

RESTRUCTURING OF THE ROMANIAN RAILWAYS; THE IMPACT ON THE FINANCIAL STRUCTURE

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1. Introduction

Romanian's railways are preparing to operate in a market environment where the latest European regulations apply. Restructuring has helped to stabilize the freight sector, where private operators now have a 25% share, but more remains to be done to secure the passenger business. Romania's accession to the European Union followed recognition by the European Commission that the country has made impressive strides in switching from a centralized to a market economy. Many of its institutions have been transformed and the country can demonstrate sustainable economic growth. In the rail sector, Romania is in the process of restructuring to meet the challenge of operating in a true market environment. The main priorities have been identified: to consolidate the restructuring process that began in 1997, to improve the traffic conditions, maintenance and modernization railway's infrastructure and to modernize its passenger services.

2. Key issues for railway restructuring in Romania

With the liberalization and the shift towards a market economy in 1990, transport sector and the business environment in Romania have radical changes, especially in terms of the preparation for accession and regulations applicable to projects and programs whose materialization require compliance

with the conditions of accession to the European Union.

In terms of restructuring, Romania's government has developed a framework with following key components:

- transform the railways into a fully commercial business;
- rationalise passengers services and define a public services contract;
- implement fair, transparent and competitive track access charges;
- reduce excess staff. Already 10% of the staff employed by the railways in December 2003 have been made redundant.

2.1. Transform the railways into a fully commercial business

During the 1990s the World Bank was financing various projects in Eastern Europe and it agreed with the Romanian government to finance a programme that would completely reshape the rail industry and serve as an example to other countries. Fundamental changes started in 1997, with legislation coming into force in October 1998. SNCF was split into five legally separate organizations, a courageous move given the state of development in the country at that time. The five companies are: The National Railway Company "NRC", The National Railway Transport Society "CFR Calatori" (passenger services), The National Railway Transport Society "CFR Marfa" (freight), The Railway Management Society and The Railway Actives Management Society. In addition, The Railway Authority Romanian was set

up as a regulatory authority for licensing and safety certification in 1998. The first operating licenses were issued to CFR Marfa and CFR Calatori in 2000, followed in the same year by four private railway undertakings. Since then the number of private operators has grown and there are now more than 25 licensed by AFER for passenger and freight transport. More than 100 companies have a license for loading and shunting. As a measure of liberation, this puts Romania well ahead of other countries in the region. Romania's private rail freight operators notched up an impressive 25% market share of tones carried last years.

2.2. Rationalise passengers services

In 2004 nearly 100 million passengers rode the rail in Romania just half a million were making international trips. In terms of passenger-km the total amounted to 8.6 billion, which was 43.8% of all passenger-km by public transport. This represents about 12% of all passenger trips by road and rail. Compared with the period when the economy was centralized, passenger travel has fallen dramatically to about one quarter of the '90 level. However, in 2008 total rail passenger trips are expected to climb back to 110 million. The poor level in 2005 reflected a three-week strike and line closures as a results of natural disaster.

The number of passengers using rail has fallen for several reasons. Increasing affluence has given more people the ability to purchase their own cars. At the same time, minibus services have made sharp inroads into the market thanks to high frequencies, low prices and short journey times in many cases these vehicles operate on routes parallel to rail services. Another figure to consider is the average distance each inhabitant travels by rail in a year. Compared with an European Union average of 800 km, the figure for Romania is just 400 km because the mobility level of Romanians is low.

In the past, the timetable was not well suited to the needs of the market, the policy being to run long train at infrequent intervals. This still affects short-distance services, but on long-distance routes the launch of inter-city services in 2001 has largely eliminated the problem. CFR Calatori enjoys a significant share of the long-distance market. Last year an estimated 12 million people traveled on daytime inter-city and overnight trains compared with only 127000 flying on domestic air services.

CFR Calatori is starting to consolidate its market share with the help of high-level marketing for its regular-interval services and seasonal special. Some success followed a campaign to advertise the summer "run train" services to Black Sea destinations. A similar result was achieved with winter sports trains on routes serving ski resorts in the Carpathian mountains. The volume of regional and local transport is quite stable, although a form of competition has been introduced with the services to private operators.

