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Goldman urges pay changes

Multiyear guaranteed contracts should be banned, CEO Blankfein says

By Ulrike Dauer

FRANKFURT—**Goldman Sachs Group** Inc. Chairman and Chief Executive Lloyd Blankfein said that the anger over bank compensation programs and bonuses was "understandable and appropriate" and that multiyear guaranteed employment contracts "should be banned entirely."

"There is little justification for the payment of outsized discretionary compensation when a financial institution lost money for the year," Mr. Blankfein told a banking conference Wednesday in Frankfurt.

Banks around the world have come under criticism for paying out huge bonuses to managers while the sector has been hit by historically large losses, even after some had requested government aid. Much of the criticism has centered on the payment of bonuses to individual bankers based on how much money they earn for the bank, which critics claim encourages them to try to maximize returns by taking bigger risks.

Bill of health

■ European banks, insurers shed some state aid......Page 3

"No one should get compensated with reference to only his or her own P&L," Mr. Blankfein said, referring to bankers' individual profit-and-loss accounts and adding that compensation should encourage teamwork.

"Multiyear guaranteed employment contracts should be banned entirely," Mr. Blankfein said. "We should all recognize that they are bad for the long-term interests of our industry and the financial system."

Some governments already are taking action to limit bankers' compensation, and leaders of the Group of 20 industrial

Please turn to page 31

U.K. aide to advise funds on rules

By Laurence Norman and Margot Patrick

LONDON — The U.K.'s hedge funds and private-equity firms have to adjust their tactics in their opposition to a European Commission directive, the U.K.'s financial-services minister Paul Myners plans to say late Thursday.

Earlier this year, the European Union unveiled the Alternative Investment Fund Managers directive, requiring them to disclose more information and hold minimum levels of capital, among other things. Hedge-fund managers say the disclosures will erode their competitive advantage, and British officials fear it could drive some U.S. and Asia-based firms out of London.

The U.K. government fears hedge funds and private-equity firms' blanket rejection of the directive actually helps their opponents, by making it seem the industry wants only to return to the pre-crisis status quo.

Lord Myners plans to say the government supports some tightening of regulation and EU-wide standards, an official for the U.K.'s Treasury said, and that businesses needed to have face-to-face meetings with government officials, as well as to start offering constructive counter proposals, rather than wholesale dismissals. "We haven't yet seen the effort needed from the industry," he said.

Flash floods kill at least 20 people in Turkey

Associated Press

SAFE HAVEN: People wait to be rescued on a highway in the Ikitelli district of Istanbul on Wednesday. Dozens were stranded in their vehicles, as waters rose more than a meter high. Page 2.

Afghan body scraps fraudulent votes

By Anand Gopal

KABUL—The U.N.-funded elections watchdog in Afghanistan has begun to throw out fraudulent ballots from the country's presidential balloting, a day after a tally including contested votes put Hamid Karzai over the 50% he needs to avoid a second round.

The Electoral Complaints Commission, a United Nations-sponsored body responsible for investigating allegations of fraud and misconduct, has been looking into more than 600 serious accusations, Commissioner Grant Kippen said. The accusations include instances of ballot stuffing and voter intimidation. In some cases, the commission has disqualified results from entire polling stations.

Although Mr. Kippen declined to say how many votes have been thrown out so far, the commission has rendered verdicts on 25 to 30 cases, and expects to reach decisions on more in coming days. The cases that have been decided are from Afghanistan's southern provinces, where most votes went to Mr. Karzai, he said.

The decisions to disqualify votes put Mr. Kippen's commission in a politically delicate spot. The ballots under scrutiny include enough votes that, if discarded, could erode Mr. Karzai's lead and majority, obliging him to sur-

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What's News

Britain's top share index, the FTSE 100, surpassed 5000 nearly a year after Lehman's collapse sent investors running. Other European markets also gained. U.S. shares rose, but gains were tempered by concerns about consumer spending. Pages 19, 20

■ **Spain's prime minister** unveiled tax increases and spending cuts to help contain the country's ballooning budget deficit. Page 2

■ **European banks** and insurers that had to be rescued are seeking to shed some state aid and prove their return to health. Page 3

■ **German companies made** 14.8% more insolvency filings in the first half of 2009 than they did a year earlier, raising credit-crunch fears. Page 3

■ **Europeans give Obama** high marks, according to a German Marshall Fund survey, but are skeptical of U.S. foreign-policy goals. Page 4

■ **The U.S. economy kept** steadying in midsummer amid soft consumer spending, a Fed survey found. Page 11

■ **Vivendi bid $2.9 billion** for Brazilian fixed-line telecom operator GVT, as part of an effort to offset slowing growth in Europe. Page 10

■ **Kraft covets Cadbury** for the U.K. company's hold on consumers in India and other emerging markets. Page 7

■ **GM could close** up to three plants if it were to keep control of its European operations as part of a revised plan under consideration. Page 7

■ **Italian e-commerce fashion** company Yoox took a step toward listing on the Milan stock market. Page 6

■ **An Aeromexico plane** traveling from Cancun to Mexico City with 104 passengers was hijacked briefly, but all were released unharmed. WSJ.com

■ **Richemont provided** a cautious outlook as its sales fell 16% in the five months through August. Page 8

■ **No downgrade** is expected of the triple-A sovereign ratings of the U.K. and U.S., Moody's said, a potential boost for the pound. Pages 20, 32

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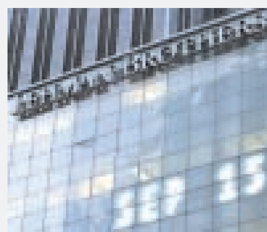

Lehman's legacy

Finance overhaul falters as shock of 2008 fades

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4 p.m. ET

	CLOSE	PCT CHG
DJIA	9547.22	+0.53
Nasdaq	2060.39	+1.11
DJ Stoxx 600	240.09	+0.92
FTSE 100	5004.30	+1.15
DAX	5574.26	+1.69
CAC 40	3707.69	+1.28
Euro	$1.4582	+0.47
Nymex crude	$71.31	+0.30

SUN CUSTOMERS
Oracle Plans To:

1. Spend more money developing SPARC than Sun does now;
2. Spend more money developing Solaris than Sun does now;
3. Have more than twice as many hardware specialists selling and servicing SPARC/Solaris systems than Sun does now;
4. Dramatically improve Sun's hardware performance by tightly integrating Oracle software with Sun hardware.

"We're in it to win it. IBM, we're looking forward to competing with you in the hardware business."
– Larry Ellison

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Oracle's acquisition of Sun is subject to certain closing conditions. Please refer to Oracle's SEC filings for additional risks related to the proposed acquisition of Sun.

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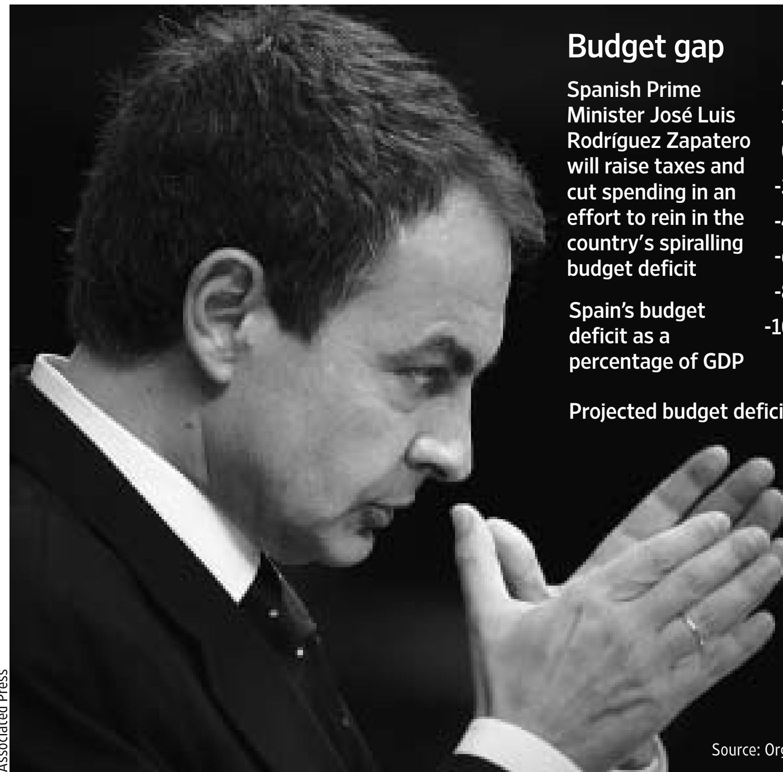
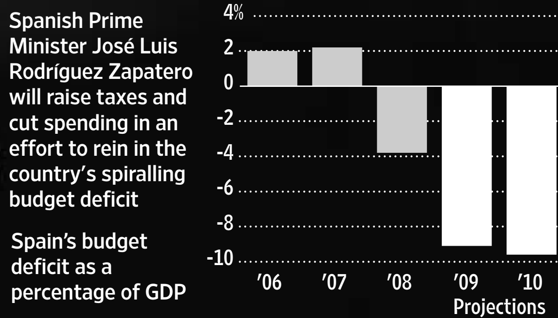
LEADING THE NEWS

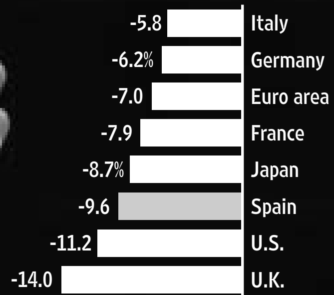
Spanish premier tackles budget

Zapatero unveils plan to rein in a growing deficit

By Thomas Catan







Source: Organization for Economic Cooperation and Development

Associated Press

MADRID—Spain's Prime Minister, José Luis Rodríguez Zapatero, facing criticism for his handling of the economy, unveiled tax increases and spending cuts to help contain the country's ballooning budget deficit.

