INTERNATIONAL DISTRIBUTION COMPANY

**Bashir Ahmed, chairman of International Distribution Company (IDC) Bangladesh; Ashraf Bin Taj, managing director, and Md Abu Sufian, country manager of Ferrero, which is distributed by IDC in the country, attend the IDC Annual Conference 2018 at Bangabandhu International Conference Centre in the capital on Sunday.**

# Air France passengers grounded by strike

AFP, *Paris*

Half of Air France's long-haul flights out of Paris were cancelled Thursday due to a strike over pay by pilots, cabin crew and ground staff. The airline said it expected only 28 percent of the staff to walk off the job, allowing it to maintain 75 percent of its service but only 50 percent of long-haul flights out of the French capital.

There were no reports of major disruptions at Charles de Gaulle or Orly airports Thursday morning.

Ahead of the strike the carrier advised travellers to postpone their trips until February 27 at no extra cost.

"Air France regrets this situation and is making every effort to minimize the inconvenience this strike action may cause to its customers," it said in a statement.

Salaries at Air France have been frozen since 2011.

After years of job cuts and other cost-cutting measures the staff are demanding a 6-percent pay increase.

Management has said that such an increase would be "irresponsible" at a time when it is attempting to lower its costs to compete with low-cost carriers such as Ryanair and Easyjet.

It is offering a basic increase of 1 percent and a top-up for ground staff.

A dozen trade unions representing various categories of workers have dismissed the offer as "small change" and threatened more strikes.

The Air France-KLM group, Europe's second-biggest airline which is 17.6 percent owned by the French state, has been plagued by strikes and labour disputes in its French operations in recent years.

Two French company executives had their shirts torn off in 2015 by workers protesting its plans to cut nearly 3,000 jobs.

In 2017, the airline's fortunes improved dramatically, with operating profits soaring 42 percent to 1.49 billion euros ($1.84 billion), around one-third of which came from Air France.

Air France CEO Franck Terner said Wednesday that despite the improvement, the results still paled beside those of British Airways or Lufthansa and called for a "realistic balance" between rewarding staff for past sacrifices and setting aside money for ongoing investment.

# How General Electric gambled on fossil fuel power, and lost

REUTERS, *New York*

Last March, executives at General Electric Co's power-plant business gave Wall Street a surprisingly bullish forecast for the year. Despite flat demand for new natural gas power plants, they said, GE Power's revenue and profit would rise.

Showing data from financial firm Lazard and other sources, their presentation said natural gas, coal and even some nuclear power plants were the lowest-cost producers of electricity on the planet, cheaper than wind or solar. "Gas is the most economical energy source today," one slide read. In the days following the conference, GE's shares rose 2 percent.

But GE's forecast turned out to be a mirage.

Rather than rising, GE Power's profit fell 45 percent last year, forcing GE to slash its overall profit outlook and cut its dividend for only the second time since the Great Depression. Its shares have plunged more than 50 percent since the March forecast. Former CEO Jeff Immelt was replaced in August.

John Flannery, GE's new chief executive, blamed the forecast, along with poor management and other factors, for the power business meltdown. In January, he warned the pain would continue this year "and potentially be worse than expected."

What GE has not emphasized is that wind and solar now cost substantially less than gas and other conventional energy sources - and have for years, according to a widely respected energy cost report Lazard has published since 2008.

GE said Lazard was one data source for its March forecast, which also weighed the high efficiency of GE's latest gas power plants and other factors. GE said cost "is not the only predictor" of the power source utilities will choose. They may also value the reliability of fossil fuels over wind and solar.

"We have a rigorous financial planning process," GE said in response to questions from Reuters.

But according to more than a dozen former executives, rivals and energy experts interviewed by Reuters, GE's reading of the market left the company deeply vulnerable to the sudden drop in demand for conventional power plants, as sales of wind and solar surged.

"There are just fewer gas turbines being bought," one former GE executive said. "The market is not flat, it's down."