2.3. Implement fair, transparent and competitive track access charges

To fulfill the requirements of EC Directive 2001/14, rail operators have non-discriminatory access to the network by paying a track access fee. To determine this is the account of the technical parameters of the railway (maximum speed of traffic, the number of restrictions), the volume of traffic (an operator will require a large number of drawn to benefit from certain reductions), the period when the draw is requested (in the peak traffic cost of a draw will be higher), the type of traffic (passengers or cargo). The access charges on railway infrastructure for the freight transport is 14 lei/train-km, but for passengers transport is 9 lei/train-km. Fee for use of infrastructure are large, share in volume turnover of 89.94% and 89.42% respectively in 2006 (Table no. 1)

Table no. 1 Turnover evolution

RON

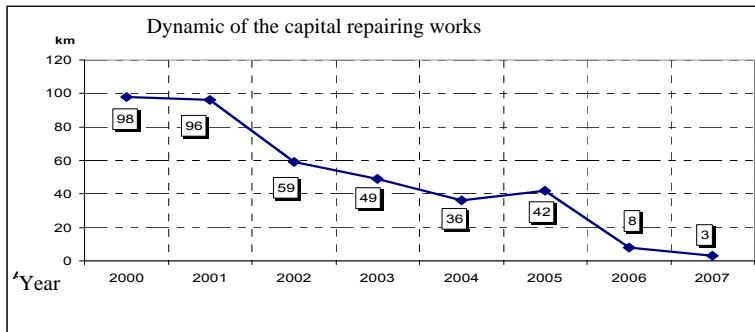
Crt no	Description	2006	2007	Absolute amendment	Indices	Structure (%)	
						2006	2007
1	Fee for use of infrastructure	1.026.064.678	1.065.430.465	39.365.787	103,84	89,94	89,42
2	Income from rents	54.853.428	57.387.041	2.533.613	104,62	4,81	4,82
3	Sales of goods	3.204.158	5.757.537	2.553.378	179,69	0,28	0,48
4	Other income	56.713.278	62.959.683	6.246.405	111,01	4,97	5,28
5	Total	1.140.835.542	1.191.534.726	50.699.184	104,44	100	100

Sursa : The profit and loss of The National Railway Company

The state provides compensation for operation of uneconomic passenger services and this represents about 60% of the total amount paid by the government to support the rail sector. The state also provides financial support to "RNC" for investment. Some state funding is also paid to "RNC" for ongoing cost, but the amount does not cover the actual sum involved. This is partly because there is a significant amount of track that is no longer required and partly

because there is a backlog of deferred maintenance that has accumulated over the past decade. Thus, the railway infrastructure is now in a state technical difficult because of the important outstanding achievement cycle maintenance and repair of railway, facilities and buildings, as well as about the works of modernization, the rest generated by chronic lack of funds necessary. In the last few years, general repair have suffered a continuous degradation in accordance with figure no 1

Figure no. 1



Source: National Railway Company, Statistical data

The total amount of state support to the railway in Romania is about 0.42% of GDP. For comparison, it is about 0.65% in Germany and between 0.43% and 0.52% in the Czech Republic.

3. The impact of restructuring on the financial structure of The National Railway Company

Current railway policy is based on action programmes which have quite

broad objectives. Major infrastructure projects are dealt with in a programme called 'Integration of the national network within the European transport network'. This covers rehabilitation of several segments of Corridor IV, including the 225 km Bucuresti-Constanta section, the 26 km Predeal-Brasov section of the line through the Carpathian mountains and the 175 km from Simeria to the Hungarian border at Curtici. Included

among the projects is a scheme to reopen the Pitesti-Ramnicu Valcea line as it offers the most direct connection between Bucuresti and Sibiu. Another programme aims to modernize the network, raise service quality and improve safety and security. It includes investment in the rolling stock fleet with modernization of 57 diesel – electric locomotives, purchase of main lines diesel locomotives for CFR Marfa and refurbishment of inter-city coaches. Purchase of EMUs for operation on the main lines is also envisaged.

Resignalling is another core area for investment with electronic interlockings being installed at major junction.. the private operators are also investing, the focus being on wagons, services facilities and locomotives – some are new and some are being refurbished.

Efforts made to improve traffic conditions, maintenance and modernization of the railway infrastructure have put their fingerprints on the assets and liabilities included in the company's balance sheet, which manage railway infrastructure.