The moves come as countries across Europe are grappling with sharply wider budget deficits following the financial crisis. Ireland several months ago moved to raise taxes and cut spending, and the U.K. is weighing similar moves.

Mr. Zapatero said in a speech to Parliament that Spain's tax burden would rise by as much as 1.5% of gross domestic product—around €15 billion ($21.75 billion)—under a series of unspecified fiscal changes. At the same time, he vowed to undertake an "exhaustive purge" of all nonessential spending by the central government.

"The 2010 budget will be the most austere in recent years," he said, promising to cut government spending by 4.5%, or €8.6 billion.

Spain's main opposition party, the conservative Popular Party, which has long accused Mr. Zapatero of being in denial about the seriousness of Spain's economic predicament, said the center-left government had been spending recklessly and lacked a coherent plan to right the economy. "There is no tax increase capable of filling the hole that you have created," the Popular Party leader, Mariano Rajoy, told the prime minister in Wednesday's debate.

While bigger euro-zone members like France and Germany are starting to recover from the recession, weaker members like Spain remain mired in recession, spiking concerns about a divergence in the currency union's economic fortunes. On Wednesday, Mr. Zapatero, altering his usual upbeat one, acknowledged that Spain would face a lengthy period of high unemployment and economic difficulty even after it eventually pulls out of recession.

The global financial crisis pricked Spain's debt-fueled housing bubble in 2008, causing the bloated construction sector, the engine of Spain's 14-year-long economic boom, to stall. In the face of soaring unemployment—which at 18.5% is now twice the rate in the rest of the European Union—Spain's debt-laden households have slashed spending, hobbling Spain's only other major growth engine.

Economists believe Spain is facing years of economic stagnation, as it struggles to find new sources of growth and regain its international competitiveness. To address the first point, Madrid is preparing to introduce a bill aimed at shifting Spain's growth model from construction to what it calls a "sustainable economy." Details of this remain vague but Mr. Zapatero has hinted it will include fresh government incentives for the renewable-energy sector.

However, the prime minister has repeatedly dismissed calls from business leaders to make Spain's rigid labor market more flexible. Without such changes, which are opposed by Spain's labor unions, many economists say the unemployment rate will remain high for years to come.

Over the past decade, Spain's labor costs have risen at nearly twice the rate of the other nations that use the euro as their currency, making Spain increasingly uncompetitive internationally. Because it has no currency of its own to devalue, economists say it can regain its competitiveness only through years of painful wage and price disinflation.

Spain entered the crisis with relatively low levels of public debt compared with other European nations, but the burden is rising as tax receipts plunge and government spending jumps. An extended period of low growth would make it harder for Spain to service its debt. Mr. Zapatero ruled out raising income taxes, but he didn't specify what taxes will be raised.

Many private economists expect Spain's budget deficit to approach 10% of GDP this year, up from 3.8% last year. However, Mr. Zapatero vowed that by 2012 Spain would return to the 3% deficit limit that euro-zone members are supposed to adhere to under European Union rules.

—Jonathan House contributed to this article.

Floods in Turkey kill 20 more; 8 others missing

Associated Press

ISTANBUL—Flash floods roared across a major highway and a commercial district in Istanbul on Wednesday, killing at least 20 people and forcing dozens to scramble onto the roofs of cars and trucks. Some of the dead drowned in their vehicles.

Istanbul Gov. Muammer Guler said that in addition to the 20 killed, eight people were missing and 20 others were injured. The deaths raised the toll in the floods that have slammed northwestern Turkey since late Monday to at least 28.

Fueled by the worst rain in 80 years, waters rose up to two meters high in the city's Ikitelli district, cutting off the route to Istanbul's main airport and the highway to Greece and Bulgaria on the European side of Istanbul.

The heavy rains caused two streams to overflow, inundating hundreds of homes and workplaces.

Rapid population growth—fueled by decades of emigration from Turkey's impoverished rural regions—has meant that the sprawling metropolis of 15 million has developed without adequate infrastructure or city planning.

The surging water flipped trucks, cars and buses over, crushing them into piles of debris. Trapped motorists climbed out of their vehicles, hoping to be rescued. Helicopters lifted stranded people off rooftops, while inflatable boats fought the swirling waters to go from vehicle to vehicle, picking up survivors. Some rescuers used nothing but ropes to drag people across the torrent to safety.

Mithat Demirata was traveling in Ikitelli when the waters rose suddenly. "I grabbed my daughter, left my car and escaped," he said. "I am sure many people were not able to save their lives."

Hikmet Cakmak, Istanbul's deputy governor, described the scene at Ikitelli as a disaster and said four helicopters and eight boats were sent to help with the rescues.

CORRECTIONS & AMPLIFICATIONS

Fiat SpA established a service network in China and signed agreements with suppliers for spare parts after it pulled out of a dealership network run by former partner **Nanjing Automobile** Corp. in late 2007. An Aug. 17 Leading the News article about Fiat failed to note the agreements for continued service.

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LEADING THE NEWS

European banks, insurers shedding state aid

Moves assert return to health and desire for fewer restrictions

By Margot Patrick And Ulrike Dauer

European banks and insurers that had to be rescued by their governments at the height of the financial crisis are seeking to shed some of the state aid and prove to investors their return to health.

Commerzbank AG Chief Executive Martin Blessing said Wednesday that the German bank won't be asking for more government guarantees on new bonds it issues, reflecting the lower returns investors are demanding to buy bank debt as fears of further bank collapses recede.

In the Netherlands, insurer **Aegon** NV plans to repay €1 billion ($1.45 billion) in state aid by Dec. 1, while the U.K.'s **Lloyds Banking Group** PLC is considering tapping shareholders for new capital in an effort to reduce its reliance on the government.

The moves show how quickly investors' confidence in financial companies has returned as many of the region's economies start to recover. They also demonstrate banks' desires to operate unhindered by state intervention as they see opportunities to increase market share and enter new business lines.

"The banks less reliant on the governments are seen as much stronger and much better for equity holders as well as management," said Irfan Younus, a bank analyst at NCB Stockbrokers. "It means less restrictions on things like paying bonuses and stops having everything you do at risk of making headlines in the evening papers."

Banks are also keen to start paying dividends to shareholders again, a restriction the European Union can impose as a condition of state aid.

Some of the steps being taken now look like a drop in the ocean in the context of the collective €313 billion that governments injected into EU banks in the financial crisis. A further €2.9 trillion in guarantee measures were approved by the EU.

Commerzbank's effort announced on Wednesday, for instance, is relatively modest compared with those of U.S. banks that repaid bailout cash. The bank is essentially saying it doesn't need government guarantees that would have backed Commerzbank debt, a guarantee that would make the debt more attractive to investors.

Commerzbank has used €5 billion of the total €15 billion of guarantees on offer. Wednesday, it said it no longer needs to draw upon the rest of the commitment. By dropping the guarantees, it said it would save about €10 million a year in payments to the government had it kept the option to draw on the guarantees.

Aegon raised €1 billion in fresh capital a month ago to help it reduce by one-third the €3 billion it owes the Dutch government and freeing up €370 million it would have spent on interest payments. Also in the Netherlands, **ING Groep** NV plans to sell as much as €8 billion in assets "as soon as possible" to pay down the €10 billion lifeline it got in October 2008.

Meanwhile, Lloyds shareholders are on tenterhooks to see whether the bank might rejigger a plan to get a government guarantee on £260 billion ($429 billion) in risky assets and instead raise some new capital. The bank already repaid about £2.3 billion of a £17 billion capital injection by redeeming some government preference shares in May, saving £480 million in annual interest costs and allowing it to pay dividends.

By cutting back on government help, Lloyds might temper expected European Commission demands for it to sell off vast swathes of its retail and consumer lending businesses to meet state-aid conditions, analysts say.

Switzerland has recouped its sole bailout investment in **UBS** AG.

Bloomberg News

Commerzbank's Martin Blessing, at a banking conference Wednesday in Frankfurt, won't request more government guarantees.

Corporate insolvencies raise German credit fears

By Geoffrey T. Smith And Terence Roth

FRANKFURT—The number of German businesses declaring insolvency is rising this year, underscoring government warnings that a wave of credit defaults could trigger a second credit crunch.

The German statistics office, Destatis, said that corporate insolvencies filed from January through June jumped 14.8% from a year earlier. Economists said the trend will cut deeply into government tax revenue.

Corporate insolvency filings alone in June were up 15.9% from a year earlier, compared with a 14.9% annual increase in May. The total volume of claims involved in insolvency cases, including individuals, rose to €24.4 billion ($35.38 billion) in the first half from €14.7 billion a year earlier.

