

RECOMMENDATIONS ON BUSINESS PLAN PREPARATION

1. General provisions

Business plan must contain:

- name of the investment project, as well description of its essence and feasibility;
- substantiation of the project compliance with the main areas and industrial priorities of the Bank's investment activities;
- arguments for the national significance of the project;
- description of the positive impact on the Russian society and economy in case of the Bank's participation in the project;
- validation of the project compliance with the environmental protection law effective on the territory of the project delivery;
- details of proposed tender procedures for selecting key suppliers and contractors for the project;
- description of the project's attractiveness for the Bank and other participants as supported by financial forecasts, market potential analysis, project's transparency and the Bank's control over the project delivery and intended use of funds;
- justification of the project's feasibility supported by a coherent strategy and plans for its delivery, availability of funds to be raised for its delivery, as well as management and development team;
- analysis of risks to the project success, as well as ways to minimize them.

Information contained in a business plan must be objective and supported by data from recommended sources (enumerated in Section 4 hereof), as well as by reasonable assumptions that do not contradict such data. All figures and key assumptions must be accompanied by references to information sources and dates, as of which information is provided.

Information contained in a business plan should be plain, logical and well structured.

Structure and contents of a business plan should comply with the requirements and recommendations for the business plan structure, as well as take into account industrial and other specifics of a given investment project.

2. Recommended Business Plan Structure

It is recommended that a business plan be structured as follows:

- Project summary;
- Project description;

- Information about the Major Project Participants;
- Product Description;
- Market Analysis;
- Action Plan
- Sales Plan and Marketing Strategy;
- Production (Operational) Plan;
- Resources Analysis;
- Environmental Impact of the Project;
- Financial Plan;
- Financing Scheme;
- Project Risk Analysis;
- Supplements.

The size and structure of a business plan may vary depending on the project type, but the abovementioned sections are obligatory.

In case a business plan lacks any of the abovementioned sections, it should be supplemented with explanatory notes with references to the sections that contain the required information or reasons for their absence.

A business plan should also comprise reference material, including:

- information on the business plan authors;
- contents with page index;
- glossary (a list of key technical and special terms used in a business plan);
- list of definitions and design formulae for calculating financial indicators (ratios) mentioned in a business plan and calculated for a financial model;
- information about regulatory and methodological basis for preparing a business plan and performing analysis;
- summary of technical, economic, marketing and other researches underlying a business plan.

3. Contents of the Main Sections of a Business Plan

Project Summary

It is recommended that this section summarize:

- project essence and feasibility;
- basic information about the Recipient of Funds and Major Project Participants;
- results of the market potential analysis;

- project delivery strategy (general delivery schedule);
- key forecasted financial indicators (ratios);
- total cost of the project, total financing required and proposed sources of financing;
- feasibility and expected conditions of the Bank's participation in the project;
- key success factors and risks to the project (SWOT-analysis recommended);
- other relevant information on the project.

4. Project Description

In this section, please:

- give the essence of the project, specifying, in particular, type of an investment project (construction of new facilities/zero-cycle construction; reconstruction of operating facilities; modernization of operating facilities; manufacturing new products using operating facilities; expansion of operating facilities; other changes for the purposes of commercial activities);
- specify the project delivery stage and present phase (a particular step within a stage);
- specify region (country) and industry where the project is to be (is being) delivered;
- indicate if the project is to be (is being) delivered on the public-private partnership (PPP) basis;
- substantiate the project feasibility for the Recipient of Funds (e.g. an opportunity to increase sales and market share, decrease costs, occupy a market niche or develop a new market, meet environmental requirements, etc.);
- justify feasibility of the Bank's participation in the project, in particular, describe positive impact on the Russian economy and society in case of the Bank's participation, prove the project compliance with the main areas and industrial priorities of the Bank's investment activities, as well as the national dimension of the project.

5. Information about the Major Project Participants

In this section, please indicate:

- the Recipient of Funds and other Major Project Participants;
- roles of the participants and procedure of their interaction in the project delivery;
- reasons for their interest in the project;
- experience in this particular industry;
- other relevant information on the Major Project Participants.

It is advisable:

- to outline a corporate history of the Recipient of Funds;
- to describe the nature and key areas of activities of the Major Project Participants, specifying their location;
- to provide dynamics of the basic financial indicators of the Recipient of Funds and/or a Group (revenues, gross and net profitability, net profit, total assets, debt-to-equity ratio, etc.) over the past years;
- if the Recipient of Funds is a member of a Group – to present a diagram of the Group’s organization chart or its fragment, inclusive of the Major Project Participants if they also are members of the Group, indicating their shares in charter capital and other relations between the Group members.

