the reasons why banks entered too many risky deals that led to the financial crisis.

Though only one Swiss bank, **UBS** AG, needed state intervention last year, the discussion on bonus payments for bankers was as heated in Switzerland as elsewhere and led to calls for capping bonuses. The regulator said it "didn't accede to the request that an absolute or relative cap be placed on salaries," and ruled out that the new rules should only apply to Switzerland's major banks, UBS and **Credit Suisse**.

Under the new regulation, bonuses must be treated as the employees' stake in the success of the company, and therefore must have been earned by the company over the long term, Finma said. This enables banks or insurers to pay out bonuses even if they didn't make a profit, provided the loss-making period is only brief.

The regulator urged banks to pay only deferred forms of bonuses when business performance is negative, and said it welcomes clawback provisions, which allow for the banks to withdraw part or all of a bonus in the event things later get worse. Sign-up bonuses are still possible under the new framework but must come out of an institution's general bonus pool, Mr. Bichsel said.

The regulator put particular emphasis on bonuses for top executives, saying those managers, who have significant responsibility for risk or high total remuneration, must have a major part of their bonus deferred, linking it more closely to risk.

The new rules are unlikely to lead to sweeping changes in compensation schemes, given that many banks have already tried to link pay more closely to long-term goals while decreasing incentives to take high risks for short-term reward.

"UBS has already revised its compensation system," spokesman Andreas Kern said. Among other steps, the bank has over the past year boosted the base salary of senior bankers to compensate for lower bonuses. The Zurich-based bank considered international regulatory developments when making these changes and will evaluate if further adjustments are required as a result of the new Swiss rules, Mr. Kern said.

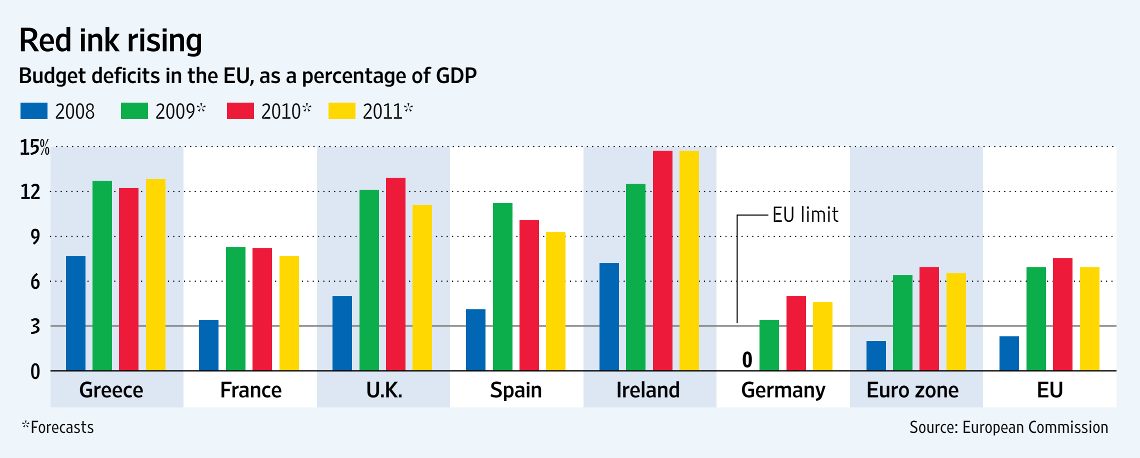
Nevertheless, the greater adoption of pay deferrals will give one-off lifts to some banks' profits, analysts at Credit Suisse said in a note this week. The so-called "first year effect," which lowers compensation costs and increases profits, is likely to lead some banks to beat earnings expectations this year, according to Credit Suisse, with **BNP Paribas** SA and **Deutsche Bank** AG both referring to a "material" impact on earnings.

The Swiss Bankers Association, a lobby group, welcomed Switzerland's new guidelines, especially as they don't foresee a cap on pay and are mandatory only for banks and insurers that have a capital base of at least two billion Swiss francs ($2 billion).

—Harry Wilson contributed to this article.

Associated Press

Finma said it had decided that the new rules shouldn't only apply to Switzerland's major banks, UBS and Credit Suisse.



Greece is denied a budget reprieve

BY ADAM COHEN

BRUSSELS—The European Commission Wednesday recommended that some countries get an extra year to cut their budget deficits, but pushed Greece to repair its public finances immediately.

The commission fears some states could struggle to reduce growing budget gaps. It suggested to the European Council of member governments that these countries be given more time to recover from deficits widened by the economic downturn, which drove up spending and cut into tax revenue.

The total government budget deficit across the EU is expected to climb to 6.9% of gross domestic product this year and 7.5% next year, up from 2.3% in 2008.

Under EU rules, individual countries must keep their budget deficits below 3% of gross domestic product. But the commission, the European Union's executive arm, said several countries should have more time to bring their deficits below the 3% limit. France and Germany were given a deadline of 2013, as were Austria, the Netherlands, the Czech Republic, Portugal, Slovakia and Slovenia. The U.K. was given until 2014-2015, the commission said.

Greece, by contrast, was ordered to cut spending and raise taxes immediately and to report back regularly on progress to shrink its budget shortfall.

Greece broke the 3% limit in 2007 and 2008 and is on track for a deficit of 12.7% of GDP this year, the largest among the countries that use the euro. On top of this, Greece has revised its economic data repeatedly, including deficit numbers from the late 1990s that it used to qualify for euro membership.

The various deadlines the commission suggested were tailored to circumstances in each country, said European Commissioner for Economic and Monetary Affairs Joaquín Almunia.

He said the commission looked at a range of factors—including the size of a country's deficit, the level of government debt and the state's broader economic outlook—when making its recommendations.

France and Germany need to have "coherence" in their economic policies, Mr. Almunia said. If the euro zone's two largest economies don't share the same policy orientation, the euro zone could become "ungovernable," he told a news conference.

France is expected to have a budget deficit valued at 8.3% of GDP this year, compared with 3.4% in Germany.

Even the extended deadlines have caused some worries among EU finance ministers. French Finance Minister Christine Lagarde earlier this week said France likely won't be able to meet a 2013 cutoff.

LEADING THE NEWS

Motorola seeks buyers for one of its pillars

Handset maker hopes to fetch $4 billion to $5 billion for unit that makes set-top boxes, telecom gear

Motorola Inc. is exploring the sale of its big set-top-box unit, people familiar with the matter said, the latest sign of the once-mighty technology giant's rapidly declining ambition in the convulsive world of communications gear.

*By **Dana Cimilluca, Jeffrey McCracken, And Roger Cheng***

By attempting to sell the unit, which could fetch $4 billion to $5 billion, Motorola finds itself considering disposal of two of the company's three main pillars.

It has already tried and failed for nearly two years to spin off its mobile-phone business, which has been in steep decline without a hit device to compete with buzzy rivals like Apple Inc.'s iPhone and Research In Motion Ltd.'s BlackBerry and others.

According to a person familiar with the company, Motorola Chairman David Dorman is now refereeing an internal debate over what shape the company should take going forward.

The latest possibility to spring from that discussion is the possible sale of what is now Motorola's largest division, its so-called home and networks mobility division, which makes gear for cable and phone companies, according to people familiar with the matter. The process is still at an early stage.

