



Europäisches
Patentamt
European
Patent Office
Office européen
des brevets

Financial Statements Accounting Period **2016**

Financial Statements

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Audit opinion

We have audited the financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (Article 69(1)(a) FinRegs), together with the bookkeeping system of the European Patent Organisation (EPO), Munich, for the accounting period 1 January to 31 December 2016, as disclosed in CA/60/17. Responsibility for maintaining books and records and preparing the financial statements in accordance with Article 50(g) of the European Patent Convention (EPC) and the Financial Regulations (FinRegs), as described in note 2.1 of CA/60/17 ("Basis of Preparation"), lies with the President of the Office. Under Article 1(3) FinRegs, the EPO's generally accepted accounting principles are the International Financial Reporting Standards (IFRSs) as promulgated by the International Accounting Standards Board (IASB).

We conducted our audit of the financial statements in accordance with Article 49 EPC and the relevant FinRegs provisions – especially Article 79 FinRegs – and drawing on the audit principles adopted by Germany's Institut der Wirtschaftsprüfer (institute of auditors). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements in accordance with the applicable accounting provisions of the FinRegs are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the EPO and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and financial statements are examined primarily on the basis of sample checks within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the President of the EPO, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements comply with the IFRSs as promulgated by the IASB and give a true and fair view of the net assets, financial position and results of operations of the EPO in accordance with these standards.

Munich, 20 April 2017

The Board of Auditors

Financial Statements

Statement of Comprehensive Income for the year ended 31 December 2016

in '000 EUR

	Notes	2016	2015
Revenue			
Revenue from patent and procedural fees	(3)	1 812 892	1 725 112
Other revenue	(3)	75 593	68 586
Other operating income	(5)	8 101	6 579
Work performed and capitalised	(11)	2 270	2 268
Employee benefit expenses	(6)	(1 647 830)	(1 672 037)
Depreciation and amortisation expenses	(10) (11)	(47 247)	(53 917)
Other operating expenses	(7)	(213 220)	(222 260)
Operating result		(9 441)	(145 669)
Finance revenue	(8)	563 345	245 973
Finance costs	(9)	(414 483)	(321 811)
Financial result		148 862	(75 838)
Profit/(loss) for the year		139 421	(221 507)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement defined benefit obligations	(20)	(2 980 737)	4 766 714
Items that may be reclassified subsequently to profit or loss		–	–
Total comprehensive income for the year		(2 841 316)	4 545 207

The notes are an integral part of the financial statements.

Regarding potential future national renewal fees, see Notes 2.5.3. and 4.

Statement of Financial Position as of 31 December 2016

in '000 EUR

Assets	Notes	2016	2015
Non-current assets			
Property, plant and equipment	(10)	576 780	546 940
Intangible assets	(11)	48 798	53 333
RFPSS financial assets		7 028 156	6 319 492
RFPSS other assets		888	871
RFPSS restricted cash		272 510	271 660
RFPSS financial liabilities		(9 323)	(83)
RFPSS other liabilities		(28)	(82)
RFPSS net assets	(12)	7 292 203	6 591 858
Bonds	(13)	1 571 218	1 302 676
Home loans to staff	(14)	87 716	92 631
Other financial assets	(15)	77 000	–
Other assets	(16)	117 290	101 264
Total non-current assets		9 771 005	8 688 702
Current assets			
Trade and other receivables	(17)	162 200	160 521
Bonds	(13)	234 942	263 676
Home loans to staff	(14)	7 392	7 454
Other financial assets	(15)	318 000	275 200
Prepaid expenses	(18)	15 073	13 043
Cash and cash equivalents	(19)	19 596	70 073
Total current assets		757 203	789 967
Total assets		10 528 208	9 478 669
Equity and liabilities			
		2016	2015
Equity			
Retained earnings		(1 734 297)	(1 873 718)
Other components of equity		(8 901 968)	(5 921 231)
Total equity		(10 636 265)	(7 794 949)
Non-current liabilities			
Defined benefit liability	(20)	19 716 472	15 828 589
Salary Savings Plan obligation	(21)	58 245	44 145
Other employee-related liabilities	(22)	21 732	12 366
Finance lease liabilities	(24)	2 369	1 505
Provisions	(25)	–	93
Prepaid fees	(26)	713 772	799 002
Total non-current liabilities		20 512 590	16 685 700
Current liabilities			
Other employee-related liabilities	(22)	129 067	110 987
Trade and other payables	(23)	182 395	164 560
Finance lease liabilities	(24)	4 586	5 491
Provisions	(25)	7 450	30 821
Prepaid fees	(26)	328 385	276 059
Total current liabilities		651 883	587 918
Total liabilities		21 164 473	17 273 618
Total equity and liabilities		10 528 208	9 478 669

The notes are an integral part of the financial statements.
Regarding potential future national renewal fees, see Notes 2.5.3. and 4.

Statement of Changes in Equity for the year ended 31 December 2016

in '000 EUR

	Issued capital		Reserves	Total equity
		Cumulative changes in equity not recognised through profit or loss	Retained earnings	
Balance at 1 January 2015	–	(10 687 945)	(1 652 211)	(12 340 156)
Changes in equity for 2015				
Remeasurement defined benefit obligations		4 766 714	–	4 766 714
Profit (loss) for the period		–	(221 507)	(221 507)
Balance at 31 December 2015	–	(5 921 231)	(1 873 718)	(7 794 949)
Changes in equity for 2016				
Remeasurement defined benefit obligations		(2 980 737)	–	(2 980 737)
Profit (loss) for the period		–	139 421	139 421
Balance at 31 December 2016	–	(8 901 968)	(1 734 297)	(10 636 265)

The notes are an integral part of the financial statements.
Regarding potential future national renewal fees, see Notes 2.5.3. and 4.

Statement of Cash Flows for the year ended 31 December 2016

in '000 EUR

Cash flows from operating activities	Notes	2016	2015
Profit/loss of the year		139 421	(221 507)
Adjustments for:			
Depreciation and amortisation	(10) (11)	47 247	53 917
Disposal of property, plant and equipment	(10)	3 292	5 773
Disposal of bonds		(307)	466
Other gains and losses		(14 132)	(13 510)
Revaluation of RFPSS assets		(416 480)	(99 371)
Net interest		(69 753)	(76 834)
Dividend income		(73 975)	(65 962)
Changes in net defined benefit liability	(20)	907 147	854 344
Changes in Salary Savings Plan obligation	(21)	14 099	13 979
Changes in provisions	(25)	(23 464)	24 941
Changes in prepaid fees	(26)	(32 903)	6 787
Changes in assets and liabilities carried as working capital		39 450	10 265
Total		519 642	493 288
Cash flows from investing activities	Notes	2016	2015
Proceeds from disposal / settlement of:			
Property, plant and equipment		354	1
Bonds / cash received upon maturity		286 925	264 919
Purchases of:			
Property, plant and equipment		(63 125)	(40 898)
Intangible assets		(9 238)	(9 169)
Bonds		(547 318)	(515 285)
Change in bank deposits > 3 months		(119 800)	49 172
Home loans granted to staff		(16 841)	(19 360)
Repayment of staff home loans		21 905	27 120
Cash outflow from the purchase of RFPSS assets		(2 679 627)	(2 976 029)
Cash inflow from the sale of RFPSS assets		2 399 805	2 597 694
Cash inflow/(outflow) from decrease/(increase) in restricted cash		(850)	(27 070)
Interest received		89 274	94 240
Dividends received		72 688	64 714
Total		(565 848)	(489 951)
Cash flows from financing activities	Notes	2016	2015
Interest paid		(527)	(545)
Repayment of lease liabilities		(3 801)	(5 611)
Total		(4 328)	(6 156)
Net increase/(decrease) in cash and cash equivalents	Notes	2016	2015
Cash and cash equivalents net of bank overdrafts at the beginning of the period		70 073	73 004
Effect of exchange rate changes on cash and cash equivalents		57	(112)
Cash and cash equivalents net of bank overdrafts at the end of the period	(19)	19 596	70 073

The notes are an integral part of the financial statements.

Regarding potential future national renewal fees, see Notes 2.5.3. and 4.

Notes

1. GENERAL INFORMATION

The European Patent Organisation (the Organisation or the EPO) is an intergovernmental organisation set up pursuant to the European Patent Convention (EPC) which entered into force in 1977. It is the outcome of the European countries' collective political determination to establish a unitary patent system in Europe.

The Organisation comprises its legislative body, the Administrative Council, and its executive body, the European Patent Office (the Office). The Organisation is represented by the President of the Office. The task of the Organisation is to grant European patents, and is carried out by the Office supervised by the Administrative Council.

The Organisation is a legal entity and has its seat in Munich, a branch at The Hague/Rijswijk and sub-offices in Berlin and Vienna. The address of its head office is Bob-van-Bentham-Platz 1, 80469 Munich, Germany.

As laid down in the EPC and in the Organisation's Financial Regulations (FinRegs), the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as provided by the International Accounting Standards Board (IASB).

These financial statements were authorised for issue by the President on 13 April 2017.

With respect to the information provided in the Statement of Comprehensive Income and in the Statement of Financial Position, it should be noted that

- the EPO is an intergovernmental organisation, thus the Contracting States are obliged to finance any deficit;
- the value of future national renewal fees cannot be shown as an asset but is an essential factor for the Organisation's actual financial position.

For more details, see Notes 2.5.3 and 4 on future renewal fees for European patents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. As required by amended IAS 1, the EPO presents profit or loss and other comprehensive income in one statement – Statement of Comprehensive Income – with expenses analysed by nature.

2.1 BASIS OF PREPARATION

The financial statements of the EPO have been prepared in accordance with IFRS. The financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value and the defined benefit obligation measured in accordance with **IAS 19**. The financial statements are presented in euro (EUR) and all values are rounded to the nearest thousand (EUR '000) unless otherwise indicated.

In accordance with **IFRS 8** – Operating Segments the Organisation has not prepared a segment reporting, as IFRS 8 must be applied only by entities whose debt or equity securities are publicly traded and by those in the process of issuing such securities in public securities markets.

New, revised or early-adopted standards and interpretations affecting the Financial Statements in the current year (and/or prior years)

The application of new standards and interpretations had no impact on the EPO's financial statements as of 31 December 2016.

Standards, amendments and interpretations to existing standards that are new or revised but not yet effective and have not been adopted early by the Organisation

IFRS 9 (2014) – Financial Instruments. This new standard supersedes all previous, in particular IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013).

The overall purpose of IFRS 9 is to set a comprehensive framework for accounting for financial instruments. This framework is divided in 3 chapters:

- Classification and measurement (IFRS 2009 and IFRS 2010)
- Hedge accounting (IFRS 2013)
- Impairment (IFRS 2014)

IFRS 9 (2014) includes the prior IFRS 9 standards and further addresses the topic of impairment of financial instruments. It introduces a new, expected loss impairment model that requires more timely recognition of expected credit losses.

Specifically, the new standard requires entities to account for expected credit losses as from when financial instruments are first recognised, and it lowers the threshold for recognition of losses expected over their full lifetime.

IFRS 9 (2014) is effective for periods beginning on or after 1 January 2018, an early adoption is permitted. Prior versions of the standard remain available for early application till 2018 if the relevant date of initial application was before 1 February 2015. The EPO has applied IFRS 9 (2010) since 2011.

The EPO management has analysed the impact of IFRS 9 (2014) on its accounting policies. At this stage, the analysis shows that the existing asset classes, as presented in the Statement of Financial Position, will remain unchanged. Depending on the outcome of further analyses, inter alia of contractual cash flows, the home loans may be reclassified from "Financial assets measured at Amortised Cost" to "Financial assets at Fair Value through Profit and Loss". The classification of other asset classes for measurement purposes will remain unchanged. Under the new standard, no asset class of the EPO will be measured at "Fair Value through OCI". The EPO will be required to recognise the Expected Credit Losses (ECL) for all financial instruments measured at amortised cost in its Statement of Financial Position. The changes in ECL will have an impact on the Statement of Comprehensive Income for the period in which they occur. For bonds, the ECL will be calculated per rating category, using long-term average global default rates published by Standard&Poor's as probability weightings. For bank deposits the ECL will be calculated separately for each counterparty, using Bloomberg 1-year default probability. To determine the ECL for trade receivables, the EPO will use a provision matrix, based on its historically observed default rates over the expected life of the trade receivables and adjusted for forward-looking estimates. The EPO will present additional disclosures in the Financial Statements, concerning primarily credit risk management practices, risk exposure and expected credit loss calculations. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IFRS 9 (2014) will be applied retrospectively unless this is impracticable.

IFRS 15 – Revenue from Contracts with Customers was issued by the IASB in May 2014 and must be applied by the EPO at the latest to its annual reporting period beginning on 1 January 2018. On 12 April 2016, clarifying amendments were issued that have the same effective date as the standard itself. The standard specifies how and when an entity must recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

Step 1 - Identify the contract(s) with a customer

Step 2 - Identify the performance obligations in the contract

Step 3 - Determine the transaction price

Step 4 - Allocate the transaction price to the performance obligations in the contract

Step 5 - Recognise revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances of individual contracts with customers, and will require the exercise of judgment.

The EPO is currently assessing the possible impact of IFRS 15, in an Office-wide project. Within this project the current emphasis is on the analysis of existing processes and revenue recognition, in particular of the EPO's procedural fees. Based on the current analysis, the EPO is not expecting IFRS 15 to have any major impact on its revenue recognition. However, some modifications might have a limited financial impact on revenue under certain fee codes.

The EPO intends to apply IFRS 15 for the first time in its financial statements on 31.12.2018 using the cumulative effect method in the transition.

IFRS 16 – Leases. This new standard specifies how IFRS reporting entities have to recognise, measure, present and disclose leases. It provides a single lessee accounting framework, requiring lessees to recognise assets and liabilities for all leases unless

the lease term is 12 months or less or the underlying asset has a low value. Lessors further classify leases as operating or finance. IFRS 16 will apply to annual reporting periods beginning on or after 1 January 2019. EPO management is currently analysing the impact of this standard on the accounts. For the EPO as lessee, it is expected that most building lease contracts and some lease contracts for office/IT equipment will come under the new standard, resulting in the capitalisation of right-of-use assets and corresponding lease liabilities in the Statement of Financial Position.

IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The effective date of the amendments to IFRS 10 and IAS 28 has been deferred indefinitely. They will not affect the EPO.

Amendments to **IAS 12** – Income Taxes. The amendments to IAS 12 clarify the accounting of deferred taxes that are related to a debt instrument measured at fair value. The amendments to IAS 12 will apply to annual reporting periods beginning on or after 1 January 2017. They will not affect the EPO's accounts.

Amendments to **IFRS 2** – Share-based payments. The amendments clarify specific aspects of share-based transactions. The amendments to IFRS 2 will apply to annual reporting periods beginning on or after 1 January 2018. They will not affect the EPO's accounts.

