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## What's News

Galleon is winding down all of its hedge funds and looking at alternatives for the business, founder Raj Rajaratnam told employees and investors. The news came as Sri Lanka said its securities regulator is investigating his trading activity. **Page 3**

■ **Global Infrastructure** Partners added London Gatwick airport to its U.K. airport portfolio, making it a major player in that market. **Pages 6, 32**

■ **The union representing workers** at the U.K.'s Royal Mail said it will go ahead with a nationwide strike. **Page 2**

■ **Stocks edged up** in the U.S. and Europe, with energy, utilities and telecom shares leading the way. **Page 20**

■ **China's recovery** is becoming broader and potentially more sustainable, a shift that could provide better support for the global economy. **Page 4**

■ **Consumer spending** was weak in most U.S. regions in late summer and early fall, a key Fed report said. **Page 24**

■ **The ECB may be losing patience** with the Continent's "zombie" banks, but they are likely to be around for the foreseeable future. **Page 2**

■ **Boeing said it overreached** in outsourcing production on its Dreamliner program, contributing to a \$1.56 billion quarterly loss. **Page 6**

■ **American Airlines and Continental** reported losses for the third quarter, but smaller discount carrier AirTran turned a profit. **Page 6**

■ **Cadbury posted strong** third-quarter sales, sending a sharp message to hopeful acquirer Kraft that a takeover won't come cheap. **Page 7**

■ **Deutsche Bank surprised** investors, saying third-quarter net profit more than tripled to \$2.1 billion because of tax benefits. **Page 19**

■ **Both Peugeot and Fiat** reported that vehicle sales perked up in the third quarter, but revenue declined and Fiat's profit took a hit. **Page 8**

■ **Iran and the U.S. took** steps toward a deal under which Iran would export its uranium, mainly to Russia, for processing. **Page 11**

■ **Kyrgyzstan's president** put his chief of staff into the prime minister's post as part of a shuffle opponents said is aimed at boosting his power.

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Gordon's choice: Win in Afghanistan, or forfeit by indecision. **Page 15**

Breaking news at europe.WSJ.com

## As dollar slides, fears rise

Policy makers fret over recovery as greenback crosses \$1.50 against euro

By NEIL SHAH

The dollar crossed the \$1.50 threshold against the euro for the first time in 14 months, raising concerns in Europe about the strength of the common currency and the impact it might have on any nascent economic recovery.

Policy makers like European Central Bank President Jean-Claude Trichet and French Finance Minister Christine Lagarde have tried in recent days to jawbone the euro lower, and the dollar

higher, but markets largely have ignored the rhetoric. A strong euro makes euro-zone exports less competitive and can make imported U.S. goods less expensive.

Late Wednesday in New York, the euro was at \$1.5008, the highest since August 2008, compared with \$1.4930 late Tuesday. Europe's common currency has advanced nearly 20% against the dollar since March and about 11% against a basket of currencies of its trading partners in the last year.

"A euro above \$1.50 is something the euro zone could definitely do without, given the fragility of its recovery," said Howard Archer, chief European and U.K. economist at IHS Global Insight in London.

The British pound also jumped, to \$1.6597 from \$1.6367 late Tuesday, as investors became more confident that the Bank of England may halt next month, at least temporarily, a program of buying bonds to boost the economy. Elsewhere, the Bank of

Canada failed to talk the Canadian dollar lower against the greenback, and the Brazilian real strengthened more than 1% despite a move by officials to impose a tax aimed at reducing foreign-exchange inflows.

While many nations, such as Canada and Brazil, have had sporadic success halting the dollar's slide, the dollar's weakness remains a concern. The euro keeps marching higher and a number of countries are intervening in mar-

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## Big banks are facing new rules in U.K.

By ADAM BRADBERRY AND LAURENCE NORMAN

LONDON—The U.K. Financial Services Authority said it will release a report Thursday about how to regulate international banks that are deemed "too big to fail," just two days after Bank of England Gov. Mervyn King reiterated that such institutions should be broken up.

Mr. King's views on the issue carry weight because the opposition Conservative Party plans to hand responsibility for regulating banks to the Bank of England if it wins the next election, which will be held by the middle of next year, though it isn't clear whether Mr. King would still be in charge of such regulation. The Conservatives lead the ruling Labour Party in opinion polls.

Asked about Mr. King's comments in Parliament Wednesday, Prime Minister Gordon Brown said the difference between retail and investment banks wasn't the root of the problems in the financial sector. The dispute between the government and the central bank over how to deal with large financial institutions first surfaced in June.

The FSA's paper comes partly in response to the pressure from the Group of 20 industrial and developing nations, which agreed last month to apply higher regula-

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## A memorial to Poland's past and a look to the future



U.S. Vice President Joe Biden lays a wreath at the Warsaw Ghetto 1943 Uprising monument on Wednesday, a day when Premier Donald Tusk said his country was ready to participate in the Obama administration's revamped plan for a U.S. missile-defense shield in Europe.

## German budget plan draws wide criticism

By MARCUS WALKER

BERLIN—A plan by Germany's incoming government to cut taxes while shifting tens of billions of euros in social spending outside the regular budget was attacked by business groups, economists and political opponents as an accounting trick.

A draft agreement between Chancellor Angela Merkel's conservatives and their new partners, the business-friendly Free Democratic Party, envisages a "special fund," separated from the main federal budget, to cover some of the financial shortfalls in Germany's welfare state.

The maneuver could help Ms. Merkel to cut taxes while avoiding unpopular spending

cuts, and tame Germany's budget deficit at the same time, economists say.

If center-right leaders adopt the plan, the new government could quickly borrow €50 billion (\$74.65 billion) to €60 billion to stock up the fund, which would be used in coming years to cover part of the cost of Germany's labor-market programs and public health care.

The idea, earlier reported Tuesday by German media, drew fire from Ms. Merkel's political opponents. Joachim Poss, a leading lawmaker from the left-leaning Social Democrats, accused the center-right parties of planning tax cuts for businesses and better-off voters, and hiding the resulting public debt in a "shadow bud-

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Mattel hopes Barbie facelift will show up younger rivals  
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Nasdaq	2150.73	-0.59
DJ Stoxx 600	249.19	+0.38
FTSE 100	5257.85	+0.28
DAX	5833.49	+0.37
CAC 40	3873.22	+0.05
Euro	\$1.5000	+0.38
Nymex crude	\$81.37	+2.88

## Sun's SPARC Server



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\*As of 10/11/09. Source: Transaction Processing Performance Council, www.tpc.org. 12-Node SPARC Enterprise T5440 server cluster, 7,717,510 tpmC, \$2.34/tpmC, available 12/14/09. IBM Power 595 Server Model 9119-FHA, 6,085,166 tpmC, \$2.81/tpmC, available 12/10/08.

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LEADING THE NEWS

# ECB to 'zombie' banks: shape up

*Officials say support won't last forever; shot at Landesbanken*

BY GEOFFREY T. SMITH

FRANKFURT—The European Central Bank may be losing patience with the Continent's "zombie" banks, if some recent commentary from top officials is any indication.

Unfortunately, such banks are going to be a fact of life for the foreseeable future, analysts said, because the expected weakness of the recovery won't allow the problem to be solved quickly.

"Zombie" banks are those whose losses have destroyed their ability to act like normal banks by making new loans, but are kept alive by emergency measures from governments and central banks. For months, ECB President Jean-Claude Trichet has been urging banks to recapitalize and take advantage of their respective governments' measures to guarantee toxic loans.

More recently, as improving economic data have started talk of strategies for unwinding stimulus regimes, Mr. Trichet's lieutenants have repeatedly warned that if inflation pressures revive before the zombie banks have restored themselves to health, then the ECB will raise interest rates even at the risk of sparking a new crisis in the banking sector.

More than 220 banks still rely on the ECB for one-week funds at 1%, even though interbank money-market rates are closer to 0.35%, demonstrating that a large number of banks are still unable to fund



Agence France Presse/Getty Images

ECB President Jean-Claude Trichet has urged banks to take advantage of governments' measures to guarantee toxic loans.

themselves independently.

Recent comments from executive board member Lorenzo Bini Smaghi have sounded a note of even greater urgency. Last week, he warned that a new wave of loan losses at euro-zone banks is "imminent," foreshadowing indications of such losses as the third-quarter earnings season starts up.

In an interview with a regional German newspaper Tuesday, he even singled out Germany's regional Landesbanken as particularly needing to get their act together.

It is possible to interpret the comment as a throwaway line intended for a regional German readership. But, intentional or not, it is the closest a senior ECB official has come to naming and shaming a bank, or class of bank, that he thinks isn't doing enough to meet its perceived responsibility to keep lending.

The reluctance of banks to lend has become the ECB's recurrent nightmare of 2009. Record injections of liquidity have led largely to cash hoarding. Overall lending to

euro-area residents fell between January and August, despite enormous stimulus packages from governments and the ECB.

Growth in the broad M3 category of money supply, which slowed to 2.5% year on year in August, is clearly undershooting the 4.5% level deemed by the bank to be consistent with stable prices.

However, recent weeks have provided some glimmers of hope. Banks in France and Italy in particular have announced plans to raise more than €10 billion (\$14.9 billion) in capital, something that Mr. Trichet was eager to play up at a recent ECB news conference. Unconfirmed reports suggest that banks such as UniCredit SpA and Austria's Erste Group Bank AG may join BNP Paribas SA, Societe Generale SA and Intesa SanPaolo SpA in taking advantage of recovering equity markets to issue fresh stock.

The Landesbanken, however, which account for 25% of corporate lending in the euro area's largest economy, aren't in any shape to raise

capital so quickly. The state governments that largely own them have no additional funds to inject, leaving them no option but to cut their balance sheets and hoard liquidity.

Munich-based BayernLB is a typical example. In its half-year results, it gamely played up a 4.4% rise in lending to clients in Germany, but it achieved this result only by rapid shedding of foreign assets, including those in other euro-zone markets. Its overall lending was down 2.8% since the end of last year.

Jennifer McKeown, an economist with Capital Economics in London, also sees a long, slow recovery with a greater ongoing risk of deflation rather than inflation. But that, in turn, means that the ECB is going to have to learn to live with the zombies.