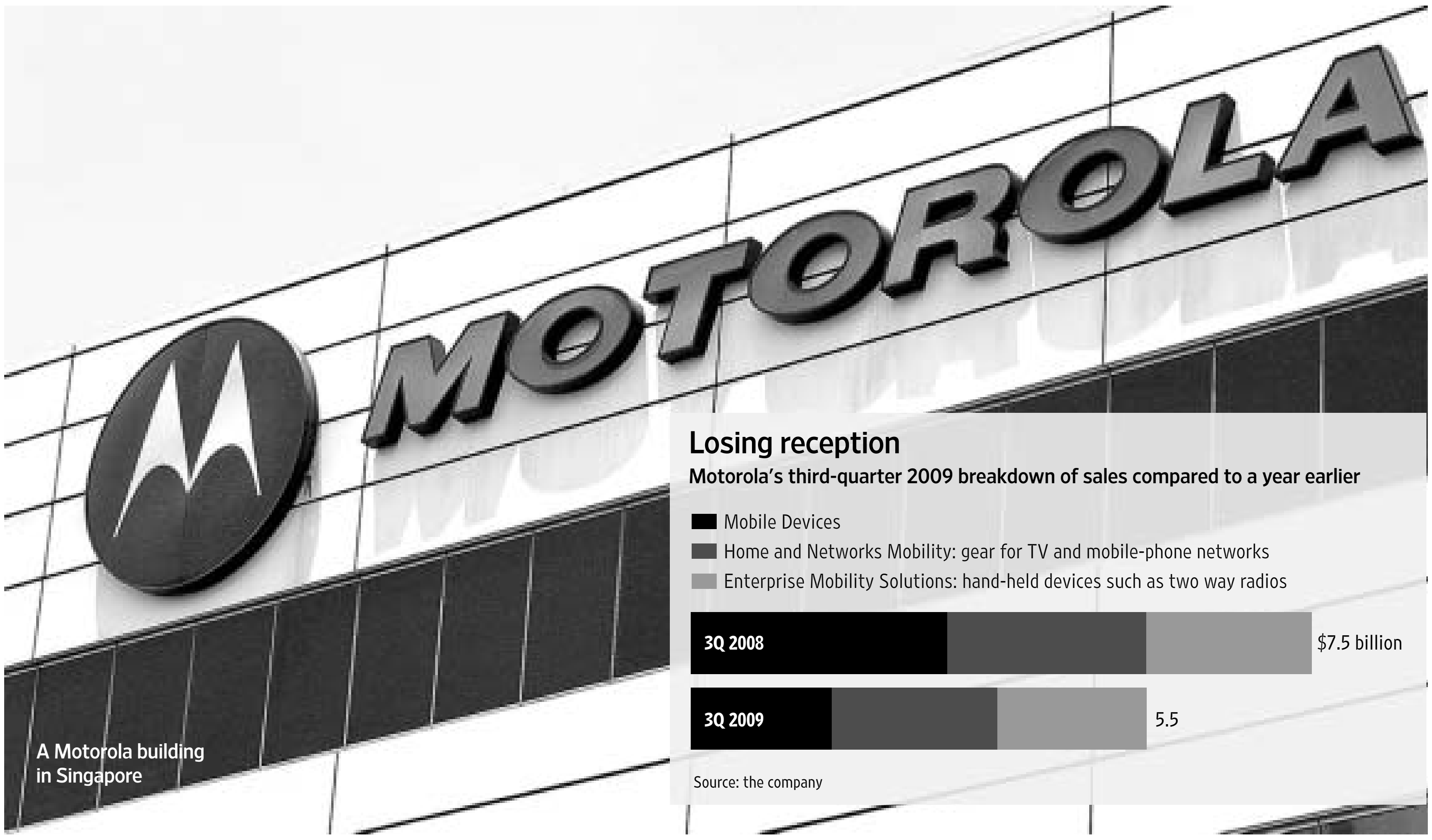
In a statement, Motorola said it doesn't comment on rumors, but added that it remains committed to its long-term plan to split off its mobile devices unit.

Offloading either or both of the divisions would result in a dramatically downsized version of Motorola bearing little resemblance to the tech superstar of years past.

Founded in 1928, Motorola was a lynchpin of the mobile-communications boom, pioneering the use of care radios in the 1930s, making the equipment that carried the first words from the moon.

When the mobile-phone revolution began in earnest, Motorola frequently rode high on the popularity of devices like its StarTAC and Razr phones, which were design icons of their eras.

Its market capitalization touched $55 billion four years ago. But Thursday it was worth just over $20 billion, a sign that the Schaumburg, Ill.-based company is scrambling just to find safe harbor. Sales are plummeting at all three of its divisions, with the phone handset unit being the hardest hit. Overall, Motorola's sales fell 27% in the third quarter to $5.5 billion. It reported $12 million of earnings as it aggressively pared costs.



A Motorola building in Singapore

Reuters

Phone handsets were long Motorola's marquee business. But this year, it has been surpassed by the set-top box unit, which last year had sales of $10.1 billion, a third of the company's total.

Still, the home and networks unit has been hit hard by the economic downturn, with sales falling 15% in the third quarter from a year earlier, to $2 billion. Still, the segment remains profitable, posting operating earnings of $199 million in the period.

That strong cash generation is likely what has attracted the interest of private-equity firms. Those that are exploring a deal for the business include **TPG** and **Silver Lake Partners**, people familiar with the matter said. TPG had no comment and Silver Lake Partners could not be immediately reached.

According to people familiar with the matter, companies that might also be interested in parts of the home and networks operation include South Korea's **Samsung Electronics** Co.; China's **Huawei Technologie**s Co.; Sweden's **L.M. Ericsson**; **Pace** PLC of the U.K; and television-technology provider **NDS Group** PLC, which is co-owned by private-equity firm Permira Advisers LLP and News Corp., parent company of Wall Street Journal owner Dow Jones.

Ericsson and NDS declined to comment. Pace had no immediate comment, and Samsung and Huawei couldn't be reached. J.P. Morgan Chase & Co. and Goldman Sachs Group Inc. are advising Motorola on the possible sale. The banks declined to comment.

Motorola has been through a turbulent couple of years. Since 2007, the company has dealt with a proxy

> The move would follow stalled plans to spin off its mobile handset unit.

fight with billionaire activist investor Carl Icahn; the resulting ouster of former chief Ed Zander; a reshuffling of the business units; and an overhaul of management, with Greg Brown assuming the CEO role, and Sanjay Jha ultimately taking the co-CEO position to run the mobile devices business.

At the same time, Motorola has aggressively streamlined itself. The declining sales and retreating market share position in its businesses couldn't support its bloated cost structure, analysts say. Chief Financial Officer Edward Fitzpatrick told analysts last month that he expects to reduce the company's headcount by 9,700 for the year.

The home and networks unit was considered resilient in the past, and its television set-top boxes remain a market leader. But there are worries it is missing out on the trend of cable and telecommunications video providers relying more on Internet-based video delivery systems.

The sale of the unit makes sense, analysts say, because it doesn't fit with the rest of the company. Motorola is split into three businesses: the handset unit; the home and networks business; and the enterprise mobility unit, which makes which makes handheld devices such as public radio systems and barcode scanners, and was largely built from the company's acquisition of Symbol Technologies. There are few logical connections between the three businesses

"It's a stretch to say there would be true synergies if they stayed together," said John Jackson, an analyst for U.K.-based market research firm CCS Insight. "It's hard to credibly say we would need one because it benefits the others."

That's the central premise behind Motorola's effort to spin the handset business out as a separate company run by Mr. Jha. The plan stalled last year due to the collapse of the market.

But management also reined in its plans because the business still lacked notable products and feared it was too weak to stand on its own. There also remained questions about how the separation of the intellectual property would work, as well as which company would keep the storied Motorola name.