Amendments to **IFRS 4** – Insurance contracts. The amendments provide accounting guidance for the application of IFRS 9 in conjunction with IFRS 4. The amendments to IFRS 4 will apply to annual reporting periods beginning on or after 1 January 2018. They will not affect the EPO's accounts.

Amendments to **IAS 7** – Statement of Cash Flows. The amendments to IAS 7 require further disclosures regarding the changes in liabilities arising from financing activities. The amendments to IAS 7 will apply to annual reporting periods beginning on or after 1 January 2017. EPO management is currently analysing the impact of these amendments on the accounts.

Amendments to **IAS 40** – Investment property. The amendments to IAS 40 specify when an entity shall transfer a property to, or from, investment property. The amendments to IAS 40 apply to annual reporting periods beginning on or after 1 January 2018. They will not affect the EPO's accounts.

Annual Improvements to **IFRS 2014-2016** Cycle are applicable for annual periods beginning on or after 1 January 2018 (amendments to IFRS 1 and IAS 28) or 1 January 2017 (amendments to IFRS 12). They will have no impact on the EPO's accounts.

Interpretations and amendments to existing standards which became effective in 2016 but are not relevant for the Organisation's operations

IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations. The amendments to IFRS 11 address the accounting for interests in joint ventures and joint operations. The amendments to IFRS 11 apply to annual reporting periods beginning on or after 1 January 2016. They do not affect the EPO's accounts.

IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments to IAS 16 and IAS 38 apply to annual reporting periods beginning on or after 1 January 2016. They do not affect the EPO's accounts.

IAS 16 and IAS 41 – Agriculture: Bearer Plants. The amendments take bearer plants which are used solely to grow produce out of the scope of IAS 41 Agriculture and bring them into the scope of IAS 16. The amendments to IAS 16 and IAS 41 apply to annual reporting periods beginning on or after 1 January 2016. Neither standard is applicable to the EPO.

IAS 27 – Equity Method in Separate Financial Statements. The amendments reintroduce the possibility for entities to account for investments in subsidiaries, joint ventures and associates in their separate financial statements using the equity method. The amendments to IAS 27 apply to annual reporting periods beginning on or after 1 January 2016. They do not affect the EPO's accounts.

Annual Improvements to **IFRS 2012-2014** Cycle are applicable for annual periods beginning on or after 1 July 2016. They have no impact on the EPO's accounts.

Amendments to **IAS 1** – Presentation of Financial Statements. The amendments to IAS 1 clarify where preparers can use their professional judgement in determining what information to disclose in their financial statements. The amendments to IAS 1 apply to annual reporting periods beginning on or after 1 January 2016. There will be no material impact on the EPO's accounts caused by these amendments.

Amendments to **IFRS 10, IFRS 12 and IAS 28** – Investment Entities: Applying the Consolidation Exception. The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The amendments to IFRS 10, IFRS 12 and IAS 28 apply to annual reporting periods beginning on or after 1 January 2016. They do not affect the EPO's accounts.

2.2 CONSOLIDATION

Although the RFPSS have to be internally treated and reported as a special class of asset of the Organisation, the EPO does not prepare consolidated financial statements, because under IFRS the Organisation constitutes a single entity.

2.3 FOREIGN CURRENCY TRANSLATION

The financial statements are presented in euro, the Organisation's functional currency. Foreign currency transactions are translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements in order to conform to IFRS. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities on the balance sheet date and the reported amounts of revenue and expenses during the reporting period. The estimates and judgements are continually evaluated and are based on historical experience, third-party transactions and other factors, including expectations of current and future events that are believed to be reasonable under the circumstances. The following significant accounting judgements and estimates and related assumptions and uncertainties inherent in the accounting policies applied are essential to an understanding of the underlying financial reporting risks and the effects on the financial statements.

The liabilities relating to the defined benefit pension plans as defined in Note 2.15.2 and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, career development, mortality rates, the duration of incapacity to work, future pension increases and other actuarial parameters. Calculation of the defined benefit plan also means making assumptions to determine the level of lump-sum payments as tax compensation for the national tax levied on pensions (disclosed as "tax adjustment"). Due to the long-term nature of these plans, such estimations are subject to significant legal and actuarial uncertainties (see also Note 28).

The Organisation exercises judgement in measuring and recognising provisions related to outstanding legal claims. Judgement is necessary in assessing the likelihood that an outstanding legal claim will succeed and to quantify the possible range of the final settlement.

Provisions are recorded for liabilities when losses are expected from executory contracts, or a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties, actual losses may be different from the originally estimated provision. These estimates are updated when new information becomes available.

The Organisation follows the guidance of **IAS 39** Financial Instruments: Recognition and Measurement on determining when a financial asset measured at amortised cost is impaired. This requires significant judgement. In making this judgement, the Organisation evaluates, among other factors, the financial situation of the issuer or obligor.

Development costs are capitalised in accordance with the accounting policy in Note 2.10. Determining the amounts to be capitalised requires management to make assumptions about e.g. technological feasibility, expected benefits, allocation of costs to research or development phases, and the costs directly attributable to development of the assets.

National renewal fees for the fourth quarter of the reporting period not received before the closure of the accounts are accrued using estimates based on the average amount received in previous periods.

The Organisation exercises judgement in measuring the net present value of potential future national renewal fees disclosed in Note 4. Determining this amount requires management to make assumptions about discount rates, exchange rates and the life expectancy of patents in the different countries where they have been validated.

2.5 REVENUE RECOGNITION

2.5.1. Revenue from patent and procedural fees

2.5.1.1. Patent granting, opposition and appeal procedures (EPC and Euro-PCT)

The EPO, as the patent granting authority for Europe, processes patent applications from filing up to grant (or refusal), opposition procedures against granted patents and appeals against EPO decisions.

A European patent can be obtained in one of two ways:

- (a) European route: Direct European patent application (EPC application)
- (b) International route: European patent application derived from an international application filed under the Patent Cooperation Treaty (Euro-PCT application).

Principles of revenue recognition for fees from patent granting, opposition and appeal procedures

Patent granting, opposition and appeal procedures are fully standardised at the EPO and consist of different steps.

The fees for each step and the corresponding due dates are regulated in the European Patent Convention of 5 October 1973 (as in force at the balance sheet date) and its Implementing Regulations (as in force at the balance sheet date) and the Rules relating to Fees of 20 October 1977 (as in force at the balance sheet date).

The patent applicant can decide at any time to abandon the procedure by not paying a fee which is due; the EPO then deems the application to be withdrawn.

In most cases, the EPO does not start performing the service related to each step until the applicant has paid the fees involved.

Revenue from patent and procedural fees is recognised in the Statement of Comprehensive Income when the underlying service is rendered. Costs are expensed as incurred. Fees received as payment for services which have not been fully performed, or for which the patent applicant is entitled to a refund, are presented at the closing date as prepaid.

The prepaid fees, recognised in the Statement of Financial Position as liabilities, are carried forward and released to current revenue upon full completion of the underlying work as follows:

- **Search fees and claims fees:** the underlying search service is fully performed when the search report has been dispatched to the patent applicant.

- **Examination fees:** the underlying examination service is fully performed when the written communication of the intention to grant the patent or the decision to refuse the application has been sent to the patent applicant.
- **Opposition fees:** the underlying service is fully performed when the opposition procedure has been finalised, i.e. when a final decision by the opposition division has been communicated to the parties.
- **Appeal fees:** the underlying service is fully performed when the appeal procedure has been finalised, i.e. when a final decision by the board of appeal has been communicated to the parties.
- **Limitation fees:** the underlying service is fully performed when the examining division's decision as to whether or not the request for limitation is allowable has been communicated to the requester.

The following remaining fees are accounted for as current revenue upon receipt and are not adjusted for prepaid fees:

- **Filing fees:** the underlying service, comprising the formal check of the patent application, is completed by the EPO within a short time after filing. Payment is due within one month after the filing date.
- **Designation fees:** designation fees are not work-related; rather, they are one-off fees payable to ensure protection of the invention in the EPC contracting and extension states of the applicant's choice. The underlying service has already been fully performed by the EPO at the date of filing, before payment of the fee is due.

As these fees are not refundable in any case, a liability for received payments for designation or extension fees not yet due at the year-end closing date is not recognised in the Statement of Financial Position.

Due to the lack of a legal payment obligation by the patent applicant, a trade receivable for potentially receivable fees at the closing balance sheet date with a due date in the following period is not recognised in the Statement of Financial Position.

- **Grant and printing fees:** grant and printing fees are due four months after conclusion of the examination service by the EPO.

Due to the lack of a legal payment obligation by the patent applicant, a trade receivable for potentially receivable fees at the closing balance sheet date with a due date in the following period is not recognised in the Statement of Financial Position.

- **Renewal fees for patent applications:** renewal fees for patent applications are not work-related and are due in advance on a yearly basis starting from the third year after the filing date. Therefore, a deferral of the amount for renewal fees for patent applications covering two financial periods is not recognised. The last renewal fee payable in respect of a European patent application covers the year in which mention of the grant of the patent is published. Renewal fees validly paid three months before the due date under Rule 51(1) EPC, are recognised as prepayments.

For information on renewal fees post-grant, see Note 2.5.1.3 below.

2.5.1.2. Searches and preliminary examinations on international applications (PCT procedure)

The EPO as an International Searching and Preliminary Examining Authority also performs international searches and preliminary examinations on international applications under the Patent Cooperation Treaty.

The due dates of the related fees are established by the World Intellectual Property Organization in the Patent Cooperation Treaty of 19 June 1970, as last amended on 3 October 2001, and the amounts are fixed in the Rules relating to Fees of 20 October 1977 (as in force at the balance sheet date).

Principles of revenue recognition for searches and preliminary examinations for international applications

In most cases, the EPO does not start performing the service involved until the requisite fee has been paid.

As in the EPC and Euro-PCT procedure, revenue is recognised in the Statement of Comprehensive Income after the service related to each fee has been fully performed by the EPO.

International search and examination fees are initially booked in the Statement of Comprehensive Income upon receipt of payment. To ensure that the Statement of Comprehensive Income shows only revenue for services actually rendered within the accounting period, the initially posted cash-based revenue is adjusted for prepaid fees at the closing date.

The prepaid fees, recognised in the Statement of Financial Position as liabilities, are carried forward and released to current revenue as follows:

- **International and international-type search fees:** the file is considered completed when the search report has been dispatched.
- **PCT Chapter II examination fees:** the file is considered completed when the examining division has finalised its work.

2.5.1.3. National renewal fees for granted European patents

After a European patent has been granted, renewal fees for subsequent years during its term are payable to the designated Contracting States. Under Article 39 EPC, each Contracting State pays to the Organisation, for each European patent maintained in that state, a proportion of its national renewal fee fixed by the Administrative Council and which may not exceed 75% and is the same for all Contracting States (this proportion has been 50% since 1984). If that proportion is less than a uniform minimum amount fixed by the Administrative Council, the Contracting State has to pay that minimum to the Organisation. The structure and level of national renewal fees are fixed by the Contracting States.

The national patent offices of the Contracting States make these payments to the EPO on a quarterly basis.

Principles of revenue recognition for national renewal fees for granted European patents

National renewal fees for granted patents for the first three quarters of the year (due dates 30 April, 31 July and 30 October) are recognised as revenue upon receipt of payment. National renewal fees for the fourth quarter (due date 31 January) are accrued on the basis of cash received before year-end closure. Amounts not received by that date are accrued using estimates based on the average amount received in the first three quarters of the year.

2.5.2 Other revenue

Other revenue includes **revenue from searches for national offices, third-party searches, patent information services** and **sales of patent information products**, with the following principles of revenue recognition:

- **Revenue from searches for national offices, third-party searches and patent information services** are recorded upon performance of the corresponding service and issue of the invoice involved.
- **For sales of patent information products**, the revenue is recognised when ownership of the goods is transferred to the buyer.

2.5.3 Potential future national renewal fees for European patents

The EPO's costs related to the patent granting process from filing up to grant are covered only partly by its own procedural fees, the remainder being financed from national renewal fees for granted European patents, payable for each year the patent is maintained in force (see also Note 2.5.1.3). Further information on the financing of the EPO is provided in Note 31.4 on capital management.

This is reflected in the Organisation's fee policy: when fixing its fees for the specific services delivered in the grant procedure, potential national renewal fees for granted patents are explicitly taken into account.

Since there is no legal obligation on the patentee to maintain the patent for the maximum term (20 years) by paying the renewal fees involved, and since the structure and level of the fees are defined by the contracting states, the net present value of expected future national renewal fees on granted patents is presented in the notes but not recognised in the Statement of Comprehensive Income and the Statement of Financial Position. It is also possible that EPO income from these fees, together with that from renewal fees for pending applications, will not cover its remaining costs in granting the patent. As such future operating losses do not meet the criteria of a liability, the EPO recognises no provision.

The net present value of potential future national renewal fees for European patents is calculated on the basis of estimated cash flows per Contracting State and year. These cash flows are discounted in line with their expected timing using the discount rates from the zero-coupon yields curve extrapolated from the Euro iBoxx® indices for corporates with an AA rating.

The estimated cash flows are based on the actual number of granted patents until year-end, and their life expectancy in the different countries where they have been validated.

Life expectancy and national validations are estimated using historical statistics for each contracting state.

The current renewal-fee distribution key and the fee amounts laid down by the contracting states are taken as constant values over the expected term of the patents.

2.6 FINANCE REVENUE AND FINANCE COSTS

Gains or losses arising from changes in the fair value of financial assets through profit and loss are presented in the Statement of Comprehensive Income, in the financial result section, in the period in which they arise.

Interest from assets measured at amortised cost is calculated using the effective interest method and recognised in financial income on an accrual basis. Interest from assets measured at fair value is recognised on an accrual basis.

Dividend income is recognised when the right to receive payment is established.

2.7 LEASES

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership. All other leases are treated as operating leases. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the legal form of the contract.

An item under finance lease is capitalised at the start of the lease at its fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly expensed.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

2.8 INCOME TAXES

In accordance with Article 4 of the EPO's Protocol on Privileges and Immunities (EPO-PPI), the EPO and its property and income are exempt from all direct taxes within the scope of its official activities.

2.9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost (including borrowing cost, if any) less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Land	not depreciated
Building components	10-50 years
Office equipment	3-20 years

The expected useful life of property, plant and equipment is reviewed at each year-end and adjusted if necessary.

For its buildings, the EPO applies the component approach, and depreciates parts of buildings with different useful lives separately. The depreciation periods for the components are as follows:

Construction of buildings	50 years
Facade	30 years
Fitting out	20 years
Technical installations	20 years
Electrical installations	10 years

If a part of a component is replaced, the new investment is added to the existing component's value, subject to IFRS recognition criteria, and the useful life of the component is extended accordingly. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they were incurred.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication exists and the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount.

For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

Property, plant and equipment that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Specific rules relating to the impairment of intangible assets are described in Note 2.10.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use and subsequent disposal. Any gain or loss arising on derecognition of the asset is included in the Statement of Comprehensive Income in the period in which the item is derecognised.