"There are very few signs that banks want to lend," she said. "Unemployment still has further to rise, and there must also be an increase in corporate bankruptcies too, judging by the experience of past recessions."

## Royal Mail union declares strike to start Thursday

BY NICHOLAS WINNING AND PAUL SONNE

LONDON—The union representing workers at U.K. state-owned postal service Royal Mail said Wednesday it will go ahead with a planned nationwide strike Thursday and Friday.

The walkout, which promises to further tangle mail service ahead of the heavy holiday season, will see 42,000 mail-center staff and drivers strike on Thursday and a further 78,000 delivery and collection staff join in the following day. Already, local disruptions have backed up mail delivery, prompting some businesses and households to switch to private services.

Dave Ward, deputy general secretary of the Communications Workers Union, which represents the postal workers, said the union will announce further strikes this week, on account of disagreements over the Royal Mail's efforts to deal with a multibillion-pound pension deficit, competition from the Internet and declining postal volumes.

Outcry over the strike reached the halls of Parliament Wednesday.

"Isn't it the case that this trade union can sense weakness, and they see weakness in this prime minister and this government?" said Conservative Party leader David Cameron, whose party has called for a partial privatization of the Royal Mail. Prime Minister Gordon Brown said Mr. Cameron was bringing the labor relations of the Royal Mail into the political arena unfairly.

The union has demanded the union have more say in the changes under way. The union also demanded improved job security, a new benefits package, a commitment that budgets shouldn't drive staffing levels and an agreement on workloads.

Royal Mail says the union is renegotiating on an agreement, forged from the last national strike in 2007, to adapt the company to the reality of falling mail volumes.

### CORRECTIONS & AMPLIFICATIONS

The Miami Center in Florida was incorrectly identified as One Briarlake Plaza in Houston in a photo caption in some editions Wednesday. The caption, on the Money & Investing page, accompanied an article on Morgan Stanley's Crescent Real Estate Equities Co.

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## LEADING THE NEWS

# Galleon plans to shut down hedge funds

As probe of founder Rajaratnam widens, firm weighs alternatives; redemption schedule stays on track for now

BY JOSEPH CHECKLER

NEW YORK—Galleon Group is winding down all of its hedge funds and looking at alternatives for the business, company founder Raj Rajaratnam told employees and investors in a letter Wednesday.

Mr. Rajaratnam was one of six people arrested and charged Friday in what federal authorities claimed is the biggest insider-trading case in decades. The news that the funds would close came as the regulatory pressure on Mr. Rajaratnam widened to Sri Lanka, where the securities regulator is investigating his trading activity.

## Inside a scandal

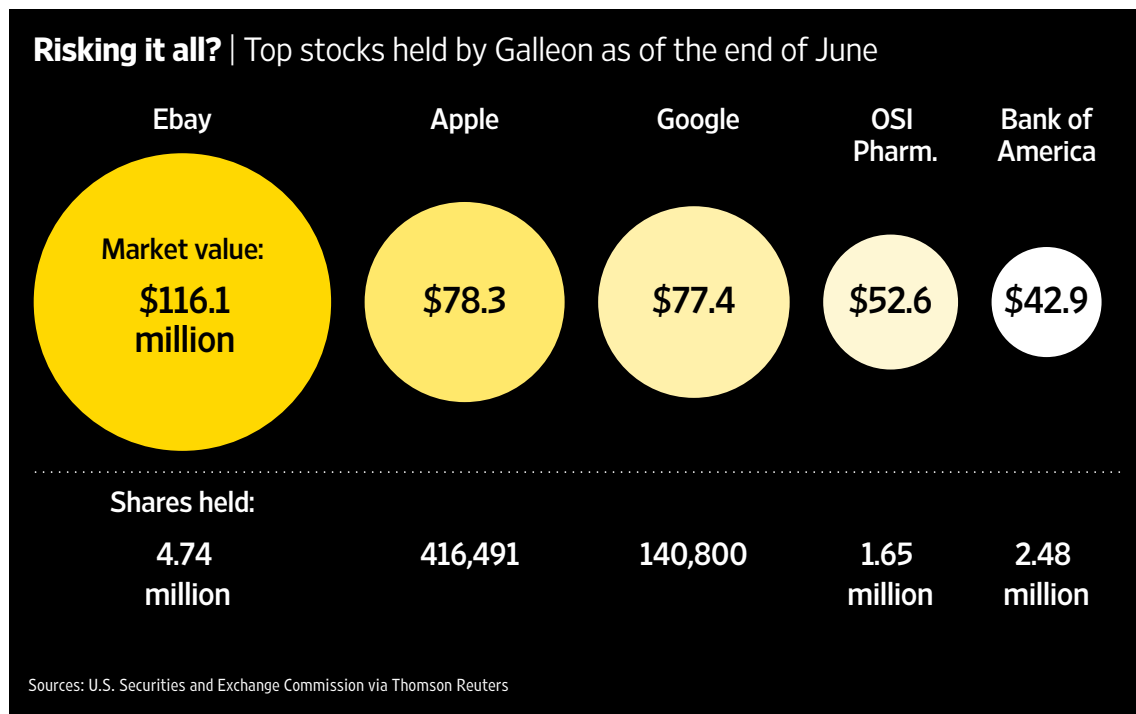
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The U.S. charges had already caused many Galleon investors to try to withdraw their money. The deadline for redemption requests in most of Galleon's funds is Nov. 15.

"I have decided that it is now in the best interest of our investors and employees to conduct an orderly wind-down of Galleon's funds while we explore various alternatives for our business," Mr. Rajaratnam wrote.

According to a person familiar with Galleon, one of those alternatives is selling all or part of Galleon to another firm. The person said that some parties have expressed interest in buying Galleon, although it isn't clear what parts of it might be sold.

The person added that based on what is known now, Galleon's redemption process, which calls for investors to get their money back



on Jan. 1, will remain unchanged.

"They don't know exactly when this process will conclude," the person said. "But based on what they know right now, it will not be inconsistent with their standard redemption policies."

The company has about \$3.7 billion under management.

In the letter, a copy of which was reviewed by Dow Jones Newswires, Mr. Rajaratnam said he is innocent of all charges. He also touted Galleon's research process and said the firm wants to keep together "the best long/short equity team in the business."

Since Mr. Rajaratnam's arrest,

Galleon managers have sold some stock to raise cash where they could. According to documents the company filed with the Securities and Exchange Commission showing its holdings as of June 30, many of the stocks are of large companies such as eBay Inc. and Apple Inc., which usually don't move much when one small shareholder sells.

But Galleon has relatively significant stakes in some other U.S. stocks, such as drug company OSI Pharmaceuticals Inc. and management adviser Huron Consulting Group Inc. An SEC filing showed Galleon bought enough Huron stock in August to take a smaller holding it held earlier above 5% of the firm's outstanding shares.

It's possible that those stocks could drop in the short term if Galleon sells, but movements in these shares have been consistent with the overall market in recent days.

Galleon also owns stocks of several companies based in Sri Lanka, where Mr. Rajaratnam was born. Many of those stocks dropped in the days following his arrest.

Sri Lanka's securities regulator is reviewing Mr. Rajaratnam's trades on the Colombo Stock Exchange over the last year, said Channa De Silva, director general of the Securities and Exchange Commission of Sri Lanka.

It is looking to see whether there are any suspicious trades suggesting that Mr. Rajaratnam or his funds were buying ahead of unannounced good news. "We will look at some of the corporate announcements and how they relate to his purchases," said Mr. De Silva.

Mr. Rajaratnam is the biggest individual investor in Sri Lanka, analysts say, with more than \$150 million invested in many of the country's largest companies.

All of Galleon's main hedge funds are up by percentages in the double digits in 2009, so much of the "orderly" wind-down will consist of selling many stocks that have gained this year.

—Eric Bellman in Sri Lanka contributed to this article.

## U.S. to slash executive pay at seven firms that got aid

BY DEBORAH SOLOMON

WASHINGTON—The U.S. pay czar will slash compensation for the 25 highest-paid employees at each of the seven companies receiving large sums of government aid and demand a host of corporate-governance changes at those firms, according to people familiar with the matter.

Kenneth Feinberg, the Treasury Department's special master for compensation, will lower total compensation for 175 employees by an average of 50%, these people said. As expected, the biggest cut will be to salaries, which will drop 90% on average.

Some executives will still walk away with large paychecks. Several Bank of America Corp. employees, for instance, will receive compensation totaling millions of dollars, despite Mr. Feinberg's cuts.

The corporate-governance changes Mr. Feinberg will demand at these seven firms include splitting the chairman and CEO positions, requiring boards of directors to create a "risk" committee and eliminating staggered boards.

Some of the toughest pay restric-

tions will come at the financial-products unit of American International Group Inc., which has been blamed for the firm's near-collapse. No employee within that unit will receive compensation of more than \$200,000, these people said.

While overall pay for the 175 employees will drop, the averages are somewhat skewed by a handful of steep reductions. Mr. Feinberg has already ordered Bank of America CEO Ken Lewis to receive no 2009 salary, and Citigroup Inc. won't have to pay its top trader close to \$100 million since it agreed to sell the unit he works for.

The Obama administration gave Mr. Feinberg the job of more closely tying compensation to long-term performance, something the White House believes will help prevent employees from taking ill-considered risks for potential short-term gains. The administration has made the case that misguided compensation incentives were one cause of the financial crisis.

The companies under Mr. Feinberg's authority are AIG, Bank of America, Citigroup, General Motors Co., GMAC Inc., Chrysler Group LLC and Chrysler Financial.



Kenneth Feinberg

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## LEADING THE NEWS

# China is confident about rebound

*Data show growth no longer dependent on state stimulus*

BY ANDREW BATSON

BEIJING—China's recovery is becoming broader and potentially more sustainable, a shift that could provide better support for a still-fragile global economy. Reinforcing those signs is a change of tone from China's cautious government, which is now becoming more confident in a solid rebound.

Economic data for the third quarter scheduled for release Thursday are widely expected to show that gross domestic product grew by around 9% from a year earlier. Just as important is evidence that improvements in the economy are achieving a momentum that is no longer totally dependent on the government's massive stimulus program. The key shift in the latest quarter: a turnaround in the financial health of Chinese companies.