Over the past year, Wall Street has largely given the company a pass as Mr. Jha mixed up the corporate culture in his unit. The company scrapped several potential phones, including ones using Microsoft Corp.'s Windows Mobile software, and focused its research and development dollars on building phones using Google Inc.'s free Android mobile platform.

At the same time, Mr. Jha has worked to get his phones front and center at the carriers, a vital component to successfully selling his phones. The bet saw early dividends in September with the unveiling of the Cliq, which uses Android, as well as its own tweaked user interface, dubbed MotoBlur, which is a leading product at Deutsche Telekom AG's T-Mobile USA. But the true pay-off came with the Droid, which launched on Friday. Motorola is benefiting from Verizon Wireless, which said it was backing the device with its largest marketing campaign and is positioning it as its flagship product for the holiday.

Germany's E.ON raises 2009 outlook as profit soars

BY JAN HROMADKO

FRANKFURT—**E.ON** AG, Germany's largest utility by market value, on Wednesday raised its outlook for full-year earnings as interest expenses on acquisition-related debt grew less than expected.

E.ON also reported sharply higher third-quarter net profit. Earnings were boosted by nonrecurring effects such as gains from disposing of assets and the revaluation of energy derivatives used for hedging.

For the three months ended Sept. 30, E.ON's net profit soared to €1.8 billion ($2.7 billion) from €100 million in the same period a year ago. Sales fell 13% to €16.74 billion from €19.25 billion in the year-earlier quarter, reflecting weaker energy demand and prices during the economic downturn.

Analysts had expected sales of €17.29 billion.

Looking ahead, the Düsseldorf-based company said it now expects 2009 after-tax profit, adjusted for nonrecurring items, to fall only by 3% to 5% from the year before. E.ON previously forecast a decline of 5% to 10%.

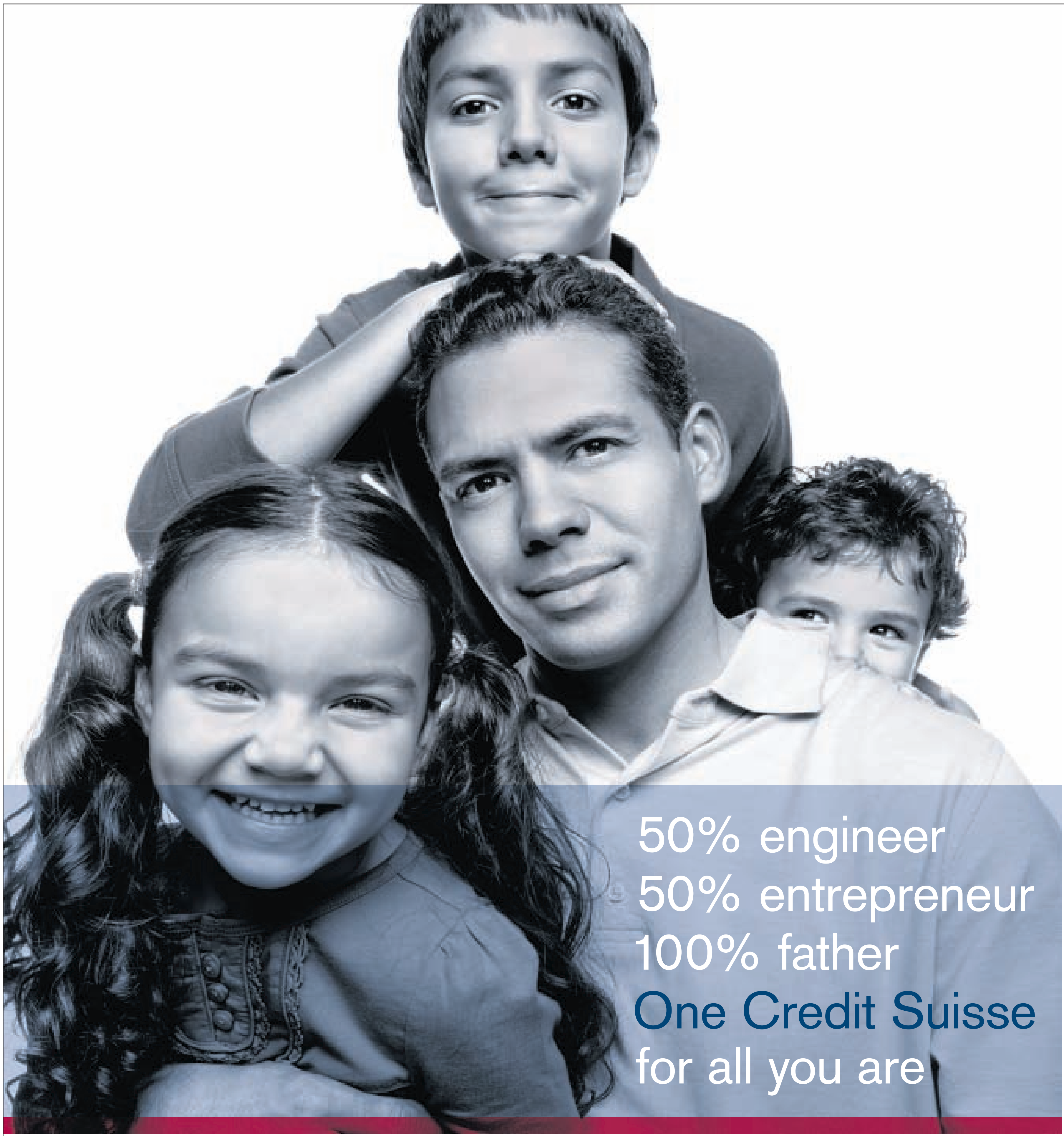
It was the second time this year that E.ON raised its 2009 full-year adjusted after-tax outlook. It had originally forecast a 10% year-to-year drop.

Analyst Stephan Wulf, of Luxembourg banking group Sal. Oppenheim, who has a "neutral" rating on the stock, said the raised goal was a "nice little positive surprise as it reassures investors that E.ON's dividend payment, which it links to adjusted net profit, should be safe."

E.ON intends to pay between 50% and 60% of its 2009 adjusted after-tax profit to shareholders in the form of dividends. For 2008 it paid €1.50 per share.

Full-year adjusted earnings before interest and taxes—a key profit figure analysts closely watch to measure operating profitability—are still expected to come in around last year's level, the company said.

E.ON said selling electricity forward helped achieve higher average power prices than in the period a year earlier. Efficiency improvements and better earnings contributions from newly acquired businesses further drove operating earnings higher.


50% engineer
50% entrepreneur
100% father
One Credit Suisse
for all you are

CORPORATE NEWS

Defense companies see growth in Mideast

Spending on fighter jets, missiles and other items forecast to exceed $100 billion by 2014 in the region

By Stefania Bianchi

DUBAI—Fighter jets, rather than passenger planes, will be in focus at next week's Dubai Airshow as Arab sheikdoms update their armories just as the U.S. starts to rein in its defense spending.

Defense spending in the Middle East is expected to reach more than $100 billion by 2014, or 11% of arms orders globally, according to consultancy Frost & Sullivan.

This splurge on new weapons will come as a relief to U.S. and European defense companies looking to boost overseas sales to help hedge against belt-tightening at home.

The administration of U.S. President Barack Obama has made health care a priority and cut military spending, including a high-profile measure to strip $1.7 billion from the budget for F-22 Raptor fighter jets.

Companies such as **BAE Systems** PLC, **Lockheed Martin** Corp., **Boeing** Co., **Northrop Grumman** Corp. and **Raytheon** Co. will showcase their latest airborne weapons at the Dubai show. The Middle East's largest aviation fair, which starts Sunday, is held every two years and is usually dominated by huge commercial-aircraft orders.

