Transforming UZ into a modern European railway champion

PJSC UKRZALIZNYTSIA

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A lot to be proud of

	Freight volume Tkm billion	**Number of passengers** Per km	**Network size** Km thousand
Ukraine	194	35.4	21.6
Germany	112	30.9	41.3
Poland	50	15.8	19.3
France	32	89.4	30.0
Italy	20	49.9	16.7

Ukrainian Railways are one of largest system in Europe in terms of freight volume and number of passengers

However a range of challenges exists

1 Infrastructure

- 3,100 km of **modernization back-log** (~15% of network[1])
- 7,500 km of **maintenance back-log** (~35% of network[1])
- Destruction of key infrastructure due to an armed conflict in the East

2 Freight business

- **Freight traffic**[2] has declined by 5.9% in 2014, by 7.7% in 2015, and 5% in 1H2016
- Average age of **electric locomotives** is 39 years with 80% of stock reached normative end-of-life
- Average age of **diesel locomotives** is 30 years with 88% of stock reached normative end-of-life
- 74% of **rail cars** have reached normative end-of-life
- **Estimated investment back-log** in freight stock is USD 9-10 bln, including back-log in stock of UAH 2.5 bln till the end of this year

3 Passenger business

- **Passenger traffic**[3] has declined by 25% in 2014, 3% in 2015, and increased by 6.7% in 1H2016
- **Passenger tariff** freezed in 2015 (based on 8 months 2015) despite the inflation rate of close to 50%
- Very **limited investment** in new rolling stock in the last 20 years
- 105 railway stations with 5 key central stations
- Generally, low non-fare revenue implementation

Additionally UAH ~50 bln in debt in 80% denominated in foreign currencies

1 W/o Crimea
2 Measure in ton-km
3 Measured in passenger-km

Our objectives

Transform UZ to a **modern European railway champion** with customer-centric, transparent and corruption free platform

How to measure success?

Objective 1: Customer and passenger satisfaction
— 20 p.p. in satisfaction

Objective 2: Transparency and lack of corruption
— 90% corruption

Objective 3: Modernization and renovation of fixed assets
— USD 1 bln in internal investments in 2-3 years

Objective 4: Employees satisfaction and development
— 20 p.p. in employees satisfaction

Objective 5: Security
— 10% reduction in the number of traffic accidents in service work

Objective 6: Financial stability
— USD 200-300 mln of incremental financial result improving financial results under IFRS within 2-3 years

Example: Selected value leakages due to potential corruption and lack of transparency

Corruption in procurement processes

Lack of transparency/ potential theft in fuel consumption

Nontransparent sales for industrial customers

Tariffs favorable for selected private industry customers

Lack of proper control and bribes in passenger ticketing

Our approaches in defeating corruption

Passenger transportation

- Elimination of speculation on tickets
  - Implementation of a mobile application and mobile version of the online ticket sale service
  - Development of a network of ticket sale self-service terminals
  - Ensuring recovery of penalties, which will reduce the number of toll evaders and cases of unpaid excess hand luggage
- Elimination of corruption in lease transactions
  - Development and implementation of the concept of the use of commercial floor spaces

Freight transportation

- Building effective direct relationship of Ukrzaliznytsia PJSC with customers
- Implementation of automated railway cars distribution system
- Creation of a single transport web portal - Single online window

Procurement

- Final transition to the use of Prozorro system
- Optimization of specifications of tender documentation for products purchased
- Control of actual balances in warehouses and procurement planning
- Tracking of the tender procedure, process of contracting and fulfilment of contracts
- Preventing of discrimination of participants and the absence of requirements prepared for specific suppliers
- Attracting of foreign suppliers

HR

- Implementation of modern recruitment and personnel evaluation systems
- Implementation of modern efficient system of motivation and job compensation
- Involving employees in system changes in the company

Proposed segmentation of responsibilities

Passenger transport

- Ticket offices
- E-ticket
- Passenger tariffs
- Passenger transport infrastructure
- Integrated train schedules

Freight transport

- Sales offices
- Freight tariffs
- Freight transport infrastructure (yards, terminals, depots)
- Intermodality

Infrastructure

- Train formation
- Rail tracks, electricity power
- Infrastructure maintenance facilities
- Traffic safety
- Train dispatching

Production

- Maintenance system of rolling stock
- Technical policy
- Rolling stock modernization and renovation

Back-office and strategy

- Restructuring
- Project management office
- International contacts
- Marketing/PR
- Audit and Control
- HR appointments
- Information technologies
- Procurement
- Security
- Legal issues

Finances

- Finances & Controlling
- Finance management
- External financing
- Debt restructuring

HR

- HR Strategy
- Non-core business areas
- CSR and trade unions
- Compliance office
- Modern staff motivation

Roadmap and quick wins

2016

UZ Roadmap & Quick-wins: funding the transformation

Passenger transport
- Improve cleanliness of wagons, Modernization of existing fleet and procurement of new wagons
- Improve sales and service (e-tickets, information), efficient train schedules
- Creation of UZ Passenger branch
- Reviewing of the ticketing system, including by commercial organizations (travel companies, etc.)

Freight transport
- "Tactical" changes in tariff structure
- Start of direct sales force creation
- Procurement of new low-sided car (EBRD)
- Creation of UZ Cargo branch

Infrastructure
- Prioritization of key investment projects
- Identify and resolve bottlenecks
- Start of electrification corridors, Creation of Infrastructure division

Production
- Increase cargo wagons availability (incl. extending of maintenance cycle)
- Design new rolling-stock maintenance system (incl. new technical policy)
- Creation of Production division, Determination of requirements for the new rolling stock
- Development of the "Program of utilization of rolling stock" and "Regulations on the implementation of junk"
- Development of strategy of renewal, repair and modernization of rolling stock (rolling stock policy)

Finance
- Launch of cost savings program
- Debt restructuring

Back-office and strategy
- Development and approval of a 5-year UZ strategy
- Audit legal issues in courts
- Define plan for IT systems development, ERP implementation, etc.
- Creation of a new Corporate Identity (CI) system
- Creation of "Project Management Office" (with CEO as key sponsor)
- Creation of a modern customer-oriented UZ web-site
- Developing and implementation of a new modern procurement policy
- Auditing all internal and external legal norms and processes in Ukrzaliznytsia
- Create short-term action plan

HR
- Ensuring a qualitative social dialogue, Initiate dialogue with trade unions
- Recruitment and personnel assessment
- Clear-cut internal and external communication
- Creation of Compliance office

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