6. Product Description

This section should include description of a product (product line¹) to be manufactured in accordance with the project, as well as analysis of its competitive strengths and weaknesses.

Please, disclose:

- information about dominant segment of the product programme that generates substantial sales revenue (no detailed information on each product (product line) item required), including (if applicable) purpose and range of use, brief description and basic characteristics, any quality certificates, patentability and copyright, mandatory licensing of production, environmental and other safety of the product, its disposal upon completion of operation;
- degree of the product readiness for release and sale (if applicable, indicate stage of the product development, e.g. a concept, test sample, finished product). Specify whether this product was earlier sold on the Russian market or abroad and whether the Project Participants have any previous experience of manufacturing and selling the product.

It is recommended:

- to enumerate basic qualitative characteristics of the product (product line), analyse its consumer utility (indicating, in particular, target consumer), possible substitutes, as well as related goods and services;
- to analyse the product life cycle, indicate planned changes in the range of products and future upgrade of the product.

7. Market Analysis

Discuss the sales market the product and/or services under the project are intended for, as well as short-term market outlook.

¹ For the purposes of this document, a product line is a group of related products with similar prices, qualitative characteristics and target consumers.

Give the current market analysis, including:

- current and potential (estimated) market volume;
- degree of the market saturation;
- market dynamics (in particular, new players, sales dynamics, key changes and trends, present stage of the market life cycle);
- market structure (main segments);
- market concentration indicators;
- major direct competitors and those producing substitute goods;
- impediments to entering the industry (including legal barriers, limited access to major resources, limitations on the scale of production);
- seasonality of demand and supply;
- major sales channels and methods of sales promotion (advertising, merchandising, etc.);
- pricing principles, historical prices for the product and forecasted price changes;
- speed of innovations and technological upgrade in the industry;
- extent of the state regulation in the market (industry);
- other relevant information.

It is advisable that the market be divided into segments by geographical, price, social (industrial) and other features that clearly distinguish a target group of customers the product is intended for.

In case of tight state regulation in the market (industry), as well as participation in the project of government bodies and agencies, it is recommended to give an overview on legal and regulatory framework in a separate section. Such an overview should include information on price (rate) regulation, antimonopoly regulation, mandatory permits and other relevant data.

This section should also comprise:

- estimated sales or other indicator of demand on the market in general and in the segments, where it is supposed to position the product (works, services) intended for realization under the project (normally, a forecast should be made for no less than five years);
- analysis of competition in the industry (preferably, Michael Porter's 'five competitive forces' model, which implies analysing the bargaining power of suppliers, established and potential direct rivals, as well as competitors producing substitute goods).

It would be also advisable to discuss:

- major rivals: their market position (location, market share), current and

estimated productive capacity, basic competition strategy, competitive strengths and weaknesses (obligatory in case of oligopoly when there are several major market players);

- industry in general (overall dynamics of sectoral enterprises; profitability level, asset structure, asset turnover, standard cost structure, depreciation of fixed assets, utilization of production capacities/technological equipment, other relevant factors).

If the project is aimed at construction of a pre-agreed number of facilities (productive capacities) for sale to a particular customer under a provisional agreement (a signed contract) on purchase of facilities (productive capacities); or at realization of products/works/services intended for a single buyer, it is recommended to provide analysis of the prime customer's (buyer's) demands instead of the market analysis.

8. Action Plan

Describe overall strategy for the project delivery. Give schedule of the project delivery specifying projected commencement date and duration of the main stages (pre-investment, investment/commissioning, operational, liquidation), as well as the interim phases.

Please include productive capacities/other investment facilities commissioning plan (in the form of a diagram or flow chart), if applicable, with critical (test) points being indicated.

Furthermore, you may give schedules of design and survey, as well as exploration, construction, assembling, balancing, commissioning and other relevant works under the project, specifying their duration and/or calendar progress chart (as a diagram or flow block), other action plans and schemes.

Action timetables, schemes and plans of work under the project can be set out in supplements to the business plan.

9. Sales Plan and Marketing Strategy

This section relates to the targeted sales dynamics (targeted operating rate) and estimated market share, as well as the respective strategy, inclusive of the competition strategy.