"Threats including those from Iran or the instability surrounding Afghanistan and Pakistan, Iraq, and most recently Yemen certainly add to the need of Gulf states to review their defense policy," said Christian Koch, director of international studies at the Dubai-based Gulf Research Center.

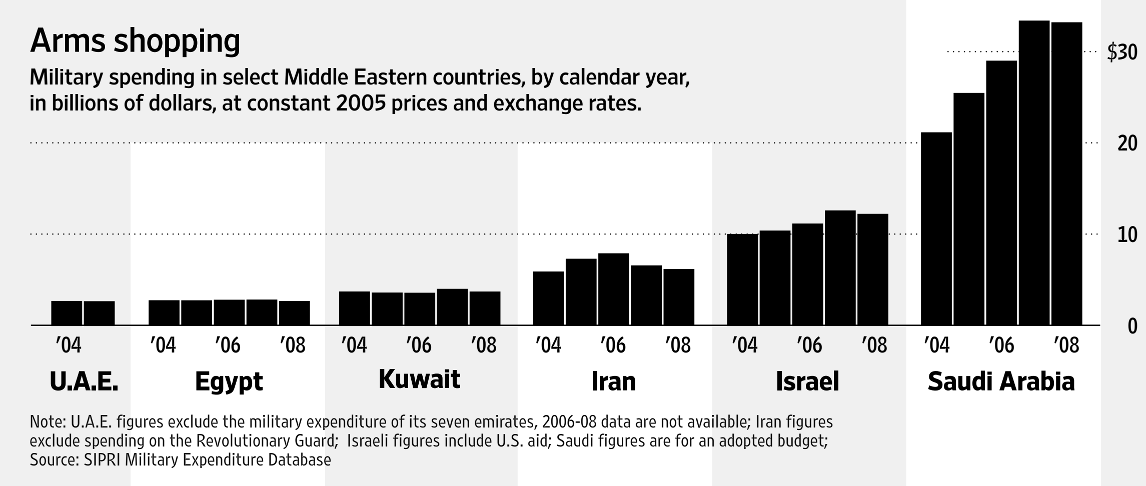
Organizers of this year's Dubai show say they expect military sales to take up some slack as few commercial deals are expected.

U.S.-based Raytheon, the world's largest producer of guided weapons, such as the Paveway bomb used widely by U.S. Navy pilots in Afghanistan, said the Middle East is quickly becoming one of its most important markets.

Thomas Culligan, Raytheon executive vice president of business development and chief executive of Raytheon International, said the company is poised to announce several missile deals at the show. Last year Raytheon signed a $3.3 billion Patriot missile contract with the United Arab Emirates.

Bloomberg News

BAE's Eurofighter Typhoon, above, will go head-to-head with the F-22 Raptor at the Dubai Airshow next week.



BAE Systems, Europe's largest defense contractor, said it will use the air show to fly the Eurofighter Typhoon jet, a multiple-role combat aircraft it has developed with Italy's Alenia Aeronautica and the German and Spanish units of **European Aeronautic Defence & Space** Co.

The four-nation EADS consortium said the Gulf region is a "key market" and it hopes to sign up to 300 deals for the Typhoon by 2020.

"It seems that the Gulf region has been increasing its defense spending in recent years," said Simon Keith, BAE's managing director for the Middle East, Africa and the Asian-Pacific region. Saudi Arabia is BAE's biggest customer for the fighter outside Europe.

Since 2001, defense spending in Saudi Arabia has doubled to $43.52 billion and will hit $47.4 billion next year, according to defense consultancy **Jane's Information Group**.

In the U.A.E., one of the Gulf region's biggest spenders, defense outlays have risen almost fourfold since 2001 and will reach $7.69 billion in 2010, according Jane's Information Group.

The U.A.E. was the Gulf region's largest purchaser of conventional weaponry between 2004 and the end of 2008, making it the third-biggest buyer world-wide after China and India, according to the Stockholm International Peace Research Institute, or Sipri.

Between 2001 and 2008, Mideast nations bought more than half of all arms purchased from the U.S., according to Sipri. A total of 16% were purchased from France, 8% from Germany and 7% from Russia.

But Gulf states want influence with the West in return for their purchases. Defense deals are "the ultimate poker chip," said Guy Anderson, lead analyst at Jane's.

Saudi Arabia and the U.A.E., the Gulf's Arab heavyweights, are also using defense deals to diversify their oil-reliant economies and offset rising unemployment in the youthful local population.

"Recognition that defense expenditure can be used as a lever to achieve change is not a new idea in either state," Mr. Anderson said.

The U.A.E. in particular has an aggressive policy whereby it typically requires at least a 50% "offset requirement" for deals involving military hardware, according to Jane's.

This means at least half of a contract's value must be reinvested in the local economy by the contract recipient, such as through maintenance contracts.

Raytheon, which is developing the Talon Laser Guided Rocket in partnership with the U.A.E.'s Emirates Advanced Investments, said such agreements will help Gulf countries develop their own aerospace industries.

"Instead of developing a product for a U.S. customer first and then selling that product internationally, we are developing this product with an international partner first and the U.S. may eventually be a customer," Mr. Culligan said.

Emirates jet deliveries delayed

By Stefania Bianchi

DUBAI—**Emirates Airline** said Wednesday that some of its double-decker Airbus A380 planes for delivery in 2010 will be delayed, and that it may take over aircraft orders from rival carriers.

"We've taken a bit of a delay on deliveries, but not in years," Emirates Airline Chairman Sheikh Ahmed bin Saeed Al Maktoum told reporters at a press conference ahead of the Dubai Air Show, which begins Sunday.

With a total of 58 orders, Emirates, the largest airline in the Middle East, is the biggest customer for the A380 superjumbo jet from **European Aeronautic Defence & Space** Co.'s Airbus unit.

The Dubai-based carrier is due to receive six of the jetliners next year, slowing to five in 2011. Deliveries are expected to rise to 12 in 2012 and 11 in 2013.

Sheikh Ahmed said the carrier will take delivery of two A380s in December and January, but didn't specify how many aircraft would be affected by the delays.

Carrier's chairman didn't specify how many A380 planes would be affected.

"It's a short period. Some aircraft will be delivered within a month or two of the original date," he said. "We are not happy about it because we want the aircraft to be delivered on time."

However, Sheikh Ahmed declined to comment on whether the airline was seeking compensation for the delays, saying: "It's a private matter."

Emirates is also looking at taking over orders made by other airlines that want to delay delivery of new aircraft amid the global economic downturn. "We're considering it," Sheikh Ahmed said. "We're usually one of the first movers to take advantage of the market. It's very positive for us."

Last week, Emirates said its first-half net profit almost tripled from a year earlier to 752 million U.A.E. dirhams ($205 million) on lower costs and fuel prices.

Sheikh Ahmed said Wednesday he expected the airline's revenue during the second half to be "better" than the 13.5% decline posted during the first half. "Emirates is seeing much better numbers in terms of forward bookings," he said.

TPG considers taking stake in Japan Airlines

TOKYO—Private-equity firm **TPG** is working with American Airlines parent **AMR** Corp. on a possible investment in **Japan Airlines** Corp., a person familiar with the situation said, upping the ante in the race with **Delta Air Lines** Inc. to cement a stronger partnership with the Japanese carrier.

By Mariko Sanchanta, Alison Tudor And Doug Cameron

"TPG is a well-respected investor in the airline space," AMR Chief Financial Officer Tom Horton told reporters Wednesday. "To the extent that there is an investment to be made, they would be a natural partner for American."

