



7th Railway Working Group Meeting

22–23 May 2023 • Tbilisi, Georgia

7-е заседание Рабочей группы по железнодорожному транспорту

22–23 мая 2023 года • Тбилиси, Грузия



OUTLINE



Outcomes and final words:

- Project management; Change management; Performance management; Lessons learned

Transformation:

- Transformation governance; Transformation process 2022 and 2023; Implementing process; Agile approach

Change:

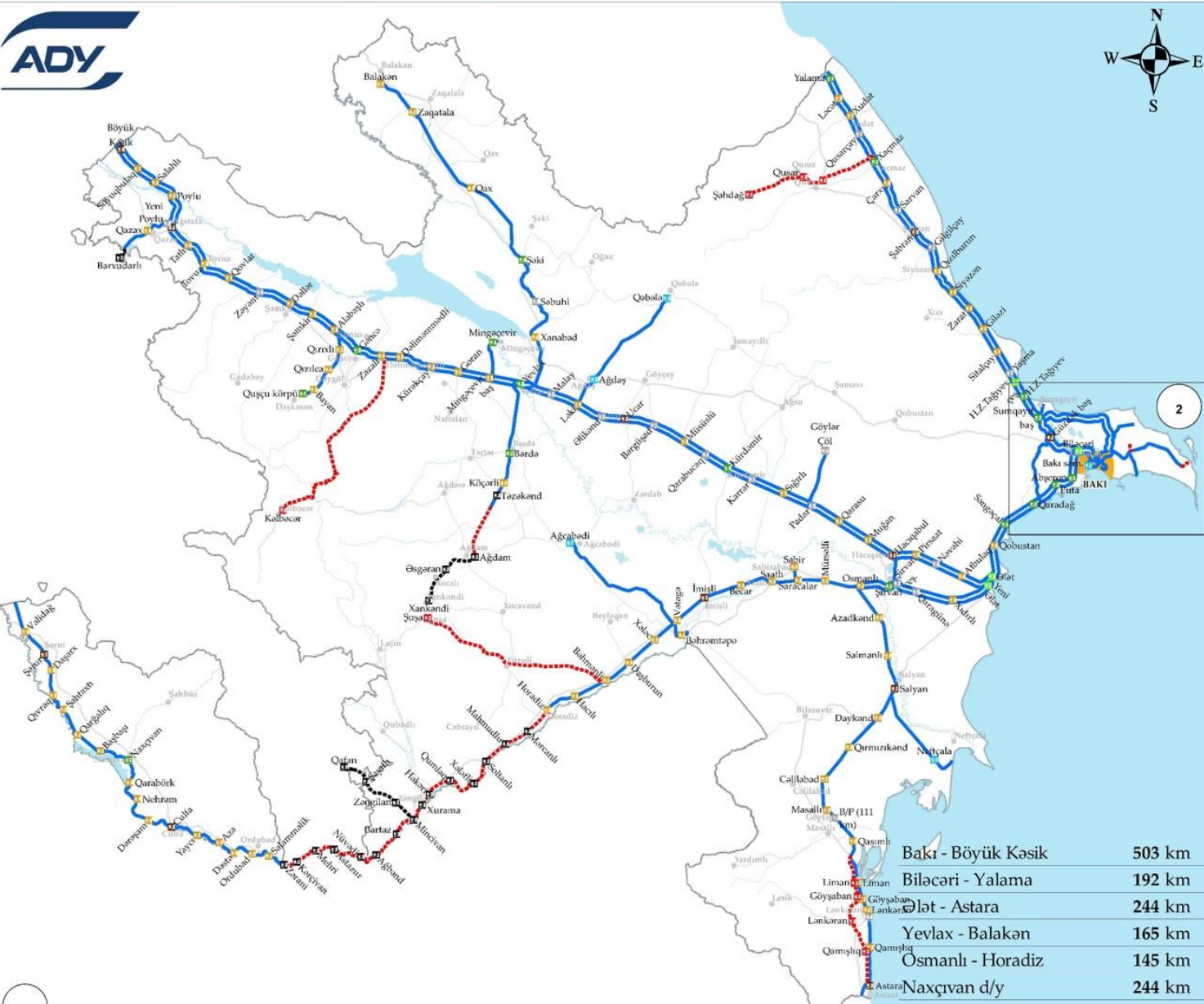
- Change timeline; Railway sector development program(RSDP); Corporate strategy; Targets

Introduction:

- General Overview; Ministry ;Major projects; Achievements.



General overview



- **Integrated organization**
- **Length of main track : 2,138.85 km**
- **Length of electrified roads: 54.1%**
- **The length of the two-way roads: 38%**
- **Number of employee: 17 000**