"Orders are piling up on our end. Now my headache is how to get our production to catch up," said Su Qisen, vice president of Xiangxing Bag & Luggage Group, located in southeastern Fujian province. Export orders started to rebound around June, he said, but Chinese consumers are also proving more willing to spend on the company's purses, suitcases and backpacks. "The domestic sales are doing especially well, especially our own brand," Mr. Su said.



Coca-Cola Co. said this week that sales volume in the third quarter was up 15% in China, but down 4% in North America.

As the fastest-growing major economy, China has a key role to play in pulling the world out of the deep slump it fell into last year. But its rebound this year has been so quick, and driven by such a huge flood of money from the state-controlled banking system, that many investors have questioned whether the expansion can continue for much longer. The government's

London. If companies are more profitable, investment spending won't be as tied to continued easy-money policies from the government.

Publicly traded companies in China are starting to report their third-quarter results, and analysts have been rapidly marking up their forecasts. Overall earnings growth for listed companies is now expected to reach 12.9% for 2009, when just a few months ago the consensus forecast was for a gain of about 5%, according to figures from Macquarie.

Higher profits could just be the result of cost-cutting, as has been happening in the U.S., so it is significant that the improving bottom line of Chinese companies is being matched by gains in the top line: Overall revenues are also picking up.

The government surveys of companies show revenues rising by just over 5% in the past few months, reversing steady declines since the end of 2008.

Foreign companies with operations in China are also seeing a boost. A.O. Smith Corp., of Milwaukee, Wis., reported its water-heater sales in China grew 35% in the third quarter, even as its total sales shrank 10%. Coca-Cola Co. said this week that sales volume in the third quarter was up 15% in China, but down 4% in North America.

"We have seen the initial effects of government policies, and the difficult operating conditions for companies have eased," Xiong Bilin, an official at the National Development and Reform Commission, the economic-planning agency, said Monday. Reaching the government's goal of 8% growth for the year, he said, is "basically no problem."

The improvement has come even as the Chinese government has quietly dialed back the boost it is delivering to the economy. New bank lending in the third quarter was less than half the second-quarter total, and growth in government spending has also slowed. That could help ease widespread worries among policy makers and investors that the stimulus risked fueling new bubbles and adding to already-alarming overcapacity in industries such as steel and cement.

World trade has also started growing again in the past few

months, helping to solidify China's recovery. The nation's exports were up to \$325.07 billion in the third quarter from \$276.10 billion in the second quarter. While still down by 20% or so from their levels last year, the flow of export orders helps keep factories running and workers employed in the nation's massive manufacturing sector.

There is much debate over how quickly trade can recover from here, given the weakened state of Western economies. But many analysts are saying the U.S. recession has likely already ended. With China now on track to easily surpass its target of 8% growth this year, the government's stimulus plan looks to have achieved its goal of carrying the country through the worst of the global downturn.

Government officials say they would still like to see more strength in private-sector investment, which has lagged behind spending from the state sector. But with surveys of business confidence now recovering to precrisis levels, prospects for corporate spending look better. "If demand growth is strong, and profitability is improving, there is no reason for private investors not to invest," said Sun Mingchun, China economist for Nomura.

The recovery in the property sector—which depends on the confidence of home buyers and private developers—has been key to China's turnaround. Housing sales have been picking up since early this year, but new construction has finally started to kick in a significant way. Construction starts surged 26% from a year earlier in the third quarter after shrinking 5.7% in the second quarter.

That helps fuel not just demand for construction materials, but also for appliances and furnishings to fit out those new buildings. "Since May this year, the number of orders we get has gradually returned to the level in the first half of last year," said Zhou Gaohua, who runs a business supplying wooden doors and cabinets in Beijing. Orders for doors went to a low of 60 to 70 a day earlier this year but are now back to 200 to 300 a day.

—Ellen Zhu and Sue Feng contributed to this article.

## Terrorist threat forces Pakistan to close schools

BY ZAHID HUSSAIN

ISLAMABAD—Pakistan's schools closed their doors Wednesday, a day after bombings at an Islamabad university, amid warnings of more attacks on a wider range of targets around the country.

The recent spate of terrorist attacks in Pakistani cities has come as the army prepared for, and launched, a military offensive in the tribal region bordering Afghanistan that is seen as a stronghold for Taliban and al Qaeda militants.

Intelligence officials warned that the militants could target foreign-controlled gas stations, banks and food chains. All schools, universities and student hostels were ordered closed and vacated for an indefinite period, "until appropriate security measures are taken," said Qamar Zaman Kaira, the federal minister for information.

Many private schools in Islamabad and other major cities had already shut this week after intelligence reports that suggested militants would try to take students hostage to exchange for militants held by the security forces.

The Taliban have claimed responsibility for the two suicide bomb attacks on International Islamic University, which killed four students and two bombers Tuesday.

Tariq Azam, a spokesman for the Tehrik-e-Taliban Pakistan, a loose organization of Taliban factions, warned of more such attacks in a phone call to the BBC. Islamic militants have blown up hundreds of girls' schools in northwestern Pakistan, but it was the first time a university was targeted.

Tuesday's university bombing was the seventh major militant attack in just over two weeks and the first since the launch of the military offensive in South Waziristan.

Rehman Malik, the interior minister, said unarmed security guards posted at schools weren't capable of stopping terrorist attacks, and that police had been deployed around major educational institutions.

Fighting continued for the fifth day between government forces and Taliban militants in South Waziristan. Last week, around 30,000 troops launched the biggest offensive yet carried out by Pakistan to clear militants from the border region.

"The troops are facing stiff resistance and the militants are fighting for every space," said Maj. Gen. Athar Abbas, the chief military spokesman.

At least 105 militants and 13 soldiers had been killed since the military offensive began on Saturday, according to the military. Access to the region is restricted, and reports by the military couldn't be confirmed.

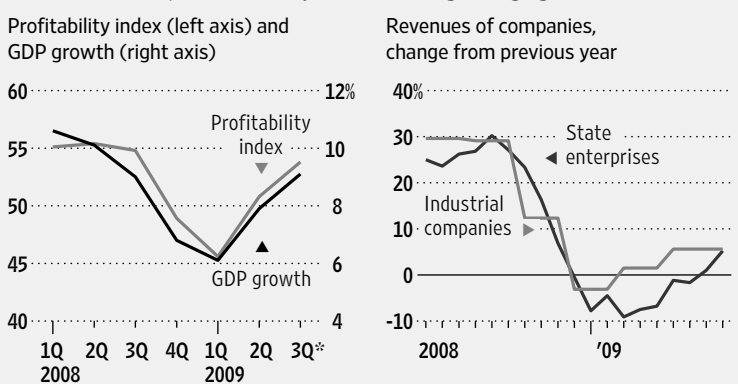
More than 150,000 civilians have now fled the war zone, according to aid agencies.

A major battle is being fought for the control of Koftai, the hometown of Hakimullah Mehsud, the chief of the main Pakistan Taliban faction. Gen. Abbas said government forces have secured the high ground around the town. The troops have also demolished the houses of Mr. Hakimullah and Qari Hussein, the main trainer of suicide bombers for the faction, the military said.

On Wednesday, a U.S. missile strike killed three alleged militants in Pakistan's North Waziristan tribal region, adjacent to the area where the Pakistani forces are fighting the militants, intelligence officials said.

### Back in the black

Chinese firms are returning to profitability as the economy recovers. Revenues at many Chinese companies are also growing again.



\* 3Q GDP is a forecast

Sources: National Bureau of Statistics; People's Bank of China (profitability index & GDP); Ministry of Finance (company revenues)

He plans to hire 4,000 to 5,000 more employees in the next few months to work on 10 new assembly lines, up from around 10,000 workers now. To attract workers in an increasingly competitive labor market, Mr. Su said he is also planning to raise wages by 10% to 15%.

That kind of corporate spending on new hires and equipment, if sustained, could help wean China's growth off its reliance on easy bank lending and government stimulus projects.

Chinese officials have been keenly aware of the risks and in recent months have regularly warned that the nation's rebound is still fragile. But they now seem prepared to call a firm recovery. "Economic growth has accelerated quarter by quarter ... and the improving trend in the recovery has been consolidated," China's State Council said Wednesday after its regular quarterly meeting on the economy.

strategy has raised widespread worries that loose money could inflate prices of stocks and housing, build up unneeded factories and saddle the economy with bad debts.

One reason for some optimism now is that the profits of Chinese companies have started growing again for the first time since the onset of the crisis. The statistics bureau's survey of large industrial companies shows profits for the three months ended August were up 6.5% from a year earlier, reversing sharp falls since late 2008. And the profits of state-owned enterprises, which the Ministry of Finance reports monthly, jumped 12% in September from a year earlier, the first increase in 13 months.

"Corporate savings finance a huge proportion of investment in China, so a pickup in profits should feed through into strength in investment," said Mark Williams, an economist with Capital Economics in

## LEADING THE NEWS

# Benedict strives to make ecumenical mark

*The pope's gestures toward Anglicans take some off guard*

BY STACY MEICHTRY

ROME—Despite his reputation as a hard-liner on Catholic doctrine, Pope Benedict XVI is emerging as the pontiff of inter-church relations.

The 82-year-old pope's decision on Tuesday to amend Vatican laws to make it easier for Anglicans to unite with Roman Catholicism is his most aggressive attempt to yet to bring more Christians into the Catholic fold.

The pope's outreach to rival churches has spanned the conservative-liberal spectrum. He has bolstered dialogue with Lutherans and other mainline Protestants who practice less rigid and more personalized forms of Christianity. He has traveled to Istanbul to meet with the Ecumenical Patriarch Bartholomew I of Constantinople, regarded by some as the spiritual leader of Eastern Orthodox Churches. Earlier this year, he lifted an excommunication ban on the highly conservative Catholic splinter group Society of Pius X.