A TPG spokesman said it was unclear whether TPG would participate in a joint minority investment with AMR. A Delta spokeswoman declined to comment.

TPG's participation could strengthen AMR's effort to secure a more robust alliance with JAL, which is undergoing a broad, government-led restructuring aimed at returning the carrier to profitability. Delta and American Airlines are dangling the possibility of making investments valued at hundreds of millions of dollars, though foreign investment laws limit their participation to minority stakes.

Also, the state-backed Development Bank of Japan may extend 100 billion yen, or about $1 billion, in loans to keep JAL flying, a person familiar with the matter said Wednesday.

CORPORATE NEWS

RTL Group looks to new sales streams

As viewers change their habits, European broadcaster is aiming to develop new business models

By Archibald Preuschat

DÜSSELDORF, Germany—European broadcasters must figure out how to make money from on-demand services and new forms of advertising as viewers change their habits, said Gerhard Zeiler, the chief executive of **RTL Group** SA, Europe's largest broadcaster by households reached.

"We need to develop business models for these offers; they are an important part of the future of TV," Mr. Zeiler said in an interview.

Free-to-air broadcasters such as RTL, Germany's **ProSiebenSat.1 Media** AG and the U.K.'s **ITV** PLC have been battling a prolonged slump in advertising markets that has slashed core revenue. They have also had to face the structural shift to digital content and competition from pay-TV companies and telecommunications firms that increasingly offer film and TV content.

Viewers can also use set-top box technology to record, pause and rewind live television, and to skip through advertising, although programs viewed online still carry ads that cannot be skipped.

As signs emerge that advertising markets may be stabilizing as the recession starts to ease, free-to-air broadcasters must develop new business models, Mr. Zeiler said. The conundrum faced by broadcasters mirrors the debate in print media about how publishers can charge for content that is widely available free elsewhere.

Some recent studies forecast that 70% of viewers will watch programs live in the future, with about 30% to 40% watching on-demand, Mr. Zeiler said.

"The challenge is to sell advertising spots for on-demand platforms for the same price ratio as for prime-time television, when most viewers are reached," he said.

Meanwhile, in the U.K., where RTL runs broadcaster Five, online viewing of TV programs has rocketed in recent years to a forecast 410 million hours this year from 7.5 million hours in 2005, according to Marija Jaroslavskaja, an analyst at research firm Screen Digest's broadband media team. By 2013, more than 750 million hours of TV will be watched via a laptop, Screen Digest forecasts.

Five's U.K. digital channels—Five, Five USA and Fiver—are free on the Web and on digital terrestrial TV, supported by advertising.

Mr. Zeiler believes viewers are willing to pay to watch free-to-air programs on-demand, as well as for additional services such as archives.

Viewers will also pay for niche digital channels, said Mr. Zeiler, who plans to introduce a growing number of them. In major markets, such as France, the Netherlands and Germany, RTL already operates pay digital channels, like a channel targeting women in the Netherlands and a crime-focused channel in Germany. The broadcaster wholesales these programs to satellite and cable network providers, that in turn charge their customers.

Mr. Zeiler said it is also important that the industry develops new forms of advertising. For example, a sponsor's brand name or logo cold be discreetly shown during programs. "This doesn't disturb viewers but generates new revenue sources, and we have to discuss that with the media regulators in the countries we're operating in," he said.

The U.K. government in September said it was moving toward lifting a ban on product placement on television, which industry experts estimate could generate a further £100 million ($167 billion) a year in revenue for commercial broadcasters in the country. The U.K. lags behind continental Europe, where product-placement restrictions were lifted in most countries following a European Union directive in 2007.

"All these measures we need in a time in which advertisers doesn't cover all our costs anymore," Mr. Zeiler said.

ProSiebenSat.1 Media's Chief Executive Thomas Ebeling, who said last week the company has to introduce more pay services to lessen its dependence on advertising.

In common with peers, RTL has tried to counterbalance the slump in advertising revenue through intensive cost-cutting.

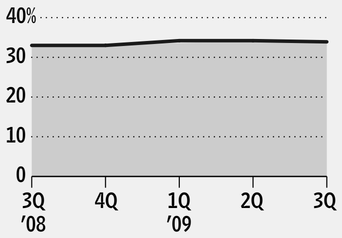
"Our industry showed the ability to deal with the change in our overall situation," Mr. Zeiler said. "The target was to lower costs without hurting audience share and we've been very successful in all important markets we are operating in," he added.

RTL Group

Gerhard Zeiler, head of RTL Group

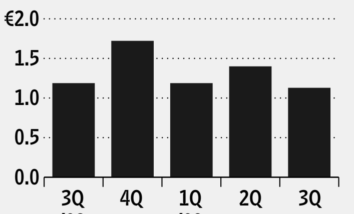
Unchanging channels

RTL Group's quarterly audience share has remained fairly flat in 2009 among 14- to 49-year-old viewers in its biggest market, Germany



Stressed sales

RTL Group, like other broadcasters, has struggled to expand sales; quarterly revenue in billions of euros



Macy's narrows loss, raises annual forecast

By Rachel Dodes

Macy's Inc. raised its fourth-quarter and full-year profit forecast after reporting a loss Wednesday, but its shares declined as the revised outlook fell short of analysts' estimates.

The Cincinnati-based retailer, the first of several department-store chains to report earnings this week, has struggled all year amid declining mall traffic and reduced discretionary spending, but said it has noticed improvement as it heads into the holiday season.

"There's a sense of momentum at Macy's Inc. that positions us to gain market share despite the environment," Macy's Chief Financial Officer Karen Hoguet said in a conference call. Business improved each month in the quarter, Chief Executive Terry Lundgren said in a statement.

The company raised its full-year earnings forecast excluding restructuring costs to a range of $1.01 to $1.06 a share compared with earlier guidance of between 70 cents and 80 cents a share.

Analysts were projecting full-year earnings of $1.11 a share, according to Thomson Reuters. For the current quarter, the company projected earnings of between $1 and $1.05 a share, below analysts' estimates of $1.17 a share.

The lower-than-expected outlook sent the company's shares down 8.3% to $17.81 in afternoon trading on the New York Stock Exchange.

For the current quarter, Macy's forecast sales at stores open at least a year will fall between 1% and 2%, compared with earlier guidance of a decline of between 5% and 6%. Ms. Hoguet said although inventories will likely be down in the fourth quarter, they will decline by less than the third quarter's 7.4% drop.

The operator of more than 850 department stores said it lost $35 million, or eight cents a share, in the three months ended Oct. 31, compared with a loss of $45 million, or 10 cents a share, a year ago. Excluding restructuring charges, the company lost three cents a share, compared with analysts' forecasts of a loss of seven cents a share, according to Thomson Reuters.

Macy's reported improved sales of moderate sportswear, cold-weather goods and home textiles, while sales of dresses, fragrances and handbags remained relatively weak. The company praised its localization initiative—which tailors stores' merchandise to regional tastes—for delivering sales that were 1.9 percentage points higher on average in the program's 20 pilot districts than in the 49 districts elsewhere in the country.

"We are gaining confidence that this unique strategy...will give us a real competitive advantage," Ms. Hoguet said.

The quarter included $33 million in charges related to division consolidation and its localization costs.

Sales in the quarter fell 3.9% to $5.3 billion. Sales at stores open for at least a year, fell 3.9%. The company said its online sales rose 21%.

—Joan E. Solsman contributed to this article.

CORPORATE NEWS

Sainsbury adds more general merchandise

Grocer challenges rivals Asda, Tesco with expanded selections of clothing, housewares and electricals

BY KATHY SANDLER

J Sainsbury PLC is banking on a late push into nonfood, general merchandise sales to continue its five-year resurgence as the U.K. supermarket chain expands its store portfolio in the north of England, where it doesn't have a big presence.