If an asset is kept with the intention to sell and is available for immediate sale in its present condition then it is reclassified to "assets held for sale". After reclassification the asset is no longer depreciated. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

2.10 INTANGIBLE ASSETS

Intangible assets acquired separately are capitalised at cost. Following initial recognition, an intangible asset is carried at its cost less any accumulated amortisation. The depreciable amount of an intangible asset is allocated on a straight-line basis over its useful life. The acquired software is amortised over the period of 3-5 years. The amortisation period of acquired information systems is determined individually, depending on the expected useful life of the system. Some intangible assets are amortised over 20 years, including databases used by EPO examiners in the patent granting procedure. The amortisation period and method are reviewed at least at each financial year-end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period is changed accordingly.

Internal and external development costs of the intangible assets generated by the EPO are capitalised if they meet the recognition criteria:

- completion of the asset is technically feasible
- the EPO intends to complete the asset and use or sell it
- the EPO is able to use or sell the asset
- the asset is expected to generate future economic benefits
- the financial and technical resources necessary to complete the asset are available
- the costs attributable to the asset during its development can be measured reliably.

The costs incurred in the research phase of internal projects are expensed.

The costs of capitalised internally generated intangible assets comprise:

- the cost of services used in generating the asset
- the cost of internal employees involved in generating the asset
- other internal costs of materials, services and depreciation incurred in generating the asset
- programme management cost
- borrowing cost, if any.

EPO accounting policy is to capitalise the costs of internal development of intangible assets or significant, separately identifiable enhancement if the total internal and external costs over the whole project life exceed EUR 3 million.

The internal costs for generating the asset include salaries allocated to the project based on the time used by internal staff for development activities (and recorded in an IT-based system) and any other directly attributable expenditure. External costs included in the capitalised projects mainly comprise fees for IT consultants, the purchase price of development software and hardware and the cost of developing and implementing specific system modules.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The asset concerned is impaired only if it is no longer in use. This policy is applied for two reasons:

- the intangible assets owned by the EPO are not traded in an active market, which renders any reliable calculation of the recoverable amount impossible
- the smallest cash-generating unit to which these intangible assets belong is the EPO as a whole. No reliable estimate of the value in use by the EPO can be made because the EPO is a non-profit institution and its mission contains non-measurable goals (such as promoting a knowledge-based society in Europe).

Intangible assets not yet ready for use are reviewed for impairment at each reporting date.

Intangible assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the Statement of Comprehensive Income.

2.11 OTHER ASSETS

The repurchase value of insurance contracts agreed between the former Institut International des Brevets (ex-IIB) and several insurance companies is presented as a separate asset. The Organisation measures these assets at fair value determined by obtaining the repurchase values from the market makers.

Since 2009, the Office has had a contract with FIL Investments International UK – Niederlassung Frankfurt, Kronberg im Taunus, Germany and FIL Pensions Services GmbH, Kronberg im Taunus, Germany, for asset management services and individual account administration services in connection with the implementation and administration of the Organisation's Salary Savings Plan (SSP). Since the introduction of the SSP, reimbursement rights due from the external service providers are capitalised as other assets measured at fair value determined by obtaining the market price at the balance sheet date. The term "reimbursement right", in this context, denotes the total contributions paid into each individual account plus the corresponding investment returns. SSP reimbursement rights are the Organisation's property within the meaning of Article 4 EPO-PPI. They are a special class of asset of the Organisation designed solely to settle the amounts owed. Fair value changes are recognised in the Statement of Comprehensive Income as finance revenue or finance costs. The main characteristics of the SSP are summarised in Note 21. A corresponding liability is recognised and presented separately in the Statement of Financial Position ("Salary Savings Plan obligation").

2.12 FINANCIAL INSTRUMENTS

Since 2011, the Office has applied IFRS 9 (2010) to account for its financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and liabilities are recognised in the Statement of Financial Position when the EPO becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the EPO commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the EPO has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Initially, financial instruments are recognised at fair value. For the purpose of measurement at subsequent reporting dates, the EPO classifies its financial assets according to IFRS 9 in the following categories: at fair value through profit or loss, and at amortised cost. The classification depends on the purpose for which the financial asset was acquired, and is defined at initial recognition. The business model for managing the financial assets and the contractual cash-flow characteristics of financial assets are also determined at initial recognition, and re-evaluated at each reporting date.

Financial assets are classified as current if expected to be settled within 12 months; otherwise, they are classified as non-current.

RFPSS assets are held with the aim of covering future pension payments. Estimates based on the actuarial studies have shown that the net payments to pensioners are not expected before 2023. Therefore all RFPSS assets are presented as non-current.

(a) Financial instruments at fair value through profit or loss

RFPSS assets

The RFPSS portfolio is managed and evaluated on a fair value basis and is not held to collect contractual cash flows. The portfolio comprises standard and other bonds, shares, funds, derivatives and other instruments. The performance of both assets and liabilities included in the RFPSS portfolio is managed on the fair value basis. Consequently, the RFPSS portfolio is measured at fair value through profit and loss.

At initial recognition the instruments in this category are measured at fair value. Transaction costs are expensed in profit or loss for the period in which they were incurred. The instruments held by the RFPSS that are actively traded in the market are valued at the market auction price (also called close price) on the balance sheet date. If there is no active market for financial instruments, the last available price from the market maker is used. Gains or losses are recognised in the Statement of Comprehensive Income in the financial result section. The instruments held by the RFPSS are managed on a portfolio basis, so gains and losses on investments are presented net in the Statement of Comprehensive Income. A gross presentation is disclosed in Note 30.3.

(b) Financial instruments at amortised cost**Bonds**

Bonds held by the Office are debt instruments actively traded in organised financial markets. Bonds are measured after initial recognition at amortised cost using the effective interest method.

Bonds are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and of interest on the principal. Bonds may be sold if there is an increase in the assets' credit risk, in particular if their credit rating no longer complies with the EPO Investment Guidelines.

Gains or losses are recognised in the Statement of Comprehensive Income when the asset is derecognised or impaired and through the amortisation process.

Home loans

Home loans are granted to the EPO staff for the construction, purchase or conversion of residential property at an interest rate lower than the prevailing market one. Therefore, the fair value at initial recognition is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

After initial recognition, home loans are measured at amortised cost using the effective interest method. They are split into non-current and current, based on the remaining term of the loan.

Trade and other receivables

After initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, and discounted only if they are due in more than one year. Bad debts are written off when they become uncollectible, usually due to insolvency of the client. In such cases, the carrying amount of the trade receivables is reduced directly, rather than recognising the impairment on a separate account.

Other financial assets

Fixed-term deposits with a maturity longer than 3 months are shown under other financial assets and are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and in hand, as well as short-term deposits with an original maturity of three months or less, and they are measured at amortised cost. For the purposes of the Statement of Cash Flows, cash and cash equivalents are presented as defined above, net of any outstanding bank overdrafts, which are shown as such in the Statement of Financial Position.

RFPSS restricted cash

RFPSS financial instruments include "restricted cash", i.e. cash used for purchase or received from sale of RFPSS investments. Cash and cash equivalents of the RFPSS comprise cash at bank, short-term deposits, i.e. with an original term to maturity of three months or less from the balance sheet date, and cash collateral relating to derivative transactions (margin account). According to the EPO regulations, this cash cannot be used for operational purposes, but only for post-employment benefit payments. Therefore, the cash of the RFPSS is presented separately as a part of non-current RFPSS net assets and is measured at amortised cost.

Trade and other payables

Trade and other liabilities are initially recognised at fair value. They are subsequently measured at amortised cost under the effective interest method, if applicable. Trade payables also include liabilities for goods received or services already performed but not yet invoiced.

RFPSS other assets

RFPSS other assets comprise mainly tax receivables and amounts receivable from the sale of RFPSS assets.

RFPSS other liabilities

The amounts payable for the purchase of RFPSS assets, as well as other trade payables, are presented under this heading.

Lease liabilities

Reference is made to Note 2.7.

Impairment

The EPO assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets measured at amortised cost is impaired. If any such evidence exists, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised as an expense in the Statement of Comprehensive Income.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed. The amount of the reversal is recognised as an income in the Statement of Comprehensive Income.

Fair value measurements

The EPO uses the following techniques and inputs to determine the fair value measurements:

- The fair value of the instruments held by the RFPSS that are actively traded in the market is measured at the market auction price (also called close price) on the balance sheet date.
- The fair value of the instruments held by the RFPSS for which there is no active market is measured at the last available price from the market maker.
- The fair value of bonds held by the Office is determined on the basis of quoted market prices. The price used for valuation is the closing price on the last trading day of the financial year.
- The fair value of home loans is calculated as the present value of the future cash flows discounted using the prevailing market interest rates and applying the Moosmüller method. Interest rates used as input for the model are Euribor rates and the rates of AAA-rated Euro-area central-government bonds.

The EPO's policy is to recognise transfers into and out of fair value levels as of the date of the event or change in circumstances that caused the transfer.

2.13 PREPAID EXPENSES

To ensure that the Statement of Comprehensive Income shows only expenses for services actually rendered or goods actually received within the accounting period, the initially posted cash-based expenses are adjusted for prepaid expenses at the closing date.

2.14 EQUITY

In compliance with the EPC, no issued capital is designated.

2.15 EMPLOYEE BENEFITS

Employee benefits comprise any benefits payable by the EPO to actual or former employees and to those entitled under them (beneficiary) for services rendered.

2.15.1 Short-term employee benefits

Short-term employee benefits are those benefits (other than post-employment benefits) that are expected to be wholly settled within twelve months as from the end of the annual reporting period in which the services were rendered. Obligations resulting from short-term employee benefits are presented in the Statement of Financial Position as other employee-related liabilities (current). Such liabilities mainly concern compensated absences such as regular vacation and home leaves which are determined by applying an average daily cost rate, derived from an average daily cost rate based on year-end figures, on granted but untaken leaves.

2.15.2 Post-employment benefits – defined benefit liability

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity and will have no legal obligation to pay further contributions if the separate entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. At the EPO, defined benefit plans define an amount of pension benefit that a beneficiary will receive on retirement, usually dependent on one or more factors such as age, years of service and pay. Assets held to fund part of the pension obligations, lump-sum payments made in tax compensation for national taxation of pensions, long-term care (LTC) insurance, and sickness insurance for pensioners and those entitled under them are invested by the RFPSS but do not represent plan assets in terms of IAS 19.8.

The Organisation operates four plans treated as defined benefit obligations (DBOs) for its employees:

- a retirement pension plan including retirement for health reasons, invalidity pension/allowance (until 31 March 2015), any tax compensation thereon, and family allowances
- an LTC plan
- a sickness insurance for pensioners
- a death insurance involving lump-sum payments (combined with invalidity insurance until 31 March 2015).

As of 1 April 2015, the EPO introduced new rules on incapacity (formerly known as invalidity). This reform affected the defined benefit plans for pensions and the death and invalidity insurance involving lump-sum payments.

a) Under the old scheme, employees of the EPO could be assigned to non-active status for reasons of invalidity. These employees were exempt from service and they received an invalidity allowance, a tax adjustment (if the allowance was taxed nationally) and a lump sum for permanent invalidity equivalent to 33 months of basic salary. In view of its obligation to pay invalidity allowances, tax adjustments and lump sums in case of invalidity, the EPO built up actuarially measured provisions for the potential risk for those payments, classified as DBOs.

b) Under the new scheme, if upon expiry of the extended sick leave period under the EPO Service Regulations as currently worded the employee is still unable to perform his duties or other similar duties he is declared to be on incapacity, on the basis of a medical opinion. During incapacity, he remains in active service. He is entitled to a proportion of his basic salary and salary-related allowances equal to the time worked, and 70% of the basic salary and salary-related allowances for the time he is discharged from duties for reasons of incapacity. Incapacity is always temporary, except for staff with severe health problems. If the medical condition is assumed to be permanent and the employee is not expected to recover, he is retired for health reasons if he has reached 55 years of age and has been totally discharged from his duties for reasons of incapacity for ten years.

The employee's state of health is periodically reviewed, to determine whether or not he still fulfils the conditions for incapacity and, if so, whether the proportion of incapacity and its duration should be adjusted. Incapacity ends on return to full-time work or on termination of service through retirement. Thus, the lump sum paid under the old scheme in case of invalidity has been abolished.

As a transitional measure, those in receipt of an invalidity allowance upon entry into force of the new regulations are not subject to the new incapacity scheme, but are entitled to a retirement pension.

The change in the invalidity scheme as per 1 April 2015 had the following consequences for EPO accounting purposes:

Those in receipt of invalidity allowances before the reform's entry into force went into final retirement before the reform. The provision for their invalidity allowances and tax adjustments remained unchanged but was treated as retirement pension.

For all employees declared to be on incapacity following a medical opinion, a provision is recognised on a case-by-case basis for 70% of their basic salary and salary-related allowances for that part of time for which they are discharged from duties for reasons of incapacity, during the entire expected period of incapacity. Since there is no vesting period, for all such employees vesting occurs immediately following the declaration that they are incapacitated. Therefore, no provisions are recognised for the potential risk of incapacity in the group of active employees. As a consequence of the change in place the whole provisions build up under a) have been reversed. The difference in DBO is recognised as (negative) past service cost in the Statement of Comprehensive Income.

Allowances to persons on non-active or retired status are considered as post-employment benefits accounted for under the rules of defined benefit plans, whereas the salary (or percentage thereof) and salary-related allowances payable during discharge from service for reasons of incapacity are considered as other long-term employee benefits.

The potential risk of retirement for health reasons is recognised under the normal pension scheme of the EPO. In order to assess the probability to retire for health reasons, the EPO uses the same actuarial invalidity tables as under the old scheme.

2.15.3 Pension plan

The liability recognised in the Statement of Financial Position in respect of the defined benefit pension plan is the present value of the defined benefit obligation (DBO) at the balance sheet date, together with adjustments – if any – for past service costs.

The DBO is calculated annually by independent actuaries at the OECD's International Service for Remunerations and Pensions (ISRP) using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the balance sheet date but also expected future salary increases, career development and demographic assumptions about mortality, employee turnover, retirement for health reasons and other actuarial parameters. The present value of the DBO is also determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The increase in the present value of the DBO resulting from the employees' service in the current period is classified as service costs.

Actuarial gains and losses are recognised, in total, in other comprehensive income in the period in which they arise.

A beneficiary of the defined benefit pension plan as defined above who took up duty before 1 January 2009 can be entitled to tax compensation ("tax adjustment") applying to the contracting state of the Organisation in which the pension and adjustment relating thereto are chargeable to income tax under the tax legislation in force in that state. The adjustment is equal to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated without income taxes. For such purpose, the Organisation uses tables of equivalence specifying, for each amount of pension and each country of residence, the amount of the adjustment to be added thereto.