Few expected Pope Benedict to reach out to other Christian churches when he was elected in April 2005. Yet the rise of secularism in the West and the expansion of Islam in Europe have gradually changed the thinking within Vatican corridors. This pope has long considered divisions among rival Christian churches as a threat to Roman Catholicism's credibility in the market of ideas and faiths, according to Vatican analysts and advisers to the pope.

"Anyone who thought he wasn't serious about ecumenical dialogue was seriously mistaken," said the Rev. Joseph Fessio, a member of the pope's *schulerkreis*, a circle of former students the pope has consulted since his days as a theologian in Germany. "It's a true scandal that Christians are so deeply divided on major doctrinal issues, and we have to try to overcome that scandal," Father Fessio added.

Much of Pope Benedict's reputation as a hard-liner on Catholic doctrine stems from his days as Cardinal Joseph Ratzinger, the late Pope John Paul II's chief enforcer of doctrine. Over his two decades as Prefect of the Congregation for the Doctrine of the Faith, the then-cardinal weighed in



Pope Benedict XVI, right, meets Rowan Williams, Archbishop of Canterbury, during a private audience at the Vatican in 2006.

From the pulpit | A look at the heads of the Anglican and Catholic churches

Archbishop of Canterbury Rowan Williams	Pope Benedict XVI
Rowan Douglas Williams	Joseph Alois Ratzinger
June 14, 1950 in Swansea, South Wales (Age 59)	April 16, 1927, in Markt am Inn, Bavaria, Germany (Age 82)
Archbishop of Wales, Bishop of Monmouth Elected Archbishop of Canterbury July 2002 Enthroned February 2003	Former Archbishop of Munich and Freising, Former Cardinal Prefect of the Congregation for the Doctrine of the Faith under Pope John Paul II Elected pope on April 19, 2005
More than 80 million world-wide in the Anglican Communion*	About 1.1 billion world-wide
"In the modern world, no part of the Christian family acts without profound impact on our ecumenical partners," In 2006 at the Vatican with Pope Benedict	"Concrete acts that enter souls and move consciences are needed," Addressing the need for stronger ecumenical ties during his first Mass as pontiff in April 2005

\*The Archbishop of Canterbury is the "first among equals" in the global Anglican Communion and the senior bishop in the Church of England.

on a multitude of controversial issues ranging from bioethics to birth control. While other Christian churches began to ordain women and married men, then-Cardinal Ratzinger remained staunchly opposed. Some of his most contentious po-

sitions addressed the question of how the Catholic Church relates to other faiths and other Christian denominations.

In 2000, his office issued the document "Dominus Iesus," which outraged leaders of other religions and

Christian churches by asserting that the Catholic Church was the only sure path to salvation.

At the time, however, few observers noted that the document also said divisions among Christian churches were undercutting the mis-

sion of Roman Catholicism as the "universal" church.

Few heard Pope Benedict's call for ecumenical dialogue because his tone was more confrontational than that used by past popes. For decades, Catholic officials engaged in talks with other Christian leaders with the aim of reaching compromises on doctrine. Pope Benedict, on the other hand, believes each church needs to defend its own doctrine, and rival Christian churches need to accept one another's differences.

Pope Benedict signaled a shift in the Vatican's ecumenical approach early in his pontificate. In one of his first Masses as pope, the pontiff said he planned to make ecumenical dialogue his "primary task." He added: "Good intentions are not enough. Concrete acts that enter souls and move consciences are needed."

There are still few details on the new Apostolic Constitution that amends Church laws in order to attract Anglicans. The new laws will create church structures, called Personal Ordinariates, that will operate within local Catholic dioceses and be administered by former Anglican clergy who convert to Catholicism.

The Ordinariates will allow Anglicans to enter into full communion with the pope while continuing to practice a large part of their traditional liturgy, according to Vatican officials. The new structures also will recognize the ordinations of Anglican priests, including those who are married.

The Vatican, however, hasn't released the text of the new regulations that will govern how the Ordinariates will function.

The Rt. Rev. Michael Nazir-Ali, a married Anglican cleric who is bishop of Rochester, England, said the Vatican's announcement showed a "generosity of spirit."

However, he questioned whether married clergy would gradually disappear from the ranks of former Anglican priests who convert. "Before some fundamental issues are clarified, it is difficult to respond further to what the Vatican is offering."

Meanwhile, Archbishop Peter Akinola, head of the Anglican Church of Nigeria, and the spiritual leader of Africa's 40 million Anglicans, is "still weighing the implications of the Vatican's offer" and is consulting with colleagues, according to an aide reached by telephone Wednesday.

—Margherita Stancati in Rome and Will Connors in Lagos, Nigeria contributed to this article.

## Vatican makes archbishop of Canterbury's job tougher

BY DAVE KANSAS

Archbishop of Canterbury Rowan Williams and Pope Benedict XVI are both learned theologians leading flocks through complicated times. Thanks to Pope Benedict, Archbishop Williams's mission is suddenly even more complex.

Archbishop Williams is the top official in the Church of England and the "first among equals" of the global church leaders that guide the 80-million-strong Anglican Communion. That puts him on the front lines of the looming battle to hold the Anglican flock together in the wake of the Vatican's surprise move this week to make it easier for disgruntled Anglicans to convert to Catholicism.

The situation places Archbishop Williams in a tight spot, tasked with

unifying an already divided global community of Anglicans.

But unlike Pope Benedict—who has the power to determine the direction of the world's 1.1 billion Roman Catholics, and can even invoke the doctrine of papal infallibility—Archbishop Williams lacks many tools to force cooperation among his church's factions. He can cajole and persuade, but in the end the many churches within the Anglican Communion have a great deal of autonomy. He has similarly limited powers within the Church of England.

"What is he going to do? That's the \$64,000 question," said Stephen Parkinson, director of Forward in Faith, an Anglo-Catholic advocacy group within the Church of England which has reacted warmly to the Vatican's move. "Does he try to hold it all

together, or does he simply say bon voyage to those who want to take the Vatican's offer?"

Archbishop Williams couldn't be reached for comment. In a letter to Church leaders Tuesday, Archbishop Williams apologized for not alerting his colleagues sooner, but said he himself only heard about the Vatican's move at a "very late stage." He also issued a joint statement with the Roman Catholic Archbishop of Westminster reaffirming the interfaith dialogue between the two churches that goes back more than 40 years.

The Anglican Communion is one of the last vestiges of the old British Empire. Faith followed trade and the flag, planting the Anglican Church in far-flung places such as Singapore, Tanzania, Canada and South Africa. But the Anglican Communion, by de-

sign, has always had opaque leadership structures during its more than 470-year existence.

This diversity, however, has become increasingly tough to manage. Anglicanism was established apart from Rome in 1534 by Henry VIII for several reasons, including the Pope's refusal to offer him an annulment. Since then, the Church of England, the mother church of Anglicanism, has grown to include evangelicals, Anglo-Catholics and progressives, among others. The divergent views of each have become increasingly difficult to paper over.

Archbishop Williams has found himself whipsawed by the winds of social change since ascending to his current position in early 2003. In that year, the Episcopal Church, the U.S. arm of Anglicanism, conse-

crated an openly gay Bishop, sending the Anglican Communion into fractious infighting that has shown no sign of letting up.

In a bid to keep the Anglican Communion together, Archbishop Williams has argued for a potential "two-track" solution to the problems gripping both the Church of England and the Anglican Communion. The idea is that progressives would find common ground along one track and conservatives along another, but they would all remain Anglican.

"It helps to be clear about these possible futures, however much we think them less than ideal, and to speak about them not in apocalyptic terms of schism and excommunication but plainly as what they are—two styles of being Anglican," Archbishop Williams said in a speech over the summer.

## CORPORATE NEWS

## GIP adds Gatwick to its portfolio

The \$2.47 billion airport investment signals end of fund's London ambitions

BY KAVERI NITHTHYANATHAN  
AND MARGOT PATRICK

LONDON—Global Infrastructure Partners on Wednesday added London Gatwick airport to its U.K. airport portfolio, a move that makes it a major player in that market, but effectively prevents it from buying any further London airports.

The \$5.64 billion investment fund, which is backed by Credit Suisse Group and General Electric Co., said, however, it might bid for one of the Scottish airports rival BAA Ltd. is set to divest.

BAA, a unit of Spain's Ferrovial SA, sold Gatwick to GIP for £1.51 billion (\$2.47 billion), having been ordered to sell two of its three London airports, as well as one of its three airports in Scotland, because of competition concerns. BAA also owns London Heathrow and London Stansted, but must sell the latter.