Sainsbury is six months into an expansion program funded by a £436 million ($729 million) equity-raising earlier this year and is pushing north into traditionally underserved parts of the U.K. The chain also is expanding its offerings of clothing, housewares, electrical goods and toys substantially.

By introducing northerners to its food and household goods, Sainsbury, the U.K.'s third-largest supermarket chain by revenue, hopes to build on solid results it reported Wednesday.

The company posted a 48% rise in first-half net profit on strong sales gains and better cost management. Net rose to £252 million in the 28 weeks ended Oct. 2 from £170 million a year earlier, boosted by the revaluation of properties in its joint ventures.

Adjusted pretax profit—a closely tracked figure that strips out property gains, pension financing, impairment and other items—rose 19% to £307 million, as the company benefited from strong sales gains and lower financing costs.

Sales, which the company reported in October, increased 3.7% to £11.16 billion. Comparable sales, excluding fuel but including value-added sales, climbed 5.7%.

Sainsbury has seen five years of same-store sales growth on the back of a turnaround plan begun in late 2004. But food-price inflation is stabilizing, which means the comfortable sales growth Sainsbury and its main competitors have recently enjoyed will fade. Its bigger rivals, **Tesco** PLC and **Wal-Mart Stores** Inc.'s Asda Group Ltd., have their own plans to expand and gain market share, adding to market skepticism about the sustainability of Sainsbury's recent growth.

Bloomberg News

J Sainsbury is expanding into markets such as northern England, where it doesn't have a big presence.

Tesco last month posted a gain of 8.3% for its fiscal first half as lower-priced goods and strengthening Asian results helped trigger a rebound at Britain's largest retailer by revenue. Asda, the nation's second largest retailer, reported sales at stores open at least a year rose 7.2% excluding fuel and value-added tax in the second quarter.

Sainsbury's chief financial officer, Darren Shapland, said he believes the expansion of the company's nonfood range will help continue its sales momentum.

Although Sainsbury is coming late to the game—Tesco and Asda already have large and established nonfood retail space in their bigger stores—Mr. Shapland insists this could be an advantage.

"This is genuine new nonfood space in the industry, so we'll be taking market share potentially not just from the grocers, but more likely from the high street as well," he said.

The company said its nonfood sales rose at 2.5 times the rate of food, while its online grocery sales increased 20% in the first half.

Sainsbury plans to use about half of the extra store space that it's opening in the next two years—which runs to 50 new stores and 30 to 35 store extensions—for nonfood items, and expects these items to generate a third of future sales growth.

Of the 50 new supermarkets opening by March 2011, around three-quarters will be in Wales, northern England and Scotland—areas traditionally that held few Sainsbury outlets. It has a stronger market presence in southern England.

Store expansion notwithstanding, in the shorter-term the company's outlook is still cautious as the economic health of the U.K. remains precarious.

Sainsbury has been working hard to control costs, which Chief Executive Justin King said "is enabling further investment in the customer offer and, together with our good sales performance, has delivered further strong profit growth."

The company was the U.K.'s biggest supermarket chain until 1995, but was overtaken by Tesco and then Asda, as competitors used the U.K. property-market collapse in the 1990s and acquisitions to expand aggressively.

Sainsbury has had a renaissance in the past two years as Mr. King has modernized stores, revamped logistics and improved product quality while cutting prices and introducing new ranges of store-branded goods.

The new ranges have begun to filter into the company's nonfood products, and Mr. King said on a conference call Wednesday that a program of directly sourcing nonfood items from the Far East has allowed the company to develop its own products, the first full range of which went on sale over Halloween. This direct sourcing has helped reduce the cost of products, which Mr. King said the company has passed on to customers,.

Fedex forecasts small upturn for holidays

BY BOB SECHLER

The holiday shopping season appears to be showing some signs of life, at least for package-delivery giant **FedEx** Corp.

FedEx on Tuesday forecast that it would ship more than 13 million packages on what it expects to be its busiest day of the year, Dec. 14. That would be an 8% rise from its busiest day last year and tracks expected growth in online retailing.

FedEx ships an average of about 7.5 million packages daily and last month reported that the slide in the U.S. package business had started to abate.

Like rival **United Parcel Service**, it has benefited from the decision of **Deutsche Post** AG's DHL USA to withdraw from the U.S.

UPS said it would issue its own holiday forecast next week. The company wouldn't say what it expects for shipping volumes, but UPS previously said it plans to hire about 50,000 temporary U.S. workers for the period from Thanksgiving until year-end.

While that's not as much as in some years past, UPS Chief Financial Officer Kurt Kuehn said in October that he's "pretty confident" that there will be a seasonal uptick in shipments and so the company was preparing accordingly.

In 2007, the last year UPS provided such data, it hired 60,000 holiday-season temporary workers. Neither FedEx nor UPS made busiest-day forecasts in 2008, due to economic uncertainty.

That the largest U.S. package shippers are gearing up for increases in holiday shipping volume this year represents a turnaround of sorts, even as unemployment rises and consumer sentiment remains weak. UPS and FedEx have been downbeat most of this year, as the recession has sent the U.S. package delivery business into a freefall.

The holiday prediction follows an anemic back-to-school shopping season for retailers, which have kept their expectations muted for year-end gift-giving.

U.S retailers remain cautious heading into Christmas and are maintaining lean inventories. In addition, according to the National Retail Federation, many are offering free shipping—a trend that could help FedEx and UPS.

The trade association expects holiday sales to drop 1% from a year ago to $437 billion, with the vast majority of consumers spending less than they did last year.

Web shopping could be the exception, though. **Comscore**, which tracks online businesses, expects sales over the Web during the holiday season to show a slight gain, after falling 3% last year.

"People are not just browsing and doing price comparisons; they are making purchases," said Janet Hoffman, global managing director of retail for **Accenture**, a software and consulting firm. "That bodes well for the holidays."

Separately, FedEx said the IRS determined it doesn't owe any taxes or penalties stemming from the use of independent contractors by its FedEx Ground unit from 2004 through 2006.

The IRS may look into the issue for 2007 and 2008, a company spokesman warned, but he said he's optimistic about the likely outcome.

FedEx is battling numerous lawsuits regarding the employment classification of its delivery drivers.

SingTel posts 10% rise in earnings but remains cautious on outlook

BY SE YOUNG LEE

SINGAPORE—**Singapore Telecommunications** Ltd.'s fiscal-second-quarter profit rose 10% on stronger operating revenue and contributions from its regional mobile associates. Still, the company remained cautious about its outlook.

Earnings rose to 956 million Singapore dollars (US$688.6 million) for the quarter ended Sept. 30, from S$868 million a year earlier.

Operating revenue increased to S$4.1 billion from S$3.89 billion.

"Our strong financial results were achieved amid a cautious economic climate and despite the negative currency impact," SingTel Chief Executive Chua Sock Koong said.

Ms. Chua said the company remains on the lookout for new investment opportunities and that its strong balance sheet gives it significant flexibility.

SingTel's chief executive for international operations, Lim Chuan Poh, added that the company's investment focus remains in Asia.

"Markets like Vietnam continue to present a potential opportunity," Mr. Lim said. "We continue to track the other areas where we currently don't have a presence, but at least at the present moment there are no specific countries [being targeted]."

Steiff settles lawsuit accusing executive of rape

Associated Press

NEW YORK—**Steiff** GmbH has settled an $80 million lawsuit accusing the chief executive of the German company's toy unit of conducting a years-long campaign of unwelcome advances toward a U.S. marketing executive and of raping her, a lawyer for the company said Wednesday.