When the EPO introduces a new defined benefit plan, or changes the benefits payable under an existing plan, the difference in DBO is recognised as past service cost.

EPO employees who have previously worked in national government departments, international organisations or industry may be able to arrange for inward transfer, into the EPO pension scheme, of retirement pension rights accrued under their previous schemes. In such cases, the EPO determines the number of years' reckonable service credited under its own pension scheme. Valuation differences resulting from inward transfers are taken into account as past service cost.

The interest component of the addition to provisions contained in pension expenses is classified as interest costs. Current service costs and past service costs are classified as employee benefit expenses.

2.15.4 Other post-employment benefit obligations

The Organisation provides health and LTC insurance for its pensioners and those entitled under them. There is also insurance cover for the risks of death and invalidity for former staff members who have not yet reached the age of 60. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as for defined benefit pension plans.

Actuarial gains and losses are recognised in the period in which they occur, in total, in retained earnings. The obligations are valued annually by independent qualified actuaries.

Post-employment health insurance is a defined benefit plan managed by the insurance broker Cigna International Health Services BVBA, Antwerp, Belgium (Cigna). The obligation for this insurance is calculated on the basis of the anticipated medical costs and the EPO's estimated future contributions to the insurance contracts given the medical cost for the actual population of pensioners and those entitled under them. Payments to beneficiaries are made directly by Cigna on behalf of the EPO, against an insurance premium. The benefits paid are calculated taking into account the graph of refunds by age, based on the refunds made to the beneficiaries by Cigna.

Post-employment LTC insurance is also classified as a defined benefit plan. Insured on a compulsory basis are former employees and their dependent children, former employees in receipt of an invalidity or retirement pension and their dependent children, and dependent children in receipt of an orphan's pension following the death of the insured person. There are also persons who may be insured on a voluntary basis. The LTC insurance benefits are calculated in proportion to salaries. Depending on the degree of reliance on LTC identified, the monthly benefit paid corresponds to defined percentages of the monthly basic salary.

A deferred pensioner can irrevocably opt for LTC insurance. The Office assesses the probability of deferred pensioners to remain in the LTC scheme. Any deviation between the estimation of the Office and the actual number of insured persons are recognised as an actuarial gain or loss in Other Comprehensive Income.

The death and invalidity insurance in force until 31 March 2015 was a defined benefit plan and was managed by the Organisation. Under this plan, beneficiaries received a lump sum, based on their last salary, in case of death or invalidity. The benefits were calculated in proportion to salaries. Payments to beneficiaries were made directly by the Organisation and financed by the contributions of the staff members and the Organisation. The actuarial present value of the death and invalidity benefits was based on the benefits promised under the terms of the plan as described in Note 20.2.4 using the projected salary levels and the risk of invalidity or death in service for each plan participant at the balance sheet date. The regular cash settlements after each three-year period, if any, did not affect the actuarial present value of the death and invalidity obligation. While death insurance remains unchanged, new regulations on invalidity (now: incapacity) in place since 1 April 2015 have abolished the lump-sum payment in case of invalidity (see Note 2.15.2).

2.15.5 Other long-term employee benefits

2.15.5.1 Salary Savings Plan (SSP) obligation

The Organisation operates an SSP managed by external service providers. The amount of the SSP received by the beneficiaries is recognised as an obligation from other long-term employee benefits and is determined by the amount of contributions paid by the Office and the beneficiary to that plan, together with investment returns on the contributions. Contributions paid by the EPO are included in employee benefit expenses. In contrast to the accounting treatment of pension and other post-employment benefit obligations, any gains and losses are recognised immediately in the Statement of Comprehensive Income as finance revenue or finance costs. The Salary Savings Plan obligation is presented in the Statement of Financial Position as a separate line item. The main characteristics of the SSP are summarised in Note 21.

2.15.5.2 Incapacity

For any employee declared to be on incapacity following a medical opinion, a provision is recognised on a case-by-case basis for 70% of their basic salary and salary-related allowances for that part of time for which they are discharged from duties for reasons of incapacity, during the entire expected period of incapacity.

2.15.5.3 Other employee-related liabilities (non-current)

Non-SSP employee benefit obligations payable during employment but more than one year after the end of the period in which the employee service was rendered, are presented in the Statement of Financial Position as other employee-related liabilities (non-current).

2.15.6 Termination benefits

Termination benefits, if any, are payable when employment is terminated by the Organisation before the normal retirement date and the EPO is contractually committed to such payments. Benefits due more than 12 months after the balance sheet date are discounted to their present value. Termination benefit obligations are presented in the Statement of Financial Position as part of other employee-related liabilities (current/non-current).

2.16 PROVISIONS

Provisions are recognised when the Organisation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

If the effect is material, a provision is determined by discounting the expected future cash outflow using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This increase in the provision due to passage of time is recognised as finance costs.

2.17 PREPAID FEES

Prepaid fees are recognised to record fee payments received for services not yet performed or for which the payer is entitled to a refund as well as prepayments for renewal fees. See Note 2.5.1.1 above.

3. REVENUE

3.1 REVENUE FROM PATENT AND PROCEDURAL FEES AND OTHER REVENUE

The revenue breaks down into the following categories:

	in '000 EUR	
Revenue from patent and procedural fees	2016	2015
Procedural fees related to the patent grant process (Note 3.2)	1324 118	1253 608
National renewal fees for granted patents	488 774	471 504
Total	1 812 892	1 725 112
Other revenue		
Searches for national offices and third parties	64 115	56 512
Patent information services and products	8 109	7 988
Administrative fees	3 369	4 086
Total	75 593	68 586

3.2 PROCEDURAL FEES RELATED TO THE PATENT GRANT PROCESS

The different categories of grant-related services contributed to patent fee income as follows:

	in '000 EUR	
	2016	2015
Procedural fees for filing and search – EPC and Euro-PCT	221 347	215 274
Procedural fees for international searches – PCT	134 947	136 404
Procedural fees for examination and grant – EPC and Euro-PCT	302 190	246 993
Procedural fees for international preliminary examinations – PCT	17 465	17 638
Procedural fees for opposition	3 728	3 112
Procedural fees for appeal and protest	2 664	2 877
Designation, extension and validation fees	84 181	83 364
Renewal fees for patent applications	557 596	547 946
Total	1 324 118	1 253 608

4. POTENTIAL FUTURE NATIONAL RENEWAL FEES FOR EUROPEAN PATENTS

The net present value of these fees is KEUR 4 025 847 (2015: KEUR 3 878 744).

Cash flows have been estimated individually per Contracting State and year over the term remaining after grant in each Contracting State.

The discount rates applied in line with the term of the expected cash flows range between -0.10% and 1.67% in 2016 (2015: between 0.20% and 2.44%). A one percentage point increase in the discount rates applied would result in a decrease of KEUR 213 562 (2015: KEUR 196 378) in the net present value of potential future national renewal fees.

For further information see Notes 2.4 and 2.5.3.

5. OTHER OPERATING INCOME

	in '000 EUR	
	2016	2015
Income from valuation of insurance funds	2 027	1 584
Fees for European Qualifying Examination	1 618	1 766
Reimbursement additional site costs Berlin	846	857
Rental income	719	783
Other	2 891	1 589
Total	8 101	6 579

Operating leases – The EPO as lessor

The EPO has entered into a number of minor lease agreements concerning office premises. The income from these contracts in 2016 was KEUR 719 (2015: KEUR 783).

6. EMPLOYEE BENEFIT EXPENSES

	in '000 EUR	
	2016	2015
Basic salaries permanent employees	691 251	688 857
Social security	679 348	969 006
Allowances and other benefits	218 742	229 606
School and day-care centres	21 380	21 173
Remuneration of other employees	9 280	8 908
Past service costs	8 946	(264 273)
Training	7 921	8 489
Other	10 962	10 271
Total	1 647 830	1 672 037

The expenses for social security arise mainly from current service cost on defined benefit obligations. Detailed information on current service cost is presented in Note 20.

The negative past service costs in 2015 resulted mainly from the application of the new rules on incapacity (formerly known as invalidity) as described in Note 2.15.2. No similar event occurred during 2016.

7. OTHER OPERATING EXPENSES

in '000 EUR

	2016	2015
IT maintenance	85 509	93 263
Property and equipment maintenance	36 391	39 527
Consultancy and other external services	35 108	30 735
Patent information and public relations	13 552	16 220
Co-operation and meetings	12 983	12 365
Documentation	9 972	9 993
Travel	6 673	6 675
Postage and telecommunications	4 058	3 832
Other	8 974	9 650
Total	213 220	222 260

8. FINANCE REVENUE

in '000 EUR

	2016	2015
Interest income on bonds	17 670	21 793
Interest income from bank accounts and deposits	542	1 107
Interest income from home loans	4 129	4 744
Income and gains on RFPSS assets (net)	537 550	214 361
Valuation gains (losses) assets Salary Savings Plan	3 145	3 931
Other	309	37
Total	563 345	245 973

Detailed information on finance revenue from financial instruments is presented in Note 30.3.

9. FINANCE COSTS

in '000 EUR

	2016	2015
Interest costs on defined benefit obligations	410 705	316 763
Increase (decrease) obligation Salary Savings Plan	3 145	3 931
Interest costs finance lease	527	545
Other	106	572
Total	414 483	321 811

Detailed information on finance costs for financial instruments is presented in Note 30.3.

10. PROPERTY, PLANT AND EQUIPMENT

The reconciliation of the carrying amount of property, plant and equipment for the reporting period is as follows:

	in '000 EUR			
	Land	Buildings	Office equipment	Total
Cost at 1 January 2016	174 732	888 188	142 985	1 205 905
Additions	–	61 664	5 220	66 884
Disposals/Retirements	–	(132)	(16 219)	(16 351)
Transfers	–	–	–	–
Cost at 31 December 2016	174 732	949 720	131 986	1 256 438
Accumulated depreciation 1 January 2016	–	(525 700)	(120 446)	(646 146)
Depreciation for the year	–	(26 733)	(9 826)	(36 559)
Disposals/Retirements	–	–	15 866	15 866
Transfers	–	–	–	–
Accumulated depreciation 31 December 2016	–	(552 433)	(114 406)	(666 839)
Impairment loss for the year	–	–	–	–
Accumulated impairment 31 December 2016	(12 819)	–	–	(12 819)
Net carrying value 1 January 2016	161 913	362 488	22 539	546 940
Net carrying value 31 December 2016	161 913	397 287	17 580	576 780
Including construction in progress				
1 January 2016	–	62 768	–	62 768
31 December 2016	–	118 501	–	118 501

The disposals/retirements of office equipment in 2016 relate mainly to fully amortised, obsolete mainframe computers and IT storage systems.

The EPO building at Bob-van-Benthem-Platz 1 in Munich was constructed under the hereditary building lease granted to the EPO by the German government in 1980 and ending on 8 August 2075. The Hinge building in The Hague is constructed on land leased from the Netherlands in 1988 for a period of 80 years ending on 30 May 2068, for the token amount of EUR 0.45 per year.

Office equipment contains assets under finance lease at the value of EUR 6.9m (2015: EUR 7.1m).

The comparative figures are presented in the table below:

	in '000 EUR			
	Land	Buildings	Office equipment	Total
Cost at 1 January 2015	174 732	864 713	137 961	1 177 406
Additions	–	34 664	7 878	42 542
Disposals/Retirements	–	(11 189)	(2 854)	(14 043)
Transfers	–	–	–	–
Cost at 31 December 2015	174 732	888 188	142 985	1 205 905
Accumulated depreciation 1 January 2015	–	(500 629)	(109 853)	(610 482)
Depreciation for the year	–	(30 641)	(13 291)	(43 932)
Disposals/Retirements	–	5 570	2 698	8 268
Transfers	–	–	–	–
Accumulated depreciation 31 December 2015	–	(525 700)	(120 446)	(646 146)
Impairment loss for the year	–	–	–	–
Accumulated impairment 31 December 2015	(12 819)	–	–	(12 819)
Net carrying value 1 January 2015	161 913	364 084	28 108	554 105
Net carrying value 31 December 2015	161 913	362 488	22 539	546 940
Including construction in progress				
1 January 2015	–	34 085	–	34 085
31 December 2015	–	62 768	–	62 768

11. INTANGIBLE ASSETS

The reconciliation of the balances of intangible assets for the reporting period is as follows:

	in '000 EUR			
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2016	13 229	54 600	76 022	143 851
Additions	294	–	9 018	9 312
Disposals	–	–	(3 159)	(3 159)
Transfers	–	–	–	–
Cost at 31 December 2016	13 523	54 600	81 881	150 004
Accumulated amortisation 1 January 2016	(11 665)	(51 079)	(27 774)	(90 518)
Amortisation for the year	(806)	(461)	(9 421)	(10 688)
Amortisation disposals	–	–	–	–
Amortisation transfers	–	–	–	–
Accumulated amortisation 31 December 2016	(12 471)	(51 540)	(37 195)	(101 206)
Net carrying value 1 January 2016	1 564	3 521	48 248	53 333
Net carrying value 31 December 2016	1 052	3 060	44 686	48 798
Including construction in progress				
1 January 2016	–	–	19 476	19 476
31 December 2016	–	–	15 955	15 955

The comparative figures are as follows:

	in '000 EUR			
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2015	12 604	54 600	67 402	134 606
Additions	625	–	8 620	9 245
Disposals	–	–	–	–
Transfers	–	–	–	–
Cost at 31 December 2015	13 229	54 600	76 022	143 851
Accumulated amortisation 1 January 2015	(10 964)	(50 576)	(18 993)	(80 533)
Amortisation for the year	(701)	(503)	(8 781)	(9 985)
Amortisation disposals	–	–	–	–
Amortisation transfers	–	–	–	–
Accumulated amortisation 31 December 2015	(11 665)	(51 079)	(27 774)	(90 518)
Net carrying value 1 January 2015	1 640	4 024	48 409	54 073
Net carrying value 31 December 2015	1 564	3 521	48 248	53 333
Including construction in progress				
1 January 2015	–	–	17 430	17 430
31 December 2015	–	–	19 476	19 476

The EPO invests in the development of information systems to support its operations. These internally generated systems include both external and internal costs. The capitalised internal costs amounting to KEUR 2 270 (2015: KEUR 2 268) are presented in the Statement of Comprehensive Income as **Work performed and capitalised**. 100% of the capitalised internal costs for 2016 relate to development work performed under the IT Roadmap programme.