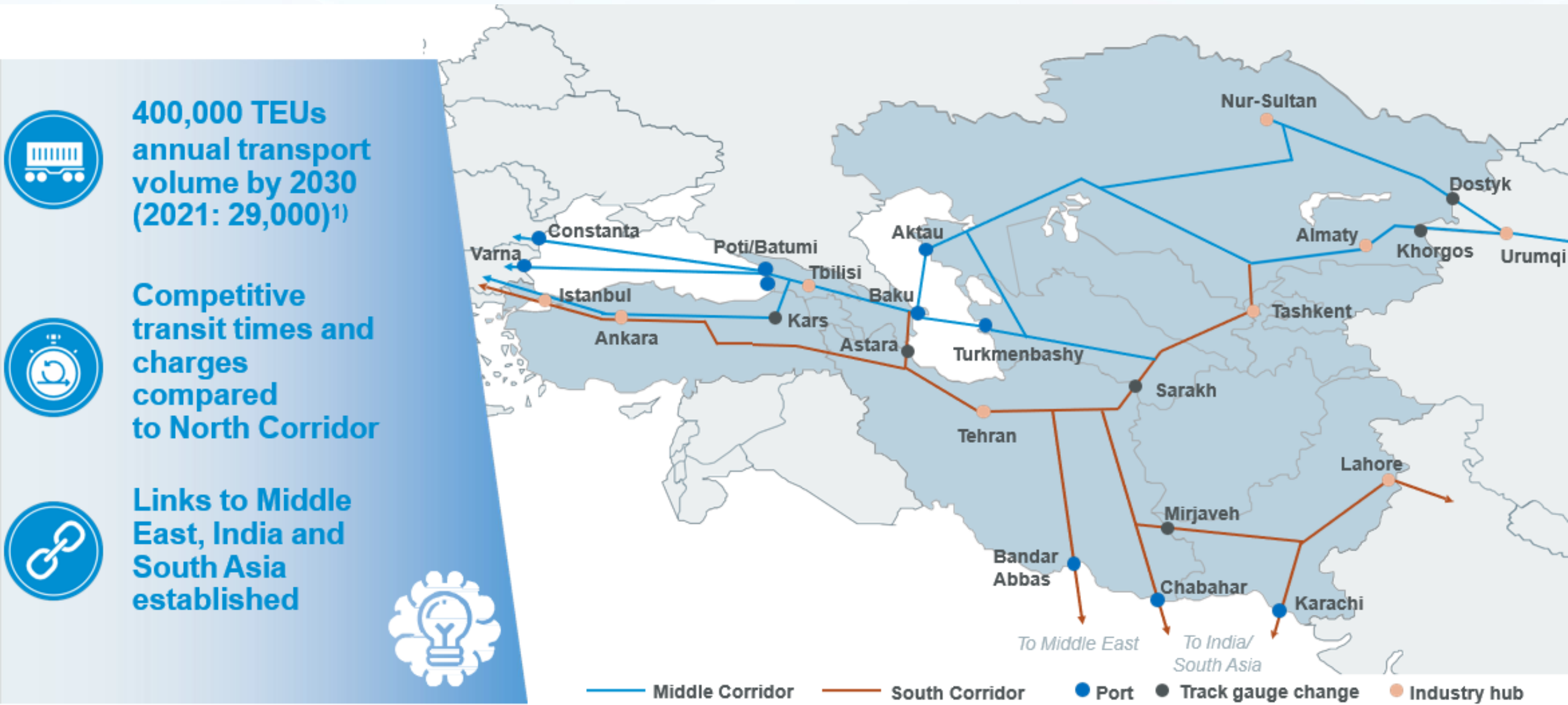
Mission

To support the socio-economic development of Azerbaijan by providing quality services in the field of freight and passenger transportation and ensuring efficient management of railway infrastructure.

Vision

To increase the quality and safety of services by improving efficiency and corporate governance, to ensure sustainable development of the railway business and thus to improve financial indicators, to accelerate integration into the international transport system.

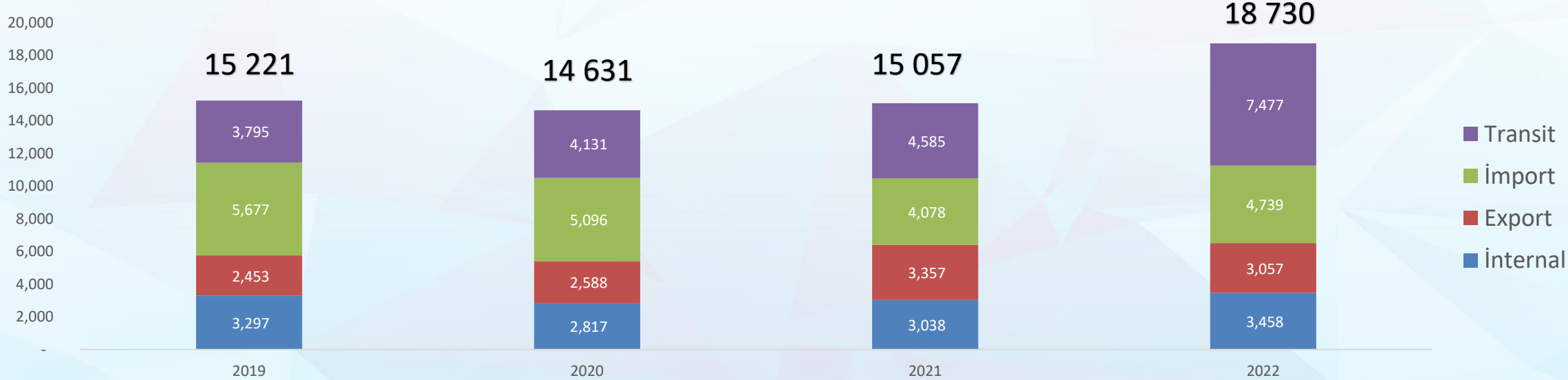
Potential of Middle and South Corridors 2030



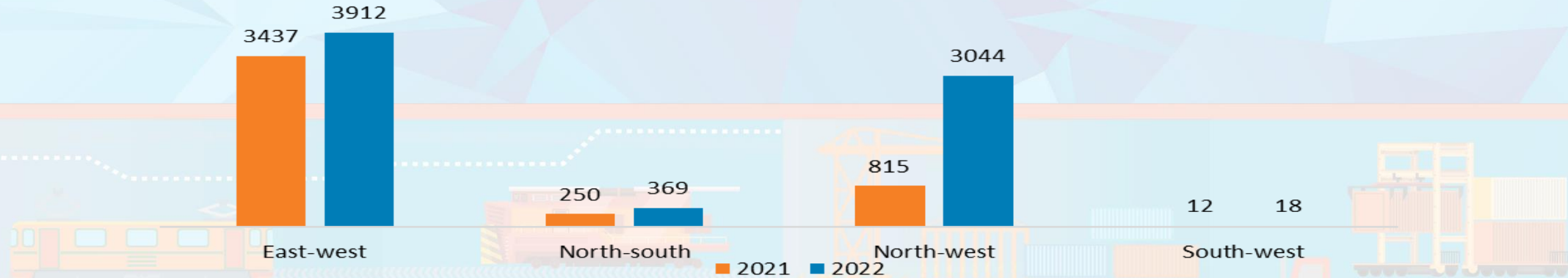
1) Combined volume for Middle and South Corridor

Total volume of transported cargo

Freight transportation



Corridor transportation - annual (thousand tons)





Construction of the Barda-Aghdam railway line

Design and construction of a railway with a length of about 47 km. The railway line is single-track, non-electrified.

Construction of the Horadiz-Agbend railway line

Design and construction of a railway with a length of about 110 km. The railway line is single-track, non-electrified.