When the lawsuit was filed by Steiff marketing executive Jane Collins in June, toy-unit CEO Martin Frenchen said the allegations were meritless. Also at the time, an attorney for the company, David Rosenthal, said it was "committed to providing a safe and comfortable working environment for all of its employees'' and would contest Ms. Collins's claims.

Mr. Rosenthal said the suit was settled Tuesday night but wouldn't divulge the terms. Steiff company officials didn't respond to calls for comment. Christopher Brennan, an attorney for Ms. Collins, didn't return calls.

The lawsuit was filed in New York Supreme Court in Manhattan and alleged Mr. Frechen raped Ms. Collins in 2004 and subsequently sexually harassed her during trade shows.

Special Advertising Section

RUSSIA

A resilient country is rapidly climbing out of recession

By Jonathan Gregson

Russia's battered economy is working its way out of the crisis, according to Finance Minister Aleksey Kudrin, with gross domestic product growing 0.6% in the third quarter, the ruble strengthening — to 29 rubles to the dollar in November from 36 rubles to the dollar in May — and unemployment rates falling.

"Russia has come out of the crisis very rapidly," says Tom Mundy, a Moscow-based equity strategist at investment bank Renaissance Capital. "The government pursued sensible anticrisis measures by focusing on social spending, such as increased unemployment benefits and military salaries, that feed through rapidly into the real economy." The stimulus — including the increase in budget and tax cuts — was equivalent to 8% of GDP.

But this tentative recovery comes from a low base because, as economist Sergei Aleksashenko of independent think tank Carnegie Moscow Center, part of the U.S. Carnegie Endowment for International Peace, points out, the global recession has hit Russia harder than any other Group of Twenty member. Its economy shrank roughly 10% between September of last year and this, with lower oil and commodity prices playing a large part in the overall decline.

Says Prof. Philip Hanson, associate fellow of the Russia and Eurasia Program at the London-based think tank Chatham House: "The role of capital flight, with both international investors fleeing risk and Russian businesses putting funds offshore, and underlying riskiness of investing in a country where the state has a record of expropriating assets, also contributed to the sharpness of the downturn."

Kingsmill Bond, London and Moscow-based chief strategist at Russian investment bank Troika-Dialog, maintains that four-fifths of the contraction in the country's GDP was essentially companies running down their inventories. "Now Russian companies are restocking, money supply is growing and banks starting to lend again, so the economy should grow by 5% next year provided the global environment remains stable."

Mr. Mundy of Renaissance Capital anticipates improvements in industrial production in the final quarter which has not been priced into current stock market valuations.

With inflation falling fast — as high as 15% precrisis and now at around 10% after three months of flat consumer prices — and the government cutting interest rates, around 9.5% at the beginning of November compared with 13% in March, Mr. Bond of Troika-Dialog expects domestic growth to pick up rapidly, so large retail banks, telecoms, transport companies, auto makers and retailers should all benefit from stronger demand.

"Russia's budget deficit of around $90 billion still needs to be funded, so privatization is back on the agenda."

The enthusiasm has spread to international investors. According to Michael Wang, a London-based emerging market strategist at Morgan Stanley, based on future prospects Russia's listed companies are 40% cheaper than those in other emerging markets.

But some analysts remain cautious. Natalia Orlova, Moscow-based senior economist at Alfa-Bank, one of Russia's largest private banks, points out that much of Russia's recovery is due to external factors. Most of the stock market's rebound, she says, is due to external demand, to higher export energy prices and a 30% increase in metals output.

Mr. Mundy of Renaissance Capital also attributes much of Russia's performance to its natural resources. "Russia is doing well because the oil price has been quite resilient," he says. And at Morgan Stanley, which expects oil prices to rise further, Mr. Wang sees "value in Russia's energy sector" where the possibility of a lower tax combined with tax credits for development from new Siberian fields could boost returns.

Mr. Mundy points out that all this means that the budget deficit is now likely to be much lower than previously expected. The deficit was 4.7% of GDP in the year through to September.

This is a good thing, says Ms. Orlova of Alfa-Bank. "With the banks unable to transfer excess liquidity to the real economy, and still highly leveraged companies having no appetite for loans, running too high a deficit would stimulate an asset price bubble. The government's approach is therefore sensible."

Mr. Mundy points out that "Russia's budget deficit of around $90 billion (€61.4 billion) still needs to be funded, so privatization is back on the agenda." Leading candidates include the shipping company Sovcomflot, where a 20% sale is contemplated, and insurance group Rosgosstrakh. A dilution of the government's 75% holding in oil giant Rosneft through a secondary placement is also in the cards.

In total, some 5,500 companies may be sold. The government is also planning to auction more development licenses for oil, gas and metals. While in most cases the government is likely to maintain majority control, Mr. Mundy believes privatizations will provide "interesting opportunities" for international investors.

"There is need for huge investments in infrastructure," he says, "but much depends on how far the government will permit foreign direct investment in strategic assets and its willingness to stick to agreements."

"There's a sea change in the way Russia's government is approaching international capital markets," says Mr. Bond of Troika-Dialog, "which is helpful toward both FDI and portfolio investors."

Prof. Hanson of Chatham House is more cautious, noting that "there is still a lot of resistance to FDI in high-tech industries."

Portfolio investors, on the other hand, are returning to Russia because it offers value and the prospect of growth.

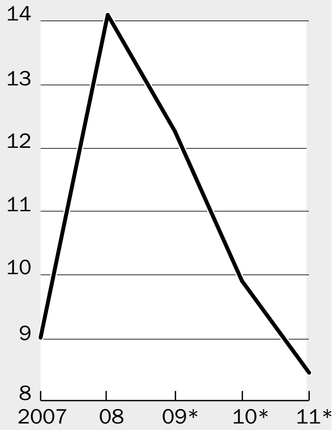
Mr. Mundy of Renaissance Capital points out that Russia's equity market is "highly volatile" presenting opportunities to the active investor. However, any return toward risk aversion world-wide would trigger a proportionately greater selloff. From the international investor's perspective, he says "it's a leveraged play into continuing global recovery."


REUTERS/Alexander Natruskin

Russia's volatile equity market offers opportunities to active investors.

Russia's inflation

Average consumer prices (annual % change)



* estimates

Source: IMF, World Economic Outlook Database, October 2009

CORPORATE NEWS

Mobile venture raises hopes in West Bank

Wataniya's launch injects competition, is seen as vote of confidence in territories by foreign investors

By Charles Levinson

RAMALLAH, the West Bank—The Palestinian territories' second cellphone carrier launched Tuesday, injecting competition into the wireless market here and delivering a significant vote of confidence in the territories by foreign investors.

The Wataniya Mobile venture is one of the largest direct-foreign investments ever in the Palestinian territories. Former British Prime Minister Tony Blair has embraced it as a private-sector engine of growth for the West Bank's economy, which is plagued by high unemployment and restrictions on goods going in and out through Israel.

"This is a sign that Palestine is open for business," said Mr. Blair, who attended Tuesday's launch at Ramallah's upscale Grand Park Hotel. The former British leader currently represents the so-called Middle East Quartet—the U.S., the European Union, the United Nations and Russia—and he negotiated with Israel on behalf of the start-up.

As recently as two months ago, it wasn't clear the service would ever get off the ground amid a standoff with Israel over the release of bandwidth. In September, Wataniya Chief Executive Alan Richardson, a Scottish telecom executive who started one of Iraq's cellphone networks in 2003, threatened to pull the plug on the venture altogether if Israel, which controls the Palestinian territories' airwaves, didn't release more bandwidth. Mr. Richardson complained that it took him more than two years to launch a service here, compared with four months to launch a service in war-torn Iraq.