Power is not GE's only problem. Its financing arm, GE Capital, took a massive, unexpected charge that contributed to a nearly $10 billion loss in the fourth quarter and prompted U.S. regulators to broaden an ongoing probe of its accounting practices. Profit also fell sharply at GE's separate oil and gas and locomotive businesses last year, and Flannery has suggested he may break up the company.

But power is one of GE's oldest and largest businesses, and supplied 60 percent of the conglomerate's profit as recently as 2016. Now, GE is cutting 12,000 jobs, 18 percent of the unit's workforce, after announcing 6,500 job cuts in early 2016.

On Wednesday, GE Chief Financial Officer Jamie Miller warned of "a little bit more noise" at GE Power, calling 2018 "a reset and stabilization year" for the division.

She declined to predict when GE Power would regain double-digit profit margins it had in 2016, and said turning it around "will take a good 12 to 18 months."

GE doubled down on fossil fuel in 2015 with the $10.3 billion purchase of French group Alstom's power business. The deal expanded GE's exposure to gas, coal and nuclear power just as solar costs fell below those of gas-powered plants, according to Lazard.

The Alstom deal added 65,000 employees to GE's payroll and dozens of factories and service centres around the globe at a time when GE was trying to cut costs.

Orders for GE's newest, large gas-fired turbines have fallen 35 percent in the two years since the deal closed, and industry estimates show demand for conventional plants is unlikely to hit 2017 levels again for at least a decade.

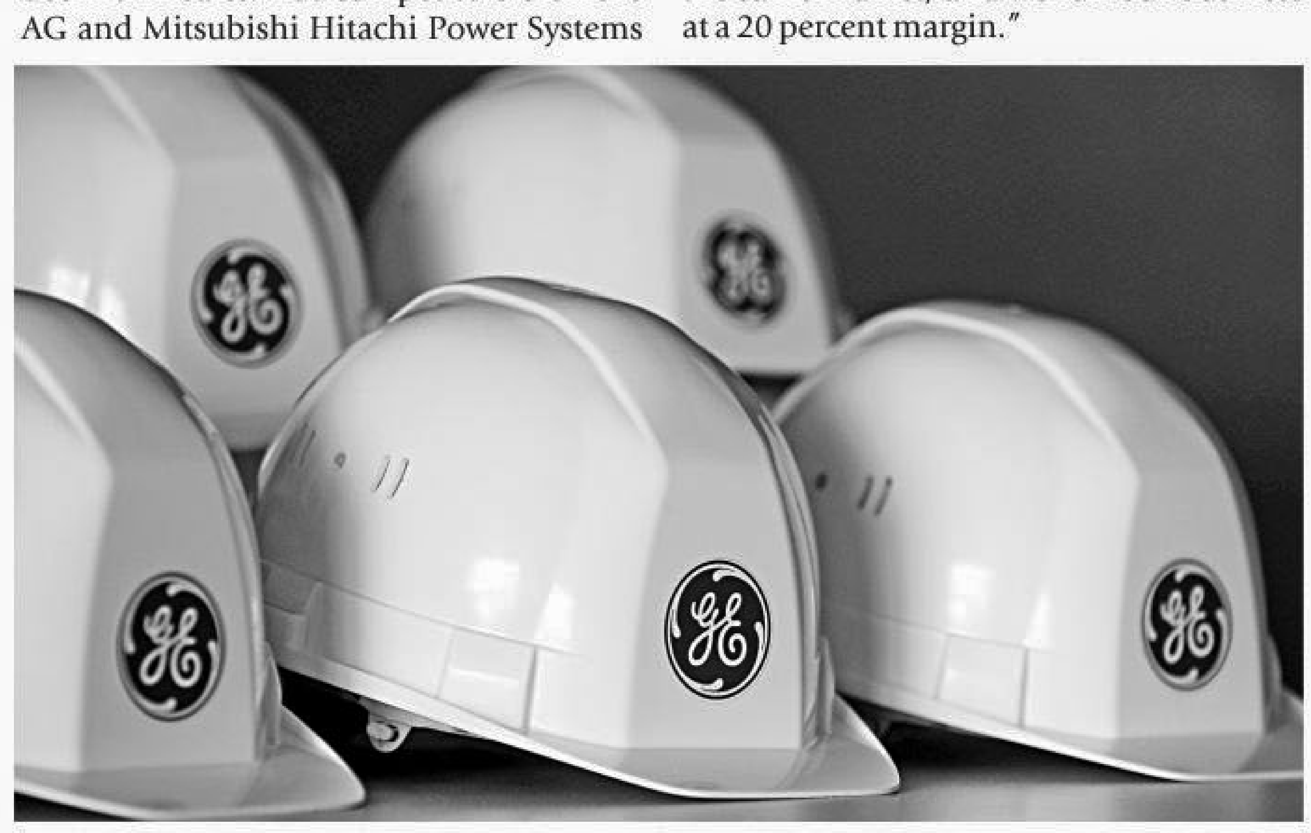
The cost gap between renewable and conventional power is still widening, and some utilities already are mothballing older fossil plants, using them only to supplement wind and solar.