Reconstruction of the Sumgait-Yalama railway line

The reconstruction of the 362.78 km long Sumgait-Yalama railway line in the direction of modernization of the road infrastructure

	Ölet - Böyük Kəsik stansiyaları arası dəmiryolu xətti		Azad olunan bölgələrdə tikintisi davam edən dəmiryolu xətləri
	Bakı - Yalama , Bakı - Dairəvi dəmiryolu xətti		Velidağ - Dilucu - Qars planlaşdırılan dəmiryolu xətti (Türkiyə)
	Osmanlı - Astara , Osmanlı - Horadiz stansiyaları arası dəmiryolu xətti		Salamməlik - Velidağ stansiyaları arası dəmiryolu xətti (Naxçıvan MR)
	Bakı - Ölet dəmiryolu xətti		Qonşu ölkələrdəki dəmiryolu xətləri



Ministry of Digital Development and Transport of the Republic of Azerbaijan

- By the Order of the President of the Republic of Azerbaijan dated January 26, 2021, Rashad Nabi oglu Nabiyev was appointed as Minister of Transport, Communications and High Technologies of the Republic of Azerbaijan.
- On March 30, 2021, by the relevant orders of President of the Republic of Azerbaijan Ilham Aliyev, Rashad Nabiyev was appointed Chairman of the Supervisory Boards of Azerbaijan Airlines CJSC and Azerbaijan Railways CJSC.
- On October 11, based on the basis of the relevant Presidential Decree, the Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan was renamed the Ministry of Digital Development and Transport of the Republic of Azerbaijan. Regulatory authorities in the field of ICT and innovation – Information and Communication Technologies Agency and Innovation and Digital Development Agency were established. The aim is to expand the application of digitalization and innovation, develop radio spectrum management, communication and information technologies, improve regulatory mechanisms and create a healthy competitive environment.

Achievements

- Total transportation **increased by 3.7 million** tons compared to last year to 18.7 million tons.
- Transportation in **transit mode increased by 2.9** million tons compared to last year and was **7.5 million tons**.
- The highest indicator of the last ten years was achieved in passenger transportation, **as 5 million 136 thousand passengers** were transported during the year. This is **84% more** than in 2021.
- The reconstruction of the 362.78 km long **Sumgait-Yalama** railway line in the direction of modernization of the road infrastructure was continued according to the schedule and 52% of the construction works were completed.
- The design works of the **Horadiz-Aghband** railway line, which is planned to be completed in 2024, construction works have been completed by 38% (53.2 km).
- **Barda-Aghdam** railway construction works have been completed by 76%.
- The **Coordination Office** was established by the decision of the Supervisory Board dated February 4, 2022.
- In order to improve the infrastructure of the railway and significantly increase the volume of transit transportation, **303 platform wagons** and 18 work train were purchased and delivered to the country.
- New tariff model



OUTLINE



Outcomes and final words:

- Project management; Change management; Performance management; Lessons learned

Transformation:

- Transformation governance; Transformation process 2022 and 2023; Implementing process; Agile approach

Change:

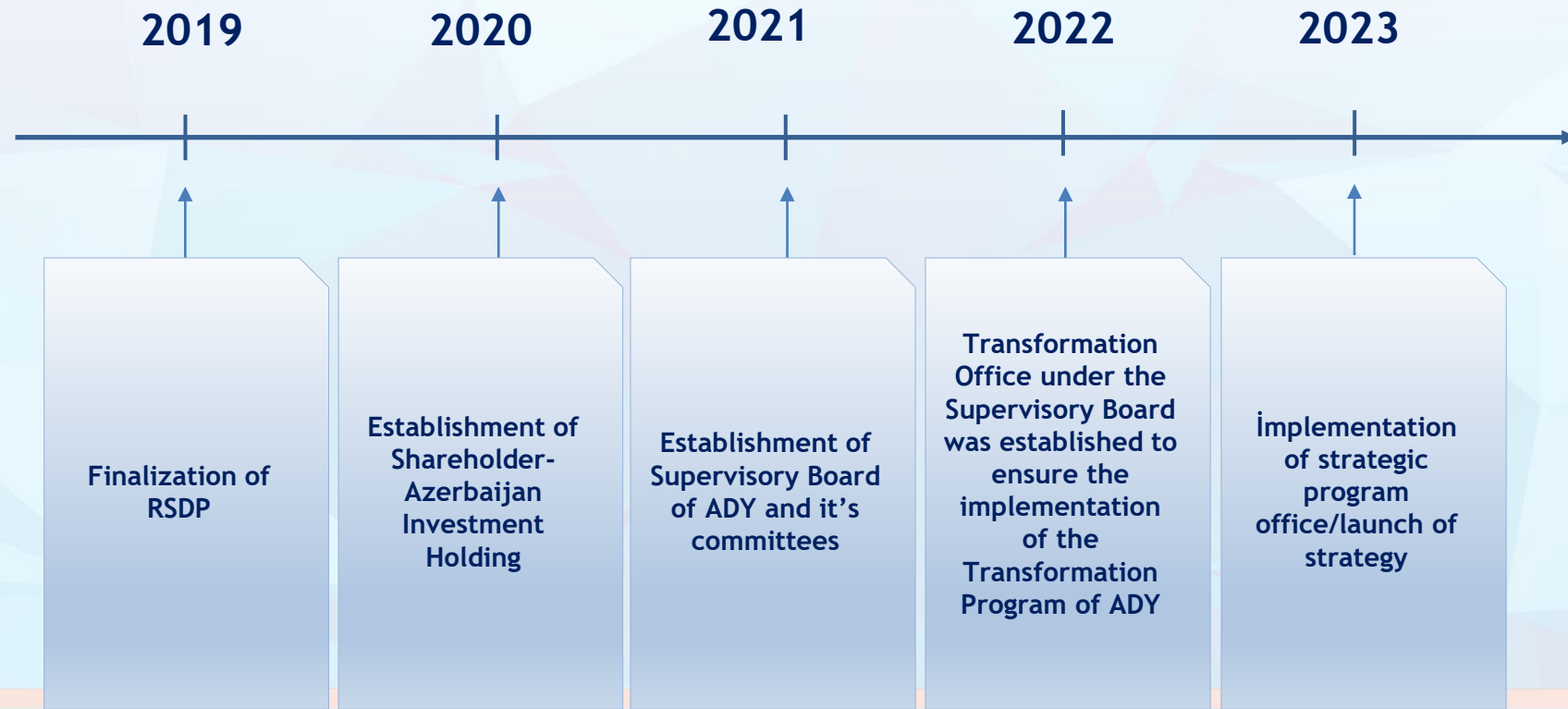
- Change timeline; Railway sector development program(RSDP); Corporate strategy; Targets

Introduction:

- General Overview; Ministry ;Major projects; Achievements.