Insolvencies are traditionally a lagging indicator of economic activity, albeit a highly sensitive one because of the job losses that generally accompany them. The German economics ministry has warned of the possibility of a second credit crisis if a rise in corporate credit defaults moves banks to rein in lending any further.

"A very deep sense of crisis" is still prevalent in many sectors, especially in engineering and electronics, said Werner Schnappauf, head of the Federation of German Industry. Mr. Schnappauf warned of a "large and concrete danger that by the end of 2009 or early 2010, we will be in a generalized credit crunch."

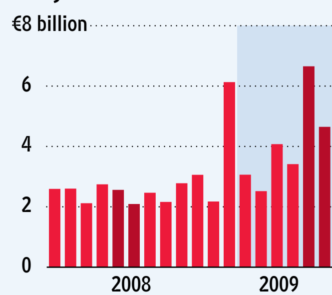
A German government committee last week announced new measures designed to avert a widespread credit crunch across the economy, earmarking a total of €17.5 billion out of an existing aid package for loans and guarantees. The program is aimed at small and medium-size companies.

Among recent filings, **Arcandor** AG, a retailing and travel company with 43,000 employees in Germany, initiated insolvency proceedings in June after requests for a government bailout were turned down.

Some economists expect the withdrawal of government stimulus programs could drag on the recovery, even though the scrapping program accounted for only €5 billion of an overall €40 billion stimulus.

Credit crunched

Aggregate claims against newly insolvent German companies have in May and June, on average, run at more than twice the level of a year earlier



Source: German federal statistics

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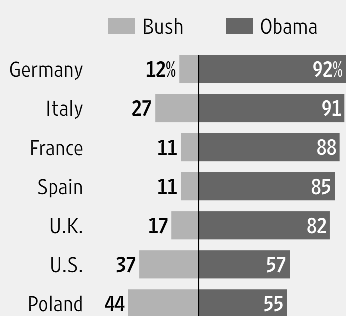
Global opinions | Americans, Europeans and Turks respond to a German Marshall Fund survey

Obamamania

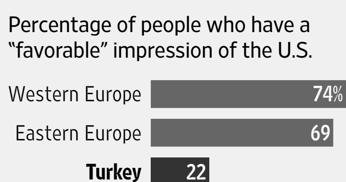
Across Europe, Barack Obama has outperformed George W. Bush in capturing public approval

Percentage supporting Bush 2008 vs. Obama 2009



While Europeans are warming to the U.S., America isn't as popular in Turkey

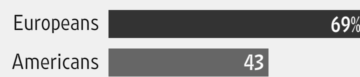
Percentage of people who have a "favorable" impression of the U.S.



Differing views on climate change

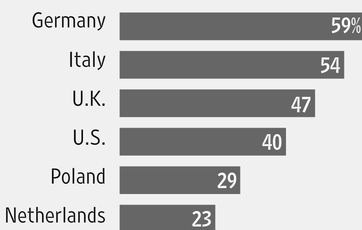
Europeans are willing to take an economic hit to help the environment.

Percentage of people who want to fight climate change even if it hurts the economy



But contrary to American opinions, not all Europeans share a concern about climate change.

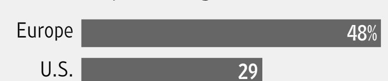
Percentage of people who are "very concerned" about climate change



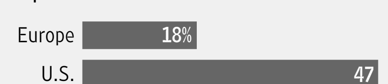
At odds over Iran

Americans continue to prefer a tougher approach to Iran than Europeans do

Percentage of people who rule out military action against Iran.



Percentage of people who support a possible strike



Note: Survey was conducted by TNS Opinion, mostly by phone, of a random sample of 1,000 men and women in each country surveyed between June 9 and July 1, 2009. Margin of error: +/-3 percentage points
Source: German Marshall Fund

Obama remains popular among Europeans

U.S. foreign policy is less successful, Marshall Fund finds

By John W. Miller

BRUSSELS—Barack Obama's popularity is shrinking at home, but Europeans still give the American president high marks, according to a public-opinion survey in the European Union, the U.S. and Turkey.

The report, released Wednesday by the German Marshall Fund, showed a record 77% of Europeans approve of Mr. Obama's handling of international affairs, compared with 19% support for former President George W. Bush a year ago. In Germany, Europe's biggest country, the jump was 80 percentage points, the biggest increase in any category in the seven-year history of the survey.

"Beyond the hype about 'Obamamania,' this is a tsunami, a once-in-a-generation bounce in popularity," says Ronald Asmus, executive director of the fund's Trans-Atlantic Center in Brussels.

The news is less good for U.S. foreign policy. Europeans remain highly skeptical about American goals for Afghanistan, American diplomatic pressure directed at Iran's nuclear program, and American support for Turkey's admission into the EU. "The president has not been able to convert personal popularity into real support for policies," Mr. Asmus says.

While 47% of Americans support the possibility of a strike against Iran to get the country to eliminate a nuclear-weapons threat, only 18% of Europeans do.

After the Sept. 11, 2001, attacks, invading Afghanistan was one thing the U.S. and Europe agreed on. Now, with no end in sight, the European public has grown weary of the war.

A majority of people in the countries surveyed, except the U.S., want their troop presences there reduced or withdrawn. In Poland, 68% of respondents want their country's troops brought home; in the U.K., 60%; in Germany, 56%; and in the U.S., 30%.

Mr. Obama has pledged to send 21,000 more soldiers to Afghanistan, and the top U.S. commander in the country, Gen. Stanley McChrystal, is expected to ask for tens of thousands more. The president has said he is counting on continued European support for the mission to stabilize Afghanistan.

With only three weeks before German national elections, a North Atlantic Treaty Organization airstrike in Afghanistan on Friday that Afghan and Western officials have said killed as many as 130 people, including civilians, has heightened doubts in Germany. The attack was called in by German troops who felt under threat, and carried out by U.S. planes. An inquiry is under way.

Turkey seems increasingly distanced from both the EU and U.S., despite Mr. Obama's trip to the country in April. Only 3% of Turks say the U.S. should be their country's "major international partner."

Says Mr. Asmus, "If you're in the State Department, you have to be frustrated that Obama's efforts didn't spill over into public support for the U.S."

European attitudes toward Turkey joining the EU remain ambivalent. Only 12% of French and 16% of Germans say the 27-nation bloc welcoming Turkey would be "a good thing," compared with 41% of Americans. Michael Emerson, an analyst at the Brussels-based Center for European Policy Studies, said this shows the time isn't ripe for Turkish membership. "The political facts are transparent that a sufficient number of European states don't want Turkey in," he says.

BofA punches back against Cuomo, SEC in Merrill dispute

By Dan Fitzpatrick And Kara Scannell

Bank of America Corp. fired back in its disputes with New York Attorney General Andrew Cuomo and the U.S. Securities and Exchange Commission, asserting that Mr. Cuomo's allegations of the lender's wrongdoing were "spurious" and rejecting suggestions that bank officers hid behind lawyers while defending decisions made during the takeover of Merrill Lynch & Co.

The counterattack from the Charlotte, N.C., lender arrived Tuesday in a letter to Mr. Cuomo's office and in a brief filed Wednesday to the federal judge being asked to approve a $33 million settlement with the SEC over the bank's nondisclosure of Merrill bonuses. In its court brief, the bank argued there is "nothing nefarious" about the settlement and "no basis" for any suggestion that the bank lied in a merger proxy document about its approval of $3.6 billion in year-end compensation for Merrill employees.

The letter to Mr. Cuomo's office from Bank of America outside attorney Lewis Liman addresses claims made Tuesday by David Markowitz, chief of Mr. Cuomo's investor-protection bureau, who accused the bank of "indiscriminate invocation of the attorney-client privilege" and "hindering" efforts to determine which company officers potentially should be charged with securities-law violations. Mr. Markowitz also outlined four Bank of America "failures" to tell shareholders material information related to the bank's takeover of Merrill.

"The basic premise of the letter is simply wrong," Mr. Liman wrote.

The bank, Mr. Liman said, hasn't "offered reliance on legal advice as a justification for its disclosures" and "no one has sought to take unfair advantage of the assertion of the privilege by hiding information from your office or anyone else." He also said that Mr. Cuomo's office rejected requests to talk about the "relevant facts" of the case.

A spokesman for Mr. Cuomo's office said Wednesday that Bank of America's letter was "riddled with inaccuracies," and the office stands by its position.

"Bank of America's officers have clearly contended that they should not be charged because they sought and relied on advice of counsel in good faith," the spokesman said. "If Bank of America is disavowing the claims of its officers, we will consider this new position accordingly."

The bank also addressed questions about attorney-client privilege in its Wednesday brief to federal Judge Jed Rakoff, noting that it hadn't invoked this protection while discussing the SEC's case and that it hadn't relied on the advice of counsel for the writing of the merger proxy. Instead, outside lawyers prepared it without the help of bank executives, the bank said, and the proxy made "no material omission" about the Merrill bonuses.

Bank of America filed its brief in response to a request from the judge for information about the proposed settlement.

In a separate court filing Wednesday, the SEC said the bank's argument that it didn't violate the proxy rules "run counter to the fundamental principle that it is the responsibility of the issuer" to provide accurate proxy statements.