Internally generated systems still in the development phase (construction in progress) include:

	in '000 EUR	
Construction in progress	2016	2015
Epoque	–	–
ITR Transformation Track	14 449	16 740
ITR Semi-Automatic Search	1 506	2 736
Total	15 955	19 476

12. RFPSS NET ASSETS

The value of RFPSS assets per post-employment benefit plan as at 31 December is as follows:

				in '000 EUR
2016	Pensions	LTC	Sickness insurance	Total
RFPSS financial assets	6 336 632	139 126	552 398	7 028 156
RFPSS other assets	801	18	69	888
RFPSS restricted cash	245 697	5 394	21 419	272 510
RFPSS financial liabilities	(8 406)	(185)	(732)	(9 323)
RFPSS other liabilities	(25)	(1)	(2)	(28)
Total	6 574 699	144 352	573 152	7 292 203

				in '000 EUR
2015	Pensions	LTC	Sickness insurance	Total
RFPSS financial assets	5 699 066	119 471	500 955	6 319 492
RFPSS other assets	786	16	69	871
RFPSS restricted cash	244 989	5 136	21 535	271 660
RFPSS financial liabilities	(75)	(2)	(6)	(83)
RFPSS other liabilities	(74)	(2)	(6)	(82)
Total	5 944 692	124 619	522 547	6 591 858

The major categories of RFPSS net assets are as follows:

		in %	
	2016	2015	
Domestic bonds	25	25	
Foreign bonds	8	7	
Domestic equities	18	18	
Foreign equities	23	24	
Emerging markets	8	8	
Real estate	9	9	
Commodities	5	4	
Cash	4	5	
Total	100	100	

13. BONDS

The EPO's bonds portfolio includes the following:

	in '000 EUR	
Interest-bearing bonds	2016	2015
Non-current	1 571 218	1 302 676
Current	234 942	263 676
Total	1 806 160	1 566 352

Interest-bearing bonds quoted in active markets are classified at amortised cost. Their nominal interest is in the range from 0.125% to 6.250% (2015: 0.25% to 5.375%) and maturity dates are between January 2017 and November 2021 (2015: January 2016 and November 2020).

Net gains and losses on bonds were as follows:

	in '000 EUR	
Financial assets at amortised cost	2016	2015
Total interest income	17 670	21 793

No impairment provisions are required on bonds in 2016 (2015: Nil).

14. HOME LOANS TO STAFF

	in '000 EUR	
Home loans	2016	2015
Non-current	87 716	92 631
Current	7 392	7 454
Total	95 108	100 085

Home loans to staff are initially recognised at fair value, which is estimated at the present value of all future cash receipts discounted using the prevailing market rate for a similar financial instrument of a similar duration. In 2016 the net loss due to revaluation of new home loans to fair value amounted to KEUR 2 146 (2015: KEUR 1 729). After initial recognition, home loans are measured at amortised cost using the effective interest method. They are split into non-current and current portions based on the remaining term of the loan.

15. OTHER FINANCIAL ASSETS

Fixed-term deposits with an initial maturity over three months are reported as other financial assets.

	in '000 EUR	
Other financial assets	2016	2015
Non-current	77 000	–
Current	318 000	275 200
Total	395 000	275 200

The effective interest rate achieved in 2016 on fixed-term deposits with an initial maturity up to one year was 0.14% (2015: 0.29%).

16. OTHER ASSETS

in '000 EUR

	2016	2015
Repurchase value insurance funds ex-IIB	59 045	57 119
Assets Salary Savings Plan (SSP)	58 245	44 145
Total	117 290	101 264

The EPO holds contracts ("funds") concluded by the ex-IIB with several insurance companies in order to receive reimbursements for pension payments to ex-IIB staff members. The Organisation received reimbursements from these funds amounting to KEUR 145 (2015: KEUR 152). Regarding changes to the repurchase value of these funds see Note 5.

The assets invested under the SSP are held by an external service provider in the name of the EPO and owned by the EPO. The main characteristics of the SSP are summarised in Note 21.

17. TRADE AND OTHER RECEIVABLES

in '000 EUR

Trade receivables	2016	2015
Renewal fees	107 731	99 400
EPO products and services	6 380	12 335
Total	114 111	111 735

Other receivables		
Tax	12 150	11 901
Staff and related accounts	575	363
Others	35 364	36 522
Total	48 089	48 786
Total trade and other receivables	162 200	160 521

All trade and other receivables are expected to be recovered or settled within 12 months after the balance sheet date and are therefore classified as current assets.

The analysis of trade receivables – EPO products and services that were past due but not impaired is as follows:

	in '000 EUR	
	2016	2015
Net carrying amount, trade receivables – EPO products and services	6 380	12 335
Of which neither impaired nor past due on the reporting date	6 232	8 756
Of which not impaired on the reporting date and past due in the following periods		
Less than 120 days	109	2 982
More than 120 days	39	597

During 2016, the EPO wrote off uncollectible receivables amounting to KEUR 1 (2015: KEUR 124) which are shown in the Statement of Comprehensive Income under other operating expenses.

Trade receivables – renewal fees include the renewal fees payable by the Contracting States under Article 39(1) EPC. These mainly relate to the last quarter of the reported year, due on 31 January of the following year.

Other receivables – tax comprise VAT and income tax payable ("tax adjustment") to the EPO by the Contracting States.

Other receivables – others mainly consist of accrued income on bonds and fixed-term deposits as well as advances to suppliers.

18. PREPAID EXPENSES

	in '000 EUR	
	2016	2015
Prepaid employee-related expenses	11 018	10 463
Prepaid software expenses	3 915	2 494
Prepaid other expenses	140	86
Total	15 073	13 043

19. CASH AND CASH EQUIVALENTS

The assets reported under this category have an initial maturity of three months or less and comprise the following:

	in '000 EUR	
	2016	2015
Short-term bank deposits	5 000	55 000
Cash at bank and in hand	14 596	15 073
Total	19 596	70 073

20. DEFINED BENEFIT LIABILITY

in '000 EUR

Accounting for 2016	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	1.82 %	2.00 %	1.82 %	1.28 %	
Future salaries increase	2.50 %	2.50 %		2.50 %	
Future pensions increase	2.50 %	2.50 %			
Medical costs inflation			2.64 %		
Expected average remaining working lives	16	16	16	16	
Present value of obligation 1 January 2016	13 739 821	603 280	1 451 208	34 280	15 828 589
Interest cost	354 536	16 703	38 805	661	410 705
Current service cost	604 400	26 898	78 666	2 596	712 560
Past service costs	8 946	–	–	–	8 946
Transfer of pension rights	6 265	–	–	–	6 265
Benefits paid	(207 623)	(4 933)	(17 325)	(1 449)	(231 330)
Remeasurements on obligation	2 715 919	162 941	101 178	699	2 980 737
Present value of obligation 31 December 2016	17 222 264	804 889	1 652 532	36 787	19 716 472
Unrecognised past service costs	–	–	–	–	–
Liability recognised in the Statement of Financial Position	17 222 264	804 889	1 652 532	36 787	19 716 472

Amounts recognised in the Statement of Comprehensive Income

Interest cost	354 536	16 703	38 805	661	410 705
Current service cost	604 400	26 898	78 666	2 596	712 560
Past service costs	8 946	–	–	–	8 946
Staff contributions	(64 570)	(4 850)	–	(526)	(69 946)
Recognised in the Statement of Comprehensive Income	903 312	38 751	117 471	2 731	1 062 265

in '000 EUR

Accounting for 2015	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	2.60 %	2.78 %	2.69 %	1.97 %	
Future salaries increase	2.50 %	2.50 %		2.50 %	
Future pensions increase	2.50 %	2.50 %			
Medical costs inflation			3.06 %		
Expected average remaining working lives	16	16	16	16	
Present value of obligation 1 January 2015	16 950 750	775 620	1 870 558	144 028	19 740 956
Interest cost	271 406	13 533	29 958	1 866	316 763
Current service cost	845 437	40 014	114 022	11 801	1 011 274
Past service costs	(154 257)	–	–	(110 016)	(264 273)
Transfer of pension rights	6 812	–	–	–	6 812
Benefits paid	(186 662)	(4 662)	(19 628)	(5 277)	(216 229)
Remeasurements on obligation	(3 993 665)	(221 225)	(543 702)	(8 122)	(4 766 714)
Present value of obligation 31 December 2015	13 739 821	603 280	1 451 208	34 280	15 828 589
Unrecognised past service costs	–	–	–	–	–
Liability recognised in the Statement of Financial Position	13 739 821	603 280	1 451 208	34 280	15 828 589
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	271 406	13 533	29 958	1 866	316 763
Current service cost	845 437	40 014	114 022	11 801	1 011 274
Past service costs	(154 257)	–	–	(110 016)	(264 273)
Staff contributions	(65 941)	(3 802)	–	(1 782)	(71 525)
Recognised in the Statement of Comprehensive Income	896 645	49 745	143 980	(98 131)	992 239

The negative past service costs in 2015 resulted mainly from the application of the new rules on incapacity (formerly known as invalidity) as described in Note 2.15.2.

Defined benefit liability

in '000 EUR

Accounting for 2014	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	1.61%	1.75%	1.61%	1.32%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			3.10%		
Expected average remaining working lives	19	19	19	19	
Present value of obligation 1 January 2014	9 519 590	385 439	1 046 759	122 443	11 074 231
Interest cost	367 216	15 720	40 479	3 846	427 261
Current service cost	429 134	16 799	55 494	9 978	511 405
Past service costs	9 667	–	–	–	9 667
Transfer of pension rights	4 250	–	–	–	4 250
Benefits paid	(167 444)	(4 174)	(18 344)	(2 263)	(192 225)
Remeasurements on obligation	6 788 337	361 836	746 170	10 024	7 906 367
Present value of obligation 31 December 2014	16 950 750	775 620	1 870 558	144 028	19 740 956
Unrecognised past service costs	–	–	–	–	–
Liability recognised in the Statement of Financial Position	16 950 750	775 620	1 870 558	144 028	19 740 956

Amounts recognised in the Statement of Comprehensive Income

Interest cost	367 216	15 720	40 479	3 846	427 261
Current service cost	429 134	16 799	55 494	9 978	511 405
Past service costs	9 667	–	–	–	9 667
Staff contributions	(65 096)	(3 689)	–	(467)	(69 252)
Recognised in the Statement of Comprehensive Income	740 921	28 830	95 973	13 357	879 081

in '000 EUR

Accounting for 2013	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	3.89%	4.10%	3.90%	3.17%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			3.20%		
Expected average remaining working lives	19	19	19	19	
Present value of obligation 1 January 2013	9 483 739	281 181	942 199	118 297	10 825 416
Interest cost	335 677	10 526	33 177	3 377	382 757
Current service cost	449 959	11 746	52 723	9 974	524 402
Past service costs	1 888	–	–	–	1 888
Transfer of pension rights	4 020	–	–	–	4 020
Benefits paid	(156 495)	(3 772)	(16 719)	(2 917)	(179 903)
Remeasurements on obligation	(599 198)	85 758	35 379	(6 288)	(484 349)
Present value of obligation 31 December 2013	9 519 590	385 439	1 046 759	122 443	11 074 231
Unrecognised past service costs	–	–	–	–	–
Liability recognised in the Statement of Financial Position	9 519 590	385 439	1 046 759	122 443	11 074 231
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	335 677	10 526	33 177	3 377	382 757
Current service cost	449 959	11 746	52 723	9 974	524 402
Past service costs	1 888	–	–	–	1 888
Staff contributions	(60 530)	(3 519)	–	(902)	(64 951)
Recognised in the Statement of Comprehensive Income	726 994	18 753	85 900	12 449	844 096

Defined benefit liability

in '000 EUR

Accounting for 2012	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	3.57%	3.77%	3.55%	2.89%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			3.10%		
Expected average remaining working lives	19	19	19	19	
Present value of obligation 1 January 2012	5 979 566	1 688 875	594 036	94 663	6 837 140
Interest cost	317 874	9 277	32 294	4 154	363 599
Current service cost	260 915	6 363	29 545	8 167	304 990
Past service costs	1 923	–	–	–	1 923
Transfer of pension rights	7 416	–	–	–	7 416
Benefits paid	(142 151)	(3 452)	(15 881)	(7 128)	(168 612)
Remeasurements on obligation	3 058 196	100 118	302 205	18 441	3 478 960
Present value of obligation 31 December 2012	9 483 739	281 181	942 199	118 297	10 825 416
Unfunded obligation	9 483 739	281 181	942 199	118 297	10 825 416
Unrecognised past service costs	–	–	–	–	–
Liability recognised in the Statement of Financial Position	9 483 739	281 181	942 199	118 297	10 825 416
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	317 874	9 277	32 294	4 154	363 599
Current service cost	260 915	6 363	29 545	8 167	304 990
Past service costs	30 231	–	–	–	30 231
Staff contributions	(58 538)	(3 363)	–	(2 571)	(64 472)
Recognised in the Statement of Comprehensive Income	550 482	12 277	61 839	9 750	634 348

The contributions to the post-employment benefit plans are as follows:

	in '000 EUR	
	2016	2015
Pension benefits		
Office contributions	129 160	132 218
Staff contributions	64 570	65 941
LTC benefits		
Office contributions	9 175	7 201
Staff and pensioners' contributions	4 850	3 802
Post-employment medical care		
Office contributions for inactive staff and pensioners	8 761	8 717
Inactive staff and pensioners' contributions	4 392	4 260
Death and invalidity		
Office contributions	923	3 478
Staff contributions	526	1 782
Total	222 357	227 399

The present value of the pension obligation is made up of the following components:

	in '000 EUR	
	2016	2015
Retirement pension/retirement pensions for health reasons	13 912 195	11 070 268
Tax adjustment/partial compensation	2 926 869	2 349 661
Family allowances	383 200	319 892
Total	17 222 264	13 739 821

The present value of defined benefit obligations is allocated to the following populations:

	in '000 EUR	
	2016	2015
Pension obligation		
Active staff	12 399 420	9 759 027
Deferred pensioners	64 153	43 064
Pensioners	4 758 691	3 937 730
LTC insurance		
Active staff	508 903	377 161
Deferred pensioners	539	183
Pensioners	295 446	225 935
Sickness insurance		
Active staff	1 111 253	976 572
Deferred pensioners	–	–
Pensioners	541 280	474 637
Death and invalidity		
Active staff	36 787	34 280
Deferred pensioners	–	–
Pensioners	–	–
Total	19 716 472	15 828 589

20.1 ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

The price inflation hypothesis reflects expected price inflation in the euro zone, in accordance with the European Central Bank's inflation target of 2%. The assumed future annual benefit and salary increase is 0.5% above price inflation.

The mortality table in use at the EPO is regularly adjusted for both serving staff and pensioners. For active staff, it is adjusted every two years, to take into account probable future increases in life expectancy.

The medical costs inflation applied is 1.44% (2015: 1.44%) in real terms; the rate is then reduced to 0.5% on a linear basis for the ten following years.

The weighted average of purely medical inflation concerning the actual liability structure is 1.2% (2015: 1.2%).