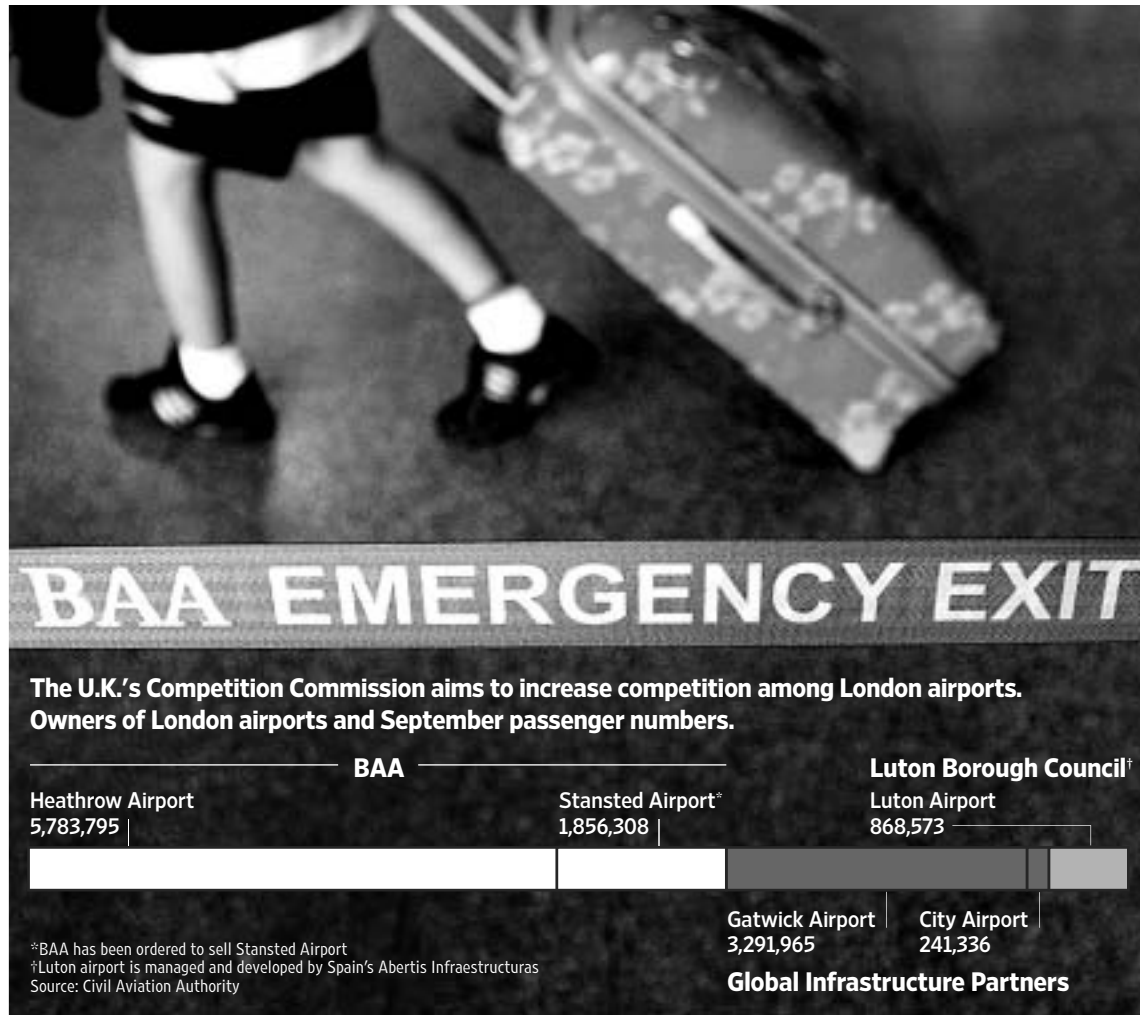
GIP would be unlikely to succeed in a bid for Stansted, because it already owns 75% of London City airport, the U.K.'s Competition Commission said.

"One of the criteria for bidding for airports is that it won't create a new competition problem," said a commission spokesman for the Competition Commission.

The spokesman signalled that the regulator has no problem with GIP owning both Gatwick and the much smaller City airport. The commission has seen GIP's investment plan for Gatwick and would approve a bidder that brought "strong, active competition to Gatwick Airport," he said.

A GIP spokesman said the fund would consider bidding for one of BAA's Scottish airports as long as it could improve operations and a deal was an efficient use of resources.

Airlines welcomed the sale of Gatwick as the first step in BAA's



break up. Many carriers have complained of poor relations with BAA, as well as high charges for using its airports, and are keen to see BAA's power diluted. They have criticized the airport operator for neglecting Gatwick in favor of improving facilities at Heathrow, the world's busiest international airport based on flights in and out.

"For years, the airport has suffered from a lack of investment and the new owner now needs to work closely with the airline users to turn Gatwick into a world-class facility," said Virgin Atlantic spokesman.

GIP wants to make the airport customer-driven, focusing on airlines, passengers and service levels, the fund's spokesman said. The fund

has managed to raise passenger numbers at London City airport to 2.9 million in 2008, from the 2.3 million the airport was handling when GIP acquired it in 2006. With about 34 million passengers a year, Gatwick, however, is likely to present a bigger challenge.

—Santiago Perez in Madrid  
contributed to this article.

## American Air, Continental report losses

BY MIKE ESTERL

American Airlines and Continental Airlines Inc. reported third-quarter losses Wednesday, even as smaller discount carrier AirTran Holdings Inc. turned a profit amid a still-uncertain outlook for the recession-battered airline industry.

The divergent results underscore that domestic-focused, low-fare carriers targeting leisure travelers continue to weather the economic downturn better than larger airlines that are heavily exposed to more expensive cross-border routes and premium-class business travelers.

Delta Air Lines Inc., the world's largest carrier by traffic, is expected to announce a third-quarter loss Thursday after the industry was forced to start slashing fares to fill seats late last year. United Airlines parent UAL Corp., the No. 3 U.S. carrier by traffic, reported a loss Tuesday.

By contrast, analysts expect another discount airline, JetBlue Airways Corp., to unveil a net profit Thursday. Allegiant Travel Co., the parent of leisure airline Allegiant Air, reported a profit Monday.

American Airlines parent AMR Corp. warned Wednesday that tough times could persist after its average fares plunged 16% in the third quarter from the like 2008 period despite several months of aggressive capacity cuts.

"As we head into the traditionally slower winter months, it is likely that we are going to continue to face stiff economic headwinds," Gerard Arpey, AMR's chief executive, wrote in a letter to employees of the No. 2 U.S. airline by traffic.

AMR, of Fort Worth, Texas, swung to a third-quarter net loss of \$359 million, or \$1.26 a share, compared with a net profit of \$31 million, or 12 cents a share, a year earlier. The year-ago results benefited from a \$432 million gain from the sale of its American Beacon Advisors asset-management business.

Revenue contracted 20% to \$5.13 billion despite American's load factor, or the percentage of seats filled, reaching a record 83.9%.

Houston-based Continental, the fourth-largest U.S. carrier by traffic, said advance bookings over the next six weeks are running flat or one percentage point higher than a year ago. It added that some corporate clients are starting to loosen travel budgets.

But the airline also cautioned that revenue per available seat mile is expected to be down 13% to 15% in October from a year earlier as pricing power remains weak. "I would say we are bumping along the bottom," Jeff Smisek, Continental's president, said in a conference call.

Continental's third-quarter net loss narrowed to \$18 million, or 14 cents a share, from a net loss of \$230 million, or \$2.09 a share, a year ago. Revenue fell 20% to \$3.32 billion as the average fare also declined 20%.

AirTran, of Orlando, Fla., reported third-quarter net income of \$10.4 million, or eight cents a share, compared with a year-earlier loss of \$94.6 million, or 81 cents a share.

The carrier's fuel costs fell 45% in the most recent quarter from a year earlier, helping to offset an 11% revenue decline to \$597.4 million.

## Boeing points to 787 outsourcing problem

BY ANN KEETON  
AND PETER SANDERS

Boeing Co. Chairman and Chief Executive Jim McNerney said the company had overreached in outsourcing production on its marquee 787 Dreamliner program, leading to a string of problems and contributing to a \$1.56 billion loss for the third quarter.

Mr. McNerney's comments were the most explicit acknowledgment to date about the limits of one of the company's major strategic shifts in recent years. One of the hallmarks of the Dreamliner program,

which is more than two years behind schedule, was Boeing's strategy to outsource most of the work to a network of global suppliers and perform final assembly at its Washington factory.

But Mr. McNerney said problems emerged partly because engineers were scattered around the world. He said Boeing needs to bring more engineers back in house.

Beyond the Dreamliner's problems, Boeing's revamped 747 jetliner also has been beset with delays. Shuffling engineers from the new 747-8 program to the Dreamliner earlier this year contributed to de-

lays and another write-down on the new 747, which mostly is being ordered as a freighter.

Boeing recorded \$3.5 billion in previously announced third-quarter charges on its 747-8 and 787 Dreamliner jets and on Wednesday slashed its earnings forecast for the year.

Mr. McNerney said Boeing's core businesses remain strong, although challenges persist in the commercial-aircraft and defense markets. He said the Dreamliner and 747-8 remain on track to be delivered at the end of next year.

The Chicago-based company cut its forecast for earnings this year to

between \$1.35 and \$1.55 a share, from \$4.70 to \$5 a share.

Boeing's \$1.56 billion third-quarter loss amounted to \$2.23 a share. That compares with a year-earlier profit of \$695 million, or 96 cents a share. Charges reduced results by \$3.59 a share.

Revenue reached \$16.69 billion, up 9.1% from last year, when a machinists strike hurt sales.

The commercial-aircraft segment swung to a \$2.84 billion operating loss. Sales rose 13% to \$7.88 billion.

Defense-business revenue rose 2.9% to \$8.74 billion. Defense earnings increased 3.6% to \$885 million.

## Northrop profit slips, damped by pension expenses

BY JOAN E. SOLSMAN  
AND KEVIN KINGSBURY

Pension costs cut into Northrop Grumman Corp.'s third-quarter profit, but the U.S. defense giant raised its earnings forecast for the year at a time when investors are hungry for any insight into how Pentagon cutbacks and broader budget pressures are affecting the sector.

The company said risk-management efforts paid off and operating results rose in the quarter. The improvement prompted it to raise its earnings target for this year to between \$5 and \$5.15 a share from between \$4.65 and \$4.90 a share.

Rival Lockheed Martin Corp. on Tuesday posted a slight increase in quarterly profit and gave a grim view of next year on the expectation

the U.S. will tighten defense spending. Boeing Co. on Wednesday reported modest growth in its defense operations.

Los Angeles-based Northrop posted a third-quarter profit of \$490 million, or \$1.53 a share, down 4.3% from \$512 million, or \$1.51 a share, a year earlier. Adjusted for pension expenses, per-share earnings increased 22%. There were fewer

shares outstanding than in the year-earlier quarter.

Northrop made a \$586 million discretionary payment to its pension plans, as other defense companies are also doing to stay ahead of funding requirements.

Revenue rose 4.1% to \$8.73 billion, gaining in all business units.

—August Cole  
contributed to this article.

## CORPORATE NEWS

## Cadbury sales bolster defense

*Candy maker aims to show its value in face of Kraft bid*

By CECILIE ROHWEDDER

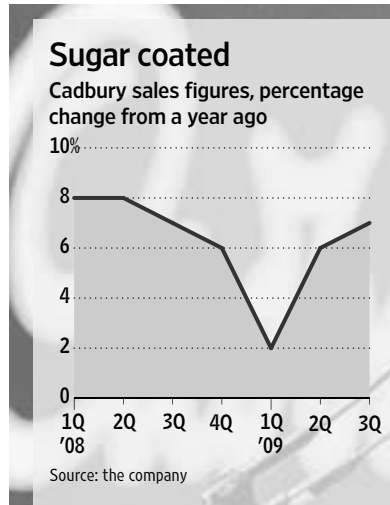
LONDON—British sweets maker Cadbury PLC posted strong third-quarter sales figures that sent a sharp message to hopeful acquirer Kraft Foods Inc: A takeover won't come cheap.

