

Innovation Fund MATCHING GRANTS PROGRAM

ROYALTIES MANUAL

Version 1.0
June 13, 2016



This Royalties Manual (hereinafter: Manual) defines procedures of the Innovation Fund (hereinafter: Fund) in the process of reporting and monitoring of the commercialization results of projects financed within the Matching Grants Program, including, but not limited to collecting relevant data and managing royalty payments in accordance with the Financing Agreement concluded between the Fund and the Company (hereinafter: Financing Agreement). Procedures defined in this Manual are general guidance for managing royalty payments derived from the projects financed through Matching Grants Program, but the Fund reserves the right to assess each specific situation on a case-by-case basis, taking into consideration interests of the Company and defined objectives of Matching Grants Program.

WHEREAS:

1. The Fund is a legal entity, established under the Innovation Law ("Official Gazette of the RS", No. 110/2005, No. 18/2010 and No. 55/2013),
2. The Company is a legal entity which is implementing or has already completed the project financed through Matching Grants Program and
3. The Grant Manual is a current document which defines rules and procedures of Matching Grants Program of the Fund.

1. DEFINITIONS

Without derogating from the remaining definitions appearing in this Manual, the following definitions shall be construed as stated beside them, as listed here:

- **Company** has the meaning given to such term in the preamble;
- **Project** means a project financed through the Matching Grants Program and implemented by the Company;
- **Successful project** means a Project which generates revenue based on the Product/Service/Technology developed in that project i.e. the results of that project;
- **Unsuccessful project** means a Project with no revenue generated from the Product/Service/Technology developed in that project;
- **Change of control of the Company** includes following activities:
 - a) Any direct or indirect change of control of the Company in accordance with the current Serbian Company law;
 - b) Any status change of the Company in accordance with the current Serbian Company law, which resulted in change of control of the Company;
 - c) Any other action which resulted in change of control of the Company;
- **Serbian entity** means a legal entity incorporated under Serbian Company Law, registered at the Serbian Business Registration Agency (SBRA) and located in Serbia;
- **Foreign entity** means a legal entity incorporated and registered outside Serbia.

For the purpose of this Manual, term Product/Service/Technology refers to product/service/technology developed through the Project, unless otherwise explicitly stated.

All other definitions used in this Manual will be interpreted as defined in the Financing Agreement.

2. BASIS FOR ROYALTY PAYMENT

As per Section 1.3 of the Matching Grants Program Manual and Section 4 of the Financing Agreement, upon successful commercialization of Product/Service/Technology (i.e. the Project generates revenue) the revenue (and not just the profits) shall become the basis for the royalty payments in compensation for the Fund's financing under the Financing Agreement (hereinafter: Royalty payment). Any such Royalty payments will be made at a rate of 5% of annual revenue derived from Product/Service/Technology sale or at a rate of 15% of licensing revenue derived from such Product/Service/Technology, up to 120% of Financing received from the Fund in accordance with the Financing Agreement or for a period of up to five (5) years after the completion of the Project, whichever occurs first. In the case of an Unsuccessful Project, no royalty payment is required.

2.1 What falls under the Royalty obligation?

To eliminate any doubt, if the Product/Service/Technology financed by the Matching Grants Program is a part of a final Product/Service/Technology sold, marketed or otherwise commercially exploited by the Company, the revenue for purposes of royalties according to the Section 4. shall be all Revenue derived from the Product/Service/Technology.

3. SALE OF THE COMPANY AND OTHER CHANGE OF CONTROL OF THE COMPANY AND SALE OR TRANSFER OF THE RIGHTS TO THE PRODUCT/SERVICE/TECHNOLOGY

3.1. Notifying obligations

Any sale of the Company or any transfer or sale of the rights to the Product/Service/Technology to Foreign entities within the 5 years after the Project completion is subject to the Fund's prior written consent. The Company shall furnish to the Fund reasonable prior notice with respect to any aforementioned change to include the name of the prospective purchaser, the price and the other terms of the proposed sale, and all other relevant information concerning the proposed sale. The Fund consent will not be unreasonably withheld and will be issued within thirty (30) days upon notice by the Company, unless there is a compelling reason to believe that the sale is being done to avoid royalty payments or otherwise conduct fraud.