"Shareholders are entitled to rely on the representations in the proxy itself, and are not required to puzzle out material information from a variety of external sources," the SEC said.

The SEC had been criticized by Judge Rakoff for fining Bank of America and its shareholders instead of pursuing charges from individuals at the bank. In its brief, the SEC said the penalty "will send a clear message" that failing to disclose separate documents beyond the proxy is unacceptable.

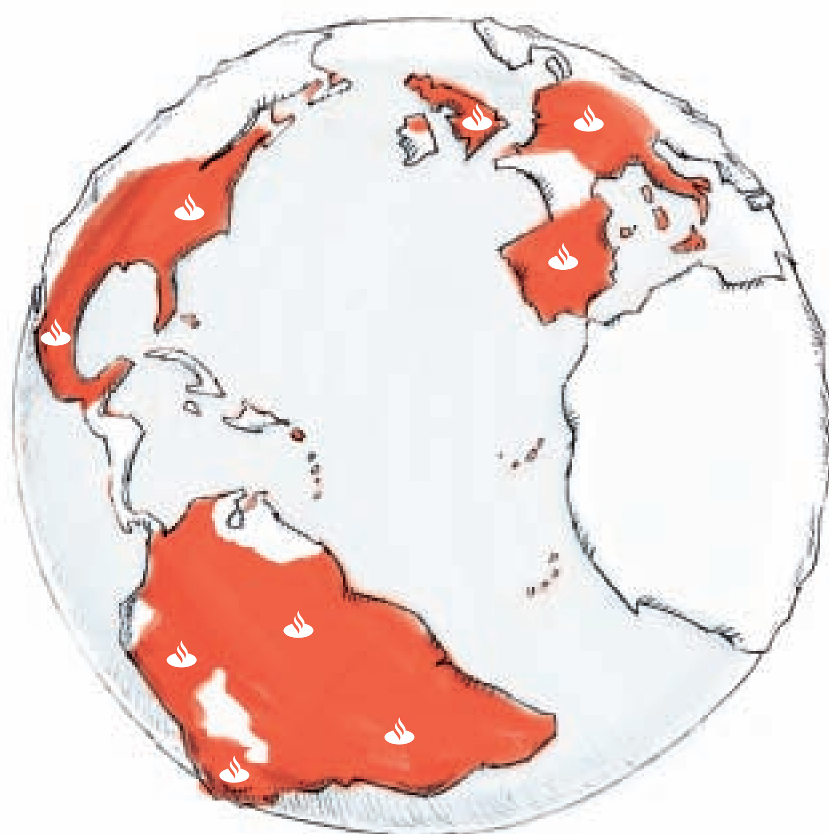
The bank told the judge in its brief that if the settlement isn't approved, Bank of America "stands ready to litigate."

Banco Santander first half 2009 results

€4.5 billion attributable profit

LEADING WORLD BANKING

A leading bank with 90 million customers, 3.1 million shareholders and 170,000 employees.



santander.com

CORPORATE NEWS

Yoox bucks the fashion, setting stage for an IPO

Web-site operator for fancy labels says, 'We're not scared'

BY CHRISTINA PASSARIELLO

Yoox SpA, the Italian e-commerce fashion company, Wednesday took the first step toward listing on the Milan stock market—a rare success in an Italian fashion industry littered with bankrupt and cash-drained victims of the economic crisis.

The company informed Italy's market regulator, Consob, of its intention to do an initial public offering by the end of the year, making it the only Italian fashion player in more than a year to follow through on plans to list. Prada and Ferragamo both pulled the plug on their much-anticipated listings at the end of last year after the market slumped, and neither has revived those plans.

Federico Marchetti

"We're not scared of anything," says founder and Chief Executive Federico Marchetti, who owns a minority stake in Yoox. "Yoox has a lot of untapped potential. We like to have a first-mover advantage."

After presenting its IPO project to the stock-market regulator, Yoox must await Consob's approval before going ahead with the marketing and the listing by the end of the year. The process could still be canceled if market conditions worsen.

When it comes to the stock market, Yoox has more in common with e-commerce giants such as **Amazon.com** Inc. than with fashion houses, Mr. Marchetti says. Founded nine years ago, Yoox operates two Web sites selling labels such as Armani and Marc Jacobs, as well as running online stores for more than a dozen fashion houses including Emporio Armani and Valentino. While Yoox's valuation has yet to be set, other e-commerce players trade at 12 to 25 times operating profit.

"The difference between us and fashion companies is really simple: We're doing fantastically well and some fashion companies this year are not going to post good results. We've not been hit by the recession," Mr. Marchetti says.

On Tuesday, Yoox reported that first-half sales rose 47% to €68.3 million ($99 million) and operating profit more than doubled to €4.2 million.

Yoox's planned listing will consist of a capital increase as well as some of the venture-capital funds, which own 75% of the company, selling their stakes. With the extra cash from the IPO, Yoox could expand its geographic reach beyond Europe, North America and Japan to emerging markets such as China.

The proposed listing is a source of optimism for investors, but overall, high-end fashion is still suffering from consumers slamming their purses shut and department stores canceling orders. **Giorgio Armani** SpA said in its annual report, released this month, that it expects profit to fall again this year after dropping 41% in 2008.

Still, as fashion houses scale back their store expansion plans, they are turning to the Internet for growth—and that is where Yoox comes in. For less than the cost of opening a traditional store, Yoox sets up and operates a brand's online boutique, selling to shoppers all over the world.

Fashion sales online haven't been hit by the economic crisis because high-speed Internet connections make it efficient to shop and entertain consumers, and customer service is excellent, Mr. Marchetti says.

McDonald's sales rise 2.2% but growth slows in the U.S.

BY PAUL ZIOBRO

McDonald's Corp.'s same-store sales rose 2.2% last month, with slowing growth in the U.S. highlighting the fast-food chain's sensitivity to high unemployment and a discounting war.

The sales growth, at locations open at least a year, was half what the company recorded for July.

U.S. same-store sales rose 1.7%, less than analysts had expected. McDonald's other regions faced tough comparisons with year-earlier results. But Europe was healthy, with same-store sales rising 3.5%. Sales fell 0.5% in the Asia/Pacific, Middle East and Africa region, with the China and Japan market weighing on results.

U.S. unemployment of 9.7% is likely taking a bite out of McDonald's robust breakfast business as fewer commuters mean fewer customers. Higher joblessness among teenage workers also didn't give the chain its usual summertime lift, said Oppenheimer & Co. analyst Matthew DiFrisco.

Unemployment is pinching the broader dining industry, and McDonald's main competitors are responding with discounts and new products. **Burger King Holdings** Inc. is pushing a $1 double cheeseburger with coupons and plans to home in on $1 products in ads. **Wendy's/Arby's Group** Inc., meanwhile, has gotten a lift from new "Boneless Wings."

McDonald's has instead focused on new premium products, including its Angus Third Pounders and its McCafé coffee line, as well as core menu items such as Big Macs. McDonald's as a result may have ceded some value-seeking customers to competitors.

The decline for Asia/Pacific, the Middle East and Africa was in sharp contrast to the 10% jump from last year, which was aided in part by the Summer Olympics in Beijing.

Overall global sales increased 1.1%, or 4.1% adjusted for foreign-exchange rates.

McDonald's shares were down 2.1% in afternoon trading on the New York Stock Exchange.

—Tess Stynes contributed to this article.

HEARD ON THE RUNWAY

New York Fashion Week

Documentarian goes behind curtain

Prigent says after 10 years, top designers have gotten much more media-savvy

Fashion documentarian Loic Prigent has captured the industry's whimsy and relentless work ethic for nearly 10 years. His newest series, "The Day Before," which is being aired on the Sundance Channel in the U.S., goes behind the scenes at four designers' runway shows. Ahead of New York fashion week, Mr. Prigent spoke to The Wall Street Journal about what drives designers.

Getty Images

From left, Lazaro Hernandez, Nathalie Rykiel, Jack McCollough and Loic Prigent. 'Everybody's media-trained now,' Mr. Prigent says.

WSJ: In the 10 years that you've been filming fashion, how has it changed?

Loic Prigent: Everybody's media-trained now. It really started when Tom Ford arrived in Paris. Everybody took note of him because he was suddenly giving interviews in black tents. He was giving media bites that were really TV-friendly and giving the sexy eye to all the editors.

WSJ: Why do designers hate that question so much?

Mr. Prigent: Because everyone asks it. Sometimes it's not something they can articulate. Sometimes it's not one inspiration but a whole realm of things and feelings. Sometimes it's not an inspiration at all but it's just about an obsession. I really feel that Sonia Rykiel is not inspired but she's obsessed.

> **'All the designers in Paris are so bored when you ask them about the crisis and what it means for them,' says fashion documentarian Loic Prigent.**

The backstage fashion shows in Paris [used to feel] like a hooligan party. Then it became black tents, very well-organized, everybody media-trained. All the hysterical assistants disappeared. Now [designers] will give you only two sound bites.

WSJ: How has the treatment of luxury changed in recent years?

Mr. Prigent: All the designers in Paris are so bored when you ask them about the crisis and what it means for them. They didn't care that much when the numbers were high and now they don't care that much [when the numbers are low]. Crisis or no crisis, they will go on designing garments.

WSJ: After the fact, a designer like Marc Jacobs might say they were inspired by something. But how do you film what's a purely internal moment?