Other companies also were hit by the decline in sales. But competitors Siemens AG and Mitsubishi Hitachi Power Systems were cautious. Paul Browning, Chief Executive of MHPS North America, said his company watched wind and solar power costs fall 12 percent a year for more than a decade.

"We did see a lot of this coming and didn't make acquisitions or build up a lot of facilities, people or inventory," Browning said in an interview.

While Alstom gave GE more than $14 billion more in annual revenue, Alstom's profit margins were less than one-third of GE's. Immelt saw that as an opportunity.

"If we thought this was a 6 percent margin business that we couldn't dramatically improve, we are not going to do it," Immelt said of the Alstom purchase in May 2014. "We are basically in similar businesses in the same market, and we run our business at a 20 percent margin."



REUTERS/FILE

**The General Electric logo is pictured on working helmets at the General Electric offshore wind turbine plant in western France.**

# German business confidence cools in February

AFP, *Frankfurt Am Main*

Confidence among business leaders in Germany fell in February, a closely-watched survey showed Thursday, as companies fear that the current favourable combination of strong growth, low interest rates and low inflation could be coming to an end.

The Munich-based Ifo institute's monthly barometer slipped 2.2 points to 115.4, a slightly sharper fall than expected by analysts surveyed by Factset.

"Germany's very favourable business climate cooled down considerably this month," Ifo head Clemens Fuest said. Looking to different elements of the indicator, most of the fall came in companies' expectations for the months ahead, while their view of the present situation remained at near-record levels.

"After the euphoria of recent months, companies' assessment of the business outlook for the months ahead were far less optimistic," Fuest said.

Ifo's index fell across all the sectors covered by the survey of around 7,000 firms -- manufacturing, wholesaling, retailing and construction.

Germany's economy expanded at its fastest pace since 2011 last year, hitting 2.2 percent growth.

Observers and government ministries expect this year to match or exceed 2017's performance.

But there has been uncertainty for business as Chancellor Angela Merkel has spent months struggling to form a government following tricky September elections.

Meanwhile, firms fear a unique sweet spot for the global economy of strong growth combined with low interest rates and inflation is coming to a close.

There was turmoil on global financial markets earlier this month, as low unemployment figures in the US prompted anxiety the Federal Reserve could raise interest rates more quickly than expected.

"Managers are worried about the strong euro and the unusually volatile capital markets," said Joerg Zeuner, chief economist at public investment bank KfW.

Nevertheless, "concerns about inflation and interest rates were mainly caused by positive economic news," he added.

"I see no serious negative effects for the real economy" from slightly lower confidence, Zeuner said.

# Qantas outlines pilot academy plans as profit soars

AFP, *Sydney*

Qantas Airways posted a bumper 17.9 percent jump in interim net profit Thursday and announced a share buyback, while outlining plans to create one of the southern hemisphere's biggest pilot academies.

The Australian carrier's result came in at Aus$607 million (US$473 million), with a strong performance from its domestic arm boosting the bottom line.

Underlying profit before tax, its preferred measure, which strips out one-time costs, was the highest in its history at Aus$976 million in the six months to December 31.