Cadbury also raised its sales and profit outlook for the year.

The company, which makes chocolate, gum and candy, said the new sales figures and growth expectations showed shareholders that their interests were best served with Cadbury remaining an independent company.

"Clearly we're in touch with many of our shareowners," said Cadbury's Chief Executive Officer Todd Stitzer in a telephone interview Wednesday. "The message is to them that we are focused on delivering shareowner value for them and see no other value-creating opportunity other than our delivery as a stand-alone company."

Wednesday's results are likely to add support to Cadbury's rejection of a takeover attempt by U.S. food giant Kraft. In September, the Illinois-based maker of Velveeta cheese, Oreo cookies and Milka chocolate made an informal offer of 40% cash, with the remainder in new Kraft shares. Kraft's initial offer valued Cadbury shares at 745 British pence each, or a total of £10.2 billion (\$16.7 billion), but a subsequent fall in Kraft shares makes it currently worth 728 pence a share, well below the current Cadbury share price. Shares of Cadbury ended flat Wednesday at 799 pence.



Todd Stitzer, chief executive officer of Cadbury PLC, speaks at a conference in London

Cadbury will gain more clarity on its future in the next three weeks because Kraft faces a Nov. 9 deadline set by the U.K. Takeover Panel to make a formal offer for Cadbury or back off for six months.

Cadbury, whose brands include Trident gum and Dairy Milk chocolate, said in the three months ended Sept. 30 sales grew 7%, excluding the effects of currency swings. The increase exceeded analysts' expectations of roughly 4% quarterly sales growth.

Cadbury said it expected sales growth of around 5% for the full year, up from 4% before. Cadbury doesn't report quarterly earnings figures.

Mr. Stitzer said the 7% increase wasn't a fluke. Except for a slow

first quarter this year, quarterly sales growth has consistently been between 6% and 7% since the beginning of 2008. Prices rose 10%.

Observers are now waiting for Kraft's third-quarter earnings announcement on Nov. 3, when the company is expected to reiterate its reasons for making a bid. That bid, many analysts say, would have to include more cash and value Cadbury at at least 850 pence a share to have a chance of swaying Cadbury's board.

"This trading update should put further pressure on Kraft to increase its bid," Andrew Wood, an analyst with Sanford C. Bernstein & Co. in New York, said in a research note.

So far, no other bidder has mounted a rival offer. Cadbury's Mr.

Stitzer declined Wednesday to name a price at which the company's board and shareholders might embrace a Kraft bid, or say whether Cadbury had been in direct contact with Kraft or another potential suitor.

In the third quarter, Mr. Stitzer said Cadbury "delivered growth in every category and every business." Sales expanded most strongly in South America, where they jumped 18%, but Cadbury also flourished in its mature home market: Sales in Britain and Ireland rose by 10%.

"This puts the ball firmly back in Kraft's court, and is exactly what Cadbury shareholders would have hoped for," Graham Jones, an analyst with Panmure Gordon Co., said in a research note.

## Glaxo vaccine wins backing from U.S. panel

By JENNIFER CORBETT DOOREN

WASHINGTON—An advisory panel to the U.S. government recommended Wednesday that Glaxo-SmithKline PLC's Cervarix vaccine be used in girls and women to prevent cervical cancer.

The recommendation from the Advisory Committee on Immunization Practices follows last week's approval by the U.S. Food and Drug Administration of the product's use in girls and women ages 10 to 25. The committee advises the Centers for Disease Control on vaccination matters.

The panel's recommendations, which go to the secretary of Health and Human Services—typically trigger private-insurance companies to cover the vaccine in question.

The Glaxo vaccine will compete against Merck & Co.'s Gardasil, which was approved in 2006.

Cervarix is designed to protect against cervical cancer and other conditions linked to two strains of human papillomavirus, or HPV, a common sexually transmitted disease. Cervarix guards against HPV strains 16 and 18, which are linked to about 70% of cervical-cancer cases in the U.S. Gardasil protects against the same strains, along with two others that are linked to genital warts in both men and women.

HPV vaccines are designed to be administered before patients become sexually active. In the U.S., the CDC recommends that Gardasil be offered for 11- to 12-year-old girls along with other vaccines that are routinely given to that age group. It is expected that Cervarix will carry the same recommendation once the approval is finalized.

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## CORPORATE NEWS

# Peugeot, Fiat post lower revenue

*Higher volume hasn't translated into profit growth*

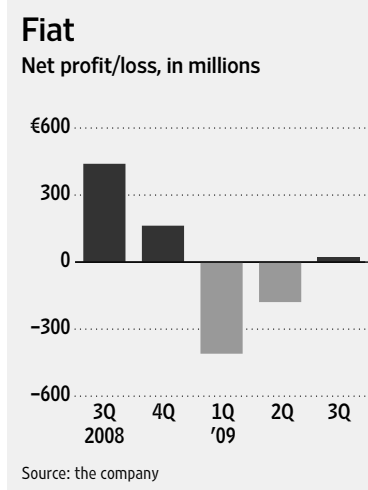
BY DAVID PEARSON  
AND GILLES CASTONGUAY

The car-scraping schemes that caused a jump in European auto sales in the second half may have boosted manufacturers' volumes, but they've done nothing to revive falling revenue and profits.

Both France's PSA Peugeot-Citroën and Italy's Fiat SpA reported Wednesday that their vehicle sales perked up in the third quarter, but revenue declined and Fiat's profit took a hit as a result.

Peugeot-Citroën doesn't report quarterly earnings, but industry analysts say neither company was able to make a profit in Europe in the three months through September despite government efforts to prop up demand.

The problem is that the scrapping schemes encouraged consumers to trade in gas guzzlers for small, basic cars that offer little, if any, margin for the makers. And under some plans, such as the U.K. program, the manufacturers have had to contribute some of the programs' cost, further eating into



A Fiat 500 on display at the Frankfurt Motor Show

Bloomberg News

profits.

Peugeot's revenue fell 7.7% in the third quarter from a year earlier, to €11.78 billion (\$17.59 billion), despite a 10% rise in the number of global auto sales.

Like other car makers, Peugeot and Fiat have been affected by a sharp shift in consumer preference to smaller vehicles, which generate less revenue per unit and skinnier profit margins.

The strength of the euro has also dented revenue from sales in countries with weakening currencies like the U.K., although Fiat has been experiencing fat margins and the

strong real in its important Brazilian market.

Peugeot's 7.7% revenue decline in the third quarter followed drops of 25% in the first quarter and 19% in the second, signaling that the sales trough was reached in the early months of this year.

Fiat's revenue tumbled 16% to €12 billion, and net profit plunged to €25 million in the third quarter from €468 million a year earlier. Its sales volume rose 4.3% in the third quarter after an 8.3% drop in the second quarter. The auto markets in Germany, France and the U.K.—major markets for both companies—all

saw overall sales rise in recent months thanks to scrapping-schemes.

However, industry experts are already predicting that volume will sag in Europe by 10% or more next year as the schemes are wound down or stopped. Sanford C. Bernstein estimates that Peugeot-Citroën's auto division incurred a loss of €200 million to €300 million in the third quarter, noting that revenue was below the average of the previous two quarters.

Peugeot gave no earnings guidance and didn't comment on the market outlook.

# Koenigsegg moves closer to Saab deal

BY IAN EDMONDSON

STOCKHOLM—Sweden's Koenigsegg Group AB Wednesday moved closer in its pursuit of General Motors Co.'s Saab Automobile unit, after the European Investment Bank approved €400 million, or about \$600 million, in loans to the Swedish car maker.

Sports-car maker Koenigsegg reached an agreement in August to buy the unprofitable Saab division, fully owned by GM since 1999, but financing of the deal was dependent on securing €400 million in EIB loans, as well as loan guarantees from the Swedish government, which was reluctant to provide any form of direct funding.

With the approval of the EIB loan, the Swedish government is expected to approve the loan guarantees. That would clear a significant hurdle to Saab's takeover, which will safeguard thousands of Swedish jobs in an automotive industry hard-hit by the decline of global car sales.

"The Swedish government has already applied provisionally to the European Union for permission to grant the loan guarantees, so the



New Saabs await shipment outside the main plant in Trollhattan, Sweden

government is already on board," said Saab spokeswoman Gunilla Gustavs.

Koenigsegg also struck a preliminary deal last month with Beijing Automotive Industry Holding Co. that will see the government-owned Chinese auto maker take a minority stake in Koenigsegg, helping it close the estimated three-billion-Swedish-krona, or roughly \$430 million, funding gap it needed to buy Saab.

GM's sale of Saab would tie up another loose end in its global restructuring. Saab is one of four

brands—alongside Hummer, Pontiac and Saturn—being sold or wound down, and GM is targeting final closure of the deal by year end.

"We're hoping for a quick resolution," Ms. Gustavs said. "We said a deal could be completed by the end of the year and now hope this will all be completed in the next few weeks, but of course there are some things beyond our control. That said, this is a big step in the right direction."

GM earlier this month agreed to sell a majority stake in its European Opel and Vauxhall operations to car-

parts maker Magna International Inc. and Russia's OAO Sberbank, although the protracted deal still needs to be finalized, having been hampered by union unrest and negotiations over state aid in Germany and the U.K.

Christian von Koenigsegg, founder of Koenigsegg Automotive, which is part of the consortium buying Saab, said he plans to realign Saab as a niche brand. Under the consortium's business plan, Saab would break even in 2012, producing at least 100,000 vehicles that year, he said in August.

Mr. von Koenigsegg couldn't be reached for comment Wednesday.

Before a deal can be finalized, the Swedish National Debt Office has to agree to guarantee the loan, and the EU must sign off on the deal.

Saab's loan will be used for research and development to improve fuel efficiency and safety, the EIB said, adding that the loan is subject to the European Commission's approval of the Swedish state guarantee.