ADY's reforms timeline



Railway Sector Development Program (RSDP)

1 Enhanced Governance, and Management and Financial Autonomy

- Changes to ADY Charter and structure
- Railway Law submission
- Study on passenger pricing
- Subsidy of passenger operations
- Investment plan submission
- O&M cost sharing solutions

- Corporate Governance
- Railway Law approval
- Passenger pricing strategy
- Pilot PSO agreement
- Investment plan approval
- Pilot SPA agreement

2 Effective Financial Restructuring of Debt Liabilities

- Three-phase Debt Restructuring Plan
- Government commitment on publicly guaranteed liabilities.
- Establishment of escrow account for debt service

- Validation of Debt Restructuring Plan
- Implementation of Debt Restructuring Plan
- Revising the escrow account for efficient liquidity management purpose.

3 Improved Financial Management Control and Reporting

- Restructuring of Finance Department
- Centralized Procurement Department
- Single-ledger bank account
- New fixed assets registry
- Implementation of Financial Management System

- Procurement of internal credit rating
- Appointment of CFOs to all legal entities
- Establishment of risk management system
- Achieving operating ratio below "1"
- Public disclosure of ADY's performance
- Introduction of cost accounting system

Enhanced Operational Efficiency and Effective Corporate Restructuring

- Approval of Corporate Restructuring Plan
- Establishment of Change Management Unit
- Introduction of outsourcing solutions
- Business Plan submission
- Approval of Labor Rationalization Plan
- Introduction of Asset Management System

- Implementing the Corporate Restructuring Plan
- Introduction of KPI system
- Assess the future potential of outsourcing
- Business Plan approval
- Implementing the Labor Rationalization Plan
- Approval of Asset Management Policy/Strategy



Corporate Strategy

Strategic aspirations

Programs

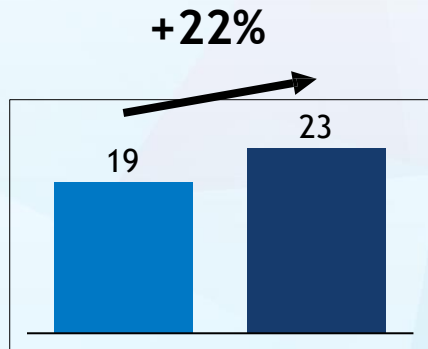
1 Achieving financial sustainability by increasing efficiency of operations	1A. Operational efficiency and excellence	1I. Financial excellence	1F. Asset efficiency and excellence
2 Sustainably growing business volumes by enhancing commercial competencies , increasing market orientation and service quality	2B. Commercial excellence and service quality	2D. Partnerships & Value chain expansion	2H. Growth in transit freight volumes
3 Focus on critical enablers: <ul style="list-style-type: none">• Virtual unbundling• Safety & Security (must-have)• Ecological Impact (advantage over roads)• Digital Transformation – selectively (next level)	3C. Digital transformation (selectively)	3E. Functional excellence	3G. People and Organizational excellence



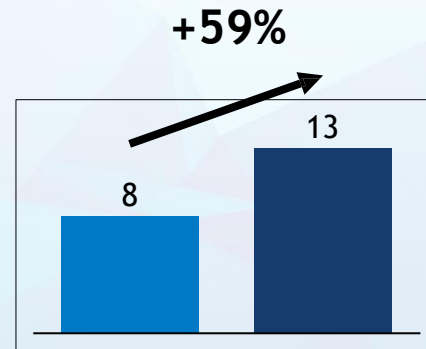
ADY will have to realize ambitious targets across all key areas

Key targets set for the organization¹

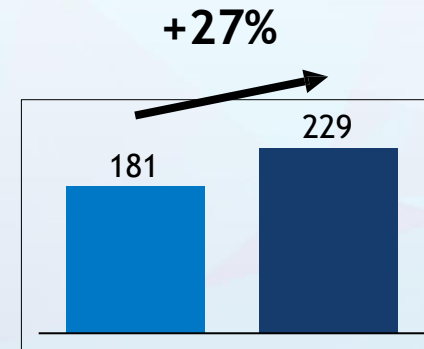
■ 2022 ■ 2023



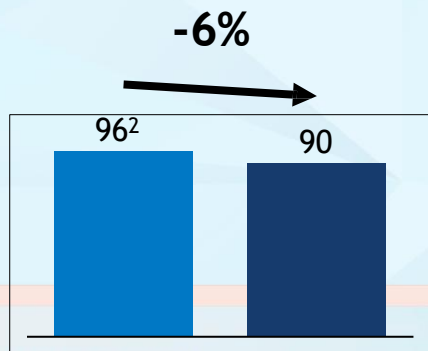
Volume of total freight, mln ton



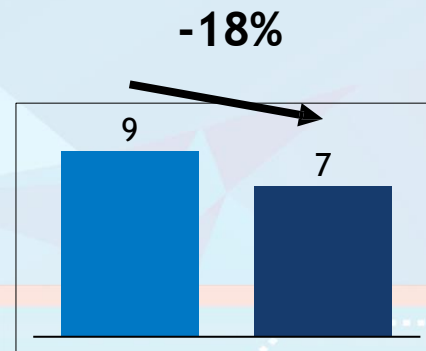
Volume of transit freight, mln ton



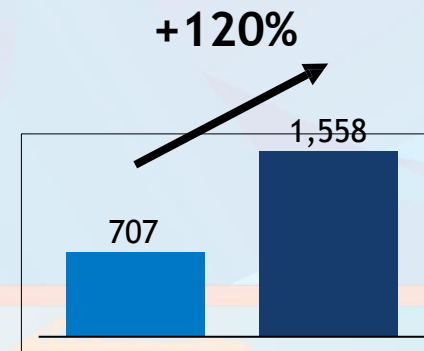
Passenger-km yield, Passenger/km



Share of operating expense in total expenses, (incl. depreciation)%



Debt/EBITDA



CAPEX projects, mln AZN

ADY targets to increase both its **freight & passenger volume**, as well as improve **operational efficiency** and plans to increase **CAPEX projects** in upcoming years

