

TECHNOLOGY DEVELOPMENT FUND

Information for applicants

Closing time and date for proposals at 17:00 15. February 2012

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Technology Development Fund Guidelines – Spring 2012

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1. Introduction

The Technology Development Fund constitutes a significant part of the formal organisation of the Science and Technology Policy Council. The fund's role is to support R&D perceived as important for fulfilling government objectives regarding technological development and innovation, leading to a regeneration and improved competitive situation of Icelandic industry.

The fund achieves its aims by encouraging the transfer of knowledge to industry and by developing ideas which may engender new services or products. A significant aspect of this process is the development of scientific and technological solutions which have the potential of producing the desired result. It is also taken into consideration that innovation is based on numerous other aspects of diverse character, such as new and progressive design, engineering, novel methods of production and other preliminary work which may attract entrepreneurial investors to the innovative project or to the company itself. Such preliminary activities may, for example, comprise groundwork for strengthening technological and commercial premises, as well as promotional materials relating to a start-up company; something which constitutes a precondition for the involvement of entrepreneurial investors.

The Technology Development Fund works in accordance with the Act on Public Support for Technological Research, Innovation and Industrial Development. It is under the auspices of the Minister of Industry, who appoints a seven-man board of directors. The board is responsible to the Minister and makes decisions regarding budgetary expenditure from the fund, acting upon recommendations from a professional council appointed by the technological committee of the Science and Technology Policy Council.

It should be noted that the fund's board of directors has defined three categories of projects in order to be better able to reach its diverse assembly of clients. In addition, applicants are required to identify the value-added aspects of the project, in the event that development work turns out to be successful. The applicants are expected to place the development activities in the context of ensuing benefits, by compiling a simple business plan. It is recommended that the applicants should start by working out the business plan and subsequently complete the proposal as a normal sequel to the business plan.

At a meeting of the Science and Technology Policy Council, 18 December 2007, resolutions were passed with regard to challenges and areas of emphasis in science, technological development and innovation during the next few years, cf. the following website:

http://www.vt.is/files/S&T%20policy%202010-2012_302180683.pdf

2. The role of the Technology Development Fund

The role of the fund is to support research and development activities, which aim towards innovation in Icelandic industry. The Technology Development Fund is a competitive one and invites proposals by advertisement twice a year within a specific submission deadline. The fund is authorised to finance innovation projects in accordance with the main objective of the Science and Technology Policy Council, e.g. by:

- strengthening technological development and related research for the benefit of innovation in industry,
- supporting the development of start-up enterprises
- financing promotional drives and strategic action plans within specific technological fields, for the purpose of consolidating the technological base of industry.
- Supporting small projects initiated by individuals and small businesses which have the potential to become sources of employment and income as well as generating profit, despite initial risk.

The board of directors decides on the strategy of the fund in accordance with the main objectives of the Science and Technology Policy Council; furthermore, the board establishes professional rules with regard to proposals, their assessment and processing. The professional councils provide expert advice in relation to awards by the fund, as their members possess extensive experience in the field of technological development and innovation. The board of directors can seek advice in addition to that provided by the professional councils, in the event the board regards this as necessary.

Applicants may be companies, individuals, research institutes and universities. A precondition for the fund's involvement is a well-formulated concept of practical value and potential, clearly-defined, financial or macro-economic benefit which may ensue from the development of the project in question.

The Technology Development Fund sets up results-oriented criteria relating to the projects it supports. Special attention will be paid to the fund's contributions to innovation in industry, e.g. the creation of new knowledge as well as innovative products, services and intellectual property rights, including patents. Furthermore, the fund will monitor the participation of entrepreneurial investors in projects it has supported.

3. Contacts with other funds and investors

The Technology Development Fund makes every effort to enjoy sound cooperation with other funds whose aims are similar, as well as with entrepreneurial investors. It is to be expected that projects which have been supported by the Rannís Research Fund will, during later stages, involve the Technology Development Fund, and projects that have enjoyed the support of this fund will, in one form or another, become the concern of the Innovation Fund and/or other entrepreneurial investors. The board of directors of the Technology Development Fund will make an effort to ensure that the results of projects

supported by the fund respond well to the preconditions laid down by investors when selecting attractive investment options.