Agence France-Presse/Getty Images

Palestinians buy phone cards to use with Wataniya Mobile in the West Bank city of Jenin ahead of the wireless carrier's launch. The "056" logo refers to the dialing prefix for Wataniya customers.

Wataniya is 57%-owned by a Kuwati unit of **Qatar Telecommunications** Co., or Qtel. Sheikh Abdullah bin Mohammad bin Saud al-Thani, Qtel's chairman and a Qatari royal family member, made a rare, brief visit through Israel to attend the launch in Ramallah. The **Palestine Investment Fund**, a holding company for Palestinian public assets, owns a 43% stake.

The struggle to get Wataniya up and running became a closely watched test case for those considering doing business in the Palestinian territories. U.S. and Western officials have thrown their support behind Wataniya as part of efforts to revive the Palestinian economy and encourage foreign investment. The U.S. government's Overseas Private Investment Corp. provided $16 million in loan guarantees.

In bidding for the wireless license back in 2005, Wataniya offered a stunning $354 million, easily beating out a second place bid of just $28 million. (While bids were made in 2005, a final license wasn't awarded until 2007.)

Wataniya has pumped $100 million into its infrastructure so far. It says it expects to invest nearly $700 million, including the license fee, over the next 10 years and create 2,750 jobs.

Backers are hoping the Palestinian territories' low cellphone penetration rate—just 35%—will translate into fast growth. Wataniya's launch ends a monopoly that was long enjoyed by **Palestine Telecommunications**, or Paltel, which is majority-owned by Kuwait's **Mobile Telecommunications** Co.

Paltel has 1.5 million Palestinian subscribers. Wataniya begins operations with just 40,000, who signed up during a promotional blitz in the past month. In addition to going after Palestinians without cellphones, Wataniya executives are aiming for Paltel customers and those of a handful of Israeli operators.

While the Israeli carriers cater to Jewish settlers in the West Bank, they control as much as 45% of the market, according to World Bank and Palestinian estimates.

In recent months, Israel has taken significant steps to improve the Palestinian economy, including removing nearly 200 checkpoints and roadblocks that restricted Palestinians' freedom of movement. Still, U.S. officials say Israel can do much more. They cite Wataniya as an example.

Wataniya has received just 3.8 megahertz of bandwidth from Israel, instead of the 4.8 megahertz Israel has pledged the company. Without the spectrum, Wataniya says it will be unable to offer 3G mobile services like Web browsing and email.

Israeli officials have said the current bandwidth allocated to Wataniya is sufficient for now and the remainder will be turned over in the future. Israeli officials have given conflicting reasons for the delay.

CEO of Reed Elsevier resigns

By Maarten van Tartwijk
And Bruce Orwall

AMSTERDAM—Ian Smith, chief executive of **Reed Elsevier** PLC, resigned unexpectedly Wednesday after only eight months in the job, but the Anglo-Dutch publishing group's chairman said the move doesn't herald a pending strategic shift.

In a statement, Reed Elsevier said Mr. Smith, age 55, had resigned by mutual agreement and had also stepped down from the board, effective immediately.

The company named Erik Engstrom as his successor. Mr. Engstrom, 46 years old and a native of Sweden, became CEO of scientific publisher Elsevier in 2004 and has been a member of Reed Elsevier's executive board since 2005.

Mr. Smith wasn't available to comment further on his abrupt resignation, a spokesman said.

Reed Elsevier's main businesses are science, medical, legal and business publishing; exhibitions and conferences; and data businesses such as LexisNexis and ChoicePoint. It tried last year to sell its Reed Business Information unit—publisher of titles such as Broadcasting & Cable and New Scientist—with hopes of using the proceeds to pay off the $4.1 billion debt it racked up in the 2008 acquisition of data-aggregation firm ChoicePoint. But amid tough market conditions, the sale was called off.

> Ian Smith's abrupt departure came by mutual agreement, after eight months.

People familiar with the matter said the board concluded that Mr. Smith, a newcomer to the publishing world, wasn't the right executive to lead the company forward, especially amid the turbulence of the recession and the downturn in advertising. Previously, Mr. Smith had been chief executive of U.K. homebuilder Taylor Woodrow.

In an interview, Reed Elsevier Chairman Anthony Habgood, who joined the company earlier this year, after Mr. Smith came on board, said the executive change won't bring immediate strategic shifts.

"This is not the result of any kind of strategic disagreement or change of direction," Mr. Habgood said. "We didn't have a disagreement between Ian and myself and Ian and the board or anything like that."

Mr. Smith's departure comes as the economic slump hurts previously resilient parts of Reed Elsevier's business. In July, the company issued a profit warning and raised £824 million ($1.38 billion) in a share placement that also underscored the continued drag on earnings from Reed Business Information.

In a trading update brought forward to Wednesday from Thursday, Reed also said that business trends seen in the second half are expected to continue for the rest of the year and into 2010.

The company added that advertising and promotion markets, and other transactional markets such as employee screening, remain difficult but should stabilize.

However, it said it expects a "modest reduction" in adjusted operating margin in 2010, due to increased investments in a weak revenue environment. The company added that these are "only partially mitigated by restructuring and other cost actions."

Mr. Smith's resignation took investors by surprise. In Amsterdam trading Reed Elsevier shares fell 4% to €7.91 ($11.85). In London trading, the shares closed at 465 pence ($7.78), down 19.50 pence.

National Express plans to launch rights issue

By Jeffrey Sparshott

LONDON—**National Express Group** PLC said it plans to raise £360 million ($602.2 million) through a rights issue despite objections from the Cosmen family, the group's largest shareholder.

The U.K. transport company, which has been the subject of two failed takeover bids in recent weeks, both of which were backed by the Cosmens, said it would use the money to shore up its balance sheet and pay off debt.

The move marks an attempt to keep the company independent and another snub for its largest shareholder, which believes National Express should consider the sale of assets, new management and a new strategy, and find a more substantial financing package.

Jorge Cosmen "urged the board to consider again that there could be a benefit to taking more time ... to explore all options available to the group," National Express said in a summary of objections. The Cosmen family controls about 18.7% of the company's shares, according to data provider FactSet.

Mr. Cosmen, who represents the family's interests on National Express's board, favors a rights issue combined with a more comprehensive financial solution, National Express said.

While the company said Mr. Cosmen failed to support the rights-issue resolutions, it still plans to issue as many as 357 million new shares in a fully underwritten seven-for-three rights issue. A full vote on the rights issue by shareholders is scheduled for Nov. 27.

It remains unclear whether the Cosmens will take up their allocation. "At the end of the day ... they've got two-and-a-half weeks to decide whether they want to take their rights," said Chief Operating Officer Ray O'Toole. .

National Express blamed the "marked underperformance" of its East Coast rail franchise as well as high debt following an acquisition spree for its financial position, and said the rights issue was the best way to proceed.

National Express last month abandoned merger talks with rival bus-and-rail operator **Stagecoach Group** PLC to focus on reducing its debt with an equity fund raising.

The group had net debt as of Sept. 30 of about £1.1 billion, with significant refinancing necessary in September 2010, and again by June 2011.

Panmure Gordon analyst Gert Zonneveld said raising £360 million will help improve the company's balance sheet but doesn't resolve other problems, such as filling a vacant CEO slot, rectifying underperformance across some operations and a dispute with the U.K. Department for Transport. "It gives them more breathing space," he said.