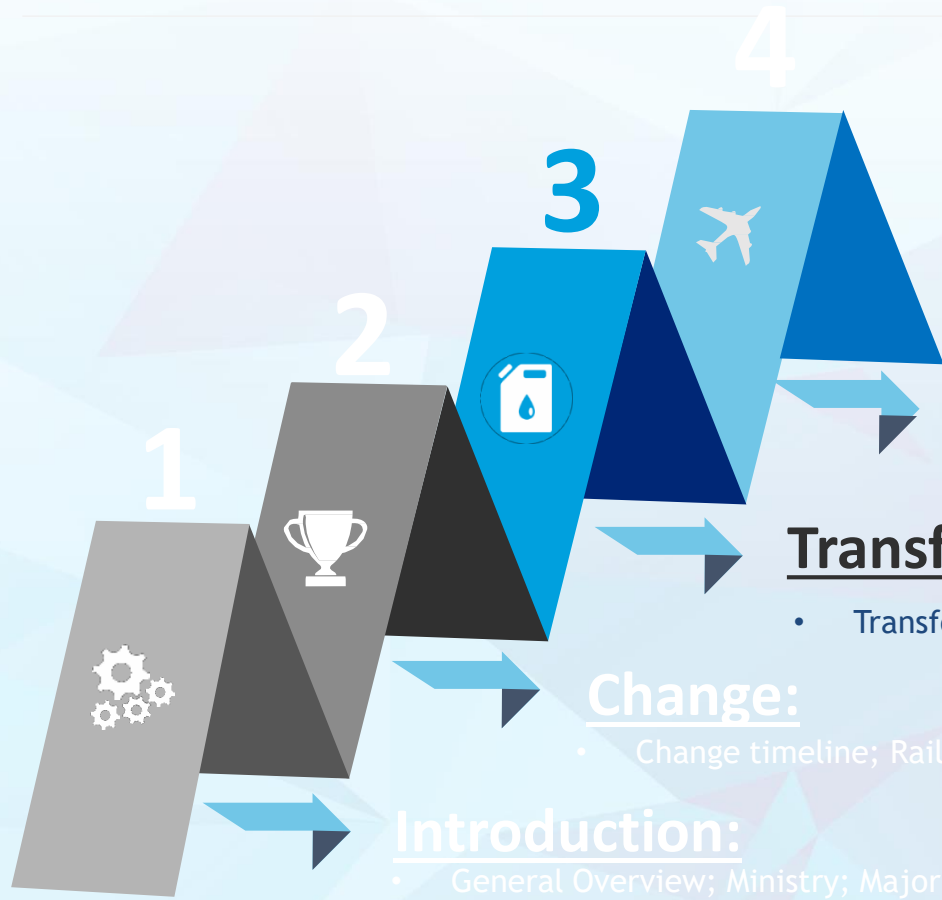
To realize **ambitious targets**, learning across **benchmarks** is essential for following crucial topics:

- Business Units with own P&L
- Operations management
- Sales function in general
- Transit focused sales function
- Centralization of corporate functions

Additionally, development in **following key areas** is essential in order to achieve **strategic targets**:

- Operational efficiency
- Commercial excellence
- Strong CAPEX function
- Leaner decision-making / coordination
- People and organizational excellence

OUTLINE



Outcomes and final words:

- Project management; Change management; Performance management; Lessons learned

Transformation:

- Transformation governance; Transformation process 2022 and 2023; Implementing process; Agile approach

Change:

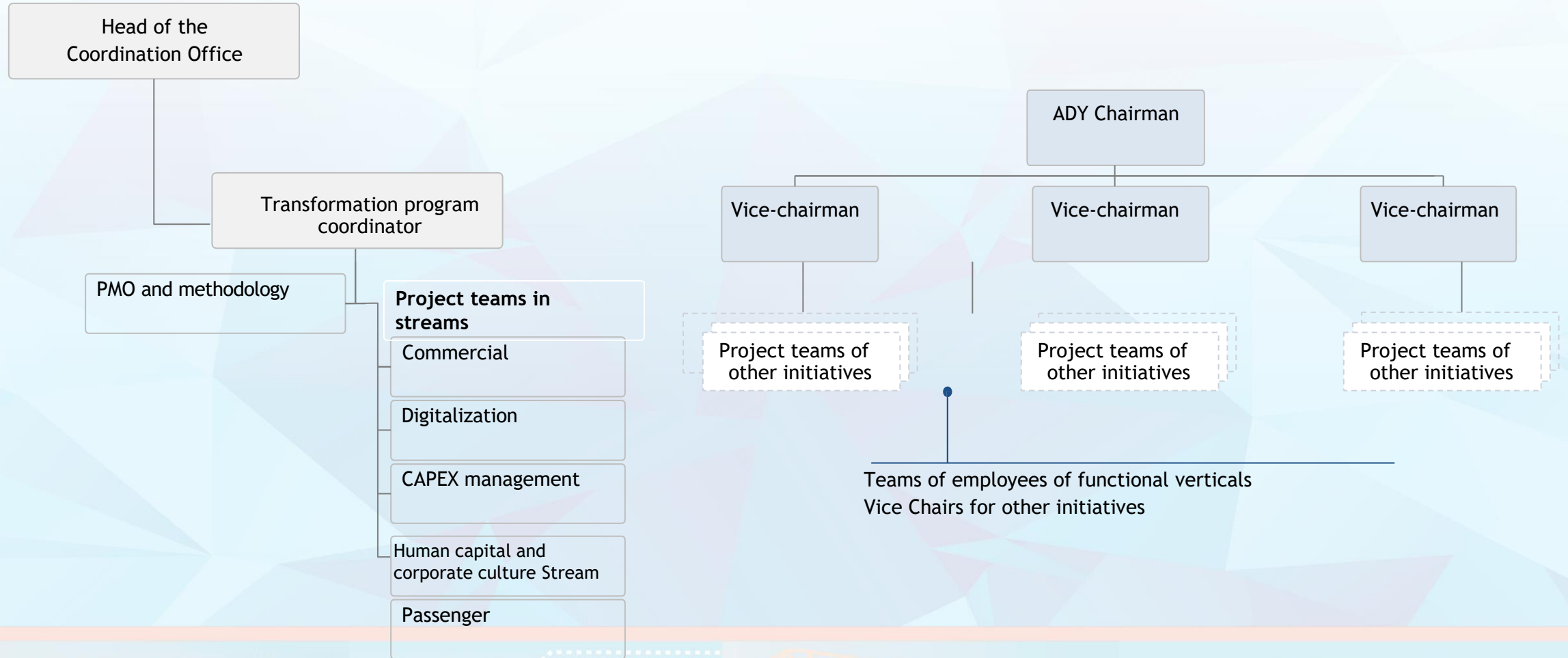
- Change timeline; Railway sector development program (RSDP); Corporate strategy; Targets

Introduction:

- General Overview; Ministry; Major projects; Achievements.