Experience adjustments and the effects of changes in actuarial assumptions result in actuarial gains and losses that can be categorised as follows:

	in '000 EUR	
	2016	2015
Pension obligation		
Actuarial (gain) loss from changes in financial assumptions	2 922 735	(3 607 581)
Actuarial (gain) loss from changes in demographic assumptions	(206 816)	(386 084)
LTC insurance		
Actuarial (gain) loss from changes in financial assumptions	171 386	(229 868)
Actuarial (gain) loss from changes in demographic assumptions	(8 445)	8 643
Sickness insurance		
Actuarial (gain) loss from changes in financial assumptions	373 958	(535 962)
Actuarial (gain) loss from changes in demographic assumptions	(272 780)	(7 740)
Death and invalidity		
Actuarial (gain) loss from changes in financial assumptions	2 300	(2 186)
Actuarial (gain) loss from changes in demographic assumptions	(1 601)	(5 936)
Total	2 980 737	(4 766 714)

A change in the discount rates on defined benefit obligations by one percentage point would result in the following present value of each plan:

	in '000 EUR	
At 31 December 2016	One percentage point increase	One percentage point decrease
Present value pension obligation	13 597 872	22 256 766
Present value LTC insurance	593 582	1 116 107
Present value sickness insurance	1 231 059	2 238 294
Present value death and invalidity	33 528	40 574

	in '000 EUR	
At 31 December 2015	One percentage point increase	One percentage point decrease
Present value pension obligation	10 968 606	17 552 451
Present value LTC insurance	451 186	825 069
Present value sickness insurance	1 095 293	1 943 109
Present value death and invalidity	31 302	37 736

An increase of one month in life expectancy at the age of 63 would result in the following present value of each plan:

in '000 EUR	
At 31 December 2016	One month increase in life expectancy
Present value pension obligation	17 222 727
Present value LTC insurance	804 926
Present value sickness insurance	1 652 603
Present value death and invalidity	–

in '000 EUR	
At 31 December 2015	One month increase in life expectancy
Present value pension obligation	13 752 506
Present value LTC insurance	605 052
Present value sickness insurance	1 453 745
Present value death and invalidity	–

The above sensitivity analyses are based on one assumption changing while all others remain constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated using the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligations recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis have not changed compared to the previous accounting period.

The expected maturity analysis of undiscounted defined benefit payments is as follows:

in '000 EUR			
At 31 December 2016	Less than 1 year	Between 1-5 years	Over 5 years
Pension obligation	220 943	1 012 555	26 688 033
LTC insurance	4 647	22 716	1 555 416
Sickness insurance	23 448	110 443	3 088 878
Death and invalidity	2 256	9 016	30 468
Total	251 294	1 154 730	31 362 795

The figures for sickness insurance take medical inflation into account. Without medical inflation, the amounts would be KEUR 23 144 (less than 1 year), KEUR 101 963 (between 1 - 5 years) and KEUR 1 499 684 (over 5 years).

in '000 EUR			
At 31 December 2015	Less than 1 year	Between 1-5 years	Over 5 years
Pension obligation	208 796	960 280	26 240 860
LTC insurance	4 357	21 225	1 498 649
Sickness insurance	21 777	104 666	3 413 913
Death and invalidity	2 245	8 852	30 544
Total	237 175	1 095 023	31 183 966

The figures for sickness insurance take medical inflation into account. Without medical inflation, the amounts would be KEUR 21 451 (less than 1 year), KEUR 95 410 (between 1 - 5 years) and KEUR 1 450 153 (over 5 years).

The weighted average duration of the defined benefit obligations is as follows:

in years	2016	2015
Pension obligation	29	30
LTC insurance	37	37
Sickness insurance	30*	30*
Death and invalidity	11	11

* with medical inflation taken into account; without medical inflation: 25 years for both periods (see Note above)

20.2 MAIN CHARACTERISTICS OF THE ORGANISATION'S DEFINED BENEFIT PLANS

As an intergovernmental organisation the EPO is not subject to national law and regulations. For all its defined benefit plans the EPO has developed its own regulations that have been approved by the Administrative Council.

Since 1984, the EPO has been setting aside reserves in the RFPSS so that it can fund its pension obligations. Since 2001, it has also been building up a reserve fund for LTC insurance. Since 2008, it has been doing the same for sickness insurance. A breakdown of the reserves per funded plan is disclosed in Note 12.

In 1992 the President established the Actuarial Advisory Group (AAG), consisting of three independent actuaries, to advise the Office on the conditions to be met in order to ensure the long-term equilibrium of its pension scheme. The AAG regularly analyses the demographic and financial assumptions and recommends modifications where necessary in view of general trends and specific developments at the Office. The AAG also examines the assumptions specific to LTC and sickness insurance. Neither the scope of the examined plans nor the valuation methods used by the AAG are congruent with IFRS provisions.

Through its defined benefit plans the EPO is exposed to a number of risks, the most significant of which are as follows:

- (a) Changes in bond yields: changes in bond yields have a direct impact on the applied discount rates thus a decrease in corporate bond yields will increase plan liabilities.
- (b) Inflation risk: all plans' benefit obligations are linked to inflation, either directly (medical cost inflation) or indirectly (all plans linked to basic salaries). Higher inflation will lead to higher liabilities.
- (c) Life expectancy: three out of four plans provide benefits for the beneficiary's life time, so higher life expectancy will increase those plans' liabilities.

Although the RFPSS assets do not constitute plan assets in terms of IAS 19.8, the EPO monitors their volatility risk. The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If the RFPSS assets underperform this yield, this will increase the funding deficit. The RFPSS have significant equity holdings, which are expected to outperform corporate bonds in the long term but create volatility and risk in the short term.

20.2.1 Pension obligation

Type of benefit	Beneficiary	Calculation of the benefit
Retirement pension, old scheme	Staff member who took up duty before 1 January 2009 from age of 60 with at least 10 years (5 years for some key managers) total service; reduced pension possible from the age of 50	2% of last monthly basic salary per reckonable year of service, subject to a maximum of 70% (80% for some key managers)
Retirement pension, new scheme	Staff member who took up duty on or after 1 January 2009 from age of 60 with at least 10 years total service; reduced pension possible from the age of 50	2% of last monthly basic salary per reckonable year of service, subject to a maximum of 70% (80% for some key managers), capped at twice the salary for Grade C1, step 3
Reversion of retirement pension	Surviving spouse/husband	60% of the retirement pension
Survivor's pension	Surviving spouse/husband	60% of the retirement pension to which the staff member would have been entitled at the time of his death, without the need for a minimum of ten years of service
Orphan's pension	Dependent child, subject to age and education status	40% of the survivor's/reversionary pension (80% if there is no survivor's/reversionary beneficiary)
Severance grant	Staff members	Aggregate amount deducted from salary pension contributions, plus 4% p.a. compound interest and one month and a half of final monthly basic salary multiplied by the number of reckonable years of service
Invalidity allowance, until 31 March 2015	Staff member	70% of the salary until the age of 65, retirement pension after 65
Family allowances	Beneficiary of the pension plan (Note 2.15.2.1)	Same as for active staff
Tax compensation, old scheme	Beneficiary of the pension plan (Note 2.15.2.1)	50% of income taxes on retirement pensions and allowances calculated by use of standardised tables of equivalence specifying the amount of the adjustment to be added to the pension

The Reserve Fund for Pensions is allocated payments equivalent to the Office's and the staff's pension contributions – 19.4% and 9.7% respectively of basic salaries paid – after deduction of pensions actually paid. For 2015, the AAG had recommended a total pension contribution rate of 29.1% (2015: 29.1%).

The EPO Member States jointly guarantee the payment of these benefits. In the event of a merger, reconstitution or other transformation or in the event of dissolution of the Organisation, the Administrative Council or any ad hoc body set up in one of the afore-mentioned cases takes the necessary measures to ensure uninterrupted payment of pension scheme benefits until the cessation of entitlement of the last beneficiary. Should an EPO Member or ex-Member State fail to comply with its obligations, the other States meet the cost thereof in proportion to their contribution to the budget of the Organisation as fixed annually from and after the said state's default.

20.2.2 Sickness insurance

An employee who has remained in EPO service until retirement or was in receipt of an invalidity allowance until 31 March 2015, his spouse, his children and other dependants are insured against expenditure incurred in case of sickness, accident, pregnancy and confinement. One third of the contribution involved, calculated as a percentage of the pension (2016: 2.75%; 2015: 2.9%) is charged to the employee. A spouse in employment outside the EPO and whose salary exceeds a certain level has to pay to an additional contribution.

Benefits also apply to a person entitled to a survivor's pension following the death of an employee who was in active employment or who remained in EPO service until retirement, or following the death of a person entitled to an invalidity pension. The contribution is calculated as a percentage of the survivor's pension. A person entitled to an orphan's or dependant's pension may also be covered, but only on request. The contribution is calculated as a percentage of the orphan's or dependant's pension.

Where the total medical expenditure not reimbursed for any period of twelve months exceeds half the pension paid, special reimbursement is allowed by the President. In addition, in the case of medical expenditure which exceeds one fifth but is less than one half of the pension, an additional reimbursement is allowed.

20.2.3 Long-term care insurance

A permanent employee, a former employee in receipt of an invalidity allowance (until 31 March 2015) or retirement pension, his spouse, his former spouse, his dependent children and other dependants are insured on either a compulsory or a voluntary basis against expenditure arising from reliance on long-term care. This insurance is intended to provide a fixed amount of financial support to defray some of the expenses incurred if an insured person's autonomy becomes seriously impaired on a long-term basis and he therefore requires help to carry out everyday activities; it does not include any expenditure on medical fees associated with the treatment of an illness or resulting from pregnancy or an accident.

The following contributions are paid:

- (a) a contribution by the Office proportional to the basis formed by the sum of the basic salaries and basic pensions paid to the insured persons plus 6% for those insured persons who have opted for voluntary insurance of their spouse, and the sum of the survivor's pensions. The rate of this contribution is equal to two thirds of a reference rate determined on the basis of an actuarial study carried out by independent experts and fixed at 1.5% (2015: 1.2%).
- (b) a contribution by the insured persons. The rate of this contribution is equal to one third of the reference rate. However, during periods in which a person insured is not in active employment, it is equal to the reference rate.

For employees joining the EPO after the age of 55, the Office and staff contributions are reduced to one third of those defined above.

20.2.4 Death and invalidity insurance

20.2.4.1. Old scheme until 31 March 2015

The benefits payable are a fixed amount for funeral expenses incurred for the permanent employee himself, his spouse and, where appropriate, his dependants. In the event of death of the permanent employee, or of permanent invalidity totally preventing him from performing duties corresponding to his level of employment in the Organisation, the benefits payable are a lump sum equal to 2.75 times his annual basic salary. For permanent employees recruited after 9 June 1983 the lump sum is reduced by:

20%	at the age of 56
40%	at the age of 57
60%	at the age of 58
80%	at the age of 59
100%	at the age of 60

The contribution which is required to meet the insurance for funeral expenses is included in the contribution provided for under the provisions for sickness insurance. One third of the contribution, calculated by reference to the basic salary of the permanent employee, which is required to insure him against the risks of death and invalidity is charged to the employee.

A permanent employee who has been in EPO service for at least two years and whose service terminates for reasons other than retiring or drawing an invalidity allowance may on request continue to be insured against risk of death, but must then bear the total contribution. The benefits payable are calculated on the basic salary received when service terminated. The insurance ends at the end of the month during which he reaches the age of 65 years.

20.2.4.2. New scheme since 1 April 2015

The benefits payable are a fixed amount for funeral expenses incurred for the permanent employee himself, his spouse and, where appropriate, his dependants. In the event of death of the permanent employee, the benefits payable are a lump sum equal to 2.75 times his annual basic salary. No lump sum is paid in case of incapacity.

The contribution for the insurance for funeral expenses is included in the contribution for sickness insurance. One third of the contribution, calculated by reference to the basic salary of the permanent employee, which is required to insure him against the risk of death, is charged to the employee.

A permanent employee who has been in the service of the Office for at least two years may on request continue to be insured, after termination of service, against the risk of death. However, he must then bear the total contribution, and the benefits payable are calculated on the basic salary received at the moment of termination of service. The insurance ends at the end of the month during which he reaches the age of 65 years.

21. SALARY SAVINGS PLAN OBLIGATION

Since 1 January 2009, the EPO has been operating an SSP which is compulsory for employees who took up duty on or after that date (participants).

The rate for compulsory contributions is equal to the difference between the contribution to the pension scheme for staff in post on 31 December 2008 and that payable under the new rules, i.e. applying the cap described in Note 20.2.1. One third of the compulsory contribution is charged to the employee, two thirds to the Office.

An individual salary savings account (individual account) is opened for each participant. The sums credited to the individual account are invested by the Office, in accordance with a predefined strategy. The Office offers participants a maximum of three investment strategies. A default investment strategy applies during the first six months of participation; thereafter, each participant may choose a different investment strategy from among those offered by the Office, and may change it once per calendar year. The Office bears no responsibility for the outcome of application of the default strategy or the strategies chosen by participants. On termination of service, participants are entitled to payment of the balance of their individual account as a lump sum corresponding to the contributions paid into the account, plus or minus investment returns. In the event of the participant's death, his entitlement passes to his estate. The lump sum is paid out as final salary. Concerning the assets invested under the SSP, see Note 16.

22. OTHER EMPLOYEE-RELATED LIABILITIES

	in '000 EUR	
	2016	2015
Regular vacation	53 886	46 492
Home leave	39 200	32 283
Other compensated absences	21 840	18 725
Other	14 141	13 487
Total	129 067	110 987

A performance bonus of KEUR 8 016 (2015: KEUR 8 683) is accrued under Other.

An amount of KEUR 21 732 (2015: KEUR 12 366) is presented as non-current and mainly includes an obligation for long-term employee benefits due to long-service leave, gratuities, severance grants and obligations due to former non-active staff.

23. TRADE AND OTHER PAYABLES

	in '000 EUR	
	2016	2015
Current deposit accounts by patent applicants	118 219	110 587
Payables to suppliers and trade creditors	62 276	51 181
Other	1 900	2 792
Total	182 395	164 560

Applicants can debit their deposit accounts kept by the Organisation for fee payments relating to their applications. A liability is recognised for incoming payments replenishing these accounts.

24. FINANCE LEASE LIABILITIES

The EPO is a party to one finance lease contract:

The contract with Dell GmbH, Frankfurt am Main, Germany, initially signed in June 2008 and extended in 2012, relates to delivery, installation, maintenance and management of the desktop and laptop computer equipment. The equipment delivered under the contract will be used over a period not shorter than 3.5 years. The contract was signed for an initial period of 6 years, with annual extensions possible up to 10 years. In 2016, the contract was extended until mid-2018. The expected total value of the contract is EUR 91.5m (2015: EUR 84.6m).