Joran Hagglund, a state secretary at Sweden's Enterprise Ministry and the government's main liaison to the auto industry, said previously the government would likely make a decision a few days after the EIB. He couldn't be reached for comment Wednesday.

# Japan's JAL task force seeks smaller debt waiver

BY ATSUKO FUKASE

TOKYO—A task force appointed by Japan's government to draft a turnaround plan for Japan Airlines Corp. has asked the airline's main creditor banks to waive loans and consider debt-for-equity swaps to-

taling 250 billion yen (\$2.76 billion), down from the 300 billion yen originally proposed, people familiar with the matter said.

But the banks—the country's three biggest by assets, as well as a state lending agency—are still balking at the plan, which is also likely

to involve cutting unprofitable routes and thousands of jobs, in an early test of the new government.

JAL's creditors want more explanation on what exactly the government plans to do going forward to support the carrier, the people familiar with the matter said.

# Home Retail swings to profit on cost cutting

BY KATHY SANDLER

LONDON—U.K.-based Home Retail Group PLC, the operator of Argos and Homebase stores, Wednesday swung to a fiscal first-half net profit after booking hefty write-downs in the prior-year period, as the company cut costs and improved its product offering to deliver earnings in line with market expectations.

Home Retail, like the majority of nonfood retailers in the U.K., has been hurt by the economic downturn as consumers cut back on spending amid concerns about the economy, job security and the falling value of their homes. Argos is a chain of general-merchandise stores, while Homebase offers home-improvement products.

For the 26 weeks ended Aug. 29, Home Retail reported a net profit of £77.7 million (about \$127 million). That compared with a net loss of £446.8 million in the year-earlier period, when the results were weighed down by large write-downs on the value of the company's Homebase assets due to the fall in consumer spending.

Since the start of the recession, the company has refocused its product offering to suit the newly thrifty consumer and has already taken out £32 million of operating and distribution costs from its previously flagged cost-saving target of £50 million by 2010-11.

Homebase in particular benefited from cost cuts, better summer weather—which inspired homeowners to undertake home improvements—and strong discounting, helping same-store sales to rise 3% in the first half.

Argos's same-store sales, though, fell 2% in the period, hit by a change in the company's product mix toward lower-margin consumer electronics and away from higher-margin home-related purchases such as furniture, which have suffered most in the downturn.

Argos last year bought the Alba and Bush consumer-electronics brands, expanding the stable of brands it owns outright, and has also added to its ranges of lower-priced merchandise as the company seeks to lure cash-strapped customers.

Chief Executive Terry Duddy told a conference call that televisions and computers had sold very well in the first half and that the company has also benefited from the demise last year of general and toy retailer Woolworths.

His predictions for hot Christmas sellers in the toy department include Lego, a camera designed for children, and Go Go Hamsters mechanized pets.

Overall total sales across both retail chains in the six months to Aug. 30 rose 3% to £2.81 billion, helped by new-store openings. The company plans to open around 20 new Argos stores each year, a slowdown from the days of 30 store openings over the past few years, as it trims back on capital expenditure.

Profit before tax and exceptional items—the key figure U.K. analysts and investors track when assessing the company's underlying performance—rose 1% to £122.7 million, boosted by Homebase. The market had been expecting pretax profit of £123 million, according to a Factset poll of 19 analysts.

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## CORPORATE NEWS

# Reading tea leaves at McDonald's

Coming results may signal how industry is doing

BY JULIE JARGON

The recession helped **McDonald's** Corp. more than other restaurant chains as consumers traded down to fast food. But with signs of a recovery emerging, investors are starting to bet that consumers will return to casual dining chains.

The industry's attention will focus on McDonald's Thursday, when the Oak Brook, Ill., burger chain will report its September same-store sales and third-quarter earnings, which could signal how the still-uncertain economy is affecting restaurants broadly.

McDonald's has been posting positive sales at stores open at least a year, while most higher-priced, sit-down chains have been experiencing declines. Lately, though, the company's same-store sales growth has begun to slow, leading some to wonder whether investment opportunity is shifting to the casual-dining sector.

"Now there's a debate among investors that as the consumer stabilizes, there may be a shift back toward casual dining," says Jeffrey Bernstein, a restaurant analyst at Barclays Capital. "Would you rather



A London McDonald's. European same-store sales have beaten those in the U.S.

invest in a company that has stronger but decelerating same-store sales, or weaker same-store sales but the prospect of modest reacceleration over time?"

The recession has hammered restaurants throughout the industry as cash-strapped consumers have stayed home to eat. But McDonald's Dollar Menu has been an attraction. As recently as April, the chain reported that global same-store sales rose almost 7% and that U.S. same-store sales rose 6.1% year over year.

But as unemployment has risen, McDonald's growth has moderated. Global same-store sales rose 2.2% in August, while U.S. same-store sales rose 1.7%. McDonald's is particularly susceptible to changes in the unemployment rate because it garners about 25% of its sales at breakfast, which is commonly bought by people on their way to work.

McDonald's European business has been outperforming the U.S. in same-store sales, but questions about how quickly the U.S. economy

will rebound have left investors concerned about the company's performance in its home country. "There's fear that U.S. same-store sales could turn negative," Mr. Bernstein says. "They could beat earnings expectations, but if they disappear on same-store sales, that will overshadow the broader results."

If U.S. unemployment continues to rise—as it did last month, to 9.8%—it could hamper any broader industry recovery and hurt McDonald's results in the U.S., where the company gets most of its profit.

McDonald's says it is well positioned regardless of what the economy does. "There's this myth that we're doing well because of the recession," says company spokeswoman Heidi Barker, "but the momentum began in 2003." That's when McDonald's shifted its focus to improving operations at existing restaurants rather than simply building new ones.

"The Dollar Menu accounts for 10% to 11% of U.S. sales," Ms. Barker says. "That tells you that folks are coming to us for value across our menu, not just for our Dollar Menu."

McDonald's has diversified its menu recently and could switch from emphasizing its low-cost options to more premium fare once the economy strengthens. Over the summer, the company rolled out specialty coffee drinks such as mochas, lattes and cappuccinos. It also introduced \$3.99 Angus burgers.

## Elan reports quarterly profit and solid sales

BY QUENTIN FOTRELL

DUBLIN—Elan Corp. swung to a third-quarter net profit, helped by stronger sales of its multiple-sclerosis drug Tysabri, lower operating expenses and a restructuring deal with Johnson & Johnson. The company also raised its 2009 forecast.

The Irish drug maker now expects to record double-digit revenue growth for 2009 and sees adjusted earnings before interest, tax, depreciation and amortization, or Ebitda, of about \$75 million.

For the quarter, Elan posted a net profit of \$52.3 million, compared with a year-earlier net loss of \$83.5 million.

The latest results were boosted by a net gain of \$107.7 million related to its deal with J&J to set up a joint venture to develop drugs to treat Alzheimer's disease.

On Wednesday, shares in Elan declined 2.1% to end at €4.40 (\$6.57) in Dublin.

Revenue increased 6.5% to \$283.7 million from \$266.4 million, helped by increased sales of key drug Tysabri.

Quarterly net sales of Tysabri jumped 19% to \$281.6 million. At the end of September, about 46,200 pa-

## The drug maker now expects double-digit revenue growth for 2009.

tients were on the therapy worldwide, representing a 30% increase from a year earlier.

Chief Financial Officer Shane Cooke said Elan is striving to boost Tysabri's market share to 20% from the current 10%.

Operating expenses in the quarter fell 12% to \$147 million. Elan said it expects full-year operating expenses to be lower than the previously flagged range of \$625 million to \$675 million.

Mr. Cooke said: "After the quarter-end, we further strengthened our financial position through a tender offer and new bond issue which extended the average maturity of our debt by approximately 70% and staggers it over the next seven years."

Elan said Johnson & Johnson will effectively invest \$1.4 billion into the Irish company, including paying \$885 million for an 18.4% stake. A J&J subsidiary, JAI, has acquired essentially all of Elan's assets and rights relating to its Alzheimer's research. Elan is entitled to a 49.9% share of any profits that treatments from the new company generate, along with some royalty payments.

Elan and partner Biogen Idec suspended Tysabri in the U.S. in 2005 after two patients using combination therapy contracted a rare brain infection, progressive multifocal leukoencephalopathy. A third case was confirmed later.

Tysabri was approved in the U.S. and European Union primarily as a monotherapy a year later.

Elan said Tysabri is "underutilized" and will continue to be a first- and second-line drug, while new entrants into the multiple-sclerosis marketplace will be third-line drugs.

# STMicro lends weight to tech recovery

BY RUTH BENDER

**STMicroelectronics** NV, Europe's largest chip maker by sales, posted a narrower net loss and upgraded its outlook, in a further sign of improving conditions in the global semiconductor industry.

"It is clear that we are past the bottom and that a recovery is ongoing," Chief Executive Carlo Bozotti said. The return to growth in Western markets supports the view that recent positive market trends are sustainable, he said.

"The strength we saw last quarter in China and Asia-Pacific has expanded to other regions, in particular the U.S. and Europe," Mr. Bozotti said Wednesday.

The CEO of the Switzerland-based company, which supplies chips for the handset, computing, automotive and industrial sectors and counts companies such as Nokia Corp. among its clients, said he now

expects the global chip market to contract by 17% to 18% this year, an improvement to the 20% drop forecast in July.

Mr. Bozotti said the steep drop observed across sectors since late 2008 was now reversing and that almost all market segments had returned to double-digit growth, with the computer and automotive sectors leading the way.

STMicro late Tuesday posted a third-quarter net loss of \$201 million, compared with a year-earlier loss of \$289 million. The year-earlier results included a \$344 million charge related to the spinoff of the flash-memory segment.

Revenue dropped 16% to \$2.28 billion, topping the company's target range of \$2.07 billion to \$2.27 billion, while its gross margin shrank to 31.3% from 35.7% on lower volumes, charges for unused capacity, manufacturing inefficiencies and lower prices.

STMicro forecast fourth-quarter revenue to be slightly above seasonal trends, with growth of between 5% and 12% from the third quarter.

Mr. Bozotti's comments build on a series of positive signals from technology-industry heavyweights that indicate the steep drop in demand since late 2008 is reversing.