Table no. 2 The Description of the liabilities

Crt no	Description	2006	2007	Absolute amendment	Indices	Structure (%)	
						2006	2007
1	Capital	198.771.422	568.574.637	369.803.215	286,04	1,09	2,95
2	Premium capital	0	0	0			
3	Revaluation reserve	1.432.095.833	1.414.747.722	-17.348.111	86,79	7,85	7,34
4	Reserve (legal reserves, statutory, other reserves)	85.018.979	102.242.787	17.223.808	120,26	0,47	0,53
5	Brought forward	1.817.770.585	1.104.814.666	-712.955.919	60,78	9,97	5,73
6	Loss of the year	856.617.396	334.460.339	-522.157.057	39,04	4,70	1,73
7	Own capital (1+2+3+4-5-6)	-958.501.747	646.290.141	1.604.791.888	-67,43	-5,26	3,35
8	Provisions	10.960.228	61.476.554	50.516.326	560,91	0,06	0,32
9	Accrued income	1.903.368.221	2.713.196.713	809.828.492	142,55	10,44	14,07
10	Debts to be paid in a period of up to one year	3.505.190.370	2.165.376.706	-1.339.813.664	61,78	19,22	11,23
11	Debts to be paid in a period longer than one year	13.772.800.212	13.692.346.736	-80.453.476	99,42	75,53	71,02
12	Total liabilities	18.233.817.284	19.278.686.850	1.044.869.566	105,73	100	100

Source: Financial situations of The National Railway Company

Analysis of data contained in the table is a difficult situation for economic activity by value recorded in 2006 by the company's equity and increase total liabilities and causes for the increase: increasing equity from -958.501.747 to 646.290.141; increasing capital from 198.771.422 to 568.574.637; increasing to 17.223.808 reserves, with 809.828.492 income and 50.516.326 lei provisions. At the same time found a reduction in the revaluation reserves and debts. Because the different rhythm increase of different categories of financial sources, changes occur in their structure from one year to

another. Thus, there is a structural change favorable financial activity, because of the low share of short term debts from 19.22% to 11.23% and debts of more than one year from 75.53% to 71.02%, still recording a significant share in total liabilities. Loss carried forward and current financial year fell from 9.97% to 5.73%, respectively 4.70% to 1.73%.

Permanent capital of The National Railway Company, calculated based on data drawn from the accounting balance sheet at 31 December 2007, is as follows:

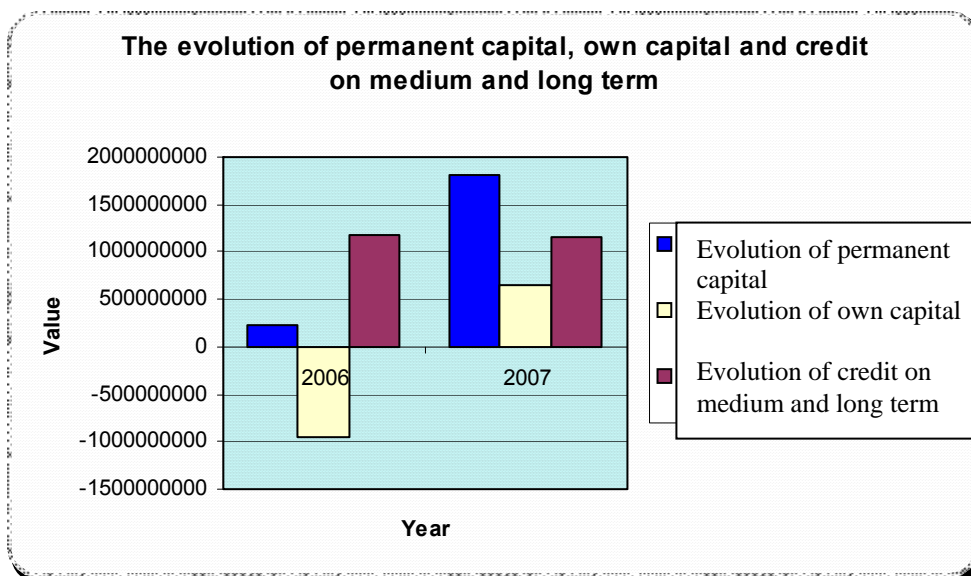
Table no. 3 The permanent capital and structure of rates liabilities

RON

Crt no	Description	2006	2007
1	Capital	198.771.422	568.574.637
2	Premium capital	0	0
3	Revaluation reserve	1.432.095.833	1.414.747.722
4	Reserve (legal reserves, statutory, other reserves)	85.018.979	102.242.787
5	Brought forward	1.817.770.585	1.104.814.666
6	Loss of the year	856.617.396	334.460.339
7	Own capital (1+2+3+4-5-6)	-958.501.747	646.290.141
8	Credit medium and long term	1.177.587.317	1.161.533.726
9	Permanent capital (7+8)	219.085.570	1.807.823.867
10	Total liabilities	18.233.817.284	19.278.686.850
11	The financial stability (9/10)	1,20	9,38
12	The financial autonomy (7/10)	5,26	3,35
13	The degree of indebtedness (8/1)	5,92	2,04