Governance and Structure of project management



Transformation process 2022

01 Transit

- Forecast of transit flows until 2030
- Development of a roadmap for increasing transit volumes
- Container block train
- Integrated planning

02 Operational efficiency

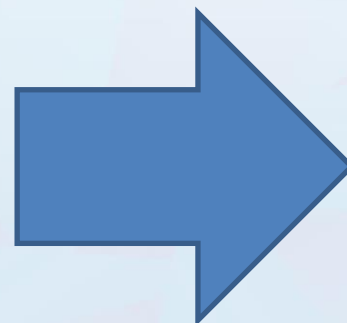
- Development of initiatives to increase the capacity of stations and get rid of bottlenecks
- Calculation of the need for rolling stock and traction

03 Commercial efficiency

- Development of a tariff model and tariff setting principles and model
- Formation of the image of a transit product

04 CAPEX Management

- Development of the concept of CAPEX management
- Prioritization of capital projects



01 Increasing transit volumes

- Detail the corridor transit operational model launch the pilots of КБПР¹, СУО² and ССП³

02 Capex management

- Implement a reporting system, develop an operational model for capital project management, optimize key projects (deadlines/budget)

03 IT and digitalization

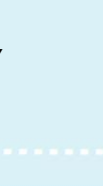
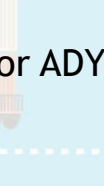
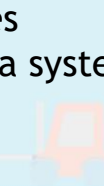
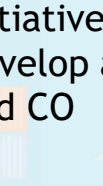
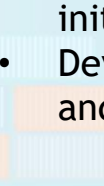
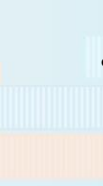
- Conduct IT diagnostics, define the target vision of digitalization, support CDO hiring, piloting implementation of digital products

04 Other initiatives

- Finance, tax, legal risks mitigation

05 Enablement and PMO

- Ensure the implementation of the transit development roadmap initiatives
- Develop a system of motivation for ADY and CO



Transformation process 2023

01 Commercial Stream

- Systematization of the transit product along the East-West-East and East-North-West-East corridors in 3 stages
- Establishing the commercial functions of ADY and its subsidiaries

02 Digitalization Stream

- Digitization of transportation management (TME) system, Corporate functions (Finance, HR, payroll, etc.), IT technology base, Customer experience, Capital expenditure management, Asset management.

03 Capex management Stream

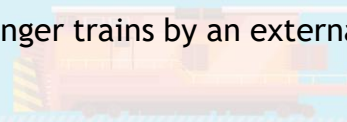
- Realization of construction projects arising from the road map, construction projects affecting Transit, improvement of CAPEX management, Digitization of Reports (dashboard).

04 Human capital and corporate culture Stream

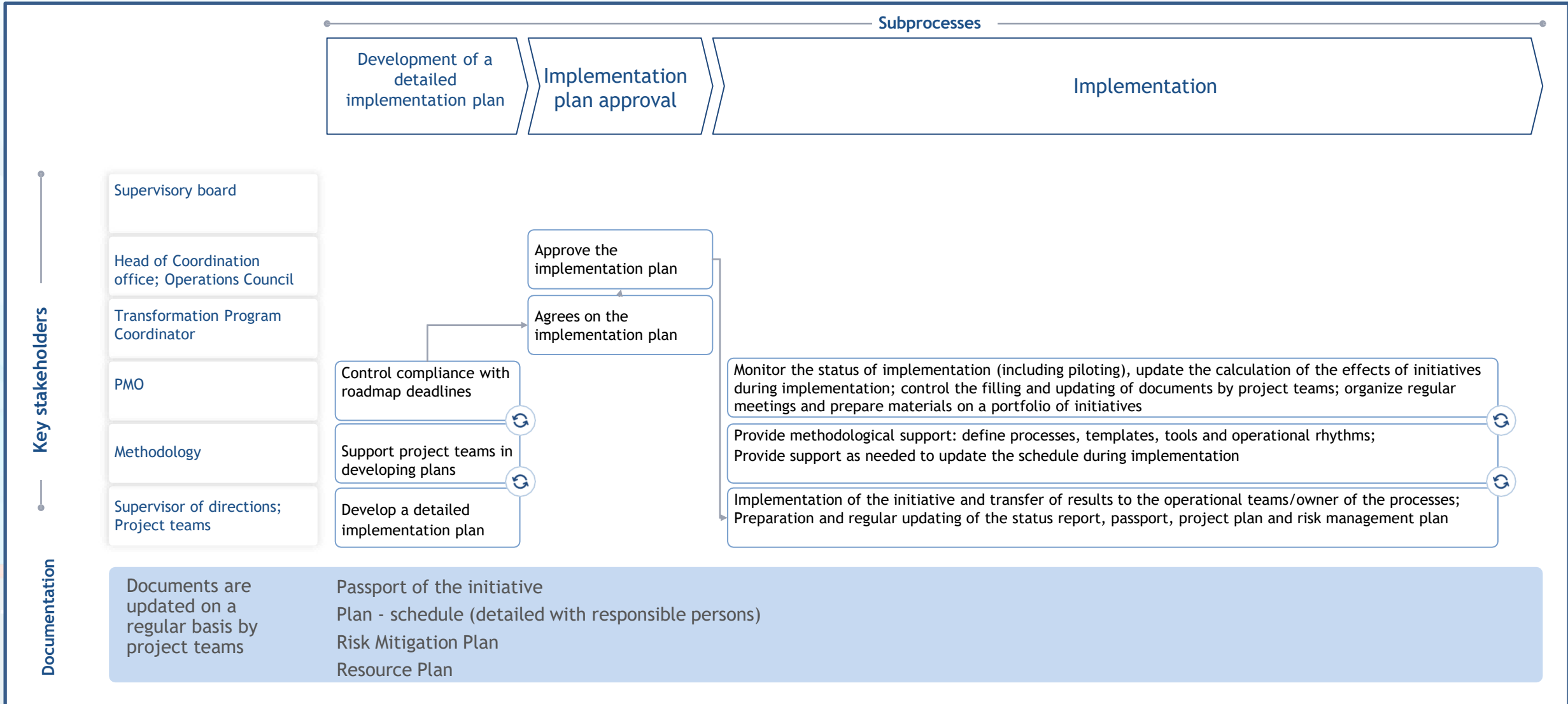
- Increasing employee satisfaction, ensuring IR sustainability, launching the Portal, automating processes, creating a Corporate Code and improving internal communication.