In general, the Technology Development Fund does not accept contributions from other Icelandic public funds as matching grants for projects. This rule may be waived, however, in the case of co-financing with other funds, on condition that public support never exceeds 70% of total project financing. Co-financing may take place in partnership with competitive funds within universities, the AVS R&D Fund of the Ministry of Fisheries in Iceland, the strategic action plan of the Science and Technology Policy Council, and the Agricultural Productivity Fund. Contributions from the Rannís Research Fund cannot be regarded as matching grants.

Applicants are obliged to inform the Technology Development Fund of their proposals to other financial sources in relation to projects where support from the fund is requested. Failure to comply with this requirement will lead to rejection of the proposal.

4. Awards

The Technology Development Fund has ISK 725 million at its disposal in 2012.

The fund will focus its effort on supporting technological development and related research for the benefit of industrial innovation in cooperation with institutes, universities and business enterprises, as well as on strengthening the development of start-up companies. The fund, however, will not be directly involved in the operation of start-up companies.

Proposals are to be submitted electronically to the Technology Development Fund on special application forms which are to be found on the webpage of Rannís – The Icelandic Centre for Research; www.rannis.is. The directors of the fund have defined three project categories in order to better meet clients' requirements, and the applicants select the category for which they are applying.

Project grants

General project grants will be of the same kind as before. This category comprises 2/3 of the financial resources at the fund's disposal, including new and continued grants.

The maximum contribution towards outstanding research projects can amount to a total of up to ISK 30 million for a period of three years; ISK 20 million during two years or ISK 10 million during one year, which can be variously distributed during the years of support, depending on the progress of the project and its funding requirements. In the event that a grant exceeding ISK 30 million during three years is applied for, the proposal is rejected. Applicants' matching contribution of 50% is required. Support lasting up to three years may be applied for, although the fund's board of directors only confirms a grant for one year at a time. Further support depends on progress and the fulfilment of contractually agreed results.

There are two submission deadlines a year, 15 February and 15 September. The spring deadline for 2012 is 15. February.

Entrepreneurial grants

Entrepreneurial grants are tailored to the needs of start-up companies and entrepreneurs whose projects are at the initial stage. The entrepreneur himself/herself is centre stage and intends to set up a company focusing on his concept, or has already done so. It is assumed that purchased services of research institutes or universities generally amount to less than 20% of the total grant. There is a strong emphasis on novelty and the project involves a significant element of research.

Projects are only supported for 2 years, to a maximum amount of ISK 5 million each year. Applicants' matching contribution of 25% is required. Applicants are expected to apply for a project grant as a sequel to the entrepreneurial grant, on condition such a step is justified by the results.

There are two submission deadlines a year, 15 February and 15 September.

Bridging grants; infrastructure and marketing

This category offers companies which are beginning to find their feet the opportunity to apply for a grant to develop their infrastructure, i.e. the fundamental building blocks of the operation in the form of software systems and other arguable factors of similar importance, as well as a special marketing effort. In general, the proposal should relate to a foregoing phase of product development in the context of the company's R&D operation regarding those same products. The proposal must be accompanied by a detailed business plan, combined with future strategies. Grants are not awarded for investments in specific equipment, including the purchase of necessary apparatus for mandatory monitoring and the acquisition of basic data by research institutes.

Projects are only supported for one year, to a maximum amount of ISK 5 million. Applicants' matching contribution of 50% is required.

Bridging grants are intended for companies with an annual turnover of less than ISK 300 million.

There are two submission deadlines a year, 15 February and 15 September.

General information

Projects awarded support must comprise one or more of the following:

- A clearly defined concept regarding the practical value and estimated potential benefit of R&D operations.

- Research and development with regard to new or improved products and services.
- The production of technical prototypes for testing and improving their technological capabilities
- The production of prototypes for the purpose of confirming reactions in promising market areas.
- The compilation of a business plan, including market research.
- The development of a company's infrastructure.

At the end of the support year, a final report must be submitted at a negotiated date in the case of a one-year project, or an intermediate report and a revised operational and budget plan, for a project lasting more than one year. Provided progress is in step with plans, and the premises of the first contribution remain unchanged, the fund can award further support.

5. Proposal and professional evaluation

A precondition for a proposal qualifying for professional evaluation is that it should be based on a well-formulated concept of practical value and potential benefit. Individual items in the proposal must be satisfactorily explained for it to qualify for professional evaluation.