Details of the EPO's financial lease agreements are as follows:

	in '000 EUR	
	2016	2015
Assets value		
Office equipment	6 925	7 074
Future lease payments		
Not later than one year	4 882	5 741
Later than one year and not later than five years	2 408	1 565
Later than five years	–	–
Total future lease payments	7 290	7 306
Future interest payable	335	310
Present value of future lease payments	6 955	6 996

25. PROVISIONS

	in '000 EUR			
	Litigation risks	Tax risks	Other	Total
1 January 2016	5 274	25 107	533	30 914
Use	5 274	–	390	5 664
Reversal	–	25 107	107	25 214
Addition	7 055	–	357	7 412
Interest effect	–	–	2	2
Other	–	–	–	–
31 December 2016	7 055	–	395	7 450
Current	7 055	–	395	7 450
Non-current	–	–	–	–
Total	7 055	–	395	7 450

The provisions for litigation risks mainly include provisions for staff appeals pending at the Administrative Tribunal of the International Labour Organization. The EPO expects a settlement within twelve months after the balance sheet date.

Between 2008 and 2015, employees leaving the EPO due to invalidity were paid an invalidity allowance instead of an invalidity pension. They then drew a retirement pension on reaching retirement age. In the meantime, they continued contributing to the pension scheme, but this allowance – unlike the old invalidity pension – was subject to EPO internal tax because the Office took the view that it was exempt from national income tax. Since this view was not shared by the German and Dutch tax authorities and courts, the EPO recognised a liability in 2015 and

disclosed it as a provision for tax risks. Final court decisions communicated to the EPO during 2016 confirmed the EPO's view; this provision was therefore reversed.

Other provisions mainly include obligations for legal support in administrative and judicial procedures as well as obligations to fulfil requirements of the EPC – mainly due to external audit of financial statements, adherence to budgetary regulations and internal controls. It is expected that these obligations will be settled during 2017.

26. PREPAID FEES

The total amount of prepaid fees relating to the patent grant procedure has developed as follows (divided by type of services):

in '000 EUR

	Opening balance 1 January 2016	Increase/ (decrease)	Ending balance 31 December 2016
Searches – EPC and Euro-PCT	153 531	(30 038)	123 493
International searches – PCT	36 744	(3 235)	33 509
Examination – EPC and Euro-PCT	852 047	(2 275)	849 772
International preliminary examination – PCT	7 917	135	8 052
Opposition	6 763	(871)	5 892
Appeal	13 167	2 654	15 821
Others	4 892	726	5 618
Total	1 075 061	(32 904)	1 042 157

in '000 EUR

	Opening balance 1 January 2015	Increase/ (decrease)	Ending balance 31 December 2015
Searches – EPC and Euro-PCT	180 041	(26 510)	153 531
International searches – PCT	39 866	(3 122)	36 744
Examination – EPC and Euro-PCT	816 239	35 808	852 047
International preliminary examination – PCT	8 561	(644)	7 917
Opposition	7 047	(284)	6 763
Appeal	11 543	1 624	13 167
Others	4 977	(85)	4 892
Total	1 068 274	6 787	1 075 061

27. COMMITMENTS

	in '000 EUR	
	2016	2015
Purchase commitments fixed assets	50 735	98 366
Purchase commitments intangible assets	4 639	3 189

The commitments for purchases of fixed assets are mainly for the construction of an office building in The Hague.

The EPO has entered into several operating lease contracts. The major contracts are described below.

The contract for the lease of office space in the Le Croisé building in The Hague runs until 31 December 2018. If not terminated by giving notice at least twelve months prior to the expiry of the lease term, it will be renewed for consecutive periods of one year each. The annual rent paid by the EPO is EUR 4.1m.

The contract for the lease of office space in the Rijsvoort building in The Hague has been extended to 31 December 2020. Early termination is possible every year on 31 December with twelve months' notice. The annual rent paid by the EPO is EUR 1.3m.

A contract for the lease of office space in the 8inOne building in Haar (a district of Munich) was signed in December 2016. The contract has a planned starting date of 1 August 2017 and a non-cancellable term of 15 years. The annual rent payable by the EPO is EUR 2.3m. In addition, the EPO will pay the lessor a lump sum of EUR 5.9m to cover costs of fixtures and fittings.

The total operating lease expense recognised in the Statement of Comprehensive Income for the reporting period amounts to KEUR 8 206 (2015: KEUR 9 206).

Future minimum rentals payable under non-cancellable operating leases are as follows:

	in '000 EUR	
	2016	2015
Not later than one year	6 482	5 538
Later than one year and not later than five years	13 223	9 704
Later than five years	23 968	–
Total	43 673	15 242

In the normal course of its business, the Organisation has other commitments to external companies, mainly for IT-related services, building maintenance and outsourced services.

28. CONTINGENCIES AND RISKS

Contingencies and risks are disclosed as of the balance sheet date. Any material changes after the balance sheet date are disclosed in Note 32.

Introduction of a Salary Savings Plan

An SSP has been set up; participation is compulsory for all staff joining the Office on or after 1 January 2009. It allows them to build up individual savings accounts through monthly contributions deducted from salary (see Note 2.15.5.1). Throughout their EPO employment, the money thus invested remains the property of the Organisation. Consequently, the resulting income is regarded as exempt from direct taxes, under Article 4 EPO-PPI. On termination of service, the employee is entitled to payment of the capital built up under the SSP. As deferred salary, this is subject to internal tax under Article 16(1) EPO-PPI and therefore, in the Office's view, exempt from national tax.

This view might not be shared by all national tax authorities. It is not clear whether a negative outcome of possible court decisions would result in an EPO obligation to compensate staff who relied on tax exemption. For the reporting period, the EPO does not regard the tax risk as material, due to the relatively small amount of SSP contributions so far collected (see Note 16). The Office will decide on further action, which might involve recognising further liabilities.

Introduction of "partial compensation", replacing the former tax adjustment

Since 1 January 2009, the national tax adjustment borne by each Contracting State had been replaced by a compensatory amount ("partial compensation") borne by the Organisation and intended to mitigate the additional national tax burden to which beneficiaries are subject in some Contracting States. The Office considered this partial compensation to be not a pension or annuity within the meaning of Article 16(2) EPO-PPI but an emolument within the meaning of Article 16(1) EPO-PPI, which therefore should not be subject to national tax. After more than five years, this system has however proven to entail significant administrative, legal and financial uncertainties and risks for the Office. It has therefore been decided to revert to the former tax adjustment system as from 1 January 2015 for pensioners who began active service before 1 January 2009.

No account is taken of risks that might arise from claims for compensation from third parties relying on tax treatment under Article 16(1) EPO-PPI for the period 2009-2015.

Other contingencies and risks

In addition, the Organisation has contingencies arising in the ordinary course of business, mainly due to disputed invoices, pending legal disputes and arbitration procedures or appeals by staff members. It is not anticipated that these will give rise to any material liabilities other than those for which provision has been made (Note 25).

29. RELATED PARTY DISCLOSURES

The Organisation has entered into transactions with members of the EPO's key management personnel, their close family members and the Contracting States. For the reporting period, it has not made any provisions for doubtful debts concerning amounts owed by related parties (2015: Nil). The EPO has not applied partial exemptions, if any, for government-related entities provided by **IAS 24 - Related Party Disclosures**.

29.1 RELATED PARTIES TO THE ORGANISATION

29.1.1 Members of key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. This applies to the executive body of the Office and the Fund Administrator of the RFPSS:

The EPO has five directorates-general, each headed by a vice-president four of them, along with the President, the Chief Financial Officer, the Chief Information Officer, the Controller and the heads of Human Resources and the President's Office form the executive body of the EPO. For the purpose of this note to the financial statements, the members of the executive body are disclosed as MAC members (Management Committee) and are considered to be related parties.

Besides the MAC members, the RFPSS Fund Administrator is also considered to be a related party. The importance and the size of the funds, combined with his functions, put him on a par with the members of the MAC.

29.1.2 Close family members of key managers

Close family members of a key manager are those family members who may be expected to influence, or be influenced by, that individual in their dealings with an entity. For the purpose of this note to the financial statements, the partner, children and dependants of the MAC members and the Fund Administrator are considered to be related parties.

29.1.3 Contracting States

The Administrative Council of the Organisation is made up of representatives of the Contracting States to the EPC. As the EPO's supervisory body, it exercises legislative powers, decides policy issues and oversees the Office's activities. Furthermore, Article 37(c) EPC provides that the budget of the Organisation is financed, where necessary, by financial contributions from the Contracting States. If the Organisation is unable to balance its budget in accordance with Article 40(1) EPC, then under Article 40(2) to (7) EPC the Contracting States must remit special financial contributions to the Organisation, the amount of which is determined by the Administrative Council for the accounting period concerned. In Article 40(2) to (4) Pension Scheme Regulations, the Contracting States jointly guarantee payment of the benefits to be paid under the pension scheme. As they appoint their representatives on the Administrative Council and can determine how they vote, the Contracting States themselves are also considered to be related parties to the EPO.

29.2 TRANSACTIONS AND OUTSTANDING BALANCES WITH RELATED PARTIES

Compensation of key managers (MAC members and Fund Administrator) and close family members of key managers

	in '000 EUR	
	2016	2015
Short-term employee benefits *	2 691	2 593
Post-employment benefits, service costs	1 253	1 059
Total	3 944	3 652

* The salaries included in the short-term employee benefits are reported after deduction of internal tax.

The Organisation recognises a defined benefit obligation for post-employment benefits amounting to KEUR 17 920 (2015: KEUR 13 664) for 11 (2015: 11) key managers

Expenses with related parties other than compensation of key managers and their close family members

	in '000 EUR	
	2016	2015
MAC members and Fund Administrator	–	–
Close family members of key managers	–	–
Contracting States		
Co-operation with national offices	6 813	5 897
Rent office building Berlin	2 575	2 575
Total	9 388	8 472

Revenues from patent and procedural fees and other revenues from related parties

	in '000 EUR	
	2016	2015
MAC members and Fund Administrator	1	1
Close family members of key managers	–	–
Contracting States		
Renewal fees for granted patents (incl. interest)	488 775	471 518
Searches on behalf of ex-IIIB member states	41 392	34 676
Searches on behalf of other Contracting States	22 723	21 836
Reimbursement rent office building Berlin	846	857
Other revenue	9 076	8 397
Total	562 813	537 285

Loans, receivables and other assets due from related parties

	in '000 EUR	
	2016	2015
MAC members and Fund Administrator	51	57
Close family members of key managers	–	–
Contracting States		
Renewal fees	107 735	99 400
VAT and other taxes	12 106	11 437
Contracting States using EPO services and products	5 753	11 262
Tax adjustments	44	464
Total	125 689	122 620

The amounts due from key management personnel and their close family members result from home loans granted by the Organisation. The terms for granting home loans are the same as for other EPO employees.

Payables and other liabilities

	in '000 EUR	
	2016	2015
MAC members and Fund Administrator	–	–
Close family members of key managers	–	–
Contracting States	242	300
Total	242	300

30. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

30.1 FINANCIAL INSTRUMENTS BY CATEGORY

Set out below is a comparison by category of the carrying amounts and fair values of all of the EPO's financial instruments carried in the financial statements:

			in '000 EUR	
	Carrying value		Fair value	
RFPSS Financial instruments	2016	2015	2016	2015
Financial assets at fair value through profit and loss				
Standard bonds	1 469 294	1 388 947	1 469 294	1 388 947
Other bonds	699 860	531 588	699 860	531 588
Shares	2 153 452	1 903 855	2 153 452	1 903 855
Funds	2 661 098	2 431 628	2 661 098	2 431 628
Derivatives used for trading	5 735	29 235	5 735	29 235
Other instruments	38 717	34 239	38 717	34 239
Total	7 028 156	6 319 492	7 028 156	6 319 492
Financial assets at amortised cost				
RFPSS other assets	888	871	888*	871*
RFPSS restricted cash	272 510	271 660	272 510	271 660
Financial liabilities at fair value through profit and loss				
Derivatives used for trading	(9 323)	(83)	(9 323)	(83)
Financial liabilities at amortised cost				
RFPSS other liabilities	(28)	(82)	(28)*	(82)*
Total net RFPSS financial instruments	7 292 203	6 591 858	7 292 203	6 591 858
Office financial instruments	2016	2015	2016	2015
Financial assets measured at amortised cost				
Bonds	1 806 160	1 566 352	1 830 437	1 587 514
Home loans	95 108	100 085	109 585	113 862
Trade and other receivables	162 200	160 521	162 200*	160 521*
Other financial assets	395 000	275 200	395 000*	275 200*
Total	2 458 468	2 102 158	2 497 222	2 137 097
Cash and cash equivalents	19 596	70 073	19 596*	70 073*
Total Office financial assets	2 478 064	2 172 231	2 516 818	2 207 170
Financial liabilities measured at amortised cost				
Trade and other payables	(182 395)	(164 560)	(182 395)*	(164 560)*
Finance lease liabilities	(6 955)	(6 996)	(6 955)*	(6 996)*
Total Office financial liabilities	(189 350)	(171 556)	(189 350)	(171 556)

* Approximation of fair value

Cash, cash equivalents, trade and other receivables, trade and other payables and other financial assets have mainly short terms to maturity. Their carrying amounts at the reporting date represent a reasonable approximation of their fair values.

The fair value of bonds held by the Office is determined on the basis of quoted market prices. The price used for valuation is the closing price on the last trading day of the financial year.

Home loans are not traded in an active market. Their fair value at the balance sheet date is calculated as the present value of the future cash flows discounted using the prevailing market interest rates and applying the Moosmüller method.

30.2 FAIR VALUE HIERARCHY

Depending on the techniques and inputs used to measure fair value, financial instruments are categorised in three levels:

- Level 1 – measurement based on quoted prices in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – measurement based on unobservable inputs for the asset or liability.

Financial instruments measured at fair value and those for which the fair value is disclosed in the notes to the Financial Statements are presented in the table below:

in '000 EUR				
31 December 2016	Level 1	Level 2	Level 3	Total
RFPSS financial assets				
Standard bonds	1429 626	39 668	–	1469 294
Other bonds	618 713	81 147	–	699 860
Shares	2 153 452	–	–	2 153 452
Funds	–	2 661 098	–	2 661 098
Derivatives used for trading	–	5 735	–	5 735
Other instruments	–	38 717	–	38 717
Office financial assets				
Bonds	1 830 437	–	–	1 830 437
Home Loans	–	109 585	–	109 585
Total financial assets	6 032 228	2 935 950	–	8 968 178
RFPSS financial liabilities				
Derivatives used for trading	–	9 323	–	9 323
Total financial liabilities	–	9 323	–	9 323

in '000 EUR				
31 December 2015	Level 1	Level 2	Level 3	Total
RFPSS financial assets				
Standard bonds	1 346 348	42 599	–	1 388 947
Other bonds	468 187	63 401	–	531 588
Shares	1 903 855	–	–	1 903 855
Funds	–	2 431 628	–	2 431 628
Derivatives used for trading	–	29 235	–	29 235
Other instruments	–	34 239	–	34 239
Office financial assets				
Bonds	1 587 514	–	–	1 587 514
Home Loans	–	113 862	–	113 862
Total financial assets	5 305 904	2 714 964	–	8 020 868
RFPSS financial liabilities				
Derivatives used for trading	–	83	–	83
Total financial liabilities	–	83	–	83

Level 1 includes exchange-traded instruments for which quoted prices are readily available.