In this section, it is required:

- to indicate estimated sales volume (operation intensity) in physical units, estimated selling prices (tariffs) and/or estimated sales earnings in terms of cash with consideration for the analysis set out in the market analysis section;
- to describe marketing strategy employed under the project, e.g., extended product concept (analysis of the product differentiability aimed at its increased attractiveness to customers, in particular through upgrading its design, adding new services, using a trade mark, etc.), pricing strategy, distribution policy

(choice of sales channels) and sales promotion (in particular, in case actual sales deviate from the estimated);

- to indicate the current and estimated market share of the company (if it is expected to increase the market share);
- to describe competition strategy (entry to the market, increase and maintenance of the targeted market share). If product differentiation is possible, it is required to give comparative competitive analysis of the product to be manufactured under the project (strengths and weaknesses as compared to rivals). In case of oligopoly, it is required to give comparative analysis of the rivals' strategies, which should be accounted for in the project marketing strategy.

For innovation projects, it is recommended to address the legal protection of intellectual ownership rights to the product (technology).

If the project is aimed at construction of a pre-agreed number of facilities (productive capacities) for sale to a particular customer under a provisional agreement (a signed contract) on purchase of facilities (productive capacities); it is recommended to provide an agreed preliminary timetable of commissioning productive capacities and transfer (realization) of the facilities instead of the marketing strategy and sales plan.

10. Production (Operational) Plan

Business plan must contain:

- output plan by products (product lines) or facilities operational plan devised with consideration for estimated sales (operating rate) identified in the sales plan and marketing strategy section;
- short description of industrial process (workflow diagrams) or business model (description of major business processes) at the operational stage of the project delivery. If it is expected to outsource some part of the industrial process or any of the business processes, name major proposed contractors and justify the choice;
- short description of production (construction) techniques and equipment to be used for manufacturing of finished products (construction of facilities), as well as the reasons for the choice. Stress the novelty and competitiveness of the techniques (equipment) according to the Russian and international standards and the Project Participants' experience of their use;
- unit costs of raw materials and power, as well as running and working time consumed for major business processes or for a unit of output.

If high quality is among competitive edges of the product, it would be advisable to describe the quality control system.

11. Resources Analysis

Give analysis of material, organizational, human and other resources required for the

project delivery.

What resources the Major Project Participants already have and what resources are still to be obtained to deliver the project (production/construction site; infrastructure (power-, heat- and water-supply, transport, etc.); machinery and equipment; raw materials, power, components; contractors' services and works; labour resources/staff; managerial resources, etc.)

Business plan should comprise:

- description of a production/construction site (if required for the project delivery), namely, location, in particular, proximity to sales and raw materials market; sufficiency of space; availability and quality of adjacent infrastructure and service lines, including storage facilities; depreciation of buildings and service lines; redesign or upgrade required; other relevant factors behind the choice;
- information about sustainable logistic support if the project deals with construction of a new enterprise/factory/facility from a zero cycle (specify potential suppliers and their location);
- analysis of the project managerial resources (CVs of executives and project developers to be attached to the business plan). Also, discuss managers and developers' interest in successful delivery of the project (e.g., through transfer of the Recipient of Funds' equities/shares into the ownership, use of options as well as other incentive schemes (remuneration, etc.).

It is recommended:

- to define key resources and analyze the respective resources markets, including current and estimated demand for and supply of resources, market structure and price dynamics;
- in case of labour-intensive production or works and services being the core product under the project, to give labour resources analysis in a separate section or supplement. Such analysis should contain:
 - information about staff needed for the project delivery, including the number of staff by categories, skills and qualification required, proposed salary level;
 - available staff (if any), including its composition and qualification, training needed, employee turnover, salary level.

12. Environmental Impact of the Project

Please supply the following information:

- data on the project impact on the environment and its compliance with environmental laws effective in the project implementation country,
- if the project comprises objects of state environmental assessment and state project documentation assessment, list of these objects;

- list of environmental standards and regulatory documents in the project implementation country (apart from the Russian Federation),
- results of the state environmental assessment, state project documentation assessment, independent environmental assessment, other activities aimed at testing the conformity of the project to environment protection requirements (if any), or a schedule for receipt of results (provided no results are available by the beginning of the project assessment),
- indexes of environmental efficiency of natural resources employment, index calculation procedure,
- conclusions in respect of environmental efficiency indexes taking into account industry average and project implementation dynamics values,
- description of measures to be taken to protect the environment, to increase the natural resources employment efficiency, to improve environmental situation (indicating costs and schedule of realization).