Proposals which do not fulfil the requirements will be rejected.

Professional evaluation

The professional council, which provides expert evaluation, begins by examining whether the project in question comprises progress or novelty in the field of technology and/or marketing. Progress or novelty with regard to a proposal or project means that hitherto unknown methods are used, new products are promised or original results presented. Such projects, however, often involve considerable uncertainty with regard to technology/marketing.

The professional council will examine, *inter alia*, whether the applicants have carried out, or had others carry out, a study of freedom of action in the technological field in question and in the market areas aimed at. This involves monitoring whether others own or have applied for a patent, or whether other technological or commercial impediments prevent the use of the product or method in the relevant market areas.

The Technology Development Fund is not risk averse, although applicants are expected to be aware of the risks in question and attempt to minimise them. A proposal which only comprises the use of a known method, a recognised material or conventional technology to solve a new task does not satisfy the fund's requirements for novelty. The professional council can decide against any further expert evaluation of such a proposal.

The professional council will base its evaluation on novelty, probability of success, general social values and expectations of results in the form of turnover of products and their value to Icelandic users.

The evaluation form used by the professional council can be accessed in Excel-format on the home page of Rannís – The Icelandic Centre for Research.

Proposal

The applicant must provide a thorough workplan and clearly identify the products the project is supposed to yield, how they are used and who are their likely users. It is necessary, furthermore, that applicants should compile a proposal regarding the sale and marketing of those products in the form of a business plan or its equivalent, so that the application form may be regarded as comparable to a business plan. Those who have already compiled a sound business plan for the project can of course include it as an appendix, but they must, nevertheless, record key figures regarding turnover and value to users, cf. Excel document (<http://www.rannis.is/sjodir/taeknithrounarsjodur/>) which is attached to the application form. The application must meet the following criteria:

- The relevance to the objectives of the fund.
- State of art is clearly described.
- Aims of the project clearly described.
- Clearly defined work and time schedules.
- Is the draft business plan and cost calculation satisfactory (maximum length of the project description/business plan is 25 pages)?

The project description and business plan are assessed as a whole, with special emphasis on premises; how they are calculated, how realistic they are and how they are defined. This is a subjective impression, and it may be said that here the evaluators identify themselves with investors, looking at potential profitability, as well as looking at the matter from the perspective of politicians who focus on macro-economic value creation.

The project description and business plan shall not exceed 25 pages excluding front page, disclaimer, summary and contents. Use a minimum 11 point Times, Times New Roman, Calibri (body) or equivalent. Margins may not be narrower than those in the template provided at the Rannis website.

The applicant may submit a digital video along with the proposal. The video provides an opportunity to present the project to evaluators visually and with audio as a supplement to the mandatory project description text form. The maximum length of the video is 5 min (please use a common format). A temporarily facility for recording the video can be provided. Please contact the staff members of the fund for further information. The video should be provided on a CD disk before 17:00 on the 15. February to Rannis (Laugavegur 13) or by mail (post stamp must be the 15. February).

Evaluators grade a proposal on the basis of the 4 factors described below and form the basis of ranking by the professional council. The fund's board of directors lays down

rules as to how the internal weight of those factors is determined within each proposal category. Further information regarding the evaluation is provided on the evaluation form.

Novelty (N)

Novelty is defined as a change in known premises, leading to increased value-adding on the market. The definition comprises the requirement to explain state of the art with regard to knowledge, technology and procedures in the field and how those factors relate to new needs and opportunities on the market. The novelty of a project is, therefore, a criterion of the project's impact on the potential of gaining a market advantage on the basis of new solutions, methods, equipment, knowledge, technology or procedures which constitute the products of the project.

Likelihood of success (L)

By looking at the likelihood of success, an attempt is made to assess the overall potential of the project for being realised along the path originally staked out by its creators, and the likelihood of its product reaching the market. Special attention is paid to the following aspects:

- The likelihood of the project being completed in accordance with plans relating to procedures, timing and cost.
- The likelihood of the project returning a practical product or a technological solution.
- The likelihood of having sufficient capacity and connections to be able to make practical use of results, or of the project's original premises being realised.