The Company shall provide notice to the Fund, either reasonably prior to or immediately after, of any Change of control of the Company. The Fund shall promptly review the notice upon the receipt and ensure that the rights pursuant to this Agreement are fully guaranteed to the Fund's satisfaction.

3.2. Royalty obligations

In cases that Company or the rights to the Product/Service/Technology are sold or transferred to Serbian or Foreign entity, and the Intellectual Property created during the Project and/or operations of the Company remain in Serbia, new owner entity will take the obligation of implementing the

Financing Agreement, including the Royalty payment in cases of the successful outcome of the Project.

In cases that sale of the Company occurs during the implementation of the Project, if the new owner entity agrees to proceed with the implementation of the Project, and accept obligations under the Financing Agreement, the Fund will agree to continue with the Project implementation, as long as it falls under the definitions of Section 3 of this Manual.

If the rights to the novel Product/Service/Technology developed under the Project are sold or transferred to a daughter company of the same company (subsidiary) outside Serbia, including the situation when the new Intellectual Property and/or operations of the Company are relocated outside of Serbia, the Company will be obliged to pay royalties at a rate of 5% of annual revenue derived from sales or 15% of licensing revenue from Product/Service/Technology, up to 120% of Financing received from the Fund or for a period of up to five (5) years after the completion of the Project, whichever occurs first.

When the Company or the Product/Service/Technology is sold or transferred to a Foreign entity, and the Intellectual Property created during the Project and/or operations of the Company are relocated outside Serbia, the Company has the obligation to pay lump sum Royalty payment of 120% of the Financing received.

Any other case of Change of control of the Company shall constitute the same obligations for the Company as the sale of the Company pursuant to this Paragraph 3.2. of the Manual, unless otherwise decided in each individual case, due to specific circumstances thereof.

4. REPORTING OBLIGATIONS

For the purpose of reporting, the Company is required to use Commercial Sales Report (CSR) template that can be found at the Fund's web page, in the Matching Grants Program section <http://www.innovationfund.rs/matching-grants-about-the-program/> . The CSR has to be stamped and signed by the authorized Company representative and submitted to the IF both in electronic form and hard copy.

The Company is fully responsible for the accuracy of the data presented in the Commercial Sales Report.

4.1 Project End Date

Date of the Project completion is to be determined as the last day of the Project implementation. The date will be set in the Financing Agreement Final Settlement signed between the Fund and the Company at the end of the Project.

Project end date will also be regarded as the first day of the 5 year Fund's monitoring period.

4.2 Reporting Periods

Following the completion of the Project, the Company will be required to prepare and submit CSR to the Fund on every six (6) months, including data on revenue derived from sales, and/or licensing of the Product/Service/Technology financed under the Matching Grants Program.

The CRS shall include only revenue from sales and/or licensing that was generated during that monitored 6 (six) month time span. In case that the Revenue was generated during the Project implementation period, it should be included in the first Commercial Sales Report.

The Company is required to submit the CSR within two (2) weeks following the expiration of each six month reporting period.

5. PAYMENT OBLIGATIONS

Royalty payment towards the Fund will be made once a year. Based on the submitted Commercial Sales Reports, the Fund will formally notify the Company about the amount of royalties that needs to be paid for the monitored period.

The royalty payments should be denominated in EUR and paid to the Fund in Serbian Dinars (RSD) at the official middle exchange rate of the National Bank of Serbia on the date of the payment.

The Company will be required to make a payment to the Fund's account within 60 calendar days after receiving the formal notification from the Fund.

No Royalties will be collected from the revenue generated after five (5) years of Project completion.

6. MONITORING

After submission of the CSR, the Fund's Program Managers will check the technical aspects of the Report within approximately two (2) weeks from the submission date. The Company will be notified about the reception of the Report.

For deviations in the CSR that are mistakes and are not a result of the Company's mismanagement, the Company will be required to update the CSR and resubmit it to the Fund as per Fund written notice. Additional check-ups by the IF may be made.

As per Section 15. of the Financing Agreement the Fund may examine, or cause to be examined, the financial books, vouchers, records and any other documents of the Company relating to this agreement at reasonable times and intervals and upon reasonable notice during the term of this agreement.