RUSSIA PREPARES FOR LIKELY LOSS OF TRANSAERO

News / Airlines

Details have begun to emerge about plans to fill a likely service vacuum left by failing **Russian** carrier **Transaero** following last week's disclosure that shareholders had missed a deadline to consolidate 75 percent of its shares for subsequent transfer to Aeroflot.

Instead of saving Transaero, Aeroflot has posited an idea to create a sort of substitute to it by merging three airlines – Rossiya, DonAvia and Orenburg Airlines - into a single entity called United Airline Russia. According to Aeroflot CEO Vitaly Saveliev, U.A.R. would possess enough strength to "balance" the national air traffic system following Transaero's expected dissolution and create jobs for some 5,000 to 6,000 of its employees.

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Transaero shareholders surrendered “operational control” to its intended new owner as agreed on September 7 in return for a symbolic payment of 1 ruble. However, Aeroflot refused to consider setting a new deadline to allow the shareholders to fulfill their obligation to submit a final proposal.

Nevertheless, “Aeroflot undertakes that all obligations to Transaero’s passengers will be fulfilled,” said Saveliev in a statement. “Passengers will be guaranteed transportation or a refund in the event that a flight is cancelled.” Aeroflot also agreed to pay all current expenses related to flight operations, as it did in September. “But we are not in a position to pay off all old debts Transaero has accumulated,” added Saveliev.

Even though the government offered Aeroflot an incentive in the form of 70- to 80 billion rubles in budget guarantees, the flag carrier said it found itself unable assume Transaero’s 250 billion ruble ($3.8 billion) debt, including 150 billion rubles in aircraft rentals for airplanes, 20 billion rubles in payments due to airports and fuel providers and 80 billion rubles in bank credits.

Following Aeroflot’s statement, Russian transportation minister Maxim Sokolov imposed a ban on further sales of Transaero tickets. Speaking to local media, he expressed a hope that the government will soon reach agreement with Aeroflot, S7, Ural Airlines, Taimyr and other airlines to honor tickets already bought by 650,000 passengers. In the morning of October 2, Transaero management issued a statement that the airline will cancel all of its domestic flights on October 5, and all international services on October 15. By evening, however, they amended the decision, and announced the continuation of scheduled services until mid-December.

The heads of Savings Bank and VTB – Russia’s biggest financial institutions as well as Transaero’s creditors – promised to initiate the bankruptcy procedure, “because in the current form, [the airline] is unable to pay rentals and credit repayment.”

“Not only Aeroflot, but also none of the creditors appears to be interested to rescue [Transaero],” said VTB CEOAndrei Kostin. The bank plans to sell a total of 21 jetliners that the ailing airline operates today under financial lease arrangements. Transaero owes VTB 40 billion rubles in rental payments and a further 12 billion rubles under various credit lines. Kostin expects gurantees issued by the Russian government last December to cover the latter. Russian minister for economic development Alexei Ulyukaev agreed that the guarantees did not serve the intended purpose and “only gave more time to the airline’s ineffective management.”

Transaero’s fleet consists largely of Boeing jets under finance lease terms structured by VTB, Sberbank and VEB. Kostin acknowledged that placing the airplanes with other airlines will prove a difficult task in the view of the bad and worsening situation in the national air transportation system. Still, the banks have so far refused to invest in Transaero’s base capital as a means of relieving the ailing airline from its debt burdens. According to Russian media, the Kremlin gave its approval for dissolution of the airline if no other option appeared workable. “As of today, the creditors did not manage to reach agreement on the terms of how to restructure Transaero’s debts,” Sokolov told the media. As a result, bankruptcy seems inevitable. Under Russian law, a company subjected to bankruptcy procedure continues to function until its temporary administration it pays all taxes and dues into the state treasury, and then salaries, wages and social obligations to employees. If any funds remain, it must go to the creditors.

06 OCTOBER 2015

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