The market welcomed the result, with Qantas shares ending 5.88 percent higher at Aus$5.58.

The result comes on the back of an aggressive efficiency drive that has included hefty redundancies, a shift away from loss-making routes and aircraft retirements, and despite rising fuel costs.

"We met, or exceeded, all targets of our financial framework," said chief executive Alan Joyce, adding that the carrier had "a lot of momentum behind us".

"Debt is towards the bottom of our target range. Every division is returning more than its cost of capital."

Qantas Domestic, the budget Jetstar group and its loyalty programme all reported record results, while its international arm "held its own in a market that is producing some extremely low air fares".

"This result shows what our previous record results have shown -- we have a strong portfolio of businesses and the right integrated strategy for managing them," said Joyce.

"It comes from investing in areas that provide margin growth and a network strategy that makes sure we have the right aircraft on the right route." The airline declared a final dividend of 7.0 cents and announced an on-market share buyback of Aus$378 million.

# Booming fund financing poses risks for banks

REUTERS, *London*

Breakneck growth in the US$400bn fund financing market could pose a systemic risk to the banking sector as alternative investors borrow to boost returns, bankers and investors said.

Banks' exposure is soaring as lenders compete to offer loans to funds, including private equity firms, direct lenders and CLOs, which add new leverage to already leveraged investments.

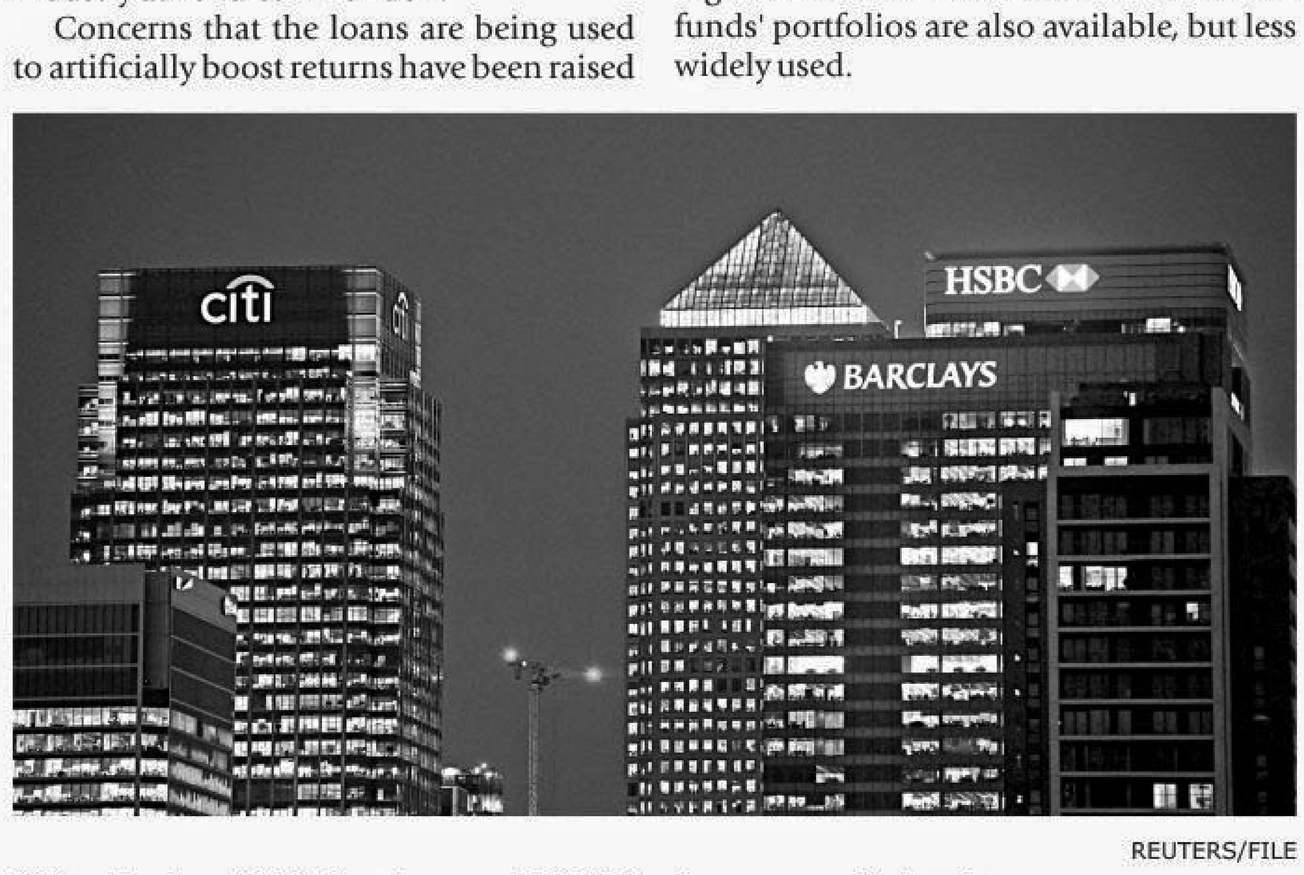
"The market's growth has been exponential," said Lee Doyle, global head of bank industry at Ashurst in London.