Source: Financial situations of The National Railway Company

Figure no.2



To find a permanent increase of capital in 2007 compared to 2006 in terms of increasing equity and reducing appropriations medium and long term

Analyzing the structure of rates liabilities out ways of financing a business: financing of their own (represented by equity), financing sources borrowed from the nature of bank debt and financing sources attracted (commercial loans). They allow

appreciation of enterprise financial policy, putting in evidence of issues concerning stability and financial autonomy, the most important rates are:

- **the financial stability** reflects in the share of permanent capital in total liabilities of the company. In that case found a very low level of the rate, calculated based on accounting balance sheet at 31 December 2007 of the

company, which engager the financial stability.

- **the overall financial autonomy** called economic solvency is determined as the ratio between equity and liabilities total. A level of the highest rates of 30-40% is estimated as satisfactory for ensuring financial balance sheet and 50% is estimated as normal. In the context of The National Railway Company, rate of the global financial autonomy, calculated based on accounting balance sheet at 31 December 2007 indicate a very low level

of funding of assets on behalf own resources, both for 2006 and 2007.

- **the degree of indebtedness (risk)** is the ratio of capital borrowed long-term and medium and subscribed and paid or their own. Of these calculation to determine a degree of indebtedness due to increased value that a debt is medium and long term contracted by the company.

In the recent years, liabilities of The National Railway Company have a significant share, as result of the following tables:

Table no. 4 The Description of debts for 2006

RON

Crt no	Description	2006	Exigibilitate	
			Up one year	Over one year
1	Debts for credit institutions	1.564.309.533	386.722.216	1.177.587.317
2	Commercial debts	929.361.687	929.361.687	0
3	Advance cashed in the orders	1.282.033	1.282.033	0
4	Other debts, included fiscal debts	14.783.037.330	2.187.824.434	12.595.212.895
5	Total debts	17.277.990.582	3.505.190.370	13.772.800.212
6	Total assets	18.233.817.284	-	-
7	Operating rate debt (2+3+4)/5	90,95	-	-
8	Rate debt (5/6)	94,76	-	-

Source: Financial situations of The National Railway Company

Table no. 5 The Description of debts for 2007

RON

Crt no	Description	2007	Exigibilitate	
			Up one year	Over one year
1	Amounts owed to credit institutions	1.541.823.227	380.289.501	1.161.533.726
2	Commercial debts	1.376.019.824	1.376.019.824	0
3	Advance for orders	1.374.953	1.374.953	0
4	Other debts, included fiscal debts	12.938.505.438	407.692.428	12.530.813.010
5	Total debts	15.857.723.442	2.165.376.706	13.692.346.736
6	Total assets	19.278.686.851	-	-
7	Operating rate debt (2+3+4)/5	90,28	-	-
8	Rate debt (5/6)	82,26	-	-

Source: Financial situations of The National Railway Company

In this case, is a significant share of farm debt in total debts recorded in the two years of 90,95% and respectively

90,28%, and a significant rate debt 94,76% in 2006 and 82,26% in 2007.

Table no. 6 The Description of the assets

Crt no	Description	2006	2007	Absolute amendment	Indices	RON	
						Structure (%)	
						2006	2007
1	Tangible fixed assets	12.444.430.739	12.456.536.909	12.106.170	100,10	68,25	64,61
2	Intangible assets	3.007.409.501	4.103.185.632	1.095.776.131	136,44	16,49	21,28
3	Financial fixed assets	209.534.068	218.068.515	8.534.447	104,07	1,15	1,13
4	Fixed assets	15.661.374.308	16.777.791.056	1.116.416.748	107,13	85,89	87,03
5	Stocks	167.248.499	152.048.683	-15.199.816	90,91	0,92	0,79
6	Receivables	1.842.281.997	2.056.450.578	214.168.581	111,63	10,10	10,67
7	Money availability	560.646.230	279.777.434	-280.868.796	49,90	3,07	1,45
8	Assets	2.570.176.726	2.488.276.695	-81.900.031	96,81	14,10	12,91
9	Expense recorded in advance	2.266.250	12.619.099	10.352.849	556,83	0,01	0,07
10	Total assets	18.233.817.284	19.278.686.850	1.044.869.566	105,73	100	100

Source: Financial situations of The National Railway Company

The data presented in table no 6 increase of assets 1.044.869.566, which reflects, in principle, a small dynamic company's assets. To appreciate that growth is necessary to highlight the groups who contributed to this growth. Increasing assets in 2007 compared to 2006 was due to increase by 7.13% to fixed assets and increase 5.56 time the expenditure recorded in 3.19% of circulating assets. In addition, there is a significant share of intangible assets in total assets, both for 2006 and 2007 (68.25% and 64.61%). This situation could be explained by the fact that in 2002 the company concession assets owed by the public, which is regarded initially as tangible fixed assets, but they were transferred in the year 2004 in intangible assets.