Level 2 measurements were determined using the following techniques:

- The fair value of RFPSS financial instruments was determined based on the year-end valuations from the market maker.
- The fair value of home loans was calculated as the present value of the future cash flows discounted using the prevailing market interest rates and applying the Moosmüller method. Interest rates used as input for the model were Euribor rates and the rates of AAA-rated Euro-area central-government bonds.

30.3 GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

These are summarised in the table below:

	in '000 EUR	
Financial instruments at fair value	2016	2015
Fair value gains (losses) on assets	425 702	100 107
Income from coupons, dividends and interest	121 575	115 654
Custodian fees and other costs	(782)	(734)
Sundry	(638)	(583)
Impairment loss	–	–
Fair value gains (losses) on liabilities	(8 307)	(83)
Total	537 550	214 361

	in '000 EUR	
Financial assets at amortised cost	2016	2015
Interest income from home loans	4 129	4 744
Interest income on bonds	17 670	21 793
Interest income from bank accounts and deposits	542	1 107
Gains from sale of bonds	307	567
Losses from sale of bonds	–	(1 033)
Other	2	37
Total	22 650	27 215

Financial liabilities at amortised cost		
Interest costs finance lease	(3 148)	(545)
Total	(3 148)	(545)

Gains and losses from sale of bonds result from disposal of fixed interest bonds:

- (a) redeemed by the issuer pursuant to the resolution of the bondholders; or
- (b) following an increase in the assets' credit risk.

31. FINANCIAL RISK MANAGEMENT

Risk management policies at the EPO depend on the type of assets concerned. RFPSS portfolio risk management is distinct from that for Office-held operating assets. The following discussion of the policies and processes for managing and measuring the risk reflects the split of management responsibility for these two portfolios.

(a) Financial instruments held by the Office

The EPO holds a variety of financial instruments. They comprise trade receivables and payables, bonds, fixed-term deposits and cash which arise directly from the EPO's operational activities as well as finance lease obligations that are used to finance the EPO's operations.

Surplus liquidity not needed to cover operational short-term expenses is invested in debt securities with the aim of maximising returns and minimising risk. The EPO's long-term investment portfolio comprises fixed-interest-bearing bonds with a remaining duration of up to 5 years.

Additionally, home loans are granted to staff at an interest rate below the prevailing market rate.

The main risks arising from the EPO's financial instruments are interest rate risk, liquidity risk and credit risk. The Budget and Finance Committee and the Administrative Council approve the investment policies and strategy for managing the risks summarised below.

(b) Financial instruments held by the RFPSS

The RFPSS-held instruments whose exposure may be generally classifiable by instrument type and region are divided into the following asset classes: domestic equities, foreign equities, domestic government bonds, Danish mortgage bonds, foreign bonds, domestic corporate bonds, emerging market bonds, emerging market equities, real estate, commodities and cash. These instruments are subject mainly to market risk. The policies in place aim to considerably reduce credit risk. Owing to the reserve nature of the funds, liquidity risk – defined as the risk of not being able to cover short- or long-term liabilities – is insignificant.

The risk characteristics of the financial instruments managed by the RFPSS are essentially derived from the risk profile of the strategic asset allocation as defined by the Supervisory Board. For details about policies and risk measures applied, see Notes 31.1 to 31.3.

31.1 MARKET RISK

(a) Financial instruments held by the Office

The EPO's exposure to the risk for changes in market interest rates relates primarily to its bonds portfolio. Interest rate risks are presented by means of sensitivity analyses. These show the effects of changes in market interest rates on equity.

The EPO manages cash-flow interest risk by investing surplus liquidity in high-quality fixed-interest-bearing bonds with the aim of maximising the overall return on these assets.

The sensitivity analysis is based on the calculation of the modified duration of the EPO's bonds portfolio. The effect of convexity has no significant bearing on the sensitivity analysis and has therefore not been taken into account.

If market interest rates had been 100 basis points higher (lower) at the reporting date, the market value of bonds classified as at amortised cost would have been KEUR 49 178 (31 December 2015: KEUR 40 200) lower (higher) than the fair value reported in Note 30.1. The higher volatility reflects the increase in the bonds portfolio by 15% as compared to 31 December 2015. The change in market value would have no impact on the EPO's profit or loss and equity.

The bonds portfolio of the EPO includes to a very limited extent securities with variable interest rates. As at the balance sheet date, changes in the market interest rates would have no significant impact on the cash flows of the EPO.

The EPO has not performed a sensitivity analysis for other financial instruments it holds, as these are not market listed and the fair value changes would not have any impact on the EPO's profit or loss and equity.

At the reporting date, the Office had no material exposure to foreign-exchange risks.

(b) Financial instruments held by the RFPSS

Market risks are mitigated by diversification and by limitation provisions defined in the investment guidelines and code of procedure and quantified using Value at Risk (VaR), a statistically based estimate of the potential loss on the portfolio resulting from adverse market movements. This metric makes it possible to estimate the maximum expected loss with a degree of confidence, chosen to be 95%, within a one-month horizon.

As at the end of 2016 the VaR was estimated at EUR 303 million. The increase in the VaR, relative to 2015, stems from the increase in assets under management and higher market-return volatility.

This figure is based on the assumptions of normal portfolio return distributions and persistence of the statistical characteristics of the distributions of returns in the horizon period. VaR figures are monitored by asset class and tracking error guidelines are used to monitor aspects of deviations from benchmark. The latter are based on MSCI/FTSE for equity/real estate, S&P/Bloomberg for commodities and Merrill Lynch/JP Morgan/Nykredit for fixed income. A risk-factor-based model,

BarraOne provided by MSCI Barra, is used to break down risk and enable management to analyse aggregations and contributions.

Foreign exchange risks are mitigated by maintaining a minimum of 60% of assets in core currencies and maintaining a currency overlay programme at a strategic 60% hedge ratio on US dollar, pound sterling and Japanese yen exposures.

	2016	2015
VaR (parametric, 1 month horizon, 95%, in million Euro)	303	266

31.2 LIQUIDITY RISK

(a) Financial instruments held by the Office

Liquidity risk management implies maintaining sufficient cash and bonds to be able to face the entity's short- and long-term liabilities.

The EPO's treasury department monitors the risk of a shortage of funds using a daily cash management tool. This tool considers the maturity of financial assets (e.g. bonds) and takes into consideration the expected cash in- and outflows from the daily operations.

The EPO has no significant liquidity risk. The cash generated by its operations more than covers its liquidity needs for both operational and capital expenditure.

Surplus liquidity not needed in the short term is invested in non-current bonds with maturities of 1 to 5 years in line with estimated cash outflows according to the 5-year budget planning.

In order to maximise the return on its liquid funds, the EPO tries to maintain a balance between short-term deposits (up to one year) and non-current bonds. Funds necessary to cover the next 3 months of operational expenditure are placed in short-term deposits. The remaining liquid funds are invested in non-current bonds. This policy is reviewed regularly.

Bonds held by the EPO are highly liquid and can be sold at any time.

The expected outflow of cash resulting from the financial instruments of the Office includes payments of liabilities to trade creditors and payments of lease liabilities. As at the balance sheet date, the maturity structure of future payments resulting from the financial liabilities was as follows:

	in '000 EUR	
	2016	2015
Within 1 year	67 158	56 922
More than 1 year	2 408	4 357
Total	69 566	61 279

(b) Financial instruments held by the RFPSS

The Office transfers to the RFPSS the surplus of pension contributions over pension payments. The reserves managed by the RFPSS are created to assist the Office in covering its social security schemes under its budget. Estimates based on the actuarial studies have shown that net payments to pensioners should not be necessary until 2023 at the earliest. Owing to the reserve nature of the funds, liquidity risk – defined as the risk of not being able to cover short- or long-term liabilities – is insignificant.

In relation to investment management activities, daily operational cash requirements are covered by cash management tools that forecast and allow matching of cash flows generated by investment operations. The margin account relating to bund future positions as collateral for derivative transactions amounted to EUR 1.0m (2015: EUR 0.0m).

The maturity analysis of financial liabilities as at 31 December is as follows:

	in '000 EUR	
	2016	2015
Less than 3 months	9 323	83
Between 3 months and 1 year	–	–
More than 1 year	–	–
Total financial liabilities at fair value	9 323	83

31.3 CREDIT RISK

(a) Financial instruments held by the Office

Financial instruments deriving from the EPO's operational activities are subject to limited credit risk. The EPO has policies in place to ensure that sales of patent information services and products are made to customers with an appropriate credit history. Outstanding trade receivables are monitored continually. Trade and other receivables held with the Contracting States are not subject to credit risk.

Regarding financial investments, the internal guidelines require that fixed-term deposits up to 1 year are placed with at least four financial institutions with at least a minimum P-2 "short-term debt" rating. Longer than 1-year fixed-term deposits have to be placed with financial institutions with at least A "issuer rating".

Home loans granted to the staff are also not subject to significant credit risk. They are only granted to permanent staff, and repayment is guaranteed by the mortgage or other land charge entered in the land register or other appropriate public record. Interest and capital repayments are withheld from salary. No home-loan borrower has ever defaulted. The value of the collateral held by the EPO for Home Loans is expected to fully cover the outstanding value of the granted Home Loans.

Bonds and other interest-bearing securities acquired by the EPO have to be capital-guaranteed with at least A rating. In case of a downgrade below A the EPO is closely monitoring the respective bond or interest-bearing security to decide on further actions for minimising the credit risk. If there is no rating available for the

security, the rating requirement applies to the issuer of the security. Furthermore, the credit risk of securities is minimised through the setting of a maximum limit (20%) of the total bonds portfolio that may be invested with a single individual issuer.

(b) Financial instruments held by the RFPSS

The limitations and provisions relating to credit exposures are defined in the investment guidelines approved by the RFPSS Supervisory Board and are monitored on a daily basis. The salient features of the policies are indicated below.

At least 50% of bonds must have AA rating. The minimum rating allowed is BBB, whereby no more than 30% of fixed-income holdings other than emerging-market bonds may be held at this rating. No more than 5% of Fund assets may be invested in the fixed-interest securities of any one issuer except in the case of AAA non-corporate securities. In this case the limit is 8% except for AAA government debt of a member state of the European Union in which case the limit is 25%. A 2% limit of RFPSS assets applies to convertible bonds converting to MSCI listed companies. A Prime-2 or equivalent rating for short-term deposits is required whereby cash and fixed-term deposits must normally be deposited with at least 3 such institutions, with the further restriction of a 5% limit with any one such institution.

The table below presents RFPSS-held financial instruments according to the asset classes used by the RFPSS for risk-management purposes:

				in '000 EUR
31 December 2016	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic government bonds	357 896	–	1 058 994	1 416 890
Domestic corporate bonds	131 920	–	283 300	415 220
Foreign bonds	7 119	–	329 925	337 044
Cash and currency forwards	–	–	278 245	278 245
Total financial assets	496 935	–	1 950 464	2 447 399

				in '000 EUR
31 December 2015	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic government bonds	390 850	–	848 012	1 238 862
Domestic corporate bonds	89 694	–	295 841	385 535
Foreign bonds	7 732	–	288 406	296 138
Cash and currency forwards	–	–	300 895	300 895
Total financial assets	488 276	–	1 733 154	2 221 430

For the use of derivatives, limitations and provisions are foreseen in the investment guidelines. Options and futures must be traded on a regulated market or with a regulated counterparty. In the case of non-standardised trades (OTC contracts) with a time to maturity of more than 12 months, the counterparty must have at least an A-rating (Standard & Poor's / Moody's / Fitch). If the contract expires within the next 12 months, a short-term rating of at least A-2 or equivalent is required.

Derivative transactions of the RFPSS are either executed on an exchange, or entered into under German master agreements (DRV). In general, under such agreements the amounts owned by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single

net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination values is assessed and only a single net amount is due or payable in settlement of all transactions.

The DRV agreements do not meet the criteria for offsetting in the statement of financial position. This is because the RFPSS does not have any currently legally enforceable right to offset recognised amounts, due to the fact that the right to offset is enforceable only on the occurrence of future events such as default.

For the derivative transactions open at year's end, Credit or Debit Value Adjustments are calculated. The counterparty risk assessments are established by the calculation of a Credit Valuation Adjustment ("CVA") for OTC derivative assets and, for symmetrical treatment, the Debit Valuation Adjustment ("DVA"), i.e. the own credit risk assessment for derivative liabilities. The adjustment amount is determined by assessing the potential credit exposure to a given counterparty and, taking into account any collateral held, the effect of any relevant netting arrangements as well as the expected loss given default and the credit risk, based on available market information, including the probability of default.

The table below presents a summary of master netting and similar agreements:

in '000 EUR

31 December 2016	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
Financial asset			
Derivatives used for trading	5 735	(5 735)	–
Total financial assets	5 735	(5 735)	–
Financial liabilities			
Derivatives used for trading	9 323	(5 735)	3 588
Total financial liabilities	5 323	(5 735)	3 588

in '000 EUR

31 December 2015	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
Financial asset			
Derivatives used for trading	29 235	(83)	29 152
Total financial assets	29 235	(83)	29 152
Financial liabilities			
Derivatives used for trading	83	(83)	–
Total financial liabilities	83	(83)	–

31.4 CAPITAL MANAGEMENT

The EPO is a non-profit organisation and the main objectives of its capital management are to ensure the continuity of its tasks as defined in the EPC – in particular the grant of European patents – and to meet its obligations to its stakeholders.

The stakeholders are the Contracting States, patent applicants and their representatives, serving and former EPO staff, and its product- and/or service-providers.

The Organisation is financed from its own resources, from its share of national renewal fees and, if need be, from special contributions by the Contracting States. Any liquidity deficits would be financed by its Contracting States, so the Organisation has no risk of insolvency.

According to Article 38 EPC, the Organisation's own resources comprise

- (a) all income from fees and other sources, and the Organisation's reserves
- (b) the resources of the RFPSS which are a special class of assets to support the Organisation's pensions and social security scheme by providing the appropriate reserves.

EPO capital management is based on financial planning for a period of five years, including a forecast of budgeted cash flows and of IFRS statements for each of these years. Both are based on a five-year business plan for all EPO services. Analyses of possible developments in demand for European patents and in applicant behaviour are conducted in consultation with the relevant stakeholders.

Actual developments during the year are monitored, in the form of monthly financial management reports to EPO management and quarterly reports to the Budget and Finance Committee and the Administrative Council.

The policy and measures described above are part of EPO management's strategy to ensure that the Organisation can continue as a going concern without any risk of needing to draw on special contributions from the Contracting States.

EPO capital management takes account of how the Organisation is financed (reference is made to Note 2.5.3).

32. EVENTS AFTER THE REPORTING PERIOD

Following a decision of the Administrative Council, the Office transferred an amount of EUR 90m into the RFPSS's funds dedicated to pensions. No further material favourable or unfavourable events occurred between the end of the reporting period and the date when the financial statements were authorised for issue.

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