

Russian Railways May Post Loss This Year, Chief Says (Update1)
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By Agnes Lovasz

Feb. 17 (Bloomberg) -- OAO Russian Railways, the country's rail monopoly, may post a loss this year as the global recession cuts industrial production and demand for freight traffic, Chief Executive Officer Vladimir Yakunin said.

"We are going to finish this year, at best, with zero profit and in the worst scenario, we will get losses," he said in an interview at a conference at the London School of Economics today. "It is a very severe blow to us."

Net income last year was probably less than 4 billion rubles (\$110 million), Yakunin said, adding that final results won't be ready until after March. Profit in 2007 was about 84 billion rubles.

Russia's economy is being hurt as the global credit squeeze restricts access to loans and erodes demand for energy and metals. The world's largest energy supplier is facing its worst financial crisis since the government defaulted on \$40 billion of debt in 1998. The government expects the \$1.7 trillion economy to contract 2.2 percent this year, after a decade of uninterrupted growth.

The slump "is harmful for the industry I'm representing because we are not producing goods; we offer services," Yakunin said. "There is no industrial production, so what can we carry? Only passengers."

'Severe' Decline

Cargo shipments this year will drop about 19 percent on average, Yakunin said. Freight shipments are down 28 percent this month, following a 33 percent decline in January, he said.

"The drop started in November and it was quite severe in December and in January and the situation now is getting somewhat better, but I cannot say that it is sustainable," Yakunin said. Coal, oil, metal and fertilizer shipments are picking up, he said.

State-run Russian Railways would be interested in gaining or swapping stakes in European partners including Deutsche Bahn AG, Germany's state-owned railway, he said.

"We have concrete plans with Deutsche Bahn," Yakunin said. "It is under the consideration of the Russian government. In the beginning it would be just buying a small package of shares of Deutsche Bahn by Russian Railways, because they are not privatizing."

The German government delayed Deutsche Bahn's planned initial public offering of its train-operating unit last October because of the credit crisis. It later said the sale may not occur until as late as 2010.

Infrastructure Bonds

Russian Railways plans to tap the domestic capital market to help finance its operations, Yakunin said.

"The western financial market is completely closed to Russian companies," he said. "We rely on our banking system, which is being supported by the government."

The company said in November that it planned to sell 100 billion rubles of so-called infrastructure bonds and agreed to raise loans from a group of seven Russian banks. The government agreed last May to provide state guarantees on loans by Russian companies seeking to raise capital for transport and infrastructure upgrades.

Russian Railways has already issued two tranches of 15 billion rubles of bonds, Yakunin said. It may also work with foreign financial institutions on selling infrastructure bonds that can be traded abroad, he said.

The Moscow-based company said in October it will "hold off" on selling \$7 billion of 30-year bonds because of the turmoil in global financial markets. Yakunin doesn't see an immediate return to international debt markets, raising necessary funds for operations at home.

Moody's Investors Service, which rates Russian Railways A3, the fourth-lowest investment grade, last month said it was reviewing the company for a possible downgrade. Standard & Poor's rates it one step lower at BBB+.