Analysis of the structural changes of assets is done with rate structure of

assets. Fixed rate assets, calculated as the ratio between total assets and fixed assets, is actually share the economic elements which serve the company permanently in total assets. The rate of fixed assets vary depending on the activity of the company. The most common are between 40-60%. Share of the assets circulating assets is the circulating assets in total assets balance sheet. In case the company found a rate significant fixed assets and a lower circulating assets in total assets by even the activity of the company's management infrastructure.

In addition, indicators of liquidity does not fall within the normal range, the unit value, but registered a slight growth achieved by decreasing the current debt in 2007 compared to 2006.

Table no. 7. Indicators of liquidity

Crt no	Description	RON	
		2006	2007
1	Assets	2.570.176.726	2.488.276.695
2	Expense recorded in advance	2.266.250	12.619.099
3	Current actives (1+2)	2.572.442.976	2.500.895.795
4	Debts to be paid in a period of up to one year	3.505.190.370	2.165.376.706
5	Accrued income	1.903.368.221	2.713.196.713
6	Current debts (4+5)	5.408.558.591	4.878.573.420
7	Stocks	167.248.499	152.048.683
8	The general liquidity (3/6)	0,48	0,51
9	Quick liquidity ratio (3-7)/6	0,44	0,48

Source: Financial situations of The National Railway Company

Solvency analysis involves a confrontation of data on the availability of money in the immediate perspective, the

liability of the company on the same period.

Table no. 8. Solvency

RON

Crt no	Description	2006	2007
1	Assets	2.570.176.726	2.488.276.695
2	Debts to be paid in a period of up to one year	3.505.190.370	2.165.376.706
3	Accrued income	1.903.368.221	2.713.196.713
4	Current debts (4+5)	5.408.558.591	4.878.573.420
5	Stocks	167.248.499	152.048.683
6	Money availability	560.646.230	279.777.434
7	Capital	198.771.422	568.574.637
8	Debts to be paid in a period longer than one year	1.177.587.317	1.161.533.726
9	Economic solvency 7/(7+8)	0,14	0,32
10	General solvency (1/4)	0,48	0,51
11	Reduced solvency (1-5)/4	0,14	0,15
12	Immediate solvency (6/4)	0,10	0,05

Source: Financial situations of The National Railway Company

It is estimate that an immediate solvency rules must be 30%, which means that in 2006 and 2007 were record rates of immediate solvency far reduced from those considered normal.

4. Conclusions

An essential element contributing to the success of the restructuring programme has been the railway policy of The Transport Ministry. This ministry has helped to overcome all obstacles generated by frequent changes of government and strong pressure exerted by the road lobby, something which has often destabilized the rail sector in other countries. Open access freight operations have so far proved a success for shippers, with drastically improved services. The arrival of open access was also a catalyst for the modernization of CFR Marfa in terms of managements and operations. The conclusion for the railway market is that true liberalization brings benefits for all stakeholders, but it only works when backed by strong

supervisory and regulatory bodies able to ensure non-discrimination.

At the end of 2007, the National Railway Company recorded a loss of 334,4 million lei and the liquidity and solvency have very little. Because of the importance of economic, social and strategic work by the company, consider that the government will continue to support company through subsidies to a level that allows this operation.

Improving the standard of infrastructure on the Pan-European network has been given special attention in Romania, not least because about 50% of all rail traffic moves over lines designated as part of respective network, this represents about 20% of the 11.364 route-km national network. The main objectives is the assurance of the quality and the safety of the railway infrastructure, including conditions to increase the running speed (between 120km /h for freight trains to 160 km/h. for passenger trains) required measure in according with achievement interoperabilite with European railway system.

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xxx – (2005)	<i>The decision no. 817 for the approval of the Plan concerning the long term strategy of the railway sector in view of the re-establishing of the financial balance of the infrastructure administrator and in view of the modernizing and the renewal of the infrastructure, published in the Romania’s Official Gazette no. 738 from August 15th.</i>