Mr. Prigent: With Marc Jacobs, it was very strange. At the end of his New York show, he said it was about optimism. That was the only word he used for the media. But the elements of air were a great inspiration and some clothes were about water. I only noticed it because I was there night and day, but he never said it.

I'm not pushing them to articulate stuff. If they don't want to articulate it, I respect that. But you know, "What is your inspiration?" is the number one enemy in fashion journalism now. They really hate it when you ask it. I've said it one million times. You have to say it, but when I do the documentaries I try to not ask it. I try to ask it myself when I'm in the editing room.

WSJ: Who is Sonia Rykiel's obsession?

Mr. Prigent: A Parisian woman who reads, who is sex crazy, who lies and is crazy and messy, and has hair that's not washed every day.

WSJ: After being around fashion for so long, you've seen it all, including the occasional bad attitude. Where do you find the magic now?

Mr. Prigent: It's a fantasy. When everyone is realistic and boring in real life, fashion can transcend lots of stuff. I love how curious [fashion people] are about everything. They eat from everything they can, without shame or mercy or second thoughts.

WSJ: The designers you've profiled are very different but is there anything these creative types have in common?

Mr. Prigent: [During the fittings, Karl Lagerfeld and Jean Paul Gaultier] were always inventing words, always being snappy, always being funny. You feel they would have been friends with Truman Capote.

Sonia Rykiel is always so spiritual. She will say the most incredible stuff that you would never expect from a woman her age. She's really hysterical. You are talking about bread and she will quote Verlaine or Baudelaire, and you were only talking bread and butter!

This sense of taste is a common thing between all those people. You want to be on a boat in Capri with them.

—Elva Ramirez

Duckie Brown, L.A.M.B. featured

A global, monthlong design tour de force begins Thursday in New York with runway shows from the likes of Ports 1961, Duckie Brown and Gwen Stefani's L.A.M.B. Throughout the week, America's fashion heavy hitters—including Diane von Furstenberg on Sunday, Marc Jacobs on Monday, Proenza Schouler on Wednesday and Calvin Klein on Thursday—will show their latest collections, hinting at trends that will come to a store near you next spring. Keep up with the latest designs at the Journal's Heard on the Runway blog, at WSJ.com/Runway

—Beth Schepens

Anna Wintour hosts Fashion's Night Out

Thursday night is Fashion's Night Out, a party thrown by U.S. Vogue's Anna Wintour. Although there is some early optimism on Wall Street about the economic recovery, retail continues to take a pummeling. Fashion's Night Out hopes to counter that. Stores from across Europe, the U.S. and world have lined up to keep their stores open late and create a party atmosphere to nudge the consumer to shop. While the event doesn't address the current vogue for discounting, it might turn out to be just the uplifting evening the fashion industry needs.

In London, fashion lovers can be styled by model Jourdan Dunn at Topshop, have their fortune read at Roger Vivier or celebrate fashion concept store Dover Street Market's fifth birthday with designers including Christopher Kane and Gareth Pugh, who will be helping sell their wares. In Paris, shoppers can catch fashion shows at Louis Vuitton and Blumarine, or sip cocktails while milling around stores along the famed Avenue Montaigne. In Milan, join a block party at 10 Corso Como, former fashion editor Carla Sozzani's boutique.

For a full listing of retailers and events, visit Fashion's Night Out, at http://fashionsnightout.com/, or follow them on Twitter, at http://twitter.com/FNOnyc.

—Elva Ramirez, Beth Schepens

—For updates from New York's fashion week, see WSJ.com/Runway

CORPORATE NEWS

Kraft hungry for overseas markets

Cadbury's success in developing world was big factor in bid

MUMBAI— At the heart of **Kraft Foods** Inc.'s craving for British confectionery maker **Cadbury** PLC are consumers such as Divya Rodrigues.

Ms. Rodrigues, a 21-year-old accounting student in Mumbai, regularly munches on Cadbury's Crackle and Dairy Milk brands, eats twice as much chocolate as she used to, and might buy even more as presents for India's Diwali holiday.

*By **Sonya Misquitta** in Mumbai and **Cecilie Rohwedder** in London*

Candymen | Confectionery leaders by market share

India	market share
Cadbury	31.8%
Nestlé	18.2
Perfetti Van Melle	15.1

China	market share
Mars	12.9%
Perfetti Van Melle	4.1
BVI Hsu-Fu-Chi Holdings	3.9

Poland	market share
Mars	20.7%
Cadbury	14.1
Kraft Foods	11.3

Brazil	market share
Nestlé	19.6%
Cadbury	16.3
Kraft Foods	13.4

Russia	market share
Obiedinenye Konditery	16.1%
Mars	14.6
Nestlé	12.9

Mexico	market share
Cadbury	19.6%
Bimbo	8.0
Mars	6.1

Source: Euromonitor

Amitabh Bachchan, a Bollywood film actor, is the face of Cadbury's in India

Cadbury

Cadbury's hold on consumers in India and other emerging markets was a factor in Kraft's $16.8 billion takeover offer for the U.K. candy maker. A successful bid would boost Kraft's presence in two fast-growing parts of the global confectionery market: developing countries and the chewing-gum business.

Kraft, which makes the Milka, Toblerone and Cote d'Or brands, already has sizable chocolate businesses in Europe and Latin America. But in reaching consumers in overseas growth markets, Cadbury has had a double advantage: It is deeply entrenched in British Commonwealth countries such as India, where it has been selling chocolate for more than 60 years.

Cadbury's 2002 acquisition of several chewing-gum brands from Pfizer Inc. has yielded a strong presence in Latin America. One of those brands, Trident, was Cadbury's main growth motor in South America in the first half of this year. In Mexico, Cadbury's sales of about $500 million far outpace Kraft's sales of $350 million there, according to Andrew Lazar, an analyst with Barclays Capital.

Cadbury is the biggest confectioner in growth markets such as India, Mexico, Egypt and Thailand, according to consultancy Euromonitor International, and emerging markets provide 38% of the company's global sales, compared with about 20% at Kraft. As a combined company it would be nearly 70% bigger than its nearest competitor, candy giant **Mars** Inc., in emerging markets, according to a recent report by British bank Panmure Gordon Co.

In India alone, "the Kraft-Cadbury deal, if it materializes, would open up a $500 million chocolate market which is growing at 15%" per year, says Anand Shah, consumer-goods analyst at Angel Broking Ltd. in Mumbai. "Kraft has a small presence here with malted beverages, chocolates and dairy products," he says. "With dairy they would need strong distribution."

Cadbury first ventured abroad in 1921, when it opened a factory in Tasmania. It set up shop in India in 1947 and now controls 70% of the Indian chocolate market and 30% of the broader confectionary market, according to ACNielsen. Cadbury's malted-milk powder Bournvita is such a part of growing up in India that few realize it is a global brand.

Self-described chocoholic Nicole Braganza, a 23-year-old copy writer for Mumbai advertising agency Tribal DDB, also views her daily Cadbury Dairy Milk chocolate as a local brand. "I spend an average of 20 to 25 rupees [40 cents to 50 cents] a day on chocolate," she says.

Still, Cadbury estimates that more than half of India's more than one billion people have never tasted chocolate. For now, the company says the Indian chocolate market is worth $465 million a year, compared with $4.89 billion in Britain, which has one-tenth the population.

"There are significant opportunities to reach out to the new consumers," Cadbury Chief Executive Todd Stitzer said during an interview earlier this year.

Cadbury's sales in India have expanded 20% a year for the past three years, as a growing middle class has more money for little luxuries. Cadbury is also targeting lower-income consumers with chocolates that cost less than five cents.

Equally important is the British company's vast distribution network, which includes the small kiosks and family-owned storesthat sell large volumes of candy in emerging markets such as India or Mexico.

Kraft wants to tap into this distribution network. On a conference call with analysts Wednesday, Kraft executives said sales of its chocolate cookies have been growing rapidly, and they expect to expand those sales around the world, partially using Cadbury's distribution network.

"In some developing markets, Cadbury has quite a good toehold," says Neil Saunders, consulting director of Verdict Research in London. "If Kraft got a hold of it, they could speed things up by using some of Cadbury's distribution channels to really roll out their products."

—Eric Bellman, Deborah Ball and Ilan Brat contributed to this article

GM could close three plants if it keeps Opel

A WSJ News Roundup

General Motors Co. could close up to three plants if it were to keep control of its European operations as part of a revised plan under consideration, two people familiar with the situation said Wednesday.

Opel plants in Bochum, Germany, and Antwerp, Belgium, could face closure, these people said. And Opel's Eisenach, Germany, facility might be shut if a buyer for it can't be found, the people said.

GM's board of directors was expected to discuss the future of the European operations at a meeting Wednesday in Detroit. Although the company for many months was leaning toward selling a majority stake in Opel and its sister British brand, Vauxhall, the newly constituted GM board now is exploring whether to keep control of the operations.

Meanwhile Wednesday, German Finance Minister Peer Steinbrueck said GM would have to repay the aid the German government has provided to support Opel if GM decides to keep its German unit.

The German government has supplied €1.5 billion ($2.16 billion) in bridge financing to help keep Opel afloat while a deal was being hammered out for the company. The financing, and any further aid, is considered contingent on whether GM decides to go with Germany's favored buyer, **Magna International** Inc.