13. Financial Plan

This section must comprise:

- input data, assumptions and estimates underlying the financial forecast;
- key financial indicators (ratios) by years of the project delivery (see section 3.3.2);
- pro-forma financial statements (see section 3.3.1);
- outcomes of assessments as to how changes in key risk factors affect the financial forecast (see section 3.5);
- other relevant information, including diagrams that illustrate and detail results of the financial forecast.

14. Financing Scheme

The section is to detail:

- total financing appetite (by major categories of investment costs);
- preliminary structure of financing sources;
- amount of own funds to be invested in the project by the Recipient of Funds and its shareholders/participants);
- possible additional (stand-by) financing by the Recipient of Funds or other Project Participants;
- proposed amount and form of the Bank's participation;
- preliminary schedule of granting, servicing and repaying debt to the Bank and the Bank's withdrawal from the charter capital (in case of respective financing);
- proposed methods of the Bank's control over the intended use of funds (e.g.

pledging shares in the Recipient of Funds or its major shareholders; financing by tranches; the Bank's representation in the Board of Directors; segregation of investment project reporting from current operation reporting; transfer of the Recipient of Funds' settlement accounts to the Bank; use of reserve expense accounts and payment authorization; monitoring project delivery according to the schedule, etc.);

- amount, form and terms (including the preliminary ones) of financing from other Project Participants (if applicable).

15. Project Risks Analysis

Identify and describe major types of risks to the project. Give assessment of the risks (quality assessment of the amount of risk and/or quantity assessment of the risk probability and potential damage amount), methods employed to manage risks and guarantees offered to investors.

For PPP projects, give the risk matrix and proposed spreading of risks between private and public sector in order to minimize them.

16. Supplements

It is recommended that the business plan include proposals that would illustrate, detail or confirm the information contained in the body of the business plan. Below are standard supplements to a business plan:

- a. Team of chief executives and developers of the project (this supplement is mandatory):
 - This supplement should contain CVs of chief executives and developers participating in the project delivery (their qualification, experience, successfully delivered projects and awards received, etc.);
- b. Buyers and customers (this supplement is mandatory if applicable):
 - List of potential buyers and customers, strategic partners, including major buyers (customers) who committed to buy a substantial amount of products (services) to be realized under the project. Preliminary terms of delivery and payment;
 - If available, a pre-agreed or committed volume of purchases (orders received).
- c. Information about rivals.
- d. Total project cost/budgeted investment costs (a mandatory supplement):
 - Breakdown of the investment stage costs by periods, by major categories (costs related to the project preparation and pre-project works, project works, capital investment, staff recruitment and training, satisfying demand for working capital, etc.) and by expense items, specifying whether they are

future or incurred (with future investments being stated with adjustment for estimated inflation and those incurred – at actual value).

e. Equipment

- The list of equipment to be purchased under the project (with major equipment specifications supplemented), main characteristics, potential suppliers and contractors.

f. Suppliers and contractors (this supplement is mandatory if applicable):

- Potential suppliers of raw materials and services, contractors to carry out works on the investment stage, preliminary terms of delivery and payment for work. Reasons behind the choice of a prime contractor and company to supervise assembly of equipment (if it is not carried out by the equipment supplier);
- Potential suppliers of raw materials and services representing a substantial part of operational costs or net cost of finished products/works/services, proposed schemes and terms of works at the operational stage;
- Description of tender procedures for selecting major suppliers and contractors.

g. Operational costs:

- Estimated demand for major resources required for a unit of product (works and services), specifying information sources;
- Estimated unit cost;
- Data on major variable and conditionally fixed operational costs (specifying factors determining the amount of variable costs).

h. Labour resources/wage costs:

- Draft staff list and/or budgeted labour costs under the project, including, if applicable, costs related to remuneration to production, commercial and management personnel, staff recruitment and training, occupational safety, incentive schemes for personnel, in particular, for the team of chief project developers and managers, etc.

i. Action diagrams, schemes and plan of project works.

j. Budgeted costs:

- Budgeted marketing costs, media plan, budgeted costs associated with environmental measures, R&D (research and development), insurance, budgeted advisory, audit and legal services, etc.

k. Licenses, patents and other relevant documents related to the project.

l. Estimated discount rate.