Value (VV)

It is of high importance, with regard to the evaluation of a project, how successfully the applicant presents and defines its products and value. The value of the project is defined on the basis of 2 factors; the applicants' turnover converted to current value and its value to users (increased income or savings). It is strongly emphasised that applicants must clearly account for their expectations with regard to sales of project products and their benefit to Icelandic users during the entire period from project launch until the end of the products' useful life (although with a maximum of 20 years). It is necessary to indicate the basis for calculations relating to volume figures, prices and value to users. To be sure, looking so far into the future entails a great deal of uncertainty, but it is important, nevertheless, to form an impression of realistic potential of market success, provided the technological objectives of the development project are fulfilled.

A business plan must outline the procedures of marketing products and providing services to customers. It is of particular importance to provide as clear a picture as

possible of competitive conditions, risk, uncertainty and how applicants plan to respond to obvious weaknesses in this context.

Other value (G)

This is a subjective evaluation of any other value of the project and its connection with the focus points of the Science and Technology Policy Council. Here, special attention is paid to aspects which cannot be assigned a monetary value, spin-offs, knowledge-related benefits or advantages to the country and the nation, e.g. for protecting important interests. The following value categories are assessed:

- Knowledge-related benefits and spin-offs.
- Value involving the cooperation of schools, institutions and industry.
- Value relating to international cooperation.
- Value to start-up companies.
- The product as an export.
- Other benefits to the country and the nation (e.g. national interests, new job opportunities, etc.).

Basis for evaluation calculations used by the professional council:

Calculations of a project’s overall grade based on the evaluation premises of the professional council:

Overall grade = (a*N+b*VV+c*G)*(1+L)

Where N is novelty VV is projected value evaluation according to the formula (VV=1n(value evaluation)-(1n)(100)/4.5), G refers to other value and L is the likelihood of success. The coefficients a, b and c constitute the weight of evaluation values when calculating the overall grade of the project, cf. the table below.

Grant category	a Novelty (N)	b Projected value evaluation (VV)	c Other value (G)
Project grant	30%	40%	30%
Entrepreneurial grant	50%	25%	25%
Bridging grant	20%	50%	30%

The professional council ranks the projects in each category in accordance with overall project grades. Evaluation values and the conclusions of the calculation rule serve as guidelines to the fund’s board of directors.

Award decisions

Before the professional councils finalise their reports to the board of directors of the Technology Development Fund, the council members, if seen as necessary, discuss

certain queries which may have arisen. The professional councils, assisted by Rannís staff, must seek to coordinate evaluation rules and grading with regulations set by the board of directors. In special cases, the professional councils are authorised to consult specialists with regard to proposals which the council members feel they have not the expertise to assess. It is assumed that the spokesmen of professional councils provide the fund's board of directors with information as required.

The proposals most highly assessed by the professional council are submitted for discussion to the board of directors of the Technology Development Fund. Other proposals are introduced to the board for possible further examination or reassessment, if this is seen as suitable. A list of proposals regarded as unsatisfactory, or irrelevant to the fund's scope of operation, is presented to the board.

The board bases its decisions on evaluation by professional councils, but may seek outside advice, e.g. from other funds if thought necessary. The board briefly outlines the arguments for acceptance and/or rejection of proposals dealt with. For further information regarding the professional councils, please consult the Rannís homepage (www.rannis.is)

The board of directors take note of one or more of the following in their decisions:

- The outcome of the project may lead to a financial benefit in the foreseeable future.
- The project is based on and adds to knowledge and skills in the Icelandic developmental environment and industry.
- Cooperation between research institutes and/or universities is an integral part of the project, since it is based on their expertise.
- Small and medium-sized companies are involved in the project.
- International cooperation.

The fund's involvement can never exceed the financing of half the qualifying total cost of the project, with exceptions, however, as outlined above.

The decisions of the Technology Development Fund in relation to grants are final at this level of administration, cf. Article 13, Act No. 75/2007.

Continued projects

Projects planned for two or three years are accepted for one year at a time, in which case the applicant must apply for a continued grant, cf. further details below regarding the interim report. When assessing continued projects, their progress is taken into consideration, i.e.:

- Progress during the past year, with reference to original objectives and technological milestones in the project. (A milestone is a step towards a stage, which may contain one or more milestones).
- Evaluation of the likelihood of the project's objectives (outcomes) being realised.