Mr. Steinbrueck said the German government wouldn't provide any further financial guarantees if Opel plants were closed.

Also Wednesday, Swedish sports-car manufacturer **Koenigsegg Group** AB said it has signed a partnership deal with a Chinese government-controlled company, easing financing concerns for its planned acquisition of GM's Swedish unit, Saab Automobile AB.

Under the terms of the preliminary deal, **Beijing Automotive Industry Holdings** Co. will become a minority owner in Koenigsegg Group, Koenigsegg said. It declined to disclose any financial details but Koenigsegg last month said it needed to find around three billion Swedish kronor ($425 million) in financing to satisfy its business plan for Saab.

"We have a solid business plan, an important partnership and we are now in a position to go ahead without any governmental financing," said Christian von Koenigsegg, founder and chief executive of Koenigsegg Group.

Koenigsegg said the partnership would allow the companies to explore growth opportunities in the Chinese and international markets for Saab and Beijing Auto.

Beijing Auto mounted an unsuccessful bid for GM's European operations, dropping out in July because of issues involving intellectual property rights. It is one of three bidders for Sweden's largest car producer, Volvo Cars, a unit of **Ford Motor** Co.

GM Chief Executive Frederick "Fritz" Henderson wasn't expected to make a specific recommendation on what to do with Opel and Vauxhall when he was scheduled to meet with directors Wednesday, people familiar with the matter said.

The new board, conducting only its second formal meeting since it was formed after GM's July release from bankruptcy protection, could decide to postpone a decision on the European operations until later in September, these people said. While such a move would provide more time to devise a plan for Opel, it could jeopardize billions in financing that Germany is offering in an effort to save jobs, one person involved in the negotiations said.

The board is considering four potential scenarios for Opel and Vauxhall. The first two are to sell control to either Canadian auto-parts supplier Magna or Belgian private-equity firm **RHJ International**. A third is to keep the operations and restructure them. The fourth is to liquidate them. People involved in the talks say liquidation is the least-likely outcome.

In considering the operation's fate, the board is expected to weigh how deeply its costs must be cut to make it viable and how much investment a turnaround would take. GM hasn't made money in Europe since the late 1990s, and already has spent about $5 billion trying to revamp Opel and Vauxhall.

The board is expected to press management to analyze how each scenario would affect GM's global strategy. Opel has been a considerable source of revenue and product development, including being the center of fuel-efficiency technology.

Mitsubishi stalls first regional jet for alterations

By Yoshio Takahashi

TOKYO—The initial delivery of the first passenger jet to be developed in Japan will be delayed by a few months to the first quarter of 2014 because customers have asked for specification changes, the developer of the jet said Wednesday.

Mitsubishi Aircraft Corp., a 64%-held subsidiary of **Mitsubishi Heavy Industries** Ltd., initially planned to deliver the Mitsubishi Regional Jet, or MRJ, in late 2013 to early 2014 to launch customer **All Nippon Airways** Co.

But the aircraft maker decided to enlarge the customer cabin and rear cargo compartment, and scrap plans to make a front cargo room, in response to requests from potential customers, Mitsubishi Aircraft President Hideo Egawa said at a news conference.

Mitsubishi Aircraft also has decided to add to its lineup a larger, "stretched type" jet to meet demand for 100-seat planes, he said. The initial plan was to develop 70-seat and 90-seat jets.

The 180 billion yen ($1.95 billion) small-jet project aims to develop domestically a plane that would be used for short passenger flights.

An All Nippon Airways spokesman said the MRJ postponement will have no significant impact on the airline's operations, partly because the period of delay is relatively short.

ANA has placed a 60 billion yen order for 15 MRJs with an option to buy 10 more.

Mitsubishi hires 1,300 workers for auto plants

Associated Press

Mitsubishi Motors Corp. is hiring 1,300 workers in Thailand, the latest sign of a global automotive recovery, coming a day after **Toyota Motor** Corp. said it was adding 800 employees in Japan.

Mitsubishi, Japan's fifth-biggest auto maker, said it is hiring the workers for its two assembly plants and one engine plant in Thailand.

The company, which along with its Japanese peers had been battered by the global economic slump, reduced its 1,100 temporary workers at its Thai plants in January and had no temporary workers in the country, Mitsubishi spokesman Yuki Murata said. Workers with previous experience will get preference in hiring, he said.

Government incentives introduced around the world have slowly lifted auto sales in recent months.

Toyota, the world's No. 1 auto maker, said Tuesday it is hiring 800 contract workers in Japan in its first such job increase in more than a year amid signs of a global recovery led by brisk sales of the company's Prius hybrid.

Mitsubishi makes the Pajero sport-utility vehicle, Triton pickup, Lancer sedan and other models in Thailand—some for export to the rest of Asia as well as to Brazil and the Middle East.

Tokyo-based Mitsubishi recently said it was adding 350 temporary workers at its plant in Okazaki, central Japan, and 300 workers at another plant in southwestern Japan.

Altria sets new products

Tobacco giant takes aim at expanding smokeless market

By David Kesmodel

Tobacco giant **Altria Group** Inc. plans to unveil a new version of Copenhagen this fall, one of several moves aimed at increasing the company's smokeless-tobacco sales amid tough competition from lower-priced brands.

Altria said at a Barclays Capital investor conference Wednesday that it will launch a long-cut wintergreen version of its Copenhagen premium brand to compete with **Reynolds American** Inc.'s fast-growing Grizzly long-cut wintergreen variety. Altria also said it plans to expand the number of markets where it is testing Marlboro Snus, a type of spit-free smokeless tobacco.

The moves come about eight months after Altria became the biggest U.S. player in smokeless tobacco by buying UST Inc., owner of the Copenhagen and Skoal brands, for about $10 billion. The deal gave Altria a foothold in a growing category of the tobacco sector, helping it counteract the prolonged decline in cigarette sales, where its Philip Morris USA unit is the U.S. market leader.

The Richmond, Va., company said it is introducing a wintergreen version of Copenhagen because it has a relatively small stake in that segment, the largest within the smokeless-tobacco category. "It's the natural place for Copenhagen to go...and to begin to take some market share," Michael Szymanczyk, Altria's chairman and chief executive, said in an interview.

Altria has slashed prices of Skoal and Copenhagen this year to better compete with discount moist-snuff brands such as Grizzly. But the company has continued to cede market share to Grizzly and others, prompting concern among Wall Street analysts. "I would have thought the trends would have been somewhat better," said David Adelman, an analyst with Morgan Stanley.

The UST deal came with risks. Market share for Skoal and Copenhagen had long been slipping. In addition, Altria is paying high interest rates on debt used to finance the UST deal because of the tight credit markets at the time of the transaction.

Bloomberg News

Altria is launching a long-cut wintergreen version of Copenhagen that will compete with Reynolds American's fast-growing Grizzly long-cut wintergreen variety.

Mr. Szymanczyk said the company has steadied the market share of Skoal and Copenhagen after lowering prices for the brands by 62 cents per 1.2-ounce can in March. "Our objective was not to use price to grow the business, but simply to stabilize those brands," he said.

The company knew it would take time to revitalize Skoal and Copenhagen, he said. "We never intended on trying to get that accomplished in eight months."

In the wake of the price cuts, the average U.S. price for premium moist snuff such as Skoal is about $4.15, compared with about $2.75 for discount brands such as Grizzly and **Swedish Match** AB's Timber Wolf, according to Morgan Stanley. That price gap of about 50% is down from about 100% in the second quarter of last year.

Grizzly's market share is a bit higher than Skoal's, though both are around 25%, according to analysts. Copenhagen's is about 24%. It's also a challenge for Altria that the total discount category accounts for more than half of industry volume, compared with less than 10% in the mid-1990s.

Skoal made a modest market-share gain in the second quarter, while Copenhagen lost share. In all, volume for Altria's moist snuff products fell 2% in the first half, adjusted for tax changes and the discontinuation of certain products. "I really expected to see more of an immediate turn in market share" for Skoal and Copenhagen after the price cuts, said Christopher Growe, an analyst with Stifel Nicolaus.

Sales of Grizzly, which is only about a decade old, are up about 14% by volume this year, said Winton Jennette, vice president of marketing for Conwood Co., the Reynolds American unit that markets the brand.

Growth remains steady, he said, because customers are impressed with the product's quality, not just its low price. The strategy of offering "an everyday honest price," rather than pushing lots of promotions, is paying off. he said.

Industry volume for smokeless tobacco has been growing at 6% to 7% a year. That's in part because smokers are switching to snuff because of widespread smoking bans in public places.

Another reason some smokers are switching is scientific research showing smokeless tobacco is safer for users' health than smoking cigarettes. But Rich Flaherty, president of the U.S. operations for Swedish Match, said he thinks few Americans are aware of the difference. "I don't think it's a real major impact on the growth of smokeless so far," he said.

Altria's Mr. Szymanczyk declined to disclose the new markets where the company plans to test sales of Marlboro Snus. It has been testing the product in Dallas, Indianapolis and Arizona. The snus category is a small but growing segment of the U.S. tobacco industry.

Getty Images

Richemont, whose brands include Cartier and Alfred Dunhill, says it is too early to say whether the worst is over for its markets.