05 Passenger Stream

- Increasing the level of customer satisfaction
- Improvement of tariff policy management
- Carrying out reconstruction works in the North park of Baku passenger station
- Expansion of routes
- Organization of "catering" service on passenger trains by an external company



Implementing processes



Agile approach

Behavior change

From

TO

New Ways to Work



Result orientation

Ideal Solution

Working product/result



Rapid Experimentation

perfectionism

Make mistakes and fix quickly



Cross functional interaction

isolation

Cooperation



Adaptability in situations of uncertainty

Detail plans

course correction



Empowerment of commands

Command and control from above

The team determines plans and steps to achieve the goal



"Working groups"

"Sprint Planning"

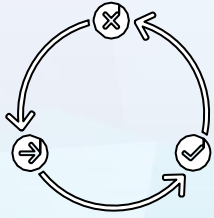
"Standups"

"Demo"

"Retrospective"

...

Agile approach



The agile approach is based on doing work in short “runs” - sprints



OUTLINE



Outcomes and final words:

- Project management; Change management; Performance management; Lessons learned

Transformation:

- Transformation governance; Transformation process 2022 and 2023; Implementing process; Agile approach

Change:

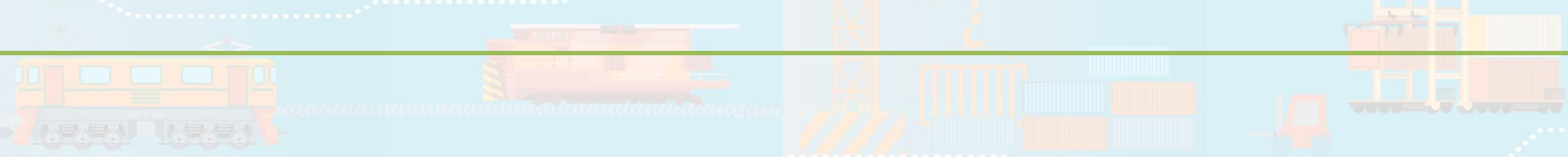
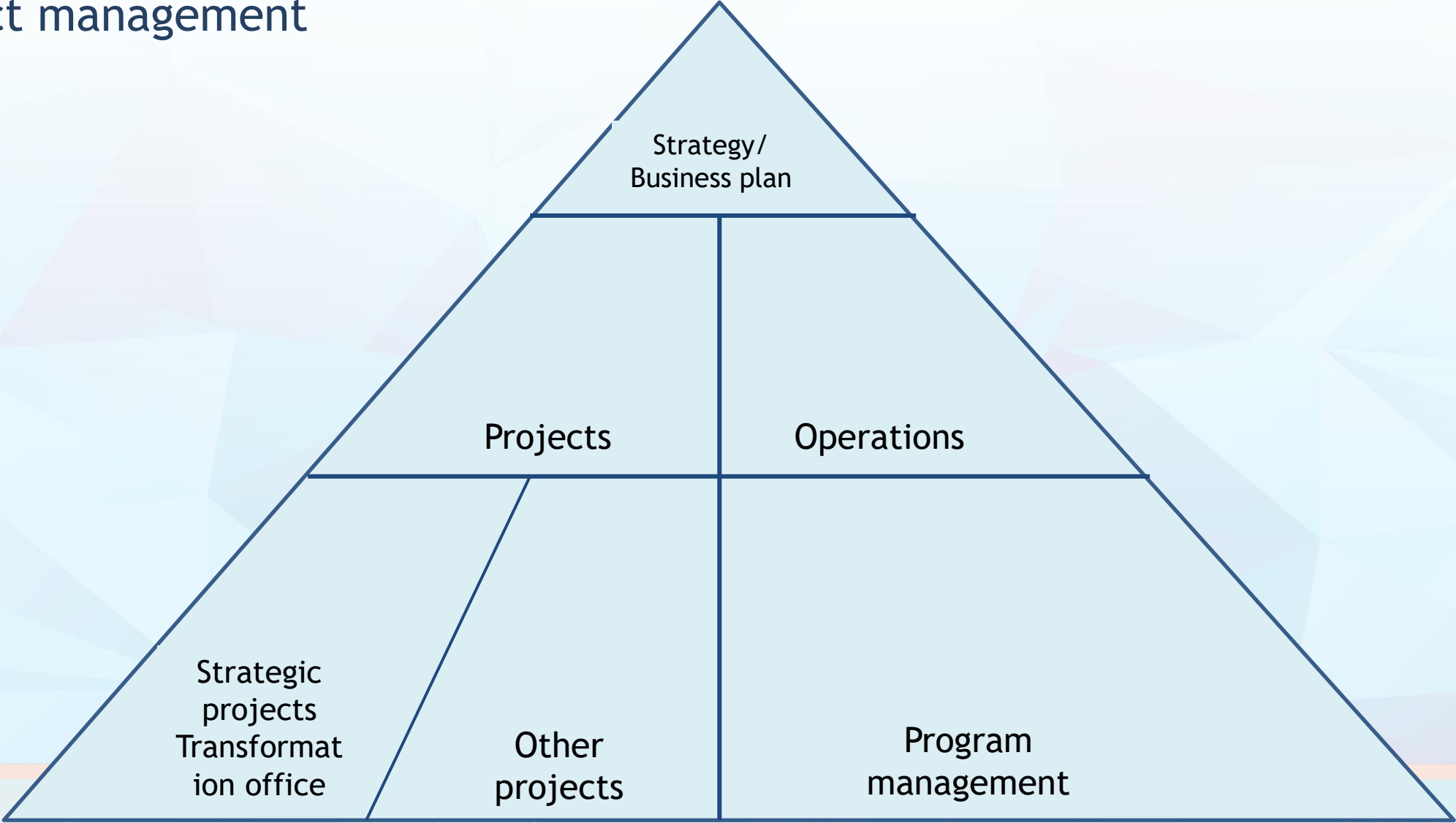
- Change timeline; Railway sector development program(RSDP); Corporate strategy; Targets

Introduction:

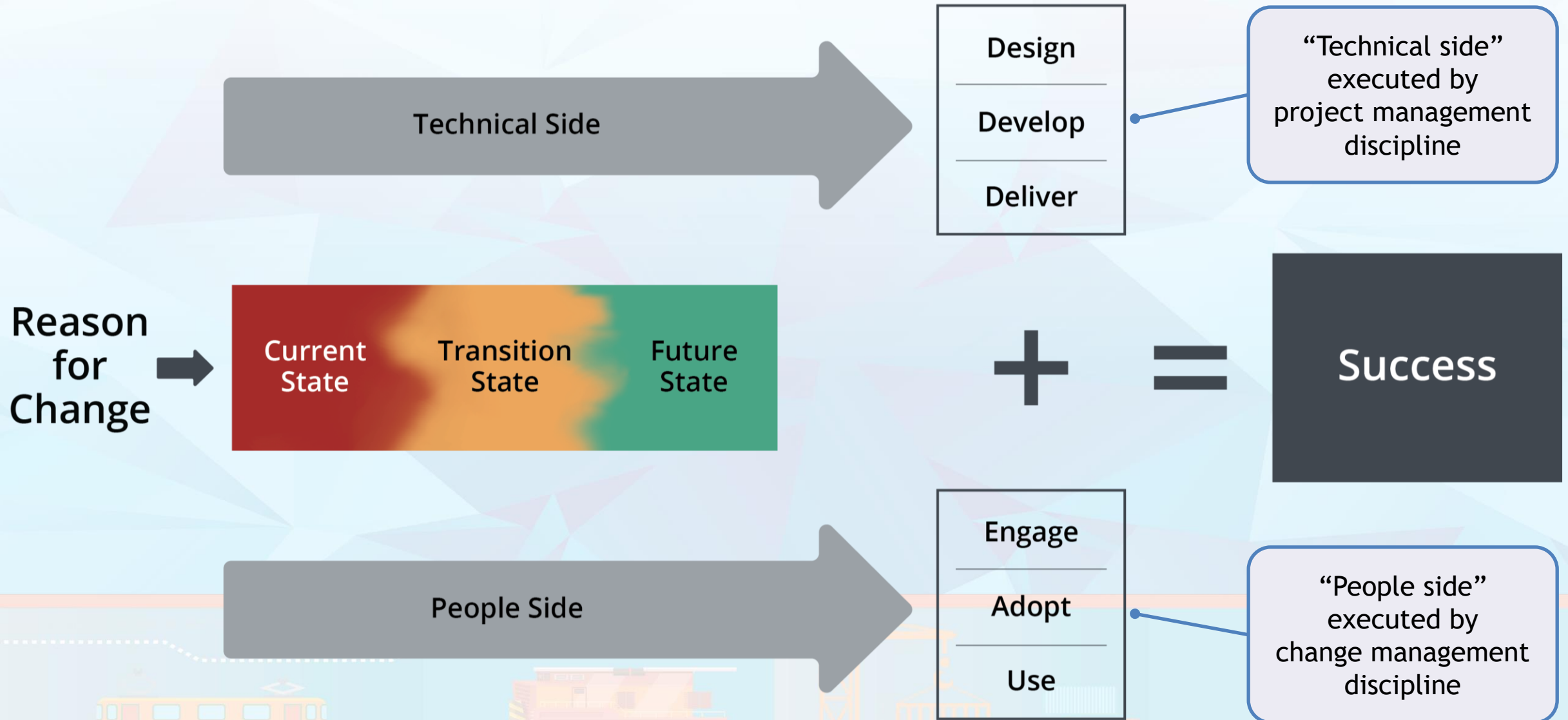
- General Overview; Ministry ;Major projects; Achievements.



Project management



Change Management



Change management

CHANGE MANAGEMENT REQUIRES THREE KEY PILLARS OF TRANSFORMATION PROCESS SUPPORT



Leader-led



Focus on value



People-centric approach



Transparent and dynamic



Transformation at the management level

Activate, align, energize and empower leaders to foster changes



Transformation at the personnel level

Engage and empower employees through transparent multi-way communications in real time



Transformation at the program level

New management principles and adaptive E2E program management to ensure fast-paced changes


Approach derives from behavioral psychology

Performance management

<p style="text-align: center;">1</p> <p style="text-align: center;">Transit and commercial efficiency</p> <ul style="list-style-type: none">➤ Road map➤ Central transit and commercial structure➤ Providing marketing support➤ Improvement of tariff policy management	<p style="text-align: center;">2</p> <p style="text-align: center;">Operational efficiency</p> <ul style="list-style-type: none">➤ Freight transportation efficiency➤ Infrastructure efficiency➤ Repair efficiency	<p style="text-align: center;">3</p> <p style="text-align: center;">Commercial and operational efficiency of passenger transport</p> <ul style="list-style-type: none">➤ Passenger efficiency➤ Commercial structure➤ Marketing support➤ Improvement of tariff policy management	<p style="text-align: center;">4</p> <p style="text-align: center;">Financial Sustainability</p> <ul style="list-style-type: none">➤ Liquidity➤ Separate cost accounting➤ Implementation of the inventory process➤ Reporting➤ Improvement of the plan and budget system	<p style="text-align: center;">5</p> <p style="text-align: center;">CAPEX management</p> <ul style="list-style-type: none">➤ Major construction projects➤ Projects related to de-occupied territories➤ Implementation of projects arising from the road map➤ Improving CAPEX management➤ Digitization of reports (dashboard).
---	--	--	---	---

<p style="text-align: center;">6</p> <p style="text-align: center;">Central security system</p> <ul style="list-style-type: none">➤ Strengthening traffic safety➤ Improving IT Security➤ HSE improvement➤ Improving security➤ Integration into the Situation Center➤ Business Continuity (Contingency Plan)	<p style="text-align: center;">7</p> <p style="text-align: center;">Strategic management</p> <ul style="list-style-type: none">➤ Program management➤ organizational structure➤ Corporate Strategy and Business plan➤ Quality management➤ Corporate management system in subsidiary companies➤ Risk management	<p style="text-align: center;">8</p> <p style="text-align: center;">Human capital and corporate culture</p> <ul style="list-style-type: none">➤ Planning of hr Quant. and qual. indicators➤ Building a perf. and mot. system➤ Creating an HR portal➤ Training program➤ internal communication➤ Establishment of the corporate code	<p style="text-align: center;">9</p> <p style="text-align: center;">Digitalization</p> <ul style="list-style-type: none">➤ Transportation management system➤ Asset management system➤ Establishing a customer-oriented freight and commercial system➤ CAPEX monitoring system➤ Corporate functions➤ Improvement of the IT technological base
--	--	---	---

Thank you for your attention

A photograph of a train traveling along a coastal track. The train is white with yellow accents and is moving from left to right. The track is situated on a rocky embankment overlooking a beach and the sea. The sky is blue with some light clouds. The overall scene is bright and scenic.

Azad Huseynov, ACCA
«Azerbaijan Railways» CJSC
Head of Strategic and Corporate Development
Department
Dilara Aliyeva street 230,
Baku Azerbaijan, AZ1010
Contact: + 99 450 268 30 90/
+ 99 412 499 48 17/ a.huseynov@ady.az