Concerns that the loans are being used to artificially boost returns have been raised by some Limited Partners (LPs), which traditionally supply funds' capital, said Jennifer Choi, managing director of industry affairs at The Institutional Limited Partners Association (ILPA) in Washington, D.C.

"Is it now being misused? The systemic risk is more real than many think," a senior lawyer said.

The use of bridging loans or subscription facilities is booming, particularly in the private equity industry.

These loans cover the gap between calling for investors' commitments and receiving funds. Loans based on the value of funds' portfolios are also available, but less widely used.




REUTERS/FILE

**Office blocks of Citi, Barclays, and HSBC banks are seen in London.**

Banks have piled into fund financing in recent years, attracted by strong returns and the apparently low risk of lending to LPs, traditionally high net worth individuals, pension and insurance funds and sovereign wealth funds.

Some banks are committing as much as US$500m each to individual fund loans, the senior lawyer said.

"The problem is some banks view it as easy money, but a lot of LPs now have a lot of very large funding line exposure," a partner at a London-based law firm said.

Using bridging or subscription loans instead of LPs capital can artificially inflate funds' returns by allowing managers to delay - or even avoid – calling on LPs commitments.

This boosts LPS' returns as they appear to occur in a shorter time, or with less equity investment, despite absolute returns being the same.

"Now it's a tool to effectively avoid calling LP equity," a co-head of sponsor finance at a bank in London said.

The loans are usually secured on either LPs capital or assets in funds' portfolios.

Some banks are seeking additional protection by asking for more collateral than the value of the loan, according to Matt Hansford, head of UK fund finance at Investec.

"You can't assume it's bullet-proof lending, there's definitely risk," Hansford said.

The ILPA proposed a set of guidelines over the use of subscription lines last year after enquiries from many LPs, and is now pushing for stronger dialogue on the issue.

Some managers are unhappy about the guidelines, which pushed the previously opaque market into the spotlight, Choi said.

"Our guidance definitely seems to have hit a nerve. The quality and level of disclosure around the use of these lines hasn't been consistent," she said.

Bridging or subscription loans were previously a niche, short-term product provided sparingly by banks including Royal Bank of Scotland and Lloyds to firms, such as BC Partners, which was one of the first to use them in 2000, the senior lawyer said.

Bridging or subscription loans are revolving credits with tenors of one to three years and are priced at around 160bp while portfolio loans are three to five-year term loans and are priced at more than 300bp, according to a bank that specializes in the deals.

This financial engineering is increasingly attractive as high valuations continue to put funds' yields under pressure.

"The decline in yields is making more and more investors say 'why not?'", a partner at a European private equity firm said.

Growing appetite for the collateral may prove to be problematic, Choi said, particularly as the market has largely evolved since the financial crisis and has yet to face a major downturn.

Lenders have suffered no capital losses to date, according to an internal prospectus on fund financing issued by the bank specialist, seen by Thomson Reuters LPC, but potential risks remain.