Confidentiality and unsuitability

All who are involved in decision-making and evaluation of proposals to the Technology Development Fund are bound by confidence. Furthermore, the fund is subject to regulations regarding unsuitability.

Acceptance or rejection of a project

Letters of response, including a statement from the professional council, are sent to the managers of the proposed project. It is assumed that the representatives of the fund will survey proposals and budgets with the project managers, seeking explanations of all expense items, before a contract is finalised.

Draft contracts between project managers and the Technology Development Fund are mailed electronically to project managers who have a maximum of 2 months from the date of the letter of response to finalise their contracts. When this period has expired, the contribution is returned to the Technology Development Fund, unless otherwise negotiated.

6. Contract on project implementation

The Technology Development Fund compiles contracts on project implementation in which the respective roles of the fund and the awardees are defined. The contracts define rules of communication and determine how conflicts should be handled. An accepted proposal constitutes part of a contract. Each project is issued with a number for use in all communications between Rannís and the awardee.

Payment procedures of the fund's contributions are determined, as well as items due for submission by the awardee within specified submission deadlines. If the awardee does not fulfil his obligations, appropriate procedures are outlined. In the event of a significant failure to comply with regulations, the contribution returns to the Technology Development Fund and repayment is claimed.

The obligations of the Technology Development Fund which extend to the next turn of the year after awarding a grant, depend on continued contributions to the Technology Development Fund from the general government budget.

The project manager is responsible to the Technology Development Fund for the implementation of the contract, both financially and operationally.

7. Ownership of results

Participants in cooperative projects supported by the fund must enter into a mutual contract with regard to ownership rights and right of use of project results, in case

there is more than one applicant. A draft copy of such a contract may be obtained from Rannís staff.

It is the general rule that ownership rights and right of use with regard to results and products is in accordance with each partner's contribution. The fund's awardees must, in so far as possible, protect ownership rights and right of use of results, since it is a precondition for the fund's awards that they support research and development work which returns profit to society and improves the competitiveness of industry. In the event that support is withdrawn due to the awardee's failure to fulfil obligations, the fund acquires ownership of all the results of the project which have been returned to it and is entitled to publish them unconditionally.

8. Project follow-up and payments

Rannís takes charge of project follow-up and the payments of grants under the auspices of the board of the Technology Development Fund. In the follow-up of agreed work contracts, the Technology Development Fund (Rannís) uses three types of reports in addition to the contract: progress reports, interim reports and final reports. These reports are submitted to the Technology Development Fund on special forms which are obtainable from Rannís and can be downloaded from the research centre's home page. (www.rannis.is).

Payments from the Technology Development Fund depend on the progress of projects as outlined in reports and evaluation by Rannís.

Progress report

One progress report is to be submitted at mid-term. The report contains a survey of total expenses accruing during the term, based on statements from each participant and signed by the project manager. The progress of the project is to be outlined in the report which contains milestones, as well as progress criteria, entered from the agreed proposal by the project manager and the Rannís project inspector, when the contract was signed. Payment is authorised on condition that the Rannís project inspector accepts the progress of the project.

Interim report/Annual report

An interim report, signed by the project manager, is to be submitted at the end of the contractual year, in the case of a project which has been awarded a grant for two or three years. The interim report is equivalent to a continued proposal, which is to be

assessed by the Rannís project manager who subsequently recommends a decision to the board.

Final report

A final report, signed by the auditor of the company/institute in question and the project manager must provide a detailed survey of the progress of the project, its impediments and incentives, and clearly describe its results and outcomes. It is to be stated, furthermore, how participants envisage using the results for further development. The fund reserves the right to sponsor a presentation of project results to entrepreneurial investors. The final report is to be accompanied by a short summary, which the fund is authorised to include in its operational report and on the Rannís home page.

Contributions to projects

If not otherwise negotiated, the fund's contribution is paid in three instalments:

1st payment – 40% upon signature of the contract, in the event of a new contract.

The same applies to continued projects, on condition that an interim report has been submitted for the previous year.

2nd payment – 40% when a progress report has been accepted. The submission deadline is specified in the contract.

3rd payment – 20% when a final report has been accepted, or an interim report, in the case of a continued project. The submission deadline is specified in the contract.