Jeweler Richemont is cautious as sales drop

By Martin Gelnar

ZURICH—Swiss jeweler and watchmaker Cie. **Financière Richemont** SA said it was too early to say whether the worst was over for its markets after sales in the five months through August fell 16%.

Other luxury-goods makers—including **Tiffany** & Co., **Swatch Group** AG, **LVMH Moët Hennessy Louis Vuitton** SA and **Hermes International** SCA—recently have reported sturdier sales than Richemont or given cautiously optimistic outlooks on the markets, signaling the worst of the downturn in luxury markets may be over.

"We would prefer to wait until we have more evidence of a broader economic recovery before speculating on the likelihood of a better second half, particularly when it comes to the wholesale business," said Richemont Chairman Johann Rupert in a statement released Wednesday ahead of the company's annual meeting.

Richemont shares were down 3.5% to 28.98 Swiss francs ($27.70) following the outlook.

"The outlook is more pessimistic than elsewhere in the sector, although that probably reflects corporate culture more than anything else," said Kepler analyst Jon Cox. Richemont has been more conservative in its outlook than some of its rivals.

The credit crunch and economic downturn were slow to hit the world's $240 billion luxury-goods market, but from late last year the market has slowed sharply as even the world's highest-spending consumers cut back. Watches and jewelry have been among the worst-performing products.

In the April-to-August period, revenue of the Geneva-based owner of brands such as Cartier, Alfred Dunhill and Vacheron Constantin dropped 16%, or 21% at constant currencies, broadly in line with market expectations. It didn't provide the absolute figures, and will report its fiscal first-half figures in November.

The company reiterated that it expects profitability for the six months that end Sept. 30, the first half of its financial year, to be significantly below the year-earlier figure.

Richemont has been traditionally more conservative in its outlook than rivals.

Still, analysts noted some bright spots in Richemont's trading update. Asian sales—excluding Japan, which continued to contract—rose 5%.

Analysts expect Richemont's sales performance to improve in coming months because comparative figures will be easier, while profitability should be helped by cost-cutting measures such as reducing hours for Swiss employees at its Cartier and Piaget operations.

Longer-term, Richemont is expected to play a role in any industry consolidation. The company, controlled by South Africa's Rupert family, has €820 million ($1.19 billion) of cash on its books. It hasn't ruled out any acquisitions, and smaller players may come up for grabs as the economic downturn hits company finances. However, so far Richemont says it is struggling to find any interesting targets.

Panel backs Glaxo HPV vaccine

By Jennifer Corbett Dooren

A U.S. Food and Drug Administration panel Wednesday backed **GlaxoSmithKline** PLC's Cervarix vaccine that is designed to protect against cervical cancer.

The panel of outside medical experts voted that the vaccine was safe and effective at preventing an infection that can cause cervical cancer in women as well as a precancerous condition that can lead to cervical cancer. The votes amount to a recommendation that the FDA approve the vaccine for use in females 10 to 25 years old.

The FDA usually follows the advice of its panels but isn't required to do so. The agency could make a decision by Sept. 29. Cervarix, one of Glaxo's most important new products, is currently approved in about 100 countries outside the U.S.

If approved in the U.S., Cervarix would compete against **Merck** & Co.'s Gardasil, which was approved in 2006. Gardasil is also available outside the U.S.

Later Wednesday, the same FDA panel was to review Merck's application to expand Gardasil's use in males to prevent genital warts.

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 protects against HPV strains 16 and 18, which are linked to about 70% of cervical cancer cases in the U.S.

The FDA, however, raised concerns about a higher rate of miscarriages among females who received Cervarix and couldn't rule out a "small effect" on pregnancies.

Cervarix and Gardasil aren't approved for use in pregnant women.

Neither Cervarix nor Gardasil protects against all HPV infection.

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HUNGARY

Foreign investors are poised for an economic rebound

Significant progress in banking and finance boosts foreign confidence; shared-service centers, autos and electronics attract most interest

By Catherine Bolgar

After a rough year, it looks like the worst is over for Hungary's economy, which was hit hard by the global economic downturn.

"Hungary has quietly done much better than anybody thought it would have done," says Anders Aslund, senior fellow at the Peterson Institute for International Economics in Washington.

In July, Hungary sold €1 billion of bonds on the international market, a sign of renewed investor confidence.

"The good news is they have made significant progress in both the fiscal area and the banking area," says James Morsink, the International Monetary Fund's mission chief for Hungary, speaking from Washington. "As global financial markets settle down, investors who look at Hungary are feeling confident that prospects are improving."

Like many countries, Hungary is still in recession. The Paris-based Organization for Economic Cooperation and Development (OECD) forecasts a 6% drop in gross domestic product for this year, with GDP slightly negative to flat next year and returning to growth in 2011. Though Hungary is one of the hardest-hit countries among the new European Union member states, it is doing better than Russia, Ukraine or the Baltics.

As a small country of only 10 million people, Hungary opened its economy to the outside world in the early 1990s, after the fall of communism in 1989.

Exports account for 80% of GDP, one of the highest rates in Europe. Exports in the first half of this year were €28.39 billion, down 25.5% from a year earlier in euro terms, according to the Hungarian Central Statistical Office. Most of Hungary's exports are to the EU, and within that, Germany leads the list. Even Hungary's financial sector is highly integrated into global markets, with, for example, about 60% of the country's banking system being owned by foreign banks.

Even before the global crisis, Hungary was in a vulnerable state because of high debt levels, says Margit Molnár, an economist with the OECD. Hungary's external debt is around 120% of GDP, which is high though not the highest in the region. "In the last decade, the country was relying on foreign financing," she says. Once the crisis hit, "a bailout by international institutions was inevitable," she adds.

> *"In macroeconomic areas, the government has made important progress that has laid the foundation for growth."*

The IMF, World Bank and EU stepped in last October with a €20 billion loan package that came with plenty of strings attached, mainly to reduce the budget deficit and bring down government debt.

Hungary has been working to comply. Its budget deficit for this year is 3.9% of GDP, compared with 5.7% for the euro zone, Mr. Aslund of the Peterson Institute says. This year it slashed government spending by four percentage points of GDP, and another one percentage point of cuts is expected in 2010. "When the economy comes back, it will bring in revenues. That will give them a fiscal situation that's broadly balanced and will eventually help bring down the debt," Mr. Morsink says.

Foreign investors already are positioning themselves to be ready for the rebound in Hungary, says György Retfalvi, chief executive of ITD Hungary, the country's investment and trade development agency, based in Budapest.

"What we see currently is a high intensity of would-be investors," he says. "They aren't rushing in, but are evaluating business cases so when they see the end of the tunnel they can act with precision."

The sectors generating the most interest are shared-service centers, autos and electronics.

The focus on these areas stems from what companies are experiencing elsewhere in the current economic crisis, Mr. Retfalvi says. Companies that have already slashed costs can turn to shared-service centers for new savings, while improving quality and standardization of services. In production sectors such as autos and electronics, companies are re-evaluating excess capacity in high-cost locations and looking for more attractive alternatives to move into when the economy picks up.

Hungary has a well-educated, skilled work force in a central location, adds Mr. Retfalvi.

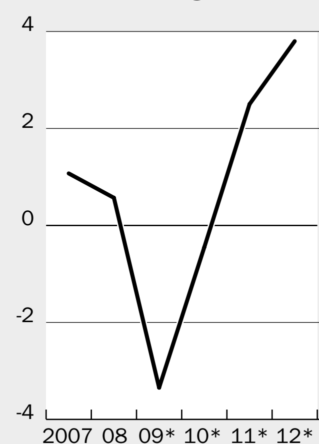
Another advantage for exporters is the forint, which has bounced back from its low point of about 315 to the euro to about 270 currently, some 10% below its pre-crisis levels.

The improved environment has allowed the central bank to cut interest rates, which in turn tends to stimulate growth. The central bank trimmed one percentage point in July and half a percentage point in August to 8%.

"In macroeconomic areas, the government has made important progress that has laid the foundation for growth," says Mr. Morsink of the IMF. "Because they have done this, they can now start cutting interest rates."

ATTILA KISBENEDEK/AFP/Getty Images

Japan's Suzuki Motor Corp. is a significant investor in Hungary's auto industry. The sector is likely to invite more foreign interest as the export market improves.



* estimates

Source: IMF, World Economic Outlook Database, April 2009

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CORPORATE NEWS

Vivendi bids for Brazilian telecom

French media giant offers $2.9 billion; Europe growth slows

By Max Colchester

PARIS—French telecom and media firm **Vivendi** SA unveiled a €2 billion ($2.9 billion) bid for Brazilian fixed-line telecom operator **GVT Holding** SA on Wednesday, as part of a wider strategy to offset slowing growth in Europe by investing in emerging markets.

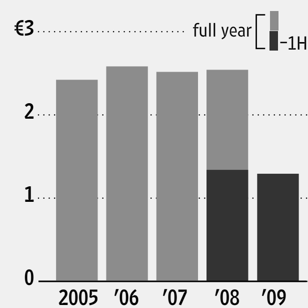
Vivendi, which owns French telecom operator SFR, has been expanding its telecom business around the world over the past few years as its fixed-line business in Europe has suffered by consumers' increased use of mobile phones.