Intel Corp., the world's largest chip maker, said last week that it saw signs of strong buying of laptops, led by back-to-school purchases in the U.S. and demand from consumers in China.

Chip orders are rising, analysts say, as PC makers anticipate a demand boost from Microsoft Corp.'s new Windows 7 operating system, which launches Thursday.

Intel forecast business conditions will improve further in the current quarter, a view backed recently by Netherlands-based ASML Holding NV.

And chip maker Texas Instruments Inc.'s chief financial officer this week said that, for the first time in more than a year, growth is appearing in Europe and the Americas.

According to research firm Gartner Inc., global PC shipments rose 0.5% in the third quarter from a year earlier, confounding estimates of a 5.6% decline. PC shipments rose 18% from the second quarter, higher than the normal seasonal growth between the quarters, Gartner said.

Meanwhile, Taiwanese memory-chip maker **Nanya Technology** Corp. and its sister company **Inotera Memories** Inc. Wednesday posted narrower third-quarter losses. Expecting demand for memory chips to continue to rise, both companies set higher spending targets for next year.

—*Jessie Ho, Archibald Preuschat, Jerry A. DiColo and Roger Cheng contributed to this article.*

## Iberdrola posts flat net profit as U.S. unit helps offset weak demand

BY BERND RADOWITZ

MADRID—**Iberdrola** SA's third-quarter net profit was nearly flat on solid revenue growth as the consolidation of its U.S. unit Energy East offset weak demand and lower electricity prices.

The Spanish power company said net profit reached €522.6 million (\$780.2 million), compared with €522.1 million a year earlier. Revenue jumped 15% to €6.68 billion.

For the first nine months of 2009, Iberdrola's net profit has fallen 18% as lower electricity prices in Spain have eaten into earnings and as output volumes declined in

Spain and the U.K.

The depreciation of sterling against the euro helped push net profit at Iberdrola's U.K. unit Scottish Power down 47% for the year's first nine months. The company didn't provide third-quarter figures for Scottish Power in euros, but during a conference call it said the U.K. unit's third-quarter earnings before interest, taxes, depreciation and amortization, or Ebitda, dropped 40% to £226.4 million (\$370.5 million).

Income from Energy East, which was consolidated into Iberdrola's results in October 2008, partially offset declining profit. The U.S. unit

contributed €338.1 million to Iberdrola's nine-month Ebitda and €43.2 million to its net profit in the period. Third-quarter results for Energy East weren't provided.

For the full year, the company said it expects its overseas activities to drive up both its net profit and Ebitda excluding extraordinary items by between 5% and 7%. Demand in the U.K. and the U.S. is likely to rise because of seasonal factors like the start of the winter heating season.

Iberdrola also said it expects to receive €3.31 billion from the so-called Spanish tariff deficit in the fourth quarter. Spain's government

has said it will end companies' debts from the tariff deficit, the difference between the price Spanish consumers pay for electricity and the cost of producing it. Iberdrola's net debt including the tariff-deficit debt stood at €29.19 billion at the end of the third quarter, down slightly from the end of the second quarter.

To improve its debt profile, the company will look at capital markets in coming days or weeks, Chief Financial Officer José Sainz said during the conference call. He didn't disclose whether Iberdrola plans a fourth-quarter debt placement, but he said it is now seeing better conditions in the U.K. and U.S.

## ECONOMY &amp; POLITICS

## BBC draws fire over BNP guest

Far-right leader to appear on political program after party wins European Parliament seats

BY ALISTAIR MACDONALD

The BBC's decision to invite the leader of a far-right political party onto a flagship television program has sparked a controversy that is forcing the public broadcaster to weigh the right to freedom of expression against accusations that it is legitimizing a group widely seen as racist.

On Thursday night, the British Broadcasting Corp. for the first time will allow a representative of the British National Party to appear on its weekly public-affairs program "Question Time."

The BNP won seats in the European Parliament for the first time in elections in June. According to the BBC charter, which sets out the broadcaster's public obligations and espouses political neutrality, the party must now be given air time. Nick Griffin, the BNP's Cambridge-educated chairman, will appear Thursday alongside Jack Straw, the justice minister, and other British politicians.

That has stirred controversy. The BNP advocates a policy of "resetting" nonwhite citizens and residents outside Britain and withdrawing the country from the European Union. The platform has led to accusations of racism and xenophobia, which the party denies.

The invitation has drawn harsh criticism from the ruling Labour Party, underscoring its fear that worries about large-scale immigration—coming at a time of high unemployment—could drive some white working-class constituents, who traditionally vote Labour, to the BNP.

"The very presence of an avowedly racist, unlawfully constituted party, represented by a convicted inciter of racial hatred is a prima facie breach of your duty to promote diversity and safeguard the vulnerable in the U.K.," wrote Peter Hain, the minister for Wales, in a letter to the BBC Wednesday.

A BBC spokesman said "What we



BNP leader Nick Griffin, in a photo taken in June, will appear on the BBC's show 'Question Time' on Thursday.

have to take into account is the fact that [the] BNP secured a million votes in June and won two European Parliament seats, and it will be for the electorate to make up their mind about the policies offered by elected politicians."

Mr. Griffin's planned appearance has split opinion in the U.K. Jeremy Isaacs, the Jewish former head of commercial TV network Channel 4, wrote in an editorial in the Jewish Chronicle newspaper that "the BNP is entitled to a minimal share of public air-time. Those who vote for them deserve to be heard."

Mr. Griffin has sought in recent years to broaden his marginal party's appeal by toning down its anti-immigrant rhetoric. He was con-

victed in 1998 for distributing material likely to incite racial hatred, has in the past questioned the extent of the Holocaust, and the party has been told by U.K. courts that its rule banning nonwhites is illegal.

Critics say that the BBC's invitation is giving the party publicity. "This is not big for us, it is massive. It is part and parcel of the trapings that we have won from June," said Simon Derby, the party's deputy leader, on Wednesday.

The BNP picked up two seats in the European elections, its first parliamentary seats, in part by tapping into fears of unemployment and unease about years of large-scale immigration that have changed the country's makeup. Almost one in ten Brit-

ons is from an ethnic minority, according to some estimates.

"Clearly it is a concern for Labour, as more marginal, less-well-off voters who might have supported Labour could vote BNP," said Wyn Grant, a politics professor at the University of Warwick. While the BNP is unlikely to win a seat in the U.K. Parliament, it could draw further support away from Labour, which is trailing the Conservatives in opinion polls.

The BNP has never established itself as a political force the way similar parties have in countries such as France, Italy and Austria. In the 2005 general election, the party polled only 0.7% of the national vote. It has never won a seat in the House of Commons.

## NATO ministers to discuss shield and Afghanistan

ASSOCIATED PRESS

BRATISLAVA, Slovakia—NATO defense ministers will meet here Thursday to discuss the war in Afghanistan and the growing support for U.S. President Barack Obama's plans for a new missile-defense system in Europe.

NATO Secretary-General Anders Fogh Rasmussen said the informal two-day meeting of defense ministers from the 28 NATO member countries will focus mainly on the eight-year-old war in Afghanistan.

A runoff presidential election is set for the country for Nov. 7, and Mr. Obama is considering whether to send more troops there, with the Taliban insurgency having made strides.

U.S. Defense Secretary Robert Gates is expected to brief allies in Bratislava about progress with a review of recommendations by U.S. Gen. Stanley McChrystal, the top U.S. and NATO commander in Afghanistan. Gen. McChrystal has called for more troops, and Mr. Fogh Rasmussen has said he hopes NATO members can endorse that recommendation. But that could be difficult in the many European countries where the war is unpopular.

NATO has about 68,000 troops in Afghanistan, of which 32,000 are American. The U.S. military also has about 36,000 additional soldiers serving outside NATO under a separate command.

Mr. Fogh Rasmussen said that in light of Afghanistan's disputed election results—which led to the agreement to hold the runoff—it makes sense to delay any final decision about additional troops for now. "I hope that we will have a clarification of the political situation in Afghanistan because time is not on our side," he said Monday.

Two senior Western diplomats at NATO headquarters in Brussels said the NATO ministers will discuss Gen. McChrystal's strategy review but make no new commitments on troops until Washington decides whether to follow his recommendation for a troop increase.

## Prayer services opened door for peaceful street protests

As we approach the 20th anniversary on Nov. 9, we will chronicle the events that precipitated the fall of the Berlin Wall as they played out in the pages of *The Wall Street Journal*.

On Monday, Oct. 23, 1989, more than 300,000 people marched in silence through Leipzig with banners demanding reform in the biggest demonstration in East Germany's history. They chanted "We are the people" and "Freedom, freedom."

East and West  
As the Berlin Wall Fell

These peaceful protests that eventually brought down the Berlin Wall, known as the Monday Demonstrations, were an outgrowth of prayer services that had been held at St. Nicholas's Church in Leipzig since 1982. By Oct. 9, 1989, the demonstration at St. Nicholas had swelled to more than 70,000 people. Others in East German cities followed suit.

"Often these protesters were protected by the church. At the Gethsemane Church in a working-class district of East Berlin, recently, the church's role in the protest was

clearly evident: Politics and prayer marked the evening, and the walls of the church were covered with fliers promoting political causes," the Journal wrote.

By the summer of 1989, "these groups began spilling into the streets, where their boldness caught the imagination of the public. Over the summer, their cause got additional impetus: Hungary opened its borders, creating an avenue for East Germans to escape to the West, and Soviet leader Mikhail Gorbachev visited, counseling the East German government to heed its social unrest by changing."

East Germany's new leader, Egon Krenz, warned against further democracy protests, saying demonstrations to demand democratic freedoms could cause a "worsening of the situation, or confrontation."

Rainer Eppelmann, a Berlin pastor who led one of the new political groups, Democratic Awakening, told the Journal he was convinced the reformers would eventually win. "Mr. Eppelmann hopes that Mr. Honecker's successors in the Communist Party will sooner or later realize there isn't any alternative," the Journal wrote.



A Leipzig demonstration. Big poster reads: 'Egon Krenz, do not make it too easy. We do not forget China, election and police action.'