9. Pilot projects

The aim of pilot projects is to prepare and investigate the premises for new projects and/or prepare projects which fall under the scope of the Technology Development Fund. No specific submission deadline applies. Generally, proposals are processed three times a year. The board will assess the feasibility of proposals at regular intervals. Supported pilot projects fall into three categories:

- Preparation for innovation and technological development projects. To explore technological and/or commercial premises for new and worthwhile ideas, e.g. whether patents or other impediments stand in the way of marketing.
- Research into the marketing value of inventions and innovative projects. To investigate, e.g. whether a new invention or innovative design might succeed on the market.
- Finding foreign cooperation partners. To support companies, and other entities involved in innovation, in developing a network of enterprises in the field of R&D and, subsequently marketing abroad.

Each contribution to a pilot project could amount to a maximum of ISK one million, on condition the equivalent amount is supplied by the applicant, and the project is to be completed within 6 months of being accepted by the fund's board of directors. It is anticipated that total contributions to pilot projects could constitute up to 5% of the total budget of the Technology Development Fund at any given time.

If not otherwise negotiated, such contributions are paid in two instalments:

1st payment – 50% when a signed contract is submitted to Rannís.

2nd payment – 50% when the final report has been accepted.

10. Guidelines for maintaining an expense account

It should be noted in particular that the project manager is responsible for each participant maintaining a special expense account with regard to projects supported by the Technology Development Fund. The project manager must, at any given time, have a comprehensive overview of the project's total cost. An auditor or another entity responsible for the project's finances is obliged to provide Rannís with access to these accounting data when requested.

Recognised expense items are:

- Compensation of employees
- Consumables and materials etc.
- Purchased services
- Travel and meetings
- Depreciation of tools and equipment
- Interoperation and facilities

Individual expense items:

Compensation of employees

This is based on the time during which participants (staff) are employed in the project.

Applicants should be guided by general terms of employment contracts and institutional contracts when calculating salaries.

Compensation of employees comprises paid salaries with the addition of payroll burden. It is not possible to use hourly subcontracting rates as a basis for the calculation of salaries.

The proposal must show, in table format, the names of employees engaged in the project for more than 100 man-hours, their qualifications, number of man-hours during the year of support, hourly rates with the addition of payroll burden and the total salary expenses of each applicant.

Consumables

Information must be provided regarding supplies for the project. In the event that these are general consumables relating to R&D, a short description is adequate, accompanied by estimated total cost. If, on the other hand, the research is of a specialised nature, requiring expensive consumables, as is frequently the case in biotechnology and pharmaceuticals research, or connected with experimental production, it is necessary to include information on categories of goods, unit prices and terms of delivery.

Purchased services

Purchased services are to be described under this heading, whether performed by an institute or a company which is also an applicant, or other operational entities. The nature of the purchased service or counselling must be explained, why it is purchased from the party in question, the price of the service, what is the defined benefit and on what terms the service is delivered. It is permissible to include here the cost of an auditor's endorsement of the project's final report.

Travel and meetings

All travel, both in Iceland and abroad, must be reported, the purpose of the journeys, destination and cost.

Depreciation of tools and equipment

The fund does not support the purchase of tools and equipment. It can, however, share in the depreciation costs of specialized tools and equipment required for the project. This support, however, does not cover general office and research equipment. The need for the tools and equipment in question must be clearly illustrated, combined with an explanation as to why this particular option has been chosen.

An example of this kind could be as follows:

The tools and equipment in question cost, for example, ISK 4 million and the normal depreciation period of research tools and equipment is four years. The fund supports the project for three years. In this case, ISK one million is entered into the category "Depreciation of tools and equipment" annually, for three years, with reference to the capital start-up cost of the said tools and equipment. Other expenses relating to the purchase have to be borne by the applicant himself.

An exception from this rule may apply in the event of experimental production in companies which do not qualify for a grant from the Fund for Research Equipment, and where the progress of a project is totally dependent on certain specialised equipment.

Overhead (interoperation and facilities)

Overhead, or interoperation expenses, constitute fixed costs which are not directly linked to specific projects, but arise in connection with the activities of the operator. These are costs such as rent, heating, electricity, the administration of operating units, purchase of

books and magazines, computer and network expenses, including biobanks. Other items may come under scrutiny as potential part of overhead costs, but these have to be clearly delineated, if they are to be taken into consideration.