"It is not in our DNA to buy slow-growing assets in slow-growing markets," Vivendi Chief Executive Jean-Bernard Levy said in an interview.

Brazil is the largest telecommunications market in Latin America by revenue—and Spain's **Telefónica** SA is a key player there in the both the wireless and fixed-line businesses. GVT started in 2000 and operates in the 72 most important cities in midwestern and southern Brazil, and some northern states. Vivendi says GVT has 2.3 million customers and had sales of $800 million last year; a UBS research note said GVT has 4% of Brazil's market.

Slowing down

Vivendi's SFR revenues slow as demand in mature markets dries up. SFR's Ebita, in billions



Note: EBITA is earnings before interest, taxes and amortization
Source: the company

SFR headquarters in Paris

European Pressphoto Agency/Belga

As regulators open the Brazilian fixed-line telephone market to competition, Vivendi says GVT can win market share from current operators. Mr. Levy says GVT now has access to all of Brazil, whereas before it had access to only a third of the country. He said GVT's revenue had grown 30% for two successive years.

Some analysts, however, questioned the long-term benefits of investing in Brazil's fixed-line business just as Brazilians are turning to mobile telephony.

"We are not getting into the mobile business. We are going to focus on GVT's strategy, which is to focus on the fixed-line services," Mr. Levy said in the interview.

The Paris-based company—which owns record company Universal Music and video games maker Activision Blizzard—is also hoping to profit from GVT's growing presence in the Brazilian broadband Internet market. Internet penetration is still low at about 5%, compared with France's 30%, according to French brokerage firm CM-CIC.

The deal requires the approval of GVT's board and shareholders. Vivendi, whose board also has to approve the deal, said the offer would only go ahead if it obtained at least 51% of GVT's capital and if it completes due diligence by Oct. 16. According to the terms of the deal, GVT would remain listed and the founding shareholders would hold 10% of the company, Mr. Levy added.

"GVT looks like an attractive operator with strong growth potential, but the price Vivendi is ready to pay seems quite high," Exane BNP analyst Charles Bedouelle said in a research note. Vivendi's cash offer of 42 Brazilian reals ($22.98) per share represents a 15.83% premium to GVT's last closing share price.

As of March 31, Vivendi's debt stood at €8.3 billion . Mr. Levy said a potential deal with GVT wouldn't harm Vivendi's credit rating nor would it affect dividend payments.

Should the GVT deal go through Vivendi will stop investing in foreign telecoms "for the time being," Mr. Levy said.

—Ruth Bender contributed to this article.

Jet Airways cancels flights for second day

By Santanu Choudhury And Anirban Chowdhury

NEW DELHI—**Jet Airways India** Ltd. canceled 174 flights Wednesday on the second day of a standoff with its pilots amid a slowdown in the local aviation market that has forced carriers to trim capacity.

India's second-largest domestic carrier by market share sacked two pilots earlier in the day Wednesday and said it will consider all legal options against 432 pilots who are on sick leave in protest against the sacking of two pilots in July.

The two pilots fired Wednesday were dismissed for disciplinary reasons, Saroj Dutta, Jet's executive director, said. The airline has a total of 760 pilots.

The standoff, which Jet calls a "simulated strike," forced the carrier to cancel 186 flights Tuesday, including 32 international flights, and combine several others, affecting about 13,000 passengers.

Jet Wednesday canceled flights to destinations including Bangkok, Dubai, Singapore and Hong Kong and shifted half its 14,000 domestic passengers to other carriers.

The airline's chief commercial officer, Sudheer Raghavan, said domestic ticket bookings have slid to 14,000 per day from 23,000 following the dispute. International bookings have dropped to 9,500 per day from 10,500.

Jet said the pilots went on sick leave despite a continuing conciliation process with airline management.

The Bombay High Court Tuesday issued a restraining order preventing pilots from going on sick leave after Jet moved an application in the court.

Sam Thomas, general secretary of the National Aviators' Guild, which represents the pilots, said the pilots are willing to meet the airline's management but will end their protest only after the sacked pilots are reinstated.

The dispute with the pilots comes as Indian carriers such as Jet, **Kingfisher Airlines** Ltd. and **Air India** post losses due to higher operating costs and lower consumer spending, which has hit air travel.

The carriers, which lost an estimated $2 billion in the year ended March 31, have reduced capacity, cut staff numbers and deferred taking delivery of Boeing and Airbus planes to lower costs.

Air passenger traffic fell about 5% in 2008 and declined 4.9% to 24.75 million passengers during the first seven months of 2009.

Reuters

Jet Airways canceled 174 flights Wednesday in a standoff with its pilots. Above, jets at the Mumbai airport

The pilots who took leave are part of the newly created National Aviators' Guild. The guild, which says it represents more than 650 pilots, had Monday called off a planned strike after the government labor commissioner said the strike would be termed illegal under the Industrial Disputes Act.

"In the last two years, the management has changed and has gone back on every agreement there was, including career progression and pilot rostering agreements," Mr. Thomas said. "It's our constitutional right to form the union and we are not going to disband it."

Shares of Jet fell on investors' worries over the impact of the standoff on the airline's operations.

Shares fell as much as 6.5% in early trade on the Bombay Stock Exchange but they recovered to close fairly unchanged at 262.55 rupees ($5.42).

Sino Land's underlying profit climbs as sales strengthen

By Joyce Li

HONG KONG—Property developer **Sino Land** Co. said Wednesday its annual underlying net profit rose 6.8% amid higher sales and solid demand for the company's projects.

Sino Land, which derives more than 90% of its revenue from Hong Kong, said underlying net profit was 3.6 billion Hong Kong dollars (US$464.5 million) for the 12 months ended June 30, up from HK$3.37 billion the previous year.

Analysts prefer to use underlying net profit as a gauge of a property company's performance, because changes in the value of investment properties can distort net earnings figures.

Sino Land's net profit for the period, which includes changes in the value of investment properties, was HK$3.73 billion, down 52% from HK$7.72 billion the previous year.

The developer posted a gain from investment properties of HK$693.8 million, compared with HK$3.91 billion in the previous year. Disposal gains from equity investments totaling HK$272.9 million also boosted the company's net profit in the previous fiscal year.

Revenue rose 55% to HK$9.69 billion, supported by a good market response to several of the company's Hong Kong residential projects.

Revenue from property sales rose 88% to HK$6.81 billion, while revenue from property investment increased 24% to HK$1.78 billion.

Chairman Robert Ng said Sino Land will continue its policy of selectively and continuously replenishing its land bank both in Hong Kong and China.

Sino Land, which had a land bank of about 43.5 million square feet as of the end of June, completed nine residential projects in the most recent fiscal year with a total attributable gross floor area of more than 3.2 million square feet.

GLOBAL BUSINESS BRIEFS

OAO Gazprom

Oil arm posts 45% decline in second-quarter profit

The oil arm of Russian gas monopoly OAO **Gazprom** on Wednesday posted a 45% drop in net profit for the second quarter. OAO Gazprom Neft recorded a $1.2 billion net profit, down from $2.2 billion a year earlier. However, lagging export duties and a recovery in oil prices helped provide a boost compared with first-quarter profit of $334 million. Revenue slid 48% to $5.18 billion from $9.96 billion a year earlier, as crude-oil production fell. Gazprom Neft also said it obtained a $300 million three-year, unsecured club term loan from **Bank of Tokyo-Mitsubishi UFJ** Ltd., Raiffeisenbank and Orgresbank at the beginning of August.

Diageo PLC

U.K.-based drinks giant **Diageo** PLC on Wednesday rejected proposals from the Scottish government that sought to safeguard the jobs of Scottish workers, saying talks on the issue are now closed. The Scottish government last week called for the use of public money to protect 900 workers whose jobs are under threat from Diageo's planned restructuring. Diageo said the proposals would embed inefficiencies and would put further investment in Scotland at risk. "Diageo has never sought public funding for our proposals," said David Gosnell, Diageo's managing director for global supply. "We would prefer public money to be directed to the economies of Kilmarnock and Glasgow."

Deutsche Lufthansa AG

Deutsche Lufthansa AG said Wednesday that passenger figures for the airline group it heads were up 13% in August from a year earlier, boosted mainly by the inclusion of British Midland Airways, or BMI. Cologne-based Lufthansa said the group, which also includes Swiss International Airlines, transported nearly seven million passengers last month, up from 6.1 million in August 2008. Last year's figures were dragged down by strikes. The company's main airline, Germany's Lufthansa, posted a modest 0.4% increase in passenger numbers, to 4.92 million from 4.88 million. The group's passenger load factor, a measure of how full its airplanes are, improved to 83.5% from 81.9%.

Barry Callebaut AG

Barry Callebaut AG said Wednesday that its plan to merge its consumer chocolate business with Spain's **Natra** SA soured due to financial concerns, but the Swiss industrial chocolate producer remained confident of being able to sell the business in the medium term. The Swiss chocolate maker blamed the "gap in valuation of the two companies" for the merger's failure. Barry Callebaut said in March it would sell its consumer business in exchange for a minority stake of about 45% to 49% in the Spanish company. But with the slump in Natra's valuation, Barry Callebaut would have been forced to take a bigger stake, which it didn't want to do, a spokeswoman for the Swiss company said.

—Compiled from staff and wire service reports.