Applicants may choose one of two options to calculate interoperational costs

- Option 1: Interoperation as a proportion of the compensation of employees.
- Option 2: Interoperation as a proportion of total cost, having deducted purchased services (cf. the EU's 20% rule).

Option 1: Overhead as a proportion of the compensation of employees

The concept of overhead, as a proportion of the compensation of employees, only applies to the operation of R&D departments or the research units of institutes, universities or companies.

Expenses relating to departments associated with teaching, sales operations or consultancy services do not constitute part of acceptable total costs and thus cannot, in general, be entered as overhead. Nevertheless, research institutes, where teaching or in-service training form a significant aspect of the operation, can include this aspect of the department participating in the project, as a proportion of the total overhead expenses (interoperational costs) of the institute. Overhead costs relating to sales or consultancy, however, must be excluded.

It depends on agreement by Rannís what is included in overhead costs relating to projects supported by the fund. In the event of an applicant selecting this option, a statement on overhead costs, signed by the auditor of the institute, university or company in question, must accompany the proposal. The fund does not, for example, accept profit, interest income, operating loss or interest on own capital as part of overhead costs. Nor does the fund accept hourly subcontracting rates as the cost base of proposals. The fund does not accept expenses relating to the in-service training of staff as part of overhead costs, however necessary this activity may be. It is for others to defray such expenses.

Example: Overhead costs or administrative expenses as a proportion of the compensation of employees.

In the event that compensation of employees is ISK 1.000.000 and the proportion of overhead costs is 80%, expenses relating to interoperation and facilities will amount to ISK 800.000

Option 2: Overhead based on the 20% rule

Other applicants than those outlined above, and those who feel this is a simpler method, may select the 20% rule. This makes use of total cost, after deducting purchased services, multiplied by 0.2 which yields overhead costs acceptable to the fund. Purchased services are not included in the 20% rule. The commercial conditions of expensive operational items have to be particularly accounted for.

Which expenses are supported by the Technology Development Fund?

A precondition for a proposal being assessed by a professional council is that it should be based on a well-formulated concept with regard to practical value and likely benefit.

Costing and financing must conform to the fund's regulations. The support provided by the fund can amount to a maximum of 50% of the accepted total cost of a project. With regard to entrepreneurial grants, the fund's support may reach up to 75% of a project's accepted total cost.

Additional cost items, not recognised by the fund, may be expenses which the applicants feel it is necessary to incur with regard to innovation, in addition to the fund's accepted cost items, in order to achieve the technological and/or commercial result aimed for, e.g. investment in production tools and equipment, marketing and sales.

It may be desirable to explain such expenses separately to provide the professional council with a clearer picture of the way applicants estimate the innovation potential in question.

Regulations regarding accepted costs connected with preparations for marketing and sales have been extended in such a way that it is now possible, in the case of project grants, to enter costs of up to ISK 10 million for developing the necessary infrastructure for further progression and investor involvement. Examples of this are: a marketing effort, setting up a quality control system and the scheduling of production in small developing/start-up companies.

Accepted total costs financed by the fund:

- Research and development methods (incl. design) in the production of goods and services, taking into account novelty and originality.
- The development of knowledge and skills in R&D operations, including design for innovation.
- The compilation of business plans, market surveys and other preliminary work. Such preliminary work may, for example, involve the groundwork for promotion materials relating to a start-up company and its production, meetings or presentations to entrepreneurial investors, which may result in the start-up enterprise becoming marketable, or constitute a pre-condition for the involvement of entrepreneurial investors in innovation projects.
- The development and production of a few prototype samples of a product and/or service intended for research and testing relating to technological characteristics, on condition that the proposal describes how such characteristics are to be confirmed.
- The development and production of a few prototype samples of a product and/or service intended for market research, on condition that the proposal describes how such experimental sales will be conducted and financed.

The fund does not finance:

- Investment in raw materials, including tools and equipment which constitute part of a product or service intended for sale.

- Investment in the production process itself and its environment, e.g. accommodation and equipment for the production of goods and services intended for sale.
- The fund does not support marketing and sales activities beyond what has been stated above.

The fund does not accept costs already incurred in a project before a proposal is submitted, including participants' matching contribution.

The fund does not support applications for patents in individual countries, although it supports evaluations of novelty and patentability and applications to EPO (the European Patent Office), or ELS (the Icelandic Patent Office).